Heineken N.V. Annual Report 2019

HEINEKEN

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 ENTRE-PRENEURIAL 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, ENJOY-MENT OF LIFE, RESPECT FOR PEOPLE AND FOR THE PLANET. WE ALWAYS ADVOCATE FOR RESPONSIBLE CONSUMPTION. WE ARE COMMITTED TO OUR COMMUNITIES AND STRIVE TO CONSISTENTLY IMPROVE THE IMPACT WE MAKE ON THE PLANET. WE WORK WITH OUR CUSTOMERS AND PARTNERS TO GROW TOGETHER AND SEEK TO WIN WITH INTEGRITY AND FAIRNESS. AND WE ARE CONVINCED THAT BY STAYING TRUE TO THESE COMMITMENTS, WE CREATE VALUE FOR OUR SHAREHOLDERS. WE ARE HEINEKEN.

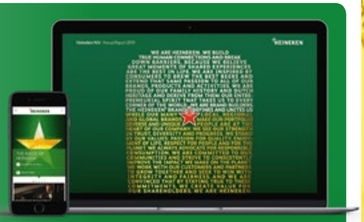
In this year's report

Brewing a Better World

Read more about Brewing a Better World, our sustainability performance, starting from **page 121**

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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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 2019, we delivered another year of superior top-line growth. Net revenue (beia) organic growth was up 5.6%, well balanced with an increase of 3.1% in consolidated beer volume and net revenue (beia) per hectolitre up 3.3%. Brazil, Mexico, South Africa, Vietnam and Cambodia were the fastest growing markets.

The Heineken® brand posted the best performance in over a decade with volumes increasing by 8.3%. More than 40 countries grew double-digit, with Brazil in the lead. Today 12 markets sell more than one million hectolitres of Heineken® annually, now including the UK and Nigeria. Heineken® 0.0 continues to expand and is now available in 57 markets.

Our premium portfolio was up high single-digit, led by our international brands: Amstel, Desperados, Tiger and Birra Moretti.

In the craft segment, our volume grew mid single-digit overall, with a double-digit expansion in Europe compensating for lower volume in the Americas. Lagunitas is now available in more than 35 markets and is produced locally outside the United States, in the Netherlands and Brazil.

Our cider volume increased double digit outside the UK, with South Africa and Russia in the lead. We now produce cider in 18 markets and we are seeing encouraging results in new cider markets such as Vietnam and Mexico. In the UK, volume declined mainly due to a challenging comparable versus last year.

Volume of our low- and no-alcohol segment reached 14.1 million hectolitres. Our no-alcohol portfolio was up double digit, driven by Heineken® 0.0.

We are responding to consumer demand for low and no products with a broadening portfolio of 348 line extensions in 123 brands. Throughout Europe, we promote the category through the Zero Zone, which provides greater visibility of 0.0 beers in on- and off-trade outlets.

Revenue growth in 2019 was essentially organic as we acquired only a few companies including Namysłów in Poland, Biela in Ecuador and Agua Castello in Portugal. We also took a minority stake in craft breweries, Gallia in France and Oedipus in the Netherlands.

In 2019 the major strategic event for the year was the start of our new venture with China Resources Enterprise. We are pleased to have joined forces with the largest beer producer in China and very encouraged by the potential for growth of Heineken®.

Recognising the increasing importance of connecting in a digital world with consumers and customers, in 2019 we added a 5th pillar to our strategic priorities to provide the right focus within our organisation.

How we achieve results is as important as achieving them. This is why Brewing a Better World is one of our top strategic priorities.

On health and safety, although the rate of accidents declined by 26% versus 2018, we need to continue to embed our Life Saving Rules into daily practice.

Over the past decade, we have lowered our water usage by almost a third to 3.4 hectolitres of water per hectolitre produced and 3.1 hectolitres in water scarce areas in 2019. As we were ahead of our 2020 targets, in March 2019 we introduced our 2030 water ambition 'Every Drop'. Next to continuous improvement in water consumption, we aim to improve the water catchment areas surrounding our production sites.

Today, 15 of these breweries in water scarce areas have started water balancing projects, including nature-based solutions like reforestation and wetland restoration.

In 2018 we set out our 'Drop the C' programme to reduce CO_2 emissions, with an ambitious target to power our production facilities with 70% electric and thermal renewable energy by 2030. This matters because thermal energy accounts for nearly 80% of total energy consumption in a brewery. We are at the onset of this journey and reached 19% in 2019.

In 2019 we increased our local sourcing percentage of agricultural products in Africa to 44%. Although we made progress, we still have much more to do to reach our ambition of 60%. To that effect, we are working with partners to increase processing capacity in the region, for example with new malting facilities in Ethiopia.

We spent over 10% of Heineken® media budgets on "When You Drive Never Drink" or other responsible consumption awareness campaigns in over 60 markets.

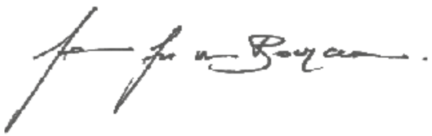
We aim to reduce our plastic use and contribute to increased collection and recycling of plastic where possible. To have the biggest positive impact, we use regional strategies that take into account the maturity of each region, the local use of plastic, and the current availability of recycling infrastructure.

We closed the year with an operating profit (beia) organic growth of 3.9%. In a context of increased input costs, we have continued working on the efficiency of our operations whilst steadily investing behind our brands, our sustainability agenda and our digital transformation.

Looking ahead to 2020, we anticipate our business to deliver a superior top-line growth driven by volume, price and premiumisation. We expect a low-single digit increase of input costs per hectolitre, with the benefit of lower prices in some commodities largely offset by transactional currency headwinds. We will continue our productivity measures and cost management initiatives to fuel our investment behind our brands, innovation, e-commerce platforms, technology upgrades and sustainability programmes. As a result, we currently expect operating profit (beia) to grow by mid-single digit on an organic basis, barring major negative macro-economic or political developments.

We have the right geographical footprint, strategy and capabilities to deliver superior top-line growth. Our exposure is well balanced between developed and developing markets. There is strong momentum behind Heineken® and our portfolio of premium, non-alcoholic, craft and cider brands. We leverage our global scale while maintaining local relevance. This allows us to replicate success at scale and with speed. We are committed to grow sustainably and will not compromise on our Brewing a Better World programmes.

I end this letter by expressing my heartfelt gratitude to my colleagues as well as to our customers, partners and suppliers. I am looking forward to 2020 being another year of progress for HEINEKEN.



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

Amsterdam, 11 February 2020

Performance highlights

Consolidated beer volume
(in millions of hectolitres)

241.4mhl

Heineken® volume
(in millions of hectolitres)

41.8mhl

Financial summary highlights

Net revenue (beia)
(in millions of €)

€23,894m

2019	**23,894**
2018	22,471
2017	21,629
2016	20,792
2015	20,511

Operating profit (beia)
(in millions of €)

€4,020m

2019	**4,020**
2018	3,808[1]
2017	3,759
2016	3,540
2015	3,381

Operating profit (beia) margin
(in percentages)

16.8%

2019	**16.8**
2018	16.9[1]
2017	17.4
2016	17.0
2015	16.5

Net profit (beia)
(in millions of €)

€2,517m

2019	**2,517**
2018	2,385[1]
2017	2,247
2016	2,098
2015	2,048

Sustainability summary highlights

Carbon emissions

49%

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

Water consumption

33%

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

Safety

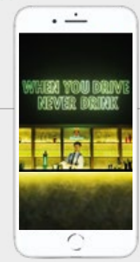
39%

reduction in accident frequency since 2015 (0.84 accidents per 100 FTE in 2019)

Responsible consumption

95%

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



[1] Restated for IAS 37.

Key figures[1]

Consolidated results

In millions of €	2019	2018[2]	Change in %
Revenue	28,521	26,811	6.4%
Revenue (beia)	28,443	26,811	6.1%
Net revenue	23,969	22,489	6.6%
Net revenue (beia)	23,894	22,471	6.3%
Operating profit	3,633	3,121	16.4%
Operating profit (beia)	4,020	3,808	5.5%
Net profit	2,166	1,913	13.2%
Net profit (beia)	2,517	2,385	5.5%
EBITDA	5,756	5,024	14.6%
EBITDA (beia)	5,764	5,174	11.4%
Dividend (proposed)	967	912	6.0%
Free operating cash flow	2,228	2,246	(0.8)%

Balance sheet

In millions of €	2019	2018[2]	Change in %
Total assets	46,504	42,151	10.3%
Shareholders' equity	16,147	14,525	11.2%
Net debt position	15,259	12,081	26.3%
Market capitalisation	54,505	44,055	23.7%

Per share

	2019	2018[2]	Change in %
Weighted average number of shares – basic	573,643,551	570,146,069	0.6%
Net profit	3.78	3.36	12.5%
Net profit (beia)	4.39	4.18	4.9%
Dividend (proposed)	1.68	1.60	5.0%
Free operating cash flow	3.88	3.94	(1.5)%
Shareholders' equity	28.15	25.48	10.5%
Share price	94.92	77.20	23.0%
Weighted average number of shares – diluted	574,217,111	570,663,632	0.6%
Net profit (beia) – diluted	4.38	4.18	4.9%

Employees

	2019	2018	Change in %
Average number of employees (FTE)	85,853	85,610	0.3%

Ratios

	2019	2018[2]	Change
Operating profit (beia) as a % of net revenue (beia)	16.8%	16.9%	-12bps
Net profit as % of average equity attributable to equity holders of the Company	14.1%	14.7%	(0.6)
Net debt/EBITDA (beia)	2.6	2.3	0.3
Dividend % payout	38.4%	38.2%	0.2
Cash conversion ratio	80.2%	85.4%	(5.2)

[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] Restated for IAS 37.

Our impact from Barley to Bar

Our ambition is to make sustainability an integral part of business. This means looking at *Brewing a Better World* in every one of our activities – from sourcing, producing, marketing and selling our products all the way to how they are consumed, and how we can reuse and recycle waste. We align this ambition to the UN Sustainable Development Goals (UN SDGs).

Agriculture

We brew beer and make cider from natural ingredients. We support the sustainable cultivation of agricultural raw materials to brew our drinks.

Brewing

We operate 165 breweries, malteries, cider plants and other facilities around the world. All are involved in delivering our sustainability programmes such as Every Drop and Drop the C. (see pages 124 and 128).

Packaging

We aim for our packaging design to stand out from the crowd while we also strive to reduce its environmental footprint.

Distribution

The majority of our products are produced in the countries where they are consumed, thereby reducing distribution needs. We work to reduce the environmental impact throughout our distribution networks.

Customers

Our drinks are sold in bars, restaurants and through retailers around the world. Because our products are best served cooled, we have programmes aimed at reducing emissions from refrigeration.

Consumers

We believe our products should be consumed in moderation.
We use marketing and sponsorship to promote responsible drinking.

Employees

HEINEKEN employs more than 85,000 people in over 70 countries. We are committed to providing safe and fair working conditions and are working to increase our diversity.

Suppliers

We expect suppliers to adhere to our Supplier Code to create a sustainable future for their business, the people they employ and the environment.

Communities

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

Brewing a Better World supports the following SDGs:

Every Drop: Protecting water resource
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

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-company/our-leadership

Our business priorities

HEINEKEN's strategy is built around five business priorities. We design our strategy to enable us to win in the marketplace, focus on the long-term sustainability of our business and create value for stakeholders.

This year we singled out 'Connect in a digital world' as a separate top priority to reflect our focus on digital transformation.

We aim to consider our effect on the wider society, communities and the environment.

Deliver top line growth

Our strategy is to lead the global premium segment in beer and cider by leveraging the strengths of Heineken®, our international and local brands. Our goal is to be number one, or a strong number two, in the markets where we compete with a full brand portfolio.

Our brands are the drivers of our top line growth...

Global brand

International brands

Low- and no-alcohol

International craft

Global cider

Further information about our brands at:
theheinekencompany.com/our-brands

Heineken® and international brands growth

In 2019, the Heineken® brand volume grew by 8.3%, the best performance in over a decade. The brand grew across all regions with double-digit growth in over 40 markets including Brazil, Mexico, South Africa, Nigeria, the UK, Romania and Germany. Heineken® 0.0, now available in 57 countries, continues to gain traction.

Our international brands portfolio includes Amstel, Desperados, Sol, Tiger and Birra Moretti. Together these brands are a strong driver of premium revenue growth. In 2019, the volume of our international brands portfolio grew high-single digit, driven by the double-digit growth of Tiger and Amstel.

Consumer trends and behaviours

Consumer tastes and preferences continue to evolve and shape the industry.

International craft is an important category for us. It complements the growing international premium beer segment and puts beer at the centre of the conversation for a broad group of discerning consumers.

Our craft volume grew mid single-digit to 5.6 million hectolitres with a double-digit expansion in Europe compensating for lower volume in the Americas.

Globally, consumers are seeking variety. Our consumer-oriented approach has deepened our understanding of this market and accelerated international growth of our craft range. The biggest growing beer style is wheat beer and the fastest is IPA. We cover these segments with our international craft brands Lagunitas and Edelweiss. In 2019 new local craft brands such as Oedipus in the Netherlands and Gallia in France joined our craft portfolio.

We are successfully scaling local authentic brands like Ichnusa and Messina in Italy and line extensions of local brands such as Brand IPA in the Netherlands and Żywiec APA in Poland.

The public focus on health and wellness is driving growth in low- and no-alcohol drinks. Health conscious consumers want variety and we are meeting this through innovation in low- and no-alcohol beers, Radlers, dark and clear malts and malt-based energy drinks.

Volumes in our low- and no-alcohol portfolio increased high-single digit, delivering 14.1 million hectolitres in 2019.

We are expanding at scale and speed in the no-alcohol segment. The no-alcohol portfolio grew double digit, driven by Heineken® 0.0, other line extensions of leading brands and beer mixes. Our Zero Zone products are alive in more than 20 countries, offering consumers a compelling range of no-alcohol beverages.

Continue to shape the cider category

Demand for variety in flavours and tastes has made Cider the fastest growing category in alcoholic beverages. Albeit still relatively small, we are shaping the cider category in many markets where modern cider is new, such as Spain, Vietnam and Mexico.

We are strengthening our position in more mature cider markets, such as South Africa and Ireland, with our global brands Strongbow and Orchard Thieves.

Active in over 40 markets, our cider volume was stable and reached 5.6 million hectolitres in 2019. Volume increased double digit outside the UK, with South Africa and Russia in the lead. In the UK, volume declined high single-digit mainly due to a challenging comparable versus last year. We now locally produce Cider in 18 markets.

Connecting in a digital world

We want to be the best connected, most relevant brewer for consumers living in the digital age. Read more about how we are getting closer to consumers and customers on page 21.

Deliver top line growth: **Global brand**

Heineken®
An iconic global beer brand.

In 2019, Heineken® posted 8.3% volume growth, the best performance in over a decade. This was driven by markets as diverse as Brazil, Mexico, South Africa, Nigeria, the UK, Romania and Germany.

Heineken® world-class sponsorships

In 2019, Heineken® announced it will become the Official Beer Partner of UEFA EURO 2020™. We also extended our UEFA Champions League partnership by another three years, to 2024.

Adding to a list of global sponsorships that includes Formula 1™, Formula E, Rugby World Cup and James Bond, Heineken® reached hundreds of millions of consumers through its global sponsorship portfolio. A highlight was the 2019 Rugby World Cup in Japan. We have also seen local sponsorship platforms coming together in key markets.

Deliver top line growth: **International brands**

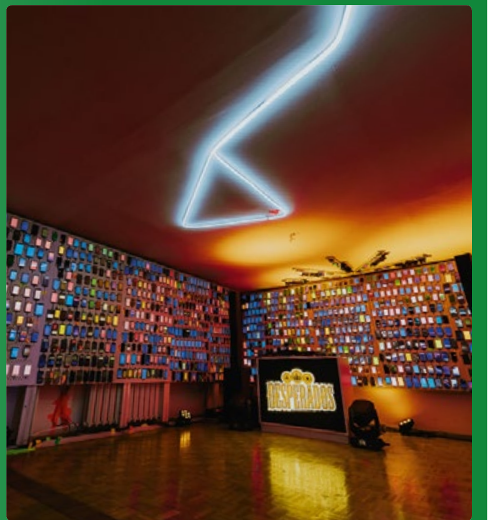
Desperados
A brand that ignites the party spirit.

In 2019 Desperados celebrated its 11th consecutive year of growth thanks to strong sales in existing markets and new launches in six markets. Desperados is now available in over 80 countries across the world. We offer consumers a complementary range of brand line extensions with different flavours for various consumption occasions.

Distinctive new packaging

Desperados' new packaging takes inspiration from party posters, using torn fly posters to create a unique look and party appeal.

The design approach was applied across all line extensions and throughout communications, making the brand consistently impactful and memorable.



Putting consumer inspiration at the heart of its campaigns

Desperados has given consumers the opportunity to co-create parties through its experiential platform, Epic Parties Imagined by You.

In bringing people's party ideas to reality, 280 unique assets were made in 2019. Seven epic parties were thrown, culminating in six times more coverage than Desperados' most successful previous campaign, Deep House.

Deliver top line growth: **Our low- and no- alcohol brands**

Heineken® 0.0
Leading the way in non-alcoholic beer in 57 markets in under three years.

The consumer landscape is changing as people seek healthier and more natural non-alcohol beverages.

Heineken® 0.0 available in draught

To accelerate the opportunity in bars and restaurants, Heineken® 0.0 is now available on Blade in 11 markets. Blade is our countertop eight litre keg draught system. It has increased the visibility of Heineken® 0.0 in the on-trade, giving consumers the draught experience with a zero alcohol beer.

"Now you can"

Heineken® 0.0's new advertising campaign positioned surprising new drinking occasions for zero-alcohol beer in the consumer consciousness – from after sport and at lunchtime to during work and, of course, on a night out.

Global expansion of our low- and no-alcohol portfolio

Our low- and no-alcohol portfolio of brands continues to grow at scale with some 348 line extensions across 123 brands. We offer consumers on all continents a wide range of zero alcohol beers, radlers, malt, malt based energy drinks and brewed soft drinks.

Deliver top line growth: **Our craft portfolio**

Lagunitas

Born in North California in 1993, now available in over 35 markets globally.

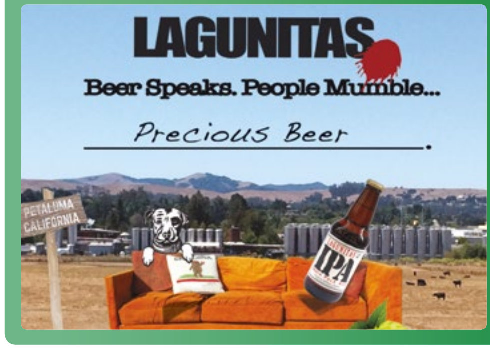
Lagunitas' mission is to introduce the world to IPA. Its volume has doubled in international markets, year-on-year.

IPA for all occasions

As Lagunitas grows in popularity, so does the range. As well as its flagship IPA, consumers can now enjoy lighter, more sessionable IPAs and a seasonal range of beers.

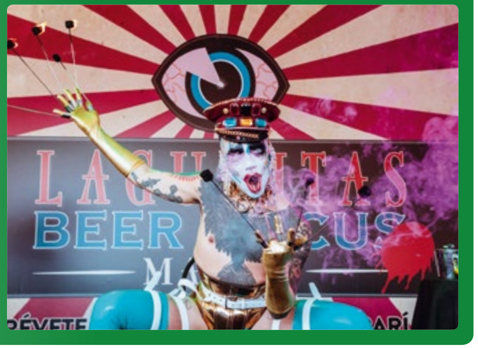
Connecting through conversation

Lagunitas has taken its much-loved Petaluma Brewery orange couch on the road. The best stories from the couch were used to shape the first global Lagunitas campaign – "Beer speaks, people mumble".



Standing out with experiential innovation

Lagunitas creates unforgettable consumer experiences through experimental innovation, with Beer Circus in six countries, pop-up tap rooms in five markets and more brewpubs to come in 2020.



Deliver top line growth: **Our global cider portfolio**

Strongbow apple ciders
Refreshing a new generation of consumers.

HEINEKEN is the world's leading cider producer. We continue to shape the development of the category, engaging consumers to discover a taste for Cider through our global and local brand portfolios.

The fastest growing alcoholic beverage in the world

Cider wins by offering consumers unique taste variety and choice. We have grown our complementary portfolio of apple-centric brands and line extensions.

Strongbow: Refreshing by Nature

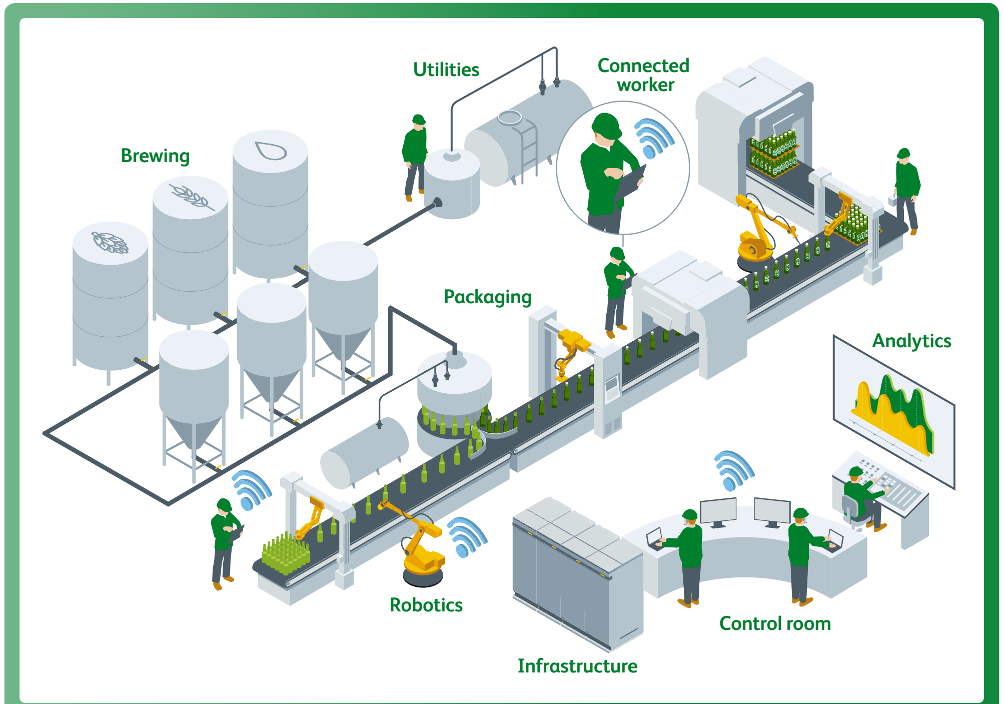
Strongbow grew strongly again in 2019, led by success in key markets including South Africa, Vietnam and Mexico. Based on success in the US, our Rosé Apple Cider line extension has expanded with launches in over 10 new markets.

Orchard Thieves: the world's 'global to local' cider

Orchard Thieves grew strongly again in 2019, with its global positioning that flexes to be locally relevant. This has been through a new global campaign, 'The Curious Fox', launched first in Mexico and New Zealand. The fox is encouraging consumers new to cider to quench their curiosity.

Drive end2end performance

At HEINEKEN, we use our global scale to drive efficiency from end2end – saving costs and fuelling future growth through strategic investments and initiatives.



Connected breweries

In our connected breweries, we use equipment to get detailed real time data about brewery performance. Analysing, combining and comparing these insights on a global scale create new insights. These insights are used as a basis for further continuous improvement of our brewery performance.

Developing a consumer and customer mindset

Driving end2end performance enables us to collaborate faster and at scale, internally and with our customers. End2end means embracing a consumer and customer mindset from the start. It sets us up to adapt quickly and flexibly to changing consumer needs, while aiming for excellence in our operations.

The worldwide roll out of our sales and operations capability programme has reached a total of over 15 operating companies in 2019, making our end2end planning capabilities stronger. This improves our product availability in a more efficient and effective way by having the right information to support planning decisions in an ever more dynamic market environment.

Optimising our global footprint

Optimising our global footprint means balancing the trade-offs between local investment and imports, optimising volume allocation and investing in key areas of our global operations.

Continuous improvement is at the core of our supply chain. In 2019, we increased the digital capabilities of our connected breweries with digital applications that focus on performance management and energy saving.

Our New Product Implementation (NPI) process means faster, more efficient brand launches and innovations that tap into consumer trends and needs. It has enabled Heineken® 0.0 to be rolled out in 57 markets in under three years. 30 of our brands are now available on the Blade, our countertop draught system.

Our Worldwide Centres of Excellence bring together experts from across our global businesses to collaborate and share knowledge and best practices in brewing, packaging, logistics and innovation.

Expanding in developing markets

We continue to make strategic investments in emerging markets. In Vietnam, we built a new brewery in Vung Tau and we extended our breweries in Cambodia and Malaysia. We have increased our capacity in South Africa, including for cider.

Our BASE programme, standardising core business processes in Finance, Procurement, Production, Logistics and Sales continues to make HEINEKEN more agile and efficient. In 2019, seven new operations went live supporting new business models and integrating business critical processes.

Transforming our transactions

We have accelerated the transformation of our transactional processes in Europe with the launch of the SHARP-X programme.

SHARP-X will enable the digital business transformation by embedding a common business language and introducing a standardised European Central Finance system across our European operating companies.

Brew a Better World

Sustainable development is how we, as a business and as individuals, seek to make a positive impact and contribute to the UN Sustainable Development Goals (SDGs). Ensuring our business contributes to improving the environment, local communities and society as a whole is amongst our top priorities.

The largest on-site solar panel brewery in the world

In October 2019, our 's-Hertogenbosch brewery in the Netherlands inaugurated its new solar panel roof.

With 16,569 on-site solar panels, this is now the largest on-site solar powered brewery in the world.

It covers an area equivalent to eight football pitches.

HEINEKEN's company carbon footprint[1]

23% **Agriculture** raw materials cultivation

5% **Processing** raw materials malting process, and adjuncts

10% **Beverage production** brewing our beers and making our ciders

29% **Packaging** production of packaging materials

11% **Logistics** transport and handling of materials and finished products

10% **Cooling** cooling our products in shops and bars

12% **Other emissions** including employee commuting, business travel, land and buildings

Drop the C: looking to the future

In 2018, we set an ambitious goal to use 70% electric and thermal renewable energy to power our production operations by 2030.

In 2019, we joined the Science Based Targets initiative and committed to set science based carbon targets for our entire value chain, in line with what is needed to help limit climate change to well below two degrees.

We will launch the next phase of Drop the C in 2020 with the announcement of 2030 targets for packaging, logistics, cooling, processing and agriculture.

[1] Based on 2018 data.

Understanding our carbon footprint

We first calculated the carbon footprint of our products in 2010. In 2019, to drive improvements in the right areas, we calculated our full company carbon footprint for the first time.

In line with the Greenhouse Gas (GHG) Protocol, our new carbon footprint calculation covers the CO_2 emissions linked to our products and other activities, including employee commuting and work-related travel, capital goods and investments.

Read more about Drop the C on page 128

We continue our mission to meet, and exceed where possible, our 2020 Brewing a Better World targets. There were some notable highlights in 2019, with more to do in certain areas. We are now planning our sustainable development strategy for 2030.

Drop the C

Today, HEINEKEN runs five of the world's 10 largest on-site solar powered breweries. We have 29 renewable energy projects underway around the world looking at how we can harness the power of wind and solar energy, biomass and biogas. In 2019, Schladming in Austria became our second brewery entirely powered by renewable energy.

We have achieved these results through Drop the C, our company-wide programme which aims to reduce our carbon footprint. Drop the C is now embedded throughout the business and we are making good progress.

We have been working to improve the energy efficiency of our breweries since 2008. We are ahead of our carbon reduction targets in production and cooling and our distribution emissions are decreasing as we work towards our target.

See **page 128** for data on our carbon emissions

Every Drop

Water is vital to our business; beer is 95% water and great beer requires high quality water. Over the past decade, we have lowered our water use by almost a third. While we have surpassed our original 2020 target, we know that reducing water usage alone is not enough in water-stressed locations. To keep watersheds healthy and communities thriving, local water users – including our own companies – must replenish the water they use. This is the basis of our water strategy – Every Drop. We continue to invest time and money in activities like reforestation, landscape restoration and water capture and we work closely with other water users to protect vital watersheds.

See **page 124** to read more about our new water strategy, Every Drop

Advocating responsible consumption

We advocate that our products be consumed responsibly. Since 2003, we have used the power of brand marketing and sponsorship, such as Formula 1™ and UEFA Champions League, to make moderation cool.

In 2019, we spent over 10% of Heineken® media budgets to promote When You Drive Never Drink and other responsible consumption awareness campaigns in more than 60 markets. We use data analytics and research to measure consumer reception to these messages.

In 2020, where legally possible, we will dedicate all of our Formula 1™ branding on the race track to Heineken® 0.0.

See **page 137** for how we are making responsible consumption cool

Safety

We believe that every single person who works for HEINEKEN should benefit from a safe working environment and return home safely at the end of each day.

Our aim is to eliminate fatalities and serious accidents from our business. In 2019, our accident frequency significantly decreased. However, despite our concerted efforts, 11 people lost their lives while working for HEINEKEN. Clearly, we must do more to keep people safe.

We also recognise that we cannot solve this issue alone. A number of fatalities were caused by road traffic accidents and external factors outside of our direct control.

We will collaborate with relevant parties and authorities to improve safety performance and, at the same time, encourage and support our employees and contractors to adopt the right safety behaviours and culture.

See **page 141** for details on our health and safety performance

Brew a Better World: **Protecting water resources**

Every Drop
Our new water strategy for 2030.

Water is the ultimate shared resource. It is a basic human right which sustains vital ecosystems and is crucial to our business. Improving the health of local watersheds in water-stressed areas is at the heart of our new strategy.

The rise of water scarcity

Water is essential to life and a basic human right – we cannot live without it. But fresh water ecosystems are under increasing pressure from the competing demands of agriculture, business and communities.

Globally, 75% of freshwater resources are devoted to crop or livestock production. Population growth, economic development and urbanization are driving up demand and further increasing pressure on water quality. At the same time, one of the primary effects of climate change is disruption of the water cycle. Changing weather patterns – known as “drought and deluge” – are making some places wetter, and some places much drier.

In many parts of the world, water is becoming a scarce resource. Overall, without significant changes in how we consume water, it is expected that water demand will outstrip supply by 40% in 2030.

[1] The IPBES Global Assessment Report on Biodiversity and Ecosystem Services.
[2] The 2030 Water Resources Group.

Our 2030 targets...

Water Stewardship	Water Circularity	Water Efficiency
Fully balance the water that is used in our products, in water-stressed areas	Maximise reuse and recycling in water-stressed areas	2.8 litre per litre beer produced, for breweries in water-stressed areas
Work collectively with other stakeholders	Treat 100% of wastewater of all breweries	3.2 litre per litre for all breweries worldwide

See **page 124** for more information on our 2030 water strategy and targets

Every Drop: Global ambition, local context

Over the past decade we have worked to reduce our water use by almost a third and to treat our wastewater before we return it to nature.

Now, we have adopted a more holistic approach to support the health of local watersheds, especially in water-stressed areas.

Our new strategy comprises three principles – water stewardship, water circularity and water efficiency. We use these principles to develop water action plans for each of our breweries in water-stressed areas, in collaboration with partners and tailored to the local context and needs of the watershed.

Like many other food and beverage companies, the largest part of our water footprint is in growing crops, mainly barley. The good news is that barley is a water-efficient crop which commonly grows in moderate climate zones and generally survives on rainfall.

Irrigation is needed in some areas in the world and we expect this need to increase in the future due to climate change. We are focused on developing and supporting agricultural practices that allow us to grow more barley with less water in these places.

Engage and develop our people

The right people, leadership and culture are crucial for business success. How we engage and develop our people has never been more important. In this rapidly changing world, our employees are also expecting intuitive digital tools to manage business and their careers. Delivering to this expectation is part of our digital journey.

Inclusion & Diversity Ambassador Workshop

As part of our Inclusion and Diversity (I&D) strategy we have created a global community of more than 80 local I&D ambassadors. The ambassadors work with their leadership teams and help them understand and respond to local I&D opportunities.

They also help drive I&D action plans in their local market. To kick off their role, we invited each country's ambassador to a week-long programme where they were trained on key practical skills to help support their local management teams, thanks to an I&D toolkit specifically designed for our ambassadors.

HEINEKEN HR Brewhouse in Singapore

HEINEKEN ran its first ever 'HEINEKEN HR Brewhouse' in October 2019, a technology competition where 106 HR tech companies submitted 143 applications.

12 lucky finalists made their way to Singapore to pitch solutions to four pre-identified HR challenges that HEINEKEN faces today.

The challenges focused on 'Recruiting for Superstars', 'Seamless Onboarding & Transitions', 'Employee Engagement', and a 'Wild card' category.

An inclusive mind-set in all that we do

Inclusion and diversity are essential for our future success. In this age, when everything is connected and becoming more volatile, ambiguous and unpredictable, diversity enables creativity, agility and resilience. We are focused on developing inclusive leadership capabilities throughout our organisation, and to embrace the cultural diversity of each of the countries we operate in, we built a global ambassador community. In addition, the Women's Interactive Network (WIN) supports the career development of our female talent. We measure progress of our Inclusion and Diversity (I&D) ambition through our people plans and climate survey.

Digital transformation

We realise the key to transforming our business successfully for the digital world is our people. We have started to define the plans needed to organise digital activities across our operating companies as well as design an approach to upskill our workforce to be successful in a digital age.

Digital HR tools to empower employees

Early in 2018 we launched the three-year EMPOWER programme. The programme brings one global, digital HR system, called MyHR, to all of our employees around the world. In this way, we have created a platform that is centred on our people and helps us to become fully employee-centric and people-insights led within HEINEKEN.

Data and insights help employees and managers better support career development as well as manage their professional and personal data directly from their PC or smartphone.

MyHR is our core digital global HR tool covering reward, recruitment, learning, performance, and career aspirations. By using it, employees across HEINEKEN can manage all of their data, careers and teams in one system.

The implementation of MyHR progressed as planned. At the end of 2019, everyone in Asia Pacific, the Americas, and Africa, Middle East region received access to MyHR. All of our European operating companies will adopt the new ways of working by the end of 2020.

Enriching the employee experience

In 2019 we revised our climate survey as part of our global employee engagement strategy.

Results are now sent directly to managers, along with interactive dashboards to allow them to explore key insights and make it easier for action planning and follow up.

Over 75,000 employees from 78 operating companies provided feedback, resulting in a 91% response rate. Our key measures at the global level remain very positive. Employee Engagement and Performance Enablement are 87% and 80% respectively, which is an increase in 3% for both categories. Both scores are well above the external benchmarked norm.

Engage and develop our people

Engaging talent and rewarding performance

Our talent and performance management philosophy is designed to be employee-centric and give our people the tools and means to own their careers, to understand what's expected of them and to grow. Line managers support growth and development through continuous conversations and feedback. This safeguards that objectives of the individual, the team and the company remain relevant. End of year performance reviews ensure that we fairly review performance and potential and are able to reward people accordingly.

Career ownership for employees

We have begun to launch a career mapping solution that enables employees to map out their personal career paths, powered by data from our current employee career journeys. It shows cross-functional moves and the necessary experiences to get there, as well as insights and video stories from current employees in those roles. The solution is visualised as a career subway map.

Furthermore, in 2019 we introduced the concept of 'Open Sourcing', providing visibility of internal job vacancies to our employees. They can now take direct ownership over the next step in their career by searching and applying to internal jobs to any of our operating companies and global functions around the world.

Developing leaders across the business

We know our leaders have a direct impact on business performance and play a key role in shaping our culture. Our Leadership Expectations have been well embedded in everything we do. These provide a common language when we talk about leadership. We have become more data-driven and objective about what we expect from future leaders by increasing the amount of leadership assessments at various levels. We drive ongoing development through our global and regional talent and executive development programmes, such as HIMAC, Accelerate and Boost.

Attracting new talent

In 2019 we deployed a renewed #GoPlaces social media campaign to share the right message with the right talent in the right places. The employer brand campaign, which ran in 22 markets and was viewed by 20 million people, was built on 33 real employee stories and experiences. It led to a 3.67% engagement rate, compared to 1.5% industry benchmark.

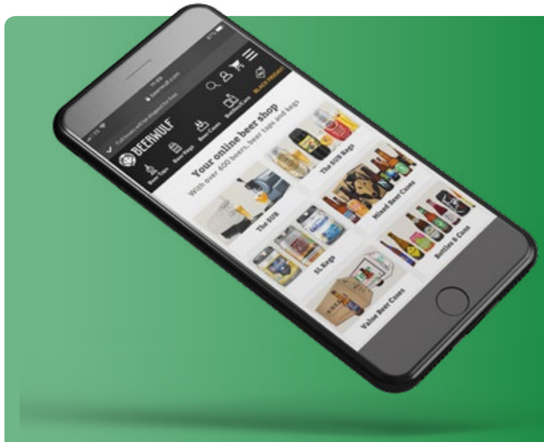
HIMAC programme

HIMAC (HEINEKEN International Management Course) is our flagship executive development programme for high potential senior managers from across the business, delivered in partnership with INSEAD business school.

The October 2019 cohort were part of the 40th HIMAC programme, which took place in Singapore. The two-week on-campus programme explores our key strategic and leadership challenges through a mix of interactive sessions with world-class INSEAD faculty, small group exercises, experiential activities, case studies, coaching and dialogue sessions with senior HEINEKEN executives.

Connect in a digital world

HEINEKEN is always looking for innovative ways to bring people together. Today, we are using the opportunities provided by digitalisation to connect with consumers and customers, as we have done throughout our history.



The best in beer – delivered to your door

Beerwulf.com is an e-commerce platform where consumers can order over 1,000 different beers in bottles, cans, packs, kegs and also draught systems like the SUB.

Now live in 11 countries, it is on the way to becoming Europe's leading online beer store. Building on the capabilities of Online Drinks BV, which is now part of Beerwulf, we today offer a full-services consumer-centric webshop where brewers and consumers connect. Millions of consumers visited Beerwulf.com in 2019.

IDDM – the new way of marketing

Individual Data Driven Marketing (IDDM) is an integrated marketing and sales approach to drive effective and efficient brand communication and link it to sales activation.

We use digital data signals on individuals and context to provide people with the relevant personalised messaging.

For example, we used this new approach to connect our Amstel brand to the way people celebrate carnival in Brazil delivering customised messages to consumers.

It enables us to connect with people ranging from travellers going on holiday during carnival, carnival lovers being at street events during the celebrations or people on social media who prefer to celebrate carnival with friends at home.

Digital marketing & sales

We are shifting our marketing spend towards personalised, digital marketing at pace, and at scale. This ensures our brands remain relevant across different places and occasions and allows us to both keep our international brands consistent and be locally relevant.

Our Heineken® brand UEFA Champions League and Formula 1™ sponsorships provide the ideal opportunity to connect digitally with consumers before, during and after major sporting events. Combining the offline and online world allows us to be closer to consumers, reinforcing the strengths of our leading brands.

Digitalisation is enabling us to learn fast. In the past, we might have run a campaign for six months before we evaluated its success. Now, we can analyse results and act on what we learn within days.

Our data-driven sales programme is also equipping our sales force and informing their decisions. It is becoming easier to identify what data analysis is needed and to translate insights into value for customers – for example by offering the best promotions or reallocating commercial assets across outlets.

The online partner of choice

Our sales reps have close relationships with outlet owners. Our digital business-to-business platforms allow us to build on these connections and provide a better and faster service to customers.

Making new business models possible

Take the example of Beerwulf, our number one business-to-consumer online beer platform. It is the most extensive specialty beer and draught systems offering available to consumers.

In Mexico, we are bringing our online beverage shop, Drinkies, into SIX convenience stores across the country, providing consumers with a greater range of choices by connecting multiple sales platforms.

Across the on- and off-trade, electronic point of sales systems enable us to connect with more customers and consumers with better and broader services.

Regional Review

We have a balanced geographic footprint.

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

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

Africa, Middle East and Eastern Europe

Consolidated beer volume

43.7mhl

Further information:
Page 23

Americas

Consolidated beer volume

85.6mhl

Further information:
Page 24

Asia Pacific

Consolidated beer volume

31.1mhl

Further information:
Page 25

Europe

Consolidated beer volume

81.0mhl

Further information:
Page 26

Africa, Middle East and Eastern Europe

Performance was strong despite a continued challenging trading environment across the region. Growth was particularly strong in South Africa, Egypt, DRC and Russia.

Key brands:
Heineken®
Primus
Amstel
Mutzig
Life

43.7mhl
Consolidated beer volume
(2018: 41.7mhl)

€3,370m
Net revenue (beia)
(2018: €3,051m)

18.1%
Consolidated beer volume a % of total
(2018: 17.8%)

€408m
Operating profit (beia)
(2018: €411m)

7.2mhl
Heineken® volume
(2018: 6.5mhl)

10.2%
Operating profit (beia) as % of total
(2018: 10.8%)[1]

[1] Restated for IAS 37.

Despite the challenging macro-economic environment, our premium portfolio is performing very well with a double-digit growth in Africa, Middle East and Eastern Europe.

Heineken® continued to perform well, particularly in South Africa, Nigeria and Russia.

Our business in South Africa delivered strong growth for Heineken®. The brand continues to lead the premium segment and is being well received by consumers.

In Russia, Heineken® is performing well and Heineken® 0.0 is driving the growth in the no-alcohol beer segment.

In Rwanda and Ivory Coast we began local production of Heineken® in our breweries.

We are performing well in Nigeria with early signs of premiumisation turning to growth in the market.

In Ethiopia the introduction of a ban on all alcohol advertising on TV, radio and billboard combined with social unrest led to a more challenging environment.

We successfully launched Strongbow Dry cider in South Africa, with promising consumer feedback. Our craft portfolio is performing well with the South African craft brand Jack Black gaining popularity in urban areas. Together with the recent acquisition of Stellenbrau, a craft brewery from Stellenbosch, we are leading the craft segment in South Africa.

Following the opening of our brewery in Mozambique in March 2019, we have doubled our brewery capacity. In addition we launched our new mainstream brand, Txilar, which has been well received by local consumers.

The line extension of the Mutzig brand, Mutzig Class, is performing very well in markets such as Ivory Coast, Congo, DRC and Rwanda.

We continue to perform well in the low- and no-alcohol category, with high single-digit growth across malt-based beers and Radlers.

Protecting water resources in Ethiopia

Water is a vital part of our lives and our business. At HEINEKEN, we aim to protect water resources wherever we operate.

HEINEKEN Ethiopia took part in a reforestation initiative to protect water resources in local watersheds. This included planting 36,000 trees across Addis Ababa, Kilinto Bedele and Harar.

Made by Mozambique for Mozambicans

Our new mainstream brand Txilar offers consumers in Mozambique more choice with a beer with high quality standards at an affordable price.

The Txilar brand name resonates with local consumers. It is an expression of the state of mind and way of life for Mozambicans and embodies an optimistic attitude, spontaneous way of living and having a good time together.

The brand is performing well in the market, achieving the second highest brand equity power score in the national market in its first six months.

Americas

We delivered strong revenue and profit growth driven by performance, premiumisation and continuous cost savings. Heineken® performed very well with double-digit growth.

Key brands:
Heineken®
Tecate
Dos Equis
Schin
Lagunitas

85.6mhl
Consolidated beer volume
(2018: 83.3mhl)

€7,429m
Net revenue (beia)
(2018: €6,781m)

35.5%
Consolidated beer volume a % of total
(2018: 35.6%)

€1,204m
Operating profit (beia)
(2018: €1,118m)[1]

13.4mhl
Heineken® volume
(2018: 11.5mhl)

29.9%
Operating profit (beia) as % of total
(2018: 29.4%)[1]

[1] Restated for IAS 37.

Both Brazil and Mexico delivered solid results, driving profit growth in the region.

Beer volumes grew strongly in Brazil, especially across premium and mainstream portfolios. Brazil is now the largest Heineken® market globally. The outcome of the Arbitral Court in October 2019 did not disrupt our business. We continued to operate effectively with the current dual route to market, while preparing for a smooth transition to a single distribution system by March 2022.

In Mexico, we delivered robust profit growth including double-digit growth of Heineken®.

The impact of our renewed contract (announced on 26 February 2019) with OXXO, the Mexican chain of convenience stores, is in line with expectations. Our SIX stores expansion continues to be successful. At the end of 2019 we had over 13,000 stores.

The US beer market remains challenging and continued to decline in 2019. We have positive trend changes with Heineken® and Dos Equis, thanks to more focused campaigns. Heineken® 0.0 has been the fastest growing brand extension in the US and this has had a positive halo effect on the Heineken® brand.

Lagunitas' US market share is stabilising in the context of fierce craft competition. In September 2019, the biggest Lagunitas circus event was attended by 12,000 people. The brand is now being sold in 35 markets globally.

In May 2019, we acquired a majority stake in Biela y Bebidas del Ecuador, a fully operational brewery in Ecuador. With its favourable demographics, flourishing tourism industry and GDP growth, it offers strong potential to grow our premium offering in Ecuador, led by Heineken®.

Water balancing in Mexico

Since the end of 2018, we have achieved our water balancing target for the Monterrey Brewery, returning 1.15 million cubic metres of water per year to the local watershed. We will continue with reforestation and maintenance efforts until the end of 2020 to ensure the full restoration of the ecosystem and the preservation of 2 million planted trees committed for 2020 in Mexico.

Heineken®0.0 in the Americas

Heineken® 0.0 is now sold in the US, Canada, Mexico, Puerto Rico, Chile, French West Indies and West Caribbean.

Asia Pacific

We delivered strong growth in volume, revenue and profit underpinned by continued good performance of the Tiger brand.

Key brands:
Heineken®
Anchor
Larue
Tiger
Bintang

31.1mhl
Consolidated beer volume
(2018: 29.0mhl)

€3,205m
Net revenue (beia)
(2018: €2,919m)

12.9%
Consolidated beer volume a % of total
(2018: 12.4%)

€1,085m
Operating profit (beia)
(2018: €943m)

6.2mhl
Heineken® volume
(2018: 6.2mhl)

27.0%
Operating profit (beia) as % of total
(2018: 24.8%)[1]

[1] Restated for IAS 37.

The Asia Pacific region delivered double-digit volume, revenue and profit growth with simultaneous accelerated performance across multiple countries.

In Vietnam, beer volume increased double-digit. This was on the back of continued favourable beer market conditions and execution of our portfolio expansion strategy following integration of HEINEKEN Hanoi to create one combined HEINEKEN Vietnam business. We expanded our portfolio with the successful launch of Heineken® Silver, a new smooth and easy-to-drink 4% ABV beer which retains the signature Heineken® full-bodied taste.

In Cambodia, beer volume saw strong double-digit growth, driven by Anchor and Tiger in an expanding beer market.

We continued to grow strongly in Myanmar and launched a new local brand, Bawdar, supplementing the portfolio.

We completed the transfer of our HEINEKEN China business to China Resources Beer in the first half of 2019. This long-term strategic partnership will significantly expand the availability of Heineken® and some of our other international brands in the growing premium beer category.

In Malaysia, the business delivered high single-digit volume growth with a balanced portfolio strategy.

In Singapore, beer volume grew mid single-digit and the Tiger range was expanded with the launch of Tiger Crystal.

Tiger's double-digit growth continued, exceeding 14 million hectolitres, and we launched Tiger Crystal in Singapore, Malaysia, Laos and Sri Lanka in 2019.

The Tiger Street-football platform was activated in four countries and our Tiger Roar campaign was unveiled in a further three countries following its successful launch in 2018.

Heineken® returned to growth in 2019 for the first time since 2016, driven by improved performance across multiple countries.

We continued to rollout Heineken® 0.0 with launches in India, Australia, Thailand, Singapore and Malaysia.

Heineken® was one of the main sponsors of the successful Rugby World Cup, hosted for the first time in Japan. It delivered great experiences for visitors and fans around the world, boosting sales in the country to the highest level in 25 years.

Heineken® Silver launch in Vietnam

Heineken® Silver was launched in March 2019 in Vietnam, making it the first ever country-specific variant of Heineken®. With a lower ABV of 4%, Silver has gained traction. The brand, with its distinctive balanced and low bitterness, has been well received by consumers.

Keys Down, Real Talk

DB Breweries in New Zealand continued its successful anti-drink driving campaign, 'Keys Down, Real Talk'. It launched a vlog series featuring iconic community members who role model responsible consumption. The initiative has reached over 300,000 people.

Europe

We delivered positive revenue growth driven by our premium portfolio. We invested in our business to provide a greater service and experience for customers and consumers through digitalisation.

Key brands:
Heineken®
Cruzcampo
Birra Moretti
Desperados
Strongbow

81.0mhl
Consolidated beer volume
(2018: 79.8mhl)

€10,629m
Net revenue (beia)
(2018: €10,348m)

33.6%
Consolidated beer volume a % of total
(2018: 34.1%)

€1,436m
Operating profit (beia)
(2018: €1,452m)

14.9mhl
Heineken® volume
(2018: 14.5mhl)

35.7%
Operating profit (beia) as % of total
(2018: 38.1%)[1]

[1] Restated for IAS 37.

In Europe we continued with our focus on premiumisation and innovation and maintained positive results.

Heineken® was a success with 3.1% organic volume growth, including more consumers enjoying Heineken® 0.0 in over 20 markets.

Beer volumes in Europe were marginally lower as result of poor weather over the summer and a challenging comparable with the FIFA World Cup in 2018. Premiumisation continued in the region, with markets such as Italy, Austria and Portugal delivering a strong performance.

There was strong revenue growth in Italy, Austria, Portugal, Germany, Hungary and Romania. This was driven by continued focus on international premium brands Heineken®, Birra Moretti and Desperados and local premium brands such as Ichnusa, Messina, Laško, Soproni and Ciuc.

Our strategy is to provide variety and choice through our Zero Zone range of low- and no-alcohol beverages which caters for different occasions to create a sustainable, long-term business.

We are now promoting zero-alcohol beverages with over 40 brands in European markets. Greater visibility of 0.0 beers in on- and off-trade outlets and advertising campaigns are igniting the segment across the region.

Our strategy to develop the cider category beyond traditional home markets continued to pay off, in particular in Spain where we are creating a new category with the successful launch of Ladrón de Manzanas, the local version of Orchard Thieves.

The craft category grew significantly in 2019. We started brewing Lagunitas in our brewery in the Netherlands. Line extensions like Affligem Cuvée Legere in France and local craft El Aguila in Spain are showing promising results in local markets.

We have continued our strategy to selectively invest in craft brewers. We acquired a minority stake in Oedipus, an Amsterdam based craft brewery, and a minority stake in Paris-based craft brewer, Gallia, in France.

In 2019 we further invested in our Star Pubs & Bars business in the UK to refurbish nearly 150 of our pubs, enhancing the customer experience, generating better returns for licencees and ensuring sustainable growth for each pub. With our pub estate in the UK of around 2,500 pubs we outperformed the market.

The Blade, our countertop draught system with eight litre kegs, is now available in 20 of our European operating companies. It provides customers and consumers an increasing variety of brands with draught experience.

We continued to enhance our service to on-trade customers through digital business solutions such as HEINEKEN Direct in the UK. Beerwulf.com goes from strength to strength, expanding its direct-to-consumer e-commerce platform to 11 countries and offering a wide range of beers. It is fast becoming the leading online beer store in most of these markets.

Zero Zone in European countries

In Europe we rolled out the Zero Zone. Promoting our zero alcohol beverages with more than 40 different brands. Over 18 million European consumers have sampled our 0.0 drinks. We have activated the Zero Zone in more than 200,000 outlets and reaching over 100 million consumers with our advertising campaigns in Europe.

Birra Moretti goes international

With the growing aspiration of Italian culture, Birra Moretti, our Italian beer brand, is successfully travelling outside of Italy across Europe. Consumers are attracted to the authentic brand with its long heritage and charming Italian lifestyle. It has become the fastest growing beer brand in the UK for the second year straight.

Risk Management

HEINEKEN has a business integrated approach to managing 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's way of managing risks addresses the risks that the Company inevitably faces in achieving its strategy. Managing our risks in a conscious manner increases the likelihood of achieving our strategy and business objectives.

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.

Risk management is part of the HEINEKEN business framework

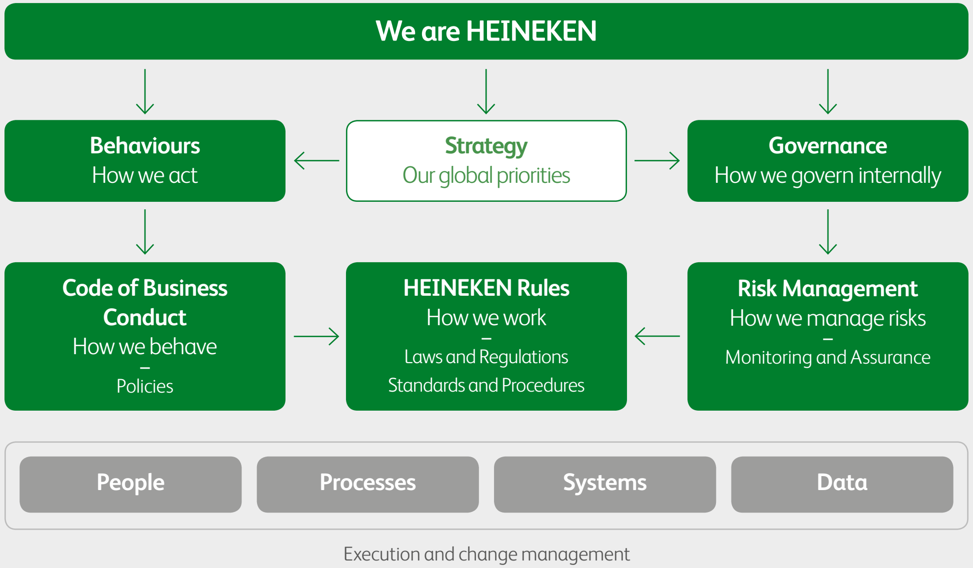
The HEINEKEN business framework articulates the key elements that the Company relies on to operate effectively and deliver long-term value creation while protecting the Company's people, assets and reputation.

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 HEINEKEN's 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, several improvements have been implemented. 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 101. The Statement of the Executive Board is included in the Corporate Governance Statement on page 47.

The way we manage our Business Conduct and Human Rights risks are further detailed in the Sustainability Review section of our Annual Report on pages 121-157.

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, including health warnings on labels 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

HEINEKEN strongly believes in the importance of reducing alcohol related harm, and responsible consumption is one of the priorities of HEINEKEN's Brewing a Better World sustainability programme. Using the power and reach of its brands through campaigns like the award-winning When You Drive Never Drink, HEINEKEN strives to make responsible consumption aspirational for all our consumers. The Company 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 also expanding consumer choice for those who choose not to drink alcohol by providing low- and no-alcohol brands.

Explore Further:
Advocating responsible consumption, **pages 137-140**

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 instability has expanded beyond emerging markets to become a permanent element of the economic landscape. We see an economic slowdown in a number of markets. The increased pressure on 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 in respect to resource allocation. 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.

Environmental impact

What could happen

HEINEKEN not being able to timely respond to the impact of environmental related changes on our operations. If new environmental legislation is introduced, this could lead to legal claims, increase of compliance costs, restrictions on production, packaging, distribution, selling and marketing of our products, reputation damage for the Company, limits on our licence to operate resulting in negative business impact.

Recent developments

Speed and scope of environmental related changes on our operations are accelerating. Markets need to be prepared to timely respond and adapt to these changes, to prevent restrictions in all areas of the value chain and significant costs to ensure compliance.

What we are doing to manage this risk

Environmental sustainability is one of the priorities of HEINEKEN's Brewing a Better World sustainable development strategy. HEINEKEN continuously monitors existing and emerging environmental issues and regulations across the globe, to ensure awareness and compliance to prepare our business for future changes. Beyond this, HEINEKEN closely works with experts, such as NGOs, universities, governmental organisations and suppliers across our value chain and co-operates with peer companies in international and national organisations, such as Brewers of Europe, Beverage Industry Environmental Roundtable and Dutch Sustainable Growth Coalition.

Explore Further:
Reporting basis and governance of non-financial indicators, **page 148**

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. In particular, there is an increased consumer focus on health and well-being resulting in a growing interest in low-alcohol, low-calorie and low-carb propositions.

What are we doing to manage this risk

HEINEKEN has fully embraced these recent developments, by a focused craft and variety strategy as well as increasing investment in the zero alcohol category, beyond Heineken®. We are increasing our portfolio and launching Zero Zones. While expanding into adjacent categories, we ensure we focus on natural credentials similar to brewing and maintaining a focus on adult, brewed and refreshing products.

Explore Further:
– Deliver top line growth, **pages 10-15**
– Advocating responsible consumption, **pages 137-140**

Management capabilities

What could happen

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

Recent developments

The opportunities that data and digital provide, results in a significant increase in focus on the acquisition of digital talent and in reskilling existing employees. In order to make the most of a diverse workforce and also attract top talent, a strong focus on Inclusion and Diversity strategy is required. In addition, emerging markets are challenged with economic and/or political uncertainty which leads to highly mobile talents and brain drain.

What we are doing to manage this risk

We continue to grow leaders who are focused on developing the business, their teams and themselves by embedding the HEINEKEN Leadership Expectations in our people processes. Alongside this, we continue to evolve our approach to attracting great external talent through our refreshed employer brand campaign, Go Places! Furthermore, we are advancing our Inclusion and Diversity agenda through building inclusive leadership capabilities, developing a global ambassador network and women's development programme. We are also increasingly focused on understanding the impact of digital on our people agenda and how it will impact our organisation, capabilities, leadership and culture.

Explore Further:
– Engage and develop our people, **pages 19-20**
– Values and behaviours, **page 145**
– Inclusion and diversity, **page 146**

Industry consolidation

What could happen

Consolidation in 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. Further impact could come from the consolidation on customer side.

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. HEINEKEN is actively cooperating with local craft brewers, participating in capital and sharing knowledge, in order to keep the beer category attractive and to stay relevant for consumers. To continue winning on the customer side, HEINEKEN explores and implements news ways of working and new channels, including digital/ecommerce platforms.

Explore Further:
– Deliver top line growth, **pages 10-15**
– Drive end2end performance, **page 16**

Health and Safety

What could happen

HEINEKEN aims to provide a safe workplace for all employees and contractors. Despite the controls in place, HEINEKEN employees, contractors and visitors may suffer from uncontrolled events in the brewery, supply chain, along the route-to-market or in our offices, which could lead to illness, serious injuries or fatalities. Alcohol abuse by employees is a risk for health safety and reputation.

Recent developments

Despite our efforts related to safety, several significant fatal accidents have occurred, underlining the importance of realising further improvements in the area of safety. The lack of quality (emergency) health care in general remains a challenge in all developing countries for our national and international employees and their family members. Major epidemics and natural disasters remain a risk for the business continuity.

What are we doing to manage this risk

HEINEKEN has established 'Put Safety First' as a key behaviour for employees of all levels, and Health and Safety as a priority of its Brewing a Better World programme. Throughout the entire supply chain, the HEINEKEN Life Saving Rules target the activities that carry the greatest safety risks to employees and contractors. Special focus areas with dedicated support are and will be road safety, contract safety and leadership & development. We provide medical care, including HIV and emergency care. This is continuously being supported and monitored by Global Health. Operating companies facing epidemics or other natural disasters are receiving specific support when needed.

Explore Further:
Promoting Health and Safety, **pages 141-142**

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

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 employee competences, production standards, recipe governance, suppliers' governance and production material risks. Continuous improvement is achieved through global compliance monitoring and systematic gap-closing. 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

Availability of natural and other resources is limited and also largely impacted by various effects such as political instability, climate change, in particular, growing water scarcity (and its effects on crop yield and grain prices and availability). Markets and governments are required to take actions to adapt and timely respond to these changes and thus, prevent, interruption of production, significant losses of revenues and increased costs for business.

What are we doing to manage this risk

Business continuity plans have been developed for HEINEKEN's key brands in all key markets, and back-up plans are in place in 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 a strategy focussed on Watershed health to protect water resources, Sustainable sourcing in the priorities of its Brewing a Better World sustainable development programme.

Explore Further:
– Protecting water resources, **pages 124-127**
– Reducing CO_2 emissions, **pages 128-133**
– Sourcing sustainably, **pages 134-136**

Increased scrutiny of society on companies

What could happen

Public and employee scrutiny on HEINEKEN when not conforming to society's expectations in mitigating its environmental, social and corporate governance impact (including e.g. CO_2 emissions, water circularity, water balancing, plastic pollution, brewery waste and sufficient support of local communities) can lead to significant reputational damage to the Company or to the brands.

Recent developments

There are greater expectations and more scrutiny both from external stakeholders and our employees on the actual environmental, social and corporate governance impact we create. Companies face growing pressure to keep a high bar in the contribution they make, measures they take to address climate and other sustainability risks, as well as share consistent and transparent information that allows us to assess their sustainability performance and benchmark them versus peers in their industry.

What are we doing to manage this risk

HEINEKEN has set clear strategies (e.g. our global Every Drop and Drop the C programmes, regional plastic strategies) and is committed to (benchmarked) targets to address the growing needs and expectations. ESG performance is disclosed in a combined annual report, our website and social media channels. To make sure we respond timely and adequately to the increasing society requirements HEINEKEN monitors trends and developments in the environmental, social and corporate governance (ESG) area across the globe. Besides, HEINEKEN continuously performs a company reputation research, actively listens to (social) media and works closely with experts, such as NGOs, universities and governmental organisations.

Explore Further:
– Reporting basis and governance of non-financial indicators, **page 148**
– Every Drop, **pages 124-127**
– Drop the C, **pages 128-133**

Risk Management (continued)

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 customers and 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 win the customer through B2B platforms 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 implementing a comprehensive set of commercial digital initiatives to optimise our current business, to build digital customer business and develop new business models to fulfil unmet needs and build new Routes to Market.

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 regulations, financial and reputational damage.

Recent developments
Online threats keep growing and become more sophisticated and potential consequences are more punitive and destructive in nature. Exposure to cybercrime is increasing and regulations place stricter security requirements on data processing.

What are we 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
Social media crises increasingly happen via private channels (e.g. WhatsApp) and cannot always be tracked. 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 used to drive continuous improvement.

Explore Further:
Deliver top line growth, **pages 10-15**

Risk Management (continued)

Execution and change management

What could happen

In recent years, HEINEKEN has engaged in several significant business transformation programmes. The large number of operating companies and our fragmented data and technology landscape 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 world is becoming more digital, data will become more and more an asset for a company and technological developments are quickly following each other. HEINEKEN will need to continue to develop itself in this area to not lose the battle for the customer and consumer and also ensure it is efficient as possible.

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 aims to prioritise and optimise resource allocation across its major programmes to ensure they deliver on their objectives and proactively mitigate the programme risks. With the Data Driven Transformation programme our current fragmented data and technology landscape is being reviewed and ideas for improvement are being developed.

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

New techniques and technology became available to strengthen the control environment and to deliver more efficient and robust financial and non-financial data.

What we are doing to manage this risk

HEINEKEN is utilising new techniques and technology to continue to drive the improvement and standardisation of its accounting and reporting processes, its controls and to harmonise its system landscape. HEINEKEN has implemented a common framework across its operating companies, which includes Internal Control over Financial Reporting, Common Accounting Policies, Standard Chart of Accounts and periodic mandatory trainings. The assurance model includes active monitoring of control execution, critical access and segregation of duties. 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 148-156**

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. The recent health trends lead to an increased risk of consumers making claims.

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.

What we are doing to manage this risk

HEINEKEN is constantly looking to enhance its internal compliance system and resilience to adapt to changes in the legal environment. 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, **page 145**

Financial Review

Key figures[1]

In millions of €	2018*	Currency translation	Consolidation impact and IFRS 16	Organic growth	2019	Organic growth %
Revenue	26,811				28,521	
Eia	–				78	
Revenue (beia)	26,811	326	(89)	1,395	28,443	5.2
Excise tax expense (beia)	(4,340)	(48)	(31)	(131)	(4,550)	(3.0)
Net revenue (beia)	22,471	278	(119)	1,264	23,894	5.6
Total other expenses (beia)	(18,663)	(198)	98	(1,112)	(19,874)	(6.0)
Operating profit (beia)	3,808	80	(21)	153	4,020	3.9
Net interest income/(expenses) (beia)	(404)	(4)	(66)	40	(435)	9.7
Other net finance income/(expenses) (beia)	(57)	–	–	(6)	(62)	(7.9)
Share of net profit of assoc./JVs (beia)	161	–	56	10	228	6.1
Income tax expense (beia)	(880)	(20)	14	(87)	(974)	(9.7)
Non-controlling interests (beia)	(244)	(9)	(3)	(5)	(260)	(2.0)
Net profit (beia)	2,385	47	(20)	105	2,517	4.3
Eia	(472)				(351)	
Net profit	1,913				2,166	

[1] Due to rounding, this table will not always cast.
* Restated for IAS 37.

Main changes in consolidation

– On 1 April 2019 Grupa Żywiec S.A., a HEINEKEN subsidiary, completed the acquisition of 100% of the share capital of Browar Namysłów Sp. z o.o.

– On 29 April 2019 HEINEKEN completed all transactions to form a long-term strategic partnership with China Resources Enterprise, Limited and China Resources Beer (Holdings) Co. Ltd. (CR Beer), including the transfer of its operating entities in China to CR Beer. HEINEKEN's share of CR Beer's profits is reported with a two month delay, starting on 1 July 2019.

– On 2 May 2019 HEINEKEN acquired a majority stake in Biela y Bebidas del Ecuador S.A. BIELESA.

– HEINEKEN has implemented IFRS 16 per 1 January 2019 by applying the modified retrospective method, meaning that the 2018 comparative numbers are not restated. The impact from IFRS 16 on the contracts in scope as per 1 January 2019 is excluded from the organic growth and is shown as a consolidation impact in the financial review and consolidated metrics tables. Refer to note 4 for further details.

Revenue

Revenue was €28,521 million, a growth of 6.4% (2018: €26,811 million). Revenue (beia) increased organically 5.2% to €28,443 million (2018: €26,811 million).

Net revenue

Net revenue grew 6.6% to €23,969 million. Net revenue (beia) increased by 5.6% organically to €23,894 million, with total consolidated volume growth of 2.2% and an increase in net revenue (beia) per hectolitre of 3.3%. Currency developments had a positive impact of €278 million, mainly driven by favourable development versus the Euro of the Mexican Peso, the Vietnamese Dong and the US Dollar. The negative impact of consolidation changes was €119 million, mainly related to China.

Total other expenses (beia)

Total other expenses (beia) were €19,874 million, up 6.0% on an organic basis. Input costs increased 5% on a per hectolitre basis, due to inflation in commodities and adverse transactional currency impacts. Marketing and selling (beia) expenses increased organically by 4.2% to €2,618 million, representing 11.0% of net revenue (beia) (2018: 11.1%).

Operating profit

Operating profit grew by 16.4% to €3,633 million driven by the underlying growth and lower impact from exceptional items. Operating profit (beia) was €4,020 million, up 3.9% organically. Growth was driven by

Financial Review (continued)

the strong top-line performance partially offset by higher input costs and higher expenses in global sponsorships, e-commerce and technology upgrades. Currency translation had a positive impact of €80 million. Consolidation changes had a negative impact of €21 million.

Net finance expenses (beia)

The average interest rate (beia) in 2019 was 2.9% (2018: 3.2%). Net interest expenses (beia) increased by €31 million to €435 million, mainly due to the first time inclusion of interest expenses on lease liabilities. Other net finance expenses (beia) increased to €62 million, including the interest expense on the net pension liability and the impact of currency revaluation on outstanding payables in foreign currencies.

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

The share of net profit of associates and joint ventures (beia) amounted to €228 million, including the attributable profit from CR Beer for the period of May to October. The organic increase was €10 million, reflecting mainly higher profits from Costa Rica.

Income tax expense (beia)

The effective tax rate (beia) was 27.6% (2018: 26.3%). The increase is driven by new interest deduction limitation rules in the Netherlands implemented in 2019 and one-off benefits in 2018.

Net profit

Net profit for 2019 was €2,166 million (2018: €1,913 million). Net profit (beia) increased organically by €105 million (4.3%) to €2,517 million. The impact of currency translation was positive by €47 million and consolidation changes had a negative impact of €20 million.

Earnings per share – diluted

Earnings per share – diluted increased to €3.77 (2018: €3.35). Earnings per share – diluted (beia) increased by 4.9% from €4.18 to €4.38.

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 €	2019	2018*
Operating profit (beia)	4,020	3,808
Amortisation of acquisition-related intangible assets and exceptional items included in operating profit	(387)	(687)
Share of profit of associates and joint ventures	164	210
Net finance expenses	(513)	(485)
Profit before income tax	3,284	2,846

* Restated for IAS 37.

The table[1] below provides an overview of the exceptional items and amortisation of acquisition-related intangibles in HEINEKEN's net profit:

In millions of €	2019	2018*
Profit attributable to shareholders of the Company (net profit)	2,166	1,913
Amortisation of acquisition-related intangible assets included in operating profit	309	311
Exceptional items included in operating profit	78	376
Exceptional items included in net finance expenses/(income)	16	25
Exceptional items and amortisation of acquisition-related intangible assets included in share of profit of associates and joint ventures	64	(50)
Exceptional items included in income tax expense	(64)	(138)
Allocation of exceptional items and amortisation of acquisition-related intangibles to non-controlling interests	(52)	(52)
Net profit (beia)	2,517	2,385

[1] Due to rounding, this table will not always cast.
* Restated for IAS 37.

The 2019 exceptional items and amortisation of acquisition-related intangibles on net profit amount to €351 million (2018: €472 million). This amount consists of:

- €309 million (2018: €311 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €78 million (2018: €376 million) of exceptional items recorded in operating profit. This includes €78 million exceptional benefits on revenue, mainly relating to tax credits in Brazil (no impact in 2018) and €2 million exceptional excise tax expenses (2018: €18 million exceptional excise tax benefit), €91 million of restructuring expenses (2018: €122 million), €85 million of impairments (2018: €183 million mainly in the DRC), €57 million net gain on disposals, mainly relating to the sale of operating entities in China and Hong Kong (2018: €4 million net gain) and €35 million of other net exceptional expenses (2018: €94 million).
- €16 million (2018: €25 million) of exceptional items in net finance expenses, mainly related to interest income over tax credits in Brazil and interest expenses over tax liabilities and pre-financing of acquisitions.
- €64 million of exceptional items and amortisation of acquisition-related intangibles included in share of profit of associates and joint ventures (2018: €50 million net benefits, 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).
- €64 million (2018: €138 million) in income tax expense, which includes the tax impact on exceptional items and amortisation of acquisition-related intangible assets of €57 million (2018: €104 million) and an exceptional income tax net benefit of €7 million (2018: €34 million).
- Total amount of eia allocated to non-controlling interests amounts to €52 million (2018: €52 million).

Financial Review (continued)

Reported to beia[1]

In millions of €	Reported 2019	Eia 2019	Beia 2019	Reported 2018[2]	Eia 2018[2]	Beia 2018[2]
Revenue	28,521	(78)	28,443	26,811	–	26,811
Excise tax expense	(4,552)	2	(4,550)	(4,322)	(18)	(4,340)
Net revenue	23,969	(75)	23,894	22,489	(18)	22,471
Other income	95	(95)	–	75	(75)	–
Total other expenses	(20,431)	557	(19,874)	(19,443)	780	(18,663)
Operating profit	3,633	387	4,020	3,121	687	3,808
Share of net profit of assoc./JVs	164	64	228	210	(50)	161
Net interest income/(expenses)	(454)	19	(435)	(421)	17	(404)
Other net finance income/(expenses)	(59)	(3)	(62)	(64)	7	(57)
Income tax expense	(910)	(64)	(974)	(741)	(138)	(880)
Non-controlling interests	(208)	(52)	(260)	(192)	(52)	(244)
Net profit	2,166	351	2,517	1,913	472	2,385

[1] Due to rounding, this table will not always cast.
[2] Restated for IAS 37.

Capital expenditure and cash flow

In millions of €	2019	2018[1]
Cash flow from operations before changes in working capital and provisions	5,669	4,858
Total change in working capital	8	713
Change in provisions and post-retirement obligations	(121)	(31)
Cash flow from operations	5,556	5,540
Cash flow related to interest, dividend and income tax	(1,219)	(1,152)
Cash flow from operating activities	4,337	4,388
Cash flow (used in)/from operational investing activities	(2,109)	(2,142)
Free operating cash flow	2,228	2,246
Cash flow (used in)/from acquisitions and disposals	(2,764)	(213)
Cash flow (used in)/from financing activities	(1,106)	(967)
Net cash flow	(1,552)	1,066
Cash conversion ratio	80%	85%

[1] Restated for IAS 37.

Capital expenditure related to Property, plant and equipment amounted to €1,915 million in 2019 (2018: €1,888 million) representing 8.0% of net revenue (beia). This includes investments in capacity expansions in Vietnam, Brazil and South Africa and a step-up in investment to refurbish the pub estate in the UK.

Free operating cash flow amounted to €2,228 million (2018: €2,246 million), including the one-off positive impact of the adoption of IFRS 16 (refer to note 4). Cash flow from trade and other payables has continued to improve, although less than the previous year.

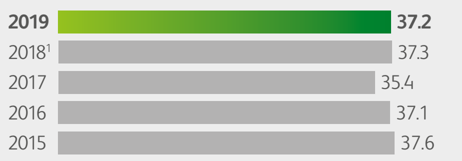
Financial structure and liquidity

In millions of €	2019	%	2018[1]	%
Total equity	17,311	37	15,708	37
Deferred tax liabilities	1,422	3	1,431	3
Post-retirement obligations	1,189	3	954	2
Provisions	940	2	997	2
Gross debt	17,052	37	14,986	36
Other liabilities	8,590	18	8,075	20
Total equity and liabilities	46,504	100	42,151	100

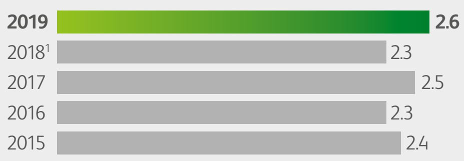
[1] Restated for IAS 37.

Financial Review (continued)

Total equity
as a percentage of total assets



Net debt/EBITDA (beia) ratio



Shareholders' equity increased by €1,622 million to €16,147 million, mainly driven by net profit of €2,166 million and sales of treasury shares, partly offset by dividends paid out of €949 million.

Total gross debt amounted to €17,052 million (31 December 2018: €14,986 million). Net debt increased to €15,259 million (31 December 2018: €12,081 million) following the financing of the transactions in China and the recognition of lease obligations as a financial liability under IFRS 16.

The pro-forma net debt/EBITDA (beia) ratio was 2.6x on 31 December 2019 (FY 2018 restated: 2.3x). HEINEKEN remains committed to the Company's long-term target net debt/EBITDA (beia) ratio of below 2.5x.

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

In millions of €	2019	2018[1]
Operating profit	3,633	3,121
Share of profit of associates and joint ventures	164	210
Depreciation and impairments of property, plant and equipment	1,540	1,288
Amortisation and impairment of intangible assets	419	405
EBITDA	5,756	5,024
Exceptional items	8	150
EBITDA (beia)	5,764	5,174

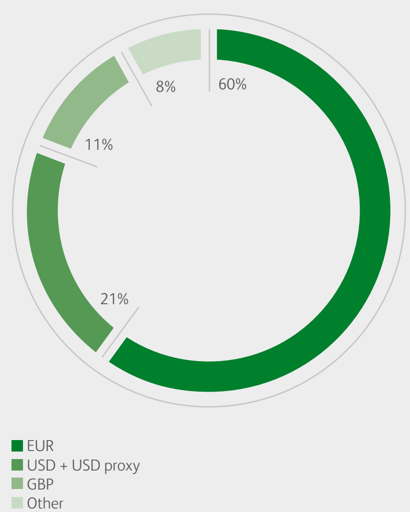
[1] Restated for IAS 37.

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 2019 Annual Report.

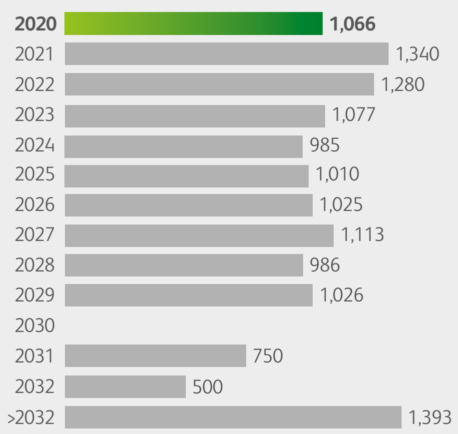
Currency split of net debt

This currency breakdown includes the effect of derivatives, which are used to hedge intercompany lending denominated in currencies other than Euro. Of total net interest-bearing debt, 60% is denominated in Euro, 21% in US Dollar and US Dollar proxy currencies and 11% in GBP. Of total net interest-bearing debt, 60% is denominated in Euro, 21% in US Dollar and US Dollar proxy currencies and 11% in GBP. This is including the effect of cross-currency interest rate swaps and lease liabilities under IFRS 16. 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 €



Financial Review (continued)

Average number of shares

HEINEKEN has 576,002,613 shares in issue. For the calculation of 2019 basic EPS, the weighted impact of the treasury shares (including shares purchased for the employee incentive programme and 5.2 million shares sold to CRE on 29 April 2019) results in a number of weighted average shares outstanding to 573,643,551 (2018: 570,146,069).

For the calculation of 2019 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 574,217,111 (2018: 570,663,632).

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 2019, payment of a total cash dividend of €1.68 per share (2019: €1.60) will be proposed to the Annual General Meeting of Shareholders on 23 April 2020 ("2020 AGM"). This represents an increase of 5.0% versus 2018, translating into a 38.4% payout. If approved, a final dividend of €1.04 per share will be paid on 7 May 2020, as an interim dividend of €0.64 per share was paid on 8 August 2019. The payment will be subject to a 15% Dutch withholding tax. The ex-final dividend date for Heineken N.V. shares will be 27 April 2020.

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 members) and a Supervisory Board (made up of 10 non-executive members). The Supervisory Board supervises the Executive Board and ensures that external experience and knowledge are embedded in the Company's way of operating. These two Boards are independent of one another and accountable to the Annual General Meeting (AGM).

The Company is required to comply with, among other regulations, the Dutch Corporate Governance Code 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, Our Performance, HEINEKEN as part of society – creating shared value, Our impact 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.

In 2019, the AGM approved a proposal to re-appoint Mrs. Laurence Debroux for the maximum term of four years to the Executive Board. Following his successful 15 year leadership of the Company, Jean-François van Boxmeer will hand over his responsibilities as Chairman of the Executive Board and CEO of Heineken N.V. to Dolf van den Brink on 1 June 2020. The Supervisory Board has announced that it will nominate Dolf van den Brink to be appointed as member of the Executive Board at the 2020 AGM for a period of four years. Dolf van den Brink will, subject to appointment by the 2020 AGM, join Heineken N.V. on 23 April 2020 as member of the Executive Board, and will work alongside Mr. Van Boxmeer to ensure a smooth and effective transition as Chairman of the Executive Board and CEO of Heineken N.V. as of 1 June 2020. For more details please see the press release as issued on 11 February 2020.

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; Reappointment: 2019*; Four-year term ends in 2023

Profession:
CFO (since 2015)

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

*Other positions***:*
Novo Nordisk, Denmark; 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 much 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. 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 and background including expertise and experience. It is the aim of the Company to reflect this in its compositions. 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

The Articles of Association and the Code prescribe how to deal with (apparent) conflicts of interest between the Company and members of the Executive Board. 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 2019, 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: Jean-Marc Huët (Chairman), José Antonio Fernández Carbajal (Vice-Chairman), Maarten Das, Michel de Carvalho, Christophe Navarre, Javier Astaburuaga Sanjinés, Pamela Mars Wright, Marion Helmes, Helen Arnold and Rosemary Ripley.

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 ten 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 is also an executive director of Heineken Holding N.V.), Mr. Das (who is the Chairman of the Board of Directors of Heineken Holding N.V.),

Corporate Governance Statement (continued)

Mr. Fernández Carbajal (who is a non-executive 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 ten percent 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. 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 and background including 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, six male (60%) and four female (40%) 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. Huët). 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 2019 Financial Statements sets out related party transactions in 2019.

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 2019 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 2019, 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 systems, 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. 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.

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 and 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 as well as a diversity policy, (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

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 management 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.

Since the implementation of the European Shareholders Rights Directive, the advisory vote on the remuneration report of the members of the Executive Board and Supervisory Board will also be brought forward and the adoption of the remuneration policy insofar as adjustments to that policy require so.

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 at least 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, Dutch law provides a record date for the exercise of the voting rights and participation in the meeting, which 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 policy for 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 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 23 April 2020 is 28 days before the AGM, i.e. on 26 March 2020.

Law on the Conversion of Bearer Shares

As of 1 July 2019 the Dutch Law on the Conversion of Bearer Shares (*Wet omzetting aandelen aan toonder*) has entered into effect. All (bearer) shares in the Company's authorised capital have already been registered as per earlier amendment of the Articles of Association. However, there still are certificates for bearer shares circulating which are eligible for submission with the Company. Any holder of certificates for bearer shares submitting its share certificates with the Company before 2 January 2026, shall receive a corresponding amount of registered shares by the Company as per the transitory provisions laid down in Article 18 of the Articles of Association.

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 25 April 2019, 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 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 23 April 2020.

Issue of shares

On 25 April 2019, 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 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 23 April 2020.

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.

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 with regards to her second term (ending in April 2023) complies with the Code. 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 vii:**
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 121–157 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 2019 give a true and fair view of our assets and liabilities, our financial position at 31 December 2019, and the results of our consolidated operations for the financial year 2019; and
  – the Report of the Executive Board includes a fair review of the position at 31 December 2019 and the development and performance during the financial year 2019 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, 11 February 2020

Heineken N.V. Annual Report 2019

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 2019, as prepared by the Executive Board and approved by the Supervisory Board in its meeting of 11 February 2020. Deloitte Accountants B.V. audited the financial statements. Its report can be found on page 159 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 €967 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 €1.68 per share of €1.60 nominal value, of which €0.64 was paid as an interim dividend on 8 August 2019.

Supervisory Board composition, independence and remuneration

Composition

The Supervisory Board consists of 10 members: Jean-Marc Huët (Chairman), José Antonio Fernández Carbajal (Vice-Chairman), Maarten Das, Michel de Carvalho, Christophe Navarre, Javier Astaburuaga Sanjinés, Pamela Mars Wright, Marion Helmes, Rosemary Ripley and Helen Arnold. The General Meeting at the Annual General Meeting of Shareholders (AGM) on 25 April 2019 (re-)appointed Mr. de Carvalho, Mrs. Ripley and Mrs. Arnold for a period of four years. Mr. Wijers and Ms. Dervişoğlu stepped down as member of the Supervisory Board after the 2019 AGM.

Supervisory Board composition
Nationality

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

Supervisory Board composition
Gender

Male	60%
Female	40%

Supervisory Board composition
Tenure

0–4 years	50%
5–8 years	10%
9–12 years	20%
>12 years	20%

To the Shareholders (continued)

Jean-Marc (J.M.) Huët

1969 | **Dutch nationality** | **Male**

Appointed in 2014; Chairman (as of 2019); latest reappointment in 2018*

Profession:
Company Director

*Supervisory board seats (or non-executive board memberships) in Large Dutch Entities**:*
Vermaat Groep B.V.

*Other positions***:*
Canada Goose Incorporated; Bridgepoint

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.

Michel (M.R.) de Carvalho

1944 | **British nationality** | **Male**

Appointed in 1996; latest reappointment in 2019*

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 and Acosta Verde, S.A. de C.V.

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***:*
Johns Hopkins Medicine, Johns Hopkins International Medicine

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

Rosemary (R.L.) Ripley

1954 | **American nationality** | **Female**

Appointed in 2019*

Profession:
Managing Director at NGEN

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

*Other positions***:* Livingston Ripley Waterfowl Conservancy; Yale Center for Business and the Environment; Economic Club of New York

Helen (I.H.) Arnold

1968 | **German nationality** | **Female**

Appointed in 2019*

Profession:
President Data Network at SAP

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

*No other positions****

* 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. Four out of 10 members are women and eight out of 10 members are non-Dutch. There are six nationalities (American, Belgian, British, Dutch, German and Mexican) and age ranges between 50 and 75. 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, 40% (i.e. four out of ten) 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.

Mrs. Mars Wright will have completed her four-year appointment term per the end of the AGM on 23 April 2020. A non-binding nomination for reappointment of Mrs. Mars Wright as member of the Supervisory Board shall be submitted to the 2020 AGM. Pursuant to best practice provision 2.1.8 of the Code, Mrs. Mars Wright qualifies as "independent". A reappointment of Mrs. Mars Wright for a period of four years is within the maximum appointment term of best practice provision 2.2.2 of the Code.

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 ten 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 the Board of Directors 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 2019, the AGM resolved to adjust the remuneration of the Supervisory Board effective 1 January 2019. The detailed amounts are stated in Note 13.3 to the 2019 Financial Statements]. A remuneration policy for members of the Supervisory Board will be submitted for approval to the 2020 AGM, to comply with the Dutch law implementing the European Shareholders Rights Directive.

Meetings and activities of the Supervisory Board

During 2019 the Supervisory Board held six 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 2019, 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 New York, USA, where the Management Team of Heineken USA, the Managing Directors of Heineken Mexico, Brazil and Lagunitas presented an update on business performance. In addition, external guest speakers provided an overview of macro-economic and general business developments in the USA and a panel discussion was held on developments in FMCG categories.

To the Shareholders (continued)

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

In 2019, the following subjects were presented in more detail:

- Sustainability (Brewing a Better World)
- Digital (Connect in a Digital World)
- Human Resources and succession planning (including the remuneration of the members of the Executive Team)

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 Chairman. The conversations covered topics such as the composition and expertise of the Supervisory Board, access to information, frequency and quality of the meetings, leadership developments, 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. Ripley and Mrs. Arnold. As part of the programme, Mrs. Ripley and Mrs. Arnold 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 to, among others, 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 Committee. The terms of reference for the Committees are posted on the Company's website.

Preparatory Committee

Composition: Mr. Huët (Chairman), Mr. de Carvalho, Mr. Das and Mr. Fernández Carbajal. The Preparatory Committee met six 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: Mrs. Helmes (Chairperson), Mr. Huët, Mr. Astaburuaga Sanjinés and Mrs. Arnold. 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, the Senior Director Global Finance Process and Services as well as the Senior Director Global Accounting and Risk Management.

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 2019 discussed recurring topics, such as:

- The effectiveness and the outcome of the internal control and risk management systems, as well as changes made and improvements planned to these systems.
- (Functional) Updates in respect of Global Procurement, Global Information Services, Global Treasury & Insurance and Global Tax, Pensions, Business Conduct and Global Legal Affairs, as well as Risk Management.
- Developments in the area of digital.
- 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.

To the Shareholders (continued)

Selection & Appointment Committee

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

In 2019, the following subjects were on the agenda:

- The composition and rotation schedule of the Supervisory Board and its Committees.
- The composition and rotation schedule of the Executive Board including a succession bench strength assessment.
- Leadership developments.
- Evaluation of the Supervisory Board and the Executive Board.

Remuneration Committee

Composition: Mr. Das (Chairman), Mr. de Carvalho, Mr. Huët and Mrs. Ripley. The Remuneration Committee met three times in 2019.

The Remuneration Committee discussed the Dutch Act aimed to implement the Shareholders Rights Directive, as adopted by the Dutch Senate in November 2019 and focused in particular on the provisions related to remuneration.

The Committee made recommendations to the Supervisory Board on 2019 target setting and 2018 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 furthermore 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, regulatory developments and views of investors, external stakeholders including public opinion.

In addition, the Remuneration Committee discussed and prepared a revision of the Remuneration Policy for the Executive Board and the Remuneration Report, as well as a first draft of a Remuneration Policy for the Supervisory Board, in light of the Dutch implementation of the European Shareholder Rights Directive.

Americas Committee

Composition: Mr. Fernández Carbajal (Chairman), Mr. de Carvalho, Mr. Navarre, and Mrs. Mars Wright. The Committee met twice in 2019.

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 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 2019, the attendance rate was 97% for the Supervisory Board meetings and 95% including the Committee meetings. Many Supervisory Board members were able to attend all six 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	1/1	2/2		1/1	1/1	
Mr. Fernández Carbajal	6/6	6/6		4/4		2/2
Mr. Das	6/6	6/6		4/4	3/3	
Mr. de Carvalho	6/6	5/6		3/4	3/3	2/2
Mr. Navarre	6/6					2/2
Mr. Astaburuaga Sanjinés	6/6		4/4			
Mr. Huët	6/6	4/4	4/4	3/3	2/2	
Mrs. Mars Wright	6/6			3/4		2/2
Ms. Dervişoğlu	0/1				0/1	
Mrs. Helmes	6/6		4/4			
Mrs. Ripley	4/5				2/2	
Mrs. Arnold	5/5		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 reappointed for a period of four years in 2019.

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. A revised remuneration policy is proposed for approval to the 2020 AGM, to comply with the Dutch law implementing the European Shareholders Rights Directive.

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 2019.

Supervisory Board Heineken N.V.

Huët
Fernández Carbajal
Das
de Carvalho
Navarre
Astaburuaga Sanjinés
Mars Wright
Helmes
Ripley
Arnold

Amsterdam, 11 February 2020

Heineken N.V. Annual Report 2019

Remuneration Report

The 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 support our long term sustainable business growth in the widely diverse markets in which we operate.

For 2019, the Remuneration Committee and Supervisory Board reviewed the Executive Board remuneration policy versus its implementation, and its outcome versus performance. Furthermore the Supervisory Board and its Remuneration Committee carefully studied the Dutch Act aimed to implement the Shareholder Rights Directive, as adopted by the Dutch Senate in November 2019, to identify any potential gap in our remuneration policy and annual reporting. In line with the new legislation, we will submit for approval to the 2020 Annual General Meeting (AGM) a revised Executive Board and a Supervisory Board remuneration policy. A revised remuneration report for financial year 2019 will also be submitted to the 2020 AGM for advisory vote.

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 2019.

Part II

Provides details of the Executive Board actual remuneration for performance ending in, or at year-end, 2019.

Part III

Outlines adjustments to remuneration policy and implementation for 2020.

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 sustainable 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.

While establishing and implementing the remuneration policy, the perspective and input of internal and external stakeholders are taken into consideration, as is the public opinion. HEINEKEN is also committed to an ongoing dialogue with shareholders and seeks the views of main shareholders before any material changes to remuneration arrangements are put forward for approval.

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 59 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 2019 (and 2018), 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 2019 were €1,250,000 for the CEO, and €850,000 for the CFO.

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 2019 and 2020 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 2019 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%). The Individual leadership measures are a mix of quantitative and qualitative measures focused on the implementation of our "Ambition 2020 Strategy". The 2019 leadership measures have been selected in line with our ambition to contribute to an inclusive and sustainable economy and society.

For 2020 the same performance measures and weights will apply.

Remuneration Report (continued)

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.

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 by linking rewards to HEINEKEN's share price performance. The target LTI opportunities for 2020 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.

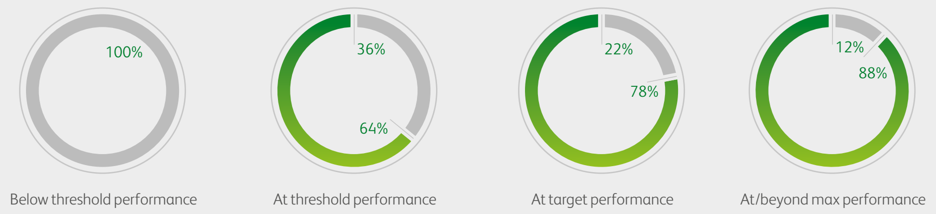
Remuneration Report (continued)

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.

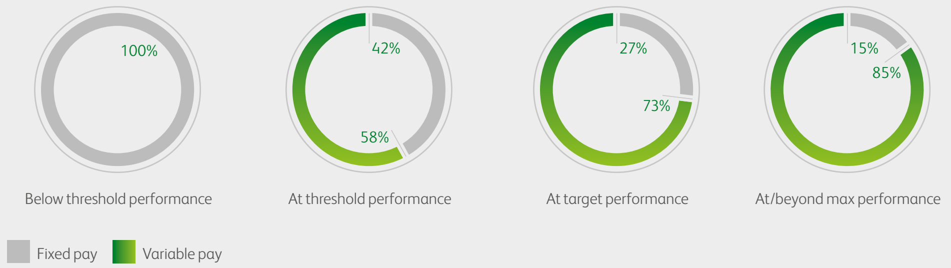
Pay mix

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 2019-2020



CFO target pay mix 2019-2020



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 one year of base salary.

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, 2019

The following table provides an overview of the Executive Board actual remuneration that became unconditional in, or at year-end, 2019. 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 111. The Supervisory Board conducted a scenario analysis with respect to possible outcomes of the variable remuneration disclosed in this section.

			2017-2019 Long-term incentive		Matching entitlements			Extraordinary Share Grants			
	(1) Base salary in €	(2) 2019 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 €	(11) Total in €
Van Boxmeer	1,250,000	2,222,500	45,468	4,315,823	10,427	989,731	761,822	–	–	48,806	9,588,682
Debroux	850,000	1,079,500	22,734	2,157,911	–	–	167,309	–	–	182,690	4,437,410

ad (1) – Base salary

These base salaries have been paid to the members of the Executive Board for 2019.

ad (2) – 2019 Short-term incentive

The 2019 Short-term incentive (STI) relates to the performance year 2019, and becomes payable in 2020. The STI for 2019 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
Between target and maximum performance

Free Operating Cash Flow
Between target and maximum performance

Individual leadership measures
Between target and maximum performance

The resulting STI payout for 2019 is 127% 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 12 February 2020, the publication date of these financial statements. In addition, the Executive Board members have had the opportunity to indicate before the end of the 2019 performance year whether they wished to receive up to another 25% of their STI payout in additional investment shares; for 2019 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	Value of investment shares as of the award date in €	End of blocking period	Value of investment shares as of 31.12.2019[1] in €
Van Boxmeer	2019	25%	13.02.2020	t.b.d.	c.a. 555,625	31.12.2024	n.a.
	2018	25%	14.02.2019	7,913	682,417	31.12.2023	751,102
	2017	25%	13.02.2018	8,326	683,898	31.12.2022	790,304
	2016	25%	16.02.2017	11,106	839,947	31.12.2021	1,054,182
	2015	50%	11.02.2016	20,105	1,465,051	31.12.2020	1,908,367
Debroux	2019	25%	13.02.2020	t.b.d.	c.a. 269,875	31.12.2024	n.a.
	2018	25%	14.02.2019	3,323	286,576	31.12.2023	315,419
	2017	25%	13.02.2018	3,568	293,076	31.12.2022	338,675
	2016	25%	16.02.2017	4,760	359,999	31.12.2021	451,819
	2015	50%	11.02.2016	5,713	416,306	31.12.2020	542,278

[1] The share price as of 31 December 2019 is €94.92.

ad (3) – 2017-2019 Long-term incentive: number of performance shares vesting

The 2017-2019 Long-term incentive (LTI) relates to the performance period 2017-2019 and vests shortly after 12 February 2020, the publication date of these financial statements. The vesting of the LTI award for performance period 2017-2019 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 Operating Profit beia Growth
Between target and maximum performance

Earnings Per Share (EPS) beia Growth
At maximum performance

Free Operating Cash Flow
At maximum performance

As a result, the vesting of the LTI grant for performance period 2017-2019 will be equal to 180% of the vesting at target level. For the CEO this plan performance implies that 45,468 shares will vest shortly after 12 February 2020, as a result of the 25,260 conditional performance shares granted to him in 2017. For the CFO this plan performance implies that 22,734 shares will vest shortly after 12 February 2020, as a result of the 12,630 conditional performance shares granted to her in 2017. 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 16 February 2022, also in case of resignation during that period. Revision and clawback provisions apply to this award. The table overleaf provides an overview of outstanding LTI awards (awards granted but not yet vested, or awards vested but still blocked) as of 31 December 2019.

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 31.12.2019[5] in €
Van Boxmeer	2019	24,288	2,094,597	02.2022	t.b.d.	t.b.d.	14.02.2024	1,224,848
	2018	21,570	1,771,760	02.2021	t.b.d.	t.b.d.	13.02.2023	1,087,783
	2017	25,260	1,910,414	13.02.2020	45,468	24,157	16.02.2022	2,292,982
	2016	22,852	1,665,225	14.02.2019	41,820	21,279	11.02.2021	2,019,803
	2015	29,263	1,942,771	13.02.2018	47,699	24,175	12.02.2020	2,294,691
Debroux	2019	13,763	1,186,921	02.2022	t.b.d.	t.b.d.	14.02.2024	884,275
	2018	10,569	868,138	02.2021	t.b.d.	t.b.d.	13.02.2023	679,058
	2017	12,630	955,207	13.02.2020	22,734	15,389	16.02.2022	1,460,724
	2016	11,426	832,613	14.02.2019	20,910	13,836	11.02.2021	1,313,313
	2015	11,857	787,186	13.02.2018	19,327	12,762	24.04.2020	1,211,369

[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 2015, 2016 and 2017 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 2018 and 2019 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 2019 is €94.92.

ad (4) – 2017-2019 Long-term incentive: value of performance shares vesting

The value of performance shares vesting is based on the share price as 31 December 2019 of €94.92.

ad (5) – Number of matching entitlements vesting

These entries refer to the number of matching share entitlements that vested after year-end 2019, as a result of the investment in shares of part of the STI payout for performance year 2014, and holding on to these investment shares until year-end 2019. For the CEO this number of matching shares is the result of a 25% 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) – Value of matching entitlements vesting

The value of matching share entitlements vesting is based on the share price as of 31 December 2019 of €94.92.

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 2019 but are still blocked as of 31 December 2019; there are no such grants to members of the Executive Board that are still unvested or that vested in, or at year-end, 2019. 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 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]	End of blocking period	Value of unvested or blocked shares as of 31.12.2019[3] in €
Debroux	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2015	681	24.04.2020	64,641
	Extraordinary share award	24.04.2015	1,000	73,640	24.04.2016	675	24.04.2020	64,071

[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' against the share price as of 31 December 2019 €94.92.

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, 2019.

ad (10) – Other emoluments

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

ad (11) – Total

The addition of all remuneration elements as described in points (1) to (10).

Actual remuneration paid to former members of the Executive Board

There has not been any remuneration for 2019 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 came 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 2019 pay ratios for HEINEKEN are 166 for the CEO and 87 for the CFO, versus 198 and 91 in 2018 respectively. These ratios are obtained by dividing the 2019 total remuneration for the CEO and CFO by the 2019 average total remuneration of all other employees worldwide. The common denominator of these ratios is derived from note 6.4 on page 76 by dividing the 2019 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 42,937 versus 41,689 in 2018. The total remuneration for the CEO and CFO is retrieved from note 13.3 on page 111. 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 standards, which implies that the Executive Board's remuneration also needs to be based on these standards for reasons of comparability.

The Executive Board's average pay ratio decrease of ca. 10% compared to 2018 results from a decrease in the remuneration of the CEO and CFO over 2018 by ca. 10% and an increase in the average total remuneration of all other employees world-wide by ca. 3%.

- The decrease in the CEO and CFO remuneration is predominantly caused by a decrease in the incentives value (cf. note 13.3).
- The increase in the average total remuneration of all other employees worldwide follows from regular pay increases, changes in the distribution of employees over geographies, and exchange rate effects in 2019.

Comparative overview of remuneration and company performance

The Dutch Act to implement the Shareholder Rights Directive was adopted by the Dutch Senate in November 2019 and entered into force in December 2019. The Shareholder Rights Directive will be followed by Guidelines to drive greater consistency of reporting regarding executive remuneration disclosure in company Remuneration Reports. It is expected that these Guidelines will be issued in the course of 2020. In anticipation of those Guidelines and in accordance with the Shareholder Rights Directive, the following table provides a comparative overview since 2015 of annual Executive Board remuneration; average employee remuneration; Executive Board pay ratio; and company performance:

	Total remuneration in thousands of €[1]		Average employee total remuneration in thousands of €[3]	Pay ratio[4]		Organic net revenue growth %[5]
Year	CEO	CFO[2]		CEO	CFO	
2015	9,119	2,137	n.a.	n.a.	n.a.	3.5
2016	9,480	3,514	n.a.	n.a.	n.a.	4.8
2017	9,060	4,203	42.1	215	100	5.0
2018	8,244	3,805	41.7	198	91	6.1
2019	7,112	3,726	42.9	166	87	5.6

[1] Total remuneration for the CEO and CFO as per note 13.3 Related Parties (i.e. fixed salary, short and long term incentives, pension contributions and other emoluments). Supervisory Board management fees are disclosed in note 13.3 (as approved by the AGM in 2011 and adjusted most recently in 2019 AGM).
[2] Appointed on 23 April 2015.
[3] Total personnel expense in thousands of € (after subtracting the expense for contractors and for the Executive Board) divided by the reported FTE (minus two; excluding contractors). Reporting available since 2017.
[4] Total remuneration for the CEO and CFO divided by the average total remuneration of all other employees worldwide. Reporting available since 2017.
[5] Organic net revenue growth percentage for the financial year (performance measure for short- and long-term incentives).

Part III – Adjustments to the remuneration policy and implementation for 2020

Policy changes

The Supervisory Board and its Remuneration Committee carefully studied the Dutch Act aimed to implement the Shareholder Rights Directive, as adopted by the Dutch Senate in November 2019, to identify any potential gap in our remuneration policy. In line with the requirements of the new legislation, we will submit for approval to the 2020 AGM a revised Executive Board and Supervisory Board remuneration policy. HEINEKEN has engaged with main shareholders to gather feedback on our current remuneration policy and proposed changes. We also encourage all our shareholders to attend the 2020 AGM to provide their views.

Implementation changes

The Supervisory Board is also mindful of the recommended changes to remuneration disclosure that form part of the Draft Guidelines to the Shareholder Rights Directive. These changes are intended to drive greater transparency and consistency of reporting regarding executive remuneration and may result in further updates to our remuneration disclosure in the Remuneration Report once the Guidelines are finalised.

Supervisory Board Heineken N.V.
Amsterdam, 11 February 2020

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Financial Statements

Consolidated Income Statement

For the year ended 31 December

In millions of €	Note	2019	2018*
Revenue	6.1	28,521	26,811
Excise tax expense	6.1	(4,552)	(4,322)
Net revenue	6.1	23,969	22,489
Other income	6.2	95	75
Raw materials, consumables and services	6.3	(14,592)	(14,001)
Personnel expenses	6.4	(3,880)	(3,749)
Amortisation, depreciation and impairments	6.6	(1,959)	(1,693)
Total other expenses		(20,431)	(19,443)
Operating profit		3,633	3,121
Interest income	11.1	75	71
Interest expenses	11.1	(529)	(492)
Other net finance income/(expenses)	11.1	(59)	(64)
Net finance expenses		(513)	(485)
Share of profit of associates and joint ventures	10.3	164	210
Profit before income tax		3,284	2,846
Income tax expense	12.1	(910)	(741)
Profit		2,374	2,105
Attributable to:			
Shareholders of the Company (net profit)		2,166	1,913
Non-controlling interests		208	192
Profit		2,374	2,105
Weighted average number of shares – basic	6.7	573,643,551	570,146,069
Weighted average number of shares – diluted	6.7	574,217,111	570,663,632
Basic earnings per share (€)	6.7	3.78	3.36
Diluted earnings per share (€)	6.7	3.77	3.35

* Restated for IAS 37. Refer to note 4 for further details.

Consolidated Statement of Comprehensive Income

For the year ended 31 December

In millions of €	Note	2019	2018*
Profit		2,374	2,105
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-retirement obligations	12.3	(210)	221
Net change in fair value through OCI investments	12.3	9	11
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	12.3	369	(106)
Change in fair value of net investment hedges	12.3	(43)	(3)
Change in fair value of cash flow hedges	12.3	64	(67)
Cash flow hedges reclassified to profit or loss	12.3	21	(77)
Net change in fair value through OCI investments	12.3	1	–
Cost of hedging	12.3	(5)	6
Share of other comprehensive income of associates/joint ventures	12.3	(20)	(36)
Other comprehensive income, net of tax	12.3	186	(51)
Total comprehensive income		2,560	2,054
Attributable to:			
Shareholders of the Company		2,328	1,858
Non-controlling interests		232	196
Total comprehensive income		2,560	2,054

* Restated for IAS 37. Refer to note 4 for further details.

Consolidated Statement of Financial Position

As at 31 December

In millions of €	Note	2019	2018*
Intangible assets	8.1	17,769	17,459
Property, plant and equipment	8.2	13,269	11,359
Investments in associates and joint ventures	10.3	4,868	2,021
Loans and advances to customers	8.3	277	341
Deferred tax assets	12.2	647	626
Other non-current assets	8.4	1,255	1,220
Total non-current assets		38,085	33,026
Inventories	7.1	2,213	1,920
Trade and other receivables	7.2	4,123	3,795
Current tax assets		123	71
Derivative assets	11.6	28	35
Cash and cash equivalents	11.2	1,821	2,903
Assets classified as held for sale	10.2	111	401
Total current assets		8,419	9,125
Total assets		46,504	42,151

	Note	2019	2018*
Shareholders' equity	11.4	16,147	14,525
Non-controlling interests	11.4	1,164	1,183
Total equity		17,311	15,708
Borrowings	11.3	13,366	12,628
Post-retirement obligations	9.1	1,189	954
Provisions	9.2	756	833
Deferred tax liabilities	12.2	1,422	1,431
Other non-current liabilities	11.6	153	168
Total non-current liabilities		16,886	16,014
Borrowings	11.2/11.3	3,686	2,358
Trade and other payables	7.3	7,520	6,891
Returnable packaging deposits	7.4	565	569
Provisions	9.2	184	164
Current tax liabilities		283	245
Derivative liabilities	11.6	69	70
Liabilities associated with assets classified as held for sale	10.2	–	132
Total current liabilities		12,307	10,429
Total equity and liabilities		46,504	42,151

* Restated for IAS 37. Refer to note 4 for further details.

Consolidated Statement of Cash Flows

For the year ended 31 December

In millions of €	Note	2019	2018*
Operating activities			
Profit		2,374	2,105
Adjustments for:			
Amortisation, depreciation and impairments	6.6	1,959	1,693
Net interest expenses	11.1	454	421
Other income	6.2	(95)	(75)
Share of profit of associates and joint ventures and dividend income on fair value through OCI investments		(173)	(228)
Income tax expenses	12.1	910	741
Other non-cash items		240	201
Cash flow from operations before changes in working capital and provisions		5,669	4,858
Change in inventories		(257)	(129)
Change in trade and other receivables		(245)	(66)
Change in trade and other payables and returnable packaging deposits		510	908
Total change in working capital		8	713
Change in provisions and post-retirement obligations		(121)	(31)
Cash flow from operations		5,556	5,540
Interest paid		(528)	(555)
Interest received		52	118
Dividends received		181	109
Income taxes paid		(924)	(824)
Cash flow related to interest, dividend and income tax		(1,219)	(1,152)
Cash flow from operating activities		4,337	4,388

* Restated for IAS 37. Refer to note 4 for further details.

In millions of €	Note	2019	2018*
Investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		177	111
Purchase of property, plant and equipment		(1,915)	(1,888)
Purchase of intangible assets		(186)	(167)
Loans issued to customers and other investments		(249)	(239)
Repayment on loans to customers and other investments		64	41
Cash flow (used in)/from operational investing activities		(2,109)	(2,142)
Free operating cash flow		2,228	2,246
Acquisition of subsidiaries, net of cash acquired		(183)	(70)
Acquisition of/additions to associates, joint ventures and other investments		(2,875)	(159)
Disposal of subsidiaries, net of cash disposed of		244	15
Disposal of associates, joint ventures and other investments		50	1
Cash flow (used in)/from acquisitions and disposals		(2,764)	(213)
Cash flow (used in)/from investing activities		(4,873)	(2,355)
Financing activities			
Proceeds from borrowings		2,288	1,694
Repayment of borrowings		(2,150)	(1,545)
Payment of lease commitments		(259)	–
Dividends paid		(1,223)	(1,090)
Purchase own shares and shares issued		428	(20)
Acquisition of non-controlling interests		(103)	(2)
Other		3	(4)
Cash flow (used in)/from financing activities		(1,016)	(967)
Net cash flow		(1,552)	1,066
Cash and cash equivalents as at 1 January		2,248	1,177
Effect of movements in exchange rates		(9)	5
Cash and cash equivalents as at 31 December	11.2	687	2,248

Consolidated Statement of Changes in Equity

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Cost of 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*		–	–	(21)	–	3	–	–	–	174	156	1	157
Balance as at 1 January 2018*		922	2,701	(3,145)	112	3	331	962	(410)	12,001	13,477	1,201	14,678
Profit*		–	–	–	–	–	–	214	–	1,699	1,913	192	2,105
Other comprehensive income	12.3	–	–	(143)	(150)	6	11	–	–	221	(55)	4	(51)
Total comprehensive income*		–	–	(143)	(150)	6	11	214	–	1,920	1,858	196	2,054
Transfer to 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		–	–	–	–	–	–	–	–	26	26	(30)	(4)
Changes in consolidation		–	–	–	–	–	–	–	–	42	42	8	50
Balance as at 31 December 2018*		922	2,701	(3,288)	(38)	9	342	1,096	(415)	13,196	14,525	1,183	15,708

In millions of €	Note	**Share capital**	**Share premium**	**Translation reserve**	**Hedging reserve**	**Cost of 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 2018*		922	2,701	(3,288)	(38)	9	342	1,096	(415)	13,196	14,525	1,183	15,708
Changes in accounting policy*		–	–	–	–	–	–	–	–	3	3	–	3
Balance as at 1 January 2019*		922	2,701	(3,288)	(38)	9	342	1,096	(415)	13,199	14,528	1,183	15,711
Profit		–	–	–	–	–	–	172	–	1,994	2,166	208	2,374
Other comprehensive income	12.3	–	–	287	85	(5)	10	–	–	(215)	162	24	186
Total comprehensive income		–	–	287	85	(5)	10	172	–	1,779	2,328	232	2,560
Realised hedge results from non-financial assets		–	–	–	(66)	–	–	–	–	–	(66)	–	(66)
Transfer to retained earnings		–	–	3	–	–	(39)	(153)	–	189	–	–	–
Dividends to shareholders		–	–	–	–	–	–	–	–	(949)	(949)	(272)	(1,221)
Purchase/reissuance own/non-controlling shares	11.4	–	–	–	–	–	–	–	320	98	418	11	429
Own shares delivered		–	–	–	–	–	–	–	32	(32)	–	–	–
Share-based payments		–	–	–	–	–	–	–	–	14	14	–	14
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	(126)	(126)	5	(121)
Changes in consolidation		–	–	–	–	–	–	–	–	–	–	5	5
Balance as at 31 December 2019		922	2,701	(2,998)	(19)	4	313	1,115	(63)	14,172	16,147	1,164	17,311

* Restated for IAS 37 (refer to note 4 for further details), IFRS16 and IFRS 9.

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 2019 comprise the Company, its subsidiaries (together referred to as 'HEINEKEN') and HEINEKEN's interests 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 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 2019 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 11 February 2020 and will be submitted for adoption to the Annual General Meeting of Shareholders on 23 April 2020.
- 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 deferred tax note 12.2 has been updated for 2018 to reflect a revised breakdown per deferred tax category.

3 Significant accounting estimates and judgements

In preparing these consolidated financial statements, management is required 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 impact 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 following notes contain the most significant estimates and judgements:

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
8.2 Property, plant and equipment and 11.3 Borrowings	Judgement used in the determination of the lease term and assumptions used in the determination of the incremental borrowing rate
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 flows relating to claims and litigation
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 2019

The following accounting policy changes have been adopted in 2019 and are reflected in the consolidated financial statements:

IFRS 16 Leases

HEINEKEN has implemented IFRS 16 'Leases' as at 1 January 2019, replacing existing guidance on leases (including IAS 17). The adoption of IFRS 16 has changed the accounting for leases as under the new standard all operating lease contracts are recognised on HEINEKEN's statement of financial position ('balance sheet') by recognising a right of use (ROU) asset and a lease liability, except for short-term and low value leases. Lease expenses previously recorded in the income statement are replaced by depreciation and interest expenses for all lease contracts in scope of the standard. Refer to notes 8.2 Property, plant and equipment and 11.3 Borrowings for the accounting policy on leases.

HEINEKEN has implemented IFRS 16 as at 1 January 2019 by applying the modified retrospective method, meaning that the 2018 comparative numbers are not restated. HEINEKEN has around 30,000 operating leases mainly relating to stores, pubs, offices, warehouses, cars and (forklift) trucks.

In some countries, HEINEKEN is operating both as a lessee (referred to as head lease contracts) and a lessor (referred to as sublease contracts) for pubs. HEINEKEN has analysed the sublease contracts and concluded that under the new standard these contracts are treated as a finance lease, where under the previous standard these same leases were treated as an operating lease.

In the transition to IFRS 16, HEINEKEN applied the following transition expedients:

- 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 ROU asset based on the lease liability recognised.

As a result of applying IFRS 16, HEINEKEN recognised €1,034 million of ROU assets, €252 million of lease receivables and €1,252 million of lease liabilities as at 1 January 2019. A net amount of €31 million of lease prepayments, lease accruals and onerous lease provisions has been included in ROU assets as at 1 January 2019. An amount of €3 million has been recorded in retained earnings. The ROU assets are included in Property, plant and equipment. The lease receivables are included under Other non-current assets and Trade and other receivables. The lease liabilities are included under current and non-current Borrowings. As at 1 January 2019, deferred tax assets of €291 million related to lease liabilities, and deferred tax liabilities of €291 million related to ROU assets and lease receivables have been recognised. These deferred tax positions are offset and reported on a net basis in the statement of financial position.

When measuring the lease liability, HEINEKEN discounted the lease payments using the incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied is 4.3%.

During 2019, HEINEKEN reported €238 million depreciation and impairment of ROU assets and €55 million interest costs on lease liabilities. In 2018, operating lease expenses were reported under Raw materials, consumables and services and Personnel expenses. No material impact on tax expenses.

As a result of the treatment of subleases as a finance lease, revenue decreased with approximately €54 million. The decrease in revenue is fully offset by a decrease in expenses on the head leases and primarily impacts the Netherlands and Belgium.

The lease payments are reported under 'Interest paid' (2019: €55 million) and 'Payment of lease commitments' (2019: €259 million) in the cash flow statement. In 2018, all lease payments were included in the cash flow from operations.

As at 31 December 2018, HEINEKEN reported total off-balance sheet commitments for leases of €2,013 million. The difference between the opening balance sheet impact as at 1 January 2019 and the off-balance sheet commitments is primarily due to discounting of future lease payments and low value and short-term lease commitments, which are not included in the lease liability. Refer to the table below for the reconciliation:

In millions of €	
Operating lease commitments disclosed at 31 December 2018	2,013
Impact of discounting using the incremental borrowing rate as at 1 January 2019	(615)
Short-term leases not recognised as a liability	(36)
Low value leases not recognised as a liability	(116)
Other reconciling items	6
Lease liability recognised as at 1 January 2019	1,252

Payments relating to contingent liabilities (IAS 37)

Following the IFRS Interpretations Committee agenda decision in January 2019 regarding tax deposits (relating to taxes other than income tax), HEINEKEN has changed its accounting policy with regards to payments relating to contingent liabilities.

Payments relating to contingent liabilities are now, in accordance with the conceptual framework, recognised as an asset on the balance sheet when it is probable (>50%) that HEINEKEN will recover the payment. Previously, these payments were contingent assets under IAS 37, and recognised if the recovery was virtually certain (>95%). Judgement is applied for estimating the likelihood, determining the timing of potential cash inflows and the recoverability.

This change in accounting policy has been recognised retrospectively and increased equity as at 1 January 2018 by €157 million. The impact on 2018 profit amounts to €10 million (increase). The cash flow statement has been restated within the cash flow from operations.

Notes to the Consolidated Financial Statements (continued)

The restated amounts in the balance sheet as at 31 December 2018 are as follows:

As at 31 December 2018

In millions of €	2018 Reported	Change in accounting policy IAS 37	2018 Restated
Deferred tax assets	622	4	626
Other non-current assets	1,084	136	1,220
Trade and other receivables	3,740	55	3,795
Total assets	**41,956**	**195**	**42,151**
Shareholders' equity	14,358	167	14,525
Non-controlling interests	1,182	1	1,183
Provisions (non-current)	846	(13)	833
Deferred tax liabilities	1,370	61	1,431
Current tax liabilities	266	(21)	245
Total equity and liabilities	**41,956**	**195**	**42,151**

Other new standards and amendments

Other changes effective in 2019 had no significant impact on the disclosures or amounts recognised in HEINEKEN's consolidated financial statements.

(b) Upcoming changes in accounting policies for 2020

None of the standards and amendments to standards effective in 2020 will have a significant impact on HEINEKEN's consolidated financial statements.

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, except for the changes in accounting policies described in note 4.

(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 to 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.

(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 re-translated 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 re-translation 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 re-translated 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.

Notes to the Consolidated Financial Statements (continued)

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 2019 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 2019**	Year-end 2018	%	**Average 2019**	Average 2018	%
Brazilian Real (BRL)	0.2215	0.2250	(1.6)	0.2265	0.2322	(2.5)
Great Britain Pound (GBP)	1.1754	1.1179	5.1	1.1396	1.1303	0.8
Mexican Peso (MXN)	0.0476	0.0446	6.7	0.0464	0.0440	5.5
Nigerian Naira (NGN)	0.0024	0.0024	–	0.0025	0.0024	4.2
Polish Zloty (PLN)	0.2348	0.2327	0.9	0.2327	0.2347	(0.9)
Russian Ruble (RUB)	0.0143	0.0125	14.4	0.0138	0.0135	2.2
Singapore Dollar (SGD)	0.6618	0.6414	3.2	0.6548	0.6279	4.3
United States Dollar (USD)	0.8902	0.8734	1.9	0.8932	0.8466	5.5
Vietnamese Dong in 1,000 (VND)	0.0385	0.0376	2.4	0.0384	0.0368	4.3

(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	**2019**	2018*	**2019**	2018*	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018*
Net revenue (beia)[1]		10,629	10,348	7,429	6,781	3,370	3,051	3,205	2,919	(740)	(628)	23,894	22,471
Third party revenue[2]		12,601	12,351	7,656	6,928	4,106	3,724	4,106	3,701	52	107	28,521	26,811
Interregional revenue		758	702	32	27	–	–	2	3	(792)	(732)	–	–
Revenue		13,359	13,053	7,688	6,955	4,106	3,724	4,108	3,704	(740)	(625)	28,521	26,811
Excise tax expense[3]		(2,728)	(2,687)	(181)	(174)	(737)	(673)	(906)	(785)	–	(3)	(4,552)	(4,322)
Net revenue		10,631	10,366	7,507	6,781	3,369	3,051	3,202	2,919	(740)	(628)	23,969	22,489
Other income	6.2	12	28	9	19	1	2	73	4	–	22	95	75
Operating profit		1,286	1,279	1,176	949	369	211	934	779	(132)	(97)	3,633	3,121
Net finance expenses	11.1											(513)	(485)
Share of profit of associates and joint ventures	10.3	17	15	67	124	40	37	44	38	(4)	(4)	164	210
Income tax expense	12.1											(910)	(741)
Profit												2,374	2,105
Attributable to:													
Shareholders of the Company (net profit)												2,166	1,913
Non-controlling interests												208	192
Operating profit reconciliation													
Operating profit		1,286	1,279	1,176	949	369	211	934	779	(132)	(97)	3,633	3,121
Eia[1]		150	173	28	169	39	200	151	164	18	(19)	387	687
Operating profit (beia)[1]		1,436	1,452	1,204	1,118	408	411	1,085	943	(114)	(116)	4,020	3,808

* Restated for IAS 37. Refer to note 4 for further details.

[1] Note that this is a non-GAAP measure. Due to rounding, this balance will not always cast.

[2] Includes other revenue of €356 million in 2019 (2018: €389 million).

[3] Next to the €4,552 million of excise tax expense included in revenue (2018: €4,322 million), €1,813 million of excise tax expense is collected on behalf of third parties and excluded from revenue (2018: €1,568 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	**2019**	2018*	**2019**	2018*	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018*
Current segment assets		2,918	2,816	2,286	2,425	1,451	1,356	1,239	1,487	394	1,359	8,288	9,443
Non-current segment assets		12,417	11,449	9,149	8,055	2,543	2,299	7,586	7,368	875	894	32,570	30,065
Investments in associates and joint ventures		305	296	864	909	237	213	3,452	590	10	13	4,868	2,021
Total segment assets		**15,640**	14,561	**12,299**	11,389	**4,231**	3,868	**12,277**	9,445	**1,279**	2,266	**45,726**	41,529
Unallocated assets												778	622
Total assets												**46,504**	42,151
Segment liabilities		4,441	4,765	2,760	2,564	1,590	1,386	1,127	1,093	2,664	1,116	12,582	10,924
Unallocated liabilities												16,611	15,519
Total equity												17,311	15,708
Total equity and liabilities												**46,504**	42,151
Purchase of owned P,P&E	8.2	706	590	617	546	426	434	263	253	17	13	2,029	1,836
Acquisition of goodwill	8.1	33	10	13	(23)	23	29	–	7	–	–	69	23
Purchases of intangible assets	8.1	85	47	43	31	17	8	9	9	32	72	186	167
Depreciation owned of P,P&E	8.2	(538)	(510)	(322)	(273)	(244)	(237)	(135)	(122)	(11)	(13)	(1,250)	(1,155)
(Impairment) and reversal of impairment of owned P,P&E	8.2	–	–	–	–	(9)	(133)	(43)	–	–	–	(52)	(133)
Amortisation of intangible assets	8.1	(76)	(56)	(117)	(131)	(9)	(8)	(160)	(159)	(37)	(30)	(399)	(384)
(Impairment) and reversal of impairment of intangible assets	8.1	–	–	–	–	(8)	(21)	(12)	–	–	–	(20)	(21)

* Restated for IAS 37. Refer to note 4 for further details.

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 €	2019	2018*
Operating profit (beia)	4,020	3,808
Amortisation of acquisition-related intangible assets included in operating profit	(309)	(311)
Exceptional items included in operating profit	(78)	(376)
Share of profit of associates and joint ventures	164	210
Net finance expenses	(513)	(485)
Profit before income tax	3,284	2,846

* Restated for IAS 37. Refer to note 4 for further details.

The 2019 exceptional items and amortisation of acquisition-related intangibles in operating profit amounts to €387 million (2018: €687 million). This amount consists of:

– €309 million (2018: €311 million) of amortisation of acquisition-related intangibles recorded in operating profit.

– €78 million (2018: €376 million) of exceptional items recorded in operating profit. This includes €78 million exceptional benefits on revenue, mainly relating to tax credits in Brazil (no impact in 2018) and €2 million exceptional excise tax expenses (2018: €18 million exceptional excise tax benefit), €91 million of restructuring expenses (2018: €122 million), €85 million of impairments (2018: €183 million mainly in the DRC), €57 million net gain on disposals, mainly relating to the sale of operating entities in China and Hong Kong (2018: €4 million net gain) and €35 million of other net exceptional expenses (2018: €94 million).

Accounting estimates and judgements

Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment of 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 consistent manner 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 differ 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 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 subtotal called 'Net revenue' was added in 2018. 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 €	2019	2018
Gain on sale of property, plant and equipment	20	31
Gain on sale of intangible assets	–	2
Gain on sale of subsidiaries, joint ventures and associates	75	42
	95	75

In 2019, other income mainly relates to the preliminary gain on sale of HEINEKEN's operating entities in China and Hong Kong (refer to note 10.2).

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 €	2019	2018*
Raw materials	2,068	1,897
Non-returnable packaging	4,058	3,624
Goods for resale	1,501	1,533
Inventory movements	(75)	(43)
Marketing and selling expenses	2,632	2,494
Transport expenses	1,325	1,266
Energy and water	572	529
Repair and maintenance	519	527
Other expenses	1,992	2,174
	14,592	14,001

* Restated for IAS 37. Refer to note 4 for further details.

Other expenses mainly include consulting expenses of €219 million (2018: €192 million), telecom and office automation of €272 million (2018: €239 million), warehousing expenses of €195 million (2018: €187 million), travel expenses of €150 million (2018: €158 million) and other taxes of €75 million (2018: €56 million). As a result of the implementation of IFRS 16, other expenses include expenses for short-term leases of €73 million and low value leases of €39 million, compared to €375 million reported in 2018 for operating lease expenses. The majority of the operating lease expenses are now reported under amortisation, depreciation and impairments and interest expenses (refer to notes 6.6 and 11.1).

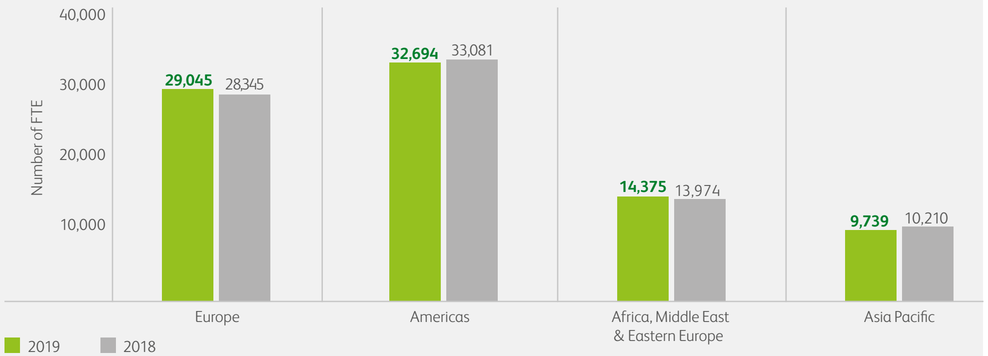
Accounting policies

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 2019 was 85,853 (2018: 85,610 FTE), divided per region as follows:

Average number of FTE per region



The decrease in Asia Pacific is mainly due to the sale of operating entities in China and Hong-Kong. Within Europe 4,120 FTE are based in the Netherlands (2018: 4,027 FTE).

HEINEKEN employees are granted with compensations such as salaries and wages, pensions (refer to note 9.1) and share-based payments (refer to note 6.5). Other personnel expenses include expenses for contractors of €183 million (2018: €168 million) and restructuring costs of €84 million (2018: €111 million). Restructuring provisions are disclosed in note 9.2.

Notes to the Consolidated Financial Statements (continued)

In millions of €	Note	2019	2018
Wages and salaries		2,536	2,444
Compulsory social security contributions		386	386
Contributions to defined contribution plans		58	51
Expenses/(income) related to defined benefit plans	9.1	78	105
Expenses related to other long-term employee benefits		12	(9)
Equity-settled share-based payment plan	6.5	31	48
Other personnel expenses		779	724
		3,880	3,749

Accounting policies

Personnel expenses are recognised when the related service is provided. For more details on accounting policies related to post-retirements obligation 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, Extraordinary share plan and Matching share plan (as part of the Short-term incentive plan of the Executive Board).

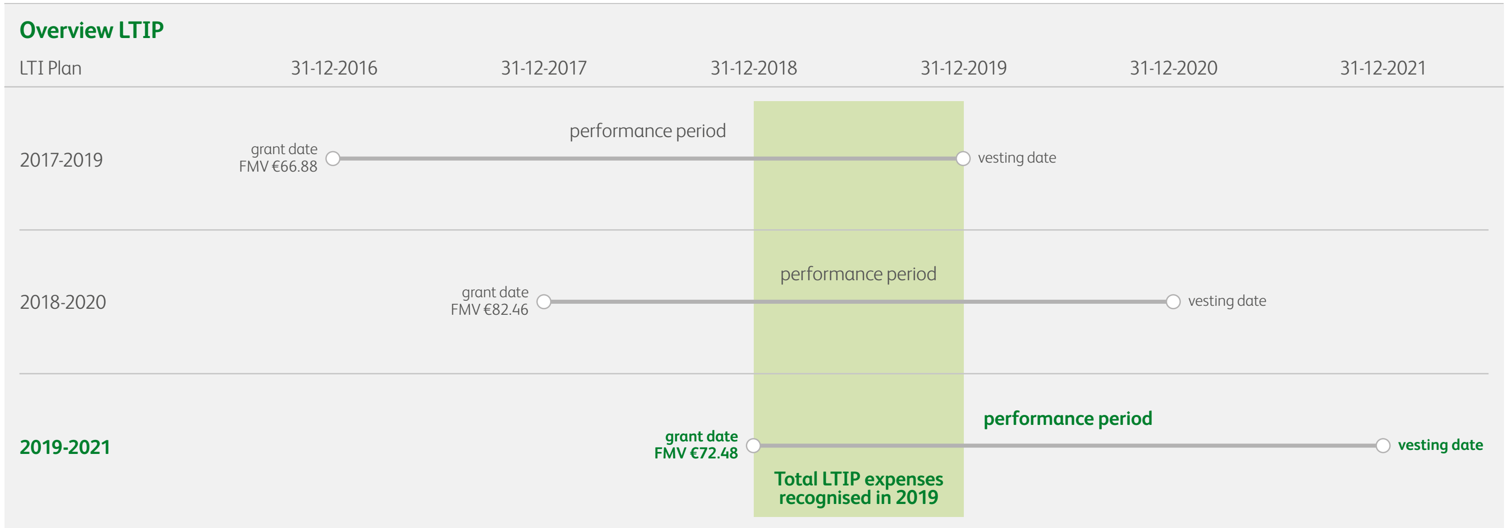
Long-term incentive plan (LTIP)

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 share rights are not dividend-bearing during the performance period.

The performance conditions for LTIP are Organic Net Revenue growth, Organic Operating Profit beia growth, Earnings Per Share beia growth and Free Operating Cash Flow.

At target performance 100% of the awarded share rights vest. At threshold performance 50% of the awarded share rights vest and at maximum performance, 200% of the awarded share rights vest.

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



Notes to the Consolidated Financial Statements (continued)

The number of outstanding share rights and the movement over the year under the LTIP of the Executive Board and senior management are as follows:

	Number of share rights 2019	Number of share rights 2018
Outstanding as at 1 January	2,047,880	2,266,642
Granted during the year	531,949	444,556
Forfeited during the year	(157,276)	(124,039)
Vested previous year	(617,012)	(699,032)
Performance adjustment	(59,523)	159,753
Outstanding as at 31 December	1,746,018	2,047,880
Share price as at 31 December	94.92	77.20

At vesting, HEINEKEN deducts a number of shares to cover payroll taxes and mandatory withholdings on behalf of the individual employees. Therefore, the number of Heineken N.V. shares to be received by LTIP participants is a net (after tax) number. Ownership of the vested LTIP 2017-2019 shares will transfer to the Executive Board members shortly after publication of the annual results in 2020 and to senior management on 1 April 2020.

Other share-based compensation plans

Under the extraordinary share plans for senior management 2,500 shares were granted in 2019 and 7,025 (gross) shares were vested in 2019. 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 2019 are €0.2 million (2018: €0.4 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 2019 amount to €31 million (2018: €48 million).

In millions of €	Note	2019	2018
Share rights granted in 2016		–	17
Share rights granted in 2017		13	18
Share rights granted in 2018		8	13
Share rights granted in 2019		10	–
Total expense recognised in personnel expenses	6.4	31	48

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	2019	2018
Property, plant and equipment	8.2	1,540	1,288
Intangible assets	8.1	419	405
		1,959	1,693

As a result of the implementation of IFRS 16, Property, plant and equipment as presented in the table above includes the depreciation and impairment of ROU assets of €238 million (2018: nil).

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 2019 is based on the profit attributable to the shareholders of the Company (net profit) and the weighted average number of shares outstanding (basic and diluted) during the year ended 31 December 2019.

In € per share (basic or diluted) for the period ended 31 December	2019	2018*
Basic earnings per share	3.78	3.36
Diluted earnings per share	3.77	3.35

* Restated for IAS 37. Refer to note 4 for further details.

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

	2019	2018
Total number of shares issued	576,002,613	576,002,613
Effect of own shares held	(2,359,062)	(5,856,544)
Weighted average number of basic shares outstanding for the year	573,643,551	570,146,069
Dilutive effect of share-based payment plan obligations	573,560	517,563
Weighted average number of diluted shares outstanding for the year	574,217,111	570,663,632

Accounting policies

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

7 Working capital

7.1 Inventories

Inventory balances include raw and packaging materials, work in progress, spare parts, goods for resale and finished products.

In millions of €	2019	2018
Raw materials	403	351
Work in progress	252	228
Finished products	488	426
Goods for resale	339	323
Non-returnable packaging	283	230
Other inventories and spare parts	448	362
	2,213	1,920

During 2019 inventories were written down by €7 million to net realisable value (2018: €25 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 €	2019	2018*
Trade receivables	2,913	2,588
Other receivables	813	817
Trade receivables due from associates and joint ventures	12	8
Prepayments	385	382
	4,123	3,795

* Restated for IAS 37. Refer to note 4 for further details.

Trade and other receivables contain a net impairment loss of €65 million (2018: €38 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:

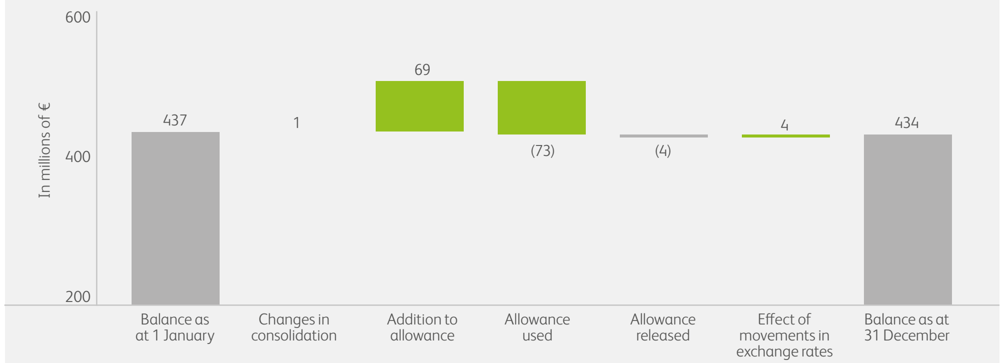
	2019				Past due
In millions of €	Total	Not past due	0-30 days	31-120 days	>120 days
Gross	4,172	2,814	455	313	590
Allowance	(434)	(44)	(10)	(57)	(323)
	3,738	2,770	445	256	267

	2018*				Past due
In millions of €	Total	Not past due	0-30 days	31-120 days	>120 days
Gross	3,850	2,535	472	275	568
Allowance	(437)	(38)	(5)	(44)	(350)
	3,413	2,497	467	231	218

* Restated for IAS 37. Refer to note 4 for further details.

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

Allowance for credit losses 2019 – Trade and other receivables



In millions of €	2019	2018
Balance as at 1 January	437	453
Policy changes	–	1
Changes in consolidation	1	1
Addition to allowance	69	42
Allowance used	(73)	(49)
Allowance released	(4)	(4)
Effect of movements in exchange rates	4	(7)
Balance as at 31 December	434	437

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. Refer to the table below for the different types of trade and other payables.

In millions of €	2019	2018
Trade payables	4,720	4,016
Accruals	1,386	1,334
Taxation and social security contributions	1,009	1,060
Interest	147	164
Dividends	12	19
Other payables	246	298
	7,520	6,891

Accounting estimates

HEINEKEN makes estimates in the determination of discount accruals. 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.
Trade payables are 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 €922 million (2018: €882 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 €	2019	2018
Returnable packaging deposits	565	569

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 life depends 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 have been recognised by HEINEKEN as part of acquisitions. Refer to the table below for the historical cost per asset class and the movements during the year including amortisation.

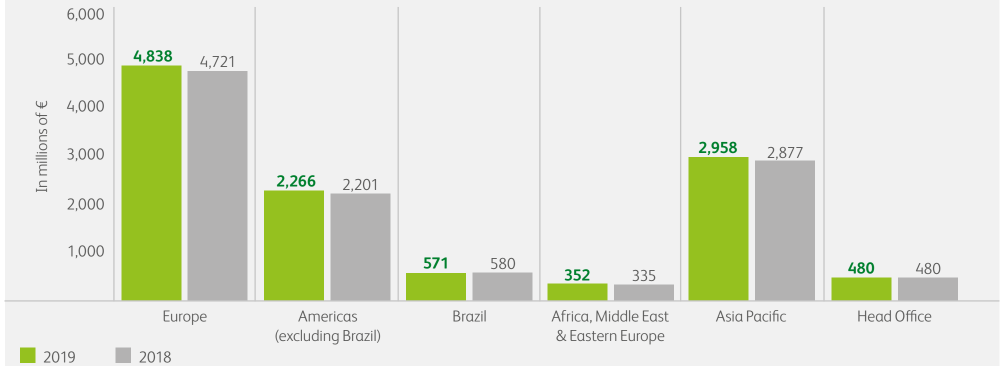
		2019						2018					
In millions of €	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
Cost													
Balance as at 1 January		11,621	4,775	2,204	1,010	931	20,541	11,612	4,689	2,334	1,095	782	20,512
Changes in consolidation and other transfers		62	71	21	5	12	171	23	43	6	6	24	102
Purchased/internally developed		–	–	4	6	176	186	–	4	–	7	156	167
Transfer (to)/from assets classified as held for sale	10.2	(5)	–	–	–	–	(5)	(59)	(4)	(65)	(79)	(1)	(208)
Disposals		–	–	–	(3)	(73)	(76)	–	(1)	(109)	(28)	(27)	(165)
Effect of movements in exchange rates		220	133	71	46	(9)	461	45	44	38	9	(3)	133
Balance as at 31 December		11,898	4,979	2,300	1,064	1,037	21,278	11,621	4,775	2,204	1,010	931	20,541
Amortisation and impairment losses													
Balance as at 1 January		(427)	(865)	(992)	(269)	(529)	(3,082)	(407)	(738)	(959)	(270)	(468)	(2,842)
Changes in consolidation and other transfers		–	–	–	–	–	–	–	–	–	(9)	(23)	(32)
Amortisation charge for the year	6.6	–	(134)	(135)	(43)	(87)	(399)	–	(127)	(140)	(50)	(67)	(384)
Impairment losses	6.6	(6)	–	(6)	(6)	(2)	(20)	(20)	–	–	–	(1)	(21)
Transfer (to)/from assets classified as held for sale	10.2	–	–	–	–	–	–	–	4	20	32	1	57
Disposals		–	–	–	–	57	57	–	–	109	27	27	163
Effect of movements in exchange rates		–	(27)	(36)	(10)	8	(65)	–	(4)	(22)	1	2	(23)
Balance as at 31 December		(433)	(1,026)	(1,169)	(328)	(553)	(3,509)	(427)	(865)	(992)	(269)	(529)	(3,082)
Carrying amount													
As at 1 January		11,194	3,910	1,212	741	402	17,459	11,205	3,951	1,375	825	314	17,670
As at 31 December		11,465	3,953	1,131	736	484	17,769	11,194	3,910	1,212	741	402	17,459

Notes to the Consolidated Financial Statements (continued)

Goodwill impairment testing

For the purpose of impairment testing, goodwill in respect of Europe, 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 €11,465 million (2018: €11,194 million) is allocated to each (group of) Cash Generating Unit (CGU) as follows:

Goodwill per (group of) CGU



The carrying amount of a CGU is compared to the recoverable amount of the CGU. The recoverable amounts of the (group of) CGUs are based on the higher of the fair value less costs of disposal (FVLCD) and value in use calculations. For CGUs representing more than 95% of goodwill, the recoverable amount is based on a value in use model. Value in use is determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

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

– Cash flows are projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period (except for Europe, where a further two-year period was applied) were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this period is justified due to the long-term development of the local beer business and past experiences.

– The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.

– Cash flows after the first ten-year period (Europe five-year) 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 2023-2029	Expected volume growth rates 2023-2029
Europe	8.5	2.0	0.9
Americas (excluding Brazil)	12.1	2.9	2.7
Brazil	17.0	3.6	–
Africa, Middle East & Eastern Europe	22.7–35.3	6.9–8.7	0.0–2.9
Asia Pacific	13.5	3.4	3.9
Head Office	7.9	2.0	0.9

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

The outcome of goodwill impairment tests in 2019 resulted in impairment losses of €6 million (2018: 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 contain 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 cannot 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 these acquired intangibles 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.

De-recognition of intangible assets

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

Impairment of non-financial assets

At 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 CGU 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 FVLCD 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 right of use (ROU) assets under a lease agreement. Owned and ROU assets are held for use in HEINEKEN's operating activities. Refer to the table below for the split between owned assets and ROU assets as per balance sheet date:

In millions of €	Note	2019	2018
Property, plant and equipment – owned assets		12,230	11,359
Right of use assets	4	1,039	–
Property, plant and equipment		**13,269**	**11,359**

Owned assets

The table below details the historical cost per asset class and the movements during the year for owned assets.

		2019					2018				
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		6,978	8,872	5,344	998	22,192	6,911	8,393	5,166	902	21,372
Changes in consolidation and other transfers		25	23	8	3	59	5	74	12	2	93
Purchases		62	91	411	1,465	2,029	36	74	396	1,330	1,836
Transfer of completed projects under construction		328	737	327	(1,392)	–	314	615	315	(1,244)	–
Transfer (to)/from assets classified as held for sale		(23)	–	(1)	–	(24)	(89)	(108)	(31)	–	(228)
Disposals		(133)	(194)	(385)	(13)	(725)	(132)	(105)	(517)	(1)	(755)
Effect of movements in exchange rates		181	109	74	16	380	(67)	(71)	3	9	(126)
Balance as at 31 December		**7,418**	**9,638**	**5,778**	**1,077**	**23,911**	**6,978**	**8,872**	**5,344**	**998**	**22,192**
Depreciation and impairment losses											
Balance as at 1 January		(2,178)	(5,116)	(3,539)	–	(10,833)	(2,089)	(4,706)	(3,460)	–	(10,255)
Changes in consolidation and other transfers		–	–	–	–	–	–	(64)	(6)	–	(70)
Depreciation charge for the year	6.6	(177)	(440)	(633)	–	(1,250)	(161)	(416)	(578)	–	(1,155)
Impairment losses	6.6	(15)	(27)	(10)	–	(52)	(29)	(89)	(15)	–	(133)
Transfer to/(from) assets classified as held for sale		8	–	–	–	8	10	33	24	–	67
Disposals		25	190	378	–	593	82	100	505	–	687
Effect of movements in exchange rates		(30)	(71)	(46)	–	(147)	9	26	(9)	–	26
Balance as at 31 December		**(2,367)**	**(5,464)**	**(3,850)**	**–**	**(11,681)**	**(2,178)**	**(5,116)**	**(3,539)**	**–**	**(10,833)**
Carrying amount											
As at 1 January		**4,800**	**3,756**	**1,805**	**998**	**11,359**	**4,822**	**3,687**	**1,706**	**902**	**11,117**
As at 31 December		**5,051**	**4,174**	**1,928**	**1,077**	**12,230**	**4,800**	**3,756**	**1,805**	**998**	**11,359**

Notes to the Consolidated Financial Statements (continued)

Land and buildings include the breweries and offices of HEINEKEN as well as stores, pubs and bars. The plant and machinery asset class contains all the assets needed in HEINEKEN's brewing, packaging and filling activities. Other fixed assets mainly consist 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 2019 an impairment of Property, plant and equipment of €52 million was charged to profit or loss (2018: €133 million), relating to Asia Pacific and Africa, Middle East & Eastern Europe regions.

Right of use (ROU) assets

HEINEKEN leases stores, pubs, offices, warehouses, cars, (forklift) trucks and other equipment in the ordinary course of business. HEINEKEN has around 30,000 leases with a wide range of different terms and conditions, depending on local regulations and practice. Many leases contain extension and termination options, which are included in the lease term if HEINEKEN is reasonably certain to exercise an extension option and reasonably certain not to exercise a termination option. Refer to the table below for the carrying amount of ROU assets per asset class per balance sheet date:

In millions of €	**2019**	2018
Land and buildings	807	–
Equipment	232	–
Carrying amount ROU assets as at 31 December	**1,039**	**–**

During 2019 €271 million was added to the ROU assets as a result of entering into new leases which did not exist at the beginning of the year and the remeasurement of existing leases. The depreciation and impairments of ROU assets during the financial year were as follows:

In millions of €	**2019**	2018
Land and buildings	158	–
Equipment	80	–
Depreciation and impairments for ROU assets	**238**	**–**

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 price (based on recent market transactions of similar sold items) or 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.

Significant judgement is required to determine the lease term. The assessment of whether HEINEKEN is reasonably certain to exercise such options impacts the lease term, which as a result could affect the amount of lease liabilities and ROU assets recognised.

Accounting policies

Owned assets

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 includes all costs directly attributable to the purchase of an asset. The cost of self-constructed assets includes 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 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.

Notes to the Consolidated Financial Statements (continued)

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 their intended use, they are transferred to the relevant category and depreciation starts. All other P,P&E items are depreciated over their estimated useful life 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).

De-recognition of Property, plant & equipment

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 to note 6.2); losses on sale are included in depreciation.

Right of use (ROU) assets

Definition of a lease

A contract is or contains a lease if it provides the right to control the use of an identified asset for a period of time in exchange for an amount payable to the lessor. The right to control the use of the identified asset exists when having the right to obtain substantially all of the economic benefits from use of that asset and when having the right to direct the use of that asset.

HEINEKEN as a lessee

At the start date of the lease, HEINEKEN (lessee) recognises a right of use (ROU) asset and a lease liability on the balance sheet. The ROU asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.
For measurement of the lease liability, refer to note 11.3.

HEINEKEN applies the following practical expedients for the recognition of leases:

– The short-term lease exemption, meaning that leases with a duration of less than a year are expensed in the income statement on a straight-line basis.

– The low value lease exemption, meaning that leased assets with an individual value of €5 thousand or less if bought new, are expensed in the income statement on a straight-line basis.

HEINEKEN as a lessor

A lease is classified as a finance lease when it transfers substantially all the risks and rewards relating to ownership of the underlying asset to the lessee. For contracts where HEINEKEN acts as an intermediate lessor, the subleases are classified with reference to the ROU asset.

Lease related notes

For lease liabilities, refer to note 11.3 Borrowings. For short-term and low value leases, refer to other expenses in note 6.3 Raw materials, consumables and services. For the lease receivables, refer to other receivables in note 8.4 Other non-current assets and other receivables in note 7.2 Trade and other receivables. For the contractual maturities of lease liabilities, refer to note 11.5 Credit, liquidity and market risk.

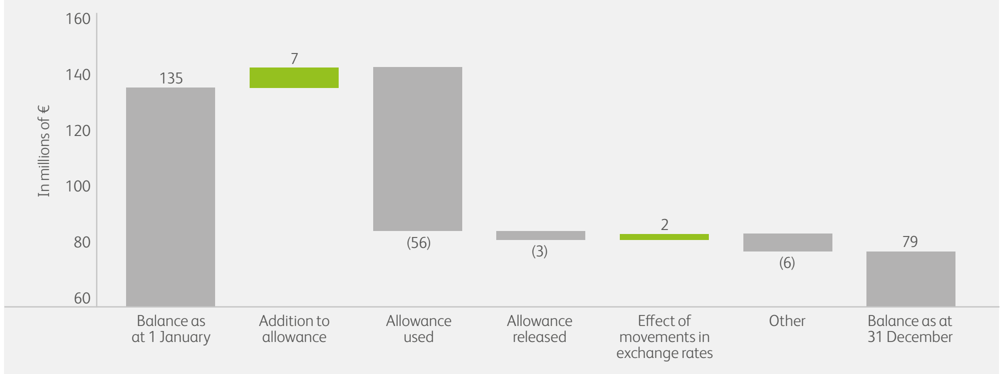
8.3 Loans and advances to customers

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 collateral such as properties.

In millions of €	2019	2018
Loans to customers	55	52
Advances to customers	222	289
Loans and advances to customers	**277**	**341**

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

Allowance for credit losses 2019 – Loans and advances to customers



Notes to the Consolidated Financial Statements (continued)

In millions of €	2019	2018
Balance as at 1 January	135	145
Policy changes	–	(2)
Addition to allowance	7	5
Allowance used	(56)	(11)
Allowance released	(3)	–
Effect of movements in exchange rates	2	1
Other	(6)	(3)
Balance as at 31 December	79	135

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 initially 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	2019	2018*
Fair value through OCI investments		408	501
Non-current derivatives	11.6	2	35
Loans to joint ventures and associates		38	9
Long-term prepayments		439	466
Other receivables		368	209
Other non-current assets		1,255	1,220

* Restated for IAS 37. Refer to note 4 for further details.

The FVOCI investments primarily consist of equity securities. HEINEKEN designates these investments as FVOCI as these are not held for trading purposes. As at 31 December 2019 the investment of €241 million (2018: €331 million) in the Saigon Alcohol Beer and Beverages Corporation ('SABECO', Vietnam), is the main FVOCI equity investment.

The other receivables include lease receivables of €167 million (2018: nil). Including the short-term portion of lease receivables, the average outstanding term of the lease receivables is 4.6 years (2018: N/A). The remainder of 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.

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

HEINEKEN determines on each reporting date the impairment of other receivables 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 FVOCI. 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.

FVOCI 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 is recognised in profit or loss.

Non-current derivatives

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.

Notes to the Consolidated Financial Statements (continued)

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 relates 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 €	**2019**	2018
Present value of unfunded defined benefit obligations	307	251
Present value of funded defined benefit obligations	9,210	8,260
Total present value of defined benefit obligations	9,517	8,511
Fair value of defined benefit plan assets	(8,541)	(7,682)
Present value of net obligations	1,066	829
Asset ceiling items	53	51
Defined benefit plans included under non-current assets	7	7
Recognised liability for defined benefit obligations	1,126	887
Other long-term employee benefits	63	67
	1,189	954

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 €	**2019 UK**	2018 UK	**2019 NL**	2018 NL	**2019 Other**	2018 Other	**2019 Total**	2018 Total
Total present value of defined benefit obligations	3,945	3,611	4,096	3,587	1,476	1,313	9,517	8,511
Fair value of defined benefit plan assets	(3,529)	(3,276)	(3,939)	(3,488)	(983)	(918)	(8,541)	(7,682)
Present value of net obligations	416	335	157	99	493	395	1,066	829

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 2019, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2020. As a result of an agreed final payment to settle a closed transitional plan, a one-off contribution of €85 million is expected to be paid in late 2020 or early 2021. Following this payment, the respective plan will be fully funded.

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 2019, HEINEKEN has renewed the funding plan (until 31 May 2023) including an annual deficit reduction contribution of GBP39.2 million in 2018, thereafter increasing with GBP1.7 million per year. At the end of 2018, an agreement (the Funding Agreement) was reached with the UK pension fund Trustees on a more conservative longer-term funding and investment approach towards 2030. This agreement has been 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 during 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	2019	2018	2019	2018	2019	2018
Balance as at 1 January		8,511	9,088	(7,682)	(7,908)	829	1,180
Included in profit or loss							
Current service cost		81	88	–	–	81	88
Past service cost/(credit)		(1)	14	–	–	(1)	14
Administration expense		–	–	3	4	3	4
Effect of any settlement		(5)	(1)	–	–	(5)	(1)
Expense recognised in personnel expenses	6.4	75	101	3	4	78	105
Interest expense/(income)	11.1	212	197	(182)	(166)	30	31
		287	298	(179)	(162)	108	136
Included in OCI							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		(93)	(177)	–	–	(93)	(177)
Financial assumptions		1,065	(329)	–	–	1,065	(329)
Experience adjustments		(125)	9	–	–	(125)	9
Return on plan assets excluding interest income		–	–	(579)	174	(579)	174
Effect of movements in exchange rates		210	(10)	(190)	9	20	(1)
		1,057	(507)	(769)	183	288	(324)
Other							
Changes in consolidation and reclassification		20	6	(4)	17	16	23
Contributions paid:							
By the employer		–	–	(175)	(170)	(175)	(170)
By the plan participants		24	21	(24)	(23)	–	(2)
Benefits paid		(382)	(395)	382	381	–	(14)
Settlements		–	–	–	–	–	–
		(338)	(368)	179	205	(159)	(163)
Balance as at 31 December		9,517	8,511	(8,451)	(7,682)	1,066	829

Notes to the Consolidated Financial Statements (continued)

Defined benefit plan assets

			2019			2018
In millions of €	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments:						
Europe	579	–	579	815	–	815
Northern America	1,051	–	1,051	522	–	522
Japan	196	–	196	129	–	129
Asia other	122	–	122	60	–	60
Other	339	69	408	315	193	508
	2,287	69	2,356	1,841	193	2,034
Debt instruments:						
Bonds – investment grade	3,759	512	4,271	2,150	1,353	3,503
Bonds – non-investment grade	251	240	491	223	507	730
	4,010	752	4,762	2,373	1,860	4,233
Derivatives	5	(602)	(597)	33	(537)	(504)
Properties and real estate	15	794	809	256	501	757
Cash and cash equivalents	107	17	124	196	(12)	184
Investment funds	66	848	914	523	239	762
Other plan assets	13	70	83	104	112	216
	206	1,127	1,333	1,112	303	1,415
Balance as at 31 December	6,503	1,948	8,451	5,326	2,356	7,682

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 AA corporate 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% of plan assets in equity securities, 30% in bonds, 12.5% in other investments, 10% in mortgage and 9.5% in real estate. The last ALM study was performed in 2018.

In the UK, an actuarial valuation is performed at least on a triennial basis. The valuation is the basis for the funding plan, strategic investment policies and the (long-term) strategic investment mix. Following the 2018 valuation a strategic asset mix comprising 30% of plan assets in liability driven investments, 20% in equities, 15% in corporate bonds, 15% in higher yielding credit, 15% in private markets and 5% in long lease property. As part of the Funding Agreement, the strategic asset mix will evolve between now and 2030 to provide a greater certainty of return, lower volatility and higher cash generation.

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 23.4% (2018: 24.4%). 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 49% of the interest rate sensitivity of the total liabilities (2018: 34%).

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 49% of the inflation-linked liabilities (2018: 37%).

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 refers to the major actuarial assumptions for those two plans as at 31 December:

	The Netherlands		UK[1]	
In %	**2019**	2018	**2019**	2018
Discount rate as at 31 December	0.9	1.8	2.1	2.9
Future salary increases	2.0	2.0	–	–
Future pension increases	0.5	0.8	2.9	3.0

[1] The UK plan is closed for future accrual, leading to certain assumptions being equal to zero.

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

	Europe		Americas		Africa, Middle East & Eastern Europe	
In %	**2019**	2018	**2019**	2018	**2019**	2018
Discount rate as at 31 December	0.3–0.9	1.0–2.9	6.8–14.0	7.0–12.9	0.9–12.4	1.8–15.5
Future salary increases	0.0–3.5	0.0–4.0	0.0–4.5	0.0–4.5	0.0–5.0	2.0–11.4
Future pension increases	0.0–1.5	0.0–3.0	0.0–3.6	0.0–3.5	0.0–2.9	0.0–5.0
Medical cost trend rate	0.0–4.5	0.0–4.5	0.0–13.1	0.0–12.2	0.0–0.0	0.0–0.0

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 18 years.

HEINEKEN expects the regular contributions to be paid for the defined benefit plans for 2020 to be in line with 2019. For the pension fund in the Netherlands, a one-off contribution of €85 million is expected to be paid in late 2020 or early 2021.

Sensitivity analysis

As at the reporting date, changes to one of the relevant actuarial assumptions that are considered reasonably possible, holding other assumptions constant, would have affected the defined benefit obligation by the following amounts:

	31 December 2019		31 December 2018	
Effect in millions of €	**Increase in assumption**	**Decrease in assumption**	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	(770)	884	(686)	781
Future salary growth (0.25% movement)	17	(16)	48	(46)
Future pension growth (0.25% movement)	365	(335)	341	(316)
Medical cost trend rate (0.5% movement)	6	(5)	4	(3)
Life expectancy (1 year)	393	(392)	339	(341)

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 2019*	355	375	130	49	88	997
Changes in accounting policy[1]	–	–	–	(11)	–	(11)
Provisions made during the year	94	46	86	4	31	261
Provisions used during the year	(6)	(21)	(54)	(1)	(11)	(93)
Provisions reversed during the year	(119)	(63)	(8)	(12)	(26)	(228)
Effect of movements in exchange rates	(3)	(1)	–	1	(2)	(5)
Unwinding of discounts	18	1	–	–	–	19
Balance as at 31 December 2019	339	337	154	30	80	940
Non-current	326	260	93	17	60	756
Current	13	77	61	13	20	184

* Restated for IAS 37. Refer to note 4 for further details.

[1] Change in accounting policy for IFRS 16. Refer to note 4 for further details.

Claims and litigation

The provisions for claims and litigation of €339 million mainly relate to civil and labour claims in Brazil.

Taxes

The provisions for taxes of €337 million do not relate to income tax within the scope of IAS 12 and 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 provisions for restructuring of €154 million (2018: €130 million) mainly relate to restructuring programmes in Spain and the Netherlands.

Other provisions

Included are, among others, surety and guarantees provided of €42 million (2018: €47 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. 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 €957 million (2018: €937 million), out of which €171 million (2018: €171 million) qualifies for indemnification. For several tax contingencies that were part of acquisitions, an amount of €306 million (2018: €369 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 €39 million (2018: €64 million). For the other contingencies that were part of acquisitions, an amount of €23 million (2018: €31 million) has been recognised as provisions in the balance sheet (refer to note 9.2).

Guarantees

In millions of €	Total 2019	Less than 1 year	1-5 years	More than 5 years	Total 2018
Guarantees to banks for loans (to third parties)	332	47	280	5	325
Other guarantees	1,019	330	378	311	959
Guarantees	**1,351**	**377**	**658**	**316**	**1,284**

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 2019

During 2019 no significant acquisitions or disposals took place.

Prior year adjustments

During 2019 all the provisional accounting periods of the 2018 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 €	2019	2018
Current assets	–	34
Property, plant and equipment	46	183
Intangible assets	–	153
Other non-current assets	65	31
Assets classified as held for sale	111	401
Current liabilities	–	(101)
Non-current liabilities	–	(31)
Liabilities associated with assets classified as held for sale	–	(132)

In 2018 the assets and liabilities held for sale mainly related to HEINEKEN's operating entities in China and Hong Kong, which have been sold as part of the strategic partnership with China Resources Enterprise, Limited ('CRE') and China Resources Beer (Holdings) Co. Ltd. ('CR Beer'). This transaction was closed in 2019 (refer to note 6.2).

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 FVLCD.

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 €4,868 million as at 31 December 2019 (2018: €2,021 million) and the total share of profit and other comprehensive income was €144 million in 2019 (2018: €174 million).

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 an investigation in relation to allegations of price fixing. The related investigation report was communicated to UBL on 13 December 2019. Currently, UBL is in the process of reviewing the investigation report and preparing its response. As the decision of the Competition Commission of India is pending, UBL deems it not practicable at this stage to estimate its potential financial effect, if any.

The associate CRH (Beer) Limited ('CBL') is considered to be individually material. HEINEKEN holds a shareholding of 40% in CRH (Beer) Limited ('CBL') as of 29 April 2019. CBL holds a controlling interest of 51.67% in China Resources Beer (Holdings) Co. Ltd. ('CR Beer'), a company incorporated in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited, operating in the beer business in China. Consequently, HEINEKEN has an effective 20.67% economic interest in CR Beer. Based on the closing share price of HKD43.10 as at 31 December 2019 the fair value of this economic interest in CR Beer amounts to €3,304 million. The carrying amount of CBL as at 31 December 2019 amounts to €2,716 million.

Set out below is the summarised financial information of CR Beer, not adjusted for the percentage of ownership held by HEINEKEN. The financial information has been amended to reflect adjustments made by HEINEKEN when using the equity method (such as fair value adjustments). Due to a difference in reporting timelines the financial information is included with a two-month delay. This means that the financial information included relates to the period May-October 2019. The reconciliation of the summarised financial information to the carrying amount of the effective interest in CR Beer is also presented.

Notes to the Consolidated Financial Statements (continued)

In millions of €	2019
Summarised balance sheet (100%)	
Non-current assets	8,708
Current assets	1,140
Non-current liabilities	(1,470)
Current liabilities	(2,577)
Net assets	5,801
Reconciliation to carrying amount	
Opening net assets[1]	5,887
Profit for the period	61
Other comprehensive income	(86)
Dividends paid	(61)
Closing net assets	5,801
Company's share in %	20.67%
Company's share	1,199
Goodwill	1,517
Carrying amount	2,716
Summarised income statement (100%)	
Revenue	2,500
Profit	61
Other comprehensive income	(86)
Total comprehensive income	(25)
Dividends received	13

[1] On the acquisition date 29 April 2019.

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 €	2019	2018	2019[1]	2018
Carrying amount of interests	1,734	1,748	3,134	273
Share of:				
Profit or loss from continuing operations	112	192	52	18
Other comprehensive income	4	(37)	(24)	1
	116	155	28	19

[1] The 2019 column includes the investment in CR Beer, which is considered to be individually material. The other joint ventures and associates are considered to be individually immaterial.

Accounting policies

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

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

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

Notes to the Consolidated Financial Statements (continued)

11 Financing and capital structure

11.1 Net finance income and expense

Interest expenses are mainly related to interest charges over the outstanding bonds, commercial paper 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	2019	2018*
Interest income		75	71
Interest expenses		(529)	(492)
Dividend income from fair value through OCI investments		10	16
Net change in fair value of derivatives		(14)	71
Net foreign exchange gain/(loss)[1]		(25)	(102)
Unwinding discount on provisions	9.2	(19)	(17)
Interest on the net defined benefit obligation	9.1	(26)	(31)
Other		15	(1)
Other net finance income/(expenses)		(59)	(64)
Net finance income/(expenses)		(513)	(485)

* Restated for IAS 37. Refer to note 4 for further details.

[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.

Interest expenses include the interest component of lease liabilities of €55 million (2018: N/A).

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. In general bank overdrafts 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	2019	2018
Cash and cash equivalents		1,821	2,903
Bank overdrafts	11.3	(1,134)	(655)
Cash and cash equivalents in the statement of cash flows		687	2,248

Notes to the Consolidated Financial Statements (continued)

The following table presents recognised 'Cash and cash equivalents' and 'Bank overdrafts', and the impact of the netting of gross amounts. The 'Net amount' below refers to the impact on HEINEKEN's balance sheet if all amounts subject to legal offset rights are 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
					2019
Assets					
Cash and cash equivalents	1,821	–	1,821	(600)	1,221
Liabilities					
Bank overdrafts	(1,134)	–	(1,134)	600	(534)
					2018
Assets					
Cash and cash equivalents	3,241	(338)	2,903	(260)	2,643
Liabilities					
Bank overdrafts	(993)	338	(655)	260	(395)

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, €342 million (2018: €330 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, commercial paper and bank loans to ensure sufficient financing to support its operations. Net interest-bearing debt is the key metric for HEINEKEN to measure its indebtedness.

		2019			2018		
In millions of €	**Note**	**Non-current**	**Current**	**Total**	Non-current	Current	Total
Unsecured bond issues		11,774	1,014	12,788	12,179	971	13,150
Lease liabilities		1,003	255	1,258	–	–	–
Bank loans		462	22	484	309	17	326
Other interest-bearing liabilities		127	568	695	140	37	177
Deposits from third parties[1]		–	693	693	–	678	678
Bank overdrafts		–	1,134	1,134	–	655	655
Total borrowings		13,366	3,686	17,052	12,628	2,358	14,986
Market value of cross-currency interest rate swaps	11.5			28			(2)
Cash and cash equivalents	11.2			(1,821)			(2,903)
Net interest-bearing debt position				15,259			12,081

[1] Mainly employee deposits.

As at 31 December 2019, €103 million of the €484 million of bank loans is secured (2018: €97 million). As at 31 December 2019 other interest-bearing liabilities includes €532 million of commercial paper (2018: nil).

Notes to the Consolidated Financial Statements (continued)

Changes in borrowings

In millions of €	Unsecured bond issues	Lease liabilities	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 2019	13,150	–	326	177	678	(2)	14,329
Policy changes	–	1,252	–	–	–	–	1,252
Consolidation changes	–	4	15	8	–	–	27
Effect of movements in exchange rates	97	29	(1)	–	1	38	164
Addition of leases	–	268	–	–	–	–	268
Proceeds	516	–	335	1,339	98	–	2,288
(Re)payments	(984)	(259)	(189)	(832)	(105)	(8)	(2,377)
Transfer to liabilities held for sale	–	(4)	–	–	–	–	(4)
Interest paid over lease liability	–	(55)	–	–	–	–	(55)
Other	9	23	(2)	3	21	–	54
Balance as at 31 December 2019	12,788	1,258	484	695	693	28	15,946
Balance as at 1 January 2018	11,948	–	360	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	–	216	25	39	172	1,694
Repayments	(225)	–	(247)	(1,046)	(11)	(4)	(1,533)
Transfer to liabilities held for sale	–	–	–	–	–	–	–
Other	13	–	14	1	–	1	29
Balance as at 31 December 2018	13,150	–	326	177	678	(2)	14,329

Cash flows from financing activities are mainly generated by bonds, commercial paper, bank loans and other interest bearing liabilities presented above. Additionally, HEINEKEN also uses derivatives related to its financing, which can be recognised as assets or liabilities. The above table details the reconciliation of the liabilities and assets arising from financing activities to the cash flow from financing activities. Bank overdrafts 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.

The interest rate on the net debt position as at 31 December 2019 was 3.0% (2018: 3.2%). This interest rate includes the first time impact of IFRS 16. The average maturity of the bonds as at 31 December 2019 was seven years (2018: eight years).

Financing headroom

The committed financing headroom at Group level was approximately €3.0 billion as at 31 December 2019 and consisted of the undrawn revolving credit facility and centrally available cash minus commercial paper and other short-term borrowings. The financing headroom was lower than last year (2018: €5.2 billion) as HEINEKEN maintained higher cash balances in 2018 in anticipation of the settlement of the transactions related to CR Beer in China.

Accounting estimates

Significant judgement is required to determine the lease term and the incremental borrowing rate. The assessment of whether HEINEKEN is reasonably certain to exercise such options impacts the lease term, which as a result could affect the amount of lease liabilities recognised. The assumptions used in the determination of the incremental borrowing rate could impact the rate used in discounting future payments, which as a result could have an impact on the amount of lease liabilities recognised.

Accounting policies

Borrowings

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.

Lease liabilities

Lease liabilities are measured at the present value of the lease payments to be paid during the lease term, discounted using the incremental borrowing rate ('IBR'). Lease liabilities are subsequently increased by the interest cost on the lease liabilities and decreased by lease payments made. The lease liabilities will be remeasured when there is a change in the amount to be paid (e.g. due to indexation) or when there is a change in the assessment of the lease terms.

Notes to the Consolidated Financial Statements (continued)

The IBR is determined on a country level. For each country there are separate rates depending on the contract currency and the term of the lease. The IBR is calculated based on the local risk free rate plus a country default spread and a credit spread.

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

– Periods covered by a unilateral 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.

HEINEKEN applies the following practical expedients for the recognition of leases:

– Apply a single discount rate per country to a portfolio of leases with reasonably similar characteristics.

– Include non-lease components in the lease liability for equipment leases.

11.4 Capital and reserves

Share capital

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

	2019		2018	
Share capital	Shares of €1.60	Nominal value in millions of €	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 shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Company. In respect of the treasury shares that are held by HEINEKEN, rights are suspended.

Share premium

As at 31 December 2019, the share premium amounted to €2.701 million (2018: €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.

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 2019.

Reserve for own shares	Number of shares
1 January 2019	5,823,026
Changes	(5,128,456)
31 December 2019	694,570

Dividends

The following dividends were declared and paid by HEINEKEN:

In millions of €	2019	2018
Final dividend previous year €1.01, respectively €0.93 per qualifying share	581	531
Interim dividend current year €0.64, respectively €0.59 per qualifying share	368	335
Total dividend declared and paid	949	866

Notes to the Consolidated Financial Statements (continued)

For 2019, a payment of a total cash dividend of €1.68 per share (2018: €1.60) will be proposed at the AGM. If approved, a final dividend of €1.04 per share will be paid on 7 May 2020, as an interim dividend of €0.64 per share was paid on 8 August 2019. 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 €	2019	2018*
Dividend per qualifying share €1.68 (2018: €1.60)	967	912
Addition to retained earnings	1,199	1,001
Net profit	2,166	1,913

* Restated for IAS 37. Refer to note 4 for further details.

Non-controlling interests

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total NCI as at 31 December 2019 amounted to €1,164 million (2018: €1,183 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

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

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

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

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 reviews and updates the Global Credit Policy periodically to ensure 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.

Notes to the Consolidated Financial Statements (continued)

Loans and advances to customers

HEINEKEN's loans and receivables include loans and advances to customers. Loans and advances to customers are usually backed by collateral such as properties. 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. Distinction is made between individuals and legal entities, 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 relate to individual exposures, and a collective loss component established for groups of similar customers. The collective loss allowance is determined based on historical data of payment statistics and updated periodically to incorporate forward looking information. The loans and advances to customers, trade and other receivables are written off when there is no reasonable expectation of recovery.

Investments

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

Guarantees

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

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands. Refer to note A.1 of the Company financial statements.

Exposure to credit risk

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

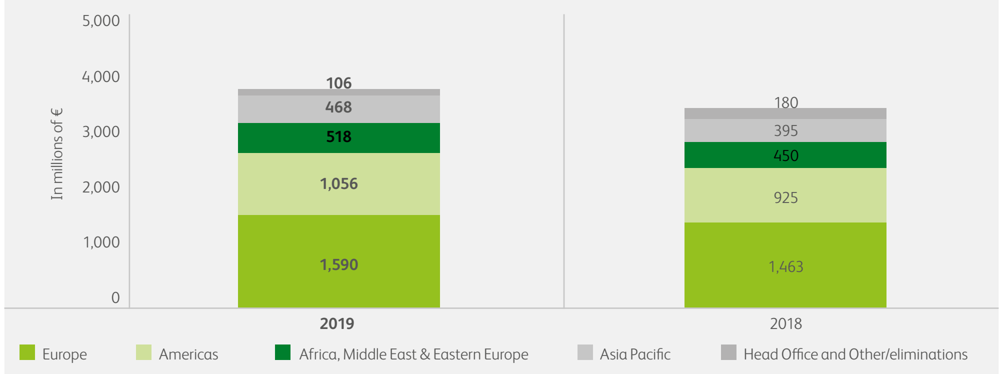
In millions of €	Note	2019	2018*
Cash and cash equivalents	11.2	1,821	2,903
Trade and other receivables, excluding prepayments	7.2	3,738	3,413
Derivative assets	11.6	30	70
Fair value through OCI investments	8.4	408	501
Loans and advances to customers	8.3	277	341
Other non-current receivables	8.4	406	218
Guarantees to banks for loans (to third parties)	9.3	332	325
		7,012	7,771

* Restated for IAS 37. Refer to note 4 for further details.

Notes to the Consolidated Financial Statements (continued)

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 as well as controls over investment proposals are in place.

Contractual maturities

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

In millions of €	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
					2019
Financial liabilities					
Interest-bearing liabilities	(15,793)	(18,653)	(3,831)	(5,434)	(9,388)
Lease liabilities	(1,258)	(1,861)	(304)	(683)	(874)
Trade and other payables and returnable packaging deposits (excluding interest payable, dividends and including non-current part)	(7,972)	(7,971)	(7,846)	(91)	(34)
Derivative financial assets and (liabilities)					
Cross currency interest rate swaps	(28)	(97)	(8)	(26)	(63)
Forward exchange contracts	(29)	(54)	(53)	(1)	–
Commodity derivatives	(5)	(5)	(5)	–	–
Other derivatives	2	2	2	–	–
Total	(25,083)	(28,639)	(12,045)	(6,235)	(10,359)
					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	(22,350)	(25,530)	(9,953)	(5,401)	(10,176)

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

Notes to the Consolidated Financial Statements (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will adversely affect HEINEKEN's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable boundaries.

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

Foreign currency risk

HEINEKEN is exposed to:

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

The main currencies that give rise to this risk are the US Dollar, Mexican Peso, Brazilian Real, British Pound, Vietnamese Dong and Euro. In 2019, the transactional exchange risk was hedged in line with the hedging policy to the extent possible. The resulting transactional impact was negative, whereas the translational impact was positive.

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.

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 and Swiss Franc. 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

Based on notional amounts, HEINEKEN's transactional exposure to the US Dollar and Euro was as follows. The Euro column relates to transactional exposure to the Euro within subsidiaries which are reporting in other currencies. The amounts below include intra-HEINEKEN cash flows.

	2019		2018	
In millions of €	**EUR**	**USD**	EUR	USD
Financial assets	171	4,908	164	4,919
Financial liabilities	(2,243)	(5,524)	(1,969)	(5,422)
Gross balance sheet exposure	(2,072)	(616)	(1,805)	(503)
Estimated forecast sales next year	161	1,203	157	1,428
Estimated forecast purchases next year	(1,871)	(2,644)	(1,924)	(2,479)
Gross exposure	(3,782)	(2,057)	(3,572)	(1,554)
Net notional amounts foreign exchange contracts	366	858	348	596
Net exposure	(3,416)	(1,199)	(3,224)	(958)
Sensitivity analysis				
Equity	(142)	18	(121)	7
Profit or loss	(21)	(12)	(10)	(1)

The sensitivity analysis above shows the impact on equity and profit of a 10% strengthening of the US Dollar against the Euro or, in case of the Euro, a strengthening of the Euro against all other currencies as at 31 December 2019. 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.

Notes to the Consolidated Financial Statements (continued)

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, commercial paper 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.

Interest rate risk – profile

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

In millions of €	2019	2018*
Fixed rate instruments		
Financial assets	128	121
Financial liabilities	(14,822)	(13,214)
Cross-currency interest rate swaps	445	437
	(14,249)	(12,656)
Variable rate instruments		
Financial assets	2,275	3,211
Financial liabilities	(2,230)	(1,771)
Cross-currency interest rate swaps	(463)	(463)
	(418)	977

* Restated for IAS 37. Refer to note 4 for further details.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates constantly applied during the reporting period would not have a material impact.

Commodity price risk

Commodity price risk is the risk that changes in the prices of commodities will affect HEINEKEN's cost. 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 other derivatives for commodities like fuel, corn and sugar. 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 details the estimated pre-tax impact on equity of a 10% change in the market price of aluminium.

	Equity	
In millions of €	10% increase	10% decrease
31 December 2019		
Aluminium hedges	36	(36)

11.6 Derivative financial instruments

HEINEKEN uses derivatives in order to manage market risks. Refer to the table below for the fair value of derivatives recorded on the balance sheet of HEINEKEN as per reporting date:

	2019		2018	
In millions of €	Asset	Liability	Asset	Liability
Current	28	(69)	35	(70)
Non-current[1]	2	(22)	35	(33)
	30	(91)	70	(103)

[1] Non-current derivative assets and liabilities are part of 'Other non-current assets' (note 8.4) and 'Other non-current liabilities' (note 11.6) respectively.

Notes to the Consolidated Financial Statements (continued)

Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise profit and loss or cash flow volatility. Refer to the table below for derivatives that are used in hedge accounting:

	2019		2018	
In millions of €	Asset	Liability	Asset	Liability
No hedge accounting – CCIRS	–	(16)	7	–
No hedge accounting – Other	4	(10)	6	(3)
Cash flow hedge – Forwards	11	(31)	21	(38)
Cash flow hedge – Commodity forwards	15	(20)	12	(30)
Fair value hedge – CCIRS	–	(7)	–	(29)
Net investment hedge – CCIRS	–	(5)	24	–
Net investment hedge – Forwards	–	(2)	–	(3)
	30	(91)	70	(103)

Cash flow hedges

The hedging of future, highly probable forecasted transactions are designated as cash flow hedges. Cash flow hedges are entered into to cover commodity price risk and transactional foreign exchange risk.

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 €11 million as at 31 December 2019. 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 €11 million as at 31 December 2019.

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 2019 (2018: nil). As at 31 December 2019 the fair value of these borrowings was €288 million (2018: €453 million), the market value of forward contracts was €2 million negative (2018: €3 million negative) and the market value of these swaps was €5 million negative (2018: €24 million positive).

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 recognised in other comprehensive income are recycled through other comprehensive income and 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 directly included in its carrying amount and does not affect other comprehensive income.

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.

Notes to the Consolidated Financial Statements (continued)

12 Tax

12.1 Income tax expense

Recognised in profit or loss

In millions of €	2019	2018*
Current tax expense		
Current year	896	809
Under/(over) provided in prior years	27	(24)
	923	785
Deferred tax expense		
Origination and reversal of temporary differences, tax losses and tax credits	30	(29)
De-recognition/(recognition) of deferred tax assets	(33)	–
Effect of changes in tax rates	(1)	(3)
Under/(over) provided in prior years	(9)	(12)
	(13)	(44)
Total income tax expense in profit or loss	910	741

*Restated for IAS 37. Refer to note 4 for further details.

Reconciliation of the effective tax rate

In millions of €	2019	2018*
Profit before income tax	3,284	2,846
Share of net profit of associates and joint ventures	(164)	(210)
Profit before income tax excluding share of profit of associates and joint ventures	3,120	2,636

* Restated for IAS 37. Refer to note 4 for further details.

	%	2019	%	2018*
Income tax using the Company's domestic tax rate	25.0	780	25.0	659
Effect of tax rates in foreign jurisdictions	0.7	21	(0.1)	(3)
Effect of non-deductible expenses	3.2	100	2.3	62
Effect of tax incentives and exempt income	(3.8)	(119)	(3.2)	(84)
De-recognition/(recognition) of deferred tax assets	(1.1)	(33)	–	–
Effect of unrecognised current year losses	2.8	87	3.4	89
Effect of changes in tax rates	–	(1)	(0.1)	(3)
Withholding taxes	2.1	67	3.2	84
Under/(over) provided in prior years	0.6	18	(1.4)	(37)
Other reconciling items	(0.3)	(10)	(1.0)	(26)
	29.2	910	28.1	741

* Restated for IAS 37. Refer to note 4 for further details.

The higher effective tax rate in 2019 is mainly driven by the new interest deduction limitation rules in the Netherlands.

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

Notes to the Consolidated Financial Statements (continued)

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 €	**2019**	2018*	**2019**	2018*	**2019**	2018*
P,P&E	98	92	(803)	(560)	(705)	(468)
Intangible assets	29	29	(1,358)	(1,360)	(1,329)	(1,331)
Investments	41	44	(5)	(5)	36	39
Inventories	47	40	(12)	(12)	35	28
Borrowings	308	11	–	–	308	11
Post-retirement obligations	278	231	(4)	(6)	274	225
Provisions	302	310	(28)	(27)	274	283
Other items	138	163	(216)	(162)	(78)	1
Tax losses carried forward	410	407	–	–	410	407
Tax assets/(liabilities)	**1,651**	1,327	**(2,426)**	(2,132)	**(775)**	(805)
Set-off of tax	(1,004)	(701)	1,004	701	–	–
Net tax assets/(liabilities)	**647**	626	**(1,422)**	(1,431)	**(775)**	(805)

* Restated for IAS 37 and to reflect the correct breakdown per category. Refer to note 4 for further details on IAS 37.

Of the total net deferred tax assets of €647 million as at 31 December 2019 (2018: €626 million), €101 million (2018: €225 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 €82 million (2018: €80 million). This is because HEINEKEN is able to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Tax losses carried forward

HEINEKEN has tax losses carried forward of €4,024 million as at 31 December 2019 (2018: €3,494 million), out of which €382 million (2018: €356 million) expires in the following five years. €191 million (2018: €228 million) will expire after five years and €3,451 million (2018: €2,911 million) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of tax losses carried forward of €2,163 million (2018: €1,664 million) as it is not probable that taxable profit will be available to offset these losses. Out of this €2,163 million (2018: €1,664 million), €173 million (2018: €103 million) expires in the following five years. €16 million (2018: €40 million) will expire after five years and €1,974 million (2018: €1,521 million) can be carried forward indefinitely.

Movement in deferred tax balances during the year

	2019							
In millions of €	**Balance 1 January 2019***	**Changes in accounting policy (IFRS 16)**	**Changes in consolidation**	**Effect of movements in foreign exchange**	**Recognised in income**	**Recognised in equity**	**Transfers**	**Balance 31 December 2019**
P,P&E	(468)	(226)	(1)	(16)	11	–	(5)	(705)
Intangible assets	(1,331)	–	(19)	(37)	49	–	9	(1,329)
Investments	39	–	–	2	(5)	–	–	36
Inventories	28	–	–	1	4	–	2	35
Borrowings	11	291	–	11	(15)	–	10	308
Post-retirement obligations	225	–	–	6	(15)	58	–	274
Provisions	283	–	–	(5)	(2)	–	(2)	274
Other items	1	(65)	–	(40)	(7)	10	23	(78)
Tax losses carried forward	407	–	2	9	(7)	–	(1)	410
Net tax assets/(liabilities)	(805)	–	(18)	(69)	13	68	36	(775)

* Restated for IAS 37 and to reflect the correct breakdown per category. Refer to note 4 for further details on IAS 37.

Notes to the Consolidated Financial Statements (continued)

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	2018 Balance 31 December 2018
P,P&E	(513)	–	(1)	12	36	–	(2)	(468)
Intangible assets	(1,405)	–	(7)	(12)	67	–	26	(1,331)
Investments	48	–	–	–	(10)	–	1	39
Inventories	20	–	–	1	5	–	2	28
Borrowings	4	–	–	17	(25)	18	(3)	11
Post-retirement obligations	294	–	–	–	5	(75)	1	225
Provisions	280	–	–	(19)	14	–	8	283
Other items	22	(2)	–	1	(14)	14	(20)	1
Tax losses carried forward	472	–	–	(19)	(34)	–	(12)	407
Net tax assets/ (liabilities)	(778)	(2)	(8)	(19)	44	(43)	1	(805)

* Restated for IAS 37 and to reflect the correct breakdown per category. Refer to note 4 for further details on IAS 37.

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:

– The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

– The 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.

– The 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).

12.3 Income tax on other comprehensive income

In millions of €	2019 Amount before tax	2019 Tax	2019 Amount net of tax	2018 Amount before tax	2018 Tax	2018 Amount net of tax
Remeasurement of post-retirement obligations	(268)	58	(210)	296	(75)	221
Currency translation differences	412	(43)	369	(134)	28	(106)
Change in fair value of net investment hedges	(43)	–	(43)	(3)	–	(3)
Change in fair value of cash flow hedges	52	12	64	(96)	29	(67)
Cash flow hedges reclassified to profit or loss	27	(6)	21	(77)	–	(77)
Net change in fair value through OCI investments	7	3	10	8	3	11
Cost of hedging	(6)	1	(5)	7	(1)	6
Share of other comprehensive income of associates/ joint ventures	(20)	–	(20)	(36)	–	(36)
Other comprehensive income	161	25	186	(35)	(16)	(51)

Notes to the Consolidated Financial Statements (continued)

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. The measurement of fair value can be subjective in some cases and may be dependent on inputs used in the calculations. The different valuation methods are called 'hierarchies' as described below.

- Level 1 – The fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – The fair value is calculated using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – The fair value is determined using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December	Carrying amount	Fair value		
In millions of €		Level 1	Level 2	Level 3
Fair value through OCI investments	408	283	–	125
Non-current derivative assets	2	–	2	–
Current derivative assets	28	–	28	–
Total 2019	**438**	**283**	**30**	**125**
Total 2018	572	410	71	91
Non-current derivative liabilities	(22)	–	(22)	–
Borrowings[1]	(13,435)	(13,824)	(646)	–
Current derivative liabilities	(69)	–	(69)	–
Total 2019	**(13,526)**	**(13,824)**	**(737)**	**–**
Total 2018	(13,756)	(13,470)	(606)	–

[1] Borrowings excluding lease liability, deposits, bank overdrafts and commercial paper.

During the period ended 31 December 2019 there were no significant transfers between the three levels of the fair value hierarchy.

Refer to the table below for detail of the determination of level 3 fair value measurements as at 31 December:

In millions of €	2019	2018
Fair value through OCI investments based on level 3		
Balance as at 1 January	91	84
Fair value adjustments recognised in other comprehensive income	34	3
Transfer to associate	–	4
Balance as at 31 December	125	91

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 contract 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

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 2019	Less than 1 year	1-5 years	More than 5 years	Total 2018
Operating lease commitments	–	–	–	–	2,013
Property, plant and equipment ordered	321	309	12	–	305
Raw materials purchase contracts	8,827	2,804	4,901	1,122	7,571
Marketing and merchandising commitments	1,051	380	667	4	635
Other off-balance sheet obligations	2,005	486	622	897	4,375
Off-balance sheet obligations	12,204	3,979	6,202	2,023	14,899
Undrawn committed bank facilities	3,750	69	3,681	–	3,845

As per the introduction of IFRS 16, operating lease commitments are capitalised on balance as per 1 January 2019. The discounted future lease commitments are reported under Borrowings (refer to note 11.3 for more information). The contractual maturities for the capitalised leases are included in the table of note 11.5.

Other off-balance sheet obligations include energy, distribution and service contracts. In 2018, other off-balance sheet obligations included HKD24.3 billion (€2.7 billion as at 31 December 2018) for the committed amount for acquiring the shareholding of 40% in CRH (Beer) Limited by HEINEKEN, which was closed in 2019 (refer to note 10.3).

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 (applicable for 2018)

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 purchase 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 €	2019	2018
Executive Board	10.8	12.0
Supervisory Board	1.5	1.0
Total	12.3	13.0

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. Refer to note 6.5 for information related to the LTI component. The separate Remuneration Report is stated on pages 54-62.

Notes to the Consolidated Financial Statements (continued)

As at 31 December 2019, Mr. J.F.M.L. van Boxmeer held 214,087 Company shares and Mrs. L.M. Debroux held 45,318 Company shares (2018: Mr. J.F.M.L. van Boxmeer 259,149 and Mrs. L.M. Debroux 28,159).

	2019			2018		
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	850	2,100	1,250	735	1,985
Short-term incentive	2,223	1,080	3,303	2,730	1,147	3,877
Matching share entitlement	505	245	750	610	256	866
Long-term incentive	2,323	1,201	3,524	2,732	1,360	4,092
Pension contributions	762	167	929	873	145	1,018
Other emoluments	49	183	232	49	162	211
Total	7,112	3,726	10,838	8,244	3,805	12,049

The matching share entitlements for each year are based on the performance in that year. The Executive Board members receive 25% of their STI 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 2019 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 2018 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 €0.8 million was recognised in the 2019 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 €	2019[5]	2018
J.M. Huët	195	86
J.A. Fernández Carbajal	153	109
M. Das	133	85
M.R. de Carvalho	141	96
A.M. Fentener van Vlissingen[1]	–	43
V.C.O.B.J. Navarre	110	74
J.G. Astaburuaga Sanjinés	133	104
P. Mars-Wright	151	103
M. Helmes[2]	131	62
R.L. Ripley[4]	97	–
I.H. Arnold[4]	100	–
G.J. Wijers[3]	103	163
Y. Dervisoglu[3]	53	70
	1,500	995

[1] Stepped down as at 19 April 2018.
[2] Appointed as at 19 April 2018.
[3] Stepped down as at 25 April 2019.
[4] Appointed as at 25 April 2019.
[5] Supervisory Board new management fees were approved by the 2019 AGM.

Mr. Michel de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2019 (2018: 100,008 shares). As at 31 December 2019 and 2018, 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 2019 (2018: 100,008 shares).

Heineken Holding N.V.

In 2019, an amount of €1,146,413 (2018: €1,393,537) 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 €	**2019**	2018	**2019**	2018	**2019**	2018
Sales	**462**	467	**1,170**	1,235	**1,632**	1,702
Purchases	**290**	271	**160**	144	**450**	415
Accounts receivables	**114**	93	**208**	274	**322**	367
Accounts payables and other liabilities	**20**	40	**108**	43	**128**	83

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 2019 up to and including 31 December 2019, 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 2019. 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 €17 billion and total asset value of €29 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	**2019**	2018
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 Żywiec S.A.	Poland	65.2	65.2
LLC Heineken Breweries	Russia	100.0	100.0
Heineken Vietnam Brewery Limited Company	Vietnam	60.0	60.0
SCC – Sociedade Central de Cervejas e Bebidas S.A.	Portugal	99.9	99.9
Heineken South Africa (Proprietary) Limited	South Africa	82.4	82.4

13.5 Subsequent events

No material subsequent events occurred.

Heineken N.V. Income Statement

For the year ended 31 December

In millions of €	2019	2018*
Personnel expenses	(12)	(13)
Total other expenses	(12)	(13)
Interest income	31	17
Interest expenses	(332)	(363)
Other net finance income/(expenses)	(100)	(164)
Net finance expenses	(401)	(510)
Share of profit of participating interests, after income tax	2,506	2,314
Profit before income tax	2,093	1,791
Income tax income/(expense)	73	122
Profit	2,166	1,913

* Restated for IAS 37. Refer to note 4 of the consolidated financial statements for further details.

Heineken N.V. Balance Sheet

Before appropriation of profit

As at 31 December

In millions of €	Note	2019	2018*
Investments in participating interests	A.1	29,673	27,814
Other financial non-current assets		–	13
Deferred tax assets		39	–
Total financial fixed assets		29,712	27,827
Trade and other receivables		18	21
Tax receivable		–	21
Total current assets		18	42
Total assets		29,730	27,869

In millions of €	Note	2019	2018*
Issued capital		922	922
Share premium		2,701	2,701
Translation reserve		(2,998)	(3,288)
Hedging reserve		(19)	(38)
Cost of hedging reserve		4	9
Fair value reserve		313	342
Other legal reserves		1,115	1,096
Reserve for own shares		(63)	(415)
Retained earnings		12,006	11,283
Net profit		2,166	1,913
Total shareholders' equity		16,147	14,525
Borrowings	A.2	11,748	12,135
Other non-current liabilities		20	29
Deferred tax liability		–	43
Total non-current liabilities		11,768	12,207
Borrowings	A.2	1,532	1,025
Trade and other payables		283	112
Total current liabilities		1,815	1,137
Total liabilities		13,583	13,344
Total shareholders' equity and liabilities		29,730	27,869

* Restated for IAS 37. Refer to note 4 of the consolidated financial statements for further details.

Heineken N.V. Shareholders' equity

In millions of €	Share capital	Share premium	Translation reserve	Hedging reserve	Cost of 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*	–	–	(21)	–	3	–	–	–	174	–	156
Balance as at 1 January 2018	922	2,701	(3,145)	112	3	331	962	(410)	10,066	1,935	13,477
Profit*	–	–	–	–	–	–	214	–	(214)	1,913	1,913
Other comprehensive income	–	–	(143)	(150)	6	11	–	–	221	–	(55)
Total comprehensive income*	–	–	(143)	(150)	6	11	214	–	7	1,913	1,858
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	–	–	–	–	–	–	–	–	26	–	26
Changes in consolidation/transfers within equity	–	–	–	–	–	–	–	–	42	–	42
Balance as at 31 December 2018	922	2,701	(3,288)	(38)	9	342	1,096	(415)	11,283	1,913	14,525

In millions of €	Share capital	Share premium	Translation reserve	Hedging reserve	Cost of hedging reserve	Fair value reserve	Other legal reserve	Reserve for own shares	Retained earnings	Net profit	Shareholders' equity
Balance as at 31 December 2018*	922	2,701	(3,288)	(38)	9	342	1,096	(415)	11,283	1,913	14,525
Changes in accounting policy*	–	–	–	–	–	–	–	–	3	–	3
Balance as at 1 January 2019*	922	2,701	(3,288)	(38)	9	342	1,096	(415)	11,286	1,913	14,528
Profit	–	–	–	–	–	–	172	–	(172)	2,166	2,166
Other comprehensive income	–	–	287	85	(5)	10	–	–	(215)	–	162
Total comprehensive income	–	–	287	85	(5)	10	172	–	(387)	2,166	2,328
Realised hedge results from non-financial assets	–	–	–	(66)	–	–	–	–	–	–	(66)
Transfer to retained earnings	–	–	3	–	–	(39)	(153)	–	2,102	(1,913)	–
Dividends to shareholders	–	–	–	–	–	–	–	–	(949)	–	(949)
Purchase/reissuance of own shares	–	–	–	–	–	–	–	320	98	–	418
Own shares granted	–	–	–	–	–	–	–	32	(32)	–	–
Share-based payments	–	–	–	–	–	–	–	–	14	–	14
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	(126)	–	(126)
Changes in consolidation/transfers within equity	–	–	–	–	–	–	–	–	–	–	–
Balance as at 31 December 2019	922	2,701	(2,998)	(19)	4	313	1,115	(63)	12,006	2,166	16,147

* Restated for IAS 37 (Refer to note 4 of the consolidated financial statements for further details), IFRS 16 and IFRS 9.

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:

	Participating interests	Loans to participating interests	Total
Balance as at 1 January 2019*	17,550	10,264	27,814
Profit of participating interests	2,506	–	2,506
Dividend payments by participating interests	(878)	878	–
Effect of movements in exchange rates	310	–	310
Changes in hedging and fair value adjustments	29	–	29
Actuarial gains/(losses)	(214)	–	(214)
Acquisition of non-controlling interests without a change in control	(126)	–	(126)
Investments/(repayments)	20	(666)	(646)
Balance as at 31 December 2019	19,197	10,476	29,673
Balance as at 1 January 2018*	15,913	10,536	26,449
Profit of participating interests	2,314	–	2,314
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)
Balance as at 31 December 2018*	17,550	10,264	27,814

* Restated for IAS 37 (refer to note 4 of the consolidated financial statements for further details), IFRS 16 and IFRS 9.

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

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

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

		Percentage of ownership	
	Country of incorporation	2019	2018
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%
Beerwulf B.V.	The Netherlands	100%	100%
Heineken Belize B.V.	The Netherlands	100%	100%
Heineken Netherlands Supply B.V.	The Netherlands	100%	–

Accounting policies

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

The Company shall eliminate any expected credit losses on intercompany loans or receivables against the book value of the intercompany loan or receivable in accordance with Directive 100.107a of the Dutch Accounting Standards Board.

A.2 Borrowings

The borrowings of the Company comprise the following:

In millions of €	2019	2018
Unsecured bond issues	12,748	13,160
Commercial paper	532	–
Total	**13,280**	**13,160**

The interest rate on the outstanding bonds as at 31 December 2019 was 2.5% (2018: 2.6%). As at 31 December 2019, €7.7 billion (2018: €8.3 billion) of the outstanding bonds have a maturity longer than five years.

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	Commercial paper	Total
Balance as at 1 January 2019	13,160	–	13,160
Effects of movements of exchange rates	96	–	96
Proceeds	516	1,751	2,267
Repayments	(1,034)	(1,219)	(2,253)
Other	10	–	10
Balance as at 31 December 2019	12,748	532	13,280

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 2019 €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 (2018: €10.3 million). In the overview below, the breakdown per type of service is provided:

	Deloitte Accountants B.V.		Other Deloitte member firms and affiliates		Total	
In millions of €	2019	2018	2019	2018	2019	2018
Audit of HEINEKEN and its subsidiaries	3.1	2.7	6.4	6.6	9.5	9.3
Other audit services	0.3	0.4	0.2	0.2	0.5	0.6
Tax services	–	–	0.1	0.1	0.1	0.1
Other non-audit services	–	0.1	0.2	0.2	0.2	0.3
Total	3.4	3.2	6.9	7.1	10.3	10.3

Accounting policies

Fees for audit services are included in the other expenses in the consolidated financial statements (refer to note 6.3 of the consolidated financial statements for more information). 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 2019	Less than 1 year	1 – 5 years	More than 5 years	Total 2018
Undrawn committed bank facility	3,500	–	3,500	–	3,500

	2019		2018	
	Third parties	HEINEKEN companies	Third parties	HEINEKEN companies
Declarations of joint and several liability	–	3,128	–	2,413

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 of the consolidated financial statements 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 of the consolidated financial statements.

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 2020	Executive Board	Supervisory Board
	Van Boxmeer	Huët
	Debroux	Fernández Carbajal
		Das
		de Carvalho
		Navarre
		Astaburuaga Sanjinés
		Mars-Wright
		Helmes
		Ripley
		Arnold

Sustainability Review
Our focus areas

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

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

Our sustainable development strategy, Brewing a Better World, includes 2020 targets across six key focus areas. 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 and transparent contribution to the global goals to protect the planet, ensure prosperity and end poverty.

As we progress towards our 2020 targets, we are on track to reach most of our commitments. We have more to do in certain areas, including water balancing, CO_2 in distribution, accident prevention and regional sourcing in Africa.

We have defined new 2030 strategies for water and climate change and we are in the process of developing strategies and targets beyond 2020 for other focus areas.

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 2020 you will be able to explore additional non-financial indicators in our GRI Standards reference table.

Sustainability Review

Our sustainable development focus areas

Every Drop – protecting water resources

Water is the ultimate shared resource; it is a basic human right and is vital to biodiversity and ecosystems.

Some fresh-water ecosystems are facing severe pressure due to the demands of business, agriculture, communities and climate change.

Our business depends on freshwater and may be significantly impacted by the risks of water stress and scarcity.

We have focused on reducing water use in production and investing in wastewater treatment plants. We have also started balancing the water we do not return to the watershed in water-stressed areas.

Improving the health of local watersheds is at the heart of our 2030 water strategy, Every Drop.

Drop the C – reducing CO_2 emissions

Climate change is one of the greatest threats facing society, but global emissions continue to rise.

Businesses must help countries meet their commitments towards limiting climate change.

Drop the C is our CO_2 reduction strategy for 2030. It focuses on reducing our carbon footprint across the entire business.

Packaging is a major contributor to our carbon footprint, and we are setting clear design and production rules for recycling and increasing the recycled content of packaging.

Sourcing sustainably

We depend on a responsible, transparent supply chain to grow our sustainable business and manage our risks.

Much of our impact occurs during the growing of raw materials.

We aim to develop sustainable agricultural supply chains around the world to increase volumes of sustainable raw materials.

We support development of best farming practices to improve productivity and food security, especially in Africa where we are increasing local sourcing.

We expect our suppliers to adhere to the HEINEKEN Supplier Code to create a sustainable future for their business, the people they employ and the environment.

Advocating responsible consumption

HEINEKEN has been committed to making moderation cool since 2003.

We believe alcohol, when consumed in moderation, can be part of a well-balanced lifestyle.

We encourage consumers to drink responsibly through our global marketing, sponsorships, partnerships and behaviour change programmes – which we activate at scale around the world.

We have a strict Responsible Marketing Code, to ensure our products are enjoyed in a responsible way.

We think customers should have access to ingredients and nutrition information for all our beer and cider brands, whether it is legally mandatory or not, so they can make informed choices about our products.

Promoting health and safety

We have committed to provide a safe work environment and to avoid harm to people.

This includes developing robust safety standards, tools and procedures and a strong safety culture that promotes safe behaviours.

'Safety First' is our number one Company behaviour and the name of our Group safety strategy.

We are focused on preventing fatalities and serious accidents in our operations; our Life Saving Rules are mandatory across all operating companies.

Centres of Excellence are helping operating companies to address key safety risks.

We install telematics in all owned and leased vehicles to improve driver safety.

Growing with communities

We are committed to making a positive contribution to the communities where we source, live, work and sell our products.

Our biggest contribution comes through our core business – providing jobs, supporting livelihoods and paying taxes.

We also support social and economic wellbeing through investments in local entrepreneurship, education, community initiatives, as well as donations and employee volunteering.

The HEINEKEN Africa Foundation supports the health and wellbeing of communities by providing vital access to healthcare and clean water.

Values and behaviours

Our values and behaviours reflect what we stand for – conducting business with integrity, developing an inclusive work environment and respecting 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 our Human Rights Policy.

CODE of business conduct

INCLUSION & DIVERSITY
#DiverseViewsMakeGreatBrews

Sustainability Review

Focus area commitments – measuring our progress

Every Drop – protecting water resources

	2020 commitment	2019 result	Our progress
Reduce water consumption in our breweries	Reduce average water consumption in breweries in water-stressed areas to 3.3 hl/hl and to 3.5 hl/hl in all breweries	We reduced average water consumption in water-stressed areas to 3.1hl/hl and to 3.4hl/hl in all breweries	On track
Significant water balancing in water-stressed areas	Aim for significant water balancing by our production units in water-stressed areas	15 of 24 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	97%* of our wastewater is treated before discharge, but we had 10 sites still without a treatment plant	More to do

Drop the C – reducing CO_2 emissions

	2020 commitment	2019 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 had 49% reduction in CO_2 emissions in our breweries since 2008, to 5.3kg 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% (29% in Americas and 10% in Europe, including Russia)	Off track
Lower emissions of our fridges	Reduce the CO_2 emissions of our fridges by 50% (vs. 2010)	2019 result*: Almost 100% green fridges purchased. We reduced CO_2 emissions by over 50%	On track

Promoting health and safety

	2020 commitment	2019 result	Our progress
Safety performance	Reduce accident frequency by 20% vs 2015 (1.38 per 100 FTE)	Accident frequency reduced by 39% to 0.84 accidents per 100 FTE	On track
Compliance with Life Saving Rules	Full compliance with Life Saving Rules	92% in the breweries; 95% outside production	More to do

Sourcing sustainably

	2020 commitment	2019 result	Our progress
Agricultural raw materials from sustainable sources	Aim for at least 50% of our main raw materials to come from sustainable sources	2019 result**: 37% of our main agricultural raw materials came from sustainable sources	More to do
Source agricultural raw materials locally in Africa	Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent	2019 result**: 44% of agricultural raw materials used in Africa regionally sourced from within the continent	Off track
Compliance with our Supplier Code	95% compliance with our Supplier Code Procedure	97% compliance with four-step Supplier Code Procedure	On track

Advocating responsible consumption

	2020 commitment	2019 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 and advertise Heineken®	95% 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	35 of 37 markets in scope (95%) have a partnership	More to do
Increase transparency on ingredients and nutrition	Provide ingredient and nutrition information on pack and online for all beer and cider brands produced and sold **in** the EU; on pack or online – **outside** the EU	2019 result**: 91% of our beer and cider brands in scope had ingredients, nutrition and Alcohol by Volume (ABV) information on pack and/or online	More to do

Growing with communities

We do not have external commitments in this focus area, but continuously monitor our performance.

* 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 2020.
** Estimated.

Every Drop – protecting water resources

Every Drop 2030 strategy

Every Drop: thinking differently

Water is a vital but undervalued resource. Even though water covers 70% of our planet, only 3% is freshwater, of which 1% is accessible. A growing population, economic development and climate change are making fresh water scarce in many parts of the world.

For brewers like HEINEKEN, water is an essential ingredient for brewing and growing our crops. Until now, brewers have mainly focused on the areas they directly control – namely increasing water efficiency and treating wastewater. We will continue to invest in improving processes and technology to drive progress in these areas.

However, it is clear that, in water-stressed areas, this is no longer enough. We need to look at our water impact more contextually and – quite literally – think out of the box. That is why our 2030 strategy has the health of local watersheds at its heart. Our aim is to make a positive contribution to secure the health of the watersheds that sustain our operations, specifically in parts of the world that are water stressed.

Global ambition, local context

To realise this vision, HEINEKEN has developed a water triangle which comprises three key focus areas for its breweries in water-stressed areas to undertake: water stewardship, water circularity and water efficiency.

We will continue to reduce water use and treat wastewater. In areas that are water stressed, our aim will also be to reuse water as much as possible. We will look to return to the local watershed every litre of water that goes into our product and is not given back to nature. We do this, for example, by delivering nature-based solutions like reforestation and wetland restoration.

We have defined global commitments for each of these priorities, but we also recognise that every watershed is unique. Local context matters and our breweries in water-stressed areas will develop bespoke action plans to maximise their positive impact on the local watershed and the communities it supports.

The need for collective action

Many different users tap into shared water resources and maintaining the health of the watershed requires collective effort and co-operation. In Mexico for example, we are working with other companies, NGOs and government institutions to protect the watershed of the San Juan River through the Monterrey Water Fund. In Indonesia, we are part of a water alliance ('Aliansi Air') that is working to conserve water and reduce pollution in the Brantas river basin. HEINEKEN has been a signatory of the UN CEO Water Mandate since 2009 and works in partnership with the United Nations Industrial Development Organization (UNIDO).

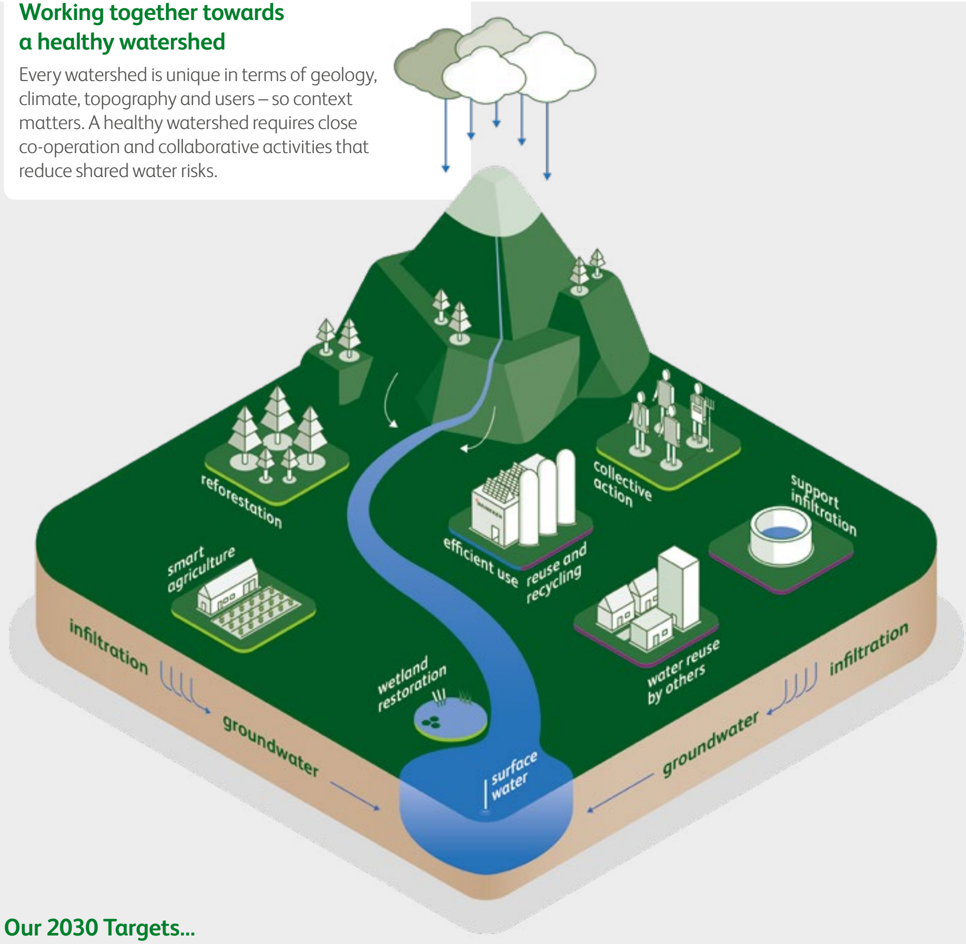
What about water used in agriculture?

According to The World Bank, agriculture uses 70% of the world's available freshwater. Growing crops, mainly barley, accounts for 90% of our water footprint. The good news is that barley is a water-efficient crop. It is commonly grown in moderate climate zones and generally survives on rainfall. Irrigation is needed in some areas in the world and we expect this need to increase due to climate change. We are focused on developing and supporting agricultural practices that allow us to grow more barley with less water in these areas.

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

Working together towards a healthy watershed

Every watershed is unique in terms of geology, climate, topography and users – so context matters. A healthy watershed requires close co-operation and collaborative activities that reduce shared water risks.



Our 2030 Targets...

Water Stewardship	Water Circularity	Water Efficiency
Fully balance the water that is used in our products, in water-stressed areas	Maximise reuse and recycling in water-stressed areas	2.8 litre per litre beer produced, for breweries in water-stressed areas
Work collectively with other stakeholders	Treat 100% of wastewater of all breweries	3.2 litre per litre for all breweries worldwide

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

Our progress
On track

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

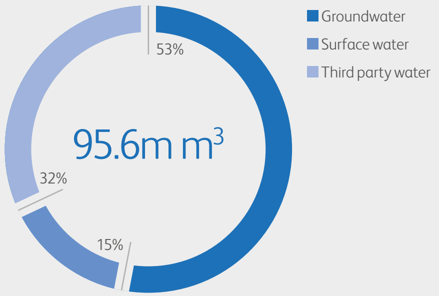
6 CLEAN WATER AND SANITATION

33%
Decrease in water consumption in our breweries since 2008

710
Olympic-sized pools – the equivalent volume of water we saved in 2019 compared to 2018

€15m
saved through water efficiency since 2009

Total water withdrawal, including sources



Our 2020 target was to reduce water consumption in our breweries to 3.5hl/hl compared to 2008. We surpassed this target in 2019 with water consumption in our breweries worldwide down to 3.4 hl/hl. This means a 33% decrease in water consumption in our breweries since 2008 (hl/hl).

In water-stressed areas, our average water consumption in our breweries was 3.1 hl/hl, surpassing our more ambitious 2020 target of 3.3 hl/hl for these areas.

The number of sites where water consumption remains high continues to decrease; 28 beverage production plants still use above 5hl/hl in 2019, accounting for 4% of total volume (2018: 30 sites, 5%).

We invest in technology to reclaim and recycle water in our production processes, especially in water-stressed areas. So-called 'effluent reclamation plants' are now in operation at our breweries in Tangerang (Indonesia), Vialonga (Portugal) and Singapore. Additional plants will start up in Meoqui (Mexico), Sedibeng (South Africa) and Vung Tau (Vietnam) and new investments are planned for 2020 in Tecate (Mexico).

Looking ahead
We launched our new 2030 water strategy, Every Drop, in 2019. Water efficiency is one of the three elements of our 'water triangle' (see page 18). We will work to further reduce our average water consumption in water-stressed areas to 2.8 hl/hl and for all breweries worldwide to 3.2 hl/hl.

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

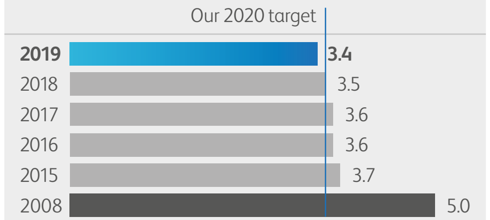
Water reclamation in South Africa
Our brewery in Sedibeng, South Africa, has already delivered significant improvements through its focus on water efficiency. Now, it is investing in a state-of-the-art water reclamation plant which will begin operating in 2020.

Water consumption (water-stressed areas)
(Hl/hl beer, cider, soft drinks and water)

3.1 hl/hl

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

3.4 hl/hl



Every Drop – protecting water resources

Water balancing in water-stressed areas

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

Our progress
More to do

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

We believe we should make a positive contribution to the health of local watersheds where our breweries are located, especially in parts of the world that are water stressed.

We are committed to balancing the water we use in water-stressed areas. This means we aim to replenish the water that goes into our products and, in effect, leaves the local water cycle. We do this through projects that replenish water in the same watershed as our operation.

Water balancing projects range from nature-based solutions, like restoring wetlands and reforestation, to socially-focused projects such as repairing infrastructure and enabling farmers to use less water.

With each watershed being unique, it takes time and effort to identify the right projects and the right partners. By end of 2019, 15 of the 24[1] production units in scope had started water balancing projects.

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

- In Mexico, we donated 83 hectares of irrigation rights to NGO Restauremos El Colorado, which will help to bring the river back to life and restore wetland areas in the Colorado River delta.
- We began small-scale reforestation projects near our Bedele and Harar breweries in Ethiopia.
- We signed an agreement to support social and economic development by creating access to clean water in the Siwa Oasis, one of Egypt's most isolated settlements.
- In Spain, the Tajo Watershed authority signed a Letter of Intent supporting our project to restore the wetlands of Belvis del Jarama, near our Madrid Brewery.
- We are working with UNIDO to explore potential rainwater harvesting using the roofs of our brewery and neighbouring business premises in Algeria.

Projects and partners have been identified for the remaining sites, with most due to start work in 2020.

Measuring the outcomes and impacts of water balancing is essential and complex. We use the Volumetric Benefit Accounting (VBA) standard, launched by the World Resources Institute in 2019, across all markets in scope.

We continue to carry out local source vulnerability assessments to identify additional breweries that may be in water-stressed locations. Of the three sites in Greece under investigation last year, none were confirmed to be water stressed. Our Cabuyao brewery in the Philippines and Pacatuba brewery in Brazil have been identified as being in water-stressed areas. Today, 29 of the 165 breweries we operate around the world have been identified as water stressed.

Looking ahead

Every Drop puts the health of local watersheds at the heart of our approach. We will fully balance every litre of water we use in our products in areas that are water stressed. We will collaborate with other water users to create impact at scale for both nature and communities.

Water balancing in Spain

HEINEKEN Spain joined forces with the Valencia Regional Government to restore the riparian zone of the Poyo ravine, replacing cane – an invasive, water intensive plant – with indigenous vegetation. Research by the Polytechnic University of Valencia has found the outcomes of this work to be equivalent to saving 400,000 m^3 water per year.

Every Drop – protecting water resources

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

57.5* total wastewater volume in million m³

97%* wastewater was treated before discharge

Our brewery processes generate wastewater which contains organic materials and cleaning agents. We are committed to treating all of our wastewater before we return it to nature, and we have invested heavily in wastewater treatment plants at the majority of our operations.

At the end of 2019, 97%* of our wastewater volume was treated before discharge. We still have ten sites without a wastewater treatment plant: nine breweries and one malting plant, representing 2.4% of beverage production volumes (2018: 11 sites, 3% volume).

In 2019, new wastewater treatment plants started up at our breweries in Meoqui (Mexico) and Honiara (Solomon Islands). The plant in Zaječar (Serbia) will be operational by the end of 2020. Construction is underway in Lae and Port Moresby (Papua New Guinea).

The remaining sites that still lack wastewater treatment are either under construction or have been planned for. We will not fully meet our target by end of 2020, but our focus remains on achieving 100% wastewater treatment.

Some of our wastewater is treated in third-party treatment plants, most run by municipalities. We carry out quality checks to ensure treatment is up to our standards. Based on the outcomes of these assessments, we decided to invest in two on-site treatment plants to replace current third-party treatment in Papua New Guinea and Burundi.

Looking ahead
Our ambition for 2030 is to maximise water circularity in water-stressed areas through recovery, reuse and recycling, and to treat 100% of our wastewater worldwide.

For our breweries in water-stressed areas, this means enabling the recovery, reuse and recycling of treated effluent for use by others, including nearby industries, farmers and nature. It is a journey that brings many challenges but that has the potential to significantly benefit the health of local watersheds and communities.

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

We are adopting the new GRI standards on Water and Effluents, more disclosures can be found in the **GRI table published in March 2020.**

Wastewater treatment in Honiara, Solomon Islands

We have built a new aerobic wastewater treatment plant that meets strict effluent treatment requirements in one of the smallest HEINEKEN breweries.

* 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 2020.

Drop the C – reducing CO_2 emissions

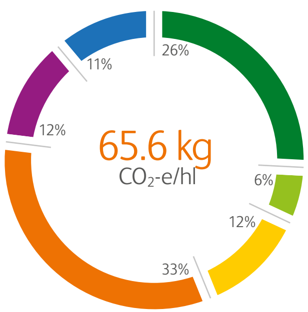
Our product footprint and Drop the C strategy 2030

Our product carbon footprint is made up of the CO_2 emitted by all activities involved in the making and selling our products – from barley to bar – with the calculations based on volumes produced by our production units. Compared to our product carbon footprint, the Company carbon footprint includes 'other carbon emissions' like purchased goods and services, capital goods, business travel and commuting.

We improved the accuracy of our carbon footprint calculation in 2019 as we received more detailed data from our suppliers. This enabled us to prioritise additional areas for improvement.

On average, we emit 65.6 kg CO_2-e* per hl of beverage volume produced (based on 2018 data):

2018 Product carbon footprint



***Scope:** We calculated the CO_2 emissions for the largest CO_2 emitting operating companies and extrapolated the obtained results to reach an absolute total amount of 17 million tonnes CO_2-e.

Our commitment on Climate Change:

We are committed to reducing our impact across the entire value chain by 2030, in line with the Science Based Target Initiative. Our approach focuses on high impact areas:

- **Production:** through our Renewable Energy programme and continued improvements in energy efficiency.

  This is the area we can directly control, referred to as Scope 1 and 2. In February 2018, we committed to increase the share of electric and thermal renewable energy in production to 70% by 2030. The first projects to deliver this ambition started in 2018.
- **Packaging:** by implementing our Sustainable Packaging Strategy with our suppliers, focused on the 5R's: Renew, Reduce, Recycle, Reuse and Rethink.
- **Logistics:** by optimising routes, supporting suppliers to adopt low carbon technologies and investing in innovative solutions.
- **Cooling:** through a new approach that includes setting clear energy efficiency specifications for assets (fridges and draught beer equipment) and assuring we have the right asset in the right place.
- **Processing (malting and adjuncts):** by developing and implementing energy efficiency and renewable energy programmes with our suppliers.
- **Agriculture:** through a holistic approach that includes piloting projects with farmers and suppliers to deliver CO_2 emissions reduction and water management.

For more on our Drop the C programme approach and progress, see our **website** and **case studies**

HEINEKEN's Drop the C programme

Our journey to reduce CO_2 emissions across our entire value chain.

Beverage Production

70% Renewable Energy (electricity and thermal energy)

Processing

Partnering with our suppliers to drive energy efficiency and Renewable Energy

Agriculture

Implementing, at farm level, pilot projects contributing to CO_2 emission reduction

Pilot projects developed in sourcing countries where we have the highest emissions

Packaging

Partnering with suppliers

Implementing our sustainable packaging strategy following the 5 R's (Renew, Reduce, Recycle, Reuse, Rethink)

Logistics

Driving operational transport efficiencies

Shifting to more fuel efficient transports

Implementing zero-emission technologies

Partnering with customers, peers and suppliers

Cooling

Right asset at the right place

Clear energy efficiency targets for our assets

Drive innovation

Drop the C – reducing CO_2 emissions

Lower emissions in production

2020 commitment
Reduce CO_2 emissions from production by 40%, vs. 2008, to 6.4 kg CO_2/hl

Our progress
On track

Our contribution to the SDGs:
7.2 Share of renewable energy

7.3 Double the improvement of energy efficiency

7 AFFORDABLE AND CLEAN ENERGY

Lower emissions in production

We exceeded our target with a 49% decrease in CO_2 emissions in our breweries since 2008 (CO_2-e/hl).

We achieved our 2020 target in 2016 and we continue to work on reducing our emissions in production, leading to a decrease in absolute terms.

Although production volumes in 2019 were 87% higher than in 2008, our absolute emissions were 5% less.

Reducing emissions through energy efficiency

By following the principles of Total Productive Management (TPM), energy reduction teams are delivering positive results across our breweries.

In Mexico, we piloted use of analytics to optimise electricity efficiency in cooling plants. The system collects and analyses data related to plant performance, energy demand and weather conditions.

During the pilot, the Monterrey brewery exceeded its energy saving target, saving 2.5 tonnes of CO_2-e per year.

Increasing our use of renewable energy

Following the commitment we made in early 2018 to grow our share of renewable energy to 70% by 2030, renewable energy initiatives are being implemented around the world:

- 19% of our energy came from renewable sources in 2019, including 33% of electrical energy and 13% of thermal energy (2018: 15%, 27% and 10%).
- Our Schladming brewery became the second HEINEKEN brewery in Austria to source 100% renewable energy for production when it fired up its new biomass boiler in June.
- We completed our largest renewable energy project to date. It meets the heating requirements of our Itu brewery in Brazil using biomass to supply the equivalent of 2% of HEINEKEN's combined global energy demand for production.
- We have signed a long-term power procurement agreement (PPA) to source 100% of power for production in Spain from a new solar PV power plant.
- A new 5.8MW solar PV system commissioned on the roof of our brewery in Den Bosch in the Netherlands is the largest on-site solar rooftop plant in the world.

Given the expected role of biomass in meeting our 2030 renewable energy commitment, we have implemented a strict standard and governance approach to ensure we only source sustainable biomass feedstock.

Green by Design

We apply our Green by Design concept to investment projects in new and existing breweries. It ensures environmental criteria for CO_2 emissions in production, water consumption and use of renewable energy are evaluated early on in the design phase of a brewery.

Second 100% renewable energy brewery in Austria

In June, we started up a new biomass boiler at our brewery in Schladming, making it the second HEINEKEN brewery in Austria to source 100% of its energy for production from renewable sources. This brings the total to 12 biomass projects currently in operation. Together, they supply over 6% of our global energy demand for production.

In addition to the positive financial and operational impacts, Green by Design promotes sustainable solutions and shows the overall contribution of each project to our global sustainability ambition.

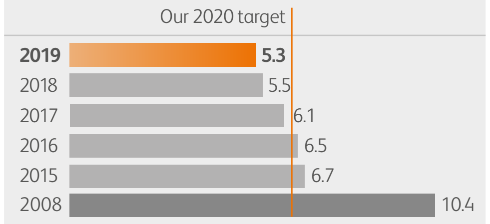
Looking ahead

We are constantly exploring new opportunities to generate electricity from renewable sources. Plans for 2020 include installation of rooftop Solar PV at 38 breweries. Together, they will supply about 3% of the global demand for electricity in production. Increasingly, our remaining electricity demand for production will be sourced offsite from renewable energy sources such as wind, solar and hydro.

For more on our Drop the C programme approach and progress, see our **website** and **case studies**

CO_2 emissions in production

(kg CO_2-eq/hl beer, cider, soft drinks and water)



€86m
saved through energy efficiency since 2009

Drop the C – reducing CO_2 emissions

Reduce emissions from distribution in Europe and the Americas

2020 commitment
Reduce CO_2 emissions from distribution by 20% in Europe and the Americas*

Our progress
Off track

Our contribution to the SDGs:
7.2 Share of renewable energy

7.3 Double the improvement of energy efficiency

Emissions from distribution remain stable, with a reduction of 13% against the baseline (2018: 13%). In nine out of 23 markets, we have surpassed the 20% reduction target.

In the Americas region, emissions were down by 29% against the baseline and by 3% since 2018. In the USA, we introduced a new project to shift transport of products imported from Heineken Mexico to ocean freight and to reduce overall internal shipments. With the new Meoqui brewery in Mexico we increased local production, replacing imports and decreasing distances to deliver products to customers.

In Europe and Russia, we achieved a 10% reduction against the baseline but emissions increased by 3% vs. 2018. This negative trend is due to volume and emissions growth in carbon-intense markets such as Russia, Poland and France.

In Russia, market growth of premium products, which are produced only in the central region breweries, has increased CO_2 emissions. In France and Poland, changes in the distribution network led to a negative impact on emissions.

We constantly look for new opportunities to optimise our logistics operations and shift to carbon-efficient transport, working closely with our Logistics Service Providers (LSP):

- In Nigeria, we have invested in more efficient diesel trucks and optimised their loading capacity.
- In the Netherlands, upgrading the LSP fleet resulted in a 10% fuel reduction and we piloted the first inland vessel to run on 100% biofuel.
- In Malaysia, our successful Fuel Management Pilot, in collaboration with the local LSP, included eco-driving courses for drivers and aerodynamic improvements to trucks.
- Our wholesale business in France is piloting electric trucks for distribution in Paris.

We collaborate with peer companies and NGOs to move the sector towards decarbonisation. Green platforms like the Smart Freight Centre and Clean Cargo Working Group bring stakeholders together. We were a founder of the Green Corridors Coalition in the Netherlands which aims to deliver carbon neutral transport from our breweries to the Port of Rotterdam.

Looking ahead

Our ambition for 2030 is a further reduction in CO_2 emissions in logistics. An extended end-to-end scope, from suppliers to customers, will enable us to continue our journey towards low carbon logistics. Our biggest 17 markets have created sustainability roadmaps with a clear strategy for the years to come.

A modal shift towards carbon-efficient transport
In Brazil, we are using Cabotage[2] to move products between Brazilian ports using ocean freight. This modal shift will reduce CO_2 emissions by 76% compared with road freight and covered 18 million km in 2020.

We will continue to optimise logistics and invest in innovative, low-carbon technologies to reduce emissions and air and noise pollution. We plan to shift city distribution to electric trucks in coming years and will roll out a Fuel Management Programme in 14 markets in 2020.

For more on our Drop the C programme approach and progress, see our **website** and **case studies**

* Baseline year 2010 for Mexico and the Netherlands, 2011 for other HEINEKEN operating companies in scope.

CO_2 emissions in distribution
3.3 kg CO_2/hl sold

Drop the C – reducing CO_2 emissions

Lower emissions in our fridges

2020 commitment
100% of purchased fridges are green.
Reduce the CO_2 emissions of our fridges by 50%*

Our progress
On track

Our contribution to the SDGs:
7.3 Double the improvement of energy efficiency

7 AFFORDABLE AND CLEAN ENERGY

Once again, almost 100% of over 155,000** fridges we purchased in 2019 had one or more of the following features:

– use of hydrocarbon refrigerant;

– LED illumination;

– an energy management system; and/or

– energy efficient fans.

We are ahead of our 2020 commitment; average CO_2 emissions from our fridges are now over 50%** less than in 2010.

Looking ahead
Our 2030 targets will drive action and collaboration across the cooling value chain, including:

– Continuous improvement of procurement practices in collaboration with suppliers to ensure best-in-class specifications for our coolers.

– Engagement with the sales force and customers to provide the right asset in the right outlet. We will challenge the need for new fridges and increase the focus on providing the right cooling capacity to customers, while making the most of our installed base.

– Ground-breaking innovation and end-of-life management to achieve a circular approach to the reuse, recycling and refurbishment of our coolers.

For more on our Drop the C programme approach and progress, see our **website** and **case studies**

Reusing fridge parts in Mexico
Our pilot with one of our fridge manufacturers in Mexico will collect more than 7,300 used fridges from the market and reuse parts for the production of new fridges.

* Baseline 2010.
** 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 2020.

Drop the C – reducing CO_2 emissions

Lower emissions in packaging and tackling plastic

Our contribution to the SDGs:

12.2 Sustainable use of natural resources

12.5 Reduce waste generation

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Packaging ensures our brands stand out but it is also the single largest contributor to our carbon footprint. Reducing carbon emissions in packaging is therefore a priority.

To reduce our packaging carbon footprint, we are working closely with our suppliers. In 2019, we held the first Sustainable Packaging Day. The event brought management from our 12 biggest packaging material producers together to discuss ways in which we can reduce our collective impact on the environment. We are now working together with these suppliers to innovate and establish CO_2 reduction targets for 2030, and roadmaps to achieve them.

Examples of actions undertaken across our five focus areas include:

Reduce: We light weighted our Desperados bottle portfolio, reducing glass by 11% and CO_2 emissions by 11% per hl of beer. Globally, we have introduced light weighted can ends, cutting average weight by 10%.

Renew: Many of our packaging material suppliers have installed solar panels at their factories and signed Power Purchase Agreements to secure renewable electricity for the production of our packaging.

Reuse: We successfully trialled Heineken® 0.0 in returnable bottles as part of our journey towards 100% returnable bottles in the Netherlands by 2022. The carbon footprint of a returnable glass bottle is seven times lower than a single-use bottle.

Rethink: In the UK, we announced we will remove all plastic shrinkwrap and rings from multipacks by the end of 2021.

Recycle: In Austria, Gösser brand bottle labels will be made of 100% recycled paper starting in 2020. This will save 2,000 trees annually and will reduce CO_2 emissions from making Gösser labels by 20% and water consumption by 40%. We have trialled a beer bottle return system at 11 supermarkets in São Paulo, Brazil, and, in Vietnam, we collected crown corks that were recycled into steel bridges to connect local communities.

Tackling plastic

Plastic accounts for about 6% of our packaging by weight. We aim to reduce our plastic use and contribute to increased collection and recycling of plastic where possible. To have the biggest positive impact, we use regional strategies that take into account the maturity of each region, the local use of plastic and the current availability of recycling infrastructures.

Looking ahead

We will continue to work with our suppliers and will reduce CO_2 emissions from our packaging materials through energy efficiency, renewable energy, recycling and light-weighting. We will also work on sustainable innovations that can significantly change the way packaging materials are produced, or change the packaging materials themselves. In 2020, we will announce our target for scope 3 emissions, which includes packaging.

For more on our Drop the C programme approach and progress, see our **website** and **case studies**

Removing plastic from Heineken UK multi-pack cans by 2021

Heineken UK will eliminate over 500 tonnes of plastic annually (an equivalent of 94 million plastic bags) by no longer using plastic rings and shrink wrapping by the end of 2021. Enabled by a €26 million (£22 million) investment across its Manchester, Tadcaster and Hereford sites, an innovative sustainably sourced cardboard topper is replacing plastic rings across the entire portfolio of beer and cider multi-pack cans, including Heineken®, Foster's and Strongbow.

Drop the C – reducing CO_2 emissions

Aiming for Zero Waste

Our contribution to the SDGs:
12.2 Sustainable use of natural resources

12.5 Reduce waste generation

In 2019, 109 of 165 production sites in scope, spanning 60+ countries, sent Zero Waste[3] to landfill (2018: 102 sites).

Turning waste into value

We aim to reuse or recycle residual products from our production processes. The first priority is always to avoid waste from raw materials, ingredients and packaging products. When waste is generated, we aim to maximise its value by giving it a second life in the highest possible category in our waste hierarchy.

Our main waste types include brewers grain, surplus yeast, sludge from wastewater treatment plants, kieselguhr (used for beer filtration), alcohol (as by-product of the dealcoholisation), broken glass, plastic and other wasted packaging.

Most of our production waste is organic. Brewer's spent grains and yeast have a high nutritional value and can be recycled for animal or human consumption. For example, in the UK we partner with Unilever which uses our surplus yeast in its food products. And in the Solomon Islands, we work with local pig farmers who use surplus yeast as a nutritional food source for their pigs, with positive results.

Bio-sludge from wastewater can be used for compost and soil improvement. In some cases, we apply waste fermentation to generate biogas for use as renewable energy.

We also recycle packaging waste in material loops to be used directly in our own processes or by external partners. For example, in Portugal we are working with Polivouga, our stretch film supplier, to close the loop. This means ensuring all plastic waste from the stretch film used by our operation is recycled and incorporated into shrink films with up to 50% recycled content.

Looking ahead

We will accelerate the reduction of waste to landfill worldwide. We are also setting up a programme to promote the circularity of residual materials and increase value created during their next use.

We are engaging and collaborating more with external partners, such as the Ellen MacArthur Foundation and through our CE100 membership.

Waste Hierarchy – in order of preference (data 2019*)

Destination	% of total
Reuse	0
Human consumption	1
Animal feed	81
Materials	7
Compost/soil improvement	5
Energy (biogas)	2
Combustion with energy recovery	1
Combustion without heat recovery	0
Landfill	3
Total	100

Recycling Recover Disposal

For more on our Drop the C programme approach and progress, see our **website** and **case studies**

* 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 2020.

Use of surplus yeast in Marmite production

Nutritious co-products of the brewing process have multiple uses across different industries and end-users. Our operating companies identify partners who value these co-products and can make use of them.

In the UK, our long-standing partnership with Unilever sees surplus yeast from the brewing process used as the main input for its iconic British brand, Marmite. In 2019, we renewed this ongoing partnership to last up until 2022.

Sourcing sustainably

Source raw materials from sustainable sources

2020 commitment
Aim for at least 50% of our main raw materials[4] to come from sustainable sources[5]

Our progress
More to do

Our contribution to the SDGs:
2.4 Sustainable food production systems and resilient agriculture

2 ZERO HUNGER

In 2019, an estimated 37% of our raw materials[4] came from sustainable sources (34% in 2018). Standards for sourcing sustainably cultivated crops are based on the globally-recognised principles of the Sustainable Agriculture Initiative Platform (SAI) and the farmers who supply us must respect more than 130 requirements[6].

Many of our global suppliers and local operating companies have made good progress by increasing volumes of sustainably sourced materials. Globally, 52% of all the barley, our main raw material, came from sustainable sources in 2019.

Local operating companies in countries such as Greece, Egypt and Mexico are increasing sustainable volumes of barley by developing specific farming practices in collaboration with partners.

- In Egypt, the focus has been on finding seed varieties to increase yields with fewer inputs. Cooperation with a local research centre resulted in the use of seeds with a shorter plantation cycle. They use 6% less water (compared to 2018) and have a higher yield and conversion rate from barley to malt.
- Greece delivered its first sustainable volumes with 7,300 tonnes of barley certified to bronze SAI level (2019 crop). Athenian Brewery is collaborating with breeders and universities to breed early maturation barley varieties to improve barley growers' yields.
- In Mexico, the Smart Farming programme launched in 2018 has focused on reducing agricultural inputs through technologies such as drip and sprinkler irrigation, conservation agriculture and precision farming. Results for the first pilots include a 28% reduction in fertiliser use and a 64% increase in barley yields.

Cool Farm Tool: measurement and improvement of farming practices

We have started to implement the 'Cool Farm Tool' to collect data on farming practices, water consumption, fertiliser and pesticide use and crop yields. The data is being used to calculate CO_2 emissions at farm level and will help to improve farming practices.

The tool is being tested by several suppliers and operating companies across six countries in Europe and Americas. Farmers of five raw materials are involved: barley, maize, hops, sugar cane and wheat. The initial results look promising, both in terms of the data that can be collected and the insights we will gain. The data helps us to improve farming practices, refine our sustainable agriculture approach and accurately measure the water footprint of our agricultural raw materials.

Barley project in Greece

Our brewery in Greece is working with partners to improve the yield and quality of local malting barley, including developing early maturation varieties. In 2019, over 7,000 tonnes of malting barley were certified to Sustainable Agriculture Initiative (SAI) bronze standard.

Reporting our suppliers' CO_2 emissions

CDP is the world's largest collection of self-reported climate change, water and forests data. This year, we adopted the CDP reporting approach for our raw materials suppliers to better understand their energy consumption and CO_2 emissions. 84% of raw materials suppliers responded to the questionnaire and we will use the data to develop CO_2 emissions reduction roadmaps with them.

Looking ahead

We are developing a new strategy for sustainable agriculture. It will embed a holistic sustainability approach that considers both impact on the planet, in particular CO_2 emissions reduction, and benefits to the communities we work with.

For more on our Sustainable Agriculture approach and progress, see our **website** and **case studies**

Sourcing sustainably

Source agricultural raw materials locally in Africa

2020 commitment
Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent[7]

Our progress
Off track

Our contribution to the SDGs:
2.3 Productivity and incomes of small scale farmers

2 ZERO HUNGER

In 2019, we sourced an estimated 44% of agricultural raw materials locally in Africa and the Middle East (up from 37% in 2018).

Twelve of our operating companies source locally across 32 different value chains. Our raw material purchases and our six Public-Private Partnerships (PPP) supported more than 140,000 farmer households in 2019.

Overall, our focus on value chain and recipe development has delivered a 19% year-on-year increase in the quantity of raw materials sourced in Africa.

- In Ethiopia, we increased domestic malt and barley purchases, significantly growing our proportion of locally sourced raw materials.
- Our sorghum programme in Sierra Leone saw the share of locally sourced raw materials double from 2018 levels.
- A similar increase was seen in Democratic Republic of Congo (DRC), driven by increased purchasing of local rice and sugar. This included 1,000 tonnes of rice sourced from five co-operatives in the Ruzizi valley through a pilot PPP with Agriterra.
- We extended our PPPs in DRC and Ivory Coast to the end of 2020 and we will start a new barley project in Ethiopia in 2020.
- The proportion of locally sourced raw materials in South Africa more than doubled in 2019 as a result of domestic sourcing of maize, sugar and apples for cider.
- We launched a programme to develop local barley production in eight countries. This alternative crop gives farmers the opportunity to diversify production, including in Rwanda where we have successfully completed the second year of trials in collaboration with the Rwanda Agriculture Board.

Despite good progress in many areas, local raw material sourcing has not kept pace with volume growth in key markets. It has also lagged behind the expansion of our business footprint in new markets, where there are initially lower local sourcing contributions. Furthermore, lack of processing capacity continues to be a factor in several markets. The decline in domestic sugar production in Africa, which has faced competition from cheaper imports from outside the continent, has also proved to be a challenge.

Looking ahead

Although we will not reach our 60% local sourcing target in 2020, we remain committed to achieving it. We are working with partners to increase processing capacity. In Ethiopia, two new malteries are expected to begin operating within a year, each providing an additional 60k tonnes annual processing capacity.

Extending the CREATE Project in Ethiopia

The CREATE Project has supported over 40,000 farmers in Ethiopia and increased our quantity of locally-sourced barley five-fold. We have extended the project to 2020 with two new malteries due to begin operating by the end of the year.

We will continue supporting farmers in Africa by providing access to new crops, improved varieties, agricultural and business skills training, and the inputs and finance they need to make the transition from subsistence to commercial farming.

For more on our Local Sourcing programme in Africa, progress and initiatives, see our **website** and **case studies**

Raw materials sourced in Africa

44%

Our 2020 target 60%

2019	**44%**
2018	37%
2017	42%
2016	49%
2015	49%

Sourcing sustainably

Compliance with our Supplier Code Procedure

2020 commitment
Ongoing 95% compliance with our 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 2019, we achieved 97% compliance with our Supplier Code Procedure across our operating companies, 2% above the target.

This was achieved despite implementation of a new strengthened methodology and assessment process during the year.

Following the update of our Supplier Code in 2018, our Global Procurement and Business Conduct functions have worked together to enhance the supplier screening and due diligence process.

Our risk-based screening covers the following areas:

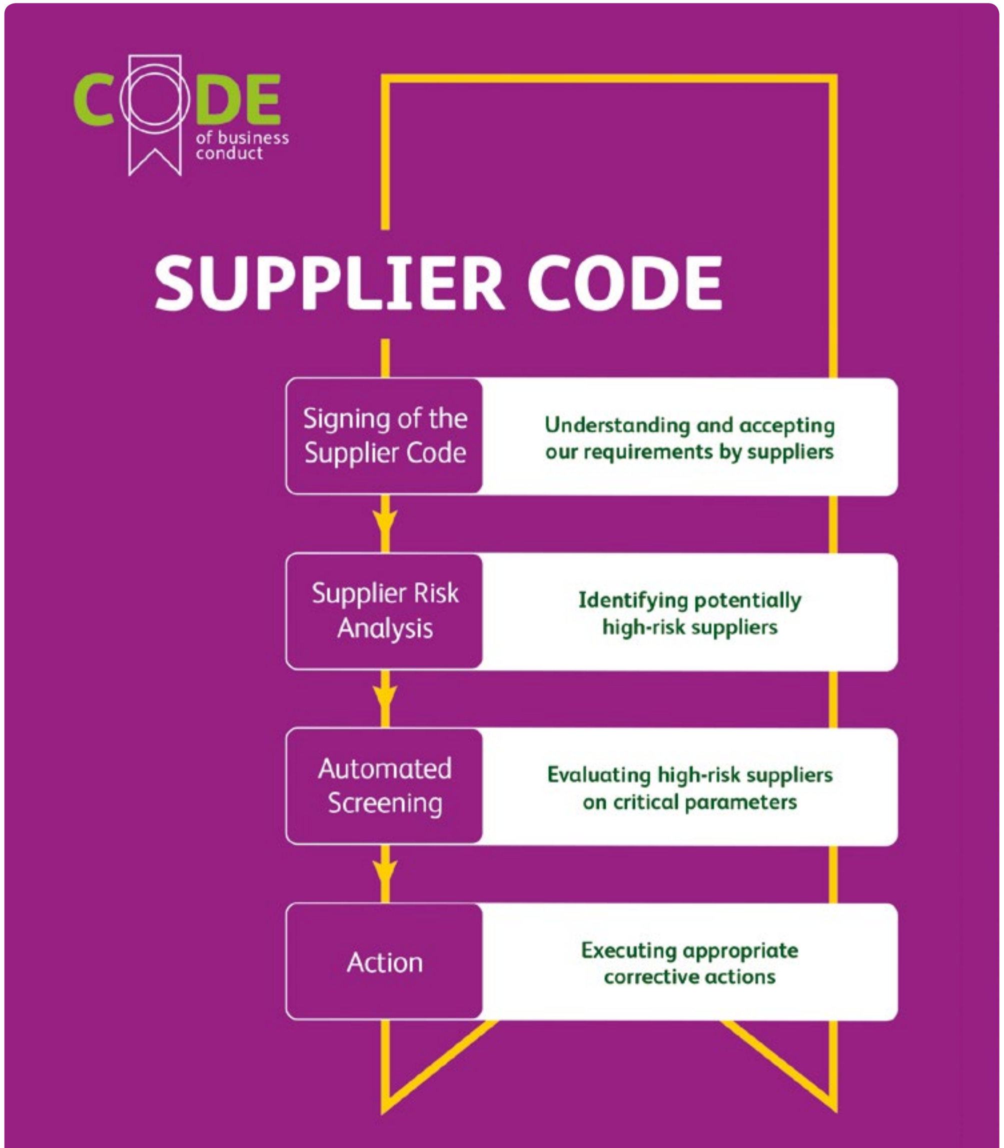
– sanctions;
– anti-bribery and anti-corruption;
– political exposure; and
– negative media coverage related to issues such as labour and human rights, health and safety, fraud, fair competition and anti-money laundering.

The process is now more automated through a supplier risk management tool. This allows us to identify elevated risks in our supply chain and focus on actions to mitigate them.

Looking ahead

We will continue to enhance our processes through the tool, extending the due diligence programme and implementing a new financial risk assessment module.

For more details on our Supplier Code Procedure and progress, see our **website**



Enhanced Supplier Code Procedure
We developed with suppliers targeted actions to mitigate identified risks.

Advocating responsible consumption

Make responsible consumption cool

2020 commitment
Invest 10% of Heineken® media budget to support responsible consumption programmes in every market where we sell and advertise Heineken®

Our progress
On track

Our contribution to the SDGs:
3.5 Strengthen the prevention of substance abuse

3 GOOD HEALTH AND WELL-BEING

We believe alcohol, when consumed in moderation, can be part of a well balanced lifestyle. That is why we are committed to advocating responsible consumption and supporting efforts to decrease harmful consumption.

In 2019, 63 markets in scope[8] (95%) invested at least 10% of media spend in dedicated responsible consumption campaigns (2018: 69 markets, 2017: 32).

Our Formula 1™ sponsorship provides a powerful global platform for responsible messaging and we continued to push our "No Compromises" campaign around the world.

The campaign features former F1™ World Champion, Nico Rosberg, and builds on learnings from behavioural psychology experiments carried out in 2018.

Many of our operating companies brought the responsibility message to life locally in 2019.

For example, in Vietnam we used behavioural change techniques to actively encourage consumers not to drink and drive across 12 bars in Hanoi and Ho Chi Minh City. Activities included visual "nudges", outlet staff training and consumer incentives.

Looking ahead

We will launch a new campaign featuring father and son combination, Nico and Keke Rosberg, in 2020.

Follow-up behavioural change programmes, designed to change the drink driving psychology and have a positive impact on road safety, are scheduled in Vietnam and Brazil.

In 2020, where possible, all our Formula 1™ track branding will feature Heineken® 0.0%.

For more details on our Responsible Consumption programme and progress, see our **website** and **case studies**

Formula 1™ track branding
In 2019, 30% of our visible TV track branding showcased responsible consumption messaging.

Advocating responsible consumption

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

3 GOOD HEALTH AND WELL-BEING

35 of the 37 markets in scope (95%) have a partnership in place to address alcohol-related harm.

These partnerships address at least one of the following alcohol-related harms: drink driving; underage drinking; excessive consumption; drinking while pregnant; or alcohol addiction.

In 2019, the scope included markets where we consider our business has an opportunity to make a positive contribution towards reducing the harmful use of alcohol. For other markets, including those preparing for a new ambition for 2030 and those with partnerships which are expiring, the commitment became optional.

– In Russia, we are tackling underage drinking in partnership with Pyati Veter and Harmony, the Institute of Psychotherapy and Counselling in St Petersburg. Psychologists work alongside teachers and parents to provide the knowledge and skills needed to support teenagers to deal with mental health challenges without resorting to alcohol.
– In Brazil, we continued our partnership with Maker Brands through the WeLab programme. WeLab supports young people between the ages of 18 – 24 to develop interpersonal skills and tools that enable them to manage the challenges they face, while developing a responsible relationship with alcohol.

Looking ahead

We will continue to develop and engage in partnerships in the markets in scope in 2020.

We will invest part of the Heineken® media budget to support responsible consumption programmes in every market where we sell Heineken® (see page 137).

For more details on our partnerships and progress, see our **website** and **case studies**

Training tourism and hospitality students in Papua New Guinea

Our South Pacific Brewery joined forces with the Australia Pacific Technical Coalition college to train tourism and hospitality students – the bar and restaurant operators of the future – on the importance of serving alcohol responsibly and preventing excessive and underage drinking.

Advocating responsible consumption

Increase transparency on ingredients and nutrition

Our commitment
Provide ingredient and nutrition information on pack **and** online for all beer and cider brands produced and sold **in the EU**

Provide ingredient and nutrition information on pack **and** online for all beer and cider brands produced and sold **outside the EU**

Our progress
More to do

Our contribution to the SDGs:
12.8 Ensure that people have the relevant information and awareness

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We are ahead of the industry and regulations with our commitment to provide consumers ingredients and nutrition information for our beer and cider brands, on pack or online.

By the end of 2019, an estimated 91% of our beer and cider brands[9] had ingredients, nutrition and Alcohol by Volume (ABV) information on pack or online.

Allergens are now highlighted in almost 70% of line extensions across the world.

Looking ahead

We will continue to monitor trends and regulation around consumer transparency. We will adjust our ambition and actions accordingly to comply with our ongoing commitment and industry best practice.

We will also increasingly use labelling to raise consumer awareness around packaging recycling and responsible consumption or our products.

In January 2020, the International Alliance for Responsible Drinking (IARD) announced the commitment of Member companies to add a clear age restriction symbol to all labels by 2024. HEINEKEN is a Member of IARD and will implement this commitment.

For more details on our approach to transparency on ingredients and nutrition and progress, see our **website**

Advocating responsible consumption

Driving innovation in low- and no-alcohol category

Our contribution to the SDGs:
3.5 Strengthen the prevention of substance abuse

3 GOOD HEALTH AND WELL-BEING

We believe it is important to offer choice to consumers who do not want to, or cannot, drink alcohol.

It drives us to continuously innovate in the area of low- and no-alcohol (LONO) drinks to provide a growing variety of brands that meet diverse consumer needs and expectations.

Responsible marketing remains a key consideration for this category. Our business is committed to marketing non-alcoholic products only to adults when the product is an extension of a brand containing alcohol.

Our global LONO portfolio now includes 348 line extensions across 123 brands.

By the end of 2019, LONO options made up 5.7% of HEINEKEN's total global volume (2018: 5.5%).

Our Zero Zone range of LONO beverages caters for different occasions to create a sustainable long-term business.

In 2019, we continued the expansion of Heineken® 0.0. It is now available in 57 markets, an increase of 19 markets since last year.

We strengthened our 0.0% Radler offers with breakthrough innovations like Dark Radler.

Across a growing number of countries and brands, we offer greater 0.0% variety in beer and energy drinks.

Looking ahead

In 2020, we will accelerate geographical expansion of LONO categories with additional focus on malt and increasing variety.

For more details on our low- and no-alcohol category, see our **website** and **case studies**

Zero Zone

Zero Zone offers LONO choice in a compelling way across thousands of outlets. Born in Poland and now spanning across Europe and Russia, Zero Zone has grown to become a bold, multi-company programme reaching some 21 million consumers.

Promoting health and safety

Safety performance

2020 commitment
Reduce accident frequency by 20% vs 2015

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

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

Fatal Accidents

We deeply regret that 11 people lost their lives while working for HEINEKEN in 2019 (2018: 17).

Four people were our employees and seven were employed by contractors or suppliers, with the accident occurring either on our premises or under HEINEKEN supervision.

Six fatalities were road traffic accidents, three occurred during construction, demolition or maintenance activities, one during manual handling activities, and one was the result of a crime-related incident.

For HEINEKEN, every accident is one too many. We fully investigate all fatal accidents, including those on the road where other road users are involved, and take action to prevent re-occurrence.

Actions extend across all relevant HEINEKEN operating companies to ensure lessons are learnt and that they have the biggest possible impact on everyone working in our Company.

Accident Frequency

Our accident frequency in 2019 was 0.84 per 100 FTE, down from 1.13 in 2018. This is a reduction of 39% compared to 2015, ahead of our 2020 target. There were 742 accidents that resulted in lost days among HEINEKEN employees: 389 in logistics and distribution; 170 in commerce; 163 in production; and 20 in other functions.

We want everyone who works for us to go home safe at the end of each working day and our target is zero fatal and serious accidents.

Our operating companies continue to drive improvements in safety performance in all areas of the business. The commitment of senior leadership was demonstrated during the year through communications and campaigns, including Global Safety Day which was celebrated worldwide with the active involvement of senior management.

We use telematics in our vehicles to monitor and improve safe driving behaviours and increase road safety. This contributed to a reduction in road accidents by 28% compared to 2018.

Our operating companies take action to prevent fires, explosions and accidental chemical releases in production environments through the Process Safety programme.

Fatal accidents*	2017	2018	2019***
Fatalities of Company personnel	6	3	4
Fatalities of Contractor personnel on site**	8	14	6
Fatalities of Contractor personnel off site**			1
Accidents (Absolute values)			
Accidents of Company personnel	806	1,000	742
Accidents of Contractor personnel	272	404	216
Lost Days of Company personnel	28,628	33,566	38,019
Permanent disabilities of Company personnel	1	1	0
Total Workforce	77,792	88,134	88,430
Accidents (Relative values)			
Lost Time Accident Frequency (per 100 FTE Company personnel)	1.04	1.13	0.84

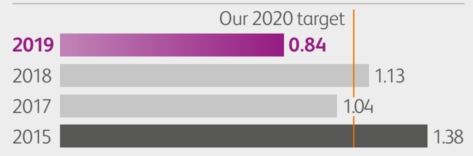
* Company personnel fatalities: 2 in Mexico; 1 in Brazil; 1 in Tunisia.
Contractor personnel fatalities: 2 in Brazil; 2 in the Democratic Republic of Congo; 1 in the Bahamas; 1 in Nigeria; 1 in Vietnam.
** Contractors who operate under our direct control (either because they work on HEINEKEN premises or are supervised by HEINEKEN management and work elsewhere).
*** The reporting period of the safety data presented in this chapter is December 2018 – November 2019 with the exception of fatal accident data which reflected the 2019 full year period.

Accelerating progress

To drive further improvements and accelerate our progress, Centres of Excellence bring together specialists from around the world. There are currently four safety Centres of Excellence: Machine Safety; Process Safety; Fork Lift Truck Safety; and Contractor Safety.

The Contractor Safety Centre of Excellence aims to improve contractor safety throughout the supply chain, including during major construction projects. It is responsible for revising contractor safety procedures, sharing good practice and closing knowledge gaps. Output is fed into the Global Safety Strategy, which maintains a strong focus on contractor safety.

Lost Time Accident frequency
accidents per 100 FTE
0.84



For more detailed information on our health and safety performance, see our **website** and **case studies**

Promoting health and safety

Safety performance (continued)

Safer driving using Telematics

We use Telematics in all Company-owned, rented or leased vehicles to reduce driving-related accidents. Telematics provide 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. At HEINEKEN Ireland, telematics data have delivered clear improvements; unsafe driving events were reduced by 53% and speeding events by 35% during the first eight months of the programme. The success is down to close co-operation between functions, driven by the safety manager, draught beer service representative, sales representative and draught policy co-ordinator (pictured).

Life Saving Rules

2020 commitment

Full compliance with Life Saving Rules

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

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

The HEINEKEN Life Saving Rules are global rules and related principles and programmes dedicated to improving process safety across our highest safety risks. The Life Saving Rules are a key tool for preventing serious and fatal accidents and all operating companies are required to comply with them.

We increased investment to accelerate implementation of the Rules globally and delivery is now nearing completion. It has established many basic conditions to support people to work in a safer way.

At the end of 2019, the compliance level was:

– 92% in breweries;

– 95% in projects, commerce, distribution and logistics

Process Safety Management

The Process Safety Management programme is designed to address risks related to pressurised equipment like boilers, ammonia cooling plants, CO_2 plants and air compressors. This is a complex area which can have significant implications for safety and business continuity (beer cannot be produced without steam or cooling).

While leakages and other incidents do not occur frequently, they can have potentially severe consequences when they do.

We have taken important steps to raise awareness of the risks and ensure safe actions. These include setting performance targets, developing a robust monitoring process and training over 200 colleagues in utilities, maintenance and safety functions to be able to assess barriers in pressurised equipment. An external specialised party (DNV-GL) assessed the status of Process Safety Management across the majority of production units and resulting development actions were performed by the Centres of Excellence.

Looking ahead

In 2020, we will implement an updated Global Safety Strategy with a strong focus on risk reduction in the priority areas of road safety, contractor safety and safety leadership.

For more details on our Life Saving Rules and progress, see our **website** and **case studies**

Growing with communities

Investing in communities

Our contribution to the SDGs:

3.1 Reduce the global maternal mortality

3.2 End preventable deaths of newborns and children under 5

6.1 Achieve universal and equitable access to safe drinking water

€10.7m
committed to 119 health and water projects since 2007

€19.3m
invested in local sourcing projects since 2009

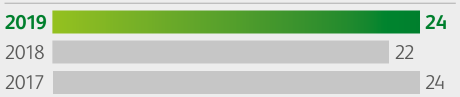
Direct contributions

More than 4,750 employees in 35 markets gave over 22,800 hours to volunteering in 2019.

HEINEKEN operating companies contributed almost €24 million to local communities, including cash and in-kind donations, employee time and management costs.

Total direct contributions by our operating companies

€24m



Shared value projects

Our regional sourcing projects in Africa aim to create jobs, strengthen the agricultural sector and improve the lives of rural households. In total, they provide market access to more than 140,000 farmer households.

Since 2009, we have invested €5.2 million in cash and €14.1 million in equipment and people through our PPP projects in Burundi, DRC, Ethiopia, Ivory Coast, Nigeria, Rwanda, Sierra Leone, and South Africa. This excludes additional third party funding leveraged by our contributions.

The HEINEKEN Africa Foundation

Many communities in the Sub-Saharan African countries where we operate lack access to basic healthcare and clean water.

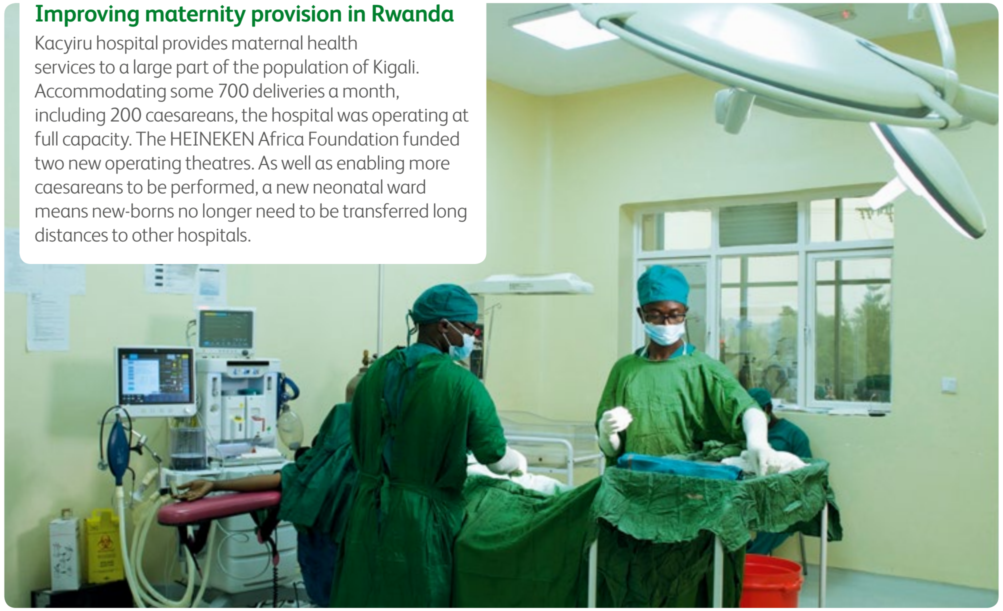
The HEINEKEN Africa Foundation supports projects that improve the health of people who need it most.

Since it was established in 2007, the Foundation has committed €10.7 million to 119 projects, of which 39 projects were still running in 2019.

It approved seven new projects involving a total investment of almost €720,000 in 2019. They include the renovation of mother and child health departments at health centres in Addis Ababa, Ethiopia and Lubumbashi, DRC, and equipment for a neonatal intensive care unit in Benin City, Nigeria. Three more projects will bring drinking water to communities in Burundi and Sierra Leone.

Over the years, the Foundation has developed strong expertise in Mother & Child Healthcare and Water, Sanitation and Hygiene (WASH). These areas are crucial for the earliest years of life and are highly interdependent; small improvements can have a big impact on communities, now and in the future.

For more detailed information on our support to the communities, see our **website** and **case studies**



Improving maternity provision in Rwanda

Kacyiru hospital provides maternal health services to a large part of the population of Kigali. Accommodating some 700 deliveries a month, including 200 caesareans, the hospital was operating at full capacity. The HEINEKEN Africa Foundation funded two new operating theatres. As well as enabling more caesareans to be performed, a new neonatal ward means new-borns no longer need to be transferred long distances to other hospitals.

HEINEKEN Global Volunteer Day

Organised by procurement teams across our operating companies, Global Volunteer Day saw 24 hours of voluntary work performed by HEINEKEN employees all over the world, beginning in New Zealand and ending on the USA West Coast.

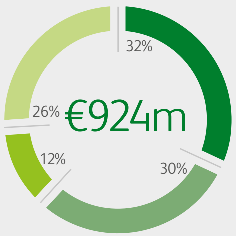
Growing with communities

Creating economic and social impact

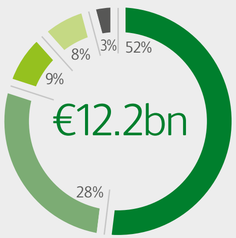
The taxes we pay are an important part of our contribution to national economies. They support development in the many countries in which we operate.

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.

Corporate income tax paid by geographical regions



Total tax contribution per category



In support of HEINEKEN's business priorities, we pursue a tax strategy that is sustainable and transparent.

Our tax strategy is based on a number of key tax 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.
- We do not use tax havens for tax avoidance purposes and we do not engage in artificial tax arrangements that are intended for tax avoidance.
- We fully support and follow the OECD transfer pricing guidelines, transactions between HEINEKEN companies are according to the 'arm's length' principle.
- We pursue an open and constructive dialogue with tax authorities that is based on mutual respect, transparency and trust. We have co-operative compliance relationships with tax authorities in various countries.

For more on our approach to tax, see our **website**

27.6%
effective income tax rate (beia)

River2River Journey in Indonesia

In Sampang Agung, Indonesia, we started a three-year programme called River2River Journey. Its aim is to restore the water quality in the Cumpleng watershed. The river, which is near our brewery, suffers from pollution caused by domestic waste, especially used diapers. The programme will be a multi-stakeholder effort involving governments, businesses, community groups and media.

Values and behaviours

We are committed to conducting business with integrity and fairness, with respect for the law and in line with the values described in our manifesto 'We are HEINEKEN'.

This commitment is outlined in our Code of Business Conduct and underlying 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 Organisation for Economic Cooperation and Development (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. It explains what we are committed to and what is expected of our employees. The underlying policies give further practical guidance on specific topics outlined in the Code.

We provide ongoing communication and training to employees worldwide to raise awareness of the Code and its underlying policies.

In 2019, we launched a new mandatory Code of Business Conduct training which exposes employees to practical business conduct dilemmas.

As of the end of 2019, more than 53,000 employees had completed the new training online or in the classroom.

As a multinational company 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.

HEINEKEN's anti-bribery framework is designed to minimise the risk of, and exposure to, bribery-related incidents in our operations. It supports employees to manage their daily challenges and meet applicable legal requirements. Key elements of the framework include third party screening and visits to selected operations to assess bribery risks.

Anti-bribery e-learning builds employees' capabilities to recognise and deal with potential bribery dilemmas they may encounter through their work. The programme consists of three training modules and is mandatory for groups of employees across key functions. By the end of 2019, 21,517 employees had completed one or more modules of the training programme. We keep reasonable and proportionate oversight of 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.

Several Speak Up channels enable people to 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.

In 2019, we received 1,699 reports of suspected misconduct through Speak Up (2018: 1,293). The continued increase is due to successful awareness-raising, launch of Speak Up in newly acquired operations and the maturity of our Speak Up programme.

Code of Business Conduct training
HEINEKEN Russia Sales department team completed a classroom Code of Business Conduct training in our Moscow Sales office.

Speak Up reports received concerned allegations of fraud (27%), discrimination and harassment (25%), conflicts of interest (11%) and other issues (37%).

31% 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.

For more details on our Code of Business Conduct, see our **website**

Brand Promoters

Brand Promoters are ambassadors for our products, helping us to demonstrate the value of our products directly to our consumers across the world. We are very proud of the work they do, and in return we want Brand Promoters to feel proud of their work with us.

Ensuring safe working conditions for brand promoters is our aim and is an ongoing process which we updated on in last year's Annual Report, and continue to do so on our website. Building on our existing Brand Promoters Policy, detailed training, and ongoing independent assessments, throughout 2019 we continued to make improvements and embedded Brand Promoters' safety across our business.

In 2019, we delivered training to 23,000 Brand Promoters, agencies and our own employees worldwide. Through the year HEINEKEN's Global Audit team carried out audits in 12 countries, which showed how global implementation of the Brand Promoters Policy has progressed since its introduction in 2018. To externally validate our progress in implementing the Policy, we carried out extensive independent, third-party assessments throughout 2019. These were undertaken by independent expert assessors at Partner Africa, Impactt and Arche Advisors across 18 countries in Africa, Asia and the Americas, including interviews with a total of 387 Brand Promoters. Overall, the assessment results found that significant further progress has been made to improve the working environment for Brand Promoters.

We recognise that changing the working conditions of Brand Promoters globally is an ongoing process, and we have made it a clear objective to take a leading role in delivering positive change. We are working together with NGOs, third party agencies, and Brand Promoters themselves to continue to make this change happen.

For more details on our Brand Promoters policies, actions and results, and the third party assessments in the regions, see our **website**

Inclusion and diversity

As a global company with operations in over 70 markets, HEINEKEN is essentially multi-cultural. We use the power of our diversity to create an inclusive environment where everyone matters and where we all have equal opportunity to contribute to our business success.

Engaging employees

We develop inclusive capabilities among our employees and support all markets to implement local Inclusion and Diversity (I&D) action plans.

Some 900 leaders, including the General Managers and the Global Functional Leadership Teams, have now attended inclusive leadership workshops. We are also tackling unconscious bias; this kicked off in 2019 with a pilot covering our Americas Region and the Head Office.

Our global community of 80+ ambassadors supports management teams around the world to understand and respond to local opportunities and requirements to meet our global I&D aspirations.

Embedding inclusive practices

Operating companies and global functions integrate I&D into their people plans, talent management strategies, employee engagement survey and everyday business practices. We have published internal Inclusive Practices to guide people in embracing I&D.

61 nationalities among our senior managers

23% female representation at senior levels

900 leaders attended an inclusive leadership workshop

Diversity

At the end of 2019, there were 61 nationalities among our senior managers (2018: 66).

Our ambition is to increase the gender balance of our Senior Managers; female representation at senior levels increased to 23% (2018: 20%, 2017: 19%, 2016: 17%).

Representation by gender in 2019	% male	% female
Supervisory Board	60	40
Executive Board	50	50
Executive Team	80	20
Senior Management	77	23

HEINEKEN Open & Proud

2019 was the year HEINEKEN Open & Proud (HOP) was launched. The purpose of this new global employee community is to foster an open and inclusive workplace that values the contribution of all employees, including members of the LGBT+ community.

HOP will act as a lighthouse to guide operating companies with a clear and supportive central message for employees across the HEINEKEN organisation.

In 2019, HEINEKEN participated in the iconic Amsterdam Pride Canal Parade, joined by our CEO and many employees from around the world. We also attended other Pride events, including in New York and São Paulo.

We are a member of Workplace Pride, a not for profit foundation dedicated to improving the lives of Lesbians, Gays, Bisexuals, Transgenders and Intersex people in workplaces all over the world.

HOP
HEINEKEN OPEN & PROUD

Women@HEINEKEN
Ambassadors of the Heineken Mexico Women@ HEINEKEN network.

Supporting Women@HEINEKEN

We launched the Women Interactive network (WIN) in early 2019. It is a company-wide programme to support talented female leaders in their development and career progression.

Our companies also have local initiatives. Since 2016, the Heineken Mexico Women@ HEINEKEN network of 29 ambassadors has worked together with one simple purpose: bringing women together to help other women.

The group has played a central role in empowering women through initiatives to develop themselves, support others and become leaders in creating an inclusive workplace. Women@HEINEKEN shows how helping others is an opportunity to develop oneself, with 41% of the original ambassador having secured a new position.

For more details on our Inclusion & Diversity programmes, actions and plans, see our **website**

Respecting Human Rights

We use the UN Guiding Principles on Business and Human Rights as a guide to understand, avoid and address human rights-related risks in our operations and supply chain.

Our human rights due diligence process focuses on a number of key areas:

– assessing and prioritising human rights risks;
– integrating the Human Rights Policy into ways of working;
– tracking and auditing policy implementation; and
– reporting progress internally and externally.

We engage with external stakeholders to gather feedback and observations. This includes consulting with international NGOs and relevant local stakeholders as part of our local Human Rights Risk Assessments.

Assess

We started conducting Human Rights Risk Assessments and running action planning workshops in 2016. They help to embed our global human rights agenda in the identification and prioritisation of human rights risks at local levels.

To date, we have completed risk assessments and workshops in 15 operating companies: Brazil, Cambodia, DRC, Ethiopia, Haiti, Hungary, Indonesia, Jamaica, Mexico, Myanmar, New Zealand, Nigeria, South Africa, Timor-Leste and the UK.

We conduct risk assessments with Shift, the global leading expert on the UN Guiding Principles on Business and Human Rights.

Following the workshops, operating companies develop practical and relevant action plans to address the identified potential human rights risks for their business.

We will continue to deliver workshops in 2020 and will strengthen regional governance structures and improve human rights monitoring.

Integrate and act

Based on the human rights risks identified through our work with Shift, we revised our Human Rights Policy in 2018.

In 2019, we developed practical implementation guidance for operating companies and we plan to roll out more detailed guidance on specific principles within the Human Rights Policy in 2020.

Embedding the Human Rights Policy across our activities requires support, understanding and commitment from all functions and regions.

Internally, regional cross-functional platforms aim to embed human rights in our ways of working and address human rights-related issues in each region. Regional governance platforms support delivery of action plans by focusing time and resources on key risks for the region.

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 and/or our Supplier Code.

Track

The HEINEKEN risk control framework embeds respect for human rights in our internal controls. Chaired by the CFO, the HEINEKEN Risk Committee maintains oversight of agreed programmes and actions to strengthen respect for human rights. Each operating company must check their own policies and practices against the Human Rights Policy and implementation guidelines.

Human Rights Due Diligence framework

The human rights due diligence is the process by which we embed our policy in our way of working.

In 2019, the internal Global Audit function conducted in-depth reviews with 12 operating companies around the world. With the support of KPMG, Global Audit has increased capacity to review operating companies against the following key principles set out in our Human Rights Policy, namely: Rest and leisure; Fair wages; and Non-discrimination.

In 2019, we continued to commission independent third party audits of our outsourcing practices, working with Partner Africa, Impactt and Arche. The outcomes of audits enable us to address areas for improvement including strengthening our guidelines for outsourcing decisions and supporting respect for human rights of non-employee workers. These third party assessments will continue in 2020.

Communicate

We report our human rights commitments, progress and dilemmas openly and honestly to our stakeholders.

In 2019, our Corporate Human Rights Benchmark score increased for the third consecutive year.

Internally, we provide dedicated webinars and training for all regions on the implementation guidelines for our Human Rights Policy.

We plan to increase internal communications on Human Rights in 2020.

For more details on our Human Rights Policy, actions and plans, including the Good Governance Platforms, see our **website**

Reporting basis and governance of non-financial indicators

We continue to disclose our financial and Brewing a Better World performance in one combined, integrated annual report.

We believe it is important to provide independent confirmation that the information in this report is reliable and accurate, hence Deloitte provides limited assurance on 34 of the most important non-financial indicators[10].

More information about our actions and progress in 2019, other non-financial KPIs, and background information, can be found in datasheets and the GRI and Environmental tables, Basis of Preparation of Non-Financial Information and other disclosures we make available online[11].

Brewing a Better World Governance

Our governance model for Brewing a Better World ensures we deliver against our commitments both globally and locally. Brewing a Better World progress is one of the key topics of HEINEKEN Executive Team discussions, chaired by our CEO. Being one of five 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. Significant changes in definitions are subject to approval by the Executive Board. 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 effective implementation of Brewing a Better World initiatives across the business.

Focus on sustainability is embedded throughout the business, for example driven by Supply Chain (Every Drop and Drop the C), Procurement (Sustainable Sourcing), HR (Health and Safety) and Commerce (Responsible Consumption). As a part of 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 operating company level) are responsible for defining ambitions and targets, and for implementing, delivering, monitoring and reporting progress on their respective indicators.

Corporate Affairs and the Global Sustainable Development team 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 responsibility for sustainability reporting and a team engaged in delivering Brewing a Better World.

The 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 2019 up to and including 31 December 2019, unless stated otherwise. A different reporting period is applied to the accident frequency indicator (December 2018 – November 2019) 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 of 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, unless stated otherwise.

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 and distillery.

New acquisitions and greenfield breweries are included in the consolidated reporting after the first full calendar year of their operation.

In 2019, we started reporting on six new sites in Mexico (Meoqui), USA (Chicago and Petaluma of our craft brewer Lagunitas), Mozambique (Marracuene), New Caledonia (Monte Dore) and Indonesia (Sampang Agung soft drink plant). Two production units have been excluded from Brewing a Better World reporting in 2019, following changes in ownership and operations (Cieszyn in Poland and Monterrey ice plant in Mexico).

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, or 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; and/or
- The combination of KPIs should give a balanced, high level overview of our progress in 2019.

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)

As a part of HEINEKEN Risk management process, we assess main risks that could hinder HEINEKEN in achieving its strategy and business objectives. In 2019, as part of this risk management process, we concluded that three Environmental, Social and Governance (ESG) related risks should be included as key risks. The three risks are: limited availability of natural resources which could impact our supply chain continuity; the impact and speed of environmental regulations; and the increased scrutiny of society on companies. These risks are included in this report.

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), Rosslyn, Zycus, and the EcoVadis Platform for Supplier Code and performance information, Ethics Point for 'Speak Up' data, CiL for low- and no-alcohol indicator, and MyHR for Inclusion & Diversity information

– 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.

Reliability and accuracy of data

We have processes governing the collection, review and validation of the non-financial data included in this report, at both local operating company and global level.

We apply uniform definitions and instructions for reporting purposes 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. We are continuously strengthening our data collection processes and underlying controls. Our operating companies and data owners report fairly and in accordance with agreed procedures and instructions, however, it is still not possible to ascertain full completeness and accuracy of data contained in our report. Operating companies are at differing maturity levels in terms of implementing data collection and reporting processes. Where we have concerns, we highlight them in the report.

HEINEKEN internal audit function, Global Audit, is involved in the annual review of the non-financial 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 of Non-Financial Information' 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

Reporting basis and governance of non-financial indicators (continued)

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
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. Because water from a watershed is shared by many, 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 and 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)[12]. 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 consider our fridges '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

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 2019 for delivery in 2020 are reported in this 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 (AME) 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, divided by the total quantity of raw materials purchased within the 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), plus the number of farmers supported with training in our PPP projects

Reporting basis and governance of non-financial indicators (continued)

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
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), and Dutch NGOs Agriterra, 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. Signing. By signing the HEINEKEN Supplier Code, suppliers agree to comply with our principles of integrity, environmental care and human rights. 2. Risk analysis. 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 identifies 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. In 2019, we updated the SRA questionnaire and the methodology of risk assessment to reflect current developments in business environment. As a result, more suppliers go to Step 3 as in the previous years. 3. Screening. We screen our suppliers based on four key risk drivers: (1) sanctions, (2) anti-bribery and anti-corruption, (3) state-owned entities and politically exposed persons, (4) adverse media (human and labour rights, health, safety and environment, fair competition, fraud, and anti-money laundering). 4. Action. All medium and high risk suppliers identified in Step 3 have to go through the Step 4 “Action”, which has several options of follow up actions: contract termination, training, contract clause, enhanced due-diligence, annual certification, or supplier on-site audits.
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. Suppliers with derogations are included in the calculation as compliant

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. Since 2018, it applies 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 HEINEKEN operating companies with the exemption of those in Islamic countries, export markets, markets where we have a Joint Venture and minimal-volume markets where allocating resources to such partnerships is unrealistic. As of 2019, the scope includes markets where we feel our business could make a positive contribution to reducing the harmful use of alcohol. For other markets, where partnerships have already delivered what we aspired or partnerships are expiring and markets are preparing for a new, sustainable ambition 2030, this commitment became optional. 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. Since 2018, our target applies to our cider brands and other beer brands around the world. 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 2018 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
Responsible Marketing Code	The Code, renewed in 2018, 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 systematically addresses 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
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
Lost time 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

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 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 (including 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 long-standing 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
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[13]

Africa, Middle East & Eastern Europe

Operating company/Business Unit	Location
Tango	Algeria
Brarudi	Burundi
Bralima	Democratic Republic of Congo
Al Ahram Beverages Company	Egypt
Heineken Breweries	Ethiopia
Harar Brewery	Ethiopia
Bedele Brewery	Ethiopia
Brassivoire	Ivory Coast
Heineken East Africa Import Company	Kenya
Brasseries de Bourbon	La Réunion
Almaza	Lebanon
Heineken Mozambique	Mozambique
Nigerian Breweries	Nigeria
Heineken Breweries	Russia
Bralirwa	Rwanda
Sierra Leone Brewery	Sierra Leone
Heineken South Africa	South Africa
Nouvelle de Brasserie 'Sonobra'	Tunisia

Americas

Commonwealth Brewery	Bahamas
Cervejarias Kaiser Brasil	Brazil
Bavaria	Brazil
Heineken Canada	Canada
Brasserie Nationale d'Haiti	Haiti
Desnoes & Geddes	Jamaica
Cuauhtémoc Moctezuma	Mexico
Cerveceria Panama	Panama
Windward & Leeward Brewery	St. Lucia
Surinaamse Brouwerij	Surinam
Heineken USA	USA
Lagunitas Brewing Company	USA

Reporting basis and governance of non-financial indicators (continued)

Asia Pacific

Operating company/Business Unit	Location
Cambodia Brewery	Cambodia
Heineken Timor L'Este	East Timor
PT Multi Bintang Indonesia	Indonesia
Heineken Japan	Japan
Lao Asia Pacific Breweries	Laos
Heineken Malaysia Berhad	Malaysia
APB Alliance Brewery	Myanmar
Grande Brasserie de Nouvelle Caledonie	New Caledonia
DB Breweries	New Zealand
South Pacific Brewery	Papua New Guinea
AB Heineken Philippines	Philippines
Heineken Asia Pacific	Singapore
Asia Pacific Breweries (Singapore)	Singapore
Heineken Asia Pacific Export	Singapore
Solomon Breweries	Solomon Islands
Heineken Korea	South Korea
Heineken Lanka	Sri Lanka
Heineken Taiwan	Taiwan
Heineken Vietnam Brewery	Vietnam

Europe

Operating company/Business Unit	Location
Brau Union Österreich	Austria
Brouwerijen Alken-Maes	Belgium
Mouterij Albert	Belgium
Stassen	Belgium
Zagorka	Bulgaria
Heineken Hrvatska	Croatia
Heineken Ceská Republika	Czech Republic
Heineken France	France
Heineken Deutschland	Germany
Athenian Brewery	Greece
Heineken Hungaria	Hungary
Heineken Ireland	Ireland
Heineken Italia	Italy
Heineken Netherlands Commerce	Netherlands
Heineken Netherlands Supply	Netherlands
Vrumona	Netherlands
Grupa Żywiec	Poland
Sociedade Central de Cervejas e Bebidas	Portugal
Heineken Romania	Romania
Heineken Serbia	Serbia
Heineken Slovensko	Slovakia
Pivovarna Laško Union	Slovenia
Heineken España	Spain
Heineken Switzerland	Switzerland
Heineken UK	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

Footnotes

1 24 production units in Algeria, Egypt, Ethiopia, Indonesia, Mexico, Nigeria, Spain and Tunisia. Production units include beverage production and malting plant. The remaining 9 sites – Bedele, Lagos, Ibadan, Sango-Ota, Ijebu-Ode, Rouiba, Grombalia, Grombalia SOFT and Ksar Lemsa – are in project identification phase.

2 Cabotage is the haulage of goods for hire or reward in one member state by a vehicle registered in a different member state.

3 Less than 2% of total co-products and waste sent to landfill.

4 In scope: 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).

5 We follow the definition for sustainable agriculture set out by the Sustainable Agriculture Initiative (SAI).

6 Audit for crop 2018 and 2019 will take place this year, performed by Control Union.

7 We refer to sourcing within the region of Africa and the Middle East: 86.1% domestic and 13.9% regional sourcing. Based upon volume (in tonnes).

8 Scope: The scope includes all consolidated operating companies, Joint ventures and export markets selling Heineken® and investing media spend. Exception are export markets, operating companies in 'dark markets' where media advertising is not allowed according to government regulations or local brewing associations.

9 Based on 2018 sales data. This commitment excludes brands under 6,000HL and licensed brands. 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.

10 27 of these indicators are included in this report, the remaining ones will be published online by the end of March 2020.

11 To be published end of March 2020.

12 This specific indicator will be disclosed end of March 2020 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.

13 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 of Non-Financial Information' which can be found on the Company website.

Changes in the reporting scope in 2019: Heineken China operating entities have been transferred to CR Beer as part of our strategic partnership with China Resources Enterprises; Heineken Hanoi Brewery and Heineken Vietnam Brewery were merged into one operating company, Heineken Vietnam; Mouterij Albert and Stassen are now part of Brouwerijen Alken-Maes. Heineken Netherlands is split into 3 companies: Heineken Netherlands Commerce, Heineken Netherlands Supply and Vrumona.

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 2019 included in the Annual Report 2019

Our opinion

We have audited the accompanying financial statements for 2019 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 2019, and of its result and its cash flows for 2019 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 2019, and of its result for the year 2019 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 2019.
– The following statements for 2019: 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 2019.
– The Company income statement for 2019.
– 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 audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at €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.

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

We agreed with the supervisory board that misstatements in excess of €10 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Heineken 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). Decisive were size and/or risk profile of the components. On this basis, we selected components for which an audit or review had to be carried out on the complete set of financial information or specific items.

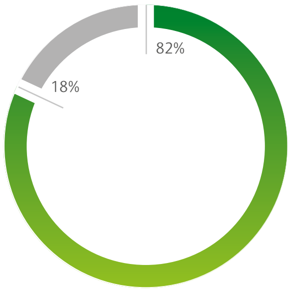
Our group audit mainly focused on significant group entities in terms of size and financial interest or where significant risks or complex activities were present, leading to full scope audits performed for 25 components.

Independent Auditor's Report (continued)

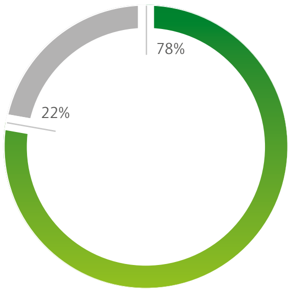
We have performed audit procedures ourselves at corporate entities and the operations in the Netherlands. Furthermore, we performed audit procedures at group level on areas such as consolidation, disclosures, goodwill, intangible assets, joint ventures, financial instruments, acquisitions and divestments. 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, France, Nigeria, Vietnam, Poland, Italy, Greece, Portugal, HUSA, Lagunitas, New Zealand and South Africa) 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.

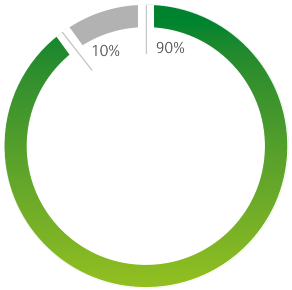
Revenues



PBT



Assets



Full scope auditor coverage
Other coverage

Scope of fraud and non-compliance with laws and regulations

In accordance with Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error.

Inherent to our responsibilities for the audit of the financial statements, there is an unavoidable risk that material misstatements go undetected, even though the audit is planned and performed in accordance with Dutch law. The risk of undetected material misstatements due to fraud is even higher, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Also, we are not responsible for the prevention and detection of fraud and non-compliance with all laws and regulations. Our audit procedures differ from a forensic or legal investigation, which often have a more in-depth character.

In identifying potential risks of material misstatement due to fraud and non-compliance with laws and regulations we evaluated the Company's risk assessment, had inquiries with management, those charged with governance and others within the group including but not limited to, in-house legal teams, compliance officers, internal audit and financial reporting teams. We further involved a forensic specialist, evaluated integrity committee reports (which include the Company's speak up reports) and material litigation reports.

Following these procedures, and the presumed risks under the prevailing audit standards, we considered fraud risks related to management override of controls (presumed), and related to the valuation of accrued liabilities for promotional allowances and rebates. Our audit procedures to respond to these fraud risks included, amongst others, an evaluation of relevant internal controls and supplementary substantive audit procedures, including detailed testing of journal entries. Data analytics, including analyses for high risk journals, are part of our audit approach to address fraud risks, which could have a material impact on the financial statements. Our response in addressing fraud risks related to promotion allowances and rebates, and the potential bias in significant estimates has been detailed in our key audit matters.

Resulting from our risk assessment procedures, and whilst considering that effects from non-compliance could considerably vary, we considered adherence to (corporate) tax law and financial reporting with a direct effect on the financial statements as an integrated part of our audit procedures to the extent material for the related financial statements. Apart from these, the Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance through imposing fines or litigation. Examples of such other laws and regulations are those relating to anti-bribery and corruption, competition and data privacy laws, and human rights. As required by auditing standards, we performed audit procedures to identify non-compliance with these laws and regulations through inquiries with management, those charged with governance and others within the group and inspection of relevant correspondence with regulatory authorities. We also inspected lawyers' letters and remained alert to indications of (suspected) non-compliance throughout the audit, held inquiries with group legal counsel and internal audit, and obtained a written representation that all known instances of (suspected) non-compliance with laws and regulations were disclosed to us.

Independent Auditor's Report (continued)

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed. The key audit matters are consistent with these identified in the prior year with the addition of the Company's implementation of IFRS 16 'Leases'. Other than the sale of operating entities in China and Hong Kong that were already classified as held for sale in the 2018 financial statements and completion of the announced acquisition of an effective economic interest in China Resources Beer (Holdings) Co. Ltd., no significant business acquisitions or disposals took place. Consequently, we did not include a separate key audit matter related to acquisitions and disposals in current year's auditor's report.

The following 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 a wide variety of discounts, promotional allowances and volume rebates to its on-trade and off-trade customers. Unconditional discounts are recognized at the same moment as the related sales transaction. The Company also provides conditional discounts which 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 at balance sheet date. Because of the level of judgement involved and the inherent fraud risks presumed, we have considered the recognition of promotional allowances and volume rebates under IFRS 15 Revenue *From Contracts with Customers* 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, 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 evaluate 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.
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.

Recoverability of non-current assets

Risk	Intangible assets (including goodwill) and property, plant and equipment amounted to EUR 31,038 million at December 31, 2019 and represent close to 67 percent of the Company's total assets. These assets are allocated to cash generating units and groups thereof for which management is required to assess the recoverability of goodwill. Recoverability of other non-current assets 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 2019, for a total amount of EUR 72 million. Procedures over management's impairment test are considered to be a key audit matter given the level of judgement and complexity involved with the valuation models and assumptions used within these models.
How the scope of our audit responded to the risk	We evaluated 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. For our audit we evaluated and tested the assumptions, the discount rates, methodologies and data used by the Company, for example by comparing them to external data such as expected inflation rates, external market growth expectations and by analysing sensitivities in the Company's valuation model. We included valuation specialists in our team to assist us. In addition, we specifically focused on the sensitivity in the available headroom of CGUs and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also obtained supporting evidence for impairments recognized in the year.
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.

Independent Auditor's Report (continued)

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. 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 tax liability. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available, against which unused tax losses can be utilised. For payments related to the contingent tax liabilities specifically, the Company changed its accounting policy in response to the IFRIC agenda decision on Deposits Relating to Taxes other than Income Tax. These payments are now recognised as an asset on the balance sheet when it is probable that the Company will recover the payment. In the identification and accounting for payments relating to contingent liabilities significant judgement is applied by the Company. The accounting for tax assets and uncertain tax positions, as detailed in notes 12 and 9.3 to the financial statements, is significant to our audit because of the level of judgement that is applied in quantifying appropriate provisions (including assessing probable outcomes) for uncertain tax positions, and in determining the recoverability of tax assets.
How the scope of our audit responded to the risk	We obtained a detailed understanding of the Company's tax process and controls to identify exposures including uncertainties related to excises, sales taxes and corporate income taxes. Involving our own in-country tax specialists, 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, case law and assessed opinions from third party tax advisors. More specifically, for tax assets recognised, we evaluated the Company's recoverability assessment including the likelihood of generating sufficient future taxable income. Finally we considered the adequacy of the Company's disclosures in notes 3, 12 and 9.3 regarding payments to contingent liabilities, uncertain tax positions and recognized tax assets.
Observation	We have evaluated the provisions for uncertain tax positions and the valuation of tax assets as well as the related disclosure in notes 3, 12 and 9.3 and have no reportable findings.

Internal controls over financial reporting

Risk	The Company has implemented a control framework and operates various processes and procedures that are important for reliable financial reporting. These processes are operated both centrally as well as locally. We identified the Company's internal controls over financial reporting as an area of focus as we consider internal controls over financial reporting as a basis for designing our procedures for the audit. In those instances where accounting procedures, associated IT and process level controls are not designed and/or operating effectively, there are risks associated with financial reporting to which we need to tailor our audit procedures.
How the scope of our audit responded to the risk	We have performed audit procedures on both the centrally and locally established process level controls of the Company, including those relating to the various information technology platforms. We performed walkthroughs to gain an understanding of the entity and to identify relevant controls. We have tested the design of those controls and, where effective for the audit, we also tested their operating effectiveness. In cases of deficiencies, we have evaluated the compensating controls and measures of the Company and/or tailored procedures our procedures to address the risk. We are however not required nor engaged to perform an audit of internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal controls over financial reporting.
Observation	We have communicated our observations on internal controls over financial reporting to the company's audit committee. Where deemed necessary, we have mitigated the effect of internal control observations through testing alternative controls or by extending our substantive audit procedures. Overall, we have obtained sufficient and appropriate evidence in response to the related financial reporting risks.

Independent Auditor's Report (continued)

Implementation of IFRS 16 Leases

Risk	The Company implemented the new leasing standard through the modified retrospective approach with cumulative effects recognised as an adjustment to retained earnings at January 1, 2019 and no restatement of the comparative information. Following the implementation the Company recorded an EUR 1,034 million right-of-use asset, EUR 252 million lease receivable and EUR 1,252 million lease liability at January 1, 2019. The implementation of the standard requires judgement in establishing among others the incremental borrowing rate and the lease term. Because of the material impact on the statement of financial position and these risk factors, we have considered the implementation of IFRS 16 to be a key audit matter relevant to our audit of the financial statements.
How the scope of our audit responded to the risk	Our audit procedures included amongst others that together with an IFRS specialist we have evaluated the appropriateness of the Company's accounting policies, management's judgements and related disclosures which are included in note 4 to the financial statements. At group and component level we have evaluated relevant controls and performed substantive testing of the related assets, liabilities and flows of transactions. Furthermore we have involved our valuation specialists to test the appropriateness of the incremental borrowing rate applied by the Company.
Observation	We did not identify any reportable matters regarding the implementation of IFRS 16 and the corresponding disclosures in note 4.

Report on the other information included in the Annual Report 2019

In addition to the financial statements and our auditor's report thereon, the Annual report 2019 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.

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.

Independent Auditor's Report (continued)

Our responsibilities for the audit of the financial statements

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

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not 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.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Amsterdam, 11 February 2020

Deloitte Accountants B.V.

Initials for identification purposes:

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 31 December 2019 ("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 production units in water-stressed areas that started to implement their action plan for Water Balancing
- No. of sites without water treatment plant

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 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)
- % of OpCos compliant with four-step Supplier Code Procedure

Advocating responsible consumption

- % of companies who achieved 10% target for annual EHR investment
- Number of OpCos having a relevant and active 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 logistics)
- 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 (2018 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 2019 on page 148.

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, 11 February 2020

Deloitte Accountants B.V.
J. Dalhuisen

Shareholder Information

Investor Relations

HEINEKEN is committed to maintaining an open and constructive dialogue with shareholders and bondholders. HEINEKEN aims to keep shareholders and bondholders updated by informing them clearly, accurately and in a timely manner 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 issued at the level of Heineken Holding N.V. These shares are 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 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 2019, the average daily trading volume of Heineken N.V. shares was 603,174 shares.

Market capitalisation Heineken N.V.

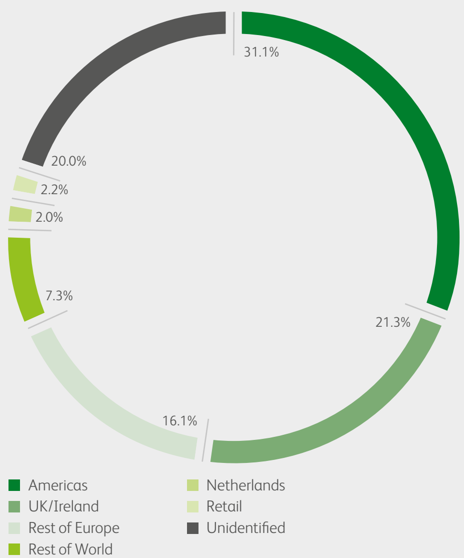
Shares outstanding as at 31 December 2019: 575,308,043 shares of €1.60 nominal value (excluding own shares held by the Company).

At a year-end price of €94.92 on 31 December 2019, the market capitalisation of Heineken N.V. on the balance sheet date was €54.6 billion.

Year-end price	€94.92	31 December 2019
Highest closing price	€103.05	26 July 2019
Lowest closing price	€75.08	14 January 2019

Share distribution by geography Heineken N.V. shares*

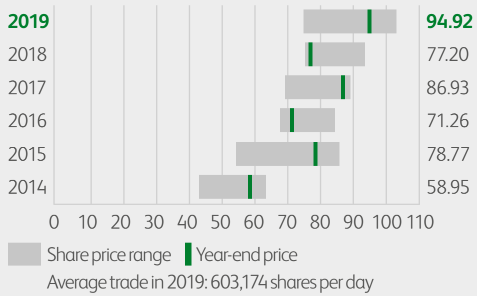
Based on 238.3 million shares in free float (excluding the holding of Heineken Holding N.V. and FEMSA in Heineken N.V.)



* Source: Cmi2i estimate based on available information December 2019.

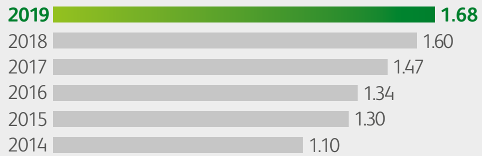
Heineken N.V. share price

In €, Euronext Amsterdam



Dividend per share

In €



Heineken Holding N.V. shares

The shares of Heineken Holding N.V. are traded on Euronext Amsterdam. The shares are listed under ISIN code NL0000008977. Prices for the shares may be accessed on Bloomberg under the symbol HEIO.NA and on the Reuters Equities 2000 Service under HEIO.AS.

In 2019, the average daily trading volume of Heineken Holding N.V. shares was 109,119 shares.

Shareholder Information (continued)

Market capitalisation Heineken Holding N.V.

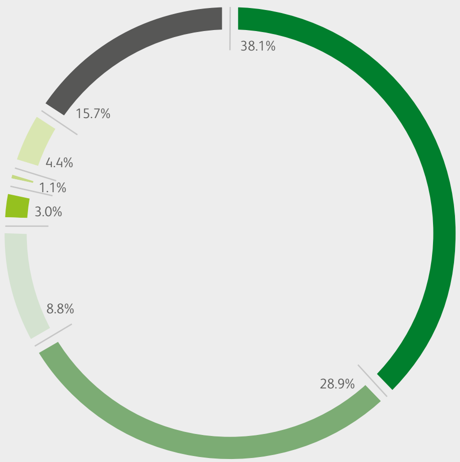
Shares outstanding as at 31 December 2019: 288,030,168 shares of €1.60 nominal value.

At a year-end price of €86.40 on 31 December 2019, the market capitalisation of Heineken Holding N.V. on balance sheet date was €24.9 billion.

Year-end price	€86.40	31 December 2019
Highest closing price	€96.40	26 July 2019
Lowest closing price	€72.80	14 January 2019

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.)

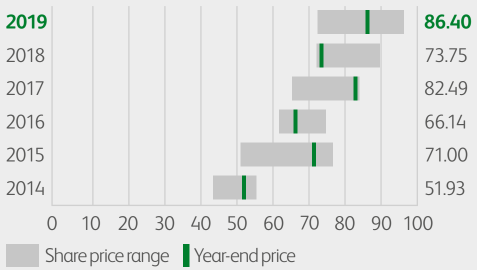


- Americas
- UK/Ireland
- Rest of Europe
- Rest of World
- Netherlands
- Retail
- Unidentified

* Source: Cmi2i estimate based on available information December 2019.

Heineken Holding N.V.

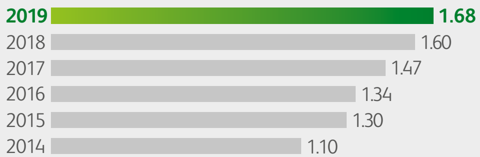
In €, Euronext Amsterdam



Average trade in 2019: 109,119 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

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Shareholder Service (international) Tel. +1 718 921 8137

www.astfinancial.com

Shareholder Information (continued)

Financial calendar in 2020 for both Heineken N.V. and Heineken Holding N.V.

Announcement of 2019 results	12 February
Publication of Annual Report 2019	21 February
Trading update first quarter 2020	22 April
Annual General Meeting of Shareholders	23 April
Quotation ex-final dividend 2019	27 April
Final dividend 2019 payable	7 May
Announcement of half year results 2020	3 August
Quotation ex-interim dividend 2020	5 August
Interim dividend 2020 payable	13 August
Trading update third quarter 2020	28 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 are related to the annual development of the net profit before exceptional items and amortisation of brands (net profit beia), which translates in a dividend pay-out of 30-40%.

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 2019. The programme allows Heineken N.V. to issue Notes for a total amount of up to €20 billion. Approximately €9.3 billion is outstanding under the programme per 31 December 2019.

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 2019 Annual Report.

In 2019 the following notes were issued under HEINEKEN's Euro Medium Term Note Programme:

- In May 2019, €200 million of 2-year Fixed Rate to Floating Rate Notes with an initial coupon of 0.00%
- In June 2019, €100 million tap into 17 March 2031 Notes with a yield of 1.23%, which are listed on the Luxembourg Stock Exchange
- In July 2019, €200 million tap into 4 May 2026 Notes with a yield of 0.28%, which are listed on the Luxembourg Stock Exchange

Traded Heineken N.V. Notes	Issue date	Total face value	Interest rate	Maturity	ISIN code
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 1,000 million[1]	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 2031	3 October 2017	EUR 800 million	1.500%	3 October 2029	XS1691781865
EUR EMTN 2031	17 September 2018	EUR 750 million[2]	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

[1] Includes EUR 200 million tap issued on 15 July 2019.
[2] Includes EUR 100 million tap issued on 5 June 2019.

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

Traded Heineken Asia MTN 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 MTN Pte. Ltd. Notes are listed on the Singapore Exchange.

HEINEKEN has a €2.0 billion Euro Commercial Paper (ECP) programme to facilitate its cash management operations and to diversify its funding sources. There was €532 million ECP in issue per 31 December 2019.

Historical Summary

	2019	2018[1]	2017	2016	2015
Revenue and profit					
In millions of €					
Revenue[2]	28,521	26,811	25,843	20,792	20,511
Net revenue[3]	23,969	22,489	21,609	N/A	N/A
Net revenue (beia)	23,894	22,471	21,629	N/A	N/A
Operating profit	3,633	3,121	3,352	2,755	3,075
Operating profit (beia)	4,020	3,808	3,759	3,540	3,381
as % of net revenue[3]	16.8	16.9	17.4	17.0	16.5
as % of total assets	8.6	9.0	9.2	9.0	8.4[4]
Net profit	2,166	1,913	1,935	1,540	1,892
Net profit (beia)	2,517	2,385	2,247	2,098	2,048
as % of shareholders' equity	15.6	16.4	16.9	15.8	15.1
Dividend (proposed)	967	912	838	763	741
as % of net profit (beia)	38.4	38.2	37.3	36.4	36.2
Per share					
In €					
Cash flow from operating activities	7.56	7.70	6.81	6.53	6.10
Net profit (beia) – basic	4.39	4.18	3.94	3.68	3.58
Net profit (beia) – diluted	4.38	4.18	3.94	3.68	3.57
Dividend (proposed)	1.68	1.60	1.47	1.34	1.30
Shareholders' equity	28.15	25.48	23.37	23.24	23.65

	2019	2018[1]	2017	2016	2015
Cash flow statement					
In millions of €					
Cash flow from operations	5,556	5,540	4,924	4,720	4,486
Cash flow related to interest, dividend and income tax	(1,219)	(1,152)	(1,042)	(1,002)	(997)
Cash flow from operating activities	4,337	4,388	3,882	3,718	3,489
Cash flow (used in)/from operational investing activities	(2,109)	(2,142)	(1,851)	(1,945)	(1,797)
Free operating cash flow	2,228	2,246	2,031	1,773	1,692
Cash flow (used in)/from acquisitions and disposals	(2,764)	(213)	(1,114)	(62)	(267)
Dividends paid	(1,223)	(1,090)	(1,011)	(1,031)	(909)
Cash flow (used in)/from financing activities, excluding dividend	207	123	45	359	(264)
Net cash flow	(1,552)	1,066	(49)	1,039	252
Cash conversion ratio	80.2%	85.4%	81.1%	75.0%	73.3%
Financing ratios					
Net debt/EBITDA (beia)	2.6	2.3	2.5	2.3	2.4

[1] Restated for IAS 37.
[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).
[4] Comparative figure for 2015 has been revised to reflect the change in accounting policy on netting cash and overdraft balances in cash pooling arrangements with legally enforceable rights to offset.

Historical Summary (continued)

	2019	2018[1]	2017	2016	2015
Operating profit (beia)/net interest expense (beia)	9.2	9.4	10.1	10.0	9.6
Free operating cash flow/net debt	15%	19%	16%	16%	15%
Net debt/total equity	0.95	0.83	0.89	0.77	0.76

Financing

In millions of €

	2019	2018[1]	2017	2016	2015
Share capital	922	922	922	922	922
Reserves and retained earnings	15,225	13,603	12,399	12,316	12,613
Shareholders' equity	**16,147**	**14,525**	**13,321**	**13,238**	**13,535**
Non-controlling interest	1,164	1,183	1,200	1,335	1,535
Total equity	**17,311**	**15,708**	**14,521**	**14,573**	**15,070**
Post-retirement obligations	1,189	954	1,289	1,420	1,289
Provisions (including deferred tax liabilities)	2,362	2,428	2,643	2,128	2,332
Non-current borrowings	13,366	12,628	12,166	10,920	10,626
Other liabilities (excluding provisions)	12,276	10,433	10,415	10,280	10,805
Liabilities (excluding provisions and post-retirement obligations)	**25,642**	**23,061**	**22,581**	**21,200**	**21,431**
Total equity and liabilities	**46,504**	**42,151**	**41,034**	**39,321**	**40,122**
Shareholders' equity/(post-retirement obligations, provisions and liabilities)	**0.55**	**0.55**	**0.50**	**0.53**	**0.54**

Employment of capital

In millions of €

	2019	2018[1]	2017	2016	2015
Property, plant and equipment	13,269	11,359	11,117	9,232	9,552
Intangible assets	17,769	17,459	17,670	17,424	18,183
Other non-current assets	7,047	4,208	3,999	4,528	4,065
Total non-current assets	**38,085**	**33,026**	**32,786**	**31,184**	**31,800**
Inventories	2,213	1,920	1,814	1,618	1,702
Trade and other current assets	4,385	4,302	3,992	3,484	3,372
Cash, cash equivalents and current other investments	1,821	2,903	2,442	3,035	3,248
Total current assets	**8,419**	**9,125**	**8,248**	**8,137**	**8,322**
Total assets	**46,504**	**42,151**	**41,034**	**39,321**	**40,122**
Total equity/total non-current assets	**0.45**	**0.48**	**0.44**	**0.47**	**0.47**
Current assets/current liabilities (excluding provisions)	**0.69**	**0.89**	**0.80**	**0.79**	**0.77**

[1] Restated for IAS 37.

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 acquisitions and 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.

Group net revenue (beia)
Consolidated net revenue (beia) plus attributable share of net revenue (beia) from joint ventures and associates.

Group operating profit (beia)
Consolidated operating profit (beia) plus attributable share of operating profit (beia) from joint ventures and associates, excluding Head Office and eliminations.

Net debt
Non-current and current interest bearing borrowings (incl. lease liabilities), bank overdrafts 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.

Net revenue per hectolitre
Net revenue divided by total consolidated volume.

Glossary (continued)

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.

Price mix on a constant geographic basis
Refers to the different components that influence net revenue per hectolitre, namely the changes in the absolute price of each individual sku and their weight in the portfolio. The weight of the countries in the total revenue in the base year is kept constant.

Profit
Total profit of HEINEKEN before deduction of non-controlling interests.

®
All brand names mentioned in this report, including those brand names not marked by an ®, represent registered trademarks and are legally protected.

Region
A region is defined as HEINEKEN's managerial classification of countries into geographical units.

Volume

Brand specific volume (Heineken® volume, Amstel® volume, etc.)
Brand volume produced and sold by consolidated companies plus 100% of brand volume sold under licence agreements by joint ventures, associates and third parties.

Beer volume
Beer volume produced and sold by consolidated companies.

Non-beer volume
Cider, soft drinks and other non-beer volume produced and sold by consolidated companies.

Third party products volume
Volume of third party products (beer and non-beer) resold by consolidated companies.

Total consolidated volume
The sum of beer volume, non-beer volume and third party products volume.

Licensed volume
100% of volume from HEINEKEN's beer brands sold under licence agreements by joint ventures, associates and third parties.

Group beer volume
The sum of beer volume, licensed beer volume and attributable share of beer volume from joint ventures and associates.

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 shares that would be issued on conversion of the dilutive potential shares into 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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www.theHEINEKENcompany.com

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Heineken N.V. Annual Report 2019

HEINEKEN