Heineken N.V.

Annual Report 2018

HEINEKEN

In this year's report

Further information online at:
theHEINEKENcompany.com
- Download the Annual Report
- Find out about HEINEKEN's history
- Explore our countries and brands
- Read more about our sustainability journey

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Highlights

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We are HEINEKEN

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

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

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

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

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

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

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

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

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

We are HEINEKEN.

Chief Executive's Statement

In 2018, we delivered another year of strong top line growth. The Heineken® brand grew 7.7%, its best performance in a decade. Our new brand extension, Heineken® 0.0 has been very well received and is now available in 38 markets worldwide.

The rest of our premium portfolio also grew double digit, led by our international beer brands such as Tiger, Desperados, Birra Moretti and Krušovice, craft and variety beers, and ciders.

In the UK and South Africa, Strongbow flavour variants drove our cider sales growth. We also strongly developed outside traditional markets. In Vietnam, we are establishing the cider category with Strongbow while in Spain our recently introduced Ladrón de Manzanas is off to a promising start.

Craft and variety beers like the low alcohol variant of Affligem and Birra Moretti Regionale performed very strongly. Meanwhile, Lagunitas outperformed the craft segment in the US and continued its international expansion. Originally brewed in Petaluma and Chicago, Lagunitas is now also brewed in the Netherlands in our craft brewery in Wijlre.

In addition to Heineken® 0.0, we introduced innovations in our low- and no-alcohol portfolio which reached 13.1 million hectolitres. In Ethiopia we introduced Sofi Buna, a dark malt drink with local coffee, while worldwide, our Radler portfolio continued to expand.

All regions contributed to our strong performance. Brazil deserves a special mention for strong growth following the integration of our two businesses. An important milestone for the year was the announcement of our strategic partnership with CRE in China, the largest beer market in the world, where Heineken® has strong brand equity and where CRE is market leader by volume.

The first time consolidation of our Brazil business, rising input costs and adverse currency developments slightly impacted our operating profit margin.

We have progressed with our Brewing a Better World commitments. Already at the end of 2017 we surpassed our 2020 carbon emissions targets. In 2018 emissions further reduced to 5.5 kg CO_2 equivalent per hectolitre, which represents a 47% decrease since 2008. In February 2018, we announced our new Drop the C programme. Our ambition is that 70% of all our electric and thermal energy needs in production will be covered by renewable sources by 2030. During the year, we embarked on the first 13 renewable projects of this programme. Today, 15% of our electric and thermal energy sources are renewable.

Because we have also already reached our 2020 water commitments, later this year we will announce Every Drop, our 2030 water vision. Our average water consumption at the end of 2018 was 3.5 hectolitres of water per hectolitre of beer, a reduction of 32% compared to 2008 and 3.2 hectolitres of water per hectolitre of beer for water-stressed areas. At the end of 2018, 96% of our effluents were treated worldwide.

In 2018, our 'When You Drive, Never Drink' campaigns continued to receive significant exposure through the Formula 1™ partnership. In 69 markets around the world, we dedicated at least 10% of Heineken® media spend to Responsible Drinking campaigns.

We regularly review our codes and policies and in 2018 we refreshed the Code of Business Conduct, including our Human Rights Policy and Responsible Marketing Code. The Code and underlying policies were rolled-out in all operating companies and in 38 languages. Since 2016, we have worked with human rights experts Shift to identify and address human rights-related risks in our operations in line with UN Guiding Principles on Business and Human Rights.

In 2018, we also renewed our Brand Promoters Policy. We implemented this policy between June and December, incorporating the feedback and recommendations made by brand promoters, NGOs and three independent assessors.

Looking ahead to 2019, we will continue to strive for superior top-line growth driven by volume growth, price increases and premiumisation. We expect volatility in economic conditions will continue and plan to partially mitigate input and logistics cost increases through productivity measures and prudent spend. Consequently, excluding any major unforeseen macro-economic and political developments, we now expect operating profit (beia) to grow by mid-single digit on an organic basis.

Our strategic priority is biased towards growth. This can only be achieved through continued focus on innovation, operational excellence and social and environmental sustainability, so consumers can enjoy our brands, our customers' expectations are exceeded and we continue to enjoy the trust of the communities in which we operate.

Already in full speed in 2019, I want to express my gratitude to my colleagues, customers and suppliers for a great 2018.

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

Amsterdam, 12 February 2019

Performance highlights

Consolidated beer volume
(in millions of hectolitres)

233.8mhl

Heineken® volume
(in millions of hectolitres)

38.7mhl

Financial summary highlights

Net revenue (beia)[1]
(in millions of €)

€22,471m

2018	**22,471**
2017	21,629
2016	20,792
2015	20,511
2014	19,257

Operating profit (beia)
(in millions of €)

€3,868m

2018	**3,868**
2017	3,759
2016	3,540
2015	3,381
2014	3,129

Operating profit (beia) margin[2]
(in percentages)

17.2%

2018	**17.2**
2017	17.4
2016	17.0
2015	16.5
2014	16.2

Net profit (beia)
(in millions of €)

€2,424m

2018	**2,424**
2017	2,247
2016	2,098
2015	2,048
2014	1,758

Sustainability summary highlights

Carbon emissions

47%

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

Water consumption

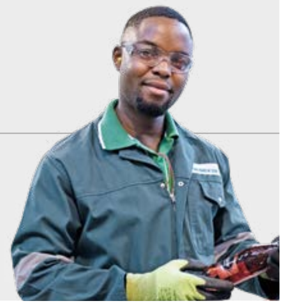
32%

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

Safety

18%

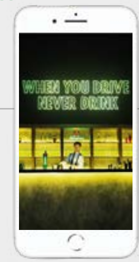
reduction in accident frequency since 2015 (1.13 accidents per 100 FTE in 2018)



Responsible consumption

96%

of markets where we sell Heineken® allocated 10%, or more, of Heineken® media spend to responsible consumption campaigns



[1] Figures shown before 2017 are 'Revenue'. As of 2017 'Net revenue' is shown due to changes in accounting policy on revenue (IFRS 15).
[2] As of 2017 restated due to changes in accounting policy on revenue (IFRS 15).

Key figures[1]

Consolidated results

In millions of €	2018	2017	Change in %
Revenue[2]	26,811	25,843	3.7%
Revenue (beia)[2]	26,811	25,863	3.7%
Net Revenue[3]	22,471	21,609	4.0%
Net Revenue (beia)[3]	22,471	21,629	3.9%
Operating profit	3,137	3,352	(6.4)%
Operating profit (beia)	3,868	3,759	2.9%
Net profit	1,903	1,935	(1.6)%
Net profit (beia)	2,424	2,247	7.9%
EBITDA	5,040	4,949	1.8%
EBITDA (beia)	5,235	5,115	2.3%
Dividend (proposed)	912	838	8.8%
Free operating cash flow	2,246	2,031	10.6%

Balance sheet

In millions of €	2018	2017	Change in %
Total assets	41,956	41,034	2.2%
Shareholders' equity	14,358	13,321	7.8%
Net debt position	12,081	12,879	(6.2)%
Market capitalisation	44,055	49,607	(11.2)%

Per share

	2018	2017	Change in %
Weighted average number of shares – basic	570,146,069	570,074,335	0%
Net profit	3.34	3.39	(1.5)%
Net profit (beia)	4.25	3.94	7.9%
Dividend (proposed)	1.60	1.47	8.8%
Free operating cash flow	3.94	3.56	10.7%
Shareholders' equity	25.18	23.37	7.7%
Share price	77.20	86.93	(11.2)%
Weighted average number of shares – diluted	570,663,632	570,652,111	0%
Net profit (beia) – diluted	4.25	3.94	7.8%

Employees

	2018	2017	Change in %
Average number of employees (FTE)	85,610	80,425	6.4%

Ratios

	2018	2017	Change in %
Operating profit (beia) as a % of net revenue[3]	17.2%	17.4%	-17 bps
Net profit as % of average equity attributable to equity holders of the Company	13.8%	14.6%	(5.5)%
Net debt/EBITDA (beia)	2.3	2.5	(8.3)%
Dividend % payout	37.6%	37.3%	0.9%
Cash conversion ratio	84.2%	81.1%	3.7%

[1] (beia) is before exceptional items and amortisation of acquisition-related intangible assets. Please refer to the Glossary section for an explanation of non-GAAP measures and other terms used throughout this report.
[2] 2017 revenue has been restated due to changes in accounting policy on revenue (IFRS 15).
[3] Net revenue was introduced in 2017 due to changes in accounting policy on revenue (IFRS 15).

HEINEKEN as part of society – Creating shared value, from Barley to Bar

Our ambition is to Brew a Better World across our entire value chain, creating shared value for our stakeholders and us, and contributing to the UN Sustainable Development Goals.

Agriculture

Our beer and cider are made from natural ingredients which we source with care. We work with farmers worldwide to support the sustainable cultivation of raw materials to brew our products.

Brewing

Brewing beer and making cider is a craft. We operate more than 170 breweries, malteries, cider plants and other facilities. We work constantly to reduce our CO_2 emissions and water consumption and increase the share of renewable energy we use.

Packaging

Packaging enables our brands to stand out. We aim to offer consumers a unique experience while innovating to reduce the environmental impacts of our packaging.

Distribution

The majority of our products are consumed in the countries where they are produced. We work hard to optimise our distribution network and limit its environmental impacts.

Customers

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

Consumers

Every day, millions of consumers enjoy one of our more than 300 brands, from premium beers to ciders and low- and no-alcohol products. We want to make sure they do so responsibly.

Employees

Our Barley to Bar journey is supported by over 85,000 employees in more than 70 countries. We strive to provide safe and fair working conditions and increase our diversity.

Suppliers

Throughout our value chain, we develop long-term partnerships with our suppliers to build a sustainable future and grow together.

Communities

We aim to make a positive contribution to the communities where we source, live, work and sell our products – both through our core business and our initiatives.

Our Brewing a Better World approach supports the following **SDGs:**

Every Drop: Protecting water resources
6 CLEAN WATER AND SANITATION

Drop the C: Reducing CO_2 emissions
7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Sourcing sustainably
2 ZERO HUNGER
8 DECENT WORK AND ECONOMIC GROWTH

Advocating responsible consumption
3 GOOD HEALTH AND WELL-BEING
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Promoting health and safety
3 GOOD HEALTH AND WELL-BEING
8 DECENT WORK AND ECONOMIC GROWTH

Growing with communities
3 GOOD HEALTH AND WELL-BEING
6 CLEAN WATER AND SANITATION

Executive Team

Photo taken at the Heritage Quarter (newly opened in 2018) at the Heineken Experience in Amsterdam.

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

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

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

3 **Marc Busain**
President Americas

4 **Dolf van den Brink**
President Asia Pacific

5 **Stefan Orlowski**
President Europe

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

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

8 **Marc Gross**
Chief Supply Chain Officer

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

10 **Blanca Juti**
Chief Corporate Affairs Officer

Further information online at:
theHEINEKENcompany.com

Our business priorities

The HEINEKEN strategy is built around four business priorities for action.

They are designed to enable the Company to win in the marketplace, focus on the long-term sustainability of our business and continue delivering growth and shareholder value.

Our business priorities (continued)

Deliver top line growth

Our strategy remains the same: to lead the premium segment in beer and cider across the world and leverage the strength of Heineken®, supported by a strong portfolio of international premium and local brands. Our goal is to be the number one, or a strong number two, in the markets where we compete with a full brand portfolio.

Heineken® and international brands growth

In 2018, the Heineken® brand continued to outperform. Volumes grew strongly by 7.7%, which is the best performance in over a decade.

Our international brands portfolio is comprised of a strong group of premium brands that complements Heineken® and taps into consumer appetite for diversity, new taste and brand experiences, and unique stories. These brands are Amstel, Desperados, Sol, Tiger, Tecate, Red Stripe, Krušovice and Birra Moretti. They continue to be a strong driver of premium revenue growth with double digit growth outside their home markets.

Consumer trends and behaviours

Consumer tastes and preferences continue to evolve and shape our industry. The most noticeable change has originated from the popularity of craft beer, but more gradual changes have emerged from changing demographics and a growing awareness of health and wellbeing.

Craft and variety is an important category for us that complements the growing international premium beer segment. It has put beer at the centre of the conversation among a broader group of discerning consumers. Around the world, consumers are seeking more variety and our consumer-oriented approach has increased our understanding and accelerated the international growth of our craft and variety range. This is led by iconic international craft brands such as Affligem, Mort Subite and Lagunitas, and supported by craft line extensions such as Brand IPA in the Netherlands, and Birra Moretti Regionale in Italy, strong local craft brands such as Beavertown in the UK and La Cibeles in Spain.

The relatively recent trend towards health and wellness in the developed world is driving growth in low- and no-alcohol drinks. Consumers are demanding more variety and we continue to innovate with low- and no-alcohol beers, Radlers, dark and clear malts and malt-based energy drinks. Volumes in our low- and no-alcohol portfolio increased mid-single digit, delivering 13.1 million hectolitres in 2018 (2017: 12.5 million hectolitres). In Europe, volumes grew high single digit.

Continue to shape the cider category

The trend towards variety in flavours and tastes means cider is the fastest growing category in alcohol. Albeit still small in size, we are shaping the category in many markets where modern cider is new, such as in Spain, Vietnam and Mexico. We are strengthening our position in more developed cider markets such as South Africa and Ireland with our global brands Strongbow and Orchard Thieves. Active in over 40 markets, our consolidated cider volume increased double digit, including the UK, to reach 5.6 million hectolitres (2017: 4.9 million hectolitres), with more than 2 million hectolitres outside the UK.

E-commerce and digital marketing

E-commerce and innovation are important for us. As new developments affect the shape of the beer industry's route to market, being close to the consumer and to customers is critical. We are creating new opportunities through our B2C and B2B e-commerce platforms (see page 15) and other digital commerce initiatives.

Our brands and e-commerce are the drivers of our top line growth…

HEINEKEN has more than 300 brands around the world. Over the following pages we take a closer look at just some of the brands which are continuing to deliver top line growth for the business.

Our global brand – Heineken®

Our international brands portfolio

Our low- and no-alcohol brands

Our international craft and variety brands

Our global cider portfolio

Our e-commerce and digital marketing

Further information about our brands at:
theHEINEKENcompany.com/Brands

Our business priorities (continued)
Deliver top line growth – Global brand

Heineken®
The world's most international beer brand

In 2018, Heineken® posted an exceptional 7.7% volume growth. This is our best performance in over a decade, driven by our operating companies around the world – from the smallest to the largest.

Heineken® global sponsorships

Heineken® expanded its portfolio of world-class sponsorships, adding electric street racing series, Formula E, to a list that already includes UEFA Champions League, Formula One™, Rugby World Cup and James Bond.

New Heineken® communication strategy

We evolved our marketing strategy, aiming to be more relevant to the millennial generation. We want to provide a fresh point of view through inspirational, light-hearted and universal messaging that will encourage consumers to enjoy life to its fullest.

Heineken® packaging design

We redesigned the iconic Heineken® packaging to dial up our brewing credentials and on-shelf visibility.

Our business priorities (continued)
Deliver top line growth – International brands

Amstel
Growing regional beers into celebrated international brands

Amstel is *The World's Local Beer*. As our second most international beer brand after Heineken®, available in over 110 markets, Amstel has reached a volume of over 12.5 million hectolitres per year. In 2018, Amstel grew double digit in Brazil, Russia and the UK.

Amstel Ultra in Mexico
In July 2018, Amstel Ultra was successfully launched in Mexico with a focus on the Northern region. The proposition caters to those who want to maintain an active lifestyle and still enjoy a great tasting beer (85 calories and 2.4g of carbs).

Amstel lands in Asia!
We launched Amstel as an accessible premium brand in India and Vietnam, leveraging Amstel's international stature and brewing credentials.

Amstel sponsorships: UEL and Copa Libertadores
Amstel is the sponsor of the UEFA Europa League and the Conmebol Libertadores Bridgestone Cup in Latin America, growing Amstel successfully in Brazil.

Our international brands portfolio
Our international brands portfolio strengthens our presence in the premium segment by tapping into consumer appetite for diversity, unique stories, purpose and new brand experiences.

Our business priorities (continued)
Deliver top line growth – Low- and no-alcohol

Heineken® 0.0
Championing changing lifestyles and consumption habits with a brand that doesn't compromise

The growth of the low- and no-alcohol segment is expected to continue and our ambition is to be the leader in this space. We aim to do so by being at the forefront of taste innovation and leveraging the cultural shift towards a healthy, balanced lifestyle.

Consumer demand for variety and choice

To meet growing consumer demand, we innovated within the low- and no-alcohol category to offer our customers an expanding variety of brands and choices. Heineken® 0.0 is now available in 38 markets around the world. We discovered that the market for great tasting alcohol-free beer is very strong, and further expansion of Heineken® 0.0 is planned for 2019 and beyond.

When You Drive, Never Drink

Heineken® 0.0 plays an important role in our 'When You Drive, Never Drink' campaign, and our sponsorship of Formula 1™ provides a unique platform for sharing our responsible consumption message.

Innovatively growing our low- and no-alcohol portfolio

Our low- and no-alcohol category is benefiting from consumer trends towards alcohol moderation and natural, health-conscious lifestyles. Our distinct portfolio in this category is growing, ranging from non-alcoholic beers and radlers to malt beers, with an innovative focus on malt-based energy beverages. We now offer approximately 325 low- and no-alcohol products across 125 brands.

Our business priorities (continued)
Deliver top line growth – Craft and variety

Lagunitas
Meeting consumers' growing preference for choice and taste variety in beer

Lagunitas was founded in California in 1993 by beer-lovers with a vision to spread their enthusiasm for craft beer. We have accelerated our international roll-out of Lagunitas, doubling its international volume. Lagunitas IPA is now available in over 25 markets.

Lagunitas Beer Circus
The Lagunitas Beer Circus is the ultimate Lagunitas celebration of beer and the freedom to be yourself! It is an immersive beer festival full of circus performances and the hottest live music in town. The Lagunitas Beer Circus travelled to London in August 2018 to a sell-out crowd.

Lagunitas TapRoom goes international
Lagunitas' first ever TapRoom outside of the US opened in Amsterdam, called TapKabinet. In the TapRoom, consumers step out of the daily hustle and bustle and into Lagunitas' fuss-free, friendly routine to experience great Lagunitas beer.

Our international craft and variety brands
Consumers around the world are seeking more choice and taste variety, and it is important we have the right brands available:

Our business priorities (continued)

Deliver top line growth – Cider

Orchard Thieves

Revitalising the cider market with new brands that speak locally

HEINEKEN is the word's biggest cider producer, answering the demand of a growing number of consumers who are discovering the appeal of cider. Not only are we leading the way, we are shaping the cider category with the expansion of our global and local brands.

Consumer appeal of cider

Tapping into many of the macro consumer trends that drive consumption, such as varied taste preferences and wide demographic appeal, cider will continue to grow. Cider is perceived as a natural, light, and refreshing alternative to other drinks categories. It appeals to 20% of alcohol consumers globally who do not like beer – making it well placed to source volume from ready-to-drink beverages, wine and spirits.

Our global cider portfolio

A complementary portfolio of cider brands including:

- Strongbow Apple Cider
- Orchard Thieves Cider
- Stassen
- Bulmers
- Old Mout

Conquering the world

Orchard Thieves was born in New Zealand, grew up in Ireland, and is quickly conquering the world. It is our 'glocal' brand, available in 21 markets. With 70% year-on-year growth, the brand is thieving sales and share wherever it goes.

A Strongbow future

Strongbow Apple Cider is outperforming in solid markets such as South Africa and in new markets like Vietnam and Mexico. With new innovations like Rosé Apple, new packaging and impactful marketing campaigns, the future of Strongbow looks bright.

Our business priorities (continued)

Deliver top line growth – E-commerce and digital marketing

E-commerce and digital marketing

To win, it is vital we get close to customers and consumers

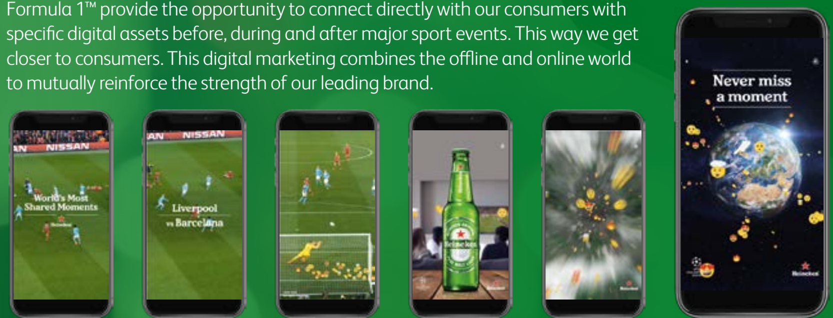
As digital innovation reshapes the beer industry's route to market, being close to the consumer is paramount. The marketing mix must include digital, but attention can be lost with the swipe of a thumb; engaging and creative content is essential. Our B2B and B2C e-commerce platforms allow us to get close to consumers and customers.

THE SUB®

The HEINEKEN SUB® is sold online and marries leading industrial design with our premium and craft beers in Europe and the US, enabling consumers to dispense the perfect draught pint in their home. It is driving growth in the at-home market in all four of our regions, helping to build direct relationships with consumers.

Heineken® digital marketing

Our Heineken® brand sponsorships of the UEFA Champions League and Formula 1™ provide the opportunity to connect directly with our consumers with specific digital assets before, during and after major sport events. This way we get closer to consumers. This digital marketing combines the offline and online world to mutually reinforce the strength of our leading brand.



Beerwulf

Beerwulf is one of our e-commerce platforms and the largest online specialty and craft beer webshop in the Netherlands. Rolled out in Belgium, the UK, France and Germany, it is creating opportunities to reach new consumers and increase loyalty.

Our business priorities (continued)
Drive end2end performance

HEINEKEN is leveraging the global scale of its operations to deliver increased efficiencies across the business.

Consumers and customers in focus

End2end means embracing a consumer mindset across the entire value chain to quickly and flexibly adapt to their changing needs while striving for operational excellence. Exploring digital opportunities will form a key element.

Leveraging our global scale

In 2018, we continued to innovate to tap into consumer needs. By growing capabilities across our worldwide operating companies, we increased our speed to market. For instance, 18 of our brands are now available in the Blade, our countertop draught system designed for retail without full fledged draught equipment. We also accelerated the availability of Heineken® 0.0 in new markets.

Our Worldwide Centres of Excellence involve approximately 500 experts who support best-in-class standards by sharing knowledge, best practice and innovation. We simplified our continuous improvement process management (TPM), bringing it more in line with our business needs, and prioritised customer service excellence with Global Commerce and our operating companies.

Investments to fuel growth

End2end supports our organic growth by optimising our brewery footprint. We are deploying new technologies to increase capacity and integrate newly acquired companies. In 2018, we continued to invest in developing markets. In Mozambique, we broke our construction record by building a new brewery within one year.

We used digital applications to pioneer real time performance management and to focus on energy saving. We extended our Kilinto brewery in Ethiopia and increased capacity to three million hectolitres in Cambodia. In Mexico, we completed our new Meoqui brewery and adopted circular economy principles to meet the latest sustainability requirements.

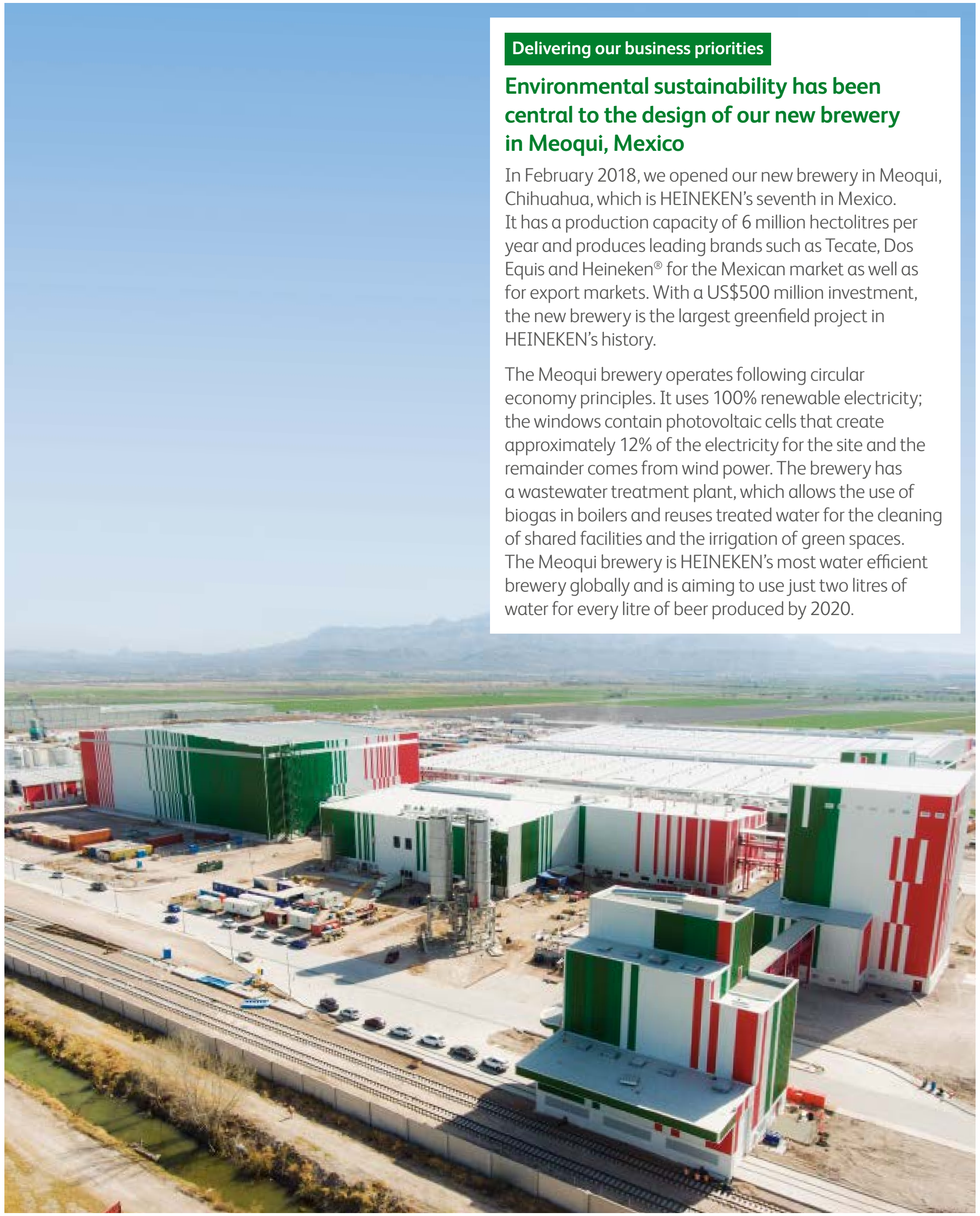
We continued to build strategic partnerships with our customers. A focus on our local supplier base is helping us develop local networks by identifying and differentiating the right service providers.

We made further progress on our BASE programme. Standardising core business processes in Finance, Procurement, Production, Logistics and Sales, supported by Enterprise Resource Planning (ERP) systems, is making HEINEKEN more agile and efficient. The first eight operations (including a greenfield site) went live in 2018 without business interruption and we plan to have deployed BASE in Asia Pacific, Africa, Middle East & Eastern Europe and the Caribbean by 2020.

Driving end2end transactional services

As part of our SHARPER Transformation programme, we saw an improvement in our performance and productivity of our finance processes in 2018.

Through our end2end approach, we have improved collaboration and internal processes between operating companies, HEINEKEN Global Shared Services and Global Functions. This has also resulted in better cooperation with customers and suppliers.



Delivering our business priorities

Environmental sustainability has been central to the design of our new brewery in Meoqui, Mexico

In February 2018, we opened our new brewery in Meoqui, Chihuahua, which is HEINEKEN's seventh in Mexico. It has a production capacity of 6 million hectolitres per year and produces leading brands such as Tecate, Dos Equis and Heineken® for the Mexican market as well as for export markets. With a US$500 million investment, the new brewery is the largest greenfield project in HEINEKEN's history.

The Meoqui brewery operates following circular economy principles. It uses 100% renewable electricity; the windows contain photovoltaic cells that create approximately 12% of the electricity for the site and the remainder comes from wind power. The brewery has a wastewater treatment plant, which allows the use of biogas in boilers and reuses treated water for the cleaning of shared facilities and the irrigation of green spaces. The Meoqui brewery is HEINEKEN's most water efficient brewery globally and is aiming to use just two litres of water for every litre of beer produced by 2020.

Our business priorities (continued)
Brew a Better World

Doing business around the world comes with a responsibility that reaches beyond running an efficient and profitable business. That is why we have made sustainable development part of our overall business strategy and why we want to contribute to delivering the UN Sustainable Development Goals (SDGs).

To develop successful brands that people trust, we aim to make a positive contribution to the environment, local communities and wider society. In 2018, we made steady progress towards reaching our 2020 Brewing a Better World targets. We also began to look beyond 2020 and started shaping our sustainable development strategy for 2030.

Drop the C
We launched our Drop the C programme in 2018 with the aim of reducing our CO_2 emissions by 80%* and using 70% of renewable energy in production by 2030. We have started a number of projects to drive us towards these targets looking into biomass and biogas, wind and solar energy. Meanwhile, we are ahead of our 2020 carbon reduction targets in production and cooling. Emissions in distribution also continue to decrease, although we need to do more to achieve our 2020 ambition.

Every Drop
In 2018, we continued to decrease our water consumption and reached our 2020 target. By the end of the year, 96% of wastewater was treated and we expanded our water balancing initiatives. Now, we are raising our ambition; in 2019, we will launch our new water strategy, Every Drop, and increase efforts towards supporting watershed health in the areas where we operate, particularly those which are water-stressed.

Advocating responsible consumption
Making moderation cool is core to our strategy. We use our marketing power, sponsorships and partnerships to address consumers directly and we conduct behavioural research on drink driving to develop effective messages and campaigns.

We believe that consumers should have access to ingredient and nutrition information for our products. Ahead of industry and regulation, we made this information available for 95% of our beers and ciders worldwide in 2018. Our expanding offer of over 325 low- and no-alcohol products across 125 brands allows consumers to make right choices when they should not, or do not want to, drink alcohol.

Safety
Safety is a top priority for us. Our accident frequency rate has decreased since 2015 but we have more to do while serious accidents and fatalities still happen. We proactively identify safety risks across our business and develop actions to address them. We also understand that providing a safe working environment goes beyond implementing tools and programmes. Adopting the right safety behaviours among employees and contractors is an equally important part of our work in this area.

Human rights
In 2018, we revised our global Human Rights Policy and researched the challenges and salient risks our business faces. As a result, we have set clear guiding principles for our employees and suppliers and we are taking action to address the risks. Respecting and protecting the human rights of everyone who directly or indirectly works for HEINEKEN requires ongoing attention and we will continue to work with external experts, such as Shift, to monitor our progress.

For more on our Brewing a Better World commitments and performance, please turn to the Sustainability Review on **page 119**. More in-depth information can be found in the sustainability section of our Company website.

*Baseline 2008

Brewing a Better World in action

Restoration of wetland lagoons
Water balancing in Spain continues with the restoration of four lagoons and surrounding ecosystems in the Doñana wetlands, the largest biodiversity area of Europe and an important resting place for migrating birds and other animals. According to a study by the University of Granada, the project will return more than 1 million m^3 water to the environment.

Supporting local sourcing
37% of agricultural raw materials used in Africa and the Middle East were sourced within the region in 2018. This was below our expectations and we continue to face challenges sourcing the local ingredients in the format our breweries need. Our local sourcing initiatives continued to support thousands of smallholder farmers to increase productivity, improve food security and to sell their surplus production in local markets. We remain fully committed to developing sustainable agricultural value chains in Africa (see more on page 132).

Our business priorities (continued)
Brew a Better World – Drop the C

Drop the C

In 2018, we reached our 2020 carbon emissions target for production ahead of time, reducing relative emissions[1] by 47%. However, climate change remains one of the most critical issues facing society and greenhouse gas emissions are still on the rise.

We feel strongly that we must all take responsibility for our share in the effort to cut greenhouse gas emissions and commitments set by the COP 21 Paris Agreement. Through our Drop the C programme, we aim to reduce emissions across our entire value chain. In 2018, we set ambitious targets for production (see inset). We are now turning our attention to logistics, packaging and cooling.

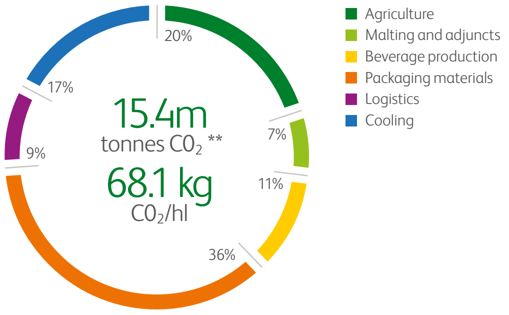
These are challenging areas because a lot of our emissions come indirectly through our suppliers' and sub-contractors' activities. By working together, with a clear shared goal in mind, we can go further than by working alone. It is through cooperation and partnerships that we will continue to reduce our carbon emissions, from Barley to Bar.

HEINEKEN's 2017 carbon footprint

In 2018, we reassessed* our carbon footprint, last published in 2015. It shows our carbon emissions across the whole value chain.

The new figures show an increase in our carbon footprint from 64.1kg CO_2-e per hl in 2014 to 68.1kg CO_2-e per hl[2]. This is due to changes in calculation methodologies[3] and our use of direct data to calculate Scope 3 emissions.

Most importantly, it shows a decrease in emissions in the areas where we have reduction policies in place: production (-15%), logistics (-22%) and cooling (-13%). This proves that, when we consistently implement targeted programmes, we achieve meaningful results.



* Based on 2017 data.
** Extrapolated to 100% of companies. 12.9t CO_2 for 84% of companies in scope.

Drop the C – 70% Renewable Energy in production by 2030

In February 2018, we committed to reducing our CO_2 emissions in production by 80% vs 2008. Through our global Renewable Energy programme, we will increase the share of electric and thermal renewable energy in production to 70% by 2030. Teams around the world have been working to develop projects that will deliver our ambition. Many projects have been identified – from using biogas from wastewater treatment plants in Nigeria to generating energy from biomass in Indonesia. The first projects started in 2018.

Other footnotes for sustainable development focus areas are presented on page 154.

Our business priorities (continued)
Engage and develop our people

In a world that is changing rapidly, our people and our culture remain our two most critical differentiators. How we engage and develop our people will enable us to achieve our ambition of being a proud and independent global brewer, committed to long-term value creation.

People are at the heart of our Company. Their engagement, capability and diversity drives our continued performance and success. We are progressing on the four key elements of our people agenda across all our regions, operating companies and functions. These are:

- Develop great business driven leaders
- Grow our talent pipeline at all levels
- Build critical capabilities and strengthen functional excellence
- Leverage diversity and our culture

Develop great business driven leaders

The demands placed on our leaders are evolving because times are changing. How we continue to develop leaders for the future remains a priority for our business and our culture. Our Leadership Expectations, which simply explain what it takes to lead HEINEKEN into the future, have now been deployed to all our people leaders globally and are embedded in our key people processes. Over 3,000 leaders have completed 360˚ feedback against this framework. Leadership development is supported by the deployment of our General Manager and Management Team member Profiles of Success to better shape capability development and succession planning for these key roles.

We continued to work with INSEAD Business School on our flagship development programme for senior high potential leaders.

Last year, 88 of our leaders from across the world attended the two week on-campus programme exploring our key strategic and leadership challenges. Executive Team members continue to play an active part in the delivery of this important programme.

We are working on the design of our next senior leadership campus which will focus on the demands of an increasingly complex and fast changing world, including our response to digital disruption, engaging a multi-generational workforce and changing societal expectations.

Grow our talent pipeline at all levels

We are making good progress in developing our talent pipeline. The number of top talents increases each year throughout the organisation and among the Senior Manager population as a result of improved calibration and potential identification.

We pay special attention to building talent and leadership capability in emerging market regions like Asia and Africa. For example, in our Africa region we conducted a Talent Management Maturity Assessment across all of our operating companies to help identify and drive the right talent management approach for their business in a disciplined way, with supporting action plans in place.

Finally, we continue to evolve our approach to attract great external talent through our refreshed external employer brand campaign, Go Places!

Delivering our business priorities

Female role models in HEINEKEN Supply Chain

Women Like Us is a monthly global webcast aimed at inspiring listeners by showcasing the personal stories of female role models across HEINEKEN's supply chain organisation. Together with our other initiatives on inclusion and diversity, these events have been very well received by our female leaders – 95% of those who attended recommend the webcasts to other colleagues.

As one of our leaders commented:

"It is good to know about the experience of other women in HEINEKEN's Supply Chain department; it helps us to believe in ourselves and see that we can also do it".

Our business priorities (continued)
Engage and develop our people (continued)

Delivering our business priorities

ACCELERATE

ACCELERATE is HEINEKEN's new global leadership development programme, rolled out across all regions. It is designed to equip high-potential leaders with the skills and insights they need to shape and drive the future of our business in a fast changing, complex and increasingly competitive world. Over a nine-month learning period, participants experience a range of delivery methods including: a kick-off by the Regional President; experiential digital activities; a three day, face-to-face programme; a work-based stretch assignment; peer challenge; and personal one-to-one professional coaching support.

Build critical capabilities and strengthen functional excellence

We continue to operate in a very competitive and fast moving environment where developing key strategic capabilities and driving functional excellence in a disciplined way is becoming part of how we do business. Operating companies and functions have defined their critical capabilities to win as part of their People Plans and significant investment is underway. We continue to focus our efforts on digital, end-to-end management in supply chain and revenue management.

At the same time, we maintain our focus on developing strong functional excellence and getting the basics right across all our disciplines.

Leverage diversity and our culture

We understand the importance of having a diverse workforce as a key driver of innovation, creativity and business performance. Starting with inclusion as the key to unlocking our diverse workforce will ensure we create an environment that appreciates and values the different contributions a diverse workforce can bring.

To this end, we have deployed inclusive leadership workshops to our top leaders, we are building an ambassador community to support our local markets with their Inclusion & Diversity action plans, and we will continue to address our plans to increase the number of women in senior leadership positions. Finally, we have incorporated an inclusion index as part of our annual climate and engagement survey, which is a key barometer for how we are doing across our culture. For 2018, our employee engagement scores continue to rank us in the top quartile of companies against the external benchmark.

Regional Review

Our balanced geographical footprint

Wherever you are in the world, you are able to enjoy one of our brands.

We own, market and sell more than 300 brands in 190 countries.

Regional Review (continued)

Africa, Middle East and Eastern Europe

Our volume growth was positive, despite a continued challenging trading environment across the region. Growth was particularly strong in Russia, South Africa and Ethiopia.

Key brands: Heineken®, Primus, Amstel, Walia, Soweto

In 2018, macro economic challenges continued in the region, albeit more stable compared to last year. However, increased inflation and currency pressure weighed on performance, particularly in Nigeria. In Egypt, we saw a return to volume growth driven by a relatively stable macro-economic environment and increased tourism.

Heineken® performed well in Africa, Middle East and Eastern Europe, in particular in South Africa, Nigeria and Russia. Our business in South Africa delivered strong growth for Heineken®, as the brand leads the premium segment and provides consumers with refreshing moments. In Rwanda, we started the local production of Heineken® in our brewery.

Heineken® continues to see strong growth in Russia, which is also one of our largest markets globally for Heineken® 0.0.

In Nigeria, our business embarked on a transformation exercise and a review of its operations, with emphasis on improving our route-to-market, streamlining the portfolio of brands, cutting costs and building an agile organisation that can more effectively respond to changing market dynamics.

In Ethiopia, our Walia brand continued to perform, delivering double digit volume growth. We successfully completed the extension of our Kilinto brewery, adding additional capacity.

In South Africa, our Strongbow cider brand showed continued momentum and performed very well, out-pacing our expectations and growing the overall cider category with the Red Berry flavour variant.

Our cider brands benefited from new local production capacity, greatly improving the profitability of the category. Our South African Soweto brand saw strong performance as it resonates well with local consumers.

In Russia, both Affligem and Krušovice performed very well. We successfully launched our local Russian version of Orchard Thieves. In the third quarter of 2018, we announced a long-term partnership agreement with Molson Coors for the distribution of Miller Genuine Draft and Staropramen in Russia. The deal gives us the exclusive rights for the manufacture, sales and distribution of Miller Genuine Draft and Staropramen from January 2019.

Our balanced portfolio of premium, mainstream and economy brands is a key part of our success in the region. We continued to invest in our existing brands and in product innovation. We increased our footprint in Africa and completed our brewery in Mozambique.

Our low- and no-alcohol category continues to perform well in the region with our established malt based beers, but also our innovations such as Star Radler in Nigeria, Walia Radler and Sofi Buna, a coffee-flavoured malt beer in Ethiopia.

41.7mhl (2017: 40.1mhl)
Consolidated beer volume

17.8% (2017: 18.4%)
Consolidated beer volume as % of total

6.5mhl (2017: 5.2mhl)
Heineken® volume

€3,051m (2017: €3,028m)
Net revenue (beia)

€411m (2017: €388m)
Operating profit (beia)

10.3% (2017: 9.9%)
Operating profit (beia) as % of total

Extending our footprint with a brewery in Mozambique

Our Mozambique greenfield brewery has been completed, enabling us to offer consumers locally brewed beers made by Mozambicans for Mozambicans.

Providing solar powered lighting to local communities in Rwanda

Bralirwa, our business in Rwanda, invested in and collaborated with the Ministry of Local Governance and Rwanda Energy Group to provide solar energy to 283 families living near the Bramin farm, where Bralirwa grows the agricultural raw materials it needs to produce its products.

Regional Review (continued)
Americas

We delivered strong revenue and profit growth in the Americas, driven by our focus on top line growth, maintained cost initiatives and Excellent Outlet Execution. The Heineken® brand performed particularly well, most notably in Brazil and Mexico, more than offsetting the decline in the US.

Key brands: Heineken®, Tecate Light, Lagunitas, Schin, Red Stripe

Brazil, Mexico and Haiti delivered strong results. The region successfully expanded volumes, revenue and profit in 2018.

In Mexico, we continued to deliver robust volume growth with excellent growth from Tecate and Dos Equis, and double digit growth of Heineken®.

Our acquisition of Brasil Kirin in 2017 broadened our reach across Brazil and the performance of our extended premium beer portfolio – led by Heineken® and including Sol, Eisenbahn and Baden Baden – grew strongly. Our mainstream brands, Amstel and Devassa, also continued to deliver strong double digit growth. The ongoing arbitration between Cervejarias Kaiser Brasil S.A. and the Coke Distribution System in Brazil is still pending.

The US beer market continued to be challenging and declined in 2018, weighing on our portfolio of brands. We launched an integrated US-led Heineken® marketing campaign in the summer of 2018 with a series of television commercials, digital spots and outdoor branding. In addition, new US campaigns have been activated for our Tecate and Dos Equis brands. Despite this, our volumes declined in 2018.

Lagunitas continues to gain share in the competitive US craft segment. Outside the US, Lagunitas continues to grow double digit, with local production outside the US for the first time. The brand is now sold in over 25 markets, with more planned for 2019.

In May 2018, we acquired a minority stake in Belize Brewing Company Ltd., Belize's market leader in beer. It has been an importer and distributor of HEINEKEN brands in Belize (including Heineken®, Amstel and Red Stripe) since 2016.

In February 2018, we officially opened our new brewery in Meoqui, Chihuahua, Mexico. The brewery, our seventh in Mexico, has a production capacity of 6 million hectolitres per year and produces brands such as Tecate, Dos Equis and Heineken® for the Mexican market as well as for export markets. The Meoqui brewery is the largest greenfield project in HEINEKEN's history. It has been constructed following circular economy principles, focusing on renewable energy and efficient water usage (see page 16).

83.3mhl (2017: 72.1mhl)
Consolidated beer volume

35.6% (2017: 33.1%)
Consolidated beer volume as % of total

11.5mhl (2017: 10.7mhl)
Heineken® volume

€6,781m (2017: €6,312m)
Net revenue (beia)

€1,178m (2017: €1,188m)
Operating profit (beia)

29.6% (2017: 30.4%)
Operating profit (beia) as % of total

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

"Con el alcohol... No Te Pases" responsible alcohol consumption campaign in Mexico
We launched a new campaign about intelligent alcohol consumption. The goal of this campaign is to create awareness about responsible alcohol consumption, whenever alcohol is being consumed or purchased. The campaign will be communicated during music festivals, sport events and on digital media platforms. The American actor, Danny Trejo, is our ambassador who will bring the campaign messages to life and promote moderate drinking.

Regional Review (continued)
Asia Pacific

In 2018, we signed an agreement with the largest brewer in China to accelerate Heineken® brand volumes. The Tiger brand – born in Singapore – is now firmly established as the No.1 Premium Asian Beer.

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

This year, our volume growth performance in the Asia Pacific region was led by Vietnam, Cambodia, Myanmar and Indonesia. In Vietnam, the double digit growth of Tiger and Larue was driven by our execution and distribution expansion strategy to secondary cities and rural areas. In Indonesia, the iconic Bintang brand grew steadily while the no-alcohol portfolio volume increased double digit. In Cambodia, beer volume grew double digit for the full year led by Heineken® and Tiger which continued to grow strong double digit.

During the year we announced an agreement with China Resources Enterprise, limited (CRE) and China Resources Beer (CR Beer) to join forces in China. Our long-term strategic partnership will significantly expand the availability of the Heineken® brand, and will strengthen CR Beer's offering in the rapidly growing premium beer segment in China.

In Vietnam, we announced our plan to integrate our two operations – HEINEKEN Vietnam Brewery and HEINEKEN Hanoi – into one combined HEINEKEN Vietnam company. By integrating the two operations, we will be better placed to serve the total Vietnamese market with a full portfolio of brands and an established distribution network. We also extended the capacity of four of our breweries and started the new brewery build in Vung Tau. We were recognised for the second year running as the most sustainable business in Vietnam.

We invested for future growth in Cambodia by adding a new canning line and started the next extension to our brewery.

In New Caledonia, we completed the acquisition of a local water business to add to our beer and soft drinks portfolio.

The decline of Heineken® in Asia Pacific slowed thanks to a return to growth in China, the successful introduction of Blade for Heineken® in South Korea and Taiwan and the launch of Heineken® 0.0 in New Zealand, Singapore, New Caledonia and Tahiti.

Tiger's double digit growth continued, with the brand selling more than 13 million hectolitres of beer in 2018, supported by the Tiger Crystal launch in the Philippines and New Zealand.

Our first global talent showcase, Tiger Roar event in Seoul, kicked off the Tiger Roar Collective – an incubator and community for every type of emerging artist with different passion points.

We successfully launched Amstel in India and Vietnam to strengthen our local offering.

We continue to prioritise the development of local talent from Asia as we recruit a wide base of Asia Pacific graduates across our markets and functions to build the talent pipeline for our future success.

29.0mhl (2017: 27.0mhl)
Consolidated beer volume

12.4% (2017: 12.4%)
Consolidated beer volume as % of total

6.2mhl (2017: 6.3mhl)
Heineken® volume

€2,919m (2017: €2,922m)
Net revenue (beia)

€943m (2017: €962m)
Operating profit (beia)

23.7% (2017: 24.6%)
Operating profit (beia) as % of total

HEINEKEN and China Resources to join forces

In November 2018, we signed definitive agreements with China Resources Enterprise, Limited (CRE) and China Resources Beer (Holdings) Co. Ltd. (CR Beer) to create a long-term strategic partnership for Mainland China, Hong Kong and Macau. In the context of this partnership, HEINEKEN will become CRE's 40% minority partner in holding company CRH (Beer) Limited (CBL), which controls CR Beer, the market leader in China – the world's largest beer market.

We believe that our strong Heineken® brand and marketing capabilities, combined with CR Beer's deep understanding of the local market, its scale and best-in-class distribution network, will create a winning combination in the growing premium beer segment in China. We look forward to growing together and leveraging HEINEKEN's global reach to help accelerate the international development of CR Beer's Chinese beer brands worldwide. Completion of the strategic partnership is subject to customary and applicable (including regulatory) approvals.

Read more about the strategic rationale of this partnership **on our website**.

Community Waste Bank programme in Indonesia

In an effort to tackle one of the country's most pressing issues – river pollution, mainly from domestic waste – our Multi Bintang Indonesia business launched the Community Waste Bank programme, which rewards community groups for reducing, reusing and recycling waste.

By July 2018, the units sorted and reduced 184 tonnes of waste, of which 30% was plastic.

Two tributaries have shown significant improvement and the programme has benefited around 3,000 households.

Regional Review (continued)

Europe

The region delivered another positive year. Our focus on operational excellence, premium and innovation enabled us to offset headwinds and increase strategic investments. This translated into revenue and profit growth.

Key brands: Heineken®, Cruzcampo, Birra Moretti, Desperados, Strongbow Apple Cider

79.8mhl (2017: 78.8mhl)
Consolidated beer volume

34.1% (2017: 36.1%)
Consolidated beer volume as % of total

14.5mhl (2017: 13.8mhl)
Heineken® volume

€10,348m (2017: €9,990m)
Net revenue (beia)

€1,451m (2017: €1,371m)
Operating profit (beia)

36.4% (2017: 35.1%)
Operating profit (beia) as % of total

Our focus on premium and innovation continued to pay off in the region.

Heineken® grew ahead of the market while we continued the successful roll-out of Heineken® 0.0 across Europe.

Beer volumes across Europe grew moderately, with key markets including France, the Netherlands, Italy, Germany and Ireland delivering particularly strong performances. Our strategy of focusing on premiumisation and innovation, together with continuous cost management, helped to offset the transport cost increases in France and the negative financial impact of the CO_2 shortage in the UK during the summer of 2018.

In 2018, the weather was unusually good in Northern and Eastern Europe and unusually mild in Southern Europe, boosting seasonal sales in some markets and negatively affecting others.

Our diverse local footprint combined with our global scale provides unique opportunities to meet fast changing consumer preferences.

Croatia, Serbia and Slovenia led the development of the premium segment through Heineken® and Lasko, while volumes of Krušovice saw strong growth in Hungary, Czech Republic and Slovakia.

Birra Moretti continued to go from strength to strength in Italy and successfully travelled to the UK, where it continues to deliver very strong double digit growth.

After the integration of Punch Taverns in the UK, our Star Pubs & Bars business is a key foundation of our business strategy in UK, providing unique consumer touchpoints.

Strongbow Dark Fruit gained strong momentum in the UK, while Orchard Thieves has been successfully introduced in 16 European markets. Our strategy of developing the cider category outside its traditional home markets is developing well, in particular in Spain where cider is becoming popular.

Our focus on the craft and variety category gained momentum in 2018, with Lagunitas growing in the Netherlands, France and the UK while line extensions of our brands such as Soproni, Żywiec and Ichnusa captured opportunities through local relevance. This strategy is being complemented by selective acquisitions in the craft and variety segment. In 2018, we acquired a minority stake in Beavertown, a London based craft brewery. In Spain, we acquired a 51% majority stake in Spanish craft brewer, La Cibeles.

The Blade, a countertop draught system with eight litre kegs, is now available in 12 European markets.

We increasingly provide our on-trade customers a greater service and experience through digitalisation. Our e-commerce platform, which we operate in a number of markets, meets customer needs 24/7 to check and order stock availability. Beerwulf.com expanded its direct-to-consumer e-commerce platform of craft and variety across five markets in Europe, offering craft and specialty beers to beer lovers.

Brand seasons and Brand IPA

Brand is a Dutch beer brewed in the Netherlands which is all about smell, colour and taste with a focus on two segments: seasonal beers and IPA. It targets consumers that want to discover a variety of tastes through our local craft line extensions with a well-established brand. We launched a successful campaign which encourages consumers 'to taste' the various Brand seasonal beers and limited editions such as Brand Herfstbier and Brand Premier Bock. In 2018, Brand also launched innovations including Brand Session IPA and Brand Weizen 0.0.

Olivo pilot project in Spain

In Spain, we grow and cultivate barley among olive trees in order to save water, minimise erosion and improve biodiversity. This agricultural innovation project demonstrates that diversification and intercropping allows the improvement of water infiltration. It is a research project which will take place over four years and three crop cycles, but the initial results are promising. Through this project, we are able to compensate our water intake, conserve the environment and boost the local economy by using the barley in our brewing process. We brewed 'Cruzcampo Bock Olivarera' with barley from this project in our craft brewery in Málaga.

Risk Management

A business integrated approach to managing our risks – HEINEKEN manages the main opportunities and risks arising from its strategy and its daily operations.

Integrated approach

At HEINEKEN, risk management is an integral part of doing business and is supported by clear governance. Risks are an essential element when opportunities are assessed and strategies set. Management decisions are made in line with HEINEKEN's risk appetite. Risks are identified, mitigated and monitored on an ongoing basis, as part of business routines.

HEINEKEN has established risk management as the system of managing the risks that the Company inevitably faces in achieving its strategy. Through managing our risks in a conscious manner, we increase the likelihood that our strategy and business objectives are achieved.

Our proactive approach ensures risk management is part of our executive conversations and is embedded in our processes. It benefits our decision-making and is essential to create and preserve long-term value.

Risk profile

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

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

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

Risk appetite

HEINEKEN's risk appetite is the result of its wide geographical spread, prudent financial management and commitment to long-term value creation. Risks are taken consciously, assessing their impact on HEINEKEN's objectives.

The level of risk HEINEKEN is willing to take depends on the type of objective it impacts.

Reputational

HEINEKEN invests in building and protecting the value of the Company.

We aim to reduce the risks that could impact our reputation to the furthest extent possible, accepting that this may come at a cost.

Financial

HEINEKEN is keen on pursuing commercial opportunities to deliver top line growth, accepting uncertainties linked to its strategic choices and the context of the individual markets in which it operates.

Business continuity

HEINEKEN makes the availability of its brands a priority, accepting only minimal disruptions to its operations. In addition, HEINEKEN is continuously investing to make the organisation future-proof and ensure the sustainability of the business.

HEINEKEN business framework

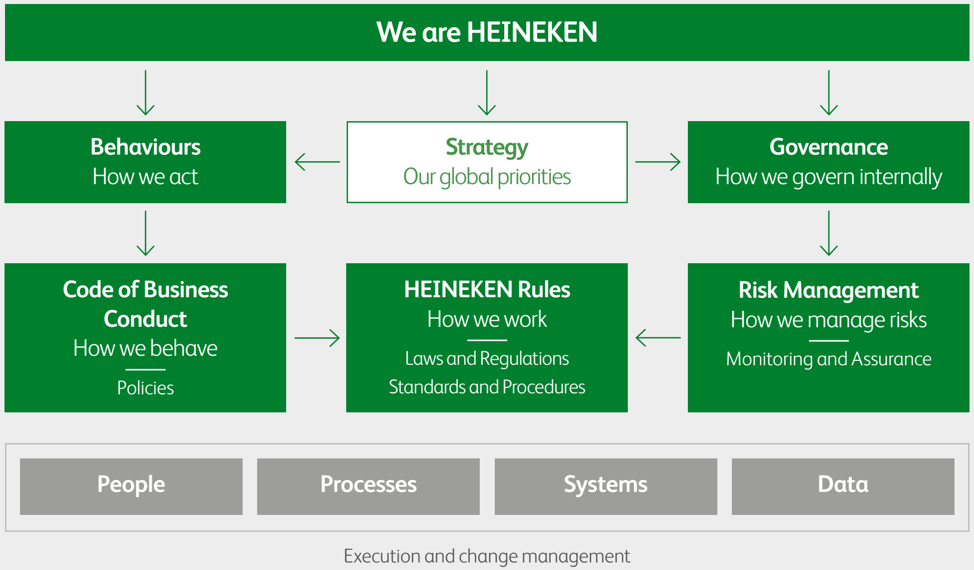
The HEINEKEN business framework articulates the key elements that the Company relies on to operate effectively and deliver long-term value creation while protecting the Company's people, assets and reputation.

HEINEKEN's vision, purpose and values, 'We are HEINEKEN', underpin the Company's strategic objectives, enabled by our organisational structure and Governance.

Behaviours provide clear guidance to all employees on how to act and foster a culture of achievement, collaboration and growth, underpinned by the Behaviours framework that reflects the expected attitudes in decision-making. Risk Management is an ongoing activity supporting achievement of our business objectives, based on our Risk Assessment Cycle, the HEINEKEN Code of Business Conduct and the HEINEKEN Rules.

As part of the Risk Assessment Cycle, operating companies and their Management Teams review and update their risks on a continuous basis throughout the year. The HEINEKEN Rules articulate how we work and the standards to which we commit. They are a key element for managing the risks faced by our Company and translate our objectives into clear instructions on how to conduct our daily business. Our Code of Business Conduct and its underlying policies set out HEINEKEN's commitment to conducting business with fairness, integrity and respect for the law and our values.

HEINEKEN's systems of risk management and internal control, which are based on the COSO Enterprise Risk Management and Internal Control Reference model, form a fundamental part of the HEINEKEN Business Framework.



Risk Management (continued)

Internal control

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

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

Risk committee

The Executive Board of HEINEKEN is accountable for risk management, risk oversight and the protection of HEINEKENs reputation, value of assets and brands. The Board is assisted by the Risk Committee, chaired by the CFO, in regular reviews of the Group risk assessment cycle that summarises the Company's key risks, associated mitigating actions and monitoring activities. These reviews consider the level of risk that Heineken is willing to take and the type of HEINEKEN's objectives it impacts.

The Risk Committee identifies changes to the Company's risk exposure and proposes interventions if required.

Organisation

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

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

Processes

HEINEKEN's risk management activities seek to identify and appropriately address any significant threat to the achievement of the Company's strategy and business objectives, its reputation and the continuity of its operations. HEINEKEN's risk management system enables management to identify, assess, prioritise and manage risks on a continuous and systematic basis, and covers all subsidiaries across regions, countries, markets and corporate functions.

Ongoing identification and assessment of risks, including new risks arising from changes in the global or local business environment, are part of HEINEKEN's planning, performance and risk management cycles. Risk assessments are performed by every subsidiary and global function. The implementation of responses and progress of risk mitigating measures is monitored on a quarterly basis.

Risk assessment outcomes are aggregated at a global level and serve as basis for determining HEINEKEN's risk exposure and risk management priorities by the Risk Committee. Accountability for mitigating, monitoring and reporting on the most significant risks is assigned to functional directors who report on progress and residual risk levels three times per year to the Risk Committee.

HEINEKEN continues to invest in the further improvement of risk management in the Company. Built on the basis of the existing risk and controls mechanisms, we have implemented several improvements. These are aimed at driving business ownership of risks, further increasing business involvement in risk management and expanding the integrated view of risks and controls.

Risk Management (continued)
Main risks

The following risk overview highlights the main risks that could hinder HEINEKEN in achieving its strategy and business objectives. We recognise that this is not a full overview of all risks and uncertainties that may affect the Company. As new risks emerge and existing immaterial risks evolve, timely discovery and accurate evaluation of risks are at the core of HEINEKEN's risk management system.

The financial risks are reported separately in note 11.5 to the Financial Statements on page 99. The Statement of the Executive Board is included in the Corporate Governance Statement 45.

The way we manage our Business Conduct and Human Rights risks are further detailed out in the Sustainability Review section of our annual report on pages 119-154.

Regulatory changes related to alcohol

What could happen

The topic of alcohol and health is under scrutiny in many markets. This may prompt regulators to take further measures limiting HEINEKEN's freedom to operate, such as restrictions or bans on advertising and marketing, sponsorship, availability of products, and increased taxes and duties or the imposition of minimum unit pricing. These could lead to lower overall consumption or to consumers switching to different product categories.

Recent developments

Restrictive measures on alcohol consumption and sales continue to be taken by governments across all four regions. Continued focus by WHO, OECD, UN and the EU on alcohol as part of the Non-Communicable Disease agenda could lead to additional restrictions which would impact HEINEKEN's business across multiple geographies.

What we are doing to manage this risk

Responsible consumption is one of the priorities of HEINEKEN's Brewing a Better World sustainability programme. Using the power and reach of its brands, HEINEKEN strives to make responsible consumption aspirational and works closely with local governments, NGOs and specialists to prevent and reduce harm caused by abuses such as underage drinking or drinking and driving. We are expanding consumer choice by providing low- and no-alcohol brands.

Explore Further:
– Advocating responsible consumption, **pages 120, 134-137.**

Economic and political environment

What could happen

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

Recent developments

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

What we are doing to manage this risk

HEINEKEN has set up various tools to limit the impact of such events on its business such as supplier management, short-term liquidity management, tight foreign exchange monitoring, prudent balance sheet measures, and scenario planning. We have monitoring mechanisms in place globally and locally, to allow us to monitor, report and engage proactively on political risks. For events which could threaten the continuity of the business, contingency plans are in place.

Distribution channel transformation

What could happen

In order to maintain position and profitability, our customers are consolidating, either through acquisition or through buying alliances. This concentrates increased buying power into fewer hands. Next to this, digital disruption is creating new routes to consumers, increasing the value and power of owning customer and consumer data.

Recent developments

New buying alliances are being negotiated, and cross border acquisitions continue. The major on-line retailers are moving to an omni-channel strategy, owning on-and-offline retail. The race to bring voice assistants into every home is on. Electronic point of sales systems are increasingly used to collect and leverage customer and consumer data.

What are we doing to manage this risk

HEINEKEN will continue to invest strongly in building brands, and the importance of strong brands only increases in the face of retail disruption. We are also implementing a comprehensive set of commercial digital initiatives to strengthen our connection with consumers and customers, and ownership of key data. Lastly, we are investing in capabilities for servicing sophisticated and increasingly digital customers.

Explore Further:
– Deliver top line growth, **pages 9-15.**

Risk Management (continued)

Changing consumer preferences

What could happen

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

Recent developments

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

What are we doing to manage this risk

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

Explore Further:
– Deliver top line growth, **pages 9-15.**
– Advocating responsible consumption, **pages 120, 134-137.**

Management capabilities

What could happen

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

Recent developments

By embedding the HEINEKEN Leadership Expectations in our people processes, we continue to grow leaders who are focused on developing the business, their teams and themselves and who are true role models. We pay special attention to how we build talent and leadership capability in emerging market regions like Asia and Africa alongside further evolving our approach to attracting great external talent through our refreshed employer brand campaign, Go Places!

What we are doing to manage this risk

The development of quality People Plans in our Operating Companies and Functions is focused on leadership, talent, functional competencies and critical capabilities, and inclusion and diversity across the organisation. We continue to focus our efforts on digital, end-to-end management and revenue management. We also ensure that we have robust talent identification and development programmes in place, alongside the critical leadership development interventions that are required to lead in a competitive, complex and increasingly digital world.

Explore Further:
– Engage and develop our people, **pages 19-20.**
– Values and behaviours, **pages 142-143.**

Industry consolidation

What could happen

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

Recent developments

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

What we are doing to manage this risk

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

Explore Further:
– Deliver top line growth, **pages 9-15.**
– Drive end2end performance, **page 16.**
– Main changes in consolidation, **page 32.**

Health and Safety

What could happen

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

Recent developments

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

What are we doing to manage this risk

HEINEKEN has established 'Safety First' as a key employee behaviour and Health and Safety as a priority of its Brewing a Better World programme. The global safety programme aims to enhance global standards, organisation and processes, and strengthening safety leadership and safety behaviours. Continuous improvement is achieved through global compliance monitoring, systematic gap-closing and central reporting of accidents, incidents and near-misses. Extra focus is placed on high risk operating companies and activities for which special programmes are developed.

Explore Further:
– Promoting Health and Safety, **pages 120, 138-139.**

Risk Management (continued)

Product safety and integrity

What could happen

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

Recent developments

Innovations and increased local sourcing have led HEINEKEN to further strengthen controls on ingredients, recipe governance and production processes to maintain food safety and high quality standards. Changes to the environment, such as increased knowledge of the potential food contaminants previously unheard of, growing consumers' concern on food safety and a more complex legal environment in certain jurisdictions, makes control of food safety more challenging.

What are we doing to manage this risk

HEINEKEN has established a comprehensive Company-wide Quality Assurance programme covering production standards, recipe governance, suppliers' governance and production material risks. HEINEKEN anticipates on new legislation and emerging risks aided by our partners, suppliers and external scientific institutions and assures implementation of measures to avoid such risks.

Should a risk materialise, global recall and crisis procedures are in place to mitigate the impact.

Supply chain continuity

What could happen

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

Recent developments

Political instability, terrorism, climate change and, in particular, growing water scarcity (and its effects on crop yield and grain prices and interruption in production), require the market and governments to take measures which may result in additional costs to the business.

What we are doing to manage this risk

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

Explore Further:
– Protecting water resources, **pages 120, 122-124.**
– Reducing CO_2 emissions, **pages 120, 125-130.**
– Sourcing sustainably, **pages 120, 131-133.**

Information security

What could happen

HEINEKEN's business increasingly relies on IT, both in the office environment as well as in the industrial control domain of our breweries. Failure of systems or security incidents may lead to business disruption, loss of confidential information, breach of data privacy, financial and reputational damage.

Recent developments

To drive innovation, HEINEKEN's business functions are pursuing digital transformation, delivering new business models, integrating into the digital world and increasing overall interconnectivity. At the same time, online threats grow more sophisticated and potential consequences are more punitive and destructive in nature. In light of the increasing exposure to cybercrime and changing regulations that place stricter security requirements on data processing, we frequently re-assess our security exposure and posture.

What we are doing to manage this risk

HEINEKEN regularly updates its information security strategy to ensure proportional adaptation of capabilities in response to evolving risks.

Security Operations and Information Security Risk Management departments maintain a global cybersecurity framework to address continuity, integrity and confidentiality risks, and perform global monitoring of HEINEKEN's IT landscape, focusing on enhancing the resilience of the IT infrastructure and increasing employee security awareness.

Digital media

What could happen

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

Recent developments

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

What are we doing to manage this risk

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

Risk Management (continued)

Execution and change management

What could happen

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

Recent developments

The Group portfolio of global programmes now contains around 40 programmes. It has supported implementation of new capabilities in the area of commerce, finance, supply chain, legal, procurement and human resources, thereby serving HEINEKEN's top line growth and efficiency targets.

What are we doing to manage this risk

Via our portfolio management approach, applying a consistent project and programme methodology and governance, and placing ownership of the whole portfolio at top management level, HEINEKEN is able to prioritise and optimise resource allocation across its major programmes to ensure they deliver on their objectives and mitigate their risks.

Reporting

What could happen

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

Recent developments

HEINEKEN continues to invest in programmes to further process standardisation and IT simplification, which will drive efficient, fast and robust financial reporting and strengthening of its control environment.

What we are doing to manage this risk

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

Explore Further:
– Reporting basis governance of non-financial indicators, **pages 145-146.**

Non-compliance

What could happen

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

Recent developments

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

What we are doing to manage this risk

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

Explore Further:
– Values and behaviours, **pages 142-143.**

Financial Review

Key figures[1]

In millions of €	2017[2]	Currency translation	Consolidation impact	Organic growth	2018	Organic growth %
Revenue	25,843				26,811	
Eia	20				–	
Revenue (beia)[2]	25,863	(1,131)	500	1,579	26,811	5.9
Excise tax expense	(4,234)	123	14	(242)	(4,340)	(4.8)
Net revenue (beia)[2]	21,629	(1,008)	514	1,337	22,471	6.1
Total other expenses (beia)	(17,869)	832	(470)	(1,096)	(18,603)	(6.0)
Operating profit (beia)	3,759	(176)	43	241	3,868	6.4
Net interest income/(expenses) (beia)	(374)	9	(42)	2	(405)	0.4
Other net finance income/(expenses) (beia)	(136)	3	(5)	82	(57)	59.9
Share of net profit of assoc./JVs (beia)	153	(9)	5	13	161	8.2
Income tax expense (beia)	(897)	43	8	(54)	(900)	(6.0)
Non-controlling interests (beia)	(258)	14	4	(3)	(244)	(1.2)
Net profit (beia)	2,247	(116)	14	280	2,424	12.5
Eia	(312)				(521)	
Net profit	1,935				1,903	

[1] Due to rounding, this table will not always cast.
[2] Restated to reflect the impact of adopting IFRS 15.

Main changes in consolidation

- On 4 May 2017 HEINEKEN acquired all the remaining shares in Lagunitas Brewing Company.
- On 31 May 2017 HEINEKEN completed the acquisition of Brasil Kirin Holding S.A. from Kirin Holdings Company Limited.
- On 29 August 2017 HEINEKEN completed, through HEINEKEN UK, a back-to-back deal to acquire Punch Securitisation A ('Punch').
- On 1 September 2017 HEINEKEN transferred HEINEKEN Belarus to Oasis Group who now owns and operates the business and has entered into licence and distribution agreements with HEINEKEN.
- On 30 November 2017 HEINEKEN completed, through HEINEKEN Asia Pacific, the merger of its business in Mongolia with APU JSC. HEINEKEN retains 25% of the merged business.
- On 1 December 2017 HEINEKEN Nederland B.V. entered into a strategic partnership for its Beer & Cider logistics in the Dutch Out-of-Home market with Sligro Food Group N.V. Simultaneously, HEINEKEN Nederland B.V. divested its wholesale operations for the other (non-Beer & Cider) product categories to Sligro Food Group N.V.

Revenue and revenue (beia)

Revenue (beia) increased organically 5.9% to €26,811 million (2017: €25,863 million). Reported revenue was €26,811 million (2017: €25,843 million).

Net revenue (beia)

Net revenue (beia) increased by 6.1% organically to €22,471 million, with total consolidated volume growth of 4.0% and a 2.0% increase in net revenue (beia) per hectolitre. Currency developments had a negative translational impact of €1,008 million, mainly driven by the adverse development versus the Euro of the Brazilian Real, the Mexican Peso, the Nigerian Naira and the Vietnamese Dong. The positive impact of consolidation changes was €514 million mainly related to Brazil.

Total other expenses (beia)

Total other expenses (beia) were €18,603 million, up by 6.0% on an organic basis. Input costs increased organically by 8.1% and by 3.6% on a per hectolitre basis, mainly in packaging materials (commodities inflation and adverse transactional currency impact). Marketing and selling (beia) expenses increased organically by 1.5% to €2,494 million, representing 11.1% of net revenues (2017 restated: 11.6%).

Financial Review (continued)

Operating profit (beia)

Operating profit (beia) was €3,868 million, up 6.4% organically, excluding €176 million negative foreign currency impact and €43 million increase from consolidation changes. Growth was driven by higher revenue and cost efficiencies which more than offset higher input and logistics costs.

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

Share of profit of associates and joint ventures (beia) increased €13 million organically to €161 million, reflecting higher net profit from joint venture operations in India, Germany and Chile.

Net finance expenses (beia)

Net interest expenses (beia) increased by €31 million to €405 million. The average interest rate (beia) in 2018 was 3.2% (2017: 3.0%). Other net finance expenses (beia), which includes the impact of currency revaluation on outstanding payables in foreign currencies, the interest expense on the net pension liability and financing expenses related to discounted provisions, decreased by €79 million to €57 million.

Income tax expense (beia)

The effective tax rate (beia) was 26.4%, lower than last year (2017: 27.6%) including some one-off tax benefits.

Net profit and net profit (beia)

Net profit (beia) grew by €280 million organically to €2,424 million, an organic increase of 12.5%. The impact of currency was negative by €116 million and consolidation changes had a positive impact of €14 million. Reported net profit for 2018 was €1,903 million.

Earnings per share – diluted

Earnings per share – diluted decreased to €3.34 (2017: €3.39). Earnings per share – diluted (beia) increased by 8% from €3.94 to €4.25.

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

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 and exceptional items included in operating profit	(731)	(407)
Share of profit of associates and joint ventures	210	75
Net finance expenses	(495)	(519)
Profit before income tax	2,852	2,908

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

In millions of €	2018	2017
Profit attributable to shareholders of the Company (net profit)	1,903	1,935
Amortisation of acquisition-related intangible assets included in operating profit	311	302
Exceptional items included in operating profit	420	105
Exceptional items included in net finance expenses/(income)	34	8
Exceptional items and amortisation of acquisition-related intangible assets included in share of profit of associates and joint ventures	(50)	78
Exceptional items included in income tax expense	(142)	(142)
Allocation of exceptional items and amortisation of acquisition-related intangibles to non-controlling interests	(52)	(39)
Net profit (beia)	2,424	2,247

The 2018 exceptional items and amortisation of acquisition-related intangibles on net profit amount to €521 million (2017: €312 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).
- €34 million (2017: €8 million) of exceptional items in net finance expenses, mainly related to interest over tax liabilities and interest expenses of the pre-financing of acquisitions.
- €50 million of exceptional net benefits and amortisation of acquisition-related intangibles included in share of profit of associates and joint ventures, mainly related to the early termination of a brand licence by CCU S.A. in exchange for cash and a portfolio of brands in Argentina (2017: €78 million expense, which included loss on previously-held equity interests and the recycling of foreign exchange from equity to profit and loss).
- €142 million (2017: €142 million) in income tax expense, which includes the tax impact on exceptional items and amortisation of acquisition-related intangible assets of €115 million (2017: €97 million) and an exceptional income tax benefit of €27 million (2017: €45 million, mainly for remeasurement of deferred tax positions following a nominal tax rate change in the United States).
- Total amount of eia allocated to non-controlling interests amounts to €52 million (2017: €39 million).

Financial Review (continued)

Reported to beia[1]

In millions of €	Reported 2018	Eia 2018	Beia 2018	Reported[2] 2017	Eia 2017	Beia[2] 2017
Revenue	26,811	–	26,811	25,843	20	25,863
Excise tax expense	(4,340)	–	(4,340)	(4,234)	–	(4,234)
Net revenue	22,471	–	22,471	21,609	20	21,629
Other income	75	(75)	–	141	(141)	–
Total other expenses	(19,409)	806	(18,603)	(18,398)	529	(17,869)
Operating profit	3,137	731	3,868	3,352	407	3,759
Share of net profit of association/JVs	210	(50)	161	75	78	153
Net interest income/(expenses)	(431)	27	(405)	(396)	22	(374)
Other net finance income/(expenses)	(64)	7	(57)	(123)	(13)	(136)
Income tax expense	(757)	(142)	(899)	(755)	(142)	(897)
Non-controlling interests	(192)	(52)	(244)	(218)	(40)	(258)
Net profit	1,903	521	2,424	1,935	312	2,247

[1] Due to rounding, this table will not always cast.
[2] Restated to reflect the impact of adopting IFRS 15.

Capital expenditure and cash flow

In millions of €	2018	2017
Cash flow from operations before changes in working capital and provisions	4,852	4,980
Total change in working capital	713	69
Change in provisions and post-retirement obligations	(25)	(125)
Cash flow from operations	5,540	4,924
Cash flow related to interest, dividend and income tax	(1,152)	(1,042)
Cash flow from operating activities	4,388	3,882
Cash flow (used in)/from operational investing activities	(2,142)	(1,851)
Free operating cash flow	2,246	2,031
Cash flow (used in)/from acquisitions and disposals	(213)	(1,114)
Cash flow (used in)/from financing activities	(967)	(966)
Net cash flow	1,066	(49)
Cash conversion ratio	84%	81%

Capital expenditure related to property, plant and equipment amounted to €1,888 million in 2018 (2017: €1,696 million) representing 8.4% of net revenues. The investments include additional capacity in Mexico, Vietnam, Ethiopia, Brazil, Cambodia, Haiti and South Africa, and the construction of a new brewery in Mozambique.

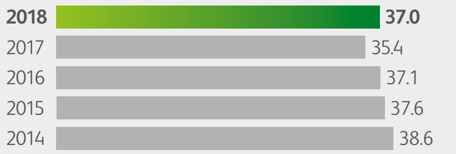
Free operating cash flow amounted to €2,246 million (2017: €2,031 million), increasing by €215 million or 10.6% driven by improvements in working capital related to payables.

Financial structure and liquidity

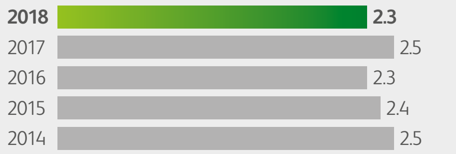
In millions of €	2018	%	2017	%
Total equity	15,540	37	14,521	35
Deferred tax liabilities	1,370	3	1,495	4
Post-retirement obligations	954	2	1,289	3
Provisions	1,010	2	1,148	3
Gross debt	14,986	37	15,378	38
Other liabilities	8,096	19	7,203	17
Total equity and liabilities	41,956	100	41,034	100

Financial Review (continued)

Total equity
as a percentage of total assets



Net debt/EBITDA (beia) ratio



Shareholders' equity increased by €1,037 million to €14,358 million, mainly driven by net profit of €1,903 million, partly offset by dividends paid out of €866 million.

Total gross debt amounts to €14,986 million (2017: €15,378 million). Net debt decreased to €12,081 million (2017: €12,879 million) as the positive free operating cash flow exceeded the cash outflow for acquisitions, dividends and the negative foreign currency impact on debt.

The pro forma net debt/EBITDA (beia) ratio was 2.3x on 31 December 2018 (2017: 2.5x) in line with the long-term target ratio of below 2.5x net debt/EBITDA (beia).

In September 2018 the following notes were issued under HEINEKEN's Euro Medium Term Note Programme:

€600 million of 8.5-year Notes with a coupon of 1.25%
€650 million of 12.5-year Notes with a coupon of 1.75%

The Notes have been issued under the Company's Euro Medium Term Note Programme and are listed on the Luxembourg Stock Exchange. The proceeds from the Notes issuance are to be used for general corporate purposes, which may include repayment of debt and/or acquisitions.

In March 2018, HEINEKEN utilised its first one-year extension option under the €3.5 billion revolving credit facility by extending the maturity to May 2023. The facility is committed by a group of 19 banks and has another one-year extension option in 2019.

In March 2018, the European Commercial Paper Programme has been updated and increased to €2 billion from €1 billion.

The table below presents the reconciliation from operating profit to EBITDA (beia).

In millions of €	2018	2017
Operating profit	3,137	3,352
Share of profit of associates and joint ventures	210	75
Depreciation and impairments of property, plant and equipment	1,288	1,153
Amortisation and impairment of intangible assets	405	369
EBITDA	5,040	4,949
Exceptional items	195	166
EBITDA (beia)	5,235	5,115

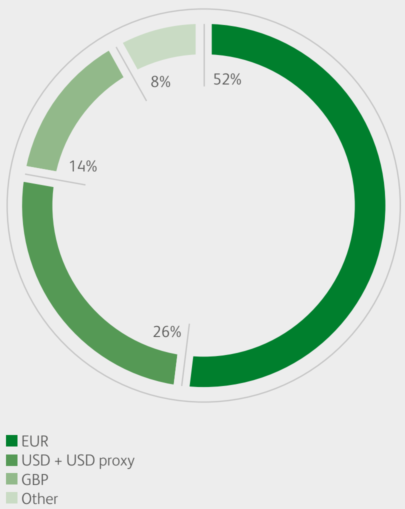
Heineken N.V. was assigned solid investment grade credit ratings by Moody's Investor Service and Standard & Poor's in 2012. The ratings from both agencies, Baa1/P-2 and BBB+/A-2 respectively, have 'stable' outlooks as per the date of the 2018 Annual Report.

Financial Review (continued)

Currency split of net debt

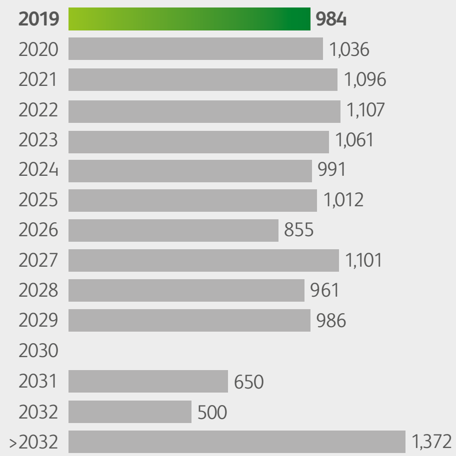
This currency breakdown includes the effect of derivatives, which are used to hedge intercompany lending denominated in currencies other than Euro. Of total net interest-bearing debt, 52% is denominated in Euro, 26% in US dollar and US dollar proxy currencies and 14% in British Pound. This is including the effect of cross-currency interest rate swaps. The fair value of the cross-currency interest rate swaps form part of net debt.

Currency split of net debt



Obligatory long-term debt repayments

in millions of €



Average number of shares

HEINEKEN has 576,002,613 shares in issue. For the calculation of 2018 basic EPS, the weighted impact of the treasury shares including shares purchased for the employee incentive programme reduced the number of weighted average shares outstanding to 570,146,069 (570,074,335 in 2017). For the calculation of 2018 diluted EPS, the number of weighted average outstanding shares is adjusted for the amount of shares to be delivered under the employee incentive programme, resulting in a weighted average diluted number of shares of 570,663,632 (570,652,111 in 2017).

Profit appropriation

The Heineken N.V. dividend policy is to pay out a ratio of 30% to 40% of full year net profit (beia). For 2018, payment of a total cash dividend of €1.60 per share (2017: €1.47) will be proposed to the Annual General Meeting of Shareholders on 25 April 2019 ("2019 AGM"). This represents an increase of 8.8% versus 2017, translating into a 37.6% payout. 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 a 15% Dutch withholding tax. The ex-final dividend date for Heineken N.V. shares will be 29 April 2019.

Corporate Governance Statement

Introduction

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

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

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

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

Executive Board

General

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

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

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

A non-binding nomination for re-appointment of Mrs. Laurence Debroux as member of the Executive Board for a four-year term shall be submitted to the 2019 AGM by the Supervisory Board.

Composition of the Executive Board

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

Jean-François (J.F.M.L.) van Boxmeer

1961	Belgian nationality	Male

Initial appointment in 2001; Reappointment: 2017*; Four-year term ends in 2021

Profession:
Chairman/CEO (since 2005)

*No supervisory board seats (or non-executive board memberships) in Large Dutch Entities***

*Other positions****:*
Mondelez International, USA; Henkel AG & Co., Germany; National Opera & Ballet, Netherlands (Chairman)

Laurence (L.M.) Debroux

1969	French nationality	Female

Initial appointment in 2015; Four-year term ends in 2019

Profession:
CFO (since 2015)

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities***:*
EXOR Holding N.V., the Netherlands

*Other positions****:*
HEC (Ecole des Hautes Etudes Commerciales) Paris, France

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

Corporate Governance Statement (continued)

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

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

Diversity

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

Conflict of Interest

Dealing with (apparent) conflicts of interest between the Company and members of its Executive Board is governed by the Articles of Association of the Company (the 'Articles of Association') and the Code. A member of the Executive Board shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a personal conflict of interest with the Company. Decisions to enter into transactions under which members of the Executive Board have conflicts of interest that are of material significance to the Company and/or the relevant member(s) of the Executive Board require the approval of the Supervisory Board. Any such decision shall be published in the Annual Report for the relevant year, along with a reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. In 2018, no transactions were reported under which a member of the Executive Board had a conflict of interest that was of material significance.

Remuneration

In line with the remuneration policy adopted by the AGM, the remuneration of the members of the Executive Board is determined by the Supervisory Board, upon recommendation of the Remuneration Committee. The remuneration policy and the elements of the remuneration of the Executive Board members are set out in the Remuneration Report and notes 6.5 and 13.3 to the Financial Statements. The main elements of the employment agreement with Mr. Van Boxmeer and the service agreement with Mrs. Debroux are available on our corporate website.

Supervisory Board

General

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

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

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

Composition of the Supervisory Board

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

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

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

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

Corporate Governance Statement (continued)

director of Heineken Holding N.V. and representative of FEMSA) and Mr. Astaburuaga Sanjinés (who is a representative of FEMSA). However, the Supervisory Board has ascertained that Mr. de Carvalho, Mr. Das, Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés in fact act critically and independently. Since Mr. de Carvalho, Mr. Das, Mr. Fernández Carbajal and Mr. Astaburuaga Sanjinés are representing or are affiliated with Heineken Holding N.V. and/or FEMSA, who (in)directly hold more than 10% of the shares in our Company, the maximum of one representative or affiliate per such shareholder of best practice provision 2.1.7 sub iii of the Code is not complied with. As a consequence, the Company also does not comply with best practice provision 2.1.10 of the Code, to the extent that this provision provides that the Supervisory Board report shall state that best practice provision 2.1.7 through 2.1.9 has been fulfilled.

In line with the belief that the focus on long-term value creation is best ensured by a fair and adequate representation of persons who are related by blood or affinity in the direct line descent to the late Mr. A.H. Heineken (former Chairman of the Executive Board), or who are members of the Board of Directors of Heineken Holding N.V., best practice provision 2.2.2 of the Code , which provides that a person may be appointed to the Supervisory Board for a maximum of two four-year terms, followed by two terms of two years each with an explanation in the Corporate Governance Statement, is not applied to Mr. de Carvalho, Mr. Das and Mr. Fernández Carbajal. A non-binding nomination for reappointment of Mr. de Carvalho as member of the Supervisory Board for a period of four years shall be submitted to the 2019 AGM. A reappointment of Mr. de Carvalho for a period of four years is a deviation of the maximum appointment term of best practice provision 2.2.2 of the Code. In the interest of preserving the core values and the structure of the Heineken Group, the Company does not apply the maximum appointment period to members who are related by blood or affinity in the direct line descent to Mr. A.H. Heineken or who are members of the Board of Directors of Heineken Holding N.V.

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

Profile and Diversity

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

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

Regulations of the Supervisory Board

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

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

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

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

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

Induction and training

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

Corporate Governance Statement (continued)

Conflict of Interest

The Articles of Association and the Regulations of the Supervisory Board prescribe how to deal with (apparent) conflicts of interest between the Company and members of the Supervisory Board. A member of the Supervisory Board shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a personal conflict of interest with the Company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the Company and/or the relevant member(s) of the Supervisory Board require the approval of the Supervisory Board. Any such decision shall be published in the Annual Report for the relevant year, along with a reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. Note 13.3 of the 2018 Financial Statements sets out related party transactions in 2018.

Remuneration

Supervisory Board members receive a fixed annual remuneration fee, as determined by the AGM. More information on the remuneration of Supervisory Board members can be found in note 13.3 to the 2018 Financial Statements.

Resolutions subject to Supervisory Board approval

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

Delegated Member

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

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

Committees

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

The Supervisory Board has drawn up regulations for each committee, setting out the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. These regulations are available on our corporate website. In 2018, more than half of the members of the Audit Committee were independent within the meaning of best practice provision 2.1.8 of the Code. For the Remuneration Committee and the Selection & Appointment Committee the independence criteria of best practice provision 2.3.4 are not met.

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

Preparatory Committee

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

Audit Committee

The Audit Committee may not be chaired by the Chairman of the Supervisory Board or by a former member of the Executive Board. At least one member of the Audit Committee shall be a financial expert with relevant knowledge and experience of financial administration and accounting for listed companies or other large legal entities.

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

The Audit Committee acts as the principal contact for the external auditor if the external auditor discovers irregularities in the content of the financial reporting. The Audit Committee meets with the external auditor as often as it considers necessary, but at least once a year, without the Executive Board members being present.

Corporate Governance Statement (continued)

Remuneration Committee

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

No more than one member of the Remuneration Committee may be a member of the management board of another Dutch listed company. The Remuneration Committee, inter alia, makes the proposal to the Supervisory Board for the remuneration policy to be pursued, and makes a proposal for the remuneration of the individual members of the Executive Board for adoption by the Supervisory Board.

Selection & Appointment Committee

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

Americas Committee

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

General Meeting of Shareholders

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

Convocation

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

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

Right to include items on the agenda

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

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

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

Record date

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

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

Corporate Governance Statement (continued)

Participation in person, by proxy or through electronic communication

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

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

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

Attendance list

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

Chairman of the AGM

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

Voting

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

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

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

Minutes

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

Resolutions to be adopted by the AGM

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

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

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

Article 10 of the EU Take-Over Directive Decree

Shares

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

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

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

Shareholders who hold shares on a predetermined record date are entitled to attend and vote at the AGM. The record date for the AGM of 25 April 2019 is 28 days before the AGM, i.e. on 28 March 2019.

Corporate Governance Statement (continued)

Substantial shareholdings

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

- Mrs. C.L. de Carvalho-Heineken (indirectly 50.005%; the direct 50.005% shareholder is Heineken Holding N.V.).
- Voting Trust (FEMSA) (indirectly 8.63%).

Restrictions related to shares held by FEMSA

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

- Subject to certain exceptions, FEMSA, CB Equity LLP, and any member of the FEMSA Group shall not increase its shareholding in Heineken Holding N.V. above 20% and shall not increase its holding in the Heineken Group above a maximum of 20% economic interest (such capped percentages referred to as the 'Voting Ownership Cap').
- Subject to certain exceptions, FEMSA, CB Equity LLP and any member of the FEMSA Group may not exercise any voting rights in respect of any shares beneficially owned by it, if and to the extent that such shares are in excess of the applicable Voting Ownership Cap.
- Unless FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control, FEMSA is entitled to have two representatives on the Company's Supervisory Board, one of whom will be Vice-Chairman, who also serves as the FEMSA representative on the Board of Directors of Heineken Holding N.V.

Share plans

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

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

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

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

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

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

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

Change of control

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

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

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

Corporate Governance Statement (continued)

Appointment and dismissal of Supervisory and Executive Board members

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

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

Amendment of the Articles of Association

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

Acquisition of own shares

On 19 April 2018, the AGM authorised the Executive Board (for the statutory maximum period of 18 months) to acquire own shares subject to the following conditions and with due observance of the law and the Articles of Association (which require the approval of the Supervisory Board):

The maximum number of shares which may be acquired is 10% of the issued share capital of the Company. Transactions must be executed at a price between the nominal value of the shares and 110% of the opening price quoted for the shares in the Official Price List (Officiële Prijscourant) of Euronext Amsterdam on the date of the transaction or, in the absence of such a price, the latest price quoted therein. Transactions may be executed on the stock exchange or otherwise.

The authorisation may be used in connection with the LTIP and the STIP for the members of the Executive Board and the LTIP for senior management, but may also serve other purposes, such as acquisitions. A new authorisation will be submitted for approval at the next AGM on 25 April 2019.

Issue of shares

On 19 April 2018, the AGM also authorised the Executive Board (for a period of 18 months) to issue shares or grant rights to subscribe for shares and to restrict or exclude shareholders' pre-emption rights, with due observance of the law and Articles of Association (which require the approval of the Supervisory Board). The authorisation is limited to 10% of the Company's issued share capital, as per the date of issue. The authorisation may be used in connection with the LTIP and the STIP for the members of the Executive Board and the LTIP for senior management, but may also serve other purposes, such as acquisitions. A new authorisation will be submitted for approval to the AGM at 25 April 2019.

Compliance with the Code

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

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

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

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

2.2.2:
Maximum terms of appointment Supervisory Board members; and

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

Provision 3.2.3

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

Corporate Governance Statement (continued)

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

1.3.6:
HEINEKEN has an internal audit function;

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

4.1.5:
This best practice provision relates to shareholders;

4.2.6:
HEINEKEN has no anti-takeover measures;

4.3.1:
This best practice provision relates to shareholders;

4.3.4:
HEINEKEN has no financing preference shares;

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

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

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

In respect of transactions with related parties as disclosed in note 13.3, best practice provisions 2.7.3, 2.7.4 and 2.7.5 of the Code have been observed.

Statement of the Executive Board

This Report of the Executive Board, together with pages 119–154 of the Sustainability Review, serves as the management report for the purpose of Section 391, Book 2 of the Dutch Civil Code.

In accordance with best practice provision 1.4.3 of the Code, we are of the opinion that:

- this report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- this 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 this report.

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

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

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

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

Executive Board

J.F.M.L. van Boxmeer
L.M. Debroux
Amsterdam, 12 February 2019

Heineken N.V. Annual Report 2018

To the Shareholders
Report of the Supervisory Board

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

Financial statements and profit appropriation

The Supervisory Board hereby submits to the shareholders the financial statements and the report of the Executive Board for the financial year 2018, as prepared by the Executive Board and approved by the Supervisory Board in its meeting of 12 February 2019. Deloitte Accountants B.V. audited the financial statements. Its report can be found on pages 156-160 in the Other Information section.

The Supervisory Board recommends that shareholders, in accordance with the Articles of Association, adopt these financial statements and, as proposed by the Executive Board, appropriate €912 million for payment of dividend. The underlying principle of the dividend policy is that 30-40% of net profit before exceptional items and amortisation of acquisition-related intangible assets (net profit beia) is placed at the disposal of shareholders for distribution as dividend. The proposed dividend amounts to €1.60 per share of €1.60 nominal value, of which €0.59 was paid as an interim dividend on 9 August 2018.

Supervisory Board composition, independence and remuneration

Composition

The Supervisory Board consists of 10 members:

- Hans Wijers (Chairman)
- José Antonio Fernández Carbajal (Vice-Chairman)
- Maarten Das
- Michel de Carvalho
- Christophe Navarre
- Javier Astaburuaga Sanjinés
- Jean-Marc Huët
- Pamela Mars Wright
- Yonca Dervişoğlu (previously: Brunini)
- Marion Helmes

The General Meeting at the Annual General Meeting of Shareholders (AGM) on 19 April 2018 (re-)appointed Mr. Fernández Carbajal, Mr. Astaburuaga Sanjinés, Mr. Huët and Mrs. Helmes for a period of four years. Mrs. Fentener van Vlissingen stepped down as member of the Supervisory Board after the 2018 AGM.

Supervisory Board composition
Nationality

Dutch	30%
Mexican	20%
British	20%
American	10%
Belgian	10%
German	10%

Supervisory Board composition
Gender

Male	70%
Female	30%

Supervisory Board composition
Tenure

0–4 years	30%
4–8 years	20%
8–12 years	30%
>12 years	20%

To the Shareholders (continued)

Information on the Supervisory Board members is provided below:

Hans (G.J.) Wijers

1951 | Dutch nationality | Male

Appointed in 2012; Chairman (as of 2013); latest reappointment in 2016*

Profession:
Company Director

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:*
ING Groep N.V. (Chairman)

*Other positions***:*
HAL Holding N.V.; Natuurmonumenten (Chairman); Concertgebouw N.V. (Chairman); member of the Temasek European Advisory Panel of Temasek Holdings Private Limited

José Antonio (J.A.) Fernández Carbajal

1954 | Mexican nationality | Male

Appointed in 2010; latest reappointment in 2018*
Vice-Chairman (as of 2010)

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

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:*
Heineken Holding N.V.

*Other positions***:*
Coca-Cola Femsa S.A.B. de C.V. (Chairman); Tecnológico de Monterrey (Chairman); Fundación Femsa (Chairman); participates on the Board of Industrias Peñoles; founding member of the Mexican chapter of the Woodrow Wilson Center; Term Member of the MIT Corporation

Maarten (M.) Das

1948 | Dutch nationality | Male

Appointed in 1994; latest reappointment in 2017*
Delegated Member (1995)

Profession:
Lawyer

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:*
Heineken Holding N.V. (Chairman) and Greenchoice B.V. (Chairman)

*Other positions***:*
L'Arche Green N.V. (Chairman); L'Arche Holding B.V.; Greenfee B.V. (Chairman Supervisory Board)

Michel (M.R.) de Carvalho

1944 | British nationality | Male

Appointed in 1996; latest reappointment in 2015*

Profession:
Private Banker, Chairman Capital Generation Partners

*No supervisory board seats (or non-executive board memberships) in Large Dutch Entities***

*Other positions***:*
Heineken Holding N.V. (Executive Director); L'Arche Green N.V.

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

1958 | Belgian nationality | Male

Appointed in 2009; latest reappointment in 2017*

Profession:
Chairman of Neptune International

*No supervisory board seats (or non-executive board memberships) in Large Dutch Entities***

*No other positions****

Javier (J.G.) Astaburuaga Sanjinés

1959 | Mexican nationality | Male

Appointed in 2010; latest reappointment in 2018*

Profession:
Senior Vice President Corporate Development Fomento Económico Mexicano S.A.B. de C.V. (FEMSA)

*No supervisory board seats (or non-executive board memberships) in Large Dutch Entities***

*Other positions***:*
Board member of Fomento Económico Mexicano S.A.B. de C.V. (FEMSA); Coca-Cola Femsa S.A.B. de C.V.; Fundación Femsa

Jean-Marc (J.M.) Huët

1969 | Dutch nationality | Male

Appointed in 2014; latest reappointment in 2018*

Profession:
Company Director

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:*
SHV Holdings N.V.

*Other positions***:*
Canada Goose Incorporated; J2 Acquisition Ltd.; Bridgepoint

Pamela (P.) Mars Wright

1960 | American nationality | Female

Appointed in 2016*

Profession:
Company Director

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:*
SHV Holdings N.V.

*Other positions***:*
Mars, Incorporated

Yonca (Y.) Dervişoğlu

1969 | British nationality | Female

Appointed in 2016*

Profession:
VP Marketing EMEA at Google

*No supervisory board seats (or non-executive board memberships) in Large Dutch Entities***

*No other positions****

Marion (M.) Helmes

1965 | German nationality | Female

Appointed in 2018*

Profession:
Company Director

*No supervisory board seats (or non-executive board memberships) in Large Dutch Entities***

*Other positions***:*
UNIPER; British American Tobacco; Prosiebensat.1 Media; Siemens Healthineers AG

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

To the Shareholders (continued)

The Supervisory Board has a diverse composition in terms of experience, gender, nationality and age. Three out of 10 members are women and seven out of 10 members are non-Dutch. There are six nationalities (American, Belgian, British, Dutch, German and Mexican) and age ranges between 49 and 74. The Supervisory Board is of the opinion that a diversity of experience and skills is represented on its board. The elements of a diverse composition of the Supervisory Board are laid down in the Diversity Policy of the Supervisory Board, Executive Board and Executive Team as per best practice provision 2.1.5 of the Dutch Corporate Governance Code of 8 December 2016 (the 'Code').

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

Mr. de Carvalho will have completed his four-year appointment term per the end of the AGM on 25 April 2019. A non-binding nomination for reappointment of Mr. de Carvalho as member of the Supervisory Board shall be submitted to the 2019 AGM. Pursuant to best practice provision 2.1.8 of the Code, Mr. de Carvalho, married to Mrs. C.L. de Carvalho-Heineken, who holds indirectly more than 10% of the shares in the Company, and also an executive director of Heineken Holding N.V., does not qualify as "independent". A reappointment of Mr. de Carvalho for a period of four years is a deviation of the maximum appointment term of best practice provision 2.2.2 of the Code. In the interest of preserving the core values and the structure of the Heineken Group, the Company does not apply the maximum appointment period to members who are related by blood or affinity in the direct line of descent to Mr. A.H. Heineken or who are members of the Board of Directors of Heineken Holding N.V.

Mr. Wijers shall resign as Chairman and member of the Supervisory Board at the 2019 AGM after being member of the Supervisory Board for seven years, six of which as its Chairman. He has been actively involved in the continued growth and success of the Company over these years, during which his dedication, significant business experience and wise counsel have been of great importance to the Company. The Supervisory Board expresses gratitude and appreciation to Mr. Wijers for his valuable contribution to the Company. The Supervisory Board has resolved to appoint Mr. Huët, member of the Supervisory Board since 2014 and until 31 December 2018 Chairman of the Audit Committee, as Chairman of the Supervisory Board, effective upon conclusion of the 2019 AGM.

Ms. Dervişoğlu (previously: Brunini) shall also resign as a member of the Supervisory Board at the 2019 AGM as her increased executive responsibilities will make it difficult to dedicate sufficient time to her Supervisory Board responsibilities going forward. The Supervisory Board is grateful for the commitment of Ms. Dervişoğlu over the past years and for the way she contributed to the Supervisory Board, as well as its Remuneration Committee.

A non-binding nomination will be submitted to the 2019 AGM to appoint Mrs. R.L. Ripley and Mrs. I.H. Arnold as members of the Supervisory Board as of 25 April 2019 for a period of four years.

Independence

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

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

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

Remuneration

The AGM determines the remuneration of the members of the Supervisory Board. In 2011, the AGM resolved to adjust the remuneration of the Supervisory Board effective 1 January 2011. The detailed amounts are stated in note 13.3 to the 2018 Financial Statements.

To the Shareholders (continued)

Meetings and activities of the Supervisory Board

During 2018 the Supervisory Board held seven meetings with the Executive Board. The agenda regularly included subjects such as the development of the Company's strategy aimed at long-term value creation as well as the manner in which the Executive Board implements the Company's strategy, the Company's culture to ensure proper monitoring by the Supervisory Board, the Company's financial position, the results of the Regions and operating companies, acquisitions, large investment proposals, the yearly budget, management changes and the internal risk management and control system. The external auditor attended the meeting in which the annual results were discussed. In 2018, specific attention was given to the following:

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

The Supervisory Board visited Addis Ababa, Ethiopia, where the Management Team of Heineken Ethiopia, the Managing Directors of Bralirwa (Rwanda) and Heineken South-Africa and the Africa, Middle East and Eastern Europe Region presented an update on business performance. In addition, external guest speakers provided an overview of macro-economic and general business developments in Ethiopia.

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

In 2018, the following subjects were presented in more detail:

- Sustainability (Brewing a Better World)
- Human Resources and succession planning (including the remuneration of the members of the Executive Team)
- Global Information Systems, including Cyber Security

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

An induction programme was set up for Mrs. Helmes. As part of the programme, Mrs. Helmes had meetings with several senior executives and visited the brewery in Zoeterwoude, the Netherlands.

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

Committees

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

Preparatory Committee

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

Audit Committee

Composition: Mr. Huët (Chairman until 31 December 2018), Mrs. Helmes (Chair as of 1 January 2019) and Mr. Astaburuaga Sanjinés. The Audit Committee met four times. The members collectively have the experience and financial expertise to supervise the Executive Board in its activities in relation to the publication of financial statements and operation of the internal risk management and control systems, including the risk profile of the Company.

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

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

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

- The decisions made on the selection and application of accounting policies.
- The reliability and completeness of disclosures.
- Compliance with financial, non-financial and other reporting requirements.
- Significant judgements, estimates and assumptions used in preparing the reports in respect of, among others, accounting for acquisitions and divestments, the annual impairment test and determining the level of provisions.
- At the beginning of the year, the Committee reviews the audit plan of the external auditor as well as the internal audit plan. The Committee focuses mainly on the scoping, key risks, staffing and budget. During the year, the Committee reviews the reports of the external and the internal auditor.

Furthermore, the Committee in 2018 discussed recurring topics, such as:

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

To the Shareholders (continued)

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

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

Selection & Appointment Committee

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

In 2018, the following subjects were on the agenda:

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

Remuneration Committee

Composition: Mr. Das (Chairman), Mr. de Carvalho, Mr. Wijers and Ms. Dervişoğlu. The Remuneration Committee met three times in 2018.

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

The Committee made recommendations to the Supervisory Board on 2018 target setting and 2017 payout levels for the Short-Term Incentive pay and Long-Term Incentive awards to the Executive Board, all of which were endorsed by the Supervisory Board. As part of the recommendations the Remuneration Committee took note of the Executive Board member's views with regard to the amount and structure of their own remuneration.

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

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

Americas Committee

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

The Committee advises the Supervisory Board on the overall strategic direction of the Americas Region and reviews and evaluates the performance, the organisation and the management in the Americas Region. The Chairman of the Executive Board and the President Americas also attend the Americas Committee meetings. The Committee met twice in 2018 and reviewed specific developments in the region, including financial results and strategic priorities, presented by the President Americas.

Attendance

The Supervisory Board confirms that all Supervisory Board members have adequate time available to give sufficient attention to the concerns of the Company. In 2018, the attendance rate was 96% for the Supervisory Board meetings and also 96% if including the Committee meetings. Many Supervisory Board members were able to attend all seven meetings. In case of absence, members are fully informed in advance, enabling them to provide input for the meeting, and they are also updated on the meeting outcome.

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

	Supervisory Board	Preparatory Committee	Audit Committee	Selection & Appointment Committee	Remuneration Committee	Americas Committee
Mr. Wijers	7/7	7/7		5/5	3/3	
Mr. Fernández Carbajal	7/7	7/7		5/5		2/2
Mr. Das	6/7	7/7		4/5	3/3	
Mr. de Carvalho	7/7	7/7		5/5	3/3	2/2
Mrs. Fentener van Vlissingen	1/1		1/1	0/1		
Mr. Navarre	7/7					2/2
Mr. Astaburuaga Sanjinés	7/7		4/4			
Mr. Huët	7/7		4/4			
Mrs. Mars Wright	6/7			4/4		2/2
Ms. Dervişoğlu	6/7				2/3	
Mrs. Helmes	6/6		3/3			

To the Shareholders (continued)

Executive Board composition and remuneration

Composition

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

Mr. Jean-François van Boxmeer was initially appointed for an indefinite term in 2001 and was reappointed for a period of four years in 2017. Mrs. Laurence Debroux was appointed in 2015 for a period of four years. At the 2019 AGM, the Supervisory Board shall nominate Mrs. Laurence Debroux for re-appointment as member of the Executive Board for a four-year term.

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

Remuneration

The AGM approved the current remuneration policy for the Executive Board in 2011 and approved amendments in 2014 and 2017. Details of the policy and its implementation are described in the Remuneration Report.

Appreciation

The Supervisory Board wishes to express its gratitude to the members of the Executive Board and all HEINEKEN employees for their hard work and dedication in 2018.

Supervisory Board Heineken N.V.

Wijers	**Astaburuaga Sanjinés**
Fernández Carbajal	**Huët**
Das	**Mars Wright**
de Carvalho	**Dervişoğlu**
Navarre	**Helmes**

Amsterdam, 12 February 2019

Heineken N.V. Annual Report 2018

Remuneration Report

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

For 2018, the Remuneration Committee and Supervisory Board reviewed the Executive Board remuneration policy versus its implementation, and its outcome versus performance. With regard to policy, the Supervisory Board decided not to recommend any policy change to the 2019 Annual General Meeting of Shareholders (AGM). With regard to implementation, the Supervisory Board decided to increase the base salary of the CFO to align it with the aspired policy level of the labour market peer group median, subject to the approval by the 2019 Annual General Meeting of Shareholders to re-appoint the CFO as member of the Executive Board.

This Remuneration Report includes three sections:

Part I

Describes the prevailing Executive Board remuneration policy, as it was adopted by the AGM in 2011, and as it has been implemented in 2018 and will be implemented in 2019.

Part II

Provides details of the Executive Board actual remuneration for performance ending in, or at year-end, 2018.

Part III

Outlines adjustments to the Executive Board remuneration policy and implementation for 2019.

Part I – Executive Board remuneration policy

Remuneration principles

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

Support the business strategy

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

Pay for performance

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

Pay competitively

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

Pay fairly

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

Summary overview of remuneration elements

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

Remuneration element	Description	Strategic role
Base salary	Involves fixed cash compensation Aims for the median of the labour market peer group	Facilitates attraction and is the basis for competitive pay Rewards performance of day-to-day activities
Short-term incentive	Is based on achievements of annual measures, of which a weighted 75% relate to financial and operational measures for Heineken N.V. and 25% to individual leadership measures Aims, at target level, for the median of the labour market peer group Is partly paid in cash, and partly in investment shares with a holding period of five calendar years: – the part paid in shares is between 25% and 50% of the full before-tax Short-term incentive amount, depending on the individual's choice whether, and to which extent, to exceed the mandatory 25% share investment – the part in cash is paid net of taxes (i.e. after deduction of withholding tax due on the full before-tax Short-term incentive amount) Investment shares are matched on a 1:1 basis after the holding period	Drives and rewards annual HEINEKEN performance Drives and rewards sound business decisions for the long-term health of HEINEKEN Aligns Executive Board and shareholder interests

Remuneration Report (continued)

Remuneration element	Description	Strategic role
Long-term incentive	Is based on achievements of three-year financial targets for Heineken N.V. as specified on page 54 Aims, at target level, for the median of the labour market peer group Is awarded through the vesting of shares, net of taxes (i.e. after deduction of withholding tax due on the full before-tax Long-term incentive amount) Vested shares are blocked for another two years, to arrive at a five-year holding restriction after the date of the conditional performance grant	Drives and rewards sound business decisions for the long-term health of HEINEKEN Aligns Executive Board and shareholder interests Supports Executive Board retention
Pensions	Defined Contribution Pension Plan and/or Capital Creation Plan	Provides for employee welfare and retirement needs

Labour market peer group

A global labour market peer group was adopted by the AGM in 2011, and subsequently adjusted in 2012 and 2017. The median target remuneration of this peer group is a reference point for the target remuneration of the CEO and CFO. Each year, the Remuneration Committee validates the peer group to ensure relevance, and recommends adjustments to the Supervisory Board if needed. For 2018 (and 2017), the peer group consisted of the following companies:

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

Base salary

Base salaries are determined by reference to the median base salary levels of the aforementioned labour market peer group. Every year, peer group and base salary levels are reviewed, and the Remuneration Committee may propose adjustments to the Supervisory Board taking into account the external labour market peer group data and internal pay relativities. The annual base salaries for 2018 were €1,250,000 for the CEO, and €735,000 for the CFO. For 2019 the base salary for the CFO will be increased to €850,000 to align it with the aspired policy level of the labour market peer group median, subject to the approval by the 2019 Annual General Meeting of Shareholders to re-appoint the CFO as member of the Executive Board.

Short-term incentive

The Short-term incentive (STI) is designed to drive and reward the achievements of HEINEKEN's annual performance targets. Through its payout in both cash and investment shares it also drives and rewards sound business decisions for HEINEKEN's long-term health while aligning Executive Board and shareholder interests at the same time. The target STI opportunities for both 2018 and 2019 are 140% of base salary for the CEO and 100% of base salary for the CFO. These percentage opportunities are well aligned with the labour market peer group medians.

The STI opportunities are for a weighted 75% based on financial and operational measures for Heineken N.V., and for a weighted 25% on Individual leadership measures. At the beginning of each year, the Supervisory Board establishes the performance measures, their relative weights and corresponding targets based on HEINEKEN's business priorities for that year. The financial and operational measures and their relative weights are reported in the Remuneration Report upfront; the numerical performance targets themselves are not disclosed as they are considered to be commercially sensitive. In the first weeks of the following year, the Supervisory Board reviews the Company and individual performance against the pre-set targets, and approves the STI payout levels based on the performance achieved. The performance on each of the measures is reported in qualitative terms in the Remuneration Report after the end of the performance period (cf. Part II). The STI payout for 2018 is subject to four performance measures: Organic Net Revenue Growth (weight: 35%), Organic Net Profit beia Growth (weight: 15%), Free Operating Cash Flow (weight: 25%) and Individual leadership measures (weight: 25%). For 2019 the same performance measures and weights will apply.

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

Threshold performance
50% of target payout

Target performance
100% of target payout

Maximum performance
200% of target payout.

Remuneration Report (continued)

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

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

Long-term incentive

The Long-term incentive (LTI) is designed to drive and reward sound business decisions for HEINEKEN's long-term health, and to align the Executive Board with shareholder interests. The target LTI opportunities for both 2018 and 2019 are 150% of base salary for the CEO and 125% of base salary for the CFO.

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

Organic Net Revenue Growth
To drive top line growth

Organic Operating Profit beia Growth
To drive profitability and operational efficiency

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

Free Operating Cash Flow
To drive focus on cash.

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

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

Threshold performance
50% of performance shares vests

Target performance
100% of performance shares vests

Maximum performance
200% of performance shares vests.

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

Remuneration Report (continued)

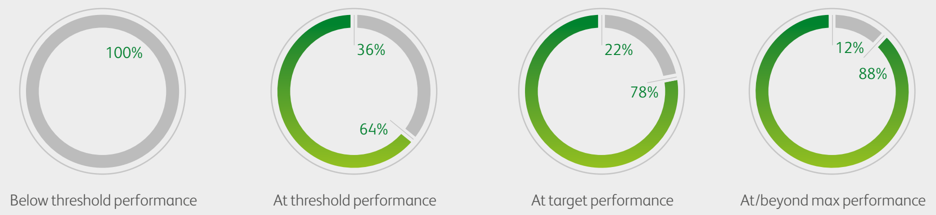
The Supervisory Board has the power to revise the amount of performance shares that will vest to an appropriate number if the number of performance shares that would have vested under the agreed vesting schedule would be unacceptable according to standards of reasonableness and fairness. The Supervisory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

As from the 2017 grant, the performance measure 'Organic Operating Profit beia Growth' replaced the performance measure 'Organic EBIT beia Growth', as approved by the AGM on 20 April 2017. For the LTI grants for the performance period 2015-2017 and the performance period 2016-2018 the original EBIT targets remained in place.

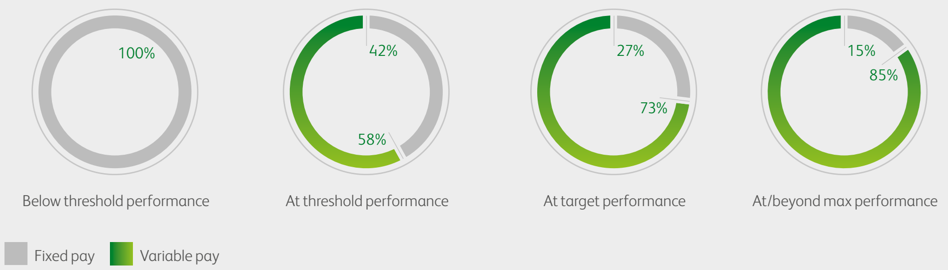
Pay mix

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

CEO target pay mix 2018-2019



CFO target pay mix 2018-2019



Pensions

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

Compensation rights on termination of employment/service agreement

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

If the Company gives notice of termination of the service agreement of Mrs. Debroux for a reason which is not an urgent reason ('dringende reden') within the meaning of the law, or decides not to extend the service agreement upon its expiry, or if the AGM does not re-appoint Mrs. Debroux as member of the Executive Board for a subsequent term, the Company shall pay Mrs. Debroux an amount equal to two years of base salary or one year of base salary, depending on whether such termination occurs during or upon expiry of Mrs. Debroux's first four-year term (ending on 25 April 2019), or any subsequent term respectively. At the time, this agreement with Mrs. Debroux was made in line with the best practice provisions of the 2008 Dutch Corporate Governance Code. Under the revised 2016 Code, the requirements regarding severance payments are more stringent and as such the Company does not, strictly speaking, comply with best practice provision 3.2.3 during her first term. If on 25 April 2019 the AGM approves the proposal by the Supervisory Board to nominate Mrs. Debroux for re-appointment as member of the Executive Board then the Company will comply with the 2016 Code requirements henceforth.

Loans

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

Remuneration Report (continued)

Part II – The Executive Board actual remuneration for performance ending in, or at year-end, 2018

The following table provides an overview of the Executive Board actual remuneration that became unconditional in, or at year-end, 2018. For disclosures in line with IFRS reporting requirements, which are 'accrual-based' over earning/performance periods and partly depend on estimations/assumptions, see note 13.3 'Related parties' on page 109. The Supervisory Board conducted a scenario analysis with respect to possible outcomes of the variable remuneration disclosed in this section.

			2016-2018 Long-term incentive		Matching entitlements			Extraordinary Share Grants		
	(1) Base salary in €	(2) 2018 Short-term incentive in €	(3) No. of performance shares vesting	(4) Value of performance shares vesting in €	(5) No. of matching entitlements vesting	(6) Value of matching entitlements vesting in €	(7) Pension cost in €	(8) No. of extraordinary shares vesting	(9) Value of extraordinary shares vesting in €	(10) Other emoluments in €
Van Boxmeer	1,250,000	2,730,000	41,820	3,228,504	11,910	919,452	872,781	–	–	48,919
Debroux	735,000	1,146,600	20,910	1,614,252	–	–	144,850	–	–	161,970

ad (1) – Base salary

These base salaries have been paid to the members of the Executive Board for 2018.

ad (2) – 2018 Short-term incentive

The 2018 Short-term incentive (STI) relates to the performance year 2018, and becomes payable in 2019. The STI for 2018 was subject to four performance measures: Organic Net Revenue Growth (weight: 35%), Organic Net Profit beia Growth (weight: 15%), Free Operating Cash Flow (weight: 25%) and Individual leadership measures (weight: 25%). The Supervisory Board determined the results against the pre-set targets on these measures as follows:

Organic Net Revenue Growth
between target and maximum performance

Organic Net Profit beia Growth
at maximum performance

Free Operating Cash Flow
at maximum performance

Individual leadership measures
between threshold and target performance

The resulting STI payout for 2018 is 156% of payout at target level for both members of the Executive Board. In line with policy, 25% of the STI payout is paid out in investment shares against the closing share price of 13 February 2019, the publication date of these financial statements. In addition, the Executive Board members have had the opportunity to indicate before the end of the 2018 performance year whether they wished to receive up to another 25% of their STI payout in additional investment shares; for 2018 the Executive Board members did not elect to receive additional investment shares beyond the mandatory 25% share investment. The investment shares are restricted for sale for five calendar years, after which they are matched 1:1 by matching shares. Revision and clawback provisions apply to this Short-Term Incentive, including the related matching share entitlement. The table overleaf provides an overview of the investment shares at year-end that were awarded as part of STI payouts in the past, and that have remained blocked and await 1:1 matching by the Company, provided the conditions thereto are met. Only when the holding period of the investment shares has been completed, will the matching share entitlements be converted into shares and transferred to the recipient.

Remuneration Report (continued)

	STI payout for	% of STI payout invested in shares	Award date	No. of investment shares awarded[1]	Value of investment shares as of the award date in €	End of blocking period	Value of investment shares as of 31.12.2018[2] in €
Van Boxmeer	2018	25%	14.02.2019	t.b.d.	ca. 682,500	31.12.2023	n.a.
	2017	25%	13.02.2018	8,326	683,898	31.12.2022	642,767
	2016	25%	16.02.2017	11,106	839,947	31.12.2021	857,383
	2015	50%	11.02.2016	20,105	1,465,051	31.12.2020	1,552,106
	2014	25%	12.02.2015	10,427	692,249	31.12.2019	804,964
Debroux	2018	25%	14.02.2019	t.b.d.	ca. 286,650	31.12.2023	n.a.
	2017	25%	13.02.2018	3,568	293,076	31.12.2022	275,450
	2016	25%	16.02.2017	4,760	359,999	31.12.2021	367,472
	2015	50%	11.02.2016	5,713	416,306	31.12.2020	441,044

[1] The number of investment shares awarded in relation to the STI payout for 2013 and beyond is determined by dividing the part of the STI payout that is invested in shares by the closing share price of the date of publication of the financial statements for that year; the Award date of the investment shares is the day following.
[2] The share price as of 31 December 2018 is €77.20.

ad (3) – 2016-2018 Long-term incentive: number of performance shares vesting

The 2016-2018 Long-term incentive (LTI) relates to the performance period 2016-2018 and vests shortly after 13 February 2019, the publication date of these financial statements. The vesting of the LTI award for performance period 2016-2018 is subject to Heineken N.V. performance on four financial measures with equal weights. The Supervisory Board determined the results against the pre-set targets as follows:

Organic Net Revenue Growth
at maximum performance

Organic EBIT beia Growth
at maximum performance

Earnings Per Share (EPS) beia Growth
between target and maximum performance

Free Operating Cash Flow
at maximum performance

As a result, the vesting of the LTI grant for performance period 2016-2018 will be equal to 183% of the vesting at target level. For the CEO this plan performance implies that 41,820 shares will vest shortly after 13 February 2019, as a result of the 22,852 conditional performance shares granted to him in 2016. For the CFO this plan performance implies that 20,910 shares will vest shortly after 13 February 2019, as a result of the 11,426 conditional performance shares granted to her in 2016. The resulting share awards are defined in before-tax terms (i.e. before deduction of withholding tax due); the actual net shares awarded (i.e. after withholding tax due) remain blocked for an additional period of two years until 11 February 2021, also in case of resignation during that period. Revision and clawback provisions apply to this award. The table below provides an overview of outstanding LTI awards (awards granted but not yet vested, or awards vested but still blocked) as of 31 December 2018.

Remuneration Report (continued)

	Grant date	No. of shares conditionally granted at target level[1]	Value of shares conditionally granted as of the grant date in €	Vesting date[2]	No. of shares vesting on the vesting date[3] (before-tax)	No. of shares vesting on the vesting date[4] (after-tax)	End of blocking period	Value of unvested or blocked shares as of 31.12.2018[5] in €
Van Boxmeer	2018	21,570	1,771,760	02.2021	t.b.d.	t.b.d.	13.02.2023	847,270
	2017	25,260	1,910,414	02.2020	t.b.d.	t.b.d.	16.02.2022	992,252
	2016	22,852	1,665,225	14.02.2019	41,820	21,279	11.02.2021	1,642,739
	2015	29,263	1,942,771	13.02.2018	47,699	24,175	12.02.2020	1,866,310
	2014	35,147	1,662,805	16.02.2017	61,508	31,143	13.02.2019	2,404,240
Debroux	2018	10,569	868,138	02.2021	t.b.d.	t.b.d.	13.02.2023	539,860
	2017	12,630	955,207	02.2020	t.b.d.	t.b.d.	16.02.2022	645,160
	2016	11,426	832,613	14.02.2019	20,910	13,836	11.02.2021	1,068,139
	2015	11,857	787,186	13.02.2018	19,327	12,762	24.04.2020	985,226

[1] Determined according to plan rules, using the closing share price of 31 December of the year preceding the grant date.
[2] The vesting date is shortly after the publication of the financial statements after completion of the performance period.
[3] Vested shares are disclosed in before-tax terms (i.e. before deduction of withholding tax due).
[4] Vested shares are disclosed in after-tax terms (i.e. after deduction of withholding tax due).
[5] The value for the grants in 2014, 2015 and 2016 is based on the actual number of shares vesting on the vesting date after-tax withholding, i.e. after applying the relevant income tax rate, whereas the value for the grants in 2017 and 2018 is based on the number of performance shares conditionally granted at target level (since the number of performance shares vesting is yet unknown) after applying the currently prevailing income tax rate. The share price as of 31 December 2018 is €77.20.

ad (4) – 2016-2018 Long-term incentive: value of performance shares vesting

The value of performance shares vesting is based on the share price as of 31 December 2018 of €77.20.

ad (5) – Matching entitlements: number of matching entitlements vesting

These entries refer to the number of matching share entitlements that vested after year-end 2018, as a result of the investment in shares of part of the STI payout for performance year 2013, and holding on to these investment shares until year-end 2018. For the CEO this number of matching shares is the result of a 50% investment of this STI payout in investment shares at the time. For the CFO there is no vesting from this plan yet, given her later appointment to the Executive Board on 23 April 2015.

ad (6) – Matching entitlements: value of matching entitlements vesting

The value of matching share entitlements vesting is based on the share price as of 31 December 2018 of €77.20.

ad (7) – Pension cost

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

Remuneration Report (continued)

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

The table below provides an overview of the Extraordinary share grants that have vested prior to 2018 but are still blocked as of 31 December 2018; there are no such grants to members of the Executive Board that are still unvested or that vested in, or at year-end, 2018. The Extraordinary share grants to Mrs. Debroux vested in 2015 and 2016, yet are blocked for five years from the moment of grant, i.e. until 24 April 2020.

	Award	Grant date	No. of shares of the granted[1] in €	Value of shares conditionally granted as of the grant date in €	Vesting date	No. of shares vesting on the vesting date[2] (after-tax)	End of blocking period	Value of unvested or blocked shares as of 31.12.2018[3] in €
Debroux	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2015	681	24.04.2020	52,573
	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2016	675	24.04.2020	52,110

[1] The 'Number of shares granted' refers to the grant in before-tax terms (i.e. before-tax withholding).
[2] As the table reveals, income tax has been withheld from the Extraordinary share awards themselves.
[3] The value of the share awards is based on the 'Number of shares vesting on the vesting date (after-tax)' against the share price as of 31 December 2018 of €77.02.

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

There are no such grants to members of the Executive Board that vested in, or at year-end, 2018.

ad (10) – Other emoluments

The amounts mainly involve car benefits-in-kind, and for Mrs. Debroux also housing allowance (grossed-up) and schooling costs.

Actual remuneration paid to former members of the Executive Board

There has not been any remuneration for 2018 paid to former members of the Executive Board, nor is any such remuneration outstanding for later years.

Remuneration Report (continued)

Pay Ratio

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

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

The 2018 pay ratios for HEINEKEN are 198 for the CEO and 91 for the CFO, versus 215 and 100 in 2017 respectively. These ratios are obtained by dividing the 2018 total remuneration for the CEO and CFO by the 2018 average total remuneration of all other employees worldwide. The common denominator of these ratios is derived from note 6.4 on page 75 by dividing the 2018 total personnel expense (after subtracting the expense for contractors and for the Executive Board), by the reported FTE (minus two; excluding contractors), leading to an amount of €41,689 versus €42,074 in 2017. The total remuneration for the CEO and CFO is retrieved from note 13.3 on page 109. The reason why the Executive Board's remuneration is obtained from note 13.3 rather than from this Remuneration Report is explained by the fact that the personnel expense in note 6.4 is based on IFRS valuation standards, which implies that the Executive Board's remuneration also needs to be based on these standards for reasons of comparability.

The pay ratio decrease of ca. 8.5% over 2018 results from a decrease in the remuneration of the CEO and CFO over 2018 by ca. 9.5% and a decrease of the average total remuneration of all other employees worldwide by ca. 1%.

- The decrease in the CEO and CFO remuneration is predominantly caused by a decrease in the Long-term incentive plans, which clearly exceeds the increase in salaries (cf. note 13.3).
- The decrease in the average total remuneration of all other employees worldwide follows from exchange rate effects and changes in the distribution of employees over geographies, which exceed the regular pay increases in 2018 in local currencies worldwide.

Part III – Adjustments to the Executive Board remuneration policy and implementation for 2019

Policy changes

The Supervisory Board reviewed the remuneration policy and decided not to submit any changes for approval to the 2019 AGM.

Implementation changes

The Supervisory Board also reviewed the remuneration policy versus its implementation and decided to increase the base salary of the CFO, from €735,000 to €850,000, to align it with the aspired policy level of the labour market peer group median, subject to the approval by the 2019 Annual General Meeting of Shareholders to re-appoint the CFO as member of the Executive Board for a second term of four years. As part of this nomination and related new service agreement the severance amount in case of dismissal will be reduced from two years of base salary to one year of base salary, which was already indicated in the service agreement for the first term (from April 2015 until April 2019).

Supervisory Board Heineken N.V.
Amsterdam, 12 February 2019

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Financial Statements

Consolidated Income Statement

For the year ended 31 December

In millions of €	Note	2018	2017*
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 the Company (net profit)		1,903	1,935
Non-controlling interests		192	218
Profit		2,095	2,153
Weighted average number of shares – basic	6.7	570,146,069	570,074,335
Weighted average number of shares – diluted	6.7	570,663,632	570,652,111
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.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

In millions of €	Note	2018	2017
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 the Company		1,848	881
Non-controlling interests		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**

	Note	2018	2017
Shareholders' equity	11.4	14,358	13,321
Non-controlling interests	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

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 shares issued		(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	Reserve for own shares	Retained earnings	Shareholders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2017		922	2,701	(1,829)	(1)	262	838	(443)	10,788	13,238	1,335	14,573
Profit		–	–	–	–	–	153	–	1,782	1,935	218	2,153
Other comprehensive income	12.3	–	–	(1,295)	106	69	–	–	66	(1,054)	(115)	(1,169)
Total comprehensive income		–	–	(1,295)	106	69	153	–	1,848	881	103	984
Transfer to retained earnings		–	–	–	–	–	(29)	–	29	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	(775)	(775)	(245)	(1,020)
Purchase/reissuance own/non-controlling shares	11.4	–	–	–	–	–	–	–	–	–	–	–
Own shares delivered		–	–	–	–	–	–	33	(33)	–	–	–
Share-based payments		–	–	–	–	–	–	–	22	22	–	22
Acquisition of non-controlling interests without a change in control		–	–	–	–	–	–	–	(45)	(45)	28	(17)
Changes in consolidation/transfers within equity		–	–	–	7	–	–	–	(7)	–	(21)	(21)
Balance as at 31 December 2017		922	2,701	(3,124)	112	331	962	(410)	11,827	13,321	1,200	14,521

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 the Company**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2017		922	2,701	(3,124)	–	112	331	962	(410)	11,827	13,321	1,200	14,521
Changes in accounting policy (IFRS 9)		–	–	(2)	3	–	–	–	–	(3)	(2)	–	(2)
Balance as at 1 January 2018		922	2,701	(3,126)	3	112	331	962	(410)	11,824	13,319	1,200	14,519
Profit		–	–	–	–	–	–	214	–	1,689	1,903	192	2,095
Other comprehensive income	12.3	–	–	(143)	6	(150)	11	–	–	221	(55)	4	(51)
Total comprehensive income		–	–	(143)	6	(150)	11	214	–	1,910	1,848	196	2,044
Transfer to/(from) retained earnings		–	–	–	–	–	–	(80)	–	80	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	–	(866)	(866)	(212)	(1,078)
Purchase/reissuance own/non-controlling shares	11.4	–	–	–	–	–	–	–	(38)	–	(38)	20	(18)
Own shares delivered		–	–	–	–	–	–	–	33	(33)	–	–	–
Share-based payments		–	–	–	–	–	–	–	–	26	26	–	26
Acquisition of non-controlling interests without a change in control		–	–	–	–	–	–	–	–	26	26	(30)	(4)
Changes in consolidation/transfers within equity		–	–	–	–	–	–	–	–	43	43	8	51
Balance as at 31 December 2018		922	2,701	(3,269)	9	(38)	342	1,096	(415)	13,010	14,358	1,182	15,540

Notes to the Consolidated Financial Statements

1 Reporting entity

Heineken N.V. (the 'Company') is a company domiciled in the Netherlands, with its head office in Amsterdam. The consolidated financial statements of the Company as at 31 December 2018 comprise the Company, its subsidiaries (together referred to as 'HEINEKEN') and HEINEKEN's interest in joint ventures and associates. The Company is registered in the Trade Register of Amsterdam No. 33011433.

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

2 Basis of preparation

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 Executive Board of the Company and authorised for issue on 12 February 2019 and will be submitted for adoption to the Annual 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 our 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 the Company (net profit)	1,935		1,935
Non-controlling interests	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 Head Office & Other/eliminations. In below table information is provided about these reportable segments:

		Europe		Americas		Africa, Middle East & Eastern Europe		Asia Pacific		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 the Company (net profit)												1,903	1,935
Non-controlling interests												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		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, which is considered to be HEINEKEN's chief operating decision-maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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, and is directly accountable for the functioning of the segment's assets, liabilities and results. The Head Office operating segment falls directly under the responsibility of the Executive Board. The Executive Board reviews the performance of the segments based on internal management reports on a monthly basis.

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

Notes to the Consolidated Financial Statements (continued)

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

Inter-segment 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 HEINEKEN's 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.

Notes to the Consolidated Financial Statements (continued)

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

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).

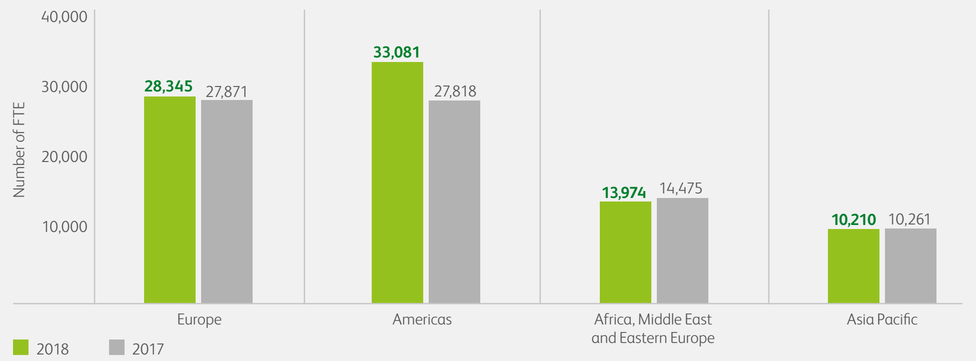
Accounting policies

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



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

HEINEKEN employees are granted 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.

Notes to the Consolidated Financial Statements (continued)

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

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.

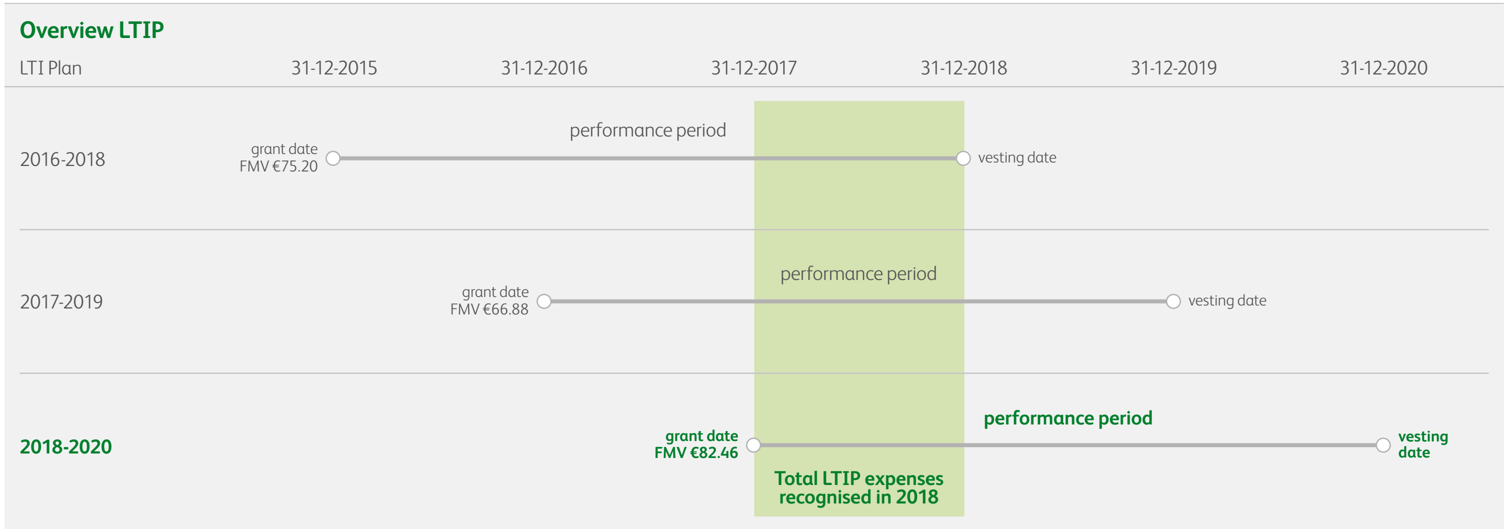
Long term incentive plan (LTIP)

HEINEKEN has a performance-based Long-term incentive plan (LTIP) for the Executive Board and senior management. Under this LTIP, 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 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:



Notes to the Consolidated Financial Statements (continued)

Ownership of the vested LTIP 2016-2018 shares will transfer to the Executive Board 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 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 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 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

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 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.

Notes to the Consolidated Financial Statements (continued)

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 ordinary 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	3.34	3.39
Diluted earnings per share	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	576,002,613	576,002,613
Effect of own shares held	(5,856,544)	(5,928,278)
Weighted average number of basic shares outstanding for the year	570,146,069	570,074,335
Dilutive effect of share-based payment plan obligations	517,563	577,776
Weighted average number of diluted shares outstanding for the year	570,663,632	570,652,111

Accounting policies

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

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.

Notes to the Consolidated Financial Statements (continued)

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.

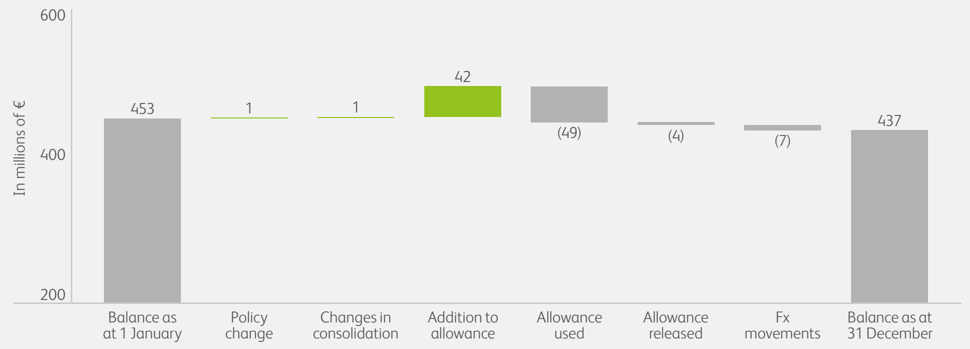
The ageing of the trade and other receivables (excluding prepayments) as per reporting date can be shown as follows:

	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 €	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.

Notes to the Consolidated Financial Statements (continued)

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 amortised cost. The trade payable is derecognised when the contractual obligation is either discharged, cancelled or expired.

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.

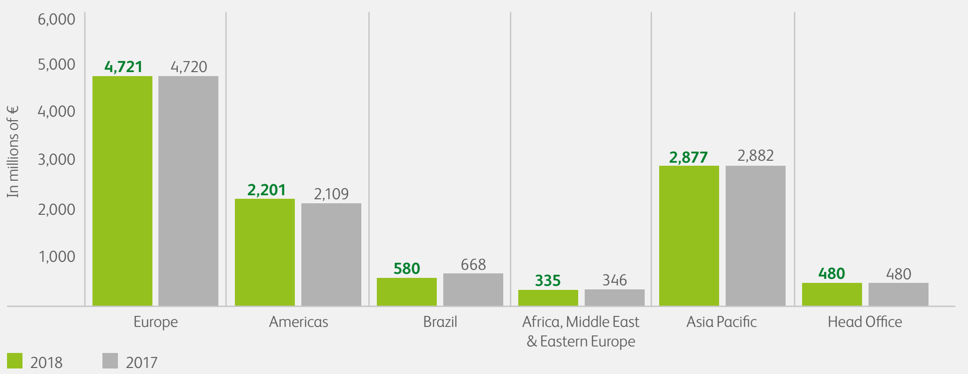
							2018						2017
In millions of €	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
Cost													
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 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



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 10-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
Head Office	9.1	1.9	1.0

CGUs 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.

Notes to the Consolidated Financial Statements (continued)

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.

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

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 10-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 believes 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 capitalised 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 exist on cash generating unit (CGU) level. When a triggering event exists, 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.

8.3 Loans and advances to customers

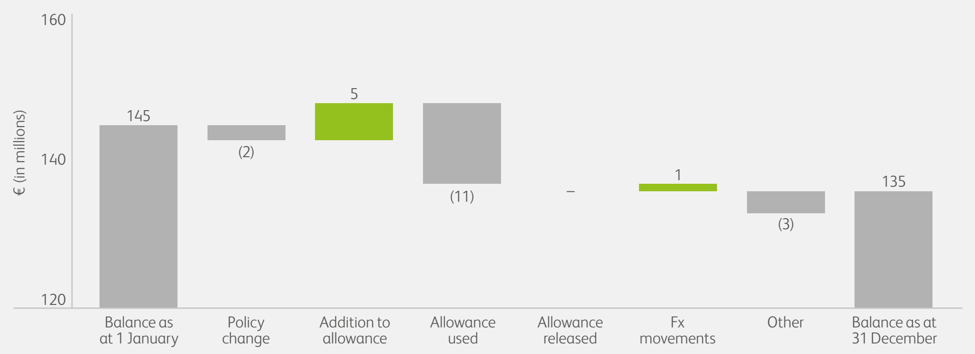
Loans and advances to customers are inherent to HEINEKEN's business model. Loans to customers are repaid in cash on fixed dates while the settlement of advances to customers are linked to the sales volume of the customer. Loans and advances to customers are usually backed by a collateral such as properties.

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

Notes to the Consolidated Financial Statements (continued)

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 €	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 amortised 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 note 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 amortised 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

Notes to the Consolidated Financial Statements (continued)

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 fulfils 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.

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.

In millions of €	**2018 UK**	2017 UK	**2018 NL**	2017 NL	**2018 Other**	2017 Other	**2018 Total**	2017 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 Company 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%).

Notes to the Consolidated Financial Statements (continued)

Inflation risk

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

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation is partly managed through the use of a mixture of inflation-linked derivative instruments. These instruments match 37% of the inflation-linked liabilities (2017: 35%).

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)

Notes to the Consolidated Financial Statements (continued)

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 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).

Notes to the Consolidated Financial Statements (continued)

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 bases 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.

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

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.

Notes to the Consolidated Financial Statements (continued)

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.

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)

Notes to the Consolidated Financial Statements (continued)

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 off set rights	Net amount
Balance as at 31 December 2017					
Assets					
Cash and cash equivalents	2,442	–	2,442	(1,062)	1,380
Liabilities					
Bank overdrafts and commercial 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 the Company, 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 amortised 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.

	Note	2018			2017		
In millions of €		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.

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.

Notes to the Consolidated Financial Statements (continued)

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 amortised 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	Ordinary shares of €1.60	Nominal value in millions of €	Ordinary shares of €1.60	Nominal value in millions of €
1 January	576,002,613	922	576,002,613	922
Changes	–	–	–	–
31 December	576,002,613	922	576,002,613	922

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

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

Share premium

As at 31 December 2018, the share premium amounted to €2,701 million (2017: €2,701 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.

Notes to the Consolidated Financial Statements (continued)

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. Refer to the table below with the changes in 2018.

Reserve for own shares	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:

In millions of €	2018	2017
Final dividend previous year €0.93, respectively €0.82 per qualifying ordinary share	531	468
Interim dividend current year €0.59, respectively €0.54 per qualifying ordinary share	335	307
Total dividend declared and paid	866	775

For 2018, a payment of a total cash dividend of €1.60 per share (2017: €1.47) will be proposed at the AGM. 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.

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

In millions of €	2018	2017
Dividend per qualifying ordinary share €1.60 (2017: €1.47)	912	838
Addition to retained earnings	991	1,097
Net profit	1,903	1,935

Non-controlling interests

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

Capital management

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

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves. Shares are purchased from time to time to meet the requirements of the share-based payment awards, as further explained in note 6.5.

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 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.

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 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.

Notes to the Consolidated Financial Statements (continued)

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 Company financial statements.

Exposure to credit risk

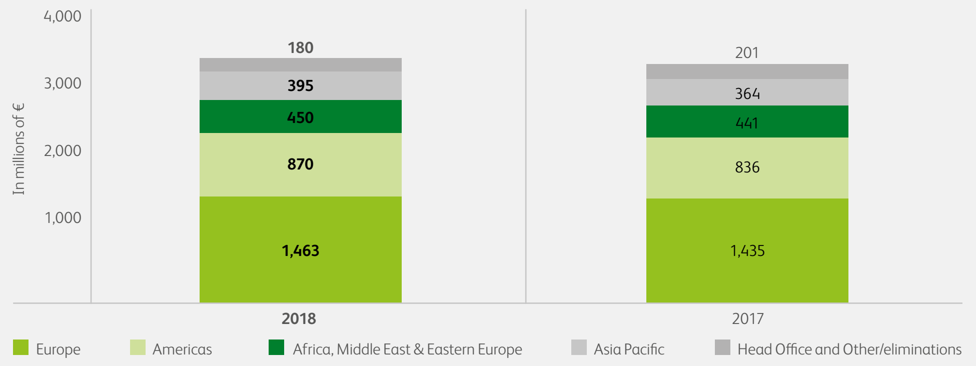
Below the maximum exposure to credit risk as per reporting date is shown:

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



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.

Notes to the Consolidated Financial Statements (continued)

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.

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 recognised transactional exposure like trade payables, receivables, borrowings and declared dividends. For material unrecognised transactional exposures like forecasted sales in foreign currencies, HEINEKEN hedges the exposure between agreed percentages according to the policy.

Notes to the Consolidated Financial Statements (continued)

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 of €	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)

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)

Notes to the Consolidated Financial Statements (continued)

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.

In millions of €	Profit or loss		Equity	
	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.

Sensitivity analysis for aluminium hedges

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

In millions of €	Equity	
	10% increase	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:

In millions of €	2018		2017	
	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:

In millions of €	2018		2017	
	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.

Notes to the Consolidated Financial Statements (continued)

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.

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 recognised 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 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.

Notes to the Consolidated Financial Statements (continued)

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

In millions of €	2018 Amount before-tax	2018 Tax	2018 Amount net of tax	2017 Amount before-tax	2017 Tax	2017 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).

Notes to the Consolidated Financial Statements (continued)

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

As at 31 December In millions of €	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value 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.

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.

Notes to the Consolidated Financial Statements (continued)

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.

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 N.V.:

– Key management personnel: the Executive Board and the Supervisory Board

– Parent company Heineken Holding N.V. and ultimate controlling party Mrs. Carvalho-Heineken (refer to 'Shareholder Information')

– Associates and Joint ventures of Heineken N.V.

– Shareholder with significant influence Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA)

– HEINEKEN pension funds (refer to note 9.1)

– Employees of HEINEKEN (refer to note 6.4)

Key management remuneration

In millions of €	2018	2017
Executive Board	12.0	13.3
Supervisory Board	1.0	1.0
Total	**13.0**	**14.3**

Executive Board

The remuneration of the members of the Executive Board consists of a fixed component and a variable component. The variable component is made up of a Short-term 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 at the beginning of the year. For the LTI we refer to note 6.5. The separate Remuneration Report is stated on pages 52–60.

Notes to the Consolidated Financial Statements (continued)

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

	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.

Supervisory Board

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. Dervişoğlu	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.

Mr. Michel 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 Company's bonds or option rights. Mr. Michel de Carvalho held 100,008 shares of Heineken Holding N.V. as at 31 December 2018 (2017: 100,008 ordinary shares).

Heineken Holding N.V.

In 2018, an amount of €1,393,537 (2017: €714,412) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs.

Notes to the Consolidated Financial Statements (continued)

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

13.4 HEINEKEN entities

Control of HEINEKEN

The shares of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. Heineken Holding N.V. Amsterdam has an interest of 50.005% in the issued capital of the Company and consolidates the financial information of the Company.

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

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, the Company irrevocably guarantees, in respect of the financial year from 1 January 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's significant subsidiaries at 31 December 2018. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The 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.

		Percentage of ownership	
	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.

Heineken N.V. Income Statement

For the year ended 31 December

In millions of €	2018	2017
Personnel expenses	(13)	(14)
Total other expenses	**(13)**	**(14)**
Interest income	17	111
Interest expenses	(363)	(355)
Other net finance income/(expenses)	(164)	502
Net finance expenses	**(510)**	**258**
Share of profit of participating interests, after income tax	2,304	1,749
Profit before income tax	**1,781**	**1,993**
Income tax income/(expense)	122	(58)
Profit	**1,903**	**1,935**

Heineken N.V. Balance Sheet

Before appropriation of profit

As at 31 December

In millions of €	Note	2018	2017
Investments in participating interests	A.1	27,631	26,276
Other financial non-current assets		29	3
Deferred tax assets		–	74
Total financial fixed assets		**27,660**	**26,353**
Trade and other receivables		21	122
Tax receivable		21	–
Cash and cash equivalents		–	1
Total current assets		**42**	**123**
Total assets		**27,702**	**26,476**

In millions of €	Note	2018	2017
Issued capital		922	922
Share premium		2,701	2,701
Translation reserve		(3,269)	(3,124)
Cost of hedging reserve		9	–
Hedging reserve		(38)	112
Fair value reserve		342	331
Other legal reserves		1,096	962
Reserve for own shares		(415)	(410)
Retained earnings		11,107	9,892
Net profit		1,903	1,935
Total shareholders' equity		**14,358**	**13,321**
Borrowings	A.2	12,135	11,743
Other non-current liabilities		29	56
Deferred tax liability		43	–
Total non-current liabilities		**12,207**	**11,799**
Borrowings	A.2	1,025	1,126
Trade and other payables		112	228
Current tax liabilities		–	2
Total current liabilities		**1,137**	**1,356**
Total liabilities		**13,344**	**13,155**
Total shareholders' equity and liabilities		**27,702**	**26,476**

Heineken N.V. Shareholders' equity

In millions of €	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserve	Reserve for own shares	Retained earnings	Net profit	Shareholders' equity
Balance as at 1 January 2017	922	2,701	(1,829)	(1)	262	838	(443)	9,248	1,540	13,238
Profit	–	–	–	–	–	153	–	(153)	1,935	1,935
Other comprehensive income	–	–	(1,295)	106	69	–	–	66	–	(1,054)
Total comprehensive income	–	–	(1,295)	106	69	153	–	(87)	1,935	881
Transfer to retained earnings	–	–	–	–	–	(29)	–	1,569	(1,540)	–
Dividends to shareholders	–	–	–	–	–	–	–	(775)	–	(775)
Purchase/reissuance of own shares	–	–	–	–	–	–	–	–	–	–
Own shares granted	–	–	–	–	–	–	33	(33)	–	–
Share-based payments	–	–	–	–	–	–	–	22	–	22
Acquisition of non-controlling interests without a change in control	–	–	–	–	–	–	–	(45)	–	(45)
Changes in consolidation/transfers within equity	–	–	–	7	–	–	–	(7)	–	–
Balance as at 31 December 2017	922	2,701	(3,124)	112	331	962	(410)	9,892	1,935	13,321

In millions of €	Share capital	Share premium	Translation reserve	Cost of hedging reserve	Hedging reserve	Fair value reserve	Other legal reserve	Reserve for own shares	Retained earnings	Net profit	Shareholders' equity
Balance as at 31 December 2017	922	2,701	(3,124)	–	112	331	962	(410)	9,892	1,935	13,321
Changes in accounting policy (IFRS 9)	–	–	(2)	3	–	–	–	–	(3)	–	(2)
Balance as at 1 January 2018	922	2,701	(3,126)	3	112	331	962	(410)	9,889	1,935	13,319
Profit	–	–	–	–	–	–	214	–	(214)	1,903	1,903
Other comprehensive income	–	–	(143)	6	(150)	11	–	–	221	–	(55)
Total comprehensive income	–	–	(143)	6	(150)	11	214	–	7	1,903	1,848
Transfer to retained earnings	–	–	–	–	–	–	(80)	–	2,015	(1,935)	–
Dividends to shareholders	–	–	–	–	–	–	–	–	(866)	–	(866)
Purchase/reissuance of own shares	–	–	–	–	–	–	–	(38)	–	–	(38)
Own shares granted	–	–	–	–	–	–	–	33	(33)	–	–
Share-based payments	–	–	–	–	–	–	–	–	26	–	26
Acquisition of non-controlling interests without a change in control	–	–	–	–	–	–	–	–	26	–	26
Changes in consolidation/transfers within equity	–	–	–	–	–	–	–	–	43	–	43
Balance as at 31 December 2018	922	2,701	(3,269)	9	(38)	342	1,096	(415)	11,107	1,903	14,358

For more details on reserves, refer to note 11.4 of the consolidated financial statements.

For more details on share-based payments, refer to note 6.5 of the consolidated financial statements.

Notes to the Heineken N.V. Financial Statements

Reporting entity

The Company financial statements of Heineken N.V. (the 'Company') are included in the consolidated financial statements of Heineken N.V.

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Dutch Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of IFRS as adopted by the EU as explained in the notes to the consolidated financial statements.

Accounting policies

Shareholders' equity

The translation reserve and other legal reserves were previously formed under, and are still recognised in accordance with, the Dutch Civil Code.

A Company disclosures

A.1 Investments

The table below provides an overview of the movements of the investments during the year:

In millions of €	Participating interests	Loans to participating interests	Total
Balance as at 1 January 2018	**15,740**	**10,536**	**26,276**
Profit of participating interests	2,304	–	2,304
Dividend payments by participating interests	(688)	688	–
Effect of movements in exchange rates	(167)	–	(167)
Changes in hedging and fair value adjustments	(144)	–	(144)
Actuarial gains/(losses)	221	–	221
Acquisition of non-controlling interests without a change in control	26	–	26
Investments/(repayments)	75	(960)	(885)
Other movements	–	–	–
Balance as at 31 December 2018	**17,367**	**10,264**	**27,631**
Balance as at 1 January 2017	15,674	9,172	24,846
Profit of participating interests	1,749	–	1,749
Dividend payments by participating interests	(616)	616	–
Effect of movements in exchange rates	(1,297)	–	(1,297)
Changes in hedging and fair value adjustments	176	–	176
Actuarial gains/(losses)	66	–	66
Acquisition of non-controlling interests without a change in control	(50)	–	(50)
Investments/(repayments)	42	748	790
Other movements	(4)	–	(4)
Balance as at 31 December 2017	15,740	10,536	26,276

For disclosures of significant direct and indirect participating interests, refer to notes 10.3 and 13.4 to the consolidated financial statements.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to the following legal entities established in the Netherlands:

Notes to the Heineken N.V. Financial Statements (continued)

		Percentage of ownership	
	Country of incorporation	2018	2017
Heineken Nederlands Beheer B.V.	The Netherlands	100%	100%
HEINEKEN Group B.V.	The Netherlands	100%	100%
Heineken Brouwerijen B.V.	The Netherlands	100%	100%
Heineken CEE Investments B.V.	The Netherlands	100%	100%
Heineken Nederland B.V.	The Netherlands	100%	100%
Heineken International B.V.	The Netherlands	100%	100%
Heineken Supply Chain B.V.	The Netherlands	100%	100%
Heineken Global Procurement B.V.	The Netherlands	100%	100%
Heineken Mexico B.V.	The Netherlands	100%	100%
HIBV Skopje Holdings B.V.	The Netherlands	100%	100%
Heineken Beer Systems B.V.	The Netherlands	100%	100%
Amstel Brouwerij B.V.	The Netherlands	100%	100%
Vrumona B.V.	The Netherlands	100%	100%
B.V. Beleggingsmaatschappij Limba	The Netherlands	100%	100%
Brand Bierbrouwerij B.V.	The Netherlands	100%	100%
Brasinvest B.V.	The Netherlands	100%	100%
Heineken Asia Pacific B.V.	The Netherlands	100%	100%
B.V. Handel- en Exploitatie Maatschappij Schoonhoven	The Netherlands	100%	100%
Distilled Trading International B.V.	The Netherlands	100%	100%
Premium Beverages International B.V.	The Netherlands	100%	100%
De Brouwketel B.V.	The Netherlands	100%	100%
Proseco B.V.	The Netherlands	100%	100%
Roeminck Insurance N.V.	The Netherlands	100%	100%
Heineken Americas B.V.	The Netherlands	100%	100%
Heineken Export Americas B.V.	The Netherlands	100%	100%
Amstel Export Americas B.V.	The Netherlands	100%	100%
Heineken Brazil B.V.	The Netherlands	100%	100%
B.V. Panden Exploitatie Maatschappij PEM	The Netherlands	100%	100%
Heineken Exploitatie Maatschappij B.V.	The Netherlands	100%	100%
Hotel De L'Europe B.V.	The Netherlands	100%	100%
Hotel De L'Europe Monumenten I B.V.	The Netherlands	100%	100%
Hotel De L'Europe Monumenten II B.V.	The Netherlands	100%	100%
Heineken Groothandel B.V.	The Netherlands	100%	100%
Heineken Horeca Services B.V.	The Netherlands	100%	100%
Online Drinks B.V.	The Netherlands	100%	100%
Beerwulf B.V.	The Netherlands	100%	100%
Heineken Belize B.V.	The Netherlands	100%	100%

Accounting policies

Investments in other entities are measured on the basis of the equity method. The share of profit of these investments consists of the share of the Company in the results of these investments. Results on transfers of assets and liabilities between the Company and its participating interests are eliminated.

A.2 Borrowings

The borrowings of the Company comprise the following:

	2018	2017
In millions of €	Total	Total
Unsecured bond issues	13,160	11,902
Other interest-bearing liabilities	–	966
Bank overdrafts and commercial papers	–	1
Total borrowings	**13,160**	**12,869**

Notes to the Heineken N.V. Financial Statements (continued)

During the year the movements in borrowings were as follows:

In millions of €	Unsecured bond issues	Other interest-bearing liabilities	Bank overdrafts and commercial paper	Total
Balance as at 1 January 2018	11,902	966	1	12,869
Effects of movements of exchange rates	174	47	(1)	220
Transfers	–	–	–	–
Proceeds	1,233	–	550	1,783
Repayments	(162)	(1,013)	(550)	(1,725)
Other	13	–	–	13
Balance as at 31 December 2018	13,160	–	–	13,160

B Other

B.1 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 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
Total	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.

Notes to the Heineken N.V. Financial Statements (continued)

B.2 Off-balance sheet commitments

In millions of €	Total 2018	Less than 1 year	1 – 5 years	More than 5 years	Total 2017
Undrawn committed bank facility	3,500	–	3,500	–	3,500

	2018		2017	
	Third parties	HEINEKEN companies	Third parties	HEINEKEN companies
Declarations of joint and several liability	–	2,413	–	3,288

The legal entities to which the declarations of joint and several liability relate, are listed in note A.1. The declarations include a conditional guarantee for the deficit of the defined benefit pension plan of HEINEKEN UK (Scottish and Newcastle pension plan) as calculated in accordance with IAS 19. Through this guarantee Heineken N.V. is ultimately liable for the payments, including any potential recovery payments, to the pension plan. Refer to note 9.1 for more information.

Fiscal unity

The Company is part of the fiscal unity of HEINEKEN in the Netherlands. As a result, the Company is liable for the tax liability of the fiscal unity in the Netherlands.

B.3 Subsequent events

For subsequent events, refer to note 13.5.

B.4 Other disclosures

Remuneration

Refer to note 13.3 of the consolidated financial statements for the remuneration and incentives of the Executive Board and Supervisory Board.

Executive and Supervisory Board statement

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code and Article 5:25c, paragraph 2 sub c, of the Financial Markets Supervision Act.

Amsterdam, 12 February 2019	Executive Board	Supervisory Board
	Van Boxmeer	Wijers
	Debroux	Fernández Carbajal
		Das
		de Carvalho
		Navarre
		Astaburuaga Sanjinés
		Huët
		Mars-Wright
		Dervişoğlu
		Helmes

Sustainability Review
Our sustainable development focus areas

Doing business all over the world and developing successful brands comes with responsibilities that extend beyond running a profitable business. We always strive to have a positive impact in the markets in which we operate and have therefore embedded sustainability in our business strategy.

Achieving real and lasting positive change is only possible through the collective effort of everyone who works at HEINEKEN as well as our partners and suppliers, NGOs and governments, stakeholders and local communities.

Our sustainable development strategy, Brewing a Better World, includes 2020 targets in six key areas. Through this strategy, we are determined to contribute to the UN Sustainable Development Goals (SDGs). Our focus areas are linked with specific SDGs and their targets, ensuring that we make a meaningful contribution to the common global goal to end poverty, protect the planet and ensure prosperity.

As we continue to progress towards our 2020 targets, we are on track to reach most of our commitments. In some areas, including water balancing, accident prevention and regional sourcing in Africa, we still have work to do.

Visit our website to discover more about our Brewing a Better World strategy, material issues, contribution to the UN SDGs, stakeholder engagement and performance – along with case studies from our businesses around the world.

From end of March 2019 you will be able to explore additional non-financial indicators and the GRI Standards reference table.

Sustainability Review (continued)

Our sustainable development focus areas

Every Drop – protecting water resources

Water is vital to meeting the needs of a growing global population and is a key ingredient of our products. Our operations depend on its constant supply and, in some areas, may be significantly impacted by the risks of water stress and scarcity. We decreased water consumption in our breweries by 32% since 2008, treated most of the wastewater and continued water balancing activities in water-stressed areas. In early 2019, we launch our new 2030 water strategy to continue and expand our impact on the health of the watershed.

6 CLEAN WATER AND SANITATION

Drop the C – reducing CO_2 emissions

Climate change is one of the biggest challenges facing society. We feel responsible for our share in cutting CO_2 emissions and limiting climate change. We are ahead of our 2020 ambition for production (reduction of 47% in 2018 vs. the baseline) and cooling (50%). We continue efforts to reach the target in distribution (13%). We reassessed our carbon footprint, last published in 2015, to show our emissions across the entire value chain. In 2018, we launched our CO_2 reduction strategy for 2030, Drop the C. It focuses on energy efficiency, electricity and thermal renewable energy generation in production, distribution, packaging and cooling.

7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Sourcing sustainably

With the global population predicted to reach nine billion by 2050, agricultural productivity must grow while protecting natural resources and biodiversity. We support the development of sustainable agricultural value chains. The share of crops we source from sustainable farms continues to grow. However, the proportion of raw materials regionally sourced in Africa and the Middle East reduced due to challenges in the supply of local ingredients in the format required by our breweries. We continue close cooperation with smallholder farmers to increase productivity and improve food security. We are pleased that our suppliers reached 95% compliance with the HEINEKEN Supplier Code.

2 ZERO HUNGER
8 DECENT WORK AND ECONOMIC GROWTH

Advocating responsible consumption

We encourage consumers to drink alcohol responsibly through our marketing activities, sponsorships and partnerships. Our global Formula 1™ partnership gives us a platform to deliver our 'When You Drive, Never Drink' campaign. Behavioural research dedicated to responsible consumption and drink driving supports us in targeting our campaigns and programmes. We are ahead of industry requirements by putting ingredients and nutrition information on our beer and cider brands, because we believe consumers need this information to make their choices. As consumers look for greater choice, we are expanding the variety of products and reach of our low- and no-alcohol category.

3 GOOD HEALTH AND WELL-BEING
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Promoting health and safety

Nothing matters more than the safety of our people. That is why 'Safety First' is our number one Company behaviour and the name of our strategy to address safety risks. Our Life Saving Rules are a key tool for preventing serious accidents and everyone in the Company is required to comply with them. We still have more work to do to prevent fatalities and serious accidents in our operations. We identify high safety risk areas across our business and implement actions to tackle them, with a special focus on road safety in 2018.

3 GOOD HEALTH AND WELL-BEING
8 DECENT WORK AND ECONOMIC GROWTH

Growing with communities

We recognise our impact on and responsibilities towards the communities we operate in. Our biggest contribution is through our core business: in 2018, HEINEKEN provided over 85,000 direct jobs and paid €11.7 billion in taxes. We also aim to contribute to the social and economic wellbeing of communities by investing in and encouraging local entrepreneurship, education and community initiatives, giving donations and undertaking volunteer activities. The HEINEKEN Africa Foundation supports projects that improve health for people living in communities near our breweries in the Africa region.

3 GOOD HEALTH AND WELL-BEING
6 CLEAN WATER AND SANITATION

CODE of business conduct

Values and behaviours

Our values and behaviours reflect what we stand for – conducting business with integrity, development of inclusive work environment and respect for people and their human rights.

They apply to all areas of our business and are a key part of our Company manifesto 'We are HEINEKEN', our recently revised Code of Business Conduct and Human Rights Policy.

Sustainability Review (continued)

Focus area commitments – measuring our progress

Every Drop – protecting water resources

	2020 commitment	2018 result	Our progress
Reduce water consumption in our breweries	Reduce average water consumption in our breweries to 3.5 hl/hl and in our breweries in water-stressed areas to 3.3 hl/hl	We reduced average water consumption in our breweries by 32% to 3.46 hl/hl (3.2 hl/hl in water-stressed areas)	On track
Significant water balancing in water-stressed areas	Aim for significant water balancing by our production units in water-scarce and water-stressed areas	13 of 23 sites in scope have begun to implement water balancing projects	More to do
Wastewater management	All of our wastewater volumes are treated – by us or by a third party – before being discharged into surface water	96% of our wastewater is treated before discharge, but we had 11 sites still without a treatment plant	More to do

Drop the C – reducing CO_2 emissions

	2020 commitment	2018 result	Our progress
Lower emissions in production	Reduce CO_2 emissions from production by 40% to 6.4 kg CO_2-eq/hl (vs. 2008)	We reduced CO_2 emissions from production by 47% to 5.5 kg CO_2-eq/hl	On track
Reduce emissions from distribution in Europe and the Americas	Reduce CO_2 emissions from distribution by 20% in Europe and the Americas (vs. 2010/11)	We reduced our emissions from distribution by 13% (27% in Americas and 12% in Europe, including Russia)	More to do
Lower emissions of our fridges	Reduce the CO_2 emissions of our fridges by 50% (vs. 2010)	Almost 100% green fridges purchased. We reduced CO_2 emissions of our fridges by 50%	On track

Promoting health and safety

	2020 commitment	2018 result	Our progress
Safety performance	Reduce accident frequency by 20% vs 2015 (1.38 per 100 FTE)	Accident frequency reduced by 18% to 1.13 accidents per 100 FTE	On track
Compliance with Life Saving Rules	Full compliance with Life Saving Rules	82% in the breweries; 93% outside production	More to do

Sourcing sustainably

	2020 commitment	2018 result	Our progress
Agricultural raw materials from sustainable sources	Aim for at least 50% of our main raw materials to come from sustainable sources	34% of our main agricultural raw materials came from sustainable sources	On track
Source agricultural raw materials locally in Africa	Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent	37% of agricultural raw materials used in Africa regionally sourced from within the continent	Off track
Compliance with our Supplier Code	Ongoing compliance with our Supplier Code Procedure	95% compliance with four-step Supplier Code Procedure	On track

Advocating responsible consumption

	2020 commitment	2018 result	Our progress
10% of Heineken® media budget invested in responsible consumption programmes	Invest 10% of Heineken® media budget in our responsible consumption programmes, in every market where we sell Heineken®	96% of markets in scope invested at least 10% of Heineken® media spend in responsible consumption campaigns	On track
Building partnerships to address alcohol-related harm	Every market in scope has a relevant and active partnership aimed at addressing alcohol-related harm	92% of companies in scope have a partnership	More to do
Increase transparency on ingredients and nutrition	Provide ingredient and nutrition information per 100 ml on pack and online for all beer and cider brands produced and sold **in** the EU; on pack or online – **outside** the EU	95% of our beer and cider brands in scope had information on pack and/or online	On track

Sustainability Review (continued)

Every Drop – protecting water resources

Reduce water consumption in our breweries

2020 commitment
Reduce average water consumption in our breweries to 3.5 hl/hl and in our breweries in water-stressed areas to 3.3 hl/hl[4]

2018 milestone
Reduce average water consumption in our breweries to 3.6 hl/hl

Our progress
On track

Our contribution to the SDGs:
6.4
Substantially increase water-use efficiency

We decreased average water consumption in our breweries to 3.46 hl/hl in 2018, meeting our 2020 target.

In water-stressed areas, the average water consumption remained at 3.2 hl/hl, surpassing the 2020 target.

Water consumption still remains high at some sites. 30 sites used above 5.0 hl/hl in 2018, representing 5% of our volume (in 2017: 36 sites, 8%).

We continue to invest in technology to reclaim and recycle water in our production processes, especially at our sites in water-stressed areas. Effluent reclamation plants are now in operation at our breweries in Tangerang (Indonesia), Vialonga (Portugal), Singapore and are being planned in Meoqui and Tecate (Mexico), Sedibeng (South Africa), Kilinto (Ethiopia) and Vung Tau (Vietnam).

Looking ahead

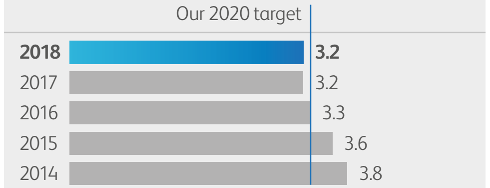
As part of our new water strategy, Every Drop, we aim to further reduce water use of our breweries. The new strategy will be announced in the course of 2019.

Water consumption (global average)
(Hl/hl beer, cider, soft drinks and water)

3.5 hl/hl

Water consumption – breweries in water-stressed areas

3.2 hl/hl



Brewing a Better World in action

Water Treatment Plant in Singapore

Our new €1.2 million water treatment plant will recycle 11% of the water we use in Singapore brewery, saving 66,750 m^3 of water each year. The plant was built in a joint development project between our operating company in Singapore, Public Utilities Board (PUB) and National University of Singapore (NUS).

32%
decrease in water consumption (hl/hl) compared with 2008

1,355
Olympic-sized pools – the equivalent volume of water we saved in 2018 compared to 2017

€15m
saved through water efficiency since 2009

94.2m m^3
Total water withdrawal, including sources

52%
Groundwater

15%
Surface water, including water from wetlands, rivers, lakes and oceans

33%
Municipal water supplies or other water utilities

For more on our water stewardship approach and progress, see our **website** and **case studies.**

Sustainability Review (continued)

Every Drop – protecting water resources (continued)

Significant water balancing in water-stressed areas

2020 commitment
Aim for significant water balancing by our production units in water-scarce and water-stressed areas

2018 milestone
18 production units in water-scarce and water-stressed areas have started to implement action plans for water balancing

Our progress
More to do

Our contribution to the SDGs:
6.6
Protect and restore water-related ecosystems

We have committed to balancing the water we take from the local watershed through water stewardship projects that compensate for the volume we don't return at the end of our processes. This means that, for every litre we produce, we aim to return the same amount in the watershed (and a bit more, as water also evaporates during the brewing process).

To do it, we develop a water balancing action plan for each site – based on the local water situation and the specific needs of the surrounding watershed.

13 of the 23 production units[5] in scope have begun to implement water balancing projects.

The remaining sites[6] have either completed the preparation phase or are at the project identification stage, where each project plan needs to fit the local environmental, social and political context.

In Egypt, we launched a partnership with the Beheira Water and Drainage Company to supply equipment to enable the Company to detect leaks in the water system.

In Mexico, we signed an agreement with Restauremos El Colorado, a collaboration of four NGOs from the U.S. and Mexico, to bring the river back to life and to restore wetland areas in the Colorado River delta. We also started preparations with other stakeholders to launch a Water Fund for the Guanajuato watershed, where a lot of food crops are grown.

In Ethiopia, construction of three pilot sand dams has been completed in Harar. In Bedele, we have carried out several feasibility studies to identify the most effective water balancing intervention.

In Indonesia, we are working with the United Nations Industrial Development Organisation (UNIDO) to explore how to scale up our water stewardship activities, together with our partners in the Water Alliance.

In Tunisia, we completed the development of the source water protection plans including potential water balancing options.

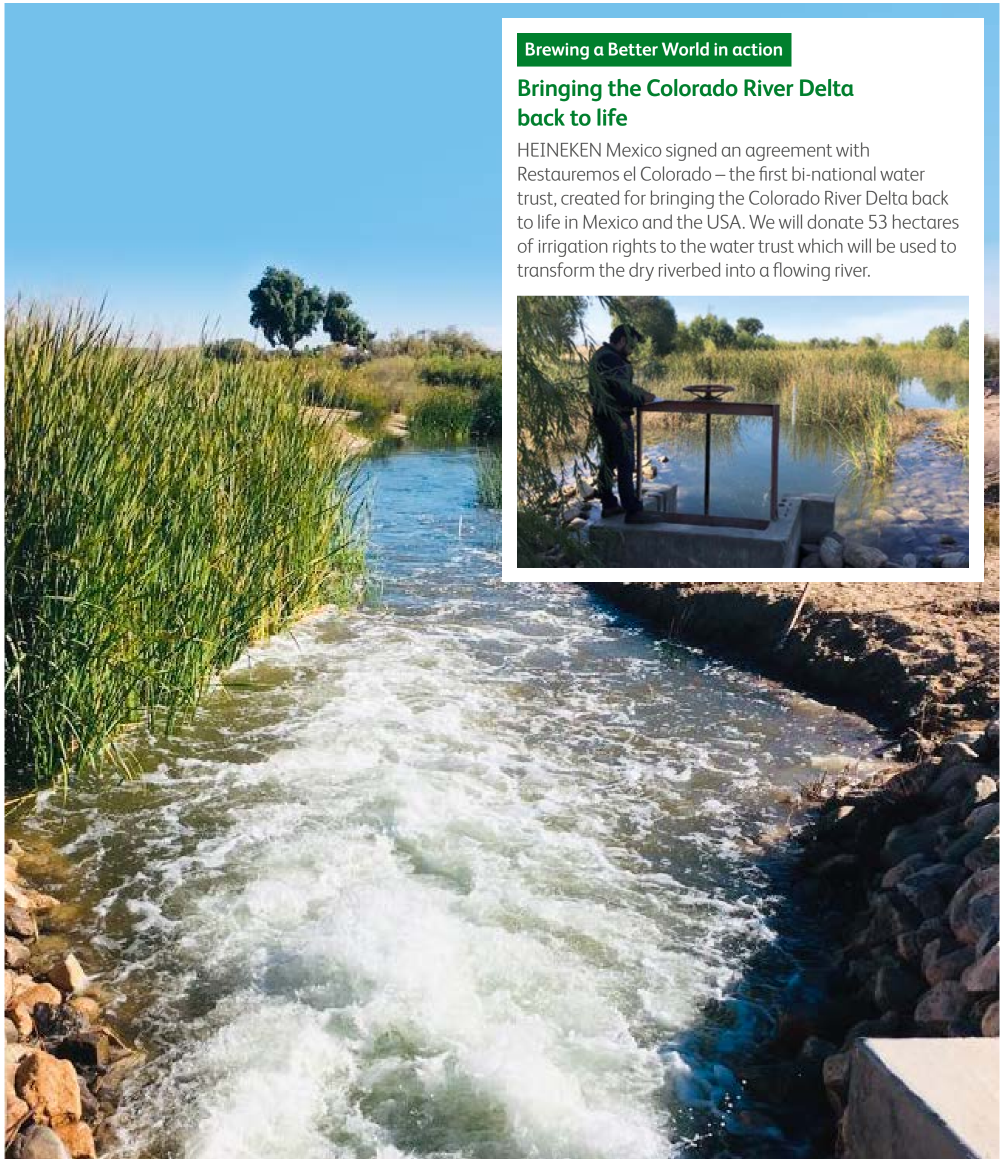
Based on an initial global assessment by WWF International, we identified 13 additional sites where we investigated the water risks through in-depth local assessments. These studies confirm that three sites – Massafra (Italy), Petaling Jaya (Malaysia) and Sedibeng (South Africa) – are indeed water-stressed. We will start integrating the three new sites in our water stewardship approach.

Three sites in Greece are under investigation. Studies of all other sites showed positive results, which means that no special action is needed at this moment.

Looking ahead

Water balancing will be an important element in our 2030 water strategy, Every Drop, and we will start developing plans to address it with all breweries in water-stressed areas.

For more on our water stewardship approach and progress, see our **website** and **case studies.**



Brewing a Better World in action

Bringing the Colorado River Delta back to life

HEINEKEN Mexico signed an agreement with Restauremos el Colorado – the first bi-national water trust, created for bringing the Colorado River Delta back to life in Mexico and the USA. We will donate 53 hectares of irrigation rights to the water trust which will be used to transform the dry riverbed into a flowing river.

Sustainability Review (continued)

Every Drop – protecting water resources (continued)

Wastewater management

2020 commitment

All of our wastewater volumes are treated – by us or by a third party – before being discharged into surface water

Our progress

More to do

Our contribution to the SDGs:

6.3
Improve water quality

6 CLEAN WATER AND SANITATION

Our brewery processes generate wastewater which contains organic materials as well as cleaning agents. We have been investing in wastewater treatment plants at the majority of our operations since 1999, even in markets without effluent legislation. We are committed to treating all our wastewater before we return it to nature.

In 2018, a new wastewater treatment plant became operational in Gisenyi, Rwanda. Construction of another one started in Zajecar, Serbia.

At the end of 2018, 96% of all our wastewater* was treated before discharge. However, we still have 11 sites without a treatment plant: 10 beverage plants and one malting plant, representing 3% of production volume (2017: 12 sites, 4% volume).

Those sites currently lacking wastewater treatment infrastructure are part of our investment planning.

58.4
total wastewater volume in million m^3

97%
beverage production volume* was treated before discharge

* We use two ways of measuring wastewater treatment: by volumes of wastewater and by volumes of production.

For more on our water stewardship approach and progress, see our **website** and **case studies.**

Looking ahead

We will increasingly shift from simply wastewater treatment and disposal to recovery, reuse and recycling, with treated water used for production purposes, in local agriculture and for other industries.

Especially for our breweries in water-stressed areas, we will start looking at wastewater through a circular economy lens, exploring solutions for water scarcity.

Brewing a Better World in action

Wastewater treatment in Rwanda

Our new €5.4 million wastewater treatment plant in Gisenyi uses a two-stage process: wastewater from the brewery is first treated under anaerobic conditions using bacteria to break down the organic matter in the wastewater into biogas. Biogas can be collected and used as a renewable energy source. The remaining effluent is then treated using aerobic bacteria before the treated wastewater is returned to surface water.

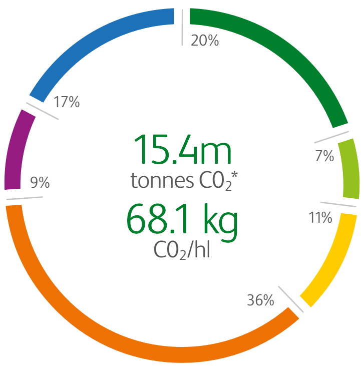
Sustainability Review (continued)

Drop the C – reducing CO_2 emissions

HEINEKEN's carbon footprint 2017

Our carbon footprint is made up of the CO_2 emitted by all the activities linked to making and selling our products, from barley to bar.

On average, we emit 68.1 kgCO_2-e* per hl of beverage (based on 2017 data).



- Agriculture
- Malting and adjuncts
- Beverage production
- Packaging materials
- Logistics
- Cooling

We began measuring our carbon footprint in 2010, when only a few of our operating companies were included and specific methodology was not yet available.

Since then, our scope and the methodologies we use have expanded and improved.

Scope: we have increased the scope of our carbon footprint calculation from 4 to 23 operating companies, covering 84% of our beverage production.

Methodology:

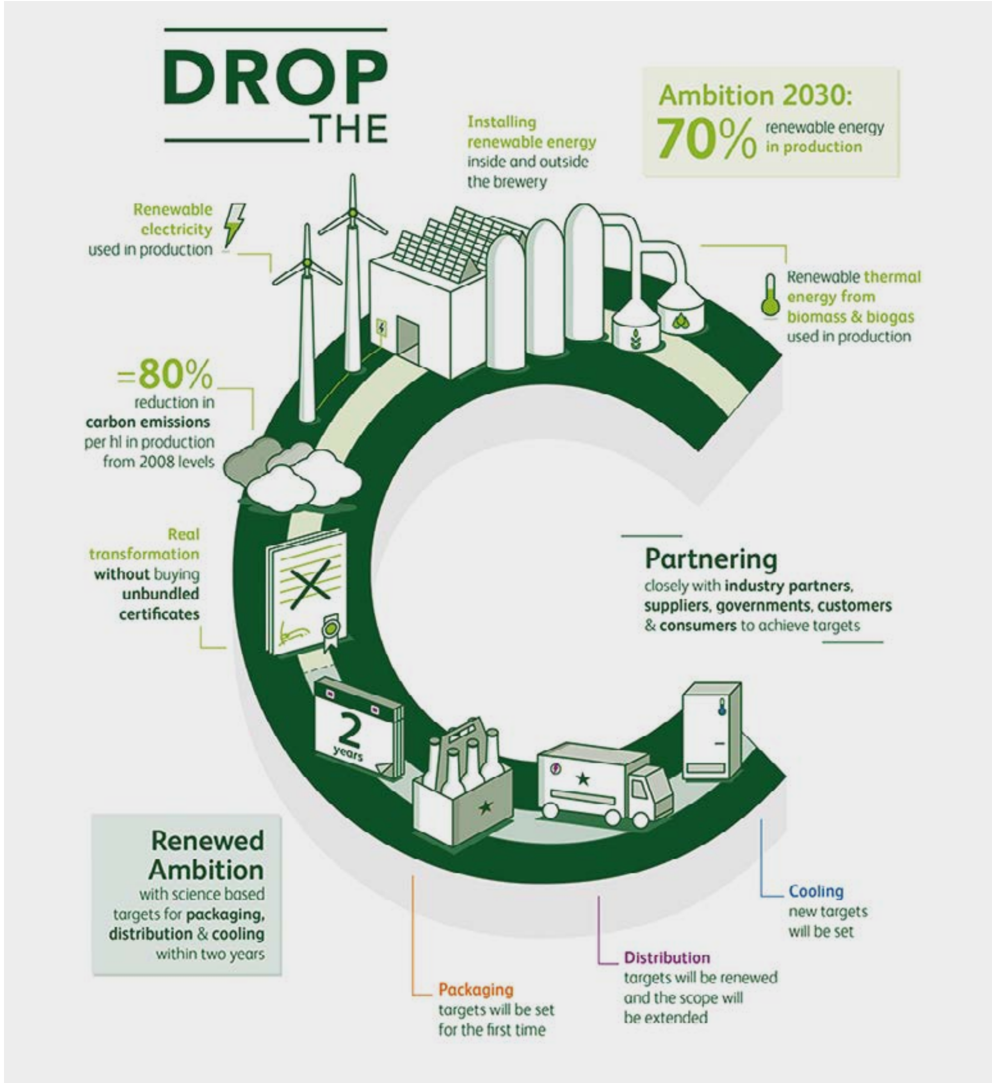
Our approach is aligned with the EU Beer Product Environmental Footprint pilot. We actively participated in this pilot, together with the Brewers of Europe, which has resulted in Product Environmental Footprint Category Rule for beer.

We have updated our modelling in two areas in particular:

- Calculation methodology and data sets for cultivation of crops, which have enabled us to increase the scope of agricultural impacts included in our carbon footprint calculations
- Applied the 'Circular Footprint Formula' for packaging materials, which defines how energy use, recycled content and recycling rates of packaging materials can be balanced.

Data collection and automation: our carbon footprint includes the entire value chain – from our own operations to suppliers, subcontractors and customers, across activities such as manufacturing and recycling of packaging and cooling beverages at points of sale. We increasingly use actual primary performance data, for example provided by our suppliers, rather than estimates.

Our carbon footprint assessment is getting more accurate and we will continue to develop it in line with new methodologies and industry best practice.



HEINEKEN's journey towards renewable energy

* Extrapolated to 100% of companies. 12.9t CO_2 for 84% op companies in scope.

See our **case studies** online.

Sustainability Review (continued)

Drop the C – reducing CO_2 emissions (continued)

Lower emissions in production

2020 commitment

Reduce CO_2 emissions from production by 40% to 6.4 kg CO_2-eq/hl[7]

2018 milestone

Reduce CO_2 emissions from production by 37% to 6.7 kg CO_2-eq/hl

Our progress

On track

Our contribution to the SDGs:

7.2
Share of renewable energy

7.3
Double the improvement of energy efficiency

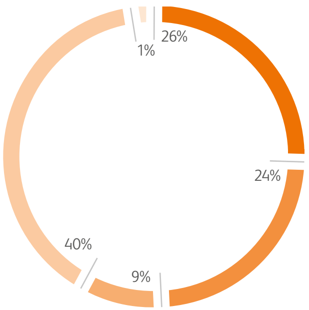
We are ahead of our 2020 commitment, achieving a 47% reduction in CO_2 emissions from production, compared with 2008 (2017: 41%).

Our emissions are decreasing in absolute terms as well – even though production volumes in 2018 were 81% higher than in 2008, our emissions were 4% lower. 27% of our electrical energy and 10% of our thermal energy come from renewable sources (2017: 29% and 7% respectively).

A new onsite biomass boiler now provides 100% of the thermal needs in our brewery in Sampang Agung, Indonesia.

Electricity mix 2018

for beverage production



- Imported renewable (green certificates)
- Country electricity mix (renewable)
- Own non-renewable production
- Country electricity mix (non-renewable)
- Own renewable production

For more on our Drop the C programme approach and progress, see our **website** and **case studies.**

We delivered three projects to capture and reuse biogas from wastewater treatment plants at our breweries in Guadalajara and Toluca in Mexico and Sango-Ota in Nigeria.

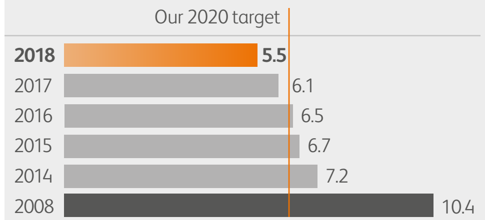
Looking ahead

We piloted an internal carbon price mechanism to inform our investment decisions and drive low-carbon solutions and innovations.

In 2019, we will use more renewable energy, as new projects will be delivered by our Renewable Energy programme across all regions. A significant volume of the power for our production in Mexico will be generated from wind and hydro sources. A number of our businesses in Asia Pacific will be supplied with electricity produced by Solar panels mounted on the roof of our production facilities. In Europe, Asia Pacific and Brazil, we are commissioning new biomass projects to supply renewable sources of heat.

CO_2 emissions in production

(kg CO_2-eq/hl beer, cider, soft drinks and water)



Brewing a Better World in action

Wind power in Brazil

In 2018, HEINEKEN Brazil started up its own wind farm in Acaraú, Ceara. With a capacity of 112,000 MWh, it can cover 30% of the total electricity needed by our operations in Brazil.

Biomass and biogas

In Nigeria, we have started using renewable biogas generated from the treatment of wastewater to power our boilers. In June 2018, we launched our first biomass plant in Indonesia, at the brewery in Sampang Agung. It is the tenth biomass plant of HEINEKEN, which will produce 100% of Sampang Agung brewery's heat requirements using rice husks as a fuel.

Sustainability Review (continued)

Drop the C – reducing CO_2 emissions (continued)

Reduce emissions from distribution in Europe and the Americas

2020 commitment
Reduce CO_2 emissions from distribution by 20% in Europe and the Americas[8]

2018 milestone
Reduce CO_2 emissions from distribution by 16% in Europe and 16% in the Americas

Our progress
More to do

Our contribution to the SDGs:
7.2
Share of renewable energy
7.3
Double the improvement of energy efficiency

We achieved a 13% decrease in our emissions from distribution against the baseline, down 3% compared to 2017 (10%).

In 10 out of 23 markets, we have exceeded our 20% reduction target and we continue to drive further improvements across all markets to achieve our global 2020 ambition.

Emissions in Americas[9] are down 27% compared to the baseline, and 17% since 2017. This was mainly driven by the integration of the former Brasil Kirin breweries which means we are now physically closer to our customers.

In Europe, including Russia, emissions are down 12% compared to the baseline. Improvements delivered in 2018 were counterbalanced by unfavourable network changes, resulting in a 1% increase from 2017.

We continue to explore innovative solutions such as electric trucks (e.g. in Portugal and France), driving down carbon emissions and reducing air pollution from city distribution. Furthermore we are piloting the use of sustainable biofuels (e.g. used cooking oil in Mexico).

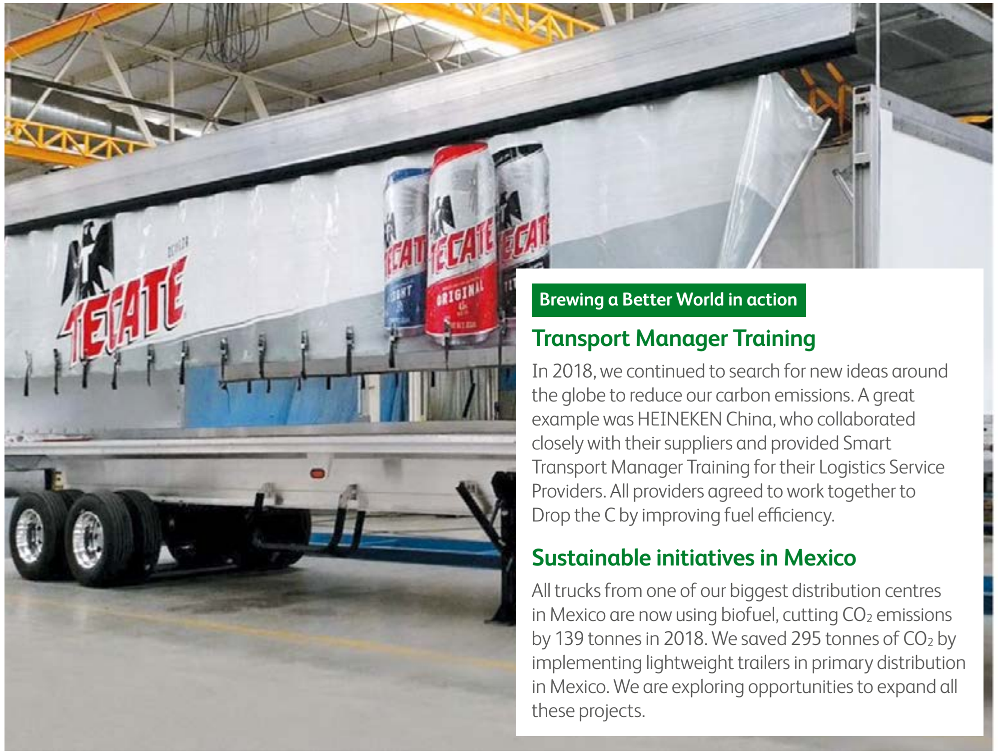
We are working closely with our logistics service providers to find opportunities to reduce carbon emissions. We collaborate with our supply chain partners to stimulate sustainable improvements across the sector. One example is our Fuel Management Programme that we started with suppliers in 2018. Our common goal is to reduce fuel consumption through improved truck efficiency and driver behaviours.

We achieved significant progress by shifting distribution routes to more sustainable modes of transport – from road to sea or rail transport – and we see a lot of potential in modal shift to further reduce our carbon footprint.

Looking ahead

We are in the process of defining our new 2030 targets for all our operations. For logistics, the new targets will be set for an extended operational scope, covering the full value chain, and an extended geographical scope, covering all countries we operate in. We are currently in the process of defining plans for our logistics operation that will allow us to deliver our new 2030 target.

For more on our Drop the C programme approach and progress, see our **website** and **case studies.**



Brewing a Better World in action

Transport Manager Training

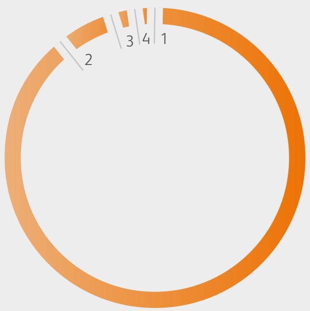
In 2018, we continued to search for new ideas around the globe to reduce our carbon emissions. A great example was HEINEKEN China, who collaborated closely with their suppliers and provided Smart Transport Manager Training for their Logistics Service Providers. All providers agreed to work together to Drop the C by improving fuel efficiency.

Sustainable initiatives in Mexico

All trucks from one of our biggest distribution centres in Mexico are now using biofuel, cutting CO_2 emissions by 139 tonnes in 2018. We saved 295 tonnes of CO_2 by implementing lightweight trailers in primary distribution in Mexico. We are exploring opportunities to expand all these projects.

CO_2 per Transport Mode

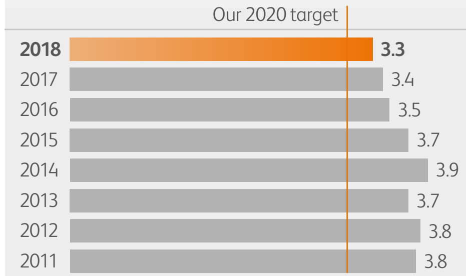
% of total tons CO_2



1	Truck	92.2%
2	Ocean	6.5%
3	Rail	0.9%
4	Inland barge	0.3%

CO_2 emissions in distribution

3.3 kg CO_2/hl sold



Sustainability Review (continued)

Drop the C – reducing CO_2 emissions (continued)

Lower emissions in our fridges

2020 commitment

Reduce the CO_2 emissions of our fridges by 50%[10]

2018 milestone

100% green fridges purchased

Reduce the CO_2 emissions of our fridges by 47%

Our progress

On track

Our contribution to the SDGs:

7.3

Double the improvement of energy efficiency

7 AFFORDABLE AND CLEAN ENERGY

In 2018, almost 100%* of our over 190,000 new fridges had one or more of the following features: use of hydrocarbon refrigerant, LED illumination, an energy management system and energy efficient fans.

We are ahead of our 2020 commitment; average CO_2 emissions from our fridges are now 50% less than in 2010.

We continue to use technology to further improve the energy efficiency of our fridges. For example, variable speed compressors allow us to adjust the energy use depending on the load of a fridge.

We now have over 10,000 connected fridges, which enable us to understand how much energy they are consuming, how many times doors are being opened and other useful information related to their performance.

We aim to use our cooling equipment more efficiently and make sure we have the right equipment in the right place, which will help to improve both CO_2 emissions and bring commercial benefits.

Looking ahead

We aim to continue to decrease CO_2 emissions in cooling and will be setting new 2030 targets.

We are optimising specifications for our fridges, ensuring that each asset is best-in-class for energy consumption and length of life.

We will focus on innovation and collaboration with our suppliers to collect and analyse information about performance of our cooling equipment. These insights will be used to develop a circular business model with the focus on efficient use of assets during their life cycle, and robust refurbishment and recycling.

Brewing a Better World in action

Connected fridges in Mexico

In Mexico, we now have more than 10,000 connected fridges and a dashboard which enables our teams to track the activity of our fridges, including actions that impact CO_2 emissions.

* At the time of publication this indicator was not assured, however, final externally assured data will be published on the HEINEKEN website by the end of March 2019.

For more on our Drop the C programme approach and progress, see our **website** and **case studies.**

Sustainability Review (continued)

Drop the C – reducing CO_2 emissions (continued)

Lower emissions in packaging

Our contribution to the SDGs:
12.2 Sustainable use of natural resources
12.5 Reduce waste generation

Packaging enables our brands to stand out and ensures our consumers can enjoy our beers and ciders wherever they are. Packaging is also the single largest contributor to our carbon footprint. In early 2018, we announced that we would intensify work with our suppliers and partners and set a carbon reduction target for packaging within the next two years.

Innovation is at the heart of our work; we are looking for new ways to bring fresh beer and cider to consumers and we want these innovations to support our carbon reduction ambitions.

For packaging, we are focused on four areas:

Renew: Supporting our suppliers to make the transition to using more renewable energy in the production of our packaging.

Reduce: Finding the right balance between quality packaging that embodies our premium brands and customer experience, while developing solutions – such as light-weighting or substitution – to reduce emissions.

Recycle: Ensuring our packaging is recyclable and recycled, working with governments and other stakeholders, and increasing the recycled content of our packaging.

Reuse: Working with our operating companies to expand returnable systems. Glass bottles that are reused through returnable systems emit six to seven times less CO_2 than one-way glass bottles.

For more on our Drop the C programme approach and progress, see our **website** and **case studies.**

Our progress

We are building a better understanding of our carbon emissions in packaging, which enables us to identify new projects and partnerships with suppliers.

For example, by light-weighting our aluminium cans and aluminium, we have reduced their average weight by 11% over five years, thus reducing CO_2 emissions. In 2018, we joined the Aluminium Stewardship Initiative to follow best practice and support industry-wide improvements.

We are harmonising and light-weighting our bottle portfolio. In the past three years, we reduced the average weight of our bottles by 7%. In 2018, we completed programmes in Italy, Austria and Russia.

Looking ahead

We will continue working on our CO_2 emissions reduction targets for 2030, in cooperation with our packaging suppliers, subcontractors, universities, expert NGOs and start-ups.

Brewing a Better World in action

Recycling innovation in France

HEINEKEN France has partnered with start-up, Terradona®, to promote its innovative Cliiink® smart box. It encourages consumers to recycle by awarding points, which can be exchanged for vouchers to spend in local shops or donate to charity.

Sustainability Review (continued)

Drop the C – reducing CO_2 emissions (continued)

Aiming for Zero Waste

Our contribution to the SDGs:
12.2
Sustainable use of natural resources
12.5
Reduce waste generation

Zero Waste

We aim to fully recycle all residual products in our production facilities. In 2018, 102 of our 163 production units sent Zero[11] Waste to landfill (2017: 97). This means that for these sites waste was recycled into feed, material loops, compost or used for energy recovery. Brewer's spent grains and yeast, for example, have a high nutrition value and are recycled for animal or human consumption. Another example is bio-sludge from wastewater, which can be used for compost and soil improvement.

Plastic

Although plastic represents only a relatively small share of HEINEKEN's packaging, we are working on a comprehensive strategy to manage the impacts of plastic packaging.

We are in a dialogue with the packaging industry to set clear design and production rules for recycling to create a circular system for plastic packaging.

We are increasing the recycled content of PET bottles, reducing our use of plastic in secondary packaging and increasing its recycled content.

Looking ahead

We will continue to roll out our Zero Waste programme to other sites.

We are working with stakeholders (local governments, recycling facilities, retailers, etc.) to help facilitate plastic collection systems and increase the recycling of plastic packaging.

See our **case studies** online.

Brewing a Better World in action

Recycling for planet and local cause in Bahamas

Commonwealth Brewery in Bahamas introduced a recycling programme to reuse and recycle waste materials. Glass bottles, scrap metal and cardboard are sent for recycling, wooden pallets are shredded for mulch, drum bins are donated to local community groups and spent grains are given to local farmers to feed livestock.

Brewing a Better World in action

PET recycling system in Rwanda

Bralirwa and Coca-Cola are working together to develop a sustainable PET recycling system in Rwanda with a local waste collection company to increase PET collection, reuse and recycling.

Sustainability Review (continued)

Sourcing sustainably

Source raw materials from sustainable sources

2020 commitment
Aim for at least 50% of our main raw materials[12] to come from sustainable sources[13]

2018 milestone
Aim for at least 25% of our main raw materials to come from sustainable sources

Our progress
On track

Our contribution to the SDGs:
2.4
Sustainable food production systems and resilient agriculture

2 ZERO HUNGER

In 2018, 34%* of our main agricultural raw materials came from sustainable sources[14] (2017: 28%, 2016: 17%)[14]. Our procedures for sourcing sustainably cultivated crops are based on the principles of the Sustainable Agriculture Initiative Platform (SAI), an organisation of multinational food companies working towards a more sustainable food chain.

Almost 100% of our bitter hops are now sustainably sourced following successful programmes in Germany and the USA. In the USA, we have worked with Yakima Chief Hops to develop the Green Chief sustainability programme for over a decade. Based on its success, the programme was rolled out with an approved Code of Practice for all hop suppliers.

We launched a new project in Canada to enable farmers supplying the Lagunitas Brewing Company to become sustainable by 2021. Chinook Arch Grain has created a Sustainability group to lead and coordinate 15 farmers in the Alberta region. They will collaborate with the USA hop growers to share learning and best practices.

In Mexico, we started a pilot project in the Guanajuato watershed, an important agricultural area under risk of decreasing water availability. We set up a strong cooperation between our specialists, farmers, the malting plant, breweries, and strategic suppliers. The team is working on improvement of yield, water use, CO_2 emissions and farming practices. They also implemented a new code of practice with farmers, in line with the Sustainable Agriculture Initiative (SAI) and set targets for water use, rotation, yields, and revenue increase.

Projects include drip irrigation, aerial monitoring of crops using drones and use of biological agrochemicals. Like many other countries, Mexico still faces challenges in convincing suppliers and farmers to practice sustainable agriculture or to use biofertilisers.

This pilot delivered water savings and increased the yield. We are planning to expand the project scope in the next two years.

Looking ahead

We developed an action plan to increase sustainable volume per agricultural material and reach our target by 2020.

We are increasing our focus on sugar, another key ingredient of our products, to grow its sustainable volume in our supply chain.

* Estimation. At the moment of the publication, contract negotiations were still in progress.

For more on our Sustainable Agriculture approach and progress, see our **website** and **case studies**.

Brewing a Better World in action

Sustainable bitter hops

Almost 100% of our bitter hops are now sustainably sourced in the USA. We worked with Yakima Chief Hops to develop a sustainability programme, which was rolled out for all hop suppliers.

Brewing a Better World in action

Sustainable sourcing project in Mexico

A team of our specialists, farmers and strategic suppliers is working on improvement of yield, water and energy use and farming practices in Guanajuato watershed in Mexico.

Sustainability Review (continued)
Sourcing sustainably (continued)

Source agricultural raw materials locally in Africa

2020 commitment
Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent[15]

2018 milestone
56% of agricultural raw materials used in Africa to be regionally sourced from within the continent[15]

Our progress
Off track

Our contribution to the SDGs:
2.3
Productivity and incomes of small scale farmers

We sourced 37%* of agricultural raw materials locally in Africa and the Middle East in 2018 (2017: 42%). We are now sourcing locally in 13 operating companies across 27 different value chains, including six Public-Private Partnerships (PPP). These projects support more than 150,000 farmer households.

Our overall local sourcing percentage fell by 4% for the following reasons:

- Rapid growth in Ethiopia and South Africa combined with a lack of local malting capacity resulted in higher malt barley imports. This situation will be resolved in 2020-21 when new malting plants will open in both countries.
- Severe weather conditions in North Africa destroyed part of the barley crop, resulting in a lack of malt barley in this part of the region.
- Many local agricultural value chains are at an early stage of development and cannot yet generate sufficient quantities to supply wider markets after immediate household needs are met.

We continue to support smallholder farmers to improve agricultural practices and increase productivity and acknowledge that this will take time to deliver.

Looking ahead

We extended our Public-Private Partnerships in Ethiopia, Rwanda, Sierra Leone and South Africa to the end of 2019.

We started crop trials in Mozambique in advance of our new brewery opening in 2019.

We launched a programme aiming to analyse and optimise use of local raw materials across the region.

We launched a new Public-Private Partnership in Democratic Republic of Congo (DRC) with NGO partner Agriterra, which specialises in strengthening agricultural cooperatives.

For more on our Local Sourcing programme in Africa, progress and initiatives, see our **website** and **case studies.**

Brewing a Better World in action

Barley project in Ethiopia

Our Ethiopia barley project has been extended to the end of 2019 to reach new farmers in partnership with the International Finance Corporation, NGO partner EUCORD and the Dutch Government. The project has given farmers access to higher yielding barley varieties that have improved productivity, farmer incomes and food security.

* Estimated.

Sustainability Review (continued)

Sourcing sustainably (continued)

Compliance with our Supplier Code Procedure

2020 commitment
Ongoing compliance with our Supplier Code Procedure

2018 milestone
95% compliance with four-step Supplier Code Procedure

Our progress
On track

Our contribution to the SDGs:

8.7
Eradicate forced labour, modern slavery, human trafficking and child labour

8.8
Protect labour rights and promote safe working environments

8 DECENT WORK AND ECONOMIC GROWTH

In 2018, the milestone of 95% compliance with our four-step Supplier Code procedure among our operating companies was achieved. The result has significantly improved as compared to the previous years.

We continue to identify and carry out corrective actions where risks and procedure gaps are identified, and to optimise our supplier base.

We stopped working with 13 suppliers because they were unwilling to sign our supplier code (11), or refused to subscribe to EcoVadis (2).

We refined our compliance assessment methodology and tools to strengthen insights and transparency of supplier performance.[16]

In 2018, we have updated the HEINEKEN Code of Business Conduct, the Human Rights Policy and published a new Brand Promoters Policy. We also updated our Supplier Code, in particular to promote fair wage in our supply chain, and fully aligned it with the above policies.

For more details on our Supplier Code procedure and progress, see our **website**.

Looking ahead

We will be implementing new tools to enhance our supplier screening process to identify high-risk suppliers across key risk drivers – anti-bribery and anti-corruption, human rights, financial risk and information security. This will support us in strengthening our corrective action plans and thus maintaining sustainable supplier performance.

Following the update of our Supplier Code, we will begin to roll it out with all our suppliers in 2019.

Sustainability Review (continued)

Advocating responsible consumption

Make responsible consumption cool

2020 commitment

Invest 10% of Heineken® media budget[17] to support our responsible consumption programmes, in every market where we sell Heineken®

Our progress

On track

Our contribution to the SDGs:

3.5

Strengthen the prevention of substance abuse

In 2018, 69 markets in scope (96%) invested 10% of media spend, or more, in dedicated responsible consumption campaigns (32 markets in 2017). We expanded the scope of the commitment and since 2018 it also includes our joint ventures and export markets (73 markets in total).

In 2017, we conducted a research to gain insights on drink driving behaviour. These insights were reflected in our new When You Drive, Never Drink communications campaign and helped shape a behavioural change programme that directly impacts drink driving behaviour. As an example, we created a bar that helps people stay alcohol-free when driving by using a collection of nudges, reminders and prompts developed for this programme to change the drink driving psychology. The programme ran in Brazil, Russia, New Zealand and the UK in 2018, with more markets planned for 2019.

Our global campaign includes a new TV commercial, 'No Compromises', featuring F1™ World Champion Nico Rosberg and a digital 'Designated Drivers Pledge' to help people publicly commit to staying alcohol-free when driving. All elements of the campaign focus on the social pressures surrounding drink driving and use social proof to empower people to make the right decisions.

For more details on our Responsible Consumption programme and progress, see our **website** and **case studies.**

Looking ahead

In 2019, we will continue our campaigns dedicated to responsible consumption, and make sure all markets where we sell Heineken® support our commitment.

Brewing a Better World in action

When You Drive, Never Drink

Nico Rosberg, 2016 FIA Formula 1™ Drivers' World Champion starred in our new #WhenYouDriveNeverDrink film – No Compromises.

Drink driving behavioural research

We co-developed a unique social experiment across 10 UK bars in drink driving hotspots. The results showed up to 50% reduction in drink driving and more people choosing Heineken® 0.0.

Sustainability Review (continued)

Advocating responsible consumption (continued)

Building partnerships to address alcohol-related harm

2020 commitment

Every market in scope has a relevant and active partnership aimed at addressing alcohol-related harm

Our progress

More to do

Our contribution to the SDGs:

3.5

Strengthen the prevention of substance abuse

46 of 50 markets in scope have a partnership in place to address alcohol-related harm.

These partnerships address one of the following alcohol-related harms: drink driving, underage drinking, excessive consumption, drinking while pregnant, or alcohol addiction.

The majority of partnerships in 2018 addressed drink driving, including a partnership in Vietnam where we are working with the National Traffic Safety Committee to implement workshops and trainings aimed at reducing drink driving among university students. In Rwanda, we worked in partnership with the Traffic Police and Road Safety Department on a road safety awareness campaign to educate drivers on the dangers of drinking and driving.

In Croatia, we continued a long-running partnership to address underage drinking in collaboration with the Psychological Centre Tesa. Through this partnership, psychologists work with parents of children in high school to develop skills on communicating and setting boundaries related to alcohol consumption. In addition to in-person workshops, the psychologists also offer parents advice online and by phone.

Looking ahead

We will continue to engage in partnerships in the markets in scope for 2019. In addition, we will continue to invest a part of Heineken® media budget to support our responsible consumption programmes in every market where we sell Heineken® (for additional information please refer to page 134).

Brewing a Better World in action

How to talk to a teenager about drinking? Guide for parents

Grupa Żywiec joined forces with a well-known parenting blogger, Nishka, to provide guidance to help parents communicate with teenagers about alcohol. The guide was informed by research and followed up with a debate among experts in the fields of sociology, psychology and youth workers.

For more details on our partnerships and progress, see our **website** and **case studies**.

Sustainability Review (continued)
Advocating responsible consumption (continued)

Deliver global industry commitments

Our contribution to the SDGs:
3.5 Strengthen the prevention of substance abuse

2018 milestone

Deliver the Beer, Wine and Spirits Producers' industry commitments by end of 2017 and report in 2018, taking actions in five key areas: underage drinking, marketing codes of practice, consumer information and product innovation, drinking and driving, retailer support.

Our progress

In 2018, the fifth and final report on the Beer, Wine, and Spirits Producers' Commitments to reduce harmful drinking was published, following assurance by KPMG. HEINEKEN contributed directly to the report, which details industry progress on reducing the harmful use of alcohol over five years. The full report has been published by the International Alliance for Responsible Drinking, the industry body that administers the commitments.

We also renewed our Responsible Marketing Code, which is a set of mandatory rules for marketing our products around the world.

For more information on our marketing code, **see our website.**

To list some highlights of the IARD membership achievements between 2014 and 2017, it:

- collectively delivered an average 300 drink-driving prevention programmes annually,
- reached millions of underage individuals via face-to-face interactions with messages against underage drinking,
- promoted compliance with responsible alcohol advertising codes in contracts with advertising agencies,
- increased the number of local responsible retailing initiatives (on average over 200 a year),

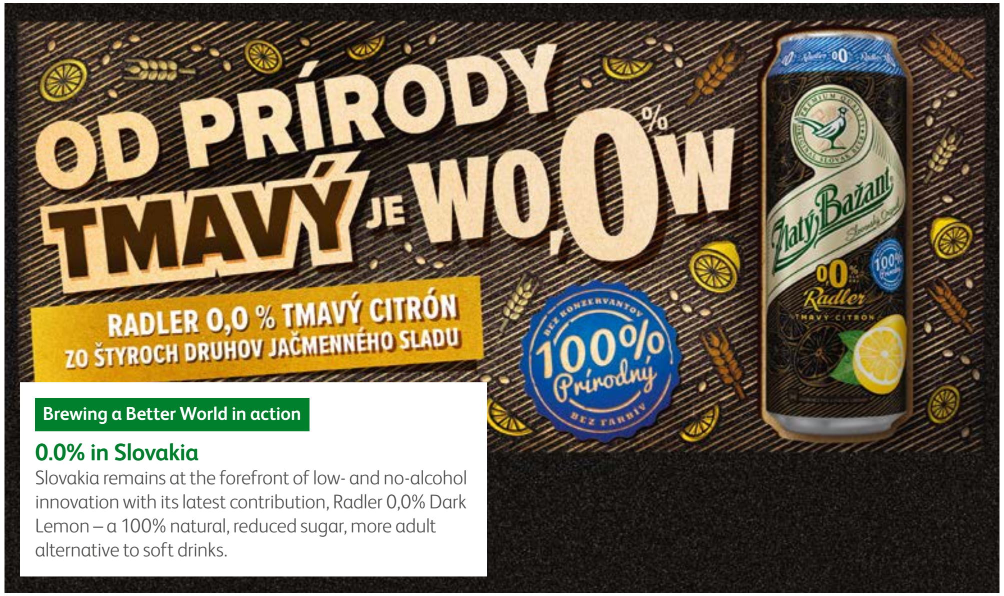
We are proud to have contributed to these achievements of the IARD membership in tackling the harmful use of alcohol.

Looking ahead

Although the five-year reporting period has ended, all members of the Producers' Commitments have pledged to continue to adhere to the five commitment areas.

Drive innovation on the low- and no-alcohol category

Our contribution to the SDGs:
3.5 Strengthen the prevention of substance abuse



Brewing a Better World in action

0.0% in Slovakia

Slovakia remains at the forefront of low- and no-alcohol innovation with its latest contribution, Radler 0,0% Dark Lemon – a 100% natural, reduced sugar, more adult alternative to soft drinks.

There are some occasions when consumers appreciate the taste of an alcoholic drink, just without the alcohol. As the number of adults who do not drink alcohol or who wish to reduce their alcohol consumption continues to grow in markets around the world[18], we are innovating in the area of low- and no-alcoholic (LNA) drinks to offer consumers a growing variety of brands.

For more details on our low- and no-alcohol category, see our **website** and **case studies.**

In 2018, we continued the successful launch of Heineken® 0.0. It is now available in 38 markets, an increase of 22 markets since last year. Our global LNA portfolio now includes more than 325 products over 125 brands.

By the end of 2018, LNA options made up 5.5% of HEINEKEN's total global volume.

Looking ahead

In 2019, we will accelerate the geographical expansion of our categories and further expand the variety we offer in the LNA category.

Sustainability Review (continued)

Advocating responsible consumption (continued)

Increase transparency on ingredients and nutrition

Our 2018 commitment

Provide ingredient and nutrition information per 100 ml **on pack and online** for all beer and cider brands produced and sold **in the EU**.[19]

Provide ingredient and nutrition information per 100 ml **on pack or online** for all beer and cider brands produced and sold **outside the EU**.[19]

Our progress

On track

Our contribution to the SDGs:

12.8

Ensure that people have the relevant information and awareness

We are ahead of the industry and regulations with our commitment to provide consumers across the world with the ingredients, nutrition, Alcohol By Volume (ABV) and allergens information for our beer and cider brands, on pack or online. In 2018, we expanded the scope of the commitment from operating companies in the EU to all regions where we operate.

By the end of 2018, 95%* of our beer and cider brands[20] in scope had information on pack or online.

Brands that were in the process of active recipe reformulation in 2018 have to meet the commitment by Q2 2019.

Looking ahead

We will carefully monitor trends and regulation around consumer transparency and will adjust our ambition and actions accordingly to ensure we continue to comply with our commitment and industry best practice.

* Estimated.

For more details on our approach to transparency on ingredients and nutrition and progress, see our **website** and **case studies**.

Sustainability Review (continued)
Promoting health and safety

Safety performance

2020 commitment
Reduction of accident frequency by 20% vs 2015 (2015: 1.38; target: 1.1)

Our progress
On track

Our contribution to the SDGs:
3.6
Reduce deaths and injuries from road traffic accidents
8.8
Protect labour rights and promote safe and secure working environments

Fatal Accidents
In 2018, 17 people lost their lives while working for HEINEKEN (2017: 14)[21]. This is unacceptable and it clearly does not reflect our Company values. Three people were HEINEKEN employees and 14 were employed by contractors or suppliers. Nine fatalities were the result of crime-related security incidents and eight were road accidents. An increase of crime-related events in Mexico contributed to the number of fatal accidents. All fatal accidents are fully investigated and lead to actions to prevent re-occurrence.

Accident Frequency
Our accident frequency in 2018 was 1.13, up from 1.04 in 2017 (a reduction of 18% vs. 2015). There were 1,000 accidents among HEINEKEN employees: 543 in logistics and distribution; 266 in commerce; 171 in production and 20 in other functions. The acquisition of Brasil Kirin contributed to the increase of accident frequency in 2018 and we are working to bring safety standards at the brewery in line with our global standards.

Our operating companies continue to drive improvements in safety performance; in 2018 we achieved zero fatalities in our production and global construction projects for the first time.

We continue to implement the HEINEKEN Life Saving Rules, introduced in 2016, to address our highest safety risks. We have a global set of rules, principles and programmes dedicated to process safety in production. To further accelerate safety performance, in 2018 we introduced two centres of expertise and developed virtual reality experiences for working at height and forklift safety. The virtual reality module is designed to embed safe behaviours by allowing people to experience the consequences of their actions.

However, a large majority of work-related injuries occur outside our premises. In 2018, 49% of severe injuries happened in secondary distribution – of which 32% were related to manual handling and 19% to slips, trips and falls. We explore new methods to address those risks, as their prevention is even more challenging than in a controlled environment of our breweries. For example, we piloted a project to reduce severe injuries by using exoskeletons.

For more detailed information on our health and safety performance, see our **website** and **case studies.**

			Company wide
Fatalities and permanent disabilities*	2016	2017	**2018****
Fatalities of Company personnel	3	6	3***
Fatalities of Contractor personnel	12	8	14
Permanent disabilities of Company personnel	3	1	1
Accidents (Absolute Values)			
Accidents of Company personnel	894	806	1,000
Accidents of Contractor personnel	171	272	404
Lost days of Company personnel	27,240	28,628	33,566
Total Workforce (FTE)	77,215	77,792	88,134
Accidents (Relative values)			
Accident severity (lost calendar days per 100 FTE Company personnel)	35	37	39
Accident frequency (accidents per 100 FTE Company personnel)	1.16	1.04	1.13

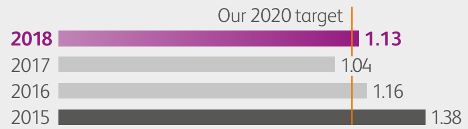
* Company personnel fatalities: one in Mexico, one in Spain, one in France.
Contractor personnel fatalities: five in Mexico, four in Nigeria, two in Myanmar, one in Romania, one in Vietnam and one in Ethiopia.

** The reporting period of the safety data presented in this chapter is December 2017 – November 2018 with the exception of fatal accident data which reflects the 2018 full year period.

*** One fatal accident in France, included in this number, is currently still being investigated by the local authorities to determine whether this was a work-related accident.

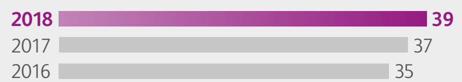
Accident frequency
accidents per 100 FTE

1.13



Accident severity
lost calendar days per 100 FTE

39



Sustainability Review (continued)

Promoting health and safety (continued)

Safety performance (continued)

Brewing a Better World in action

Safer driving using telematics

Road accidents are the most common reason for work-related fatal accidents at HEINEKEN, and the second most common cause of severe accidents in global society. Operating companies are in the process of ensuring all owned, rented or leased vehicles have telematics devices installed, like in this example from **Malaysia**. This provides the drivers and us with valuable insights into driving behaviours, such as speeding and harsh breaking, enhancing coaching and training of our drivers which contributes to the increase of road safety.

Compliance with Life Saving Rules

2020 commitment

Full compliance with Life Saving Rules.[22]

Our progress

More to do

Our contribution to the SDGs:

3.6

Reduce deaths and injuries from road traffic accidents

8.8

Protect labour rights and promote safe and secure working environments

At the end of 2018, as reported by our operating companies, the compliance level was:

82% in the breweries

93% in projects, commerce, distribution and other areas outside production

Looking ahead

We will continue to drive implementation of the HEINEKEN Life Saving Rules. Life Saving Rules are a key tool for preventing serious and fatal accidents across our business and all our companies are required to fully comply with them. The HEINEKEN Executive Board brought forward the 2020 deadline for implementation to 2019. We increased investment to accelerate the implementation of the Life Saving Rules globally.

In 2019, we will increase our efforts to reduce safety risks associated with road transport, distribution, sales and customer support.

For more details on our Life Saving Rules and progress, see our **website** and **case studies**.

Sustainability Review (continued)
Growing with communities

Investing in our communities

Our contribution to the SDGs:
3.1 Reduce the global maternal mortality
3.2 End preventable deaths of newborns and children under five
6.1 Achieve universal and equitable access to safe drinking water

Direct contributions
In 2018, more than 3,600 employees in 31 markets spent over 21,000 hours volunteering. HEINEKEN operating companies contributed almost €22 million to local communities, including cash donations, time, in-kind donations and management costs.

Total direct contributions by our operating companies

€22m

2018	22.0
2017	24.0
2016	22.9

Shared value projects
Our regional sourcing projects in Africa aim to create jobs, strengthen the agricultural sector and improve the lives of rural households.

Since 2009, we have invested €4.8 million in cash and €13.5 million in equipment and people through our Public-Private Partnership projects in Burundi, DRC, Ethiopia, Ivory Coast, Nigeria, Rwanda, Sierra Leone, and South Africa. This excludes additional third party funding leveraged by our contribution. Our regional sourcing projects provide work to more than 150,000 farmer households.

For more detailed information on our support to the communities, see our **website** and **case studies.**

The HEINEKEN Africa Foundation
Many communities in the Sub-Saharan African countries where HEINEKEN operates do not have access to basic healthcare and clean water.

Therefore the HEINEKEN Africa Foundation supports projects that improve health for those people that need it most.

Since it was established in 2007, the Foundation has committed €9.9 million to 111 projects, of which 38 projects were still running in 2018.

In 2018, the HEINEKEN Africa Foundation approved seven new projects totalling an investment of almost €700,000.

They include the construction of two maternal and neonatal wings in Addis Ababa, Ethiopia and Bukavu, DRC, and three projects bringing drinking water to communities in Burundi and Ethiopia.

Over the years the Foundation has developed strong expertise in Mother & Child Healthcare and Water, Sanitation and Hygiene (WASH). These two areas are crucial for the earliest beginning of life and are highly interdependent. Small improvements can have a big positive effect for communities now and in the future.

€18.3m
invested in local sourcing projects since 2009

€9.9m
committed to 111 health and water projects since 2007

Brewing a Better World in action

Solar powered water wells in Sierra Leone
In Sierra Leone, we are installing solar powered water wells. Three were completed in 2018, with four more in the pipeline for 2019.

Clean water for households in DRC
We are supporting the construction of an 80m deep borehole connected to a 2km distribution network, public latrines and an incinerator for a hospital in a poor suburb of Kinshasa. It will provide clean water for 9,755 households and reduce illness and deaths due to waterborne diseases.

Sustainability Review (continued)

Growing with communities (continued)

Creating economic and social impact

The taxes we pay make an important contribution to the economies and development of the countries in which we operate. We believe responsible tax behaviour is an essential element of our sustainability strategy.

We support stable, transparent and predictable tax regimes that incentivise long-term investment and economic growth. We also support the principles that underpin the OECD's work on Base Erosion and Profit Shifting (BEPS), including country-by-country reporting to the tax authorities.

26.4%

effective income tax rate (beia)

Corporate income tax paid by geographical regions

Total tax contribution per category

Brewing a Better World in action

Local sourcing of packaging materials in Africa

With operations in over 70 countries, our main contribution to local economies and communities is through our core business: creating jobs, paying taxes and generating business in the supply chain. For example in Africa, now more than 90% of our packaging materials are sourced through local suppliers instead of being imported.

For more on our approach to tax, see our **website**.

Values and behaviours

At HEINEKEN we stand by our values: passion for quality, enjoyment of life and respect for people and for our planet. Our values are part of 'We are HEINEKEN', our Code of Business Conduct and its policies.

Conducting business with integrity

Our values guide how we work and conduct our business, supporting the principles of the UN Global Compact and the OECD Guidelines for Multinational Enterprises. We are committed to conducting business with fairness, integrity and respect for the law and our values. **The HEINEKEN Code of Business Conduct** (the 'Code') and its underlying policies communicate the basic principles that every employee must observe when acting for, or on behalf of, HEINEKEN.

To make sure that our Code accurately captures and reflects our changing world and business, we reviewed and updated the Code and underlying policies in 2018. The updated Code and policies were launched in September 2018 in our operating companies, in 38 languages.

We provide ongoing communication and training to employees worldwide to raise awareness of the Code and its underlying policies. Mandatory e-learning exposes employees to practical business conduct dilemmas. By the end of 2018, more than 78,546 employees (92%) had completed the training, either online or in the classroom (2017: 75,000).

As a multinational operating in more than 70 countries, we pay special attention to potential exposure to bribery and corruption. It is our principle never to engage in bribery, in any place, at any time.

For more detailed information on our Code of Business Conduct, see our **website.**

HEINEKEN's anti-bribery framework consists of several key elements aimed at our operations to minimise the risk of and exposure to bribery related incidents, support our employees with their daily challenges and to meet applicable legal requirements. These elements include screening of third parties and visits to selected operations to assess bribery risks.

Our anti-bribery e-learning programme helps our employees recognise and deal with bribery dilemmas they may encounter during their work. The programme consists of three training modules and is mandatory for key groups of employees across a range of functions. By the end of 2018, 19,560 employees had completed one or more modules of this training programme. We keep reasonable and proportionate oversight on activities related to the implementation and effectiveness of the training through internal controls.

Speak Up

We encourage everyone to Speak Up in confidence and without fear of retaliation about any concerns they may have. We offer several Speak Up channels through which people can raise questions and concerns. They include Trusted Representatives and an external Speak Up service (telephone and online) which is run by an independent third party and available 24/7, 365 days a year. Speak Up is available to anyone who wishes to raise a concern about possible misconduct within our Company, both HEINEKEN employees and external parties.

We received 1,293 reports of suspected misconduct through Speak Up in 2018 (2017: 661). This increase results from ongoing awareness initiatives as well as the successful launch of Speak Up in newly acquired operations and the rising maturity of our Speak Up programme. Speak Up reports concerned allegations of fraud (32%), discrimination and harassment (24%), conflicts of interest (8%) and other issues (36%).

49% of reports were substantiated and corrective and preventative actions were taken where relevant and possible. Actions included process and control improvements, reimbursement of financial loss and disciplinary measures.

Inclusion and Diversity

As a global enterprise, HEINEKEN is inherently multi-cultural and this diversity remains our strong point. We focus on developing an inclusive work environment where the nationalities, ages, capabilities, experiences and working styles of all our employees are valued and embraced. In 2018, there were 66 different nationalities among our senior managers (2017: 64). Female representation at senior levels stands at 20% (2016: 17%, 2017: 19%). However, we still need to do more to increase our gender balance.

Representation by gender in % (2018)	Male	Female
Supervisory Board	70	30
Executive Board	50	50
Executive Team	80	20
Senior Management	80	20

Values and behaviours (continued)

In 2018, we focused on four key areas:

- We launched a new workshop to build inclusive leadership which will be attended by all General Managers and the Global Functional Leadership Teams in 2019.
- We are developing a global ambassador community to help management teams understand and respond to local challenges and requirements and meet our global diversity aspirations. The ambassadors will join a dedicated development programme in early 2019.
- We have designed a programme that supports talented female employees in their development and career progression across the organisation – to be launched in early 2019.
- We continue to support operating companies and global functions in integrating inclusion and diversity in their Annual People Plans, talent management strategies and everyday business practices.

In November 2018, our CEO, Jean-Francois van Boxmeer, signed the European Round Table of Industrialists (ERT) Inclusion & Diversity pledge, the first pan-European commitment of its kind to promote inclusion and diversity in the workplace.

Brand Promoters

Brand Promoters play an important role as ambassadors of our products, helping us to communicate the value of our products directly to consumers. In March 2018, allegations came to our attention with respect to the working conditions of Brand Promoters employed in Africa, specifically related to harassment. We took these allegations seriously. Our ambition is that Brand Promoters feel proud of their work with us. We see it as our responsibility to aim to provide safe working environments for them.

With the help of Brand Promoters, NGOs, partners and our operating companies, we defined a set of seven guiding principles and created a new Brand Promoters Policy.

This policy became effective in June 2018. It covers agency contracts and working conditions, availability of support, mandatory training and guidelines on uniforms and places Brand Promoter safety at the core.

To better understand market realities, we commissioned a series of independent, third party external assessments through three leading pioneers in the field of ethical and socially responsible business practice. In Africa, a 17-country assessment was carried out by Partner Africa , and a follow-up assessment was carried out in four countries. In Asia, Impactt conducted an assessment of 11 countries, while in the Americas we worked with Arche Advisors in 14 countries. As a consequence, 815 Brand Promoters were interviewed globally, 103 agencies were assessed, and 169 incognito assessments were carried out.

All in all, the assessments found that all Brand Promoters were paid at, or above, the national minimum wage. No allegations of consensual or forced prostitution were made by any of the promoters interviewed, but instances of harassment were reported. The single biggest issue found was that policies and management systems were lacking in many of the agencies. Therefore, improvements were made in the areas of tendering, procurement and contracting agency services, including background checks, due diligence and ensuring commitment and adherence to the HEINEKEN Supplier Code.

From the outset, we committed to stop deploying Brand Promoters in markets, channels or outlets where we could not apply these principles. In few markets, we stopped working with Brand Promoters. In some markets, we temporarily paused working with them. In others, we significantly reduced the number of agencies we work with and/or stopped working with specific outlets. As we know that creating and ensuring safe working conditions is not a one-off action, we are taking multiple actions and embedding Brand Promoters' safety in our commercial execution processes. This means both internal and external compliance audits will continue to be conducted on an ongoing basis.

We recognise that changing the working conditions of Brand Promoters globally will take time and we are committed to playing an active role in this. To bring this change, we need to involve other parties, including civil society as a whole as well as the stakeholders involved. Most Brand Promoters work through agencies and work for multiple brands in venues and events that are run by third parties. This poses dilemmas and challenges. We have nonetheless decided to take a leadership role to foster this change and we are actively engaging with our industry peers, NGOs, third party agencies, bar owners and Brand Promoters themselves to make this change possible.

For more details on our Brand Promoters policy and the third party assessments in the regions, see our **website.**

Respecting Human Rights

We use our Human Rights Policy as a guide in order to understand, avoid and address human rights related risks. Our human rights due diligence is the process by which we embed our policy in our way of working.

Human rights workshops

Since 2016, we have been conducting human rights risks assessments and action planning workshops in nine of the countries in which we operate across all regions: Mexico, Myanmar, Nigeria, South Africa, Haiti, Ethiopia, Cambodia, UK and Hungary. We conducted these assessments with the centre of expertise Shift, the global leading expert on the UN Guiding Principles on Business and Human Rights. As a result, we have a better understanding of the salient human rights risks we face as a company. The above-listed operating companies have developed practical and relevant action plans to address the identified potential human rights risks for their business.

In 2019, we will hold human rights workshops in five more markets: Brazil, Jamaica, Indonesia, East Timor and DRC.

Renewed Human Rights Policy

Based on the human rights risks identified with the centre of expertise Shift, we revised and sharpened our Human Rights policy, and made it available in September 2018 to all our operating companies as part of our refreshed Code of Business Conduct. Our policy aligns with international standards including: the Universal Declaration of Human Rights; the Declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO); the Guidelines for Multinational Enterprises of the Organisation for Economic Cooperation and Development (OECD) 2010; and the United Nations Guiding Principles on Business and Human Rights.

The 10 standards for human rights set out in our renewed policy relate to:

1. Health and safety
2. Non-discrimination
3. No harassment and violence
4. Child protection
5. Freedom of association and the right to collective bargaining
6. No forced labour
7. Rest and leisure
8. Fair wages and income
9. Access to water
10. Respect for human rights in high risk contexts

In 2019, we will roll out training and a practical implementation guide of the policy to all our operating companies. We expect all individuals working for HEINEKEN (whether directly or through a third party), suppliers and business partners to respect human rights in line with our Human Rights Policy or our Supplier Code.

Human rights due diligence

To strengthen our human rights due diligence process, we assess and prioritise our human rights risks, integrate our Human Rights Policy into our way of working, track implementation of our policy and report on our progress internally and externally. To get an outside view, we engage with stakeholders to gather their feedback and observations.

We are working with the Fair Labor Association to assess the risk of child labour in the agricultural value chain in the Korhogo area of Ivory Coast. The assessment report and recommendations are expected in 2019.

The HEINEKEN risk control framework helps further embed respect for human rights in our operations. Each operating company must check their own policies and practices against the Human Rights Policy and implementation guidelines.

Good Governance Platform

In 2017, with input from external stakeholders, we established an internal cross-functional platform to address human rights related issues relevant for the Africa, Middle East and Eastern Europe region. The outcomes of this platform so far include:

- A new guidance for operating companies on how to conduct business and operate in volatile environments, with the support of Shift, will be rolled out in 2019;
- Independent audits of our outsourcing practices across Africa, the Middle East and Eastern Europe were performed by not-for-profit social enterprise, Partner Africa. The outcomes will enable us to address areas for improvement and strengthen our guidelines for outsourcing decisions.
- An independent study of sorghum sourcing in Nigeria was conducted by the African Studies Centre at Leiden University to better understand its positive and potential negative impacts. Results are expected in the first half of 2019.
- Two external stakeholder roundtables engaging with NGOs and academics to review and improve our Economic Assessment methodology took place.

For more details on our Human Rights Policy, actions and governance, see our **website.**

Reporting basis and governance of non-financial indicators

We continue to disclose our financial and Brewing a Better World performance combined in one report. We believe it is important to provide independent confirmation that the information in this report is reliable and accurate, so we have asked Deloitte to provide limited assurance on 32 of the most important non-financial indicators[23]. More information about our actions and progress in 2018, remaining non-financial KPIs, and background information, can be found online. This includes datasheets and the GRI Standards table[24].

Brewing a Better World Governance

Our governance model for Brewing a Better World ensures we deliver on our priorities both globally and locally. Brewing a Better World progress is one of the key priority topics of the HEINEKEN Executive Team discussions, chaired by our CEO. Being one of four HEINEKEN Strategic priorities, progress on Brewing a Better World achievement and key highlights are reported to the Executive Team, the Executive Board and the Supervisory Board. Material strategy and targets per focus area are subject to approval by the Executive Board and the Executive Team. Significant changes in definitions are subject to approval by the Executive Board/Executive Team. As of 2018, Brewing a Better World focus areas are formally included in HEINEKEN strategic and annual planning process. Supported by expert input from subject specialists, this ensures an effective implementation of Brewing a Better World initiatives across our business.

Focus on sustainability is embedded throughout our business, for example driven by Supply Chain (Water and CO_2), Procurement (Sustainable Sourcing), HR (Health and Safety) and Commerce (Responsible Consumption). As per the Brewing a Better World governance, accountability for driving our ambition lies with the HEINEKEN Executive Team globally and with the general manager of each HEINEKEN operating company locally.

Functions (at Global and at operating company level) have the responsibility to define ambition and targets, implement, deliver, monitor progress and report on their respective indicators.

Global Sustainable Development team and Corporate Affairs management at operating company level oversee Brewing a Better World strategy and drive collaboration and coordination of activities between involved functions.

Each operating company has a sustainability coordinator and a team engaged in delivering Brewing a Better World.

Global Sustainable Development team consolidates, analyses and further communicates data reported by operating companies and global functions on a quarterly basis and in the Annual Report.

Further, we form alliances (tribes) throughout the organisation and with our suppliers to develop new solutions in the focus areas.

Reporting period and operating companies in scope

The non-financial indicators in this report cover the performance of all our consolidated operating companies from 1 January 2018 up to and including 31 December 2018, unless stated otherwise. A different reporting period is applied to the accident frequency indicator (December 2017 – November 2018) as the current reporting cycle does not allow for reporting within the timelines required for the Annual Report.

Operating companies included in the scope of our reporting are listed in the sustainability section of the report, unless stated otherwise. The reporting scope depends to a significant extent on the nature of each indicator and hence exceptions and limitations are explained per each indicator in the document 'Basis of Preparation – Non-Financial Indicators'. Units (countries, sites, suppliers, brands etc.), which for specific reasons received formal derogations for compliance with commitments, are excluded from the indicator scope in consolidation.

Consolidated operating companies include companies fully owned by HEINEKEN, or where HEINEKEN holds a majority share. Minority joint ventures, associates, licensed partners, export markets are not consolidated, unless stated otherwise (in a number of indicators). Export markets refer to countries outside the custom borders of countries where operating companies are residing. The term 'production unit' means breweries, cider plants, soft drink plants, malteries, water plants and combinations of these, at which malt, beer, cider, soft drinks and water are produced. Two packaging material plants are also in the scope of production units, covering the manufacture of bottles and crates. Other consolidated plants include a winery, distillery and ice production facilities.

New acquisitions and greenfield breweries are included in the consolidated reporting after the first full calendar year of their operation.

For the first time, we included our greenfield breweries in Philippines and East Timor in this report. In 2018, we started reporting on eight new sites in Brazil, following the Brasil Kirin activities acquisition, and a new soft drinks production site in St. Lucia. Seven sites have been excluded from sustainability reporting in 2018, following changes in ownership and operations.

We opened a new brewery in Meoqui, Mexico and started operations in our greenfield brewery in Mozambique in 2018 (the official launch will take place in 2019), which will come into the scope of Annual Reporting the moment they have been in operation for a full year. Craft brewer Lagunitas data will be consolidated as of 2019, as the company continues its transition to the HEINEKEN procedures and systems.

Indicators in scope

The content of the report is based on the material aspects for both our Company and our stakeholders and is directly linked to the Brewing a Better World strategy, our four focus areas and our 2020 commitments. We have selected the non-financial KPIs that are most material, based on the following criteria:

- The KPI is a Brewing a Better World commitment
- The KPI is a new target we publicly disclosed
- The KPI is not related to a target but part of one of the Brewing a Better World focus areas and seen as important by our stakeholders
- The combination of KPIs should give a balanced, high level overview of our progress in 2018.

Scope and materiality of indicators are reviewed by the Disclosure Committee, and may be adjusted once a year with effect as of the following year.

Reporting basis and governance of non-financial indicators (continued)

Reporting systems

The main systems used for collection, validation and analysis of reported data:

Safety data is reported quarterly via a global system named ARISO (Accident Reporting & Investigation Software system)

The collection and validation of environmental data have been integrated in Business Comparison System (BCS). Production units submit environmental data on a monthly basis in BCS

Other reporting systems include the HEINEKEN Sourcing database, the Spend Analysis Tool (SAT), and the EcoVadis Platform for Supplier Code and performance information, Ethics Point for 'Speak Up' data, CiL for low- and no-alcohol indicator

The Annual Sustainability Survey is the source of information for all other data that is not covered by the previously mentioned data sources

In 2018, we introduced a new reporting tool based on Sharepoint and Power BI, which allow us to consolidate data for all indicators and monitor progress in targets achievements at all levels of the organisation. A number of indicators are still reported in our previous reporting tool Green Gauge, which will be phased out in 2019.

Reliability and accuracy of data

We have processes governing the collection, review and validation of the non-financial data included in this reporting, at both local operating company and global level.

We are continuously formulating and applying uniform definitions and instructions for reporting purposes, in order to improve the accuracy and comparability of data. Where possible, standard or automated calculations and validity checks are built into our systems to minimise errors. Subject matter experts are involved at various levels to validate and challenge the data and process. Despite the continuous strengthening of our data collection processes and the fact that our operating companies and data owners have reported to the best of their knowledge, in good faith and in accordance with agreed procedures, it is not possible to ascertain 100% completeness of data contained in our report. Our operating companies are at differing maturity levels in implementing data collection and reporting processes. Where we have concerns, we highlight them in the report.

HEINEKEN Global Audit is involved in the annual review of the non-financial indicator reporting process, including reviewing the quality of control processes at various levels, data ownership and clarity of definitions.

Deloitte provides limited assurance on the selected indicators as described in detail in the Assurance report of the independent auditor.

Definitions and governance per indicator

We gather data in accordance with guidelines and definitions based on the Global Reporting Initiative (GRI Standards) Guidelines, unless stated otherwise. Overall, we aim to align with international standards, and, if not available, we work with industry partners such as the Beverage Industry and Environmental Roundtable (BIER) to develop common practices.

The table below provides more information on definitions and how we manage and govern the reported indicators. Additional information on definitions, scope, measurement criteria and reporting assumptions can be found in the sustainability section of the Company website and the document 'Basis of Preparation Non-Financial Indicators' accompanying this report.

Every drop: protecting water resources	
Specific water consumption	Hectolitre (hl) water intake per hectolitre volume produced of beer, cider, soft drinks and water. Water intake minus water exported. We make detailed action plans for reducing water use in our breweries, embedded within the Total Productive Management (TPM) framework. Examples of actions are reducing water losses in the pasteuriser and solving leakages. We focus our water efforts on breweries in water-stressed areas, which is the reason why we have a separate water consumption target for these breweries
Total water withdrawal	The total volume of water withdrawn from the following sources: – Surface water, including water from wetlands, rivers, lakes and oceans – Groundwater – Rainwater collected directly and stored by the organisation – Municipal water supplies or other water utilities
Wastewater treated	The volume of wastewater treated expressed in m^3. It is our policy to ensure all of our wastewater volumes are treated – by us or by a third party – before being discharged into surface water. Those breweries currently lacking wastewater treatment infrastructure are part of our future investment planning
Wastewater quantity*	All wastewater coming from all production facilities (m^3)
Wastewater treatment plant	Plant removing contaminants from the brewery's wastewater and producing environmentally safe treated wastewater before releasing it into the environment. Third party plant: an external party (most often a municipal plant) taking care of the treatment of brewery wastewater and subsequent discharge into surface water
Effluent organic load to surface water (kg COD)*	This indicator relates to the pollution load of the effluent that is discharged into surface water from our breweries. This excludes the wastewater which is treated by third parties. COD stands for Chemical Oxygen Demand, which is a measure for the pollution of water with organic material

* This specific indicator will be disclosed by end of March 2019 in the sustainability section of the Company website.

Reporting basis and governance of non-financial indicators (continued)

Water stress	Refers to the ability, or lack thereof, to meet human and ecological demand for water. Compared to 'water scarcity', 'water stress' is a more inclusive and broader concept. It considers several physical aspects related to water resources, including water scarcity, but also water quality, environmental flows, and the accessibility of water. Every five years, we assess current and future risks arising from the watersheds in which our breweries are located. In 2015, we undertook a water risk assessment with WWF International across our total operational footprint – fully consolidated as well as Joint Ventures – and on our barley-sourcing areas. Production sites identified as potentially located in a water-stressed area need to complete a Source Vulnerability Assessment (SVA). This enables us to obtain a clear picture of the local water situation, identify relevant stakeholders and explore the need for activities that increase water retention or promote the health of ecosystems. The outcomes serve as a basis for local Source Water Protection Plans, which includes the plans for water balancing. The outcome of the assessment can also indicate that water risks are negligible and that no further actions are required
Water balancing	Redressing the balance in water-stressed areas between the amount of water we source from the watershed and the amount that is not returned because it is used in our products, and through evaporation. One of the challenges is mobilising stakeholders, particularly at a government level. To help us, in February 2015, we entered into a partnership with the United Nations Industrial Development Organization (UNIDO). HEINEKEN and UNIDO are jointly organising three-day stakeholder engagement workshops to develop a shared vision on the most important water issues and on collective efforts needed to redress them in priority locations
Water balancing projects	Projects that aim to conserve or restore water quantity or quality in the local watershed and/or improve access to clean water for the local communities. We consider a balancing project started once a Memorandum of Understanding has been signed with one or more partners

Drop the C: reducing CO_2 emissions

Carbon footprint	Our carbon footprint includes CO_2 emissions by all the activities linked to making and selling our products, through the entire value chain. Our model incorporates six phases in the life cycle of a beverage: agriculture, malting and adjuncts, beverage production, packaging, logistics, cooling. This enables scope 1,2 and 3 emissions to be included in the calculation of our carbon footprint
% of electrical energy coming from renewable sources	Quantity of renewable electrical energy use (kWh) divided by total electrical energy use (kWh). Sources can be: – Own renewable production = all electricity generated from renewable resources on-site (wind, solar, biogas) – Imported electricity under green certificates = all electricity streams for which certified green electricity is purchased
% of thermal energy coming from renewable sources	Quantity of renewable thermal energy use (MJ) divided by total thermal energy use (MJ). Sources are: biomass, biogas, solar thermal and imported heat (with 100% renewable % and 0 g CO_2/MJ)
CO_2 emissions in production (Scope 1 and 2, GHG Protocol)	This indicator includes CO_2-eq emissions caused by: – direct emissions from combustion of fuels – indirect emissions from imported heat and electricity – emissions from refrigerant losses The reduction in CO_2 emissions is being achieved by improving our energy efficiency for both thermal and electrical energy (as part of our TPM framework), and by using more renewables and replacing high CO_2 fuels such as fuel oil with lower-emission fuels such as natural gas
CO_2 emissions in distribution (Scope 3, GHG protocol)	This indicator refers to CO_2-eq emissions from outbound distribution of finished goods and returns of empty packaging material. It includes domestic and export transport by road, rail and sea. Excluded is inbound transport. We focus our actions on reducing the distance we drive, improving fuel efficiency with our transport partners, switching from road to rail and water, and using more carbon-efficient vehicles. As the majority of our transport is outsourced, we work in collaboration with our transport service providers and also with peer companies, customers, fuel providers, industry groups and other key stakeholders
CO_2 emissions from fridges (Scope 3, GHG protocol)	This indicator refers to CO_2-eq emissions as a result of the electricity used by beverage fridges (branded and non-branded) invoiced to HEINEKEN in the reporting year

Reporting basis and governance of non-financial indicators (continued)

Green fridges	HEINEKEN buys and supplies fridges used to store and display our beer products in supermarkets, bars and restaurants. This allows us to control the quality of the beer by setting the correct temperature, as well as the appearance of the fridge and our brands within it. To reduce our emissions, we focus on installing more energy-efficient fridges in conjunction with our suppliers. We ask our suppliers to test new fridges to determine the HEINEKEN Energy Efficiency Index (HEEI)[25]. In case our suppliers have not (yet) provided us with the HEEI, we calculate the HEEI based on the energy saving features of the fridge model. We judge our fridges as 'green' if they have one or more of the following green features: use of hydrocarbon refrigerant, LED illumination, an energy management system and energy-efficient fans. We further enhanced our data gathering method, and decreased our reliance on self-declared numbers by the operating companies to using our centralised procurement tool where possible
Waste destination per % and absolute value*	Destination of residual products from the brewing process: either recycled into feed, material loops, compost or energy, or – when not recycled – incinerated or sent to landfill. Brewer's grains and yeast, for example, have a high nutrition value and are recycled for animal or human consumption. It is our ambition to achieve zero waste to landfill in our production facilities, and this is part of our mandatory TPM framework

*This specific indicator will be disclosed by end of March 2019 in the sustainability section of the Company website.

Sourcing sustainably

Sustainable agriculture	By sourcing raw materials sustainably, we help improve farming practices and enable farmers all over the world to adopt better environmental and social standards. Our procedures for sourcing sustainably cultivated crops are based on the principles of the Sustainable Agriculture Initiative Platform (SAI), an organisation of multinational food companies working towards a more sustainable food chain. Suppliers allocating sustainably cultivated crops to us are required to follow our procedures and we encourage them to work with farmers who grow their crops sustainably. We follow the definition of the Sustainable Agriculture Initiative (SAI): The efficient production of safe, high quality agricultural products, in a way that protects and improves the natural environment, the social and economic conditions of farmers, their employees and local communities, and safeguards the health and welfare of all farmed species. Our sustainable sourcing reporting is based on the concept of 'mass balance'. This tracks what percentage of a suppliers' materials are produced sustainably and is auditable, from farm to brewery
% of our main agricultural raw materials from sustainable sources	Contracted sustainable volumes (tonnes)/Total contracted volumes (tonnes). Sustainable volume = any agricultural product in scope of the Sustainable Agriculture programme, that has been: 1. cultivated in accordance with an approved Code of Practice and 2. allocated to HEINEKEN by our supplier in accordance with the mass balance approach Volumes contracted in 2018 for delivery in 2019 are reported in the 2018 Annual Report
% of agricultural raw materials locally sourced in Africa	Quantity (in tonnes) of agricultural 'extract' producing raw materials (plus hops) that are cultivated in the Africa and Middle East region and that are purchased for use in the production of beers, soft drinks, cider, wine and spirits at our own production facilities in that region
Number of farmers and families impacted	Calculation based on the total quantity of agricultural raw materials purchased (tons), divided by the average farm size (hectares) and the average yield per crop produced (tons per hectare)
Number of different local sourcing initiatives	HEINEKEN operating companies sourcing any agricultural raw material within the AME Region. Each value chain is counted individually and some involve working with smallholder farmers, while others work with larger scale commercial farmers

Reporting basis and governance of non-financial indicators (continued)

Local sourcing approach	As a large buyer of crops, we can have a significant economic impact on local agricultural communities. Our local sourcing Public-Private Partners (PPP) projects work with smallholder farmers and aim to help them raise yields and compete against imported crops. They empower farmers and their communities by helping to alleviate poverty and improve local food security. At the same time, HEINEKEN benefits by reducing import-related duties and securing a sustainable supply of raw materials. To achieve more, faster, we support a number of PPPs in which HEINEKEN and a public sector donor (e.g. the Dutch Ministry of Foreign Affairs and the German GIZ development agency) jointly fund agricultural development projects. Other partners include the European Cooperative for Rural Development (EUCORD), International Finance Corporation (IFC), International Fertilizer Development Center (IFDC), and Dutch NGOs ICCO and FairMatch Support
HEINEKEN Supplier Code	Much of our impact lies indirectly with our suppliers, so we work with them to embed the right practices. Every supplier is asked to abide by our Supplier Code, which sets out clear guidelines for how we expect them to act in the areas of Integrity and Business Conduct, Human Rights, and the Environment. The Supplier Code procedure is implemented among all our suppliers, and we expect our suppliers to ensure that their suppliers adhere to the same standards
Supplier	A supplier is an entity: – that delivers goods and/or services on a regular basis, more than once a calendar year, and – is registered in the vendor master database as an active supplier, and of which invoices are registered in the central systems for payment on behalf of Heineken N.V. or one of its affiliates, and – with which there has been spend in the 18 months preceding the assessment of the status of the supplier The definition excludes: tax authorities, charities, sponsorships, customer refunds and intercompany suppliers
Supplier Code four-step procedure	We safeguard compliance through a risk-based step-by-step process: 1. By signing the HEINEKEN Supplier Code, suppliers agree to comply with our principles of integrity, environmental care and human rights. 2. The intensity with which we monitor compliance against our Supplier Code depends on the risk profile of a supplier. Our supplier risk analysis (SRA) tool assesses suppliers based on their type of business and level of supplier-specific risk. All potentially high-risk suppliers are required to go through step three of the programme. 3. We use the EcoVadis[26] sustainability monitoring and scorecard to assess the strength of potentially high-risk suppliers' management systems for ensuring compliance with our Code. Suppliers complete an online questionnaire and provide supporting evidence, which EcoVadis analyses alongside a 360° scan which looks at whether a supplier has been mentioned positively or negatively in the media, by NGOs or trade unions. They then create a supplier scorecard. Suppliers that are still considered high-risk go on to Step 4 and undergo a site audit. 4. The final step is a site audit by a third party using our Supplier Code as the basic assessment criteria. We use the SMETA[27] four-pillar protocol. It enables us to contribute to and use the global database of audits held by AIM-Progress, the responsible-sourcing platform used by over 40 of the world's leading fast-moving consumer goods companies. We strive for continuous improvement to ensure ongoing compliance with our Supplier Code. If a case of non-compliance is found, we discuss corrective actions with the supplier and allow for commitment to correct the non-compliance within a given timeline. If commitment and action is not forthcoming, HEINEKEN will cease to do business with the supplier
Average level of compliance (%) of all operating companies with four-step Supplier Code Procedure	We calculate compliance as the number of suppliers compliant with all applicable four-steps of the Supplier Code Procedure divided by the total number of our suppliers. The calculation method has changed in 2018 as compared to the previous years
Number of contract terminations	Number of suppliers with which any commercial relationship ended, because: a) they were unwilling to sign our Supplier Code b) or refused to subscribe to EcoVadis c) or refused to undergo a site audit

Reporting basis and governance of non-financial indicators (continued)

Advocating responsible consumption

% of operating companies spending >10% of media spend for Heineken® in supporting dedicated responsible consumption campaigns	Heineken® media spend includes all expenses incurred for placing and broadcasting Heineken® brand dedicated responsible consumption campaigns ('Enjoy Heineken® Responsibly' or 'When You Drive, Never Drink') amounting to a minimum of 10% of their actual Heineken® media spend, per market. In 2018, we continued to raise our ambition, to all operating companies, joint ventures and export markets selling Heineken® and investing media spend. Exceptions are companies operating in 'dark markets' where above-the-line communication is not allowed according to regulations
Number of operating companies have an active and relevant partnership aimed at addressing alcohol-related harm	Working closely with third parties like local governments, NGOs and specialists, these partnerships address alcohol-related harm on issues like underage drinking, drinking and driving, or excessive drinking. In scope are all HEINEKEN operating companies with the exemption of those in Islamic countries, export markets, markets where we have a Joint Venture and one minimal-volume market (Laos) where allocating resource is unrealistic. We simplified and clarified definition and guidance of this commitment for our operating companies. Active partnerships means: meaningful, substantive engagement over a year or years, with each side benefiting and being challenged by the other. An active partnership should have a regular cadence of communication and a regular schedule for collaborations or joint executions. A relevant alcohol partnership is one that is responsive to the needs of the local community as identified by critical stakeholders and/or local trends
Low- and no-alcohol	All beer, cider, hop and/or malt based drinks with an ABV of 3.5% or less. This does not include soft drinks
Low- and no-alcohol as % of our global volume	Total low- and no-alcohol volume/Total consolidated beer and cider volume
Ingredients and nutrition information	This involves beer and cider brands produced and sold by HEINEKEN operating companies. In 2018, we have expanded our target to our cider brands and other beer brands around the world (in 2017, the scope of the commitment only included beer brands and operating companies in the EU). Commitment is only applicable to consumer facing products (bottles, cans). Scope includes brands (line extensions) sold in volumes above a threshold of 6,000 hl per year (based on 2017 volume data). We committed to include nutrition information and ingredients on pack and online in our operating companies in EU, and on pack or online in the operating companies outside EU.
Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking	HEINEKEN is a signatory to the Producers' Commitments to Reduce Harmful Drinking. This is managed by the International Alliance for Responsible Drinking (IARD). The aim of the Producers' commitments, which run from 2013–2017, is to contribute as an industry to the global target set by the World Health Organization (WHO) of "at least a 10% relative reduction in the harmful use of alcohol" by 2025. We take action in five key areas: underage drinking, marketing codes of practice, consumer information and product innovation, drinking and driving, and retailer support
Responsible Marketing Code	In 2018, we renewed our Responsible Marketing Code. This Code, which is fully in line with the Producers' commitments, guides us in the way we market our products. These rules help everyone at HEINEKEN who is involved in marketing and the sales of our products to ensure we do not contribute to excessive consumption or misuse. The Code covers all communications channels, the most common being: packaging, point of sale, signage, trade promotions, sponsorships, advertising, digital and social media

Promoting health & safety

% of compliance with Life Saving Rules	Our 'Safety First' approach is focused on improving safety across the whole Company. Our global strategy is systematically addressing safety across the whole of the Company, with a particular focus on road safety. The 12 Life Saving Rules set out clear and simple 'do's and don'ts' for our highest-risk activities. All operating companies are required to assess their safety performance and close any gaps through action plans. In 2018, we aligned our external commitment with the internal target, and will be monitoring Life Saving Rules compliance. This is a change to the previous definition where we reported on % of Life Saving Rules actions carried out. The monitoring based on compliance provides a more insightful picture and a better focus, being result-oriented rather than process oriented
Fatal accidents	All work-related fatal accidents of permanent, fixed-term or temporary personnel (own staff and contractor personnel)
Accidents	An accident which resulted in permanent disability or which requires hospitalisation for more than 24 hours or resulting in more than one lost day
Lost days	Lost days are counted from the first day after the case until the day the person returns to normal duties at work. All calendar days are counted
Accident frequency	Number of accidents resulting in absence from work per 100 FTE. This is an indicator of the state of health and safety at the workplace
Accident severity	Number of days lost from work as a result of disabling injuries per 100 FTE

Reporting basis and governance of non-financial indicators (continued)

Growing with communities

Our approach to tax

In support of HEINEKEN's business priorities we pursue a tax strategy that is sustainable and transparent. This strategy is annually reviewed and approved both by the Executive Board and the Audit Committee. Our tax strategy is based on a number of key principles:

- Our commitment to comply with relevant tax laws and international regulations goes beyond legal compliance:
  - Our way of working conforms with the HEINEKEN Code of Conduct;
  - We expect to pay tax on our activities in the country where they take place; and
  - We do not use tax havens for tax avoidance purposes.
- We pursue an open and constructive dialogue with tax authorities that is based on respect, transparency and trust. We have developed co-operative compliance relationships with tax authorities in several countries including, amongst others, the Netherlands and in the United Kingdom.
- We fully support and follow the OECD transfer pricing guidelines. Transactions between HEINEKEN companies are conducted at 'arm's length'.

For more information on our tax strategy, governance and organisation, visit our website

Total Tax Contribution per category

The tax payments made by the fully consolidated Heineken companies during the calendar year. The total tax contribution includes a limited degree of estimation. The scope of total tax contribution is limited to the consolidated reporting entities (not JVs and associates). The categories are: corporate income tax paid, excise duties paid, net VAT paid, employee taxes paid (incl. social security contributions, but excluding pension contributions), other taxes paid

Corporate income tax paid

Cash flows arising from taxes on income, reported by the fully consolidated HEINEKEN companies

Effective income tax rate (beia)

Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures and impairments thereof (net of income tax)

Beia

Before exceptional items and amortisation of acquisition-related intangible assets

Total direct contributions

Voluntary contributions (in cash, knowledge, employee time, products and equipment) that help local communities and broader societies address their development priorities and increase the quality of life. The operating companies are free to establish which issues are relevant to both the community and the business. We provide guidelines how to prioritise projects within the focus areas of Brewing a Better World, for example on water stewardship and addressing alcohol related harm. In certain markets, community investments are coordinated through local foundations, like in Spain and Singapore.

We encourage our employees to volunteer their time with local community organisations. Volunteerism enables employees to give their time and professional expertise to organisations in need of human resources, and it makes Brewing a Better World personal, relevant and a source of pride and ownership for our employees

HEINEKEN Africa Foundation

Donations as a voluntary engagement in collaboration with (non) governmental charitable organisations that extends beyond our core business activities, to help improve the health of the communities where we do business.

The HEINEKEN Africa Foundation supports projects that improve health for the people who need it most. Over the years, the Foundation has developed strong expertise in Mother & Child Care and Water, Sanitation and Hygiene (WASH). The Foundation works closely together with the HEINEKEN breweries in Sub-Saharan Africa and (N) GOs. Underpinning HEINEKEN's longstanding commitment to Africa, projects are only carried out in the Sub-Saharan African countries in which HEINEKEN is operating. For each project a partnership is created between the HEINEKEN Africa Foundation, the local HEINEKEN brewery and a local or international (N)GO. The Foundation provides funding and administrative assistance. The local brewery supports through means of manpower, expertise and monitoring. The (N)GO is responsible for the implementation and continuation of the project.

Visit the Foundation's website for more information

Reporting basis and governance of non-financial indicators (continued)

Values and behaviours

Speak Up policy (number of reports + breakdown)	The number of Speak Up reports is the total number of reports received via our Speak Up channels in which reporters raised a concern about a (suspected) violation of the HEINEKEN Code of Business Conduct or its underlying policies. A breakdown per topic is presented to give insight into the main topics of said Speak Up reports. The Speak Up policy is available at the HEINEKEN Speak Up website (http://speakup.heineken.com)
Training Code of Business Conduct (number of employees)	The Code of Business Conduct training has to be completed by all HEINEKEN employees. It is expected to be completed as part of the induction for new joiners. Thereafter it is expected to be completed regularly (preferably on an annual basis). The training is facilitated by an e-learning module, which can be completed online, as well as during a classroom session for those employees without access to their own workstation. A training completion is counted if (i) an employee has completed the e-learning (this is automatically registered in a database), or (ii) if an employee has attended a classroom training and signed off an attendance form
Training anti-bribery (number of employees)	In 2015, we launched an anti-bribery e-learning programme for key employees to ensure that they recognise and resist bribery. The anti-bribery training is mandatory for a selected audience (those above a certain job grade and those considered to be risk groups). A training completion is counted if an employee has completed the e-learning

List of operating companies in scope for non-financial indicators[28]

Africa, Middle East & Eastern Europe

Country	Operating Company/Business Unit
Algeria	Tango
Belarus[29]	Heineken Breweries
Burundi	Brarudi
Democratic Republic of Congo	Bralima
Egypt	Al Ahram Beverages Company
Ethiopia	Heineken Breweries
Ethiopia	Harar Brewery
Ethiopia	Bedele Brewery
Ivory Coast	Brassivoire
Kenya	Heineken East Africa Import Company
La Réunion	Brasseries de Bourbon
Lebanon	Almaza
Mozambique	Heineken Mozambique
Nigeria	Nigerian Breweries
Russia	Heineken Breweries
Rwanda	Bralirwa
Sierra Leone	Sierra Leone Brewery
South Africa	Heineken South Africa
Tunisia	Nouvelle de Brasserie 'Sonobra'

Americas

Bahamas	Commonwealth Brewery
Brazil	Cervejarias Kaiser Brasil
Brazil	Bavaria
Canada	Heineken Canada
Haiti	Brasserie Nationale d'Haiti
Jamaica	Desnoes & Geddes
Mexico	Cuauhtémoc Moctezuma
Panama	Cerveceria Panama
St. Lucia	Windward & Leeward Brewery
Surinam	Surinaamse Brouwerij
USA	Heineken USA
USA	Lagunitas Brewing Company

Reporting basis and governance of non-financial indicators (continued)

Asia Pacific

Country	Operating Company/Business Unit
Cambodia	Cambodia Brewery
China	Heineken (Shanghai)
China	Heineken Brewery Guangzhou
China	Heineken Brewery Hainan
East Timor	Heineken Timor L'Este
Hong Kong	Heineken Hong Kong
Indonesia	PT Multi Bintang Indonesia
Japan	Heineken Japan
Laos	Lao Asia Pacific Breweries
Malaysia	Heineken Malaysia Berhad
Mongolia[30]	MCS Asia Pacific Brewery
Myanmar	APB Alliance Brewery
New Caledonia	Grande Brasserie de Nouvelle Caledonie
New Zealand	DB Breweries
Papua New Guinea	South Pacific Brewery
Philippines	AB Heineken Philippines
Singapore	Heineken Asia Pacific
Singapore	Asia Pacific Breweries (Singapore)
Singapore	Heineken Asia Pacific Export
Solomon Islands	Solomon Breweries
South Korea	Heineken Korea
Sri Lanka	Heineken Lanka
Taiwan	Heineken Taiwan
Vietnam	Heineken Hanoi Brewery
Vietnam	Heineken Vietnam Brewery

Europe

Country	Operating Company/Business Unit
Austria	Brau Union Österreich
Belgium	Brouwerijen Alken-Maes
Belgium	Mouterij Albert
Belgium	Stassen
Bulgaria	Zagorka
Croatia	Heineken Hrvatska
Czech Republic	Heineken Ceská Republika
France	Heineken France
Germany	Heineken Deutschland
Greece	Athenian Brewery
Hungary	Heineken Hungaria
Ireland	Heineken Ireland
Italy	Heineken Italia
Netherlands	Heineken Nederland (including Vrumona)
Poland	Grupa Żywiec
Portugal	Sociedade Central de Cervejas e Bebidas
Romania	Heineken Romania
Serbia	Heineken Serbia
Slovakia	Heineken Slovensko
Slovenia	Pivovarna Lasko Union
Spain	Heineken España
Switzerland	Heineken Switzerland
UK	Heineken UK

Global

Various	Head Office, Regional Offices including export offices and Global Duty Free, HEINEKEN Financial Shared Services centre (Kraków, Poland)
Export	Other export markets

Sustainability Review (continued)
Footnotes

Drop the C

[1] Baseline 2008 – our 2020 commitment was to reduce by 40% our carbon emissions in relative terms vs 2008.

[2] Data based on 84% of the HEINEKEN volume in 2017. The HEINEKEN product carbon footprint is based on a life cycle approach including GHG scope 1, 2 and 3 emissions from agriculture, malting, brewing, packaging materials, distribution and cooling.

[3] The 2018 carbon footprint calculations use the latest calculation methodologies from the EU Product Environmental Footprint Pilot (PEF) for the Beverage Industry Environmental Roundtable (BIER).

Sustainability

[4] Reporting baseline 2008.

[5] 23 production units in Algeria, Egypt, Ethiopia, Indonesia, Mexico, Nigeria, Spain and Tunisia. Production units include beverage production and malting plant.

[6] Bedele, Madrid, Lagos, Ibadan, Sango-Ota, Ijebu-Ode, Rouiba. Grombalia, Grombalia SOFT and Ksar Lemsa.

[7] Baseline 2008.

[8] Baseline year 2010 for Mexico and Netherlands, 2011 for all other HEINEKEN operating companies.

[9] Mexico, USA and Brazil.

[10] Baseline 2010.

[11] Less than 2% of total co-products and waste sent to landfill.

[12] In scope are barley, hops, apples, sugar beet, sugar cane, rice, sorghum, wheat and maize. The scope also covers joint ventures supplied via our global purchase organisation (HEINEKEN Global Procurement).

[13] We follow the definition for sustainable agriculture set out by the Sustainable Agriculture Initiative (SAI).

[14] Our external auditor, SGS, conducted 12 compliance audits of our suppliers in 2018 and confirmed the sustainable volumes they reported in 2018.

[15] We refer to sourcing within the region of Africa and the Middle East: 86.7% domestic and 13.3% regional sourcing. Based upon volume (in tons).

[16] In 2018 with third party support, we changed our calculation methodology to ensure consistent compliance calculation across operating companies. The methodology still follows the 4-step process, however we do not calculate compliance as average supplier performance across all steps, but rather the number of compliant suppliers versus total number of suppliers.

[17] Investments dedicated to responsible consumption messaging with regards to Heineken® brand communication. This includes our Enjoy Heineken® Responsibly (When You Drive Never Drink) campaigns but also having other activities on Responsible Consumption that are not only media related.

[18] According to WHO 2018 Global Status Report on Alcohol & Health, in 2010, 55% of the global population abstained from alcohol in the previous 12 months, and in 2016 57% were abstainers.

[19] Based on 2017 sales data. This commitment excludes brands under 6,000HL and licensed brands.

[20] Assessment is made by line extension, which means additional items introduced in the same product category under the same brand name such as new flavours, forms, added ingredients, low-alcohol versions etc.

[21] Externally we report fatal accidents in line with the definitions from Global Reporting Initiative standard on occupational health and safety. Internally we also report and investigate all non-work related fatal accidents happening in relation to our activities, including those happening to members of the public.

[22] Previously LSR implementation was reported using a completion rate of action plans defined in 2016. In 2018, we began reporting progress using a compliance level which we believe provides better insight and a clearer and more objective picture of our progress.

[23] 28 of these indicators are included in this report, the remaining ones are published online by the end of March 2019.

[24] To be published end of March 2019.

[25] This specific indicator will be disclosed by end of March 2019 in the sustainability section of the Company website. HEINEKEN Energy Efficiency Index is the energy consumption of the fridge divided by the average energy consumption of similar HEINEKEN fridges on the market in 2010, multiplied by 100.

[26] EcoVadis is a sustainability rating and collaborative platform enabling companies to monitor the sustainability performance of their suppliers, across 150 sectors and 110 countries. The evaluation covers 21 Corporate Social Responsibility (CSR) criteria and is used today by 120 global multinationals. EcoVadis engages approximately 20,000 suppliers a year whereby 70% of suppliers are SMEs (less than 1000 employees).

[27] SMETA (Sedex Members Ethical Trade Audit) describes an audit procedure which is a compilation of good practice in ethical audit technique.

[28] Scope can vary per non-financial indicator. When not all operating companies are in scope, this is being indicated in the specific section, the Reporting Basis chapter and/or the appendix 'Basis of preparation non-financial indicators' which can be found on the Company website.

[29] Divested in September 2017; disclosures have been included up to the divestment date and only for applicable indicators.

[30] Divested in November 2017 while maintaining a minority stake; disclosures have been included up to the divestment date and only for applicable indicators.

Appropriation of Profit

Article 12, paragraph 7, of the Articles of Association stipulates:

"Of the profits, payment shall first be made, if possible, of a dividend of six % of the issued part of the authorised share capital. The amount remaining shall be at the disposal of the General Meeting of Shareholders."

Civil Code

Heineken N.V. is not a 'structuurvennootschap' within the meaning of Section 2: 152-164 of the Dutch Civil Code. Heineken Holding N.V., a company listed on Euronext Amsterdam, holds 50.005% of the issued shares of Heineken N.V.

Authorised capital

The Company's authorised capital amounts to €2,500 million.

Independent Auditor's Report

To the Annual General meeting of Heineken N.V.

Report on the audit of the financial statements 2018 included in the Annual Report 2018

Our opinion

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

In our opinion:

– The accompanying consolidated financial statements give a true and fair view of the financial position of Heineken N.V. as at 31 December 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 accompanying Company financial statements give a true and fair view of the financial position of Heineken 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 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.

The Company financial statements comprise:

– The Company balance sheet as at 31 December 2018.

– The Company income statement for 2018.

– 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 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 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 €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 €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 Supervisory Board that any misstatements in excess of €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 N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Heineken N.V.

Because we are ultimately responsible for 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.

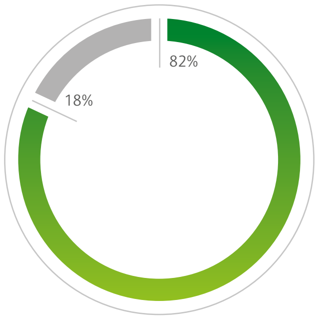
Independent Auditor's Report (continued)

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.

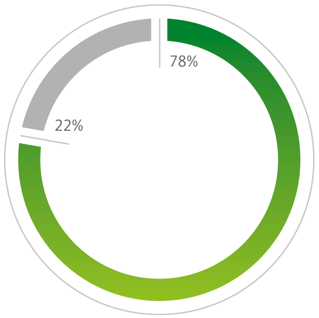
For selected component audit teams, the group audit team provided detailed written instructions, which, in addition to communicating the requirements of component audit teams, detailed significant audit areas and information obtained centrally relevant to the audit of individual components, including 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.

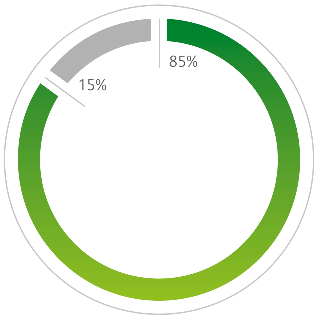
Revenues



PBT



Assets



■ Full scope auditor coverage
■ Other coverage

Our key audit matters

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

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

Revenue recognition

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 recognised 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.

Independent Auditor's Report (continued)

Revenue recognition

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.

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 €28,818 million as at December 31, 2018. They represent close to 70% 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 €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.

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

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 recognised 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 recognised by the Company to the extent that it is probable that future taxable income will be available, against which unused tax losses can be utilised 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.

Independent Auditor's Report (continued)

Taxes – provisions for uncertain tax positions and valuation 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 recognised 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.

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 2018

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 Executive Board;

– Report of the Supervisory Board;

– Other Information pursuant to Part 9 of Book 2 of the Dutch Civil Code; and

– Other information included in the Annual Report.

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

– Is consistent with the financial statements and does not contain material misstatements; and

– Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Heineken 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 Executive Board and the Supervisory Board for the financial statements

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

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

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

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit 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 Supervisory Board 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 Supervisory Board 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 Supervisory Board, 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

Assurance Report of the Independent Auditor

To the Annual General Meeting and other stakeholders of Heineken N.V.

Our conclusion

We have reviewed a selection of sustainability data included in the accompanying Annual Report for the year ended December 31, 2018 ('the sustainability data') of Heineken N.V ('the Company'), based in Amsterdam.

Based on our review, nothing has come to our attention that causes us to believe that the sustainability data of the Company is not prepared in all material respects, in accordance with the internally applied Reporting Criteria.

The objective of the review was to provide limited assurance on the following sustainability data ('KPIs'):

Every drop – protecting water resources

- Average water consumption in breweries (hl/hl)
- Average water consumption in water-stressed areas (hl/hl)
- Total water withdrawal per source (m m^3)
- No. of sites without water treatment plant
- No. of production units in water-stressed areas that started to implement their action plan for Water Balancing

Drop the C – reducing CO_2 emissions

- % reduction in relative CO_2 emissions from production
- % of electrical energy coming from renewable sources
- % of thermal energy coming from renewable sources
- % reduction CO_2 emissions in distribution across Europe (including Russia) and Americas

Sourcing sustainably

- % of our main agricultural raw materials from sustainable sources (estimated)
- % of agricultural raw materials locally sourced in Africa and the Middle East (estimated)
- % operating companies compliant with four-step Supplier Code Procedure

Advocating responsible consumption

- % of operating companies who achieved 10% target for annual EHR investment
- Number of operating companies that have an active and relevant partnership to address alcohol abuse
- % of ingredients and nutrition information on pack and online for all our European beer and cider brands and on pack or online for the beer and cider brands of the rest of the world (estimated)

Promoting health & safety

- % of Life Saving Rules (LSR) compliance (in the breweries and in projects, commerce, distribution and other areas outside production)
- Total number of fatalities (personnel and contractors)
- Total number of accidents (personnel and contractors)
- Lost days of company personnel
- Accident frequency
- Accident severity

Growing with communities

- Corporate income tax per region (Euro)
- Total tax contribution per category (Euro)

Values and behaviours

- % Gender representation at Senior Management levels
- Total number of different nationalities at Senior Management

Carbon Footprint

- Carbon footprint (2017 data)

The information in scope of this engagement needs to be read and understood in conjunction with the Reporting Basis and Criteria non-financial indicators as included in the Annual Report 2018 on page 145.

Assurance Report of the Independent Auditor (continued)

Basis for our conclusion

We have performed our assurance engagement on the sustainability data in accordance with Dutch law, including Dutch Standard 3000A 'Assurance engagements other than audits or reviews of historical financial information'. This assurance engagement is aimed at obtaining limited assurance. Our responsibilities under this standard are further described in the 'Our responsibilities for the assurance engagement of the sustainability data' section of our report.

We are independent of the Company in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of the Executive Board and the Supervisory Board

The Executive Board of the Company is responsible for the preparation of the sustainability data in accordance with the internally applied Reporting Criteria, including the identification of the intended users and the criteria being applicable for the purposes of the intended users.

The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the sustainability data that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the Company's reporting process.

Our responsibilities for the assurance engagement of the sustainability data

Our responsibility is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate review evidence for our conclusion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the sustainability data. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion.

This assurance engagement is aimed at obtaining limited assurance. The procedures performed in order to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an assurance engagement.

The performed procedures in this context consisted mainly of gathering information from officers of the Company and applying analytical procedures set out in relation to the sustainability data.

The assurance obtained in assurance engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in assurance engagements aimed at obtaining reasonable assurance.

We have exercised professional judgement and have maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3000A.

Our assurance engagement included amongst others:

- Gaining knowledge and obtaining an understanding of the sustainability data and other circumstances regarding the engagement including gaining knowledge regarding internal controls.
- An analytical review of the data and trends submitted.
- Assessing the suitability of the Reporting Criteria.

Amsterdam, 12 February 2019

Deloitte Accountants B.V.
J. Dalhuisen

Shareholder Information

Investor Relations

HEINEKEN is committed to maintaining an open and constructive dialogue with shareholders and bondholders, and continuously strives to improve its shareholder relations. HEINEKEN aims to keep shareholders updated by informing them clearly and accurately about HEINEKEN's strategy, performance and other matters and developments that could be relevant to investors' decisions.

Ownership structure

Heading the HEINEKEN Group, the objective of Heineken Holding N.V., 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. The role Heineken Holding N.V. has performed for the HEINEKEN Group since 1952 has been to safeguard its continuity, independence and stability and create conditions for controlled and steady growth of the activities of the HEINEKEN Group. The stability provided by this structure has enabled the HEINEKEN Group to remain independent and to rise to its present position as the brewer with the broadest international presence and one of the world's largest brewing groups.

Every Heineken N.V. share held by Heineken Holding N.V. is matched by one share outstanding at the level of Heineken Holding N.V. Shares have traded at a lower price due to technical factors that are market-specific. Heineken Holding N.V. holds 50.005% of the Heineken N.V. issued shares. L'Arche Green N.V. holds 52.599% of the Heineken Holding N.V. shares. The Heineken family holds 88.86% of L'Arche Green N.V. The remaining 11.14% of L'Arche Green N.V. is held by the Hoyer family. Mrs. de Carvalho-Heineken also owns a direct 0.03% stake in Heineken Holding N.V.

Heineken N.V. shares and options

Heineken N.V. shares are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. The shares are listed under ISIN code NL0000009165. Prices for the ordinary shares may be accessed on Bloomberg under the symbol HEIA.NA and on the Reuters Equities 2000 Service under HEIA.AS. Options on Heineken N.V. shares are listed on Euronext Amsterdam.

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

Market capitalisation Heineken N.V.

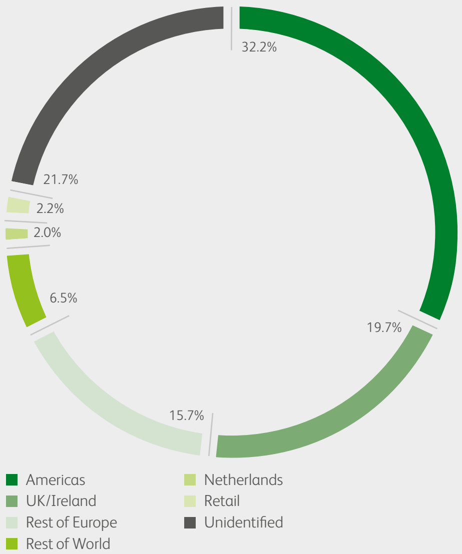
Shares outstanding as at 31 December 2018: 570,179,587 shares of €1.60 nominal value (excluding own shares held by the Company).

At a year-end price of €77.20 on 31 December 2018, the market capitalisation of Heineken N.V. on 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

Share distribution by geography Heineken N.V. shares*

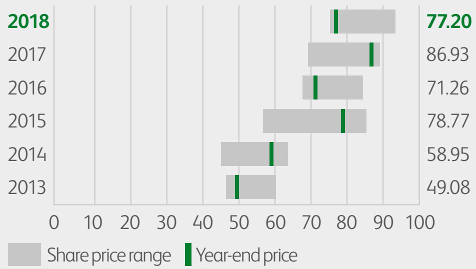
Based on 238.3 million shares in free float (excluding the holding of Heineken Holding N.V. and FEMSA in Heineken N.V.)



* Source: Cmi2i estimate based on available information December 2018.

Heineken N.V. share price

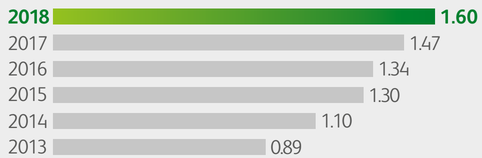
In €, Euronext Amsterdam



Average trade in 2018: 701,326 shares per day

Dividend per share

In €



Heineken Holding N.V. shares

The ordinary shares of Heineken Holding N.V. are traded on Euronext Amsterdam. The shares are listed under ISIN code NL0000008977. Prices for the ordinary shares may be accessed on Bloomberg under the symbol HEIO.NA and on the Reuters Equities 2000 Service under HEIO.AS.

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

Shareholder Information (continued)

Market capitalisation Heineken Holding N.V.

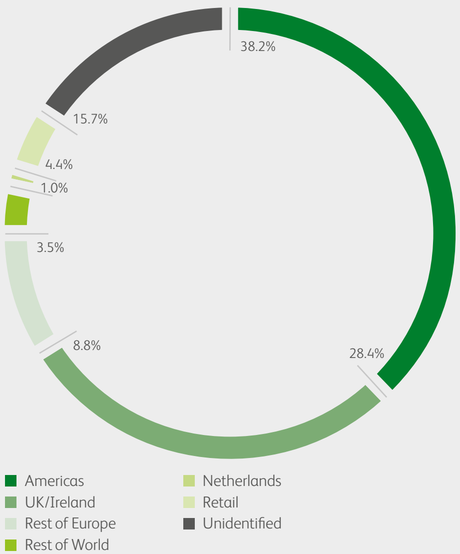
Shares outstanding as at 31 December 2018: 288,030,168 shares of €1.60 nominal value (excluding own shares held by the Company).

At a year-end price of €73.75 on 31 December 2018, the market capitalisation of Heineken Holding N.V. on 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

Share distribution by geography Heineken Holding N.V. shares*

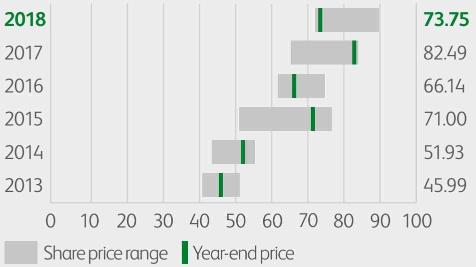
Based on 101.2 million shares in free float (excluding the holding of L'Arche Green N.V. and FEMSA in Heineken Holding N.V.)



* Source: Cmi2i estimate based on available information December 2018.

Heineken Holding N.V.

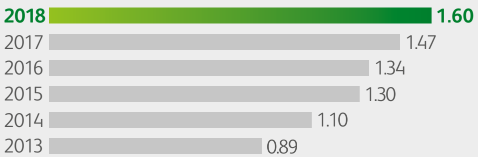
In €, Euronext Amsterdam



Average trade in 2018: 116,437 shares per day

Dividend per share

In €



American Depositary Receipts (ADRs)

HEINEKEN's shares are trading Over-the-Counter (OTC) in the US as American Depositary Receipts (ADRs). There are two separate Heineken ADR programmes representing ownership respectively in: 1) Heineken N.V. and 2) Heineken Holding N.V. For both programmes, the ratio between HEINEKEN ADRs and the ordinary Dutch (€ denominated) shares is 2:1, i.e. two ADRs represent one HEINEKEN ordinary share. Deutsche Bank Trust Company Americas acts as depositary bank for HEINEKEN's ADR programmes.

Heineken N.V.

Ticker: HEINY
ISIN: US4230123014
CUSIP: 423012301
Structure: Sponsored Level I ADR
Exchange: OTCQX
Ratio (DR:ORD): 2:1

Heineken Holding N.V.

Ticker: HKHHY
ISIN: US4230081014
CUSIP: 423008101
Structure: Sponsored Level I ADR
Exchange: OTCQX
Ratio (DR:ORD): 2:1

ADR contact information

Deutsche Bank Shareholder Services
c/o American Stock Transfer & Trust Company
6201 15th Avenue Brooklyn, NY 11219, USA
E-mail: DB@amstock.com

Shareholder Service (toll-free) Tel. +1 866 249 2593

Shareholder Service (international) Tel. +1 718 921 8137

www.amstock.com

Shareholder Information (continued)

Contact details for ADR brokers and institutional investors

US Tel: +1 212 250 9100

UK Tel: +44 207 547 6500

The Company ADR programmes are sponsored by Deutsche Bank Trust Company Americas (Deutsche Bank). As the depositary bank, Deutsche Bank performs the following roles for ADR holders as further detailed in the Deposit Agreement:

- Records and maintains the register of ADR holders
- Is the stock transfer agent
- Distributes dividends in US dollars
- Facilitates the voting process and the exercise of the voting rights of ADR holders at any General Meeting of Shareholders if permitted by the Company and the Deposit Agreement
- Issues and cancels HEINEKEN American Depositary Receipts (ADRs)
- Can distribute circulars and documentation in connection with any General Meeting of Shareholders if applicable.

For those holders who are not registered because their ADRs are held through a 'Street name' (nominee account), your nominee will receive Company documents from time to time from Deutsche Bank to distribute to ADR holders. You need to make arrangements with your nominee if you wish to receive such documents and to be able to exercise your vote through the depositary bank at General Meetings (if applicable).

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

Dividend policy

The dividend policy of Heineken N.V. intends to preserve the independence of the Company, to maintain a healthy financial structure and to retain sufficient earnings in order to grow the business both organically and through acquisitions.

The dividend payments which translates in a pay-out of 30% to 40% of full-year net profit (beia) are related to the annual development of the net profit before exceptional items and amortisation of acquisition-related intangible assets (net profit beia).

Dividends are paid in the form of an interim dividend and a final dividend. The interim dividend is fixed at 40% of the total dividend of the previous year. Annual dividend proposals will remain subject to shareholder approval.

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

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

Further shareholder information is available on the Company's website: www.theHEINEKENcompany.com/investors.

Bondholder Information

In 2008, HEINEKEN established a Euro Medium Term Note (EMTN) Programme which was last updated in March 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.

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
EUR EMTN 2019	19 March 2012	EUR 850 million	2.500%	19 March 2019	XS0758419658
EUR EMTN 2020	2 August 2012	EUR 1,000 million	2.125%	4 August 2020	XS0811554962
EUR EMTN 2021	4 April 2013	EUR 500 million	2.000%	6 April 2021	XS0911691003
EUR EMTN 2021	10 September 2015	EUR 500 million	1.250%	10 September 2021	XS1288852939
144A/RegS 2022	3 April 2012	USD 750 million	3.400%	1 April 2022	US423012AA16
144A/RegS 2023	10 October 2012	USD 1,000 million	2.750%	1 April 2023	US423012AD54
EUR EMTN 2023	23 October 2015	EUR 140 million	1.700%	23 October 2023	XS1310154536
EUR EMTN 2024	19 March 2012	EUR 500 million	3.500%	19 March 2024	XS0758420748
EUR EMTN 2024	7 December 2015	EUR 460 million	1.500%	7 December 2024	XS1330434389
EUR EMTN 2025	2 August 2012	EUR 750 million	2.875%	4 August 2025	XS0811555183
EUR EMTN 2025	20 October 2015	EUR 225 million	2.000%	20 October 2025	XS1309072020
EUR EMTN 2026	4 May 2016	EUR 800 million	1.000%	4 May 2026	XS1401174633
EUR EMTN 2027	29 November 2016	EUR 500 million	1.375%	29 January 2027	XS1527192485
EUR EMTN 2027	17 September 2018	EUR 600 million	1.250%	17 March 2027	XS1877595444
144A/RegS 2028	29 March 2017	USD 1,100 million	3.500%	29 January 2028	US423012AF03
EUR EMTN 2029	30 January 2014	EUR 200 million	3.500%	30 July 2029	XS1024136282
EUR EMTN 2029	3 October 2017	EUR 800 million	1.500%	3 October 2029	XS1691781865
EUR EMTN 2031	17 September 2018	EUR 650 million	1.750%	17 March 2031	XS1877595014
EUR EMTN 2032	12 May 2017	EUR 500 million	2.020%	12 May 2032	XS1611855237
EUR EMTN 2033	15 April 2013	EUR 180 million	3.250%	15 April 2033	XS0916345621
EUR EMTN 2033	19 April 2013	EUR 100 million	2.562%	19 April 2033	XS0920838371
144A/RegS 2042	10 October 2012	USD 500 million	4.000%	1 October 2042	US423012AE38
144A/RegS 2047	29 March 2017	USD 650 million	4.350%	29 March 2047	US423012AG85

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

Traded Heineken Asia Pacific Pte. Ltd.* Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
SGD MTN 2020	3 March 2009	SGD 21.75 million	3.780%	3 March 2020	SG7V34954621
SGD MTN 2022	7 January 2010	SGD 16.25 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.

Historical Summary

	2018	2017	2016	2015	2014
Revenue and profit					
In millions of €					
Revenue[1]	26,811	25,843	20,792	20,511	19,257
Net revenue[2]	22,471	21,609	N/A	N/A	N/A
Operating profit	3,137	3,352	2,755	3,075	2,780
Operating profit (beia)	3,868	3,759	3,540	3,381	3,129
as % of net revenue[2]	17.2	17.4	17.0	16.5	16.2
as % of total assets	9.2	9.2	9.0	8.4[3]	9.0
Net profit	1,903	1,935	1,540	1,892	1,516
Net profit (beia)	2,424	2,247	2,098	2,048	1,758
as % of shareholders' equity	16.9	16.9	15.8	15.1	14.2
Dividend (proposed)	912	838	763	741	632
as % of net profit (beia)	37.6	37.3	36.4	36.2	35.9
Per share					
In €					
Cash flow from operating activities	7.70	6.81	6.53	6.10	5.32
Net profit (beia) – basic	4.25	3.94	3.68	3.58	3.06
Net profit (beia) – diluted	4.25	3.94	3.68	3.57	3.05
Dividend (proposed)	1.60	1.47	1.34	1.30	1.10
Shareholders' equity	25.18	23.37	23.24	23.65	21.58

	2018	2017	2016	2015	2014
Cash flow statement					
In millions of €					
Cash flow from operations	5,540	4,924	4,720	4,486	4,140
Cash flow related to interest, dividend and income tax	(1,152)	(1,042)	(1,002)	(997)	(1,082)
Cash flow from operating activities	**4,388**	**3,882**	**3,718**	**3,489**	**3,058**
Cash flow (used in)/from operational investing activities	(2,142)	(1,851)	(1,945)	(1,797)	(1,484)
Free operating cash flow	**2,246**	**2,031**	**1,773**	**1,692**	**1,574**
Cash flow (used in)/from acquisitions and disposals	(213)	(1,114)	(62)	(267)	(189)
Dividends paid	(1,090)	(1,011)	(1,031)	(909)	(723)
Cash flow (used in)/from financing activities, excluding dividend	123	45	359	(264)	(1,730)
Net cash flow	**1,066**	**(49)**	**1,039**	**252**	**(1,068)**
Cash conversion ratio	84.2%	81.1%	75.0%	73.3%	78.9%
Financing ratios					
Net debt/EBITDA (beia)	2.3	2.5	2.3	2.4	2.5[4]

[1] 2017 revenue has been restated due to changes in accounting policy on revenue (IFRS 15).
[2] 'Net revenue' was introduced in 2017 due to changes in accounting policy on revenue (IFRS 15).
[3] Comparative figure for 2015 has been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.
[4] Revised for the change in definition of net debt in 2015.

Historical Summary (continued)

	2018	2017	2016	2015[2]	2014
Operating profit (beia)/net interest expense (beia)	9.6	10.1	10.0	9.6	7.7
Free operating cash flow/net debt	19%	16%	16%	15%	14%[1]
Net debt/total equity	0.78	0.89	0.77	0.76	0.82[1]

Financing

In millions of €

	2018	2017	2016	2015[2]	2014
Share capital	922	922	922	922	922
Reserves and retained earnings	13,436	12,399	12,316	12,613	11,487
Shareholders' equity	**14,358**	**13,321**	**13,238**	**13,535**	**12,409**
Non-controlling interest	1,182	1,200	1,335	1,535	1,043
Total equity	**15,540**	**14,521**	**14,573**	**15,070**	**13,452**
Post-retirement obligations	954	1,289	1,420	1,289	1,443
Provisions (including deferred tax liabilities)	2,380	2,643	2,128	2,332	2,066
Non-current borrowings	12,628	12,166	10,920	10,626	9,491
Other liabilities (excluding provisions)	10,454	10,415	10,280	10,805	8,378
Liabilities (excluding provisions and post-retirement obligations)	**23,082**	**22,581**	**21,200**	**21,431**	**17,869**
Total equity and liabilities	**41,956**	**41,034**	**39,321**	**40,122**	**34,830**
Shareholders' equity/(post-retirement obligations, provisions and liabilities)	**0.54**	**0.50**	**0.53**	**0.54**	**0.58**

Employment of capital

In millions of €

	2018	2017	2016	2015[2]	2014
Property, plant and equipment	11,359	11,117	9,232	9,552	8,718
Intangible assets	17,459	17,670	17,424	18,183	16,341
Other non-current assets	4,068	3,999	4,528	4,065	3,685
Total non-current assets	**32,886**	**32,786**	**31,184**	**31,800**	**28,744**
Inventories	1,920	1,814	1,618	1,702	1,634
Trade and other current assets	4,247	3,992	3,484	3,372	3,771
Cash, cash equivalents and current other investments	2,903	2,442	3,035	3,248	681
Total current assets	**9,070**	**8,248**	**8,137**	**8,322**	**6,086**
Total assets	**41,956**	**41,034**	**39,321**	**40,122**	**34,830**
Total equity/total non-current assets	**0.47**	**0.44**	**0.47**	**0.47**	**0.47**
Current assets/current liabilities (excluding provisions)	**0.88**	**0.80**	**0.79**	**0.77**	**0.73**

[1] Revised for the change in definition of net debt in 2015.
[2] Comparative figure for 2015 has been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Glossary

Acquisition-related intangible assets
Acquisition-related intangible assets are assets that HEINEKEN only recognises as part of a purchase price allocation following an acquisition. This includes, among others, brands, customer-related and certain contract-based intangibles.

Beia
Before exceptional items and amortisation of acquisition-related intangible assets.

Cash conversion ratio
Free operating cash flow/net profit (beia) before deduction of non-controlling interests.

Cash flow (used in)/from operational investing activities
This represents the total of cash flow from sale and purchase of property, plant and equipment and intangible assets, proceeds and receipts of loans to customers and other investments.

Consolidation changes
Changes as a result of business combinations or disposals.

Depletions
Sales by distributors to the retail trade.

Dividend payout
Proposed dividend as percentage of net profit (beia).

Earnings per share ('EPS')
Basic
Net profit divided by the weighted average number of shares – basic – during the year.

Diluted
Net profit divided by the weighted average number of shares – diluted – during the year.

EBITDA
Earnings before interest, taxes, net finance expenses, depreciation and amortisation. EBITDA includes HEINEKEN's share in net profit of joint ventures and associates.

Effective tax rate
Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures.

Eia
Exceptional items and amortisation of acquisition-related intangible assets.

Exceptional items
Items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period.

Free operating cash flow
This represents the total of cash flow from operating activities and cash flow from operational investing activities.

Net debt
Non-current and current interest bearing borrowings, bank overdrafts and commercial paper and market value of cross-currency interest rate swaps less cash and cash equivalents.

Net profit
Profit after deduction of non-controlling interests (profit attributable to shareholders' of the Company).

Net revenue
Revenue as defined in IFRS 15 (after discounts) minus the excise tax expense for those countries where the excise is borne by HEINEKEN.

Organic growth
Growth excluding the effect of foreign currency translational effects, consolidation changes, exceptional items and amortisation of acquisition-related intangible assets.

Organic volume growth
Growth in volume, excluding the effect of consolidation changes.

Profit
Total profit of HEINEKEN before deduction of non-controlling interests.

®
All brand names mentioned in this report, including those brand names not marked by an ®, represent registered trademarks and are legally protected.

Region
A region is defined as HEINEKEN's managerial classification of countries into geographical units.

Glossary (continued)

Volume

(Consolidated) beer volume

100% of beer volume produced and sold by consolidated companies.

Group beer volume

Consolidated beer volume plus attributable share of beer volume from joint ventures and associates.

Licensed & non-beer volume

HEINEKEN's brands produced and sold under licence by third parties as well as cider, soft drinks and other non-beer volume sold in consolidated companies.

Third party products volume

Volume of third party products sold through consolidated companies.

Total volume

100% of volume produced and sold by consolidated companies (including beer, cider, soft drinks and other beverages), volume of third party products and volume of HEINEKEN's brands produced and sold under licence by third parties.

Weighted average number of shares

Basic

Weighted average number of outstanding shares.

Diluted

Weighted average number of outstanding shares and the weighted average number of ordinary shares that would be issued on conversion of the dilutive potential ordinary shares into ordinary shares as a result of HEINEKEN's share-based payment plans.

Disclaimer and Reference Information

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.

A Heineken N.V. publication
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The full Annual Report can be downloaded as a PDF at:
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Production and editing
Heineken N.V. Global Corporate Affairs

Text
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Photography
Sander Stoepker (page 7)

Graphic design and electronic publishing
Radley Yeldar: www.ry.com

HEINEKEN

Annual Report 2018