HEINEKEN
Annual Report 2016

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Further information online at:
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– Find out about HEINEKEN's history
– Explore our countries and brands
– Read more about our sustainability journey

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We Are HEINEKEN

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

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

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

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

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

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

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

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

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

We Are HEINEKEN.

Chief Executive's Statement

2016 was another strong year for HEINEKEN despite a tough economic environment, significant currency fluctuations and geopolitical instability. Organic revenue grew by 4.8% with revenue per hectolitre up 2.2%. In addition, our operating profit (beia) grew by 9.9%, Diluted Earnings Per Share (beia) increased by 2.9% to EUR 3.68, and we delivered a margin expansion of more than 50 basis points.

We benefited from our unique diversified footprint. Whereas our Africa, Middle East and Eastern Europe region was negatively affected by adverse economic circumstances, Europe, Asia and the Americas performed well, with Vietnam and Mexico particularly strong.

The Heineken® brand grew 3.7%, with positive volume performance across all regions. Innovations under the brand include the new 'wild lager' beers H41 and H71, which were launched in selected markets in Europe. In addition to our UEFA Champions League, Rugby and James Bond sponsorships, we announced a five-year partnership with Formula 1® in May. The partnership allows us to connect with more consumers, particularly in high growth markets, and to build a bold responsible marketing campaign. In the next five years, we will commit EUR 200 million and our best marketing brains to reinforce our 'When You Drive, Never Drink' message with campaigns in markets around the world.

Our International Brands portfolio outperformed overall portfolio growth. Amstel, which now sells in more than 100 markets, reached 11.5 million hectolitres and is a challenger in its segment. Tecate and Tiger delivered stellar growth. Tiger reached the 10 million hectolitre milestone much earlier than anticipated and expanded sales to a total of almost 60 markets. Both Tecate and Tiger are connecting with consumers through the positions they are taking on things that matter to these brands and consumers alike.

In the last two years, our Cider portfolio has grown from 25 markets to now being enjoyed in a total of 41. In 2016, the UK, the home of ciders, also grew. Overall, our consolidated cider volume grew to 4.8 million hectolitres. The growth of cider has been fuelled in particular by Strongbow Apple Ciders, our flagship brand, but is also supported by the growth of our other cider brands, including our newest, Orchard Thieves, and the continuous ingredient and flavour innovations of the portfolio.

We see a lot of potential for our low- and no-alcohol portfolio, which in 2016 reached a consolidated volume of 12.3 million hectolitres. The portfolio continues to develop with new innovations that expand consumer choice. We are learning a lot from brands like Amstel, Fayrouz, Bintang and Cruzcampo and in markets like Nigeria, Indonesia and Spain where this part of the business is thriving. In 2016, Radler extended beyond European markets into Mongolia, Egypt and Chile and Radler 0.0% launched in five markets. We see a lot of opportunity for growth and are very excited to launch Heineken 0.0 in 2017.

In 2016, HEINEKEN continued to invest in key developing markets. We added capacity in Ethiopia and Cambodia. We opened a brewery in Shanghai, acquired a brewery in Vietnam, and we are building a new brewery in Mexico.

In addition, we continued to optimise costs, leverage our size, and improve the efficiency of our Financial Shared Services and Global Procurement. Our operations improved productivity despite increasing complexity brought about by an enlarged product offering and increased personalisation requirements from retailers.

Efficiency and productivity targets are tightly linked to our Brewing a Better World strategy. In 2016, we decreased our water consumption to 3.6 hl/hl from 3.7 hl/hl in the previous year. These savings would be equivalent to more than 1,000 Olympic-sized swimming pools of water. Our CO_2 emissions in production decreased to 6.5 kg CO_2-eq/hl, down from 6.7 kg CO_2-eq/hl in 2015. This reduction is similar to the emissions saved by installing nearly 300,000 solar panels.

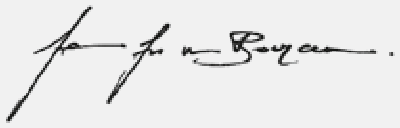
We are on track with most of our 2020 Brewing a Better World commitments and during 2017 we will define our 2030 ambitions in line with the UN Sustainable Development Goals (SDGs) and COP21. In the last seven years, since we kicked off Brewing a Better World, our CO_2 emissions have decreased 5%, despite our business volume growing by 52%. But this is not enough. As a result of the Paris Agreements of COP21, we will redouble our efforts in emission reduction.

Preparing for the future requires above all great leaders that can do more than drive excellent financial performance. In 2016, 150 of our most senior leaders attended a week-long residential course at Harvard Business School. We are rolling out a renewed guide of Leadership Expectations and a new Inclusion and Diversity Platform will help us to better leverage our global talent pool. HEINEKEN is a very inclusive company and we see diversity as a richness. Five nationalities are represented in our Supervisory Board, seven in our Executive Team and 53 in our senior leader community. We now aim to increase our focus on gender diversity. Our values guide how we work and conduct our business and we support the principles of the OECD guidelines.

This is the first year we have produced a joint annual and sustainability report. We feel strongly that our aim is to run the business sustainably throughout our operations. Disclosing the progress of Brewing a Better World together with our financial results is the right thing to do going forward.

In 2017, economic conditions are expected to remain volatile and we have assumed a negative impact from currency comparable to 2016. We expect further organic revenue and profit growth. Excluding major unforeseen macroeconomic and political developments as well as the impact of proposed acquisitions in Brazil and in the UK, we expect continued margin expansion in 2017 in line with the medium term margin guidance of a year-on-year improvement in operating profit (beia) margin of around 40bps. Capital expenditure related to property, plant and equipment should be slightly below EUR 2 billion.

I end this letter by expressing my gratitude to our customers, partners and stakeholders. I especially want to thank our employees for their dedication and effort, they are the backbone of these results. I am looking forward to working with all of you in 2017.



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

Amsterdam, 14 February 2017

Strong performance and progress

Our performance in 2016 reflects the successful execution of our strategy, as well as the relevance of our unique diversified footprint and premium brand portfolio, led by Heineken®.

Financial and operational highlights

Further information on our financial performance:
Pages 28–32

Consolidated beer volume
(in millions of hectolitres)

200.1mhl

2016	**200.1**
2015	188.3
2014	181.3
2013	178.3
2012	171.7

Heineken® volume in premium segment
(in millions of hectolitres)

31.7mhl

2016	**31.7**
2015	30.5
2014	29.5
2013	28.1
2012	29.1

Revenue
(in millions of EUR)

€20,792m

2016	**20,792**
2015	20,511
2014	19,257
2013	19,203
2012	18,383

Operating profit (beia)
(in millions of EUR)

€3,540m

2016	**3,540**
2015	3,381
2014	3,129
2013	2,941
2012	2,666

Operating profit (beia) margin
(in percentages)

17.0%

2016	**17.0**
2015	16.5
2014	16.2
2013	15.3
2012	14.5

Net profit (beia)
(in millions of EUR)

€2,098m

2016	**2,098**
2015	2,048
2014	1,758
2013	1,585
2012	1,661

Sustainability highlights

Further information on our sustainability performance:
Pages 135–145

28%
Decrease in water consumption (hl/hl) in our breweries since 2008

37%
Decrease in carbon emissions (kg CO_2-eq/hl) from production since 2008

49%
of our agricultural raw materials used in Africa and the Middle East sourced locally

>10%
of total Heineken® media spend was dedicated to responsible consumption activations, in markets representing at least 50% of global Heineken® volume

Key figures[1]

Consolidated results

In millions of EUR	2016	2015	Change in %
Revenue	**20,792**	20,511	1.4%
Operating profit (beia)	**3,540**	3,381	4.7%
Net profit	**1,540**	1,892	(18.6)%
Net profit (beia)	**2,098**	2,048	2.5%
EBITDA	**4,722**	4,841	(2.5)%
EBITDA (beia)	**4,901**	4,722	3.8%
Dividend (proposed)	**763**	741	3.0%
Free operating cash flow	**1,773**	1,692	4.8%

Balance sheet

In millions of EUR			
Total assets[2]	**39,321**	40,122	(2.0)%
Equity attributable to equity holders of the Company	**13,238**	13,535	(2.2)%
Net debt position	**11,293**	11,510	(1.9)%
Market capitalisation	**40,645**	45,131	(9.9)%

Per share

Weighted average number of shares – basic	**569,737,210**	572,292,454	(0.4)%
Net profit	**2.70**	3.31	(18.4)%
Net profit (beia)	**3.68**	3.58	2.9%
Dividend (proposed)	**1.34**	1.30	3.1%
Free operating cash flow	**3.11**	2.96	5.1%
Equity attributable to equity holders of the Company	**23.24**	23.65	(1.7)%
Share price	**71.26**	78.77	(9.5)%
Weighted average number of shares – diluted	**570,370,392**	572,944,188	(0.4)%
Net profit (beia) – diluted	**3.68**	3.57	2.9%

Employees

Average number of employees (FTE)	**73,525**	73,912	(0.5)%

Ratios

Operating profit (beia) as % of revenue	**17.0%**	16.5%	54 bps
Net profit as % of average equity attributable to equity holders of the Company	**11.5%**	14.6%	(21.2)%
Net debt/EBITDA (beia)	**2.30**	2.44	(5.7)%
Dividend % payout	**36.4%**	36.2%	0.5%
Cash conversion rate	**75.0%**	73.3%	2.3%

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

[2] Comparative figures have been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Our impact on society: From Barley to Bar

Our ambition is to Brew a Better World from Barley to Bar, connecting our activities to the UN Sustainable Development Goals (SDGs) and COP21. This ambition is never complete. We strive to improve year after year. Respecting people and the planet is one of our core values.

1 Employees

Our journey begins and ends with 73,500 employees (FTE) in more than 70 countries who make every effort to brew a better world.

Diversity and inclusivity are core to the HEINEKEN culture. We're one of the most culturally diverse companies in the world, with 53 nationalities represented among our senior management. We now aim to build our gender diversity which stands at 17%. The HEINEKEN culture promotes a stimulating work environment supported by a clear Code of Business Conduct and Employees' and Human Rights policy, which guide our employees inside the company and in their interactions with stakeholders. At the end of 2016, more than 50,000 employees had completed our Code of Business Conduct training. Our anti-bribery training modules were completed more than 11,000 times. In addition, 86% of our employees completed the 2016 HEINEKEN Climate Survey, reflecting employee engagement scores that are consistently higher than the peer average.

In this way, we support **SDG**
5 8 10

2 Agriculture

Beer and cider are made from natural ingredients, and we source them with care.

An increasing share of our raw materials such as barley, hops and bitter sweet apples are sourced sustainably. We work with farmers and partners to improve crop yields and quality. In Africa, where barley is often not available, we use local ingredients such as cassava and sorghum. This creates shared value with communities. Our Supplier Code sets clear standards of responsibility for our suppliers.

In this way, we support **SDG**
1 2 6 8 12 17

3 Brewing

The art of brewing and cider-making requires precision, and brewing at scale requires significant investment.

HEINEKEN operates more than 165 breweries, malteries, cider plants and other production facilities around the world. Our processes use energy and water. We work continuously to reduce our emissions in line with the global commitments of COP21. In absolute terms, we've reduced CO_2 emissions by 5% since 2008, despite having grown business volumes by 52% during that time. By-products such as spent grains are used for cattle feed, and packaging waste is recycled into new products. In 2015[1], 71 out of 159 of our production facilities sent virtually zero waste to landfill. In 2016, we rolled out the 'zero waste' programme to support other sites to achieve zero waste to landfill by 2020 as well.

In this way, we support **SDG**
6 7 12 13 15 17

4 Packaging

HEINEKEN products are consumed in bottles, cans and kegs, all of which have an impact on the environment.

Packaging innovation is central to using fewer resources and optimising recycling and reuse. We will increasingly focus on packaging because this is an area that requires a lot more to be done. We see sustainable innovation as an important business driver for growth and a social and environmental prerogative.

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

[1] 2016 information will be published on the HEINEKEN website by the end of March 2017.

5 Distribution

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

But we need to continue to carefully manage our movement of supplies and products to reduce our environmental impacts. Employee and contractor safety is a top priority. We aim to reduce our emissions from distribution in Europe and the Americas by 20% by 2020.

In this way, we support **SDG**
3 12

6 Communities

We seek to make a positive contribution to the communities where we live, work and sell our products.

Our biggest influence is through the positive impact of our business itself. In 2016, HEINEKEN contributed almost EUR 10 billion in taxes (including excise) and provided over 73,500 direct jobs. In 2016, HEINEKEN donated EUR 10 million to the endowment fund of the HEINEKEN Africa Foundation, increasing it to EUR 30 million in total.

In this way, we support **SDG**
3 4 6 8 15 17

7 Customers

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

In 2016, we invested in 125,000 green fridges to help customers reduce emissions. Our draught system innovations are reducing water, energy and waste when our drinks are sold. We believe our products should only be sold to consumers of legal drinking age. We encourage our customers to promote responsible consumption and reduce harmful drinking.

In this way, we support **SDG**
3 12

8 Consumers

Over 250 HEINEKEN brands bring millions of people together every single day. For generations, our brands have been recognised for their uncompromising quality.

We take that passion for quality to everything we do and we believe in using the power of innovation to exceed consumer expectations. The expansion of our low- and no-alcohol portfolio offers greater choice. In 2016, HEINEKEN generated EUR 2.2 billion in revenue through innovation. Our major markets invested more than 10% of their media spend on Enjoy Heineken® Responsibly and 51 of our operating companies implemented local partnerships to address alcohol-related harm.

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

UN Sustainable Development Goals

Executive Team

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

1 **Jean-François van Boxmeer**
Chairman Executive Board and CEO

2 **Laurence Debroux**
Member Executive Board and CFO

3 **Marc Gross**
Chief Supply Chain Officer

4 **Stefan Orlowski**
President Europe

5 **Jan Derck van Karnebeek**
Chief Commercial Officer

6 **Blanca Juti**
Chief Corporate Affairs Officer

7 **Frans Eusman**
President Asia Pacific

8 **Roland Pirmez**
President Africa Middle East and Eastern Europe

9 **Chris Van Steenbergen**
Chief Human Resources Officer

10 **Marc Busain**
President Americas

Further information online at:
theHEINEKENcompany.com

Our business priorities

Creating value and sustainable growth

The HEINEKEN strategy is built around six business priorities designed to enable the company to win in the marketplace, drive productivity and achieve sustainable growth.

Our business priorities (continued)

Win in premium led by Heineken®

We are inspired by consumers to make the best, highest quality beers. 2016 was another exciting year for Heineken® and our International Brands.

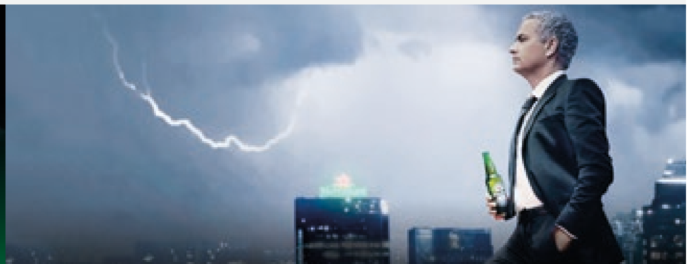
With a presence in more than 190 markets, Heineken® is the world's most global beer brand. In 2016, Heineken® saw positive momentum in all regions and delivered 3.7% organic growth. We launched the 'wild lagers' H41 and H71 in selected markets in Europe. Heineken® Light was launched in Ireland and New Zealand, and was introduced in Australia as Heineken® 3.

We continued to leverage our global partnerships, adding Formula 1® to our existing UEFA Champions League and Rugby World Cup relationships.

Heineken® is complemented by our International Brands portfolio with premium beers that have a high potential to travel across regions and geographies. Amstel, Desperados, Sol, Affligem, Tiger, Tecate, Krusovice and Red Stripe expanded to new markets and reached new milestones during the year.

Amstel is now available in more than 100 markets and Tiger is being sold in close to 60 markets. In the US, Tecate transformed from a regional brand confined mainly to the Sunbelt into a national brand, thanks to the introduction of Tecate Light, which grew close to 30%.

Our **Formula 1® partnership** is about more than a race. It represents a unique opportunity to engage with consumers in growth markets around the world and also to deliver a responsible drinking message.



The latest **UEFA Champions League** commercial, Prep Talk, features José Mourinho and is part of Heineken®'s Champion the Match campaign.

Holland Heineken House in Rio continued an Olympic tradition since 1992 and hosted more than 50,000 fans during the games.

The **'There is More Behind The Star'** campaign with actor Benicio del Toro was launched in over 70 markets, focusing on the heritage and quality of the Heineken® brand.

Moderate Drinkers Wanted is our responsible consumption campaign to make drinking in moderation aspirational.

Our business priorities (continued)

Shape the cider category

As the market leader in cider, we continue our journey to build a truly global category through a portfolio of great brands.

Until recently, cider has been relatively unknown in many markets and its potential largely untapped. We are determined to change that. In 2016, we unlocked technical and cost barriers to growth. Our portfolio expanded to new markets, led by Strongbow Apple Ciders, our flagship brand, as well as Blind Pig, Stassen, Bulmers, Old Mout and our newest brand Orchard Thieves, which was launched in five new markets.

Around the world, more consumers are discovering the appeal of cider. Outside the UK, cider delivered double digit volume growth. Performance was particularly strong in Ireland, South Africa, Romania, Czech Republic, Russia and Mexico. In Asia Pacific, Strongbow Apple Ciders has now been rolled out in five markets and has shown encouraging early signs.

In the UK, the home base of cider, we gained market share driven by the continued success of Strongbow Dark Fruit, Strongbow Cloudy Apple and Old Mout.

New flavours and crafty brands are expanding the cider market and differentiating cider from other alcoholic beverages. Our world-class Stassen innovation centre in Aubel, Belgium continues to focus on developing new tastes to excite the consumer.

Strongbow Apple Ciders is our largest cider brand. With our strong and diverse portfolio we continue to shape the category globally.

Sustainable sourcing of apples
Approximately one-third of all British apples are used to make our ciders in the UK and about 70% are sourced sustainably.

Orchard Thieves has been localised with flair in five markets.

Nature-inspired flavours
We continue to grow and innovate with Strongbow Apple Ciders by adding new taste varieties, such as Dark Fruit, Cherry Blossom and Cloudy Apple.

Our business priorities (continued)

Lead by cool marketing and innovation

We invest in world-class marketing campaigns and sponsor global sports events as well as music festivals around the world. Staying open to new ideas and unleashing the power of innovation is part of our culture.

Great marketing and innovation throughout our portfolio of global, international, local and speciality brands are essential for growth.

Innovation is a priority throughout our portfolio. In 2016, innovation generated EUR 2.2 billion in revenues, reflecting an innovation rate of 10.6% (compared to 9.2% in 2015).

Furthermore, innovation is essential for long-term value creation, and sustainability plays an important role in how we innovate.

In addition to the innovation across the Heineken® and cider portfolios, we continue to innovate with our low- and no-alcohol product range. We launched Amstel 0.0% and Cruzcampo 0.0% in Spain, Żywiec alcohol free in Poland and Bintang 0.0% Maxx in Indonesia.

We also launched Radler outside Europe in Mongolia, Egypt and Chile.

In 2016, we expanded our sponsorship portfolio with Formula 1®. Our Responsible Marketing Code governs and guides all our marketing activities worldwide and has also inspired our latest 'When You Drive, Never Drink' commercial, which features F1® legend Sir Jackie Stewart.

Bass Drop
Desperados created the first-ever zero gravity festival at 30,000ft above the Nevada desert to achieve a bass experience never felt before.

Heineken® is the **most-liked beer brand** on Facebook.

More and more consumers are discovering the appeal of our **low- and no-alcohol** brands.

H41 Wild Lager
Brewed with wild 'mother' yeast discovered in remote Patagonia.

Our business priorities (continued)

Be commercially assertive

Excellent Outlet Execution ensures that our brands are available at the right price and are of the highest quality, so we win at every point of sale.

Our global sales force aims to maximise sales through Excellent Outlet Execution (EOE).

EOE drives the Picture of Success for every outlet we visit. Through our Sales Execution Mobile (SEM) tool, our sales representatives can see how an outlet is performing and capture the order intent of each one.

SEM increases our effectiveness through KPI measurement and allows sales people to spend more time in the market, selling.

With our common Revenue Management capability, we maximise revenue and profitability of our volume sold through disciplined analytics and execution.

Our Global Sales Academy develops and deploys sales programmes to front-line sales people, sales managers and key account managers. It ensures our global sales community is equipped with the skills and capabilities to achieve the Picture of Success.

CO_2 emissions per fridge were 46% less than in 2010, putting us on track to reach our 2020 commitment.

Global Sales Academy
9,000+ people trained across 45 countries.

Transformation through technology
Sales Execution Mobile is used by 1,837 sales reps during 2,500,000 visits to 800,000 unique outlets.


Excellent Outlet Execution
Aligning 23,000+ sales people across 70+ markets through a common language, consistent assessment and clear KPIs.

Our business priorities (continued)

Drive end2end productivity

We aim to leave no stone unturned when looking to deliver efficiencies across our operations: from sourcing and services, to the production, sales and distribution of our beers and ciders.

We continued to invest in key developing markets. We added capacity in Ethiopia and Cambodia. We also opened a new brewery in Shanghai, acquired a brewery in Vietnam, and our brewery in Ivory Coast is on schedule to officially open in Q1 2017. At the same time, we managed to improve productivity despite the increased complexity of producing more brands and the rising customisation demands from retailers.

We continued to optimise our costs, leverage our size and achieve efficiencies through HEINEKEN Financial Shared Services and Global Procurement. For example, 24 of our European operating companies are now supported by our Financial Shared Services centre in Kraków, Poland.

In procurement, we launched our new ambition to leverage our global scale with fewer, more strategic suppliers in order to equip our operating companies with a best-in-class supplier base.

Throughout the company we have also embarked on standardisation projects to gain speed in process, operations, leveraging technology and scale.

Taken together, these efforts to improve our productivity increase our margins and fuel future growth. They are also beneficial to the environment. We are using 37% less energy and 28% less water per hectolitre than we did in 2008. This is a testament to our efforts to meet our Brewing a Better World goals.

Global Supply Chain
60% of our beverage production sites reduced energy consumption and 63% reduced water consumption.

Increasing use of renewable energy
We are making good progress with renewable energy, including wind, solar and biomass, to power breweries around the world.

HEINEKEN Financial Shared Services centre
Supporting 24 operating companies in 26 countries, HFSS processed EUR 10.1 billion in revenues and reduced costs per transaction by 5%.

Our business priorities (continued)

Brewing a Better World

We believe business growth and sustainability go hand in hand. This is why sustainability is embedded in our business strategy.

Our brands combine passion for quality with respect for people and the planet. We believe sustainable innovation is our generation's biggest challenge and opportunity.

Brewing a Better World directly supports the UN Sustainable Development Goals and inspires our brands to step up and take action.

We are making good progress towards our 2020 commitments and we value continued conversations with stakeholders.

For more on our Brewing a Better World commitments status, please turn to the Sustainability Review on page 135. More in-depth information can be found in the sustainability section of our Company website.

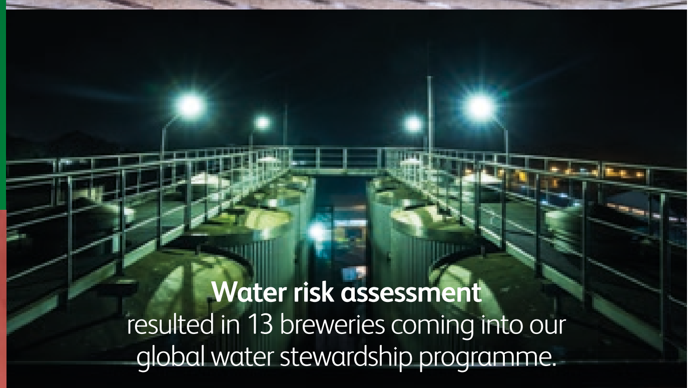
Brewing a Better World focuses on six areas:

- Protecting water resources
- Reducing CO_2 emissions
- Sourcing sustainably
- Advocating responsible consumption
- Promoting health and safety
- Growing with communities

Further information on our sustainability performance: **Pages 135–145**

Advocating responsible consumption
Formula 1® provides a global platform to promote our 'When You Drive, Never Drink' message.

Electric fleet
We rolled out new electric-powered trucks for beer delivery in Amsterdam.



Water risk assessment
resulted in 13 breweries coming into our global water stewardship programme.

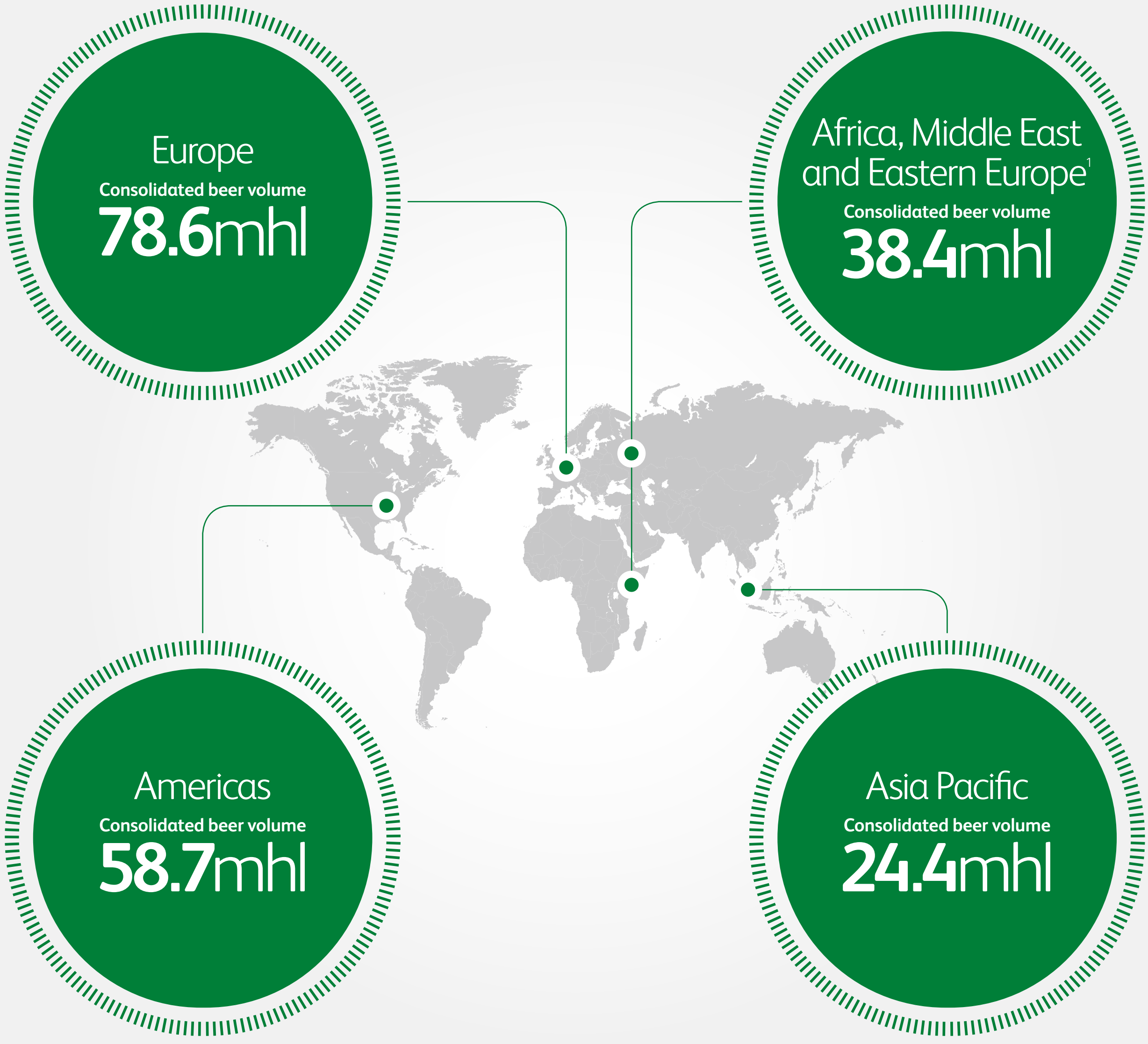
Promoting health & safety
Accident frequency continued to fall for the third year in a row.

Growing with communities
Since 2009, we have invested EUR 4.3 million in cash and EUR 15.8 million in equipment and people through our Public-Private Partnership projects to develop local sourcing in Burundi, DRC, Ethiopia, Nigeria, Rwanda, Sierra Leone and South Africa.

Regional Review

Our balanced geographic footprint

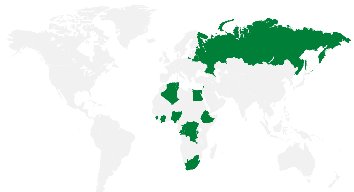
Wherever you are in the world, you are able to enjoy one of our brands. We own, market and sell more than 250 of them in more than 190 countries.



[1] Within the Africa, Middle East and Eastern Europe segment, Eastern Europe consists of Belarus and Russia.

Regional Review (continued)

Africa, Middle East and Eastern Europe



Our performance was resilient, despite a tough trading environment across the region.

Macroeconomic challenges, rising inflation and currency pressure weighed on performance, particularly in Nigeria. Continued inflation and low consumer confidence had an impact on our Russian business, while in Egypt adverse economic conditions also impacted performance. In the Democratic Republic of Congo, we had to take an asset impairment charge of EUR 286 million reflecting the consequences of the more challenging market conditions on our long-term cash flow forecasts.

The strategy of having a balanced portfolio of premium, mainstream and economy brands is critical to our success in the region. We continued to invest in our existing brands and in product innovation. We premiered a new brand, Ivoire, in the Ivory Coast and our new brewery in the country is on schedule to officially open in Q1 2017.

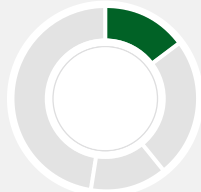
In South Africa, Heineken® performed well with double digit volume growth. In addition, Strongbow Apple Ciders shows early signs of success in one of the most important cider markets in the world. Supported by our exciting Nature Remix campaign which was activated in 21 countries, we successfully added innovations such as Red Berry and Gold Apples to the market.

Our local sourcing projects in the region continue to contribute positively to the communities where we operate. In 2016, we launched Salone, our 100% locally sourced sorghum beer in Sierra Leone, and our newly launched Ivoire beer in Ivory Coast contains local rice.

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

Regional revenue as % of total

15.0%



38.4mhl
Consolidated beer volume
(2015: 35.9mhl)

19.2%
Consolidated beer volume as % of total
(2015: 19.1%)

4.7mhl
Heineken® volume in premium segment
(2015: 4.6mhl)

€3,203m
Revenue
(2015: €3,263m)

€376m
Operating profit (beia)
(2015: €579m)

10.5%
Operating profit (beia) as % of total
(2015: 17.1%)

Strongbow launched the 'Nature Remix' campaign in Johannesburg, focusing on bringing nature back to the city and making it a more energising and beautiful place to live.

Thousands of local farmers in **Sierra Leone** have a regular income by supplying sorghum to our brewery. Our local beer Salone is made from 100% locally grown sorghum.

IVOIRE
This newly launched beer in Ivory Coast contains local rice.

Regional Review (continued)

Americas

The region experienced another strong year driven by the portfolio strategy, Excellent Outlet Execution and cost management initiatives. This translated into strong revenue and profit growth. Tecate performed strongly in both Mexico and the US.

Mexico continued to perform strongly and delivered further revenue and profit growth. Despite a challenging macroeconomic environment in Brazil, our premium brand portfolio continued to outperform the market, with sustained double digit volume growth of Heineken®, and the successful roll-out of Amstel. In the US, Heineken® declined slightly, while the Mexican portfolio continued to do well.

Lagunitas continued its strong performance in the US where we outperformed the beer category. The brand is also exported to France, the Netherlands and Mexico. We are seeing encouraging growth of Lagunitas in the UK as well.

We continue to expand our portfolio of brands with purpose. Tecate launched a breakthrough campaign against gender violence.

The Meoqui brewery, our seventh brewery in Mexico, will be operational at the end of 2017 to satisfy growing demand. Its design is based on the principle of the circular economy. It will positively impact our distribution footprint as it covers an area that has traditionally been difficult to reach.

In 2016, HEINEKEN Mexico also became a member of the Circular Economy 100 (CE100), the Ellen MacArthur Foundation's pre-competitive innovation programme.

Key brands
Heineken®, Tecate, Amstel, Sol, Dos Equis

Regional revenue as % of total

24.3%

58.7mhl
Consolidated beer volume
(2015: 56.0mhl)

29.3%
Consolidated beer volume as % of total
(2015: 29.7%)

9.8mhl
Heineken® volume in premium segment
(2015: 9.4mhl)

€5,203m
Revenue
(2015: €5,159m)

€1,021m
Operating profit (beia)
(2015: €904m)

28.5%
Operating profit (beia) as % of total
(2015: 26.7%)

Stand up to violence against women
Tecate's anti-gender violence campaign generated 10.7 million national media impressions and won a Silver Lion at the Cannes Lions Festival.

Miami Marine Stadium
HEINEKEN USA's crowd-funding campaign to restore this iconic stadium raised more than USD 100,000.

Dos Equis introduced the new Most Interesting Man in the World, earning more than three billion impressions across media channels.

Regional Review (continued)

Asia Pacific

We have enjoyed a year of very strong top and bottom line growth in the region, underpinned by continued strong momentum in Vietnam. This was a 'Tiger' year for us in Asia.

The Tiger brand delivered particularly strong results in Vietnam, Cambodia, Malaysia and Sri Lanka. In 2016, we sold around 10 million hectolitres, supported by the successful launch of the 'Uncage Your Tiger' campaign. The Tiger brand is more than an Asian phenomenon. We now sell Tiger in close to 60 markets, including the US and Russia, and we are excited to unlock the wider geographic reach and potential of this brand.

Alongside Vietnam, our performance in Cambodia was also strong and our investments in the low- and no-alcohol segment, particularly with Bintang 0.0 and Bintang 0.0 Maxx, supported growth in Indonesia. Together with Heineken® and Tiger, our strong portfolio of regional and local brands is crucial in many of our Asia Pacific markets.

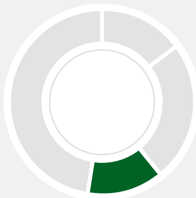
During the year, we expanded our footprint in the region and continued to invest in capacity and our people capability. We entered the Philippines where we established an operating company, opened a new brewery in both Vietnam and Cambodia and are now building a new brewery and soft drinks plant in East Timor, which is scheduled to be fully open in the third quarter.

We are making progress in sustainability initiatives across the region. We have installed 8,038 solar panels on our Singapore brewery, which means Tiger is now 'Brewed By The Sun'; we made headlines with our 'Air-Ink' campaign, which turns air pollution particles into ink used by street artists; and in Vietnam, at the end of 2016, four of our breweries were 100% powered by renewable biomass and biogas energy.

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

Regional revenue as % of total

13.5%



24.4mhl
Consolidated beer volume
(2015: 19.8mhl)

12.2%
Consolidated beer volume as % of total
(2015: 10.5%)

6.6mhl
Heineken® volume in premium segment
(2015: 6.4mhl)

€2,894m
Revenue
(2015: €2,483m)

€927m
Operating profit (beia)
(2015: €702m)

25.8%
Operating profit (beia) as % of total
(2015: 20.8%)

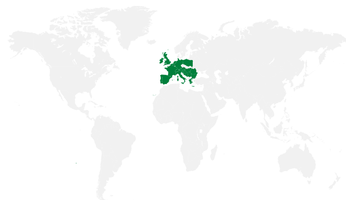
We continue to enjoy positive momentum in Asia.

Indonesia's most favourite beer, Bir Bintang, introduced its non-alcoholic 0.0% variants this year.

Tiger Air-Ink
The equivalent of 2.3 years of diesel emissions have been turned into 770 litres of Air-Ink for street artist to use.

Regional Review (continued)

Europe



Europe delivered strong results. The strategy to invest in our brands, premiumisation and innovation, combined with a strong focus on operational excellence, is paying off.

Volume across the region grew slightly with continued positive momentum in our largest markets, including France, Italy, Spain and the Netherlands. In most markets, we observed some recovery of the on-premises business, which supported our channel mix. Our performance in the UK was resilient with volumes in the premium segment accelerating further. Our UK pub estate continued to outperform its tenanted peers and remains a strategic asset.

Heineken® outperformed the portfolio, benefiting from innovations such as H41 and Heineken® Extra Fresh. In addition, successful local activations in France and the UK boosted sales. Desperados continued to thrive, notably in Spain, Germany, France and Poland. Great progress was made in leveraging our local presence and local brands into appealing premium propositions, such as Birra Moretti Regionali in Italy, Sagres Bohemia variants in Portugal, Żywiec variants in Poland, Brand variants in The Netherlands, and several 'retro' innovations across Eastern Europe, including Zlaty Bazant '73 in Slovakia and Zagorka Retro in Bulgaria.

Our cider strategy is working as we leverage our number one international cider brand Strongbow Apple Ciders and its flavour innovations. Our cider volume grew double digit outside the UK with particularly strong performance in Ireland, Romania, the Czech Republic and Poland. In the UK, we gained share, with growth fuelled by Strongbow Dark Fruit and Cloudy Apple.

Our low- and no-alcohol proposition now represents around 5% of European consolidated beer volume.

In 2016, we were recognised with an EU Sustainability Energy Award for our zero carbon brewery in Göss, Austria. In addition, after the installation of 13,000 solar panels in Italy, our brewery in Massafra is now the largest solar brewery in the world.

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

Regional revenue as % of total

47.2%

78.6mhl
Consolidated beer volume
(2015: 76.6mhl)

39.3%
Consolidated beer volume as % of total
(2015: 40.7%)

10.6mhl
Heineken® volume in premium segment
(2015: 10.2mhl)

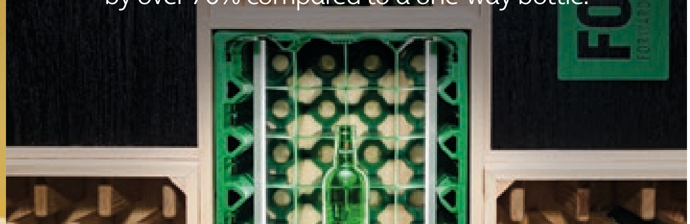
€10,112m
Revenue
(2015: €10,227m)

€1,261m
Operating profit (beia)
(2015: €1,196m)

35.2%
Operating profit (beia) as % of total
(2015: 35.4%)

With **Birra Moretti Regionali** we are premiumising a strong mainstream proposition. These extensions contain local ingredients typical for the region.

Heineken® Forwardable Bottle (FoBo)
Launched in France, people can leave a message for the next consumer with FoBo. It reduces CO_2 by over 70% compared to a one-way bottle.



HEINEKEN has teamed up with Deliveroo to offer home deliveries of its beers and ciders in the UK.

Risk Management

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

Effective management of risk forms an integral part of how HEINEKEN operates as a business and is embedded in day-to-day operations. Responsibility for identifying potential strategic, operational, reporting and compliance risks, and for implementing fit-for-purpose responses, lies primarily with line management. Group-wide risk management priorities are defined by regional and functional management and endorsed by the Executive Board, who bears ultimate responsibility for managing the main risks faced by the Company and for reviewing the adequacy of HEINEKEN's internal control system.

Risk profile

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

In recent years, there has been increased media, social and political criticism directed at the alcoholic beverage industry. An increasingly negative perception in society towards alcohol could prompt legislators to implement further restrictive measures such as limitations on availability, advertising, sponsorships, distribution and points of sale and increased tax. This may cause changes in consumption trends, which could lead to a decrease in the brand equity and sales of HEINEKEN's products. In addition, it could adversely affect HEINEKEN's commercial freedom to operate and restrict the availability of HEINEKEN's products.

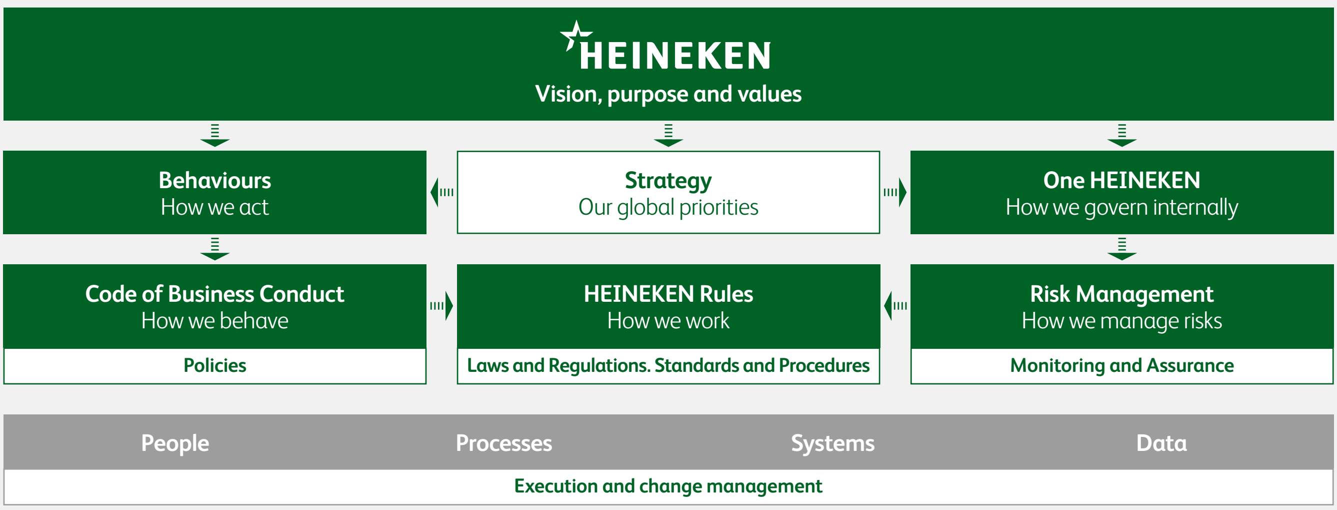
HEINEKEN has undertaken business activities with other market parties in the form of joint ventures and strategic partnerships. Where HEINEKEN does not have effective control, decisions taken by these entities may not be fully harmonised with HEINEKEN's strategic objectives. Moreover, HEINEKEN may not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

Risk appetite

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

- Strategic: Taking strategic risks is an inherent part of HEINEKEN's entrepreneurial heritage. In its pursuit of balanced growth, HEINEKEN is open to certain risks linked to its presence in a wide array of developing countries.
- Operational: Depending on the type of the operational risk, HEINEKEN's risk appetite can be described as cautious to averse. In particular, ensuring its employees' and contractors' safety, delivering the highest level of product quality and protecting its reputation have priority over any other business objective.
- Reporting: HEINEKEN is averse to any risks that could jeopardise the integrity of its reporting.
- Compliance: HEINEKEN is averse to the risk of non-compliance with applicable laws or regulations, as well as with its own Code of Business Conduct.

HEINEKEN Business Framework



Risk Management (continued)

Risk management and internal control

The HEINEKEN Governance, Risk and Compliance activities are an integral part of the HEINEKEN Business Framework. Based on the COSO reference model, this framework provides an overview of how HEINEKEN's vision, purpose and values lie at the core of the Company's strategic priorities, organisation structure and behaviours. Translating this into policies and processes, the Code of Business Conduct, Company Rules and Risk Management process enable the achievement of HEINEKEN's strategic priorities while protecting the Company's employees, assets and reputation.

Risk identification and assessment

HEINEKEN's risk management activities seek to ensure identification and appropriate response to any significant threat to the safety of its employees, the Company's reputation, its assets and the achievement of its strategic objectives. To this end, HEINEKEN has put in place a comprehensive risk management system which identifies, assesses, prioritises and manages risks on a continuous and systematic basis, and covers all subsidiaries across regions, countries, markets and corporate functions.

Ongoing identification and assessment of risks is an integral part of HEINEKEN's governance and business review. Implementation of adequate responses and progress of risk mitigating measures is monitored on a quarterly basis. In parallel, the risks reported by the operating companies are aggregated on a global level and serve as a basis to determine HEINEKEN's risk management priorities and coordinated risk response across geographies. Accountability for mitigating, monitoring and reporting on each of the most significant risks is assigned to functional directors. Internal policies and operational controls are periodically updated to reflect both these key risks and the extent to which the Company is willing and able to mitigate them.

Internal control activities

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

The foundation for managing the Company's operations are the Company Rules which translate HEINEKEN's objectives and strategies into clear rules. They articulate how to work as they comprise all mandatory standards and procedures. Compliance with the rules is tested every year through self-assessment of key processes and controls by management. Appropriate action plans for deficiencies are established by local management. Progress on these remediation steps is monitored and reported on at least a quarterly basis.

Underpinning the Company Rules and supporting HEINEKEN's ethical culture, the first rule pertains to the Code of Business Conduct. The Code of Business Conduct and its underlying policies set out the expected standard of behaviour of all HEINEKEN employees and third parties working with HEINEKEN. Adherence to these policies is supported by regular training and a reporting platform available 24/7 where employees and third parties can speak up confidentially and securely if they observe or suspect ethics violations.

Assurance

HEINEKEN has a 'three lines of defence' structure in place:

- Operational management, as first line of defence, has the ownership, responsibility and accountability for assessing, controlling and mitigating risks
- HEINEKEN's internal control function ('Process & Control Improvement'), as second line of defence, oversees compliance with HEINEKEN's policies, process and controls, drives continuous process improvement, facilitates risk assessments and ensures follow-up of identified risks or deficiencies. Additional control activities related to financial reporting are performed by the Accounting & Reporting and Business Control functions
- Acting as third line of defence, HEINEKEN's internal audit function ('Global Audit') is mandated to perform Group-wide reviews of key processes, projects and systems, based on HEINEKEN's strategic priorities and most significant risk areas.

Global Audit provides independent and objective assurance and consultancy services. Global Audit employs a systematic and disciplined approach to evaluate and improve the organisation's governance and risk management processes including reliability of information, compliance with laws, regulations and procedures, and efficient and effective use of resources. The methodology followed by Global Audit is in accordance with the standards of the Institute of Internal Auditors and other relevant governing bodies.

Risk Management (continued)

Main risks

The following risk overview highlights the main risks that could hinder HEINEKEN in achieving its financial and strategic objectives or could represent a threat to the business. This overview does not include all risks and uncertainties that may ultimately affect the Company: some risks currently deemed immaterial, known to the Company, could ultimately have an adverse impact on HEINEKEN's financial performance, reputation, business objectives, employees or assets. Timely discovery and accurate evaluation of such risks is at the core of HEINEKEN's risk management processes. The financial risks are dealt with separately in note 30 to the Financial Statements. The Statement of the Executive Board is included in the Corporate Governance Statement on page 33.

Strategic risks

Regulatory changes related to alcohol

What could happen

Alcohol remains under scrutiny in many markets and prompts regulators to take further restrictive measures including restrictions or bans on advertising and marketing, sponsorship, availability, and increased taxes and duties leading to lower revenues and profit.

What we are doing to manage this risk

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

Recent developments

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

Economic and political environment

What could happen

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

What we are doing to manage this risk

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

Recent developments

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

Customer relationships

What could happen

Maintaining strong relationships with our customers is key for brand positioning and availability to consumers. Consolidation among our customers may affect our ability to obtain pricing and favourable trade terms and negatively impact our operating margin.

What we are doing to manage this risk

HEINEKEN constantly invests in its business relationships and has developed joint business plans with distributors and key retailers, while enhancing sales performance through commercial capabilities programmes and customer relationship management at central and local level.

Recent developments

The retail consolidation wave seen in the past five years in most developed markets has not yet passed. This has led HEINEKEN to tap into new distribution channels, such as online retail, and to develop a unique and innovative sales approach to boost its on-trade business which is currently being rolled out across all four regions.

Risk Management (continued)

Strategic risks (continued)

Changing consumer preferences

What could happen

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

What are we doing to manage this risk

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

Recent developments

The increasing popularity of craft beer has been the most noticeable change in consumer tastes over the past years, and has been fully embraced by HEINEKEN, as shown by the partnership with Lagunitas and the addition to its craft portfolio with several specialty beers. Changes in consumer perceptions in relation to alcoholic beverages however, are more gradual but could gain further traction on the back of negative publicity related to increased health risks.

Management capabilities

What could happen

HEINEKEN relies on the skills of its people to lead its growth agenda and strategic change programmes. HEINEKEN may not be successful in attracting, developing and retaining talented staff with the required capabilities, which may jeopardise its capacity to execute its strategy and achieve the targeted returns.

What are we doing to manage this risk

In order to secure a strong management talent pipeline, HEINEKEN has redesigned its appraisal and evaluation processes, as well as the range of management development programmes and initiatives. Management capabilities and succession planning have been enhanced by the implementation of functional resource committees and a renewed People Strategy, supported by a global people management platform.

Recent developments

Hiring employees with particular expertise remains challenging, both in emerging markets due to competition between multinationals, and in developed markets where traditional industries face competition from new economy employers. As an answer, HEINEKEN has launched in 2016 its first ever global employer brand campaign, targeting especially the young and diverse audience it needs to fuel its talent pipeline.

Industry consolidation

What could happen

Consolidation of the alcoholic beverage industry has accelerated in 2016 and may affect existing market dynamics in the future due to competitive disadvantage with suppliers and increased competition on commercial spend and customer acquisition strategies.

What are we doing to manage this risk

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

Recent developments

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

Risk Management (continued)

Operational risks

Safety, health and environment

What could happen

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

What are we doing to manage this risk

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

Recent developments

Given its growing presence in emerging markets, safety is an ongoing challenge and a permanent focus area. Effective 1 January 2016, the HEINEKEN Life Saving Rules target the activities that carry the greatest safety threats to employees and contractors. Despite these efforts, several significant fatal accidents have occurred, underlining the importance of realising further improvements in the area of safety.

Product safety and integrity

What could happen

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

What are we doing to manage this risk

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

Recent developments

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

Supply chain continuity

What could happen

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

What are we doing to manage this risk

Business continuity plans have been developed for HEINEKEN's key brands in all key markets, and back-up plans are in place in all operating companies. Business resilience is further strengthened through ownership of several strategic malteries, long-term procurement contracts, water management plans and central management of global insurance policies.

Recent developments

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

Risk Management (continued)

Operational risks (continued)

Information security

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

What are we doing to manage this risk
HEINEKEN has developed a comprehensive information security policy and framework addressing IT security, continuity and confidentiality. The dedicated Risk Management team performs central testing of the IT systems and focuses on enhancing the resilience of HEINEKEN's IT infrastructure.

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

Social media

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

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

Recent developments
While robust social media risk management measures are now in place, social media crisis increasingly happen via private channels (e.g. WhatsApp) and cannot therefore always be tracked. Moreover, malicious attempts to spread false material becomes ever more sophisticated with substantial spend behind it. In 2016, the most significant attack faced by HEINEKEN (a fake video of HEINEKEN products being tampered with) was successfully managed, proving the robustness and maturity of its crisis communication system.

Execution and change management

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

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

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

Risk Management (continued)

Reporting risks

Reporting

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

What are we doing to manage this risk
HEINEKEN has implemented a common Risk and Control Framework across its operating companies which includes standardised internal controls on financial reporting, common accounting policies and standard chart of accounts, periodic mandatory training, and active monitoring of critical access and segregation of duties conflicts.

Recent developments
Since 2015, HEINEKEN has engaged in a substantial process and IT simplification and standardisation project which is leveraging on the progresses made so far and will help to achieve further efficiency gains while delivering fast and robust reporting.

Compliance risks

Non-compliance

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

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

Recent developments
Across many geographies, law enforcement has become more systematic than in the past, in particular with regard to anti-corruption, anti-bribery, competition and data privacy laws, leading to an increased risk of being alleged with a breach of regulation. Over the years, HEINEKEN has constantly been looking to enhance its internal compliance system and resilience to the changes of the legal environment.

Financial Review

Key figures

In millions of EUR	2015	Currency translation	Consolidation impact	Organic growth	2016	Organic growth %
Revenue (beia)	20,511	**(1,150)**	**441**	**989**	**20,792**	**4.8**
Total expenses (beia)	(17,130)	934	(401)	(654)	(17,252)	(3.8)
Operating profit (beia)	3,381	**(216)**	**40**	**335**	**3,540**	**9.9**
Share of net profit of assoc./JVs (beia)	177	(3)	–	(14)	161	(7.8)
EBIT (beia)	3,558	**(219)**	**40**	**321**	**3,700**	**9.0**
Net interest income/(expenses) (beia)	(352)	3	(32)	27	(355)	7.6
Other net finance income/(expenses) (beia)	(76)	2	(3)	(38)	(114)	(49.7)
Income tax expense (beia)	(822)	75	2	(125)	(869)	(15.2)
Minority interests (beia)	(261)	14	(6)	(12)	(265)	(4.6)
Net profit (beia)	2,048	**(125)**	**1**	**174**	**2,098**	**8.5**
Eia	(156)				(558)	
Net profit	1,892				**1,540**	

Main changes in consolidation

- On 7 October 2015 HEINEKEN announced the acquisition of Diageo plc's shareholding in Jamaican formerly listed Desnoes & Geddes ("D&G"). During 2016 HEINEKEN acquired 22.5% of the floating shares in D&G. HEINEKEN owned a 95.8% stake in D&G as at 31 December 2016.
- As of 7 October 2015 HEINEKEN has full ownership of GAPL Pte Ltd. ("GAPL"). GAPL owns 51% of the issued share capital of HEINEKEN Malaysia Berhad, which is listed on the Malaysian Stock Exchange.
- On 15 October 2015 HEINEKEN completed the acquisition of a 53.4% stake of Pivovarna Laško Union, d.o.o. (formerly known as Pivovarrna Laško d.d.) in Slovenia. Furthermore, during 2016 HEINEKEN acquired the remaining 46.6% floating shares in Pivovarna Lasko Union, d.o.o.
- On 1 December 2015 HEINEKEN completed the restructuring of its operations in South Africa and Namibia. In South Africa, HEINEKEN holds a 75% stake in both Heineken South Africa (Pty) Limited (formerly known as DHN Drinks (Pty) Limited) and in Sedibeng Brewery (Pty) Limited with Namibian Breweries Limited ("NBL") holding a 25% stake in both entities.
- On 1 February 2016, HEINEKEN completed the sale of 80% in Distribev Sp. z o.o., Grupa Żywiec S.A.'s local sales and distribution company serving the traditional trade and horeca market, to the Orbico Group.
- An agreement with Asia Brewery Incorporated to create AB HEINEKEN Philippines Inc, was announced on 27 May 2016. The transaction closed on 15 November 2016.

Revenue

Revenue increased by 1.4% to EUR 20,792 million. Currency developments had a negative impact of 5.6% (EUR 1,150 million), largely driven by the depreciation of the Mexican peso, the Nigerian naira, and the British pound. The impact of consolidation changes was EUR 441 million, adding 2.2%. The organic revenue increase of 4.8% comprised of total consolidated volume growth of 2.6%, and a 2.2% increase in revenue per hectolitre.

Total expenses (beia)

Total expenses (beia) were EUR 17,252 million, up by 3.8% organically. On an organic basis, input costs increased by 10.8% and by 7.7% on a per hectolitre basis predominantly due to adverse currency movements leading to a negative transactional FX impact. Marketing and selling (beia) expenses increased organically by 4.9% to EUR 2,830 million, representing 13.6% of revenues (2015: 13.4%).

Financial Review (continued)

Operating profit (beia)

Operating profit (beia) was EUR 3,540 million, up 9.9% organically, with a EUR 216 million negative foreign currency impact and a EUR 40 million increase from consolidation changes. Higher revenue and the benefit of realised cost savings were only partially offset by higher marketing and selling expenses.

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

Share of net profit of associates and joint ventures (beia) decreased from EUR 177 million to EUR 161 million. The EUR 14 million decline mainly reflected lower net profit from the joint venture operation in the Republic of the Congo due to difficult market conditions.

Net finance expenses (beia)

Net interest expenses (beia) slightly increased by EUR 3 million to EUR 355 million, reflecting a higher average net debt position. The average interest rate in 2016 was 3.1% compared with 3.3% in 2015. Other net finance expenses (beia) increased by EUR 38 million to EUR 114 million, primarily due to adverse foreign currency transactional movements.

Income tax expense (beia)

The effective tax rate (beia) was 28.3%, a slight increase on the rate in 2015 (27.8%).

Net profit and net profit (beia)

Net profit decreased by EUR 352 million to EUR 1,540 million. Net profit (beia) grew by EUR 50 million to EUR 2,098 million, an organic increase of 8.5%. Unfavourable currency impact was 6%, with consolidation impact minimal.

Earnings per share diluted

Earnings per share – diluted decreased to EUR 2.70 (2015: EUR 3.30). Earnings per share – diluted (beia) increased by 3.1% from EUR 3.57 to EUR 3.68.

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

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

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

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

In millions of EUR	**2016**	2015
Profit attributable to equity holders of the Company (net profit)	**1,540**	**1,892**
Amortisation of acquisition-related intangible assets included in EBIT	315	321
Exceptional items included in EBIT	480	(10)
Exceptional items included in net finance expenses/(income)	25	(18)
Exceptional items included in income tax expense	(196)	(124)
Exceptional items included in non-controlling interest	(66)	(13)
Net profit (beia)	**2,098**	**2,048**

Financial Review (continued)

The 2016 exceptional items and amortisation of acquisition-related intangibles on net profit amounts to EUR 558 million (2015: EUR 156 million). This amount consists of:

- EUR 315 million (2015: EUR 321 million) of amortisation of acquisition-related intangibles recorded in EBIT. EUR 10 million (2015: EUR 5 million) of this amount is included in share of net profit of associates and joint ventures.
- EUR 480 million (2015: EUR 10 million income) of exceptional items recorded in EBIT. This includes restructuring expenses of EUR 80 million (2015: EUR 106 million), impairments of EUR 328 million (2015: EUR 78 million) of which EUR 286 million relates to The Democratic Republic of Congo (DRC). Other exceptional expenses in EBIT amounted to EUR 72 million (2015: EUR 194 million income which included EUR 379 million disposal gain for EMPAQUE). This includes asset write downs and the recording of provisions for an amount of EUR 62 million (2015: EUR 79 million).
- EUR 25 million (2015: EUR 18 million income) of exceptional items in net finance expenses, mainly related to the currency impact on dividend receivables from Nigeria.
- EUR 196 million (2015: EUR 124 million) in income tax expense includes the tax impact on amortisation of acquisition-related intangible assets of EUR 73 million (2015: EUR 75 million), the tax impact on exceptional items of EUR 36 million (2015: EUR 58 million) and an exceptional income tax benefit of EUR 87 million (2015: EUR 9 million expense), mainly relating to previously unrecognised deferred tax assets in 2016.
- Total amount of Eia allocated to non-controlling interest amounts to EUR 66 million (2015: EUR 13 million).

Reported to beia

In millions of EUR	Reported 2016	Eia 2016	Beia 2016	Reported 2015	Eia 2015	Beia 2015
Revenue	**20,792**	**–**	**20,792**	20,511	–	20,511
Other income	46	(46)	–	411	(411)	–
Total expenses	(18,083)	831	(17,252)	(17,847)	717	(17,130)
Operating profit	**2,755**	**785**	**3,540**	3,075	306	3,381
Share of net profit of assoc./JVs	150	10	161	172	5	177
EBIT	**2,905**	**795**	**3,700**	3,247	311	3,558
Net interest income/(expenses)	(359)	4	(355)	(352)	–	(352)
Other net finance income/(expenses)	(134)	20	(114)	(57)	(19)	(76)
Income tax expense	(673)	(196)	(869)	(697)	(125)	(822)
Minority interests	(199)	(66)	(265)	(249)	(12)	(261)
Net profit	**1,540**	**558**	**2,098**	1,892	156	2,048

Capital expenditure and cash flow

In millions of EUR	2016	2015
Cash flow from operations before changes in working capital and provisions	**4,713**	4,280
Total change in working capital	**80**	371
Change in provisions and employee benefits	**(73)**	(165)
Cash flow from operations	**4,720**	4,486
Cash flow related to interest, dividend and income tax	**(1,002)**	(997)
Cash flow from operating activities	**3,718**	3,489
Cash flow (used in)/from operational investing activities	**(1,945)**	(1,797)
Free operating cash flow	**1,773**	1,692
Cash flow (used in)/from acquisitions and disposals	**(62)**	(267)
Cash flow (used in)/from financing activities	**(672)**	(1,173)
Net cash flow	**1,039**	252
Cash conversion ratio	**75%**	73%

Financial Review (continued)

Capital expenditure related to property, plant and equipment amounted to EUR 1,757 million in 2016 (2015: EUR 1,638 million) representing 8.5% of revenues. The increase in capital expenditure on the prior year included investments in Ethiopia, Cambodia, Ivory Coast, Mexico, Brazil, Vietnam and China.

Free operating cash flow amounted to EUR 1,773 million (2015: EUR 1,692 million), higher than last year primarily due to positive cash flow generated operations, which was partly offset by higher capital expenditure. Cash flow from changes in working capital in 2016 was again positive, albeit lower than last year due to one offs in receivables and less favourable movements in our payables due to capital expenditure phasing.

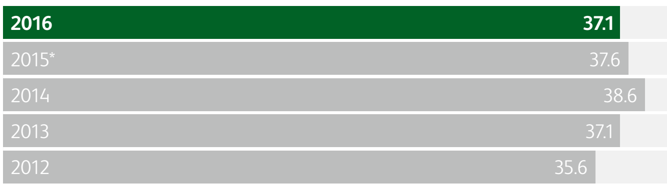
Financing structure and liquidity

In millions of EUR	2016	%	2015*	%
Total equity	14,573	37	15,070	38
Deferred tax liabilities	1,672	4	1,858	5
Employee benefits	1,420	4	1,289	3
Provisions	456	1	474	1
Interest-bearing loans and borrowings	14,570	38	14,973	37
Other liabilities	6,630	16	6,458	16
Total equity and liabilities	**39,321**	**100**	**40,122**	**100**

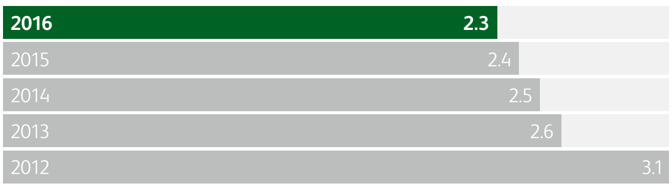
* Comparative figures have been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Total equity

as a percentage of total assets



Net debt/EBITDA (beia) ratio



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

Equity attributable to equity holders of the Company decreased by EUR 297 million to EUR 13,238 million, mainly driven by net profit of EUR 1,540 million being offset by a negative other comprehensive income impact of EUR 880 million mainly relating to translation differences and actuarial losses. Furthermore dividends paid out EUR 786 million and acquisition of non controlling interests of EUR 145 million reduced the equity attributable to the equity holders of the Company.

Total gross debt amounts to EUR 14,570 million (2015: EUR 14,973 million). The gross debt position includes the impact of the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements. Net debt decreased to EUR 11,293 million (2015: EUR 11,510 million) as free operating cash flow exceeded the cash outflow for dividends, acquisitions and foreign currency impact on debt.

In 2016, HEINEKEN extended its EUR 2,500 million revolving credit facility by one year and the facility matures now in 2021. The facility is committed by a group of 19 banks.

In May 2016, HEINEKEN issued 10-year Notes for a principal amount of EUR 800 million with a coupon of 1.0%. In November 2016 HEINEKEN issued long 10-year Notes for a principal amount of EUR 500 million with a coupon of 1.375%. All these Notes have been issued under HEINEKEN's Euro Medium Term Note Programme. The proceeds of the Notes were used for general corporate purposes.

HEINEKEN remains focused on cash flow generation and disciplined working capital management, with a commitment to a long-term target net debt/EBITDA (beia) ratio of below 2.5. The net debt/EBITDA (beia) ratio was 2.3 on 31 December 2016 (2015: 2.4).

Financial Review (continued)

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

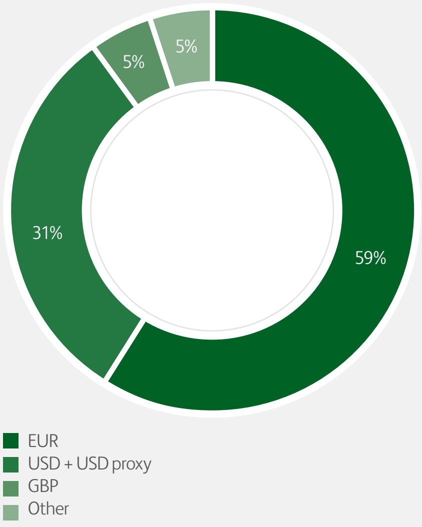
In millions of EUR	2016	2015
EBIT	**2,905**	**3,247**
Depreciation and impairments of property, plant and equipment	1,437	1,222
Amortisation and impairment of intangible assets	380	372
EBITDA	**4,722**	**4,841**
Exceptional items	179	(119)
EBITDA (beia)	**4,901**	**4,722**

Heineken N.V. was assigned solid investment grade credit ratings by Moody's Investor Service and Standard & Poor's in 2012. The ratings from both agencies, Baa1/P-2 and BBB+/A-2 respectively, have 'stable' outlooks as per the date of the 2016 Annual Report.

Currency split of net debt

This currency breakdown includes the effect of derivatives, which are used to hedge intercompany lending denominated in currencies other than Euro. Of total net interest-bearing debt, 59% is denominated in Euro and 31% is US dollar and US dollar proxy currencies. This is including the effect of cross-currency interest rate swaps on some of the non-Euro denominated debt. The fair value of these cross-currency interest rate swaps form part of net debt.

Currency split of net debt



Obligatory long-term debt repayments

in millions of EUR

Average number of shares

HEINEKEN has 576,002,613 shares in issue. For the calculation of 2016 basic EPS, the weighted impact of the share buyback and shares purchased for the employee incentive programme reduced the number of weighted average shares outstanding to 569,737,210 (572,292,454 in 2015). For the calculation of 2016 diluted EPS, the number of weighted average outstanding shares is adjusted for the amount of shares to be delivered under the employee incentive programme, resulting in a weighted average diluted number of shares of 570,370,392 (572,944,188 in 2015).

Profit appropriation

The Heineken N.V. dividend policy is to pay out a ratio of 30% to 40% of full-year net profit (beia). For 2016, payment of a total cash dividend of EUR 1.34 per share (2015: EUR 1.30) will be proposed to the Annual General Meeting. This implies a 36% payout ratio, in line with the payout ratio in 2015. If approved, a final dividend of EUR 0.82 per share will be paid on 3 May 2017, as an interim dividend of EUR 0.52 per share was paid on 11 August 2016. The payment will be subject to a 15% Dutch withholding tax. The ex-final dividend date for Heineken N.V. shares will be 24 April 2017.

Corporate Governance Statement

Introduction

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

The Company's management and supervision structure is organised in a so-called two-tier system, which consists of an Executive Board (made up of two executive directors) and a Supervisory Board (made up of 11 non-executive directors). The Supervisory Board supervises the Executive Board and ensures that external experience and knowledge are embedded in the Company's way of operating. These two Boards are independent of one another and accountable to the Annual General Meeting (AGM).

The Company is required to comply with, among other regulations, the Dutch Corporate Governance Code (as lastly amended on 10 December 2008) (the 'Code'). Deviations from the Code are explained in accordance with the Code's "comply or explain" principle.

In this report, the Company addresses its corporate governance structure and states to what extent it applies the best practice provisions of the Code, and explains which best practice provisions of the Code the Company does not apply, and why. This report also includes the information that the Company is required to disclose pursuant to the Dutch governmental decree on Article 10 Takeover Directive and the governmental decree on Corporate Governance. Substantial changes in the Company's corporate governance structure and in the Company's compliance with the Code, if any, will be submitted to the AGM for discussion under a separate agenda item. This report does not address the new Code, which was presented by the Monitoring Committee Corporate Governance on 8 December 2016, as the new Code will come into force as of the financial year starting on 1 January 2017.

Executive Board

General

The role of the Executive Board is to manage the Company, which means, among other things, that it is responsible for setting and achieving the operational and financial objectives of the Company, the design of the strategy to achieve the objectives, the parameters to be applied in relation to the strategy (for example, in respect of the financial ratios), the associated risk profile, the development of results and corporate social responsibility issues that are relevant to the Company. The Executive Board is accountable for this to the Supervisory Board and to the AGM. In discharging its role, the Executive Board shall be guided by the interests of all of the Company and its affiliated enterprises, taking into consideration the interests of the Company's stakeholders. The Executive Board is responsible for complying with all primary and secondary legislation, for managing the risks associated with the Company's activities and for financing the Company.

The Company has four operating regions: Africa Middle East & Eastern Europe, Americas, Asia Pacific and Europe. Each region is headed by a President. The two members of the Executive Board, the four Presidents and four functional Chief Officers (namely Commercial, Corporate Affairs, Human Resources and Supply Chain) jointly form the Executive Team. The Executive Team is responsible for the implementation of key priorities and strategies across the organisation.

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

In 2016, no (re)appointments to the Executive Board were proposed to the AGM.

As announced on 26 October 2016, the Supervisory Board shall nominate Mr. Jean-François van Boxmeer for re-appointment as member of the Executive Board at the 2017 AGM.

Corporate Governance Statement (continued)

Composition of the Executive Board

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

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

Belgian nationality; male.

Initial appointment in 2001;
Reappointment: 2013*;
four-year term ends in 2017;
Chairman/CEO (since 2005).
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: Mondelez International, USA; Henkel AG & Co., Germany; National Opera & Ballet, Netherlands (Chairman).

Laurence Debroux (1969)

French nationality; female.

Initial appointment in 2015;
four-year term ends in 2019;
CFO (since 2015).
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: HEC (Ecole des Hautes Etudes Commerciales) Paris, France.

* For the maximum period of four years.

** Large Dutch Entities are Dutch N.V.s, B.V.s or Foundations (that are required to prepare annual accounts pursuant to Chapter 9 of Book 2 of the Dutch Civil Code or similar legislation) that meet two of the following criteria (on a consolidated basis) on two consecutive balance sheet dates:

(i) The value of the assets (according to the balance sheet with the explanatory notes and on the basis of acquisition and manufacturing costs) exceeds EUR 20 million;

(ii) The net turnover exceeds EUR 40 million;

(iii) The average number of employees is at least 250.

*** Under 'Other positions', other functions are mentioned that may be relevant to performance of the duties of the Executive Board.

Best practice provision II.1.1 of the Code recommends that an Executive Board member is appointed for a maximum period of four years and that a member may be reappointed for a term of not more than four years at a time. In compliance with this best practice provision, the Supervisory Board has drawn up a rotation schedule in order to avoid, as far as possible, a situation in which Executive Board members retire at the same time.

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

Pursuant to the Act on Management and Supervision (the Act), which came into force on 1 January 2013, executive boards of large Dutch public companies, such as Heineken N.V., are deemed to have a balanced composition if they consist of at least 30% female and 30% male members. Currently, the Executive Board is composed of one male and one female member, and is therefore deemed to be balanced within the meaning of the Act.

Corporate Governance Statement (continued)

Conflict of Interest

Dealing with (apparent) conflicts of interest between the Company and members of its Executive Board is governed by the Articles of Association of the Company (the 'Articles of Association') and the Code. A member of the Executive Board shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a personal conflict of interest with the Company. Decisions to enter into transactions under which members have conflicts of interest that are of material significance to the Company and/or the relevant member(s) of the Executive Board require the approval of the Supervisory Board. Any such decisions shall be published in the annual report for the relevant year, along with a reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. In 2016, no transactions were reported under which a member of the Executive Board had a conflict of interest that was of material significance.

Remuneration

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

Supervisory Board

General

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

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

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

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

Corporate Governance Statement (continued)

Composition of the Supervisory Board

The Supervisory Board consists of 11 members: Hans Wijers (Chairman), José Antonio Fernández Carbajal (Vice-Chairman), Maarten Das, Michel de Carvalho, Annemiek Fentener van Vlissingen, Christophe Navarre, Javier Astaburuaga Sanjinés, Henk Scheffers, Jean Marc Huët, Pamela Mars-Wright and Yonca Brunini.

Information on these Supervisory Board members is provided below.

Hans (G.J.) Wijers (1951)

Dutch nationality; male.

Appointed in 2012; Chairman (as of 2013); latest reappointment in 2016*.
Profession: Company Director.
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.
Other positions***: Royal Dutch Shell plc (Deputy Chairman and Senior Independent Director); HAL Holding N.V.; Natuurmonumenten (Chairman); Concertgebouw N.V. (Chairman).

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

Mexican nationality; male.

Appointed in 2010; latest reappointment in 2014*.
Vice-Chairman (as of 2010).
Profession: Executive Chairman Fomento Económico Mexicano S.A.B. de C.V. (FEMSA).
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: Heineken Holding N.V.
Other positions***: Coca-Cola Femsa S.A.B. de C.V. (Chairman); Tecnológico de Monterrey (Chairman); Fundación Femsa (Chairman); participates on Boards of Industrias Peñoles and Grupo Televisa.

Maarten (M.) Das (1948)

Dutch nationality; male.

Appointed in 1994; latest reappointment in 2013*.
Delegated Member (1995).
Profession: Lawyer.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: Heineken Holding N.V. (Chairman) and Greenchoice B.V. (Chairman).
Other positions***: L'Arche Green N.V. (Chairman); Stichting Administratiekantoor Priores; LAC B.V.; Greenfee B.V. (Chairman).

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

British nationality; male.

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

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

Dutch nationality; female.

Appointed in 2006; latest reappointment in 2014*.
Profession: Company Director.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: SHV Holdings N.V. (Chairman); EXOR Holding N.V.; University Medical Center Utrecht (UMC Utrecht).
Other positions***: Lhoist, Belgium.

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

Belgian nationality; male.

Appointed in 2009; latest reappointment in 2013*.
Profession: Chairman & CEO Moët Hennessy, LVMH Wines & Spirits Brands.
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.

Corporate Governance Statement (continued)

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

Mexican nationality; male.

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

Hendrik (H.) Scheffers (1948)

Dutch nationality; male.

Appointed in 2013*.
Profession: Company Director.
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: Aalberts Industries N.V. (Chairman); Royal BAM Group N.V. (Vice-Chairman).

Jean Marc (J.M.) Huët (1969)

Dutch nationality; male.

Appointed in 2014*.
Profession: Company Director
Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**: SHV Holdings N.V.
Other positions***: Delta Topco Limited and Canada Goose Incorporated.

Pamela (P.) Mars-Wright (1960)

American nationality; female.

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

Yonca (Y.) Brunini (1969)

British nationality; female.

Appointed in 2016*.
Profession: VP Marketing EMEA at Google.
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**.

* 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 EUR 20 million;
(ii) The net turnover exceeds EUR 40 million;
(iii) The average number of employees is at least 250.
*** Under 'Other positions', other functions are mentioned that may be relevant to performance of the duties of the Supervisory Board.

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

Given the structure of the Heineken group, the Company is of the opinion that, in the context of preserving the continuity of the Heineken group and ensuring a focus on long term value creation, it is in its best interest and that of its stakeholders that the Supervisory Board includes a fair and adequate representation of persons who are related by blood or marriage to the late Mr. A.H. Heineken (former chairman of the Executive Board), or who are members of the Board of Directors of Heineken Holding N.V., even if those persons would not, formally speaking, be considered 'independent' within the meaning of best practice provision III.2.2 of the Code. In that respect the Company does not apply best practice provision III.2.1 of the Code, which provides that all supervisory board members, with the exception of not more than one person, shall be 'independent'. As a consequence, the Company also does not apply best practice provision III.2.3 of the Code, to the extent that this provision provides that the supervisory report shall state that best practice provision III.2.1 has been fulfilled.

Corporate Governance Statement (continued)

Currently, the majority of the Supervisory Board (i.e. seven of its eleven members) qualify as 'independent'. There are four members who do not meet the applicable criteria for being 'independent': Messrs. de Carvalho, Das, Fernández Carbajal and Astaburuaga Sanjinés. The Company does not apply best practice provision III.2.1 of the Code in respect of Mr. de Carvalho (who is the spouse of Mrs. C.L. de Carvalho – Heineken, the daughter of the late Mr. A.H. Heineken, and also an executive director of Heineken Holding N.V.), Mr. Das (who is the Chairman of Heineken Holding N.V.) and Mr. Fernández Carbajal (who is a non-executive director of Heineken Holding N.V.).

In line with the belief that the focus on long term value creation is best ensured by a fair and adequate representation of persons who are related by blood or marriage to the late Mr. A.H. Heineken (former chairman of the Executive Board), or who are members of the Board of Directors of Heineken Holding N.V., the Company also does not apply best practice provision III.3.5 of the Code, which provides that a person may be appointed to the supervisory board for a maximum of three four-year terms, to Messrs. de Carvalho, Das, and Fernández Carbajal.

It should be noted that Messrs. Fernandez Carbájal and Astaburuaga Sanjinés are representatives of FEMSA (that holds a 12.53% stake in the Company), and that their respective appointments to the Supervisory Board are based on the Corporate Governance Agreement, which was concluded between (among others) the Company and FEMSA on 30 April 2010, and which was approved by the AGM on 22 April 2010 (in connection with the acquisition by the Company of FEMSA's beer activities).

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

The Act on Management and Supervision stipulates that supervisory boards of large Dutch public companies, such as Heineken N.V., are deemed to have a balanced composition if they consist of at least 30% female and 30% male members. The Supervisory Board currently consists of 11 members, eight male (73%) and three female (27%) members. The Supervisory Board will take the balanced composition requirements into account when nominating and selecting new candidates for the Supervisory Board. However, the Supervisory Board is of the opinion that gender is only one element of diversity, and that experience, background, knowledge, skills and insight are equally important and relevant criteria in selecting new members.

Profile

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

Regulations of the Supervisory Board

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

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

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

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

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

Corporate Governance Statement (continued)

Induction and training

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

Conflict of Interest

The Articles of Association and the Regulations of the Supervisory Board prescribe how to deal with (apparent) conflicts of interest between the Company and members of the Supervisory Board. A member of the Supervisory Board shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a personal conflict of interest with the Company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the Company and/or the relevant member(s) of the Supervisory Board require the approval of the Supervisory Board. Any such decisions shall be published in the annual report for the relevant year, along with a reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. Note 33 of the 2016 Financial Statements sets out related party transactions in 2016.

Remuneration

Supervisory Board members receive a fixed annual remuneration fee, as determined by the AGM. More information on the remuneration of Supervisory Board members can be found in note 33 to the 2016 Financial Statements.

Resolutions subject to Supervisory Board approval

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

Delegated Member

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

The role of Delegated Member is consistent with best practice provision III.6.6 of the Code, except insofar that the delegation is not temporary but is held for the term for which the member concerned is appointed by the AGM. The Company is of the opinion that the position of Delegated Member, which has been in existence since 1952, befits the structure of the Company.

Committees

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

The Supervisory Board has drawn up regulations for each committee, setting out the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. These regulations are available on our corporate website. In view of the composition of the Supervisory Board (which consists of four members who do not qualify as independent within the meaning of best practice provision III.2.2 of the Code), the regulation of each of these committees allows for the appointment of more than one member who does not qualify as independent. In this respect, the Company does not apply best practice provision III.5.1 of the Code, which stipulates that the terms of reference may provide that a maximum of one member of each committee may not be independent within the meaning of best practice provision III.2.2 of the Code.

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

Corporate Governance Statement (continued)

Preparatory Committee

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

Audit Committee

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

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

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

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

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

Remuneration Committee

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

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

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

Selection & Appointment Committee

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

Americas Committee

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

General Meeting of Shareholders

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

Convocation

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

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

Corporate Governance Statement (continued)

Right to include items on the agenda

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

The Code provides the following in best practice provision IV.4.4: "A shareholder shall exercise the right of putting an item on the agenda only after he consulted the executive board about this. If one or more shareholders intend to request that an item be put on the agenda that may result in a change in the company's strategy, for example through the dismissal of one or more Executive or Supervisory Board members, the Executive Board shall be given the opportunity to stipulate a reasonable period in which to respond (the response time). This shall also apply to an intention as referred to above for judicial leave to call a general meeting pursuant to Article 2:110 of the Dutch Civil Code. The shareholder shall respect the response time stipulated by the Executive Board within the meaning of best practice provision II.1.9."

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

Record date

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

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

Participation in person, by proxy or through electronic communication

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

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

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

Attendance list

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

Chairman of the AGM

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

Voting

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

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

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

Minutes

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

Corporate Governance Statement (continued)

Resolutions to be adopted by the AGM

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

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

– Authorisation of the Executive Board to resolve that the Company acquires its own shares

– Cancellation of shares and reduction of share capital

– Appointment of Executive Board members

– The remuneration policy for Executive Board members

– Suspension and dismissal of Executive Board members

– Appointment of Supervisory Board members

– The remuneration of Supervisory Board members

– Suspension and dismissal of Supervisory Board members

– Appointment of the Delegated Member of the Supervisory Board

– Adoption of the financial statements

– Granting discharge to Executive and Supervisory Board members

– Dividend distributions

– A substantial change in the corporate governance structure

– Appointment of the external auditor

– Amendment of the Articles of Association; and

– Liquidation.

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

Article 10 of the EU Take-Over Directive Decree

Shares

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

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

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

Shareholders who hold shares on a predetermined record date are entitled to attend and vote at the AGM. The record date for the AGM of 20 April 2017 is 28 days before the AGM, i.e. on 23 March 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), the Netherlands Authority for the Financial Markets has been notified about the following substantial shareholdings regarding the Company on 1 January 2017:

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

Voting Trust (FEMSA) (indirectly 10.14%; the direct 10.14% shareholder is CB Equity LLP); as at 31 December 2016, Voting Trust (FEMSA)'s indirect shareholding in the Company (through CB Equity LLP) stands at 12.53%.

Massachusetts Financial Services Company (a capital interest of 2.67% (of which 1.73% is held directly and 0.94% is held indirectly) and a voting interest of 4.97% (of which 2.04% is held directly and 2.94% is held indirectly)).

Corporate Governance Statement (continued)

Restrictions related to shares held by FEMSA

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

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

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

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

Share plans

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

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

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

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

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

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

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

Change of control

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

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

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

Corporate Governance Statement (continued)

Appointment and dismissal of Supervisory and Executive Board members

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

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

Amendment of the Articles of Association

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

Acquisition of own shares

On 21 April 2016, the AGM authorised the Executive Board (for the statutory maximum period of 18 months) to acquire own shares subject to the following conditions and with due observance of the law and the Articles of Association (which require the approval of the Supervisory Board):

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

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

– Transactions may be executed on the stock exchange or otherwise.

The authorisation may be used in connection with the variable awards for the members of the Executive Board and the LTV for senior management, but may also serve other purposes, such as other acquisitions. A new authorisation will be submitted for approval at the next AGM on 20 April 2017.

Issue of shares

On 21 April 2016, the AGM also authorised the Executive Board (for a period of 18 months) to issue shares or grant rights to subscribe for shares and to restrict or exclude shareholders' pre-emption rights, with due observance of the law and Articles of Association (which require the approval of the Supervisory Board). The authorisation is limited to 10% of the Company's issued share capital, as per the date of issue. The authorisation may be used in connection with the LTV for the members of the Executive Board and the LTV for senior management, but may also serve other purposes, such as acquisitions. A new authorisation will be submitted for approval to the AGM at 20 April 2017.

Compliance with the Code

On 10 December 2008, the current Code was introduced. The Code can be downloaded at www.commissiecorporategovernance.nl.

As stated in the Code (principle 'Compliance with and enforcement of the Code', paragraph I), there should be a basic recognition that corporate governance must be tailored to the company-specific situation and therefore that non-application of individual provisions by a company may be justified.

Corporate Governance Statement (continued)

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

– III.2.1, III.2.3 and III.5.1: Number of independent Supervisory Board members;

– III.3.5: Maximum terms of appointment Supervisory Board members; and

– III.6.6: Temporary nature of appointing a delegated Supervisory Board member.

Furthermore, HEINEKEN does not fully apply best practice provision II.2.8 (severance payment Executive Board members) to Mr. Van Boxmeer, in view of his long-standing employment relationship (over 25 years in service) with the Company. Please refer to the Remuneration Report for further details.

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

– II.2.4, II.2.6 and II.2.7: HEINEKEN does not grant options on shares;

– III.4.1 (g): the Central Works Council operates at the level of Heineken Nederlands Beheer B.V., a subsidiary of HEINEKEN with its own Supervisory Board;

– III.8: HEINEKEN does not have a one-tier management structure;

– IV.1.2: HEINEKEN has no financing preference shares;

– IV.2: HEINEKEN has no depositary receipts of shares, nor a trust office;

– IV.3.11: HEINEKEN has no anti-takeover measures;

– IV.4: the principle and best practice provisions relate to shareholders; and

– V.3.3: HEINEKEN has an internal audit function.

Statement of the Executive Board

In accordance with best practice provision II.1.5 of the Code, we are of the opinion that, in respect of financial reporting risks, the internal risk management and control system, as described in the Risk Management section of this Annual Report 2016:

– provides a reasonable level of assurance that the financial statements in this Annual Report 2016 do not contain any errors of material importance; and

– has worked properly during the year 2016.

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

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

– the financial statements in this Annual Report 2016 give a true and fair view of our assets and liabilities, our financial position at 31 December 2016, and the results of our consolidated operations for the financial year 2016; and

– the Report of the Executive Board includes a fair review of the position at 31 December 2016 and the development and performance during the financial year 2016 of Heineken N.V. and the undertakings included in the consolidation taken as a whole, and describes the principal risks that Heineken N.V. faces.

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

Executive Board

J.F.M.L. van Boxmeer
L. Debroux
Amsterdam, 14 February 2017

To the Shareholders

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

Financial statements and profit appropriation

The Supervisory Board hereby submits to the shareholders the financial statements and the report of the Executive Board for the financial year 2016, as prepared by the Executive Board and approved by the Supervisory Board in its meeting of 14 February 2017. Deloitte Accountants B.V. audited the financial statements. Its report can be found on page 154 in the Other Information section.

The Supervisory Board recommends that shareholders, in accordance with the Articles of Association, adopt these financial statements and, as proposed by the Executive Board, appropriate EUR 763 million for payment of dividend. The underlying principle of the dividend policy is that 30-40% of net profit before exceptional items and amortisation of acquisition-related intangible assets (net profit beia) is placed at the disposal of shareholders for distribution as dividend. The proposed dividend amounts to EUR 1.34 per share of EUR 1.60 nominal value, of which EUR 0.52 was paid as an interim dividend on 11 August 2016.

Supervisory Board composition, independence and remuneration

Composition

The Annual General Meeting (AGM) on 21 April 2016 re-appointed Mr. G.J. Wijers as a member of the Supervisory Board for a period of four years. The AGM furthermore appointed Ms. Pamela Mars-Wright and Ms. Yonca Brunini as member of the Supervisory Board for a period of four years. Mrs. Mary Minnick stepped down as member of the Supervisory Board after the 2016 AGM.

The Supervisory Board has a diverse composition in terms of experience, gender, nationality and age. Three out of 11 members are women and six out of 11 members are non-Dutch. There are five nationalities (American, Belgian, British, Dutch and Mexican) and age ranges between 45 and 72. The Supervisory Board is of the opinion that a diversity of experience and skills is represented on its board.

In line with the Dutch Act on Management and Supervision (Wet bestuur en toezicht), the profile of the Supervisory Board states that the Supervisory Board shall pursue that at least 30% of the seats shall be held by men and at least 30% by women. Currently, 27% (i.e. three out of eleven) of the Supervisory Board members are female. Diversity and gender are important drivers in the selection process. With reference thereto, the Supervisory Board will retain an active and open attitude as regards selecting female candidates, and has established a list of potential female candidates who will be considered should a vacancy in the Supervisory Board arise. The Supervisory Board notes that, in its opinion, gender is only one element of diversity, and that experience, background, knowledge, skills and insight are equally important and relevant criteria in selecting new members.

Messrs. Maarten Das, Christophe Navarre and Henk Scheffers will resign by rotation from the Supervisory Board at the AGM on 20 April 2017. Messrs. Das and Navarre are eligible for reappointment for a period of four years. A non-binding nomination for their reappointment will be submitted to the AGM. The notes to the agenda contain further information on the proposed re-appointments.

Mr. Scheffers will step down from the Supervisory Board after the AGM on 20 April 2017. Mr. Scheffers has been a member of the Supervisory Board since 2013, and was Chairman of the Audit Committee. The Supervisory Board is grateful for his commitment over the past four years and for the way he contributed to the Supervisory Board and the Audit Committee meetings.

Independence

The Supervisory Board endorses the principle that the composition of the Supervisory Board shall be such that its members are able to act critically and independently of one another and of the Executive Board and any particular interests. In a strictly formal sense, Messrs. Astaburuaga Sanjinés, de Carvalho, Das and Fernández Carbajal do not meet the applicable criteria for ‘independence’ as set out in the Dutch Corporate Governance Code dated 10 December 2008. However, the Supervisory Board has ascertained that Messrs. Astaburuaga Sanjinés, de Carvalho, Das and Fernández Carbajal in fact act critically and independently.

Remuneration

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

To the Shareholders (continued)

Meetings and activities of the Supervisory Board

During 2016, the Supervisory Board held seven meetings with the Executive Board. The agenda included subjects such as the Company's strategy, its financial position, the results of the Regions and operating companies, acquisitions, large investment proposals, the yearly budget, management changes and the internal risk management and control system. The external auditor attended the meeting in which the annual results were discussed. In 2016, specific attention was given to the following:

- The Supervisory Board had a two-day meeting with the Executive Board to discuss the Company's strategic priorities and main risks of the business. During this meeting, members of the Executive Team presented their respective strategic topics and risks per region or function, as the case may be.
- The Supervisory Board visited Monterrey, Mexico, where the Managing Directors of Heineken Mexico, Heineken USA and Caribbean & Americas Export presented an update on business performance. In addition, a visit was made to the Monterrey Tech University, including the Femsa Biotechnology Center located on the premises of the university.
- During the year, several representatives of senior management were invited to give presentations to the Supervisory Board.
- In 2016, the following subjects were presented in more detail:
  - Sustainability
  - Human Resources and succession planning.
- Regular Executive Sessions were held without the Executive Board being present. The purpose of these sessions was to evaluate the Supervisory Board meetings and, where relevant, further reflect on particular subjects discussed at the meetings. One Executive Session was dedicated to the evaluation of the Supervisory Board relating to the performance, working methods, procedures and functioning of the Supervisory Board, its committees and its members as well as the functioning of the Executive Board. These evaluations were conducted on the basis of responses to a questionnaire submitted by the members of the Supervisory Board to the Chairman. The questionnaire covered topics such as the composition and expertise of the Supervisory Board, access to information, frequency and quality of the meetings, quality and timeliness of the meeting materials and the nature of the topics discussed during meetings. The responses provided by the Supervisory Board members indicated that the Board continues to be a well-functioning team.

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

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2016, the attendance rate as a whole was 91%. Nearly all Supervisory Board members were able to attend all seven meetings. One member was frequently absent (an absence of twice or more is considered frequent). In case of absence, members are fully informed in advance, enabling them to provide input for the meeting, and they are also updated on the meeting outcomes.

Committees

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

Preparatory Committee

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

Audit Committee

Composition: Messrs. Scheffers (Chairman), Astaburuaga Sanjinés, and Huët, and Mrs. Fentener van Vlissingen. The Audit Committee met four times. The members collectively have the experience and financial expertise to supervise the financial statements and the risk profile of Heineken N.V.

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

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

To the Shareholders (continued)

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

– The decisions made on the selection and application of accounting policies.

– The reliability and completeness of disclosures.

– Compliance with financial and other reporting requirements.

– Significant judgements, estimates and assumptions used in preparing the reports in respect of, among others, accounting for acquisitions and divestments, the annual impairment test and determining the level of provisions.

– Any correspondence from regulators in relation to our financial reporting.

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

Furthermore, the Committee in 2016 discussed recurring topics, such as:

– The effectiveness and the outcome of the internal control and risk management systems, as well as changes made and improvements planned to these systems.

– Functional updates in respect of Global Procurement, Financial Shared Services & Internal Control over Financial Reporting, Global Treasury and Tax, Pensions, Litigation and Risk Management.

– Update on new IFRS Standards: IFRS 15 (Revenue from contracts with customers) and IFRS 16 (Leases).

– HEINEKEN's governance, risk and compliance (GRC) activities, including the HEINEKEN Company Rules and the HEINEKEN Code of Business Conduct.

– Post Audit Reviews of large investments.

– The outcome of the annual Letter of Representation process and the report from the Integrity Committee related to fraud reporting and Speak Up policy.

– The evaluation of the external auditor, Deloitte Accountants B.V., and his proposed re-appointment for a further three-year term.

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

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

In 2016, the following subjects were discussed:

– The composition and rotation schedule of the Supervisory Board.

– Female representation on the Supervisory Board, including a list of potential female candidates.

– The re-appointment of Mr. Jean-François van Boxmeer as member of the Executive Board.

Remuneration Committee
Composition: Messrs. Das (Chairman), de Carvalho, Wijers, and Huët, and Ms. Brunini. The Remuneration Committee met three times in 2016.

The Committee made recommendations to the Supervisory Board on 2016 target setting and 2015 payout levels for the STV pay and LTV awards to the Executive Board, and the replacement of "Organic EBIT beia Growth" performance measure by "Organic Operating Profit beia Growth" performance measure in the LTV plans of the Executive Board as from 2017, all of which were endorsed by the Supervisory Board. The Committee also reviewed the composition of the global labour market peer group, including a list of potential peer companies to replace SABMiller and Philips within this peer group.

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

To the Shareholders (continued)

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

The Committee advises the Supervisory Board on the overall strategic direction of the Americas Region and reviews and evaluates the performance, the organisation and the management in the Americas Region. The Chairman of the Executive Board and the President Americas also attend the Americas Committee meetings. The Committee met twice in 2016 and reviewed specific developments in the region, including financial results and strategic priorities, presented by the President Americas.

Executive Board composition and remuneration

Composition
Best practice provision II.1.1 of the Dutch Corporate Governance Code of 10 December 2008 recommends that an Executive Board member is appointed for a period of four years and that a member may be reappointed for a term of not more than four years at a time. In compliance with this best practice provision, the Supervisory Board has drawn up a rotation schedule in order to avoid, as far as possible, a situation in which Executive Board members retire at the same time.

Mr. Jean-François van Boxmeer was initially appointed for an indefinite term in 2001 and was reappointed for a period of four years in 2013. His current term expires on 20 April 2017. As announced on 26 October 2016, the Supervisory Board shall submit a non-binding nomination for the re-appointment of Mr. van Boxmeer for a period of four years at the AGM on 20 April 2017. The Supervisory Board has re-appointed Mr. van Boxmeer as Chairman of the Executive Board and CEO subject to his re-appointment as member of the Executive Board.

Mrs. Laurence Debroux was appointed in 2015 for a period of four years.

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

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

Appreciation
The Supervisory Board wishes to express its gratitude to the members of the Executive Board and all HEINEKEN employees for their hard work and dedication in 2016.

Supervisory Board Heineken N.V.

Wijers	**Fentener van Vlissingen**
Fernández Carbajal	**Mars-Wright**
Das	**Brunini**
de Carvalho	**Astaburuaga Sanjinés**
Navarre	**Scheffers**
Huët	

Amsterdam, 14 February 2017

Remuneration Report

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

For 2016, the Remuneration Committee reviewed the remuneration policy versus its implementation, and its outcome versus performance. With regard to policy, the Supervisory Board decided to recommend one policy change to the 2017 Annual General Meeting of Shareholders, related to one of the performance measures in the long-term variable award plan. With regard to implementation, the Supervisory Board concluded that an adjustment to the Labour market peer group was required since two companies were no longer eligible, yet that there were no reasons to consider any other implementation adjustments.

This Remuneration Report includes three sections:

Part I
Describes the prevailing Executive Board remuneration policy, as it was adopted by the AGM in 2011, and as it has been applied in 2016 and will be applied in 2017.

Part II
Provides details of the Executive Board actual remuneration for performance ending in, or at year-end, 2016.

Part III
Outlines the adjustments to the Executive Board remuneration policy and implementation for 2017.

Part I – Executive Board remuneration policy

Remuneration principles

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

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

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

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

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

Remuneration Report (continued)

Summary overview of remuneration elements

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

Remuneration element	Description	Strategic role
Base salary	Involves fixed cash compensation Aims for the median of the labour market peer group	Facilitates attraction and is the basis for competitive pay Rewards performance of day-to-day activities
Short-term variable pay	Is based on achievements of annual measures, of which a weighted 75% relate to financial and operational measures for Heineken N.V. and 25% to individual leadership measures Aims, at target level, for the median of the labour market peer group Is partly paid in cash, and partly in investment shares with a holding period of five calendar years: – the part paid in shares is between 25% and 50% of the full gross pay, depending on the individual's choice whether, and to which extent, to exceed the mandatory 25% share investment – the part in cash is paid net of taxes (i.e. after deduction of withholding tax due on the full gross pay) Investment shares are matched on a 1:1 basis after the holding period	Drives and rewards annual HEINEKEN performance Drives and rewards sound business decisions for the long-term health of HEINEKEN Aligns Executive Board and shareholder interests
Long-term variable award	Is based on achievements of three-year financial targets for Heineken N.V. as specified on page 53 Aims, at target level, for the median of the labour market peer group Is awarded through the vesting of shares, net of taxes (i.e. after deduction of withholding tax due on the full gross award) Vested shares are blocked for another two years, to arrive at a five-year holding restriction after the date of the conditional performance grant	Drives and rewards sound business decisions for the long-term health of HEINEKEN Aligns Executive Board and shareholder interests Supports Executive Board retention
Pensions	Defined Contribution Pension Plan and/or Capital Creation Plan	Provides for employee welfare and retirement needs

Labour market peer group

A global labour market peer group was adopted by the AGM in 2011, and subsequently adjusted in 2012. The median target remuneration of this peer group is a reference point for the target remuneration of the CEO and CFO. Each year, the Remuneration Committee validates the peer group to ensure relevance, and recommends adjustments to the Supervisory Board if needed. For 2016, the peer group consisted of the following companies:

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

Remuneration Report (continued)

As from 2017 Philips has been removed from the Labour market peer group due to the divestment of its lighting business, thus leaving two smaller entities that are fairly remote from HEINEKEN industry-wise, and SABMiller has been removed due to its acquisition by Anheuser-Busch Inbev. Going forward the Supervisory Board has decided to include Nestlé in the Labour market peer group instead (cf. Part III).

Base salary

Base salaries are determined by reference to the median base salary levels of the aforementioned Labour market peer group. Every year, peer group and base salary levels are reviewed, and the Remuneration Committee may propose adjustments to the Supervisory Board taking into account the external labour market peer group data and internal pay relativities. The annual base salaries for 2016 were increased from EUR 1,150,000 to EUR 1,200,000 for the CEO, and from EUR 610,000 to EUR 720,000 for the CFO, to bring their target remuneration closer to the aspired policy levels. For 2017 these base salary levels apply as well.

Short-term variable pay

The short-term variable pay (STV) is designed to drive and reward the achievements of HEINEKEN's annual performance targets. Through its payout in both cash and investment shares it also drives and rewards sound business decisions for HEINEKEN's long-term health while aligning Executive Board and shareholder interests at the same time. The target STV opportunities for both 2016 and 2017 are 140% of base salary for the CEO and 100% of base salary for the CFO. These percentage opportunities are well aligned with the Labour market peer group medians.

The STV opportunities are for a weighted 75% based on financial and operational measures for Heineken N.V., and for a weighted 25% on individual leadership measures. At the beginning of each year, the Supervisory Board establishes the performance measures, their relative weights and corresponding targets based on HEINEKEN's business priorities for that year. The financial and operational measures and their relative weights are reported in the Remuneration Report upfront; the numerical performance targets themselves are not disclosed as they are considered to be commercially sensitive. In the first weeks of the following year, the Supervisory Board reviews the Company and individual performance against the pre-set targets, and approves the STV payout levels based on the performance achieved. The performance on each of the measures is reported in qualitative terms in the Remuneration Report after the end of the performance period (cf. Part II). The STV payout for 2016 is, and for 2017 remains, subject to four performance measures with equal weights: Organic Revenue Growth, Organic Net Profit beia Growth, Free Operating Cash Flow and Individual Leadership measures.

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

Threshold performance – 50% of target payout

Target performance – 100% of target payout

Maximum performance – 200% of target payout.

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

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

Remuneration Report (continued)

Long-term variable award

The long-term variable award (LTV) is designed to drive and reward sound business decisions for HEINEKEN's long-term health, and to align the Executive Board with shareholder interests. The target LTV opportunities for both 2016 and 2017 are 150% of base salary for the CEO and 125% of base salary for the CFO.

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

Organic Revenue Growth – to drive top-line growth

Organic EBIT beia Growth – to drive profitability and operational efficiency

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

Free Operating Cash Flow – to drive focus on cash.

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

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

Threshold performance – 50% of performance shares vests

Target performance – 100% of performance shares vests

Maximum performance – 200% of performance shares vests.

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

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

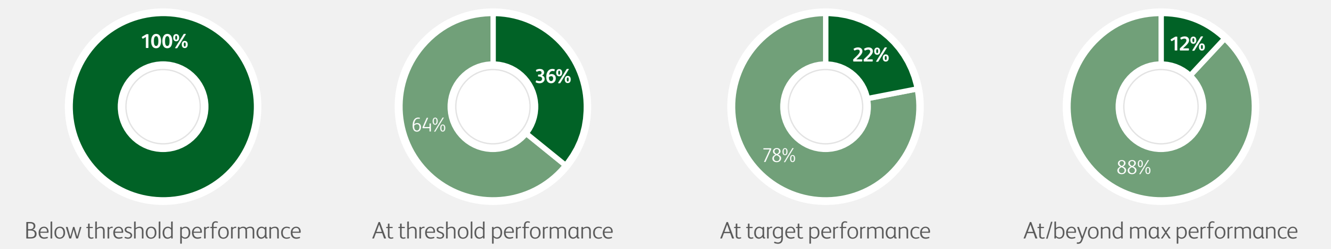
As from the 2017 grant, the performance measure 'Organic EBIT beia Growth' is replaced by 'Organic Operating Profit beia Growth', pending approval by the Annual General Meeting of Shareholders on 20 April 2017 (cf. Part III).

Pay mix

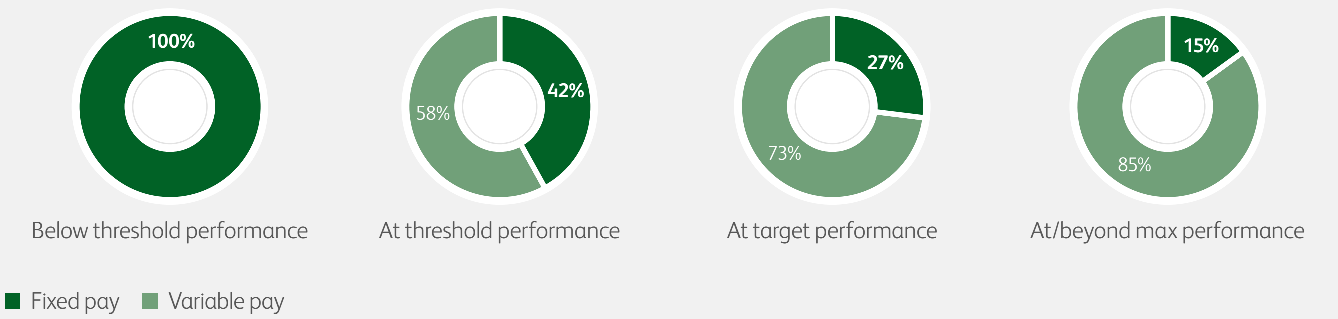
The mix between fixed pay and variable pay for various levels of performance is illustrated below. In these charts, fixed pay refers to base salary only, excluding pensions and other emoluments, and variable pay consists of the aforementioned short-term variable pay and long-term variable award opportunities,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

Remuneration Report (continued)

CEO target pay mix 2016-2017



CFO target pay mix 2016-2017



Pensions

The members of the Executive Board participate in a Capital Creation Plan. In such a plan the Executive Board member receives employer contributions, for pension capital accrual, as taxable income. As of 2015, Dutch fiscal legislation introduced a cap of EUR 100,000 on the pensionable salary for tax-qualified pension plans, implying that beyond this salary level pensions can no longer be accrued in a tax-qualified way. As a consequence, the pension plans for new top executives under Dutch employment contract below Executive Board have been changed into a taxable capital creation employer contribution of 18% of base salary, minus the maximum tax-exempt employer contribution that can still be invested into a tax-qualified defined-contribution scheme (which contribution the employer provides as well). As of 2015, the same arrangement applies to new members of the Executive Board as well, hence to our current CFO, with the understanding that as a non-Dutch national she receives the full 18% contribution in the form of taxable income. For the CEO the same capital creation arrangement as for 2014 remained in force, since the existing top executives below the Executive Board at that time were compensated on an individual basis for the aforementioned fiscal salary cap on pensions as from 2015, thereby making a change in the CEO's capital creation scheme irrelevant.

Compensation rights on termination of employment/service agreement

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

If the Company gives notice of termination of the service agreement of Mrs. Debroux for a reason which is not an urgent reason ('dringende reden') within the meaning of the law, or decides not to extend the service agreement upon its expiry, or if the AGM does not re-appoint Mrs. Debroux as member of the Executive Board for a subsequent term, the Company shall pay Mrs. Debroux an amount equal to two years of base salary (in the event of termination during or upon expiry of Mrs. Debroux's first four-year term), or an amount equal to one year's base salary (in the event of termination during or upon expiry of any subsequent term), respectively.

Loans

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

Remuneration Report (continued)

Part II – The Executive Board actual remuneration for performance ending in, or at year-end, 2016

The following table provides an overview of the Executive Board actual remuneration that became unconditional in, or at year-end, 2016. For disclosures in line with IFRS reporting requirements, which are 'accrual-based' over earning/performance periods and partly depend on estimations/ assumptions, see note 33 'Related parties' on page 121. The Supervisory Board conducted a scenario analysis with respect to possible outcomes of the variable remuneration disclosed in this section.

			2014-2016 Long-term variable award		Matching entitlements			Extraordinary Share Grants		
	(1) Base salary in EUR	(2) 2016 Short-term variable pay in EUR	(3) No. of performance shares vesting	(4) Value of performance shares vesting in EUR	(5) No. of matching entitlements vesting	(6) Value of matching entitlements vesting in EUR	(7) Pension cost in EUR	(8) No. of extraordinary shares vesting	(9) Value of extraordinary shares vesting in EUR	(10) Other emoluments in EUR
Van Boxmeer	1,200,000	3,360,000	61,508	4,383,060	23,272	1,658,363	944,208	–	–	21,335
Debroux	720,000	1,440,000	–	–	–	–	138,531	1,000	81,840	159,566

ad (1) – Base salary

These base salaries have been paid to the members of the Executive Board for 2016.

ad (2) – 2016 Short-term variable pay

The 2016 Short-term variable pay (STV) relates to the performance year 2016, and becomes payable in 2017. The STV pay for 2016 was subject to four performance measures: Organic Revenue Growth, Organic Net Profit beia Growth, Free Operating Cash Flow and individual leadership measures, all with a weight of 25%. The Supervisory Board determined the results against the pre-set targets on these measures as follows:

Organic Revenue Growth – at maximum performance

Organic Net Profit beia Growth – at maximum performance

Free Operating Cash Flow – at maximum performance

Individual leadership measures – at maximum performance.

The resulting STV payout for 2016 is equal to 200% of payout at target level for both members of the Executive Board. In line with policy, 25% of the STV payout is paid out in investment shares against the closing share price of 15 February 2017, the publication date of these financial statements. In addition, the Executive Board members have had the opportunity to indicate before the end of the 2016 performance year whether they wished to receive up to another 25% of their STV payout in additional investment shares; for 2016 the Executive Board members did not elect to receive additional investment shares beyond the mandatory 25% share investment. The investment shares are restricted for sale for five calendar years, after which they are matched 1:1 by matching shares. Revision and clawback provisions apply to this award, including the related matching share entitlement. The table below provides an overview of the investment shares at year-end that were awarded as part of STV payouts in the past, and that have remained blocked and await 1:1 matching by the Company, provided the conditions thereto are met. Only when the holding period of the investment shares has been completed, will the matching share entitlements be converted into shares and transferred to the recipient.

	STV payout for	% of STV payout invested in shares	Award date	No. of investment shares awarded[1]	Value of investment shares as of the award date in EUR	End of blocking period	Value of investment shares as of 31.12.2016 in EUR[2]
Van Boxmeer	2016	25%	15.02.2017	t.b.d.	840,000	31.12.2021	n.a.
	2015	50%	10.02.2016	20,105	1,465,051	31.12.2020	1,432,682
	2014	25%	11.02.2015	10,427	692,249	31.12.2019	743,028
	2013	50%	12.02.2014	11,910	563,462	31.12.2018	848,707
	2012	50%	13.02.2013	12,391	680,638	31.12.2017	882,983
Debroux	2016	25%	15.02.2017	t.b.d.	360,000	31.12.2021	n.a.
	2015	50%	10.02.2016	5,713	416,306	31.12.2020	407,108

[1] The number of investment shares awarded in relation to the STV payout for 2012 and beyond is determined by dividing the part of the STV payout that is invested in shares by the closing share price of the date of publication of the financial statements for that year.

[2] The share price as of 31 December 2016 is EUR 71.26.

Remuneration Report (continued)

ad (3) – 2014-2016 Long-term variable award: number of performance shares vesting

The 2014-2016 Long-term variable award (LTV) relates to the performance period 2014-2016 and vests shortly after 15 February 2017, the publication date of these financial statements. The vesting of the LTV award for performance period 2014-2016 is subject to Heineken N.V. performance on four financial measures with equal weights. The Supervisory Board determined the results against the pre-set targets as follows:

Organic Revenue Growth – between target and maximum performance

Organic EBIT beia Growth – between target and maximum performance

Earnings Per Share (EPS) beia Growth – at maximum performance

Free Operating Cash Flow – between target and maximum performance.

As a result, the vesting of the LTV grant for performance period 2014-2016 will be equal to 175% of the vesting at target level. For the CEO this plan performance implies that 61,508 shares will vest shortly after 15 February 2017, as a result of the 35,147 conditional performance shares granted to him in 2014. For the CFO there is no vesting from this plan since the first LTV plan she participates in is the 2015-2017 plan, as a result of her appointment to the Executive Board on 23 April 2015. The resulting share awards are defined in gross terms (i.e. before deduction of withholding tax due); the actual net shares awarded (i.e. after withholding tax due) remain blocked for an additional period of two years until 13 February 2019, also in case of resignation during that period. Revision and clawback provisions apply to this award. The table below provides an overview of outstanding LTV awards (awards granted but not yet vested, or awards vested but still blocked) as of 31 December 2016.

	Grant date	No. of shares conditionally granted at target level[1]	Value of shares conditionally granted as of the grant date in EUR	Vesting date[2]	No. of shares vesting on the vesting date[3] (before tax)	No. of shares vesting on the vesting date[4] (after tax)	End of blocking period	Value of unvested or blocked shares as of 31.12.2016[5] in EUR
Van Boxmeer	2016	22,852	1,665,225	02.2019	t.b.d.	t.b.d.	02.2021	824,478
	2015	29,263	1,942,771	02.2018	t.b.d.	t.b.d.	02.2020	1,055,788
	2014	35,147	1,662,805	02.2017	61,508	31,143	02.2019	2,219,250
	2013	34,179	1,877,452	02.2016	58,447	29,593	02.2018	2,108,797
	2012	44,031	1,668,775	02.2015	57,681	29,205	02.2017	2,081,148
Debroux	2016	11,426	832,613	02.2019	t.b.d.	t.b.d.	02.2021	537,372
	2015	11,857	787,186	02.2018	t.b.d.	t.b.d.	02.2020	557,610

[1] Determined according to plan rules, using the closing share price of 31 December of the year preceding the grant date.

[2] The vesting date is shortly after the publication of the financial statements after completion of the performance period.

[3] Vested shares are disclosed in gross terms (i.e. before deduction of withholding tax due).

[4] Vested shares are disclosed in net terms (i.e. after deduction of withholding tax due).

[5] The value for the grants in 2012, 2013 and 2014 is based on the actual number of shares vesting on the vesting date after tax withholding, i.e. after applying the relevant income tax rate, whereas the value for the grants in 2015 and 2016 is based on the number of performance shares conditionally granted at target level (since the number of performance shares vesting is yet unknown) after applying the relevant income tax rate. The share price as of 31 December 2016 is EUR 71.26.

ad (4) – 2014-2016 Long-term variable award: value of performance shares vesting

The value of performance shares vesting is based on the share price as of 31 December 2016 of EUR 71.26.

ad (5) – Number of matching entitlements vesting

These entries refer to the number of matching share entitlements that vested after year-end 2016, as a result of the investment in shares of part of the STV payout for performance year 2011, and holding on to these investment shares until year-end 2016. For the CEO this number of matching shares is the result of a 50% investment of this STV payout in investment shares at the time. For the CFO there is no vesting from this plan yet, given her later appointment to the Executive Board on 23 April 2015.

ad (6) – Value of matching entitlements vesting

The value of matching share entitlements vesting is based on the share price as of 31 December 2016 of EUR 71.26.

Remuneration Report (continued)

ad (7) – Pension cost

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

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

Mrs. Debroux received an extraordinary grant of 2,000 share entitlements upon her appointment as member of the Executive Board in April 2015, as compensation for forfeited variable remuneration by her previous employer; 50% of this grant vested immediately, which was included in the remuneration table last year, and the other 50% vested in 2016, which is thus included in the remuneration table this year.

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

	Award	Grant date	No. of shares granted[1]	Value of shares conditionally granted as of the grant date in EUR	Vesting date	No. of shares vesting on the vesting date[2]	End of blocking period	Value of unvested or blocked shares as of 31.12.2016[3] in EUR
Van Boxmeer	Extraordinary share award	26.04.2013	45,893	2,520,000	26.04.2013	24,373	26.04.2018	1,736,820
	Retention share award	26.04.2013	27,317	1,500,000	26.04.2015	27,317	26.04.2018	1,946,609
Debroux	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2015	681	24.04.2020	48,528
	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2016	675	24.04.2020	48,101

[1] The 'Number of shares granted' refers to the grant in gross terms (i.e. before tax withholding).

[2] As the table reveals, income tax is withheld from the Extraordinary share awards themselves; the Retention share award to Mr. Van Boxmeer has vested 'gross', i.e. withholding tax has been withheld and paid from other sources than the share award itself.

[3] The value of the share awards is based on the 'Number of shares vesting on the vesting date'.

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

The value of the Extraordinary Share Award vesting for Mrs. Debroux is based on the closing share price of EUR 81.84 of 22 April 2016, i.e. the final closing share price prior to the vesting date of 24 April 2016.

ad (10) – Other emoluments

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

Remuneration Report (continued)

Actual remuneration paid to former members of the Executive Board

The resignation per 1 May 2015 of the former CFO Mr. Hooft Graafland has been considered a retirement under the LTV Plan Rules. Given existing agreements from 2005 for a specific group of senior managers (including the Executive Board members at the time) to compensate for the negative effects of a structural change in their variable pay plan designs, this implied that unvested LTV awards as of his resignation date will continue to be subject to vesting at their regular vesting dates, insofar and to the extent that the predetermined performance conditions are met. Shares that may vest under these plans will be subject to a holding period of two years in accordance with the LTV Plan Rules, to arrive at a five-year holding restriction after the date of the conditional performance grant. For Mr. Hooft Graafland this involved the three Long-term variable award plans over performance years 2013-2015, 2014-2016 and 2015-2017 respectively. Last year the remuneration related to the vesting of the 2013-2015 plan has been disclosed. Following year-end 2016 the 2014-2016 plan has vested with a performance of 175% as mentioned under 'ad (3)' above, implying a vesting of 28,972 shares for Mr. Hooft Graafland and, given an end-of-year share price of EUR 71.26, a value of EUR 2,064,545.

	2014-2016 Long-term variable award	
	No. of performance shares vesting	Value of performance shares vesting in EUR
Hooft Graafland	28,972	2,064,545

Part III – Adjustments to the Executive Board remuneration policy and implementation for 2017

The Supervisory Board reviewed the remuneration policy versus its implementation, and concluded to recommend one policy change to the 2017 Annual General Meeting of Shareholders, and to adjust one element in its implementation.

Policy change, pending approval by the Annual General Meeting of Shareholders in April 2017

Under the Executive Board remuneration policy, the Long-term variable award plan currently includes 'Organic EBIT beia Growth', with a weight of 25%, as a means to measure the Company's profitability. This EBIT measure includes the Company's share of Net Profit from Joint Ventures and Associates (i.e. entities that are not consolidated by the Company). Operating Profit on the other hand does not include the Company's share of Net Profit from Joint Ventures and Associates, but solely reflects the profit earned from the entities that are consolidated by the Company. Therefore, Operating Profit better reflects the profitability that is under the direct control of management, as management does not have full control over Joint Ventures and Associates.

Furthermore, Operating Profit measures profitability in a more consistent manner: it does not include any interest or tax performance either at Joint Ventures and Associates or at fully consolidated entities, whereas EBIT does include these performance items at Joint Ventures and Associates. Operating Profit is also the relevant measure when calculating operating profit margin, and is already used to measure profitability internally.

As a result, the Supervisory Board is of the opinion that 'Organic Operating Profit beia Growth' is a more suitable means than 'Organic EBIT beia Growth' to measure the Company's profitability within the context of the Long-term variable award plan, and proposes to replace the latter with the former measure, also with a weight of 25%, effective as of the 2017-2019 performance plan. A secondary benefit of this replacement is that it will also simplify our internal reporting. For the sake of completeness, it is noted that 'Organic EBIT beia Growth' will remain as a performance measure in the pending 2015-2017 and 2016-2018 performance plans.

Replacements in the Labour market peer group

As from 2017 Philips has been removed from the Labour market peer group due to the divestment of its lighting business, thus leaving two smaller entities that are fairly remote from HEINEKEN industry-wise, and SABMiller has been removed due to its acquisition by Anheuser-Busch Inbev. Going forward the Supervisory Board has decided to include Nestlé in the Labour market peer group instead, given its industry proximity to Heineken.

Supervisory Board Heineken N.V.
Amsterdam, 14 February 2017

Consolidated Income Statement

For the year ended 31 December

In millions of EUR	Note	2016	2015
Revenue	5	**20,792**	**20,511**
Other income	8	**46**	**411**
Raw materials, consumables and services	9	(13,003)	(12,931)
Personnel expenses	10	(3,263)	(3,322)
Amortisation, depreciation and impairments	11	(1,817)	(1,594)
Total expenses		**(18,083)**	**(17,847)**
Results from operating activities		**2,755**	**3,075**
Interest income	12	60	60
Interest expenses	12	(419)	(412)
Other net finance income/(expenses)	12	(134)	(57)
Net finance expenses		**(493)**	**(409)**
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	16	150	172
Profit before income tax		**2,412**	**2,838**
Income tax expense	13	(673)	(697)
Profit		**1,739**	**2,141**
Attributable to:			
Equity holders of the Company (net profit)		1,540	1,892
Non-controlling interests		199	249
Profit		**1,739**	**2,141**
Weighted average number of shares – basic	23	569,737,210	572,292,454
Weighted average number of shares – diluted	23	570,370,392	572,944,188
Basic earnings per share (EUR)	23	2.70	3.31
Diluted earnings per share (EUR)	23	2.70	3.30

Consolidated Statement of Comprehensive Income

For the year ended 31 December

In millions of EUR	Note	2016	2015
Profit		**1,739**	**2,141**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gains and losses	24	(252)	95
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	24	(908)	(43)
Recycling of currency translation differences to profit or loss	24	–	129
Effective portion of net investment hedges	24	44	15
Effective portion of changes in fair value of cash flow hedges	24	6	23
Effective portion of cash flow hedges transferred to profit or loss	24	41	24
Net change in fair value available-for-sale investments	24	140	43
Recycling of fair value of available-for-sale investments to profit or loss	24	–	(16)
Share of other comprehensive income of associates/joint ventures	24	–	7
Other comprehensive income, net of tax	24	**(929)**	**277**
Total comprehensive income		**810**	**2,418**
Attributable to:			
Equity holders of the Company		660	2,150
Non-controlling interests		150	268
Total comprehensive income		**810**	**2,418**

Consolidated Statement of Financial Position

As at 31 December

In millions of EUR	Note	2016	2015*
Assets			
Property, plant and equipment	14	9,232	9,552
Intangible assets	15	17,424	18,183
Investments in associates and joint ventures	16	2,166	1,985
Other investments and receivables	17	1,077	856
Advances to customers		274	266
Deferred tax assets	18	1,011	958
Total non-current assets		**31,184**	**31,800**
Inventories	19	1,618	1,702
Other investments	17	–	16
Trade and other receivables	20	3,052	2,873
Prepayments		328	343
Income tax receivables		47	33
Cash and cash equivalents	21	3,035	3,232
Assets classified as held for sale	7	57	123
Total current assets		**8,137**	**8,322**
Total assets		**39,321**	**40,122**
Equity			
Share capital	22	922	922
Share premium	22	2,701	2,701
Reserves		(1,173)	(655)
Retained earnings		10,788	10,567
Equity attributable to equity holders of the Company		**13,238**	**13,535**
Non-controlling interests	22	1,335	1,535
Total equity		**14,573**	**15,070**
Liabilities			
Loans and borrowings	25	10,954	10,658
Tax liabilities		3	3
Employee benefits	26	1,420	1,289
Provisions	28	302	320
Deferred tax liabilities	18	1,672	1,858
Total non-current liabilities		**14,351**	**14,128**
Bank overdrafts and commercial papers	21	1,669	2,950
Loans and borrowings	25	1,981	1,397
Trade and other payables	29	6,224	6,013
Tax liabilities		352	379
Provisions	28	154	154
Liabilities classified as held for sale	7	17	31
Total current liabilities		**10,397**	**10,924**
Total liabilities		**24,748**	**25,052**
Total equity and liabilities		**39,321**	**40,122**

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

Consolidated Statement of Cash Flows

For the year ended 31 December

In millions of EUR	Note	2016	2015
Operating activities			
Profit		**1,739**	2,141
Adjustments for:			
Amortisation, depreciation and impairments	11	1,817	1,594
Net interest expenses	12	359	352
Gain on sale of property, plant and equipment, intangible assets and subsidiaries, joint ventures and associates	8	(46)	(411)
Investment income and share of profit and impairments of associates and joint ventures and dividend income on available-for-sale and held-for-trading investments		(161)	(182)
Income tax expenses	13	673	697
Other non-cash items		332	89
Cash flow from operations before changes in working capital and provisions		**4,713**	**4,280**
Change in inventories		(20)	27
Change in trade and other receivables		(228)	(59)
Change in trade and other payables		328	403
Total change in working capital		**80**	**371**
Change in provisions and employee benefits		(73)	(165)
Cash flow from operations		**4,720**	**4,486**
Interest paid		(441)	(446)
Interest received		70	87
Dividends received		118	159
Income taxes paid		(749)	(797)
Cash flow related to interest, dividend and income tax		**(1,002)**	**(997)**
Cash flow from operating activities		**3,718**	**3,489**
Investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		116	83
Purchase of property, plant and equipment		(1,757)	(1,638)
Purchase of intangible assets		(109)	(92)
Loans issued to customers and other investments		(219)	(195)
Repayment on loans to customers		24	45
Cash flow (used in)/from operational investing activities		**(1,945)**	**(1,797)**
Free operating cash flow		**1,773**	**1,692**
Acquisition of subsidiaries, net of cash acquired		(9)	(757)
Acquisition of/additions to associates, joint ventures and other investments		(68)	(543)
Disposal of subsidiaries, net of cash disposed of	6/7	15	979
Disposal of associates, joint ventures and other investments		–	54
Cash flow (used in)/from acquisitions and disposals		**(62)**	**(267)**
Cash flow (used in)/from investing activities		**(2,007)**	**(2,064)**

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December

In millions of EUR	Note	2016	2015
Financing activities			
Proceeds from loans and borrowings		1,670	1,888
Repayment of loans and borrowings		(1,001)	(1,753)
Dividends paid		(1,031)	(909)
Purchase own shares and shares issued		(31)	(377)
Acquisition of non-controlling interests	6	(294)	(21)
Other		15	(1)
Cash flow (used in)/from financing activities		**(672)**	**(1,173)**
Net cash flow		**1,039**	**252**
Cash and cash equivalents as at 1 January		282	73
Effect of movements in exchange rates		45	(43)
Cash and cash equivalents as at 31 December	21	**1,366**	**282**

Consolidated Statement of Changes in Equity

In millions of EUR	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2015		**922**	**2,701**	**(1,097)**	**(99)**	**96**	**743**	**(70)**	**9,213**	**12,409**	**1,043**	**13,452**
Profit		–	–	–	–	–	186	–	1,706	1,892	249	2,141
Other comprehensive income	24	–	–	80	52	26	–	–	100	258	19	277
Total comprehensive income		**–**	**–**	**80**	**52**	**26**	**186**	**–**	**1,806**	**2,150**	**268**	**2,418**
Transfer to retained earnings		–	–	–	–	–	(210)	–	210	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	(676)	(676)	(248)	(924)
Purchase/reissuance own/non-controlling shares	22	–	–	–	–	–	–	(384)	–	(384)	10	(374)
Own shares delivered		–	–	–	–	–	–	22	(22)	–	–	–
Share-based payments		–	–	–	–	–	–	–	32	32	–	32
Acquisition of non-controlling interests without a change in control	6	–	–	–	–	–	–	–	4	4	(2)	2
Changes in consolidation		–	–	–	–	–	–	–	–	–	464	464
Balance as at 31 December 2015		**922**	**2,701**	**(1,017)**	**(47)**	**122**	**719**	**(432)**	**10,567**	**13,535**	**1,535**	**15,070**

Consolidated Statement of Changes in Equity (continued)

In millions of EUR	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2016		**922**	**2,701**	**(1,017)**	**(47)**	**122**	**719**	**(432)**	**10,567**	**13,535**	**1,535**	**15,070**
Profit		–	–	–	–	–	153	–	1,387	1,540	199	1,739
Other comprehensive income	24	–	–	(812)	46	140	–	–	(254)	(880)	(49)	(929)
Total comprehensive income		**–**	**–**	**(812)**	**46**	**140**	**153**	**–**	**1,133**	**660**	**150**	**810**
Transfer to/(from) retained earnings		–	–	–	–	–	(34)	–	34	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	(786)	(786)	(261)	(1,047)
Purchase/reissuance own/non-controlling shares	22	–	–	–	–	–	–	(39)	–	(39)	8	(31)
Own shares delivered		–	–	–	–	–	–	28	(28)	–	–	–
Share-based payments		–	–	–	–	–	–	–	13	13	–	13
Acquisition of non-controlling interests without a change in control	6	–	–	–	–	–	–	–	(145)	(145)	(144)	(289)
Changes in consolidation		–	–	–	–	–	–	–	–	–	47	47
Balance as at 31 December 2016		**922**	**2,701**	**(1,829)**	**(1)**	**262**	**838**	**(443)**	**10,788**	**13,238**	**1,335**	**14,573**

Notes to the Consolidated Financial Statements

1. Reporting entity

Heineken N.V. (the 'Company') is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company, its subsidiaries (together referred to as 'HEINEKEN' and individually as 'HEINEKEN' entities) and HEINEKEN's interest in jointly controlled entities and associates. The Company is registered in the Trade Register of Amsterdam No. 33011433. HEINEKEN is primarily involved in the brewing and selling of beer.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2016 have been adopted by the EU. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis unless otherwise indicated.

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

Note 6 Acquisitions and disposals of subsidiaries and non-controlling interests

Note 15 Intangible assets

Note 16 Investments in associates and joint ventures

Note 17 Other investments and receivables

Note 18 Deferred tax assets and liabilities

Note 26 Employee benefits

Note 28 Provisions

Note 29 Trade and other payables

Note 30 Financial risk management and financial instruments

Note 32 Contingencies.

Notes to the Consolidated Financial Statements (continued)

(e) Changes in accounting policies

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

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

This change in accounting policy has been accounted for retrospectively and as a result of this, the amount of 'Cash and cash equivalents' and 'Bank overdrafts and commercial papers' increased by EUR 2,408 million as per 31 December 2015. Legal offset rights for the cash pooling arrangements continue to be in place. The amount subject to legal offset rights, but not netted in the statement of financial position is EUR 1,489 million per 31 December 2016. If netted, 'Cash and cash equivalents' would amount to EUR 1,546 million and 'Bank overdrafts and commercial papers' to EUR 180 million. Refer to note 21 for further details. The Net interest-bearing debt position remains unchanged.

(ii) Other changes

HEINEKEN has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016:

– Disclosure Initiative (amendments to IAS 1)

– Regulatory Deferral Accounts (IFRS 14)

– Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS 11)

– Bearer Plants (amendments to IAS 16 and IAS 41)

– Classification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38)

– Applying the consolidation exemption (amendments to IFRS 10, IFRS 12 and IAS 28)

– Equity method in separate financial statements (amendments to IAS 27)

– Annual Improvements to IFRS's 2012-2014 Cycle.

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

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies

General

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

(a) Basis of consolidation

(i) Business combinations

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

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

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

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

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

(ii) Acquisitions of non-controlling interests

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

(iii) Subsidiaries

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

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

(iv) Loss of control

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

Notes to the Consolidated Financial Statements (continued)

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

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

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

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

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

(b) Foreign currency

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

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

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

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions. Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. The related income, costs and balance sheet amounts are translated at the foreign exchange rate ruling at the balance sheet date.

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

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

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

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

(iii) Hedge of net investments in foreign operations

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

Notes to the Consolidated Financial Statements (continued)

(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.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(d) Derivative financial instruments (including hedge accounting)

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

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

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

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

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

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

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

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

(e) Share capital

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

(f) Property, plant and equipment

(i) Owned assets

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

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

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

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

(ii) Leased assets

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

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

(iii) Subsequent expenditure

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

(iv) Depreciation

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

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

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

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

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

(v) Gains and losses on sale

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

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(g) Intangible assets

(i) Goodwill

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

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

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

(ii) Brands

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

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

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

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

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

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

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

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

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

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

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

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

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

(v) Subsequent expenditure

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

Notes to the Consolidated Financial Statements (continued)

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

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

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

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

(h) Inventories

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

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

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

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(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.

Notes to the Consolidated Financial Statements (continued)

(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.

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(k) Employee benefits (continued)

(v) Share-based payment plan (LTV)
As from 1 January 2005, HEINEKEN established a share plan for the Executive Board and, as from 1 January 2006, HEINEKEN also established a share plan for senior management (refer to note 27).

The grant date fair value, adjusted for expected dividends, of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled) over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board 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% internal performance conditions of the running share plans for the senior management members and the Executive Board. It recognises the impact of the revision of original estimates (only applicable for non-market performance conditions, if any) in profit or loss, with a corresponding adjustment to equity.

(vi) Matching share entitlement
As from 21 April 2011, HEINEKEN established a matching share entitlement for the Executive Board. 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.

Notes to the Consolidated Financial Statements (continued)

(n) Revenue

(i) Products sold

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

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

(ii) Other revenue

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

(o) Other income

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

(p) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(q) Government grants

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

3. Significant accounting policies (continued)

(s) Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

Deferred tax is not recognised for:

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

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

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

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

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

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

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

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

(iii) Uncertain tax positions

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

(t) Discontinued operations

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

(u) Earnings per share

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

Notes to the Consolidated Financial Statements (continued)

(v) Cash flow statement

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

(w) Operating segments

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

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

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

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

(x) Recently issued IFRS

New relevant standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016, which HEINEKEN has not applied in preparing these consolidated financial statements.

IFRS 9, published in July 2014, replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. HEINEKEN will implement IFRS 9 per 1 January 2018. Based on preliminary assessments HEINEKEN is expecting IFRS 9 will have limited impact on its consolidated financial statements.

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

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

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

– Disclosure Initiative (amendments to IAS 7)

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

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

Notes to the Consolidated Financial Statements (continued)

4. Determination of fair values

General

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

Fair value as a result of business combinations

(i) Property, plant and equipment

The fair value of P, P & E recognised as a result of a business combination is based on market prices for similar items when available and replacement cost when appropriate.

(ii) Intangible assets

The fair value of brands acquired in a business combination is based on the 'relief from royalty' method or determined using the multi-period excess earnings method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of reacquired rights and other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventories

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

(iv) Trade and other receivables

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

Fair value from normal business

(i) Investments in equity and debt securities

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

(ii) Derivative financial instruments

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on current price for the residual maturity of the 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.

Notes to the Consolidated Financial Statements (continued)

5. Operating segments

HEINEKEN distinguishes the following five reportable segments:

– Africa, Middle East & Eastern Europe*

– Americas

– Asia Pacific

– Europe

– Head Office and Other/eliminations.

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

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

Information regarding the results of each reportable segment is included in the table on the next page. Performance is measured based on EBIT (beia), as included in the internal management reports that are reviewed by the Executive Board. EBIT (beia) is defined as earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of acquisition-related intangibles. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. EBIT (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of these segments.

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

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

Notes to the Consolidated Financial Statements (continued)

5. Operating segments (continued)

Information about reportable segments

In millions of EUR	Note	Europe 2016	Europe 2015	Americas 2016	Americas 2015
Revenue					
Third party revenue[1]		9,422	9,510	5,200	5,154
Interregional revenue		690	717	3	5
Total revenue		10,112	10,227	5,203	5,159
Other income	8	39	34	12	6
Results from operating activities		1,208	1,039	883	807
Net finance expenses	12				
Share of profit of associates and joint ventures and impairments thereof	16	13	16	69	74
Income tax expense	13				
Profit					
Attributable to:					
Equity holders of the Company (net profit)					
Non-controlling interests					
EBIT reconciliation					
EBIT[2]		1,221	1,055	952	881
Eia[2]		54	159	149	97
EBIT (beia)[2]		1,275	1,214	1,101	978
Current segment assets[3]		2,898	3,392	2,003	1,814
Non-current segment assets		10,047	10,605	5,854	5,877
Investments in associates and joint ventures		162	190	1,203	1,098
Total segment assets		13,107	14,187	9,060	8,789
Unallocated assets					
Total assets					
Segment liabilities[3]		4,804	5,193	1,383	1,354
Unallocated liabilities					
Total equity					
Total equity and liabilities					
Purchase of P, P & E	14	533	548	502	369
Acquisition of goodwill	15	6	51	4	132
Purchases of intangible assets	15	40	22	22	14
Depreciation of P, P & E	14	(487)	(517)	(230)	(226)
(Impairment) and reversal of impairment of P, P & E	14	11	(23)	10	–
Amortisation intangible assets	15	(60)	(69)	(97)	(96)
(Impairment) and reversal of impairment of intangible assets	15	–	(4)	–	–

[1] Includes other revenue of EUR 343 million in 2016 and EUR 386 million in 2015.

[2] For definition, see 'Glossary'. Note that these are non-GAAP measures.

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

Notes to the Consolidated Financial Statements (continued)

	Africa, Middle East & Eastern Europe		Asia Pacific		Head Office & Other/eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
	3,200	3,260	2,891	2,480	79	107	20,792	20,511
	3	3	3	3	(699)	(728)	–	–
	3,203	3,263	2,894	2,483	(620)	(621)	20,792	20,511
	1	51	1	(62)	(7)	382	46	411
	38	487	710	417	(84)	325	2,755	3,075
							(493)	(409)
	49	52	19	30	–	–	150	172
							(673)	(697)
							1,739	2,141
							1,540	1,892
							199	249
							1,739	2,141
	87	539	729	447	(84)	325	2,905	3,247
	337	92	217	288	38	(325)	795	311
	424	631	946	735	(46)	–	3,700	3,558
	1,303	1,423	1,150	1,042	826	635	8,180	8,306
	2,620	3,186	8,668	8,107	775	1,080	27,964	28,855
	221	217	552	417	27	63	2,165	1,985
	4,144	4,826	10,370	9,566	1,628	1,778	38,309	39,146
							1,012	976
							39,321	40,122
	1,154	1,305	864	748	2,110	2,654	10,315	11,254
							14,433	13,798
							14,573	15,070
							39,321	40,122
	436	432	281	284	5	7	1,757	1,640
	4	44	11	392	–	–	25	619
	9	4	5	2	33	51	109	93
	(299)	(286)	(131)	(110)	(16)	(12)	(1,163)	(1,151)
	(276)	(33)	(19)	(15)	–	–	(274)	(71)
	(9)	(16)	(181)	(169)	(21)	(18)	(368)	(368)
	(1)	–	(11)	–	–	–	(12)	(4)

Notes to the Consolidated Financial Statements (continued)

5. Operating segments (continued)

Reconciliation of segment profit or loss

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

The table below presents the reconciliation of EBIT (beia), to profit before tax.

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

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

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

In millions of EUR	2016	2015
Profit attributable to equity holders of the Company (net profit)	**1,540**	**1,892**
Amortisation of acquisition-related intangible assets included in EBIT	315	321
Exceptional items included in EBIT	480	(10)
Exceptional items included in net finance expenses/(income)	25	(18)
Exceptional items included in income tax expense	(196)	(124)
Exceptional items included in non-controlling interest	(66)	(13)
Net profit (beia)	**2,098**	**2,048**

The 2016 exceptional items and amortisation of acquisition-related intangibles on net profit amounts to EUR 558 million (2015: EUR 156 million). This amount consists of:

- EUR 315 million (2015: EUR 321 million) of amortisation of acquisition-related intangibles recorded in EBIT. EUR 10 million (2015: EUR 5 million) of this amount is included in share of net profit of associates and joint ventures.
- EUR 480 million (2015: EUR 10 million income) of exceptional items recorded in EBIT. This includes restructuring expenses of EUR 80 million (2015: EUR 106 million), impairments of EUR 328 million (2015: EUR 78 million) of which EUR 286 million relates to The Democratic Republic of Congo (DRC). Other exceptional expenses in EBIT amounted to EUR 72 million (2015: EUR 194 million income which included EUR 379 million disposal gain for EMPAQUE). This includes asset write downs and the recording of provisions for an amount of EUR 62 million (2015: EUR 79 million).
- EUR 25 million (2015: EUR 18 million income) of exceptional items in net finance expenses, mainly related to the currency impact on dividend receivables from Nigeria.
- EUR 196 million (2015: EUR 124 million) in income tax expense includes the tax impact on amortisation of acquisition-related intangible assets of EUR 73 million (2015: EUR 75 million), the tax impact on exceptional items of EUR 36 million (2015: EUR 58 million) and an exceptional income tax benefit of EUR 87 million (2015: EUR 9 million expense), mainly relating to previously unrecognised deferred tax assets in 2016.
- Total amount of Eia allocated to non-controlling interest amounts to EUR 66 million (2015: EUR 13 million).

Notes to the Consolidated Financial Statements (continued)

6. Acquisitions and disposals of subsidiaries and non-controlling interests

Acquisition of subsidiaries

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

Accounting for prior year acquisitions

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

Acquisitions of non-controlling interests

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

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

Disposal of Distribev

On 1 February 2016, HEINEKEN completed the sale of 80% in Distribev Sp. z o.o., Grupa Żywiec S.A.'s local sales and distribution company serving the traditional trade and horeca market, to the Orbico Group. A EUR 8 million pre-tax gain was recorded in other income.

7. Assets or disposal groups classified as held for sale

The assets and liabilities below are classified as held for sale following the commitment of HEINEKEN to a plan to sell these assets and liabilities. Efforts to sell the assets and liabilities classified as held for sale have commenced and are expected to be completed during 2017.

Assets and liabilities classified as held for sale

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

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

Notes to the Consolidated Financial Statements (continued)

8. Other income

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

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

9. Raw materials, consumables and services

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

Other expenses mainly include rentals of EUR 302 million (2015: EUR 301 million), consultant expenses of EUR 140 million (2015: EUR 142 million), telecom and office automation of EUR 220 million (2015: EUR 206 million), distribution expenses of EUR 141 million (2015: EUR 135 million), travel expenses of EUR 148 million (2015: EUR 151 million) and other taxes of EUR 96 million (2015: EUR 144 million).

10. Personnel expenses

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

In other personnel expenses, restructuring costs are included for an amount of EUR 38 million (2015: EUR 90 million). Restructuring is disclosed in the provisions (refer to note 28).

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

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

* Revised.

Notes to the Consolidated Financial Statements (continued)

11. Amortisation, depreciation and impairments

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

12. Net finance income and expense

Recognised in profit or loss

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

* Transactional foreign exchange effects of working capital.

Notes to the Consolidated Financial Statements (continued)

13. Income tax expense

Recognised in profit or loss

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

Reconciliation of the effective tax rate

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

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

* Revised for comparative purposes

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

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

Notes to the Consolidated Financial Statements (continued)

14. Property, plant and equipment

In millions of EUR	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost						
Balance as at 1 January 2015		4,989	7,305	5,051	793	18,138
Changes in consolidation		256	280	132	22	690
Purchases		84	99	428	1,029	1,640
Transfer of completed projects under construction		240	607	206	(1,053)	–
Transfer (to)/from assets classified as held for sale		(50)	(1)	(8)	–	(59)
Disposals		(54)	(126)	(354)	(3)	(537)
Effect of movements in exchange rates		15	(54)	(47)	–	(86)
Balance as at 31 December 2015		5,480	8,110	5,408	788	19,786
Balance as at 1 January 2016		5,480	8,110	5,408	788	19,786
Changes in consolidation		13	–	5	–	18
Purchases		113	163	338	1,143	1,757
Transfer of completed projects under construction		212	696	323	(1,231)	–
Transfer (to)/from assets classified as held for sale		(19)	(24)	(8)	(1)	(52)
Disposals		(58)	(131)	(620)	(4)	(813)
Effect of movements in exchange rates		(306)	(420)	(403)	(29)	(1,158)
Balance as at 31 December 2016		5,435	8,394	5,043	666	19,538
Depreciation and impairment losses						
Balance as at 1 January 2015		(1,906)	(4,099)	(3,415)	–	(9,420)
Changes in consolidation		(35)	(51)	(61)	–	(147)
Depreciation charge for the year	11	(157)	(424)	(570)	–	(1,151)
Impairment losses	11	(18)	(36)	(17)	–	(71)
Transfer to/(from) assets classified as held for sale		14	–	5	–	19
Disposals		29	136	332	–	497
Effect of movements in exchange rates		(15)	22	32	–	39
Balance as at 31 December 2015		(2,088)	(4,452)	(3,694)	–	(10,234)
Balance as at 1 January 2016		(2,088)	(4,452)	(3,694)	–	(10,234)
Changes in consolidation		1	–	(2)	–	(1)
Depreciation charge for the year	11	(158)	(441)	(564)	–	(1,163)
Impairment losses	11	(50)	(229)	(16)	–	(295)
Reversal impairment losses	11	7	4	10	–	21
Transfer to/(from) assets classified as held for sale		11	23	7	–	41
Disposals		37	128	585	–	750
Effect of movements in exchange rates		70	234	271	–	575
Balance as at 31 December 2016		(2,170)	(4,733)	(3,403)	–	(10,306)
Carrying amount						
As at 1 January 2015		3,083	3,206	1,636	793	8,718
As at 31 December 2015		3,392	3,658	1,714	788	9,552
As at 1 January 2016		3,392	3,658	1,714	788	9,552
As at 31 December 2016		3,265	3,661	1,640	666	9,232

Notes to the Consolidated Financial Statements (continued)

14. Property, plant and equipment (continued)

Impairment losses

In 2016, a total impairment loss of EUR 295 million (2015: EUR 71 million) was charged to profit or loss. These impairment losses mainly relate to The Democratic Republic of Congo (DRC). A slowdown of the expected future economic growth in DRC due to lower commodity prices, power constraints and lower investments and consumption resulting from political uncertainties, resulted in an impairment of assets in the cash generating unit (CGU). The impairment primarily relates to property, plant and equipment and has been recorded on the line 'Amortisation, depreciation and impairments' in the Income Statement. The CGU DRC is part of the Africa and Middle East and Eastern Europe segment. The determination of the recoverable amount of these assets is based on a fair value less costs of disposal (FVLCD) valuation. The FVLCD is based on a discounted ten-year cash flow forecast (level 3). The key assumptions used to determine the cash flows are based on market expectations and management's best estimates. See the table below for the key assumptions:

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

Property, plant and equipment under construction

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

Notes to the Consolidated Financial Statements (continued)

15. Intangible assets

In millions of EUR	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
Cost							
Balance as at 1 January 2015		10,803	4,072	2,174	773	514	18,336
Changes in consolidation and other transfers		611	475	333	296	18	1,733
Purchased/internally developed		–	–	–	–	93	93
Disposals		–	–	–	–	(18)	(18)
Effect of movements in exchange rates		317	30	20	32	(2)	397
Balance as at 31 December 2015		11,731	4,577	2,527	1,101	605	20,541
Balance as at 1 January 2016		**11,731**	**4,577**	**2,527**	**1,101**	**605**	**20,541**
Changes in consolidation and other transfers		25	1	15	19	–	60
Purchased/internally developed		–	1	2	12	94	109
Disposals		–	–	(2)	–	(4)	(6)
Effect of movements in exchange rates		(320)	(188)	(99)	(10)	(19)	(636)
Balance as at 31 December 2016		**11,436**	**4,391**	**2,443**	**1,122**	**676**	**20,068**
Amortisation and impairment losses							
Balance as at 1 January 2015		(407)	(462)	(650)	(143)	(333)	(1,995)
Changes in consolidation		–	–	–	(1)	(1)	(2)
Amortisation charge for the year	11	–	(108)	(165)	(44)	(51)	(368)
Impairment losses	11	–	(3)	–	–	(1)	(4)
Disposals		–	–	–	–	15	15
Effect of movements in exchange rates		–	2	7	(14)	1	(4)
Balance as at 31 December 2015		(407)	(571)	(808)	(202)	(370)	(2,358)
Balance as at 1 January 2016		**(407)**	**(571)**	**(808)**	**(202)**	**(370)**	**(2,358)**
Changes in consolidation		–	–	–	–	–	–
Amortisation charge for the year	11	–	(110)	(147)	(53)	(58)	(368)
Impairment losses	11	–	(1)	(11)	–	–	(12)
Disposals		–	–	–	–	3	3
Effect of movements in exchange rates		–	26	58	(9)	16	91
Balance as at 31 December 2016		**(407)**	**(656)**	**(908)**	**(264)**	**(409)**	**(2,644)**
Carrying amount							
As at 1 January 2015		10,396	3,610	1,524	630	181	16,341
As at 31 December 2015		11,324	4,006	1,719	899	235	18,183
As at 1 January 2016		**11,324**	**4,006**	**1,719**	**899**	**235**	**18,183**
As at 31 December 2016		**11,029**	**3,735**	**1,535**	**858**	**267**	**17,424**

Notes to the Consolidated Financial Statements (continued)

15. Intangible assets (continued)

Brands, customer-related and contract-based intangibles

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

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill in respect of Europe, the Americas (excluding Brazil) and Asia Pacific is allocated and monitored on a regional basis. For Brazil and subsidiaries within Africa, Middle East and Eastern Europe and Head Office, goodwill is allocated and monitored on an individual country basis. The carrying amounts of goodwill allocated to each (group of) CGU(s) are as follows:

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

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

The recoverable amounts of the (group of) CGUs are based on value in use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

The key assumptions used for the value in use calculations are as follows:

- Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period (except for Europe, where a further two-year period was applied) were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this period is justified due to the long-term development of the local beer business and past experiences.
- The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.
- Cash flows after the first ten-year (Europe five-year) period were extrapolated using a perpetual growth rate equal to the expected annual long-term inflation, in order to calculate the terminal recoverable amount.
- A per CGU-specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

The values assigned to the key assumptions used for the value in use calculations are as follows:

In %	Pre-tax WACC	Expected annual long-term inflation 2020-2026	Expected volume growth rates 2020-2026
Europe	9.3	1.8	0.5
The Americas (excluding Brazil)	13.6	3.2	3.4
Brazil	16.9	4.9	3.4
Africa, Middle East and Eastern Europe	15.4-24.4	2.7-12.2	0.7-8.7
Asia Pacific	14.5	4.6	3.2
Head Office	9.4	1.8	0.5

The outcome of these impairment tests in 2016 did not result in an impairment loss (2015: nil) being charged to profit or loss.

Sensitivity to changes in assumptions

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

Notes to the Consolidated Financial Statements (continued)

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 EUR	**2016**	2015	**2016**	2015
Carrying amount of interests	**2,022**	1,852	**144**	133
Share of:				
Profit or loss from continuing operations	124	151	26	21
Other comprehensive income	–	7	–	–
	124	158	**26**	21

17. Other investments and receivables

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

Effective interest rates on loans to customers range from 0 – 16.0%.

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 EUR 15 million (2015: EUR 15 million) are included in available-for-sale investments.

Sensitivity analysis – equity price risk

As at 31 December 2016, an amount of EUR 342 million (2015: EUR 98 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.

Notes to the Consolidated Financial Statements (continued)

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

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

Of the total net deferred tax assets of EUR 1,011 million as at 31 December 2016 (2015: EUR 958 million), EUR 405 million (2015: EUR 363 million) is recognised in respect of subsidiaries in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, net impact EUR 58 million (2015: EUR 50 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 carry forward

HEINEKEN has tax losses carry forward for an amount of EUR 2,370 million as at 31 December 2016 (2015: EUR 2,363 million), which expire in the following years:

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

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

Notes to the Consolidated Financial Statements (continued)

Movement in deferred tax balances during the year

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

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

19. Inventories

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

During 2016 inventories were written down by EUR 19 million to net realisable value (2015: EUR 23 million).

Notes to the Consolidated Financial Statements (continued)

20. Trade and other receivables

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

A net impairment loss of EUR 57 million (2015: EUR 61 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

21. Cash and cash equivalents

In millions of EUR	Note	2016	2015*
Cash and cash equivalents	30	3,035	3,232
Bank overdrafts and commercial papers	25	(1,669)	(2,950)
Cash and cash equivalents in the statement of cash flows		**1,366**	**282**

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

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

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

In millions of EUR	Gross amounts	Gross amounts offset in the statement of financial position	**Net amounts presented in the statement of financial position**	Amounts subject to legal offset rights	**Net amount**
Balance as at 31 December 2016					
Assets					
Cash and cash equivalents	3,097	(62)	**3,035**	(1,489)	**1,546**
Liabilities					
Bank overdrafts and commercial papers	(1,731)	62	**(1,669)**	1,489	**(180)**
Balance as at 31 December 2015					
Assets					
Cash and cash equivalents	3,677	(445)	3,232	(2,408)	**824**
Liabilities					
Bank overdrafts and commercial papers	(3,395)	445	(2,950)	2,408	**(542)**

22. Capital and reserves

Share capital

As at 31 December 2016, the issued share capital comprised 576,002,613 ordinary shares (2015: 576,002,613). The ordinary shares have a par value of EUR 1.60. All issued shares are fully paid. The share capital as at 31 December 2016 amounted to EUR 922 million (2015: EUR 922 million).

The Company's authorised capital amounts to EUR 2,500 million, consisting of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by HEINEKEN, rights are suspended.

Notes to the Consolidated Financial Statements (continued)

Share premium
As at 31 December 2016, the share premium amounted to EUR 2,701 million (2015: EUR 2,701 million).

Translation reserve
The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of HEINEKEN (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

Hedging reserve
This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

Fair value reserve
This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. HEINEKEN considers this a legal reserve.

Other legal reserves
These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects retained earnings of joint ventures and associates minus dividends received. In case of a legal or other restriction which means that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part. Furthermore, part of the reserve comprises a legal reserve for capitalised development costs.

Reserve for own shares
The reserve for the Company's own shares comprises the cost of the Company's shares held by HEINEKEN. As at 31 December 2016, HEINEKEN held 6,321,833 of the Company's shares (2015: 6,318,958).

LTV
During the period from 1 January to 31 December 2016, HEINEKEN acquired 505,000 shares for an amount of EUR 39 million for delivery against LTV and other share-based payment plans.

Dividends
The following dividends were declared and paid by HEINEKEN:

In millions of EUR	2016	2015
Final dividend previous year EUR 0.86, respectively EUR 0.74 per qualifying ordinary share	490	425
Interim dividend current year EUR 0.52, respectively EUR 0.44 per qualifying ordinary share	296	251
Total dividend declared and paid	**786**	**676**

For 2016, a payment of a total cash dividend of EUR 1.34 per share (2015: EUR 1.30) will be proposed at the AGM. If approved, a final dividend of EUR 0.82 per share will be paid on 3 May 2017, as an interim dividend of EUR 0.52 per share was paid on 11 August 2016. The payment will be subject to 15% Dutch withholding tax.

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

In millions of EUR	2016	2015
Dividend per qualifying ordinary share EUR 1.34 (2015: EUR 1.30)	763	741
Addition to retained earnings	777	1,151
Net profit	**1,540**	**1,892**

Non-controlling interests
The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total non-controlling interest as at 31 December 2016 amounted to EUR 1,335 million (2015: EUR 1,535 million).

Notes to the Consolidated Financial Statements (continued)

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the period ended 31 December 2016 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR 1,540 million (2015: EUR 1,892 million) and a weighted average number of ordinary shares – basic outstanding during the year ended 31 December 2016 of 569,737,210 (2015: 572,292,454). Basic earnings per share for the year amounted to EUR 2.70 (2015: EUR 3.31).

Diluted earnings per share

The calculation of diluted earnings per share for the period ended 31 December 2016 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR 1,540 million (2015: EUR 1,892 million) and a weighted average number of ordinary shares – basic outstanding after adjustment for the dilutive effect of share based payment plan obligations of 570,370,392 (2015: 572,944,188). Diluted earnings per share for the year amounted to EUR 2.70 (2015: EUR 3.30).

Weighted average number of shares – basic and diluted

	2016	2015
Total number of shares issued	576,002,613	576,002,613
Effect of own shares held	(6,265,403)	(3,710,159)
Weighted average number of basic shares for the year	**569,737,210**	**572,292,454**
Dilutive effect of share based payment plan obligations	633,182	651,734
Weighted average number of diluted shares for the year	**570,370,392**	**572,944,188**

24. Income tax on other comprehensive income

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

Notes to the Consolidated Financial Statements (continued)

25. Loans and borrowings

This note provides information about the contractual terms of HEINEKEN's interest-bearing loans and borrowings. For more information about HEINEKEN's exposure to interest rate risk and foreign currency risk, refer to note 30.

Non-current liabilities

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

Current interest-bearing liabilities

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

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

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

Net interest-bearing debt position

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

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

Notes to the Consolidated Financial Statements (continued)

25. Loans and borrowings (continued)

Non-current liabilities

In millions of EUR	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 2016	**9,269**	**126**	**38**	**1,193**	**32**	**–**	**10,658**
Consolidation changes	–	–	–	16	–	–	16
Effect of movements in exchange rates	51	5	2	18	(21)	33	88
Transfers to current liabilities	(1,173)	14	(6)	(109)	(2)	(2)	(1,278)
Proceeds	1,303	264	57	30	1	–	1,655
Repayments	(18)	(170)	(7)	(18)	–	(7)	(220)
Other	–	–	–	35	–	–	35
Balance as at 31 December 2016	**9,432**	**239**	**84**	**1,165**	**10**	**24**	**10,954**

Terms and debt repayment schedule

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

In millions of EUR	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2016	Face value 2016	Carrying amount 2015	Face value 2015
Unsecured bond	issue under EMTN programme	EUR	4.6	2016	–	–	400	400
Unsecured bond	issue under EMTN programme	SGD	1.4	2017	66	66	64	65
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	100	100	100	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	62	62	62	62
Unsecured bond	issue under EMTN programme	USD	1.5	2019	189	190	183	184
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	847	850	845	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	997	1,000	997	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	498	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	498	500	497	500
Unsecured bond	issue under EMTN programme	USD	3.3	2022	189	190	183	184
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	140	140	140	140
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	497	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	454	460	454	460
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	743	750	742	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	224	225	224	225
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	199	200	199	200
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	180	180	179	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	92	100	91	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	75	75	75	75
Unsecured bond	issue under EMTN programme	EUR	1.0	2026	790	800	–	–
Unsecured bond	issue under EMTN programme	EUR	1.4	2027	497	500	–	–
Unsecured bond	issue under APB MTN programme	SGD	3.0 – 4.0	2020 – 2022	25	25	25	25
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	1,185	1,186	1,146	1,148
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	709	712	685	689
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	945	949	915	919

Notes to the Consolidated Financial Statements (continued)

Terms and debt repayment schedule (continued)

In millions of EUR	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2016	Face value 2016	Carrying amount 2015	Face value 2015
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	**465**	**474**	450	459
Unsecured bond	n.a.	EUR	3.5 – 4.5	2020	**17**	**17**	19	19
Unsecured bank loans	bank facilities	EUR	4.8	2016	**–**	**–**	207	207
Unsecured bank loans	bank facilities	NGN	15 – 17	2021	**51**	**51**	14	16
Unsecured bank loans	German Schuldschein notes	EUR	1.8 – 6.2	2016	**–**	**–**	111	111
Unsecured bank loans	bank facilities	MYR	3.5 – 4.5	2016	**–**	**–**	19	19
Unsecured bank loans	bank facilities	ZAR	8.6	2018	**112**	**112**	71	71
Unsecured bank loans	various	various	various	various	**80**	**80**	58	58
Secured bank loans	bank facilities	XOF	7.0	2026	**57**	**56**	–	–
Secured bank loans	bank facilities	ETB	9.5	2021	**20**	**20**	22	22
Secured bank loans	various	various	various	various	**17**	**20**	24	25
Other interest-bearing liabilities	2011 US private placement	GBP	7.3	2016	**–**	**–**	34	34
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	**85**	**85**	83	83
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	**37**	**37**	44	44
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	**688**	**688**	665	666
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	**369**	**370**	357	358
Other interest-bearing liabilities	facilities from JVs	EUR	various	various	**4**	**4**	17	17
Other interest-bearing liabilities	various	various	various	various	**76**	**76**	33	33
Deposits from third parties	n.a.	various	various	various	**622**	**622**	595	595
					12,901	**12,972**	12,023	12,093

Financing headroom

As at 31 December 2016, no amounts were drawn on the existing revolving credit facility of EUR 2,500 million. This revolving credit facility was extended by one year in May 2016 and matures in 2021. The committed financing headroom at Group level was EUR 3,112 million as at 31 December 2016 and consisted of an undrawn revolving credit facility and centrally available cash, minus commercial paper in issue at Group level.

Incurrence covenant

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing net debt (excluding the market value of cross-currency interest rate swaps) by EBITDA (beia) (both based on proportional consolidation of joint ventures and including acquisitions made in 2016 on a pro-forma basis). As at 31 December 2016 this ratio was 2.3 (2015: 2.4). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent HEINEKEN from conducting further significant debt financed acquisitions.

Notes to the Consolidated Financial Statements (continued)

26. Employee benefits

In millions of EUR	2016	2015
Present value of unfunded defined benefit obligations	305	329
Present value of funded defined benefit obligations	8,865	8,544
Total present value of defined benefit obligations	**9,170**	**8,873**
Fair value of defined benefit plan assets	(7,815)	(7,661)
Present value of net obligations	**1,355**	**1,212**
Asset ceiling items	3	4
Recognised liability for defined benefit obligations	**1,358**	**1,216**
Other long-term employee benefits	62	73
	1,420	**1,289**

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

HEINEKEN provides employees in the Netherlands with an average pay pension plan based on earnings up to the legal tax limit. Indexation of accrued benefits is conditional on the funded status of the pension fund. HEINEKEN pays contributions to the fund up to a maximum level agreed with the Board of the pension fund and has no obligation to make additional contributions in case of a funding deficit. In 2016, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2017.

HEINEKEN's UK plan (Scottish & Newcastle pension plan 'SNPP') was closed to future accrual in 2010 and the liabilities thus relate to past service before plan closure. Based on the triennial review finalised in early 2016, HEINEKEN has renewed the funding plan (until 31 May 2023) including an annual Company contribution of GBP37.5 million in 2017, thereafter increasing with GBP1.7 million per year. Deficit payments as of 2019 will be reviewed and may be replaced following the next triennial valuation which will take place in 2019. As at 31 December 2016, the IAS 19 present value of the net obligations of SNPP represents a GBP581 million (EUR 679 million) deficit. No additional liability has to be recognised as the net present value of the minimum funding requirement does not exceed the net obligation.

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

Movement in net defined benefit obligation

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

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

Notes to the Consolidated Financial Statements (continued)

26. Employee benefits (continued)

Defined benefit plan assets

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

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

Asset volatility

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

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 38% 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 40% of plan assets in liability driven investments, 19% in absolute return, 20% 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' bond holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 22.9% (2015: 22.7%). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match 28% of the interest rate sensitivity of the total liabilities (2015: 24.7%).

Notes to the Consolidated Financial Statements (continued)

Inflation risk

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

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation is partly managed through the use of a mixture of inflation-linked derivative instruments. These instruments match 41% of the inflation-linked liabilities (2015: 39%).

Life expectancy

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

Principal actuarial assumptions as at the balance sheet date

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

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

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

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

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

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the 'AG-Prognosetafel 2016', fully generational. Correction factors from Towers Watson are applied on these rates. For the UK, the future mortality rates are obtained by applying the Continuous Mortality Investigation 2014 projection model with an assumed long term rate of 1.5% 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 2017 contributions to be paid for the defined benefit plans to be in line with 2016.

Sensitivity analysis

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

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

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

Notes to the Consolidated Financial Statements (continued)

27. Share-based payments – Long-Term Variable Award

HEINEKEN has a performance-based share plan (Long-Term Variable award (LTV)) for the Executive Board and senior management. Under this LTV plan, share rights are conditionally awarded to incumbents on an annual basis. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three-year period.

The performance conditions for LTV 2014-2016, LTV 2015-2017 and LTV 2016-2018 are the same for the Executive Board and senior management and comprise solely of internal financial measures, being Organic Revenue Growth, Organic EBIT beia growth, Earnings Per Share (EPS) beia growth and Free Operating Cash Flow.

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

The performance period for the aforementioned plans are:

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

The vesting date for the Executive Board is shortly after the publication of the annual results of 2016, 2017 and 2018 respectively and for senior management on 1 April 2017, 2018 and 2019 respectively.

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

The terms and conditions of the share rights granted are as follows:

Grant date/employees entitled	Number*	Based on share price
Share rights granted to Executive Board in 2014	51,702	49.08
Share rights granted to senior management in 2014	597,744	49.08
Share rights granted to Executive Board in 2015	54,903	58.95
Share rights granted to senior management in 2015	534,298	58.95
Share rights granted to Executive Board in 2016	**34,278**	**78.77**
Share rights granted to senior management in 2016	**398,850**	**78.77**

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

Under the LTV 2013-2015, a total of 58,447 (gross) shares vested for the Executive Board and 726,789 (gross) shares vested for senior management. The number of shares vested for the Executive Board relates to Mr. Jean-François van Boxmeer, as Mr. René Hooft Graafland was no longer member of the Executive Board at vesting and Ms. Laurence Debroux received LTI as per LTIP 2015-2017.

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

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

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

Notes to the Consolidated Financial Statements (continued)

Under the extraordinary share plans for senior management 24,550 shares were granted and 7,850 (gross) shares vested. These extraordinary grants only have a service condition and vest between one and five years. The expenses relating to these additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2016 are EUR 1.3 million (2015: EUR 1.0 million).

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

Personnel expenses

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

28. Provisions

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

Restructuring

The provision for restructuring of EUR 99 million mainly relates to restructuring programmes in Spain and the Netherlands.

Claims and litigation

The provision for claims and litigation of EUR 149 million mainly relates to the litigation inherited from the acquisition of the beer operations of FEMSA in 2010 (refer to note 32).

Other provisions

Included are, among others, surety and guarantees provided of EUR 35 million (2015: EUR 39 million) and provisions for other taxes of EUR 56 million (2015: EUR 42 million).

Notes to the Consolidated Financial Statements (continued)

29. Trade and other payables

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

30. Financial risk management and financial instruments

Overview

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

– Credit risk

– Liquidity risk

– Market risk.

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

Risk management framework

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility and sets rules for HEINEKEN's risk management and control systems. They are reviewed regularly to reflect changes in market conditions and HEINEKEN's activities. The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by HEINEKEN Group departments.

The Global Treasury function focuses primarily on the management of financial risk and financial resources. Some of the risk management strategies include the use of derivatives, primarily in the form of spot and forward exchange contracts and interest rate swaps, but options can be used as well. It is HEINEKEN's policy that no speculative transactions are entered into.

Credit risk

Credit risk is the risk of financial loss to HEINEKEN if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from HEINEKEN's receivables from customers and investment securities.

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

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

Notes to the Consolidated Financial Statements (continued)

Loans to customers

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

HEINEKEN establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics.

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

Trade and other receivables

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

In monitoring customer credit risk customers are, on a country basis, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as high risk are placed on a restricted customer list, and future sales are made on a prepayment basis only with approval of management.

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

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

Investments

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

Guarantees

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

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands. Refer to note 42 of the Company financial statements.

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Exposure to credit risk

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

In millions of EUR	Note	2016	2015*
Cash and cash equivalents	21	3,035	3,232
Trade and other receivables, excluding derivatives	20	3,004	2,821
Current derivatives	20	48	52
Investments held for trading	17	–	16
Available-for-sale investments	17	427	287
Non-current derivatives and investments FVTPL	17	254	210
Loans to customers	17	58	69
Loans to joint ventures and associates	17	18	22
Held-to-maturity investments	17	1	1
Other non-current receivables	17	174	152
Guarantees to banks for loans (to third parties)	32	335	473
		7,354	7,335

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

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

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

Impairment losses

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

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

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

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

The income statement impact of EUR 7 million gain (2015: EUR 14 million gain) in respect of loans to customers and EUR 57 million expense (2015: EUR 61 million expense) in respect of trade and other receivables (excluding current derivatives) were included in expenses for raw materials, consumables and services.

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

Liquidity risk

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

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

Contractual maturities

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

In millions of EUR	2016 Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities	(14,570)	(16,792)	(4,006)	(1,703)	(4,895)	(6,188)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(5,994)	(5,994)	(5,963)	(16)	(2)	(13)
Derivative financial assets and (liabilities)						
Interest rate swaps used for hedge accounting (net)	242	283	17	266	–	–
Forward exchange contracts used for hedge accounting (net)	(23)	(32)	(24)	(8)	–	–
Commodity derivatives used for hedge accounting (net)	11	11	4	2	5	–
Derivatives not used for hedge accounting (net)	(13)	(14)	(14)	–	–	–
	(20,347)	**(22,538)**	**(9,986)**	**(1,459)**	**(4,892)**	**(6,201)**

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

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

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

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (refer to note 20), other investments (refer to note 17), trade and other payables (refer to note 29) and non-current non-interest-bearing liabilities (refer to note 25).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will adversely affect HEINEKEN's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

HEINEKEN uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise the effects of foreign currency fluctuations in profit or loss.

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

Foreign currency risk

HEINEKEN is exposed to foreign currency risk on (future) sales, (future) purchases, borrowings and dividends that are denominated in a currency other than the respective functional currencies of HEINEKEN entities. The main currencies that give rise to this risk are the US dollar, Mexican peso, Nigerian naira, British pound, Vietnamese dong and Euro.

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

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

HEINEKEN hedges up to 90% 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.

Notes to the Consolidated Financial Statements (continued)

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

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

The principal amounts of HEINEKEN's US dollar, British pound, Nigerian naira, Singapore dollar bank loans and bond issues are used to hedge local operations, which generate cash flows that have the same respective functional currencies or have functional currencies that are closely correlated. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN. This provides an economic hedge without derivatives being entered into.

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

Exposure to foreign currency risk

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

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

Sensitivity analysis

A 10% 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 interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings which have swap rates for the fixed leg ranging from 3.8 to 6.5% (2015: from 3.8 to 7.3%).

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Interest rate risk – profile

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

In millions of EUR	2016	2015
Fixed rate instruments		
Financial assets	83	93
Financial liabilities	(11,984)	(11,057)
Net interest rate swaps	–	(42)
	(11,901)	**(11,006)**
Variable rate instruments		
Financial assets	3,214	1,023
Financial liabilities	(2,587)	(1,508)
Net interest rate swaps	–	42
	627	**(443)**

Cash flow sensitivity analysis for variable rate instruments

HEINEKEN applies cash flow hedge accounting on certain floating rate financial liabilities and designates derivatives as hedging instruments. A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. This analysis is performed on the same basis as for 2015.

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

Commodity price risk

Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, while optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by HEINEKEN has been limited to aluminium hedging and to a limited extent gas and grains hedging, which are done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements. As at 31 December 2016, the market value of commodity swaps was EUR 11 million positive (2015: EUR 70 million negative).

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 EUR	10% increase	10% decrease
31 December 2016		
Aluminium hedges	40	(40)

Notes to the Consolidated Financial Statements (continued)

Cash flow hedges

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

In millions of EUR	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
						2016
Interest rate swaps						
Assets	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–
Cross-currency interest rate swaps						
Assets	242	1,167	55	1,112	–	–
Liabilities	–	(885)	(38)	(847)	–	–
Forward exchange contracts						
Assets	33	1,302	1,144	158	–	–
Liabilities	(56)	(1,335)	(1,169)	(166)	–	–
Commodity derivatives						
Assets	24	24	12	7	5	–
Liabilities	(13)	(13)	(8)	(5)	–	–
	230	**260**	**(4)**	**259**	**5**	**–**

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

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

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

Net investment hedges

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings are designated as a net investment hedge. The fair value of these borrowings at 31 December 2016 was EUR 506 million (2015: EUR 536 million), and no ineffectiveness was recognised in profit and loss in 2016 (2015: nil).

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management and financial instruments (continued)

Capital management

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus non-controlling interests).

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements of the share-based payment awards, as further explained in note 27. In 2015, HEINEKEN also purchased shares following the completion of the divestment of EMPAQUE in February 2015, as further explained in note 22.

Fair values

For bank loans and finance lease liabilities the carrying amount is a reasonable approximation of fair value. The fair value of the unsecured bond issues as at 31 December 2016 was EUR 11,292 million (2015: EUR 10,025 million) and the carrying amount was EUR 10,683 million (2015: EUR 9,669 million). The fair value of the other interest bearing liabilities as at 31 December 2016 was EUR 1,662 million (2015: EUR 1,870 million) and the carrying amount was EUR 1,597 million (2015: EUR 1,759 million).

Basis for determining fair values

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

Fair value hierarchy

The tables below present the financial instruments accounted for at fair value and amortised cost by level of the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

– Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

31 December 2016	Level 1	Level 2	Level 3
Available-for-sale investments	342	–	85
Non-current derivative assets	–	254	–
Current derivative assets	–	48	–
	342	**302**	**85**
Non-current derivative liabilities	–	(10)	–
Loans and borrowings	(11,292)	(1,662)	–
Current derivative liabilities	–	(75)	–
	(11,292)	**(1,747)**	**–**

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

Notes to the Consolidated Financial Statements (continued)

During the period ended 31 December 2016 there were no significant transfers between the three levels of the fair value hierarchy, except within the available-for-sale investments. Within this category the investment in Saigon Alcohol Beer and Beverages Corporation ('SABECO', Vietnam) has been transferred from Level 2 to Level 1 due to the fact that SABECO shares are no longer traded over-the-counter, but have become listed on the Ho Chi Minh Stock Exchange in December 2016. The transferred amount as per 31 December 2016 is EUR 249 million. The fair value adjustment of EUR 144 million during the year is recognised in other comprehensive income and presented within equity in the fair value reserve.

Level 2

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

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

Level 3

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

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

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

31. Off-balance sheet commitments

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

* Revised.

Notes to the Consolidated Financial Statements (continued)

31. Off-balance sheet commitments (continued)

HEINEKEN leases buildings, cars and equipment in the ordinary course of business.

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

During the year ended 31 December 2016, EUR 302 million (2015: EUR 301 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

On 15 December 2016 HEINEKEN has announced that following Vine Acquisitions Limited's announcement of a recommended cash offer for Punch Taverns plc, HEINEKEN through HEINEKEN UK has agreed a back-to-back deal with Vine Acquisitions to acquire Punch Securitisation A ('Punch A'), comprising approximately 1,900 pubs across the UK. HEINEKEN will pay an aggregate consideration of GBP305.0 million (EUR 356 million as per 31 December 2016) for the shares in Punch A and assume intercompany debts due from Punch A to Punch Taverns plc. As at 20 August 2016 external debts (nominal value) and derivatives of Punch A amounted to GBP 962.3 million. On 1 November 2016, Punch Taverns plc reduced the Punch A external debt by redeeming GBP 65 million of its class B4 notes. The acquisition of Punch A is subject, amongst other things, to approval by the relevant regulatory authorities.

The EUR 356 million cash consideration is included in the other off-balance sheet commitments (less than 1 year).

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

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

32. Contingencies

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

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

HEINEKEN's significant contingencies are described below.

Brazil

As part of the acquisition of the beer operations of FEMSA in 2010, HEINEKEN inherited existing legal proceedings with labour unions, tax authorities and other parties of its, now wholly-owned, subsidiaries Cervejarias Kaiser Brasil and Cervejarias Kaiser Nordeste (jointly, Heineken Brasil). The proceedings have arisen in the ordinary course of business and are common to the current economic and legal environment of Brazil. The proceedings have partly been provided for (refer to note 28). The contingent amount being claimed against Heineken Brasil resulting from such proceedings as at 31 December 2016 is EUR 348 million. Such contingencies were classified by legal counsel as less than probable of being settled against Heineken Brasil, but more than remote. However, HEINEKEN believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations. HEINEKEN does not expect any significant liability to arise from these contingencies. A part of the aforementioned contingencies (EUR 269 million) is tax-related and qualifies for indemnification by FEMSA.

As is customary in Brazil, Heineken Brasil has been requested by the tax authorities to collateralise tax contingencies currently in litigation amounting to EUR 521 million by either pledging fixed assets or entering into available lines of credit which cover such contingencies.

Guarantees

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

Guarantees to banks for loans relate to loans and advanced discounts to customers, which are given to external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans.

Notes to the Consolidated Financial Statements (continued)

33. Related parties

Identification of related parties

HEINEKEN's parent company is Heineken Holding N.V. HEINEKEN's ultimate controlling party is Mrs. de Carvalho-Heineken. Our shareholder structure is set out in the section 'Shareholder Information'.

In addition, HEINEKEN has related party relationships with its associates and joint ventures (refer to note 16), HEINEKEN pension funds (refer to note 26), Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), employees (refer to note 25) and with its key management personnel (the Executive Board and the Supervisory Board).

Key management remuneration

In millions of EUR	**2016**	2015
Executive Board	**13.0**	13.9
Supervisory Board	**1.0**	0.9
Total	**14.0**	**14.8**

Executive Board

The remuneration of the members of the Executive Board consists of a fixed component and a variable component. The variable component is made up of a Short-term variable pay (STV) and a Long-term variable award (LTV). The STV is based on financial and operational measures (75%) and on individual leadership measures (25%) as set by the Supervisory Board. For the LTV award we refer to note 27. The separate Remuneration Report is stated on pages 50-58.

As at 31 December 2016, Mr. Jean-François van Boxmeer held 217,276 Company shares and Mrs. Laurence Debroux held 7,069 Company shares (2015: Mr. Jean-François van Boxmeer 179,838, Mrs. Laurence Debroux 681).

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

* In 2015, an estimated tax penalty of EUR 2.8 million to the Dutch tax authorities was recognised in relation to the remuneration of Mr. René Hooft Graafland. This tax was an expense to the employer and therefore not included in the table above.

The matching share entitlements for each year are based on the performance in that year. The Executive Board members receive 25% of their STV pay in (investment) shares. In addition they have the opportunity to indicate before year-end whether they wish to receive up to another 25% of their STV pay in (investment) shares. All (investment) shares are restricted for sale for five calendar years, after which they are matched 1:1 by (matching) shares. For 2016 the Executive Board members did not elect to receive additional (investment) shares, hence the 'Matching share entitlement' in the table above is based on a 25% investment. In 2015 the investment was 50% for both Executive Board members. From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of EUR 1.1 million was recognised in the 2016 income statement. The matching share entitlements are not dividend-bearing during the five calendar year holding period of the investment shares. Therefore, the fair value of the matching share entitlements has been adjusted for missed expected dividends by applying a discount based on the dividend policy and vesting period.

Notes to the Consolidated Financial Statements (continued)

33. Related parties (continued)

Supervisory Board

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

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

[1] Stepped down as at 21 April 2016.

[2] Appointed as at 21 April 2016.

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

Other related party transactions

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

* Revised.

Heineken Holding N.V.

In 2016, an amount of EUR 1,159,905 (2015: EUR 1,047,479) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs. Best practice provision III.6.4 of the Dutch Corporate Governance Code of 10 December 2008 has been observed in this regard.

FEMSA

As consideration for HEINEKEN's acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), FEMSA became a major shareholder of Heineken N.V. Therefore, several existing contracts between FEMSA and former FEMSA-owned companies acquired by HEINEKEN have become related party contracts.

Notes to the Consolidated Financial Statements (continued)

34. HEINEKEN entities

Control of HEINEKEN

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. Heineken Holding N.V. Amsterdam has an interest of 50.005% in the issued capital of the Company. The financial statements of the Company are included in the consolidated financial statements of Heineken Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands. The list of the legal entities for which the declaration has been issued is disclosed in the Heineken N.V. stand-alone financial statements.

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, the Company irrevocably guarantees, in respect of the financial year from 1 January 2016 up to and including 31 December 2016, the liabilities referred to in Schedule 3 of the Republic of Ireland Companies Act 2014 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

Significant subsidiaries

Set out below are HEINEKEN's significant subsidiaries at 31 December 2016. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The country of incorporation or registration is also their principal place of business. The disclosed significant subsidiaries represent the largest subsidiaries and represent an approximate total revenue of EUR 13 billion and total asset value of EUR 22 billion and are structural contributors to the business.

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

		Percentage of ownership	
	Country of incorporation	**2016**	2015
Heineken International B.V.	The Netherlands	**100.0**	100.0
Heineken Brouwerijen B.V.	The Netherlands	**100.0**	100.0
Heineken Nederland B.V.	The Netherlands	**100.0**	100.0
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	**100.0**	100.0
Cervejarias Kaiser Brasil S.A.	Brazil	**100.0**	100.0
Heineken France S.A.S.	France	**100.0**	100.0
Nigerian Breweries Plc.	Nigeria	**55.4**	54.3
Heineken USA Inc.	United States	**100.0**	100.0
Heineken UK Ltd.	United Kingdom	**100.0**	100.0
Heineken España S.A.	Spain	**99.8**	99.8
Heineken Italia S.p.A.	Italy	**100.0**	100.0
Brau Union Österreich AG	Austria	**100.0**	100.0
Grupa Żywiec S.A.	Poland	**65.2**	65.2
LLC Heineken Breweries	Russia	**100.0**	100.0
Heineken Vietnam Brewery Limited Company	Vietnam	**60.0**	60.0

Non-controlling interests

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

35. Subsequent events

Acquisition of Brasil Kirin Holding S.A.

On 13 February 2017, HEINEKEN announced that it had reached an agreement with Kirin Holdings Company Limited to acquire Brasil Kirin Holding S.A. for a consideration of EUR 664 million (enterprise value of EUR 1,025 million for HEINEKEN). Through the acquisition HEINEKEN acquires Kirin's Brazilian activities. The transaction is expected to close in the first half of 2017.

Heineken N.V. Balance Sheet

Before appropriation of profit

As at 31 December

In millions of EUR	Note	2016	2015
Fixed assets			
Financial fixed assets			
Investments in participating interests	36	24,846	24,522
Other investments		242	210
Deferred tax assets		73	72
Total financial fixed assets		**25,161**	**24,804**
Trade and other receivables		14	19
Cash and cash equivalents		–	5
Total current assets		**14**	**24**
Total assets		**25,175**	**24,828**
Shareholders' equity			
Issued capital		922	922
Share premium		2,701	2,701
Translation reserve		(1,829)	(1,017)
Hedging reserve		(1)	(47)
Fair value reserve		262	122
Other legal reserves		838	719
Reserve for own shares		(443)	(432)
Retained earnings		9,248	8,675
Net profit		1,540	1,892
Total shareholders' equity	37	**13,238**	**13,535**
Liabilities			
Loans and borrowings	38	10,480	10,369
Total non-current liabilities		**10,480**	**10,369**
Loans and borrowings (current part)	38	1,338	782
Trade and other payables		117	136
Tax payable		2	6
Total current liabilities		**1,457**	**924**
Total liabilities		**11,937**	**11,293**
Total shareholders' equity and liabilities		**25,175**	**24,828**

Heineken N.V. Income Statement

For the year ended 31 December

In millions of EUR	Note	2016	2015
Personnel expenses		(14)	(15)
Total expenses		**(14)**	**(15)**
Interest income		77	76
Interest expenses		(320)	(306)
Other net finance income/(expenses)		(90)	(433)
Net finance expenses		**(333)**	**(663)**
Share of profit of participating interests, after income tax		1,799	2,392
Profit before income tax		**1,452**	**1,714**
Income tax income/(expense)		88	178
Profit	37	**1,540**	**1,892**

Notes to the Heineken N.V. Financial Statements

Reporting entity

The Company financial statements of Heineken N.V. (the 'Company') are included in the consolidated financial statements of Heineken N.V.

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e. only IFRS that is adopted for use in the EU at the date of authorisation) as explained further in the notes to the consolidated financial statements.

Significant accounting policies

Financial fixed assets

Participating interests (subsidiaries, joint ventures and associates) are measured on the basis of the equity method.

Shareholders' equity

The translation reserve and other legal reserves were previously formed under, and are still recognised in accordance with, the Dutch Civil Code.

Profit of participating interests

The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests, themselves, are not recognised.

Notes to the Heineken N.V. Financial Statements (continued)

36. Investments in participating interests

In millions of EUR	Participating interests	Loans to participating interests	Total
Balance as at 1 January 2015	**15,202**	**7,416**	**22,618**
Profit of participating interests	2,392	–	2,392
Dividend payments by participating interests	(736)	736	–
Effect of movements in exchange rates	79	–	79
Changes in hedging and fair value adjustments	70	–	70
Actuarial gains/(losses)	100	–	100
Acquisition of non-controlling interests without a change in control	4	–	4
Investments/(repayments)	45	(786)	(741)
Other movements	–	–	–
Balance as at 31 December 2015	**17,156**	**7,366**	**24,522**
Balance as at 1 January 2016	**17,156**	**7,366**	**24,522**
Profit of participating interests	1,799	–	1,799
Dividend payments by participating interests	(800)	800	–
Effect of movements in exchange rates	(804)	–	(804)
Changes in hedging and fair value adjustments	186	–	186
Actuarial gains/(losses)	(254)	–	(254)
Acquisition of non-controlling interests without a change in control	(148)	–	(148)
Investments/(repayments)	(1,457)	1,006	(451)
Other movements	(4)	–	(4)
Balance as at 31 December 2016	**15,674**	**9,172**	**24,846**

Notes to the Heineken N.V. Financial Statements (continued)

37. Shareholders' equity

In millions of EUR	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve
Balance as at 1 January 2015	**922**	**2,701**	**(1,097)**	**(99)**	**96**
Profit	–	–	–	–	–
Other comprehensive income	–	–	80	52	26
Total comprehensive income	**–**	**–**	**80**	**52**	**26**
Transfer to retained earnings	–	–	–	–	–
Dividends to shareholders	–	–	–	–	–
Purchase/reissuance of own shares	–	–	–	–	–
Own shares granted	–	–	–	–	–
Share-based payments	–	–	–	–	–
Acquisition of non-controlling interests without a change in control	–	–	–	–	–
Balance as at 31 December 2015	**922**	**2,701**	**(1,017)**	**(47)**	**122**
Balance as at 1 January 2016	**922**	**2,701**	**(1,017)**	**(47)**	**122**
Profit	–	–	–	–	–
Other comprehensive income	–	–	(812)	46	140
Total comprehensive income	**–**	**–**	**(812)**	**46**	**140**
Transfer to retained earnings	–	–	–	–	–
Dividends to shareholders	–	–	–	–	–
Purchase/reissuance of own shares	–	–	–	–	–
Own shares granted	–	–	–	–	–
Share-based payments	–	–	–	–	–
Acquisition of non-controlling interests without a change in control	–	–	–	–	–
Balance as at 31 December 2016	**922**	**2,701**	**(1,829)**	**(1)**	**262**

Notes to the Heineken N.V. Financial Statements (continued)

In millions of EUR	Other legal reserve	Reserve for own shares	Retained earnings	Net profit	Shareholders' equity
Balance as at 1 January 2015	**743**	**(70)**	**7,697**	**1,516**	**12,409**
Profit	186	–	(186)	1,892	1,892
Other comprehensive income	–	–	100	–	258
Total comprehensive income	**186**	**–**	**(86)**	**1,892**	**2,150**
Transfer to retained earnings	(210)	–	1,726	(1,516)	–
Dividends to shareholders	–	–	(676)	–	(676)
Purchase/reissuance of own shares	–	(384)	–	–	(384)
Own shares granted	–	22	(22)	–	–
Share-based payments	–	–	32	–	32
Acquisition of non-controlling interests without a change in control	–	–	4	–	4
Balance as at 31 December 2015	**719**	**(432)**	**8,675**	**1,892**	**13,535**
Balance as at 1 January 2016	**719**	**(432)**	**8,675**	**1,892**	**13,535**
Profit	153	–	(153)	1,540	1,540
Other comprehensive income	–	–	(254)	–	(880)
Total comprehensive income	**153**	**–**	**(407)**	**1,540**	**660**
Transfer to retained earnings	(34)	–	1,926	(1,892)	–
Dividends to shareholders	–	–	(786)	–	(786)
Purchase/reissuance of own shares	–	(39)	–	–	(39)
Own shares granted	–	28	(28)	–	–
Share-based payments	–	–	13	–	13
Acquisition of non-controlling interests without a change in control	–	–	(145)	–	(145)
Balance as at 31 December 2016	**838**	**(443)**	**9,248**	**1,540**	**13,238**

For more details on reserves, refer to note 22 of the consolidated financial statements.

For more details on share-based payments, refer to note 27 of the consolidated financial statements.

Notes to the Heineken N.V. Financial Statements (continued)

38. Loans and borrowings

Non-current and current liabilities

In millions of EUR	2016	2015
Unsecured bond issues	10,637	9,625
Unsecured bank loans	–	106
Bank overdrafts and commercial papers	2	237
Other interest-bearing liabilities	1,179	1,183
Total interest-bearing liabilities	**11,818**	**11,151**
Non-interest-bearing liabilities	–	–
Non-current derivatives	–	–
Loans and borrowings	**11,818**	**11,151**

In millions of EUR	Unsecured bond issues	Unsecured bank loans	Bank overdrafts and commercial papers	Other interest-bearing liabilities	Non-current derivatives	Total
Balance as at 1 January 2016	**9,625**	**106**	**237**	**1,183**	**–**	**11,151**
Effects of movements of exchange rates	126	1	(17)	26	(1)	135
Proceeds	1,300	–	868	–	1	2,169
Repayments	(414)	(107)	(1,086)	(30)	–	(1,637)
Balance as at 31 December 2016	**10,637**	**–**	**2**	**1,179**	**–**	**11,818**

Notes to the Heineken N.V. Financial Statements (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In millions of EUR	Category	Currency	Nominal interest rate %	Repayment	**Carrying amount 2016**	**Face value 2016**	Carrying amount 2015	Face value 2015
Unsecured bond	issue under EMTN programme	EUR	4.6	2016	**–**	**–**	400	400
Unsecured bond	issue under EMTN programme	SGD	1.4	2017	**66**	**66**	64	65
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	**100**	**100**	100	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	**62**	**62**	62	62
Unsecured bond	issue under EMTN programme	USD	1.5	2019	**189**	**190**	183	184
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	**847**	**850**	845	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	**997**	**1,000**	997	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	**498**	**500**	497	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	**498**	**500**	497	500
Unsecured bond	issue under EMTN programme	USD	3.3	2022	**189**	**190**	183	184
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	**140**	**140**	140	140
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	**497**	**500**	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	**454**	**460**	454	460
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	**743**	**750**	742	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	**224**	**225**	224	225
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	**199**	**200**	199	200
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	**180**	**180**	179	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	**92**	**100**	91	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	**75**	**75**	75	75
Unsecured bond	issue under EMTN programme	EUR	1.0	2026	**790**	**800**	–	–
Unsecured bond	issue under EMTN programme	EUR	1.4	2027	**497**	**500**	–	–
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	**1,185**	**1,186**	1,146	1,148
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	**709**	**712**	685	689
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	**945**	**949**	915	919
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	**465**	**474**	450	459
Unsecured bank loans	German Schuldschein notes	EUR	1.8 – 6.2	2016	**–**	**–**	111	111
Other interest-bearing liabilities	2011 US private placement	GBP	7.3	2016	**–**	**–**	34	34
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	**85**	**85**	83	83
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	**37**	**37**	44	44
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	**688**	**688**	665	666
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	**369**	**370**	357	358
					11,820	**11,889**	10,919	10,986

For financial risk management and financial instruments, refer to note 30.

Notes to the Heineken N.V. Financial Statements (continued)

39. Auditor fees

Other expenses in the consolidated financial statements include EUR 9.8 million of fees in 2016 for services provided by Deloitte Accountants B.V. and its member firms and/or affiliates (2015: EUR 9.5 million). Fees for audit services include the audit of the financial statements of the Company and its subsidiaries. Fees for other audit services include review of interim financial statements, sustainability, subsidy and other audits. Fees for tax services include tax compliance and tax advice. Fees for other non-audit services include agreed-upon procedures and advisory services. Fees for tax and other non-audit services are related to the network outside the Netherlands and are in accordance with local independence regulation.

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

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

40. Off-balance sheet commitments

In millions of EUR	**Total 2016**	**Less than 1 year**	**1 – 5 years**	**More than 5 years**	Total 2015
Undrawn committed bank facility	2,500	–	2,500	–	2,500

	2016		2015	
	Third parties	**HEINEKEN companies**	Third parties	HEINEKEN companies
Declarations of joint and several liability	–	3,728	–	1,953

Fiscal unity

The Company is part of the fiscal unity of HEINEKEN in the Netherlands. As a result, the Company is liable for the tax liability of the fiscal unity in the Netherlands.

41. Subsequent events

For subsequent events, refer to note 35.

Notes to the Heineken N.V. Financial Statements (continued)

42. Participating interests

For disclosures of significant direct and indirect participating interests, refer to notes 16 and 34 to the consolidated financial statements.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to the following legal entities established in the Netherlands:

		Percentage of ownership	
	Country of incorporation	**2016**	2015
Heineken Nederlands Beheer B.V.	The Netherlands	**100%**	100%
Heineken Group B.V.	The Netherlands	**100%**	100%
Heineken Brouwerijen B.V.	The Netherlands	**100%**	100%
Heineken CEE Investments B.V.	The Netherlands	**100%**	100%
Heineken Nederland B.V.	The Netherlands	**100%**	100%
Heineken International B.V.	The Netherlands	**100%**	100%
Heineken Supply Chain B.V.	The Netherlands	**100%**	100%
Heineken Global Procurement B.V.	The Netherlands	**100%**	100%
Heineken Mexico B.V.	The Netherlands	**100%**	100%
HIBV Skopje Holdings B.V.	The Netherlands	**100%**	100%
Heineken Beer Systems B.V.	The Netherlands	**100%**	100%
Amstel Brouwerij B.V.	The Netherlands	**100%**	100%
Vrumona B.V.	The Netherlands	**100%**	100%
B.V. Beleggingsmaatschappij Limba	The Netherlands	**100%**	100%
Brand Bierbrouwerij B.V.	The Netherlands	**100%**	100%
Brasinvest B.V.	The Netherlands	**100%**	100%
Heineken Asia Pacific B.V.	The Netherlands	**100%**	100%
B.V. Handel- en Exploitatie Maatschappij Schoonhoven	The Netherlands	**100%**	100%
Distilled Trading International B.V.	The Netherlands	**100%**	100%
Premium Beverages International B.V.	The Netherlands	**100%**	100%
De Brouwketel B.V.	The Netherlands	**100%**	100%
Proseco B.V.	The Netherlands	**100%**	100%
Roeminck Insurance N.V.	The Netherlands	**100%**	100%
Heineken Americas B.V.	The Netherlands	**100%**	100%
Heineken Export Americas B.V.	The Netherlands	**100%**	100%
Amstel Export Americas B.V.	The Netherlands	**100%**	100%
Horeca European Buying B.V.	The Netherlands	**100%**	100%
Heineken Brazil B.V.	The Netherlands	**100%**	100%
B.V. Panden Exploitatie Maatschappij PEM	The Netherlands	**100%**	100%
Heineken Exploitatie Maatschappij B.V.	The Netherlands	**100%**	100%
Hotel De L'Europe B.V.	The Netherlands	**100%**	100%
Hotel De L'Europe Monumenten I B.V.	The Netherlands	**100%**	100%
Hotel De L'Europe Monumenten II B.V.	The Netherlands	**100%**	100%
Heineken Groothandel B.V.	The Netherlands	**100%**	100%
Heineken Horeca Services B.V.	The Netherlands	**100%**	100%
Heineken Namibia B.V.	The Netherlands	**100%**	100%
Online Drinks B.V.	The Netherlands	**100%**	–
Beerwulf B.V.	The Netherlands	**100%**	–

Notes to the Heineken N.V. Financial Statements (continued)

43. Other disclosures

Remuneration

Refer to note 33 of the consolidated financial statements for the remuneration and incentives of the Executive Board and Supervisory Board.

Executive and Supervisory Board statement

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code and Article 5:25c, paragraph 2 sub c, of the Financial Markets Supervision Act.

Amsterdam, 14 February 2017	Executive Board	Supervisory Board
	Van Boxmeer	Wijers
	Debroux	Fernández Carbajal
		Das
		de Carvalho
		Fentener van Vlissingen
		Navarre
		Astaburuaga Sanjinés
		Scheffers
		Huët
		Mars-Wright
		Brunini

Sustainability Review

Brewing a Better World: our sustainability performance

We're making good progress and are on track to reach the majority of our 2020 commitments.

Brewing a Better World is one of our six key business priorities. It focuses on six areas where we can make the biggest difference and inspires our brands to align their brand purpose with environmental and social issues. One example is Tecate, which is raising awareness of domestic violence.

We're making good progress in all of our six focus areas, putting us on track to reach the majority of our commitments for 2020. This gives us the strength and determination to try harder. We are currently looking beyond 2020 as we raise our ambitions for the future, in line with the Paris Agreement on climate change (COP21), the UN Sustainable Development Goals and our conversations with stakeholders. We will announce these ambitions in the course of 2017.

Visit our website to explore our Brewing a Better World governance, material issues, stakeholder engagement and performance – along with case studies from our businesses around the world. From March 2017, you'll be able to explore additional non-financial indicators and GRI-4 tables.

Sustainability Review (continued)

Protecting water resources

Water is a shared resource and essential for everyone on this planet. Without water, HEINEKEN wouldn't exist – beer is 95% water. We use water throughout our supply chain, from growing crops to our finished products. As global demand for water continues to rise, we take our responsibility to minimising our water footprint.

Reduce water consumption in our breweries

Our 2020 commitment

– Reduce water consumption in our breweries to 3.5 hl/hl.[1]

– Reduce water consumption in our breweries to 3.3 hl/hl in water-stressed areas.

Our 2018 milestone

– Reduce water consumption in our breweries to 3.6 hl/hl.

28%

decrease in water consumption (hl/hl) compared with 2008

1,011

Olympic-sized pools – the equivalent of water we saved in 2016 compared to 2015

3.3 hl/hl

average water consumption in our breweries in water-stressed areas

€13.5m

saved through water efficiency since 2009

For more on our water stewardship approach and progress, **see our website**

Our progress in 2016

On track

– We decreased average water consumption in our breweries worldwide to 3.6 hl/hl in 2016, reaching our 2018 milestone.

– We decreased average water consumption in our breweries in water-stressed areas to 3.3 hl/hl, reaching our 2020 commitment faster than planned (2015: 3.6 hl/hl, 2014: 3.8 hl/hl).

– We've already achieved our 3.5 hl/hl 2020 target in more than 63% of our total production volume.

– At a number of sites, water consumption is still too high. 33 sites still use above 5 hl/hl, representing 7% of our volume.

Looking ahead

Our next step will be to promote water recycling in our production processes in water-stressed areas. We've developed a new Governance Standard that will help our breweries upgrade their treated wastewater to drinking water quality, enabling it to be reused in a range of non-product applications. We plan to implement this technology in our breweries in Mexico and Indonesia in 2017.

Water consumption

Hl/hl beer + cider + soft drinks + water

3.6 hl/hl

2016	**3.6**
2015	3.7
2014	3.9
2013	4.1
2012	4.2
2011	4.3
2010	4.5
2009	4.8
2008	5.0

[1] Baseline 2008.

Sustainability Review (continued)

Significant water balancing in water-stressed areas[2]

Our 2020 commitment

– Aim for significant water balancing by our production units[3] in water-scarce and water-distressed areas.

Our 2018 milestone

– 18 production units in water-scarce and water-distressed areas have started to implement action plans for water balancing.

"HEINEKEN Mexico's contribution to the Monterrey Metropolitan Water Fund helps improving water availability and reducing flood risks."

Colin Herron
Freshwater Programme Director,
The Nature Conservancy

For more on water balancing, and our progress in Mexico, Ethiopia and other markets, **see our website**

Our progress in 2016

On track

– 13 of the 23 production units in scope have started to implement water balancing action plans.

– We kicked off a new partnership with Conservation International's local NGO in Indonesia to reforest 20 hectares of land in the sensitive Cisidane catchment area, and started two landscape restoration projects in Spain with NGO partner Commonland.

– The second year of our partnership with UNIDO saw us co-host two multi-stakeholder workshops to develop a shared vision of the most important water issues of densely populated Java and the collective efforts needed to address them. It inspired stakeholders to start a Water Alliance.

Looking ahead

Based on an Assessment by WWF International, we have identified 13 additional sites where we will investigate the water risks in 2017. When these risks are confirmed, we will launch Water Stewardship Initiatives. Pilot projects will start in Mexico in 2017 to engage farmers on sustainable water use and we have more workshops planned with UNIDO, including Algeria and South Africa.

Wastewater management

Our 2020 commitment

– All of our wastewater volumes are treated (by us or by a third party) before being discharged into surface water.

For more on our water stewardship approach and progress, **see our website**

Our progress in 2016

On track

– In 2016, a new wastewater treatment plant became operational in Nizhny Novgorod (Russia).

– Construction of two other wastewater treatment plants has begun: one in Freetown (Sierra Leone) and one in Gisenyi (Rwanda). We expect these to be operational in the course of 2017.

– By the end of 2016, we had 13 sites without a treatment plant; 12 beverage plants and one malting plant, representing 3.5% of Heineken N.V. beverage production. For these sites, we plan to build wastewater treatment plants to be in operation by 2020.

[2] This means redressing the balance between the amount of water we source from the watershed and the amount that isn't returned because it's used in our products, and through evaporation.

[3] 23 production units in Algeria, Egypt, Ethiopia, Indonesia, Mexico, Nigeria, Spain and Tunisia.

Sustainability Review (continued)

Reducing CO_2 emissions

Climate change is one of the greatest threats facing society. As a leading global company, we believe it's our responsibility to actively reduce emissions. We've set ambitious CO_2 reduction targets across our value chain.

Lower emissions in production

Our 2020 commitment

– Reduce CO_2 emissions from production by 40% to 6.4 kg CO_2-eq/hl.[4]

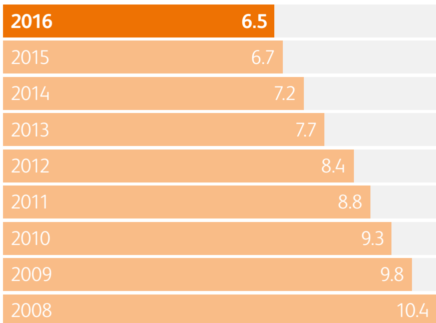
Our 2018 milestone

– Reduce CO_2 emissions from production by 37% to 6.7 kg CO_2-eq/hl.

CO_2 emissions in production

Kg CO_2-eq/hl beer + cider + soft drinks + water

6.5 kg CO_2-eq/hl



25%

of our total electrical energy comes from renewable sources (own generated and green certificates)

290,000

solar panels (which would cover an area **the size of 62 football pitches**) would save as much CO_2 emissions as we saved in 2016 compared to 2015

For a more detailed breakdown of our total carbon footprint, **see our website**

Our progress in 2016

On track

– We continue to reduce CO_2 emissions from production, keeping us ahead of our 2020 milestone. In 2016, we achieved a 37% reduction in CO_2 emissions from production, compared with the 2008 baseline.

– Our emissions are also decreasing in absolute terms. Even though our production volumes in 2016 were 52% higher than in 2008, our emissions were 5% less.

– 25% of our electrical energy and 5% of our thermal energy comes from renewable sources.

– In the Netherlands, four windmills became operational, delivering up to 36% of the entire electricity requirements of Zoeterwoude, Europe's largest brewery.

– In Vietnam, by end of 2016, four out of six breweries were using renewable biogas and biomass for 100% of their thermal energy needs.

– Our Göss brewery in Austria, the world's first carbon-neutral brewery at this scale, won the EU Sustainable Energy Award.

– In Italy, the solar project at Massafra brewery was extended, making it the largest solar PV project installed on a brewery, worldwide.[5]

Looking ahead

In collaboration with UNIDO, we are conducting a feasibility study in Sierra Leone on the potential for renewable energy, with the aim to deliver part of the solar power to the surrounding communities.

€77.6m

saved through energy efficiency since 2009

[4] Baseline 2008.

[5] Source: Solarplaza.com.

Sustainability Review (continued)

Reduced emissions from distribution in Europe and the Americas

Our 2020 commitment

– Reduce the CO_2 emissions from distribution by 20%[6] in Europe and the Americas.

Our 2018 milestone

– Reduce the CO_2 emissions from distribution by 16% in Europe and 0% in the Americas.

Our progress in 2016[7]

Europe: On track | **Americas: not available**

– Emissions in Europe (including Russia and Belarus) went down 3.8% from 2015 and 13.2% compared to baseline year, putting us on track to meet our commitment for the region. Poland, Netherlands and Serbia have already achieved the 2020 commitment of 20% reduction.

– USA and Brazil are showing progress compared to last year, but the results for Mexico needed more time for validation. Given Mexico's significant impact on the regional (Americas) and global number we will disclose final results by end of March in the sustainability section of the Company website.

Looking ahead

Our new brewery in Chihuahua, northern Mexico, is due to be operational in late 2017 which will make a positive contribution to further emission reduction in distribution. This is because we will become less dependent on transporting products from our breweries in the south to meet demand in the north.

We are exploring opportunities to shift towards sustainable bio-fuel for road freight and ocean freight in a number of countries.

Lower emissions in our fridges

Our 2020 commitment

– Reduce the CO_2 emissions of our fridges by 50%.[8]

Our 2018 milestone

– 100% green fridges purchased.

– Reduce the CO_2 emissions of our fridges by 47%.

For more information on how we reduce CO_2 emissions across our value chain and how we move towards circular business models, **see our website**

Our progress in 2016

On track

– Almost 100% of our 125,059 new fridges in 2016 had one or more green features: use of hydrocarbon refrigerant, LED illumination, an energy management system and energy-efficient fans.

– CO_2 emissions per fridge were almost 46% less than in 2010, putting us on track to reach our 2020 commitment.

[6] Baseline 2010/2011, scope is Europe and Americas, 24 of our largest operations: Belgium, Bulgaria, France, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland, UK, Austria, Belarus, Croatia, Czech Republic, Greece, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Brazil, Mexico, USA. Outbound transport under HEINEKEN control. Excluding Slovenia as this operation has not started its Logistic Programme in 2016.

[7] At the time of publication, this indicator was not assured; however, final externally assured data will be published on the HEINEKEN website by the end of March 2017.

[8] Baseline 2010.

Sustainability Review (continued)

Sourcing sustainably

Responsible sourcing of raw materials has never been more important. We want to guarantee a long-term, sustainable supply of raw materials and operate in a way that improves quality of life for local people. Working with our suppliers is key.

Source agricultural raw materials from sustainable sources

Our 2020 commitment

– Aim for at least 50% of our main raw materials[9] to come from sustainable sources.

Our 2018 milestone

– Aim for at least 25% of our main raw materials to come from sustainable sources.

For more on our Sustainable Agriculture approach and 2016 progress, **see our website**

Our progress in 2016

On track

– In 2016, 17% of our main raw materials came from sustainable sources.[10]

– For the first time, we looked across all our main raw materials, meaning sugar beet, sugar cane, rice, sorghum, wheat and maize were included in our reporting, alongside barley, hops and apples.

Source agricultural raw materials locally in Africa and Middle East

Our 2020 commitment

– Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent.

Our 2018 milestone

– 56%[11] of agricultural raw materials used in Africa to be locally sourced[12] from within the continent.

"HEINEKEN clearly understands that linking local farmers to markets is key to sustainability and economic development."

Niels Hanssens
Deputy Executive Director, European Cooperative for Rural Development (EUCORD)

For more on our Local Sourcing programme and progress in 2016, **see our website**

Our progress in 2016

More to do

– We sourced an estimated 49% of the agricultural raw materials we used in Africa and the Middle East locally in 2016, showing we still have work to do to meet our 2020 commitment.

– The total percentage remained on the same level as in 2015 due to the consolidation of South Africa into our reporting for the first time.

– Excluding this new market we increased local sourcing to 53% on a like-for-like basis with 2015.

– We're now sourcing in 13 operating companies across 27 different value chains, including five Public-Private Partnerships.

Looking ahead

To achieve 60% local sourcing in Africa in 2020, we need to continue to encourage and support partners to invest in new processing capacity in several markets.

Our local sourcing projects provide work to an estimated 150,000 farmer households. With an average of seven family members* per household, our potential impact is much higher.

* Source: World Bank.

[9] In scope are barley, hops, apples, sugar beet, sugar cane, rice, sorghum, wheat and maize.
[10] Including Joint Ventures that fall under our global purchase organisations. At the time of publication, this indicator was not assured; however, final externally assured data will be published on the HEINEKEN website by the end of March 2017.
[11] Based upon volume (in tons).
[12] With local sourcing we refer to sourcing within the region of Africa and Middle East.

Sustainability Review (continued)

Compliance with our Supplier Code Procedure

Our 2020 commitment

– Ongoing compliance with our Supplier Code Procedure.

Our 2018 milestone

– 95% compliance with four-step Supplier Code Procedure.

For more on our Supplier Code Procedure, **see our website**

Our progress in 2016

More to do

– The estimated average level of compliance with our four-step Supplier Code Procedure across the 70 operating companies in scope, is 78%. See page 146 'Reporting basis and criteria non-financial indicators' for more information on the supplier procedure and how we calculate this percentage.

– We stopped working with 25 suppliers because they were unwilling to sign our Supplier Code (9), refused to subscribe to Ecovadis (15) or refused to undergo a site audit (1).

Looking ahead

HEINEKEN's Supplier Code provides guidelines for how we expect our suppliers to act in the areas of Integrity and Business Conduct, Human Rights, and the Environment. In 2016, we asked NGO Forum for the Future to review our Supplier Code and related governance procedures. We're now considering the outcomes as we look to strengthen our Supplier Code and Supplier Risk Analysis.

Advocating responsible consumption

HEINEKEN products are enjoyed in moderation by hundreds of millions of people around the world. We believe it's our responsibility to encourage people to drink responsibly. Our 2020 commitments are aimed at encouraging responsible attitudes and reducing the harmful use of alcohol. We continue to innovate in the low- and no-alcohol category.

Make responsible consumption aspirational

Our 2020 commitment

– Make responsible consumption aspirational through Heineken®.

Our 2018 milestone

– Invest a minimum of 10% of our media spend[13] for Heineken® in supporting our dedicated responsible consumption campaign in at least 50% of our market volume.[14]

Our progress in 2016

On track

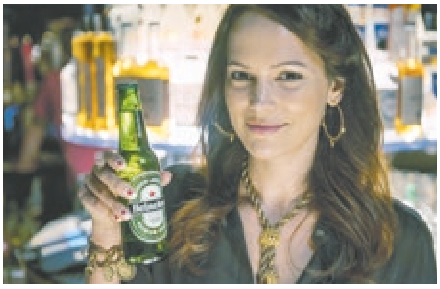
– Our 14 markets in scope, representing more than 50% of the Heineken® brand global volume, invested more than 10% of media spend in dedicated responsible consumption campaigns.

– In January 2016, we launched our third campaign: 'Moderate Drinkers Wanted'.

– In September, we launched our new global Formula 1® partnership with the campaign 'When You Drive, Never Drink'. In the Netherlands it won the STIVA Award for best and most responsible alcohol commercial.

Looking ahead

From 2017 onwards, we are raising our ambition. We will dedicate 10% of media spend in every single market where we sell Heineken® to responsible drinking campaigns.



[13] Investments dedicated to responsible consumption messaging with regards to Heineken® brand communication. This includes the 'Dance More Drink Slow' and 'Moderate Drinkers Wanted' campaign, 'When You Drive, Never Drink' Formula 1® campaign, UEFA® Champions League specific responsible consumption boarding and other specific activations at festivals and events.

[14] Market scope, covering in total at least 50% of Heineken® global volume. We focus our efforts on the larger markets where we can make the biggest impact.

Sustainability Review (continued)

Building partnerships to address alcohol abuse

Our 2020 commitment

– Every market in scope has and reports publicly on a measurable partnership aimed at addressing alcohol abuse.

Our 2018 milestone

– Operating companies representing 90% of sales volume report publicly on a measurable partnership aimed at addressing alcohol abuse.

See the case study section of our website for examples of our partnerships

Our progress in 2016

More to do

– 51 operating companies across 50 markets have a partnership in place to address alcohol-related harm.

– Of these, 69% have met our partnership criteria, representing 81% of the consolidated beer volume.

Deliver global industry commitments

Our 2018 milestone

– Deliver global industry commitments by end of 2017 and report in 2018, taking actions in five key areas: under-age drinking, marketing codes of practice, consumer information and product innovation, drinking and driving, retailer support.

For more information on our responsible consumption approach, **see our website**

Our progress in 2016

On track

– A collective report on the progress on these commitments was published in July 2016 and assured by KPMG.

– A progress report for 2016 will be published by IARD mid 2017.

– By end of 2016, low- and no-alcohol options made up 6% of our total global volume.

Looking ahead

We continue the expansion of our low- and no-alcohol portfolio. In 2017, we will launch a 0.0 version of our flagship brand Heineken®.

Ingredients and nutrition information on labels

Our 2016 milestone

– Provide ingredients and nutrition information on pack for all our beer brands in the EU, ahead of industry.

– Include a link on the packaging referring to a website, where consumers can obtain further information on fat, sugars, protein and salt.

Our progress in 2016

Partly achieved

– By the end of 2016, labels have been changed for 47% of brands in scope[15].

– For 37% of brands, these labels also display a link to a website.

– Delivering this commitment isn't straightforward due to the complexity of the operation. We aim to achieve it before the end of 2017, still ahead of the industry but avoiding unnecessary waste by first using existing stock.

[15] Imported low volume non-European brands are not in scope.

Sustainability Review (continued)

Promoting health and safety

Nothing is more important than ensuring our employees and the people we work with are safe when they perform their duties. Our ultimate goal is simple: zero fatalities, and 'Safety First' is our number one company behaviour.

Implement Life Saving Rules

Our 2020 commitment

– Life Saving Rules action plans fully implemented.

Our 2018 milestone

– Operating companies representing 95% of employees have accomplished 80% of the actions coming from Live Saving Rules action plans.

Our progress in 2016

On track

– In 2016, all operating companies have assessed their safety performance and defined their rules of the Life Saving Rules action plan. The 12 rules set out clear and simple do's and don'ts for our highest risk activities.

Safety performance

Our progress in 2016

– We greatly regret that 15 people lost their lives while working within the HEINEKEN Company in 2016 (2015: 22). Three were direct HEINEKEN employees and 12 were employed by contractors or suppliers.

– In Brazil, four contract workers at the HEINEKEN brewery in Jacarei lost their lives and another injured when a boiler under repair exploded on 28 January.

– Three people lost their lives in Ethiopia, three in Mexico, one in DRC, one in Egypt, one in France, one in Greece, and one in Russia.

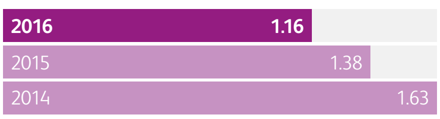
– Accidents among HEINEKEN employees fell from 1,060 to 894 in 2016. 490 accidents were in logistics and distribution, 236 in sales and marketing, 135 in production and 33 in support functions.[16]

– Road safety officer trainings are being conducted and executed by the operating companies.

For more detailed information on our health and safety performance, **see our website and case studies**

Company wide	2014	2015	2016
Fatalities and permanent disabilities			
Fatalities of Company personnel	4	6	**3**
Fatalities of contractor personnel	11	16	**12**
Permanent disabilities of Company personnel	11	6	**3**
Accidents (absolute values)[16]			
Accidents of Company personnel	1,297	1,060	**894**
Accidents of contractor personnel	159	140	**171**
Lost days of Company personnel	29,515	31,008	**27,240**
Total workforce (FTE)[17]	79,538	76,956	**77,215**
Accidents (relative values)[16]			
Accident frequency (cases per 100 FTE Company personnel)	1.63	1.38	**1.16**
Accident severity (average lost days per 100 FTE Company personnel)	37	40	**35**

Accident frequency
cases per 100 FTE
1.16



Accident severity
Last calendar days/100 FTE
35

[16] The current reporting period for accidents is from December 2015 up till and including November 2016.

[17] The FTE is measured as the average of the month end FTEs for the in scope operating companies.

Sustainability Review (continued)

Growing with communities

We believe it is important to contribute to the communities in which we operate. We make our greatest contribution through our business itself – by creating jobs, supporting suppliers and paying taxes.

Creating economic and social impact

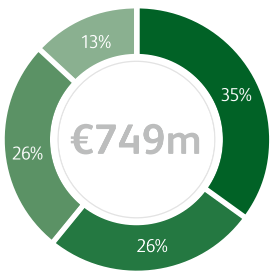
We believe that responsible tax behaviour is an essential element of our sustainability strategy. We support stable, transparent and predictable tax regimes that incentivise long-term investment and economic growth. We also support the principles that underpin the OECD's work on Base Erosion and Profit Shifting (BEPS), including country-by-country reporting to the tax authorities. HEINEKEN is working to ensure compliance with the new requirements.

28.3%

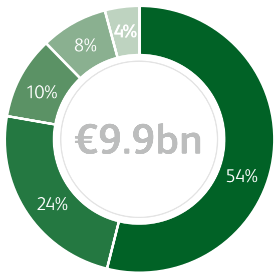
effective income tax rate (beia)[18]

For more on our approach to tax, **see our website**

Corporate income tax paid by geographical region



Total tax contribution per category



Investing in our communities

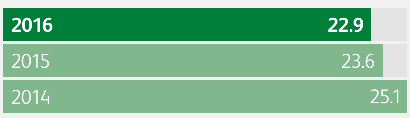
We base our support around three building blocks:

Direct contributions

In 2016, HEINEKEN operating companies contributed the equivalent of EUR 22.9 million to local communities, including cash donations, time, in-kind donations and management costs. More than 15,500 employees in 36 markets contributed an estimated 65,000 hours volunteering.

Total direct contributions by our operating companies

€22.9m



Shared value projects

Our local sourcing projects in Africa create jobs, help to strengthen the agricultural sector and improve the lives of rural households over time. Between 2009 and 2016, we invested EUR 4.3 million and EUR 15.8 million in equipment and people through our Public-Private Partnership projects. This excludes third party funding.

The HEINEKEN Africa Foundation

The HEINEKEN Africa Foundation approved 11 new projects in 2016, representing a total commitment of EUR 1.2 million. Four projects will provide safe drinking water to communities in Burundi, South Africa and Democratic Republic of Congo, and two will provide ambulances to transport pregnant women in Ethiopia. Since it was established in 2007, the Foundation has committed EUR 8,1 million to 94 projects, of which 41 projects were still running in 2016.

HEINEKEN donated EUR 10 million to the endowment fund, increasing it to EUR 30 million in total.

For more detailed information on how we contributed and where, **see our website and case studies**

[18] The effective income tax rate (beia) is different from the reported (IFRS) effective tax rate, which was 29.7% in 2016 (see page 90 of this 2016 Annual Report).

Sustainability Review (continued)

Values and behaviours

We value a passion for quality, enjoyment of life, and respect for people and for our planet. Our values represent what we stand for as a corporate citizen, a business partner and an employer. They are part of our company culture, and our Code of Business Conduct, Supplier & Marketing Codes.

Code of Business Conduct

– As of 2016 year end, more than 50,000 employees had completed our Code of Business Conduct training, either online or in classroom sessions.

– At the end of 2016, module one and module two of our anti-bribery e-learning training programme were completed more than 11,000 times. Module three will be launched in 2017.

Speak Up

– We received 380 grievance reports through Speak Up in 2016, up from 330 in 2015. Reports related to fraud (36%), misconduct or inappropriate behaviour (33%), discrimination and harassment (7%), and other issues (24%).

– 64% of reports were substantiated and corrective and preventative actions taken where relevant and possible. Actions included process and control improvements, reimbursement of financial loss and disciplinary measures.

– On 14 December 2015, former employees of Bralima in Bukavu, DRC filed a complaint with the Dutch National Contact Point (NCP) with regard to an alleged violation of the OECD Guidelines for Multinational Enterprises. We accepted the NCP's offer to enter into a mediation process and welcome the opportunity to understand the issues raised by the complainants that occurred in 2003.

For more on our Business Code of Conduct and Employees' and Human Rights approach, **see our website**

Employee engagement

In 2016, 86% of our employees participated in HEINEKEN's Employee Engagement Survey. The Employee Engagement Index score, which assesses the motivation, commitment and willingness of our employees to apply discretionary effort, rose by 1% to 78%. This is 7% above the externally benchmarked norm and marks us out as a high-performing organisation in relation to engagement.

Diversity

We want to make sure there are equal opportunities for all. Cultural diversity remains our strong point. In 2016, we had 53 different nationalities amongst our senior managers. However, we need to do more to increase our gender diversity. In 2017, we are rolling out a renewed guide of Leadership Expectations and a new Inclusion and Diversity Platform to help us better leverage our global talent pool. Growing a talent pipeline to build a diverse organisation will take time.

Representation by gender in % (2016)	Male	Female
Supervisory Board	73	27
Executive Board	50	50
Executive Team	80	20
Senior Management	83	17

Employees' and Human Rights

– With the expert support of Shift, we are developing a Human Rights Due Diligence process based on the UN Guiding Principles on Business and Human Rights. To better understand the Human Rights related challenges in our operations and supply chain, we conducted a global gap analysis and initiated Human Rights workshops in Mexico, Myanmar and Nigeria. Based on the insights, we will develop a Human Rights action plan and guidance for our operating companies in 2017.

– We participated in the 2016 pilot study of the Corporate Human Rights Benchmark. This benchmark ranks the top 500 globally listed companies on their human rights policy, process and performance.

– We started co-operating with the African Studies Centre Leiden (Leiden University) to have a closer look at the opportunities and challenges of doing business in Africa, more specifically in conflict zones and in markets operating in difficult conditions.

Looking ahead

We are increasing our dialogue with NGOs, investors, government ministries and other stakeholders.

Reporting basis and criteria non-financial indicators

As we integrate Brewing a Better World in the way we manage our business, it appears only logical to gradually move towards Integrated Reporting. For the 2015 Annual Report, we made a first step by disclosing a selection of non-financial indicators (KPIs). For this year's report, we further integrate the most important non-financial KPIs and no longer publish a separate Sustainability Report. The remaining non-financial KPIs will be disclosed at the end of March 2016, in the sustainability section of our Company Website. This includes more detailed information on the actions we took in 2016, case studies, an overview of data and the G4-reference table.

Operating companies in scope

The non-financial indicators in this report cover the performance of all our consolidated operating companies from 1 January 2016 up to and including 31 December 2016, unless stated otherwise. A different reporting period is applied to those indicators where the current reporting cycle does not allow for reporting within the timelines required for the Annual Report. In this year's review, in a number of indicators, we include the following businesses for the first time: Desnoes & Geddes in Jamaica, Heineken Malaysia Berhad, Pivovarna Lasko Union in Slovenia, APB Alliance Brewery in Myanmar and Heineken South Africa.

The term 'production unit' means breweries, cider plants, soft drink plants, malteries, water plants and combinations of these, at which malt, beer, cider, soft drinks and water are produced. Two packaging material plants are also in the scope of production units, covering the manufacture of bottles and crates. Other plants have been included too, such as a winery, distillery and ice production facilities.

Indicators in scope

The content of the report is based on the material aspects for both our Company and our stakeholders and is directly linked to the Brewing a Better World strategy, our six focus areas and our 2020 commitments. We have selected the non-financial KPIs that are most material, based on the following criteria:

– The KPI is a Brewing a Better World commitment

– The KPI is a new target we publicly disclosed in our 2015 report

– The KPI is not related to a target but part of one of the Brewing a Better World focus areas and seen as important by our stakeholders

– The combination of KPIs should give a balanced – high level – overview of our progress in 2016.

Scope and materiality of indicators are approved on an annual basis by the Disclosure Committee, and may be adjusted once a year with effect as of the following year.

Reporting systems

The main systems used for collection, validation and analysis of reported data:

– Safety data is reported quarterly via a global system named ARISO (Accident Reporting & Investigation Software system)

– The collection and validation of environmental data have been integrated in Business Comparison System (BCS). Production units submit environmental data on a monthly basis in BCS

– The Green Gauge reporting system allows us to monitor and report quarterly progress against 12 key areas, related to our commitments

– Other reporting systems include the Contract Lifecycle System (CLM) and the EcoVadis Platform for Supplier Code and performance information, and Ethics Point for 'Speak Up' data

– The Annual Sustainability Survey is the source of information for all other data that is not covered by the previously mentioned data sources.

Reporting basis and criteria non-financial indicators (continued)

Reliability and accuracy of data

Processes have been established for collection, review and validation of the non-financial data included the reporting, both at local operating company and global level. Subject matter experts are involved at various levels to validate and challenge the data and process.

HEINEKEN is continuing to work on formulating and applying uniform definitions and instructions for reporting purposes, in order to improve the accuracy and comparability of data. Where possible, standard calculations are being built into our systems to minimise errors. Despite the continuous strengthening of our data collection processes and the fact that our operating companies and data owners have reported to the best of their knowledge, in good faith and in accordance with agreed procedures, it is not possible to ascertain 100% completeness of data contained in our report. Our operating companies are at differing maturity levels with regards to implementing the various data collection processes. Where we have any concerns, however, it is highlighted in the report.

HEINEKEN Global Audit is involved in monitoring KPI reporting processes. A yearly risk assessment is performed on all KPIs to determine the year-end audit approach. For this purpose, Global Audit is tracking the methods for measurement and consolidation, and the developments in terms of newly acquired operating companies or implementation of systems.

Apart from the annual review of the full reporting process, including monitoring the quality of control procedures at various levels, the data ownership, the clarity of definition sets, and instructions to the operating companies, Global Audit is involved on a local level to perform data validation audits for a selection of indicators. For 2016, this included the environmental indicators, supplier code, tax and local sourcing. Global Audit also checked all text statements in this report, based on materiality.

Deloitte provides limited assurance on the selected indicators as described in detail in the Assurance report of the independent auditor.

Definitions

We gather data in accordance with guidelines and definitions based on the Global Reporting Initiative (GRI 4.0) Guidelines, unless stated otherwise. Overall, we aim to align with international standards, and if not available we work with industry partners such as the Beverage Industry and Environmental Roundtable (BIER), to develop common practices. For some measures in responsible consumption we track the implementation in accordance to industry agreements (for example, labels on our packaging).

The most important indicators and definitions are listed below:

Water indicators

Specific water consumption	Hectolitre water intake per hectolitre volume produced of beer, cider, soft drinks and water. Water intake minus water exported to third parties
Total water withdrawal[19]	The total volume of water withdrawn from the following sources: – Surface water, including water from wetlands, rivers, lakes, and oceans – Ground water – Rainwater collected directly and stored by the organisation – Municipal water supplies or other water utilities
Wastewater quantity[19]	All wastewater coming from the brewery (m^3)
Wastewater treated[19]	The volume of wastewater treated expressed in m^3
Effluent organic load to surface water (kg COD)[19]	This indicator relates to the pollution load of the effluent going to surface water from our breweries. This excludes the wastewater which is treated by third parties. COD stands for Chemical Oxygen Demand, which is a measure for the pollution of water with organic material
Waste water treatment plant	Plant removing contaminants from the brewery's wastewater and producing environmentally safe treated wastewater, before releasing it into the environment
Water stress	Refers to the ability, or lack thereof, to meet human and ecological demand for water. Compared to scarcity, 'water stress' is a more inclusive and broader concept. It considers several physical aspects related to water resources, including water scarcity, but also water quality, environmental flows, and the accessibility of water
Water balancing	Redressing the balance in water-stressed areas between the amount of water we source from the watershed and the amount that isn't returned because it's used in our products, and through evaporation
Water balancing projects	Projects that aim to conserve or restore water quantity, quality or biodiversity in the local watershed; and/or improve access to clean water for the local communities

[19] This specific indicator will be disclosed by end of March 2017 in the sustainability section of the Company website.

Reporting basis and criteria non-financial indicators (continued)

Energy and CO_2 indicators

Thermal energy consumption[19]	In absolute terms: consumption of thermal energy in MJ In relative terms: consumption or thermal energy per unit produced in MJ/hl beer, cider, soft, drinks and water
Electricity consumption[19]	In absolute terms: consumption of electrical energy in kWh In relative terms: consumption of electrical energy per unit produced in kWh/hl beer, cider, soft drinks and water
Specific total energy consumption[19]	Equals thermal energy consumption plus 3.6 times the electricity consumption per unit produced
% of electrical energy coming from renewable sources	Quantity of renewable electrical energy use (kWh) divided by total electrical energy use (kWh). Sources can be: – Own renewable production = all electricity generated from renewable resources on-site (wind, solar, biogas) – Imported electricity under green certificates = all electricity streams for which certified green electricity is purchased
% of thermal energy coming from renewable sources	Quantity of renewable thermal energy use (MJ) divided by total thermal energy use (MJ). Sources are: biomass, biogas, solar thermal and imported heat (with 100% renewable % and 0 g CO_2/MJ)
CO_2 emissions in production (Scope 1 and 2, GHG Protocol)	This indicator includes CO_2-eq emissions caused by: – direct emissions from combustion of fuels – indirect emissions from imported heat and electricity – emissions from refrigerant losses
CO_2 emissions in distribution (Scope 3, GHG protocol)	This indicator refers to CO_2-eq emissions from outbound distribution of finished goods and returns of empty packaging material. It includes domestic and export transport by road, rail and sea. Excluded is inbound transport
CO_2 emissions from fridges Scope 3, GHG protocol)	This indicator refers to CO_2-eq emissions as a result of the electricity used by beverage fridges (branded and non-branded) delivered to HEINEKEN warehouses in the reporting year
Green fridges	A green fridge has one or more of the following green features: use of hydrocarbon refrigerant, LED illumination, an energy management system and energy-efficient fans
Waste destination per % and absolute value[19]	Destination of residual products from the brewing process: either recycled into feed, material loops, compost or energy, or – when not recycled – incinerated or sent to landfill

Sustainable sourcing indicators

Sustainable agriculture	We follow the definition of the Sustainable Agriculture Initiative (SAI): The efficient production of safe, high quality agricultural products, in a way that protects and improves the natural environment, the social and economic conditions of farmers, their employees and local communities, and safeguards the health and welfare of all farmed species
% of our main agricultural raw materials from sustainable sources	Contracted sustainable volumes (tonnes)/Total contracted volumes (tonnes). Sustainable volume = any agricultural product in scope of the Sustainable Agriculture programme, that has been: 1. cultivated in accordance with an approved Code of Practice and 2. has been allocated to HEINEKEN by our supplier, in accordance with the mass balance approach Volumes contracted in 2016 for delivery in 2017 are reported in the 2016 Annual Report
% of agricultural raw materials locally sourced in Africa	Quantity (in tons) of agricultural 'extract' producing raw materials (plus hops) that are cultivated in the Africa and Middle East region and that are used in the production of beers, soft drinks, cider, wine and spirits at our own production facilities in that region
Estimated number of smallholder farms involved and total number of beneficiaries	Calculation based on the total quantity of agricultural raw materials purchased (tons), divided by the average farm size (hectares) and the average yield per crop produced (tons per hectare). This gives the estimated number of smallholder farms involved, which is multiplied by 7 (average family size in Africa) to give an estimation of the total number of beneficiaries – Average farm size (hectares) and average yield per hectare from project estimates – Average family size in Sub Saharan Africa from World Bank estimates
Number of different local sourcing initiatives	HEINEKEN operating companies sourcing any agricultural raw material within the AME Region. Each value chain is counted individually
HEINEKEN Supplier Code	The HEINEKEN Supplier Code, applicable to all our suppliers, provides clear guidelines for how we expect them to act in the areas of Integrity and Business Conduct, Human Rights, and the Environment

[19] This specific indicator will be disclosed by end of March 2017 in the sustainability section of the Company website.

Reporting basis and criteria non-financial indicators (continued)

Sustainable sourcing indicators (continued)

Supplier Code four-step procedure	1. The Supplier Code is signed by the suppliers in the first step 2. For all suppliers a risk analysis is performed in step two 3. Supplier with a high risk profile are invited to join the EcoVadis sustainability monitoring platform in step three 4. In step four site audits are conducted for suppliers showing limited performance in the previous step
% compliance with four-step Supplier Code Procedure	This KPI measures the average performance over the four steps of our Supplier Code Procedure, per operating company, and then taking the average of all operating companies in scope
Number of contract terminations	Number of suppliers with which any commercial relationship ended, because: a) they were unwilling to sign our supplier code b) or refused to subscribe to EcoVadis c) or refused to undergo a site audit

Responsible consumption indicators

% of media spend for Heineken® in supporting dedicated responsible consumption campaign in at least 50% of our market volume	All expenses incurred for placing and broadcasting Heineken® brand dedicated responsible consumption advertisements in various paid media and other specific responsible consumption campaign activities, across selected operating companies totalling at least 50% of global Heineken® volumes, amounting to 10% of their actual Heineken® media spend
Number of operating companies have and report publicly on a measurable partnership aimed at addressing alcohol abuse	Working closely with third parties like local governments, NGOs and specialists, these partnerships address alcohol-related harm on issues like underage drinking, drinking and driving or excessive drinking. In scope are all HEINEKEN markets, with the exemption of Islamic countries, export markets, markets where we have a Joint Venture, and one minimal-volume market (Laos) for who allocating resource is unrealistic. South Africa will be included as of 2017.
Low- and no-alcohol	All beer, cider, hop and/or malt based drinks with an ABV of 3.5% or less. This does not include soft drinks
Low- and no-alcohol as % of our global volume	Total low- and no-alcohol volume/Total consolidated beer and cider volume
Ingredients and nutrition information on pack for all our beer brands in the EU	This involves beer brands produced and sold by HEINEKEN operating companies in the European Union. Commitment is only applicable to consumer-facing products (bottles, cans). We committed to include ingredients and energy values (kcal) per 100ml, plus a link on the packaging referring to a website where consumers can obtain further information on fat, sugars, protein and salt

Health & safety indicators

Number of HEINEKEN operating companies having approved plans in place for Life Saving Rules actions	Our 'Safety First' approach is focused on improving safety across the whole company. The 12 rules set out clear and simple 'do's and don'ts' for our highest-risk activities. All operating companies are required to assess their safety performance and close any gaps through action plans
Fatal accidents	All work-related fatal accidents of permanent, fixed-term or temporary personnel (own staff and contractor personnel)
Accidents	An accident which resulted in permanent disability or which requires hospitalisation for more than 24 hours or resulting in more than 1 lost day
Lost days	Lost days are counted from the first day after the case until the day the person returns to normal duties at work. All calendar days are counted
Accident frequency	Number of accidents resulting in absence from work per 100 FTE. This is an indicator of the state of health and safety at the workplace
Accident severity	Number of days lost from work as a result of disabling injuries per 100 FTE

Reporting basis and criteria non-financial indicators (continued)

Economic and social impact indicators

Total tax contribution	The tax payments made by the fully consolidated Heineken companies during the calendar year. The total tax contribution includes a limited degree of estimation
Corporate income tax paid	Cash flows arising from taxes on income, reported by the fully consolidated Heineken companies
Effective income tax rate	Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures and impairments thereof (net of income tax)
Beia	Before exceptional items and amortisation of acquisition-related intangible assets
Total direct contributions	Donations as a voluntary engagement with charitable organisations that extends beyond our core business activities, to help address a range of wider issues in the communities where we do business

Values and behaviours indicators

Speak up policy (number of reports + breakdown)	The number of Speak Up reports is the total number of reports received via our Speak Up channels in which reporters raised a concern in regard to a (possible) breach of the HEINEKEN Code of Business Conduct. A break-down per topic is presented to give insight into the main topics of said Speak Up reports
Training Code of Business Conduct (number of employees)	The Code of Business Conduct training is a training that has to be completed by all HEINEKEN employees. It is expected to be completed as part of the induction for new joiners. Thereafter it is expected to be completed regularly (preferably on an annual basis). The training is facilitated by an e-learning, which can be completed online, as well as during a classroom session for those employees without access to their own workstation. A training completion is counted if (i) an employee has completed the e-learning (this is automatically registered in a database), or (ii) if an employee has attended a classroom training and signed off an attendance form
Training anti-bribery (number of employees)	The anti-bribery training is mandatory for a selected audience (those above a certain job grade and those considered to be risk groups). A training completion is counted if an employee has completed the e-learning

Reporting basis

List of operating companies in scope for non-financial indicators[20]

Region	Country	Operating Company/Business Unit
Africa, Middle East & Eastern Europe	Algeria	Tango
	Belarus	Heineken Breweries
	Burundi	Brarudi
	Democratic Republic of Congo	Bralima
	Egypt	Al Ahram Beverages Company
	Ethiopia	Heineken Breweries
	Ethiopia	Harar Brewery
	Ethiopia	Bedele Brewery
	La Réunion	Brasseries de Bourbon
	Lebanon	Almaza
	Nigeria	Nigerian Breweries
	Russia	Heineken Breweries
	Rwanda	Bralirwa
	Sierra Leone	Sierra Leone Brewery
	South Africa	Heineken South Africa
	Tunisia	Nouvelle de Brasserie 'Sonobra'
Americas	Bahamas	Commonwealth Brewery
	Brazil	Cervejarias Kaiser Brasil
	Haiti	Brasserie Nationale d'Haiti
	Jamaica	Desnoes & Geddes
	Mexico	Cuauhtémoc Moctezuma
	Panama	Cervecerias Barú-Panama
	St. Lucia	Windward & Leeward Brewery
	Surinam	Surinaamse Brouwerij
	USA	Heineken USA
	Export	Other export markets
Asia Pacific	Cambodia	Cambodia Brewery
	China	Heineken (Shanghai)
	China	Heineken Brewery Guangzhou
	China	Heineken Brewery Hainan
	Hong Kong	Heineken Hong Kong
	Indonesia	PT Multi Bintang Indonesia
	Japan	Heineken Japan
	Korea	Heineken Korea
	Laos	Lao Asia Pacific Breweries
	Malaysia	Heineken Malaysia Berhad
	Mongolia	MCS Asia Pacific Brewery
	Myanmar	APB Alliance Brewery
	New Caledonia	Grande Brasserie de Nouvelle Caledonie
	New Zealand	DB Breweries
	Papua New Guinea	South Pacific Brewery
	Singapore	Heineken Asia Pacific
	Singapore	Asia Pacific Breweries (Singapore)
	Singapore	Heineken Asia Pacific Export

[20] Scope can vary per non-financial indicator. When not all operating companies are in scope, this is being indicated in the specific section.

Reporting basis (continued)

List of operating companies in scope for non-financial indicators (continued)[20]

Region	Country	Operating Company/Business Unit
Asia Pacific (continued)	Solomon Islands	Solomon Breweries
	Sri Lanka	Asia Pacific Brewery (Lanka)
	Taiwan	Heineken Taiwan
	Vietnam	Heineken Hanoi Brewery
	Vietnam	Heineken Vietnam Brewery
Europe	Austria	Brau Union Österreich
	Belgium	Brouwerijen Alken-Maes
	Bulgaria	Zagorka
	Croatia	Heineken Hrvatska
	Czech Republic	Heineken Ceská Republika
	France	Heineken France
	Greece	Athenian Brewery
	Hungary	Heineken Hungaria
	Ireland	Heineken Ireland
	Italy	Heineken Italia
	Netherlands	Heineken Nederland (including Vrumona)
	Poland	Grupa Żywiec
	Portugal	Sociedade Central de Cervejas e Bebidas
	Romania	Heineken Romania
	Serbia	Heineken Serbia
	Slovakia	Heineken Slovensko
	Slovenia	Pivovarna Lasko Union
	Spain	Heineken España
	Switzerland	Heineken Switzerland
	UK	Heineken UK
Global	Various	Head Office, Regional Offices including export offices and Global Duty Free, HEINEKEN Financial Shared Services centre (Kraków, Poland)

[20] Scope can vary per non-financial indicator. When not all operating companies are in scope, this is being indicated in the specific section.

Appropriation of Profit

Article 12, paragraph 7, of the Articles of Association stipulates:

"Of the profits, payment shall first be made, if possible, of a dividend of 6% of the issued part of the authorised share capital. The amount remaining shall be at the disposal of the General Meeting of Shareholders."

Civil Code

Heineken N.V. is not a 'structuurvennootschap' within the meaning of Section 2: 152-164 of the Dutch Civil Code. Heineken Holding N.V., a company listed on Euronext Amsterdam, holds 50.005% of the issued shares of Heineken N.V.

Authorised capital

The Company's authorised capital amounts to EUR 2,500 million.

Independent Auditor's Report

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

Independent Auditor's Report on Financial Statements

Our opinion

We have audited the financial statements 2016 of Heineken N.V. ('the Company'), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

– The consolidated financial statements give a true and fair view of the financial position of Heineken N.V. as at 31 December 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') and with Part 9 of Book 2 of the Dutch Civil Code

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

The consolidated financial statements comprise:

– The consolidated statement of financial position as at 31 December 2016.

– The following consolidated statements for 2016: the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity.

– The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

– The company balance sheet as at 31 December 2016

– The company income statement for 2016

– The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section "Our responsibilities for the audit of the financial statements" of our report.

We are independent of Heineken N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" ('ViO') and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" ('VGBA').

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 150 million. The materiality is based on consolidated profit before taxation (6.2 %). 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 EUR 50 million and for the majority of the components, materiality is significantly less than this amount.

We agreed with the Supervisory Board that misstatements in excess of EUR 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.

Independent Auditor's Report (continued)

Scope of the group audit

Heineken N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Heineken N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the group entities (components). Decisive were size and/or risk profile of the components. On this basis, we selected components for which an audit or review had to be carried out on the complete set of financial information or specific items.

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, China, Vietnam, Italy, HGSS Poland, France, Austria, Papua New Guinea, New Zealand, Nigeria, South Africa, Russia, Jamaica and Chile) during the year, performing file reviews, holding conference calls, attending meetings and reviewing component audit team deliverables to gain sufficient understanding of the work performed. For smaller components we have performed review procedures or specific audit procedures.

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

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition – Accruals for promotional allowances and volume rebates

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

Our audit procedures included, amongst others, evaluating controls relating to management's process for determining the value of promotional allowances and the volume rebates. In addition we performed substantive testing and analytical procedures to test the accuracy and completeness of the underlying calculation of the accruals. These procedures included challenging the appropriateness of management's assumptions and estimates and agreeing input data, including pricing and allowance data to underlying agreements with customers.

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

Intangible assets (including goodwill) and property, plant and equipment represent 68% of the consolidated statement of financial position. Procedures over management's annual impairment test were significant to our audit because the assessment process is complex and the test relies on estimates and assumptions. Intangibles and property, plant and equipment are allocated to Cash Generating Units (CGUs) and groups of CGUs. The Company uses assumptions in respect of future market and economic conditions such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development. The details on the accounting for intangibles and property, plant and equipment and disclosure requirements under IAS 36 Impairment of assets are included in notes 3, 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 in these audit activities. We specifically focused on the sensitivity in the available headroom of CGUs and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of management's estimates. We assessed the adequacy of the Company's disclosure notes 14 and 15 in the financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

Independent Auditor's Report (continued)

Taxes – provisions for uncertain tax positions and valuation of deferred tax assets

The Company operates across a number of different tax jurisdictions and is subject to periodic challenges by local tax authorities during the normal course of business, including transaction-related taxes and transfer pricing arrangements. In those cases where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on its judgement of the probable amount of the liability or recovery. Deferred tax assets for tax losses carried forward are recognized by the Company to the extent that it is probable that future taxable income will be available against which unused tax losses can be utilised. The income tax related accounting policies are specified in notes 3, 13 and 18 to the financial statements.

We focused on these areas because of the level of judgement that is applied in quantifying appropriate provisions for uncertain tax positions and in determining assumptions about future market and economic conditions, as it relates to the recoverability of deferred tax assets.

Using our own tax specialists, we obtained a detailed understanding of the Company's tax strategy including current transfer pricing arrangements. We assessed tax risks, legislative developments and the status of ongoing local tax authority audits. We evaluated and challenged the Company's judgements in respect of estimates of tax exposures, recoverable amounts and contingencies. We considered correspondence with tax authorities and relevant historical and recent judgements, and also assessed legal opinions from third party tax advisors. With regard to recorded deferred tax assets, we evaluated the Company's assumptions and estimates in relation to the likelihood of generating sufficient future taxable income based on budgets and business plans.

Finally we considered the adequacy of the Company's disclosures in notes 3, 13 and 18 regarding uncertain tax positions and recognised deferred tax assets.

Internal controls over financial reporting

The Company operates various processes and procedures, both centrally (e.g. the shared service centre in Poland, the Heineken Global Procurement function and the central Information Technology organisation) as well as locally, that are important for reliable financial reporting. During 2016 the Company further deployed its test program for internal controls over financial reporting. We considered the Company's internal controls over financial reporting as a basis for designing audit procedures that are appropriate for our audit. We are however not required nor engaged to perform an audit of internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal controls over financial reporting.

We have tailored our procedures performed to the diverse Information Technology landscapes and the locally established business processes of the Company. We have performed walkthroughs to gain our detailed understanding of the entity and identify the relevant controls. Where effective for the audit we have tested the operating effectiveness of controls. In cases of deficiencies we have evaluated the compensating controls and measures of the Company and/or carried out tailored procedures to address the risk.

Report on the other information included in the Annual Report

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

– Report of the Executive Board;

– Report of the Supervisory Board;

– Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and

– Other information included in the Annual Report.

Based on the following procedures performed, we conclude that the other information:

– is consistent with the financial statements and does not contain material misstatements and

– contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Independent Auditor's Report (continued)

Report on other legal and regulatory requirements

Engagement

We were appointed by the Annual General Meeting as auditor of Heineken N.V. on 24 April 2014. The audit for year 2016 was our second year audit.

Description of responsibilities for the financial statements

Responsibilities of the Executive Board and the Supervisory Board for the Financial Statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Executive Board is responsible for such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

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

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

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).

Deloitte Accountants B.V.
J. Dalhuisen

Amsterdam, 14 February 2017

Deloitte Assurance Report

To: the Annual General Meeting and other stakeholders of Heineken N.V.

Independent Auditor's Report on Sustainability Data

Our conclusion

We have reviewed a selection of sustainability data included in the accompanying Annual Report for the year ended 31 December 2016 ('the sustainability data') of Heineken N.V ('the Company'), based in Amsterdam.

Based on our review, nothing has come to our attention that causes us to believe that the sustainability data of the Company is not prepared in all material respects, in accordance with the internally applied Reporting Criteria.

The objective of the review was to provide limited assurance on the sustainability data as included in sections of 'Brewing a Better World: our sustainability performance' on pages 135-145 of the Annual Report 2016. The sustainability data can be found under the headings 'Our progress in 2016' for the sections 'Protecting water resources', 'Reducing CO_2 emissions', 'Sourcing sustainably', 'Advocating responsible consumption' and 'Promoting health and safety' and under the section 'Growing with communities'. Information that is not assured by Deloitte in these sections is marked with a footnote.

The information in scope of this engagement needs to be read and understood in conjunction with the Reporting Basis and Criteria non-financial indicators as included in the Annual Report 2016 on page 146.

Basis for our conclusion

We have performed our assurance engagement on the sustainability data in accordance with Dutch law, including Dutch Standard 3000 'Assurance engagements other than audits or reviews of historical financial information'. This assurance engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the 'Our responsibilities for the assurance engagement of the sustainability data' section of our report.

We are independent of the Company in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of the Executive Board and the Supervisory Board

The Executive Board of the Company is responsible for the preparation of the sustainability data in accordance with the internally applied Reporting Criteria, including the identification of the intended users and the criteria being applicable for the purposes of the intended users.

The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the sustainability data that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the Company's reporting process.

Our responsibilities for the assurance engagement of the sustainability data

Our responsibility is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate review evidence for our conclusion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the sustainability data. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

Deloitte Assurance Report (continued)

This assurance engagement is aimed at obtaining limited assurance. The performed procedures by obtaining a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an assurance engagement.

The performed procedures in this context consisted mainly of gathering information from officers of the Company and applying analytical procedures set out in relation to the sustainability data.

The assurance obtained in assurance engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in assurance engagements aimed at obtaining reasonable assurance.

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3000.

Our assurance engagement included amongst others:

– gaining knowledge and obtaining an understanding of the sustainability data and other circumstances regarding the engagement including gaining knowledge regarding internal controls;

– an analytical review of the data and trends submitted;

– assessing the suitability of the Reporting Criteria.

Deloitte Accountants B.V.
J. Dalhuisen

Amsterdam, 14 February 2017

Shareholder Information

Investor Relations

HEINEKEN takes a proactive role in maintaining an open dialogue with shareholders and bondholders, providing accurate and complete information in a timely and consistent way. The Company does this through media releases, the Annual Report, presentations, webcasts, investor conferences and regular briefings with analysts, fund managers and shareholders.

Ownership structure

Heading the HEINEKEN Group, Heineken Holding N.V. is no ordinary holding company. Since its formation in 1952, the objective of Heineken Holding N.V., pursuant to its Articles of Association, has been to manage and/or supervise the HEINEKEN Group and to provide services for Heineken N.V. The role Heineken Holding N.V. has performed for the HEINEKEN Group since 1952 has been to safeguard its continuity, independence and stability and create conditions for controlled, steady growth of the activities of the HEINEKEN Group. The stability provided by this structure has enabled the HEINEKEN Group to remain independent and to rise to its present position as the brewer with the widest international presence and one of the world's largest brewing groups.

Every Heineken N.V. share held by Heineken Holding N.V. is matched by one share issued by Heineken Holding N.V. The dividend payable on the two shares is identical. Historically, however, Heineken Holding N.V. shares have traded at a lower price due to technical factors that are market-specific. Heineken Holding N.V. holds 50.005% of the Heineken N.V. issued shares. On 31 December 2016, L'Arche Green N.V. held 51.709% of the Heineken Holding N.V. shares. The Heineken family holds 88.67% of L'Arche Green N.V. The remaining 11.33% of L'Arche Green N.V. is held by the Hoyer family. Mrs. de Carvalho-Heineken also owns a direct 0.03% stake in Heineken Holding N.V.

Heineken N.V. shares and options

Heineken N.V. shares are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. The shares are listed under ISIN code NL0000009165. Prices for the ordinary shares may be accessed on Bloomberg under the symbol HEIA.NA and on the Reuters Equities 2000 Service under HEIA.AS. Options on Heineken N.V. shares are listed on Euronext Amsterdam.

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

Market capitalisation Heineken N.V.

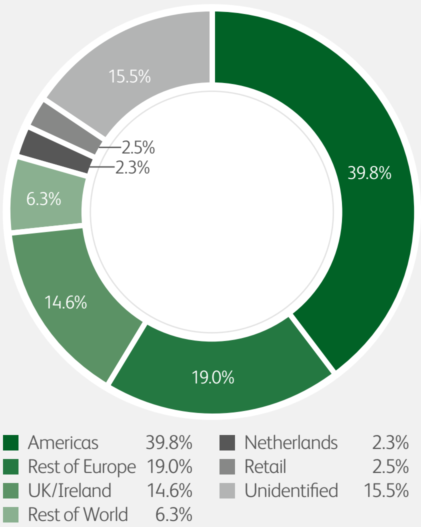
On 31 December 2016, there were 569,680,780 shares of EUR 1.60 nominal value outstanding (excluding own shares held by the company).

At a year-end price of EUR 71.26 on 30 December 2016, the market capitalisation of Heineken N.V. on the balance sheet date was EUR 40.6 billion.

Year-end price	EUR 71.26	30 December 2016
Highest closing price	EUR 84.44	29 July 2016
Lowest closing price	EUR 67.97	5 December 2016

Share distribution comparison year-on-year Heineken N.V. shares*

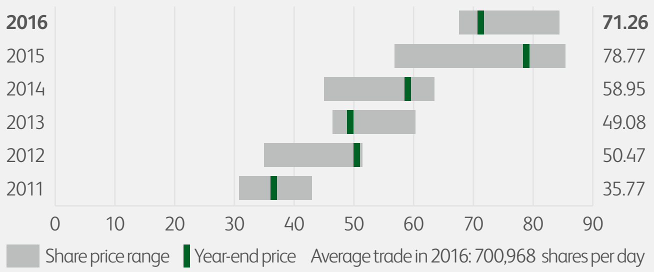
Based on free float (excluding the holding of Heineken Holding N.V. and FEMSA in Heineken N.V.). Based on 210.6 million shares in free float.



* Source: CMi2i estimate based on available information January 2017.

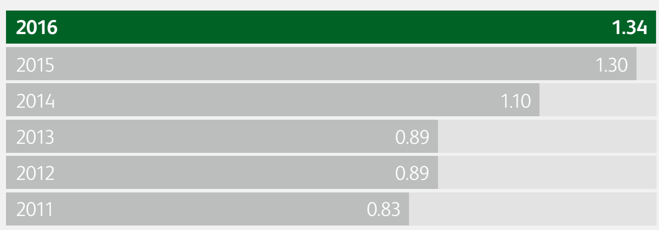
Heineken N.V. share price

In EUR, Euronext Amsterdam



Dividend per share

In EUR



Shareholder Information (continued)

Heineken Holding N.V. shares

The ordinary shares of Heineken Holding N.V. are traded on Euronext Amsterdam. The shares are listed under ISIN code NL0000008977. Prices for the ordinary shares may be accessed on Bloomberg under the symbol HEIO.NA and on the Reuters Equities 2000 Service under HEIO.AS.

In 2016, the average daily trading volume of Heineken Holding N.V. shares was 110,293 shares.

Market capitalisation Heineken Holding N.V.

On 31 December 2016, there were 288,030,168 ordinary shares of EUR 1.60 nominal value in issue and 250 priority shares of EUR 2.00 nominal value in issue.

At a year-end price of EUR 66.14 on 30 December 2016, the market capitalisation of Heineken Holding N.V. on balance sheet date was EUR 19.1 billion.

Year-end price	EUR 66.14	30 December 2016
Highest closing price	EUR 74.96	29 July 2016
Lowest closing price	EUR 62.54	11 February 2016

American Depositary Receipts (ADRs)

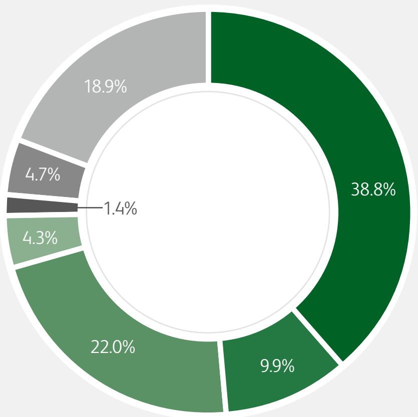
HEINEKEN's shares are trading Over-the-Counter (OTC) in the US as American Depositary Receipts (ADRs). There are two separate Heineken ADR programmes representing ownership respectively in: 1) Heineken N.V. and 2) Heineken Holding N.V. For both programmes, the ratio between HEINEKEN ADRs and the ordinary Dutch (EUR denominated) shares is 2:1, i.e. two ADRs represent one HEINEKEN ordinary share. Deutsche Bank Trust Company Americas acts as depositary bank for HEINEKEN's ADR programmes.

Heineken N.V.
Ticker: HEINY
ISIN: US4230123014
CUSIP: 423012301
Structure: Sponsored Level I ADR
Exchange: OTCQX
Ratio (DR:ORD): 2:1

Heineken Holding N.V.
Ticker: HKHHY
ISIN: US4230081014
CUSIP: 423008101
Structure: Sponsored Level I ADR
Exchange: OTCQX
Ratio (DR:ORD): 2:1

Share distribution comparison year-on-year Heineken Holding N.V. shares*

Based on free float (excluding holding of L'Arche Green N.V. and FEMSA in Heineken Holding N.V.). Based on 96.0 million shares in free float.

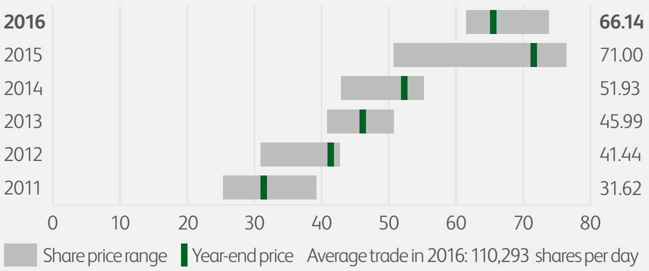


Americas 38.8%
Rest of Europe 9.9%
UK/Ireland 22.0%
Rest of World 4.3%
Netherlands 1.4%
Retail 4.7%
Unidentified 18.9%

* Source: CMi2i estimate based on available information January 2017.

Heineken Holding N.V. share price

In EUR, Euronext Amsterdam



Shareholder Information (continued)

ADR contact information

Deutsche Bank Shareholder Services
c/o American Stock Transfer & Trust Company
6201 15th Avenue Brooklyn, NY 11219, USA
E-mail: DB@amstock.com

Shareholder Service (toll-free) Tel. +1 866 249 2593

Shareholder Service (international) Tel. +1 718 921 8137

www.amstock.com

Contact details for ADR brokers and institutional investors

US Tel: +1 212 250 9100
UK Tel: +44 207 547 6500

The Company ADR programmes are sponsored by Deutsche Bank Trust Company Americas (Deutsche Bank). As the depositary bank, Deutsche Bank performs the following roles for ADR holders as further detailed in the Deposit Agreement:

Records and maintains the register of ADR holders
Is the stock transfer agent
Distributes dividends in US dollars
Facilitates the voting process and the exercise of the voting rights of ADR holders at any General Meeting of Shareholders if permitted by the Company and the Deposit Agreement
Issues and cancels HEINEKEN American Depositary Receipts (ADRs)
Can distribute circulars and documentation in connection with any General Meeting of Shareholders if applicable.

For those holders who are not registered because their ADRs are held through a 'Street name' (nominee account), your nominee will receive Company documents from time to time from Deutsche Bank to distribute to ADR holders. You need to make arrangements with your nominee if you wish to receive such documents and to be able to exercise your vote through the depositary bank at General Meetings (if applicable).

Financial calendar in 2017 for both Heineken N.V. and Heineken Holding N.V.

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

Shareholder Information (continued)

Dividend policy

The dividend policy of Heineken N.V. intends to preserve the independence of the Company, to maintain a healthy financial structure and to retain sufficient earnings in order to grow the business both organically and through acquisitions.

The dividend payments which translates in a pay-out of 30% to 40% of full-year net profit (beia) are related to the annual development of the net profit before exceptional items and amortisation of acquisition-related intangible assets (net profit beia).

Dividends are paid in the form of an interim dividend and a final dividend. The interim dividend is fixed at 40% of the total dividend of the previous year. Annual dividend proposals will remain subject to shareholder approval.

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

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

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

Further shareholder information is available on the Company's website: www.theHEINEKENcompany.com/investors.

Bondholder Information

In 2008, HEINEKEN established a Euro Medium Term Note (EMTN) Programme, which was last updated in March 2016. The programme allows Heineken N.V. to issue Notes for a total amount of up to EUR 15 billion. Currently, approximately EUR 7.2 billion is outstanding under the programme.

Heineken N.V. was assigned solid investment grade credit ratings by Moody's Investor Service and Standard & Poor's in 2012. The ratings from both agencies, Baa1/P-2 and BBB+/A-2 respectively, have 'stable' outlooks as per the date of the 2016 Annual Report.

On 4 May 2016, HEINEKEN issued 10-year Notes for a principal amount of EUR 800 million with a coupon of 1.00%.

On 29 November 2016, long 10-year Notes for a principal amount of EUR 500 million were issued with a coupon of 1.375%.

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

In 2015, HEINEKEN has launched a EUR 1.0 billion Euro Commercial Paper (ECP) programme to facilitate its cash management operations and to further diversify its funding sources. There was no ECP in issue per 31st December 2016.

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
144A/RegS 2017	10 October 2012	USD 1.25 billion	1.400%	1 October 2017	US423012AB98
EUR EMTN 2018	18 April 2013	EUR 100 million	1.250%	18 April 2018	XS0918766550
EUR EMTN 2019	19 March 2012	EUR 850 million	2.500%	19 March 2019	XS0758419658
EUR EMTN 2020	2 August 2012	EUR 1 billion	2.125%	4 August 2020	XS0811554962
EUR EMTN 2021	4 April 2013	EUR 500 million	2.000%	6 April 2021	XS0911691003
EUR EMTN 2021	10 September 2015	EUR 500 million	1.250%	10 September 2021	XS1288852939
144A/RegS 2022	3 April 2012	USD 750 million	3.400%	1 April 2022	US423012AA16
144A/RegS 2023	10 October 2012	USD 1 billion	2.750%	1 April 2023	US423012AD54
EUR EMTN 2023	23 October 2015	EUR 140 million	1.700%	23 October 2023	XS1310154536
EUR EMTN 2024	19 March 2012	EUR 500 million	3.500%	19 March 2024	XS0758420748
EUR EMTN 2024	7 December 2015	EUR 460 million	1.500%	7 December 2024	XS1330434389
EUR EMTN 2025	2 August 2012	EUR 750 million	2.875%	4 August 2025	XS0811555183
EUR EMTN 2025	20 October 2015	EUR 225 million	2.000%	20 October 2025	XS1309072020
EUR EMTN 2026	4 May 2016	EUR 800 million	1.000%	4 May 2026	XS1401174633
EUR EMTN 2027	29 November 2016	EUR 500 million	1.375%	29 January 2027	XS1527192485
EUR EMTN 2029	30 January 2014	EUR 200 million	3.500%	30 July 2029	XS1024136282
EUR EMTN 2033	15 April 2013	EUR 180 million	3.250%	15 April 2033	XS0916345621
EUR EMTN 2033	19 April 2013	EUR 100 million	2.562%	19 April 2033	XS0920838371
144A/RegS 2042	10 October 2012	USD 500 million	4.000%	1 October 2042	US423012AE38

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

Traded Heineken Asia Pacific Pte. Ltd.* Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
SGD MTN 2020	March 3, 2009	SGD 22.25 million	3.780%	March 3, 2020	SG7V34954621
SGD MTN 2022	January 7, 2010	SGD 16.25 million	4.000%	January 7, 2022	SG7U93952517

The above Heineken Asia Pacific Pte. Ltd.* Notes are listed on the Singapore Exchange.

* After a name change Heineken Asia Pacific Pte. Ltd. is currently registered as Heineken Asia MTN Pte. Ltd.

Historical Summary

	2016	2015	2014	2013	2012[1]
Revenue and profit In millions of EUR					
Revenue	**20,792**	20,511	19,257	19,203	18,383
Results from operating activities	**2,755**	3,075	2,780	2,554	3,697
Results from operating activities (beia)	**3,540**	3,381	3,129	2,941	2,666
as % of revenue	**17.0**	16.5	16.2	15.3	14.5
as % of total assets	**9.0**	8.4[3]	9.0	8.8	7.4
Net profit	**1,540**	1,892	1,516	1,364	2,914
Net profit (beia)	**2,098**	2,048	1,758	1,585	1,661
as % of equity attributable to equity holders of the Company	**15.8**	15.1	14.2	13.9	14.2
Dividend proposed	**763**	741	632	512	512
as % of net profit (beia)	**36.4**	36.2	35.9	32.3	30.8
Per share In EUR					
Cash flow from operating activities	**6.53**	6.10	5.32	5.07	4.69
Net profit (beia) basic	**3.68**	3.58	3.06	2.76	2.89
Net profit (beia) diluted	**3.68**	3.57	3.05	2.75	2.88
Dividend proposed	**1.34**	1.30	1.10	0.89	0.89
Equity attributable to equity holders of the Company	**23.24**	23.65	21.58	19.83	20.41
Cash flow statement In millions of EUR					
Cash flow from operations	**4,720**	4,486	4,140	3,983	3,518
Cash flow related to interest, dividend and income tax	**(1,002)**	(997)	(1,082)	(1,069)	(823)
Cash flow from operating activities	**3,718**	**3,489**	**3,058**	**2,914**	**2,695**
Cash flow (used in)/from operational investing activities	**(1,945)**	(1,797)	(1,484)	(1,396)	(1,210)
Free operating cash flow	**1,773**	**1,692**	**1,574**	**1,518**	**1,485**
Cash flow (used in)/from acquisitions and disposals	**(62)**	(267)	(189)	555	(4,415)
Dividend paid	**(1,031)**	(909)	(723)	(710)	(604)
Cash flow (used in)/from financing activities, excluding dividend	**359**	(264)	(1,730)	(1,042)	3,660
Net cash flow	**1,039**	**252**	**(1,068)**	**321**	**126**
Cash conversion rate	**75.0%**	73.3%	78.9%	84.0%	81.5%
Financing ratios					
Net debt/EBITDA (beia)	**2.30**	2.44	2.50[2]	2.58	3.09

[1] Restated for the revised IAS 19 as implemented in 2013 and finalisation of the purchase price allocation for APB.

[2] Revised for the change in definition of net debt in 2015.

[3] Comparative figure for 2015 has been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Historical Summary (continued)

	2016	2015[3]	2014	2013	2012[1]
EBIT (beia)/net interest expense	**10.3**	10.1	8.0	5.8	6.0
Free operating cash flow/net debt	**16%**	15%	14%[2]	14%	12%
Net debt/total equity	**0.77**	0.76	0.82	0.9	1.0

Financing

In millions of EUR

	2016	2015[3]	2014	2013	2012[1]
Share capital	**922**	922	922	922	922
Reserves and retained earnings	**12,316**	12,613	11,487	10,480	10,812
Equity attributable to equity holders of the Company	**13,238**	**13,535**	**12,409**	**11,402**	**11,734**
Non-controlling interest	**1,335**	1,535	1,043	954	1,071
Total equity	**14,573**	**15,070**	**13,452**	**12,356**	**12,805**
Employee benefits	**1,420**	1,289	1,443	1,202	1,575
Provisions (including deferred tax liabilities)	**2,128**	2,332	2,066	1,982	2,340
Non-current loans and borrowings	**10,954**	10,658	9,499	9,853	11,437
Other liabilities (excluding provisions)	**10,246**	10,773	8,370	7,944	7,823
Liabilities (excluding provisions and employee benefits)	**21,200**	**21,431**	**17,869**	**17,797**	**19,260**
Total equity and liabilities	**39,321**	**40,122**	**34,830**	**33,337**	**35,980**
Equity attributable to equity holders of the Company/ (employee benefits, provisions and liabilities)	**0.53**	**0.54**	**0.58**	**0.58**	**0.46**

Employment of capital

In millions of EUR

	2016	2015[3]	2014	2013	2012[1]
Property, plant and equipment	**9,232**	9,552	8,718	8,454	8,844
Intangible assets	**17,424**	18,183	16,341	15,934	17,688
Other non-current assets	**4,528**	4,065	3,685	3,454	3,911
Total non-current assets	**31,184**	**31,800**	**28,744**	**27,842**	**30,443**
Inventories	**1,618**	1,702	1,634	1,512	1,596
Trade and other current assets	**3,484**	3,372	3,771	2,693	2,904
Cash, cash equivalents and current other investments	**3,035**	3,248	681	1,290	1,037
Total current assets	**8,137**	**8,322**	**6,086**	**5,495**	**5,537**
Total assets	**39,321**	**40,122**	**34,830**	**33,337**	**35,980**
Total equity/total non-current assets	**0.47**	**0.47**	**0.47**	**0.44**	**0.42**
Current assets/current liabilities (excluding provisions)	**0.79**	**0.77**	**0.73**	**0.70**	**0.72**

[1] Restated for the revised IAS 19 as implemented in 2013 and finalisation of the purchase price allocation for APB.

[2] Revised for the change in definition of net debt in 2015.

[3] Comparative figures for 2015 have been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Glossary

Acquisition-related intangible assets
Acquisition-related intangible assets are assets that HEINEKEN only recognises as part of a purchase price allocation following an acquisition. This includes, among others, brands, customer-related and certain contract-based intangibles.

Beia
Before exceptional items and amortisation of acquisition-related intangible assets.

Cash conversion ratio
Free operating cash flow/net profit (beia) before deduction of non-controlling interests.

Cash flow (used in)/from operational investing activities
This represents the total of cash flow from sale and purchase of property, plant and equipment and intangible assets, proceeds and receipts of loans to customers and other investments.

Depletions
Sales by distributors to the retail trade.

Dividend payout
Proposed dividend as percentage of net profit (beia).

Earnings per share

Basic
Net profit divided by the weighted average number of shares – basic – during the year.

Diluted
Net profit divided by the weighted average number of shares – diluted – during the year.

EBIT
Earnings before interest, taxes and net finance expenses. EBIT includes HEINEKEN's share in net profit of joint ventures and associates.

EBITDA
Earnings before interest, taxes, net finance expenses, depreciation and amortisation. EBITDA includes HEINEKEN's share in net profit of joint ventures and associates.

Effective tax rate
Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures and impairments thereof (net of income tax).

Eia
Exceptional items and amortisation of acquisition-related intangible assets.

Exceptional items
Items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period.

Free operating cash flow
This represents the total of cash flow from operating activities and cash flow from operational investing activities.

Innovation rate
Revenues generated from innovations (introduced in the past 40 quarters for a new category, 20 quarters for a new brand and 12 quarters for all other innovations, excluding packaging renovations) divided by total revenue.

Net debt
Non-current and current interest bearing loans and borrowings, bank overdrafts and commercial papers and market value of cross-currency interest rate swaps less investments held for trading and cash.

Net profit
Profit after deduction of non-controlling interests (profit attributable to equity holders of the Company).

Glossary (continued)

Operating profit
Results from operating activities.

Organic growth
Growth excluding the effect of foreign currency translational effects, consolidation changes, exceptional items and amortisation of acquisition-related intangible assets.

Organic volume growth
Growth in volume, excluding the effect of consolidation changes.

Profit
Total profit of HEINEKEN before deduction of non-controlling interests.

®
All brand names mentioned in this report, including those brand names not marked by an ®, represent registered trademarks and are legally protected.

Region
A region is defined as HEINEKEN's managerial classification of countries into geographical units.

Volume

(Consolidated) beer volume
100% of beer volume produced and sold by consolidated companies.

Group beer volume
Consolidated beer volume plus attributable share of beer volume from joint ventures and associates.

Heineken® volume in premium segment
Heineken® volume excluding Heineken® volume in the Netherlands.

Licensed & non-beer volume
HEINEKEN's brands produced and sold under licence by third parties as well as cider, soft drinks and other non-beer volume sold in consolidated companies.

Third party products volume
Volume of third party products sold through consolidated companies.

Total volume
100% of volume produced and sold by consolidated companies (including beer, cider, soft drinks and other beverages), volume of third party products and volume of HEINEKEN's brands produced and sold under licence by third parties.

Weighted average number of shares

Basic
Weighted average number of outstanding shares.

Diluted
Weighted average number of outstanding shares and the weighted average number of ordinary shares that would be issued on conversion of the dilutive potential ordinary shares into ordinary shares as a result of HEINEKEN's share based payment plans.

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Disclaimer

This Annual Report contains forward-looking statements with regard to the financial position and results of HEINEKEN's activities. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond HEINEKEN's ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, changes in consumer preferences, the ability to successfully integrate acquired businesses and achieve anticipated synergies, costs of raw materials, interest rate and foreign exchange fluctuations, changes in tax rates, changes in law, changes in pension costs, the actions of government regulators and weather conditions. These and other risk factors are detailed in this Annual Report.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

HEINEKEN does not undertake any obligation to update the forward-looking statements contained in this Annual Report. Market share estimates contained in this Annual Report are based on outside sources, such as specialised research institutes, in combination with management estimates.

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