

---

**Efes Breweries International N.V.  
and its Subsidiaries**

**Consolidated Financial Statements  
Together With  
Auditors' Report  
December 31, 2007**

## TABLE OF CONTENTS

---

	<u>Page</u>
Auditors' Report	1-2
Consolidated Balance Sheet	3
Consolidated Statement of Income	4
Consolidated Statement of Changes in Equity	5
Consolidated Cash Flow Statement	6
Notes to Consolidated Financial Statements	7-39

To: the Board of Directors and the Shareholders of EFES Breweries International N.V.

## **AUDITOR'S REPORT**

### **Report on the 2007 consolidated financial statements**

We have audited the accompanying consolidated financial statements 2007 of EFES Breweries International N.V., Amsterdam, which comprise the consolidated balance sheet as at December 31, 2007, the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of EFES Breweries International N.V. as at December 31, 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Amsterdam, March 28, 2008

for Ernst & Young Accountants

signed by C.N.J. Verhart

**Efes Breweries International N.V. and its Subsidiaries**

**CONSOLIDATED BALANCE SHEET**

**As at December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

**ASSETS**

	Notes	2007	2006
<b>Current assets</b>			
Cash and cash equivalents	4	58,526	163,861
Trade and other receivables	5	88,140	49,630
Due from related parties	29	8,161	3,475
Inventories	6	188,041	97,913
Prepayments and other current assets	7	59,840	56,422
<b>Total current assets</b>		<b>402,708</b>	<b>371,301</b>
<b>Non-current assets</b>			
Available-for-sale investments	10	1,521	1,575
Property, plant and equipment	8	726,490	628,550
Intangible assets	9	536,949	514,969
Deferred tax assets	24	13,806	10,699
Prepayments and other non-current assets		2,942	2,246
<b>Total non-current assets</b>		<b>1,281,708</b>	<b>1,158,039</b>
<b>Total assets</b>		<b>1,684,416</b>	<b>1,529,340</b>

**LIABILITIES AND EQUITY**

	Notes	2007	2006
<b>Current liabilities</b>			
Trade and other payables	11	225,773	145,770
Due to related parties	29	23,339	22,148
Income tax payable		5,008	1,694
Short-term borrowings	12	188,609	138,156
Current portion of long-term borrowings	12	14,822	22,294
<b>Total current liabilities</b>		<b>457,551</b>	<b>330,062</b>
<b>Non-current liabilities</b>			
Long-term borrowings-net of current portion	12	342,598	311,108
Deferred tax liability	24	10,912	12,260
Other non-current liabilities	13	346	103,886
<b>Total non-current liabilities</b>		<b>353,856</b>	<b>427,254</b>
<b>Equity</b>			
Issued capital	14	237,488	237,488
Share premium	14	319,318	319,318
Currency translation reserve	14	138,794	75,520
Retained earnings		167,837	130,367
<b>Equity attributable to equity holders of the parent</b>		<b>863,437</b>	<b>762,693</b>
<b>Minority interests</b>		<b>9,572</b>	<b>9,331</b>
<b>Total equity</b>		<b>873,009</b>	<b>772,024</b>
<b>Total liabilities and equity</b>		<b>1,684,416</b>	<b>1,529,340</b>

The accompanying policies and explanatory notes on pages 7 through 39 form an integral part of these consolidated financial statements.

**Efes Breweries International N.V. and its Subsidiaries**

**CONSOLIDATED STATEMENT OF INCOME**

**For the year ended December 31, 2007**

(Currency – In thousands of U.S. Dollars unless otherwise indicated)

	Notes	2007	2006
Revenue		836,235	638,929
Cost of revenue	16	(462,100)	(328,843)
Gross profit		374,135	310,086
Selling and marketing expenses	17	(209,214)	(180,613)
General and administrative expenses	18	(94,819)	(73,801)
Other operating income	19	16,187	5,840
Other operating expense	19	(5,738)	(6,127)
Profit from operations		80,551	55,385
Financial income	22	11,348	14,453
Financial expense	22	(40,272)	(41,007)
Profit before tax		51,627	28,831
Income tax	23	(14,280)	(7,419)
Profit after tax		37,347	21,412
Attributable to :			
Equity holders of the parent company		37,470	20,608
Minority interests		(123)	804
		37,347	21,412
Earnings per share (in full U.S. Dollars)			
Basic	15	0.18	0.13
Diluted	15	0.18	0.13

The accompanying policies and explanatory notes on pages 7 through 39 form an integral part of these consolidated financial statements.

**Efes Breweries International N.V. and its Subsidiaries**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended December 31, 2007**

(Currency – In thousands of U.S. Dollars unless otherwise indicated)

	Attributable to the Equity Holders of the Parent Company					Minority Interests	Total Equity
	Share Capital	Share Premium	Currency Translation Reserve	Retained Earnings	Total		
<b>Balance at January 1, 2006</b>	<b>156,921</b>	<b>101,626</b>	<b>14,532</b>	<b>109,759</b>	<b>382,838</b>	<b>24,878</b>	<b>407,716</b>
Foreign currency translation	-	-	68,813	-	68,813	2,549	71,362
Recognition of currency translation reserve (Note 3)	-	-	(7,825)	-	(7,825)	-	(7,825)
Total income and expense for the year recognized directly in equity	-	-	60,988	-	60,988	2,549	63,537
Net profit for the year	-	-	-	20,608	20,608	804	21,412
Total income and expense for the year	-	-	60,988	20,608	81,596	3,353	84,949
Issue of share capital	80,567	217,692	-	-	298,259	-	298,259
Dividends of subsidiaries	-	-	-	-	-	(604)	(604)
Additions through subsidiaries acquired	-	-	-	-	-	(18,564)	(18,564)
Dividends paid to put option holder	-	-	-	-	-	268	268
<b>At December 31, 2006</b>	<b>237,488</b>	<b>319,318</b>	<b>75,520</b>	<b>130,367</b>	<b>762,693</b>	<b>9,331</b>	<b>772,024</b>
Foreign currency translation	-	-	63,274	-	63,274	1,011	64,285
Total income and expense for the year recognized directly in equity	-	-	63,274	-	63,274	1,011	64,285
Net profit for the year	-	-	-	37,470	37,470	(123)	37,347
Total income and expense for the year	-	-	63,274	37,470	100,744	888	101,632
Issue of share capital	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	(404)	(404)
Additions through subsidiaries acquired	-	-	-	-	-	(534)	(534)
Dividends paid to put option holder	-	-	-	-	-	291	291
<b>At December 31, 2007</b>	<b>237,488</b>	<b>319,318</b>	<b>138,794</b>	<b>167,837</b>	<b>863,437</b>	<b>9,572</b>	<b>873,009</b>

The accompanying policies and explanatory notes on pages 7 through 39 form an integral part of these consolidated financial statements.

# Efes Breweries International N.V. and its Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended December 31, 2007

(Currency – In thousands of U.S. Dollars unless otherwise indicated)

	Note	2007	2006
<b>Cash flows from operating activities</b>			
Profit before tax		51,627	28,831
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>			
Gain on sale of soft-drink trademarks	3	(3,712)	
Gain on sale of joint venture and subsidiary	25	-	(1,779)
Depreciation and amortisation	21	72,578	57,082
Provision for bad debt	18	972	134
Provision for inventories	19	3,951	1,834
Income recognised from reversal of provision for bad debt		(1,083)	(687)
Income recognised from reversal of provision for inventories		(970)	(148)
Impairment in property, plant and equipment	19	232	70
Reversal of impairment on property plant equipment	8	(2,430)	-
Reserve for vacation pay liability		1,022	1,221
Other non-cash items		51	(1,290)
Loss from disposal of property, plant and equipment	19	1,138	813
Amortised borrowing costs		1,241	208
Interest income	22	(4,744)	(5,685)
Interest expense	22	36,491	38,415
<b>Net income adjusted for non-cash items</b>		<b>156,364</b>	<b>119,019</b>
(Increase)/decrease in inventories		(93,115)	(19,286)
(Increase)/decrease in trade receivables		(38,399)	(8,417)
(Increase)/decrease in due from related parties		(4,686)	(6,397)
(Decrease)/increase in trade and other payables		9,419	24,780
Increase/(decrease) in due to related parties		1,191	2,524
(Increase)/decrease in other current assets		1,919	(12,769)
Decrease/(increase) in other non-current assets		(696)	(1,733)
Increase/(decrease) in other non-current liabilities		(171)	(1,123)
Interest received		2,405	5,331
Interest paid		(42,308)	(30,654)
Taxes paid		(18,680)	(10,920)
<b>Net cash provided by operating activities</b>		<b>(26,757)</b>	<b>60,355</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and other intangible assets	8 - 9	(127,655)	(124,193)
Proceeds from sale of property, plant and equipment		5,565	3,196
Proceeds from sale of soft-drink trademarks	3	3,712	-
Acquisition of subsidiaries, net of cash acquired		(36,660)	(486,665)
Disposal of joint venture		-	26,706
Dividends paid to minority shareholders		(404)	(604)
<b>Net cash used in investing activities</b>		<b>(155,442)</b>	<b>(581,560)</b>
<b>Cash flows from financing activities</b>			
Net increase/(decrease) in short-term debt		38,714	16,706
Proceeds from long-term debt		42,899	296,283
Repayment of long-term debt		(17,601)	(27,087)
Proceeds from issuance of share capital	14	-	80,567
Increase in share premium	14	-	217,692
<b>Net cash provided by financing activities</b>		<b>64,012</b>	<b>584,161</b>
Currency translation differences		12,852	4,045
Net increase/(decrease) in cash and cash equivalents		(105,335)	67,001
Cash and cash equivalents at beginning of year		163,861	96,860
<b>Cash and cash equivalents at end of year</b>		<b>58,526</b>	<b>163,861</b>

The accompanying policies and explanatory notes on pages 7 through 39 form an integral part of these consolidated financial statements.



# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 1. GENERAL

Efes Breweries International N.V. (the Company) was incorporated in the Netherlands on October 2, 1996. The registered address of the Company is Strawinskylaan 1227, 1077XX Amsterdam, the Netherlands.

The Company's ordinary shares have been listed on the London Stock Exchange in the form of global depositary receipts (GDR's).

The parent of the Company is Anadolu Efes Biracılık ve Malt Sanayii Anonim Şirketi (Anadolu Efes-the Parent Company). Anadolu Efes is a Turkish Corporation, which was established in Istanbul in 1966. The operations of Anadolu Efes consist of production of beer and its raw materials. Certain shares of Anadolu Efes are listed on the Istanbul Stock Exchange.

The consolidated financial statements of the Company for the year 2007 were authorised for issue by the directors on March 27, 2008.

#### Nature of Activities of the Company/Group

The Company acts as a Dutch Holding company, facilitating investments in breweries.

For the purpose of the consolidated financial statements, the Company and its consolidated subsidiaries are referred to as "the Group".

#### List of Subsidiaries

The subsidiaries included in consolidation and their shareholding percentages at December 31, 2007 and December 31, 2006 were as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and voting rights %	
			December 31, 2007	December 31, 2006
CJSC "Moscow-Efes Brewery" (Efes Moscow) (ii),	Russia	Production and marketing of beer	90.85	90.85
JSC «AMSTAR» (Amstar) (i)	Russia	Production of beer	90.85	90.85
ZAO Efes Entertainment (Efes Entertainment) (i)	Russia	Entertainment	90.85	90.85
CJSC.Rostov Beverage (Rostov Beverages) (i)	Russia	Production of beer	90.85	90.85
LLC "Stary Melnik" (i)	Russia	Advertising	90.85	90.85
JSC Brewing Union «Krasny Vostok - Solodovbeer» (KV Group) (ii)	Russia	Production and marketing of beer	92.85	92.85
LLC "KV - SibPivCompaniya"(iii)	Russia	Production of beer	97.53	97.53
LLC "Vostok solod"(iii)	Russia	Production of malt	92.85	92.85
LLC "Krasny Vostok – Invest"(iii)	Russia	Finance	92.85	92.85
LLC „Tsentralny Torgovy Dom „Krasny Vostok"(iii)	Russia	Trading house	92.85	92.85
CJSC "MTD "Krasny Vostok" (iii)	Russia	Trading house	92.85	92.85
CJSC „Samsarskii Torgovyii Dom „Krasny Vostok" (iii)	Russia	Trading house	92.85	92.85
CJSC „Saratovskii Torgovyii Dom „Krasny Vostok" (iii)	Russia	Trading house	92.85	92.85
LLC „Ufimskii Torgovyii Dom „Krasny Vostok" (iii)	Russia	Trading house	92.85	92.85

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 1. GENERAL (Continued)

	Place of Incorporation	Principal Activities	Effective Shareholding and voting rights %	
			December 31, 2007	December 31, 2006
LLC „Barnaulskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Volgogradskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Voronezhskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Ekaterinburgskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Kemerovskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Krasnodarskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Krasnoyarskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Kurskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Nizhegorodskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Nizhnekamskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Novosibirskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Omskii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Permskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Sankt-Peterburgskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Tomskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
LLC „Chelyabinskii Torgovii Dom „Krasny Vostok” (iii)	Russia	Trading house	92.85	92.85
JSC Efes Karaganda Brewery (Efes Karaganda)	Kazakhstan	Production and marketing of beer	100.00	100.00
Efes Vitanta Moldova Brewery S.A. (Efes Vitanta)	Moldova	Production and marketing of beer, soft drinks, low alcoholic drinks and mineral water	96.50	96.50
Efes Weifert Brewery d.o.o (Efes Weifert)	Serbia	Production and marketing of beer	97.21	90.97
Efes Zajecar Brewery d.o.o (Efes Zajecar)	Serbia	Production and marketing of beer	72.96	72.96
Euro-Asian Brauerein Holding GmbH (Euro Asian)	Germany	Investment company	100.00	100.00
Efes Commerce d.o.o Belgrade (Efes Commerce) (iv)	Serbia	Production and marketing of beverages	100.00	100.00
Brewery Pivdenna C.J.S.C. (Efes Ukraine) (iv)	Ukraine	Production and marketing of beer	100.00	100.00
Efes Romania Industrie Si Comert S.A. (ERIC) (iv)	Romania	Distribution of beer	99.996	99.996
Efes Productie S.R.L. (Efes Productie) (iv)	Romania	Distribution of beer	69.70	69.70

(i) Subsidiaries of Efes Moscow, which are consolidated under its financial statements.

(ii) Following revised IAS 32 (Financial Instruments: Disclosure and Presentation), a further 9.15% and 6.70% interest has also been consolidated for Efes Moscow and KV Group, respectively.

(iii) Subsidiaries of KV Group, which are consolidated under its financial statements.

(iv) Subsidiaries that are either dormant or in the process of being liquidated.

## **Efes Breweries International N.V. and its Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

#### **1. GENERAL (Continued)**

##### **Environments and Economic Conditions of Subsidiaries**

The countries, in which the consolidated subsidiaries are operating, have undergone substantial, political and economical changes in the recent years. Accordingly such markets do not possess well-developed business infrastructures and the operations in such countries might carry risks, which are not typically associated with those in more developed markets. Uncertainties regarding the political, legal, tax and / or regulatory environment, including the potential for adverse changes in any of these factors, could significantly affect the subsidiaries' ability to operate commercially.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **General**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, which comprise standards approved by the International Accounting Standards Board (IASB). The consolidated financial statements also comply with the interpretations issued by Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) appointed by the IASC. The consolidated financial statements have been prepared based on the historical cost convention with some items are presented at fair value, as disclosed in below notes.

##### **Changes in Accounting Policies**

The Company followed the same accounting policies and methods while preparing the consolidated financial statements for the year 2007 as compared to 2006 except for the new and amended IFRS and IFRIC interpretations. These are:

IFRS 7 "Financial Instruments : Disclosures", IAS 1 "Presentation of Financial Statements", IAS 19 "Employee Benefits", IAS 21 "The Effects of Changes in Foreign Exchange Rates", IAS 39 "Financial Instruments: Recognition and Measurement", IFRIC 4 "Determining whether an Arrangement contains a Lease", IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" and IFRIC 6 "Liabilities arising from Participation in a Specific Market-Waste Electrical and Electronic Equipment"

The Company reviewed the new standards, changes to the existing standards and interpretations. They have not had any effect on the consolidated financial statements.

##### **Basis of Preparation**

The Company maintains its books and records in accordance with the requirements of the Netherlands' civil code. The subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from financial statements of the Company and its subsidiaries and presented in accordance with IFRS as adopted by EU in U.S. Dollars. In December 2000, ERIC and Efes Productie adopted a plan of liquidation and as a result changed their basis of accounting, from the going-concern basis to a liquidation basis.

##### **Foreign Currency Translation**

The Company is domiciled in the Netherlands. The Group transacts most of its business in U.S. Dollars, loans granted by the Company are denominated in U.S. Dollars, and contributions to the capital of the subsidiaries are denominated in U.S. Dollars and dividends from subsidiaries are received in U.S. Dollars.

Accordingly, the USD was determined to be the Company's functional and presentation currency which reflects the economic substance of the underlying events and circumstances relevant to the Company.

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	December 31, 2007		December 31, 2006
	Local Currency	Functional Currency	Functional Currency
Efes Moscow	RUR	RUR	RUR
KV Group	RUR	RUR	RUR
Efes Karaganda	KZT	KZT	KZT
Efes Ukraine	UAH	UAH	UAH
Efes Vitanta	MDL	MDL	MDL
Efes Weifert	RSD	RSD	RSD
Efes Zajecar	RSD	RSD	RSD
Euro Asian	EUR	USD	USD
Efes Commerce	RSD	RSD	RSD
ERIC	ROL	ROL	ROL
Efes Productie	ROL	ROL	ROL

The assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at the exchange rates existing at the dates of the transactions or a weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of the equity. On disposal of a foreign entity, accumulated exchange differences (currency translation reserve) are recognised in the income statement as a component of the gain or loss on disposal.

Each entity within the Group translates its foreign currency transactions and balances into its functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognised in the income statement in the period in which they arise.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the acquiring company and is translated and recorded at the rate of exchange ruling at the balance sheet date.

#### Basis of Consolidation

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The purchase method of accounting is used for acquired businesses. Subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

The consolidated financial statements of the Group include Efes Breweries International N.V. and the companies which it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

## **Efes Breweries International N.V. and its Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Financial Assets**

###### **Cash and Cash Equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with the maturities of three months or less.

###### **Trade and Other Receivables**

Trade receivables, are recognised at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will no longer be able to collect the debts. Bad debts are written off when identified.

The Group sells their products in non-returnable bottles, returnable bottles and other containers. For returnable bottles, there is no deposit obligation of the Group. The Group accounts for bottles and other containers in inventory.

###### **Available-for-sale Investments**

Investments classified as available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by alternative valuation methods are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or to sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### **Inventories**

Inventories, including work-in-process are valued at the lower of cost and net realizable value, after provision for obsolete items. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by weighted average and first in first out methods. For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealizable inventory has been fully written off.

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated.

Depreciation which is calculated on straight-line basis method over the estimated useful life of the assets is as follows:

Buildings	10-40 years
Infrastructure	5-40 years
Machinery and equipment	5-20 years
Vehicles	5-10 years
Furniture and Fixtures	3-15 years
Other tangible assets	2-14 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less cost to sell and value in use. At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated and the impairment loss is reversed.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Cash generating units are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognised in the income statement.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognized.

The residual value of assets, useful life and depreciation methodologies are reviewed, and adjusted if appropriate, at each financial year end.

##### Intangible Assets

###### Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired of a subsidiary at the date of acquisition, and is included under the caption of intangible assets. In 2004, IASB issued IFRS 3 "Business Combinations", revised IAS 36 'Impairment of Assets' and revised IAS 38 'Intangible Assets' which should be applied on acquisitions to the accounting for goodwill in business combinations for which the agreement date is after 31 March 2004.

In addition, starting from January 1, 2005, goodwill acquired in a business combination prior to 31 March 2004 is no longer amortised but tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Goodwill arising on acquisitions after 31 March 2004 is not amortised but subject to impairment test annually. The previous version of IAS 38 was requiring that the useful life of an intangible asset can not exceed twenty years.

Goodwill is stated at cost less any impairment in value.

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to the business segments which are the countries in which it operates.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### Brand

The cost of brands acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, the brands are carried at cost less accumulated impairment losses, if any. The useful live for the brands is assessed to be indefinite and therefore brands are not amortised. The brands are tested for impairment annually. The useful live is reviewed annually to determine whether indefinite life assessment continues to be supportable.

##### Other Intangible Assets

Other intangible assets acquired separately from a business are capitalized at cost which is the fair value at the date of acquisition. Other intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition. Other intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred.

Following the initial recognition, other intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Other intangible assets which are identified to have a finite useful life are amortised on a straight-line basis over the periodically reviewed best estimate of useful lives and assessed for impairment whenever there is an indication that the assets may be impaired. The carrying values of other intangible assets which are identified to have an indefinite useful life are not amortised but reviewed for impairment annually and when events or changes in circumstances indicate that the carrying value may not be recoverable.

The cost of acquisition of new software is capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised on a straight-line basis over 1 to 5 years.

#### **Recognition and Derecognition of Financial Instruments**

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of financial asset when and only when the contractual rights to receive cash flows from the asset expire or the Group transfers the contractual rights to receive cash flows together with the risks of the asset or assumes a contractual obligation to pay the cash flows from a financial asset to one or more recipients under an additional agreement.

The Group derecognizes a financial liability when and only when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another liability from the same lender on substantially different terms or if the terms of the existing financial liability are substantially modified, such exchange or modification is treated as derecognition of the existing liability and the recognition of the new liability.

# **Efes Breweries International N.V. and its Subsidiaries**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Financial Liabilities**

##### **Borrowings**

All borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

##### **Borrowing Costs**

Borrowing costs are expensed as incurred. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

##### **Leases**

##### *The Group as Lessee*

##### *Finance Lease*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

##### *Operating Lease*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

##### **Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are stated net of discounts, value added and sales taxes.

The following specific recognition criteria must also be met before revenue is recognized:

##### **a) Sale of Goods**

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.



## **Efes Breweries International N.V. and its Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

##### **Deferred income tax**

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

##### **Government Grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to such grants, and that the grants will be received. They are recognised to income over the period to match them with the related costs that they are intended to compensate. Income relating to government grants is recognised as a deduction from the appropriate expense.

##### **Subsequent Events**

Post-year-end events that provide additional information about the Company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events), are reflected in the accompanying consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## **Efes Breweries International N.V. and its Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Use of Estimates**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

##### **Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

##### **Segment Reporting**

Following the acquisition of KV group the Management has changed the primary reporting segment from business segment to geographical segments. To be comparable; prior period statements were also rearranged.

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The Group's risks and rates of return are affected predominantly by the fact that it operates in different countries which are considered to be the primary segment and the secondary segment is the business. The Group is in a single product business and products other than beer represent less than 10% of the Group's revenue.

##### **Other**

Other operating income and other operating expense are shown separately both in the face of the statement of income and in related disclosure.

#### **3. CHANGES IN GROUP'S ORGANIZATION**

**For the year 2007**

In February 2007, Efes Vitanta, subsidiary of the Company in Moldova, reached an agreement with The Coca-Cola Company ("TCCC") to sell Efes Vitanta's soft drink brand called "Viva" as well as "Real" brand of bottled water to TCCC.

The Company acquired 6.25% of Efes Weifert in October 2007 through takeover bid process for a total cash consideration of USD 3,144. The excess of fair value of net assets acquired over the purchase price was USD 2,610 and has been recognized as goodwill (Refer to Note 9).

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 3. CHANGES IN GROUP'S ORGANIZATION (continued)

For the year 2006

The Company acquired 92.3% of KV Group located in Russia, in February 2006 with a total cash consideration of USD 366.7 million (including costs directly attributable to acquisition of USD 1.2 million). In June 2006, with a total cash consideration of USD 1.6 million, the Company additionally acquired 0.5% of KV Group from minority shareholders. The excess of the acquisition costs over the fair values of the net assets acquired was USD 85,481 for the initial acquisition and USD 9 for the minority buyout, and has been recognised as goodwill in the consolidated balance sheet (Refer to Note 25). The goodwill is justified by acquired market share which has consolidated the Groups existing Russian business at fourth position in the market, operational synergies, production optimisation across the Group's brewing platforms, a lower cost base through a higher sales volume and logistical advantage through more extensive geographical coverage.

Financial statements of the KV Group and its subsidiaries until 28 February 2006 had been prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation (Russian GAAP). Russian GAAP differs in certain respects from IFRS. KV Group has prepared its financial statements under IFRS for the first time as of February 28, 2006 and recognised the fair values of its assets and liabilities at carrying value, in compliance with IFRS 1 "First time adoption of IFRS". Therefore, it is impracticable for the Company to disclose the information about the carrying values on the date of acquisition and the comparative figures as required by IFRS 3.

The Company has gone through a substantial integration exercise which was intended to align the KV Group business into the Company's current Russian system. The principal integration goals were focusing on deriving benefit from areas that evidence scope for rapid synergies. The previous business model of KV Group has been significantly changed through cross-brewing, sales, distribution and marketing. KV Group has commenced producing brands of Efes Moscow and Efes Moscow has commenced producing brands of KV Group. The selling and distribution model of KV Group via trading houses has been ceased and all selling and distribution activities have been transferred to Efes Moscow.

As a result, KV Group has been restructured as a production centre. Therefore, financial performance of KV Group does not reflect the contribution of the integrated business model to the consolidated income statement of the Company.

Relating to the put option granted to Amsterdam Brewery Investments B.V., the Company acquired 12.4% of Efes Moscow for a total cash consideration of USD 108.9 million and increased its shareholding percentage in Efes Moscow to 83.4% in February 2006. Following revised IAS 32, the liability for the put options was measured, and the excess of the liability for puttable instrument over the fair value of the net assets of Efes Moscow amounting to USD 81,429 was for the first time recognised as goodwill as of December 31, 2005. Due to the difference between the estimated valuation and the actual cash consideration, the Company has recognized an additional goodwill of USD 740.

In August 2006, the Company sold all of its shares in Interbrew Efes, together with Anadolu Efes to InBev. The Company received USD 26.6 million for 49.99% of the share capital of Interbrew Efes. On disposal of Interbrew Efes, an accumulated currency translation difference of USD 7,825 was recognised in the income statement as a component of the gain on sale of joint venture (Refer to Note 25).

Interbrew Efes contributed USD 13,956 (2005 - USD 18,858) and USD 2,126 (2005 - USD 4,445) to consolidated revenue and consolidated net income, respectively.

In October 2006, the Company has acquired 7.50% of Efes Moscow from EL & EL for a total cash consideration of USD 88.5 million and increased its shareholding percentage to 90.85%. For the remaining 0.39% shares owned by EL & EL, EBI has been granted a call option. The excess of fair value of net assets acquired over the purchase price was USD 68,063 and has been recognised as goodwill in the consolidated balance sheet.

In December 2006, the Company acquired another 7.47% of share capital in Efes Weifert by cash contributions to its share capital and accordingly increased its share in the subsidiaries up to 90.97%. The excess of fair value of net assets acquired over the purchase price was USD 1,674 and has been recorded as goodwill.

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 4. CASH AND CASH EQUIVALENTS

	2007	2006
Cash on hand	170	53
Banks accounts (including short-term time deposits)	58,273	163,765
Other	83	43
Cash and cash equivalents per consolidated cash flow statement	58,526	163,861

Loans utilized by Efes Karaganda of USD 13,056 (2006-USD 17,927) and by Efes Moscow of USD 16,590 (2006-USD 18,764) as of December 31, 2007 are secured with cash amount of USD 30,304 at banks (Refer to Note 12) (2006-USD 51,409).

Time deposits are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest between 3.4% and 8.6%(2006-3.7%-7.5%).

### 5. TRADE AND OTHER RECEIVABLES

	2007	2006
Accounts Receivable	96,644	58,752
Others	2,798	1,852
Less: provision for doubtful accounts	(11,302)	(10,974)
Total	88,140	49,630

### 6. INVENTORIES

	2007	2006
Raw materials	122,755	57,565
Supplies and spare parts	19,019	13,615
Finished goods	22,358	17,191
Work-in-process	11,888	7,359
Others	27,203	14,261
Less: reserve for obsolescence	(15,182)	(12,078)
Total	188,041	97,913

### 7. PREPAYMENTS AND OTHER CURRENT ASSETS

	2007	2006
Advances given to suppliers	18,305	11,718
VAT deductible	29,262	37,822
Other receivables	9,895	7,275
Prepaid expenses	3,997	1,067
Less: provision for other receivables	(1,619)	(1,460)
Total	59,840	56,422

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Infrastructure	Machinery and Equipment	Furniture and Vehicles	Other Tangible Assets	Construction in Progress	2007 Total
<b>Cost</b>								
January 1, 2007	10,670	251,686	16,558	496,280	22,492	22,135	24,995	844,816
Additions	-	1,219	-	1,490	4,306	9,505	109,183	125,703
Disposals	-	(575)	(94)	(9,196)	(1,959)	(958)	(13)	(12,795)
Currency translation difference	775	19,226	1,417	39,699	2,750	1,889	2,670	68,426
Transfers	-	24,995	5,451	42,140	5,241	323	(78,150)	-
<b>December 31, 2007</b>	<b>11,445</b>	<b>296,151</b>	<b>23,332</b>	<b>570,413</b>	<b>32,830</b>	<b>32,894</b>	<b>58,685</b>	<b>1,026,150</b>
<b>Accumulated Depreciation and Impairment Losses</b>								
January 1, 2007	-	38,129	3,788	158,644	8,053	7,652	-	216,266
Depreciation for the year	-	8,550	719	53,084	4,234	5,327	-	71,914
Impairment losses	-	232	-	(2,430)	-	-	-	(2,198)
Disposals	-	(177)	(47)	(4,089)	(850)	(932)	-	(6,095)
Currency translation difference	-	3,477	292	14,214	1,091	699	-	19,773
Transfers	-	(92)	-	(610)	772	(70)	-	-
<b>December 31, 2007</b>	<b>-</b>	<b>50,119</b>	<b>4,752</b>	<b>218,813</b>	<b>13,300</b>	<b>12,676</b>	<b>-</b>	<b>299,662</b>
<b>Net book value</b>	<b>11,445</b>	<b>246,032</b>	<b>18,580</b>	<b>351,600</b>	<b>19,530</b>	<b>20,216</b>	<b>58,685</b>	<b>726,490</b>
	Land	Buildings	Infrastructure	Machinery and Equipment	Furniture and Vehicles	Other Tangible Assets	Construction in Progress	2006 Total
<b>Cost</b>								
January 1, 2006	3,629	117,810	10,777	322,284	15,850	13,689	26,754	510,793
Additions	-	354	-	2,313	1,248	4,078	114,620	122,613
Disposals	-	(196)	(330)	(4,886)	(1,717)	(918)	(1,083)	(9,130)
Addition through subsidiary acquired	5,319	100,600	2,974	89,190	3,892	3,928	1,081	206,984
Disposal through subsidiaries sold	-	(13,282)	-	(31,070)	(433)	(2,089)	(1,322)	(48,196)
Currency translation difference	705	18,308	999	36,948	1,794	889	2,109	61,752
Transfers	1,017	28,092	2,138	81,501	1,858	2,558	(117,164)	-
<b>December 31, 2006</b>	<b>10,670</b>	<b>251,686</b>	<b>16,558</b>	<b>496,280</b>	<b>22,492</b>	<b>22,135</b>	<b>24,995</b>	<b>844,816</b>
<b>Accumulated Depreciation and Impairment Losses</b>								
January 1, 2006	-	31,059	3,302	119,802	6,572	6,456	-	167,191
Depreciation for the year	-	7,097	462	43,948	2,283	2,847	-	56,637
Impairment losses	-	-	-	70	-	-	-	70
Disposals	-	(87)	(120)	(2,624)	(1,152)	(1,135)	-	(5,118)
Disposal through subsidiaries sold	-	(3,330)	-	(14,408)	(265)	(799)	-	(18,802)
Currency translation difference	-	3,390	144	11,856	615	283	-	16,288
<b>December 31, 2006</b>	<b>-</b>	<b>38,129</b>	<b>3,788</b>	<b>158,644</b>	<b>8,053</b>	<b>7,652</b>	<b>-</b>	<b>216,266</b>
<b>Net book value</b>	<b>10,670</b>	<b>213,557</b>	<b>12,770</b>	<b>337,636</b>	<b>14,439</b>	<b>14,483</b>	<b>24,995</b>	<b>628,550</b>

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 8. PROPERTY, PLANT AND EQUIPMENT (continued)

As of December 31, 2007 and 2006, certain property, plant and equipment are pledged as security for short-term and long-term loans and borrowings of the Group. (Refer to Note 12).

#### 1) Equipment under finance lease

The cost of property, plant and equipment held under finance lease is USD 824 and USD 535 and has a net book value of USD 655 and USD 376 as at December 31, 2007 and 2006, respectively (Refer to Note 27).

#### 2) Impairment losses

In 2007, a net impairment reversal gain of USD 2,198 (2006 impairment loss: USD 70) was recognised (Refer to Note 19).

### 9. INTANGIBLE ASSETS

	Goodwill	Brands	Other intangible assets	2007 Total	Goodwill	Brands	Other intangible assets	2006 Total
<b>Cost</b>								
January 1	434,306	89,675	5,610	529,591	219,031	-	3,794	222,825
Additions	2,610	-	1,952	4,562	190,072	83,960	1,580	275,612
Disposals	-	-	(151)	(151)	-	-	(14)	(14)
Disposals through subsidiaries sold	-	-	-	-	-	-	(59)	(59)
Currency translation difference	15,237	2,941	565	18,743	25,203	5,715	309	31,227
<b>December 31</b>	<b>452,153</b>	<b>92,616</b>	<b>7,976</b>	<b>552,745</b>	<b>434,306</b>	<b>89,675</b>	<b>5,610</b>	<b>529,591</b>
<b>Accumulated amortisation and impairment losses</b>								
January 1	10,553	-	4,069	14,622	10,215	-	3,401	13,616
Amortisation for the year	-	-	664	664	-	-	445	445
Disposals	-	-	(148)	(148)	-	-	(14)	(14)
Disposals through subsidiaries sold	-	-	-	-	-	-	(59)	(59)
Currency translation difference	288	-	370	658	338	-	296	634
<b>December 31</b>	<b>10,841</b>	<b>-</b>	<b>4,955</b>	<b>15,796</b>	<b>10,553</b>	<b>-</b>	<b>4,069</b>	<b>14,622</b>
<b>Net book value</b>	<b>441,312</b>	<b>-</b>	<b>3,021</b>	<b>536,949</b>	<b>423,753</b>	<b>89,675</b>	<b>1,541</b>	<b>514,969</b>

As a Group policy, the management performs impairment test for goodwill and brands with an indefinite useful life on an annual base. Based on the impairment test for goodwill and brands, no grounds were identified for impairment charge as of December 31, 2007. The recoverable amount of cash generating units, which is determined by discounting the future cash flows, exceeded the carrying amount of the cash generating units including goodwill and brands. The goodwill of USD 422,146 was attributable to the cash generating unit in Russia and the remaining goodwill of USD 19,166 was attributable to the other cash generating units as of December 31, 2007. The brands of USD 92,616 were attributable to the cash generating unit in Russia as of December 31, 2007.

Cash flows were projected with a combination of the strategic business plans of the Company for the period 2008 till 2010 and were extrapolated for the period 2011 till 2017. Key assumptions such as country specific market growth rates, GDP per capita and consumer price indices were derived from external sources. Main estimates such as beer and resin prices, working capital requirements and capital expenditures were based on key assumptions and historical operating data. The market growth and volume growth rates were estimated to be between 22.5% and 2%, and 29.5% and 2%, respectively. The consumer price indices were estimated to be between 15% and 4%, and selling prices were estimated to increase in line with inflation. These projections were discounted at the weighted average cost of capital of the cash generating units ranged primarily between 8.93% and 12.68%.

# **Efes Breweries International N.V. and its Subsidiaries**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### **9. INTANGIBLE ASSETS (continued)**

The Company believes that all of its management estimates and key assumptions are reasonable. Management believes that no reasonable possible change in any of the disclosed key assumptions would cause the carrying value materially exceed its recoverable amount.

### **10. AVAILABLE-FOR-SALE INVESTMENTS**

	2007	2006
ZAO Mutena Maltery (Mutena Maltery)	1,511	1,511
Others	10	64
<b>Total – non-current</b>	<b>1,521</b>	<b>1,575</b>

Mutena Maltery (11.09%) is carried at cost, since it does not have a quoted market price in an active market and its fair value cannot be reliably measured by alternative valuation methods.

### **11. TRADE AND OTHER PAYABLES**

	2007	2006
Trade accounts payable	49,818	31,337
Taxes payable other than income tax	15,509	32,036
Accrued expenses	3,226	2,385
Payable for acquired shares	-	28,914
Liability for puttable instrument (note 30)	127,009	24,202
Other short-term payables	30,211	26,896
<b>Total</b>	<b>225,773</b>	<b>145,770</b>

Trade payables are non interest bearing and generally on 30-90 days' term.

### **12. BORROWINGS**

	2007	2006
<b>Current</b>		
Bank borrowings (including current portion of long-term borrowings)	203,212	160,360
Finance lease liabilities	219	90
	<b>203,431</b>	<b>160,450</b>
<b>Non-current</b>		
Bank borrowings	342,344	310,910
Finance lease liabilities	254	198
	<b>342,598</b>	<b>311,108</b>
<b>Total borrowings</b>	<b>546,029</b>	<b>471,558</b>

A syndication loan amounting USD 300,000 originated in September 2006. Issue costs of USD 3,717 associated with the loan has been netted off. The amortised cost for 2007 is USD 1,241 (2006-USD 208) and has been recognised as finance expense in income statement.

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 12. BORROWINGS (continued)

As of December 31, 2007, USD 343,566 (2006 – USD 383,203) of the total borrowings are secured with the followings:

- Cash collaterals amounting to USD 30,304 (2006 – USD 51,409)
- Efes Moscow's and Efes Karaganda's immovable and movable properties, including inventory balances; the assignment of the rights regarding insurance coverage in respect of Efes Moscow's and Efes Karaganda's property amounting to USD 2,515.
- 43% of Efes Moscow's shares and all shares of Efes Karaganda held by the Company.
- The ability of Efes Karaganda to declare dividends is subject to prior consent of the EBRD under the provisions of the loan agreements.
- A Corporate guarantee amounting to USD 310,000 provided by Anadolu Efes.

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Bank borrowings		
<i>Non-current</i>		
USD and EURO denominated borrowings	Base rate + (1.55%-3.55%)	Base rate + (1.55%-3.65%)
<i>Current</i>		
USD and Euro denominated borrowings	Base rate + (0.5%-2.95%)	Base rate + (0.5%-2.95%) 1.0% -7.5%
Other currency denominated borrowings	Base rate + (0.24%-1.5%) 7.75%-11.0%	Base rate + 0.24% 7.9%-11.5%
Finance lease liabilities	12.25%-14.5%	14.5%-15.0%

Repayments of long-term debt are scheduled as follows (excluding finance lease obligation):

	2007	2006
2007	-	22,204
2008	14,603	12,834
2009	299,119	298,075
2010	2,161	-
Thereafter	41,064	-
	356,947	333,113

Future minimum lease payments for finance lease liabilities are as follows:

	2007	2006
Next 1 year	267	139
1 to 5 years	277	236
After 5 years	-	-
Total minimum lease obligations	544	375
Interest	(71)	(87)
Present value of minimum obligations	473	288



# **Efes Breweries International N.V. and its Subsidiaries**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

### **13. OTHER NON-CURRENT LIABILITIES**

	2007	2006
Liability for puttable instrument	-	103,100
Others	346	786
<b>Total</b>	<b>346</b>	<b>103,886</b>

Other non current liabilities mainly consists of employee termination benefit reserve for Efes Weifert and Efes Zajecar. The Company has no other employee termination benefit reserve.

### **14. SHARE CAPITAL AND RESERVES**

	2007	2006
	Number of shares	Number of shares
<b>Common shares, par value of EUR 1</b>		
Authorized	250,000,000	250,000,000
Issued and outstanding	211,428,569	211,428,569

#### **Movement in share capital**

The movement of the share capital of the Company during 2007 and 2006 is as follows:

	2007		2006	
	Number of shares	USD	Number of shares	USD
At January 1,	211,428,569	237,488	148,000,000	156,921
Shares issued	-	-	63,428,569	80,567
<b>At December 31</b>	<b>211,428,569</b>	<b>237,488</b>	<b>211,428,569</b>	<b>237,488</b>

During 2006, the Company conducted a share rights offering for 63,428,569 new ordinary shares, with a nominal value of EUR 1 to its existing shareholders Anadolu Efes, the Company's principal shareholder, and The Bank of New York, as depositary of the GDRs. The new ordinary shares of 18,891,340 out of for 63,428,569 new shares were offered in the form of GDRs, each representing five new ordinary shares. Anadolu Efes has participated in the share rights offering to the full extent of its holding of 70.22 per cent of the Company's share capital. The Bank of New York has subscribed for 3,524,717 new GDRs and HSBC Bank plc has subscribed for the remaining 253,551 new GDRs.

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 14. SHARE CAPITAL AND RESERVES (continued)

As at December 31, 2007 and 2006, the composition of shareholders and their respective % of ownership can be summarised as follows:

	2007	2006
Anadolu Efes	70.22%	70.22%
Public	29.78%	29.78%
Total	100.00%	100.00%

#### Currency Translation Reserve

The currency translation reserve is used to record the exchange differences arising on the translation of the financial statements of foreign subsidiaries.

#### 15. EARNINGS PER SHARE

Basic earnings per share (EPS), which is same as fully diluted EPS is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted EPS computation:

	2007	2006
Net profit attributable to ordinary shareholders	37,470	20,608
Weighted average number of ordinary shares	211,428,569	157,036,399
EPS (in full U.S. Dollars)	0.18	0.13

#### 16. COST OF REVENUE

Cost of revenue comprised the following expenses:

	2007	2006
Inventory used	348,722	235,380
Depreciation & Amortisation	47,259	41,136
Personnel expenses	23,633	20,793
Energy Expenses	20,600	16,928
Repair and maintenance expenses	12,916	10,206
Other expenses	8,970	4,400
Total expenses	462,100	328,843

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 17. SELLING AND MARKETING EXPENSES

Selling and marketing expenses are analyzed as follows:

	2007	2006
Marketing and advertising expenses	73,056	70,283
Distribution expenses	67,009	51,583
Personnel expenses	34,142	26,781
Depreciation & Amortisation	20,009	12,170
Other expenses	14,998	19,796
<b>Total expenses</b>	<b>209,214</b>	<b>180,613</b>

### 18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the following:

	2007	2006
Personnel expenses	37,689	28,583
Depreciation & Amortisation	5,009	3,776
Consulting and legal fees and other business services	8,659	7,367
Taxes and duties	10,009	8,120
Management fees and technical assistance	6,099	6,119
Rent expenses	662	1,638
Bad debt provision	972	134
Insurance expenses	1,365	1,352
Royalty	6,434	2,237
Representation and communication	1,651	1,347
Vehicle Expenses	1,315	1,039
Waste	2,381	2,687
Water, energy, sewage, fuel and heating	152	27
Other (tare losses)	486	-
Travel	631	351
Security	348	325
Repair and maintenance	1,096	988
Other expenses	9,861	7,711
<b>Total expenses</b>	<b>94,819</b>	<b>73,801</b>

**Efes Breweries International N.V. and its Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

**19. OTHER OPERATING INCOME / (EXPENSE)**

**Other Operating Expense:**

	2007	2006
Cost of sale of soda drinks	-	(854)
Provision for obsolete inventory	(3,951)	(1,834)
Loss on disposal of property, plant and equipment	(1,138)	(813)
Impairment of property, plant and equipment (Refer to Note 8)	(232)	(70)
Other expense	(417)	(2,556)
<b>Total other operating expenses</b>	<b>(5,738)</b>	<b>(6,127)</b>

**Other Operating Income:**

	2007	2006
Disposal of Intangible assets	3,712	-
Income on sale of soda drinks	-	952
Gain on sale of joint venture and subsidiary (Refer to Note 3)	-	1,779
Release of unused provision for property, plant and equipment	2,430	-
Dividend income	136	173
Income from toll filling of Viva and Real	730	-
Net income from sale of treber and various materials	1,329	489
Income from equipment renting	825	88
Write-off expenses/payables	407	195
Release of unused provision -bad debt	1,083	687
Release of unused obsolescence - inventory	970	148
Other income	4,565	1,329
<b>Total other operating income</b>	<b>16,187</b>	<b>5,840</b>

**20. PERSONNEL EXPENSES AND AVERAGE NUMBER OF EMPLOYEES**

	2007	2006
Wages and salaries	80,638	65,596
Other social expenses	14,826	10,561
<b>Total expenses</b>	<b>95,464</b>	<b>76,157</b>

The average number of employees for the years was:

	2007	2006
Russia	2,710	2,909
Moldova	541	630
Kazakhstan	713	668
Serbia and Montenegro	391	445
Ukraine	53	98
Romania	-	114
The Netherlands	8	8
	<b>4,416</b>	<b>4,872</b>

**Efes Breweries International N.V. and its Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

**21. DEPRECIATION AND AMORTISATION EXPENSES**

	2007	2006
<b>Property, plant and equipment</b>		
Cost of revenue	47,224	41,070
Selling and marketing	19,998	12,158
General and administrative	4,391	3,409
Other operating income/expense	301	-
Sub-total depreciation expense	71,914	56,637
<b>Intangible assets</b>		
Cost of revenue	35	66
Selling and marketing	11	12
General and administrative	618	367
Sub-total amortisation expense	664	445
<b>Total depreciation and amortisation expenses</b>	<b>72,578</b>	<b>57,082</b>

**22. FINANCIAL INCOME/ (EXPENSE)**

	2007	2006
Interest income	4,744	5,685
Foreign currency exchange gains	6,604	8,768
<b>Total financial income</b>	<b>11,348</b>	<b>14,453</b>
Interest expense on borrowings	(36,437)	(38,261)
Interest expense on finance lease	(54)	(157)
Foreign currency exchange losses	-	-
Other financial expense	(3,781)	(2,589)
<b>Total financial expense</b>	<b>(40,272)</b>	<b>(41,007)</b>
<b>Net financial expense</b>	<b>(28,924)</b>	<b>(26,554)</b>

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 23. INCOME TAXES

	2007	2006
Current tax expense	(18,909)	(13,327)
Deferred tax income/(expense) relating to the origination and reversal of temporary differences	4,629	5,908
<b>Total income tax</b>	<b>(14,280)</b>	<b>(7,419)</b>

The reconciliation of the total income tax to the theoretical amount is as follows:

	2007	2006
Profit before tax	51,627	28,831
Dividend income	(136)	(173)
Gain on sale of joint venture and subsidiary	-	(1,779)
Tax effect of loss making subsidiaries	10,170	11,100
<b>Taxable profit</b>	<b>61,661</b>	<b>37,979</b>
Tax calculated at the Company's tax rate of 25.5% in 2007 and 29.6% in 2006	(15,724)	(11,242)
Impact of different tax rates in other countries	1,782	3,622
Non deductible expenses	(2,914)	(3,332)
Over provided in prior years	(520)	1,895
Utilization of previously unused tax losses	75	1,619
Effect of tax incentives	1,262	1,350
Tax losses carried forward	-	495
Change in tax rate	(1,005)	(63)
Other reconciling items	2,764	(1,763)
Effective tax rate	27,7%	25,7%
<b>Total income tax</b>	<b>(14,280)</b>	<b>(7,419)</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

**24 DEFERRED TAXES**

Components of deferred tax assets and liabilities are as follows:

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Accruals	12,024	9,792	-	-	12,024	9,792
Inventory	499	342	-	(160)	499	182
Tax loss carried forward	13,005	10,305	-	-	13,005	10,305
Prepayments	1,011	-	-	(198)	1,011	(198)
Tangible assets	-	-	(26,347)	(19,164)	(26,347)	(19,164)
Other	2,702	61	-	(2,539)	2,702	(2,478)
	<b>29,241</b>	<b>20,500</b>	<b>(26,347)</b>	<b>(22,061)</b>	<b>2,894</b>	<b>(1,561)</b>
Net deferred income tax liability					(10,912)	(12,260)
Deferred income tax asset - tax loss carried forward					13,806	10,699
					<b>2,894</b>	<b>(1,561)</b>

Deferred tax arises on the above in the following circumstances:

- property, plant and equipment: accelerated tax depreciation lead to tax bases lower than carrying amounts;
- buildings and other investments (available-for-sale and trading investments) have different tax bases and carrying amounts because revaluation is only done for accounting purposes. In the case of buildings carried at revalued amounts and of available-for-sale investments, deferred tax is taken directly to equity (except when revaluation increase or decrease is recognised in income);
- inventories may have carrying amounts lower than tax bases due to the elimination of unrealized profits on intercompany sales;
- deferred charges are in some countries allowed to be fully deducted in the period in which they are incurred whereas they may be charged to income over a longer period;
- some provisions may not be tax deductible in some countries until a payment is made to settle the obligation;
- fair value adjustments upon acquisition of a subsidiary may impact all of the above captions.

As of December 31, 2007, a deferred tax assets of USD 4,427 (2006 - USD 2,660) has not been recognised related to tax losses carried forward, which are not expected to be utilised in the foreseeable future. Tax losses of USD 995 and USD 358 will expire within 1 and 7 years, respectively, while USD 3,073 will expire between 8 and 10 years.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended December 31, 2007****(Currency – Thousands of U.S. Dollars unless otherwise indicated)****24. DEFERRED TAXES (continued)**

Movements in deferred tax during the year 2007 are as follows:

	Balance at January 1, 2007	Additions through subsidiary acquired	Disposals through subsidiary sold	Recognised in income statement	Translation effect	Balance at December 31, 2007
Accruals	9,792	-	-	1,481	751	12,024
Inventory	182	-	-	266	51	499
Tax loss carried forward	10,305	-	-	2,694	6	13,005
Prepayments	(198)	-	-	928	281	1,011
Tangible assets	(19,164)	-	-	(5,705)	(1,478)	(26,347)
Other	(2,478)	-	-	4,965	215	2,702
	(1,561)	-	-	4,629	(174)	2,894

Movements in deferred tax during the year 2006 are as follows:

	Balance at January 1, 2006	Additions through subsidiary acquired	Disposals through subsidiary sold	Recognised in income statement	Translation effect	Balance at December 31, 2006
Accruals	7,475	-	-	1,580	737	9,792
Inventory	372	143	-	(331)	(2)	182
Tax loss carried forward	3,307	84	-	6,883	31	10,305
Prepayments	(162)	-	97	(149)	16	(198)
Tangible assets	(21,425)	5,098	199	(1,532)	(1,504)	(19,164)
Other	(1,627)	(316)	3	(543)	5	(2,478)
	(12,060)	5,009	299	5,908	(717)	(1,561)



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the year ended December 31, 2007**

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

**25. NOTES TO CASH FLOW STATEMENTS**

Cash flows from acquisition and disposal of subsidiaries:

	2007		2006	
	Acquisitions	Disposal	Acquisitions	Disposal
Cash and cash equivalents	-	-	50,133	(24)
Trade receivables	-	-	2,670	(42)
Due from related parties	-	-	1,293	(9,610)
Inventories-net	-	-	27,641	(2,511)
Other current assets	-	-	16,255	(135)
Property, plant and equipment-net	-	-	206,985	(29,393)
Intangible assets	-	-	83,960	-
Deferred tax assets	-	-	5,009	-
Other non-current asset	-	-	10	(1,683)
Trade and other payables	-	-	(4,714)	2,440
Due to related parties	-	-	(1,804)	2,677
Short-term loans	-	-	(62,279)	2,813
Other current liabilities	-	-	(20,633)	1,932
Income tax payable	-	-	(4)	99
Long-term debt – net of current portion	-	-	-	517
Deferred tax liability	-	-	-	299
Accumulated exchange differences	-	-	-	7,825
Fair value of net assets	-	-	304,522	(24,796)
Net assets acquired/sold	-	-	281,196	(24,796)
Recognised as decrease in retained earnings	-	-	-	-
Goodwill	-	-	85,481	-
Gain on sale of shares of subsidiary	-	-	-	1,779
Total purchase/sale consideration	-	-	366,677	(26,575)
Net cash acquired with subsidiary	-	-	(50,133)	-
Net cash sold with subsidiary	-	-	-	24
Net cash inflow/outflow for the initial acquisition	-	-	316,544	(26,551)
Disposal of an available-for-sale investment	-	-	-	(155)
Acquired minority shares of Efes Ukraine	-	-	-	-
Acquired minority shares of KV Group	-	-	1,627	-
Acquired minority shares of Efes Moscow	-	-	168,494	-
Acquired minority shares of Efes Weifert	3,144	-	-	-
Net cash outflow/inflow for the period ended	3,144	-	486,665	(26,706)

In October 2007, the Company acquired 6.25% of Efes Weifert shares for a total cash consideration of USD 3,144 (Note 3). In 2006, the net assets acquired of USD 281,196 represents 92.3% of KV Group's net assets and net assets disposed of USD 24,796 represents 49.99% of Interbrew Efes' net assets which was consolidated on a proportionate basis till the date of disposal.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

**26. FINANCIAL INSTRUMENTS**

The Group's principal financial instruments comprise of bank borrowings and finance leases. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are summarized below. The Group also monitors the market price risk arising from all financial instruments.

The categories as defined by IFRS 7 are included on the face of the balance sheet and that these categories are in line with the classes of financial instruments as applied by the company. In addition, no differences exist between the carrying value and the fair value of financial instruments

**Financial Risk Management**

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The credit risk of the Group is primarily attributable to its trade receivables. Maximum credit risk on the Group is limited to the amounts disclosed on the financial statements. The Group has its credit control policies and procedures in place and the exposure to credit risk is monitored on an ongoing basis. The credit risk arising from the transactions with customers is mitigated through operating with agreed credit limits and diversification of customers. Management believes that the provisions made are sufficient to cover expected losses. The highest amounts of trade receivables are approximately 9%, 3%, and 3% respectively of Group accounts receivable at December 31, 2007 (2006 – 4%, 4%, 3%) and there is no other significant concentration of credit risk.

**Interest rate risk**

Certain parts of the interest rates related to borrowings are based on market interest rates; therefore the Group is exposed to interest rate fluctuations on domestic and international markets. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations. The Group mainly enters into LIBOR based contracts in its financial borrowings. As of December 31, 2007, 2% of the Group's long-term debt was at fixed rates (December 31, 2006, 2%).

The weighted average effective interest rates which are calculated from different types of currencies, as at December 31, 2007 are as follows:

Fixed rate bank loans & bonds	9.3%
Floating rate bank loans	Applicable Base Rate + 1.6%

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Company's profit before tax:

	Interest rate increase (%)	Effect on profit before tax	
		2007	2006
USD denominated	1%	434	404
EURO denominated	1%	111	-
Other	1%	27	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

## 26. FINANCIAL INSTRUMENTS (continued)

## Foreign exchange risk

Foreign currencies play a significant role in the economies of the territories where the most of the subsidiaries of the Company are operating. The significant part of cash outflows related to financing activities as well as some part of accounts payable balances are hard currency denominated, while cash inflows are primarily denominated in national currencies. Significantly material part of company's sales is recognized in local currencies where its subsidiaries operate. Consequently, any significant decline in the value of the measurement currencies of the subsidiaries against U.S. Dollars may have a negative effect on the subsidiaries' financial position and results of their operations.

The subsidiaries generally do not hedge their foreign currency risks. The governments of these countries have established strict currency controls, which place restrictions on the conversion of national currencies into hard currencies and establish requirements for conversion of hard currency sales to national currencies.

Net foreign currency exposure for the consolidated group companies as of December 31, 2007 and 2006 are presented below:

	2007	2006
Cash and cash equivalents	12,345	33,021
Trade receivables	699	268
Due from related parties	9,838	5,284
Other receivables	10,512	596
<b>Foreign currency assets</b>	<b>33,395</b>	<b>39,169</b>
Short-term borrowings	79,658	54,270
Current portion of long-term borrowings	8,152	12,457
Trade payables	18,983	20,044
Due to related parties	11,859	12,029
Other liabilities	645	1,543
Long-term borrowings	2,287	9,556
<b>Foreign currency liabilities</b>	<b>121,584</b>	<b>109,899</b>
<b>Net foreign currency liability</b>	<b>(88,189)</b>	<b>(70,730)</b>

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Currency	Change (%)	Effect on Profit Before Tax	
		2007	2006
USD / EUR	10%	(2,125)	554
RUB/USD	10%	(988)	(2,688)
KZT/USD	10%	(4,467)	(3,955)

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 26. FINANCIAL INSTRUMENTS (continued)

##### Liquidity risks

Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Group within the normal terms of trade. To manage this risk the Group periodically assesses the financial viability of customers.

The following table demonstrates the due dates of assets and liabilities according to the balance sheet date.

December 31, 2007	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Cash and cash equivalents	5,797	52,729	-	-	-	58,526
Due from related parties	-	8,161	-	-	-	8,161
Trade receivables	-	85,368	2,772	-	-	88,140
<b>Total assets</b>	<b>5,797</b>	<b>146,258</b>	<b>2,772</b>	<b>-</b>	<b>-</b>	<b>154,828</b>
Short term loans	-	34,495	168,936	-	-	203,431
Long term loans	-	-	-	342,598	-	342,598
Lease obligations	-	-	-	-	-	-
Due to related parties	-	23,339	-	-	-	23,339
Trade payables	-	50,406	-	-	-	50,406
<b>Total liabilities</b>	<b>-</b>	<b>108,240</b>	<b>168,936</b>	<b>342,796</b>	<b>-</b>	<b>619,774</b>
<b>Net liquidity gap</b>	<b>5,797</b>	<b>38,018</b>	<b>( 166,163 )</b>	<b>( 342,796 )</b>	<b>-</b>	<b>( 464,946 )</b>

December 31, 2006	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Cash and cash equivalents	9,074	154,787	-	-	-	163,861
Due from related parties	-	3,475	-	-	-	3,475
Trade receivables	-	47,815	1,815	-	-	49,630
<b>Total assets</b>	<b>9,074</b>	<b>206,077</b>	<b>1,815</b>	<b>-</b>	<b>-</b>	<b>216,966</b>
Short term loans	-	99,526	60,924	-	-	160,450
Long term loans	-	-	-	311,108	-	311,108
Lease obligations	-	-	-	-	-	-
Due to related parties	-	9,745	12,403	-	-	22,148
Trade payables	-	32,727	-	-	-	32,727
<b>Total liabilities</b>	<b>-</b>	<b>141,998</b>	<b>73,327</b>	<b>311,108</b>	<b>-</b>	<b>526,433</b>
<b>Net liquidity gap</b>	<b>9,074</b>	<b>64,078</b>	<b>( 71,512 )</b>	<b>( 311,108 )</b>	<b>-</b>	<b>( 309,467 )</b>

##### Fair Values

The fair values of trade receivables and other current assets (net of provision) and trade and other payables are estimated to approximate carrying value due to their short-term nature.

The fair values of short-term and long-term leasing obligations approximate their carrying values since they are denominated in foreign currencies and revalued at year-end exchange rates.

The fair value of long-term debt is estimated to approximate its carrying value since it is primarily denominated in foreign currencies and is revalued at year-end exchange rates, a substantial portion of long-term debt carries variable interest rates.

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 26. FINANCIAL INSTRUMENTS (continued)

The Following table shows the development of allowances on trade receivables:

	2007	2006
As of January 1	10,974	3,884
Addition	972	134
Reversal of unused provision	(1,083)	(687)
Addition through subsidiary acquired	-	6,630
Disposal through subsidiary sold	-	(3)
Currency translation differences	902	1,028
Other	(463)	(12)
	11,302	10,974

The following table shows the analysis of the age of past due trade receivables:

		Of which: neither impairment nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods		
			less than 30 days	between 30 and 60 days	between 61 and 90 days
Trade receivables	2007	74,476	6,930	1,428	4,073
Trade receivables	2006	38,249	7,417	1,715	624

USD 1,980 of trade receivables would be overdue if the terms have not been changed.

### 27. LEASES

#### Lessee - Finance Lease

Property leased by the Group includes buildings, machinery and equipment. The most significant obligations assumed under the lease terms, other than rental payments, are the upkeep of the facilities, insurance and property taxes. Lease terms generally range from 3 to 25 years with options to renew at varying terms.

The following is an analysis of assets under finance leases:

	2007	2006
Machinery and equipment	-	119
Other tangible assets	884	416
Accumulated depreciation	(229)	(159)
Net book value	655	376

#### Lessee - Operating Lease

The brewery of Efes Moscow is situated on a site leased from the Moscow City Government under a 49-year lease contract to be expired by 2048. The lease rights, as well as fixed assets, are mortgaged for the full carrying amounts to secure obligations of Efes Moscow under the loan agreements with the EBRD. The fair value of the future payment obligations of Efes Moscow to Moscow City Government under the land lease agreement for the remaining life time of the contracts amount to USD 1,338 (2006 – USD 1,944)

## Efes Breweries International N.V. and its Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

#### 28. SEGMENT REPORTING

The Group's risks and rates of return are affected predominantly by the fact that it operates in different countries which is considered to be the primary segment and the secondary segment is the business. The Group is in a single product business and products other than beer represent less than 10% of the Group's revenue. Segment information is presented in respect of the Group's geographical segments based on location of its assets and customers. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	Russia & Kazakhstan		Serbia & Moldova		Others* & Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
External Revenues	763,791	566,628	74,688	60,653	(2,244)	11,648	836,235	638,929
Gross Profit	344,051	284,201	31,212	22,736	(1,127)	3,149	374,135	310,086
Operating expenses (-)	(269,378)	(224,342)	(24,550)	(26,399)	344	(3,960)	(293,584)	(254,701)
Operating Income	74,673	59,859	6,662	(3,663)	(783)	(811)	80,551	55,385
Financial Expense - net	(13,609)	(8,229)	(1,124)	(1,075)	(14,191)	(17,249)	(28,924)	(26,553)
Profit Before Tax	61,064	51,630	5,538	(4,738)	(14,974)	(18,060)	51,627	28,832
Segment Assets	1,113,042	396,342	129,155	94,139	440,698	1,037,284	1,682,895	1,527,765
Investment in Associates	-	-	10	64	1,511	1,511	1,521	1,575
Total Assets	1,113,042	396,342	129,165	94,203	442,209	1,038,795	1,684,416	1,529,340
Segment Liabilities	474,863	134,910	59,263	33,777	277,281	588,629	811,407	757,316
Purchase of property, plant and equipment	(108,655)	(105,169)	(17,829)	(15,288)	782	(3,796)	(125,703)	(122,613)
Depreciation & Amortization expenses	62,158	46,710	9,891	7,926	529	2,446	72,578	57,082
Other non cash items	3,463	532	1,914	1,778	(2,494)	(2,142)	2,883	168

\* Others include EBI Holding Company and other subsidiaries included in consolidated financial statements.

#### 29. RELATED PARTY BALANCES AND TRANSACTIONS

For the purposes of the consolidated financial statements, the shareholders of the Company and their associates and the companies, which are identified to be controlled by/associated with them, are referred to as related parties.

##### 1) Balances with Related Parties

Balances with related parties as of December 31, 2007 and 2006, which are separately classified in the consolidated balance sheet, are as follows:

Due from related parties	2007	2006
Efes Holland Technical Management Consultancy N.V. (Efes Holland) (2)	2,727	2,439
Coca-Cola Bottlers Kazakhstan Almaty (Coca-Cola Almaty) (2)	111	370
Coca-Cola Bishkek Bottlers C.J.S.C (Coca-Cola Bishkek) (2)	1,970	519
Mutena Maltery (3)	343	147
Anadolu Efes (2)	63	-
Anadolu Efes TMC (2)	2,947	-
Total	8,161	3,475

# Efes Breweries International N.V. and its Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

(Currency – Thousands of U.S. Dollars unless otherwise indicated)

### 29. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Due to related parties	2007	2006
Efes Holland TMC (2)	12,624	15,434
Mutena Maltery (3)	5,169	4,327
Oyex Handels Gmbh (2)	3,583	1,540
Efpa (2)	-	10
Anadolu Efes (1)	1,287	118
ABH (2)	656	719
Efes Tur (2)	20	-
Total	23,339	22,148

### 2) Transactions with Related Parties

Transactions with related parties are done at normal market conditions. The most significant transactions with related parties during the year ended December 31, 2007 are as follows:

Nature of Transaction	Related Party	Amount
Management and license fee expense to;	Efes Holland (2)	7,799
Sale of beer to;	Coca-Cola Bishkek (2)	3,394
Sale of beer to;	Coca-Cola Almaty (2)	2,442
Purchase of soda drinks from;	Coca-Cola Almaty (2)	91
Purchase of raw materials from;	Oyex Handels Gmbh (2)	9,724
Purchase of beer from;	Anadolu Efes (1)	3,004
Purchase of beer from;	Anadolu Efes (1)	67
Processing services from;	Mutena Maltery (3)	9,503
Heating and water services given to;	Mutena Maltery (3)	1,277
Dividend income from	Mutena Maltery (3)	136
Processing services from;	Efes Tur (2)	89
Purchase of service from;	ABH (2)	1,631

(1) The ultimate shareholder of the Company

(2) Related party of Anadolu Efes

(3) Company's investment

### 3) Emoluments of the Board of Directors

- The remuneration of management board of USD 516 (2006 – USD 284) and supervisory board of USD 174 (2006 – USD 125) were included in personnel expenses. The remuneration of management board consists of salary and bonus.
- No shares are held by the members of directors of the Company.
- There are no share options granted to the directors of the Company.
- No loans have been granted to the directors of the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency – Thousands of U.S. Dollars unless otherwise indicated)**

**30. COMMITMENTS AND CONTINGENCIES**

Put options

A put option has been granted to the EBRD by the Company that may be exercisable between 2008 and 2011. By such put option, the EBRD will be entitled to sell its 8.8% of Efes Moscow shares to the Company at an option price to be determined by an independent valuation.

A put option has been granted to the OAO Krasny Vostok Agro that may be exercisable between 2007 and 2009. By such option, OAO Krasny Vostok Agro will have right to sell its 6.7% of KV Group shares to the Company at an option price either at in full USD 0.395 multiplied by number of shares plus interest accrued from the date of the option until the date of completion at a rate of LIBOR plus 4.9% or the consolidated EBITDA multiplied by a multiple of nine minus net indebtedness.

Following revised IAS 32 (Financial Instruments: Disclosure and Presentation), the obligation for the participating interest related with put options have been regarded as 'liability for puttable instruments' in the Group's financial statements, to be stated at fair value. The liability for the put option has been measured by applying a weighting of different valuation techniques based on best estimates currently available. Subsequent changes to the valuation of the put options have been recorded as changes to 'liability for puttable instruments' and to goodwill, without any direct impact on the consolidated income statement.

The contingent considerations related with the put options granted to EBRD and OAO Krasny Vostok Agro of USD 102,807 and USD 24,202 have been presented as 'liability for puttable instruments' in trade and other payables in the consolidated balance sheet. In order to give effect to the recognition of the liability for puttable instruments, the equity and net income attributable to the interest of minority shareholders of Efes Moscow and KV Group have been decreased by 8.8% and 6.7%, respectively.

Tax and legal matters

Legislation and regulations regarding taxation and foreign currency transactions in most of the territories in which the Group operates continue to evolve as the government manages the transformation from a command to a market-oriented economy. Various regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose significant fines, penalties and interest charges. These facts create tax risks in the territories in which the Group operates substantially more than typically found in countries with more developed tax systems.

Management believes that all applicable taxes have been paid or accrued and the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.



## **Efes Breweries International N.V. and its Subsidiaries**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2007**

**(Currency — Thousands of U.S. Dollars unless otherwise indicated)**

#### **31. SUBSEQUENT EVENTS**

In January 2008, the Company reached an agreement with Heineken International B.V. ("Heineken") to establish a joint venture to jointly invest in Uzbekh market. The Company and Heineken will have 60% and 40% shares in the joint venture, respectively, whereas the Company will have the management control.

In February 2008, the Company has announced that it has completed the acquisition of 100% shares of Joint Stock Company Lomisi (JSC Lomisi), a brewery in Georgia with an annual brewing capacity of 0.55 mlh and an estimated market share of 42% by volume in 2007.

The Company executed a Share Purchase Agreement regarding the sale of all shares currently owned by the Company, representing 92.9% of the voting shares of KV Group, to MEB.

A loan agreement has been signed between MEB and HSBC amounting to USD 120,000 on March 19, 2008.