HEINEKEN HOLDING NV

2018 Annu

HEINEKEN HOLDING N.V.
ANNUAL REPORT 2018

Established in Amsterdam

HEINEKEN HOLDING NV

PROFILE

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

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

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

Every Heineken N.V. share held by Heineken Holding N.V. is matched by one share outstanding at the level of Heineken Holding N.V. The dividend payable on the two shares is identical.

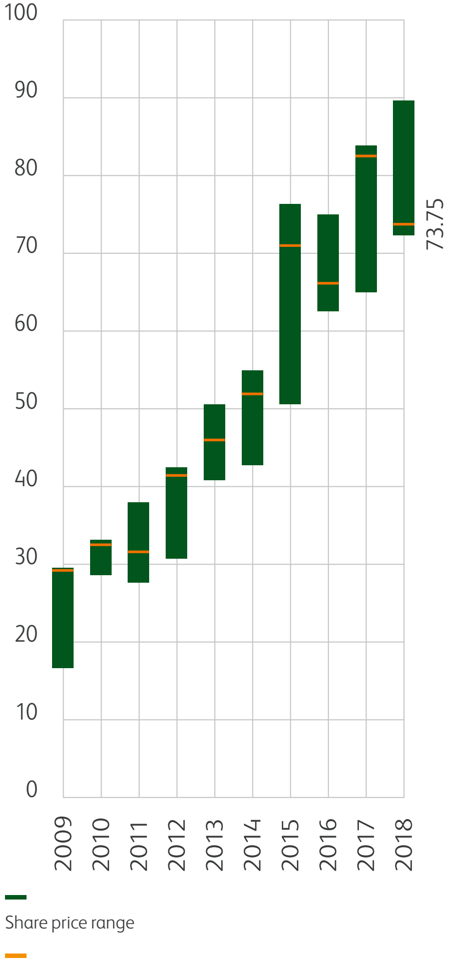
Heineken Holding N.V. shares are listed on Euronext Amsterdam.

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

CONTENTS

SHAREHOLDER INFORMATION

Heineken Holding N.V. share price
in €
Euronext Amsterdam



Average trade in 2018:
116,437 shares per day

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

	2018	2017
Americas	38.2	40.2
United Kingdom/Ireland	28.4	27.6
Netherlands	1.0	0.9
Rest of Europe	8.8	8.5
Rest of the world	3.5	3.4
Retail	4.4	4.5
Unidentified	15.7	14.9
	100.0	100.0

Source: CMi2i estimate based on
available information December 2018

SHAREHOLDER INFORMATION (CONTINUED)

HEINEKEN HOLDING N.V.

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

In 2018, the average daily trading volume of Heineken Holding N.V. shares was 116,437 shares.

Market capitalisation

Shares outstanding as at 31 December 2018: 288,030,168 shares of €1.60 nominal value (excluding own shares held by Heineken Holding N.V.).

At a year-end price of €73.75 on 31 December 2018, the market capitalisation of Heineken Holding N.V. as at the balance sheet date was €21.2 billion.

Year-end price	€73.75	31 December 2018
Highest closing price	€89.65	20 July 2018
Lowest closing price	€72.30	27 December 2018

Substantial shareholdings

Pursuant to the Financial Supervision Act *(Wet op het financieel toezicht)* and the Decree on Disclosure of Major Holdings and Capital Interests in Issuing Institutions *(Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen Wft)*, the Netherlands Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3% or more) regarding Heineken Holding N.V.:

- 20 April 2018: Mrs C.L. de Carvalho-Heineken (0.03%, held directly; 52.60%, held indirectly through L'Arche Green N.V., L'Arche Holding B.V. and Stichting Administratiekantoor Priores) (initial notification: 1 November 2006);
- 30 April 2010: Voting Trust (FEMSA) (14.94%, held indirectly through its affiliate CB Equity LLP)*;
- 1 July 2013: Gardner Russo & Gardner LLC (3.78%, held directly);
- 13 February 2017: Lindsell Train Limited (3.00%, held directly).

* The AFM register for substantial shareholdings is no longer up-to-date.
For the present situation reference is made to the organisation chart on page 13.

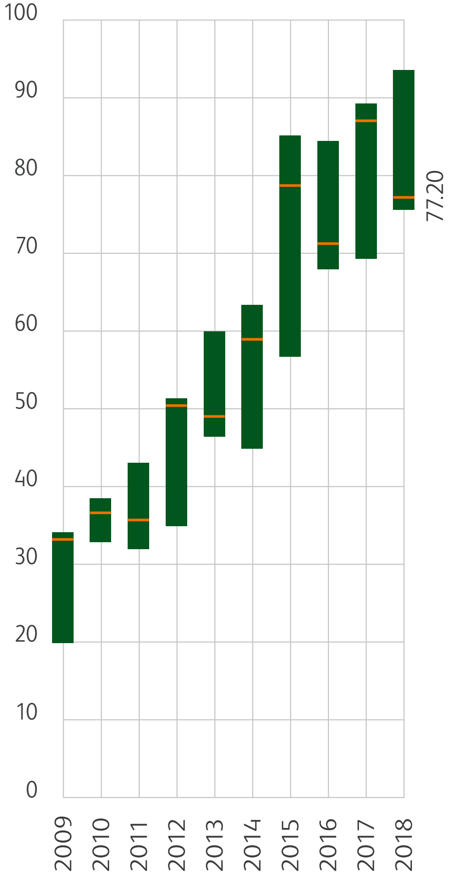
Dividend per share*
in €

2009	0.65
2010	0.76
2011	0.83
2012	0.89
2013	0.89
2014	1.10
2015	1.30
2016	1.34
2017	1.47
2018	1.60 (proposed)

* Before 2018 this applied to ordinary shares.

SHAREHOLDER INFORMATION (CONTINUED)

Heineken N.V. share price
in €
Euronext Amsterdam

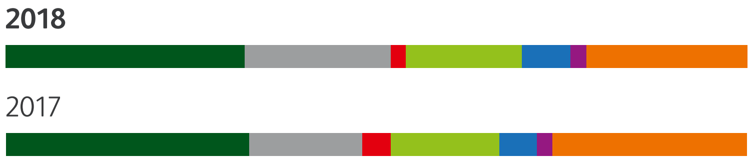


Share price range

Year-end price

Average trade in 2018:
701,326 shares per day

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



	2018	2017
Americas	32.2	32.8
United Kingdom/Ireland	19.7	15.3
Netherlands	2.0	3.8
Rest of Europe	15.7	14.7
Rest of the world	6.5	5.0
Retail	2.2	2.1
Unidentified	21.7	26.3
	100.0	100.0

Source: CMi2i estimate based on
available information December 2018

SHAREHOLDER INFORMATION (CONTINUED)

HEINEKEN N.V.

The shares of Heineken N.V. are traded on Euronext Amsterdam, where the company is included in the AEX Index.

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

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

In 2018, the average daily trading volume of Heineken N.V. shares was 701,326 shares.

Market capitalisation

Shares outstanding as at 31 December 2018: 570,179,587 shares of €1.60 nominal value (excluding own shares held by Heineken N.V.).

At a year-end price of €77.20 on 31 December 2018, the market capitalisation of Heineken N.V. as at the balance sheet date was €44.0 billion.

Year-end price	€77.20	31 December 2018
Highest closing price	€93.54	20 July 2018
Lowest closing price	€75.58	11 October 2018

Substantial shareholdings

Pursuant to the Financial Supervision Act *(Wet op het financieel toezicht)* and the Decree on Disclosure of Major Holdings and Capital Interests in Issuing Institutions *(Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen Wft)*, the Netherlands Authority for the Financial Markets (AFM) has been notified of the following substantial shareholdings (i.e. of 3% or more) regarding Heineken N.V.:

- 1 November 2006: Mrs C.L. de Carvalho-Heineken (indirectly 50.005% through L'Arche Holding S.A.; the direct 50.005% shareholder is Heineken Holding N.V.)[1];
- 19 September 2017: Voting Trust (FEMSA), through its affiliate CB Equity LLP (8.63%) (initial notification: 30 April 2010).

[1] The AFM register for substantial shareholdings is no longer up-to-date. For the present situation reference is made to the organisation chart on page 13.

Financial calendar in 2019 for both Heineken Holding N.V. and Heineken N.V.

Announcement of 2018 results	13 February
Publication of Annual Report	20 February
Trading update first quarter 2019	24 April
Annual General Meeting of Shareholders, Amsterdam[2]	25 April
Quotation ex-final dividend 2018	29 April
Final dividend 2018 payable	8 May
Announcement of half-year results 2019	29 July
Quotation ex-interim dividend 2019	31 July
Interim dividend 2019 payable	8 August
Trading update third quarter 2019	23 October

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

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

Further information on Heineken Holding N.V. is available by telephone +31 20 622 11 52.

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

Further shareholder information is also available on the website www.heinekenholding.com.

Bondholder information

In 2008, HEINEKEN established a Euro Medium Term Note (EMTN) programme which was last updated in March 2018. The programme allows Heineken N.V. to issue Notes for a total amount of up to €15 billion. Approximately €9.8 billion is outstanding under the programme per 31 December 2018.

Heineken N.V. was assigned solid investment grade credit ratings by Moody's Investors Service and Standard & Poor's in 2012. The ratings from both agencies, Baa1/P-2 and BBB+/A-2 respectively, have 'stable' outlooks as per the date of the 2018 Annual Report.

In 2018 the following notes were placed under HEINEKEN's Euro Medium Term Note programme:

- EUR 600 million 8.5-year Notes with a coupon of 1.25% (March 2027);
- EUR 650 million 12.5-year Notes with a coupon of 1.75% (March 2031).

HEINEKEN has a €2.0 billion Euro Commercial Paper (ECP) programme to facilitate its cash management operations and to further diversify its funding sources. There was no ECP in issue per 31 December 2018.

SHAREHOLDER INFORMATION (CONTINUED)

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate (%)	Maturity	ISIN code
EUR EMTN 2019	19 March 2012	EUR850 million	2.500	19 March 2019	XS0758419658
EUR EMTN 2020	2 August 2012	EUR1,000 million	2.125	4 August 2020	XS0811554962
EUR EMTN 2021	4 April 2013	EUR500 million	2.000	6 April 2021	XS0911691003
EUR EMTN 2021	10 September 2015	EUR500 million	1.250	10 September 2021	XS1288852939
144A/RegS 2022	3 April 2012	USD750 million	3.400	1 April 2022	US423012AA16
144A/RegS 2023	10 October 2012	USD1,000 million	2.750	1 April 2023	US423012AD54
EUR EMTN 2023	23 October 2015	EUR140 million	1.700	23 October 2023	XS1310154536
EUR EMTN 2024	19 March 2012	EUR500 million	3.500	19 March 2024	XS0758420748
EUR EMTN 2024	7 December 2015	EUR460 million	1.500	7 December 2024	XS1330434389
EUR EMTN 2025	2 August 2012	EUR750 million	2.875	4 August 2025	XS0811555183
EUR EMTN 2025	20 October 2015	EUR225 million	2.000	20 October 2025	XS1309072020
EUR EMTN 2026	4 May 2016	EUR800 million	1.000	4 May 2026	XS1401174633
EUR EMTN 2027	29 November 2016	EUR500 million	1.375	29 January 2027	XS1527192485
EUR EMTN 2027	17 September 2018	EUR600 million	1.250	17 March 2027	XS1877595444
144A/RegS 2028	29 March 2017	USD1,100 million	3.500	29 January 2028	US423012AF03
EUR EMTN 2029	30 January 2014	EUR200 million	3.500	30 July 2029	XS1024136282
EUR EMTN 2029	3 October 2017	EUR800 million	1.500	3 October 2029	XS1691781865
EUR EMTN 2031	17 September 2018	EUR650 million	1.750	17 March 2031	XS1877595014
EUR EMTN 2032	12 May 2017	EUR500 million	2.020	12 May 2032	XS1611855237
EUR EMTN 2033	15 April 2013	EUR180 million	3.250	15 April 2033	XS0916345621
EUR EMTN 2033	19 April 2013	EUR100 million	2.562	19 April 2033	XS0920838371
144A/RegS 2042	10 October 2012	USD500 million	4.000	1 October 2042	US423012AE38
144A/RegS 2047	29 March 2017	USD650 million	4.350	29 March 2047	US423012AG85

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

Traded Heineken Asia Pacific Pte. Ltd.* Notes	Issue date	Total face value	Interest rate (%)	Maturity	ISIN code
SGD MTN 2020	3 March 2009	SGD21.75 million	3.780	3 March 2020	SG7V34954621
SGD MTN 2022	7 January 2010	SGD16.25 million	4.000	7 January 2022	SG7U93952517

The above Heineken Asia Pacific Pte. Ltd.* Notes are listed on the Singapore Exchange.

* After a name change, Heineken Asia Pacific Pte. Ltd. is currently registered as Heineken Asia MTN Pte. Ltd.

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

Mr M.R. de Carvalho (1944)
Executive director
English nationality
Appointed in 2015*
Profession: Chairman of Capital Generation Partners (CapGen)
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:* Heineken N.V.
*Other positions***:* Board member of L'Arche Green N.V.

NON-EXECUTIVE DIRECTORS

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

Mr J.A. Fernández Carbajal (1954)
Non-executive director
Mexican nationality
Appointed in 2010; reappointed in 2018*
Profession: Executive chairman of the board of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA)
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:* Heineken N.V.
*Other positions***:* Board member of Coca-Cola FEMSA, S.A.B. de C.V. (Chairman), Tecnológico de Monterrey (Chairman), Fundación FEMSA (Chairman) and Industrias Peñoles, S.A.B. de C.V.; Founding member of the Mexican chapter of the Woodrow Wilson Center; Term member of MIT Corporation

Mrs C.M. Kwist (1967)
Non-executive director
Dutch nationality
Appointed in 2011*; reappointed in 2015*
Profession: Company director
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:* Picnic International B.V.
*Other positions***:* Managing director of Greenfee B.V.; Board member of L'Arche Green N.V.

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

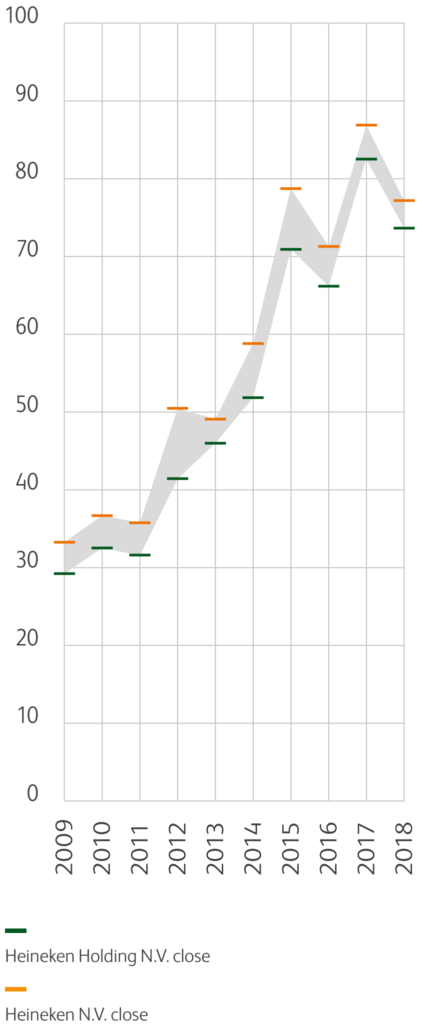
Mrs A.M. Fentener van Vlissingen (1961)
Non-executive director
Dutch nationality
Appointed in 2018*
Profession: Company director
*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities***: SHV Holdings N.V. (Chairman); EXOR N.V.
*Other positions***:* Board member of Lhoist; Member of the Global Advisory Council of Bank of America

Mrs L.L.H. Brassey (1986)
Non-executive director
English nationality
Appointed in 2018*
Profession: Senior associate at Greenwood Place
No supervisory board seats (or non-executive board memberships) in Large Dutch Entities**
*Other positions****: Board member of Stichting Administratiekantoor Priores

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

REPORT OF THE BOARD OF DIRECTORS

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



POLICY PRINCIPLES

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

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

ACTIVITIES

The Board of Directors held seven meetings with the Preparatory Committee of the Supervisory Board of Heineken N.V. in 2018.

The strategic plan, including the sustainability strategy as described from page 118 in the Heineken N.V. Annual Report, and the annual plan of Heineken N.V. were presented to the Board of Directors.

A recurrent element in all the meetings was discussion of the results of Heineken N.V.: volumes, revenues and operating profit organic growth, consolidation effects and foreign exchange effects were reviewed by region. The Chairman/CEO of the Executive Board of Heineken N.V. commented on conditions in various markets and the development of the brand portfolio in the different regions, paying particular attention in all cases to the development of the Heineken® brand. New propositions such as low and no-alcohol beverages, cider and craft beer were also discussed as was the Zero Bad Cost cost-management programme.

The socio-economic and geopolitical context in which performance has to be placed, such as the US-China trade war, currency volatility and Brexit were discussed, as were significant developments affecting Heineken's business in specific countries, such as the political and economic situations in Nigeria, The Democratic Republic of Congo, Brazil and Mexico, and general economic conditions in Europe.

Other matters discussed during the year included proposals for acquisitions, investments, disposals and other opportunities for Heineken N.V. such as a new brewery in Meoqui, Mexico, a partnership with the leading brewer in Belize and a long-term strategic partnership with China Resources for mainland China, Hong Kong and Macau.

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

As part of the sustainability strategy, the partnership with the Global Fund to fight infectious diseases in Africa and the announcement of the Drop the C programme, which aims to reduce carbon emissions from production, were discussed.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

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

In addition to the meetings with the Preparatory Committee of the Supervisory Board of Heineken N.V. as described above, the Board of Directors also met separately on two occasions to discuss, among other things, the Report of the Board of Directors and the financial statements for 2017 and the first half of 2018. At the meeting of the Board of Directors at which the Report of the Board of Directors and the financial statements for 2017 were discussed, the external auditors, Deloitte Accountants B.V., gave a comprehensive report on their activities.

Mrs C.L. de Carvalho-Heineken and Mr M.R. de Carvalho, executive directors, travelled to Hong-Kong to meet management of China Resources Enterprise, to Canada to attend a Heineken forum and to Sardinia to visit the brewery in Cagliari. Mr M.R. de Carvalho also travelled to Atlanta to attend a meeting of distributors.

REVIEW OF 2018

Share price

The share price of the Heineken Holding N.V. share has decreased from €81.75 at the beginning of the year to €73.75 on 31 December. The gap between the Heineken N.V. and Heineken Holding N.V. share prices moved between 2.30% and 6.17% through the year, ending at 4.47% on 31 December.

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

Interest in Heineken N.V.

The nominal value of our company's interest in Heineken N.V. as at 31 December 2018 was €461 million (31 December 2017: €461 million).

The nominal value of the shares issued by our company as at the same date was also €461 million.

As at 31 December 2018, our company's interest in Heineken N.V. represented 50.005% of the issued capital (being 50.516% of the outstanding capital) of Heineken N.V.

Results

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

The Board of Directors has elected to avail itself of the option given by Section 362, subsection 8, Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*) of using the same accounting policies for the valuation of assets and liabilities and determination of results in the company financial statements as those used for the preparation of the consolidated financial statements of Heineken Holding N.V. Since the interest in Heineken N.V. is measured using the net asset value method, the equity attributable to the shareholders of Heineken Holding N.V., amounting to €7,158 million, shown in the consolidated statement of financial position, is equal to the shareholders' equity shown in the company balance sheet.

Our company's 50.516% share in Heineken N.V.'s 2018 profit of €1,903 million is recognised as income of €961 million in the 2018 company income statement. This share in Heineken N.V.'s profit consists of both distributed and retained earnings for 2018.

HEINEKEN N.V. PERFORMANCE IN 2018 AND OUTLOOK

Performance

Heineken N.V. posted a net profit of €1,903 million in 2018.

Top-line performance in 2018 was strong with robust volume growth throughout the year, and net revenue accelerating in the second half driven by price mix. Operating profit (beia) increased 6.4% organically, at a faster rate in the second half of the year (2H18: 11.1%) than in the first (1H18: 1.3%) driven by higher revenue growth and overall slower growth of expenses despite continued pressure from higher input and logistics costs.

HEINEKEN continued to invest in key developing markets with the expansion of production capacity in Mexico, Vietnam, Ethiopia, Brazil, Cambodia, Haiti and South Africa, and the construction of a new brewery in Mozambique.

Net revenue (beia) increased 6.1% organically, with a 4.0% increase in total consolidated volume and a 2.0% increase in revenue (beia) per hectolitre. The underlying price mix impact was 2.9%. In the second half of the year net revenue (beia) increased 6.5% (1H18: 5.6%), with total consolidated volume growth of 3.7% (1H18: 4.4%), net revenue (beia) per hectolitre up 2.8% (1H18: 1.1%) and underlying price mix impact of 2.9% in line with the full year. Reported net revenue (beia) per hectolitre declined 3.9% mainly due to the translational currency impact and from the dilutive effect of the acquisition in Brazil.

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

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Outlook

For 2019, HEINEKEN expects the following:

- Continued volatility in economic conditions
- Superior top-line growth driven by volume, price and premiumisation
- Mid-single digit increase of input and logistic costs per hectolitre on an organic basis
- Continued cost management and productivity initiatives

Given this, operating profit (beia) is expected to grow by mid-single digit on an organic basis, excluding any major unforeseen macro economic and political developments.

Also is anticipated:

- An average interest rate (beia) broadly in line with 2018 (2018: 3.2%)
- An effective tax rate (beia) between 27% and 28% (2018: 26.4%)
- Capital expenditures related to property, plant and equipment around €2 billion (2018: €1.9 billion)

FINANCIAL STATEMENTS AND APPROPRIATION OF PROFIT

The Board of Directors will submit the financial statements for 2018 to the General Meeting of Shareholders. These financial statements, on pages 22 to 76 of this report, have been audited by Deloitte Accountants B.V., whose report can be found on page 77.

Heineken N.V. proposes to distribute a dividend for 2018 of €1.60 per share of €1.60 nominal value, of which €0.59 per share of €1.60 nominal value has already been paid as interim dividend.

The Board of Directors has resolved to vote at the Annual General Meeting of Shareholders of Heineken N.V. in favour of Heineken N.V.'s dividend proposal. On that basis, the dividend payable to our company for 2018 totals €460.8 million in cash, of which €169.9 million has already been received by way of interim dividend. The final dividend due will therefore be €290.9 million.

In accordance with the provisions of Article 10, paragraph 9, of the Articles of Association, an interim dividend of €0.59 per share of €1.60 nominal value was distributed to shareholders on 9 August 2018. Pursuant to the provisions of Article 10 of the Articles of Association, a final dividend of €1.01 per share of €1.60 nominal value currently outstanding will be payable to shareholders as of 8 May 2019. Like the holders of Heineken N.V. shares, holders of Heineken Holding N.V. shares will therefore receive a total dividend for 2018 of €1.60 per share of €1.60 nominal value. A total of €460.8 million will be distributed to holders of Heineken Holding N.V. shares.

CORPORATE GOVERNANCE STATEMENT

Introduction

In this statement, Heineken Holding N.V. addresses its corporate governance structure and explains which best practice provisions of the Dutch Corporate Governance Code the company does not apply, and why. This report also includes the information that the company is required to disclose pursuant to the Dutch governmental decree on Article 10 Takeover Directive (*Besluit artikel 10 overnamerichtlijn*), the governmental decree on the disclosure of non-financial information, and article 5:25c, paragraph 2 sub c of the Financial Supervision Act (*Wet op het financieel toezicht*).

Dutch Corporate Governance Code

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

While Heineken Holding N.V. endorses the principles of the Code, the structure of the HEINEKEN group, and in particular the relationship between Heineken Holding N.V. and Heineken N.V., prevents Heineken Holding N.V. from applying a number of the Code's best practice provisions, as further explained below.

At the Annual General Meeting of Shareholders on 20 April 2005, the departure from the Dutch Corporate Governance Code of 9 December 2003 was put to the vote and approved. The departure from the Dutch Corporate Governance Code as revised in 2008 was discussed at the Annual General Meeting of Shareholders on 22 April 2010. The departure from the Code as revised in 2016 was discussed at the Annual General Meeting of Shareholders on 19 April 2018.

Structure of the HEINEKEN group

Organisational structure

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

As at 31 December 2018 L'Arche Green N.V., a company owned by the Heineken family and the Hoyer family, holds a 52.599% (31 December 2017: 52.599%) interest of the outstanding share capital of Heineken Holding N.V. The Heineken family holds 88.86% of the issued share capital of L'Arche Green N.V. and the remaining 11.14% is held by the Hoyer family. Mrs C.L. de Carvalho-Heineken also owns a direct 0.03% stake in Heineken Holding N.V. FEMSA, through its affiliates CB Equity LLP and CSC AP SA de CV, holds a 12.262% interest of the outstanding share capital of Heineken Holding N.V. In combination with its Heineken N.V. shareholding this represents a 14.76% economic interest in the HEINEKEN group. Of the outstanding share capital of Heineken Holding N.V. 35.139% is held by public shareholders.

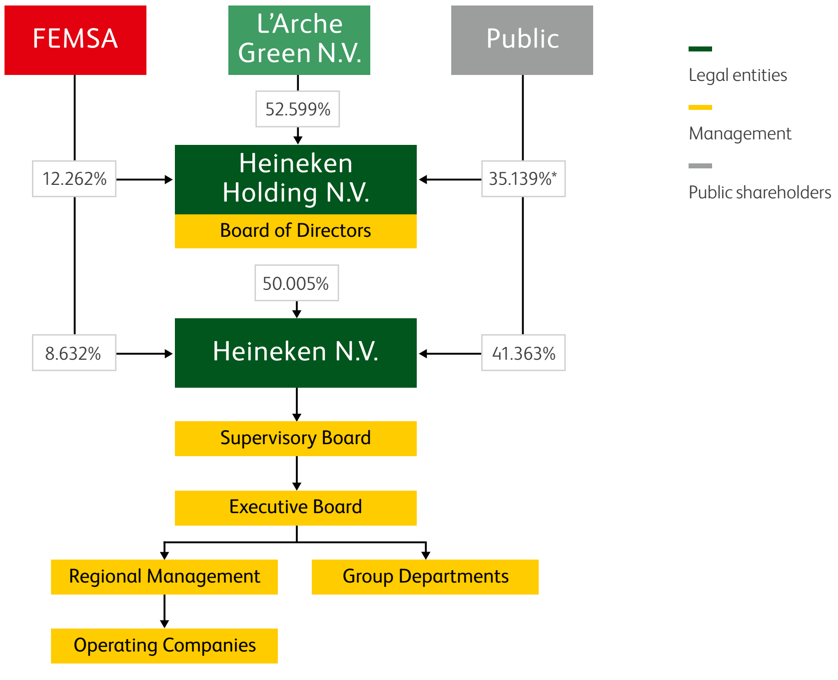
REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Heineken Holding N.V. abolished the 250 priority shares from its capital structure on 20 April 2018 by converting them into 314 ordinary shares, following a resolution to that effect taken in the Annual General Meeting of Shareholders on 19 April 2018. In connection with the abolishment of the priority shares, the company repurchased the 314 ordinary shares. As a consequence, Heineken Holding N.V. currently holds 314 shares in its own share capital.

These 314 shares held in treasury do not carry any voting rights, nor any dividend rights. A proposal to cancel these treasury shares will be submitted to the General Meeting of Shareholders on 25 April 2019.

Policy principles and activities

Standing at the head of the HEINEKEN group, Heineken Holding N.V. is not an ordinary holding company as already set forth in the profile on page 2. Since its formation in 1952, Heineken Holding N.V.'s main object pursuant to its Articles of Association has been to manage or supervise the management of the HEINEKEN group and to provide services for Heineken N.V., in accordance with the policy principles outlined above.



* Including the 0.03% stake held directly by C.L. de Carvalho-Heineken

Heineken Holding N.V. does not engage in operational activities itself and it employs no staff. The operational activities have been assigned within the HEINEKEN group to Heineken N.V. and its subsidiaries and associated companies. Within the HEINEKEN group, the primary duties of Heineken N.V.'s Executive Board are to initiate and implement corporate strategy and to manage Heineken N.V. and its related companies. It is supervised in the performance of its duties by Heineken N.V.'s Supervisory Board.

Heineken Holding N.V.'s income consists exclusively of dividends received on its interest in Heineken N.V. Every Heineken N.V. share held by Heineken Holding N.V. is matched by one share outstanding at the level of Heineken Holding N.V. The dividend payable on both shares is identical.

Heineken Holding N.V.'s governance structure

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

Within Heineken Holding N.V., there are established rules governing the disclosure of share price sensitive information and regarding the holding of and transactions in Heineken Holding N.V. and Heineken N.V. shares and other securities that are applicable to the Board of Directors and, where required, other persons directly associated with the company. These rules are available on the company's website.

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

Compliance with the Code

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

Long-term value creation and culture

The development of and the manner of implementing HEINEKEN's strategy aimed at long-term value creation as well as enabling a culture aligned with such strategy is pursued by Heineken N.V. The operational activities for pursuing such strategy are performed by Heineken N.V. Values for maintaining a culture within the HEINEKEN group aligned with its strategy for long-term value creation are set and

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

carried out at the level of Heineken N.V. as well. Although Heineken Holding N.V. seeks to promote the continuity, independence and stability of the HEINEKEN group, thereby enabling Heineken N.V. to grow in a controlled and steady manner and to pursue its long-term policy in the interest of all stakeholders, Heineken Holding N.V. does not have a long-term value creation strategy nor an aligned culture itself as it manages or supervises the HEINEKEN group, but does not engage in any operational activities and employs no staff. Heineken Holding N.V. therefore does not apply best practice provisions 1.1.1 up to and including 1.1.4 and 2.5.1, 2.5.2, 2.5.4 of the Code. As to Heineken N.V., this is described in the Heineken N.V. Report of the Executive Board, page 8 and further.

Risk management

As Heineken Holding N.V. does not perform operational management activities, it does not have, unlike Heineken N.V., an internal risk management and control system to control any risks following from such management and operational activities. Heineken Holding N.V. does therefore not apply best practice provisions 1.2.1 up to and including 1.2.3, 1.4.1 up to and including 1.4.3 (i) and (ii) and 1.5.1 up to and including 1.5.4 of the Code. Therefore, the Board of Directors will not provide the statement pursuant to best practice provision 1.4.3 (i) and (ii) of the Code. As to Heineken N.V., the risk management and control system for the business is described in the Heineken N.V. Report of the Executive Board, page 26 and further. Note 11.5 to the consolidated financial statements of Heineken Holding N.V. itemises the specific financial risks and explains the control system relating to those risks. Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis and the Annual Report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the Annual Report.

Internal audit function

An internal audit function in relation to internal risk management and control is not present at the level of Heineken Holding N.V. as reviews of internal key processes, projects and systems, based on HEINEKEN's strategic priorities and most significant risk areas, are performed by Heineken N.V. Heineken Holding N.V. does therefore not apply best practice provisions 1.3.1 up to and including 1.3.6 of the Code. As to Heineken N.V., this is described in the Heineken N.V. Report of the Executive Board, page 26 and further.

Profile

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

Diversity

The importance of diversity is recognised by Heineken Holding N.V. as described in the diversity policy for the Board of Directors, which considers the elements of a diverse composition in terms of nationality, gender, age, expertise and experience. The purpose of this policy is to achieve a diverse composed Board of Directors on all aforementioned subjects. Pursuant to Section 166, Book 2 of the Dutch Civil Code, which came into force on 13 April 2017, executive boards and supervisory boards of large Dutch public companies, such as Heineken Holding N.V., are deemed to have a balanced composition if they consist of at least 30% female and 30% male members. Currently, the executive members of the Board of Directors are one female and one male member and is therefore deemed to be balanced within the meaning of Dutch law. The non-executive members currently consist of three female and three male members and is therefore deemed to be balanced within the meaning of Dutch law as well.

Independence

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

Given the structure of the HEINEKEN Group, the company is of the opinion that, in the context of promoting the continuity, independence and stability of the HEINEKEN Group, thereby enabling Heineken N.V. to grow in a controlled and steady manner and to pursue its long-term policy in the interest of all stakeholders, it is in its best interest and that of its stakeholders that the Board of Directors includes a fair and adequate representation of persons who are related by blood or marriage to the late Mr A.H. Heineken, or who are representatives of FEMSA or the Hoyer family, even if those persons would not, formally speaking, be considered 'independent' within the meaning of best practice provision 2.1.8 of the Code.

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

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

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

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

Pursuant to best practice provision 2.1.8 sub i of the Code, Mr A.A.C. de Carvalho is not considered independent as he is a relative by blood of the executive members of the company. In addition, pursuant to best practice provision 2.1.8 sub vi of the Code, Mr A.A.C. de Carvalho is not considered independent being the son of Mrs C.L. de Carvalho-Heineken, the latter having an indirect shareholding of at least 10% in the company. Nor is Mr A.A.C. de Carvalho considered independent pursuant to best practice provision 2.1.8 sub vii of the Code, as he is a relative by blood of members of the management board of L'Arche Green N.V., an entity that has a shareholding in Heineken Holding N.V. of at least 10%.

Pursuant to best practice provision 2.1.8 sub i of the Code, Mrs L.L.H. Brassey is not considered independent as she is a relative by blood of the executive members of the company. In addition, pursuant to best practice provision 2.1.8 sub vi of the Code, Mrs L.L.H. Brassey is not considered independent being the daughter of Mrs C.L. de Carvalho-Heineken, the latter having an indirect shareholding of at least 10% in the company. Nor is Mrs L.L.H. Brassey considered independent pursuant to best practice provision 2.1.8 sub vii of the Code, as she is a relative by blood of members of the management board of L'Arche Green N.V., an entity that has a shareholding in Heineken Holding N.V. of at least 10%.

Heineken Holding N.V. does not comply with best practice provision 5.1.3 of the Code as Mr M. Das, the chairman of the Board of Directors (i) used to be a former (executive) member of the Board of Directors prior to the implementation of the one-tier management structure, and (ii) is not considered independent pursuant to best practice provisions 2.1.8 sub iii and vii of the Code, as described above.

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

Evaluation

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

Committees

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

Chairman of the Board of Directors

Due to the specific structure, not all tasks of the chairman that are listed in best practice provision 2.3.6 of the Code can be applied.

Best practice provisions 2.3.6 sub ii and 2.3.7 of the Code are not applied as the Board of Directors has not appointed a vice-chairman.

As the Board of Directors has not installed committees as described in the paragraph "Committees" above, best practice provision 2.3.6 sub v of the Code cannot be fully applied.

The Board of Directors does not conduct sessions to evaluate its own functioning, and that of its individual members as described on this page. Best practice provision 2.3.6 sub vi of the Code can therefore not be applied.

Heineken Holding N.V. does not have a long-term value creation strategy nor an aligned culture itself as it manages or supervises the HEINEKEN group, but does not engage in any operational activities and employs no staff, as described on page 13 and 14. Best practice provision 2.3.6 sub ix of the Code can therefore not be applied.

Due to no operational activities at the level of Heineken Holding N.V., a monitoring of suspected misconduct or irregularities cannot be performed on this level as described on page 16. Best practice provision 2.3.6 sub x of the Code can therefore not be applied.

Attendance

The Board of Directors confirms that all non-executive members of the Board of Directors have adequate time available to give sufficient attention to the concerns of the company. In 2018, the attendance rate was 95% for the meetings of the Board of Directors. Many non-executive members were able to attend all meetings. In case of absence, members are fully informed in advance, enabling them to provide input for the meeting, and they are also updated on the meeting outcome.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

In accordance with best practice provision 2.4.4 of the Code, the table below provides an overview of the attendance record of the individual non-executive members of the Board of Directors. Attendance is expressed as a number of meetings attended out of the number eligible to attend. The Board of Directors met with the Preparatory Committee of the Supervisory Board of Heineken N.V. on seven occasions in 2018. In addition to the meetings with the Preparatory Committee of the Supervisory Board of Heineken N.V., the Board of Directors also met separately on two occasions to discuss, among other things, the Report of the Board of Directors and the financial statements for 2017 and the first half of 2018.

	Meetings of the Board of Directors
Mr M. Das	9/9
Mr J.A. Fernández Carbajal	8/9
Mrs C.M. Kwist	9/9
Mr A.A.C. de Carvalho	9/9
Mrs A.M. Fentener van Vlissingen	4/5
Mrs L.L.H. Brassey	5/5

Misconduct and irregularities

Due to no operational activities at the level of Heineken Holding N.V., a monitoring of suspected misconduct or irregularities cannot be performed on this level. Heineken Holding N.V. does therefore not apply best practice provisions 2.6.1 up to and including 2.6.4 of the Code. As to Heineken N.V., this is described in the Heineken N.V. Report of the Executive Board, page 26 and further.

Conflict of interest

In 2018, no transactions were reported under which a member of the Board of Directors had a conflict of interest that was of material significance.

Remuneration policy

Remuneration of the members of the Board of Directors was enabled by an amendment to the Articles of Association in 2001. The policy on the remuneration of members of the Board of Directors was approved by the General Meeting of Shareholders in 2005. Under this policy, the members of the Board of Directors receive the same remuneration as the members of the Supervisory Board of Heineken N.V. For 2018, this meant €90,000 a year for the chairman and €60,000 a year for the other members of the Board of Directors. Given the specific structure of Heineken Holding N.V. certain best practice provisions under the remuneration related principles (3.1, 3.2 and 3.4) that are inconsistent with the company's remuneration policy are not applied or are considered to be not applicable.

More information on how this policy was applied can be found in the notes to the consolidated financial statements (see note 13.3).

Policy on bilateral contacts with shareholders

As bilateral contacts with shareholders, analyst meetings, presentations to institutional and other investors, press conferences and the like take place at the level of Heineken N.V., Heineken Holding N.V. does not apply best practice provisions 4.2.2 and 4.2.3 of the Code. Heineken N.V.'s policy on bilateral contacts with shareholders and further relevant information can be found on the website: www.theheinekencompany.com.

BOARD OF DIRECTORS

The Board of Directors consists of eight members:
Mr M. Das, non-executive director (chairman), executive directors Mrs C.L. de Carvalho-Heineken and Mr M.R. de Carvalho, and non-executive directors Mr J.A. Fernández Carbajal, Mrs C.M. Kwist, Mr A.A.C. de Carvalho, Mrs A.M. Fentener van Vlissingen and Mrs L.L.H. Brassey.

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

At the Annual General Meeting of Shareholders on 19 April 2018 Mr J.A. Fernández Carbajal was reappointed as non-executive member of the Board of Directors for the maximum period of four years. In addition, at the Annual General Meeting of Shareholders on 19 April 2018, Mrs A.M. Fentener van Vlissingen and Mrs L.L.H. Brassey were appointed as non-executive members of the Board of Directors, each for the maximum period of four years.

In accordance with the current rotation schedule, Mrs C.L. de Carvalho-Heineken, Mr M.R. de Carvalho and Mrs C.M. Kwist will stand down at the Annual General Meeting of Shareholders on 25 April 2019. Non-binding recommendations, drawn up by the Board of Directors, will be submitted to the General Meeting of Shareholders on 25 April 2019 to reappoint Mrs C.L. de Carvalho-Heineken and Mr M.R. de Carvalho as executive members of the Board of Directors and Mrs C.M. Kwist as a non-executive member of the Board of Directors as of 25 April 2019, each for a period of four years.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

THE GENERAL MEETING OF SHAREHOLDERS

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

Notice of meeting

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

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

Right of shareholders to place items on agenda

An item that one or more shareholders which alone or together (i) represent at least 1% of the issued capital or (ii) have a value of at least €50 million have requested to be placed on the agenda shall be included in the notice of meeting or announced in a similar manner, provided that the Board of Directors receives the request in writing, which request is to be furnished with reasons or accompanied by a proposal for a resolution, not later than the 60th day before the date of the General Meeting of Shareholders. If shareholders have requested that an item be placed on the agenda, they shall explain this to the meeting and answer any questions thereon.

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

Pursuant to best practice provision 4.1.7 of the Code, if the Board of Directors stipulates a response time, such period may not exceed 180 days from the date on which the Board of Directors is informed by one or more shareholders of their intention to place an item on the agenda to the date of the General Meeting of Shareholders at which the item is to be considered. The Board of Directors shall use the response time for further deliberation and constructive consultation. A response time may be stipulated only once for any given General Meeting of Shareholders and may not apply to an item in respect of which the response time has been previously stipulated.

Record date

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

Attendance by proxy or electronic communication

All shareholders are entitled, either in person or represented by a proxy appointed in writing, to attend the General Meeting of Shareholders, to address the meeting and to exercise their voting rights. If shareholders wish to exercise their rights through a proxy appointed in writing, the instrument appointing the proxy must be received by the Board of Directors not later than the date stated for that purpose in the notice of the meeting. The Board of Directors may determine that the powers set out in the previous sentence may also be exercised by means of electronic communication. The Board of Directors may impose certain conditions on the use of electronic communications, which will in that case be stated in the notice of meeting.

Attendance register

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

Chairman of the General Meeting of Shareholders

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

Voting

Adoption of resolutions at each General Meeting of Shareholders shall require an absolute majority of the votes cast, except where a larger majority is required by law or the Articles of Association.

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

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

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

Once cast, a vote cannot be retracted.

Minutes

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

Resolutions to be adopted by the General Meeting of Shareholders

The General Meeting of Shareholders has authority to adopt resolutions concerning among others the following matters: (i) issue of shares by the company or grant of rights to subscribe for shares (and authorisation of the Board of Directors to resolve that the company issues shares or grants rights to subscribe for shares), (ii) restriction or exclusion of pre-emptive rights (and authorisation of the Board of Directors to resolve that the company restricts or excludes shareholder's pre-emptive rights), (iii) authorisation of the Board of Directors to resolve that the company acquires its own shares other than for no consideration, (iv) cancellation of shares and reduction of the share capital, (v) appointment of members of the Board of Directors from a non-binding recommendation drawn up by the Board of Directors, (vi) the remuneration policy for the Board of Directors, (vii) suspension and dismissal of members of the Board of Directors, (viii) adoption of the financial statements, (ix) discharge of the members of the Board of Directors in respect of their management, (x) the profit reservation and distribution policy, (xi) a substantial change in the corporate governance structure, (xii) (re)appointment of the external auditor, (xiii) amendment of the Articles of Association and (xiv) winding-up of the company.

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

Provision of information

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

Priority shares

The company abolished the 250 priority shares from its capital structure on 20 April 2018 by converting them into 314 ordinary shares, following a resolution to that effect taken in the Annual General Meeting of Shareholders on 19 April 2018.

FURTHER INFORMATION PURSUANT TO THE ARTICLE 10 TAKEOVER DIRECTIVE DECREE

Shares

Heineken Holding N.V.'s issued capital consists of 288,030,168 shares outstanding (excluding 314 shares held by Heineken Holding N.V. itself) (the outstanding shares and own shares together representing 100% of the capital) with a nominal value of €1.60 each. The shares are listed on Euronext Amsterdam. Each share carries one vote. All shares carry equal rights and are freely transferable (unless provided otherwise below). Heineken Holding N.V. abolished the 250 priority shares from its capital structure on 20 April 2018 by converting them into 314 ordinary shares, following a resolution to that effect taken in the Annual General Meeting of Shareholders on 19 April 2018. In connection with the abolishment of the priority shares, the company repurchased the 314 ordinary shares. As a consequence, Heineken Holding N.V. currently holds 314 shares in its own share capital. These 314 shares held in treasury do not carry any voting rights nor any dividend rights. A proposal to cancel these treasury shares will be submitted to the General Meeting of Shareholders on 25 April 2019. Persons who hold shares on a predetermined record date may attend and exercise their voting rights at General Meetings of Shareholders. The record date for the Annual General Meeting of Shareholders on 25 April 2019 has been set 28 days before the Annual General Meeting of Shareholders, i.e. on 28 March 2019.

Substantial shareholdings

Pursuant to the Financial Supervision Act and the Decree on Disclosure of Major Holdings and Capital Interests in Issuing Institutions (*Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen Wft*), the Netherlands Authority for the Financial Markets (AFM) needs to be notified on substantial shareholdings (i.e. of 3% or more).

For the changes notified on substantial shareholdings in the share capital of Heineken Holding N.V. in 2018 reference is made to page 5.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Restrictions related to shares

There are no restrictions on the voting rights on shares of Heineken Holding N.V. Upon completion (on 30 April 2010) of the acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), CB Equity LLP (belonging to the FEMSA group) received Heineken Holding N.V. (and Heineken N.V.) shares. Pursuant to the Corporate Governance Agreement of 30 April 2010 concluded between Heineken Holding N.V., Heineken N.V., L'Arche Green N.V., FEMSA and CB Equity LLP the following applies.

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

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

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

Share plans

Heineken Holding N.V. has no staff share plan or option plan.

Appointment and dismissal of members of the Board of Directors

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

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

Amendment of the Articles of Association

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

Acquisition of own shares

The General Meeting of Shareholders on 19 April 2018 authorised the Board of Directors, for the statutory maximum period of 18 months, commencing on 19 April 2018, to acquire own shares subject to the following conditions and with due observance of the law and the Articles of Association:

a the maximum number of shares which may be acquired is 10% of the issued share capital of the company per the date of the Annual General Meeting of Shareholders of 2018;
b transactions must be executed at a price between the nominal value of the shares and 110% of the opening price quoted for the shares in the Official Price List (*Officiële Prijscourant*) of Euronext Amsterdam on the date of the transaction or, in the absence of such a price, the latest price quoted therein;
c transactions may be executed on the stock exchange or otherwise.

Issue of shares

The General Meeting of Shareholders on 19 April 2018 furthermore authorised the Board of Directors, for a period of 18 months, commencing on 19 April 2018, to issue shares or grant rights to subscribe for shares, with due observance of the law and the Articles of Association. The authorisation is limited to 10% of the issued share capital of the company per the date of the Annual General Meeting of Shareholders of 2018.

The General Meeting of Shareholders on 19 April 2018 also authorised the Board of Directors, for a period of 18 months, commencing on 19 April 2018, to restrict or exclude shareholders' pre-emptive rights in relation to the issue of shares or the granting of rights to subscribe for shares, with due observance of the law and the Articles of Association. The authorisation is limited to 10% of the issued share capital of the company per the date of the Annual General Meeting of Shareholders of 2018.

Change of control

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

BOARD OF DIRECTORS (CONTINUED)

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

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

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

Heineken N.V. does have such policies in place which are reflected in the Heineken N.V. Sustainability Review on page 118 and further. Heineken Holding N.V. as a holding company of Heineken N.V., recognises the importance of corporate social responsibility within the HEINEKEN Group and supervises Heineken N.V. on the application thereof. As a result of the nature of its activities, Heineken Holding N.V. has no information to disclose on non-financial key performance indicators relevant to these activities.

Page 14 provides further insight in the diversity policy of Heineken Holding N.V.

STATEMENT OF THE BOARD OF DIRECTORS

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

- the financial statements in this Annual Report 2018 give a true and fair view of our assets and liabilities, our financial position and profit as at 31 December 2018, and the results of our consolidated operations for the financial year 2018; and
- the Report of the Board of Directors includes a fair review of the position as at 31 December 2018 and the development and performance during the financial year 2018 of Heineken Holding N.V. and the undertakings included in the consolidation taken as a whole, and describes the principal risks that Heineken Holding N.V. faces.

Amsterdam, 12 February 2019

Board of Directors
Mr M. Das
Mrs C.L. de Carvalho-Heineken
Mr M.R. de Carvalho
Mr J.A. Fernández Carbajal
Mrs C.M. Kwist
Mr A.A.C. de Carvalho
Mrs A.M. Fentener van Vlissingen
Mrs L.L.H. Brassey

2018

FINANCIAL STATEMENTS 2018

HEINEKEN HOLDING N.V. INCOME STATEMENT

For the year ended 31 December In millions of €	Note	**2018**	2017
Personnel expenses		—	—
Total expenses		**—**	—
Interest income		—	—
Interest expenses		—	—
Other net finance income/(expenses)		—	—
Net finance expenses		**—**	—
Share in result of participating interest in Heineken N.V. after income tax	II	961	977
Profit before income tax		**—**	—
Income tax income/(expense)	III	—	—
Profit		**961**	**977**

HEINEKEN HOLDING N.V. BALANCE SHEET

Before appropriation of profit
As at 31 December

In millions of €	Note	**2018**	2017
Participating interest in Heineken N.V.	I	7,158	6,633
Total financial fixed assets		**7,158**	**6,633**
Cash		—	—
Total current assets		—	—
Total assets		**7,158**	**6,633**
Issued capital		461	461
Share premium		1,257	1,257
Translation reserve		(1,647)	(1,574)
Cost of hedging reserve		5	—
Hedging reserve		(18)	58
Fair value reserve		173	167
Other legal reserves		550	482
Reserve for own shares		—	—
Retained earnings		5,416	4,805
Profit for the year		961	977
Total shareholders' equity		**7,158**	**6,633**
Other payables		—	—
Total current liabilities		**—**	**—**
Total shareholders' equity and liabilities		**7,158**	**6,633**

HEINEKEN HOLDING N.V. SHAREHOLDERS' EQUITY

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

In millions of €	Share capital	Share premium	Translation reserve	Cost of hedging reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Profit for the year	Shareholders' equity
Balance as at 31 December 2017	461	1,257	(1,574)	—	58	167	482	—	4,805	977	6,633
Changes in accounting policy (IFRS9)	—	—	(1)	2	—	—	—	—	(2)	—	(1)
Balance as at 1 January 2018	**461**	**1,257**	**(1,575)**	**2**	**58**	**167**	**482**	**—**	**4,803**	**977**	**6,632**
Profit for the year	—	—	—	—	—	—	108	—	(108)	961	961
Other comprehensive income	—	—	(72)	3	(76)	6	—	—	112	—	(27)
Total comprehensive income	**—**	**—**	**(72)**	**3**	**(76)**	**6**	**108**	**—**	**4**	**961**	**934**
Transfer to retained earnings	—	—	—	—	—	—	—	—	977	(977)	—
Transfer between reserves	—	—	—	—	—	—	(40)	—	40	—	—
Dividends to shareholders	—	—	—	—	—	—	—	—	(438)	—	(438)
Purchase own shares	—	—	—	—	—	—	—	—	—	—	—
Purchase own shares by Heineken N.V.	—	—	—	—	—	—	—	—	(19)	—	(19)
Dilution	—	—	—	—	—	—	—	—	1	—	1
Share-based payments by Heineken N.V.	—	—	—	—	—	—	—	—	13	—	13
Acquisition of non-controlling interests without a change in control	—	—	—	—	—	—	—	—	13	—	13
Changes in consolidation/transfers within equity by Heineken N.V.	—	—	—	—	—	—	—	—	22	—	22
Balance as at 31 December 2018	**461**	**1,257**	**(1,647)**	**5**	**(18)**	**173**	**550**	**—**	**5,416**	**961**	**7,158**

For further explanation reference is made to note 11.4 to the consolidated financial statements.

NOTES TO THE HEINEKEN HOLDING N.V. FINANCIAL STATEMENTS

Reporting entity

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

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch Civil Code. The Company uses the option of Section 362, subsection 8, of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements on the basis of the same accounting principles as those applied for the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU as explained in the notes to the consolidated financial statements.

The amounts disclosed in the notes to the Heineken Holding N.V. financial statements are in millions of Euro, unless otherwise indicated.

The financial statements have been prepared by the Board of Directors of the Company and authorised for issue on 12 February 2019 and will be submitted for adoption to the General Meeting of Shareholders on 25 April 2019.

Accounting policies

Shareholders' equity

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

NOTE I PARTICIPATING INTEREST IN HEINEKEN N.V.

The interest of Heineken Holding N.V. in Heineken N.V. is 50.005% of the issued capital (being 50.516% (2017: 50.514%) of the outstanding capital following the purchase of own shares by Heineken N.V.). The nominal value of the Heineken N.V. shares held by the Company amounted to €461 million as at 31 December 2018 (€461 million as at 31 December 2017).

The market capitalisation of the participating interest in Heineken N.V. as at 31 December 2018 amounted to €22.2 billion (31 December 2017: €25.0 billion).

Balance as at 1 January 2017	6,598
50.514% of the profit of Heineken N.V.	977
Dividend payments received by Heineken Holding N.V.	(392)
Movements in translation reserve	(654)
Movements cash flow hedges	58
Movements fair value adjustments	35
Actuarial gains and losses	33
Movements in retained earnings	(27)
Purchase own shares by Heineken N.V.	—
Negative dilution	(6)
Share-based payments by Heineken N.V.	11
Balance as at 31 December 2017	6,633
Balance as at 31 December 2017	6,633
Changes in accounting policy (IFRS 9)	(1)
Balance as at 1 January 2018	**6,632**
50.516% of the profit of Heineken N.V.	961
Dividend payments received by Heineken Holding N.V.	(438)
Movements in translation reserve	(72)
Movements cash flow hedges	(73)
Movements fair value adjustments	6
Actuarial gains and losses	112
Movements in retained earnings	35
Purchase own shares by Heineken N.V.	(19)
Dilution	1
Share-based payments by Heineken N.V.	13
Balance as at 31 December 2018	**7,158**

NOTES TO THE HEINEKEN HOLDING N.V. FINANCIAL STATEMENTS (CONTINUED)

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

Included here is the share in the profit of Heineken N.V. for 2018, being 50.516% of €1,903 million (2017: 50.514% of €1,935 million).

NOTE III OTHER REVENUES AND EXPENSES AFTER INCOME TAX

Expenses made to manage and provide services to Heineken N.V. amounting to €1.394 thousand (2017: €714 thousand) are reimbursed by Heineken N.V. to Heineken Holding N.V. in accordance with the management agreement.

The remuneration of the Board of Directors is disclosed in note 13.3 to the consolidated financial statements.

NOTE IV AUDITOR FEES

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.

In 2018 €10.3 million of fees are recognised in the consolidated financial statements for services provided by Deloitte Accountants B.V. and its member firms and/or affiliates (2017: €10.1 million). In below overview the breakdown per type of service is provided:

	Deloitte Accountants B.V.		Other Deloitte member firms and affiliates		Total	
In millions of €	**2018**	2017	**2018**	2017	**2018**	2017
Audit of Heineken Holding N.V. and its subsidiaries	**2.7**	2.8	**6.6**	6.3	**9.3**	9.1
Other audit services	**0.4**	0.5	**0.2**	0.3	**0.6**	0.8
Tax services	**—**	—	**0.1**	—	**0.1**	—
Other non-audit services	**0.1**	—	**0.2**	0.2	**0.3**	0.2
	3.2	3.3	**7.1**	6.8	**10.3**	10.1

ACCOUNTING POLICIES

Fees for audit services are included in the other expenses in the consolidated financial statements (refer to note 6.3). These fees are recognised when the service is provided.

Amsterdam, 12 February 2019

Board of Directors
Mr M. Das
Mrs C.L. de Carvalho-Heineken
Mr M.R. de Carvalho
Mr J.A. Fernández Carbajal
Mrs C.M. Kwist
Mr A.A.C. de Carvalho
Mrs A.M. Fentener van Vlissingen
Mrs L.L.H. Brassey

CONSOLIDATED INCOME STATEMENT

	Note	2018	2017*
For the year ended 31 December			
In millions of €			
Revenue	6.1	**26,811**	25,843
Excise tax expense	6.1	(4,340)	(4,234)
Net revenue	6.1	**22,471**	21,609
Other income	6.2	75	141
Raw materials, consumables and services	6.3	(13,967)	(13,261)
Personnel expenses	6.4	(3,749)	(3,550)
Amortisation, depreciation and impairments	6.6	(1,693)	(1,587)
Total other expenses		**(19,409)**	(18,398)
Operating profit		**3,137**	3,352
Interest income	11.1	62	72
Interest expenses	11.1	(493)	(468)
Other net finance income/(expenses)	11.1	(64)	(123)
Net finance expenses		**(495)**	(519)
Share of profit of associates and joint ventures	10.3	210	75
Profit before income tax		**2,852**	2,908
Income tax expense	12.1	(757)	(755)
Profit		**2,095**	2,153
Attributable to:			
Shareholders of Heineken Holding N.V. (net profit)		961	977
Non-controlling interests in Heineken N.V.		942	958
Non-controlling interests in Heineken N.V. group companies		192	218
Profit		**2,095**	2,153
Weighted average number of shares** – basic	6.7	288,030,168	288,030,168
Weighted average number of shares** – diluted	6.7	288,030,168	288,030,168
Basic earnings per share** (€)	6.7	3.34	3.39
Diluted earnings per share** (€)	6.7	3.34	3.39

*Restated to reflect the change in accounting policy on Revenue from Contracts with Customers (IFRS 15). Refer to note 4 for further details.
** In 2017 this applied to ordinary shares.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2018	2017
For the year ended 31 December			
In millions of €			
Profit		**2,095**	2,153
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-retirement obligations	12.3	221	64
Net change in fair value through OCI investments*	12.3	11	—
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	12.3	(100)	(1,485)
Reclassification of currency translation differences to profit or loss	12.3	—	59
Change in fair value of net investment hedges	12.3	(3)	26
Change in fair value of cash flow hedges	12.3	(67)	109
Cash flow hedges reclassified to profit or loss	12.3	(77)	(3)
Net change in fair value through OCI investments*	12.3	—	68
Share of other comprehensive income of associates/joint ventures	12.3	(36)	(7)
Other comprehensive income, net of tax	12.3	**(51)**	(1,169)
Total comprehensive income		**2,044**	984
Attributable to:			
Shareholders of Heineken Holding N.V.		934	445
Non-controlling interests in Heineken N.V.		914	436
Non-controlling interests in Heineken N.V. group companies		196	103
Total comprehensive income		**2,044**	984

*In 2017 these investments were classified as available-for-sale investments.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December In millions of €	Note	2018	2017
Intangible assets	8.1	17,459	17,670
Property, plant and equipment	8.2	11,359	11,117
Investments in associates and joint ventures	10.3	2,021	1,841
Loans and advances to customers	8.3	341	331
Deferred tax assets	12.2	622	768
Other non-current assets	8.4	1,084	1,059
Total non-current assets		**32,886**	32,786
Inventories	7.1	1,920	1,814
Trade and other receivables	7.2	3,740	3,676
Current tax assets		71	64
Derivative assets	11.6	35	219
Cash and cash equivalents	11.2	2,903	2,442
Assets classified as held for sale	10.2	401	33
Total current assets		**9,070**	8,248
Total assets		**41,956**	41,034

As at 31 December In millions of €	Note	2018	2017
Heineken Holding N.V. shareholders' equity	11.4	7,158	6,633
Non-controlling interests in Heineken N.V.	11.4	7,200	6,688
Non-controlling interests in Heineken N.V. group companies	11.4	1,182	1,200
Total equity		**15,540**	14,521
Borrowings	11.3	12,628	12,166
Post-retirement obligations	9.1	954	1,289
Provisions	9.2	846	970
Deferred tax liabilities	12.2	1,370	1,495
Other non-current liabilities	11.6	168	135
Total non-current liabilities		**15,966**	16,055
Borrowings	11.2/11.3	2,358	3,212
Trade and other payables	7.3	6,891	6,128
Returnable packaging deposits	7.4	569	607
Provisions	9.2	164	178
Current tax liabilities		266	310
Derivative liabilities	11.6	70	21
Liabilities associated with assets classified as held for sale	10.2	132	2
Total current liabilities		**10,450**	10,458
Total equity and liabilities		**41,956**	41,034

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December In millions of €	Note	**2018**	2017
OPERATING ACTIVITIES			
Profit		2,095	2,153
Adjustments for:			
Amortisation, depreciation and impairments	6.6	1,693	1,587
Net interest expenses	11.1	431	396
Other income	6.2	(75)	(141)
Share of profit of associates and joint ventures and dividend income on fair value through OCI investments		(228)	(84)
Income tax expenses	12.1	757	755
Other non-cash items		179	314
Cash flow from operations before changes in working capital and provisions		**4,852**	4,980
Change in inventories		(129)	(185)
Change in trade and other receivables		(66)	(241)
Change in trade and other payables and returnable packaging deposits		908	495
Total change in working capital		**713**	69
Change in provisions and post-retirement obligations		(25)	(125)
Cash flow from operations		**5,540**	4,924
Interest paid		(555)	(463)
Interest received		118	98
Dividends received		109	109
Income taxes paid		(824)	(786)
Cash flow related to interest, dividend and income tax		**(1,152)**	(1,042)
Cash flow from operating activities		**4,388**	3,882

For the year ended 31 December In millions of €	Note	**2018**	2017
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		111	187
Purchase of property, plant and equipment		(1,888)	(1,696)
Purchase of intangible assets		(167)	(137)
Loans issued to customers and other investments		(239)	(259)
Repayment on loans to customers		41	54
Cash flow (used in)/from operational investing activities		**(2,142)**	(1,851)
Free operating cash flow		*2,246*	*2,031*
Acquisition of subsidiaries, net of cash acquired		(70)	(1,047)
Acquisition of/additions to associates, joint ventures and other investments		(159)	(93)
Disposal of subsidiaries, net of cash disposed of		15	10
Disposal of associates, joint ventures and other investments		1	16
Cash flow (used in)/from acquisitions and disposals		**(213)**	(1,114)
Cash flow (used in)/from investing activities		**(2,355)**	(2,965)
FINANCING ACTIVITIES			
Proceeds from borrowings		1,694	3,268
Repayment of borrowings		(1,545)	(3,205)
Dividends paid		(1,090)	(1,011)
Purchase own shares and share issuance by Heineken N.V.		(20)	—
Acquisition of non-controlling interests		(2)	(18)
Other		(4)	—
Cash flow (used in)/from financing activities		**(967)**	(966)
Net cash flow		**1,066**	(49)
Cash and cash equivalents as at 1 January		1,177	1,366
Effect of movements in exchange rates		5	(140)
Cash and cash equivalents as at 31 December	11.2	**2,248**	1,177

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Retained earnings	Shareholders of Heineken Holding N.V.	Non-controlling interests in Heineken N.V.	Non-controlling interests in Heineken N.V. group companies	Total equity
Balance as at 1 January 2017		461	1,257	(920)	—	132	420	5,248	6,598	6,640	1,335	14,573
Profit		—	—	—	—	—	77	900	977	958	218	2,153
Other comprehensive income	12.3	—	—	(654)	54	35	—	33	(532)	(522)	(115)	(1,169)
Total comprehensive income		—	—	(654)	54	35	77	933	445	436	103	984
Transfer to retained earnings		—	—	—	—	—	(15)	15	—	—	—	—
Dividends to shareholders		—	—	—	—	—	—	(392)	(392)	(383)	(245)	(1,020)
Purchase own shares by Heineken N.V.	11.4	—	—	—	—	—	—	—	—	—	—	—
Negative dilution		—	—	—	—	—	—	(6)	(6)	6	—	—
Share-based payments by Heineken N.V.		—	—	—	—	—	—	11	11	11	—	22
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control		—	—	—	—	—	—	(23)	(23)	(22)	28	(17)
Changes in consolidation/transfers within equity by Heineken N.V.		—	—	—	4	—	—	(4)	—	—	(21)	(21)
Balance as at 31 December 2017		461	1,257	(1,574)	58	167	482	5,782	6,633	6,688	1,200	14,521

In millions of €	Note	Share capital	Share premium	Translation reserve	Cost of hedging reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Shareholders of Heineken Holding N.V.	Non-controlling interests in Heineken N.V.	Non-controlling interests in Heineken N.V. group companies	Total equity
Balance as at 31 December 2017		461	1,257	(1,574)	—	58	167	482	—	5,782	6,633	6,688	1,200	14,521
Changes in accounting policy (IFRS 9)		—	—	(1)	2	—	—	—	—	(2)	(1)	(1)	—	(2)
Balance as at 1 January 2018		**461**	**1,257**	**(1,575)**	**2**	**58**	**167**	**482**	**—**	**5,780**	**6,632**	**6,687**	**1,200**	**14,519**
Profit		—	—	—	—	—	—	108	—	853	961	942	192	2,095
Other comprehensive income	12.3	—	—	(72)	3	(76)	6	—	—	112	(27)	(28)	4	(51)
Total comprehensive income		**—**	**—**	**(72)**	**3**	**(76)**	**6**	**108**	**—**	**965**	**934**	**914**	**196**	**2,044**
Transfer to/(from) retained earnings		—	—	—	—	—	—	(40)	—	40	—	—	—	—
Dividends to shareholders		—	—	—	—	—	—	—	—	(438)	(438)	(428)	(212)	(1,078)
Purchase own shares	11.4	—	—	—	—	—	—	—	—	—	—	—	—	—
Purchase own shares by Heineken N.V.	11.4	—	—	—	—	—	—	—	—	(19)	(19)	(19)	20	(18)
Dilution		—	—	—	—	—	—	—	—	1	1	(1)	—	—
Share-based payments by Heineken N.V.		—	—	—	—	—	—	—	—	13	13	13	—	26
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control		—	—	—	—	—	—	—	—	13	13	13	(30)	(4)
Changes in consolidation/transfers within equity by Heineken N.V.		—	—	—	—	—	—	—	—	22	22	21	8	51
Balance as at 31 December 2018		**461**	**1,257**	**(1,647)**	**5**	**(18)**	**173**	**550**	**—**	**6,377**	**7,158**	**7,200**	**1,182**	**15,540**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Heineken Holding N.V. (the 'Company') is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 5, Amsterdam. The consolidated financial statements of the Company as at 31 December 2018 comprise Heineken Holding N.V., Heineken N.V., its subsidiaries (together referred to as 'HEINEKEN') and HEINEKEN's interest in joint ventures and associates. The Company is registered in the Trade Register of Amsterdam No. 33078624.

HEINEKEN is primarily involved in the brewing and selling of beer and cider. Led by the Heineken® brand, HEINEKEN has a portfolio of more than 300 international, regional, local and speciality beers and ciders.

2. BASIS OF PREPARATION

The consolidated financial statements are:

- prepared in accordance with International Financial Reporting Standards (IFRS) as adopted 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 2018 have been adopted by the EU. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.
- prepared by the Board of Directors of the Company and authorised for issue on 12 February 2019 and will be submitted for adoption to the General Meeting of Shareholders on 25 April 2019.
- prepared on the historical cost basis unless otherwise indicated.
- presented in Euro, which is the Company's functional currency.
- rounded to the nearest million unless stated otherwise.

The presentation of the consolidated financial statements have been revamped in 2018 to further improve the readability. The revamping has no impact on the accounting policies nor on amounts recognised, only the presentation format (aggregation/disaggregation) is affected. The following has changed in the statement of financial position as a result of the revamping:

- Loans and advances to customers are presented together as one separate line item.
- The former 'Other investments and receivables' are renamed into 'Other non-current assets' and exclude loans to customers.
- Prepayments are included in 'Trade and other receivables'.
- Current derivative assets and liabilities are no longer included in 'Trade and other receivables' and 'Trade and other payables' respectively, but presented as separate line items.
- Non-current non-interest-bearing liabilities and non-current derivative liabilities are excluded from 'Borrowings' and presented as 'Other non-current liabilities'.
- Bank overdrafts and commercial paper are included in 'Borrowings' (current).
- Returnable packaging deposits are no longer part of 'Trade and other payables', but presented as a separate line item.

In the notes to the consolidated financial statements this new presentation format is reflected, also for the comparative information.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management needs to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The application of accounting policies requires judgements that impacts the amounts recognised. Next to this, the recognised amounts are based on factors which by default are associated with uncertainties. Therefore actual results may differ from estimates. Within the consolidated financial statements the estimates and judgements are described per note (if applicable). The notes dealing with the most significant estimates and judgements are:

Note	Particular area involving significant estimates and judgements
6.1 Operating segments	Judgement on acting as principal versus agent with respect to excise tax expense
8.1 Intangible assets and 8.2 property, plant and equipment	Assumptions used in impairment testing
9.1 Post-retirement obligations	Assumptions for discount rates, future pension increases and life expectancy to calculate the defined benefit obligation
9.2 Provisions and 9.3 Contingencies	Estimating the likelihood and timing of potential cash outflows relating to claims and litigations
12.2 Deferred tax assets and liabilities	Assessment of the recoverability of past tax losses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. CHANGES IN ACCOUNTING POLICIES

(a) Changed accounting policies in 2018

The following new standards have been adopted in 2018 and reflected in the consolidated financial statements:

IFRS 9 Financial Instruments

IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. The standard replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. HEINEKEN has implemented IFRS 9 per 1 January 2018 using the modified retrospective approach, meaning that the 2017 comparative financial information is not restated. Any impact of IFRS 9 as of 1 January 2018 is recognised directly in equity.

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

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

IFRS 15 Revenue from Contracts with Customers

HEINEKEN adopted IFRS 15 'Revenue from Contracts with Customers' as per 1 January 2018. For implementation the full retrospective method is applied, meaning that the 2017 comparative financial information has been restated. HEINEKEN concluded that IFRS 15 did not impact the timing of revenue recognition. However, the amount of recognised revenue is impacted by payments to customers and excise taxes as explained below. HEINEKEN has evaluated the available practical expedients for application of the standard and concluded that these options have no significant impact on HEINEKEN's revenue recognition. The practical expedients have therefore not been applied.

The adoption of IFRS 15 has changed the accounting for certain payments to customers, such as listing fees and marketing support expenses. Most of these payments were recorded as operating expenses, but are now considered to be a reduction of revenue. Only when these payments relate to a distinct service the amounts continue to be recorded as operating expenses.

IFRS 15 has also changed the accounting for excise tax. Based on IAS 18 different policies were applied by peers in HEINEKEN's industry. Some companies included all excises in revenue, some recorded excise only for specific countries and some, like HEINEKEN, excluded all excise from revenue. The clarifications to IFRS 15 describe that an 'all or nothing' approach is no longer possible and an assessment of the excise tax needs to be performed on a country by country basis.

Excise taxes are very common in the beverage industry, but levied differently amongst the countries HEINEKEN operates in. HEINEKEN performed a country by country analysis to assess whether the excise taxes are sales-related or effectively a production tax. In most countries excise taxes are effectively a production tax as excise becomes payable when goods are moved from bonded warehouses and are not based on the sales value. In these countries, increases in excise tax are not always (fully) passed on to customers and HEINEKEN cannot, or can only partly, reclaim the excise tax in the case products are eventually not sold to customers. Excise tax is borne by HEINEKEN for these countries and included in revenue. Only for those countries where excise is levied at the moment of the sales transaction and excise is based on the sales value, the excise taxes are collected on behalf of a tax authority and consequently excluded from revenue.

Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment whether taxes are borne by HEINEKEN or collected on behalf of a third party.

To provide full transparency on the impact of the accounting for excise, HEINEKEN presents the excise tax expense on a separate line below revenue in the consolidated income statement. A new subtotal called 'Net revenue' is added. This 'Net revenue' subtotal is 'revenue' as defined in IFRS 15 (after discounts) minus the excise tax expense for those countries where the excise is borne by HEINEKEN. HEINEKEN furthermore discloses the excise collected on behalf of third parties, which is excluded from revenue, in note 6.1 Operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The IFRS 15 changes have no impact on operating profit, net profit and EPS. In below table the impact of IFRS 15 on the 2017 figures is reflected:

For the year ended 31 December

In millions of €	2017 Reported	Impact IFRS 15	2017 Restated
Revenue	21,888	3,955	25,843
Excise tax expense		(4,234)	(4,234)
Net revenue		(279)	21,609
Other income	141		141
Raw materials, consumables and services	(13,540)	279	(13,261)
Personnel expenses	(3,550)		(3,550)
Amortisation, depreciation and impairments	(1,587)		(1,587)
Total other expenses	(18,677)	279	(18,398)
Operating profit	3,352		3,352
Profit before income tax	2,908		2,908
Income tax expense	(755)		(755)
Profit	2,153		2,153
Attributable to:			
Shareholders of Heineken Holding N.V. (net profit)	977		977
Non-controlling interests in Heineken N.V.	958		958
Non-controlling interests in Heineken N.V. group companies	218		218

Other new standards and amendments

Other changes effective in 2018 had no significant impact on the disclosures or amounts recognised in HEINEKEN's consolidated financial statements.

(b) Upcoming changes in accounting policies for 2019

The following change in standards and amendments to standards will be effective in 2019 and will have a significant impact on HEINEKEN 's consolidated financial statements:

IFRS 16 Leases

IFRS 16 'Leases' replaces existing guidance on leases, including IAS 17. HEINEKEN will implement IFRS 16 per 1 January 2019 by applying the modified retrospective method, meaning that the 2018 comparative numbers in the 2019 financial statements will not be restated. Under the new standard, all operating lease contracts will be recognised on HEINEKEN's balance sheet, except for short term and low value leases. Lease expenses currently recorded in the income statement will be replaced by depreciation and interest expenses for all lease contracts in scope of the standard.

Transition options and practical expedients

HEINEKEN will apply the following practical expedients upon transition to the new standard:

Recognition (permanent):

- Apply the short-term lease exemption, meaning that leases with a duration of less than a year will be expensed in the income statement on a straight-line basis
- Apply the low value lease exemption, meaning that leased assets with an individual value of €5 thousand or less if bought new will be expensed in the income statement on a straight-line basis
- Apply the option to include non-lease components in the lease liability for equipment leases

Transition:

- Use the option to grandfather the lease classification for existing contracts
- Use the transition option for leases with a remaining contract period of less than one year, meaning that these leases will not be recorded on balance and the payments will be expensed in the income statement on a straight-line basis
- Measure the Right-of-Use Asset based on the Lease Liability recognised

Accounting policy on the lease term applied as per 1 January 2019

The lease term shall be determined as the non-cancellable period of a lease, together with:

- Periods covered by an option to extend the lease if HEINEKEN is reasonably certain to make use of that option
- Periods covered by an option to terminate the lease if HEINEKEN is reasonably certain not to make use of that option

Estimated impact on the financial statements:

HEINEKEN has around 30,000 operating leases mainly relating to offices, warehouses, pubs, stores, cars and (forklift) trucks. Based on the contracts that will be capitalised as per 1 January 2019, the estimated impact on the balance sheet on that date, amounts to €1.2 billion increase in total assets and total liabilities. The increase in assets consist of Right-of-use Assets for €0.9 billion and lease receivables for €0.3 billion. The increase in liabilities consists of €1.2 billion of lease liabilities.

In some countries, HEINEKEN is operating both as a lessee and a lessor for pubs. HEINEKEN analysed the contracts where HEINEKEN acts as a lessor (subleases) and concluded that under the new standard these sublease contracts are to be treated as a finance lease, where under the previous standard these same leases were treated as an operating lease. This change results in a decrease of revenue, primarily impacting The Netherlands and Belgium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the contracts that will be capitalised as per 1 January 2019, the estimated impact on the income statement will be as follows:

Income statement	Estimated IFRS16 impact	Remarks
Revenue	**(52)**	The decrease in revenue (income from subleases) is fully offset by a decrease in expenses on the head leases (relates primarily to The Netherlands and Belgium).
Excise tax expense	—	
Net revenue	**(52)**	
Other income	—	
Raw materials, consumables and services	259	A decrease in raw materials, consumables and services, as a result of the shift of operating lease expenses to depreciation and interest.
Personnel expenses	—	
Amortisation, depreciation and impairments	(186)	An increase in depreciation, amortisation and impairments, as a result of depreciation of the Right-of-Use Assets.
Total other expenses	**73**	
Operating profit	**21**	
Net finance expenses	**(40)**	An increase in net finance expenses as a result of the unwinding of the discount on lease liabilities and accretion of interest on lease receivables.
Share of profit of associates and joint ventures	—	
Profit before income tax	**(19)**	
Income tax expense	5	
Profit	**(14)**	

For the contracts that will be capitalised as per 1 January 2019, the impact on the cash flow statement is estimated to be:

- An increase of €0.2 billion on cash flows from operating activities (and free operating cash flow) and a corresponding decrease in cash flow from financing
- The impact on net cash flow will be neutral

It is expected that the actual impact on the financial statements in 2019 will be different as a result of:

- The finalisation of the validation of completeness and accuracy of the identified contracts
- The finalisation of the identification of embedded leases
- New lease contracts to be entered into in 2019

Reconciliation of the off-balance sheet commitments with the estimated impact

As at 31 December 2018, HEINEKEN reports a total off-balance sheet commitment for leases of €2.0 billion. The difference between the estimated opening balance sheet impact of €1.2 billion (lease liabilities) and the off balance sheet commitments is primarily due to low value and short term lease commitments, which are not included in the lease liability, and the impact of discounting of future lease payments. Refer to note 13.2 for more information of the off balance sheet commitments.

5. GENERAL ACCOUNTING POLICIES

General

The accounting policies described in these consolidated financial statements have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements are prepared as a consolidation of the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by HEINEKEN. HEINEKEN controls an entity when it has power over the investee, is exposed or has the right to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by ownership of more than 50% of the voting rights.

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.

On consolidation, intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated. Unrealised gains arising from transactions with associates and JVs (refer note 10.3) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities using the exchange rates at transaction date. Receivables, payables and other monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the exchange rates at the balance sheet date. Resulting foreign currency differences are recognised in the income statement, except for foreign currency differences arising on retranslation of Fair Value through Other Comprehensive Income (FVOCI) investments and financial liabilities designated as a hedge of a net investment, which are recognised in other comprehensive income.

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 at the exchange rate at transaction date.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, and of intercompany loans with a permanent nature (quasi-equity) are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions, except for foreign operations in hyperinflationary economies. In 2018 HEINEKEN did not have any significant foreign operations in hyperinflationary economies.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is not a wholly owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. The cumulative amount in the translation reserve is (either fully or partly) reclassified to the income statement upon disposal (either fully or partly) or liquidation.

Exchange rates of key currencies

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

In €	**Year-end 2018**	Year-end 2017	%	**Average 2018**	Average 2017	%
Brazilian Real (BRL)	**0.2250**	0.2517	(10.6)	**0.2322**	0.2774	(16.3)
Great Britain Pound (GBP)	**1.1179**	1.1271	(0.8)	**1.1303**	1.1410	(0.9)
Mexican Peso (MXN)	**0.0446**	0.0425	4.9	**0.0440**	0.0469	(6.2)
Nigerian Naira (NGN)	**0.0024**	0.0025	(4.0)	**0.0024**	0.0027	(11.1)
Polish Zloty (PLN)	**0.2327**	0.2398	(3.0)	**0.2347**	0.2349	(0.1)
Russian Ruble (RUB)	**0.0125**	0.0144	(13.2)	**0.0135**	0.0152	(11.2)
Singapore Dollar (SGD)	**0.6414**	0.6241	2.8	**0.6279**	0.6417	(2.2)
United States Dollar (USD)	**0.8734**	0.8338	4.7	**0.8466**	0.8854	(4.4)
Vietnamese Dollar in 1,000 (VND)	**0.0376**	0.0367	2.5	**0.0368**	0.0389	(5.4)

(c) Cash flow statement

The cash flow statement is prepared using the indirect method. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to shareholders are included in financing activities. Dividends received are classified as operating activities, as well as interest paid.

(d) Offsetting financial instruments

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OPERATING ACTIVITIES

6.1 OPERATING SEGMENTS

HEINEKEN distinguishes five reportable segments: Europe, Americas, Africa, Middle East & Eastern Europe, Asia Pacific and Heineken N.V. Head Office & Other/eliminations. In below table information is provided about these reportable segments:

		Europe		Americas		Africa, Middle East & Eastern Europe		Asia Pacific		Heineken N.V. Head Office & Other/eliminations		Consolidated	
In millions of €	Note	**2018**	2017*	**2018**	2017*	**2018**	2017*	**2018**	2017*	**2018**	2017*	**2018**	2017*
Net revenue (beia)[1]		**10,348**	9,991	**6,781**	6,312	**3,051**	3,028	**2,919**	2,922	**(628)**	(624)	**22,471**	21,629
Third party revenue[2]		12,351	11,869	6,928	6,486	3,724	3,666	3,701	3,726	107	96	26,811	25,843
Interregional revenue		702	687	27	28	—	1	3	2	(732)	(718)	—	—
Revenue		**13,053**	12,556	**6,955**	6,514	**3,724**	3,667	**3,704**	3,728	**(625)**	(622)	**26,811**	25,843
Excise tax expense[3]		(2,705)	(2,595)	(174)	(202)	(673)	(639)	(785)	(797)	(3)	(1)	(4,340)	(4,234)
Net revenue		**10,348**	9,961	**6,781**	6,312	**3,051**	3,028	**2,919**	2,931	**(628)**	(623)	**22,471**	21,609
Other income	6.2	28	134	19	5	2	2	4	—	22	—	75	141
Operating profit		**1,235**	1,338	**1,009**	1,003	**211**	326	**779**	844	**(97)**	(159)	**3,137**	3,352
Net finance expenses	11.1											(495)	(519)
Share of profit of associates and joint ventures	10.3	15	(11)	124	20	37	44	38	22	(4)	—	210	75
Income tax expense	12.1											(757)	(755)
Profit												**2,095**	2,153
Attributable to:													
Shareholders of Heineken Holding N.V. (net profit)												961	977
Non-controlling interests in Heineken N.V.												942	958
Non-controlling interests in Heineken N.V. group companies												192	218
Operating profit reconciliation													
Operating profit		1,235	1,338	1,009	1,003	211	326	779	844	(97)	(159)	3,137	3,352
Eia[1]		217	33	169	185	200	62	164	118	(19)	9	731	407
Operating profit (beia)[1]		**1,452**	1,371	**1,178**	1,188	**411**	388	**943**	962	**(116)**	(150)	**3,868**	3,759

*Restated to reflect the change in accounting policy on Revenue from Contracts with Customers (IFRS 15). Refer to note 4 for further details.

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

[2]Includes other revenue of €389 million in 2018 and €361 million in 2017.

[3] Next to the €4,340 million of excise tax expense included in revenue (2017: €4,234 million), €1,568 million of excise tax expense is collected on behalf of third parties and excluded from revenue (2017: €1,415 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

		Europe		Americas		Africa, Middle East & Eastern Europe		Asia Pacific		Heineken N.V. Head Office & Other/eliminations		Consolidated	
In millions of €	Note	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Current segment assets		**2,816**	2,793	**2,371**	2,331	**1,356**	1,146	**1,487**	1,226	**1,359**	1,000	**9,389**	8,496
Non-current segment assets		**11,382**	11,364	**7,981**	7,787	**2,299**	2,316	**7,368**	7,525	**894**	935	**29,924**	29,927
Investments in associates and joint ventures		**296**	217	**909**	829	**213**	219	**590**	575	**13**	1	**2,021**	1,841
Total segment assets		**14,494**	14,374	**11,261**	10,947	**3,868**	3,681	**9,445**	9,326	**2,266**	1,936	**41,334**	40,264
Unallocated assets												**622**	770
Total assets												**41,956**	41,034
Segment liabilities		**4,760**	4,814	**2,542**	2,483	**1,386**	1,088	**1,093**	900	**1,116**	1,790	**10,897**	11,075
Unallocated liabilities												**15,519**	15,438
Total equity												**15,540**	14,521
Total equity and liabilities												**41,956**	41,034
Purchase of P,P&E	8.2	**590**	537	**546**	615	**434**	361	**253**	163	**13**	20	**1,836**	1,696
Acquisition of goodwill	8.1	**10**	2	**(23)**	907	**29**	1	**7**	9	**—**	—	**23**	919
Purchases of intangible assets	8.1	**47**	42	**31**	20	**8**	8	**9**	2	**72**	66	**167**	138
Depreciation of P,P&E	8.2	**(510)**	(496)	**(273)**	(266)	**(237)**	(261)	**(122)**	(134)	**(13)**	(15)	**(1,155)**	(1,172)
(Impairment) and reversal of impairment of P,P&E	8.2	**—**	1	**—**	—	**(133)**	4	**—**	14	**—**	—	**(133)**	19
Amortisation intangible assets	8.1	**(56)**	(57)	**(131)**	(116)	**(8)**	(8)	**(159)**	(174)	**(30)**	(25)	**(384)**	(380)
(Impairment) and reversal of impairment of intangible assets	8.1	**—**	—	**—**	—	**(21)**	—	**—**	11	**—**	—	**(21)**	11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of segment profit or loss

The table below presents the reconciliation of operating profit before exceptional items and amortisation of acquisition-related intangibles (operating profit beia) to profit before income tax.

In millions of €	**2018**	2017
Operating profit (beia)	**3,868**	3,759
Amortisation of acquisition-related intangible assets included in operating profit	(311)	(302)
Exceptional items included in operating profit	(420)	(105)
Share of profit of associates and joint ventures	210	75
Net finance expenses	(495)	(519)
Profit before income tax	**2,852**	2,908

The 2018 exceptional items and amortisation of acquisition-related intangibles in operating profit amounts to €731 million (2017: €407 million). This amount consists of:

- €311 million (2017: €302 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €420 million (2017: €105 million) of exceptional items recorded in operating profit, of which nil in revenue (2017: €20 million), €122 million of restructuring expenses (2017: €93 million), €183 million of impairments mainly in the Democratic Republic of Congo (DRC) (2017: €19 million gain from reversal of impairments), €24 million of acquisition and integration costs (2017: €72 million), €4 million net gain on disposals (2017: €71 million net gain mainly from the sale of non-beer and cider wholesale operations in the Netherlands) and €95 million of other exceptional expenses (2017: €10 million which included exceptional benefits of €58 million).

ACCOUNTING ESTIMATES AND JUDGEMENTS

Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment whether excise tax expenses are borne by HEINEKEN or collected on behalf of a third party.

HEINEKEN makes estimates when determining discount accruals in revenue at year-end, specifically for conditional discounts. Refer to note 7.3 for more explanation on how discount accruals are estimated.

ACCOUNTING POLICIES

Segment reporting

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

The first four reportable segments as presented in the segmentation tables are HEINEKEN's business regions. These business regions are each managed separately by a Regional President, who reports to the Executive Board of Heineken N.V., and is directly accountable for the functioning of the segment's assets, liabilities and results. The Heineken N.V. Head Office operating segment falls directly under the responsibility of the Executive Board of Heineken N.V. The Executive Board of Heineken N.V. reviews the performance of the segments based on internal management reports on a monthly basis.

Segment results, assets and liabilities that are reported to the Executive Board of Heineken N.V. include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets mainly comprise deferred tax assets.

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

Performance is measured based on operating profit (beia), as included in the internal management reports that are reviewed by the Executive Board of Heineken N.V. Beia stands for '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. Exceptional items include, amongst others, impairments (and reversal of impairments) of goodwill and fixed assets, gains and losses from acquisitions and disposals, redundancy costs following a restructuring, past service costs and curtailments, the tax impact on exceptional items and tax rate changes (the one-off impact on deferred tax positions). Operating profit and operating profit (beia) are not financial measures calculated in accordance with IFRS. Operating profit (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of the segments. Beia adjustments are also applied on other metrics. The presentation of these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Inter-segment transfers or transactions are 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.

Revenue

The majority of HEINEKEN's revenue is generated by the sale and delivery of products to customers. The product portfolio of HEINEKEN mainly consists of beer, soft drinks and cider. Products are mostly own-produced finished goods from HEINEKEN's brewing activities, but also contain purchased goods for resale from HEINEKENs wholesale activities. HEINEKEN's customer group can be split between on-trade customers like cafés, bars and restaurants and off-trade customers like retailers and wholesalers. Due to Heineken's global footprint its revenue is exposed to strategic and financial risks that differs per region.

Revenue is recognised when control over products has transferred and HEINEKEN fulfilled its performance obligation to the customer. For the majority of the sales, control is transferred either at delivery of the products or upon pickup by the customer from HEINEKEN's premises.

Revenue recognised is based on the price specified in the contract, net of returns, discounts, sales taxes and excise taxes collected on behalf of third parties.

Other revenues include rental income from pubs & bars, royalties, income from wholesale activities, pub management services and technical services to third parties. Royalties are sales-based and recognised in profit or loss (consolidated income statement) on an accrual basis in accordance with the relevant agreement. Rental income, income from wholesale activities, pub management services and technical services are recognised in profit or loss when the services have been delivered.

Discounts

HEINEKEN uses different types of discounts depending on the nature of the customer. Some discounts are unconditional, like cash discounts, early payment discounts and temporary promotional discounts. Unconditional discounts are recognised at the same moment of the related sales transaction.

HEINEKEN also provides conditional discounts to customers. These contractually agreed conditions include volume and promotional rebates. Conditional discounts are recognised based on estimated target realisation. The estimation is based on accumulated experience supported by historical and current sales information. A discount accrual is recognised at each reporting date for discounts payable to customers based on their expected or actual volume up to that date.

Other discounts include listing and shelving visibility fees charged by the customer whereby the payments to customers are closely related to the volumes sold. HEINEKEN assesses the substance of contracts with customers to determine the classification of payments to customers as either discounts or marketing expenses.

Discounts are accounted for as a reduction of revenue. Only when these payments to customers relate to a distinct service, the amount is classified as operating expense.

Excise tax expense

Local tax authorities impose multiple taxes, duties and fees. These include excise on sale or production of alcoholic beverages, environmental taxes on the use of certain raw materials or packaging materials, or the energy consumption in the production process. Excise duties are very common in the beverage industry, but levied differently amongst the countries HEINEKEN operates in. HEINEKEN performs a country by country analysis to assess whether the excise duty are sales-related or effectively a production tax. In most countries excise duties are effectively a production tax as excise duties become payable when goods are moved from bonded warehouses and is not based on the sales value. In these countries, increases in excise duty are not always (fully) passed on to customers and HEINEKEN cannot, or can only partly, reclaim the excise duty in the case products are eventually not sold to customers. Excise tax is borne by HEINEKEN for these countries and shown as expenses. Only for those countries where excise is levied at the moment of the sales transaction and excise is based on the sales value, the excise duties are collected on behalf of a tax authority and consequently deducted from revenue. Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment whether taxes are borne by HEINEKEN or collected on behalf of a third party.

To provide full transparency on the impact of the accounting for excise, HEINEKEN presents the excise tax expense on a separate line below revenue in the consolidated income statement. A new subtotal called 'Net revenue' is added. This 'Net revenue' subtotal is 'revenue' as defined in IFRS 15 (after discounts) minus the excise tax expense for those countries where the excise is borne by HEINEKEN.

6.2 OTHER INCOME

Other income includes the gain from sale of P,P&E and intangible assets. It also includes gains from the sale of subsidiaries, joint ventures and associates. These transactions do not arise from contracts with customers and are therefore presented separately from revenue.

In millions of €	**2018**	2017
Gain on sale of property, plant and equipment	31	20
Gain on sale of intangible assets	2	87
Gain on sale of subsidiaries, joint ventures and associates	42	34
	75	141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICIES

Other income is recognised in profit or loss when control over the sold asset is transferred to the buyer. The amount recognised as other income equals the proceeds obtained from the buyer minus the carrying value of the sold asset.

6.3 RAW MATERIALS, CONSUMABLES AND SERVICES

In millions of €	**2018**	2017*
Raw materials	1,897	1,817
Non-returnable packaging	3,624	3,375
Goods for resale	1,533	1,592
Inventory movements	(43)	(130)
Marketing and selling expenses	2,494	2,533
Transport expenses	1,266	1,177
Energy and water	529	513
Repair and maintenance	527	509
Other expenses	2,140	1,875
	13,967	13,261

*Restated to reflect the change in accounting policy on Revenue from Contracts with Customers (IFRS 15). Refer to note 4 for further details.

Other expenses mainly include rentals of €321 million (2017: €308 million), consultant expenses of €192 million (2017: €169 million), telecom and office automation of €239 million (2017: €227 million), warehousing expenses of €187 million (2017: €172 million), travel expenses of €158 million (2017: €162 million) and other taxes of €56 million (2017: €33 million).

ACCOUNTING POLICIES

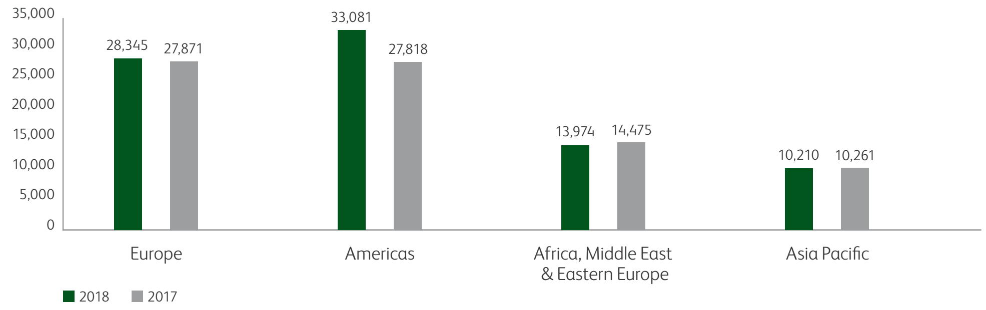
Expenses are recognised based on accrual accounting. This means that expenses are recognised when the product is received or the service is provided regardless of when cash outflow takes place.

6.4 PERSONNEL EXPENSES

The average number of full-time equivalent (FTE) employees, excluding contractors, in 2018 was 85,610 (2017: 80,425 FTE), divided per region as follows:

Average number of FTE per region

Number of FTE



The increase in the Americas is mainly due to the full year inclusion of Brasil Kirin FTE's. Within Europe 4,027 FTE are based in the Netherlands (2017:3,998 FTE).

HEINEKEN employees are granted with compensations such as salaries and wages, pensions (see note 9.1) and share-based payments (see note 6.5). Other personnel expenses include expenses for contractors of €168 million (2017: €153 million) and restructuring costs for an amount of €111 million (2017: €82 million). Restructuring provisions are disclosed in note 9.2.

In millions of €	Note	**2018**	2017
Wages and salaries		2,444	2,339
Compulsory social security contributions		386	364
Contributions to defined contribution plans		51	47
Expenses/(income) related to defined benefit plans	9.1	105	59
Expenses related to other long-term employee benefits		(9)	3
Equity-settled share-based payment plan	6.5	48	55
Other personnel expenses		724	683
		3,749	3,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICIES

Personnel expenses are recognised when the related service is provided, for more details on accounting policies related to post-retirements obligations and share-based payments refer to note 9.1 and 6.5 respectively.

6.5 SHARE-BASED PAYMENTS

HEINEKEN has the following share-based compensation plans: Long-term incentive plan, Matching share plan (as part of the Short term incentive plan) and Extraordinary share plan.

Long term incentive plan (LTIP)

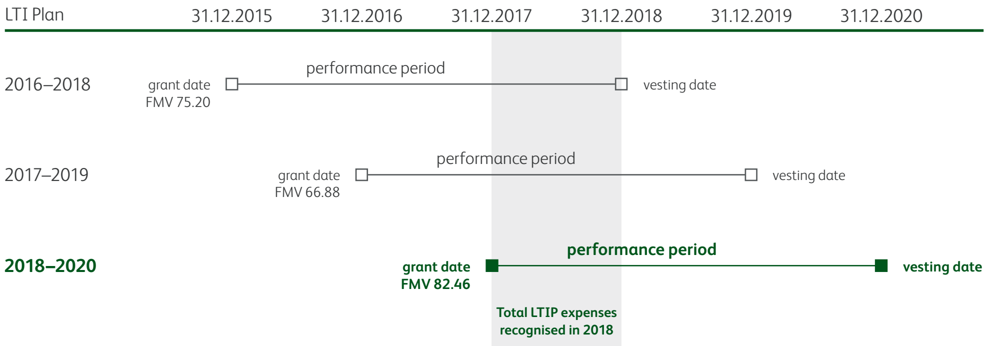
HEINEKEN has a performance-based Long-term incentive plan (LTIP) for the Executive Board of Heineken N.V. and senior management. Under this LTIP, Heineken N.V. share rights are conditionally awarded to participants on an annual basis. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three calendar year period by the employee.

The performance conditions for LTIP are Organic Net Revenue growth, Organic EBIT beia growth, Earnings Per Share beia growth and Free Operating Cash Flow for LTIP 2016-2018. As per LTIP 2017-2019 Organic EBIT beia growth changed into Organic Operating Profit beia growth.

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

The grant date, fair market value (FMV) at grant date, service period and vesting date for the aforementioned plans are visualised below:

Overview LTIP



Ownership of the vested LTIP 2016-2018 shares will transfer to the Executive Board of Heineken N.V. members shortly after publication of the annual results in 2019 and to senior management on 1 April 2019. The number of outstanding share rights and the movement over the year under the LTIP of senior management and Executive Board of Heineken N.V. are as follows:

	Number of share rights 2018	Number of share rights 2017
Outstanding as at 1 January	2,266,642	1,873,347
Granted during the year	444,556	510,006
Forfeited during the year	(124,039)	(55,103)
Vested previous year	(699,032)	(802,381)
Performance adjustment	159,753	740,773
Outstanding as at 31 December	**2,047,880**	2,266,642
Share price as at 31 December	**77.20**	86.93

As HEINEKEN will withhold the payroll tax related to vesting on behalf of the individual employees, the number of Heineken N.V. shares to be received will be an after tax number. The share rights are not dividend-bearing during the performance period.

Other share-based compensation plans

Under the extraordinary share plans for senior management of Heineken N.V. there were no shares granted in 2018 and 8,383 (gross) shares were vested in 2018. 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 2018 are €0.4 million (2017: €1.0 million).

Matching shares granted to the Executive Board of Heineken N.V. are disclosed in note 13.3.

Personnel expenses

The total share-based compensation expenses that are recognised in 2018 amount to €48 million (2017: €55 million).

In millions of €	Note	**2018**	2017
Share rights granted in 2015		—	18
Share rights granted in 2016		17	17
Share rights granted in 2017		18	20
Share rights granted in 2018		13	—
Total expense recognised in personnel expenses	6.4	**48**	55

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING ESTIMATES

The grant date fair value is calculated by adjusting the share price at grant date for estimated foregone dividends during the performance period, as the participants are not entitled to receive dividends during that period. The foregone dividends are estimated by applying HEINEKEN's dividend policy on the latest forecasts of net profit (beia).

At each balance sheet date, HEINEKEN uses its latest forecasts to calculate the expected realisation on the performance targets per plan. The number of shares are adjusted to the new target realisation and HEINEKEN increases/decreases the total plan cost. The cumulative effect is recorded in the profit or loss, with a corresponding adjustment to equity.

Expenses related to employees that voluntarily leave HEINEKEN are reversed as they will not receive any shares from the LTIP. The expense calculation includes the estimated future forfeiture. HEINEKEN uses historical information to estimate this forfeiture rate.

ACCOUNTING POLICIES

HEINEKEN's share-based compensation plans are equity-settled share rights granted to the Executive Board of Heineken N.V. and senior management.

The grant date fair value is calculated by deducting expected foregone dividends from the grant date during the performance period share price. The costs of the share plans are adjusted for expected performance and forfeiture and spread evenly over the service period.

Share-based compensation expenses are recorded in the profit or loss, with a corresponding adjustment to equity.

6.6 AMORTISATION, DEPRECIATION AND IMPAIRMENTS

In millions of €	Note	**2018**	2017
Property, plant and equipment	8.2	1,288	1,153
Intangible assets	8.1	405	369
Recycling of currency translation differences		—	65
		1,693	1,587

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

ACCOUNTING POLICIES

Refer to note 8.1 for the accounting policy on impairments and amortisation and note 8.2 for the policy on depreciation.

6.7 EARNINGS PER SHARE

The calculation of earnings per share for the period ended 31 December 2018 is based on the profit attributable to the shareholders of the Company (net profit) and a weighted average number of shares outstanding (basic and diluted) during the year ended 31 December 2018.

In € per share (basic or diluted) for the period ended 31 December	**2018**	2017
Basic earnings per share (2017: ordinary shares)	3.34	3.39
Diluted earnings per share (2017: ordinary shares)	3.34	3.39

Refer to the table below for the information used in the calculation of the basic and diluted earnings per share.

Weighted average number of shares – basic and diluted

	2018	2017
Total number of shares issued (2017: ordinary shares)	288,030,482	288,030,168
Effect of own shares held (2017: ordinary shares)	(314)	—
Weighted average number of basic shares (2017: basic ordinary shares) outstanding for the year	**288,030,168**	288,030,168

ACCOUNTING POLICIES

The Company presents basic and diluted earnings per share (EPS) data. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year, adjusted for the weighted average number of own shares purchased or held in the year. Diluted EPS is determined by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding, adjusted for the weighted average number of own shares purchased or held in the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. WORKING CAPITAL

7.1 INVENTORIES

Inventory balances includes raw and packaging materials, work in progress, spare parts and finished products.

In millions of €	**2018**	2017
Raw materials	351	316
Work in progress	228	234
Finished products	426	412
Goods for resale	323	311
Non-returnable packaging	230	204
Other inventories and spare parts	362	337
	1,920	1,814

During 2018 inventories were written down by €25 million to net realisable value (2017: (€14) million).

ACCOUNTING POLICIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost, 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.

7.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables arise in the course of ordinary activities like the sale of inventory, proceeds for contract brewing or royalty fees.

In millions of €	**2018**	2017
Trade receivables	2,588	2,582
Other receivables	762	672
Trade receivables due from associates and joint ventures	8	23
Prepayments	382	399
	3,740	3,676

Trade and other receivables contain a net impairment loss of €38 million (2017: €13 million) from contracts with customers, which is included in expenses for raw materials, consumables and services.

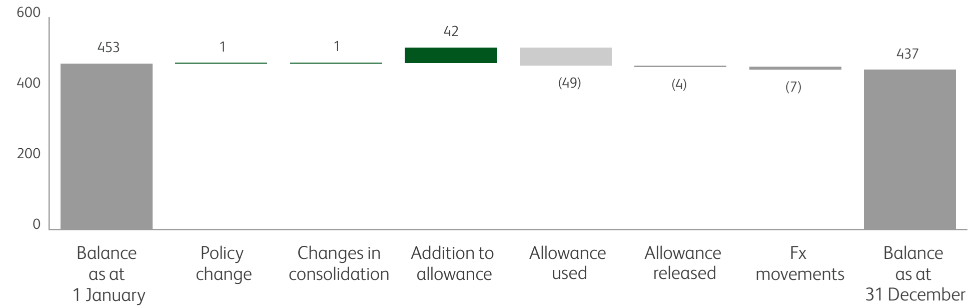
The ageing of the trade and other receivables (excluding prepayments) as per reporting date can be shown as follows:

2018				Past due	
In millions of €	**Total**	Not past due	0-30 days	31-120 days	> 120 days
Gross	3,795	2,480	472	275	568
Allowance	(437)	(38)	(5)	(44)	(350)
	3,358	**2,442**	**467**	**231**	**218**

2017				Past due	
In millions of €	**Total**	Not past due	0-30 days	31-120 days	> 120 days
Gross	3,730	2,477	487	255	511
Allowance	(453)	(46)	(19)	(42)	(346)
	3,277	2,431	468	213	165

The movement in allowance for credit losses for trade and other receivables during the year was as follows:

Allowance for credit losses 2018 — Trade and other receivables
In millions of €



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In millions of €	2018	2017
Balance as at 1 January	**453**	448
Policy change	1	—
Changes in consolidation	1	55
Impairment loss recognised	42	105
Allowance used	(49)	(45)
Allowance released	(4)	(92)
Effect of movements in exchange rates	(7)	(18)
Balance as at 31 December	**437**	453

ACCOUNTING ESTIMATES

HEINEKEN determines on each reporting date the impairment of trade and other receivables using a model (e.g. flow rate method) which estimates the lifetime expected credit losses that will be incurred on these receivables. 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. For more information on HEINEKEN's credit risk exposure refer to note 11.5.

ACCOUNTING POLICIES

Trade and other receivables are held by HEINEKEN in order to collect the related cash flows. These receivables are measured at fair value and subsequently at amortised cost minus any impairment losses. Trade and other receivables are derecognised by HEINEKEN when substantially all risks and rewards are transferred or if HEINEKEN does not retain control over the receivables.

7.3 TRADE AND OTHER PAYABLES

In the ordinary course of business, payable positions arise towards suppliers of goods and services, as well as to other parties. The schedule below shows the different types of trade and other payables.

In millions of €	2018	2017
Trade payables	4,016	3,430
Accruals	1,334	1,344
Taxation and social security contributions	1,060	924
Interest	164	168
Dividends	19	30
Other payables	298	232
	6,891	6,128

ACCOUNTING ESTIMATES

HEINEKEN makes estimates in the determination of discount accruals, included in the accruals line. When discounts are provided to customers, these reduce the transaction price and consequently the revenue. The conditional discounts in revenue (refer to note 6.1) are estimated based on accumulated experience supported by historical and current sales information. Expected sales volumes are determined taking into account (historical) sales patterns and other relevant information. A discount accrual is recognised for expected volume and year-end discounts payable to customers in relation to sales made until the end of the reporting period.

ACCOUNTING POLICIES

Trade and other payables are initially measured at fair value and subsequently at amortized cost. The trade payable is derecognised when the contractual obligation is either discharged, cancelled or expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7.4 RETURNABLE PACKAGING MATERIALS

HEINEKEN uses returnable packaging materials such as glass bottles, crates and kegs in selling the finished products to the customer.

Returnable packaging materials

The majority of returnable packaging materials is classified as property, plant and equipment. The category other fixed assets in property, plant and equipment (refer to note 8.2) includes €882 million (2017: €816 million) of returnable packaging materials.

Returnable packaging deposit liability

In certain markets, HEINEKEN has the legal or constructive obligation to take back the materials from the market. A deposit value is generally charged upon sale of the finished product, which is paid back when the empty returnable packaging material is returned.

In millions of €	**2018**	2017
Returnable packaging deposits	569	607
	569	607

ACCOUNTING ESTIMATES

The main accounting estimate relating to returnable packaging materials is determining the returnable packaging materials in the market and the expected return thereof. This is based on circulation times and losses of returnable packaging materials in the market.

ACCOUNTING POLICIES

Returnable packaging materials

Returnable packaging materials may be classified as property, plant and equipment or inventory. The classification mainly depends on whether the ownership gets transferred and whether HEINEKEN has the legal or constructive obligation to buy back the materials.

Refer to note 8.2 for the general accounting policy on property, plant and equipment. Specifically for returnable packaging materials, the estimated useful lives depend on the loss of the materials in the market as well as on HEINEKEN site.

Returnable packaging deposit liability

HEINEKEN recognises a deposit liability when a legal or constructive obligation exists to reimburse the customer for returnable packaging materials that are returned. The returnable packaging deposit liability is based on the estimated returnable packaging materials in the market, the expected return thereof and the deposit value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. NON-CURRENT ASSETS

8.1 INTANGIBLE ASSETS

Intangible assets within HEINEKEN are mainly goodwill, brands and customer-related intangibles such as customer lists. The majority of intangible assets has been recognised by HEINEKEN as part of acquisitions. The table below shows the historical cost per asset class and the movements during the year which includes amortisation.

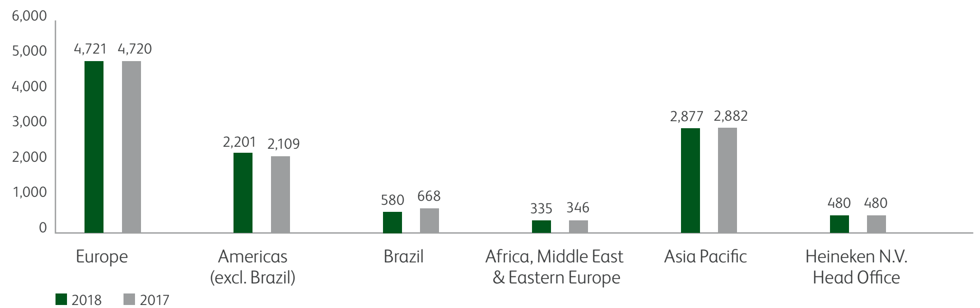
		2018						2017					
In millions of €	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	**Total**	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	**Total**
COST													
Balance as at 1 January		**11,612**	**4,689**	**2,334**	**1,095**	**782**	**20,512**	11,436	4,391	2,443	1,122	676	20,068
Changes in consolidation and other transfers		23	43	6	6	24	102	919	656	112	86	9	1,782
Purchased/internally developed		—	4	—	7	156	167	—	3	10	—	125	138
Transfer (to)/from assets classified as held for sale	10.2	(59)	(4)	(65)	(79)	(1)	(208)	—	(3)	—	—	—	(3)
Disposals		—	(1)	(109)	(28)	(27)	(165)	(6)	(1)	(12)	—	(7)	(26)
Effect of movements in exchange rates		45	44	38	9	(3)	133	(737)	(357)	(219)	(113)	(21)	(1,447)
Balance as at 31 December		**11,621**	**4,775**	**2,204**	**1,010**	**931**	**20,541**	11,612	4,689	2,334	1,095	782	20,512
AMORTISATION AND IMPAIRMENT LOSSES													
Balance as at 1 January		**(407)**	**(738)**	**(959)**	**(270)**	**(468)**	**(2,842)**	(407)	(656)	(908)	(264)	(409)	(2,644)
Changes in consolidation and other transfers		—	—	—	(9)	(23)	(32)	—	—	3	4	(20)	(13)
Amortisation charge for the year	6.6	—	(127)	(140)	(50)	(67)	(384)	—	(124)	(144)	(52)	(60)	(380)
Impairment losses	6.6	(20)	—	—	—	(1)	(21)	—	—	—	—	—	—
Reversal impairment losses	6.6	—	—	—	—	—	—	—	—	11	—	—	11
Transfer (to)/from assets classified as held for sale	10.2	—	4	20	32	1	57	—	—	—	—	—	—
Disposals		—	—	109	27	27	163	—	—	—	—	6	6
Effect of movements in exchange rates		—	(4)	(22)	1	2	(23)	—	42	79	42	15	178
Balance as at 31 December		**(427)**	**(865)**	**(992)**	**(269)**	**(529)**	**(3,082)**	(407)	(738)	(959)	(270)	(468)	(2,842)
CARRYING AMOUNT													
As at 1 January		11,205	3,951	1,375	825	314	17,670	11,029	3,735	1,535	858	267	17,424
As at 31 December		11,194	3,910	1,212	741	402	17,459	11,205	3,951	1,375	825	314	17,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Goodwill impairment testing

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 & Eastern Europe and Heineken N.V. Head Office, goodwill is allocated and monitored on an individual country basis. The total amount of goodwill of €11,194 million (2017: €11,205 million) is allocated to each (group of) Cash Generating Unit (CGU) as follows:

Goodwill per (group of) CGU
In millions of €



The carrying amount is compared to the recoverable amount. The recoverable amounts of the (group of) CGUs are based on the higher of the fair value less costs of disposal and value in use calculations. For CGUs representing more than 95% of goodwill the recoverable amount is based on a value in use model. Value in use is 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 are 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 are 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 2022-2028	Expected volume growth rates 2022-2028
Europe	9.5	1.9	1.0
The Americas (excluding Brazil)	12.4	3.0	3.2
Brazil	18.1	3.8	0.2
Africa, Middle East and Eastern Europe	19.2 - 33.8	3.7 - 11.1	(4.8) - 1.7
Asia Pacific	15.1	4.0	3.1
Heineken N.V. Head Office	9.1	1.9	1.0

CGU's for which the recoverable amount is based on a FVLCD model represent less than 5% of goodwill.

The outcome of these goodwill impairment tests in 2018 did not result in a material impairment loss (2017: nil).

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.

Brands, customer-related and contract-based intangibles

The main brands capitalised are the brands acquired in various acquisitions. The main customer-related and contract-based intangibles relate to customer relationships (constituted either by way of a contractual agreement or by way of non-contractual relations) and re-acquired rights.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The cash flow projections used in the value in use calculations for goodwill impairment testing contains various judgements and estimations as described in the key assumptions for the value in use calculations.

For intangible assets, other than goodwill, estimates are required to determine the (remaining) useful lives. Useful lives are determined based on the market position (for brands), estimated remaining useful life of the customer relationships or the period of the contractual arrangements, or estimates on technical and commercial developments (for software/development expenditure).

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life. HEINEKEN believes that straight-line depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICIES

Goodwill

Goodwill represents the difference between the fair value of the net assets acquired and the transaction price of the acquisition. 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. Goodwill is allocated to individual or groups of 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. An impairment loss in respect of goodwill can not be reversed.

Brands, customer-related and contract-based intangibles

Brands, customer-related and contract-based intangibles acquired as part of a business combination are recognised at fair value. Otherwise they are recognised at cost and amortised over the estimated useful life of the individual brand, respectively over the remaining useful life of the customer relationships or the period of the contractual arrangements.

Strategic brands are well-known international/local brands with a strong market position and an established brand name.

Software, research and development and other intangible assets

Purchased software is measured at cost less accumulated amortisation. 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, is recognised in profit or loss when incurred.

Amortisation

Amortisation is calculated over the cost of the asset 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. The estimated useful lives are as follows:

▪ Strategic brands	40 - 50 years
▪ Other brands	15 - 25 years
▪ Customer-related and contract-based intangibles	5 - 30 years
▪ Re-acquired rights	3 - 12 years
▪ Software	3 - 7 years
▪ Capitalised development costs	3 years

The amortisation method, useful lives and residual values are reassessed annually. Changes in useful lives or residual value are recognised prospectively.

Derecognition of intangible assets

Intangible assets are derecognised when disposed or sold. Gain on sale of intangibles are presented in profit or loss as other income (refer note 6.2); losses on sale are included in depreciation. Goodwill is derecognised when the related CGU is sold.

Impairment of non-financial assets

Each reporting date HEINEKEN reviews the carrying amounts of its non-financial assets (except for inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use. The cash-generating unit for other non-financial assets is often the operating company on country level. 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 risks specific to the asset or CGU.

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 are first allocated to goodwill and then to the other assets in the unit on a pro rata basis. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (P,P&E) are fixed assets that are owned by HEINEKEN, as well as the leased assets under a finance lease agreement. These assets are held for use in HEINEKEN's operating activities. The assets are split into the asset classes of land & buildings, plant & machinery, other fixed assets and assets under constructions. The table below shows the historical cost per asset class and the movements during the year.

						2018					2017
In millions of €	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	**Total**	Land and buildings	Plant and equipment	Other fixed assets	Under construction	**Total**
COST											
Balance as at 1 January		**6,911**	**8,393**	**5,166**	**902**	**21,372**	5,435	8,394	5,043	666	19,538
Changes in consolidation and other transfers		5	74	12	2	93	1,611	257	150	92	2,110
Purchases		36	74	396	1,330	1,836	73	119	372	1,132	1,696
Transfer of completed projects under construction		314	615	315	(1,244)	—	197	425	284	(906)	—
Transfer (to)/from assets classified as held for sale		(89)	(108)	(31)	—	(228)	(17)	(9)	(6)	—	(32)
Disposals		(132)	(105)	(517)	(1)	(755)	(145)	(185)	(386)	(16)	(732)
Effect of movements in exchange rates		(67)	(71)	3	9	(126)	(243)	(608)	(291)	(66)	(1,208)
Balance as at 31 December		**6,978**	**8,872**	**5,344**	**998**	**22,192**	6,911	8,393	5,166	902	21,372
DEPRECIATION AND IMPAIRMENT LOSSES											
Balance as at 1 January		**(2,089)**	**(4,706)**	**(3,460)**	**—**	**(10,255)**	(2,170)	(4,733)	(3,403)	—	(10,306)
Changes in consolidation and other transfers		—	(64)	(6)	—	(70)	33	(15)	(28)	—	(10)
Depreciation charge for the year	6.6	(161)	(416)	(578)	—	(1,155)	(163)	(438)	(571)	—	(1,172)
Impairment losses	6.6	(29)	(89)	(15)	—	(133)	—	—	—	—	—
Reversal impairment losses	6.6	—	—	—	—	—	11	6	2	—	19
Transfer to/(from) assets classified as held for sale		10	33	24	—	67	6	4	2	—	12
Disposals		82	100	505	—	687	112	197	362	—	671
Effect of movements in exchange rates		9	26	(9)	—	26	82	273	176	—	531
Balance as at 31 December		**(2,178)**	**(5,116)**	**(3,539)**	**—**	**(10,833)**	(2,089)	(4,706)	(3,460)	—	(10,255)
CARRYING AMOUNT											
As at 1 January		4,822	3,687	1,706	902	11,117	3,265	3,661	1,640	666	9,232
As at 31 December		4,800	3,756	1,805	998	11,359	4,822	3,687	1,706	902	11,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Land and buildings include the breweries and offices of HEINEKEN as well as stores, pubs and bars. The plant and machinery asset class contains all the assets needed in HEINEKEN's brewing, packaging and filling activities. Other fixed assets mainly consists of returnable packaging materials, commercial fixed assets and furniture, fixtures and fittings. Refer to note 7.4 for further information on returnable packaging materials that are included in this category.

Impairment losses

In 2018 an impairment of property, plant and equipment of €133 million was charged to profit or loss (2017: nil), mainly relating to The Democratic Republic of Congo (DRC), which is part of the Africa, Middle East and Eastern Europe segment. A decrease of the expected market volume growth in the DRC resulted in an impairment of assets. The determination of the recoverable amount of these assets is based on a value in use (VIU) valuation, which is based on a discounted ten-year cash flow forecast. 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 %	2019-2028	After that
Sales volume growth (CAGR)	(1.7)	—
Inflation	10.1	10.1
Discount rate - pre tax	20.1	20.1

ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are required to determine the (remaining) useful lives of fixed assets. Useful lives are determined based on an asset's age, the frequency of its use, repair and maintenance policy, technology changes in production and expected restructurings.

HEINEKEN estimates the expected residual value per asset item. The residual value is the higher of the expected sales prices or the scrap value. The residual value is estimated based on recent market transaction of similar sold items or on its material scrap value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P,P&E. HEINEKEN beliefs that straight-line depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

ACCOUNTING POLICIES

A fixed asset is recognised when it is probable that future economic benefits associated with the P,P&E item will flow to HEINEKEN and when the cost of the P,P&E can be reliably measured. The majority of the P,P&E of HEINEKEN are owned assets, rather than leased assets.

P,P&E are recognised at historical cost less accumulated depreciation and impairment losses. Historical cost include all cost directly attributable to the purchase of an asset. The cost of self-constructed assets include all directly attributable costs to make the asset ready for its intended use. Spare parts that meet the definition of P,P&E are capitalised as such and accounted for accordingly. If spare parts do not meet the recognition criteria of P,P&E, they are either carried in inventory or consumed and recorded in profit or loss.

Subsequent costs are capitalized only when it is probable that the expenses will lead to future economic benefits and can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

For the contractual commitments on ordered P,P&E refer to note 13.2.

Depreciation and impairments

Depreciation is calculated using the straight-line method, based on the estimated useful life of the asset class. The estimated useful lives of the main asset classes are as follows:

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

Land and assets under construction are not depreciated. When assets under construction are ready for its intended use, they are transferred to the relevant category and depreciation starts. All other P,P&E items are depreciated over their estimated useful live to the asset's residual value.

The depreciation method, residual value and useful lives are reassessed annually. Changes in useful lives or residual value are recognised prospectively.

HEINEKEN reviews whether impairment triggers exists on cash generating unit (CGU) level. When a triggering event exist, assets are tested for impairment, refer to note 8.1.

Derecognition

P,P&E is derecognised when it is scrapped or sold. Gains on sale of P,P&E are presented in profit or loss as other income (refer note 6.2); losses on sale are included in depreciation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8.3 LOANS AND ADVANCES TO CUSTOMERS

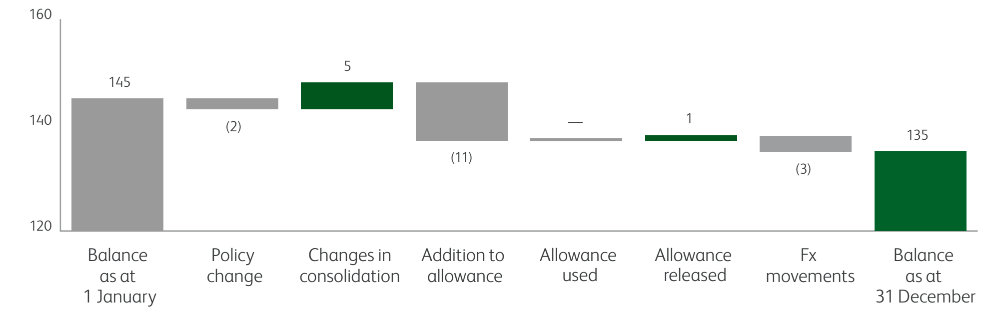
Loans and advances to customers are inherent to HEINEKEN's business model. Loans to customers are repaid in cash on fixed dates while the settlement of advances to customers are linked to the sales volume of the customer. Loans and advances to customers are usually backed by a collateral such as properties.

In millions of €	**2018**	2017
Loans to customers	52	54
Advances to customers	289	277
Loans and advances to customers	**341**	331

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

Allowance for credit losses 2018 — Loans and advances to customers

In millions of €



In millions of €	**2018**	2017
Balance as at 1 January	**145**	132
Policy changes	(2)	—
Impairment loss recognised	5	8
Allowance used	(11)	(2)
Allowance released	—	(8)
Effect of movements in exchange rates	1	(1)
Other	(3)	16
Balance as at 31 December	**135**	145

ACCOUNTING ESTIMATES

HEINEKEN determines on each reporting date the impairment of loans and advances to customers using an expected credit loss model which estimates the credit losses over 12 months. Only in case a significant increase in credit risk occurs (e.g. more than 30 days overdue, change in credit rating, payment delays in other receivables from the customer) the credit losses over the lifetime of the asset are incurred. 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. For more information on HEINEKEN's credit risk exposure refer to note 11.5.

ACCOUNTING POLICIES

Loans and advances to customers are measured at fair value and subsequently at amortized cost minus any impairment losses.

8.4 OTHER NON-CURRENT ASSETS

Other non-current assets mainly consist of Fair Value through Other Comprehensive Income (FVOCI) investments, prepayments and other receivables with a duration longer than 12 months.

In millions of €	Note	**2018**	2017
Fair value through OCI investments*		501	481
Non-current derivatives	11.6	35	36
Loans to joint ventures and associates		9	3
Long-term prepayments		330	346
Other receivables		209	193
Other non-current assets		**1,084**	1,059

*In 2017 these investments were classified as available-for-sale investments.

The FVOCI investments primarily consist of equity securities. HEINEKEN designates these investments as FVOCI as these are not held for trading purposes. As per 31 December 2018 the investment of €331 million (2017: €300 million) in the Saigon Alcohol Beer and Beverages Corporation ('SABECO', Vietnam), is the main FVOCI equity investment.

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 receivables qualifies for indemnification towards FEMSA which are provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Sensitivity analysis – equity securities

An increase or decrease of 1% in the share price of the equity securities at the reporting date would not have a material impact.

ACCOUNTING ESTIMATES

For other receivables HEINEKEN determines on each reporting date the impairment using an expected credit loss model which estimates the credit losses over 12 months. Only in case a significant increase in credit risk occurs (e.g. more than 30 days overdue, change in credit rating, payment delays in other receivables from the customer) the credit losses over the lifetime of the asset are incurred. Individually significant other receivables are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. For more information on HEINEKEN's credit risk exposure refer to 11.5.

ACCOUNTING POLICIES

Fair value through OCI investments

HEINEKEN's investments in equity securities are classified as fair value through other comprehensive income (OCI). These investments are interests in entities where HEINEKEN has less than significant influence. This is generally the case by ownership of less than 20% of the voting rights.

Fair value through OCI investments are measured at fair value (refer to note 13.1). The fair value changes are recognised in OCI and presented within equity in the fair value reserve. Dividend income and foreign exchange gains and losses are recognised in profit or loss.

Non-current derivatives

Please refer to the accounting policies on derivative financial instruments in note 11.6.

Other

The remaining non-current assets as presented in the table above are initially measured at fair value and subsequently at amortized cost minus any impairment losses.

9. PROVISIONS AND CONTINGENT LIABILITIES

9.1 POST-RETIREMENT OBLIGATIONS

HEINEKEN makes contributions to pension plans that provide pension benefits to (former) employees upon retirement, both via defined benefit as well as defined contribution plans. Other long term employee benefits include long-term bonus plans, termination benefits, medical plans and jubilee benefits. Refer to note 6.4 for the contribution to defined contribution plans. This note will relate to HEINEKEN's defined benefit pension plans. Refer to the table below for the present value of the defined benefit plans as at 31 December.

In millions of €	**2018**	2017
Present value of unfunded defined benefit obligations	251	296
Present value of funded defined benefit obligations	8,260	8,792
Total present value of defined benefit obligations	**8,511**	9,088
Fair value of defined benefit plan assets	(7,682)	(7,908)
Present value of net obligations	**829**	1,180
Asset ceiling items	51	19
Defined benefit plans included under non-current assets	7	10
Recognised liability for defined benefit obligations	**887**	1,209
Other long-term employee benefits	67	80
	954	1,289

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 fulfills 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The defined benefit pension plans in the Netherlands and the United Kingdom represent the majority of the total defined benefit plan assets and the present value of the defined benefit obligations. Refer to the table below for the split of these plans in the total present value of the net obligations of HEINEKEN.

	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
In millions of €	UK	UK	NL	NL	Other	Other	**Total**	**Total**
Total present value of defined benefit obligations	3,611	4,002	3,587	3,729	1,313	1,357	8,511	9,088
Fair value of defined benefit plan assets	(3,276)	(3,449)	(3,488)	(3,546)	(918)	(913)	(7,682)	(7,908)
Present value of net obligations	**335**	553	**99**	183	**395**	444	**829**	1,180

Defined benefit plan in the Netherlands

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 2018, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2019.

Defined benefit plan in the United Kingdom

HEINEKEN's UK plan (Scottish & Newcastle pension plan 'SNPP') was closed to future accrual in 2011 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 deficit reduction contribution of GBP39.2 million in 2018, thereafter increasing with GBP1.7 million per year. By the end of 2018 an agreement was reached with the UK pension fund Trustees on a more conservative longer term funding approach toward 2030. This agreement will be formalised during 2019 and leads to a gradual decrease of investment risk. The current schedule of deficit recovery payments until May 2023 will remain in place. As of June 2023 deficit recovery payments will be conditional on the funding position of the pensions fund and will be capped on the current contribution level.

Defined benefit plans in other countries

In a few other countries HEINEKEN offers defined benefit plans, which are individually not significant to HEINEKEN. The majority of these plans are closed for new participants.

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:

		Present value of defined benefit obligations		Fair value of defined benefit plan assets		Present value of net obligations	
In millions of €	Note	**2018**	2017	**2018**	2017	**2018**	2017
Balance as at 1 January		**9,088**	9,170	**(7,908)**	(7,815)	**1,180**	1,355
Included in profit or loss							
Current service cost		88	85	—	—	88	85
Past service cost/(credit)		14	5	—	—	14	5
Administration expense		—	—	4	4	4	4
Effect of any settlement		(1)	(35)	—	—	(1)	(35)
Expense recognised in personnel expenses	6.4	**101**	55	**4**	4	**105**	59
Interest expense/(income)	11.1	197	196	(166)	(163)	31	33
		298	251	**(162)**	(159)	**136**	92
Included in OCI							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		(177)	79	—	—	(177)	79
Financial assumptions		(329)	190	—	—	(329)	190
Experience adjustments		9	(31)	—	—	9	(31)
Return on plan assets excluding interest income		—	—	174	(327)	174	(327)
Effect of movements in exchange rates		(10)	(200)	9	165	(1)	(35)
		(507)	38	**183**	(162)	**(324)**	(124)
Other							
Changes in consolidation and reclassification		6	42	17	(49)	23	(7)
Contributions paid:							
By the employer		—	—	(170)	(136)	(170)	(136)
By the plan participants		21	23	(23)	(23)	(2)	—
Benefits paid		(395)	(385)	381	385	(14)	—
Settlements		—	(51)	—	51	—	—
		(368)	(371)	**205**	228	**(163)**	(143)
Balance as at 31 December		**8,511**	9,088	**(7,682)**	(7,908)	**829**	1,180

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Defined benefit plan assets

			2018			2017
In millions of €	Quoted	Unquoted	**Total**	Quoted	Unquoted	**Total**
Equity instruments:						
Europe	815	—	815	985	—	985
Northern America	522	—	522	556	—	556
Japan	129	—	129	109	—	109
Asia other	60	—	60	122	—	122
Other	315	193	508	330	180	510
	1,841	**193**	**2,034**	2,102	180	2,282
Debt instruments:						
Corporate bonds – investment grade	2,150	1,353	3,503	2,258	1,524	3,782
Corporate bonds – non-investment grade	223	507	730	240	476	716
	2,373	**1,860**	**4,233**	2,498	2,000	4,498
Derivatives	33	(537)	(504)	11	(1,333)	(1,322)
Properties and real estate	256	501	757	270	437	707
Cash and cash equivalents	196	(12)	184	626	3	629
Investment funds	523	239	762	675	244	919
Other plan assets	104	112	216	119	76	195
	1,112	**303**	**1,415**	1,701	(573)	1,128
Balance as at 31 December	**5,326**	**2,356**	**7,682**	6,301	1,607	7,908

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 are detailed below.

Risks associated with defined benefit plans

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, 9.5% property and real estate and 12.5% 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. The ALM study has been performed in 2018 and a new strategy mix will be implemented in 2019.

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

Interest rate risk

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

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 24.4% (2017: 22.9%). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match 34% of the interest rate sensitivity of the total liabilities (2017: 32%).

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 37% of the inflation-linked liabilities (2017: 35%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 HEINEKEN UK's pension plan implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for the 2015 population of pensioners.

Principal actuarial assumptions as at the balance sheet date

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

	The Netherlands		UK*	
In %	**2018**	2017	**2018**	2017
Discount rate as at 31 December	**1.8**	1.7	**2.9**	2.5
Future salary increases	**2.0**	2.0	**—**	—
Future pension increases	**0.8**	0.9	**3.0**	2.9

* 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 %	**2018**	2017	**2018**	2017	**2018**	2017
Discount rate as at 31 December	**1.0-2.9**	0.7-4.5	**7.0-12.9**	7.0-8.0	**1.8-15.5**	1.7-14.5
Future salary increases	**0.0-4.0**	0.0-3.5	**0.0-4.5**	0.0-4.5	**2.0-11.4**	0.0-5.0
Future pension increases	**0.0-3.0**	0.0-1.5	**0.0-3.5**	0.0-3.5	**0.0-5.0**	0.0-2.6
Medical cost trend rate	**0.0-4.5**	0.0-4.5	**0.0-12.2**	0.0-7.5	**0.0-0.0**	0.0-5.0

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the 'AG-Prognosetafel 2018', fully generational. For the UK, the future mortality rates are obtained by applying the Continuous Mortality Investigation 2017 projection model.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17 years.

HEINEKEN expects the 2019 contributions to be paid for the defined benefit plans to be in line with 2018.

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 2018		31 December 2017	
Effect in millions of €	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	**(686)**	**781**	(738)	846
Future salary growth (0.25% movement)	**48**	**(46)**	15	(15)
Future pension growth (0.25% movement)	**341**	**(316)**	355	(302)
Medical cost trend rate (0.5% movement)	**4**	**(3)**	5	(5)
Life expectancy (1 year)	**339**	**(341)**	305	(302)

ACCOUNTING ESTIMATES

To make the actuarial calculations for the defined benefit plans, HEINEKEN needs to make use of assumptions for discount rates, future pension increases and life expectancy as described in this note. The actuarial calculations are made by external actuaries based on inputs from observable market data, such as corporate bond returns and yield curves to determine the discount rates used, mortality tables to determine life expectancy and inflation numbers to determine future salary and pension growth assumptions.

ACCOUNTING POLICIES

Defined contribution plans

A defined contribution plan is a post-retirement plan for which HEINEKEN pays fixed contributions to a separate entity. HEINEKEN has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay out employees.

Defined benefit plans

A defined benefit plan is a post-retirement 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 benefits that employees have earned in return for their service in the current and prior periods; those benefits are discounted to determine its present value. The fair

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

value of any defined benefit plan assets are 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.

9.2 PROVISIONS

Provisions within HEINEKEN mainly relate to claims and litigation, that arise in the ordinary course of business. The outcome depends on future events, which are by nature uncertain.

In millions of €	Claims and litigation	Taxes	Restructuring	Onerous contracts	Other	**Total**
Balance as at 1 January 2018	403	498	104	56	87	1,148
Changes in consolidation	(9)	(26)	—	13	1	(21)
Provisions made during the year	91	29	102	31	34	287
Provisions used during the year	(3)	—	(64)	(28)	(13)	(108)
Provisions reversed during the year	(87)	(31)	(12)	(20)	(23)	(173)
Effect of movements in exchange rates	(42)	(34)	—	(3)	(1)	(80)
Unwinding of discounts	16	1	—	—	—	17
Transfer	(1)	(62)	—	—	3	(60)
Balance as at 31 December 2018	**368**	**375**	**130**	**49**	**88**	**1,010**
Non-current	355	322	80	32	57	846
Current	13	53	50	17	31	164

Claims and litigation

The provision for claims and litigation of €368 million mainly relates to civil and labour claims in Brazil.

Taxes

The provisions for taxes mainly relate to Brazil. Tax legislation in Brazil is highly complex and subject to interpretation, therefore the timing of the cash outflows for these provisions is uncertain.

Restructuring

The provision for restructuring of €130 million (2017: €104 million) mainly relates to restructuring programmes in Spain and the Netherlands.

Other provisions

Included are, among others, surety and guarantees provided of €47 million (2017: €42 million).

ACCOUNTING ESTIMATES

In determining the likelihood and timing of potential cash out flows, HEINEKEN needs to make estimates. For claims, litigation and tax provisions HEINEKEN basis its assessment on internal and external legal assistance and established precedents. For large restructurings, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities.

ACCOUNTING POLICIES

A provision is a liability of uncertain timing or amount. A provision is recognised when HEINEKEN has a present legal or constructive obligation as a result of past events that can be estimated reliably, and it is probable (> 50%) that an outflow of economic benefits will be required to settle the obligation. In case of accounting for business combinations, provisions are also recognised when the likelihood is less than probable, but more than remote (> 5%).

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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be received by HEINEKEN 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. The latter takes 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.

9.3 CONTINGENCIES

HEINEKEN's contingencies are mainly in the area of tax, civil cases (part of other contingencies) and guarantees.

Tax

The tax contingencies mainly relate to tax positions in Latin America and include a large number of cases with a risk assessment lower than probable but possible. Assessing the amount of tax contingencies is highly judgemental, and the timing of possible outflows is uncertain. The best estimate of tax related contingent liabilities is €937 million (2017: €897 million), out of which €171 million (2017: €170 million) qualifies for indemnification. For several other tax contingencies that were part of acquisitions, an amount of €369 million (2017: €382 million) has been recognised as provisions and other non current liabilities in the balance sheet (refer to note 9.2).

Other contingencies

The other contingencies relate to civil cases in Brazil. Management's best estimate of the financial effect for these cases is €64 million (2017: €57 million). For the other contingencies that were part of acquisitions, an amount of €31 million (2017: €49 million) has been recognised as provisions in the balance sheet (refer to note 9.2).

Guarantees

In millions of €	Total 2018	Less than 1 year	1-5 years	More than 5 years	Total 2017
Guarantees to banks for loans (to third parties)	325	46	268	11	307
Other guarantees	959	472	213	274	978
Guarantees	**1,284**	**518**	**481**	**285**	1,285

Guarantees to banks for loans relate to loans and advances 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.

ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Also for the other contingencies, HEINEKEN is required to exercise significant judgement to determine whether the risk of loss is possible but not probable. Contingencies involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions.

ACCOUNTING POLICIES

A contingent liability is a liability of uncertain timing and amount. Contingencies are not recognised in the balance sheet because the existence can only be confirmed by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of HEINEKEN or because the risk of loss is estimated to be possible (>5%) but not probable (<50%) or because the amount cannot be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. ACQUISITIONS, DISPOSALS AND INVESTMENTS

10.1 ACQUISITIONS AND DISPOSALS

Acquisitions and disposals in 2018

During 2018 no significant acquisitions or disposals took place.

Prior year adjustments

During 2018 all the provisional accounting periods of the 2017 acquisitions have been closed without material adjustments.

10.2 ASSETS OR DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

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

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

In millions of €	**2018**	2017
Current assets	34	—
Property, plant and equipment	183	29
Intangible assets	153	3
Other non-current assets	31	1
Assets classified as held for sale	**401**	33
Current liabilities	(101)	(2)
Non-current liabilities	(31)	—
Liabilities associated with assets classified as held for sale	**(132)**	(2)

In 2018 the assets and liabilities held for sale mainly relate to HEINEKEN's operating entities in China and Hong Kong. On 5 November 2018, HEINEKEN signed definitive agreements with China Resources Enterprise, Limited ('CRE') and China Resources Beer (Holdings) Co. Ltd. ('CR Beer') to create a strategic partnership. In the context of this partnership, the HEINEKEN operating entities in China and Hong Kong will be sold to CR Beer, for a total consideration of HK$2.4 billion, through a share sale transaction. The transaction is expected to close in 2019. The disposal group is included in reportable segment Asia Pacific in note 6.1.

ACCOUNTING ESTIMATES AND JUDGEMENTS

HEINEKEN classifies assets or disposal groups as held for sale when they are available for immediate sale in its present condition and the sale is highly probable. HEINEKEN should be committed to the sale and it should be unlikely that the plan to sale will be withdrawn. This might be difficult to demonstrate in practice and involves judgement.

ACCOUNTING POLICIES

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.

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.

10.3 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

HEINEKEN has interests in a number of joint ventures and associates. The total carrying amount of these associates and joint ventures was €2,021 million as per 31 December 2018 (€1,841 million in 2017) and the total share of profit was €174 million in 2018 (€68 million in 2017).

The investments in associates and joint ventures includes the interest of HEINEKEN in United Breweries Limited (UBL) in India. On 10 October 2018, officials from the Competition Commission of India visited UBL for their investigation in relation to allegations of price fixing and performed search of the premises and inquiries with certain officials of UBL at its registered office. As UBL has not received any demand order in respect of this matter and the investigation is ongoing, UBL deems it not practicable to estimate its potential financial effect, if any.

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 (net of income tax):

	Joint ventures		Associates	
In millions of €	**2018**	2017	**2018**	2017
Carrying amount of interests	**1,748**	1,612	**273**	229
Share of:				
Profit or loss from continuing operations	192	43	18	32
Other comprehensive income	(37)	(13)	1	6
	155	30	**19**	38

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICIES

Associates are those entities in which HEINEKEN has significant influence, but not control or joint control. Significant influence is generally obtained by ownership of more than 20% but less than 50% of the voting rights. Joint ventures (JVs) are the arrangements in which HEINEKEN has joint control.

HEINEKEN's investments in associates and joint ventures are accounted for using the equity method of accounting, meaning they are initially recognised at cost. The consolidated financial statements include HEINEKEN's share of the net profit or loss of the associates and JVs whereby the result is determined using the accounting policies of HEINEKEN.

When HEINEKEN's share of losses exceeds the carrying amount of the associate or joint venture, 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.

11. FINANCING AND CAPITAL STRUCTURE

11.1 NET FINANCE INCOME AND EXPENSE

Interest expenses are mainly related to interest charges over the outstanding bonds and bank loans (refer to note 11.3). Other net finance income and expenses comprises dividend income, fair value changes of financial assets and liabilities measured at fair value, transactional foreign exchange gains and losses (on net basis), unwinding of discount on provisions and interest on the net defined benefit obligation.

In millions of €	Note	**2018**	2017
Interest income		**62**	72
Interest expenses		**(493)**	(468)
Dividend income from fair value through OCI investments[2]		16	10
Net change in fair value of derivatives		71	(149)
Net foreign exchange gain/(loss)[1]		(102)	56
Unwinding discount on provisions	9.2	(17)	(14)
Interest on the net defined benefit obligation	9.1	(31)	(33)
Other		(1)	7
Other net finance income/(expenses)		**(64)**	(123)
Net finance income/(expenses)		**(495)**	(519)

[1] Transactional foreign exchange effects of working capital and foreign currency denominated loans, the latter being offset by net change in fair value of derivatives.
[2]*In 2017 these investments were classified as available-for-sale investments.

ACCOUNTING POLICIES

Interest income and expenses are recognised as they accrue, using the effective interest method.

Dividend income is recognised in the income statement on the date that HEINEKEN's right to receive payment is established, which is the ex-dividend date in the case of quoted securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts and commercial paper 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.

In millions of €	Note	2018	2017
Cash and cash equivalents		2,903	2,442
Bank overdrafts and commercial paper	11.3	(655)	(1,265)
Cash and cash equivalents in the statement of cash flows		**2,248**	**1,177**

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

In millions of €	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Amounts subject to legal offset rights	Net amount
Balance as at 31 December 2018					
ASSETS					
Cash and cash equivalents	3,241	(338)	2,903	(260)	2,643
LIABILITIES					
Bank overdrafts and commercial paper	(993)	338	(655)	260	(395)
Balance as at 31 December 2017					
ASSETS					
Cash and cash equivalents	2,442	—	2,442	(1,062)	1,380
LIABILITIES					
Bank overdrafts and commercial paper	(1,265)	—	(1,265)	1,062	(203)

HEINEKEN operates in a number of territories where there is limited availability of foreign currency resulting in restrictions on remittances. Mainly as a result of these restrictions, €330 million (2017: €208 million) of cash included in cash and cash equivalents is restricted for use by HEINEKEN, yet available for use in the relevant subsidiary's day-to-day operations.

ACCOUNTING POLICIES

Cash and cash equivalents are initially recognised at fair value and subsequently at amortized cost.

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.

11.3 BORROWINGS

Heineken mainly uses bonds and bank loans to ensure sufficient financing to support its operations.

Net interest-bearing debt is the key metric for HEINEKEN to measure its indebtness.

				2018			2017
In millions of €	Note	Non-current	Current	**Total**	Non-current	Current	**Total**
Unsecured bond issues		12,179	971	13,150	11,789	159	11,948
Unsecured bank loans		215	13	228	109	142	251
Secured bank loans		94	4	98	105	4	109
Other interest-bearing liabilities		140	37	177	163	993	1,156
Deposits from third parties[1]		—	678	678	—	649	649
Bank overdrafts and commercial paper		—	655	655	—	1,265	1,265
Total borrowings		**12,628**	**2,358**	**14,986**	**12,166**	**3,212**	**15,378**
Market value of cross-currency interest rate swaps	11.5			(2)			(57)
Cash and cash equivalents	11.2			(2,903)			(2,442)
Net interest-bearing debt position				**12,081**			**12,879**

[1]Mainly employee deposits

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Changes in borrowings

Cash flows from financing activities are mainly generated by bonds, bank loans and other interest bearing liabilities presented above. Additionally, Heineken also uses derivatives for its financing, which can be assets and liabilities. The below table shows the reconciliation of the liabilities and assets arising from financing activities to the cash flow from financing activities. Bank overdrafts and commercial paper 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. For more information on derivatives refer to note 11.6.

In millions of €	Unsecured bond issues	Unsecured bank loans	Secured bank loans	Other interest-bearing liabilities	Deposits from third parties	Derivatives used for financing activities	Assets and liabilities used for financing activities
Balance as at 1 January 2018	**11,948**	**251**	**109**	**1,156**	**649**	**(57)**	**14,056**
Consolidation changes	—	—	1	2	—	—	3
Effect of movements in exchange rates	172	(18)	—	39	1	(114)	80
Proceeds	1,242	208	8	25	39	172	1,694
Repayments	(225)	(235)	(12)	(1,046)	(11)	(4)	(1,533)
Other	13	22	(8)	1	—	1	29
Balance as at 31 December 2018	**13,150**	**228**	**98**	**177**	**678**	**(2)**	**14,329**
Balance as at 1 January 2017	10,683	243	94	1,259	622	(242)	12,659
Consolidation changes	—	1	1,076	538	—	191	1,806
Effect of movements in exchange rates	(539)	(13)	34	(166)	(3)	181	(506)
Proceeds	2,976	197	43	19	32	—	3,267
Repayments	(1,182)	(177)	(1,139)	(509)	—	(191)	(3,198)
Other	10	—	1	15	(2)	4	28
Balance as at 31 December 2017	11,948	251	109	1,156	649	(57)	14,056

The interest rate on the net debt position as per 31 December 2018 was 3.2% (2017: 3.2%). The average maturity of the bonds as per 31 December 2018 was 8 years (2017: 8 years).

Financing headroom

The committed financing headroom at Group level was approximately €5.2 billion as at 31 December 2018 and consisted of the undrawn revolving credit facility and centrally available cash. The financing headroom was higher than last year (2017: €4.0 billion) as HEINEKEN maintains higher cash balances in anticipation of the settlement of the transactions related to CR Beer in China. All financing facilities containing an incurrence covenant were settled in August 2018.

ACCOUNTING POLICIES

Borrowings are initially measured at fair value less transaction costs. Subsequently the borrowings are measured at amortized cost using the effective interest rate method. Borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

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. For the accounting policy on derivatives and cash and cash equivalents refer to notes 11.6. and 11.2 respectively.

11.4 CAPITAL AND RESERVES

Share capital

See the table below for the issued share capital as at 31 December 2018. All issued shares are fully paid.

	2018			2017		
Share capital	Shares of €1.60	Priority shares of €2.00	Nominal value in millions of €	Ordinary shares of €1.60	Priority shares of €2.00	Nominal value in millions of €
1 January	**288,030,168**	**250**	**461**	288,030,168	250	461
Changes	314	(250)	—	—	—	—
31 December	**288,030,482**	**—**	**461**	288,030,168	250	461

The Company's authorised capital amounts to €1,500,000,000, consisting of 937,500,000 shares of €1.60 (2017: 937,500,000 ordinary shares of €1.60 and 250 priority shares of €2).

Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Company. In respect of the Company's shares that are held by Heineken Holding N.V., rights are suspended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Share premium

As at 31 December 2018 the share premium amounted to €1,257 million (2017: €1,257 million).

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the assets and liabilities 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 FVOCI equity investments. Heineken transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised. 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 the share of profit of joint ventures and associates minus dividends received. For retained earnings of subsidiaries which cannot be freely distributed due to legal or other restrictions, a legal reserve is recognised. Furthermore, part of the reserve comprises a legal reserve for capitalised development costs.

Reserve for own shares

The reserve for own shares comprises the treasury shares held by Heineken Holding N.V. Refer to the table below with the changes in 2018.

Own shares held by Heineken Holding N.V.	Number of shares
1 January 2018	—
Changes	314
31 December 2018	**314**

Purchase own shares by Heineken N.V.

Refer to the table below with the changes in 2018 in own shares held by Heineken N.V. This results in an increased interest in shareholding by Heineken Holding N.V.

The related dilution effect has been recognised directly in equity.

Own shares held by Heineken N.V.	Number of shares
1 January 2018	5,808,418
Changes	14,608
31 December 2018	**5,823,026**

Dividends

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

In millions of €	**2018**	2017
Final dividend previous year €0.93, respectively €0.82 per qualifying share (2017: ordinary share)	268	236
Interim dividend current year €0.59, respectively €0.54 per qualifying share (2017: ordinary share)	170	156
Total dividend declared and paid	**438**	392

For 2018, a payment of a total cash dividend of €1.60 per share (2017: €1.47) will be proposed at the AGM of Heineken N.V.. If approved, a final dividend of €1.01 per share will be paid on 8 May 2019, as an interim dividend of €0.59 per share was paid on 9 August 2018. The payment will be subject to 15% Dutch withholding tax.

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

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

In millions of €	**2018**	2017
Dividend per qualifying share €1.60 (2017: ordinary share €1.47)	461	423
Addition to retained earnings	500	554
Net profit	**961**	977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

In millions of €	**2018**	2017
NCI percentage	**49.484%**[1]	49.486%[1]
Non-current assets	32,886	32,786
Current assets	9,070	8,248
Non-current liabilities	(15,966)	(16,055)
Current liabilities	(10,450)	(10,458)
Net assets	**15,540**	14,521
Carrying amount of NCI	**7,200**	6,688
Net revenue	**22,471**	21,609*
Profit	2,095	2,153
OCI	(51)	(1,169)
Total comprehensive income	**2,044**	984
Profit allocated to NCI[2]	**942**	958
OCI allocated to NCI[2]	**914**	436
Cash flow from operating activities	4,388	3,882
Cash flow from investing activities	(2,355)	(2,965)
Cash flow from financing activities	(967)	(966)
Net increase (decrease) in cash and cash equivalents	**1,066**	(49)
Final dividend previous year	531	468
Interim dividend current year	336	307
Total dividend	**867**	775
Dividend allocated to NCI	**428**	383

[1] Of which 8.632% (2017: 8.632%) relates to FEMSA and 41.363% (2017: 41.363%) to the public.
[2] Calculated based on 49.484% (2017: 49.486%) of the equity attributable to Heineken N.V.
*Restated to reflect the change in accounting policy on Revenue from Contracts with Customers (IFRS 15). Refer to note 4 for further details.

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

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total non-controlling interest as at 31 December 2018 amounted to €1,182 million (2017: €1,200 million).

Capital management

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

There were no major changes in Heineken Holding N.V.'s approach to capital management during the year. The policy of the Board of Directors of Heineken Holding N.V. is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and acquisitions of Heineken N.V.

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

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

ACCOUNTING POLICIES

Ordinary shares are classified as equity. 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 recorded at purchase price 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11.5 CREDIT, LIQUIDITY AND MARKET RISK

This note summarises the financial risks that HEINEKEN is exposed to, and HEINEKEN's policies and processes that are in place for managing these risks. For more information on derivatives used in managing risk refer to note 11.6.

Risk management framework

The Executive Board of Heineken N.V. sets rules and monitors the adequacy of HEINEKEN's risk management and control systems. These systems are regularly reviewed to reflect changes in market conditions and HEINEKEN's activities.

Managing the financial risks and financial resources includes the use of derivatives, primarily spot and forward exchange contracts, options and interest rate swaps. It is HEINEKEN's policy not to enter into speculative transactions.

In the normal course of business HEINEKEN is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of a loss to HEINEKEN when a customer or counterparty fails to pay.

All local operations are required to comply with the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN regularly reviews and updates the Global Credit Policy ensuring that adequate controls are in place to mitigate credit risk.

Credit risk arises mainly from HEINEKEN's receivables from customers like trade receivables, loans to customers and advances to customers. At the balance sheet date, there were no significant concentrations of credit risk.

Loans and advances to customers

HEINEKEN's loans and receivables include loans and advances to customers. Loans and advances to customers are secured by, among others, (bank) guarantees, rights on property or intangible assets, such as the right to take possession of the premises of the customer. HEINEKEN charges interest on loans to its customers.

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 these policies all customers requiring credit above 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. This review can include external ratings, where available, and in some cases bank references. Credit limits are determined for each customer and are reviewed regularly. Customers that fail to meet HEINEKEN's credit requirements transact only with HEINEKEN on a prepayment basis or Cash on Delivery.

Customers are monitored, on a country basis, according to their credit risk characteristics, including whether they are an individual or legal entity, type of distribution channel, geographic location, ageing profile, maturity and existence of previous financial difficulties.

HEINEKEN has a policy in place in respect of compliance with Anti Money Laundering Laws. HEINEKEN considers it important to know with whom business is done and from whom payments are received.

Allowances

HEINEKEN establishes allowances for impairment of loans and advances to customers, trade- and other receivables using an expected credit losses model. These allowances cover specific loss components that relates to individual exposures, and a collective loss component established for groups of similar customers. The collective loss allowance is determined based on historical data of payment statistics and updated periodically to incorporate forward looking information. The loans and advances to customers, trade- and other receivables are written off when there is no reasonable expectation of recovery.

Investments

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

Guarantees

HEINEKEN's policy is to avoid issuing guarantees unless this leads to substantial benefits for HEINEKEN. For some loans (to customers) HEINEKEN does issue guarantees. In these cases HEINEKEN aims to receive security from the customer to limit the credit risk exposure.

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 A.1 of the Heineken N.V. company financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Exposure to credit risk

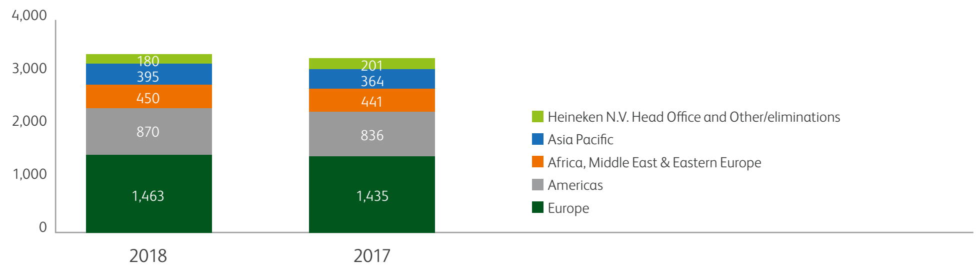
Below the maximum exposure to credit risk as per reporting date is shown:

In millions of €	Note	**2018**	2017
Cash and cash equivalents	11.2	2,903	2,442
Trade and other receivables, excluding prepayments	7.2	3,358	3,277
Derivative assets	11.6	70	255
Fair value through OCI investments*	8.4	501	481
Loans and advances to customers	8.3	341	331
Other non-current receivables	8.4	218	196
Guarantees to banks for loans (to third parties)	9.3	325	307
		7,716	7,289

*In 2017 these investments were classified as available-for-sale investments.

The exposure to credit risk by geographic region for trade and other receivables excluding prepayments is as follows:

Exposure to credit risk — Trade and other receivables (excl. prepayments)
In millions of €



Liquidity risk

Liquidity risk is the risk that HEINEKEN will have difficulties to meet payment obligations associated with its financial liabilities, like payment of financial debt or trade payables when they are due. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses.

HEINEKEN has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. HEINEKEN seeks to align the maturity profile of its long-term debts with its forecasted cash flow generation. More information about borrowing facilities is presented in note 11.3. Furthermore, strong cost and cash management and controls over investment proposals are in place.

Contractual maturities

The following table presents an overview of the expected timing of cash out and inflows of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments.

In millions of €	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
					2018
Financial liabilities					
Interest-bearing liabilities	(14,986)	(18,119)	(2,687)	(5,305)	(10,127)
Trade and other payables and returnable packaging deposits (excluding interest payable, dividends and including non-current part)	(7,331)	(7,332)	(7,223)	(84)	(25)
Derivative financial assets and (liabilities)					
Cross currency interest rate swaps	2	(38)	—	(14)	(24)
Forward exchange contracts	(18)	(24)	(23)	(1)	—
Commodity derivatives	(18)	(18)	(21)	3	—
Other derivatives	1	1	1	—	—
Total 2018	**(22,350)**	**(25,530)**	**(9,953)**	**(5,401)**	**(10,176)**
					2017
Financial liabilities					
Interest-bearing liabilities	(15,378)	(18,549)	(3,580)	(5,274)	(9,695)
Trade and other payables and returnable packaging deposits (excluding interest payable, dividends and including non-current part)	(6,577)	(6,577)	(6,505)	(38)	(34)
Derivative financial assets and (liabilities)					
Cross currency interest rate swaps	61	61	129	10	(78)
Forward exchange contracts	46	28	29	(1)	—
Commodity derivatives	77	78	46	32	—
Other derivatives	(7)	(7)	(7)	—	—
Total 2017	**(21,778)**	**(24,966)**	**(9,888)**	**(5,271)**	**(9,807)**

For more information on the derivative assets and liabilities refer to note 11.6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable boundaries.

HEINEKEN enters into derivatives and other financial liabilities to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or establish natural hedges in order to minimise the impact of market risks in profit or loss. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules.

Foreign currency risk

HEINEKEN is exposed to:

- Transactional risk on (future) sales, working capital, (future) purchases, deposits, borrowings and dividends denominated in a currency other than the respective functional currencies of HEINEKEN entities.
- Translational risk, which is the risk resulting from the translation of foreign operations into the reporting currency of HEINEKEN.

The main currencies that give rise to this risk are the US dollar, Mexican peso, Brazilian real, Nigerian naira, British pound, Vietnamese dong and Euro. In 2018, the transactional exchange risk was hedged in line with the hedging policy to the extent possible. The negative translational impact was more profound.

In managing foreign currency risk, HEINEKEN aims to ensure the availability of 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 of sales and purchases. Material cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. For this hedging HEINEKEN mainly uses forward exchange contracts. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

HEINEKEN has a clear policy on hedging transactional exchange risks. 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 hedging of translation risk, using net investment hedges is recognised in the translation reserve, as can be seen in the consolidated statement of comprehensive income.

HEINEKEN's policy is to hedge material recognized transactional exposure like trade payables, receivables, borrowings and declared dividends. For material unrecognized transactional exposures like forecasted sales in foreign currencies, HEINEKEN hedges the exposure between agreed percentages according to the policy.

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 pound, US dollar, Swiss franc and New Zealand dollar. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

HEINEKEN has financial liabilities in foreign currencies like US dollar and British pound to hedge local operations, which generate cash flows that have the same or closely correlated functional currencies. The corresponding interest on these liabilities is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of HEINEKEN, 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.

	2018		2017	
In millions	EUR	USD	EUR	USD
Financial assets	164	4,919	85	4,997
Financial liabilities	(1,969)	(5,422)	(2,284)	(6,657)
Gross balance sheet exposure	**(1,805)**	**(503)**	(2,199)	(1,660)
Estimated forecast sales next year	157	1,428	153	1,321
Estimated forecast purchases next year	(1,924)	(2,479)	(1,578)	(2,011)
Gross exposure	**(3,572)**	**(1,554)**	(3,624)	(2,350)
Net notional amounts foreign exchange contracts	348	596	411	1,670
Net exposure	**(3,224)**	**(958)**	(3,213)	(680)
Sensitivity analysis				
Equity	(121)	7	(149)	1
Profit or loss	(10)	(1)	(13)	(9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 would have the above impact on equity and profit as at 31 December 2018. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10% weakening, the effects are equal but with an opposite effect.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates affect the fair value or cash flows of a financial instrument. The most significant interest rate risk for HEINEKEN relates to borrowings (note 11.3).

By 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 will have an impact on profit.

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

Swap maturity follows the maturity of the related borrowings which have swap rates for the fixed leg 2.3% (2017: from 2.3 to 6.5%).

Interest rate risk – profile

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

In millions of €	**2018**	2017
Fixed rate instruments		
Financial assets	121	75
Financial liabilities	(13,214)	(13,002)
Cross currency interest rate swaps	437	417
	(12,656)	(12,510)
Variable rate instruments		
Financial assets	3,020	2,599
Financial liabilities	(1,771)	(2,376)
Cross currency interest rate swaps	(463)	(463)
	786	(240)

Cash flow sensitivity analysis for variable rate 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 2017.

		Profit or loss		Equity
In millions of €	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2018				
Variable rate instruments	9	(9)	9	(9)
Cross currency interest rate swaps	(3)	3	(3)	3
Cash flow sensitivity (net)	**6**	**(6)**	**6**	**(6)**
31 December 2017				
Variable rate instruments	2	(2)	2	(2)
Net interest rate swaps	(3)	3	(3)	3
Cash flow sensitivity (net)	(1)	1	(1)	1

Commodity price risk

Commodity price risk is the risk that changes in the prices of commodities will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters. The main commodity exposure relates to the purchase of aluminium cans, glass bottles, malt and utilities. Commodity price risk is in principle mitigated by negotiating fixed prices in supplier contracts with various contract durations.

Another method to mitigate commodity price risk is by entering into commodity derivatives. HEINEKEN enters into commodity derivatives for aluminium hedging and to a certain extent gas, fuel and sugar hedging. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Sensitivity analysis for aluminium hedges

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

		Equity
In millions of €	10% increase	10% decrease
31 December 2018		
Aluminium hedges	43	(43)

11.6 DERIVATIVE FINANCIAL INSTRUMENTS

HEINEKEN uses derivatives in order to manage market risks. The schedule below shows the fair value of the derivatives on the balance sheet of HEINEKEN as per reporting date:

		2018		2017
In millions of €	Asset	Liability	Asset	Liability
Current	35	(70)	219	(21)
Non-current*	35	(33)	36	(57)
	70	**(103)**	255	(78)

*Non-current derivative assets and liabilities are part of 'Other non-current assets' (note 8.4), respectively 'Other non-current liabilities'.

Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise profit and loss or cash flow volatility. The schedule below shows which derivatives are used in hedge accounting:

		2018		2017
In millions of €	Asset	Liability	Asset	Liability
No hedge accounting - CCIRS	7	—	4	—
No hedge accounting - Other	6	(3)	7	(14)
Cash flow hedge - CCIRS	—	—	113	—
Cash flow hedge - Forwards	21	(38)	50	(4)
Cash flow hedge - Commodity forwards	12	(30)	81	(4)
Fair value hedge - CCIRS	—	(29)	—	(48)
Net investment hedge - CCIRS	24	—	—	(8)
Net investment hedge - Forwards	—	(3)	—	—
	70	**(103)**	255	(78)

Cash flow hedges

HEINEKEN 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. In August 2018, the cross-currency interest rate swaps were settled and resulted in a cash receipt of €168 million. In connection with the transactions related to CR Beer in China, HEINEKEN entered into several forward exchange contracts which have been designated as cash flow hedges to hedge the foreign exchange rate risk on the net HKD consideration. The market value of these forward exchange contracts is not material as at 31 December 2018 and is included in the cash flow hedge forwards above.

Fair value hedges

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

The accumulated loss arising on derivatives as designated hedging instruments in fair value hedges amounts to €34 million at 31 December 2018. The gain arising on the adjustment for the hedged item attributable to the hedged risk in a designated fair value hedge accounting relationship also amounts to €34 million at 31 December 2018.

Net investment hedges

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings, forward contracts and cross-currency interest rate swaps, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings, forward contracts and swaps are designated as net investment hedges and fully effective, as such there was no ineffectiveness recognised in profit and loss in 2018 (2017: nil). At 31 December 2018 the fair value of these borrowings was €453 million (2017: €475 million), the market value of forward contracts was €3 million negative (2017: nil) and the market value of these swaps was €24 million positive (2017: €8 million negative).

Hedge effectiveness

Hedge effectiveness is determined at the start of the hedge relationship and periodically through a prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and hedging instrument. This assessment is done qualitatively by comparing the critical terms, and if needed quantitative assessments are done using hypothetical derivatives. For the current hedges no hedge ineffectiveness is expected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICIES

Derivative financial instruments are recognised initially at fair value. Subsequent accounting for derivatives depends on whether or not the derivatives are designated as hedging instrument in a cash flow, fair value or net investment hedge. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities. Refer to note 13.1 for fair value measurements.

Cash flow hedge

Changes in the fair value are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. The ineffective part is recognised as other net finance income/(expense). When the hedged risk impacts the profit or loss, the amounts previously recognized in other comprehensive income are transferred to the same item in the profit or loss as the hedged item. When the hedged risk subsequently results in a non-financial asset or liability (e.g. inventory or P,P&E), the amount previously recognised in the cash flow hedge reserve is included in its carrying amount.

Fair value hedge

The fair value changes of derivatives used in fair value hedges are recognized in profit or loss.

Net investment hedge

The fair value changes of derivatives used in net investment hedges are recognised in other comprehensive income and presented within equity in the translation reserve. Any ineffectiveness is recognised in profit or loss.

12. TAX

12.1 INCOME TAX EXPENSE

Recognised in profit or loss

In millions of €	**2018**	2017
Current tax expense		
Current year	831	815
Under/(over) provided in prior years	(24)	(16)
	807	799
Deferred tax expense		
Origination and reversal of temporary differences, tax losses and tax credits	(35)	(12)
De-recognition/(recognition) of deferred tax assets	—	11
Effect of changes in tax rates	(3)	(45)
Under/(over) provided in prior years	(12)	2
	(50)	**(44)**
Total income tax expense in profit or loss	**757**	755

Reconciliation of the effective tax rate

In millions of €	**2018**	2017
Profit before income tax	2,852	2,908
Share of net profit of associates and joint ventures	(210)	(75)
Profit before income tax excluding share of profit of associates and joint ventures	**2,642**	2,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	%	**2018**	%	2017
Income tax using the Company's domestic tax rate	25.0	660	25.0	708
Effect of tax rates in foreign jurisdictions	0.2	5	0.6	17
Effect of non-deductible expenses	2.6	69	2.6	75
Effect of tax incentives and exempt income	(3.2)	(84)	(3.4)	(98)
De-recognition/(recognition) of deferred tax assets	—	—	0.4	11
Effect of unrecognised current year losses	3.4	89	1.7	49
Effect of changes in tax rates	(0.1)	(3)	(1.6)	(45)
Withholding taxes	3.2	84	2.3	65
Under/(over) provided in prior years	(1.4)	(37)	(0.5)	(14)
Other reconciling items	(1.0)	(26)	(0.4)	(13)
	28.7	**757**	26.7	755

The 2018 effective tax rate is negatively impacted by non-deductible impairments, while 2017 included a one-off tax benefit as a result of the US tax reform.

For the income tax impact on items recognised in other comprehensive income, please refer to note 12.3.

12.2 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 €	**2018**	2017	**2018**	2017	**2018**	2017
P,P&E	92	72	(502)	(521)	(410)	(449)
Intangible assets	29	41	(1,267)	(1,333)	(1,238)	(1,292)
Investments	44	54	(5)	(6)	39	48
Inventories	40	31	(10)	(9)	30	22
Borrowings	11	32	—	(28)	11	4
Post-retirement obligations	231	300	(6)	(6)	225	294
Provisions	146	131	(27)	(30)	119	101
Other items	457	467	(376)	(382)	81	85
Tax losses carried forward	395	460	—	—	395	460
Tax assets/(liabilities)	**1,445**	1,588	**(2,193)**	(2,315)	**(748)**	(727)
Set-off of tax	(823)	(820)	823	820	—	—
Net tax assets/(liabilities)	**622**	768	**(1,370)**	(1,495)	**(748)**	(727)

Of the total net deferred tax assets of €622 million as at 31 December 2018 (2017: €768 million), €225 million (2017: €253 million) is recognised in respect of subsidiaries in various countries where there have been losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets. This judgement is performed annually and based on budgets and business plans for the coming years, including planned commercial initiatives.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, with an impact of €80 million (2017: €75 million). This because HEINEKEN is able to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Tax losses carried forward

HEINEKEN has tax losses carried forward of €3,494 million as at 31 December 2018 (2017: €3,593 million), out of which €356 million (2017: €137 million) expires in the following five years. €228 million (2017: €434 million) will expire after five years and €2,911 million (2017: €3,023 million) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of tax losses carried forward of €1,664 million (2017: €1,619 million) as it is not probable that taxable profit will be available

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

to offset these losses. €103 million (2017: €78 million) expires in the following five years. €40 million (2017: €57 million) will expire after five years and €1,521 million (2017: €1,484 million) can be carried forward indefinitely

Movement in deferred tax balances during the year

In millions of €	Balance 1 January 2018	Changes in accounting policy (IFRS 9)	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2018
P,P&E	(449)	—	(1)	6	36	—	(2)	(410)
Intangible assets	(1,292)	—	(7)	(22)	60	—	23	(1,238)
Investments	48	—	—	—	(10)	—	1	39
Inventories	22	—	—	1	5	—	2	30
Borrowings	4	—	—	17	(25)	18	(3)	11
Post-retirement obligations	294	—	—	—	5	(75)	1	225
Provisions	101	—	—	(3)	20	—	1	119
Other items	85	(2)	—	1	(7)	14	(10)	81
Tax losses carried forward	460	—	—	(19)	(34)	—	(12)	395
Net tax assets/ (liabilities)	**(727)**	**(2)**	**(8)**	**(19)**	**50**	**(43)**	**1**	**(748)**

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

The tax legislation in the countries in which HEINEKEN operates is often complex and subject to interpretation. In determining the current and deferred income tax position, judgement is required. 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.

ACCOUNTING POLICIES

Income tax comprises current and deferred 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.

Deferred tax is a tax payable or receivable in the future and 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 on temporary differences related to:

- 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
- investments in subsidiaries, associates and joint ventures to the extent that HEINEKEN is able to control the timing of the reversal of the temporary differences and it is probable (>50% chance) that they will not reverse in the foreseeable future
- initial recognition of non-deductible goodwill

The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates (substantively) enacted, at year-end.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised.

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.

Current and deferred tax are recognised in the income statement (refer to note 12.1), except when it relates to a business combination or for items directly recognised in equity or other comprehensive income (refer to note 12.3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12.3 INCOME TAX ON OTHER COMPREHENSIVE INCOME

	2018			2017		
In millions of €	Amount before tax	Tax	Amount net of tax	Amount before tax	Tax	Amount net of tax
Actuarial gains and losses	296	(75)	221	73	(9)	64
Currency translation differences	(127)	27	(100)	(1,440)	(45)	(1,485)
Recycling of currency translation differences to profit or loss	—	—	—	59	—	59
Effective portion of net investment hedges	(3)	—	(3)	26	—	26
Effective portion of changes in fair value of cash flow hedges	(96)	29	(67)	145	(36)	109
Effective portion of cash flow hedges transferred to profit or loss	(77)	—	(77)	(13)	10	(3)
Net change in fair value through OCI investments*	8	3	11	69	(1)	68
Share of other comprehensive income of associates/joint ventures	(36)	—	(36)	(7)	—	(7)
Other comprehensive income	**(35)**	**(16)**	**(51)**	(1,088)	(81)	(1,169)

*In 2017 these investments were classified as available-for-sale investments.

13. OTHER

13.1 FAIR VALUE

In this note more information is disclosed regarding the fair value and the different methods of determining fair values.

Financial instruments - hierarchy

The financial instruments included on the HEINEKEN statement of financial position are measured at either fair value or amortised cost. To measure the fair value HEINEKEN generally uses external valuations with market inputs. In some cases however the measurement of this fair value can be subjective and is dependent on inputs used in the calculations. The different valuation methods are called 'hierarchies' and are described below.

- Level 1 - The fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - The fair value is calculated using 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 3 - The fair value is determined using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the carrying amounts and fair values of financial assets and liabilities according to their fair value hierarchy.

				Fair value
As at 31 December	Carrying amount	Level 1	Level 2	Level 3
Fair value through OCI investments*	501	410	—	91
Non-current derivative assets	36	—	36	—
Current derivative assets	35	—	35	—
Total 2018	**572**	**410**	**71**	**91**
Total 2017	735	396	255	84
Non-current derivative liabilities	(33)	—	(33)	—
Borrowings	(13,653)	(13,470)	(503)	—
Current derivative liabilities	(70)	—	(70)	—
Total 2018	**(13,756)**	**(13,470)**	**(606)**	**—**
Total 2017	(13,542)	(12,660)	(1,613)	—

*In 2017 these investments were classified as available-for-sale investments.

During the period ended 31 December 2018 there were no significant transfers between the three levels of the fair value hierarchy.

Details of the determination of level 3 fair value measurements as at 31 December 2018 are set out below:

In millions of €	**2018**	2017
Fair value through OCI investments based on level 3		
Balance as at 1 January	**84**	85
Fair value adjustments recognised in other comprehensive income	3	2
Disposals	—	1
Transfer to associate	4	(4)
Balance as at 31 December	**91**	84

The fair values for the level 3 fair value through OCI investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING ESTIMATES

The different methods applied by HEINEKEN to determine the fair value require the use of estimates.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and fair value through OCI is determined by reference to their quoted closing bid price at the reporting date or, if unquoted, determined using an appropriate valuation technique. These valuation techniques maximise the use of observable market data where available.

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. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. 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.

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. 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.

13.2 OFF-BALANCE SHEET COMMITMENTS

HEINEKEN leases offices, warehouses, pubs, cars and other equipment in the ordinary course of business. The raw materials purchase contracts mainly relate to malt, bottles and cans which are used in the production and sale of finished products.

In millions of €	Total 2018	Less than 1 year	1-5 years	More than 5 years	2017
Operating lease commitments	2,013	307	767	939	1,704
Property, plant and equipment ordered	305	287	18	—	329
Raw materials purchase contracts	7,571	2,717	3,583	1,271	6,153
Marketing and merchandising commitments	635	273	358	4	647
Other off-balance sheet obligations	4,375	3,005	590	780	2,092
Off-balance sheet obligations	**14,899**	**6,589**	**5,316**	**2,994**	10,925
Undrawn committed bank facilities	**3,845**	**166**	**3,679**	**—**	3,929

During the year ended 31 December 2018, €375 million (2017: €364 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

Other off-balance sheet obligations in 2018 include HKD24.3 billion (€2.7 billion as per 31 December 2018) as the committed amount by HEINEKEN for acquiring a shareholding of 40% in CRH (Beer) Limited, which is expected to close in 2019. Other off-balance sheet obligations also include energy, distribution and service contracts.

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

ACCOUNTING POLICIES

Off-balance sheet commitments are not discounted.

Operating lease commitments

Operating leases 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.

The lease commitments contain the lease payments for the non-cancellable period of a lease and the period for extension options that are reasonably certain to be exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Raw materials purchase contracts

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas.

13.3 RELATED PARTIES

Identification of related parties

The following parties are considered to be related to Heineken Holding N.V.:

- Its Board of Directors
- The Executive Board and Supervisory Board of Heineken N.V.
- L'Arche Green N.V.
- L'Arche Holding B.V.
- Stichting Administratiekantoor Priores
- Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA)
- Associates and Joint ventures of Heineken N.V.
- HEINEKEN pension funds (refer to note 9.1)
- Employees of HEINEKEN (refer to note 6.4)

Heineken Holding N.V.'s ultimate controlling party is C.L. de Carvalho-Heineken. For the structure of the HEINEKEN Group reference is made to the Report of the Board of Directors, page 13.

Board of Directors of Heineken Holding N.V. remuneration

In thousands of €	**2018**	2017
C.L. de Carvalho-Heineken	60	60
M.R. de Carvalho	60	60
Remuneration executive members	**120**	120
M. Das	90	90
J.A. Fernández Carbajal	60	60
C.M. Kwist	60	60
A.A.C. de Carvalho	60	60
A.M. Fentener van Vlissingen[1]	42	—
L.L.H. Brassey[1]	42	—
Remuneration non-executive members	**354**	270
	474	390

[1] Appointed as at 19 April 2018

As at 31 December 2018, the Board of Directors represented 151,685,148 shares in the Company (2017:151,685,148 ordinary shares).

Executive Board of Heineken N.V.

The remuneration of the members of the Executive Board of Heineken N.V. consists of a fixed component and a variable component. The variable component is made up of a Short-term Incentive (STI) and a Long-term Incentive (LTI). The STI is based on financial and operational measures (75%) and on individual leadership measures (25%) as set by the Supervisory Board of Heineken N.V. at the beginning of the year. For the LTI refer to note 6.5.

As at 31 December 2018, J.F.M.L. van Boxmeer held 259,149 Heineken N.V. shares and L.M. Debroux held 28,159 Heineken N.V. shares (2017: J.F.M.L. van Boxmeer 240,695 and L.M. Debroux 11,829).

Executive Board of Heineken N.V. remuneration

	2018			2017		
In thousands of €	J.F.M.L. van Boxmeer	L.M. Debroux	Total	J.F.M.L. van Boxmeer	L.M. Debroux	Total
Fixed salary	1,250	735	1,985	1,200	720	1,920
Short-Term Incentive	2,730	1,147	3,877	2,736	1,173	3,909
Matching share entitlement	610	256	866	622	266	888
Long-Term Incentive	2,732	1,360	4,092	3,623	1,739	5,362
Pension contributions	873	145	1,018	858	142	1,000
Other emoluments	49	162	211	21	163	184
Total	**8,244**	**3,805**	**12,049**	9,060	4,203	13,263

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 STI 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 2018 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 2017 the investment was 25% for both Executive Board members as well. From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of €0.9 million was recognised in the 2018 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)

Supervisory Board of Heineken N.V. remuneration

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

In thousands of €	**2018**	2017
G.J. Wijers	163	160
J.A. Fernández Carbajal	109	114
M. Das	85	85
M.R. de Carvalho	96	90
A.M. Fentener van Vlissingen[1]	43	85
V.C.O.B.J. Navarre	74	70
J.G. Astaburuaga Sanjinés	104	99
H. Scheffers[2]	—	40
J.M. Huët	86	82
P. Mars-Wright	103	95
Y. Dervisoglu	70	70
M. Helmes[3]	62	—
	995	990

[1]Stepped down as at 19 April 2018.
[2]Stepped down as at 20 April 2017.
[3]Appointed as at 19 April 2018.

M.R. de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2018 (2017: 100,008 shares). As at 31 December 2018 and 2017, the Supervisory Board members did not hold any of the Heineken N.V. bonds or option rights. M.R. de Carvalho held 100,008 shares of Heineken Holding N.V. as at 31 December 2018 (2017: 100,008 ordinary shares).

Other related party transactions

	Associates & Joint Ventures		FEMSA		Total	
In millions of €	**2018**	2017	**2018**	2017	**2018**	2017
Sales	467	300	1,235	1,168	1,702	1,468
Purchases	271	479	144	168	415	647
Accounts receivables	93	88	274	238	367	326
Accounts payables and other liabilities	40	68	43	42	83	110

There are no significant transactions with L'Arche Green N.V., L'Arche Holding B.V. and Stichting Administratiekantoor Priores.

13.4 HEINEKEN ENTITIES

Control of HEINEKEN

The shares of the Company are traded on Euronext Amsterdam.

Heineken Holding N.V. holds an interest in Heineken N.V. of 50.005% of the issued capital (being 50.516% (2017: 50.514%) of the outstanding capital following the purchase of own shares by Heineken N.V.).

L'Arche Green N.V. holds 52.599% (2017: 52.599%) of the Heineken Holding N.V. shares.

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

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued by Heineken N.V. with respect to legal entities established in the Netherlands. The list of the legal entities for which the declaration has been issued is disclosed in the Heineken N.V. stand-alone financial statements.

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, Heineken N.V. irrevocably guarantees, in respect of the financial year from 1 January 2018 up to and including 31 December 2018, the liabilities referred to in Schedule 3 of the Republic of Ireland Companies Act 2014 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

Significant subsidiaries

Set out below are Heineken N.V.'s significant subsidiaries at 31 December 2018. The subsidiaries as listed below are held by Heineken N.V. and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The disclosed significant subsidiaries represent the largest subsidiaries and represent an approximate total revenue of €15 billion and total asset value of €22 billion and are structural contributors to the business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant subsidiaries of Heineken N.V.

		Percentage of ownership held by Heineken N.V.	
	Country of incorporation	**2018**	2017
Heineken International B.V.	The Netherlands	**100.0**	100.0
Heineken Brouwerijen B.V.	The Netherlands	**100.0**	100.0
Heineken Nederland B.V.	The Netherlands	**100.0**	100.0
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	**100.0**	100.0
Cervejarias Kaiser Brasil S.A.	Brazil	**100.0**	100.0
Bavaria S.A.	Brazil	**100.0**	100.0
Heineken France S.A.S.	France	**100.0**	100.0
Nigerian Breweries Plc.	Nigeria	**56.0**	56.0
Heineken USA Inc.	United States	**100.0**	100.0
Heineken UK Ltd	United Kingdom	**100.0**	100.0
Heineken España S.A.	Spain	**99.8**	99.8
Heineken Italia S.p.A.	Italy	**100.0**	100.0
Brau Union Österreich AG	Austria	**100.0**	100.0
Grupa Zywiec S.A.	Poland	**65.2**	65.2
LLC Heineken Breweries	Russia	**100.0**	100.0
Heineken Vietnam Brewery Limited Company	Vietnam	**60.0**	60.0

13.5 SUBSEQUENT EVENTS

No material subsequent events occurred.

STATEMENT OF THE BOARD OF DIRECTORS

The members of the Board of Directors signed the financial statements in order to comply with their statutory obligation pursuant to Section 101, subsection 2, Book 2, of the Dutch Civil Code and Article 5.25c, paragraph 2 sub c, of the Financial Markets Supervision Act.

Amsterdam, 12 February 2019

Board of Directors
Mr M. Das
Mrs C.L. de Carvalho-Heineken
Mr M.R. de Carvalho
Mr J.A. Fernández Carbajal
Mrs C.M. Kwist
Mr A.A.C. de Carvalho
Mrs A.M. Fentener van Vlissingen
Mrs L.L.H. Brassey

OTHER INFORMATION

Provisions of the Articles of Association concerning appropriation of profit

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

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

Article 10, para. 6: Out of the profit as shown by the income statement adopted by the general meeting, the shareholders shall be paid the same dividend per share as paid by Heineken N.V. for the year concerned, having due regard to the provisions of paragraph 4. If and to the extent that the dividend paid by Heineken N.V. is in the form of a stock dividend, the dividend paid to the shareholders shall also be in the form of a stock dividend. The remainder shall be appropriated to the reserves. The general meeting shall be authorised to make distributions from the reserves.

Remuneration of the Board of Directors

Pursuant to the company's Articles of Association, Article 7, para. 8, remuneration of the members of the Board of Directors, in so far such remuneration does not follow from the remuneration policy as adopted by the general meeting, shall be determined by the general meeting.

Shares held by the Board of Directors

As at 31 December 2018, the Board of Directors represented 151,685,148 shares of the Company.

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements 2018 included in the annual report 2018

Our opinion

We have audited the accompanying financial statements for 2018 of Heineken Holding N.V. ('the Company'), based in Amsterdam. The financial statements include the Company financial statements and consolidated financial statements.

In our opinion:

- The accompanying Company financial statements give a true and fair view of the financial position of Heineken Holding N.V. as at 31 December 2018, and of its result for the year 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying consolidated financial statements give a true and fair view of the financial position of Heineken Holding N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The Company financial statements comprise:

- The Company balance sheet as at 31 December 2018.
- The following Company statements for 2018: income statement and the shareholder's equity.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The consolidated financial statements comprise:

- The statement of financial position as at 31 December 2018.
- The following statements for 2018: the income statement, the statements of comprehensive income, changes in equity and cash flows.
- 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 "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Heineken Holding N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

bij assurance- opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 200 million. The materiality is based on 7.0% of consolidated profit before taxation. 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. Based on our professional judgement we consider an income-based measure as the most appropriate basis to determine materiality. We increased the group materiality as a percentage of profit before taxation compared to the prior year, primarily based on our understanding of the Company and its components and the audit results of our prior year audits. We kept the component materiality levels consistent with the prior year.

Audits of group entities (components) were performed using materiality levels determined in accordance with the judgement of the group audit team, having regard to the materiality of the consolidated financial statements. Component materiality did not exceed EUR 60 million and for the majority of the components, materiality is significantly less than this amount. Component materialities remained consistent with the component materialities applied in prior year audit.

We agreed with the Board of Directors that any misstatements in excess of EUR 10 million identified during the audit, would be reported to them. The same applied to smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Heineken Holding N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Heineken Holding N.V.

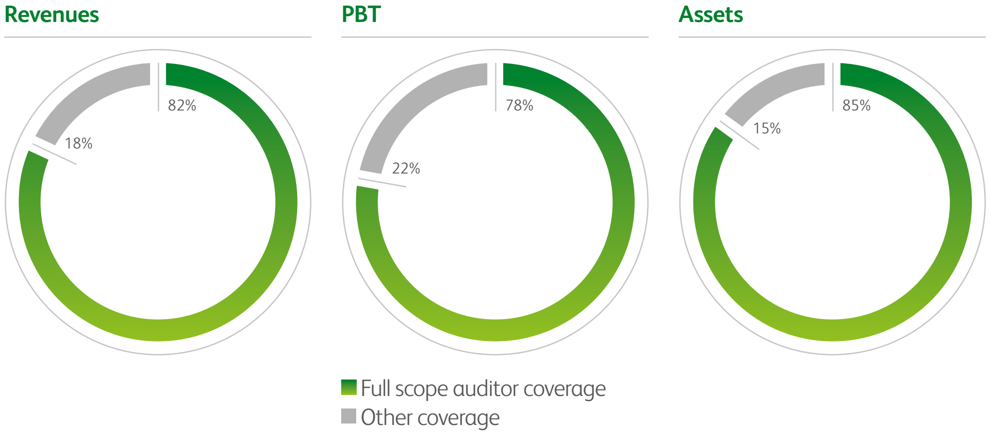
Because we are ultimately responsible for our opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the group entities (components). The components' size and/or risk profiles were decisive. On this basis, we selected components for which an audit or review had to be carried out either on the complete set of financial information or on specific items.

Our group audit mainly focused on significant group entities in terms of size and financial interest or on significant risks or complex activities. This led to full scope audits being 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 of controls. 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 (The Netherlands, Mexico, Brazil, United Kingdom, Spain, France, Russia, Nigeria, Vietnam, Poland, Switzerland, Malaysia, Belgium, Ethiopia and Romania) 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 at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

Risk

In our audit we have determined that promotional allowances and volume rebates are the most relevant risk areas in relation to revenue recognition. In the normal course of business the Company provides discounts, promotional allowances and volume rebates to its on-trade and off-trade clients. Unconditional discounts are recognized at the same moment as the related sales transaction. The Company also provides conditional discounts. They are recognised based on target realisation, as specified in note 6.1 to the financial statements. The target realisation requires judgement and management estimate for sales related accruals as at balance sheet date.

We have also paid specific attention to the implementation of the new revenue recognition standards (IFRS 15) that became effective in the current financial year. The introduction of the new standard. This required management to reassess revenue recognition, which requires significant judgement, including the treatment and presentation of excise taxes. The changes to the accounting policies are disclosed in note 4 (a) to the financial statements.

Because of these risk factors, we have considered revenue recognition to be a key audit matter relevant to our audit of the financial statements.

How the scope of our audit responded to the risk

To address the risks related to promotional allowances and volume rebates, our audit procedures included, amongst others, assessing the appropriateness of the Company's revenue recognition accounting policy for promotional allowances and volume rebates, as detailed in note 6.1 to the financial statements. It also included evaluating controls relating to management's process for determining the value of promotional allowances and the volume rebates. In addition, at group and component level, 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.

With regard to the adoption of IFRS 15, we have evaluated the Company's process to identify the necessary changes in the accounting and presentation of revenues. Together with our component audit teams, we have determined whether all significant revenue streams are adequately considered. Together with an IFRS specialist, we have reviewed the outcome of the IFRS 15 adoption, including related disclosures and footnotes.

Observation

Applying the aforementioned materiality, we have evaluated the accruals for promotional allowances and volume rebates as recorded in the financial statements. Based on our procedures performed, we did not identify any reportable matters in management's valuation of the promotional allowances and volume rebates accrual.

As disclosed in note 4 (a), the adoption of IFRS 15 has not resulted in any changes impacting shareholders' equity and (operating) profit. The restatement of revenues due to the revised presentation of excise taxes, is disclosed in the same note. In addition, a footnote is included in the consolidated income statement to explain the restatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Risk

Intangible assets (including goodwill) and property, plant and equipment amounted to EUR 28,818 million as at December 31, 2018. They represent close to 70 per cent of the Company's total assets. These assets are allocated to Cash Generating Units (CGUs) and groups of CGUs for which management is required to assess the recoverability of the goodwill carrying value annually. Recoverability of other intangible assets and property, plant and equipment is assessed upon the existence of a triggering event.

The company uses assumptions and forecasts in respect of future market and economic conditions, such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development. Further details on the accounting and disclosure requirements under IAS 36 Impairment of assets are included in notes 8.1 and 8.2 to the financial statements. These notes also explain certain impairments recorded in 2018, for a total amount of EUR 153 million.

Procedures over management's impairment test are considered to be a key audit matter, given the level of judgement and complexity involved with the valuation models and assumptions used within these models.

How the scope of our audit responded to the risk

For our audit we assessed and tested the assumptions, the discount rates, methodologies and data used by the Company, for example by comparing them to external data such as expected inflation rates, external market growth expectations and by analysing sensitivities in the Company's valuation model. We included valuation specialists in our team to assist us. We specifically focused on the sensitivity in the available headroom of CGUs and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also obtained supporting evidence for impairments recognized in the year.

We assessed the historical accuracy of management's estimates and tested the effectiveness of the Company's internal controls around the goodwill accounting, including their forecasted financial information. We also assessed the adequacy of the Company's disclosure notes 8.1 and 8.2 in the financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

Observation

We did not identify any reportable matters in management's assessment of the recoverability of intangible assets and property, plant and equipment and the corresponding disclosures in note 8.1 and 8.2.

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

Risk

The Company operates across several tax jurisdictions and is subject to periodic challenges by local tax authorities during the normal course of business, including transaction-related taxes and transfer pricing arrangements. In those cases where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on its judgement of the probable amount of the liability or recovery.

Deferred tax assets for tax losses carried forward are recognized by the Company to the extent that it is probable that future taxable income will be available, against which unused tax losses can be utilized or the extent of the deferred tax liability.

The accounting for uncertain tax positions and deferred tax assets, as detailed in note 12.1 to the financial statements, is significant to our audit because of the level of judgement applied in quantifying appropriate provisions for uncertain tax positions and in determining assumptions about future profitability, as it relates to the recoverability of deferred tax assets.

How the scope of our audit responded to the risk

We obtained a detailed understanding of the Company's tax exposures including current transfer pricing arrangements. Using our own tax specialist, 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 assessed opinions from third party tax advisors. With regards 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 12.1 12.2, 12.3 and 9.3 regarding uncertain tax positions and recognized deferred tax assets.

Observation

We have evaluated the provisions for uncertain tax positions and the valuation of deferred tax assets as well as the related disclosure in notes 12.1, 12.2, 12.3 and 9.3. We have no reportable findings.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Risk	The Company operates various processes and procedures that are important for reliable financial reporting. These processes are operated both centrally and locally. We identified the Company's internal controls over financial reporting as an area of focus, as we consider internal controls over financial reporting as a basis for designing our procedures for the audit. In those instances where accounting procedures, associated IT and process level controls are not designed and/or operating effectively, there are risks associated with financial reporting to which we need to tailor our audit procedures.
How the scope of our audit responded to the risk	We performed audit procedures on both the centrally and locally established process level controls of the Company, including the diverse information technology landscape. We performed walkthroughs to gain an understanding of the entity and to identify relevant controls. We tested the design of those controls and, where effective for the audit, we also tested their operating effectiveness. In cases of deficiencies, we evaluated the compensating controls and measures of the Company and/or tailored procedures our procedures to address the risk. We are, however, neither 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.
Observation	We communicated our observations on internal controls over financial reporting to the Company's audit committee. Where deemed necessary, we mitigated the effect of internal control observations by testing alternative controls or by extending our substantive audit procedures. Overall, we obtained sufficient and appropriate evidence in response to the related financial reporting risks.

Our previous year's auditor's report included 'Acquisition accounting: identification and valuation of intangible assets and valuation of liabilities' as a key audit matter. During 2018 no significant acquisitions or disposals took place. Consequently, we did not include this as a key audit matter in current year's auditor's report.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the Annual report 2018 contains other information that consists of:

- Report of the Board of Directors;
- Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and
- Other information included in the Annual report.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements; and
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of other information, including the Report of the Board of Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the Board of Directors as auditor of Heineken Holding N.V. on April 24, 2014 as of and for the year ending 31 December 2015 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement 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 detect all material errors and fraud during our audit.

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

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public- interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 12 February 2019

Deloitte Accountants B.V.

J. Dalhuisen

INFORMATION

A Heineken Holding N.V. publication

Heineken Holding N.V.

Tweede Weteringplantsoen 5
1017 ZD Amsterdam
The Netherlands

Telephone +31 20 622 11 52

Graphic Design and Electronic Publishing
KentieDesign bno

This Annual Report can be downloaded as a PDF

at: www.heinekenholding.com

Disclaimer

This Annual Report contains forward-looking statements with regard to the financial position and results of HEINEKEN's activities. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond HEINEKEN's ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, changes in consumer preferences, the ability to successfully integrate acquired businesses and achieve anticipated synergies, costs of raw materials, interest-rate and exchange-rate fluctuations, changes in tax rates, changes in law, changes in pension costs, the actions of government regulators and weather conditions. These and other risk factors are detailed in this Annual Report. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. HEINEKEN does not undertake any obligation to update the forward-looking statements contained in this Annual Report. Market share estimates contained in this Annual Report are based on outside sources, such as specialised research institutes, in combination with management estimates.