

Consolidated income statement

For the year ended 31 December 2007

In millions of EUR	Note	2007	2006
Revenue	5	12,564	11,829
Other income	8	30	379
Raw materials, consumables and services	9	8,162	7,376
Personnel expenses	10	2,165	2,241
Amortisation, depreciation and impairments	11	764	786
Total expenses		11,091	10,403
Results from operating activities		1,503	1,805
Interest income	12	67	52
Interest expenses	12	(168)	(185)
Other net finance (expenses)/income	12	(26)	11
Net finance expenses		(127)	(122)
Share of profit of associates (net of income tax)		25	27
Profit before income tax		1,401	1,710
Income tax expenses	13	(429)	(365)
Profit		972	1,345
Attributable to:			
Equity holders of the Company (net profit)		807	1,211
Minority interest		165	134
Profit		972	1,345
Weighted average number of shares – basic	23	489,353,315	489,712,594
Weighted average number of shares – diluted	23	489,974,594	489,974,594
Basic earnings per share (€)	23	1.65	2.47
Diluted earnings per share (€)	23	1.65	2.47

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

In millions of EUR	Note	2007	2006
Foreign currency translation differences for foreign operations	12	(100)	(84)
Effective portion of change in fair value of cash flow hedge	12	51	50
Net change in fair value of cash flow hedges transferred to the income statement	12	(36)	–
Net change in fair value available-for-sale investments	12	2	48
IFRS transitional adjustments prior year	22	–	(10)
Net income and expense recognised directly in equity	22	(83)	4
Profit		972	1,345
Total recognised income and expense		889	1,349
Attributable to:			
Equity holders of the Company		736	1,246
Minority interest		153	103
Total recognised income and expense		889	1,349

Consolidated balance sheet

As at 31 December 2007

In millions of EUR	Note	2007	2006
Assets			
Property, plant & equipment	14	5,362	4,944
Intangible assets	15	2,541	2,449
Investments in associates	16	214	186
Other investments	17	452	606
Advances to customers		219	180
Deferred tax assets	18	336	395
Total non-current assets		9,124	8,760
Inventories	19	1,007	893
Other investments	17	105	59
Trade and other receivables	20	1,873	1,779
Prepayments and accrued income		123	91
Cash and cash equivalents	21	715	1,374
Assets classified as held for sale	7	21	41
Total current assets		3,844	4,237
Total assets		12,968	12,997
Equity			
Share capital		784	784
Reserves		692	666
Retained earnings		3,928	3,559
Equity attributable to equity holders of the Company	22	5,404	5,009
Minority interests		542	511
Total equity		5,946	5,520
Liabilities			
Loans and borrowings	24	1,521	2,091
Employee benefits	26	646	665
Provisions	28	184	242
Deferred tax liabilities	18	478	471
Total non-current liabilities		2,829	3,469
Bank overdrafts	21	282	747
Loans and borrowings	24	873	494
Trade and other payables	29	2,806	2,496
Tax liabilities		89	149
Provisions	28	143	122
Total current liabilities		4,193	4,008
Total liabilities		7,022	7,477
Total equity and liabilities		12,968	12,997

Consolidated statement of cash flows

For the year ended 31 December 2007

In millions of EUR	Note	2007	2006
Operating activities			
Profit		972	1,345
Adjustments for:			
Amortisation, depreciation and impairments	11	764	786
Net interest (income)/expenses	12	101	133
Gain on sale of property, plant & equipment, intangible assets and subsidiaries, joint ventures and associates	8	(30)	(379)
Investment income and share of profit of associates		(41)	(40)
Income tax expenses	13	429	365
Other non-cash items		103	31
Cash flow from operations before changes in working capital and provisions		2,298	2,241
Change in inventories		(140)	(43)
Change in trade and other receivables		(175)	85
Change in trade and other payables		282	102
Total change in working capital		(33)	144
Change in provisions and employee benefits		(53)	(3)
Cash flow from operations		2,212	2,382
Interest paid and received		(96)	(138)
Dividend received		27	13
Income taxes paid		(413)	(408)
Cash flow used for interest, dividend and income tax		(482)	(533)
Cash flow from operating activities		1,730	1,849
Investing activities			
Proceeds from sale of property, plant & equipment and intangible assets		81	182
Purchase of property, plant & equipment	14	(1,123)	(844)
Purchase of intangible assets	15	(22)	(33)
Loans issued to customers and other investments		(146)	(166)
Repayment on loans to customers		225	134
Cash flow used in operational investing activities		(985)	(727)
Acquisition of subsidiaries, joint ventures and minority interests, net of cash acquired	6	(245)	(84)
Acquisition of associates and other investments		(89)	(29)
Disposal of subsidiaries, joint ventures and minority interests, net of cash disposed of	6	12	17
Disposal of associates and other investments		44	24
Cash flow used for acquisitions and disposals		(278)	(72)
Cash flow used in investing activities		(1,263)	(799)

In millions of EUR	Note	2007	2006
Financing activities			
Proceeds from loans and borrowings		77	262
Repayment of loans and borrowings		(265)	(582)
Dividends paid		(450)	(297)
Purchase own shares	22	(15)	(14)
Other		(3)	(18)
Cash flow used in financing activities		(656)	(649)
Net Cash Flow			
		(189)	401
Cash and cash equivalents			
Cash and cash equivalents as at 1 January		627	234
Effect of movements in exchange rates		(5)	(8)
Cash and cash equivalents as at 31 December	21	433	627

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 Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as 'Heineken' or the 'Group' and individually as 'Heineken' entities) and Heineken's interests in joint ventures and associates.

A summary of the main subsidiaries, joint ventures and associates is included in note 34, 35 and 16. 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 Dutch Civil Code.

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

The financial statements have been prepared by the Executive Board of the Company and authorised for issue on 19 February 2008 and will be submitted for adoption to the Annual General Meeting of Shareholders on 17 April 2008.

(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 euros has been rounded to the nearest million unless stated otherwise.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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 amounts recognised in the financial statements are described in the following notes:

- Note 6 Acquisitions and disposals of subsidiaries, joint ventures and minority interests.
- Note 15 Intangible assets.
- Note 18 Deferred tax assets and liabilities.
- Note 26 Employee benefits.
- Note 27 Share-based payments – Long-Term Incentive Plan.
- Note 28 Provisions and 32 Contingencies.
- Note 30 Financial risk management and 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.

Certain comparative amounts have been reclassified or line items have been added in order to conform with current year's presentation, in accordance with IFRS 7, of the consolidated balance sheet, the consolidated statement of recognised income and expense, net finance expenses (see note 12), other investments (see note 17), prepayments and accrued income, trade and other receivables (see note 20) and financial risk management and financial instruments (see note 30). In addition certain comparative amounts in the consolidated statement of cash flows have been reclassified to conform with current year's presentation.

(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 currently 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. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. 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.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued**(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 differences arising on the retranslation of available-for-sale (equity) investments and foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment. 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. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

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

In EUR	Year-end		Average	
	2007	2006	2007	2006
CLP	0.0014	0.0014	0.0014	0.0015
EGP	0.1238	0.1333	0.1294	0.1389
NGN	0.0058	0.0059	0.0058	0.0062
PLN	0.2783	0.2611	0.2645	0.2570
RUB	0.0278	0.0288	0.0286	0.0293
SGD	0.4725	0.4951	0.4850	0.5020
USD	0.6793	0.7584	0.7308	0.7973
ZAR	0.0997	0.1087	0.1036	0.1188

(iii) Hedge of net investment in foreign operation

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in equity, in the translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

(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. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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, interest expenses and other net finance income and expenses are discussed in note 3r.

(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 or by Heineken. Held-to-maturity investments includes 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 3i(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 or derecognised by Heineken on the date it commits to purchase or 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 in accordance with Heineken's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Investments at fair value through profit or loss are measured at fair value, with changes therein recognised in the income statement. Investments at fair value through profit and loss are recognised or derecognised by Heineken on the date it commits to purchase or sell the investments.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(v) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Included in non-derivative financial instruments are advances to customers. Subsequently the advances are amortised over the term of the contract as a reduction of revenue.

(d) Derivative financial instruments

(i) General

Heineken uses derivatives in the ordinary course of business in order to manage market risks. Generally Heineken seeks to apply hedge accounting in order to minimise the effects of foreign currency fluctuations in the income statement.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency and interest rate hedging operations are governed by an internal policy and rules approved and monitored by the Executive Board.

Derivative financial instruments are recognised initially at fair value, with attributable transaction costs recognised in the income statement when 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 counterparties.

(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.

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) Share capital**(i) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

(iii) Dividends

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

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

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

Cost comprises the initial purchase price increased with expenditures that are 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), and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the income statement when incurred.

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 and 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 at inception of the lease. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised on Heineken's balance sheet. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued**(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 or recognised as a separate asset, as appropriate, 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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement when incurred.

(iv) Depreciation

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other P, P and E 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. 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

Where parts of an item of P, P and E have different useful lives, they are accounted for as separate items of P, P and E.

The depreciation methods, residual value as well as the useful lives are reassessed, and adjusted if appropriate, annually.

(v) Net gains on sale

Net gains on sale of items of P, P and E are presented in the income statement as other income. Net gains 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 and E.

(g) Intangible assets**(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates 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 on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill arising on the acquisition of associates is included in the carrying amount 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 3i(ii)). Goodwill is allocated to cash-generating units for the purpose of impairment testing and is tested annually for impairment.

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 portfolios acquired separately are measured at cost. Brands and brand portfolios are amortised on a straight-line basis over their estimated useful life.

(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 3i(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. Borrowing costs related to the development of qualifying assets are recognised in the income statement when incurred. 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 3i(ii)).

Other intangible assets that are acquired by Heineken are measured at cost less accumulated amortisation (refer (v)) and impairment losses (refer accounting policy 3i(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

Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives from the date they are available for use. The estimated useful lives are as follows:

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

Notes to the consolidated financial statements continued

3. Significant accounting policies continued**(vi) Gains and losses on sale**

Gains on sale of intangible assets are presented in the income statement as other income. Gains 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.

(h) 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.

(i) Impairment**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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 an 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 (h)) and deferred tax assets (refer accounting policy (s)), 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, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is considered the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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. 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.

(j) Non-current 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 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.

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Heineken's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future 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. 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 and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. 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 10 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. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when Heineken is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. 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.

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

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

As 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, while 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 (equity-settled), over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board and senior management members are spread evenly over the performance period.

At each balance sheet date, Heineken revises its estimates of the number of share rights that are expected to vest, only for the 75 per cent internal performance conditions of the share plan of the senior management members. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. 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.

(l) 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 measured at the present value of the expenditures to be expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of the net finance expenses.

(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.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued

(m) Loans and borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings for which the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, are classified as non-current liabilities.

(n) 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, returns, 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 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 revenues are proceeds from royalties, rental income and technical services to third parties, net of sales tax. 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.

(o) Other income

Other income are gains from sale of P, P and 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.

(p) 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.

(q) Government grants

Government grants are recognised at their fair value when it is reasonably assured that Heineken will comply with the conditions attaching to them and the grants will be received.

Government grants relating to P, P and E are deducted from the carrying amount of the asset.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

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

Interest income and expenses are recognised as they accrue, using the effective interest method unless collectibility is in doubt.

Other net finance income comprises dividend income, gains on the disposal of available-for-sale investments, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments and gains on hedging instruments that are recognised in the income statement. Dividend income is recognised in the income statement 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 net finance expenses comprise unwinding of the discount on provisions, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments, impairment losses recognised on investments, and losses on hedging instruments that are recognised in the income statement.

Foreign currency gains and losses are reported on a net basis.

(s) 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

When an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.

Notes to the consolidated financial statements continued

3. Significant accounting policies continued**(t) 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.

(u) Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items, have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as operating activities. Interest paid is also included in operating activities.

(v) 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. Segment information is presented in respect of the Group's business and geographical segments. Heineken's primary format for segment information is based on geographical segments.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

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 expenses. 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, and intangible assets other than goodwill.

(w) Emission rights

Emission rights are related to the emission of CO₂, which relates to the production of energy. Heineken has received a certain quantity of emission rights from the government for free for the first allocation period 2005–2007. These rights are freely tradable. Bought emission rights and liabilities due to production of CO₂ are measured at cost, including any directly attributable expenditure. Emission rights received for free are also recorded at cost, i.e. with a zero value.

(x) Recently issued IFRS**(i) Standard and amendment effective in 2007**

IFRS 7 'Financial instruments: Disclosures and the complementary amendment to IAS 1 Presentation of financial statements – Capital disclosures' is effective as from 2007. 2006 comparative disclosures have been amended accordingly. For a description of the changes due to this standard, refer to note 3 significant accounting policies.

(ii) New standards and interpretations not yet adopted

The following new standards and interpretations to existing standards relevant to Heineken are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- IAS 23 (Amendment) Borrowing costs (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the EU. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The revised IAS 23 will constitute a change in accounting policy for Heineken. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- IFRS 8 Operating segments (effective from 1 January 2009). The standard is still subject to endorsement by the EU. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Company is currently assessing the impact.
- IFRIC 13 Customer loyalty programmes (effective from 1 July 2008). The interpretation is still subject to endorsement by the EU. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. The Company is currently assessing the impact, but it is not expected that it will have a material impact.
- IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008). The interpretation is still subject to endorsement by the EU. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. It is not expected that the IFRIC will have a material impact on Heineken's accounts.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. Based on the fact that the LTIP of Heineken is already accounted for as equity-settled, it is not expected that this IFRIC will have an impact.

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. When 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 the quoted market prices for similar items.

(iii) Intangible assets

The fair value of brands acquired in a business combination is based on the '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) Inventories

The fair value of inventories 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 inventories.

(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 inter-bank 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 counterparties.

(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.

(ix) Interest rates

The interest rates used to discount estimated cash flows were as follows:

	2007	2006
Derivatives	0%-11.0%	0%-7.0%
Non-derivative financial instruments, assets	0.4%-3.8%	0.4%-2.9%
Non-derivative financial instruments, liabilities	4.0%-5.0%	4.0%-5.0%
Finance leases	3.8%-10.5%	8.0%-13.0%

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.

Heineken has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. As such distribution models are country-specific and on consolidated level diverse. Therefore the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored. Therefore no secondary segment information is provided.

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. 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 and Eastern Europe		The Americas	
	2007	2006	2007	2006	2007	2006
Revenue						
Third party revenue ¹	4,814	4,752	3,668	3,337	2,043	1,975
Interregional revenue	636	599	18	22	–	–
Total revenue	5,450	5,351	3,686	3,359	2,043	1,975
Other income	26	361	3	16	1	15
Results from operating activities	416	916	376	339	263	257
Net finance expenses						
Share of profit of associates	(6)	4	5	–	15	10
Income tax expenses						
Profit						
Attributable to:						
Equity holders of the Company (net profit)						
Minority interest						
Beer volumes²						
Consolidated volume	31,910	32,100	51,114	46,925	13,718	13,197
Minority interests	–	–	6,397	6,433	3,792	3,555
Licences	313	305	–	–	223	172
Interregional volume	11,223	10,596	356	269	–	–
Group volume	43,446	43,001	57,867	53,627	17,733	16,924
Segment assets						
Investment in associates	7	9	16	14	74	55
Total segment assets	3,785	4,055	5,602	5,252	1,244	1,231
Unallocated assets						
Total assets						
Segment liabilities						
Total equity	3,664	3,583	3,432	2,950	431	546
Total equity and liabilities						
Purchase of P, P and E	393	340	417	287	70	53
Acquisition of goodwill	11	5	135	12	–	7
Purchases of intangible assets	5	5	12	16	2	11
Depreciation of P, P and E	253	264	290	298	49	42
Impairment and reversal of impairment of P, P & E	–	11	14	12	–	–
Amortisation intangible assets	9	6	18	18	3	3
Impairment intangible assets	–	–	21	19	–	–

¹ Includes other revenue of €249 million in 2007 and €241 million in 2006.² For volume definitions see 'Glossary'.

Africa and the Middle East		Asia Pacific		Head Office/ Eliminations		Consolidated	
2007	2006	2007	2006	2007	2006	2007	2006
1,412	1,179	597	560	30	26	12,564	11,829
4	3	–	–	(658)	(624)	–	–
1,416	1,182	597	560	(628)	(598)	12,564	11,829
–	3	–	–	–	(16)	30	379
325	231	93	86	30	(24)	1,503	1,805
						(127)	(122)
4	4	7	9	–	–	25	27
						(429)	(365)
						972	1,345
						807	1,211
						165	134
						972	1,345
15,668	13,281	7,418	6,402	–	–	119,828	111,905
1,044	925	5,060	4,157	–	–	16,293	15,070
1,586	3,500	933	993	–	–	3,055	4,970
2	–	–	–	(11,581)	(10,865)	–	–
18,300	17,706	13,411	11,552	(11,581)	(10,865)	139,176	131,945
1,358	1,105	473	457	25	307	12,390	12,329
37	36	80	72	–	–	214	186
1,395	1,141	553	529	25	307	12,604	12,515
						364	482
						12,968	12,997
831	631	263	279	(1,599)	(512)	7,022	7,477
						5,946	5,520
						12,968	12,997
170	98	35	34	38	32	1,123	844
1	4	2	39	4	–	153	67
2	1	1	–	–	–	22	33
85	78	20	20	(3)	4	694	706
–	1	1	–	3	9	18	33
1	1	–	–	–	–	31	28
–	–	–	–	–	–	21	19

Notes to the consolidated financial statements continued

6. Acquisitions and disposals of subsidiaries, joint ventures and minority interests**Krušovice and Syabar acquisition**

On 4 September 2007 Heineken acquired Královský Pivovar Krušovice a.s. in the Czech Republic from Radeberger Gruppe KG. The transaction was funded from existing cash resources.

On 28 December 2007, Heineken acquired the Cypriot holding company of the CJSC Brewing Company 'Syabar', in Bobruysk, Belarus. Heineken acquired Syabar's Cypriot holding company from a consortium led by Detroit Investments Limited (Cyprus) and from the International Finance Corporation, an affiliate of the World Bank. The transaction was funded from existing cash resources.

Due to the competitive sensitivity and the non-disclosure agreements with the parties involved, the acquisition prices of the Krušovice and Syabar acquisition are not individually disclosed.

Effect of Krušovice and Syabar acquisition

The Krušovice and Syabar acquisition had the following effect on Heineken's assets and liabilities on acquisition date.

In millions of EUR	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Property, plant & equipment	14	70	50	120
Intangible assets	15	–	17	17
Other investments		8	–	8
Inventories		7	–	7
Trade and other receivables, prepayments and accrued income		10	–	10
Cash and cash equivalents		2	–	2
Minority interests		–	(2)	(2)
Loans and borrowings		(9)	–	(9)
Provisions	28	(1)	–	(1)
Deferred tax liabilities	18	(1)	(13)	(14)
Current liabilities		(32)	–	(32)
Net identifiable assets and liabilities		54	52	106
Goodwill on acquisition	15			134
Consideration paid, satisfied in cash				240
Cash acquired				(2)
Net cash outflow				238

The fair values of assets and liabilities have been determined on a provisional basis, as not all information was available on the balance sheet date.

The amount of goodwill paid relates to synergies Heineken expects to realise. With respect to the Krušovice acquisition, the synergies to be achieved are a result of a stronger presence in the Czech market a growth expected that the potential growth opportunities will be realised with the appropriate commercial investments. Furthermore, it is expected that cost synergies will be realised due to more efficient purchasing, sourcing and selling, as a result of the integration of these activities within the region Central and Eastern Europe.

With respect to the Syabar acquisition, the synergies to be achieved are a result of a stronger presence in the Belarus market, also it is expected that the Belarus market will become a fast-growing market and by way of this acquisition a platform is established from which it is expected that both the Heineken brand and imported Russian brands will grow. Furthermore, it is expected that cost synergies will be realised resulting from more efficient purchasing, sourcing and selling due to the integration of these activities within the region Central and Eastern Europe.

The contribution of these acquisitions in 2007 to results from operating activities was €1 million and to revenue €12 million.

If both acquisitions had occurred on 1 January 2007, management estimates that consolidated results from operating activities would have been €6 million higher and consolidated revenue would have been €49 million higher. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of the acquisitions would have been the same if the acquisitions had occurred on 1 January 2007.

Other acquisitions and disposals

In addition to the acquisitions of Krušovice and Syabar, there were various other minor acquisitions and disposals during 2007.

In 2007 wholesalers in France, Spain and the Netherlands were acquired. In Vietnam and Germany breweries were acquired.

Disposals during the year concerned a number of wholesalers in Italy and Austria. Furthermore our joint venture in Chile sold the majority of shares of a subsidiary, which held investments in brands.

Effect of other acquisitions and disposals

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

In millions of EUR	Note	Total other acquisitions 2007	Total disposals 2007
Property, plant & equipment	14	6	(11)
Intangible assets	15	–	(11)
Investments in associates		7	–
Other investments		9	(2)
Deferred tax assets	18	–	(3)
Inventories		2	(2)
Trade and other receivables, prepayments and accrued income		1	(12)
Cash and cash equivalents		2	(1)
Minority interests		–	(6)
Loans and borrowings		–	2
Employee benefits	26	–	1
Current liabilities		(35)	36
Net identifiable assets and liabilities		(8)	(9)
Goodwill on acquisitions	15	17	(4)
Consideration paid/(received), satisfied in cash		9	(13)
Cash disposed of/(acquired)		(2)	1
Net cash outflow/(inflow)		7	(12)

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

The contribution in 2007 of the other acquisitions to results from operating activities and to revenue was immaterial. If the acquisitions had occurred on 1 January 2007, management estimates that consolidated results from operating activities and consolidated revenue would not have been materially different.

Acquisition of minority interests

In 2007, Heineken increased its ownership in Heineken Spain. The Group recognised an increase in goodwill of €6 million.

Notes to the consolidated financial statements continued

7. Assets classified as held for sale

Assets classified as held for sale represent land and buildings following the commitment of Heineken to a plan to sell the land and buildings. During 2007, part of the assets classified as held for sale have been sold. Efforts to sell the remaining assets have commenced and are expected to be completed during 2008.

In millions of EUR	2007	2006
Property, plant & equipment	21	41

8. Other income

In millions of EUR	2007	2006
Net gain on sale of P, P and E	27	351
Net gain on sale of intangible assets	–	10
Net gain on sale of subsidiaries, joint ventures and associates	3	18
	30	379

The net gain on sale of P, P and E in 2006 is for €320 million relating to the sale of a brewery site in Seville, Spain.

9. Raw materials, consumables and services

In millions of EUR	2007	2006
Raw materials	896	780
Non-returnable packaging	1,592	1,439
Goods for resale	1,604	1,531
Inventory movements	(51)	(11)
Marketing and selling expenses	1,627	1,493
Transport expenses	711	640
Energy and water	290	268
Repair and maintenance	263	258
EC fine	219	–
Other expenses	1,011	978
	8,162	7,376

For more details regarding the EC fine, refer to note 32.

10. Personnel expenses

In millions of EUR	Note	2007	2006
Wages and salaries		1,488	1,490
Compulsory social security contributions		245	249
Contributions to defined contribution plans		14	10
Expenses related to defined benefit plans	26	84	100
Increase in other long-term employee benefits		9	10
Equity-settled share-based payment plan	27	7	4
Other personnel expenses		318	378
		2,165	2,241

The average number of employees during the year was:

	2007	2006
The Netherlands	3,909	4,315
Other Western Europe	11,575	12,080
Central and Eastern Europe	18,749	20,220
The Americas	1,797	1,785
Africa and the Middle East	9,516	11,504
Asia Pacific	893	1,035
Heineken N.V. and subsidiaries	46,439	50,939
Central and Eastern Europe	4,983	5,061
The Americas	4,440	4,323
Africa and the Middle East	1,614	659
Asia Pacific	5,787	4,666
Joint ventures¹	16,824	14,709
Central and Eastern Europe	2,488	2,526
The Americas	1,468	1,429
Africa and the Middle East	716	330
Asia Pacific	2,893	2,333
Joint ventures employees pro rata	7,565	6,618
	54,004	57,557

¹ Employees of joint ventures are stated at 100%.

11. Amortisation, depreciation and impairments

In millions of EUR	Note	2007	2006
Property, plant & equipment	14	712	739
Intangible assets	15	52	47
		764	786

Notes to the consolidated financial statements continued

12. Net finance expenses

Recognised in the income statement

In millions of EUR	2007	2006
Interest income on unimpaired held-to-maturity investments	6	10
Interest income on impaired held-to-maturity investments	–	1
Interest income on available-for-sale investments	1	1
Interest income on cash and cash equivalents	60	40
Interest income	67	52
Interest expenses	(168)	(185)
Dividend income on available-for-sale investments	16	13
Net gain on disposal of investments held for trading	–	1
Net change in fair value of derivatives	(4)	10
Net foreign exchange loss	(37)	(11)
Unwinding discount on provisions	(1)	(2)
Other net finance income	(26)	11
Net finance expenses	(127)	(122)

Recognised directly in equity

In millions of EUR	2007	2006
Foreign currency translation differences for foreign operations	(100)	(84)
Effective portion of changes in fair value of cash flow hedges	51	50
Net change in fair value of cash flow hedges transferred to the income statement	(36)	–
Net change in fair value of available-for-sale investments	2	48
	(83)	14
Recognised in:		
Fair value reserve	2	48
Hedging reserve	15	50
Translation reserve	(100)	(84)
	(83)	14

13. Income tax expenses

Recognised in the income statement

In millions of EUR	2007	2006
Current tax expense		
Current year	408	439
Over provided in prior years	(30)	(26)
	378	413
Deferred tax expense		
Change in previously unrecognised temporary differences	(1)	(55)
Origination and reversal of temporary differences	37	(6)
Change in tax rate	4	10
(Benefit)/charge of tax losses recognised	(7)	3
Under/(over)provided in prior years	18	–
	51	(48)
Total income tax expenses in the income statement	429	365

Reconciliation of effective tax rate

In millions of EUR	2007	2006
Profit before income tax	1,401	1,710
Net gain on sale of subsidiaries, joint ventures and associates	(3)	(18)
Income from associates	(25)	(27)
Dividend income	(16)	(13)
Taxable profit	1,357	1,652

	%	2007	%	2006
Income tax using the Company's domestic tax rate	25.5	346	29.6	489
Effect of tax rates in foreign jurisdictions	1.3	18	(3.0)	(50)
Effect of non-deductible expenses	6.6	89	2.4	40
Effect of tax incentives and exempt income	(2.7)	(36)	(3.2)	(53)
Change in previously unrecognised temporary differences	(0.1)	(2)	(3.3)	(55)
Effect of recognition of previously unrecognised tax losses	(0.1)	(2)	(0.3)	(4)
Current year losses for which no deferred tax asset is recognised	1.1	15	0.4	7
Effect of change in tax rates	0.3	4	0.6	10
Under/(over) provided in prior years	(0.9)	(12)	(1.6)	(26)
Other reconciling items	0.7	9	0.4	7
	31.7	429	22.0	365

In 2007 the tax effect related to the fine of the European Commission of €219 million has been included in non-deductible expenses.

In 2006 within various countries it was agreed with the tax authorities to fiscally amortise goodwill. This benefit was capitalised in 2006 and explains the decrease in change in previously unrecognised temporary differences.

Deferred tax (debit)/credit recognised directly in equity

In millions of EUR	Note	2007	2006
Relating to changes in fair value recognised directly in equity	18	(5)	(14)
		(5)	(14)

Notes to the consolidated financial statements continued

14. Property, plant and equipment

In millions of EUR	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost						
Balance as 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 as at 31 December 2006		2,621	4,907	3,205	413	11,146
Balance as at 1 January 2007		2,621	4,907	3,205	413	11,146
Changes in consolidation	6	41	29	14	2	86
Purchases		56	186	344	537	1,123
Transfer of completed projects under construction		109	241	72	(422)	–
Transfer to/from assets classified as held for sale		12	(3)	(1)	–	8
Disposals		(32)	(156)	(347)	1	(534)
Effect of movements in exchange rates		(27)	(58)	(25)	(9)	(119)
Balance as at 31 December 2007		2,780	5,146	3,262	522	11,710
Depreciation and impairment losses						
Balance as at 1 January 2006		(1,339)	(2,724)	(1,944)	–	(6,007)
Changes in consolidation		11	8	(9)	–	10
Depreciation charge for the year	11	(75)	(251)	(380)	–	(706)
Impairment losses	11	(10)	(24)	(3)	–	(37)
Reversal impairment losses	11	–	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 as at 31 December 2006		(1,249)	(2,803)	(2,150)	–	(6,202)
Balance as at 1 January 2007		(1,249)	(2,803)	(2,150)	–	(6,202)
Changes in consolidation	6	7	21	1	–	29
Depreciation charge for the year	11	(74)	(252)	(368)	–	(694)
Impairment losses	11	(8)	(23)	(12)	–	(43)
Reversal impairment losses	11	3	13	9	–	25
Transfer to/from assets classified as held for sale		(4)	2	–	–	(2)
Disposals		15	142	320	–	477
Effect of movements in exchange rates		13	26	23	–	62
Balance as at 31 December 2007		(1,297)	(2,874)	(2,177)	–	(6,348)
Carrying amount						
As at 1 January 2006		1,386	2,369	1,041	271	5,067
As at 31 December 2006		1,372	2,104	1,055	413	4,944
As at 1 January 2007		1,372	2,104	1,055	413	4,944
As at 31 December 2007		1,483	2,272	1,085	522	5,362

Impairment losses

In 2007 a total impairment loss of €43 million was charged to the income statement. These impairment losses related to various entities of which a total of €20 million related to impairments of the Karlsberg Brewery in Germany held by our joint venture, Brau Holding International, in Germany.

Security

Property, plant & equipment totalling €68 million (2006: €131million) has 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 and equipment under construction

Property, plant & equipment under construction mainly relates to expansion of the brewing capacity in the Netherlands, Spain, Russia, Poland and Congo.

Notes to the consolidated financial statements continued

15. Intangible assets

In millions of EUR	Note	Goodwill	Brands	Software, research and development and other	Total
Cost					
Balance as 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 as at 31 December 2006		2,226	253	158	2,637
Balance as at 1 January 2007		2,226	253	158	2,637
Changes in consolidation	6	153	4	2	159
Purchases/internally developed		–	–	22	22
Disposals		–	–	(1)	(1)
Effect of movements in exchange rates		(38)	(2)	–	(40)
Balance as at 31 December 2007		2,341	255	181	2,777
Amortisation and impairment losses					
Balance as at 1 January 2006		(14)	(20)	(107)	(141)
Amortisation charge for the year	11	–	(11)	(17)	(28)
Impairment losses	11	(17)	(1)	(1)	(19)
Balance as at 31 December 2006		(31)	(32)	(125)	(188)
Balance as at 1 January 2007		(31)	(32)	(125)	(188)
Amortisation charge for the year	11	–	(11)	(20)	(31)
Impairment losses	11	(18)	(3)	–	(21)
Disposals		–	–	1	1
Effect of movements in exchange rates		–	2	1	3
Balance as at 31 December 2007		(49)	(44)	(143)	(236)
Carrying amount					
As at 1 January 2006		2,138	212	30	2,380
As at 31 December 2006		2,195	221	33	2,449
As at 1 January 2007		2,195	221	33	2,449
As at 31 December 2007		2,292	211	38	2,541

Impairment tests for cash-generating units containing goodwill

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

In millions of EUR	2007	2006
Brau Union	1,250	1,116
Russia	434	451
Compania Cervecerias Unidas (CCU)	328	339
	2,012	1,906
Various other entities	280	289
	2,292	2,195

Goodwill has been tested for impairment as at 31 December 2007. The recoverable amounts exceed the carrying amount of the cash-generating units including goodwill, except for cash-generating units (various other entities) where an impairment loss of €18 million was charged to the income statement. This mainly relates to impairments of goodwill on the Karlsberg Brewery in Germany for a total amount of €13 million.

The recoverable amounts of the cash-generating units are based on value-in-use calculations. Value-in-use was determined by discounting the future post-tax cash flows generated from the continuing use of the unit using a post-tax discount rate.

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

- 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 is justified due to the long-term nature of the beer business and past experiences.
- The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.
- Cash flows after the first ten-year period were extrapolated using expected annual long-term inflation, based on external sources, in order to calculate the terminal recoverable amount.
- A per cash-generating unit specific post-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units. The WACC's used are presented in the table below, accompanied by the expected volume growth rates and the expected long-term inflation:

	Brau union	Russia	CCU	Other
Post-tax WACC	8.7%	13.1%	9.4%	6.4%-17.4%
Expected annual long-term inflation	2.9%	6.8%	3.4%	1.3%-8.7%
Expected volume growth rates 2011-2017	1.0%	2.8%	3.1%	-0.3%-4.4%

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).

Notes to the consolidated financial statements continued

16. Investments in associates

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

	Country	Ownership 2007	Ownership 2006
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 ^{1,2}	Malaysia	10.7%	10.7%
Thai Asia Pacific Brewery Co. Ltd. ^{1,2}	Thailand	14.7%	14.7%
Jiangsu DaFuHao Breweries Co. Ltd. ^{1,2}	China	22.5%	22.5%

¹ Indirect through joint ventures.

² The reporting date of the financial statements of these associates is 30 September.

Heineken's share in the profit of associates for the year ended 31 December 2007 was €25 million (2006: €27 million).

Guinness Anchor Berhad is listed on the Malaysian stock exchange. Fair value as at 31 December 2007 amounted to €37 million (2006: €42 million).

Heineken is considered to have significant influence in Guinness Anchor Berhad and Thai Asia Pacific Brewery Co. Ltd. indirectly via Heineken's interest in Asia Pacific Investment Pte. Ltd.

17. Other investments

In millions of EUR	Note	2007	2006
Non-current other investments			
Held-to-maturity investments	30	218	404
Available-for-sale investments	30	234	202
		452	606
Current other investments			
Investments held for trading	30	15	12
Financial assets held for trading		15	12
Derivatives used for hedging	30	90	47
		105	59

Included in held-to-maturity investments are loans to customers with a carrying amount of €145 million as at 31 December 2007 (2006: €180 million). Effective interest rates range from 3 to 10 per cent. €139 million (2006: €168 million) matures between one and five years and €6 million (2006: €12 million) after five years.

In 2006, deferred payments in relation to the sale of a brewery site in Seville, Spain, amounting to €147 million were included in held-to-maturity investments and is included in trade and other receivables as at 31 December 2007.

Within available-for-sale investments, debt securities (which are interest-bearing) with a carrying amount of €26 million (2006: €24 million) are included.

Sensitivity analysis – equity price risk

An amount of €76 million as at 31 December 2007 (2006: €84 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. A 1 per cent increase in the share price at the reporting date would have increased equity by €1 million (2006: €1 million) an equal change in the opposite direction would have decreased equity by €1 million (2006: €1 million).

Notes to the consolidated financial statements continued

18. 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	
	2007	2006	2007	2006	2007	2006
Property, plant & equipment	21	21	(388)	(387)	(367)	(366)
Intangible assets	65	79	(45)	(41)	20	38
Investments	3	9	(2)	(2)	1	7
Inventories	15	12	–	(2)	15	10
Loans and borrowings	1	(3)	–	–	1	(3)
Employee benefits	113	134	–	1	113	135
Provisions	52	73	–	5	52	78
Other items	98	72	(92)	(58)	6	14
Tax losses carry-forwards	17	13	–	(2)	17	11
Tax assets/(liabilities)	385	410	(527)	(486)	(142)	(76)
Set-off of tax	(49)	(15)	49	15	–	–
Net tax assets/(liabilities)	336	395	(478)	(471)	(142)	(76)

Tax losses carry-forwards

Heineken has losses carry-forwards for an amount of €193 million (2006: €119 million) as per 31 December 2007 which expire in the following years:

In millions of EUR	2007	2006
2007	–	23
2008	18	24
2009	12	13
2010	8	7
2011	3	3
2012	2	–
After 2012 respectively 2011 but not unlimited	65	36
Unlimited	85	13
	193	119
Recognised as deferred tax assets gross	(71)	(42)
Unrecognised gross	122	77
Unrecognised net	33	21

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 thereof.

The increase of €45 million in unrecognised gross tax losses mainly relates to impairments taken for which it is uncertain that they will be recovered by future profits.

Movement in temporary differences during the year

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)

In millions of EUR	Balance 1 January 2007	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Balance 31 December 2007
Property, plant & equipment	(366)	(4)	7	(4)	–	(367)
Intangible assets	38	(9)	–	(9)	–	20
Investments	7	–	–	(6)	–	1
Inventories	10	1	–	4	–	15
Loans and borrowings	(3)	1	3	–	–	1
Employee benefits	135	(1)	–	(21)	–	113
Provisions	78	(5)	–	(21)	–	52
Other items	14	–	(3)	–	(5)	6
Tax losses carry-forwards	11	–	–	6	–	17
	(76)	(17)	7	(51)	(5)	(142)

19. Inventories

In millions of EUR	2007	2006
Raw materials	168	131
Work in progress	92	86
Finished products	188	226
Goods for resale	221	162
Non-returnable packaging	108	85
Other inventories	230	203
	1,007	893

In millions of EUR	2007	2006
Inventories measured at net realisable value	101	97

In 2007 the write-down of inventories to net realisable value amounted to €12 million (2006: €8 million). The write-downs are included in expenses for raw materials, consumables and services.

Notes to the consolidated financial statements continued

20. Trade and other receivables

In millions of EUR	Note	2007	2006
Trade receivables due from associates and joint ventures		9	22
Trade receivables		1,416	1,388
Other receivables including current part loans to customers		448	369
	30	1,873	1,779

Included in other receivables including current part loans to customers, is a deferred payment in relation to the sale of a brewery site in 2006 in Seville, Spain, amounting to €153 million.

With respect to this deferred payment, Heineken España received bank guarantees from several banks to cover this deferred payment by the buyer, due in March 2008.

A net impairment loss of €19 million (2006: €3 million) in respect of trade receivables was included in expenses for raw materials, consumables and services.

21. Cash and cash equivalents

In millions of EUR	Note	2007	2006
Bank balances		326	894
Call deposits		389	480
Cash and cash equivalents	30	715	1,374
Bank overdrafts	24	(282)	(747)
Cash and cash equivalents in the statement of cash flows		433	627

Heineken set up notional cash pools in 2006. The structure facilitates interest and balance compensation of cash and bank overdrafts. This notional pooling did not meet the strict set-off rules under IFRS in 2006, and as a result, the cash and bank overdraft balances have been 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 as at 31 December 2006. In 2007 the set-off rules under IFRS have been met.

22. Total equity

In millions of EUR	Note	Share capital	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Minority interests	Total equity
Balance as at 1 January 2006		784	148	(21)	49	392	–	2,617	3,969	545	4,514
Net recognised income and expense		–	(52)	49	48	(6)	–	(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)
Share-based payments	27	–	–	–	–	–	–	4	4	–	4
Changes in consolidation		–	–	–	–	–	–	–	–	(6)	(6)
Balance as at 31 December 2006		784	96	28	97	459	(14)	3,559	5,009	511	5,520
Balance as at 1 January 2007		784	96	28	97	459	(14)	3,559	5,009	511	5,520
Net recognised income and expense		–	(89)	16	2	19	–	(19)	(71)	(12)	(83)
Profit		–	–	–	–	89	–	718	807	165	972
Transfer to retained earnings		–	–	–	–	4	–	(4)	–	–	–
Dividends to shareholders		–	–	–	–	–	–	(333)	(333)	(117)	(450)
Purchase minority shares		–	–	–	–	–	–	–	–	(13)	(13)
Purchase own shares		–	–	–	–	–	(15)	–	(15)	–	(15)
Share-based payments	27	–	–	–	–	–	–	7	7	–	7
Changes in consolidation		–	–	–	–	–	–	–	–	8	8
Balance as at 31 December 2007		784	7	44	99	571	(29)	3,928	5,404	542	5,946

Share capital

In millions of EUR	Ordinary shares	
	2007	2006
On issue as at 1 January	784	784
Issued for cash	–	–
On issue as at 31 December	784	784

As at 31 December 2007, the issued share capital comprised 489,974,594 ordinary shares (2006: 489,974,594). The ordinary shares have a par value of €1.60. All issued shares are fully paid. The Company's authorised capital amounts to €2.5 billion, comprising of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by Heineken (see next page), 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 Group (excluding amounts attributable to minority interests).

Hedging reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. Heineken considers this a legal reserve.

Fair value reserve

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. Heineken considers this a legal reserve.

Other legal reserves

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

In case of a legal or other restriction which causes that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by Heineken. As at 31 December 2007, Heineken held 800,000 of the Company's shares (2006: 410,000).

Dividends

The following dividends were declared and paid by Heineken:

In millions of EUR	2007	2006
Final dividend previous year €0.44, respectively €0.24 per qualifying ordinary share	215	118
Interim dividend current year €0.24, respectively €0.16 per qualifying ordinary share	118	78
Total dividend declared and paid	333	196

As approved during the Annual General Meeting of Shareholders in April 2007, Heineken renewed its dividend policy by reinforcing the relationship between dividend payments and the annual development of net profit before exceptional items and amortisation of brands. Heineken's dividend policy targets a payout of 30 to 35% of net profit before exceptional items and amortisation of brands.

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

In millions of EUR	2007	2006
€0.70 per qualifying ordinary share (2006: €0.60)	343	294

Prior-year adjustments in 2006

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 was recognised in equity in 2006.

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2007 is based on the profit attributable to ordinary shareholders of the Company (net profit) of €807 million (2006: €1,211 million) and a weighted average number of ordinary shares – basic outstanding during the year ended 31 December 2007 of 489,353,315 (2006: 489,712,594).

Basic earnings per share for the year amounts to €1.65 (2006: €2.47).

Weighted average number of shares – basic

In thousands of shares	2007	2006
Number of shares – basic – as at 1 January	489,564,594	489,974,594
Effect of own shares held	(211,279)	(262,000)
Weighted average number of shares – basic – as at 31 December	489,353,315	489,712,594

Diluted earnings per share

The calculation of diluted earnings per share as at 31 December 2007 was based on the profit attributable to ordinary shareholders of the Company (net profit) of €807 million (2006: €1,211 million) and a weighted average number of ordinary shares – basic outstanding after adjustment for the effects of all dilutive potential ordinary shares of 489,974,594 (2006: 489,974,594). Diluted earnings per share for the year amounted to €1.65 (2006: €2.47).

24. 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	2007	2006
Secured bank loans	38	70
Unsecured bank loans	304	642
Unsecured bond issues	1,143	1,341
Finance lease liabilities	16	6
Non-current interest-bearing liabilities	1,501	2,059
Non-current non-interest-bearing liabilities	20	32
	1,521	2,091

Current interest-bearing liabilities

In millions of EUR	2007	2006
Current portion of secured bank loans	39	22
Current portion of unsecured bank loans	291	159
Current portion of unsecured bond issues	216	2
Current portion of finance lease liabilities	2	1
Total current portion of non-current interest-bearing liabilities	548	184
Deposits from third parties	323	293
Other current interest-bearing liabilities	2	17
Bank overdrafts	282	747
	1,155	1,241

Notes to the consolidated financial statements continued

24. Loans and borrowings continued

Net interest-bearing debt position

In millions of EUR	2007	2006
Non-current interest-bearing liabilities	1,501	2,059
Current portion of non-current interest-bearing liabilities	548	184
Deposits from third parties and other current interest-bearing liabilities	325	310
	2,374	2,553
Bank overdrafts	282	747
	2,656	3,300
Cash, cash equivalents and investments held for trading	(730)	(1,386)
Net interest-bearing debt position	1,926	1,914

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In millions of EUR	Currency	Nominal interest rate %	Repayment	Face value 2007	Carrying amount 2007	Face value 2006	Carrying amount 2006
Secured bank loans	EUR	various	various	45	45	52	52
Secured bank loans	USD	1.2-6.6	2008-2011	9	9	15	15
Secured bank loans	various	various	various	23	23	25	25
Unsecured bank loans	EUR	various	various	327	327	456	456
Unsecured bank loans	PLN	4.2-4.5	2008	6	6	26	26
Unsecured bank loans	CLP	5.5-8.0	2009-2012	101	101	86	86
Unsecured bank loans	EGP	8.9-11.6	2009-2010	56	56	85	85
Unsecured bank loans	various	various	various	105	105	148	148
Unsecured bond issues	EUR	4.4	2010	500	499	500	499
Unsecured bond issues	EUR	5.0	2013	600	597	600	597
Unsecured bond issues	EUR	5.5	2008	200	200	200	200
Unsecured bond issues	CLP	7.6-8.0	2024-2025	41	41	48	47
Unsecured bond issues	various	various	various	22	22	–	–
Deposits from third parties and other current interest-bearing liabilities	various	various	various	325	325	310	310
Finance lease liabilities	various	various	various	18	18	7	7
				2,378	2,374	2,558	2,553

Committed facilities: the Heineken N.V. €2 billion Revolving Credit Facility 2005-2012 was not utilised as at 31 December 2007 (31 December 2006: not utilised).

25. Finance lease liabilities

Finance lease liabilities are payable as follows:

In millions of EUR	Future minimum lease payments 2007	Interest 2007	Present value of minimum lease payments 2007	Future minimum lease payments 2006	Interest 2006	Present value of minimum lease payments 2006
Less than one year	2	–	2	2	–	2
Between one and five years	6	1	5	4	–	4
More than five years	12	1	11	1	–	1
	20	2	18	7	–	7

26. Employee benefits

In millions of EUR	2007	2006
Present value of unfunded obligations	345	309
Present value of funded obligations	2,571	2,734
Total present value of obligation	2,916	3,043
Fair value of plan assets	(2,535)	(2,397)
Present value of net obligation	381	646
Actuarial gains (losses) not recognised	171	(78)
Recognised liability for defined benefit obligations	552	568
Other long-term employee benefits	94	97
	646	665

Plan assets comprise:

In millions of EUR	2007	2006
Equity securities	1,050	968
Government bonds	959	955
Properties and real estate	220	199
Other plan assets	306	275
	2,535	2,397

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 present value of the defined benefit obligations

In millions of EUR	Note	2007	2006
Defined benefit obligations as at 1 January		3,043	3,121
Changes in consolidation and reclassification	6	(1)	(1)
Effect of movements in exchange rates		(4)	(2)
Benefits paid		(98)	(97)
Current service costs and interest on obligation (see next page)		206	209
Past service costs		1	2
Effect of any curtailment or settlement		4	6
Actuarial gains		(235)	(195)
Defined benefit obligations as at 31 December		2,916	3,043

Notes to the consolidated financial statements continued

26. Employee benefits continued

Movements in the present value of plan assets

In millions of EUR	2007	2006
Fair value of plan assets as at 1 January	2,397	2,268
Effect of movements in exchange rates	(3)	(3)
Contributions paid into the plan	91	99
Benefits paid	(98)	(97)
Expected return on plan assets	129	118
Actuarial gains	19	12
Fair value of plan assets as at 31 December	2,535	2,397
Actual return on plan assets	148	138

Expense recognised in the income statement

In millions of EUR	Note	2007	2006
Current service costs		72	84
Interest on obligation		134	125
Expected return on plan assets		(129)	(118)
Actuarial gains and losses recognised		2	1
Past service costs		1	2
Effect of any curtailment or settlement		4	6
	10	84	100

Principal actuarial assumptions as at the balance sheet date

	Western and Central and Eastern Europe		Americas		Africa and the Middle East		Asia Pacific	
	2007	2006	2007	2006	2007	2006	2007	2006
Discount rate as at 31 December	3.5-5.7	2.5-6	5.5-6.5	5.5-6.5	4.6-15	4.5-15	3.5-9.5	3.5-13
Expected return on plan assets as at 1 January	1.5-6.6	3.5-6.6	6.5	6.5	4.6	6.5	3.5-8	3.5-11
Future salary increases	2-9	1.5-8	0.5-5.5	0.5-5	3-14	3-14	3-6.5	3-8
Future pension increases	1-2.5	1-2.5	3.5	3.5	2	2	6.5	8
Medical cost trend rate	1.5	1.5	5	5	-	-	-	-

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

The overall expected long-term rate of return on assets is 5.3% (2006: 5.9%).

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one per centage point change in assumed healthcare cost trend rates would have the following effects:

In millions of EUR	1 percentage point increase	1 percentage point decrease
Effect on the aggregate service and interest costs	9	(9)
Effect on defined benefit obligation	142	(142)

The Group expects the 2008 contributions to be paid for the defined benefit plans to be in line with 2007 and 2006, excluding the impact of acquisitions.

Historical information

In millions of EUR	2007	2006	2005
Present value of the defined benefit obligation	2,916	3,043	3,121
Fair value of plan assets	(2,535)	(2,397)	(2,268)
Deficit in the plan	381	646	853
Experience adjustments arising on plan liabilities	(4)	(159)	
Experience adjustments arising on plan assets	16	9	

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

The performance period for share rights granted in 2005 was 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 performance period for share rights granted in 2007 is from 1 January 2007 to 31 December 2009.

The vesting date for the Executive Board is within five business days, and for senior management the latest of 1 April and 20 business days, after the publication of the annual results of 2007, 2008 and 2009 respectively.

As Heineken N.V. will fulfil the tax payment obligations related to vesting on behalf of the individual employees, the amount of Heineken N.V. shares to be received by the Executive Board and senior management will be a net amount.

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 in 2005	43,724	24.53	Continued service and RTSR performance	3 years
Share rights granted to Executive Board in 2006	40,049	26.78	Continued service and RTSR performance	3 years
Share rights granted to senior management in 2006	352,098	26.78	Continued service, 75% internal performance conditions and 25% RTSR performance	3 years
Share rights granted to Executive Board in 2007	32,265	36.03	Continued service and RTSR performance	3 years
Share rights granted to senior management in 2007	281,400	36.03	Continued service, 75% internal performance conditions and 25% RTSR performance	3 years
	749,536			

The number of shares in the table above is based on target performance.

Notes to the consolidated financial statements continued

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

Based on the expectations in relation to RTSR performance and internal performance additional shares will be expected to be vested, amounting to 121,018 shares. The expenses relating to these expected additional grants are recognised in profit and loss during the vesting period.

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

	Weighted average share price 2007	Number of share rights 2007	Weighted average share price 2006	Number of share rights 2006
Outstanding as at 1 January	26.55	435,871	24.53	43,724
Granted during the year	36.03	313,665	26.78	392,147
Forfeited during the period	–	(52,920)	–	–
Outstanding as at 31 December	30.10	696,616	26.55	435,871

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 2007	Executive Board 2006	Senior management 2007	Senior management 2006
Fair value at grant date	486,879	424,519	9,524,037	8,814,436
Expected volatility	20.1%	22.4%	20.1%	22.4%
Expected dividends	1.2%	1.5%	1.2%	1.5%

Personnel expenses

In millions of EUR	Note	2007	2006
Share rights granted in 2006		3	4
Share rights granted in 2007		4	–
Total expense recognised as personnel expenses	10	7	4

28. Provisions

In millions of EUR	Note	Restructuring	Other	Total
Balance as at 1 January 2007		252	112	364
Changes in consolidation	6	–	1	1
Provisions made during the year		49	66	115
Provisions used during the year		(108)	(6)	(114)
Provisions reversed during the year		(23)	(16)	(39)
Effect of movements in exchange rates		–	(1)	(1)
Unwinding of discounts		1	–	1
Balance as at 31 December 2007		171	156	327
Non-current		61	123	184
Current		110	33	143
		171	156	327

Restructuring

The provision for restructuring of €171 million mainly relates to restructuring programmes in the Netherlands, France, Spain and Italy. During the year, €46 million (2006: €102 million) restructuring expenses relating to Fit2Fight have been recognised.

Other provisions

Included are, amongst others, provisions formed for onerous contracts (€22 million), surety provided (€26 million), litigations and claims (€55 million) and environmental provisions (€17 million).

29. Trade and other payables

In millions of EUR	Note	2007	2006
Trade payables due to associates and joint ventures		6	9
Other trade payables		1,164	1,030
Returnable packaging deposits		382	340
Taxation and social security contributions		296	301
Dividend		36	29
Interest		38	34
Derivatives used for hedging		22	10
Other payables		174	140
Accruals and deferred income		688	603
	30	2,806	2,496

30. Financial risk management and financial instruments

Overview

Heineken has exposure to the following risks from its use of financial instruments, as they arise in the normal course of Heineken's business:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about Heineken's exposure to each of the above risks, Heineken's objectives, policies and processes for measuring and managing risk, and Heineken's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility for Heineken's risk management and control systems. Regional and subsidiary company management are responsible for managing performance, underlying risks and effectiveness of operations, within the Rules set by the Executive Board, supported and supervised by Group departments.

Heineken's risk management policies are established to identify and analyse the risks faced, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Heineken, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by Group departments. Group Internal Audit provides independent assurance on the entire risk management and internal control system. The Assurance Meetings at subsidiary companies and regional level, oversee the adequacy and operating effectiveness of the risk management and internal control system. Regional management and Group Internal Audit participate in these meetings to ensure effective dialogue and transparency.

The outcome and effectiveness of the risk management and internal control systems have been discussed with the Audit Committee of the Supervisory Board.

Notes to the consolidated financial statements continued

30. Financial risk management and financial instruments continued

Credit risk

Credit risk is the risk of financial loss to Heineken if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Heineken's receivables from customers and investment securities.

As 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.

Loans to customers

Heineken's exposure to credit risk is mainly influenced by the individual characteristics of each customer. The demographics of Heineken's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. Geographically there is no concentration of credit risk.

Heineken's held-to-maturity investments includes loans to customers, issued based on a loan contract. Loans to customers are ideally secured by, amongst others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. Interest rates calculated by Heineken are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

Heineken establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics.

In a few countries the issue of new loans is outsourced to third parties. In most cases, Heineken issues sureties (guarantees) to the third party for the risk of default of the customer. Heineken in return receives a fee.

Trade and other receivables

Heineken's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before Heineken's standard payment and delivery terms and conditions are offered. Heineken's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer and these limits are reviewed regularly. Customers that fail to meet Heineken's benchmark creditworthiness may transact with Heineken only on a prepayment basis.

In monitoring customer credit risk, customers are, on a country base, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as 'high risk' are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of management.

Heineken has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. As such distribution models are country-specific and on consolidated level diverse, as such the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

Heineken establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component and a collective loss component.

Investments

Heineken limits its exposure to credit risk, except for held-to-maturity investments as disclosed in note 17, by only investing in liquid securities and only with counterparties that have a credit rating of at least single A or equivalent.

Guarantees

Heineken's policy is to avoid issuing guarantees where possible unless this leads to substantial savings for the Group. In cases where Heineken does provide guarantees, such as to banks for loans (by third parties), Heineken aims to receive security from the third party.

The Company has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In millions of EUR	Note	2007	2006
Held-to-maturity investments	17	218	404
Investments held for trading	17	15	12
Available-for-sale investments	17	234	202
Interest rate swaps used for hedging: assets	17	–	4
Forward exchange contracts used for hedging: assets	17	90	43
Trade and other receivables	20	1,873	1,779
Cash and cash equivalents	21	715	1,374
		3,145	3,818

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

In millions of EUR	2007	2006
Western Europe	896	907
Central and Eastern Europe	548	478
The Americas	214	205
Africa and the Middle East	126	90
Asia Pacific	78	74
Head Office/eliminations	11	25
	1,873	1,779

Impairment losses

The ageing of trade and other receivables at the reporting date was:

In millions of EUR	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not past due	1,363	(7)	1,385	(8)
Past due 0–30 days	292	(33)	177	(6)
Past due 31–120 days	182	(23)	177	(47)
More than 120 days	244	(145)	248	(147)
	2,081	(208)	1,987	(208)

Notes to the consolidated financial statements continued

30. Financial risk management and financial instruments continued

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

In millions of EUR	2007	2006
Balance as at 1 January	208	215
Impairment loss recognised	49	39
Allowance used	(12)	(10)
Allowance released	(30)	(36)
Effect of movements in exchange rates	(7)	–
Balance as at 31 December	208	208

The movement in the allowance for impairment in respect of held-to-maturity investments during the year was as follows:

In millions of EUR	2007	2006
Balance as at 1 January	90	53
Changes in consolidation	–	2
Impairment loss recognised	38	37
Allowance used	(19)	(2)
Balance as at 31 December	109	90

Impairment losses recognised for trade and other receivables and held-to-maturity investments are part of the other non-cash items in the consolidated statement of cash flows.

The impairment loss of €38 million in respect of held-to-maturity investments and the impairment loss of €49 million in respect of trade receivables were included in expenses for raw materials, consumables and services.

An impairment loss of €38 million in respect of held-to-maturity investments was recognised during the current year of which €25 million related to loans to customers. Heineken has no collateral in respect of these impaired investments.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless Heineken is satisfied that no recovery of the amount owing is possible, at that point the amount considered irrecoverable is written off against the financial asset.

Liquidity risk

Liquidity risk is the risk that Heineken will not be able to meet its financial obligations as they fall due. Heineken's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Heineken's reputation.

Strong cash flow generation and sufficient access to capital is ensured to finance long-term growth and to keep pace with the consolidation of the global beer market. Financing strategies are under continuous evaluation. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources. In addition, the Heineken N.V. €2 billion Revolving Credit Facility 2005–2012 was not utilised as at 31 December 2007 (31 December 2006: not utilised).

Contractual maturities

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments and excluding the impact of netting agreements:

In millions of EUR	2007						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans	77	(80)	(6)	(9)	(11)	(52)	(2)
Unsecured bank loans	595	(609)	(185)	(117)	(79)	(220)	(8)
Unsecured bond issues	1,359	(1,609)	(23)	(246)	(55)	(619)	(666)
Finance lease liabilities	18	(19)	(1)	(2)	(1)	(4)	(11)
Non-interest-bearing liabilities	20	(20)	–	–	(12)	(7)	(1)
Deposits from third parties and other current interest-bearing liabilities	325	(327)	(324)	(3)	–	–	–
Bank overdrafts	282	(282)	(282)	–	–	–	–
Trade and other payables	2,806	(2,823)	(2,646)	(163)	(4)	(3)	(7)
Derivative financial assets and liabilities							
Forward exchange contracts used for hedging accounting:							
Outflow	36	(1,492)	(707)	(586)	(199)	–	–
Inflow	(104)	1,560	738	613	209	–	–
	5,414	(5,701)	(3,436)	(513)	(152)	(905)	(695)

The total carrying amount of derivatives are included in current other investments (note 17) and trade and other payables (note 29).

In millions of EUR	2006						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans	92	(96)	(7)	(16)	(18)	(54)	(1)
Unsecured bank loans	801	(827)	(30)	(146)	(287)	(357)	(7)
Unsecured bond issues	1,343	(1,667)	(22)	(43)	(265)	(641)	(696)
Finance lease liabilities	7	(10)	–	(1)	(2)	(3)	(4)
Non-interest-bearing liabilities	32	(34)	–	(5)	(23)	(4)	(2)
Deposits from third parties and other current interest-bearing liabilities	310	(310)	(310)	–	–	–	–
Bank overdrafts	747	(749)	(749)	–	–	–	–
Trade and other payables	2,496	(2,496)	(2,281)	(195)	(3)	(1)	(16)
Derivative financial assets and liabilities							
Interest rate swaps used for hedging net							
	12	(12)	–	–	(1)	(11)	–
Forward exchange contracts used for hedging accounting:							
Outflow	2	(1,234)	(514)	(451)	(269)	–	–
Inflow	(43)	1,268	531	464	273	–	–
	5,799	(6,167)	(3,382)	(393)	(595)	(1,071)	(726)

The total carrying amount of derivatives are included in current other investments (note 17) and trade and other payables (note 29).

Notes to the consolidated financial statements continued

30. Financial risk management and financial instruments continued

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect Heineken's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Heineken uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally Heineken seeks to apply hedge accounting in order to minimise the effects of foreign currency fluctuations in the income statement.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency and interest rate hedging operations are governed by an internal policy and rules approved and monitored by the Executive Board.

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 main currency that gives rise to this risk is the US Dollar.

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

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 of forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. Heineken mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Company has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long-term in nature.

It is Heineken's policy to provide intra-Heineken financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on subsidiary level. The resulting exposure at Group level is hedged by means of forward exchange contracts. Intra-Heineken financing is mainly in US Dollars, Russian Rubles and Polish Zloty.

The principal amounts of Heineken's Chilean Peso, Polish Zloty and Egyptian Pound bank loans and bond issues are used to hedge local operations, which generate cash flows that have the same respective functional currencies. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of Heineken. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of the Company and the various foreign operations, Heineken ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to foreign currency risk

Heineken's exposure for the USD was as follows based on notional amounts:

In millions	2007	2006
	USD	USD
Loans and held-to-maturity investments	74	25
Trade and other receivables	198	229
Cash and cash equivalents	5	33
Secured bank loans	–	(35)
Bank overdrafts	–	(3)
Trade and other payables	(8)	(16)
Gross balance sheet exposure	269	233
Estimated forecast sales next year	1,051	1,147
Estimated forecast purchases next year	(163)	(201)
Gross exposure	1,157	1,179
Cash flow hedging forward exchange contracts	(890)	(978)
Other hedging forward exchange contracts	(161)	(178)
Net exposure	106	23

Included in the USD amounts are intra-Heineken cash flows.
The loans represent intra-Heineken financing.

The following significant exchange rates applied during the year:

In EUR	Average rate		Reporting date mid-spot rate	
	2007	2006	2007	2006
USD	0.7308	0.7973	0.6793	0.7584

Sensitivity analysis

A 10 per cent strengthening of the euro against the US Dollar as at 31 December would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

In millions of EUR	Equity		Profit or loss	
	2007	2006	2007	2006
USD	41	50	(6)	(3)

A 10 per cent weakening of the euro against the US Dollar as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

Interest rate risk

In managing interest rate risk, Heineken aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

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

Swap maturity follows the maturity of the related loans and borrowings and have swap rates ranging from 5.0 to 5.5 per cent (2006: from 3.4 to 5.5 per cent).

Notes to the consolidated financial statements continued

30. Financial risk management and financial instruments continued**Interest rate risk – Profile**

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

In millions of EUR	2007	2006
Fixed rate instruments		
Financial assets	63	32
Financial liabilities	(1,779)	(1,797)
Interest rate swaps floating to fixed	40	(82)
	(1,676)	(1,847)
Variable rate instruments		
Financial assets	810	1,522
Financial liabilities	(878)	(1,503)
Interest rate swaps fixed to floating	(40)	70
	(108)	89

Fair value sensitivity analysis for fixed rate instruments

During 2007, Heineken did not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

In millions of EUR	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2007				
Variable rate instruments	(1)	1	(1)	1
Interest rate swaps fixed to floating	–	–	–	–
Cash flow sensitivity (net)	(1)	1	(1)	1
31 December 2006				
Variable rate instruments	(1)	1	(1)	1
Interest rate swaps fixed to floating	1	(1)	1	(1)
Cash flow sensitivity (net)	–	–	–	–

Other market price risk

Management of Heineken monitors the mix of debt and equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis.

The primary goal of Heineken's investment strategy is to maximise investment returns in order to partially meet its unfunded defined benefit obligations management is assisted by external advisors in this regard.

Commodity risk is the risk that changes in commodity price 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.

Cash flow hedges

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

In millions of EUR	2007						
	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps used for hedging, net liabilities	–	–	–	–	–	–	–
Forward exchange contracts:							
Assets	(104)	1,560	738	613	209	–	–
Liabilities	36	(1,492)	(707)	(586)	(199)	–	–
	(68)	68	31	27	10	–	–

In millions of EUR	2006						
	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps used for hedging, net liabilities	12	(12)	–	–	(1)	(11)	–
Forward exchange contracts:							
Assets	(43)	1,154	531	350	273	–	–
Liabilities	2	(1,121)	(514)	(338)	(269)	–	–
	(29)	21	17	12	3	(11)	–

The periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact the income statement is on average two months earlier than the occurrence of the cash flows as in above table.

Capital management

There were no major changes in Heineken's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus minority interests).

Heineken is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements under the Long-Term Incentive Plan as further explained in note 27. As approved in the Annual General Meeting of Shareholders in April 2007, Heineken renewed its dividend policy as further explained in note 22.

Notes to the consolidated financial statements continued

30. Financial risk management and financial instruments continued**Fair values**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

In millions of EUR	Carrying amount	Fair value	Carrying amount	Fair value
	2007	2007	2006	2006
Held-to-maturity investments	218	218	404	404
Available-for-sale investments	234	234	202	202
Advances to customers	219	219	180	180
Investments held for trading	15	15	12	12
Loans and receivables	1,873	1,879	1,779	1,781
Cash and cash equivalents	715	716	1,374	1,374
Interest rate swaps used for hedging:				
Assets	–	–	4	4
Liabilities	–	–	(16)	(16)
Forward exchange contracts used for hedging:				
Assets	90	90	43	43
Liabilities	(36)	(36)	(2)	(2)
Bank loans	(672)	(675)	(893)	(877)
Unsecured bond loans	(1,359)	(1,364)	(1,343)	(1,374)
Finance lease liabilities	(18)	(18)	(7)	(7)
Non-current non-interest-bearing liabilities	(20)	(20)	(32)	(32)
Deposits from third parties and other current liabilities	(325)	(325)	(310)	(310)
Trade and other payables excluding dividend, interest and derivatives	(2,710)	(2,713)	(2,423)	(2,401)
Bank overdrafts	(282)	(282)	(747)	(747)
	(2,058)	(2,062)	(1,775)	(1,766)

Basis for determining fair values

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above 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 2006
Guarantees to banks for loans (by third parties)	387	188	182	17	398
Other guarantees	138	27	94	17	116
Guarantees	525	215	276	34	514
Lease & operational lease commitments	281	48	127	106	242
Property, plant and equipment ordered	64	64	–	–	127
Raw materials purchase contracts	621	71	8	542	610
Other off-balance sheet obligations	460	186	175	99	267
Off-balance sheet obligations	1,426	369	310	747	1,246
Committed bank facilities	2,120	77	2,043	–	2,411

Heineken leases buildings, cars and equipment.

During the year ended 31 December 2007 €147 million (2006: €133 million) was recognised as an expense in the income statement in respect of operating leases and rent.

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

Committed bank facilities are credit facilities on which 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.

Of the total guarantees, off-balance sheet obligations and committed bank facilities, an amount of €288 million is related to joint ventures.

32. Contingencies

The Netherlands

Heineken is involved in an antitrust case initiated by the European Commission for alleged violations of the EU competition laws. By decision of 18 April 2007 the European Commission stated that Heineken, and other brewers operating in the Netherlands, restricted competition in the Dutch market during the period 1996–1999. This decision follows an investigation by the European Commission that commenced in March 2000. Heineken fully cooperated with the authorities in this investigation. As a result of its decision, the European Commission has imposed a fine on Heineken of €219 million.

All cartel decisions by the European Commission may be appealed against before the European Court of First Instance and then before the Court of Justice of the European Communities in Luxembourg. These two courts are empowered to annul decisions in whole or in part and to reduce or increase fines, where this is deemed appropriate.

On 4 July 2007 Heineken filed an appeal with the European Court of First Instance against the decision of the European Commission as Heineken disagrees with the findings of the European Commission. Pending appeal, Heineken was obliged to pay the fine to the European Commission. This imposed fine is treated as an expense in our 2007 annual report.

The European Commission filed its defence on 22 November 2007. Heineken will file its statement of reply in March 2008. After the European Commission will have filed its reply by rejoinder, Heineken is entitled to request for oral pleadings before the Court. A final decision by the European Court is expected thereafter.

Notes to the consolidated financial statements continued

32. Contingencies continued**USA**

Heineken USA and Heineken N.V. (and in certain cases other Heineken companies and Heineken Holding N.V.) were 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 alcoholic beverages, had unlawfully advertised and marketed its products to underage people. Heineken has been defending vigorously against these accusations, as Heineken companies advertise and market their products lawfully to people of legal drinking age. In November 2007, Heineken reached agreement with the plaintiffs of the lawsuits to finally end all of the plaintiffs' underage drinking cases.

33. Related parties**Identity of related parties**

Heineken has a related party relationship with its associates (refer note 16 and 33), joint ventures (refer note 33 and 35), Heineken Holding N.V., Heineken pension funds (refer note 26) and with its key management personnel (Executive Board and the Supervisory Board).

Key management remuneration

In millions of EUR	2007	2006
Executive Board	4.1	6.0
Supervisory Board	0.4	0.4
	4.5	6.4

Executive Board

The remuneration of the members 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 Long-Term Incentive Plan we refer to note 27. The separate remuneration report is stated on page 62.

As at 31 December 2007 and as at 31 December 2006, 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. D.R. Hooft Graafland held 3,052 shares of Heineken Holding N.V. as at 31 December 2007 (2006: 3,052 shares).

Executive Board

In thousands of EUR	Fixed Salary		Short-Term Incentive Plan		Long-Term Incentive Plan		Other deferred Benefits		Pension Plan		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006*	2007	2006
J.F.M.L. van Boxmeer	750	680	1,125	592	207	93	–	–	395	192	2,477	1,557
D.R. Hooft Graafland	550	525	619	455	143	86	–	–	311	238	1,623	1,304
M.J. Bolland ¹	–	306	–	189	–	50	–	2,550	–	82	–	3,177
Total	1,300	1,511	1,744	1,236	350	229	–	2,550	706	512	4,100	6,038

¹ Stepped down from the Executive Board on 1 August 2006. Mr. Bolland was compensated with an amount of €2,550,000.

* Comparatives have been adjusted to include pension entitlements related to the Short-Term Incentive Plan.

Supervisory Board

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

In thousands of EUR	2007	2006
C.J.A. van Lede	66	66
J.M. de Jong	52	52
M. Das	52	52
M.R. de Carvalho	50	50
A.H.J. Risseeuw ¹	13	50
J.M. Hessels	50	50
I.C. MacLaurin	50	33
A.M. Fentener van Vlissingen	50	33
Total	383	386

Only M.R. de Carvalho held 8 shares of Heineken N.V. as at 31 December 2007 (2006: 8 shares).

As at 31 December 2007 and 2006, the Supervisory Board members did not hold any of the Company's bonds or option rights. C.J.A. van Lede and M.R. de Carvalho (2006: three Supervisory Board members) together held 2,664 shares of Heineken Holding N.V. as at 31 December 2007 (2006: 9,508 shares).

¹ Stepped down from the Supervisory Board on 19 April 2007.

Other related party transactions

In millions of EUR	Transaction value		Balance outstanding as at 31 December	
	2007	2006	2007	2006
Sale of products and services				
Joint ventures	44	26	4	1
Associates	17	20	–	–
	61	46	4	1
Raw materials, consumables and services				
Goods for resale – joint ventures	4	–	1	–
Other expenses – joint ventures	1	–	1	–
	5	–	2	–

Heineken Holding N.V.

In 2007 an amount of €572,000 (2006: €551,000) was paid to Heineken Holding N.V. for management services for the Heineken Group.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its administration costs. Best practice provision III.6.4 of the Dutch Corporate Governance Code of 9 December 2003 has been observed in this regard.

Notes to the consolidated financial statements continued

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. Heineken Holding N.V. Amsterdam has an interest of 50.005 per cent in the issued capital of 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 Dutch Civil Code has been issued with respect to legal entities established in the Netherlands marked with a • below.

Significant subsidiaries

	Country of incorporation	Ownership interest	
		2007	2006
• 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%
• Heineken CEE Investments B.V.	The Netherlands	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	98.6%	98.5%
Heineken Italia S.p.A	Italy	100%	100%
Athenian Brewery S.A.	Greece	98.8%	98.8%
Brau Union AG	Austria	100%	100%
Brau Union Österreich AG	Austria	100%	100%
Grupa Żywiec S.A. ¹	Poland	61.7%	61.8%
Heineken Ireland Ltd. ²	Ireland	100%	100%
Heineken Hungária Myrt.	Hungary	99.6%	99.6%
Heineken Slovensko a.s.	Slovakia	100%	100%
Heineken Switzerland AG	Switzerland	100%	100%
Karlovacka Pivovara d.o.o.	Croatia	100%	100%
Mouterij Albert N.V.	Belgium	100%	100%
Ibecor S.A.	Belgium	100%	100%
Affligem Brouwerij BDS N.V.	Belgium	100%	100%
LLC Heineken Breweries	Russia	100%	100%
Dinal LLP	Kazakhstan	99.9%	99.9%
Heineken USA Inc.	United States	100%	100%
Starobrno a.s.	Czech Republic	97.6%	97.6%
Královský Pivovar Krušovice a.s.	Czech Republic	100%	–
Heineken Romania S.A.	Romania	96.3%	96.3%

Significant subsidiaries continued

	Country of incorporation	Ownership interest	
		2007	2006
JSC KPBN Shikhan	Russia	99.8%	99.3%
LLC Volga Brewing Company	Russia	100%	100%
LLC Patra	Russia	100%	100%
LLC Heineken Brewery Baikal	Russia	100%	100%
LLC Heineken Brewery Siberia	Russia	100%	100%
LLC Company PIT, Kaliningrad	Russia	100%	100%
LLC PIT Novotroitsk	Russia	100%	100%
JSC Amur-Pivo	Russia	100%	98.8%
CJSC Brewing Company 'Syabar'	Belarus	96.0%	–
Commonwealth Brewery Ltd.	Bahamas	53.2%	53.2%
Windward and Leeward Brewery Ltd.	St Lucia	72.7%	72.7%
Cervecerias Baru-Panama S.A.	Panama	74.9%	74.9%
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	85.7%	85.6%
P.T. Multi Bintang Indonesia Tbk.	Indonesia	84.5%	84.5%

¹ Excluding treasury shares (will be cancelled in the course of 2008).

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 2007 and 2006 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.

Notes to the consolidated financial statements continued

35. Significant interests in joint ventures

Heineken has interests in the following joint ventures:

	Country of incorporation	Ownership interest	
		2007	2006
BrauHolding International GmbH and Co KgaA	Germany	49.9%	49.9%
Zagorka Brewery A.D.	Bulgaria	50.0%	49.0%
Pivara Skopje A.D.	Macedonia	50.0%	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%	33.1%
Tempo Beverages Ltd.	Israel	40.0%	40.0%
Asia Pacific Brewery (Lanka) Ltd.	Sri Lanka	25.2%	25.2%
Société de Production et de Distribution des Boissons "SPDB"	Tunesia	49.9%	49.9%
Heineken Lion Australia Pty.	Australia	50.0%	50.0%

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., Heineken Lion Australia Pty., 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	2007	2006
Non-current assets	978	982
Current assets	588	504
Non-current liabilities	(364)	(328)
Current liabilities	(479)	(441)
Net assets	723	717
Revenue	1,373	1,295
Expenses	(1,244)	(1,155)
Results from operating activities	129	140

Notes to the consolidated financial statements continued

36. Subsequent events

Acquisition of Tango Sarl

On 14 January 2008, Heineken announced and completed the acquisition of Tango Sarl in Algeria. Heineken acquired 100% of the shares from the Group Mehri. The transaction has been funded from existing cash resources. Due to the competitive sensitivity and the non-disclosure agreements with the parties involved, the acquisition price is not disclosed.

Based on the timing of this acquisition and the local timing of the year-end closing and the subsequent IFRS changes involved, it is considered impracticable to disclose the information required according to IFRS 3.67.

Tango Sarl employs 350 employees and operates a modern brewing facility in Algiers. The brewery has been operational since 2001 and has a production capacity of 750,000 hectolitres. The brand portfolio consists of the leading national mainstream beer brand Tango, and two brands in the economy segment, Samba and Fiesta.

Acquisition of Rodic

In December 2007, Heineken announced the acquisition of the Rodic Brewery, in Novi Sad, Serbia. On 12 February 2008 this acquisition was completed by way of acquiring 100% of the shares. Heineken aims to combine its operations in Serbia with the operations of Efes Breweries International.

Based on the timing of this acquisition and the local timing of the year-end closing and the subsequent IFRS changes involved, it is considered impracticable to disclose the information required according to IFRS 3.67.

The Rodic Brewery was established in 2003 and employs 282 employees. The Rodic Brewery facility is a state-of-the-art, 1.5 million hectolitre brewery, located in Novi Sad, northern Serbia. The company's portfolio consists of the beer brands MB Premium, MB Pils and Master.

Announcement of joint venture with Efes Breweries

On 28 January 2008, Heineken announced the establishment of a joint venture with Efes Breweries International to invest in the Uzbek beer market through the acquisition of breweries. Under the terms of the agreement, Heineken and Efes Breweries International will hold 40% and 60% of the shares in the joint venture, respectively, with Efes Breweries International responsible for operational management.

In addition, Heineken and Efes Breweries International have also announced that they intend to combine their operations in the Kazakh and Serbian beer markets. Both of these transactions are subject to the customary regulatory approvals and are expected to be completed in the first half of 2008.

Announcement of recommended cash offer for Scottish and Newcastle plc

On 25 January 2008, the boards of Sunrise Acquisitions Limited (the company jointly owned by Heineken N.V. and Carlsberg A/S) and Scottish and Newcastle plc ('S&N') announced that they have reached an agreement on the terms of a recommended cash offer ('the Offer') for the entire issued and to be issued share capital of S&N. Under the terms of the offer, S&N shareholders will receive 800 pence in cash for each share.

The offer is subject to the approval of Heineken N.V. and Heineken Holding N.V. ('Heineken Holding') shareholders. S&N has received irrevocable undertakings from the controlling family shareholders in respect of all of their own beneficial holdings of Heineken shares and Heineken Holding shares to vote in favour of (or procure the voting in favour of) any such resolutions that may be necessary to approve, effect and implement the Offer by Sunrise Acquisitions Limited to be proposed at the Heineken Shareholders Meeting and the Heineken Holding Shareholders Meeting.

The approval of the European Commission and certain other competition authorities will also be required. Subject to the satisfaction of the Conditions, it is expected that the Scheme will become effective during the first half of 2008.

In anticipation of the contemplated acquisition of S&N, banks committed to a new multicurrency acquisition facility for an amount of £3.85 billion for Heineken's part of the financing of the offer, for any re-financing of existing debt of the companies to be acquired by Heineken as well as for related transaction costs. The facility consists of a £1.1 billion tranche with a maturity of one year (extendable to two years), and a £2.75 billion five year tranche. Interest is based on EURIBOR/LIBOR plus a margin. No financial covenants apply; there is only an incurrence covenant.

The combination of this new credit facility, and the €2 billion existing facility, largely exceeds the estimated enterprise value (including assumed debt) of the S&N's businesses to be acquired by Heineken of £4.5 billion (€6.1 billion).

If the Offer is accepted by the Scheme Shareholders, Heineken will gain control over S&N's businesses in the United Kingdom and Ireland, Portugal, Finland, Belgium, United States and India. Following completion of the offer, S&N's share of BBH Russian Breweries, as well as the French, Greek, Chinese and Vietnamese operations are transferred to Carlsberg A/S. The remaining businesses, principally the UK and Ireland, Portuguese, Finnish, Belgian, US and Indian operations, will be separated as soon as possible and in any event within 12 months after the Effective Date.

Heineken N.V. balance sheet

Before appropriation of profit as at 31 December 2007

In millions of EUR	Note	2007	2006
Fixed assets			
Financial fixed assets	37	6,560	6,160
Total fixed assets		6,560	6,160
Trade and other receivables		–	3
Cash and cash equivalents		1	3
Total current assets		1	6
Total assets		6,561	6,166
Shareholders' equity			
Issued capital		784	784
Translation reserve		7	96
Hedging reserve		44	28
Fair value reserve		99	97
Other legal reserves		571	459
Reserve for own shares		(29)	(14)
Retained earnings		3,121	2,348
Net profit		807	1,211
Total shareholders' equity	38	5,404	5,009
Liabilities			
Loans and borrowings	39	1,096	1,096
Total non-current liabilities		1,096	1,096
Trade and other payables		29	27
Tax payable		32	34
Total current liabilities		61	61
Total liabilities		1,157	1,157
Total shareholders' equity and liabilities		6,561	6,166

Heineken N.V. income statement

For the year ended 31 December 2007

In millions of EUR	Note	2007	2006
Share of profit of participating interests, after income tax	37	840	1,190
Other profit after income tax		(33)	21
Net profit		807	1,211

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

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 Dutch 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 interests	Loans to participating interest	Total
Balance as 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
Cash receipts	(1)	–	(1)
Repayments	–	(393)	(393)
Balance as at 31 December 2006	3,415	2,745	6,160
Balance as at 1 January 2007	3,415	2,745	6,160
Profit of participating interests	840	–	840
Dividend payments by participating interests	(224)	224	–
Effect of movements in exchange rates	(89)	–	(89)
Changes in hedging and fair value adjustments	18	–	18
Cash receipts	(6)	–	(6)
Repayments	–	(363)	(363)
Balance as at 31 December 2007	3,954	2,606	6,560

Notes to Heineken N.V. financial statements continued

38. Shareholders' equity

In millions of EUR	Issued capital	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Net profit	Shareholders' equity
Balance as at 1 January 2006	784	148	(21)	49	392	–	1,856	761	3,969
Net recognised income and expense ¹	–	(52)	49	48	(6)	–	(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 as at 31 December 2006	784	96	28	97	459	(14)	2,348	1,211	5,009
Balance as at 1 January 2007	784	96	28	97	459	(14)	2,348	1,211	5,009
Net recognised income and expense ¹	–	(89)	16	2	19	–	(19)	–	(71)
Profit	–	–	–	–	89	–	(89)	807	807
Transfer to retained earnings	–	–	–	–	4	–	1,207	(1,211)	–
Dividends to shareholders	–	–	–	–	–	–	(333)	–	(333)
Purchase own shares	–	–	–	–	–	(15)	–	–	(15)
Share-based payments	–	–	–	–	–	–	7	–	7
Balance as at 31 December 2007	784	7	44	99	571	(29)	3,121	807	5,404

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.

¹ Net recognised income and expense is explained in note 22 of the consolidated financial statements.

39. Loans and borrowings

Terms and debt repayment schedule

In millions of EUR	Nominal interest rate	Total	1 year or less	1-2 years	2-5 years	More than 5 years	2006
Unsecured							
Bond loan in EUR	4.4%	499	–	–	499	–	499
Bond loan in EUR	5.0%	597	–	–	–	597	597
		1,096	–	–	499	597	1,096

40. Off balance sheet commitments

In millions of EUR	Total	Less than 1 Year	1-5 Years	More than 5 Years	Total 2006
Committed bank facility	2,000	–	2,000	–	2,000
Declarations of joint and several liability		–	1,067	–	1,364

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 16, 34 and 35 to the consolidated financial statements.

Amsterdam, 19 February 2008	Executive Board	Supervisory Board
	Van Boxmeer	Van Lede
	Hooft Graafland	De Jong
		Das
		de Carvalho
		Hessels
		Fentener van Vlissingen
		MacLaurin