



# Board of *Management*

## *Board of Management*

### I. Functioning and strategy of the Board of Management

Pursuant to Dutch law and pursuant to the Articles, the Board of Management is responsible for the overall management of EBI. The Board of Management has adopted Board of Management Rules that regulate in detail its tasks and responsibilities. The Board of Management acts under supervision of the Supervisory Board. Pursuant to the Articles, members of the Board of Management are appointed for a maximum term of four years, provided that the term of appointment will end at the closing of the first general meeting of shareholders in the fourth year following the year of appointment. Pursuant to the Board of Management Rules, a member of the Board of Management can be re-appointed for another four year term after expiration of the first four year term. New members of the Board of Management are appointed by the General Meeting. The Supervisory Board is entitled to make a non-binding nomination for each vacancy. Within the Supervisory Board, the Selection and Appointment Committee makes the proposal for a nomination. The Board of Management currently consists of the following four members: Mr. Ahmet Boyacıoğlu, Chairman, Mr. Hurşit Zorlu, Mr. Demir Şarman, Mr. Gerard Jan van Spall

In order to see CVs of Members of Board of Management please refer to "Company Profile" section "Composition of Board of Management" (pg: 16)

### II. New Appointments

Mr. Kent, who was the Chairman of the Board of Management since 2003, elected to leave his duties with EBI effective May 1st, 2005. Mr. Semih Maviş was appointed as a member of the Board of Management and the new Chief Executive Officer of EBI effective as of 1 June 2005 and resigned from the Management Board effective August 10, 2005 as part of the organizational restructurings in Efes Beverage Group. Mr. Ahmet Boyacıoğlu was appointed as Mr. Kent's successor as the Chairman of the Board of Management at the General Meeting of EBI held in May 2005 and later in August 10<sup>th</sup>, 2005 he was appointed as the Chief Executive Officer of EBI.

### III. Meetings

The Board of Management meets at least once a month and besides whenever one or more of the members have requested a meeting. In 2005, all resolutions were passed with unanimous vote. Pursuant to the Articles, several transactions require the approval of the Supervisory Board. In 2005 all transactions subject to the approval of the Supervisory Board were approved by the Supervisory Board. The most important resolutions submitted to the approval of the Supervisory Board in 2005 were about the expansion plans in Russia and purchase of minority shares in Moscow Efes Brewery.

### IV. Evaluation of the functioning of the Board of Management

Topics of the meetings of the Board of Management included, among other items:

- EBI's general strategy;
- EBI's day-to-day financial operations;
- Planning and monitoring the marketing strategy of EBI;
- Assisting and supervising the operations of EBI's subsidiaries;
- Investigating and executing of business development progress as well as investments and acquisitions;
- The performance and internal division of tasks of the Board of Management.

The Board of Management visited EBI's subsidiaries frequently in 2005. In cooperation with the Chief Operating Officers of EBI, The Board of Management performed close supervision and monitoring on the subsidiaries, to ensure the implementation of EBI's continuous growth and successful financial performance objectives. The Board of Management was also occupied with the implementation of capacity expansion plans and acquisitions whole through the year 2005.

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## *Operational Review*



### Sales Volumes

In 2005 EBI's sales volume recorded an impressive 17% growth compared to the previous year, reaching 8.9 mhl.

In Russia, EBI recorded a 16% sales volume growth in 2005 vs. the previous year, ahead of the market growth reaching 5.9 mhl. EBI's economy segment beer brand "Beliy Medved" was an important volume driver, recording a volume growth in excess of EBI's sales volume growth in Russia. In addition, two licenced brands, "Amsterdam Navigator" introduced at the end of 2004 and "Zlatopramen", which was launched in January 2005, both achieved substantial sales volume growth in 2005.

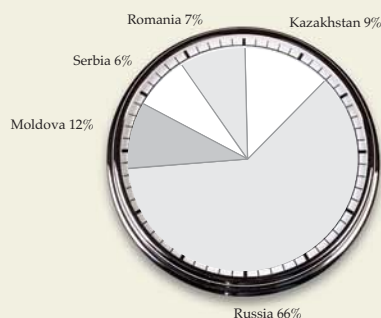
EBI's sales volume in Kazakhstan was 0.8 mhl. in 2005, up by 26% vs 2004. The sales volume growth in Kazakhstan is mainly attributable to the growth of two premium segment beers, "Stary Melnik" and "Efes Pilsener".

EBI's operations in Moldova with 1.0 mhl. of sales volume in 2005 achieved 5% growth vs 2004, whereas EBI's remaining two operations in Serbia and Romania both recorded double-digit volume growth in 2005 compared to previous year.

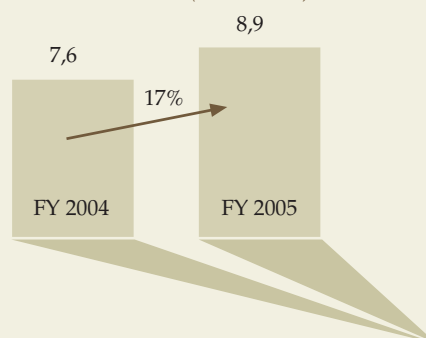
### Net Sales

EBI's consolidated net sales increased by 21% in 2005 over previous year, by reaching US\$ 481.2 million and slightly exceeding its volume growth. Operations in Russia delivered 76% of EBI's consolidated sales revenue in 2005.

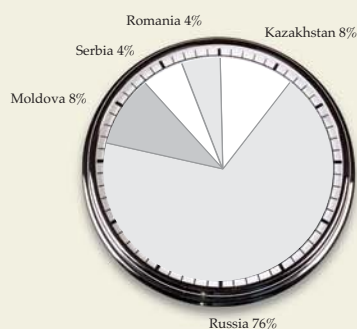
### Sales Volume Breakdown



### Sales Volume (million hl)



### Net Sales Breakdown





## Profitability

In 2005 EBI reported 19% increase in its gross profit compared to previous year by reaching US\$ 228.0 million. Gross Profit margin was 47% in 2005.

EBI's Operating Profit in 2005 was US\$ 49.7 million, down 8% from 2004, and EBITDA was US\$ 95.1 million in 2005 compared to US\$ 98.3 million in 2004. EBI's EBITDA margin in 2005 was 20%.

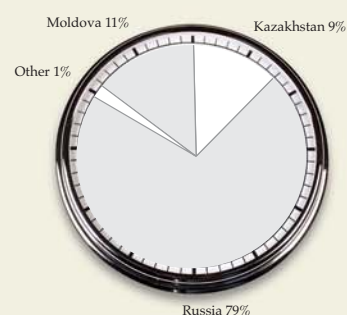
Although full year EBITDA margin recovered substantially from the levels experienced in the interim periods, certain contraction compared to the previous year still existed. Significant increases in global oil prices impacted EBI's overall profitability in 2005. One impact was the rising resin prices due to global oil price increases, which together with the heightened demand toward PET products, particularly in Russia, had negative impact on gross profitability. In addition increasing oil prices also had an effect on the transportation expenses, which affected the cost base of EBI down to profit from operations level adversely.

Furthermore in 2005 sales and marketing expenses increased ahead of sales growth. Serbia is EBI's newest market entry where stronger market position for the long term constitutes the rationale of the increase of sales and marketing expenses. In Russia, on the other hand, the increase was mainly attributable to the restructuring of the sales and distribution system, which resulted in the number of direct order taking outlets in the Moscow market almost tripling compared to 2004 and establishment of exclusive sales teams in more than sixty cities throughout Russia.

EBI's Net Income for 2005 was US\$ 20.1 million as compared to US\$ 35.6 million in 2004.

In addition to the above described impacts through the Operating Profit level, Net Income was also adversely affected by the US\$ 9.0 million foreign currency exchange loss (financial expense) in 2005, which in 2004 was realized as gain of US\$ 7.9 million, hence resulting in a total negative swing of US\$16.9 million due to the appreciation of US\$ (reporting currency of EBI) in 2005 versus Euro and local currencies where EBI operates.

*EBITDA Breakdown*



\*Other includes Romania, Serbia, Headquarter and consolidation adjustments.

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## Acquisitions and Capex

In 2005, the annual brewing capacities of Ufa and Rostov plants in Russia have increased to 2.0 and 1.2 mhl. respectively, as well as in the Chisinau plant in Moldova, where the brewing capacity increased to 0.9 mhl.

In 2005 EBI acquired 41% of minority shares in Efes Ukraine, thereby increasing its stake to 100%. EBI paid approximately 1.7 million USD for the shares it acquired.

MEB, EBI's operating subsidiary in Russia, acquired all of the outstanding common stock of Rostov Beverages from Efes Sinai Yatirim Holding A.Ş. (Efes Invest), a subsidiary of Anadolu Efes, for a cash consideration of USD 100 thousand.

## Marketing

EBI views its brand portfolio as a key asset, as management believes the image of a brand and its message are essential elements in a consumer's choice of beer. EBI seeks to have a brand portfolio that comprehensively covers the principal beer segment in which it operates spectra (being premium, mainstream and economy). EBI focuses on those segments in the Territories which offer growth in sales without prejudicing profitability. Management believes that local positioning of its brands is a key element in facilitating better understanding of, and responses to, the needs of local consumers. With respect to the Efes Pilsener brand, marketing efforts are coordinated with the marketing strategy of the Efes Beverage Group and are aimed at reinforcing the image of the brand as a premium international beer. EBI focuses on capitalising on the synergies associated with being available in developing beer market segments. Depending on the specific markets these may include the most profitable and/or fastest growing segments as well as the largest segments in the beer markets in which EBI operates.

EBI markets its brands in each of the Territories extensively through a broad range of marketing channels, including, among others, television, billboard and radio advertising and consumer promotions. EBI also sponsors high profile sports, music festivals and other special events, thereby giving broad exposure to the local brands and to the Efes Pilsener brand.

Sponsorships include the promotion in certain Territories of the "Efes Pilsen" basketball team by the Efes Beverage Group, which ranks number one in terms of total number of championships won in the Turkish basketball league and has enjoyed consistent success in the European Championships. From 2003 to 2005 Efes Russia sponsored the World and European Ice Figure Skating Championship with the Efes Pilsener brand. In Russia, Efes Russia also promotes the Stary Melnik brand through sponsorship of the national football (soccer) team. In 2005, Efes Moldova promoted the Chisinau brand through sponsorship of the Moldovan National Olympic Team. In addition to sports sponsorships, the Operating Companies sponsor cultural events such as music concerts, which attract widespread media attention and reach a broad base of consumers.



### Efes Beer Group Support

EBI receives management support from Efes Beer Group ("EBG") and administrative services including management systems and techniques, procurement services such as assisting in the selection of raw materials from abroad in the event that raw materials are not available through the local channels. EBI also receives marketing, distribution and sales services, including assistance with customer services, statistical analysis and market research and assistance in developing and evaluating the market and new markets, human resources management services and training in relation to other services. The relationship between EBI, its operating subsidiaries and EBG are formalised through certain long-term management support agreements.

### Forecast for the Next Year

The beer markets in the territories, in which EBI operates, are among the least saturated beer markets in developing countries with comparable levels of disposable income and per capita consumption. In addition, disposable income and per capita consumption of beer in these territories are increasing which is believed to be a continuation of a long term growth trend. In addition there is still significant growth potential as evidenced by the expected 2% and 8% growth of per capita consumption in the Russian and Kazakh beer markets, respectively (CAGR 2005-2010E).

EBI plans to maintain its competitive market position of its operations amongst the leading brewers in each of the markets in which it conducts its operations, to grow its beer operations throughout its existing markets and expand into new territories where feasible. Accordingly strong top line growth is expected in 2006 with operating profitability maintained.

### Risk Profile

Although the economies of the territories in which EBI operates have been in the past characterised by declining industrial production, significant inflation, rising unemployment, unstable currencies and moderate to high government borrowing requirements relative to GDP, in recent years these territories have experienced GDP growth and stable currencies. At the same time depending on the improvements in the macroeconomic conditions of the countries in these territories, the level of average disposable income in the territories have improved. Given the high correlation between average disposable income and per capita consumption in developing markets, changes in the macroeconomic conditions may have substantial impact on the beer market in EBI's territories.

EBI established in the Netherlands and currently operates through its subsidiaries in 5 countries and reports in US Dollar. Since the accounts of the operating companies are kept in local currencies, fluctuations in the exchange rates in these operating countries may impact the financial results of EBI.

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The implementations of the restrictions on, or the prohibitions of, beer advertising in the mass media or certain sales channels could have a material adverse effect on the results of operations of EBI. For example, in August 2004, Russia passed legislation placing restrictions on beer advertising. Those restrictions include, among other things, a ban on the broadcasting of beer commercials on television and radio between 7 a.m. and 10 p.m., a prohibition on the promotion of beer as being "crucial in achieving success in sports and personal life", and a prohibition on the use of images of people or animals on beer advertising. In addition, a new law on sales and consumption of beer has come into effect as of 13 April 2005, which brings certain restrictions on the retail sales and public consumption of beer including a minimum legal age of 16 years for beer consumption in public places and the purchase of alcoholic beer. Accordingly, the retail sales and public consumption of beer in children's educational and medical facilities, in public transportation, cultural establishments as well as the retail sale of beer in sport facilities are fully restricted excluding specially equipped public food areas which shouldn't necessarily be a legal entity. Sales at parks and summer cafes are allowed subject to the approval of local authorities. Kazakhstan has also imposed a complete prohibition, which became effective on 1 January 2004, on alcohol advertising in the mass media.

Anadolu Efes, operating in Turkey where beer advertising on TV and radio is fully restricted, has build up significant experience on utilizing alternative marketing channels to advertise and promote its beer products over the past 20 years. As a result, EBI currently utilizes a number of alternative marketing channels such as sponsorships and point of purchase ("POP") advertising to promote its products. However the impact of such changes on the regulations of beer markets in the territories are currently less predictable.

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As a part of regulation of the beer industry, the beer sales in the territories are subject to taxation and government surcharges that include excise and value-added taxes, which from time to time changes. Changes in such taxes may have an impact on the beer markets in the territories and the operations of EBI.

Legislation and regulations regarding taxation and foreign currency transactions in most of the territories in which EBI 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 EBI operates substantially more than typically found in countries with more developed tax systems.

## Internal Risk Management

Internal risk management principally enables EBI to run its operations effectively, to keep the reliability of the financial reporting and to comply with laws and regulations. Internal risk management consists of several interrelated components and is an integrated part of the management process. The settlement and measurement systems of achievement of the business objectives, the procedures of internal control system which are designed to provide reasonable assurance for the successful flow of activities such as sales, production, marketing, supply chain and finance are in place or are being improved.

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EBI operates in different countries, environments and cultures which bring varying degrees of risk and uncertainty. Due to the nature and size of the business, EBI employs a multi-layered internal control structure. Local management, under the guidance of the Board of Management, is responsible for implementing, operating and monitoring an effective internal control system, which is designed to provide reasonable assurance of preventing loss of resources, achieving the business objectives and achieving reliable financial reporting. The Board of Management, under the supervision of the Supervisory Board and in particular its Audit Committee, oversees the effectiveness of internal risk management.

### Investor Relations Function

EBI undertakes an active investor relations programme with its shareholders and the wider financial community since its listing in October 2004. The Company immediately announces the important operational developments through news releases as they occur and also gives presentations following the release of its results for existing shareholders, potential institutional investors and financial analysts. EBI also attends international conferences for the institutional investors.

All news releases announced publicly as well as copies of the presentations given are made available on EBI's website at [www.efesinternational.com](http://www.efesinternational.com) together with other information including but not limited to operations, financial performance and corporate governance.

In 2005, EBI presented its results quarterly through conference calls with institutional investors and financial analysts. During 2005, in addition to around 90 face-to-face contacts with domestic and foreign individual and institutional investors, shareholders and analysts, EBI attended three conferences organized abroad.

