

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.

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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).

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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.