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Consolidated income statement

For the year ended 31 December 2006

In millions of EUR	Note	2006	2005*
Revenue	5	11,829	10,796
Other income	7	379	63
Raw materials, consumables and services	8	7,376	6,657
Personnel expenses	9	2,241	2,180
Amortisation, depreciation and impairments	10	786	768
Total expenses		10,403	9,605
Results from operating activities		1,805	1,254
Interest income		52	60
Interest expenses		(185)	(199)
Other net finance income	11	11	25
Net finance expenses		(122)	(114)
Share of profit of associates		27	29
Profit before income tax		1,710	1,169
Income tax expense	12	(365)	(300)
Profit		1,345	869
Attributable to:			
Equity holders of the Company (net profit)		1,211	761
Minority interest		134	108
Profit		1,345	869
Weighted average number of shares – basic	23	489,712,594	489,974,594
Weighted average number of shares – diluted	23	489,974,594	489,974,594
Basic earnings per share	23	2.47	1.55
Diluted earnings per share	23	2.47	1.55

* Restated for comparison purposes, see note 3 significant accounting policies.

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

In millions of EUR	Note	2006	2005
Foreign currency translation differences for foreign operations		(84)	201
IFRS transitional adjustments prior year		(10)	–
Transition to IAS 32 and 39:			
Change in hedging and fair value reserve		–	67
Change in retained earnings		–	(23)
Cash flow hedges:			
Effective portion of changes in fair value		50	(63)
Net changes in fair value transferred to the income statement		–	7
Net change in fair value available for sale investments		48	17
Income and expense recognised directly in equity	22	4	206
Profit		1,345	869
Total recognised income and expense		1,349	1,075
Attributable to:			
Equity holders of the Company		1,246	909
Minority interest		103	166
Total recognised income and expense		1,349	1,075

Consolidated balance sheet

As at 31 December 2006

In millions of EUR	Note	2006	2005
Assets			
Property, plant & equipment	13	4,944	5,067
Intangible assets	14	2,449	2,380
Investments in associates	15	186	172
Other Investments	16	786	646
Deferred tax assets	17	395	286
Total non-current assets		8,760	8,551
Inventories	18	893	883
Other Investments	16	12	23
Trade and other receivables	19	1,917	1,787
Cash and cash equivalents	20	1,374	585
Assets classified as held for sale	21	41	–
Total current assets		4,237	3,278
Total assets		12,997	11,829
Equity			
Share capital		784	784
Reserves		666	568
Retained earnings		3,559	2,617
Equity attributable to equity holders of the company	22	5,009	3,969
Minority interests		511	545
Total equity		5,520	4,514
Liabilities			
Loans and borrowings	25	2,091	2,233
Employee benefits	26	665	664
Provisions	28	242	273
Deferred tax liabilities	17	471	393
Total non-current liabilities		3,469	3,563
Bank overdraft	25	747	351
Loans and borrowings	25	494	709
Trade and other payables	29	2,496	2,451
Tax liabilities		149	141
Provisions	28	122	100
Total current liabilities		4,008	3,752
Total liabilities		7,477	7,315
Total equity and liabilities		12,997	11,829

Consolidated statement of cash flows

For the year ended 31 December 2006

In millions of EUR	Note	2006	2005*
Operating activities			
Profit		1,345	869
Adjustments for:			
Depreciation, amortisation and impairments	10	786	768
Net interest expenses		133	139
Gain on sale of property, plant & equipment, intangible assets and subsidiaries, joint ventures and associates	7	(379)	(63)
Investment income and share of profit of associates		(40)	(42)
Income tax expense	12	365	300
Other non-cash items		285	368
Cash flow from operations before changes in working capital and provisions		2,495	2,339
Change in inventories		(50)	(18)
Change in trade and other receivables		46	(76)
Change in trade and other payables		102	208
Total change in working capital		98	114
Change in provisions and employee benefits		(211)	(240)
Cash flow from operations		2,382	2,213
Interest paid & received		(138)	(141)
Dividend received		13	20
Income taxes paid		(408)	(220)
Cash flow used for interest, dividend and income tax		(533)	(341)
Cash flow from operating activities		1,849	1,872
Investing activities			
Proceeds from sale of property, plant & equipment and intangible assets		182	161
Purchase of property, plant & equipment	13	(844)	(853)
Purchase of intangible assets	14	(33)	(21)
Loans and advances issued to customers and other investments		(166)	(152)
Repayment on loans and advances to customers		134	131
Cash flow used in operational investing activities		(727)	(734)
Acquisition of subsidiaries, joint ventures, minority interests and associates, net of cash acquired		(113)	(730)
Disposal of subsidiaries, joint ventures, minority interests and associates, net of cash disposed		41	270
Cash flow used for acquisitions and disposals		(72)	(460)
Cash flow used in investing activities		(799)	(1,194)

In millions of EUR	Note	2006	2005*
Financing activities			
Proceeds from long-term borrowings		262	363
Repayment of long-term borrowings		(578)	(700)
Dividends paid		(294)	(271)
Purchase own shares	22	(14)	–
Other		(25)	16
Cash flows used in financing activities		(649)	(592)
Net Cash Flow		401	86
Cash and cash equivalents at 1 January		234	161
Effect of movements in exchange rates		(8)	(13)
Cash and cash equivalents at 31 December	20	627	234

* Restated for comparison purposes, see note 3 significant accounting policies.

Notes to the consolidated financial statements

1 Reporting entity

Heineken N.V. (the 'Company') is a company domiciled in the Netherlands. The address of the Company's registered office is Vijzelstraat 72, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as 'Heineken' or the 'Group') and Heineken's interest in joint ventures and associates.

A summary of the main subsidiaries, joint ventures and associates is included in note 34, 35 and 15.

Heineken is primarily involved in brewing and selling of beer.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements have been prepared by the Executive Board of the Company and authorised for issue on 20 February 2007 and will be submitted for approval to the Annual General Meeting of Shareholders on 19 April 2007.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- available-for-sale investments are measured at fair value
- investments at fair value through profit and loss are measured at fair value
- derivative financial instruments are measured at fair value
- liabilities for equity-settled share-based payment arrangements are measured at fair value

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 business combinations.
- Note 14 measurement of the recoverable amounts of cash-generating units.
- Note 17 utilisation of tax losses.
- Note 26 measurement of defined benefit obligations.
- Note 27 measurement of share-based payments – Long-Term Incentive Plan.
- Note 28 and 32 provisions and contingencies.
- Note 30 valuation of financial instruments.

3 Significant accounting policies

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

The adoption in 2005 of IAS 32 and 39 financial instruments by Heineken and its effect on the balance sheet as at 1 January 2005 is disclosed in note 24.

Certain comparative amounts have been reclassified to conform with current year's presentation of geographical segmentation (see note 5) and of gains and losses on sale of property, plant & equipment, intangible assets and subsidiaries, joint ventures and associates (see note 7).

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by Heineken. Control exists when Heineken has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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 have been changed where necessary to ensure consistency with the policies adopted by Heineken.

(ii) *Associates*

Associates are those entities in which Heineken has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include Heineken's share of the total recognised income and expenses of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When Heineken's share of losses exceeds the carrying amount of the associate, 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.

(iii) *Joint ventures*

Joint ventures are those entities over whose activities Heineken has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The consolidated financial statements include Heineken's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

(iv) *Transactions eliminated on consolidation*

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

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Heineken entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement, except for

Notes to the consolidated financial statements continued

3 Significant accounting policies continued

differences arising on the retranslation of available-for-sale (equity) investments. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost remain translated into the functional currency at historical exchange rates.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Euro at exchange rates at the balance sheet date. The revenue and expenses of foreign operations are translated to Euro at exchange rates approximating the exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised directly in equity as a separate component. Since 1 January 2004, the date of transition to IFRS, such differences have been recognised in the translation reserve. The cumulative currency differences at the date of transition to IFRS were deemed to be zero. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

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

In EUR	Year end		Average	
	2006	2005	2006	2005
CLP	0.001423	0.001651	0.001502	0.001442
EGP	0.133333	0.148588	0.138910	0.139265
NGN	0.005910	0.006464	0.006217	0.006137
PLN	0.261097	0.259081	0.256988	0.248562
RUB	0.028825	0.029416	0.029323	0.028442
SGD	0.495050	0.510204	0.501968	0.483394
USD	0.758380	0.845380	0.797258	0.804366

(c) Non-derivative financial instruments

(i) General

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

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

A financial instrument is recognised if Heineken becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if Heineken's contractual rights to the cash flows from the financial assets expire or if Heineken transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that Heineken commits itself to purchase or sell the asset. Financial liabilities are derecognised if Heineken's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of Heineken's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for interest income and expenses and net finance expenses is discussed in note 3(o).

(ii) Held to maturity investments

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

Held to maturity investments include advances and loans to customers of Heineken.

(iii) Available-for-sale investments

Heineken's investments in equity securities and certain debt securities are classified as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, except for impairment losses (see note 3h(i)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3b(i)), are recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement. Available-for-sale investments are recognised/derecognised by Heineken on the date it commits to purchase/sell the investments.

(iv) Investments at fair value through profit or loss

An investment is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Investments are designated at fair value through profit or loss if Heineken manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transactions costs are recognised in the income statement when incurred.

Investments at fair value through profit or loss are classified as current assets and are measured at fair value, with changes therein recognised in the income statement. Investments at fair value through profit and loss are recognised/derecognised by Heineken on the date it commits to purchase/sell the investments.

(v) Share capital – repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

(d) Derivative financial instruments

(i) General

Heineken uses derivative financial instruments to hedge its exposure to foreign currency and interest rate risks exposures.

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

The fair value of interest rate swaps is the estimated amount that Heineken would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counter parties.

(ii) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

Notes to the consolidated financial statements
continued**3 Significant accounting policies continued**

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

(iii) Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

(e) Property, Plant and Equipment (P, P & E)**(i) Owned assets**

Items of property, plant and equipment are measured at cost less government grants received (refer iv), accumulated depreciation (refer v) and impairment losses (refer accounting policy 3h(ii)).

Cost comprises the initial purchase price increased with expenditures directly attributable to the acquisition of the asset (like transports and non-recoverable taxes). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use (like an appropriate proportion of production overheads).

Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and amortised as part of the equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which Heineken assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition P, P & E acquired by way of finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Other leases are operating leases and are not recognised on Heineken's balance sheet.

(iii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Heineken and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iv) Government grants

Government grants related to plant, property and equipment and grants relating to research and development activities are recognised when it is reasonably assured that Heineken will comply with the conditions attaching to them and the grants will be received.

(v) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

- Buildings 30-40 years
- Plant and equipment 10-30 years
- Other fixed assets 5-10 years

The depreciation methods, residual value as well as the useful lives are reassessed annually.

(vi) Gains and losses on sale

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

(f) Intangible assets

(i) Goodwill

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

Goodwill arising on the acquisition of associates is included in the carrying value of the associate.

In respect of acquisitions prior to 1 October 2003, goodwill is included on the basis of deemed cost, being the amount recorded under previous GAAP.

Goodwill on acquisitions purchased before 1 January 2003 has been deducted from equity.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Goodwill is measured at cost less accumulated impairment losses (refer accounting policy 3h(ii)). Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the associate.

Negative goodwill is recognised directly in the income statement.

(ii) Brands

Brands acquired, separately, or as part of a business combination are capitalised as part of a brand portfolio if the portfolio meets the definition of an intangible asset and the recognition criteria are satisfied. Brand portfolios acquired as part of a business combination include the customer base related to the brand because it is assumed that brands have no value without a customer base and vice versa. Brand portfolios acquired as part of a business combination are valued at fair value based on the royalty relief method. Brands and brand portfolio's acquired separately are measured at cost. Brands and brand portfolio's are amortised on a straight-line basis over their estimated useful life.

Notes to the consolidated financial statements continued

3 Significant accounting policies continued

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

Purchased software is measured at cost less accumulated amortisation (refer v) and impairment losses (refer accounting policy 3h(ii)). Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in the income statement when incurred.

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

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

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

Other intangible assets that are acquired by Heineken are measured at cost less accumulated amortisation (refer v) and impairment losses (refer accounting policy 3h(ii)). Expenditure on internally generated goodwill and brands is recognised in the income statement when incurred.

(iv) Subsequent expenditure

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

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use. The estimated useful lives are as follows:

- Brands 15-25 years
- Software 3 years
- Capitalised development costs 3 years

(vi) Gains and losses on sale

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

(g) Inventories

(i) General

Inventories are measured at the lower of cost and net realisable value, based on the First In First Out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(ii) Finished products and work in progress

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

(iii) Other inventories and spare parts

The cost of other inventories is based on weighted averages.

Spare parts are valued at the lower of cost and net realisable value. Value reductions and usage of parts are charged to the income statement. Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and amortised as part of the equipment.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of Heineken's non-financial assets, other than inventories (refer accounting policy g) and deferred tax assets (refer accounting policy p), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements
continued**3 Significant accounting policies continued****(i) Assets held for sale**

Non-current 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 remeasured in accordance with Heineken's accounting policies. Thereafter the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with Heineken's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

(j) Employee benefits**(i) Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(ii) Defined benefit plans

Heineken's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at balance sheet date on AA rated bonds that have maturity dates approximating the terms of Heineken's obligations.

The calculations are performed by qualified actuaries using the projected unit credit method. Where the calculation results in a benefit to Heineken, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In respect of actuarial gains and losses that arise, Heineken applies the corridor method in calculating the obligation in respect of a plan. To the extent that any cumulative unrecognised actuarial gain or loss exceeds ten per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(iii) Other long-term employee benefits

Heineken's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating the terms of Heineken's obligations. The obligation is calculated using the projected unit credit method.

(iv) Termination benefits

Termination benefits are recognised as an expense when Heineken is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised

if Heineken has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(v) Share-based payment plan (long-term incentive plan)

At 1 January 2005 Heineken established a share plan for the Executive Board members (see note 27), as at 1 January 2006 Heineken also established a share plan for senior management members (see note 27).

The share plan for the Executive Board is fully based on external performance conditions, whilst the plan for senior management members is for 25 per cent based on external market performance conditions and for 75 per cent on internal performance conditions.

The grant date fair value of the share rights granted is recognised as personnel expenses with a corresponding increase in equity. The costs of the share plan for the Executive Board members are spread evenly over the performance period. The costs of the share plan for senior management members are spread evenly over the performance period and are partly adjusted to reflect the actual number of share rights that will vest.

The fair value is measured at grant date using the Monte Carlo model taking into account the terms and conditions of the plan.

(vi) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term benefits if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

(i) General

A provision is recognised if, as a result of a past event, Heineken has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(ii) Restructuring

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

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by Heineken from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Heineken recognises any impairment loss on the assets associated with that contract.

(l) Revenue

(i) Products sold

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of sales tax, excise duties, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in the income statement when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have

Notes to the consolidated financial statements
continued**3 Significant accounting policies continued**

been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

(ii) Other revenue

Other revenue are proceeds from sale of by-products, POS material, royalties, rental income and technical services to third parties, net of sales tax. Sales of by-products and POS materials are recognised in the income statement when ownership has been transferred to the buyer. Royalties are recognised in the income statement on an accrual basis in accordance with the substance of the relevant agreement. Rental income and technical services are recognised in the income statement when the services have been delivered.

(m) Other income

Other income are gains from sale of P, P & E, intangible assets and (interests in) subsidiaries, joint ventures and associates, net of sales tax. They are recognised in the income statement when ownership has been transferred to the buyer.

(n) Expenses**(i) Operating lease payments**

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

(ii) Finance lease payments

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

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

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

Other finance income comprises dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in the income statement. Dividend income is recognised on the date that Heineken's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Other finance expenses comprise unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in the income statement.

(p) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial

recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that the Company is able to control the timing of the reversal of the temporary difference and they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share

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

(r) Segment reporting

A segment is a distinguishable component of Heineken that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Heineken's primary format for segment information is based on geographical segments.

(s) New standards not yet adopted

The following new standard and amendment to standard is not yet effective for the year ended 31 December 2006, and has not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which will become mandatory for Heineken's 2007 financial statements, will require additional disclosures with respect to Heineken's financial instruments and share capital.

Notes to the consolidated financial statements
continued

4 Determination of fair values

(i) General

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

(ii) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property, plant & equipment, fixtures and fittings is based on the quoted market prices for similar items.

(iii) Intangible assets

The fair value of brands acquired in a business combination is based on 'relief of royalty' method. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iv) Inventory

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

(v) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(vi) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(vii) Derivative financial instruments

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is in general estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on interbank interest rates).

The fair value of interest rate swaps is estimated by discounting the difference between cash flows resulting from the contractual interest rates of both legs of the transaction, taking into account current interest rates and the current creditworthiness of the swap counter parties.

(viii) Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Segment reporting

General

Segment information is presented only in respect of geographical segments consistent with Heineken's management and internal reporting structure. Over 80 per cent of the Heineken sales consist of beer. The risks and rewards in respect of sales of other beverages do not differ significantly from beer, as such no business segments are reported.

Inter-segment pricing is determined on an arm's-length basis.

Segment results, assets and liabilities 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 expense. Unallocated assets comprise current other investments and cash call deposits.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, goodwill and other intangible assets.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Export revenue and results are also allocated to the regions. Most of the production facilities are located in Europe. Sales to the other regions are charged at transfer prices with a surcharge for cost of capital. Segment assets are based on the geographical location of the assets.

In 2005 Head Office revenue and expenses were included in Western Europe but are presented this year separately together with eliminations. Prior-year figures have been restated.

Heineken distinguishes the following geographical segments:

- Western Europe
- Central and Eastern Europe
- The Americas
- Africa and the Middle East
- Asia Pacific
- Head Office/eliminations

Notes to the consolidated financial statements
continued

5. Segment reporting continued

Geographical segments

In millions of EUR	Western Europe		Central & Eastern Europe		The Americas	
	2006	2005	2006	2005	2006	2005
Revenue						
Third-party revenue ¹	4,752	4,711	3,337	2,768	1,975	1,733
Inter-regional revenue	599	515	12	28	–	–
Total revenue	5,351	5,226	3,359	2,796	1,975	1,733
Other income	361	31	16	26	15	5
Results from operating activities	916	511	339	296	257	242
Net finance expenses						
Share of profit of associates	4	3	–	2	10	14
Income tax expense						
Profit						
Attributable to:						
Equity holders of the company (net profit)						
Minority interest						
Beer volumes²						
Consolidated volume	32,100	31,896	46,925	39,308	13,197	11,782
Minority interests	–	–	6,433	6,160	3,555	3,197
Licences	305	285	–	–	172	144
Inter-regional volume	10,596	9,135	269	120	–	–
Group volume	43,001	41,316	53,627	45,588	16,924	15,123
Segment assets	4,046	3,656	5,238	4,902	1,176	1,122
Investment in associates	9	10	14	15	55	62
Total segment assets	4,055	3,666	5,252	4,917	1,231	1,184
Unallocated assets						
Total assets						
Segment liabilities	3,583	3,598	2,950	2,908	546	691
Total equity						
Total equity and liabilities						
Purchase of P, P & E	340	346	287	254	53	60
Acquisition of goodwill	5	15	12	430	7	34
Purchase of intangible assets	5	5	16	13	11	2
Depreciation of P, P & E	264	296	298	252	42	51
Impairment and reversal of impairment of P, P & E	11	5	12	–	–	–
Amortisation intangible assets	6	13	18	19	3	3
Impairment intangible assets	–	–	19	15	–	–

¹ Includes other revenue of €241 million in 2006 and €257 million in 2005.² Please refer to the Glossary for definitions.

Africa and the Middle East		Asia Pacific		Head Office/Eliminations		Consolidated	
2006	2005	2006	2005	2006	2005	2006	2005
1,179	1,049	560	502	26	33	11,829	10,796
3	3	–	–	(624)	(546)	–	–
1,182	1,052	560	502	(598)	(513)	11,829	10,796
3	3	–	1	(16)	(3)	379	63
231	196	86	65	(24)	(56)	1,805	1,254
						(122)	(114)
4	2	9	8	–	–	27	29
						(365)	(300)
						1,345	869
						1,211	761
						134	108
						1,345	869
13,281	11,559	6,402	5,976	–	–	111,905	100,521
925	679	4,157	3,779	–	–	15,070	13,815
3,500	2,798	993	1,047	–	–	4,970	4,274
–	–	–	–	(10,865)	(9,255)	–	–
17,706	15,036	11,552	10,802	(10,865)	(9,255)	131,945	118,610
1,105	1,148	457	388	307	193	12,329	11,409
36	16	72	69	–	–	186	172
1,141	1,164	529	457	307	193	12,515	11,581
						482	248
						12,997	11,829
631	668	279	224	(512)	(774)	7,477	7,315
						5,520	4,514
						12,997	11,829
98	116	34	51	32	26	844	853
4	45	39	(11)	–	–	67	513
1	1	–	–	–	–	33	21
78	82	20	18	4	6	706	705
1	6	–	–	9	–	33	11
1	2	–	–	–	–	28	37
–	–	–	–	–	–	19	15

Notes to the consolidated financial statements continued

6. Acquisitions and disposals of subsidiaries, joint ventures and minority interests

There were a limited number of changes in the scope of the consolidation during the year, with regard to the financial statements as mentioned below.

In 2006 a wholesaler in Spain, a number of horeca enterprises in the Netherlands and a number of breweries (the latter through Heineken's Asia Pacific joint venture) were acquired. Furthermore Heineken acquired a limited number of minority interests from third parties. The contribution in 2006 to operating profit was nil and to revenue was immaterial.

Disposals during the year concerned a number of wholesalers in France and Italy.

Effect of acquisitions and disposal

Acquisitions and disposals had the following effect on Heineken's assets and liabilities on acquisition date.

In millions of EUR	Acquisitions 2006	Disposal 2006
Property, plant & equipment	17	(2)
Intangible assets	3	–
Investments in associates	4	5
Other investments	1	(2)
Inventories	1	(2)
Trade and other receivables	6	(6)
Minority interests	6	–
Loans and borrowings	(4)	–
Employee benefits	(1)	1
Current Liabilities	(26)	8
Net identifiable assets and liabilities	7	2
Goodwill on acquisition	66	–
Consideration paid/(received), satisfied in cash	73	2
Cash disposed of/(acquired)	2	(20)
Net cash outflow/(inflow)	75	(18)

The fair values of assets and liabilities of some acquisitions have been determined on a provisional basis, since not all information was available yet on the date of acquisition.

The amount of goodwill paid relates to synergies to be achieved. Synergies to be achieved are a result of a stronger presence in the market and synergies in purchasing, sourcing and selling due to the integration of our activities in the applicable regions.

In addition to above adjustments, the provisional determined fair values of assets and liabilities of our 2005 Russian acquisitions have been adjusted downwards with €6 million in 2006, since not all information was available yet on the date of acquisition. The related goodwill reported has been adjusted accordingly, presented with a positive effect on goodwill of €6 million.

7. Other income

In millions of EUR	2006	2005
Net gain on sale of P, P & E	351	58
Net gain on sale of intangible assets	10	–
Net gain on sale of subsidiaries, joint ventures and associates	18	5
	379	63

The net gain on sale of P, P & E is for €32 million relating to the sale of a brewery site in Seville, Spain.

8. Raw materials, consumables and services

In millions of EUR	2006	2005
Raw materials	780	715
Non-returnable packaging	1,439	1,244
Goods for resale	1,531	1,404
Inventory movements	(11)	10
Marketing and selling expenses	1,493	1,353
Transport expenses	640	525
Energy and water	268	218
Repair and maintenance	258	241
Other expenses	978	947
	7,376	6,657

Notes to the consolidated financial statements
continued

9. Personnel expenses

In millions of EUR	2006	2005
Wages and salaries	1,490	1,413
Compulsory social security contributions	249	251
Contributions to defined contribution plans	10	13
Expenses related to the increase in liability defined benefit plans	100	96
Increase in other long-term employee benefits	10	11
Share-based payment plan	4	–
Other personnel expenses	378	396
	2,241	2,180

The average number of employees during the year was:

	2006	2005
The Netherlands	4,315	4,541
Other Western Europe	12,080	12,831
Central and Eastern Europe	20,220	18,211
The Americas	1,785	1,827
Africa and Middle East	11,504	11,897
Asia Pacific	1,035	1,050
Heineken N.V. and subsidiaries	50,939	50,357
Central and Eastern Europe	5,061	4,824
The Americas	4,323	4,069
Africa and Middle East	659	630
Asia Pacific	4,666	4,425
Joint ventures³	14,709	13,948
Average number of joint venture employees pro rata	6,618	6,241
	57,557	56,598

³ Employees of joint ventures are stated at 100%.

10. Amortisation, depreciation and impairments

In millions of EUR	2006	2005
Property, plant & equipment	739	716
Intangible assets	47	52
Total	786	768

11. Other net finance income

In millions of EUR	2006	2005
Impairment investments	–	(6)
Dividend income	13	13
Exchange rate differences	(16)	19
Other	14	(1)
	11	25

12. Income tax expense

Recognised in the income statement

In millions of EUR	2006	2005
Current tax expense		
Current year	439	326
Over provided in prior years	(26)	(14)
	413	312
Deferred tax expense		
Change in previously unrecognised temporary differences	(55)	–
Origination and reversal of temporary differences	(6)	(12)
Change in tax rate	10	(6)
Charge of tax losses recognised	3	6
	(48)	(12)
Total income tax expense in income statement	365	300

Reconciliation of effective tax rate

Profit before income tax	1,710	1,169
Net gain on sale of subsidiaries, joint ventures and associates	(18)	(5)
Income from associates	(27)	(29)
Dividend income	(13)	(13)
Impairment other investments	–	6
Taxable profit	1,652	1,128

	%	2006	%	2005
Income tax using the Company's domestic tax rate	29.6	489	31.5	354
Effect of tax rates in foreign jurisdictions	(3.0)	(50)	(2.5)	(29)
Effect of non-deductible expenses	2.4	40	2.6	30
Effect of tax incentives and exempted income	(3.2)	(53)	(4.0)	(45)
Change in previously unrecognised temporary differences	(3.3)	(55)	–	–
Effect of recognition of previously unrecognised tax losses	(0.3)	(4)	(0.1)	(1)
Current-year losses for which no deferred tax asset was recognised	0.4	7	0.6	7
Effect of change in tax rates	0.6	10	(0.6)	(6)
(Over)/under provided in prior years	(1.6)	(26)	(1.2)	(14)
Other reconciling items	0.4	7	0.3	4
	22.0	365	26.6	300

Deferred tax (debit)/credit recognised directly in equity

In millions of EUR	2006	2005
Relating to accounting policy changes	–	(12)
Relating to fair value adjustments and cash flow hedges	(14)	31
	(14)	19

Notes to the consolidated financial statements
continued

13. Property, plant & equipment

In millions of EUR	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost					
Balance at 1 January 2005	2,798	4,595	2,812	163	10,368
Changes in consolidation	(202)	122	(40)	7	(113)
Purchases	59	197	299	298	853
Transfer of completed projects under construction	48	77	82	(207)	–
Disposals	(64)	(82)	(253)	–	(399)
Effect of movements in exchange rates	86	184	85	10	365
Balance at 31 December 2005	2,725	5,093	2,985	271	11,074
Balance at 1 January 2006	2,725	5,093	2,985	271	11,074
Changes in consolidation	88	(125)	53	2	18
Purchases	40	125	311	368	844
Transfer of completed projects under construction	27	104	90	(221)	–
Transfer to assets classified as held for sale	(70)	–	(6)	–	(76)
Disposals	(150)	(214)	(198)	–	(562)
Effect of movements in exchange rates	(39)	(76)	(30)	(7)	(152)
Balance at 31 December 2006	2,621	4,907	3,205	413	11,146
Depreciation and impairment losses					
Balance at 1 January 2005	(1,269)	(2,521)	(1,805)	–	(5,595)
Changes in consolidation	12	71	54	–	137
Depreciation charge for the year	(76)	(274)	(355)	–	(705)
Impairment loss	(1)	(6)	(15)	–	(22)
Reversal Impairment loss	1	9	1	–	11
Disposals	23	61	215	–	299
Effect of movements in exchange rates	(29)	(64)	(39)	–	(132)
Balance at 31 December 2005	(1,339)	(2,724)	(1,944)	–	(6,007)
Balance at 1 January 2006	(1,339)	(2,724)	(1,944)	–	(6,007)
Changes in consolidation	11	8	(9)	–	10
Depreciation charge for the year	(75)	(251)	(380)	–	(706)
Impairment loss	(10)	(24)	(3)	–	(37)
Reversal Impairment loss	–	2	2	–	4
Transfer to assets classified as held for sale	35	–	–	–	35
Disposals	115	163	169	–	447
Effect of movements in exchange rates	14	23	15	–	52
Balance at 31 December 2006	(1,249)	(2,803)	(2,150)	–	(6,202)
Carrying amount					
At 1 January 2005	1,529	2,074	1,007	163	4,773
At 31 December 2005	1,386	2,369	1,041	271	5,067
At 1 January 2006	1,386	2,369	1,041	271	5,067
At 31 December 2006	1,372	2,104	1,055	413	4,944

Security

Property, plant & equipment totaling €131 million (2005: €137 million) have been pledged to the authorities in a number of countries as security for the payment of taxation, particularly excise duties on beers, non-alcoholic beverages and spirits and import duties.

Property, plant & equipment under construction

Property, plant & equipment under construction mainly relates to the construction of the new brewery and bottling hall at Seville, Spain. The new bottling hall will come on-stream in 2007 and the new brewery will be fully operational early 2008.

14. Intangible assets

In millions of EUR	Goodwill	Brands	Software, research and development and other	Total
Cost				
Balance at 1 January 2005	1,627	175	122	1,924
Changes in consolidation	513	54	(4)	563
Purchases/internally developed	1	3	17	21
Disposals	(1)	–	(2)	(3)
Effect of movements in exchange rates	12	–	4	16
Balance at 31 December 2005	2,152	232	137	2,521
Balance at 1 January 2006	2,152	232	137	2,521
Changes in consolidation	67	11	2	80
Purchases/internally developed	–	11	22	33
Disposals	–	–	(1)	(1)
Effect of movements in exchange rates	7	(1)	(2)	4
Balance at 31 December 2006	2,226	253	158	2,637
Amortisation and impairment losses				
Balance at 1 January 2005	–	(11)	(76)	(87)
Amortisation charge for the year	–	(8)	(29)	(37)
Impairment loss	(14)	(1)	–	(15)
Effect of movements in exchange rates	–	–	(2)	(2)
Balance at 31 December 2005	(14)	(20)	(107)	(141)
Balance at 1 January 2006	(14)	(20)	(107)	(141)
Amortisation charge for the year	–	(11)	(17)	(28)
Impairment loss	(17)	(1)	(1)	(19)
Balance at 31 December 2006	(31)	(32)	(125)	(188)
Carrying amount				
At 1 January 2005	1,627	164	46	1,837
At 31 December 2005	2,138	212	30	2,380
At 1 January 2006	2,138	212	30	2,380
At 31 December 2006	2,195	221	33	2,449

Notes to the consolidated financial statements continued

14. Intangible assets continued

Impairment tests for cash-generating units containing Goodwill

The aggregate carrying amounts of goodwill allocated to each cash-generating units are as follows:

In millions of EUR	2006	2005
Brau Union	1,116	1,115
Russia	451	448
Compania Cervecerias Unidas (CCU)	339	320
	1,906	1,883
Various other entities	289	255
	2,195	2,138

Goodwill has been tested for impairment at 31 December 2006. The recoverable amounts exceed the carrying amount of the cash-generating units including goodwill, except for two cash-generating units where an impairment loss of €17 million was charged to the income statement. In 2005 for three cash-generating units an impairment loss of €14 million was charged to the income statement.

The recoverable amounts of the cash-generating units are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this forecasted period was justified due to the long-term nature of the beer business and past experiences.
- Country-specific expected annual volume growth rates used was -0.5 to 9.5 per cent for the years 2010 to 2016.
- 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 were extrapolated using expected annual long-term inflation, based on external sources, in order to calculate the terminal recoverable amount.
- Expected annual long-term inflation used was 1.5 to 9.4 per cent for the years 2010 to 2016 and thereafter.
- A per cash-generating unit specific post tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units. WACC used was 6.0 to 17.1 per cent. WACC used for Brau Union, Russia and CCU was 8.6 per cent, 14.1 per cent and 9.5 per cent respectively.

The values assigned to the key assumptions represent management's assessment of future trends in the beer industry and are based on both external sources and internal sources (historical data).

15. Investment in associates

Heineken has the following investments in associates, direct or indirect through subsidiaries or joint ventures:

	Country	Ownership	Ownership
		2006	2005
Cervecerias Costa Rica S.A.	Costa Rica	25.0%	25.0%
Brasserie Nationale d'Haïti	Haïti	23.3%	23.3%
Guinness Ghana Breweries Ltd.	Ghana	20.0%	20.0%
Sierra Leone Brewery	Sierra Leone	42.5%	42.5%
Guinness Anchor Berhad*	Malaysia	10.7%	10.7%
Thai Asia Pacific Brewery Co. Ltd. ^{4*}	Thailand	14.7%	14.7%
Jiangsu DaFuHao Breweries Co. Ltd. ^{4*}	China	22.5%	18.4%

* Indirect through joint ventures.

⁴ The reporting date of the financial statements of this associate is 30 September

Heineken's share in the profit of associates for the year ended 31 December 2006 was €27 million (2005: €29 million). Guinness Anchor Berhad is listed on the Malaysian stock exchange. Fair value as at 31 December 2006 amounted €42 million.

16. Other investments

In millions of EUR	2006	2005
Non-current other investments		
Held to maturity investments	584	481
Available-for-sale investments	202	165
	786	646
Current other investments		
Investments at fair value through profit or loss	12	23

Included in held-to-maturity investments are loans to customers with a carrying amount €329 million as at 31 December 2006 (2005: €375 million). Effective interest rates range from 2 to 10 per cent. €317 million (2005: €355 million) matures between 1 and 5 years and €12 million (2005: €20 million) after 5 years. Also included in held-to-maturity investments are part of the deferred payments in relation to the sale of a brewery site in Seville, Spain, amounting to €147 million.

The impairment loss in respect to loans to customers recognised in the current year was €37 million.

Notes to the consolidated financial statements
continued

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

In millions of EUR	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant & equipment	21	21	(387)	(381)	(366)	(360)
Intangible assets	79	27	(41)	(42)	38	(15)
Investments	9	16	(2)	(2)	7	14
Inventories	12	4	(2)	5	10	9
Loans and borrowings	(3)	3	–	–	(3)	3
Employee benefits	134	144	1	(5)	135	139
Provisions	73	56	5	4	78	60
Other items	72	65	(58)	(41)	14	24
Tax losses carry-forwards	13	19	(2)	–	11	19
Tax assets/(liabilities)	410	355	(486)	(462)	(76)	(107)
Set-off of tax	(15)	(69)	15	69	–	–
Net tax assets/(liabilities)	395	286	(471)	(393)	(76)	(107)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In millions of EUR	2006	2005
Tax losses	77	140

The tax losses expire in different years. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which Heineken can utilise the benefits therefrom.

Tax losses

Heineken has for an amount of €119 million (2005: €190 million), losses carry forward as per 31 December 2006 which expire in the following years:

In millions of EUR	2006	2005
2006	–	8
2007	23	42
2008	24	42
2009	13	15
2010	7	10
2011	3	–
After 2011 respectively 2010 but not unlimited	36	33
Unlimited	13	40
	119	190
Recognised as deferred tax assets	(42)	(50)
Unrecognised	77	140

Movement in temporary differences during the year

In millions of EUR	Balance 1 January 2005	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Balance 31 December 2005
Property, plant & equipment	(341)	(18)	(16)	15	–	(360)
Intangible assets	(18)	6	–	(3)	–	(15)
Investments	5	–	–	4	5	14
Inventories	11	–	1	(3)	–	9
Loans and borrowings	1	–	–	–	2	3
Employee benefits	157	1	–	(19)	–	139
Provisions	51	–	2	7	–	60
Other items	(3)	1	(2)	17	11	24
Tax losses carry-forwards	22	–	2	(6)	1	19
	(115)	(10)	(13)	12	19	(107)

In millions of EUR	Balance 1 January 2006	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Balance 31 December 2006
Property, plant & equipment	(360)	(3)	9	(13)	1	(366)
Intangible assets	(15)	6	–	47	–	38
Investments	14	–	–	(6)	(1)	7
Inventories	9	–	(1)	2	–	10
Loans and borrowings	3	(6)	–	–	–	(3)
Employee benefits	139	–	(1)	(3)	–	135
Provisions	60	–	–	19	(1)	78
Other items	24	(7)	1	9	(13)	14
Tax losses carry-forwards	19	–	(1)	(7)	–	11
	(107)	(10)	7	48	(14)	(76)

18. Inventories

In millions of EUR	2006	2005
Raw materials	131	147
Work in progress	86	83
Finished products	226	191
Goods for resale	162	172
Non-returnable packaging	85	83
Other inventories	203	207
	893	883

In millions of EUR	2006	2005
Inventories measured at fair value less costs to sell	97	68

In 2006 the write-down of inventories to net realisable value amounted to €8 million (2005: €12 million). The write-downs are included in expenses for raw materials, consumables and services.

Notes to the consolidated financial statements
continued

19. Trade and other receivables

In millions of EUR	2006	2005
Trade receivables due from associates and joint ventures	22	29
Trade receivables	1,388	1,435
Other amounts receivable including current part loans to customers	369	218
Derivatives	47	11
Prepayments and accrued income	91	94
	1,917	1,787

At 31 December 2006 trade receivables are shown net of an allowance for doubtful debts of €241 million (2005: €251 million). The impairment loss recognised in the current year was €39 million (2005: €69 million), included in expenses for raw materials, consumables and services.

20. Cash and cash equivalents

In millions of EUR	2006	2005
Bank balances	894	354
Call deposits	480	231
Cash and cash equivalents	1,374	585
Bank overdrafts	(747)	(351)
Cash and cash equivalents in the statement of cash flows	627	234

Heineken has set up a notional Euro cash pool in 2006. The main Eurozone subsidiaries participate in this cash pool. The structure facilitates interest and balance compensation of cash and bank overdrafts. This notional pooling does not meet the strict set-off rules under IFRS, and as a result the cash and bank overdraft balances must be reported 'gross' on the balance sheet. On a 'netted' pro forma basis cash and cash equivalents and overdraft balances would have been €401 million lower, resulting in €973 million cash and cash equivalents and €346 million bank overdraft balances.

21. Assets classified as held for sale

In millions of EUR	2006	2005
Property, plant and equipment	41	–

Assets classified as held for sale represent land and buildings following the commitment of Heineken to a plan to sell the land and buildings. Efforts to sell the assets have commenced and a sale is expected in 2007.

22. Total equity

In millions of EUR	Share capital	Translation reserve	Other legal reserves	Hedging reserve	Fair value reserve	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Minority interests	Total equity
Balance at 1 January 2005	784	5	349	–	–	–	2,118	3,256	477	3,733
Total recognised income and expense ⁶	–	143	25	(21)	49	–	(48)	148	58	206
Profit	–	–	80	–	–	–	681	761	108	869
Transfer to retained earnings	–	–	(62)	–	–	–	62	–	–	–
Dividends to shareholders	–	–	–	–	–	–	(196)	(196)	(86)	(282)
Purchase minority shares	–	–	–	–	–	–	–	–	(1)	(1)
Changes in consolidation	–	–	–	–	–	–	–	–	(11)	(11)
Balance at 31 December 2005	784	148	392	(21)	49	–	2,617	3,969	545	4,514
Balance at 1 January 2006	784	148	392	(21)	49	–	2,617	3,969	545	4,514
Total recognised income and expense	–	(52)	(6)	49	48	–	(4)	35	(31)	4
Profit	–	–	110	–	–	–	1,101	1,211	134	1,345
Transfer to retained earnings	–	–	(37)	–	–	–	37	–	–	–
Dividends to shareholders	–	–	–	–	–	–	(196)	(196)	(101)	(297)
Purchase minority shares	–	–	–	–	–	–	–	–	(30)	(30)
Purchase own shares	–	–	–	–	–	(14)	–	(14)	–	(14)
Shared based payments	–	–	–	–	–	–	4	4	–	4
Changes in consolidation	–	–	–	–	–	–	–	–	(6)	(6)
Balance at 31 December 2006	784	96	459	28	97	(14)	3,559	5,009	511	5,520

⁶ Included is the effect of the change in accounting policy as of 1 January 2005 due to the application of IAS 32/39 amounting to €44 million.

Share capital

In millions of EUR	Ordinary shares	
	2006	2005
On issue at 1 January	784	784
Issued for cash	–	–
On issue at 31 December	784	784

At 31 December 2006 the issued share capital comprised 489,974,594 ordinary shares (2005: 489,974,594). The ordinary shares have a par value of €1.60. All issued shares are fully paid.

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

Notes to the consolidated financial statements continued

22. Total equity continued

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of the Company (excluding amounts attributable to minority interests).

Other legal reserves

These reserves relate to the share of profit of joint ventures and associates over the distribution of which Heineken does not have control. The movement in these reserves reflects retained profits of joint ventures and associates minus dividends received.

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.

Fair value reserve

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by Heineken. At 31 December 2006 Heineken held 410,000 of the Company's shares (2005: nil).

Dividends

The following dividends were declared and paid by Heineken:

In millions of EUR	2006	2005
Final dividend previous year €0.24 per qualifying ordinary share	118	118
Interim dividend current year €0.16 per qualifying ordinary share	78	78
Total dividend declared and paid	196	196

The Company intends to renew its dividend policy which will be applicable to the dividend for the financial year 2006. The proposal is subject to approval at the Annual General Meeting of shareholders of Heineken N.V. in April 2007.

After the balance sheet date the Executive Board proposed the following dividends. The dividends have not been provided for.

In millions of EUR	2006	2005
€0.60 per qualifying ordinary share (2005: €0.40)	294	196

Prior-year adjustments

In 2006, BHI recognised IFRS transitional adjustments, which should have been reflected in the 2004 Heineken IFRS opening balance sheet. The prior year estimation error, with a negative impact of €10 million, is not considered material and is recognized in equity in 2006. Comparatives have not been restated.

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit attributable to ordinary shareholders of the Company (net profit) of €1,211 million (2005: €761 million) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 489,712,594 (2005: 489,974,594). Basic earnings per share for the year amount to €2.47.

Weighted average number of shares – basic

In thousands of shares	2006	2005
Weighted average number of shares – basic – at 1 January	489,974,594	489,974,594
Effect of own shares held	(262,000)	–
Weighted average number of shares – basic – at 31 December	489,712,594	489,974,594

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2006 was based on the profit attributable to ordinary shareholders of the Company (net profit) of €1,211 million (2005: €761 million) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 489,974,594 (2005: 489,974,594). Diluted earnings per share for the year amount to €2.47.

24. Changes in accounting policy

In 2005 Heineken adopted IAS 32 and IAS 39 Financial instruments.

In 2004 under IFRS, Heineken did not recognize derivatives. In accordance with IAS 32 and IAS 39 derivatives should be recognised at fair value.

The changes in accounting policy had the following impact on the opening balance of 1 January 2005.

In millions of EUR	Balance 31 December 2004	Effect of policy change	Balance 1 January 2005
Deferred tax assets	269	9	278
Investments	632	37	669
Inventories	782	(14)	768
Trade and other receivables	1,646	68	1,714
Loans and borrowings	(23)	(23)	(46)
Deferred tax liabilities	(384)	(20)	(404)
Trade and other payables	(2,025)	(13)	(2,038)
Recognised directly in equity		(44)	

25. Loans and borrowings

This note provides information about the contractual terms of Heineken's interest-bearing loans and borrowings. For more information about Heineken's exposure to interest rate risk and foreign currency risk refer to note 30.

Non-current liabilities

In millions of EUR	2006	2005
Secured bank loans	10	7
Unsecured bank loans	699	841
Unsecured bond issues	1,343	1,341
Finance lease liabilities	6	6
Non-current interest bearing liabilities	2,058	2,195
Non-current non-interest bearing liabilities	33	38
	2,091	2,233

Notes to the consolidated financial statements
continued

25. Loans and borrowings continued

Current interest bearing liabilities

In millions of EUR	2006	2005
Current portion of unsecured bank loans	184	404
Current portion of unsecured bond issues	–	3
Current portion of finance lease liabilities	1	2
Total current portion of non-current interest bearing liabilities	185	409
Deposits from third parties	299	284
Other current interest bearing liabilities	10	16
Bank overdrafts	747	351
	1,241	1,060

Net interest-bearing debt position

In millions of EUR	2006	2005
Non-current interest bearing liabilities	2,058	2,195
Current portion of non-current interest bearing liabilities	185	409
Deposits from third parties and other current interest bearing liabilities	309	300
	2,552	2,904
Bank overdrafts	747	351
	3,299	3,255
Cash, cash equivalents and other investments	(1,386)	(608)
Net interest bearing debt position	1,913	2,647

Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

In millions of EUR	Currency	Nominal interest rate	Repayment	Carrying amount 2006	Carrying amount 2005
Secured bank loans	various	various	various	10	7
Unsecured bank loans	EUR	various	2007-various	520	818
Unsecured bank loans	PLN	4.33%	2007-2011	26	76
Unsecured bank loan	CLP	5.26%	2007-2011	87	98
Unsecured bank loan	EGP	10.63%	2007-2011	85	111
Unsecured bank loans	various	various	2007-various	165	142
Unsecured bond issue	EUR	4.38%	2010	499	498
Unsecured bond issue	EUR	5.00%	2013	597	596
Unsecured bond issue	EUR	5.50%	2008	200	200
Unsecured bond issue	CLP	5.91%	2007-2024	47	50
Deposits from third parties and other current interest bearing liabilities	various	various	2007-various	309	300
Finance lease liabilities	various	various	2007-various	7	8
				2,552	2,904

Committed facilities: the Heineken N.V. €2 billion Revolving Credit Facility 2005-2012 was not utilised per 31 December 2006 (31 December 2005: €60 million utilised).

26. Employee benefits

In millions of EUR	2006	2005
Present value of unfunded obligations	309	291
Present value of funded obligations	2,734	2,830
Total present value of obligations	3,043	3,121
Fair value of plan assets	(2,397)	(2,268)
Present value of net obligations	646	853
Less: Unrecognised actuarial losses	(78)	(285)
Recognised liability for defined benefit obligations	568	568
Other long-term employee benefits	97	96
	665	664

Plan assets consist of the following:

In millions of EUR	2006	2005
Equity securities	968	937
Government bonds	955	867
Properties and real estate	199	177
Other plan assets	275	287
	2,397	2,268

Liability for defined benefit obligations

Heineken makes contributions to a number of defined benefit plans that provide pension benefits for employees upon retirement in a number of countries being mainly: the Netherlands, Greece, Austria, Germany, Italy, France, Spain and Nigeria. In other countries the pension plans are defined contribution plans and/or similar arrangements for employees.

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

Movements in the liability for defined benefit obligations

In millions of EUR	2006	2005
Net liability at 1 January	568	634
Changes in consolidation and reclassification	(1)	(29)
Effect of movements in exchange rates	(2)	5
Benefits paid	(97)	(138)
Expense recognised in the income statement	100	96
Net liability at 31 December	568	568

Movements in plan assets

In millions of EUR	2006	2005
Fair value of plan assets at 1 January	2,268	2,250
Effect of movements in exchange rates	(3)	(1)
Contributions paid into the plan	111	44
Benefits paid	(97)	(138)
Expected return on plan assets	118	113
Fair value of plan assets at 31 December	2,397	2,268

Notes to the consolidated financial statements
continued

26. Employee benefits continued

Expense recognised in the income statement

In millions of EUR	2006	2005
Current service costs	84	82
Interest on obligation	125	131
Expected return on plan assets	(118)	(112)
Effect of any curtailment or settlement	9	(5)
	100	96

Principal actuarial assumptions at the balance sheet date

	Western and Central & Eastern Europe		Americas		Africa/ Middle East		Asia Pacific	
	2006	2005	2006	2005	2006	2005	2006	2005
Discount rate at 31 December	2.5-6	2.5-6.5	5.5-6.5	5.5-6.5	4.5-15	4.5-19	3.5-13	3.5-13
Expected return on plan assets at 1 January	3.5-6.6	3.5-6.6	6.5	5.25	6.5	5	3.5-11	3.5-11
Future salary increases	1.5-8	1.5-8	0.5-5	0.5-5	3-14	3-17	3-8	3.5-8
Future pension increases	1-2.5	1-3.5	3.5	3.5	2	2	8	8
Medical cost trend rate	1.5	1.5	5	5	–	–	–	–

Assumptions regarding future mortality are based on published statistics and mortality tables.

The overall expected long-term rate of return on assets is 5.9 per cent. The return is based exclusively on historical returns, without adjustments.

27. Share-based payments – Long-Term Incentive Plan

On 1 January 2005 Heineken established a performance-based share plan (Long-Term Incentive Plan; LTIP) for the Executive Board. On 1 January 2006 a similar LTIP was established for senior management.

The Long-Term Incentive Plan includes share rights, which are conditionally awarded to the Executive Board each year, are subject to Heineken's Relative Total Shareholder Return (RTSR) performance in comparison with the TSR performance of a selected peer group. At target performance, 100 per cent of the shares will vest. At maximum performance 150 per cent of the shares will vest. The LTIP share rights conditionally awarded to senior management each year are for 25 per cent subject to Heineken's Relative RTSR performance and for 75 per cent subject to internal performance conditions.

The performance period for share rights granted in 2005 is from 1 January 2005 to 31 December 2007. The performance period for share rights granted in 2006 is from 1 January 2006 to 31 December 2008. The vesting date for the Executive Board is five business days and for senior management twenty business days after the publication of the annual results of 2007, respectively of 2008.

The costs recognised are measured at grant date using the Monte Carlo model taking into account the terms and conditions of the plan.

The terms and conditions of the share rights granted are as follows:

Grant date/employees entitled	Number	Based on share price	Vesting conditions	Contractual life of rights
Share rights granted to Executive Board on 1 January 2005	43,724	24.53	Continued service and RTSR performance	3 years
Share rights granted to Executive Board on 1 January 2006	40,049	26.78	Continued service and RTSR performance	3 years
Share rights granted to senior 75% internal performance management on 1 January 2006	352,098	26.78	Continued service, conditions and 25% RTSR performance	3 years
	435,871			

The number and weighted average share price per share is as follows:

	Weighted average share price 2006	Number of share rights 2006	Weighted average share price 2005	Number of share rights 2005
Outstanding at 1 January	24.53	43,724	—	—
Granted during the year	26.78	392,147	24.53	43,724
Outstanding at 31 December	26.55	435,871	24.53	43,724

The fair value of services received in return for share rights granted is based on the fair value of shares granted, measured using the Monte Carlo model, with following inputs:

In EUR	Executive Board 2006	Executive Board 2005	Senior management 2006	Senior management 2005
Fair value at grant date	424,519	424,560	8,814,436	—
Expected volatility	22.4%	26.3%	22.4%	—
Expected dividends	1.5%	1.3%	1.5%	—

Personnel expenses

In millions of EUR	2006	2005
Share rights granted in 2005	—	—
Share rights granted in 2006	4	—
Total expense recognised as personnel expenses	4	—

Heineken's Relative Total Shareholder Return (RTSR) as at 31 December 2006 is a number 2 position.

Notes to the consolidated financial statements
continued

28. Provisions

In millions of EUR	Restructuring	Other	Total
Balance at 1 January 2006	236	137	373
Provisions made during the year	105	30	135
Provisions used during the year	(79)	(26)	(105)
Provisions reversed during the year	(10)	(26)	(36)
Effect of movements in exchange rates	–	(3)	(3)
Balance at 31 December 2006	252	112	364
Non-current part	167	75	242
Current part	85	37	122
	252	112	364

Restructuring

The provision for restructuring of €252 million relates to restructuring programmes in the Netherlands, France, Spain and Italy. During the year, €102 million restructuring expenses relating to Fit2Fight have been recognised of which main part has not been used as at 31 December 2006.

Other provisions

Other provisions include amongst others provisions formed for onerous contracts, surety provided and for litigations and claims.

29. Trade and other payables

In millions of EUR	2006	2005
Trade payables due to associates and joint ventures	9	7
Other trade payables	1,030	1,042
Returnable packaging deposits	340	334
Taxation and social security contributions	301	281
Dividend	29	31
Interest	34	41
Derivatives	10	62
Other payables	140	127
Accruals and deferred income	603	526
	2,496	2,451

30. Financial instruments

Exposure to credit, interest rate, foreign currency and commodity risks arise in the normal course of Heineken's business. Derivative financial instruments are used to hedge exposure to fluctuations in interest rates and exchange rates. Heineken applies hedge accounting in order to manage volatility in the income statement.

Hedging policy

Derivatives, such as interest rate swaps, forward rate agreements, caps and floors, are used to minimise the effects of interest rate fluctuations in the income statement. In addition, forward exchange contracts and options are used to limit the effects of currency and commodity price fluctuations in the income statement. Transactions are entered into with a limited number of counter parties with strong credit ratings. Foreign currency, commodity and interest rate hedging operations are governed by an internal policy and rules approved and monitored by the Executive Board.

Credit risk

Management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Heineken does not require collateral in respect of financial assets.

Transactions involving hedging instruments and investments, only allowed in liquid securities, are conducted only with counter parties that have a credit rating of minimal single A or equivalent. Given their high credit ratings, management does not expect any counter party to fail to meet its obligations.

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

Interest rate risk

Heineken opts for a well-balanced mix of fixed and variable interest rates in its financing operations, possibly combined with the use of interest rate instruments. Currently Heineken's interest rate position is more fixed than floating. The interest rate instruments used are interest rate swaps, forward rate agreements, caps and floors.

Swaps mature over the next years following the maturity of the related loans and have swap rates ranging from 3.4 per cent to 5.5 per cent (2005: from 2.1 per cent to 5.5 per cent).

In principle Heineken applies hedge accounting to interest rate swaps and states them at fair value.

Foreign currency risk

Heineken is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Heineken entities. The currencies giving rise to this risks are primarily US Dollars, Chilean Pesos, Singapore Dollars, Nigerian Nairas, Russian Rubles and Polish Zloty.

Heineken hedges up to 90 per cent of its mainly intra Heineken US Dollar cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. Heineken uses mainly forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date.

The Company has a clear policy on hedging transactional hedging risks, which postpones the impact on financial results. Translation exchange risks are not hedged.

Commodity risk

Commodity risk is the risk that changes in commodity prices will affect Heineken's income. The objective of commodity risk management is to manage and control commodity risk exposures within acceptable parameters, whilst optimising the return on risk. So far, commodity trading by the Company is limited to the sale of surplus CO₂ emission rights.

Heineken does not enter into commodity contracts other than to meet Heineken's expected usage and sale requirements.

Firm commitments and forecasted transactions

Heineken classifies its forward exchange contracts and options, hedging forecasted transactions and firm commitments, as cash flow hedges and states them at fair value.

Sensitivity analysis

In managing interest rate and currency risks Heineken aims to reduce the impact of short-term fluctuations on Heineken's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on profit.

Notes to the consolidated financial statements
continued

30. Financial instruments continued

At balance sheet date it is estimated that a general increase of one per centage point in interest rates would have decreased Heineken's profit before income tax by approximately €0.5 million (2005: approximately €3.3 million). The effect of interest rate swaps has been included in this calculation.

It is estimated that a general increase of one per centage point in the value of the Euro against other currencies would have decreased Heineken's profit before income tax by approximately €4 million for the year ended 31 December 2006 (2005: approximately €11 million). The effect of the forward exchange contracts has been included in this calculation.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, re-price.

In millions of EUR	2006					
	Average effective interest rate	Total	1 year or less	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents and current other investments	–	1,386	1,379	2	1	4
Secured bank loans	–	(10)	(10)	–	–	–
Unsecured bank loans:						
Loans from banks in EUR	4.79%	(520)	(4)	(180)	(167)	(169)
Loans from banks in PLN	4.33%	(26)	–	(13)	(13)	–
Loans from banks in CLP	3.59%	(87)	(18)	(1)	(68)	–
Loans from banks in EGP	10.60%	(85)	(25)	(26)	(34)	–
Bank loans in various currencies	5.16%	(165)	(118)	(22)	(16)	(9)
Unsecured bond issues:						
Bond issue in EUR	4.47%	(499)	–	–	(499)	–
Bond issue in EUR	5.10%	(597)	–	–	–	(597)
Bond issue in EUR	5.50%	(200)	–	–	(200)	–
Bond issue in CLP	3.90%	(47)	–	(3)	(5)	(39)
Deposits from third parties and other current interest bearing liabilities	4.74%	(309)	(302)	(2)	(4)	(1)
Finance lease liabilities	–	(7)	(1)	(2)	(3)	(1)
Bank overdrafts	–	(747)	(747)	–	–	–
Net interest-bearing debt position		(1,913)	154	(247)	(1,008)	(812)

2005

In millions of EUR	Average effective interest rate	Total	1 year or less	1-2 years	2-5 years	More than 5 years
Cash and cash equivalents and current other investments	–	608	596	4	4	4
Secured bank loans	–	(7)	(7)	–	–	–
Unsecured bank loans:						
Loans from banks in EUR	2.70%	(818)	(249)	(21)	(279)	(269)
Loans from banks in PLN	5.09%	(76)	(11)	–	(65)	–
Loans from banks in CLP	2.97%	(98)	(6)	–	(39)	(53)
Loans from banks in EGP	10.86%	(111)	(17)	(29)	(65)	–
Bank loans in various currencies	3.83%	(142)	(121)	(1)	(12)	(8)
Unsecured bond issues:						
Bond issue in EUR	4.47%	(498)	–	–	(498)	–
Bond issue in EUR	5.10%	(596)	–	–	–	(596)
Bond issue in EUR	5.50%	(200)	–	–	(200)	–
Bond issue in CLP	4.00%	(50)	(3)	(3)	(9)	(35)
Deposits from third parties and other current interest bearing liabilities	5.29%	(300)	(300)	–	–	–
Finance lease liabilities	–	(8)	(2)	(2)	(3)	(1)
Bank overdrafts	–	(351)	(351)	–	–	–
Net interest-bearing debt position		(2,647)	(471)	(52)	(1,166)	(958)

Committed facilities: the Heineken N.V. €2 billion Revolving Credit Facility 2005-2012 was not utilised per 31 December 2006 (31 December 2005: €160 million utilised).

Notes to the consolidated financial statements
continued

30. Financial instruments continued

Fair values

The fair values of financial instruments, together with their carrying amounts are shown below:

In millions of EUR	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Held to maturity investments	583	583	481	481
Available-for-sale investments	202	202	165	165
Investments at fair value through profit or loss	12	12	23	23
Trade and other receivables excluding derivatives	1,869	1,869	1,776	1,776
Cash and cash equivalents	1,466	1,466	580	580
Interest rate swaps (cash flow hedges):				
Assets	1	1	2	2
Liabilities	(3)	(3)	(8)	(8)
Forward exchange contracts (cash flow hedges):				
Assets	47	47	4	4
Liabilities	(6)	(6)	(44)	(44)
Forward rate agreements				
Assets	–	–	5	5
Liabilities	(1)	(1)	(10)	(10)
Unsecured bond loans	(1,343)	(1,374)	(1,344)	(1,415)
Bank loans	(893)	(877)	(1,252)	(1,258)
Deposits from third parties and other current liabilities	(309)	(325)	(300)	(302)
Finance lease liabilities	(7)	(7)	(8)	(8)
Non-current non-interest bearing liabilities	(33)	(31)	(38)	(40)
Trade and other payables excluding dividend, interest and derivatives	(2,421)	(2,421)	(2,317)	(2,317)
	(836)	(866)	(2,285)	(2,366)
Unrecognised losses		30		81

The methods used in determining the fair values of financial instruments are discussed in note 4.

31. Off balance sheet commitments

In millions of EUR	Total	Less than 1 Year	1-5 Years	More than 5 Years	Total 2005
Guarantees to banks for loans (by third parties)	398	193	124	81	353
Other guarantees	116	30	67	19	65
Total guarantees	514	223	191	100	418
Lease & operational lease commitments	242	38	139	65	172
Property, plant & equipment ordered	127	127	–	–	173
Raw material purchase contracts	610	117	185	308	227
Other off-balance sheet obligations	267	64	156	47	385
Off-balance sheet obligations	1,246	346	480	420	957
Committed bank facilities	2,411	211	200	2,000	2,341

Heineken leases buildings, cars and equipment.

During the year ended 31 December 2006, €133 million (2005: €126 million) was recognised as an expense in the income statement in respect of operating leases and rent.

Other off-balance sheet obligation include mainly rental, service and sponsorship contracts.

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

In relation to the sale of a brewery site in Seville, Spain, Heineken España received bank guarantees from several banks to cover deferred payments by the buyer, due in November 2007 and March 2008.

32. Contingencies

Netherlands

Heineken Nederland, among some other brewers operating in the Netherlands, received a statement of objections from the European Commission in 2005, claiming that these brewers entered into concerted practices restricting competition in the Dutch market in the period 1995-1999. Heineken is challenging the allegations of the European Commission and submitted its defence on 24 November 2005. A ruling from the EC is expected during 2007.

USA

Heineken USA and Heineken N.V. (and in certain cases other Heineken companies and Heineken Holding N.V.) have been named as defendants in purported 'class action' lawsuits filed in nine states. The lawsuits claim that Heineken companies, along with other producers and distributors of alcohol beverages, have unlawfully advertised and marketed its products to underage people. Heineken is defending vigorously against these accusations, as Heineken companies advertise and market their products lawfully to people of legal drinking age.

Since 2005 six of the lawsuits were dismissed. Notices of appeal have been filed by plaintiffs.

33. Related parties

Identity of related parties

Heineken also has a related party relationship with its associates (refer note 15), joint ventures (refer note 35), Heineken Holding N.V., Heineken pension fund and with its Executive Board and the Supervisory Board.

Board remuneration

In millions of EUR	2006	2005
Executive Board	7.5	16.7
Supervisory Board	0.4	0.3
	7.9	17.0

Executive Board

The remuneration of the member of the Executive Board comprises a fixed component and a variable component. The variable component is made up of a Short-Term Incentive Plan and a Long-Term Incentive Plan. The Short-Term Incentive Plan is based on an organic profit growth target and specific year targets as set by the Supervisory Board. For the The Long-Term Incentive Plan we refer to note 27 and the separate remuneration report on page 62.

As at 31 December 2006 and as at 31 December 2005, the members of the Executive Board did not hold any of the Company's shares, bonds or option rights, other than under the Long-Term Incentive Plan aforementioned. One of the Executive Board members held 3,052 shares of Heineken Holding N.V. as at 31 December 2006 (2005: 790 shares).

Notes to the consolidated financial statements
continued

33. Related parties continued

Executive Board

In thousands of EUR	Fixed Salary		Short-term incentive Plan		Long-term incentive Plan/bonus		Pension plan		Other deferred benefits		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
J.F.M.L. van Boxmeer ¹	680	472	592	489	93	46	96	1,581	–	–	1,461	2,588
M.J. Bolland ^{1,4}	306	418	189	455	50	43	82	1,358	2,550	–	3,177	2,274
D.R. Hoof Graafland ¹	525	418	455	455	86	43	129	1,795	–	–	1,195	2,711
A. Ruys ²	–	634	–	618	499	–	–	4,000	–	1,160	499	6,412
K. Büche ³	–	418	–	376	541	–	–	980	–	901	541	2,675
Total	1,511	2,360	1,236	2,393	1,269	132	307	9,714	2,550	2,061	6,873	16,660

¹ An extra payment over past service was made in 2005 in anticipation of the new pension policy for the current Executive Board members in effect as of 2006. The retirement age is 65, but individual Executive Board members may retire earlier with a reduced level of benefit. Contribution rates are designed to enable an Executive Board member to retire from the company at the age of 62.

² Stepped down from the Executive Board on 1 October 2005. At the end of 2006 their long-term bonuses were calculated.

³ Stepped down from the Executive Board on 1 October 2005. At the end of 2006 their long-term bonuses were calculated.

⁴ Stepped down from the Executive Board on 1 August 2006. Mr Bolland was compensated with an amount of €2,550,000, reflecting his 20 years of service within the Company.

Supervisory Board

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

In thousands of EUR	2006	2005
C.J.A. van Lede	66	51
J.M. de Jong	52	45
M. Das	52	45
M.R. de Carvalho	50	43
A.H.J. Risseeuw	50	43
J.M. Hessels	50	43
I.C. MacLaurin	33	–
A.M. Fentener van Vlissingen	33	–
Total	386	270

One Supervisory Board member held 8 shares of Heineken N.V. as at 31 December 2006 (2005: 8 shares).

As at 31 December 2006 and 2005, the Supervisory Board members did not hold any of the Company's bonds or option rights. Three (2005: two) Supervisory Board members together held 9,508 shares of Heineken Holding N.V. as at 31 December 2006 (2005: 9,508 shares).

Other related-party transactions

There are no significant transactions with associates and joint ventures.

Heineken Holding N.V.

In 2006 an amount of €551,000 (2005: €543,000) was paid to Heineken Holding N.V. for management services for the Heineken Group.

34. Heineken entities

Control of Heineken

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX index. Pursuant to the Major Holdings in Listed Companies Disclosure Act, Heineken Holding N.V. Amsterdam has disclosed an interest of 50.047 per cent in the Company. The financial statements of the Company are included in the consolidated financial statements of Heineken Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Netherlands civil code has been issued with respect to the legal entities established in the Netherlands marked with a • below.

Significant subsidiaries

	Country of incorporation	Ownership interest	
		2006	2005
• Heineken Nederlands Beheer B.V.	The Netherlands	100%	100%
• Heineken Brouwerijen 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%
• Amstel Brouwerij B.V.	The Netherlands	100%	100%
• Amstel Internationaal B.V.	The Netherlands	100%	100%
• Vrumona B.V.	The Netherlands	100%	100%
• Invebra Holland B.V.	The Netherlands	100%	100%
• B.V. Beleggingsmaatschappij Limba	The Netherlands	100%	100%
• Brand Bierbrouwerij B.V.	The Netherlands	100%	100%
• Beheer- en Exploitiatiemaatschappij Brand B.V.	The Netherlands	100%	100%
• Heineken CEE Holdings B.V.	The Netherlands	100%	100%
• Brasinvest B.V.	The Netherlands	100%	100%
• Heineken Beer Systems B.V.	The Netherlands	100%	100%
Heineken France S.A.	France	100%	100%
Heineken España S.A.	Spain	98.5%	98.3%
Heineken Italia S.p.A	Italy	100%	100%
Athenian Brewery S.A.	Greece	98.8%	98.8%
Brau Union AG	Austria	100%	100%
Grupa Żywiec S.A. ¹	Poland	61.8%	61.8%
Heineken Ireland Ltd. ²	Ireland	100%	100%
Brau Union Hungary Rt	Hungary	99.6%	99.5%
Heineken Slovensko a.s.	Slovakia	100%	100%
Heineken Switzerland AG	Switzerland	100%	100%
Karlovačka Pivovara d.d.	Croatia	100%	97.5%
Mouterij Albert N.V.	Belgium	100%	100%
Ibecor S.A.	Belgium	100%	100%
Affligem Brouwerij BDS N.V.	Belgium	100%	100%
LLC Heineken Brewery	Russia	100%	100%
Dinal LLP	Kazakhstan	99.9%	99.9%
Heineken USA Inc.	USA	100%	100%
Starobrno a.s.	Czech Republic	97.6%	97.6%
Brau Union Romania S.A.	Romania	96.3%	96.3%
Ivan Taranov Breweries Ltd.	Cyprus	100%	100%
LLC Combinat named after Stepan Razin	Russia	100%	100%

Notes to the consolidated financial statements
continued

34. Heineken entities continued

	Country of incorporation	Ownership interest	
		2006	2005
OJSC Patra	Russia	100%	100%
OJSC Baikal Brewery Company	Russia	100%	100%
LLC Central-European Brewing Company	Russia	100%	100%
Commonwealth Brewery Ltd.	Bahamas	53.2%	53.2%
Windward & Leeward Brewery Ltd.	St Lucia	72.7%	72.7%
Cervecerias Baru-Panama S.A.	Panama	74.9%	74.8%
Nigerian Breweries Plc.	Nigeria	54.1%	54.1%
Al Ahram Beverages Company S.A.E.	Egypt	99.9%	99.9%
Brasserie Lorraine S.A.	Martinique	83.1%	83.1%
Surinaamse Brouwerij N.V.	Surinam	76.1%	76.1%
Consolidated Breweries Ltd.	Nigeria	50.1%	50.1%
Grande Brasserie de Nouvelle Calédonie S.A.	New Caledonia	87.3%	87.3%
Brasserie Almaza S.A.L.	Lebanon	67.0%	67.0%
Brasseries, Limonaderies et Malteries 'Bralima' S.A.R.L.	R.D. Congo	95.0%	95.0%
Brasseries et Limonaderies du Rwanda 'Bralirwa' S.A.	Rwanda	70.0%	70.0%
Brasseries et Limonaderies du Burundi 'Brarudi' S.A.	Burundi	59.3%	59.3%
Brasseries de Bourbon S.A.	Réunion	85.6%	85.6%
P.T. Multi Bintang Indonesia Tbk.	Indonesia	84.5%	84.5%

¹ Excluding treasury shares (will be cancelled in the course of 2007).

² In accordance with article 17 of the Republic of Ireland Companies (Amendment) Act 1986, the Company issued an irrevocable guarantee for the year ended 31 December 2006 and 2005 regarding the liabilities of Heineken Ireland Ltd., and Heineken Ireland Sales Ltd., as referred to in article 5(c) of the Republic of Ireland Companies (Amendment) Act 1986.

35. Interests in joint ventures

Heineken has interests in the following joint ventures:

	Country of incorporation	Ownership interest	
		2006	2005
BrauHolding International GmbH & Co KGaA	Germany	49.9%	49.9%
Zagorka Brewery A.D.	Bulgaria	49.0%	49.0%
Pivara Skopje A.D.	Macedonia	27.6%	27.6%
Brasseries du Congo S.A.	Congo	50.0%	50.0%
Asia Pacific Investment Pte.Ltd.	Singapore	50.0%	50.0%
Asia Pacific Breweries (Singapore) Pte.Ltd.	Singapore	41.9%	41.9%
Shanghai Asia Pacific Brewery Ltd.	China	44.6%	44.6%
Hainan Asia Pacific Brewery Ltd.	China	46.0%	46.0%
South Pacific Brewery Ltd.	Papua New Guinea	31.8%	31.8%
Vietnam Brewery Ltd.	Vietnam	25.2%	25.2%
Cambodia Brewery Ltd.	Cambodia	33.5%	33.5%
DB Breweries Ltd.	New Zealand	41.9%	41.9%
Compania Cervecerias Unidas S.A.	Chile	33.1%	32.1%
Tempo Beverages Ltd.	Israel	40.0%	40.0%
United Breweries Lanka Ltd.	Sri Lanka	25.2%	25.3%
Société de Production et de Distribution des Boissons "SPDB"	Tunesia	49.9%	

Via joint ventures Heineken is able to jointly govern the financial and operating policies of the above-mentioned companies. Consequently, Heineken proportionally consolidates these companies.

Reporting date

The reporting date of the financial statements of all Heineken entities and joint ventures disclosed are the same as for the Company, except for: Asia Pacific Breweries (Singapore) Pte. Ltd., Shanghai Asia Pacific Brewery Ltd., Hainan Asia Pacific Brewery Ltd., South Pacific Brewery Ltd., Vietnam Brewery Ltd. and Cambodia Brewery Ltd., which have a 30 September reporting date.

Included in the consolidated financial statements are the following items that represent Heineken's interests in the assets and liabilities, revenue and expenses of the joint ventures:

In millions of EUR	2006	2005
Non-current assets	982	958
Current assets	504	489
Non-current liabilities	(328)	(333)
Current liabilities	(441)	(381)
Net assets	717	733
Revenue	1,295	1,125
Expenses	(1,155)	(1,009)
Operating Profit	140	116

36. Subsequent events

There are no significant subsequent events to report until 20 February 2007.

Heineken N.V. balance sheet

Before appropriation of profit as at 31 December 2006

In millions of EUR	Note	2006	2005
Fixed assets			
Financial fixed assets	37	6,160	5,319
Total fixed assets		6,160	5,319
Trade and other receivables		3	1
Cash and cash equivalents		3	41
Total current assets		6	42
Total assets		6,166	5,361
Shareholders' equity			
Issued capital		784	784
Translation reserve		96	148
Other legal reserves		459	392
Hedging reserve		28	(21)
Fair value reserve		97	49
Reserve for own shares		(14)	–
Retained earnings		2,348	1,856
Net profit		1,211	761
Total shareholders' equity	38	5,009	3,969
Liabilities			
Loans and borrowings	39	1,096	1,254
Total non-current liabilities		1,096	1,254
Current loans and borrowings		–	68
Trade and other payables		27	32
Tax payable		34	38
Total current liabilities		61	138
Total liabilities		1,157	1,392
Total shareholders' equity and liabilities		6,166	5,361

Heineken N.V. income statement

For the year ended 31 December 2006

In millions of EUR	Note	2006	2005
Share of profit of participating interests, after income tax	37	1,190	743
Other profit after income tax		21	18
Net profit		1,211	761

Notes to Heineken N.V. financial statements

Reporting entity

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

Basis of preparation

The Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Netherlands Civil Code to prepare the Company financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards adopted by the EU (i.e., only IFRSs that are adopted for use in the EU at the date of authorisation) as explained further in the notes to the consolidated financial statements).

The Company presents a condensed income statement, using the facility of Article 402 of Part 9, Book 2, of the Netherlands Civil Code.

Significant accounting policies

Financial fixed assets

Participating interests (subsidiaries, joint ventures and associates) are measured on the basis of the equity method.

Shareholders' equity

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

Profit of participating interests

The share of profit of participating interests consists of the share of the Company in the results of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are not recognised.

37. Financial fixed assets

In millions of EUR	Participating interest	Loans to participating interest	Total
Balance at 1 January 2005	950	3,422	4,372
Change in accounting policies IAS 32/39	44	–	44
Profit of participating interests	743	–	743
Dividend payments by participating interests	(244)	244	–
Effect of movements in exchange rates	143	–	143
Changes in hedging and fair value adjustments	(38)	–	(38)
Other movements		55	55
Balance as at 31 December 2005	1,598	3,721	5,319
Balance at 1 January 2006	1,598	3,721	5,319
Loans converted into share capital	815	(815)	–
Profit of participating interests	1,190	–	1,190
Dividend payments by participating interests	(232)	232	–
Effect of movements in exchange rates	(52)	–	(52)
Changes in hedging and fair value adjustments	97	–	97
Other movements	(1)	(393)	(394)
Balance as at 31 December 2006	3,415	2,745	6,160

Notes to Heineken N.V. financial statements
continued

38. Shareholders' equity

Capital and reserves

In millions of EUR	Issued capital	Translation reserve	Other legal reserves	Hedging reserve	Fair value reserve	Reserve for own shares	Retained earnings	Net profit	Total equity
Balance at 1 January 2005	784	5	349	–	–	–	1,476	642	3,256
Net income recognised directly in equity ^{7,8}	–	143	25	(21)	49	–	(48)	–	148
Profit	–	–	80	–	–	–	(80)	761	761
Transfer to retained earnings	–	–	(62)	–	–	–	704	(642)	–
Dividends to shareholders	–	–	–	–	–	–	(196)	–	(196)
Balance at 31 December 2005	784	148	392	(21)	49	–	1,856	761	3,969
Balance at 1 January 2006	784	148	392	(21)	49	–	1,856	761	3,969
Net income recognised directly in equity ⁷	–	(52)	(6)	49	48	–	(4)	–	35
Profit	–	–	110	–	–	–	(110)	1,211	1,211
Transfer to retained earnings	–	–	(37)	–	–	–	798	(761)	–
Dividends to shareholders	–	–	–	–	–	–	(196)	–	(196)
Purchase own shares	–	–	–	–	–	(14)	–	–	(14)
Share based payments	–	–	–	–	–	–	4	–	4
Balance at 31 December 2006	784	96	459	28	97	(14)	2,348	1,211	5,009

⁷ Net income recognised directly in equity is explained in the consolidated statement of income and expense.

⁸ Included is the effect of the change in accounting policy due to the application of IAS 32/39 amounting to €44 million.

For more details on reserves, please refer to note 22 of the consolidated financial statements.

For more details on LTIP, please refer to note 27 of the consolidated financial statements.

39. Loans and borrowings

Terms and debt repayment schedule

In millions of EUR	Average effective interest rate	Total	1 year or less	1-2 years	2-5 years	More than 5 years	2005
Bond loan in EUR	4.47%	499	–	–	499	–	498
Bond loan in EUR	5.10%	597	–	–	–	597	596
Loans from banks in EUR	2.41%	–	–	–	–	–	160
		1,096	–	–	499	597	1,254

40. Off-balance-sheet commitments

In millions of EUR	Total	Less than 1 year	1-5 years	More than 5 years	2005
Committed bank facility	2,000	–	–	2,000	2,000

	Third parties	2006 Heineken companies	Third parties	2005 Heineken companies
Declarations of joint and several liability	–	1,364	–	920

Fiscal unity

The Company is part of the fiscal unity of Heineken in the Netherlands. Based on this the Company is liable for the tax liability of the fiscal unity in the Netherlands.

41. Other disclosures

Remuneration

We refer to note 33 of the Consolidated Financial Statements for the remuneration and the incentives of the Executive Board members and the Supervisory Board. The Executive Board members are the only employees of the Company.

Participating interests

For the list of direct and indirect participating interests, we refer to notes 15, 34 and 35 to the consolidated financial statements.

Amsterdam, 20 February 2006	Executive Board	Supervisory Board
	Van Boxmeer	Van Lede
	Hooft Graafland	De Jong
		Das
		de Carvalho
		Risseeuw
		Hessels
		Fentener van Vlissingen
		MacLaurin