# SUN Interbrew Limited and subsidiaries

## Consolidated Financial Statements
## December 31, 2007 and 2006

## Contents

KPMG

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# Independent Auditors' Report

The Board of Directors
SUN Interbrew Limited and subsidiaries

We have audited the accompanying consolidated balance sheets of SUN Interbrew Limited and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and other comprehensive loss, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SUN Interbrew Limited and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited.

KPMG Limited
July 22, 2008

| '000 Euro | Note | 2007 | 2006 |
|---|---|---|---|
| Net sales | 4 | 1,463,985 | 1,175,384 |
| Cost of goods sold | | (765,352) | (634,021) |
| **Gross Margin** | | 698,633 | 541,363 |
| Selling, marketing and distribution expenses | | (434,334) | (328,197) |
| General and administrative expenses | | (71,758) | (68,908) |
| **Operating income** | | 192,541 | 144,258 |
| Other expense | | (1,529) | (3,499) |
| Interest expense, net | | (15,883) | (19,423) |
| Foreign exchange loss | | (5,487) | (2,485) |
| Other financial expense | | (4,102) | (2,535) |
| Net other expense | | (27,001) | (27,942) |
| **Income before income taxes and minority interest** | | 165,540 | 116,316 |
| Income tax expense | 13 | (37,350) | (31,773) |
| Income before minority interest | | 128,190 | 84,543 |
| Minority interest | | (10,494) | (1,148) |
| **Net Income** | | 117,696 | 83,395 |

The Consolidated Financial Statements were approved on July 22, 2008.

*Chief Executive Office*

*Chief Financial Officer*

| '000 Euro | Note | December 31, 2007 | December 31, 2006 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 5,449 | 7,254 |
| Accounts receivable, net | 5 | 85,050 | 50,992 |
| Inventories | 6 | 181,955 | 135,835 |
| Taxes receivable | | 30,689 | 40,138 |
| Deferred tax assets | 13 | 16,659 | 14,368 |
| Other current assets | 7 | 16,135 | 17,983 |
| **Current assets** | | 335,937 | 266,570 |
| Plant and equipment, net | 8 | 1,004,128 | 907,763 |
| Intangible assets, net | 9 | 34,323 | 667 |
| Goodwill | 10 | 114,533 | 120,711 |
| Other non-current assets | | 956 | 1,735 |
| **Total Assets** | | 1,489,877 | 1,297,446 |
| **Liabilities and Shareholders' Equity** | | | |
| Accounts payable | | 212,352 | 267,754 |
| Taxes payable | | 21,750 | 21,233 |
| Deferred tax liabilities | 13 | 4,926 | 2,920 |
| Accrued expenses | | 49,225 | 16,916 |
| Current loans and borrrowings | 11 | 279,062 | 159,490 |
| **Current Liabilities** | | 567,315 | 468,313 |
| Non-current deferred tax liabilities | 13 | 31,702 | 30,850 |
| Non-current loans and borrowings | 11 | 122,169 | 125,286 |
| Other non-current liabilities | | 5,310 | 2,986 |
| **Total Liabilities** | | 726,496 | 627,435 |
| Minority interests in equity of subsidiaries | | 35,103 | 24,887 |
| Class A Shares, one pence par; authorized 125,278,614 shares; issued 88,832,710 shares | | 1,422 | 1,422 |
| Class B Shares, one pence par; authorized 30,000,000 shares; issued 27,796,220 shares | | 387 | 387 |
| Additional paid-in-capital | | 459,105 | 459,105 |
| Retained earnings | | 372,482 | 254,786 |
| Accumulated other comprehensive loss | | (105,118) | (70,576) |
| **Shareholders' Equity** | | 728,278 | 645,124 |
| **Total Liabilities and Shareholders' Equity** | | 1,489,877 | 1,297,446 |

See accompanying Notes to the Consolidated Financial Statements on pages 8 to 23.

| '000 Euro | December 31, 2007 | December 31, 2006 |
|---|---|---|
| **Operating Activities:** | | |
| **Net Income** | 117,696 | 83,395 |
| Adjustments to reconcile net loss to net cash provided from operations: | | |
| Depreciation and amortization | 128,589 | 105,399 |
| Minority interest | 10,494 | 1,148 |
| Other non-cash items | 11,216 | 8,697 |
| Changes in working capital | | |
| Accounts receivable | (25,626) | (15,465) |
| Inventories | (53,139) | (12,052) |
| Other current assets | 1,848 | (4,556) |
| Taxes payable | (4,825) | 1,447 |
| Accounts payable | (41,904) | 155,766 |
| Accrued expenses | 32,309 | (1,605) |
| Net cash provided by operating activities | 176,658 | 322,174 |
| **Investing Activities:** | | |
| Purchase of intangible assets | (34,101) | - |
| Purchase of plant and equipment (net of proceeds from disposal) | (271,657) | (283,101) |
| Net cash used in investing activities | (305,758) | (283,101) |
| **Financing Activities:** | | |
| Cash contribution from related parties | - | 41,935 |
| Proceeds from/(Repayments) of loans | 125,089 | (75,697) |
| Net cash provided by/(used in) financing activities | 125,089 | (33,762) |
| Effect of exchange rate changes on cash | 113 | (88) |
| (Decrease)/increase in cash and cash equivalents | (3,898) | 5,223 |
| Cash and cash equivalents, beginning of the year | 7,254 | 2,031 |
| Cash and cash equivalents (net of bank overdrafts), end of the period | 3,356 | 7,254 |
| **Cash paid during the period for:** | | |
| Interest | 22,550 | 30,161 |
| Income taxes | 40,471 | 30,658 |

| '000 Euro | Note | Share Capital Class "A" shares | Share Capital Class "B" shares | Additional Paid-in Capital | Retained Earnings | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|---|
| **Balances at December 31, 2005** | | 1,422 | 387 | 420,075 | 171,391 | (40,288) | 552,987 |
| Net Income | | - | - | - | 83,395 | - | 83,395 |
| Other comprehensive loss: | | | | | | | |
| Translation difference | | - | - | - | - | (30,288) | (30,288) |
| Total comprehensive income | | - | - | - | - | - | 53,107 |
| Effect of issue of new shares by Interbeer | 3.1 | - | - | 41,935 | - | - | 41,935 |
| Acquisition of shares in OJSC SUN Interbrew by Interbrew International B.V. | 3.1 | - | - | (20,463) | - | - | (20,463) |
| Effect of cancellation of leasing agreement with Botural Ltd. | 3.2 | - | - | 14,727 | - | - | 14,727 |
| Effect of acquisition of shares in OJSC "SUN Interbrew Ukraine" | 3.3 | - | - | (436) | - | - | (436) |
| Effect of merger of Ukraine entities in 2006 | 3.3 | - | - | 3,267 | - | - | 3,267 |
| **Balances at December 31, 2006** | | 1,422 | 387 | 459,105 | 254,786 | (70,576) | 645,124 |
| Net Income | | - | - | - | 117,696 | - | 117,696 |
| Other comprehensive loss: | | | | | | | |
| Translation difference | | - | - | - | - | (34,542) | (34,542) |
| Total comprehensive income | | - | - | - | - | - | 83,154 |
| **Balances at December 31, 2007** | | 1,422 | 387 | 459,105 | 372,482 | (105,118) | 728,278 |

# 1. Description of Business

SUN Interbrew Limited (the "Company") is incorporated in Jersey, the Channel Islands, and has through holding companies incorporated in Jersey, the Netherlands and Cyprus a controlling interest in 12 breweries (referred to collectively as the "Group") in the Russian Federation ("Russia") and Ukraine. The Group manufactures, markets and distributes beer, malt and soft drinks.

# 2. Summary of Significant Accounting Policies

## *2.1. Basis of Presentation*

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

The majority-owned subsidiaries incorporated under the laws of Russia and Ukraine (the "Russian subsidiaries" and "Ukrainian subsidiaries") maintain accounting records and prepare their financial statements in Russian Roubles ("RUR") and Ukrainian Hryvnas ("UAH") in accordance with the requirements of Russian and Ukrainian accounting and tax legislation respectively. The financial statements of the Russian and Ukrainian subsidiaries included in these consolidated financial statements differ from those prepared for Russian and Ukrainian statutory purposes. They reflect certain adjustments not recorded in the statutory accounting of the Russian or Ukrainian subsidiaries, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

## *2.2. Principles of Consolidation*

The consolidated financial statements include the financial statements of the Company and the majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

## *2.3. Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of additional paid-in-capital. Any cash paid for the acquisition is recognized directly in equity.

## *2.4. Use of Estimates*

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the balance sheet date as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## *2.5. Going Concern*

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

### *2.6. Foreign Currency Translation*

The functional currencies of the Russian and Ukrainian subsidiaries are the Russian Ruble and Ukrainian Hryvna respectively. Management of the Company has elected to use the Euro as the reporting currency for the consolidated financial statements.

At the reporting dates, translation was conducted as follows:

- All assets and liabilities were translated from the functional to the reporting currency at the exchange rate effective at the reporting date;
- Equity items were translated from the functional to the reporting currency at historical exchange rates;
- Transactions in the income statement were translated from the functional currency to the reporting currency at rates approximating the exchange rates on the date of the transactions;
- Translation differences were included in other comprehensive loss in equity.

Exchange rates changed from 34.7 RUR and 6.65 UAH for 1 Euro respectively at December 31, 2006 to 35.9 RUR and 7.5 UAH for 1 Euro respectively at December 31, 2007. The 2007 average exchange rate was RUR 34.99 and UAH 6.89 for 1 Euro respectively (2006: RUR 34.11 and UAH 6.329 for 1 Euro respectively).

The Russian Rouble and Ukrainian Hryvna are not fully convertible currencies outside the territories of Russia and Ukraine. Accordingly, the translation of amounts recorded in these currencies into Euro should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into Euro at the exchange rates shown or at any other exchange rates.

### *2.7. Cash and Cash Equivalents*

The Group's cash at December 31, 2006 and 2007 consists of cash in banks and cash in transit. Bank overdrafts that are repayable on demand and form an integral part of the 's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### *2.8. Receivables*

Receivables are stated at cost, less allowance for doubtful accounts.

### *2.9. Inventories*

Inventories are valued at the lower of cost or market value. The cost of inventories is determined on a weighted average cost basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and their condition. The cost of manufactured inventories and work in progress includes an appropriate share of overheads based on normal operating capacity.

### *2.10. Plant and Equipment*

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Costs include major expenditures for improvements and replacements, which extend the useful lives or increase capacity, and interest costs associated with significant capital additions. Depreciation of production assets is included in cost of goods sold. Normal maintenance and repairs are expensed. Depreciation is computed under the straight-line method using estimated useful lives as follows:

| | |
|---|---|
| Buildings | 10 to 20 years |
| Machinery and equipment | 8 to 15 years |
| Transportation and office equipment | 3 to 10 years |
| Returnable packaging | 5 to 10 years |

### *2.11. Intangible assets*

Intangible assets, other than goodwill, which are acquired by the and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses. Brands and trademarks have an indefinite life and are not amortized but tested for impairment annually. Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

The estimated useful live of software is 5-10 years.

### *2.11. Goodwill*

Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is not amortized but tested annually for impairment. The amount of goodwill impairment is measured on projected discounted future operating cash flows.

### *2.12. Other non-current assets*

Investments in non-marketable securities where the Company does not exercise control or significant influence over the investee are carried at cost less allowance for any permanent diminution in value. These investments are classified as available-for-sale securities.

### *2.13. Impairment*

Long-lived assets, such as property, plant and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset against the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Goodwill and intangible assets not subject to amortization are tested annually for impairment. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

A decline in the fair value of any available-for-sale security that is deemed to be other than temporary, results in a reduction of the carrying amount to fair value. The impairment is charged to the Income statement and a new cost basis for the security is established.

### *2.14. Current loans and borrowings*

Current loans and borrowings consists primarily of current loans and overdraft facilities from banks.

### *2.15. Revenue Recognition*

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sale price is fixed or determinable. Revenue is presented net of taxes collected from customers and remitted to governmental authorities (VAT, excise taxes).

### *2.16. Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### *2.17. Advertising*

Advertising costs are charged to the income statement as incurred.

### *2.18. Basic and Diluted Earnings Per Share*

Basic earnings per share is based on the weighted average number of ordinary (common) shares outstanding during the period. Diluted earnings per share is based on the weighted average number of ordinary (common) shares and ordinary (common) share equivalents (stock options and convertible shares) outstanding during the period.

### *2.19. Russian and Ukrainian business environment*

The Group's principal operating activities are within Russia and Ukraine. Both countries have been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Russia and Ukraine involve risks that typically do not exist in other markets. The consolidated financial statements reflect management's assessment of the impact of the Russian and Ukrainian business environments on the operations and the financial position of the Group. Future business environments may differ from management's assessment.

### *2.20. Recently adopted accounting standards*

Effective January 1, 2007, the Company adopted the provisions of FIN 48. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. The adoption of FIN 48 did not have an impact on the Company's results of operations and financial position.

## 3. Transactions under common control

### *3.1. Contribution of Interbeer*

In August 2005 InBev, which is the controlling shareholder for the Company, acquired several entities, commonly known as "Tinkoff Group". These entities included LLC "Interbeer", a production entity and two Cyprus holding companies. During 2006 the Company received control over LLC "Interbeer" by the merger of it with OJSC "SUN Interbrew", the production entity of the Group. The inclusion of LLC "Interbeer" has been accounted for as a contribution as of August 2005 being recorded directly in equity in the amount of Euro 62,400 thousand.

In 2006 LLC "Interbeer"'s organizational status was changed to a closed joint stock company (CJSC), after which moment CJSC "Interbeer" issued additional shares for cash amounting to Euro 41,935 thousand to Interbrew International B.V., a related party. Interbrew International B.V. exchanged all its shares in CJSC "Interbeer" for an equity share in the combined entity (OJSC "SUN Interbrew" and CJSC "Interbeer") amounting to Euro 20,443 thousand.

### *3.2. Cancellation of a finance lease agreement between the Group and the related party.*

At the date of acquisition of the Tinkoff group by InBev, LLC "Interbeer" leased tangible fixed assets from another entity of the Tinkoff group under a finance lease agreement.

In August 2006 the finance lease agreement between the Group and this related party was cancelled and replaced with a new purchase agreement, where the purchase price of the equipment was determined at Euro 34,333 thousand. The finance lease liability at the date of cancellation was Euro 49,060 thousand. The net result of cancellation in the amount of Euro 14,727 thousand was recognized in equity in 2006 as a controlling shareholder's contribution.

### *3.3. Merger of Ukrainian Group subsidiaries into one legal entity.*

In July 2005 the Ukrainian subsidiary "NSD" made an additional share issuance in the amount of Euro 10,000 thousand that was fully purchased by Interbrew International BV, a related party. As a result the Group's share in "NSD" decreased from 100% to 8.22%.

In 2006 three Ukrainian production entities which were owned by the Company and NSD were merged into one legal entity- OJSC "SUN Interbrew Ukraine". A reduction of minority interest in OJSC "SUN Interbrew Ukraine" in the amount of Euro 3,267 thousand was recognized in equity as a result of this transaction.

Thereafter, the Company, through a wholly-owned subsidiary, acquired all shares held by Interbrew International B.V. in the combined entity for Euro 10 million, thereby re-acquiring its control over the Ukrainian companies at the balance sheet date. The loss on the acquisition of all shares in "NSD" from Interbrew International B.V. in the amount of 436 thousand was recognized in equity in 2006.

## 4. Net Sales

Net sales for the years ended December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Beer | 1,451,851 | 1,169,851 |
| Soft drinks | 12,134 | 5,533 |
| | 1,463,985 | 1,175,384 |

Sales are organized around two main geographic areas: Russia and Ukraine. The external revenue in these geographical areas was as follows:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Russia | 1,119,001 | 888,244 |
| Ukraine | 344,984 | 287,140 |
| Total | 1,463,985 | 1,175,384 |

## 5. Accounts Receivable

Accounts receivable as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Accounts receivable | 88,230 | 54,876 |
| Less: allowance for doubtful debts | (3,180) | (3,884) |
| Accounts receivable, net | 85,050 | 50,992 |

The movement in the allowance for doubtful debts is as follows:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Allowance for doubtful debts - beginning of the year | (3,884) | (4,111) |
| Provisions created for the year | (69) | - |
| Release | 773 | 227 |
| Allowance for doubtful debts – end of year | (3,180) | (3,884) |

## 6. Inventories

Inventories as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Raw materials | 94,879 | 67,538 |
| Produced malt | 33,456 | 21,295 |
| Work-in-process | 11,199 | 7,780 |
| Finished goods | 21,519 | 26,366 |
| Other (spare parts and point of sales materials) | 20,902 | 12,856 |
| | 181,955 | 135,835 |

## 7. Other Current Assets

Other current assets as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Advances to suppliers | 13,573 | 15,491 |
| Deposits and prepayments | 2,562 | 2,492 |
| | 16,135 | 17,983 |

## 8. Plant and Equipment

Plant and equipment as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Buildings | 227,212 | 176,194 |
| Machinery and equipment | 743,921 | 653,577 |
| Transportation and office equipment | 209,698 | 177,915 |
| Packaging materials | 50,338 | 51,195 |
| Construction-in-progress | 258,477 | 210,830 |
| Cost of plant and equipment | 1,489,646 | 1,269,711 |
| Less: accumulated depreciation and impairment losses | (485,518) | (361,948) |
| Plant and equipment, net | 1,004,128 | 907,763 |

Accumulated depreciation and impairment losses include impairment losses for the year of Euro 2.3 million (2006: Euro 7.0 million).

In 2007 interest costs of Euro 10.2 million were capitalized (2006: Euro 9.9 million).

## 9. Intangible assets

Intangible assets as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Software | 15,037 | 2,885 |
| Advance payments for software | 11,231 | - |
| Other intangibles | 4,455 | 4,046 |
| Cost of amortizable intangible assets | 30,723 | 6,931 |
| Brands and trademarks | 10,309 | - |
| Cost of unamortizable intangible assets | 10,309 | - |
| Cost of intangible assets | 41,032 | 6,931 |
| Less: accumulated amortization | (6,709) | (6,264) |
| Intangible assets, net | 34,323 | 667 |

Software and advance payments for software relate mainly to implementation of SAP ERP in Russia and in Ukraine.

Brands and trademarks were acquired during 2007 from a related party and are stated at their cost.

## 10. Goodwill

Goodwill as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Cost as of January 1, 2007 and 2006 | 120,711 | 127,011 |
| Foreign exchange difference | (6,178) | (6,300) |
| Goodwill | 114,533 | 120,711 |

## 11. Loans and borrowings

Loans and borrowings as of December 31, 2007 and 2006 consisted of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Current loans payable, including interest payable | 215,595 | 159,490 |
| Current loans from related parties, including interest payable | 61,374 | - |
| Bank overdraft | 2,093 | - |
| | 279,062 | 159,490 |
| | | |
| Non-current unsecured bonds issued | 111,316 | 115,285 |
| Non-current loans from related parties | 10,853 | 10,001 |
| | 122,169 | 125,286 |

As of December 31, 2007, the Group had multi-currency credit facility agreements for the equivalent amount of Euro 217.7 million (December 31, 2006: Euro 159.5 million) with third parties-international banking institutions. Short-term indebtedness consisted of Rouble denominated loans and accrued interest equivalent to Euro 153.9 million with an average interest rate of 6.29% and Hryvna denominated loans and accrued interest equivalent to Euro 63.8 million with an average interest rate of 9.7%.

In August 2006 the Group issued bonds with a coupon interest of 8%. The number of bonds issued was 4,000,000 with a par value of RUR 1,000 and a total bond obligation of Euro 111.3 million as of December 31, 2007 (December 31, 2006: Euro 115.3 million). The maturity date of these bonds is September 2009. Coupon interest is payable semi-annually.

## 12. Post Retirement Benefits payable

Russian and Ukrainian entities are required by federal laws to contribute an amount to state pension funds. The Group's contributions are approximately 18% of the employees' salaries for Russia and 33% for Ukraine, respectively (2006: 20% for Russia and 32% for Ukraine). The contributions are accounted for on an accrual basis, and totalled Euro 21.4 million and Euro 15.7 million for 2007 and 2006, respectively.

In 2005 the Russian entity entered into a defined contribution pension plan. All employees working for more than three years with the entity become members of this plan. The Company's contributions are limited to a fixed percentage of the member's salaries.

## 13. Income Taxes

Income taxes are provided for based on taxable income and the varying tax rates applicable in Russia, Ukraine, the Netherlands, Jersey and Cyprus. Certain costs and expenses, including some types of employees' compensation, benefits, and interest, which are included as expenses in the consolidated income statement are not deductible when determining taxable income. The Company and certain of its subsidiaries, which are registered in Jersey, the Channel Islands, have been granted "Exempt Company" status and are exempt from Jersey income taxes.

The statutory income tax rate applicable to the Russian subsidiaries is 24% (2006: 24%). The statutory income tax rate applicable to the Ukrainian subsidiaries is 25% (2006: 25%).

The reconciliation of the income tax expense for the year compared to the amount of income tax expense that would result from applying the statutory tax rate in Jersey to the income before taxes is as follows:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Income before tax | 165,540 | 116,316 |
| Expected tax expense at Jersey tax rate (0%) | - | - |
| Effect of different tax rates in different jurisdictions: | | |
| Russian operations | 27,672 | 21,142 |
| Ukrainian operations | 12,560 | 10,436 |
| Other international operations | (860) | (618) |
| Tax concessions for capital investments in Russian operations | (3,737) | (879) |
| Net non-taxable income and non-deductible expenses | 1,715 | 1,692 |
| Income tax expense | 37,350 | 31,773 |

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Current tax expense | 38,293 | 29,201 |
| Deferred tax (income)/expense | (943) | 2,572 |
| Income tax expense | 37,350 | 31,773 |

As at December 31, 2007 and 2006 temporary differences that give rise to deferred tax liabilities and assets were comprised of the following:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Deferred tax assets: | | |
| Other assets | - | 1,679 |
| Accrued expenses | 16,659 | 12,689 |
| Total gross deferred tax assets | 16,659 | 14,368 |
| | | |
| Deferred tax liabilities: | | |
| Plant and equipment | (25,845) | (30,850) |
| Intangible assets | (5,857) | - |
| Inventories | (4,926) | (2,920) |
| Total gross deferred tax liabilities | (36,628) | (33,770) |
| Net deferred tax liability | (19,969) | (19,402) |

Realisation of deferred tax assets is dependent on future reversals of existing taxable temporary differences and adequate future taxable profit. Although realisation is not assured, management believes that it is more likely than not that the deferred tax assets will be realised. The amount of the deferred tax assets is considered realisable, however, could be reduced in the near term if actual future taxable income is lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable temporary differences.

## 14. Related Party Transactions

The Group has entered into various service agreements with other entities of InBev. These services include management support, general technical assistance, provision of loans, publicity, marketing, use of brands and various other services. The amount of the service fees is agreed annually between the parties. During 2007 and 2006, service expenses amounted to Euro 64.9 million and Euro 49.5 million, respectively, under these agreements. Interest expense to related parties amounted to Euro 3.4 million (2006: Euro 4.2 million).

Purchases from other related parties amounted to Euro 2.3 million for 2007 (2006: Euro 2.9 million).

As at December 31, 2007 and 2006 the outstanding balances with related parties were as follows:

| '000 Euro | 2007 | 2006 |
|---|---|---|
| Accounts receivable | 4,226 | 3,103 |
| Accounts payable | 56,193 | 99,698 |
| Interest payable | 2,933 | - |
| Current loans from related parties at 7% per annum | 58,441 | - |
| Non-current loans from related parties at 4.1% per annum | 10,853 | 10,001 |

## 15. Tax contingencies

The taxation system in the Russian Federation and in Ukraine is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions. These are often unclear, contradictory and subject to varying levels of interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a fiscal year may remain open for longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 16. Commitments

At December 31, 2007 and 2006 the Group had outstanding contractual commitments totaling approximately Euro 129 million and Euro 99 million respectively, to purchase property, plant and equipment. In addition, the Group had commitments to purchase raw materials worth Euro 33 million at December 31, 2007 and Euro 26 million at December 31, 2006.

## 17. Litigation contingencies

In July 2007 the tax inspectorate completed their audit of JSC "SUN InBev", a Russian subsidiary of the Company, for 2004-2005. Based on the results of the audit, the tax inspectorate claimed additional profit tax and VAT in total amounting to Euro 1.3 million. Management has provided Euro 0.6 million against this claim. The major part of the claim relates to acquisition of packaging from several suppliers, who, based on the tax inspectorate position, did not fulfill their tax obligation in full. As a result, the tax inspectorate disallowed the deduction of cost of packaging for profit tax purposes and the related VAT. The Company disagreed with the decision and in September 2007 filed a claim in the Russian arbitration court. The arbitration court of the first instance on January 23, 2008 took a decision in favor of the tax inspectorate. The subsidiary appealed against this decision in the court of the higher instance.

## 18. Earnings Per Share

The reconciliation of basic earnings per share and diluted earnings per share for the year ended December 31, 2007 and 2006 are as follows:

| 2007 | Net income (Numerator) '000 Euro | Shares (Denominator) | Per share-amount Euro |
|---|---|---|---|
| *Basic EPS* | | | |
| Attributable to holders of class "A" participating shares | 89,645 | 88,832,710 | 1.01 |
| Attributable to holders of class "B" participating shares | 28,051 | 27,796,220 | 1.01 |
| Total attributable to participating shares | 117,696 | 116,628,930 | 1.01 |
| *Diluted EPS* | | | |
| Attributable to holders of class "A" participating shares | 89,645 | 88,832,710 | 1.01 |
| Attributable to holders of class "B" participating shares | 28,051 | 27,796,220 | 1.01 |
| Total attributable to participating shares | 117,696 | 116,628,930 | 1.01 |

| 2006 | Net income (Numerator) '000 Euro | Shares (Denominator) | Per share-amount Euro |
|---|---|---|---|
| *Basic EPS* | | | |
| Attributable to holders of class "A" participating shares | 63,520 | 88,832,710 | 0.72 |
| Attributable to holders of class "B" participating shares | 19,875 | 27,796,220 | 0.72 |
| Total attributable to participating shares | 83,395 | 116,628,930 | 0.72 |
| *Diluted EPS* | | | |
| Attributable to holders of class "A" participating shares | 63,520 | 88,832,710 | 0.72 |
| Attributable to holders of class "B" participating shares | 19,875 | 27,796,220 | 0.72 |
| Total attributable to participating shares | 83,395 | 116,628,930 | 0.72 |

In accordance with the Russian and Ukrainian legislation, distributable reserves are limited to the amount of retained earnings of the Russian and Ukrainian subsidiaries as determined in accordance with the statutory accounting principles.

## 19. Share capital

The authorized share capital is comprised of 125,278,614 Class A preference shares and 30,000,000 class B ordinary shares with a nominal par value of one pence. The issued share capital is comprized of 88,832,710 Class A preference shares and 27,796,220 class B ordinary shares with a nominal par value of one pence.

As at December 31, 2007 and 2006 the Company's ordinary shares (Class "B") were 100% owned and controlled by InBev and the preference shares (Class "A") were 99.83% owned and controlled by InBev.

Preference shares have no right of conversion or redemption. The special rights, restrictions and provisions applicable to the preference shares are as follows:

- The dividend on the preference shares in any year shall be paid in an amount not less than and in equal priority to the dividend payable to the ordinary shareholders in such year;
- On winding up of the company, the surplus assets available for distribution to its members, shall be distributed proportionately amongst the holders of the preference share and the ordinary shares according to the amounts of their respective holdings of such shares in the Company;
- The holders of the preference shares do not have right to vote in shareholders' meeting, except for the matters affecting the rights of the holders of preference shares, including "change of control" transaction as defined in the "Articles of Association" of the Company.

No dividends have been recommended by the Board of Director at the balance sheet date.

## 20. Segment disclosure

Management organizes reportable segments around the different geographical areas, in which the Company operates. Russia and Ukraine have been identified as reportable geographical segments in 2007 and 2006. Foreign entities, which form part of the Russian and Ukrainian operations, are included into the respective geographical segment.

| | 2007 | | |
|---|---|---|---|
| '000 Euro | Russia | Ukraine | Total |
| Total revenue | 1,119,234 | 344,751 | 1,463,985 |
| Inter-segment revenue | | | - |
| Revenue from external customers | 1,119,234 | 344,751 | 1,463,985 |
| Interest expense | 10,071 | 5,812 | 15,883 |
| Depreciation and amortization expense | 93,344 | 35,245 | 128,589 |
| Income tax expense | 25,961 | 11,389 | 37,350 |
| Segment profit | 79,272 | 38,424 | 117,696 |
| | | | |
| Segment assets | 1,297,694 | 357,398 | 1,655,092 |
| Inter-segment borrowings and investments | | | (165,215) |
| Total assets as reported | | | 1,489,877 |
| | | | |
| Acquisition of long-lived assets | 209,327 | 96,431 | 305,758 |

| | 2006 | | |
|---|---|---|---|
| '000 Euro | Russia | Ukraine | Total |
| Total revenue | 890,140 | 287,140 | 1,177,280 |
| Inter-segment revenue | | | (1,896) |
| Revenue from external customers | | | 1,175,384 |
| Interest expense | 15,655 | 3,768 | 19,423 |
| Depreciation and amortization expense | 80,125 | 25,274 | 105,399 |
| Income tax expense | 20,848 | 10,925 | 31,773 |
| Segment profit | 52,025 | 31,370 | 83,395 |
| | | | |
| Segment assets | 1,140,307 | 321,520 | 1,461,827 |
| Inter-segment borrowings and investments | | | (164,381) |
| Total assets as reported | | | 1,297,446 |
| | | | |
| Acquisition of long-lived assets | 193,733 | 89,368 | 283,101 |

## 21. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risk.

### *21.1. Credit risk*

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### *21.2. Interest rate risk*

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

### *21.3. Foreign currency risk*

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the respective Group entities. The currencies giving rise to this risk are primarily USD and Euro.

### *21.4. Fair values*

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and current loans and borrowings approximate their fair value because of the short maturity of these instruments.

The non-current bonds were traded at 99.2% of their nominal value at the balance sheet date. The resulting fair value of the bonds was Euro 110.4 million at the balance sheet date.

## 22. Subsequent events

No significant subsequent events occurred after the balance sheet date.

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