HEINEKEN HOLDING NV

2017

Ann

Established in Amsterdam

HEINEKEN HOLDING N.V.
ANNUAL REPORT 2017

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PROFILE

Heineken Holding N.V., which holds 50.005% 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

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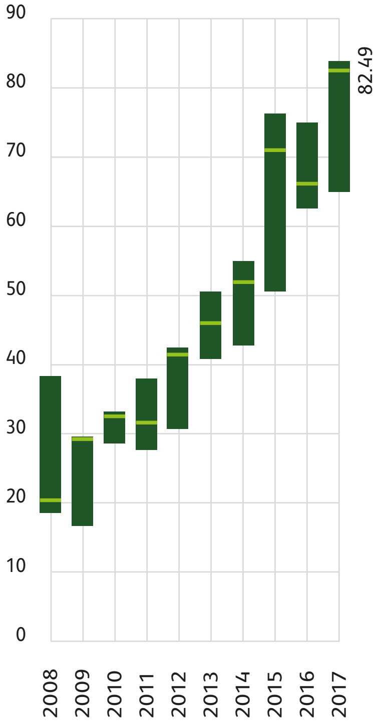
Heineken Holding N.V. share price

in €

Euronext Amsterdam



share price range

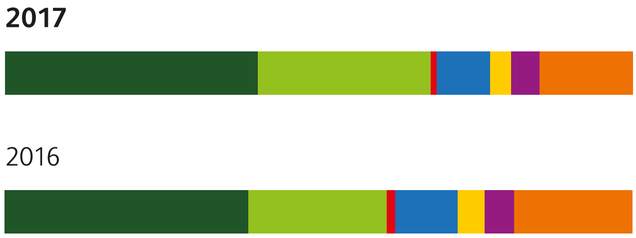
year-end price

Average trade in 2017:
97,774 shares per day

Nationality Heineken Holding N.V. shareholders

in %

Based on 101.2 million shares in free float
(excluding the holding of L'Arche Green N.V.
and FEMSA in Heineken Holding N.V.)



	2017	2016
Americas	40.2	38.8
United Kingdom/Ireland	27.6	22.0
Netherlands	0.9	1.4
Rest of Europe	8.5	9.9
Rest of the world	3.4	4.3
Retail	4.5	4.7
Unidentified	14.9	18.9
	100.0	100.0

Source: CMi2i estimate based on
available information December 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 (€ 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 2017, the average daily trading volume of Heineken Holding N.V. shares was 97,774 shares.

Market capitalisation
Shares in issue and outstanding as at 31 December 2017:
288,030,168 ordinary shares of €1.60 nominal value;
250 priority shares of €2 nominal value.
At a year-end price of €82.49 on 29 December 2017, the market capitalisation of Heineken Holding N.V. as at the balance sheet date was €23.8 billion.

Year-end price	€82.49	29 December 2017
Highest closing price	€83.90	27 July 2017
Lowest closing price	€64.98	31 January 2017

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 Netherlands Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3% or more) regarding Heineken Holding N.V.:

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

* 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 13.

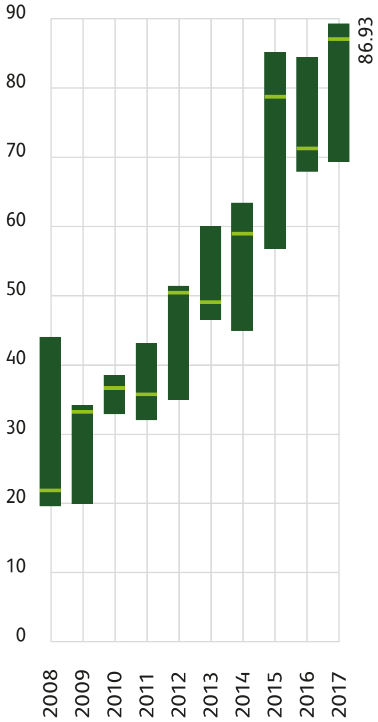
Dividend per ordinary share
in €

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
2017	1.47 (proposed)

Heineken N.V. share price

in €

Euronext Amsterdam



share price range

year-end price

Average trade in 2017:
654,537 shares per day

Nationality Heineken N.V. shareholders

in %

Based on 238.3 million shares in free float
(excluding the holding of Heineken Holding N.V.
and FEMSA in Heineken N.V.)

	2017	2016
Americas	32.8	39.8
United Kingdom/Ireland	15.3	14.6
Netherlands	3.8	2.3
Rest of Europe	14.7	19.0
Rest of the world	5.0	6.3
Retail	2.1	2.5
Unidentified	26.3	15.5
	100.0	100.0

Source: CMi2i estimate based on
available information December 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 (€ 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 2017, the average daily trading volume of Heineken N.V. shares was 654,537 shares.

Market capitalisation
Shares outstanding as at 31 December 2017:
570,194,195 shares of €1.60 nominal value
(excluding own shares held by Heineken N.V.).
At a year-end price of €86.93 on 29 December 2017, the market capitalisation of Heineken N.V. as at the balance sheet date was €49.6 billion.

Year-end price	€86.93	29 December 2017
Highest closing price	€89.20	27 July 2017
Lowest closing price	€69.23	31 January 2017

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 Netherlands Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3% or more) regarding Heineken N.V.:

- 1 November 2006: Mrs C.L. de Carvalho-Heineken (indirectly 50.005% through L'Arche Holding S.A.; the direct 50.005% shareholder is Heineken Holding N.V.)[1];
- 19 September 2017: Voting Trust (FEMSA), through its affiliate CB Equity LLP (8.63%) (initial notification: 30 April 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 13.

Financial calendar in 2018 for both Heineken Holding N.V. and Heineken N.V.

Announcement of 2017 results	12 February
Publication of Annual Report	19 February
Trading update first quarter 2018	18 April
Annual General Meeting of Shareholders, Amsterdam[2]	19 April
Quotation ex-final dividend 2017	23 April
Final dividend 2017 payable	2 May
Announcement of half-year results 2018	30 July
Quotation ex-interim dividend 2018	1 August
Interim dividend 2018 payable	9 August
Trading update third quarter 2018	24 October

[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.

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

Bondholder information

In 2008, HEINEKEN established a Euro Medium Term Note (EMTN) programme which was last updated in March 2017. The programme allows Heineken N.V. to issue Notes for a total amount of up to €15 billion. Currently, approximately €8.7 billion is outstanding under the programme.

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

In 2017 the following notes were placed under HEINEKEN's Euro Medium Term Note programme:

- SGD150 million 5-year Notes with a floating rate coupon (February 2017);
- EUR500 million 15-year Notes with a coupon of 2.02% (May 2017);
- EUR800 million 12-year Notes with a coupon of 1.50% (October 2017).

On 29 March 2017, HEINEKEN placed USD1.1 billion of long 10-year 144A/RegS US Notes with a coupon of 3.50%, and USD650 million of 30-year 144A/RegS US Notes with a coupon of 4.35%.

In 2015, HEINEKEN has launched a €1.0 billion Euro Commercial Paper (ECP) programme to facilitate its cash management operations and to further diversify its funding sources. There was no ECP in issue as per 31 December 2017.

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate (%)	Maturity	ISIN code
EUR EMTN 2018	18 April 2013	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	EUR1,000 million	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 2023	3 April 2012	USD750 million	3.400	1 April 2022	US423012AA16
144A/RegS 2023	10 October 2012	USD1,000 million	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
144A/RegS 2028	29 March 2017	USD1,100 million	3.500	29 January 2028	US423012AF03
EUR EMTN 2029	30 January 2014	EUR200 million	3.500	30 July 2029	XS1024136282
EUR EMTN 2029	3 October 2017	EUR800 million	1.500	3 October 2029	XS1691781865
EUR EMTN 2032	12 May 2017	EUR500 million	2.020	12 May 2032	XS1611855237
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
144A/RegS 2047	29 March 2017	USD650 million	4.350	29 March 2047	US423012AG85

The EMTN programme and the above Heineken N.V. Notes issued thereunder are listed on the Luxembourg Stock Exchange.

Traded Heineken Asia Pacific Pte. Ltd.* Notes	Issue date	Total face value	Interest rate (%)	Maturity	ISIN code
SGD MTN 2020	3 March 2009	SGD21.75 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.

BOARD OF DIRECTORS

Mr M. Das (1948)
Non-executive director (Chairman)
Dutch nationality
Appointed in 1994; reappointed in 2017*
Profession: Lawyer
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities***: Heineken N.V. (Delegated Member); Greenchoice B.V. (Chairman)
*Other positions****: L'Arche Green N.V. (Chairman); Stichting Administratiekantoor Priores; L'Arche Holding B.V.; Greenfee B.V. (Chairman)

Mr J.A. Fernández Carbajal (1954)
Non-executive director
Mexican nationality
Appointed in 2010; reappointed in 2014*
Profession: Executive Chairman of the Board of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA)
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities***: Heineken N.V.
*Other positions****: Coca-Cola FEMSA, S.A.B. de C.V. (Chairman); Tecnológico de Monterrey (Chairman); Fundación FEMSA (Chairman); participates on the Board of Industrias Peñoles, S.A.B. de C.V.; founding member of the Mexican chapter of the Woodrow Wilson Center; Term Member of the MIT Corporation

Mrs C.M. Kwist (1967)
Non-executive director
Dutch nationality
Appointed in 2011*; reappointed in 2015*
Profession: Consultant in brand management, marketing and communication
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**
*Other positions****: Greenfee B.V.; L'Arche Green N.V.

Mr A.A.C. de Carvalho (1984)
Non-executive director
Dutch and English nationality
Appointed in 2013*; reappointed in 2017*
Profession: Company director
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**
*Other positions****: Director Lagunitas Brewing Company

Mrs C.L. de Carvalho-Heineken (1954)
Executive director
Dutch nationality
Appointed in 1988; reappointed in 2015*
Profession: Company director
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**
*Other positions****: L'Arche Green N.V.; Stichting Administratiekantoor Priores; L'Arche Holding B.V.

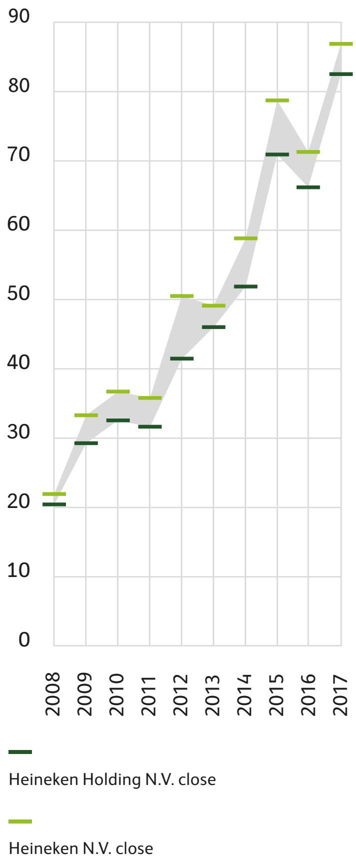
Mr M.R. de Carvalho (1944)
Executive director
English nationality
Appointed in 2015*
Profession: Vice-Chairman Citigroup Investment Banking EMEA and Chairman Citigroup Private Bank EMEA
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities***: Heineken N.V.
Other positions: L'Arche Green N.V. ***

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

REPORT OF THE BOARD OF DIRECTORS

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

Euronext Amsterdam



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 2017.

The strategic plan, including the sustainability strategy as described in the Heineken N.V. Annual Report, page 133 and further, and the annual plan of Heineken N.V. were presented to the Board of Directors.

A recurrent element in all the meetings was the discussion of the results of Heineken N.V.: volumes, revenues and operating profit organic growth, consolidation effects and foreign exchange effects were reviewed by region. The Chairman/CEO of the Executive Board of Heineken N.V. outlined conditions in various markets and the development of the brand portfolio in the different regions, paying special attention in all cases to the development of the Heineken® brand.

Important developments affecting the HEINEKEN business in various countries were discussed, such as the political and economic situation in Nigeria, The Democratic Republic of Congo, Egypt and Brazil.

Matters that were also discussed during the year included proposals for acquisitions, investments, disposals and other opportunities for Heineken N.V. such as the completion of the acquisition of 1,900 pubs from Punch Taverns in the UK, the acquisition of Brasil Kirin, obtaining the full ownership of Lagunitas Brewing Company in the US and the agreement with Sligro related to the distribution and sales of beer, cider and other products in The Netherlands.

Other items on the agenda included renewal of the credit facilities, bond issues and dividend policy of Heineken N.V. Heineken N.V.'s developments in cash flows, funding ratios and share price were also addressed.

The composition of the Supervisory Board and the Executive Board of Heineken N.V. and management development were also recurring items on the agenda.

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

In addition to the meetings with the Preparatory Committee of the Supervisory Board of Heineken N.V. as described above, 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 2016 and the first half of 2017. At the meeting of the Board of Directors at which the Report of the Board of Directors and the financial statements were discussed, Deloitte Accountants B.V., the external auditors, gave a comprehensive report on their activities. There are no non-executive members of the Board of Directors who have been frequently absent from meetings.

Mrs C.L. de Carvalho-Heineken, executive director, travelled to the Ivory Coast for the opening of a brewery. In Jamaica she visited a brewery. In the United States of America she attended a meeting of distributors.

REVIEW OF 2017

Share price

The share price of the Heineken Holding N.V. share has increased from €66.14 at the beginning of the year to €82.49 on 29 December. The gap between the Heineken N.V. and Heineken Holding N.V. share prices moved between 5% and 8% through the year, ending at 5.11% on 29 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 2017 was €461 million (31 December 2016: €461 million).

The nominal value of the ordinary shares issued by our company as at the same date was also €461 million. As at 31 December 2017, our company's interest in Heineken N.V. represented 50.005% of the issued capital (being 50.514% 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 €6,633 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 50.514% share in Heineken N.V.'s 2017 profit of €1,935 million is recognised as income of €977 million in the 2017 company income statement. This share in Heineken N.V.'s profit consists of both distributed and retained earnings for 2017.

HEINEKEN N.V. PERFORMANCE IN 2017 AND OUTLOOK

Performance

Heineken N.V. posted a net profit of €1,935 million in 2017.

The good performance in the first half continued during the second part of the year. Revenue (beia) per hectolitre continued to improve organically in all regions, excluding Asia Pacific due to negative mix effects. Full year operating profit (beia) increased 9.3% organically, a slightly lower pace than the first part of the year (1H17: 11.7%) as HEINEKEN's commercial investments increased during the second half as planned.

HEINEKEN continued to invest in key developing markets with the expansion of production capacity in Mexico, Cambodia, Vietnam, Ethiopia and Haiti, the opening of a new brewery in Ivory Coast and the announcement of the construction of a new brewery in Mozambique.

Revenue (beia) increased 5.0% organically, with a 2.9% increase in total volume and a 2.1% increase in revenue (beia) per hectolitre. In 2017 the underlying price mix impact was 2.5%. In the second half revenue (beia) increased 4.3% (1H17: 5.7%), with volume growth of 3.5% (1H17: 2.3%), revenue (beia) per hectolitre was up 0.8% (1H17: 3.4%) and underlying price mix impact of 1.7%. Reported revenue (beia) per hectolitre declined -4.6% mainly due to the dilutive effect of the acquisition of Brasil Kirin.

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 2017.
- HEINEKEN expects further organic revenue and profit growth.
- Excluding major unforeseen macro economic and political developments HEINEKEN expects to deliver an operating profit margin expansion of around 25 bps. This includes a residual dilutive effect from the acquisition of Brasil Kirin and excludes the one-time benefit of IFRS 15 implementation.
- HEINEKEN expects an average interest rate (beia) broadly in line with 2017 (2017: 3.0%), and an effective tax rate (beia) of around 28% (2017: 27.6%).
- Capital expenditure related to property, plant and equipment should be slightly above €2 billion (2017: €1.7 billion).

FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

The Board of Directors will submit the financial statements for 2017 to the General Meeting of Shareholders. These financial statements, on pages 22 to 108 of this report, have been audited by Deloitte Accountants B.V., whose report can be found on page 110.

Heineken N.V. proposes to distribute a dividend for 2017 of €1.47 per share of €1.60 nominal value, of which €0.54 per share of €1.60 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 2017 totals €423.4 million in cash, of which €155.5 million has already been received by way of interim dividend. The final dividend due will therefore be €267.9 million.

In accordance with the provisions of Article 10, paragraph 9, of the Articles of Association, an interim dividend of €0.54 per share of €1.60 nominal value was distributed to holders of ordinary shares on 10 August 2017. Pursuant to the provisions of Article 10 of the Articles of Association, a final dividend of €0.93 per share of €1.60 nominal value currently in issue will be payable to holders of ordinary shares from 2 May 2018. Like the holders of Heineken N.V. shares, holders of ordinary shares will therefore receive a total dividend for 2017 of €1.47 per share of €1.60 nominal value. A total of €423.4 million will be distributed to holders of ordinary shares and a total of €20 (4% of the nominal value of €2 per share) will be distributed as dividend to holders of priority shares.

CORPORATE GOVERNANCE STATEMENT

Introduction

In this statement, Heineken Holding N.V. addresses its corporate governance structure and explains which best practice provisions of the Dutch Corporate Governance Code the company does not apply, and why. This report also includes the information that the company is required to disclose pursuant to the Dutch governmental decree on Article 10 Takeover Directive and the governmental decree on Corporate Governance.

Dutch Corporate Governance Code

The company is required to comply with, among other regulations, the revised Dutch Corporate Governance Code which has been amended on 8 December 2016 and that applies to the financial year starting on 1 January 2017 (the "Code"). Deviations from the Code are explained in accordance with the Code's "comply or explain" principle. The Code is available at www.commissiecorporategovernance.nl.

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 best-practice provisions, as further explained below. At the General Meeting of Shareholders on 20 April 2005, the departure from the Dutch Corporate Governance Code of 9 December 2003 was put to the vote and approved. The departure from the Dutch Corporate Governance Code as revised in 2008 was discussed at the General Meeting of Shareholders on 22 April 2010. The departure from the Code as revised in 2016 will be discussed at the upcoming General Meeting of Shareholders on 19 April 2018.

Structure of the HEINEKEN group

Organisational structure

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

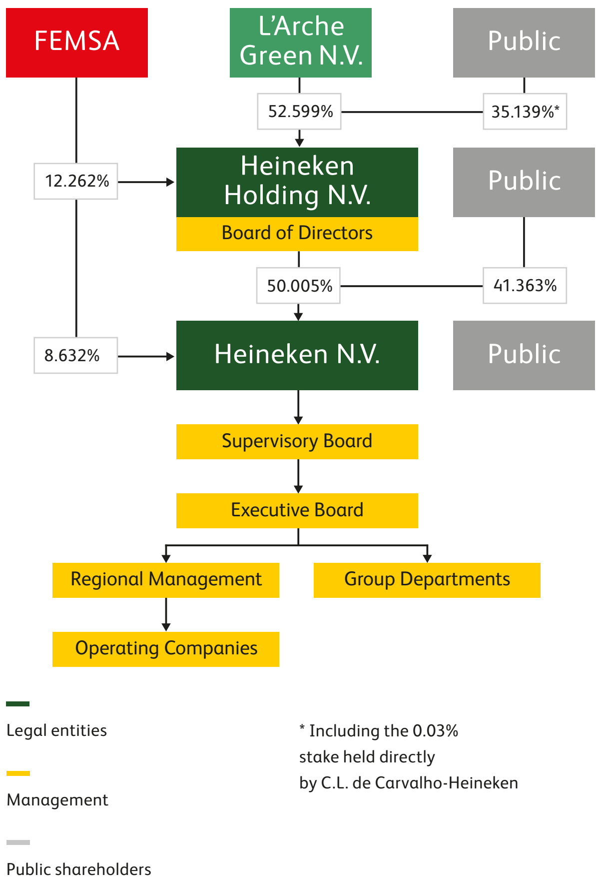
As at 31 December 2017 L'Arche Green N.V., a company owned by the Heineken family and the Hoyer family, holds a 52.599% (31 December 2016: 51.709%) interest of the issued share capital of Heineken Holding N.V. The Heineken family holds 88.86% of the issued share capital of L'Arche Green N.V. and the remaining 11.14% is held by the Hoyer family. Mrs C.L. de Carvalho-Heineken also owns a direct 0.03% stake in Heineken Holding N.V. FEMSA, through its affiliate CB Equity LLP, holds a 12.262% interest of the issued share capital of Heineken Holding N.V. In combination with its Heineken N.V. shareholding this represents a 14.76% economic interest in the HEINEKEN group. Of the issued share capital of Heineken Holding N.V. 35.139% is held by public shareholders.

The company has issued 250 priority shares, 50% of which are held by Stichting Administratiekantoor Priores, the other 50% being held by Stichting Beheer Prioriteitsaandelen Heineken Holding N.V. 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 109) of this Annual Report.

Policy principles and activities
Standing at the head of the HEINEKEN group, Heineken Holding N.V. is not an ordinary holding company as already set forth in the profile on page 2. 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.

Heineken Holding N.V. does not engage in operational activities itself and it employs no staff. The operational activities have been assigned within the HEINEKEN group to Heineken N.V. and its subsidiaries and associated companies. 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 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 both shares is identical.



Heineken Holding N.V.'s governance structure
Heineken Holding N.V. is managed by its Board of Directors, whose activities are directed towards implementing the policy principles outlined above. Heineken Holding N.V. has a one-tier board management structure. The Board of Directors comprises two executive members (*uitvoerende bestuurders*) and four non-executive members (*niet-uitvoerende bestuurders*). The Board of Directors has not installed committees.

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. These rules are available on the company's website.

The Board of Directors has rules regarding its functioning and internal organisation. The Articles of Association and the rules of the Board of Directors, which provide more information on the Board of Directors and the company's governance structure, are available on the company's website.

Compliance with the Code
Heineken Holding N.V. intends to preserve its existing structure and policy principles as described above and does therefore not apply those best-practice provisions of the Code which are inconsistent with this structure or these policy principles. As stated in the Code, there should be a basic recognition that corporate governance must be tailored to a company-specific situation and therefore that non-application of individual provisions by a company may be justified. Given the specific structure and policy principles of Heineken Holding N.V., Heineken Holding N.V. does not apply the best practice provisions described below. Most of these best-practice provisions are fulfilled by Heineken N.V. instead. Heineken Holding N.V. complies with the other best-practice provisions of the Code.

Long-term value creation and culture
The development of and the manner of implementing HEINEKEN's strategy aimed at long-term value creation as well as enabling a culture aligned with such strategy is pursued by Heineken N.V. The operational activities for pursuing such strategy are performed by Heineken N.V. Values for maintaining a culture within the HEINEKEN group aligned with its strategy for long-term value creation are set and carried out at the level of Heineken N.V. as well. Although Heineken Holding N.V. 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 have a long-term value creation strategy nor an aligned culture itself as it manages or supervises the HEINEKEN group, but does not engage in any operational activities and employs no staff. Heineken Holding N.V. therefore does not apply best practice provisions 1.1.1 up to and including 1.1.4 and 2.5.1, 2.5.2 and 2.5.4 of the Code. As to Heineken N.V., this is described in the Heineken N.V. Report of the Executive Board, page 9 and further.

Risk management

As Heineken Holding N.V. does not perform operational management activities, it does not have, unlike Heineken N.V., an internal risk management and control system to control any risks following from such management and operational activities. Heineken Holding N.V. does therefore not apply best practice provisions 1.2.1 up to and including 1.2.3, 1.4.1 up to and including 1.4.3 (i) and (ii) and 1.5.1 up to and including 1.5.4 of the Code. Therefore the Board will not provide the statement pursuant to best practice provision 1.4.3 (i) and (ii). As to Heineken N.V., the risk management and control system for the business is described in the Heineken N.V. Report of the Executive Board, page 19 and further. Note 30 to the consolidated financial statements of Heineken Holding N.V. itemises the specific financial risks and explains the control system relating to those risks. Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis and the Annual Report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the Annual Report.

Internal audit function

An internal audit function in relation to internal risk management and control is not present at the level of Heineken Holding N.V. as reviews of internal key processes, projects and systems, based on HEINEKEN's strategic priorities and most significant risk areas, are performed by Heineken N.V. Heineken Holding N.V. does therefore not apply best practice provisions 1.3.1 up to and including 1.3.6 of the Code. As to Heineken N.V., this is described in the Heineken N.V. Report of the Executive Board, page 19 and further.

Profile

The Board of Directors does not have a separate profile for its non-executive members due to the specific governance structure of the Board of Directors and aligns with the objectives as referred to in the profile of the members of the Supervisory Board of Heineken N.V. Heineken Holding N.V. therefore does not apply best practice provision 2.1.1 of the Code.

Diversity

The importance of diversity is recognised by Heineken Holding N.V. as described in the diversity policy for the Board of Directors, which considers the elements of a diverse composition in terms of nationality, gender, age, expertise and experience. The purpose of this policy is to achieve a diverse composed Board of Directors on all aforementioned subjects. Pursuant to the Act on Management and Supervision, which came into force on 13 April 2017, executive boards and supervisory boards of large Dutch public companies, such as Heineken Holding N.V., are deemed to have a balanced composition if they consist of at least 30% female and 30% male members. Currently, the executive members of the Board of Directors are one female and one male member and is therefore deemed to be balanced within the meaning of Dutch law. Assuming that the (re)appointments of the non-executive members of the Board of Directors as described on page 16 are confirmed, the non-executive members will consist of three female and three male members and will therefore be deemed to be balanced within the meaning of Dutch law as well.

Independence

Heineken Holding N.V. endorses the principle that the composition of the Board of Directors shall be such that its members are able to act critically and independently of one another and of any particular interests.

Given the structure of the HEINEKEN Group, the company is of the opinion that, in the context of promoting 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, it is in its best interest and that of its stakeholders that the Board of Directors includes a fair and adequate representation of persons who are related by blood or marriage to the late Mr A.H. Heineken, or who are representatives of FEMSA or the Hoyer family, even if those persons would not, formally speaking, be considered 'independent' within the meaning of best practice provision 2.1.8 of the Code.

Currently, the four non-executive members of the Board of Directors do not qualify as 'independent' as per best practice provision 2.1.8 of the Code pursuant to which Heineken Holding N.V. does not comply with best practice provision 2.1.7 sub i and ii of the Code. These four non-executive members do in a strictly formal sense not meet several criteria for being 'independent' as set out in the Code.

Pursuant to best practice provision 2.1.8 sub i, Mr A.A.C. de Carvalho is not considered independent as he is a relative by blood of the executive members of the company. In addition, pursuant to best practice provision 2.1.8 sub vi of the Code, Mr A.A.C. de Carvalho is not considered independent being the son of Mrs C.L. de Carvalho-Heineken, the latter having a shareholding of at least 10% in the company.

Mr M. Das does not qualify as independent pursuant to best practice provision 2.1.8 sub iii, as he had an important business relationship with Heineken Holding N.V. as advisor of the company in the year prior to his appointment. Mr M. Das is also not independent within the meaning of best practice provision 2.1.8 sub vii of the Code as he is a member of the management board of L'Arche Green N.V., an entity that holds at least 10% of the shares in the company.

Mr J.A. Fernández Carbajal is a representative of FEMSA, which through its affiliate CB Equity LLP, has a shareholding in Heineken Holding N.V. of at least 10%, pursuant to which he is not considered independent on the basis of best practice provision 2.1.8 sub vii of the Code.

Mrs C.M. Kwist is not independent within the meaning of best practice provision 2.1.8 sub vii of the Code, as she is a member of the management board of L'Arche Green N.V., an entity that has a shareholding in Heineken Holding N.V. of at least 10%. She is also a representative of the Hoyer family, the family that together with the Heineken family owns L'Arche Green N.V.

Heineken Holding N.V. does not comply with best practice provision 2.1.9 of the Code as Mr M. Das, the chairman of the Board of Directors (i) used to be a former (executive) member of the Board of Directors prior to the implementation of the one-tier management structure, and (ii) is not considered independent pursuant to best practice provisions 2.1.8 sub iii and vii of the Code, as described above.

The Board of Directors has ascertained that the non-executive members in fact act critically and independently. However, Heineken Holding N.V. does not comply with best practice provision 2.1.7 sub i and ii and 2.1.9 of the Code and the company does therefore not apply best practice provision 2.1.10 of the Code, to the extent that this provision provides that the report of the Board of Directors shall state that best practice provisions 2.1.7 through 2.1.9 of the Code have been fulfilled.

Evaluation

The Board of Directors does not conduct sessions to evaluate its own functioning, and that of its individual members. Considering the governance structure of Heineken Holding N.V. and the activities of the Board of Directors for the company, the Board of Directors feels that it has a sufficient view on the performance, working methods, procedures and functioning of the Board of Directors and its individual members. The company therefore does not apply best practice provisions 2.2.6 up to and including 2.2.8 of the Code.

Committees

The Board of Directors has not installed committees as it does not have more than four non-executive members and the establishment of such committees does not fit the specific structure of Heineken Holding N.V. as described above. Heineken Holding N.V. does therefore not apply best practice provisions 2.3.2 up to and including 2.3.5 and related provisions. Although Heineken Holding N.V. does not have any committees itself, the relevant findings of the various committees of the Supervisory Board of Heineken N.V. are shared with Heineken Holding N.V. as the Board of Directors of Heineken Holding N.V. meets with the Preparatory Committee of Heineken N.V. on several occasions. Furthermore, Mr M. Das and Mr M.R. de Carvalho have a double function as they are both a member of the Board of Directors of Heineken Holding N.V. as well a member of the Supervisory Board of Heineken N.V.

Chairman of the Board of Directors

Due to the specific structure not all tasks of the chairman that are listed in best practice provision 2.3.6 are applied or applicable.

Misconduct and irregularities

Due to no operational activities at the level of Heineken Holding N.V., a monitoring of suspected misconduct or irregularities cannot be performed on this level. Heineken Holding N.V. does therefore not apply best practice provisions 2.6.1 up to and including 2.6.4 of the Code. As to Heineken N.V., this is described in the Heineken N.V. Report of the Executive Board, page 19 and further.

Conflict of interest

In 2017, no transactions were reported under which a member of the Board of Directors had a conflict of interest that was of material significance.

Remuneration policy

Remuneration of the members of the Board of Directors was enabled by an amendment to the 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 2018, this means €90,000 a year for the chairman and €60,000 a year for the other members of the Board of Directors. Given the specific structure of Heineken Holding N.V. certain best practice provisions under the remuneration related principles (3.1, 3.2 and 3.4) that are inconsistent with the company's remuneration policy are not applied or are considered to be not applicable.

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

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.

At the Annual General Meeting of Shareholders on 20 April 2017 Mr M. Das and Mr A.A.C. de Carvalho were reappointed as non-executive members of the Board of Directors for the maximum period of four years. In addition, the Board of Directors has reappointed Mr M. Das as Chairman of the Board of Directors.

In accordance with the current rotation schedule, Mr J.A. Fernández Carbajal will stand down at the Annual General Meeting of Shareholders on 19 April 2018. A non-binding nomination, drawn up by the meeting of holders of priority shares, will be submitted to the Annual General Meeting of Shareholders to reappoint Mr J.A. Fernández Carbajal as of 19 April 2018 for a period of four years. In addition, the meeting of holders of priority shares will submit non-binding nominations to the Annual General Meeting of Shareholders on 19 April 2018 to appoint Mrs A.M. Fentener van Vlissingen and Mrs L.L.H. Brassey as non-executive members of the Board of Directors.

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 Management 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% 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 1% of the issued capital or (ii) have a value of at least €50 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 4.1.6 of the Code states: *"A shareholder should only exercise the right to put items on the agenda after they have consulted with the* *management board on this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the company's strategy, for example as a result of the dismissal of one or several management board or supervisory board members, the management board should be given the opportunity to stipulate a reasonable period in which to respond (the response time). The opportunity to stipulate the response time should also apply to an intention as referred to above for judicial leave to call a general meeting pursuant to Section 2:110 of the Dutch Civil Code. The relevant shareholder should respect the response time stipulated by the management board, within the meaning of best practice provision 4.1.7.*"

Pursuant to best-practice provision 4.1.7 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 the 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% of which are held by Stichting Administratiekantoor Priores, the other 50% 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 109) 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% of the Capital) with a nominal value of €1.60 each and 250 priority shares (representing 0.01% of the Capital) with a nominal value of €2 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, 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 Netherlands Authority for the Financial Markets (AFM) needs to be notified on substantial shareholdings (i.e. of 3% or more).

There were no changes in 2017 notified on substantial shareholdings in the share capital of Heineken Holding N.V. For the present situation reference is made to the organisation chart on page 13.

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.

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 19 April 2018 has been set 28 days before the General Meeting of Shareholders, i.e. on 22 March 2018.

Upon completion (on 30 April 2010) of the acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), CB Equity LLP (belonging to the FEMSA group) received Heineken Holding N.V. (and Heineken N.V.) shares. Pursuant to the Corporate Governance Agreement of 30 April 2010 concluded between Heineken Holding N.V., Heineken N.V., L'Arche Green N.V., FEMSA and CB Equity LLP the following applies. Subject to certain exceptions, FEMSA, CB Equity LLP, and any member of the FEMSA group shall not increase its shareholding in Heineken Holding N.V. above 20% and shall not increase its holding in the HEINEKEN group above a maximum of 20% economic interest (such capped percentages referred to as the 'Voting Ownership Cap'). Subject to certain exceptions, FEMSA, CB Equity LLP and any member of the FEMSA group may not exercise any voting rights in respect of any shares beneficially owned by it, if and to the extent that such shares are in excess of the applicable Voting Ownership Cap.

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

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 20 April 2017 extended, for the statutory maximum period of 18 months, commencing on 20 April 2017, the authorisation 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% 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% 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 20 April 2017 furthermore extended, for a period of 18 months, commencing on 20 April 2017, the authorisation 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% of the issued share capital of the company on the date of issue.

The Annual General Meeting of Shareholders on 20 April 2017 also extended, for a period of 18 months, commencing on 20 April 2017, the authorisation 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.

INFORMATION PURSUANT TO THE DECREE ON THE DISCLOSURE OF NON-FINANCIAL INFORMATION

As a holding company, Heineken Holding N.V.'s main object is to manage or supervise the management of the HEINEKEN group and to provide services for Heineken N.V. The policy principles of Heineken Holding N.V. are set out in the first paragraph on page 10 of this Annual Report. Heineken Holding N.V. itself does not engage in operational activities and does not employ staff.

Therefore it does not have any policies regarding measures on (i) environmental, social and employee matters, (ii) ensuring that human rights are respected, and (iii) preventing corruption and bribery.

Heineken N.V. does have such policies in place which are reflected in the Heineken N.V. Sustainability Review on page 133 and further. Heineken Holding N.V. as a holding company of Heineken N.V., recognises the importance of corporate social responsibility within the HEINEKEN Group and supervises Heineken N.V. on the application thereof. As a result of the nature of its activities, Heineken Holding N.V. has no information to disclose on non-financial key performance indicators relevant to these activities.

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 2017 give a true and fair view of our assets and liabilities, our financial position as at 31 December 2017, and the results of our consolidated operations for the financial year 2017; and
- the Report of the Board of Directors includes a fair review of the position as at 31 December 2017 and the development and performance during the financial year 2017 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, 9 February 2018

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

HEINEKEN HOLDING NV

2017

FINANCIAL STATEMENTS 2017

HEINEKEN HOLDING N.V. BALANCE SHEET

Before appropriation of profit
As at 31 December

In millions of €	Note	**2017**	2016
ASSETS			
Financial fixed assets			
Participating interest in Heineken N.V.	I	**6,633**	6,598
Current assets			
Cash	II	—	—
		6,633	6,598
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital:			
Priority shares		—	—
Ordinary shares		461	461
		461	461
Share premium		1,257	1,257
Translation reserve		(1,574)	(920)
Hedging reserve		58	—
Fair value reserve		167	132
Other legal reserves		482	420
Retained earnings		4,805	4,469
Profit for the year		977	779
	III	6,633	6,598
Current liabilities			
Other payables		—	—
		6,633	6,598

HEINEKEN HOLDING N.V. INCOME STATEMENT

For the year ended 31 December

In millions of €	Note	**2017**	2016
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	977	779
Profit before income tax		—	—
Income tax income/(expense)	V	—	—
Profit		**977**	779

NOTES TO THE BALANCE SHEET AS AT 31 DECEMBER 2017 AND THE INCOME STATEMENT FOR 2017 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, 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 9 February 2018 and will be submitted for adoption to the Annual General Meeting of Shareholders on 19 April 2018.

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% of the issued capital (being 50.514% (2016: 50.560%) 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 €461 million as at 31 December 2017 (€461 million as at 31 December 2016).

The market capitalisation of the participating interest in Heineken N.V. as at 31 December 2017 amounted to €25.0 billion (31 December 2016: €20.5 billion).

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
Balance as at 1 January 2017	**6,598**
50.514% of the profit of Heineken N.V.	977
Dividend payments received by Heineken Holding N.V.	(392)
Movements in translation reserve	(654)
Movements cash flow hedges	58
Movements fair value adjustments	35
Actuarial gains and losses	33
Movements in retained earnings	(27)
Purchase own shares by Heineken N.V.	—
Negative dilution	(6)
Share-based payments by Heineken N.V.	11
Balance as at 31 December 2017	**6,633**

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 €	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 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)	0	132	420	4,469	779	6,598
Balance as at 1 January 2017	**461**	**1,257**	**(920)**	**0**	**132**	**420**	**4,469**	**779**	**6,598**
Other comprehensive income[2]	—	—	(654)	54	35	—	33	—	(532)
Profit for the year	—	—	—	—	—	77	(77)	977	977
Total comprehensive income	—	—	(654)	54	35	77	(44)	977	445
Transfer of profit to retained earnings	—	—	—	—	—	—	779	(779)	—
Transfer between reserves	—	—	—	—	—	(15)	15	—	—
Dividends to shareholders	—	—	—	—	—	—	(392)	—	(392)
Purchase own shares by Heineken N.V.	—	—	—	—	—	—	—	—	—
Negative dilution	—	—	—	—	—	—	(6)	—	(6)
Share-based payments by Heineken N.V.	—	—	—	—	—	—	11	—	11
Changes in consolidation/transfers within equity by Heineken N.V.	—	—	—	4	—	—	(27)	—	(23)
Balance as at 31 December 2017	**461**	**1,257**	**(1,574)**	**58**	**167**	**482**	**4,805**	**977**	**6,633**

[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 2017, being 50.514% of €1,935 million (2016: 50.560% of €1,540 million).

NOTE V OTHER REVENUES AND EXPENSES AFTER INCOME TAX

Expenses made to manage and provide services to Heineken N.V. amounting to €714 thousand (2016: €1,160 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 €10.1 million of fees in 2017 for services provided by Deloitte Accountants B.V. and its member firms and/or affiliates (2016: €9.8 million). Fees for audit services include the audit of the financial statements of 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.

	Deloitte Accountants B.V.		Other Deloitte member firms and affiliates		Total	
In millions of €	**2017**	2016	**2017**	2016	**2017**	2016
Audit of Heineken Holding N.V. and its subsidiaries	**2.8**	2.6	**6.3**	6.2	**9.1**	8.8
Other audit services	**0.5**	0.4	**0.3**	0.3	**0.8**	0.7
Tax services	**—**	—	**—**	0.1	**—**	0.1
Other non-audit services	**—**	—	**0.2**	0.2	**0.2**	0.2
	3.3	3.0	**6.8**	6.8	**10.1**	9.8

Amsterdam, 9 February 2018

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 €	Note	**2017**	2016
Revenue	5	21,888	20,792
Other income	8	141	46
Raw materials, consumables and services	9	(13,540)	(13,003)
Personnel expenses	10	(3,550)	(3,263)
Amortisation, depreciation and impairments	11	(1,587)	(1,817)
Total expenses		(18,677)	(18,083)
Operating profit		**3,352**	2,755
Interest income	12	72	60
Interest expenses	12	(468)	(419)
Other net finance income/(expenses)	12	(123)	(134)
Net finance expenses		(519)	(493)
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	16	75	150
Profit before income tax		2,908	2,412
Income tax expense	13	(755)	(673)
Profit		**2,153**	1,739
Attributable to:			
Equity holders of Heineken Holding N.V. (net profit)		977	779
Non-controlling interests in Heineken N.V.		958	761
Non-controlling interests in Heineken N.V. group companies		218	199
Profit		**2,153**	1,739
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 (€)	23	3.39	2.70
Diluted earnings per ordinary share (€)	23	3.39	2.70

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

In millions of €	Note	**2017**	2016
Profit		2,153	1,739
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
Actuarial gains and losses	24	64	(252)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	24	(1,485)	(908)
Recycling of currency translation differences to profit or loss	24	59	—
Effective portion of net investment hedges	24	26	44
Effective portion of changes in fair value of cash flow hedges	24	109	6
Effective portion of cash flow hedges transferred to profit or loss	24	(3)	41
Net change in fair value available-for-sale investments	24	68	140
Share of other comprehensive income of associates/joint ventures	24	(7)	—
Other comprehensive income, net of tax	24	(1,169)	(929)
Total comprehensive income		**984**	810
Attributable to:			
Equity holders of Heineken Holding N.V.		445	334
Non-controlling interests in Heineken N.V.		436	326
Non-controlling interests in Heineken N.V. group companies		103	150
Total comprehensive income		**984**	810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

In millions of €	Note	**2017**	2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	11,117	9,232
Intangible assets	15	17,670	17,424
Investments in associates and joint ventures	16	1,841	2,166
Other investments and receivables	17	1,113	1,077
Advances to customers		277	274
Deferred tax assets	18	768	1,011
		32,786	31,184
Current assets			
Inventories	19	1,814	1,618
Trade and other receivables	20	3,496	3,052
Prepayments		399	328
Current tax assets		64	47
Cash and cash equivalents	21	2,442	3,035
Assets classified as held for sale	7	33	57
		8,248	8,137
		41,034	39,321

As at 31 December

In millions of €	Note	**2017**	2016
EQUITY			
Share capital	22	461	461
Share premium	22	1,257	1,257
Reserves		(867)	(368)
Retained earnings		5,782	5,248
Equity attributable to equity holders of Heineken Holding N.V.		6,633	6,598
Non-controlling interests in Heineken N.V.	22	6,688	6,640
Non-controlling interests in Heineken N.V. group companies	22	1,200	1,335
		14,521	14,573
LIABILITIES			
Non-current liabilities			
Loans and borrowings	25	12,301	10,954
Tax liabilities		—	3
Employee benefits	26	1,289	1,420
Provisions	28	970	302
Deferred tax liabilities	18	1,495	1,672
		16,055	14,351
Current liabilities			
Bank overdrafts and commercial papers	21	1,265	1,669
Loans and borrowings	25	1,947	1,981
Trade and other payables	29	6,756	6,224
Current tax liabilities		310	352
Provisions	28	178	154
Liabilities associated with assets classified as held for sale	7	2	17
		10,458	10,397
		26,513	24,748
		41,034	39,321

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

In millions of €	Note	2017	2016
OPERATING ACTIVITIES			
Profit		2,153	1,739
Adjustments for:			
Amortisation, depreciation and impairments	11	1,587	1,817
Net interest expenses	12	396	359
Gain on sale of property, plant and equipment, intangible assets and subsidiaries, joint ventures and associates	8	(141)	(46)
Investment income and share of profit and impairments of associates and joint ventures and dividend income on available-for-sale and held-for-trading investments		(84)	(161)
Income tax expenses	13	755	673
Other non-cash items		314	332
Cash flow from operations before changes in working capital and provisions		4,980	4,713
Change in inventories		(185)	(20)
Change in trade and other receivables		(241)	(228)
Change in trade and other payables		495	328
Total change in working capital		69	80
Change in provisions and employee benefits		(125)	(73)
Cash flow from operations		4,924	4,720
Interest paid		(463)	(441)
Interest received		98	70
Dividends received		109	118
Income taxes paid		(786)	(749)
Cash flow related to interest, dividend and income tax		(1,042)	(1,002)
Cash flow from operating activities		**3,882**	3,718

For the year ended 31 December

In millions of €	Note	**2017**	2016
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		187	116
Purchase of property, plant and equipment		(1,696)	(1,757)
Purchase of intangible assets		(137)	(109)
Loans issued to customers and other investments		(259)	(219)
Repayment on loans to customers		54	24
Cash flow (used in)/from operational investing activities		(1,851)	(1,945)
Free operating cash flow		*2,031*	*1,773*
Acquisition of subsidiaries, net of cash acquired		(1,047)	(9)
Acquisition of/additions to associates, joint ventures and other investments		(93)	(68)
Disposal of subsidiaries, net of cash disposed of		10	15
Disposal of associates, joint ventures and other investments		16	—
Cash flow (used in)/from acquisitions and disposals		(1,114)	(62)
Cash flow (used in)/from investing activities		**(2,965)**	(2,007)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		3,268	1,670
Repayment of loans and borrowings		(3,205)	(1,001)
Dividends paid		(1,011)	(1,031)
Purchase own shares and share issuance by Heineken N.V.		—	(31)
Acquisition of non-controlling interests		(18)	(294)
Other		—	15
Cash flow (used in)/from financing activities		**(966)**	(672)
Net cash flow		**(49)**	1,039
Cash and cash equivalents as at 1 January		1,366	282
Effect of movements in exchange rates		(140)	45
Cash and cash equivalents as at 31 December	21	**1,177**	1,366

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	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 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
Balance as at 1 January 2017		**461**	**1,257**	**(920)**	**—**	**132**	**420**	**5,248**	**6,598**	**6,640**	**1,335**	**14,573**
Profit		—	—	—	—	—	77	900	977	958	218	2,153
Other comprehensive income	24	—	—	(654)	54	35	—	33	(532)	(522)	(115)	(1,169)
Total comprehensive income		—	—	(654)	54	35	77	933	445	436	103	984
Transfer to retained earnings		—	—	—	—	—	(15)	15	—	—	—	—
Dividends to shareholders		—	—	—	—	—	—	(392)	(392)	(383)	(245)	(1,020)
Purchase own shares by Heineken N.V.	22	—	—	—	—	—	—	—	—	—	—	—
Negative dilution								(6)	(6)	6	—	—
Share-based payments by Heineken N.V.		—	—	—	—	—	—	11	11	11	—	22
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control	6	—	—	—	—	—	—	(23)	(23)	(22)	28	(17)
Changes in consolidation/transfers within equity by Heineken N.V.		—	—	—	4	—	—	(4)	—	—	(21)	(21)
Balance as at 31 December 2017		**461**	**1,257**	**(1,574)**	**58**	**167**	**482**	**5,782**	**6,633**	**6,688**	**1,200**	**14,521**

* 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 2017 comprise Heineken Holding N.V., Heineken N.V., its subsidiaries (together referred to as 'HEINEKEN') and HEINEKEN's interest in joint ventures and associates. The Company is registered in the Trade Register of Amsterdam No. 33078624. HEINEKEN is primarily involved in the brewing and selling of beer and cider. Led by the Heineken® brand, HEINEKEN has a portfolio of more than 300 international, regional, local and speciality beers and ciders.

2. BASIS OF PREPARATION

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

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

(b) Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis unless otherwise indicated.

The methods used to measure fair values are discussed further in notes 3 and 4.

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

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

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

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

Note 5	Operating segments, particularly the estimation of discount accruals in revenue at the end of the year based on the individual customer agreements.
Note 6	Acquisitions and disposals of subsidiaries, particularly with regard to the identification and valuation of acquired assets and liabilities.
Note 15	Intangible assets, particularly the assumptions used in goodwill impairment testing.
Note 18	Deferred tax assets and liabilities, particularly with regard to the assessment of the recoverability of past tax losses.
Note 26	Employee benefits, particularly with regard to assumptions for discount rates, future pension increases and life expectancy to calculate the defined benefit obligation.
Note 28	Provisions and note 32 Contingencies, particularly with regard to estimating the likelihood and timing of potential cash outflows relating to claims and litigations.
Note 29	Trade and other payables, particularly with regard to the estimation of sales discounts and the estimation of circulation times and market losses in determining the returnable packaging deposit liability.
Note 30	Financial risk management and financial instruments, particularly with regard to the estimation of the recoverability of loans and advances to customers and trade receivables.

(e) Changes in accounting policies
HEINEKEN has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017:
- Disclosure Initiative (amendments to IAS 7)
- Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)
- Annual Improvements to IFRS's 2014-2016 Cycle - amendments to IFRS 12

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

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

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

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

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

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

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

(ii) Acquisitions of non-controlling interests

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

(iii) Subsidiaries

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

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

(iv) Loss of control

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

(v) Interests in equity-accounted investees

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

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

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

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

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

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

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

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

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

(iii) Hedge of net investments in foreign operations

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

(c) Non-derivative financial instruments

(i) General

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

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

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

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

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

(ii) Held-to-maturity investments

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

(iii) Available-for-sale investments

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

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

(iv) Other

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

(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. Brands are amortised on an individual basis over the estimated useful life of the brand.

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

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

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

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

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

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

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

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

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

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

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

(v) Subsequent expenditure

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

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

The grant date fair value, adjusted for expected dividends, of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled) over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board 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
The Executive Board of Heineken N.V. is entitled to matching shares (refer to note 33). The grant date fair value of the matching shares is recognised as personnel expenses in the income statement as it is deemed an equity-settled share-based payment.

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

(l) Provisions

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

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

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

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

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

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

(n) Revenue

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

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

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

(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 joint ventures to the extent that HEINEKEN is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future
- taxable temporary differences arising on the initial recognition of goodwill

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

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

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

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

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

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

(t) Discontinued operations
A discontinued operation is a component of HEINEKEN's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria

to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(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 2017, which HEINEKEN has not applied in preparing these consolidated financial statements.

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

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

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

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

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

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

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

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

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

For the year ended 31 December In millions of €	**2017**	Estimated impact IFRS 15	2017 including impact IFRS 15
Revenue	21,888	3,865	25,753
Excise taxes		(4,162)	(4,162)
Net revenue		(297)	21,591
Other income	141		141
Raw materials, consumables and services	(13,540)	297	(13,243)
Personnel expenses	(3,550)		(3,550)
Amortisation, depreciation and impairments	(1,587)		(1,587)
Total expenses	(18,677)	297	(18,380)
Operating profit	3,352		3,352
Profit before income tax	2,908		2,908
Income tax expense	(755)		(755)
Profit	**2,153**		**2,153**
Attributable to:			
Equity holders of Heineken Holding N.V. (net profit)	977		977
Non-controlling interests in Heineken N.V.	958		958
Non-controlling interests in Heineken N.V. group companies	218		218

IFRS 16 Leases

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

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

In selecting which practical expedients to apply HEINEKEN has focused on reducing the complexity of implementation. Based on analysis of the options available, HEINEKEN will:
- use the option to grandfather classification as a lease for the existing contracts
- measure the Right of Use Asset based on the lease liability recognised
- apply the short-term and low value exemptions

- not use the transition option for leases with a short remaining contract period
- apply the option to exclude non-lease components from the lease liability for real estate leases
- most likely not use the option to exclude non-lease components from the lease liability for equipment leases because the lessors of HEINEKEN are currently not able to provide a sufficiently reliable and consistent split for both the calculation and invoicing

Other standards and interpretations
The following new or amended standards are not expected to have a significant impact of HEINEKEN's consolidated financial statements:
- Classification and measurement of Share-based Payments (amendments to IFRS 2)
- Foreign Currency Transactions and Advance Consideration (IFRIC 22)
- Uncertainty over tax treatments (IFRIC 23)
- Transfers of Investment Property (amendments to IAS 40)
- Annual Improvements to IFRS Standards 2014–2016 Cycle (amendments IFRS 1 and IAS 28)

4. DETERMINATION OF FAIR VALUES

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

Fair value as a result of business combinations

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

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

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

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

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

Fair value from normal business

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

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

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

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

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

5. OPERATING SEGMENTS

HEINEKEN distinguishes the following five reportable segments:
- Africa, Middle East & Eastern Europe*
- Americas
- Asia Pacific
- Europe
- 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 the next page. Performance is measured based on operating profit (beia), as included in the internal management reports that are reviewed by the Executive Board of Heineken N.V. Operating profit beia has replaced EBIT beia as key measure of profitability as of 1 January 2017. Operating profit better reflects the profitability that is under the direct control of HEINEKEN. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. Operating profit and operating profit (beia) are not financial measures calculated in accordance with IFRS. Operating profit (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of the segments.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are done in some countries via own wholesalers or own pubs, in other markets directly and in some others via third parties. As such, distribution models are country-specific and diverse across HEINEKEN. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board 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 €	Note	Europe 2017	Europe 2016	Americas 2017	Americas 2016	Africa, Middle East & Eastern Europe 2017	Africa, Middle East & Eastern Europe 2016
Total revenue (beia)[3]		**10,237**	10,112	**6,258**	5,203	**3,059**	3,203
Revenue							
Third party revenue[1]		9,520	9,422	6,230	5,200	3,058	3,200
Interregional revenue		687	690	28	3	1	3
Total revenue		**10,207**	10,112	**6,258**	5,203	**3,059**	3,203
Other income	8	134	39	5	12	2	1
Operating profit		1,338	1,208	1,003	883	326	38
Net finance expenses	12						
Share of profit of associates and joint ventures and impairments thereof	16	(11)	13	20	69	44	49
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							
Operating profit reconciliation							
Operating profit[2]		1,338	1,208	1,003	883	326	38
Eia[2]		33	53	185	138	62	338
Operating profit (beia)[2]		**1,371**	1,261	**1,188**	1,021	**388**	376
Current segment assets		2,793	2,898	2,331	2,003	1,146	1,303
Non-current segment assets		11,364	10,047	7,787	5,854	2,316	2,620
Investments in associates and joint ventures		217	162	829	1,203	219	221
Total segment assets		14,374	13,107	10,947	9,060	3,681	4,144
Unallocated assets							
Total assets							
Segment liabilities		4,814	4,804	2,483	1,383	1,088	1,154
Unallocated liabilities							
Total equity							
Total equity and liabilities							
Purchase of P, P & E	14	537	533	615	502	361	436
Acquisition of goodwill	15	2	6	907	4	1	4
Purchases of intangible assets	15	42	40	20	22	8	9
Depreciation of P, P & E	14	(496)	(487)	(266)	(230)	(261)	(299)
(Impairment) and reversal of impairment of P, P & E	14	1	11	—	10	4	(276)
Amortisation intangible assets	15	(57)	(60)	(116)	(97)	(8)	(9)
(Impairment) and reversal of impairment of intangible assets	15	—	—	—	—	—	(1)

[1]Includes other revenue of €361 million in 2017 and €343 million in 2016.
[2]Comparatives have been restated to reflect HEINEKEN's revised internal reporting measure. Note that these are non-GAAP measures.
[3]Note that this is a non-GAAP measure.

Asia Pacific		Heineken N.V. Head Office & Other/eliminations		Consolidated	
2017	2016	**2017**	2016	**2017**	2016
2,996	2,894	**(642)**	(620)	**21,908**	20,792
3,003	2,891	77	79	21,888	20,792
2	3	(718)	(699)	—	—
3,005	2,894	**(641)**	(620)	**21,888**	20,792
—	1	—	(7)	141	46
844	710	(159)	(84)	3,352	2,755
				(519)	(493)
22	19	—	—	75	150
				(755)	(673)
				2,153	1,739
				977	779
				958	761
				218	199
				2,153	1,739
844	710	(159)	(84)	3,352	2,755
118	217	9	37	407	785
962	927	**(150)**	(47)	**3,759**	3,540
1,226	1,150	1,000	826	8,496	8,180
7,525	8,668	935	775	29,927	27,964
575	552	1	27	1,841	2,165
9,326	10,370	1,936	1,628	40,264	38,309
				770	1,012
				41,034	39,321
900	864	1,790	2,110	11,075	10,315
				15,438	14,433
				14,521	14,573
				41,034	39,321
163	281	20	5	1,696	1,757
9	11	—	—	919	25
2	5	66	33	138	109
(134)	(131)	(15)	(16)	(1,172)	(1,163)
14	(19)	—	—	19	(274)
(174)	(181)	(25)	(21)	(380)	(368)
11	(11)	—	—	11	(12)

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

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

The 2017 exceptional items and amortisation of acquisition-related intangibles in operating profit amounts to €407 million (2016: €785 million). This amount consists of:
- €302 million (2016: €315 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €105 million (2016: €470 million) of exceptional items recorded in operating profit, of which €20 million in revenue (2016: nil), €93 million of restructuring expenses (2016: €80 million), €19 million of reversal of impairments of property, plant and equipment (2016: €316 million impairment loss of which €286 million related to The Democratic Republic of Congo), €72 million of acquisition and integration costs (2016: €8 million) and €61 million of other exceptional net benefits (2016: €66 million expense). Other exceptional net benefits include the gain on sale of non-beer and cider wholesale operations in the Netherlands.

6. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

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

The following table summarises the revised purchase price allocation as per 31 December 2017 for the acquisition of Brasil Kirin:

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

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

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

Acquisition of Punch

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

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

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

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

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

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

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

7. ASSETS OR DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

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

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

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

8. OTHER INCOME

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

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

9. RAW MATERIALS, CONSUMABLES AND SERVICES

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

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

10. PERSONNEL EXPENSES

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

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

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

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

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

11. AMORTISATION, DEPRECIATION AND IMPAIRMENTS

In millions of €	Note	**2017**	2016
Property, plant and equipment	14	1,153	1,437
Intangible assets	15	369	380
Recycling of currency translation differences		65	—
		1,587	1,817

In 2017 HEINEKEN recycled the negative currency translation reserves relating to disposed subsidiaries to the consolidated income statement.

12. NET FINANCE INCOME AND EXPENSE

Recognised in profit or loss

In millions of €	**2017**	2016
Interest income	**72**	60
Interest expenses	**(468)**	(419)
Dividend income from available-for-sale investments	10	12
Net change in fair value of derivatives	(149)	19
Net foreign exchange gain/(loss)[1]	56	(114)
Unwinding discount on provisions	(14)	(1)
Interest on the net defined benefit obligation	(33)	(40)
Other	7	(10)
Other net finance income/(expenses)	(123)	(134)
Net finance income/(expenses)	**(519)**	(493)

[1]Transactional foreign exchange effects of working capital and foreign currency denominated loans, the latter being offset by net change in fair value of derivatives.

13. INCOME TAX EXPENSE

Recognised in profit or loss

In millions of €	**2017**	2016
Current tax expense		
Current year	815	807
Under/(over) provided in prior years	(16)	(11)
	799	796
Deferred tax expense		
Origination and reversal of temporary differences, tax losses and tax credits	(12)	(45)
De-recognition/(recognition) of deferred tax assets	11	(90)
Effect of changes in tax rates	(45)	2
Under/(over) provided in prior years	2	10
	(44)	(123)
Total income tax expense in profit or loss	**755**	673

Reconciliation of the effective tax rate

In millions of €	**2017**	2016
Profit before income tax	2,908	2,412
Share of net profit of associates and joint ventures and impairments thereof	(75)	(150)
Profit before income tax excluding share of profit of associates and joint ventures (including impairments thereof)	**2,833**	2,262

	%	**2017**	%	2016
Income tax using the Company's domestic tax rate	25.0	708	25.0	565
Effect of tax rates in foreign jurisdictions	0.6	17	(0.4)	(9)
Effect of non-deductible expenses	2.6	75	2.9	67
Effect of tax incentives and exempt income	(3.4)	(98)	(2.8)	(64)
De-recognition/(recognition) of deferred tax assets	0.4	11	(4.0)	(90)
Effect of unrecognised current year losses	1.7	49	6.8	154
Effect of changes in tax rates	(1.6)	(45)	0.1	2
Withholding taxes	2.3	65	3.1	70
Under/(over) provided in prior years	(0.5)	(14)	—	(1)
Other reconciling items	(0.4)	(13)	(1.0)	(21)
	26.7	**755**	29.7	673

The effective tax rate 2017 is impacted by one-off benefits in several jurisdictions, including the remeasurement of deferred tax positions following a nominal tax rate change in the United States. The effective tax rate 2016 included the impact of impairments for which no tax benefit could be recognised.
For the income tax impact on items recognised in other comprehensive income, please refer to note 24.

14. PROPERTY, PLANT AND EQUIPMENT

In millions of €	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
COST						
Balance as at 1 January 2016		5,480	8,110	5,408	788	19,786
Changes in consolidation		13	—	5	—	18
Purchases		113	163	338	1,143	1,757
Transfer of completed projects under construction		212	696	323	(1,231)	—
Transfer (to)/from assets classified as held for sale		(19)	(24)	(8)	(1)	(52)
Disposals		(58)	(131)	(620)	(4)	(813)
Effect of movements in exchange rates		(306)	(420)	(403)	(29)	(1,158)
Balance as at 31 December 2016		5,435	8,394	5,043	666	19,538
Balance as at 1 January 2017		**5,435**	**8,394**	**5,043**	**666**	**19,538**
Changes in consolidation		1,611	257	150	92	2,110
Purchases		73	119	372	1,132	1,696
Transfer of completed projects under construction		197	425	284	(906)	—
Transfer (to)/from assets classified as held for sale		(17)	(9)	(6)	—	(32)
Disposals		(145)	(185)	(386)	(16)	(732)
Effect of movements in exchange rates		(243)	(608)	(291)	(66)	(1,208)
Balance as at 31 December 2017		**6,911**	**8,393**	**5,166**	**902**	**21,372**
DEPRECIATION AND IMPAIRMENT LOSSES						
Balance as at 1 January 2016		(2,088)	(4,452)	(3,694)	—	(10,234)
Changes in consolidation		1	—	(2)	—	(1)
Depreciation charge for the year	11	(158)	(441)	(564)	—	(1,163)
Impairment losses	11	(50)	(229)	(16)	—	(295)
Reversal impairment losses	11	7	4	10	—	21
Transfer to/(from) assets classified as held for sale		11	23	7	—	41
Disposals		37	128	585	—	750
Effect of movements in exchange rates		70	234	271	—	575
Balance as at 31 December 2016		(2,170)	(4,733)	(3,403)	—	(10,306)
Balance as at 1 January 2017		**(2,170)**	**(4,733)**	**(3,403)**	**—**	**(10,306)**
Changes in consolidation		33	(15)	(28)	—	(10)
Depreciation charge for the year	11	(163)	(438)	(571)	—	(1,172)
Impairment losses	11	—	—	—	—	—
Reversal impairment losses	11	11	6	2	—	19
Transfer to/(from) assets classified as held for sale		6	4	2	—	12
Disposals		112	197	362	—	671
Effect of movements in exchange rates		82	273	176	—	531
Balance as at 31 December 2017		**(2,089)**	**(4,706)**	**(3,460)**	**—**	**(10,255)**
CARRYING AMOUNT						
As at 1 January 2016		3,392	3,658	1,714	788	9,552
As at 31 December 2016		3,265	3,661	1,640	666	9,232
As at 1 January 2017		3,265	3,661	1,640	666	9,232
As at 31 December 2017		4,822	3,687	1,706	902	11,117

Impairment losses

In 2017, no impairment loss was charged to profit or loss.

In 2016 impairment losses of €295 million were charged to profit or loss. These impairment losses were mainly related to The Democratic Republic of Congo (DRC). A slowdown of the expected future economic growth in DRC due to lower commodity prices, power constraints and lower investments and consumption resulting from political uncertainties, resulted in an impairment of assets in the cash generating unit (CGU). The impairment primarily related to property, plant and equipment and has been recorded on the line 'Amortisation, depreciation and impairments' in the Income Statement. The CGU DRC is part of the Africa, Middle East and Eastern Europe segment. The determination of the recoverable amount of these assets was based on a fair value less costs of disposal (FVLCD) valuation. The FVLCD was based on a discounted 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 used for the impairment in DRC in 2016:

in %	2017-2026	After that
Sales volume growth (CAGR)	3.4	0.0
Cost inflation	4.0	4.0
Discount rate - post tax	16.0	16.0

Property, plant and equipment under construction

P, P & E under construction mainly relates to extension of brewing capacity in various countries.

15. INTANGIBLE ASSETS

In millions of €	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
COST							
Balance as at 1 January 2016		11,731	4,577	2,527	1,101	605	20,541
Changes in consolidation and other transfers		25	1	15	19	—	60
Purchased/internally developed		—	1	2	12	94	109
Disposals		—	—	(2)	—	(4)	(6)
Effect of movements in exchange rates		(320)	(188)	(99)	(10)	(19)	(636)
Balance as at 31 December 2016		11,436	4,391	2,443	1,122	676	20,068
Balance as at 1 January 2017		**11,436**	**4,391**	**2,443**	**1,122**	**676**	**20,068**
Changes in consolidation and other transfers		919	656	112	86	9	1,782
Purchased/internally developed		—	3	10	—	125	138
Transfer (to)/from assets classified as held for sale		—	(3)	—	—	—	(3)
Disposals		(6)	(1)	(12)	—	(7)	(26)
Effect of movements in exchange rates		(737)	(357)	(219)	(113)	(21)	(1,447)
Balance as at 31 December 2017		**11,612**	**4,689**	**2,334**	**1,095**	**782**	**20,512**
AMORTISATION AND IMPAIRMENT LOSSES							
Balance as at 1 January 2016		(407)	(571)	(808)	(202)	(370)	(2,358)
Changes in consolidation		—	—	—	—	—	—
Amortisation charge for the year	11	—	(110)	(147)	(53)	(58)	(368)
Impairment losses	11	—	(1)	(11)	—	—	(12)
Disposals		—	—	—	—	3	3
Effect of movements in exchange rates		—	26	58	(9)	16	91
Balance as at 31 December 2016		(407)	(656)	(908)	(264)	(409)	(2,644)
Balance as at 1 January 2017		**(407)**	**(656)**	**(908)**	**(264)**	**(409)**	**(2,644)**
Changes in consolidation		—	—	3	4	(20)	(13)
Amortisation charge for the year	11	—	(124)	(144)	(52)	(60)	(380)
Impairment losses	11	—	—	—	—	—	—
Reversal impairment losses	11	—	—	11	—	—	11
Disposals		—	—	—	—	6	6
Effect of movements in exchange rates		—	42	79	42	15	178
Balance as at 31 December 2017		**(407)**	**(738)**	**(959)**	**(270)**	**(468)**	**(2,842)**
CARRYING AMOUNT							
As at 1 January 2016		11,324	4,006	1,719	899	235	18,183
As at 31 December 2016		11,029	3,735	1,535	858	267	17,424
As at 1 January 2017		11,029	3,735	1,535	858	267	17,424
As at 31 December 2017		11,205	3,951	1,375	825	314	17,670

Brands, customer-related and contract-based intangibles

The main brands capitalised are the brands acquired in various acquisitions such as Fosters, Strongbow, Lagunitas, Dos Equis, Tiger and Bintang. The main customer-related and contract-based intangibles relate to customer relationships with retailers in Mexico and Asia Pacific (constituted either by way of a contractual agreement or by way of non-contractual relations) and reacquired rights.

Impairment tests for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill in respect of Europe, the Americas (excluding Brazil) and Asia Pacific is allocated and monitored on a regional basis. For Brazil and subsidiaries within Africa, Middle East and Eastern Europe and 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 €	**2017**	2016
Europe	4,720	4,788
The Americas (excluding Brazil)	2,109	2,115
Brazil	668	78
Africa, Middle East and Eastern Europe (aggregated)	346	414
Asia Pacific	2,882	3,154
Heineken N.V. Head Office	480	480
	11,205	11,029

Throughout the year, goodwill increased mainly due to the Brasil Kirin acquisition offset by net foreign currency differences.

The recoverable amounts of the (group of) CGUs are based on the higher of the fair value less costs of disposal and value in use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate. The key assumptions used for the value in use calculations are as follows:

- Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period (except for Europe, where a further two-year period was applied) were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this period is justified due to the long-term development of the local beer business and past experiences.
- The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.
- Cash flows after the first 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 %	Pre-tax WACC	Expected annual long-term inflation 2021-2027	Expected volume growth rates 2021-2027
Europe	9.2	1.9	0.5
The Americas (excluding Brazil)	14.2	3.1	3.3
Brazil	14.3	3.9	2.0
Africa, Middle East and Eastern Europe	17.7-27.4	3.5-12.3	0.0-8.5
Asia Pacific	15.4	4.8	3.7
Heineken N.V. Head Office	8.9	1.9	0.5

The outcome of these impairment tests in 2017 did not result in an impairment loss (2016: nil) being charged to profit or loss.

Sensitivity to changes in assumptions

The outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a materially different outcome of the impairment test.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

HEINEKEN has interests in a number of individually insignificant joint ventures and associates.

Summarised financial information for equity accounted joint ventures and associates

The following table includes, in aggregate, the carrying amount and HEINEKEN's share of profit and OCI of joint ventures and associates:

	Joint ventures		Associates	
In millions of €	**2017**	2016	**2017**	2016
Carrying amount of interests	**1,612**	2,022	**229**	144
Share of:				
Profit or loss from continuing operations	43	124	32	26
Other comprehensive income	(13)	—	6	—
	30	124	**38**	26

The decrease in the carrying amount of interests is mainly due to the acquisition in 2017 of all the remaining shares in Lagunitas Brewing Company, which was formerly a joint venture.

17. OTHER INVESTMENTS AND RECEIVABLES

In millions of €	Note	**2017**	2016
Non-current other investments and receivables			
Available-for-sale investments	30	481	427
Non-current derivatives	30	36	254
Loans to customers	30	54	58
Loans to joint ventures and associates	30	3	18
Long-term prepayments		346	145
Other receivables	30	193	175
		1,113	1,077

The increase in long-term prepayments is mainly related to deposits paid for existing legal proceedings which were inherited as part of the Brasil Kirin acquisition (refer to note 6).

The other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years. A part of the aforementioned receivable qualifies for indemnification towards FEMSA.

HEINEKEN has interests in several entities where it has less than significant influence. These are classified as available-for-sale investments and valued based on their share price when publicly listed. For investments that are not listed fair values are established using multiples. Debt securities (which are interest-bearing) with a carrying amount of €15 million (2016: €15 million) are included in available-for-sale investments.

Sensitivity analysis – equity price risk

As at 31 December 2017, an amount of €396 million (2016: €342 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An increase or decrease of 1% in the share price at the reporting date would not result in a material impact on HEINEKEN's financial position.

18. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

In millions of €	Assets 2017	Assets 2016	Liabilities 2017	Liabilities 2016	Net 2017	Net 2016
Property, plant and equipment	72	71	(521)	(547)	(449)	(476)
Intangible assets	41	56	(1,333)	(1,402)	(1,292)	(1,346)
Investments	54	126	(6)	(5)	48	121
Inventories	31	27	(9)	(1)	22	26
Loans and borrowings	32	2	(28)	(32)	4	(30)
Employee benefits	300	346	(6)	(6)	294	340
Provisions	131	125	(30)	(45)	101	80
Other items	467	413	(382)	(180)	85	233
Tax losses carried forward	460	391	—	—	460	391
Tax assets/(liabilities)	1,588	1,557	(2,315)	(2,218)	(727)	(661)
Set-off of tax	(820)	(546)	820	546	—	—
Net tax assets/(liabilities)	**768**	1,011	**(1,495)**	(1,672)	**(727)**	(661)

Of the total net deferred tax assets of €768 million as at 31 December 2017 (2016: €1,011 million), €253 million (2016: €405 million) is recognised in respect of subsidiaries in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets. This judgement is performed annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, with a net impact of €75 million (2016: €58 million). This because HEINEKEN is able to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Tax losses carried forward

HEINEKEN has tax losses carried forward of €3,593 million as at 31 December 2017 (2016: €2,370 million), out of which €137 million (2016: €145 million) expires in the following five years. €434 million (2016: €338 million) will expire after five years and €3,023 million (2016: €1,887 million) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of tax losses carried forward of €1,619 million (2016: €637 million) as it is not probable that taxable profit will be available to offset these losses. The increase in the amount of tax losses carried forward relates mainly to the acquisition of Brasil Kirin.

Movement in deferred tax balances during the year

In millions of €	Balance 1 January 2017	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2017
Property, plant and equipment	(476)	(15)	36	2	—	4	(449)
Intangible assets	(1,346)	(201)	127	132	—	(4)	(1,292)
Investments	121	—	(8)	(65)	—	—	48
Inventories	26	(3)	—	4	—	(5)	22
Loans and borrowings	(30)	21	24	—	(13)	2	4
Employee benefits	340	5	(8)	(33)	(9)	(1)	294
Provisions	80	2	(4)	18	—	5	101
Other items	233	24	(81)	(51)	(15)	(25)	85
Tax losses carried forward	391	48	(16)	37	—	—	460
Net tax assets/(liabilities)	**(661)**	**(119)**	**70**	**44**	**(37)**	**(24)**	**(727)**

In millions of €	Balance 1 January 2016	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2016
Property, plant and equipment	(553)	1	52	22	—	2	(476)
Intangible assets	(1,429)	(10)	50	40	—	3	(1,346)
Investments	124	—	(13)	17	—	(7)	121
Inventories	26	—	(1)	1	—	—	26
Loans and borrowings	(12)	—	(4)	(1)	(13)	—	(30)
Employee benefits	331	—	(28)	(13)	49	1	340
Provisions	51	—	(4)	34	—	(1)	80
Other items	198	(3)	24	20	(10)	4	233
Tax losses carried forward	364	4	13	3	—	7	391
Net tax assets/(liabilities)	(900)	(8)	89	123	26	9	(661)

19. INVENTORIES

In millions of €	**2017**	2016
Raw materials	316	247
Work in progress	234	225
Finished products	412	479
Goods for resale	311	168
Non-returnable packaging	204	187
Other inventories and spare parts	337	312
	1,814	1,618

During 2017 inventories were written down by €14 million to net realisable value (2016: €19 million).

20. TRADE AND OTHER RECEIVABLES

In millions of €	Note	**2017**	2016
Trade receivables		2,582	2,283
Other receivables		672	701
Trade receivables due from associates and joint ventures		23	20
Derivatives		219	48
	30	**3,496**	3,052

A net impairment loss of €13 million (2016: €57 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

21. CASH AND CASH EQUIVALENTS

In millions of €	Note	**2017**	2016
Cash and cash equivalents	30	2,442	3,035
Bank overdrafts and commercial papers	25	(1,265)	(1,669)
Cash and cash equivalents in the statement of cash flows		**1,177**	1,366

HEINEKEN has cash pooling arrangements with legally enforceable rights to offset cash and overdraft balances. Where there is an intention to settle on a net basis, cash and overdraft balances relating to the cash pooling arrangements are reported on a net basis in the statement of financial position.

The following table presents the recognised 'Cash and cash equivalents' and 'Bank overdrafts and commercial papers' and the impact of netting on the gross amounts. The column 'Net amount' shows the impact on HEINEKEN's balance sheet if all amounts subject to legal offset rights had been netted.

In millions of €	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Amounts subject to legal offset rights	Net amount
Balance as at 31 December 2017					
ASSETS					
Cash and cash equivalents	2,442	—	2,442	(1,062)	1,380
LIABILITIES					
Bank overdrafts and commercial papers	(1,265)	—	(1,265)	1,062	(203)
Balance as at 31 December 2016					
ASSETS					
Cash and cash equivalents	3,097	(62)	3,035	(1,489)	1,546
LIABILITIES					
Bank overdrafts and commercial papers	(1,731)	62	(1,669)	1,489	(180)

HEINEKEN operates in a number of territories where there is limited availability of foreign currency resulting in restrictions on remittances. Mainly as a result of these restrictions, €208 million of cash included in cash and cash equivalents is restricted for use by HEINEKEN, yet available for use in the relevant subsidiary's day-to-day operations.

22. CAPITAL AND RESERVES

Share capital

As at 31 December 2017, the issued share capital comprised 288,030,168 ordinary shares (2016: 288,030,168) with a par value of €1.60 and 250 priority shares (2016: 250) with a par value of €2. All issued shares are fully paid. The share capital as at 31 December 2017 amounted to €461 million (2016: €461 million). The Company's authorised capital amounted to €1,500,000,500, 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 109.

Share premium

As at 31 December 2017, the share premium amounted to €1,257 million (2016: €1,257 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 2017, Heineken N.V. held 5,808,418 own shares (2016: 6,321,833). This results in a decreased interest in shareholding by Heineken Holding N.V.

The related dilution effect has been recognised directly in equity.

Dividends

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

In millions of €	**2017**	2016
Final dividend previous year €0.82, respectively €0.86 per ordinary share	236	248
Interim dividend current year €0.54, respectively €0.52 per ordinary share	156	150
Total dividend declared and paid	**392**	398

For 2017, a payment of a total cash dividend of €1.47 per share (2016: €1.34) will be proposed at the AGM of Heineken N.V. If approved, a final dividend of €0.93 per share will be paid on 2 May 2018, as an interim dividend of €0.54 per share was paid on 10 August 2017. The payment will be subject to 15% Dutch withholding tax.

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 €	**2017**	2016
Dividend per ordinary share €1.47 (2016: €1.34)	423	386
Addition to the reserves	554	393
Net profit	**977**	779

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

In millions of €	**2017**	2016
NCI percentage	**49.486%[1]**	49.44%[1]
Non-current assets	32,786	31,184
Current assets	8,248	8,137
Non-current liabilities	(16,055)	(14,351)
Current liabilities	(10,458)	(10,397)
Net assets	**14,521**	14,573
Carrying amount of NCI	**6,688**	6,640
Revenue	**21,888**	20,792
Profit	2,153	1,739
OCI	(1,169)	(929)
Total comprehensive income	**984**	810
Profit allocated to NCI[2]	**958**	761
OCI allocated to NCI[2]	**436**	326
Cash flow from operating activities	3,882	3,718
Cash flow from investing activities	(2,965)	(2,007)
Cash flow from financing activities	(966)	(672)
Net increase (decrease) in cash and cash equivalents	**(49)**	1,039
Final dividend previous year	468	490
Interim dividend current year	307	296
Total dividend	**775**	786
Dividend allocated to NCI	**383**	388

[1] Of which 8.632% (2016: 12.532%) relates to FEMSA and 41.363% (2016: 37.463%) to the public.
[2] Calculated based on 49.486% (2016: 49.44%) 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 2017 amounted to €1,200 million (2016: €1,335 million).

23. EARNINGS PER SHARE

Basic earnings per share
The calculation of basic earnings per share for the period ended 31 December 2017 is based on the profit attributable to ordinary shareholders of the Company (net profit) of €977 million (2016: €779 million) and a weighted average number of ordinary shares – basic outstanding during the year ended 31 December 2017 of 288,030,168 (2016: 288,030,168). Basic earnings per share for the year amounted to €3.39 (2016: €2.70).

Weighted average number of shares – basic and diluted

	2017	2016
Number of ordinary shares	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 €	Amount before tax	Tax	**2017** Amount net of tax	Amount before tax	Tax	2016 Amount net of tax
Other comprehensive income						
Actuarial gains and losses	73	(9)	64	(301)	49	(252)
Currency translation differences	(1,440)	(45)	(1,485)	(935)	27	(908)
Recycling of currency translation differences to profit or loss	59	—	59	—	—	—
Effective portion of net investment hedges	26	—	26	44	—	44
Effective portion of changes in fair value of cash flow hedges	145	(36)	109	18	(12)	6
Effective portion of cash flow hedges transferred to profit or loss	(13)	10	(3)	53	(12)	41
Net change in fair value available-for-sale investments	69	(1)	68	140	—	140
Share of other comprehensive income of associates/joint ventures	(7)	—	(7)	—	—	—
	(1,088)	**(81)**	**(1,169)**	(981)	52	(929)

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 €	**2017**	2016
Unsecured bond issues	11,789	9,432
Unsecured bank loans	109	239
Secured bank loans	105	84
Other non-current interest-bearing liabilities	163	1,165
Non-current interest-bearing liabilities	12,166	10,920
Non-current non-interest-bearing liabilities	78	24
Non-current derivatives	57	10
Non-current liabilities	**12,301**	10,954

Current interest-bearing liabilities

In millions of €	Note	2017	2016
Current portion of unsecured bonds issued		159	1,251
Current portion of unsecured bank loans		142	4
Current portion of secured bank loans		4	10
Current portion of other non-current interest-bearing liabilities		993	94
Total current portion of non-current interest-bearing liabilities		1,298	1,359
Deposits from third parties (mainly employee loans)		649	622
		1,947	1,981
Bank overdrafts and commercial papers	21	1,265	1,669
Current interest-bearing liabilities		**3,212**	3,650

For further details regarding the interest-bearing liabilities refer to terms and debt repayment schedule included in this note.

Net interest-bearing debt position

In millions of €	Note	2017	2016
Non-current interest-bearing liabilities		12,166	10,920
Current portion of non-current interest-bearing liabilities		1,298	1,359
Deposits from third parties (mainly employee deposits)		649	622
Total current and non-current loans and borrowings		14,113	12,901
Bank overdrafts and commercial papers	21	1,265	1,669
Gross debt		15,378	14,570
Market value of cross-currency interest rate swaps	30	(57)	(242)
Cash, cash equivalents and current other investments	17/21	(2,442)	(3,035)
Net interest-bearing debt position		**12,879**	11,293

Net interest-bearing debt is the key metric for HEINEKEN to measure debt and the basis for the calculation of the Net debt/EBITDA (beia) ratio as used for the long-term target net debt/EBITDA (beia) ratio and the incurrence covenant. Please refer to the end of this note for more information on the incurrence covenant calculation.

Non-current liabilities

In millions of €	Unsecured bond issues	Unsecured bank loans	Secured bank loans	Other non-current interest-bearing liabilities	Non-current derivatives	Non-current non-interest-bearing liabilities	Total
Balance as at 1 January 2017	**9,432**	**239**	**84**	**1,165**	**10**	**24**	**10,954**
Consolidation changes	—	1	124	144	152	35	456
Effect of movements in exchange rates	(466)	(21)	(6)	(131)	52	25	(547)
Transfers to current liabilities	(163)	(134)	(3)	(1,045)	(5)	—	(1,350)
Proceeds	2,976	197	43	19	—	1	3,236
Repayments	—	(173)	(137)	(4)	(152)	(7)	(473)
Other	10	—	—	15	—	—	25
Balance as at 31 December 2017	**11,789**	**109**	**105**	**163**	**57**	**78**	**12,301**

Current interest-bearing liabilities excluding bank overdrafts and commercial papers

In millions of €	Current portion of unsecured bond issues	Current portion of unsecured bank loans	Current portion of secured bank loans	Current portion of other interest-bearing liabilities	Deposits from third parties	Total
Balance as at 1 January 2017	**1,251**	**4**	**10**	**94**	**622**	**1,981**
Consolidation changes	—	—	952	394	—	1,346
Effect of movements in exchange rates	(73)	8	40	(35)	(3)	(63)
Transfers from non-current liabilities	163	134	3	1,045	—	1,345
Proceeds	—	—	—	—	32	32
Repayments	(1,182)	(4)	(1,002)	(505)	—	(2,693)
Other	—	—	1	—	(2)	(1)
Balance as at 31 December 2017	**159**	**142**	**4**	**993**	**649**	**1,947**

The difference between the total repayment of loans and borrowings in the above tables and the total repayment of loans and borrowings in the consolidated statement of cash flows is caused by the settlement of short term derivative liabilities of €39 million. As at 31 December 2017, the value of derivative assets used by HEINEKEN to manage the currency denomination of the interest-bearing debts was €117 million (2016: €242 million). The change in the value is caused by fair value movements.

Terms and debt repayment schedule

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

In millions of €	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2017	Face value 2017	Carrying amount 2016	Face value 2016
Unsecured bond	issue under EMTN programme	SGD	1.4	2017	—	—	66	66
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	100	100	100	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	59	59	62	62
Unsecured bond	issue under EMTN programme	USD	2.5	2019	167	167	189	190
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	848	850	847	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	998	1,000	997	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	498	500	498	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	498	500	498	500
Unsecured bond	issue under EMTN programme	USD	3.3	2022	166	167	189	190
Unsecured bond	issue under EMTN programme	SGD	1.6	2022	93	94	—	—
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	140	140	140	140
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	498	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	455	460	454	460
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	744	750	743	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	224	225	224	225
Unsecured bond	issue under EMTN programme	EUR	1.0	2026	791	800	790	800
Unsecured bond	issue under EMTN programme	EUR	1.4	2027	496	500	497	500
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	200	200	199	200
Unsecured bond	issue under EMTN programme	EUR	1.5	2029	790	800	—	—
Unsecured bond	issue under EMTN programme	EUR	2.0	2032	499	500	—	—
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	177	180	180	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	92	100	92	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	75	75	75	75
Unsecured bond	issue under APB MTN programme	SGD	3.8 - 4.0	2020 - 2022	24	25	25	25
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	—	—	1,185	1,186
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	623	625	709	712
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	831	834	945	949
Unsecured bond	issue under 144A/RegS	USD	3.5	2028	906	917	—	—
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	408	417	465	474
Unsecured bond	issue under 144A/RegS	USD	4.4	2047	533	542	—	—
Unsecured bond	various	EUR	3.0 - 4.5	2020	15	15	17	17
Unsecured bank loans	bank facilities	PLN	2.5	2019	24	24	34	34
Unsecured bank loans	bank facilities	NGN	20.0	2021	20	20	51	51
Unsecured bank loans	bank facilities	USD - RWF	5.2 - 12.5	2018 - 2022	21	21	26	26
Unsecured bank loans	bank facilities	ZAR	9.4 - 9.9	2018 - 2022	170	170	112	112
Unsecured bank loans	various	various	various	various	16	16	20	20
Secured bank loans	bank facilities	ETB	9.5	2017	—	—	20	20
Secured bank loans	bank facilities	XOF	7.0	2026	83	83	57	56
Secured bank loans	various	various	various	various	26	26	17	20
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	—	—	85	85
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	36	36	37	37
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	605	605	688	688
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	325	325	369	370
Other interest-bearing liabilities	facilities from JVs	EUR	various	various	4	4	4	4
Other interest-bearing liabilities	bank facilities	BRL	4.9 - 8.5	2020 - 2026	85	85	—	—
Other interest-bearing liabilities	various	various	various	various	101	101	76	76
Deposits from third parties	n.a.	various	various	various	649	649	622	622
					14,113	**14,207**	12,901	12,972

Financing headroom

The committed financing headroom at Group level was approximately €4.0 billion as at 31 December 2017 and consisted of the undrawn revolving credit facility and centrally available cash, minus the amount of commercial paper in issue at Group level.

Incurrence covenant

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing net debt (excluding the market value of cross-currency interest rate swaps) by EBITDA (beia) (both based on proportional consolidation of joint ventures and including acquisitions made in 2017 on a pro-forma basis). As at 31 December 2017 this ratio was 2.4 (2016: 2.3). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent HEINEKEN from conducting further significant debt financed acquisitions.

26. EMPLOYEE BENEFITS

In millions of €	**2017**	2016
Present value of unfunded defined benefit obligations	296	305
Present value of funded defined benefit obligations	8,792	8,865
Total present value of defined benefit obligations	9,088	9,170
Fair value of defined benefit plan assets	(7,908)	(7,815)
Present value of net obligations	1,180	1,355
Asset ceiling items	19	3
Defined benefit plans included under non-current assets	10	—
Recognised liability for defined benefit obligations	1,209	1,358
Other long-term employee benefits	80	62
	1,289	1,420

HEINEKEN makes contributions to defined benefit plans that provide pension benefits to (former) employees upon retirement in a number of countries. The defined benefit plans in The Netherlands and the UK represent the majority of the total defined benefit plan assets and the present value of the defined benefit obligations. Refer to the table below for share of the these plans in the total present value of the net obligations of HEINEKEN.

	UK		NL		Other		Total	
In millions of €	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Total present value of defined benefit obligations	4,002	4,167	3,729	3,544	1,357	1,459	9,088	9,170
Fair value of defined benefit plan assets	(3,449)	(3,488)	(3,546)	(3,392)	(913)	(935)	(7,908)	(7,815)
Present value of net obligations	**553**	679	**183**	152	**444**	524	**1,180**	1,355

HEINEKEN provides employees in the Netherlands with an average pay pension plan based on earnings up to the legal tax limit. Indexation of accrued benefits is conditional on the funded status of the pension fund. HEINEKEN pays contributions to the fund up to a maximum level agreed with the Board of the pension fund and has no obligation to make additional contributions in case of a funding deficit. In 2017, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2018.

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 upcoming triennial valuation. No additional liability has been recognised as the net present value of the minimum funding requirement does not exceed the net obligation.

Other countries where HEINEKEN offers a defined benefit plan to (former) employees include: Austria (closed in 2007 to new entrants), Belgium, France, Greece (closed in 2014 to new entrants), Ireland (closed in 2012 to all future accrual), Jamaica (closed in 2017 to all future accrual), Mexico (plan changed to hybrid defined contribution for majority of employees in 2014), Nigeria (closed to new entrants in 2007), Portugal, Spain (closed to management in 2010 and changed to a defined contribution plan for actives in 2017) and Switzerland.

The vast majority of benefit payments are from pension funds that are held in trusts (or equivalent); however, there is a small portion where HEINEKEN meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by Trustee Boards composed of HEINEKEN representatives and independent and/or member representation, in accordance with local regulations and practice in each country. The relationship and division of responsibility between HEINEKEN and the Trustee Board (or equivalent) including investment decisions and contribution schedules are carried out in accordance with the plan's regulations.

In other countries, retirement benefits are provided to employees via defined contribution plans.

Other long-term employee benefits mainly relate to long-term bonus plans, termination benefits, medical plans and jubilee benefits.

Movement in net defined benefit obligation

The movement in the net defined benefit obligation over the year is as follows:

		Present value of defined benefit obligations		Fair value of defined benefit plan assets		Present value of net obligations	
In millions of €	Note	**2017**	2016	**2017**	2016	**2017**	2016
Balance as at 1 January		**9,170**	8,873	**(7,815)**	(7,661)	**1,355**	1,212
Included in profit or loss							
Current service cost		85	86	—	—	85	86
Past service cost/(credit)		5	1	—	—	5	1
Administration expense		—	—	4	2	4	2
Effect of any settlement		(35)	(1)	—	—	(35)	(1)
Expense recognised in personnel expenses	10	55	86	4	2	59	88
Interest expense/(income)	12	196	257	(163)	(217)	33	40
		251	343	(159)	(215)	92	128
Included in OCI							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		79	20	—	—	79	20
Financial assumptions		190	1,080	—	—	190	1,080
Experience adjustments		(31)	(139)	—	—	(31)	(139)
Return on plan assets excluding interest income		—	—	(327)	(660)	(327)	(660)
Effect of movements in exchange rates		(200)	(674)	165	557	(35)	(117)
		38	287	(162)	(103)	(124)	184
Other							
Changes in consolidation and reclassification		42	(1)	(49)	—	(7)	(1)
Contributions paid:							
By the employer		—	—	(136)	(168)	(136)	(168)
By the plan participants		23	23	(23)	(23)	—	—
Benefits paid		(385)	(355)	385	355	—	—
Settlements		(51)	—	51	—	—	—
		(371)	(333)	228	164	(143)	(169)
Balance as at 31 December		**9,088**	9,170	**(7,908)**	(7,815)	**1,180**	1,355

Defined benefit plan assets

			2017			2016
In millions of €	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments:						
Europe	985	—	985	1,092	—	1,092
Northern America	556	—	556	403	—	403
Japan	109	—	109	113	—	113
Asia other	122	—	122	47	—	47
Other	330	180	510	478	246	724
	2,102	180	2,282	2,133	246	2,379
Debt instruments:						
Corporate bonds – investment grade	2,258	1,524	3,782	2,673	1,537	4,210
Corporate bonds – non-investment grade	240	476	716	297	102	399
	2,498	2,000	4,498	2,970	1,639	4,609
Derivatives	11	(1,333)	(1,322)	10	(1,389)	(1,379)
Properties and real estate	270	437	707	230	362	592
Cash and cash equivalents	626	3	629	180	116	296
Investment funds	675	244	919	711	350	1,061
Other plan assets	119	76	195	3	254	257
	1,701	(573)	1,128	1,134	(307)	827
Balance as at 31 December	**6,301**	**1,607**	**7,908**	6,237	1,578	7,815

The HEINEKEN pension funds monitor the mix of debt and equity securities in their investment portfolios based on market expectations. Material investments within the portfolio are managed on an individual basis. Through its defined benefit pension plans, HEINEKEN is exposed to a number of risks, the most significant which are detailed below:

Asset volatility
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the plan assets is less than the return on the liabilities implied by this assumption, this will create a deficit. Both the Netherlands and the UK plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term, while providing volatility and risk in the short term.

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 38% equity securities, 40% bonds, 7% property and real estate and 15% other investments. The objective is to hedge currency risk on the US dollar, Japanese yen and British pound for 50% of the equity exposure in the strategic investment mix.

In the UK, an Asset-Liability Matching study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 45% of plan assets in liability driven investments, 18% in absolute return, 16% in equities (global and emerging markets), 5.5% in alternatives and 15.5% in private markets. The objective is to hedge 100% of currency risk on developed non-GBP equity market exposures in the strategic investment mix.

Interest rate risk
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' fixed rate instruments holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 22.9% (2016: 22.9%). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match 32% of the interest rate sensitivity of the total liabilities (2016: 28%).

Inflation risk
Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation is partly managed through the use of a mixture of inflation-linked derivative instruments. These instruments match 35% of the inflation-linked liabilities (2016: 41%).

Life expectancy
The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflation-linked increases result in higher sensitivity to changes in life expectancy. In 2015, the Trustee of SNPP implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for the 2015 population of pensioners.

Principal actuarial assumptions as at the balance sheet date
Based on the significance of the Dutch and UK pension plans compared with the other plans, the table below only includes the major actuarial assumptions for those two plans as at 31 December:

	The Netherlands		UK*	
In %	**2017**	2016	**2017**	2016
Discount rate as at 31 December	1.7	1.5	2.5	2.7
Future salary increases	2.0	2.0	—	—
Future pension increases	0.9	0.4	2.9	3.1

* The UK plan closed for future accrual, leading to certain assumptions being equal to zero.

For the other defined benefit plans, the following actuarial assumptions apply at 31 December:

	Europe		Americas		Africa, Middle East & Eastern Europe	
In %	**2017**	2016	**2017**	2016	**2017**	2016
Discount rate as at 31 December	**0.7-4.5**	0.6-6.8	**7.0-8.0**	7.0-7.6	**1.7-14.5**	1.5-15.5
Future salary increases	**0.0-3.5**	0.0-3.5	**0.0-4.5**	0.0-4.5	**0.0-5.0**	0.0-5.0
Future pension increases	**0.0-1.5**	0.0-1.5	**0.0-3.5**	0.0-3.5	**0.0-2.6**	0.0-3.5
Medical cost trend rate	**0.0-4.5**	0.0-4.5	**0.0-7.5**	0.0-5.0	**0.0-5.0**	0.0-5.0

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the 'AG-Prognosetafel 2016', fully generational. Correction factors (2016) from 'Sprenkels en Verschuren' are applied on these rates. For the UK, the future mortality rates are obtained by applying the Continuous Mortality Investigation 2014 projection model with an assumed long term rate of 1.5% p.a. to the Self-Administered Pension Schemes Series 2 (year of birth) tables with a 112% (male)/109% (female) weighting for pensioners and a 105% (male)/106% (female) weighting for non-pensioners.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 years.

HEINEKEN expects the 2018 contributions to be paid for the defined benefit plans to be in line with 2017.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2017		31 December 2016	
Effect in millions of €	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	(738)	846	(695)	798
Future salary growth (0.25% movement)	15	(15)	23	(22)
Future pension growth (0.25% movement)	355	(302)	332	(309)
Medical cost trend rate (0.5% movement)	5	(5)	5	(4)
Life expectancy (1 year)	305	(302)	300	(301)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

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 2015-2017, LTV 2016-2018 and LTV 2017-2019 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 operating profit beia growth (as of LTV 2017-2019. LTV 2015-2017 and 2016-2018 are on Organic EBIT beia growth), Earnings Per Share (EPS) beia growth and Free Operating Cash Flow.

At target performance, 100% of the awarded share rights vest. At threshold performance, 50% of the awarded share rights vest. At maximum performance, 200% of the awarded share rights vest for the Executive Board of Heineken N.V. as well as senior managers contracted by the US, Mexico, Brazil and Singapore, and 175% vest for all other senior managers. As per LTIP 2017-2019 the maximum performance is set at 200% for all senior managers.

The performance period for the aforementioned plans are:

LTV	Performance period start	Performance period end
2015-2017	1 January 2015	31 December 2017
2016-2018	1 January 2016	31 December 2018
2017-2019	1 January 2017	31 December 2019

The vesting date for the Executive Board of Heineken N.V. is shortly after the publication of the annual results of 2017, 2018 and 2019 respectively and for senior management on 1 April 2018, 2019 and 2020 respectively.

As HEINEKEN will withhold the tax related to vesting on behalf of the individual employees, the number of Heineken N.V. shares to be received will be a net number. The share rights are not dividend-bearing during the performance period. The fair value has been adjusted for expected dividends by applying a discount based on the dividend policy and historical dividend payouts, during the vesting period.

The number of Heineken N.V. share rights granted and share price at grant date are as follows:

Grant date/employees entitled	Number*	Based on share price
Share rights granted to Executive Board in 2015	54,903	58.95
Share rights granted to senior management in 2015	534,298	58.95
Share rights granted to Executive Board in 2016	34,278	78.77
Share rights granted to senior management in 2016	398,850	78.77
Share rights granted to Executive Board in 2017	37,890	71.26
Share rights granted to senior management in 2017	472,116	71.26

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

Under the LTV 2014-2016 a total of 61,508 (gross) shares vested for the Executive Board of Heineken N.V. and 740,873 (gross) shares vested for senior management. The number of shares vested for the Executive Board only relates to J.F.M.L. van Boxmeer, as L. Debroux received LTI as per LTIP 2015-2017.

Based on the performance conditions, it is expected that approximately 689,495 shares of the LTV 2015-2017 will vest in 2018 for senior management and the Executive Board of Heineken N.V.

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

	Weighted average share price 2017	Number of share rights 2017	Weighted average share price 2016	Number of share rights 2016
Outstanding as at 1 January	**60.40**	**1,873,347**	52.26	1,854,782
Granted during the year	71.26	510,006	78.77	433,128
Forfeited during the year	69.41	(55,103)	58.33	(121,026)
Vested during the year	49.08	(802,381)	50.47	(785,236)
Performance adjustment	—	740,773	—	491,699
Outstanding as at 31 December	**69.54**	**2,266,642**	60.40	1,873,347

Under the extraordinary share plans for senior management of Heineken N.V. 1,489 shares were granted and 18,647 (gross) shares vested. These extraordinary grants only have a service condition and vest between one and five years. The expenses relating to these additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2017 are €1,0 million (2016: €1.3 million).

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

Personnel expenses

In millions of €	Note	**2017**	2016
Share rights granted in 2014		—	16
Share rights granted in 2015		18	12
Share rights granted in 2016		17	14
Share rights granted in 2017		20	—
Total expense recognised in personnel expenses	10	**55**	42

28. PROVISIONS

In millions of €	Restructuring	Onerous contracts	Claims and litigation	Other	Total
Balance as at 1 January 2017	99	50	149	158	456
Changes in consolidation	—	24	323	519	866
Provisions made during the year	70	33	50	68	221
Provisions used during the year	(45)	(17)	(35)	(12)	(109)
Provisions reversed during the year	(19)	(31)	(48)	(99)	(197)
Effect of movements in exchange rates	(1)	(3)	(48)	(51)	(103)
Unwinding of discounts	—	—	12	2	14
Balance as at 31 December 2017	**104**	**56**	**403**	**585**	**1,148**
Non-current	40	19	388	523	970
Current	64	37	15	62	178

Restructuring

The provision for restructuring of €104 million (2016: €99 million) mainly relates to restructuring programmes in Spain and the Netherlands. For large restructurings, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities.

Claims and litigation

The provision for claims and litigation of €403 million mainly relates to the litigation inherited from the acquisition of Brasil Kirin, as well as the beer operations of FEMSA in 2010 (refer to note 32). Management assesses provisions for claims and litigation on an ongoing basis. The outcome depends on future events, which are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes etc., management bases its assessment on internal and external legal assistance and established precedents.

Other provisions
Included are, among others, surety and guarantees provided of €42 million (2016: €35 million) and provisions for taxes of €498 million (2016: €56 million). The increase mainly relates to the acquisition of Brasil Kirin (refer to note 4 and 6) as tax legislation in Brazil is highly complex and subject to interpretation. The timing of the cash outflows for these provisions is uncertain.

29. TRADE AND OTHER PAYABLES

In millions of €	Note	2017	2016
Trade payables		3,430	2,934
Accruals		1,344	1,263
Taxation and social security contributions		924	879
Returnable packaging deposits		607	628
Interest		168	129
Derivatives		21	75
Dividends		30	45
Other payables		232	271
	30	**6,756**	6,224

The returnable packaging liability is based on the expected return of delivered returnable packaging materials with a deposit such as bottles, crates and kegs, where HEINEKEN has the legal or constructive obligation to buy back the materials. The expected return is determined based on measured circulation times and historical losses of returnable packaging materials in the market.

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Overview
HEINEKEN has exposure to the following risks from its use of financial instruments, as they arise in the normal course of HEINEKEN's business:
- Credit risk
- Liquidity risk
- Market risk

This note presents information about HEINEKEN's exposure to each of the above risks, and it summarises HEINEKEN's policies and processes that are in place for measuring and managing risk, including those related to capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework
The Executive Board 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.

All local operations are required to comply with the principles contained within the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN regularly reviews and updates the Global Credit Policy ensuring that adequate controls are in place to mitigate any identified risks in respect of customer credit risk.

As at the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial instrument, including derivative financial instruments, in the consolidated statement of financial position.

Loans and advances to customers
HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's loans and receivables include loans and advances to customers, issued based on a loan or advance contract. Loans and advances to customers are secured by, among others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. On loans to customers interest rates calculated by HEINEKEN are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

In a few countries HEINEKEN provides guarantees to third parties who issue loans to customers of HEINEKEN.

Trade and other receivables
HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies, all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. HEINEKEN's review can include external ratings, where available, and in some cases bank references. Credit limits are established for each customer and these limits are reviewed regularly. Customers that fail to meet HEINEKEN's benchmark creditworthiness may transact with HEINEKEN only on a prepayment basis.

In monitoring customer credit risk customers are, on a country basis, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as high risk are placed on a restricted customer list, and sales are made on strict payment conditions only with approval of management. In addition HEINEKEN issued an Anti-Money Laundering and Sanction Letter to safeguard its reputation and operations. HEINEKEN considers it important to know with whom business is done and from whom HEINEKEN is receiving payments.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done via own wholesalers, directly or via third parties, depending the countries specifics. As such distribution models are country-specific and diverse across HEINEKEN, the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

Allowances
HEINEKEN establishes allowances for impairment of loans, trade and other receivables that represent the estimate of incurred losses. The main components of these allowances are specific loss components that relates to individually exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics.

Investments
HEINEKEN limits its exposure to credit risk by only investing available cash balances in deposits and liquid securities and only with counterparties that have strong credit ratings. HEINEKEN actively monitors these credit ratings.

Guarantees
HEINEKEN's policy is to avoid issuing guarantees where possible unless this leads to substantial benefits for HEINEKEN. In cases where HEINEKEN does provide guarantees, such as to banks for loans (to third parties), HEINEKEN aims to receive security from the third party.

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands.

Exposure to credit risk
The carrying amount of financial assets and guarantees to banks for loans represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In millions of €	Note	**2017**	2016*
Cash and cash equivalents	21	2,442	3,035
Trade and other receivables, excluding derivatives	20	3,277	3,004
Current derivatives	20	219	48
Available-for-sale investments	17	481	427
Non-current derivatives and investments FVTPL	17	36	254
Loans to customers	17	54	58
Advances to customers		277	274
Loans to joint ventures and associates	17	3	18
Other non-current receivables	17	193	175
Guarantees to banks for loans (to third parties)	32	307	335
		7,289	7,628

*Revised to include advances to customers.

The maximum exposure to credit risk for trade and other receivables (excluding current derivatives) at the reporting date by geographic region was:

In millions of €	**2017**	2016
Europe	1,435	1,412
Americas	836	636
Africa, Middle East & Eastern Europe	441	444
Asia Pacific	364	349
Heineken N.V. Head Office and Other/eliminations	201	163
	3,277	3,004

Impairment losses

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

In millions of €	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	2,477	(46)	2,499	(32)
Past due 0 – 30 days	487	(19)	238	(8)
Past due 31 – 120 days	255	(42)	263	(67)
More than 120 days	511	(346)	452	(341)
	3,730	**(453)**	3,452	(448)

The movement in the allowance for impairment in respect of trade and other receivables (excluding current derivatives) during the year was as follows:

In millions of €	**2017**	2016
Balance as at 1 January	**448**	441
Changes in consolidation	55	—
Impairment loss recognised	105	106
Allowance used	(45)	(37)
Allowance released	(92)	(49)
Effect of movements in exchange rates	(18)	(13)
Balance as at 31 December	**453**	448

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

In millions of €	**2017**	2016*
Balance as at 1 January	**132**	142
Changes in consolidation	—	—
Impairment loss recognised	8	3
Allowance used	(2)	—
Allowance released	(8)	(9)
Effect of movements in exchange rates	(1)	(4)
Other	16	—
Balance as at 31 December	**145**	132

*Revised to reflect inclusion of advances to customers.

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

A net impairment loss of €13 million (2016: €57 million) in respect of trade and other receivables and in respect of loans and advances to customers nil (2016: €7 million gain) were included in expenses for raw materials, consumables and services.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless HEINEKEN is satisfied that no recovery of the amount owing is possible; at that point, the amount considered irrecoverable is written off against the financial asset.

Liquidity risk

Liquidity risk is the risk that HEINEKEN will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to HEINEKEN's reputation.

HEINEKEN has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. Financing strategies, including the diversification of funding sources are under continuous evaluation (information about borrowing facilities is presented in Note 25). In addition, HEINEKEN seeks to align the maturity profile of its long-term debts with its forecasted cash flow generation. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources.

Contractual maturities

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments:

2017

In millions of €	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities	(15,378)	(18,549)	(3,580)	(1,397)	(3,877)	(9,695)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(6,577)	(6,577)	(6,505)	(18)	(20)	(34)
Derivative financial assets and (liabilities)						
Interest rate swaps used for hedge accounting (net)	57	79	136	5	16	(78)
Interest rate swaps not used for hedge accounting (net)	4	(18)	(7)	(6)	(5)	—
Forward exchange contracts used for hedge accounting (net)	46	29	30	(1)	—	—
Commodity derivatives used for hedge accounting (net)	77	78	46	6	26	—
Derivatives not used for hedge accounting (net)	(7)	(8)	(8)	—	—	—
	(21,778)	**(24,966)**	**(9,888)**	**(1,411)**	**(3,860)**	**(9,807)**

2016

In millions of €	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities	(14,570)	(16,792)	(4,006)	(1,703)	(4,895)	(6,188)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(5,994)	(5,994)	(5,963)	(16)	(2)	(13)
Derivative financial assets and (liabilities)						
Interest rate swaps used for hedge accounting (net)	242	283	17	266	—	—
Forward exchange contracts used for hedge accounting (net)	(23)	(32)	(24)	(8)	—	—
Commodity derivatives used for hedge accounting (net)	11	11	4	2	5	—
Derivatives not used for hedge accounting (net)	(13)	(14)	(14)	—	—	—
	(20,347)	(22,538)	(9,986)	(1,459)	(4,892)	(6,201)

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 2017, the transactional exchange risk was hedged in line with the hedging policy to the extent possible, the resulting impact from currency movements was therefore partly mitigated. The negative translational impact was more profound.

In managing foreign currency risk, HEINEKEN aims to ensure the availability of these foreign currencies and to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates and the availability of foreign currencies, especially in emerging markets, will have an impact on profit.

HEINEKEN hedges up to 90% of its net US dollar export cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. HEINEKEN mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

HEINEKEN has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long term in nature. The result of the net investment hedging is recognised in the translation reserve, as can be seen in the consolidated statement of comprehensive income.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on a subsidiary level. The resulting exposure at Group level is hedged by means of foreign currency denominated external debts and by forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British pounds, US dollars, Polish zloty and New Zealand dollar. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

HEINEKEN maintains debt in foreign currencies like US dollar and British pound to hedge local operations, which generate cash flows that have the same respective functional currencies or have functional currencies that are closely correlated. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of HEINEKEN and the various foreign operations, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to foreign currency risk
HEINEKEN's transactional exposure to the US dollar and Euro was as follows based on notional amounts. The Euro column relates to transactional exposure to the Euro within subsidiaries which are reporting in other currencies. Included in the amounts are intra-HEINEKEN cash flows.

		2017		2016
In millions	EUR	USD	EUR	USD
Financial assets	85	4,997	146	5,260
Financial liabilities	(2,284)	(6,657)	(1,291)	(6,338)
Gross balance sheet exposure	(2,199)	(1,660)	(1,145)	(1,078)
Estimated forecast sales next year	153	1,321	207	1,330
Estimated forecast purchases next year	(1,578)	(2,011)	(1,965)	(1,818)
Gross exposure	(3,624)	(2,350)	(2,903)	(1,566)
Net notional amounts foreign exchange contracts	411	1,670	433	884
Net exposure	**(3,213)**	**(680)**	(2,470)	(682)
Sensitivity analysis				
Equity	(149)	1	(59)	(15)
Profit or loss	(13)	(9)	(4)	1

Sensitivity analysis
A 10% strengthening of the US dollar against the Euro or, in case of the Euro, a strengthening of the Euro against all other currencies as at 31 December would have affected the value of financial assets and liabilities (related to transactional exposure) recorded on the balance sheet and would have therefore decreased (increased) equity and profit by the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% weakening of the US dollar against the Euro or, in case of the Euro, a weakening of the Euro against all other currencies as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

Interest rate risk
In managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rates in its financing operations, combined with the use of interest rate instruments. Currently, HEINEKEN's interest rate position is more weighted towards fixed than floating. Interest rate instruments that can be used are (cross-currency) interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings which have swap rates for the fixed leg ranging from 2.3 to 6.5% (2016: from 3.8 to 6.5%).

Interest rate risk – profile
At the reporting date, the interest rate profile of HEINEKEN's interest-bearing financial instruments was as follows:

In millions of €	**2017**	2016
Fixed rate instruments		
Financial assets	75	83
Financial liabilities	(13,002)	(11,984)
Net interest rate swaps	417	—
	(12,510)	(11,901)
Variable rate instruments		
Financial assets	2,599	3,214
Financial liabilities	(2,376)	(2,587)
Net interest rate swaps	(463)	—
	(240)	627

Cash flow sensitivity analysis for variable rate instruments
HEINEKEN applies fair value hedge accounting on certain fixed rate financial liabilities and designates derivatives as hedging instruments. A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. This analysis is performed on the same basis as for 2016.

	Profit or loss		Equity	
In millions of €	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2017				
Variable rate instruments	2	(2)	2	(2)
Net interest rate swaps	(3)	3	(3)	3
Cash flow sensitivity (net)	**(1)**	**1**	**(1)**	**1**
31 December 2016				
Variable rate instruments	5	(5)	5	(5)
Net interest rate swaps	—	—	—	—
Cash flow sensitivity (net)	5	(5)	5	(5)

Commodity price risk
Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, while optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by HEINEKEN has been limited to aluminium hedging and to a limited extent gas, sugar and grains hedging, which are done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements. As at 31 December 2017, the market value of commodity swaps was €77 million positive (2016: €11 million positive).

Sensitivity analysis for aluminium hedges

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

	Equity	
In millions of €	10% increase	10% decrease
31 December 2017		
Aluminium hedges	50	(50)

Cash flow hedges

The following table indicates the carrying amount of derivatives and the periods in which all the cash flows associated with derivatives that are cash flow hedges are expected to occur:

2017

In millions of €	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Cross-currency interest rate swaps						
Assets	113	978	978	—	—	—
Liabilities	—	(847)	(847)	—	—	—
Forward exchange contracts						
Assets	50	1,159	1,126	33	—	—
Liabilities	(4)	(1,130)	(1,096)	(34)	—	—
Commodity derivatives						
Assets	81	81	49	6	26	—
Liabilities	(4)	(2)	(2)	—	—	—
	236	**239**	**208**	**5**	**26**	**—**

2016

In millions of €	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Cross-currency interest rate swaps						
Assets	242	1,167	55	1,112	—	—
Liabilities	—	(885)	(38)	(847)	—	—
Forward exchange contracts						
Assets	33	1,302	1,144	158	—	—
Liabilities	(56)	(1,335)	(1,169)	(166)	—	—
Commodity derivatives						
Assets	24	24	12	7	5	—
Liabilities	(13)	(13)	(8)	(5)	—	—
	230	260	(4)	259	5	—

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is typically one or two months earlier than the occurrence of the cash flows as in the above table.

HEINEKEN has entered into several cross-currency interest rate swaps which have been designated as cash flow hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of its US dollar borrowings. The borrowings and the cross-currency interest rate swaps have the same critical terms.

Fair value hedges

The following table indicates the carrying amount of derivatives and the periods in which all the cash flows associated with derivatives that are fair value hedges are expected to occur:

2017

In millions of €	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Cross-currency interest rate swaps						
Assets		481	12	12	35	422
Liabilities	(48)	(463)				(463)
	(48)	**18**	**12**	**12**	**35**	**(41)**

In 2017 HEINEKEN has entered into several cross-currency interest rate swaps which have been designated as fair value hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of its certain US dollar borrowings. The borrowings and the cross-currency interest rate swaps have the same critical terms.

The loss arising on derivatives as designated hedging instruments in fair value hedges amounts to €48 million. The gain arising on the adjustment for the hedged item attributable to the hedged risk in a designated fair value hedge accounting relationship amounts to €48 million.

Net investment hedges

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings and cross-currency interest rate swaps, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings and swaps are designated as net investment hedges and fully effective, as such there was no ineffectiveness recognised in profit and loss in 2017 (2016: nil). The fair value of these borrowings at 31 December 2017 was €475 million (2016: €506 million) and the market value of these swaps at 31 December 2017 was €8 million negative (2016: nil).

Capital management

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 2017 was €12,660 million (2016: €11,292 million) and the carrying amount was €11,948 million (2016: €10,683 million). The fair value of the other interest-bearing liabilities as at 31 December 2017 was €1,535 million (2016: €1,662 million) and the carrying amount was €1,515 million (2016: €1,597 million).

Basis for determining fair values
The significant methods and assumptions used in estimating the fair values of financial instruments are discussed in note 4.

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 2017			
Available-for-sale investments	396	—	84
Non-current derivative assets	—	36	—
Current derivative assets	—	219	—
	396	**255**	**84**
Non-current derivative liabilities	—	(57)	—
Loans and borrowings	(12,660)	(1,535)	—
Current derivative liabilities	—	(21)	—
	(12,660)	**(1,613)**	**—**

	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)	—

During the period ended 31 December 2017 there were no significant transfers between the three levels of the fair value hierarchy.

Level 2
HEINEKEN determines level 2 fair values for over-the-counter securities based on broker quotes. The fair values of simple over-the-counter derivative financial instruments are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where available.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of HEINEKEN and counterparty when appropriate.

Level 3
Details of the determination of level 3 fair value measurements as at 31 December 2017 are set out below:

In millions of €	**2017**	2016
Available-for-sale investments based on level 3		
Balance as at 1 January	**85**	84
Fair value adjustments recognised in other comprehensive income	2	(2)
Disposals	1	—
Transfer between levels	—	3
Transfer to associate	(4)	—
Balance as at 31 December	**84**	85

The fair values for the level 3 available-for-sale investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

31. OFF-BALANCE SHEET COMMITMENTS

In millions of €	Total 2017	Less than 1 year	1-5 years	More than 5 years	2016
Operational lease commitments	1,704	269	645	790	1,460
Property, plant and equipment ordered	329	285	26	18	128
Raw materials purchase contracts	6,153	2,433	2,580	1,140	5,287
Marketing and merchandising commitments	647	242	401	4	391
Other off-balance sheet obligations	2,092	304	716	1,072	1,542
Off-balance sheet obligations	**10,925**	**3,533**	**4,368**	**3,024**	8,808
Undrawn committed bank facilities	**3,929**	**59**	**3,870**	**—**	2,747

HEINEKEN leases offices, warehouses, pubs, cars and other equipment in the ordinary course of business.

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas. These contracts mainly relate to malt, bottles and cans. The raw materials purchase commitments relate to purchase contracts with EMPAQUE which has become a third party supplier after the disposal in 2015.

During the year ended 31 December 2017, €364 million (2016: €302 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

Other off-balance sheet obligations include energy, distribution and service contracts.

Committed bank facilities are credit facilities on which a commitment fee is paid as compensation for the bank's requirement to reserve capital. The bank is legally obliged to provide the facility under the terms and conditions of the agreement.

32. CONTINGENCIES

HEINEKEN's significant contingencies are described below.

Tax

HEINEKEN operates in a high number of jurisdictions, and is subject to a wide variety of taxes per jurisdiction. Tax legislation can be highly complex and subject to interpretation. As a result, HEINEKEN is required to exercise significant judgement in the recognition of taxes payable and determination of tax contingencies.

The tax contingencies mainly relate to tax positions in Latin America and include a large number of cases with a risk assessment lower than probable but higher than remote. Assessing the amount of tax contingencies is highly judgemental, and the timing of possible outflows is uncertain. The best estimate of tax related contingent liabilities is €897 million (2016: €443 million), out of which €170 million (2016: €188 million) qualifies for indemnification. For several tax contingencies that were part of acquisitions, an amount of €382 million (2016: €98 million) has been recognised as provisions in the balance sheet.

Other contingencies

HEINEKEN also has other contingencies, for which, in the opinion of management and its legal counsel, the risk of loss is possible but not probable. Contingencies involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. The most significant contingencies relate to civil cases in Brazil. Management's best estimate of the financial effect for these cases is €57 million (2016: €14 million). For the other contingencies that were part of acquisitions, an amount of €49 million (2016: nil) has been recognised on balance.

Guarantees

In millions of €	Total 2017	Less than 1 year	1-5 years	More than 5 years	Total 2016
Guarantees to banks for loans (to third parties)	307	94	202	11	335
Other guarantees	978	149	431	398	771
	1,285	**243**	**633**	**409**	1,106

Guarantees to banks for loans relate to loans and advanced discounts to customers, which are given to external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans.
The increase in other guarantees mainly relates to the acquisition of Brasil Kirin.

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 Priores, 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 13.

Best practice provisions 2.7.3, 2.7.4 and 2.7.5 of the Dutch Corporate Governance Code of 8 December 2016 have been observed where relevant in regard to transactions with related parties.

Board of Directors of Heineken Holding N.V. remuneration

In thousands of €	**2017**	2016
C.L. de Carvalho-Heineken	60	60
M.R. de Carvalho	60	60
Remuneration executive members	120	120
M. Das	90	90
J.A. Fernández Carbajal	60	60
C.M. Kwist	60	60
A.A.C. de Carvalho	60	60
Remuneration non-executive members	270	270
	390	390

As at 31 December 2017, the Board of Directors represented 151,685,148 ordinary shares in the Company (2016:149,121,046 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%) and on individual leadership measures (25%) as set by the Supervisory Board of Heineken N.V. For the LTV award refer to note 27.

As at 31 December 2017, J.F.M.L. van Boxmeer held 240,695 Heineken N.V. shares and L. Debroux held 11,829 Heineken N.V. shares (2016: J.F.M.L. van Boxmeer 217,276, L. Debroux 7,069).

Executive Board of Heineken N.V. remuneration

In thousands of €	2017 J.F.M.L. van Boxmeer	2017 L. Debroux	2017 Total	2016 J.F.M.L. van Boxmeer	2016 L. Debroux	2016 Total
Fixed salary	1,200	720	1,920	1,200	720	1,920
Short-Term Variable pay	2,736	1,173	3,909	3,360	1,440	4,800
Matching share entitlement	622	266	888	751	322	1,073
Long-Term Variable award	3,623	1,739	5,362	3,204	711	3,915
Extraordinary share award/Retention bonus	—	—	—	—	22	22
Pension contributions	858	142	1,000	944	139	1,083
Other emoluments	21	163	184	21	160	181
	9,060	**4,203**	**13,263**	9,480	3,514	12,994

The matching share entitlements for each year are based on the performance in that year. The Executive Board members receive 25% of their STV pay in (investment) shares. In addition they have the opportunity to indicate before year-end whether they wish to receive up to another 25% of their STV pay in (investment) shares. All (investment) shares are restricted for sale for five calendar years, after which they are matched 1:1 by (matching) shares. For 2017 the Executive Board members did not elect to receive additional (investment) shares, hence the 'Matching share entitlement' in the table above is based on a 25% investment.
In 2016 the investment was 25% for both Executive Board members.
From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of €0.9 million was recognised in the 2017 income statement. The matching share entitlements are not dividend-bearing during the five calendar year holding period of the investment shares. Therefore, the fair value of the matching share entitlements has been adjusted for missed expected dividends by applying a discount based on the dividend policy and vesting period.

Supervisory Board of Heineken N.V. remuneration

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

In thousands of €	**2017**	2016
G.J. Wijers	160	163
J.A. Fernández Carbajal	114	109
M. Das	85	88
M.R. de Carvalho	90	96
A.M. Fentener van Vlissingen	85	91
V.C.O.B.J. Navarre	70	74
J.G. Astaburuaga Sanjinés	99	99
H. Scheffers[1]	40	83
J.M. Huët	82	88
P. Mars-Wright[2]	95	49
Y. Brunini[3]	70	44
M.E. Minnick[4]	—	28
	990	1,012

[1]Stepped down as at 20 April 2017.
[2]Appointed as at 21 April 2016.
[3]Appointed as at 21 April 2016.
[4]Stepped down as at 21 April 2016.

M.R. de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2017 (2016: 100,008 shares) and A.M. Fentener van Vlissingen 8,000 shares of Heineken N.V. (2016: 0). As at 31 December 2017 and 2016, 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 2017 (2016: 100,008 ordinary shares).

Other related party transactions

In millions of €	Transaction value 2017	2016	Balance outstanding as at 31 December 2017	2016
Sale of products, services and royalties				
To associates and joint ventures	300	441	88	95
To FEMSA	1,168	797	238	170
	1,468	1,238	**326**	265
Purchase of raw materials, consumables and services				
From associates and joint ventures - goods for resale	63	5	6	—
From associates and joint ventures - other	416	370	62	37
From FEMSA	168	151	42	70
	647	526	**110**	107

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. in 2010. Therefore, contracts between FEMSA and HEINEKEN are 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% of the issued capital (being 50.514% (2016: 50.560%) of the outstanding capital following the purchase of own shares by Heineken N.V.).

L'Arche Green N.V. holds 52.599% (2016: 51.709%) of the Heineken Holding N.V. ordinary shares.

The Heineken family has an interest of 88.86% in L'Arche Green N.V.
C.L. de Carvalho-Heineken also owns a direct 0.03% 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 131.

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 2017 up to and including 31 December 2017, the liabilities referred to in Schedule 3 of the Republic of Ireland Companies Act 2014 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

Significant subsidiaries

Set out below are Heineken N.V.'s significant subsidiaries at 31 December 2017. 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 €14 billion and total asset value of €23 billion and are structural contributors to the business.

There were no significant changes to the HEINEKEN structure and ownership interests, except for the acquisition of Brasil Kirin (refer to note 6).

Significant subsidiaries of Heineken N.V.

		Percentage of ownership held by Heineken N.V.	
	Country of incorporation	**2017**	2016
Heineken International B.V.	The Netherlands	**100.0**	100.0
Heineken Brouwerijen B.V.	The Netherlands	**100.0**	100.0
Heineken Nederland B.V.	The Netherlands	**100.0**	100.0
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	**100.0**	100.0
Cervejarias Kaiser Brasil S.A.	Brazil	**100.0**	100.0
Bavaria S.A.	Brazil	**100.0**	—
Heineken France S.A.S.	France	**100.0**	100.0
Nigerian Breweries Plc.	Nigeria	**56.0**	55.4
Heineken USA Inc.	United States	**100.0**	100.0
Heineken UK Ltd	United Kingdom	**100.0**	100.0
Heineken España S.A.	Spain	**99.8**	99.8
Heineken Italia S.p.A.	Italy	**100.0**	100.0
Brau Union Österreich AG	Austria	**100.0**	100.0
Grupa 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

35. SUBSEQUENT EVENTS

No material subsequent events occurred.

Amsterdam, 9 February 2018

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 €500, which comprise 250 shares of €2 nominal value, are held by:
Stichting Administratiekantoor Priores
(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 Prioriteitsaandelen
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% 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 2017, the Board of Directors represented 151,685,148 ordinary shares of the company.

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements 2017 included in the annual report 2017

Our Opinion
We have audited the accompanying financial statements 2017 of Heineken 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 accompanying company financial statements give a true and fair view of the financial position of Heineken Holding N.V. as at 31 December 2017 and of its result for the year 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying consolidated financial statements give a true and fair view of the financial position of Heineken Holding N.V. as at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code.

The company financial statements comprise:
- The company balance sheet as at 31 December 2017.
- The company income statement for 2017.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The consolidated financial statements comprise:
- The consolidated statement of financial position as at 31 December 2017.
- The following consolidated statements for 2017: the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity.
- The notes comprising a summary of the significant accounting policies and other explanatory information

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 EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality
Based on our professional judgement we determined the materiality for the financial statements as a whole at €150 million. The materiality is based on consolidated profit before taxation (5.2%). We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Audits of group entities (components) were performed using materiality levels determined by the judgement of the group audit team, having regard to the materiality of the consolidated financial statements as a whole. Component materiality did not exceed €60 million and for the majority of the components, materiality is significantly less than this amount.

We agreed with the Board of Directors that misstatements in excess of €7.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that, in our view, must be reported on qualitative grounds.

Scope of the group audit
Heineken 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, acquisitions and divestments. Specialists were involved amongst others in the areas of treasury, information technology, tax, accounting, pensions and valuation.

For selected component audit teams, the group audit team provided detailed written instructions, which, in addition to communicating the requirements of component audit teams, detailed significant audit areas and information obtained centrally relevant to the audit of individual components including awareness for risk related to management override. Furthermore, we developed a plan for overseeing each component audit team based on its relative significance to the Company and certain other risk characteristics. This included procedures such as visiting components (Mexico, D.R.Congo, Brazil, Cambodia, Singapore, Belgium, Poland, United Kingdom, Spain, Nigeria, South Africa, Ireland and Ivory Coast) during the year, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables to gain sufficient understanding of the work performed. For smaller components we have performed review procedures or specific audit procedures.

By performing the procedures mentioned above we have been able to obtain sufficient and appropriate audit evidence on the group's financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the 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.

ACQUISITION ACCOUNTING: IDENTIFICATION AND VALUATION OF INTANGIBLE ASSETS AND VALUATION OF LIABILITIES

Risk	As set out in note 6, the Company concluded acquisitions throughout the year most notably the acquisition of Brasil Kirin on 31 May and Punch Taverns on 29 August 2017. Accounting for these acquisitions in accordance with IFRS 3 requires management to apply estimates to determine the fair value of the identifiable assets and liabilities, and any resulting goodwill, The valuation of intangible assets of €399 million and the valuation of property, plant and equipment of €1.948 million arising from the acquisitions were considered to be a key risk as the valuation is based on a number of assumptions such as discount rate and growth rate which are subject to significant judgement. We further considered there to be a risk in determining the fair value of acquired provisions and contingent liabilities within the Kirin acquisition of €1.761 million due to the estimates required in valuing liabilities of inherently uncertain outcome, such as the outcome of civil, labor and tax claims against the acquired company.
How the scope of our audit responded to the risk	We have obtained management's calculations for the accounting of the acquisition and evaluated management's determination of the fair value of the net assets acquired, focusing on the valuation of intangible assets, property, plant and equipment and provisions recognised. We evaluated the fair value of the acquired assets, focusing on the valuation methodologies and key assumptions applied. We further challenged management's methodology and assumptions underlying the valuation of provisions and contingent liabilities assumed. We evaluated the competence of specialists involved by management and involved internal valuation and real estate specialists to assist in our assessment of the fair value of the noncurrent assets acquired. We considered whether adjustments to the original valuations were appropriate in light of additional facts and circumstances that have become available in the measurement period to date. Further, we have evaluated the appropriateness of the related disclosures in note 6 of the financial statements.

REVENUE RECOGNITION — ACCRUALS FOR PROMOTIONAL ALLOWANCES AND VOLUME REBATES

Risk	Auditing standards require a presumed risk related to revenue recognition. Accounting for promotional allowances and volume rebates impacts the amounts of revenue recognised during the period. The revenue accounting policies are specified in note 3 to the financial statements. Management estimates the values of promotional allowances and volume rebates and this estimate is considered to be a key audit matter relevant to our audit of the financial statements
How the scope of our audit responded to the risk	Our audit procedures included, amongst others, evaluating controls relating to management's process for determining the value of promotional allowances and the volume rebates. In addition we performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals. These procedures included challenging the appropriateness of management's assumptions and estimates and agreeing input data, including pricing and allowance data to underlying agreements with customers.

INTANGIBLE ASSETS (INCLUDING GOODWILL) AND PROPERTY, PLANT AND EQUIPMENT IMPAIRMENT TEST — MANAGEMENT ASSESSMENT OF RECOVERABILITY

Risk	Intangible assets (including goodwill) and property, plant and equipment represent 70% of the Statement of Financial Position. Procedures over management's annual impairment test were significant to our audit because the assessment process is complex and the test relies on estimates and assumptions.
How the scope of our audit responded to the risk	Intangibles and property, plant and equipment are allocated to Cash Generating Units (CGUs) and groups of CGUs. The Company uses assumptions in respect of future market and economic conditions such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development. The details on the accounting for intangibles and property, plant and equipment and disclosure requirements under *IAS 36 Impairment of assets* are included in notes 3, 14 and 15 to the financial statements. For our audit we assessed and tested the assumptions, the discount rates, methodologies and data used by the Company, for example by comparing them to external data such as expected inflation rates, external market growth expectations and by analysing sensitivities in the Company's valuation model. We included valuation specialists in our team to assist us. We specifically focused on the sensitivity in the available headroom of CGUs and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of management's estimates. We assessed the adequacy of the Company's disclosure notes 14 and 15 in the financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

TAXES — PROVISIONS FOR UNCERTAIN TAX POSITIONS AND VALUATION OF DEFERRED TAX ASSETS

Risk	The Company operates across a number of different tax jurisdictions and is subject to periodic challenges by local tax authorities during the normal course of business, including transaction-related taxes and transfer pricing arrangements. In those cases where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on its judgement of the probable amount of the liability or recovery. Deferred tax assets for tax losses carried forward are recognised by the Company to the extent that it is probable that future taxable income will be available against which unused tax losses can be utilised. The income tax related accounting policies are specified in note 3 to the financial statements.
How the scope of our audit responded to the risk	We focused on these areas because of the level of judgement that is applied in quantifying appropriate provisions for uncertain tax positions and in determining assumptions about future market and economic conditions, as it relates to the recoverability of deferred tax assets. Using our own tax specialists, we obtained a detailed understanding of the Company's tax strategy including current transfer pricing arrangements. We assessed tax risks, legislative developments and the status of ongoing local tax authority audits. We evaluated and challenged the Company's judgements in respect of estimates of tax exposures, recoverable amounts and contingencies. We considered correspondence with tax authorities and relevant historical and recent judgements, and also assessed legal opinions from third party tax advisors. With regard to recorded deferred tax assets, we evaluated the Company's assumptions and estimates in relation to the likelihood of generating sufficient future taxable income based on budgets and business plans. Finally we considered the adequacy of the Company's disclosures in notes 13, 18, 24 and 32 regarding uncertain tax positions and recognised deferred tax assets.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Risk	The Company operates various processes and procedures that are important for reliable financial reporting. These processes are operated both centrally as well as locally. We identified the Company's internal controls over financial reporting as an area of focus as we consider internal controls over financial reporting as a basis for designing our procedures for the audit. In those instances where accounting procedures, associated IT and process level controls are not designed and/or operating effectively, there are risks associated with financial reporting to which we need to tailor our audit procedures.
How the scope of our audit responded to the risk	We have performed audit procedures on both the centrally and locally established process level controls of the Company, including the diverse information technology landscape. We performed walkthroughs to gain an understanding of the entity and to identify relevant controls. We have tested the design of those controls and, where effective for the audit, we also tested their operating effectiveness. In cases of deficiencies, we have evaluated the compensating controls and measures of the Company and/or tailored procedures our procedures to address the risk. We are however not required nor engaged to perform an audit of internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal controls over financial reporting.

Report on the other information included in the Annual Report

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

- Report of the 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.

Management 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 2017 was our third year audit.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of the 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 Board of Directors is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For an overview of our responsibilities we refer to NBA's website www.nba.nl (Standard texts auditor's report).

Amsterdam, 9 February 2018

Deloitte Accountants B.V.
J. Dalhuisen

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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 exchange-rate fluctuations, changes in tax rates, changes in law, changes in pension costs, the actions of government regulators and weather conditions. These and other risk factors are detailed in this Annual Report. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. HEINEKEN does not undertake any obligation to update the forward-looking statements contained in this Annual Report. Market share estimates contained in this Annual Report are based on outside sources, such as specialised research institutes, in combination with management estimates.