

# **SAKU BREWERY LTD ANNUAL REPORT 2002**

**Core activities of Saku Brewery Ltd:  
production, distribution, import and export  
of low-alcohol beverages, mineral water  
and soft drinks**

**Beginning of financial year: 1 January  
End of financial year: 31 December**

**Auditors: Andres Root, Andris Jegers  
KPMG Estonia**

**Status of the report: audited**

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**The activities of Saku Brewery Ltd are managed by a five-member management board. The chairman of the management board is Cardo Rimmel.**

**SAKU BREWERY LTD  
ANNUAL REPORT 2002**

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## **1. REVIEW OF OPERATIONS**

### **1.1 Operating environment**

In 2002 our operating environment was significantly affected by:

- a stiffening of competition in the retail trade
- continuation of fierce competition in the local beer, cider, mineral water and soft drinks markets
- an increase in the average Estonian wage, and
- changes in the legal regulation of the industry.

Increasing retail competition was accompanied by sustained consolidation into chains and the opening of new hyper and supermarkets. The latter upheld the trend of various customer and sales campaigns where products were offered at special prices. Competition in the local beverages market remained strong and the number of campaigns where a free product could be found “under the cap” increased. Detailed information on the market position, sales and performance of Saku Brewery can be found in section 1.3 Market and consumption.

According to the Statistical Office, in the third quarter of 2002 the average gross wage amounted to EEK 5,853 (EUR 374) per month, an increase of 10.4 percent on a year ago. To retain qualified specialists and maintain competitiveness, a company has to provide wages, which at least measure up to the average. Consequently, a general increase in wages affects the company’s cost base.

In 2002 significant changes occurred in the legal environment. The Food Act, the Alcohol Act, and the Alcohol, Tobacco and Fuel Excise Duty Acts established a number of new requirements to which we had to respond:

- The Food Act required the approval of all food-handling businesses. Saku Brewery passed the approval procedures and the handling of food and raw material for food at Saku Brewery was considered compliant with the requirements of the Food Act and other relevant legal acts.
- An amendment to the Alcohol Act clearly identified beer as a food group item. As a result, beer production became subject to the requirements of the Food Act as well as the special requirements for handling alcohol. The Act simplified entry of alcohol into the State Register of Alcohol by liquidating the register committee and specified registration procedures and requirements. A major change was the prohibition of the retail sale of alcohol in street trade.
- Amendments to the Alcohol, Tobacco and Fuel Excise Duty Acts harmonised the national excise duty laws with corresponding EU legislation and extended the excise warehouse system from alcohol to tobacco and fuel products, harmonising the taxation scheme of all the three product groups that are subject to excise duty. Amendments specified the origination of excise duty liability, the procedures applicable to the calculation and administration of the duty, and exemption and refunding terms.

The consumer price index that measures changes in the consumption environment grew by 2.7 percent (a ratio of December 2002 to December 2001). The overall producers’ price index grew by 1.4 percent whereas the producers’ price index for the food and beverages industry declined by 3.6 percent.

Accumulation of Saku Brewery's shares in the hands of a smaller number of shareholders continued. By the end of the financial year, we had 3,958 shareholders. The period's average share price was EEK 61.78 (EUR 3.95).

In 2002 Saku Brewery Ltd acted as a parent of a group where the subsidiaries AS Saku Linnas and Saku Keldri OÜ did not conduct active business operations. As both subsidiaries will be liquidated in 2003 and their balance sheet volumes are below the statutory consolidation requirement, their financial statements have not been consolidated.

## **1.2 Major accomplishments in 2002**

- Retention of leading position in the Estonian beer market (47 percent market share) and reinforcement of leader's position in the premium beers segment (70 percent market share) in a fiercely competitive environment.
- Trademark and packaging development: development of the trademark of the core brand Saku Originaal and corresponding renewal of the entire Saku blue line, development of the packaging of special beers Sorts and Presidendi Pilsner, beginning of the development of the packaging of special beers Saku Hele and Saku Tume, and renewal of the packaging of premium mineral water Vichy Classique.
- Product development: expansion of share in the mineral water market with the mainstream Montavit line, penetration of the long drink market with 0.5-litre canned Saku Gin Long Drink, extension of the soft drink line Zingo with lemon-flavoured Zingo in 0.5 and 1.5-litre packaging and supplementation of the Saku blue line with a stronger premium beer Saku Strong.
- Launching of the internationally recognised Carlsberg beer in a 0.5-litre returnable bottle.
- Investment in increasing capacities, ensuring production efficiency and maintaining quality: acquisition of new bottle-filling equipment, supplements to the can filling line and multipack equipment, and electronically controlled packaging and stacking equipment for the multipacks.
- Establishment of a joint taskforce with other leading Baltic breweries that belong to Baltic Beverages Holding group - Aldaris AO and Svyturys-Utenos Alus AB with a view to identifying the synergies of co-operation.

## **1.3 Market and consumption**

### **Beer**

According to the Estonian Breweries Association, in 2002 per-capita beer consumption in Estonia grew from 67 to 70 litres. The market grew by 4.5 percent to 95.8 million litres. Imports accounted for 4.4 million litres or 4.6 percent of the total, an increase of 0.5 percentage points.

According to the Estonian Breweries Association, the largest Estonian beer producer is Saku Brewery. In 2002 we maintained the leading position with a solid 47 percent of the market. The main competitors were Tartu Õlletehas (37 percent), Viru Õlu (6 percent), Pärnu Õlletehas (3 percent), Nigula Õlu (2 percent) and Saaremaa Õlletehas (0.5 percent). Karme brewery went out of business.

Based on Brand Track 2002, a survey conducted by the marketing research and consulting company EMOR, in 2002 the best-favoured beer brand in Estonia was Saku Originaal. According to the results of the survey, which was performed in

March, June and September 2002, the share of people who consider Saku Original their favourite beer brand has increased to 21 percent. Rock, the leading brand of our other basic line, rose to the third position (9 percent).

The domestic beer market is still rather price sensitive. 2002 was a year of active special price campaigns, which also extended to the premium segment. The number of campaigns where a free product could be won increased as well. The costs of give-away products and accompanying taxes raised the average cost of a sales campaign.

Since Estonia regained its independence, Saku Brewery has led the market in product development, providing Estonian consumers with contemporary and innovative domestic beer products. In 2002 we renewed our core brand Saku Original and subsequently our entire blue line. The improvements increased our share in the premium beer market to 70 percent. In addition to packaging development we optimised the product portfolio and supplemented the blue line with a new and slightly stronger premium product Saku Strong.

In June we launched the internationally recognised premium brand Carlsberg in a 0.5-litre bottle, a packaging favoured by the local consumer. By the year-end the share of Carlsberg in the local imported beers market had risen to a strong 20 percent.

At the end of the year we completed the renewal of the packaging of Presidendi Pilsner and Sorts and began revamping the packaging of Saku Hele and Saku Tume. The purpose of the project is to consolidate our position in the special beers segment.

## **Cider**

In 2002 the total volume of the Estonian cider market was 3.4 million litres, a 14 percent increase on 2001. Per-capita consumption grew from 2.2 to 2.6 litres.

The share of our Kiss line increased half a percentage point. Growth was strongly facilitated by the implementation of 0.5-litre cans, which were launched in the summer and helped to seize 22-24 percent of the market during the summer season.

## **Gin long drink**

The Estonian long drink market is rising. In 2002 its estimated size exceeded 4 million litres. In August we penetrated the market with a renewed Saku Gin Long drink that was launched in a 0.5-litre can. Within four months it had seized 10 percent of the market.

## **Mineral water**

The local mineral water market grew to around 31 million litres, a 24 percent increase on the previous year. The main drivers were the low cost and mainstream cheap categories. Saku Brewery focused on the mainstream premium and mainstream cheap segments. We completely revamped our premium class Vichy Classique line and penetrated the mainstream cheap category with the Montavit line

## **Soft drinks**

The Estonian soft drinks market grew to 50 million litres, a 9 percent increase on 2001. Per-capita consumption increased from 33 to 38 litres. We are the exclusive

Estonian distributors of Pepsi, 7 UP and orange-flavoured Zingo, whose total share in the Estonian soft drinks market exceeds 4 percent. In 2002 our soft drink sales improved by 8 percent.

### **Intra-group co-operation**

The Baltic breweries of the Baltic Beverages Holding AB (BBH) group have co-operated since 2001. Saku Brewery exports other group companies canned beer and cider and imports water in PET package, soft drinks and Carlsberg beer. Establishment of a joint taskforce at the end of 2002 should tighten the co-operation even further.

## **1.4 Performance and results**

Saku Brewery's net sales for 2002 amounted to EEK 768.4 million (EUR 49.1 million), an increase of 3 percent (EEK 22.5 million, i.e. EUR 1.4 million) on a year ago. Approximately 75 percent of the improvement resulted from domestic sales and 25 percent from exports. In terms of product groups, the main contributors were beers and other alcoholic beverages such as cider and long drink.

Beverage sales totalled 56.4 million litres, a 2 percent increase on 2001. With annual beer sales of 49.4 million litres and a 47 percent market share Saku Brewery is the largest Estonian beer producer and leader of the local beer market. The biggest rise (over 13 percent) occurred in the sales of the renewed core brand Saku Originaal. Another strong performer was the Rock line whose sales continued to climb steadily. Sales of canned beers grew by 19 percent.

Exports accounted for 9 percent of quantitative sales. The main export markets were other Baltic countries and Finland. Exports to the USA and Japan were less significant. The main export articles were the core brand Saku Originaal, Saku Tume, Porter, mineral water and cider.

Expenses proved 5.6 percent (EEK 38.6 million, i.e. EUR 2.5 million) larger than a year ago. Materials, consumables and supplies accounted for EEK 42 percent (EEK 16.3 million, i.e. EUR 1.0 million), other operating expenses for 43 percent (EEK 16.8 million, i.e. EUR 1.1 million) and personnel expenses for 15 percent (EEK 5.8 million, i.e. EUR 0.4 million) of the rise. Materials costs were significantly affected by an increase in the share of products sold in disposable packaging and multipacks, and a rise in the price of malt, one of the main materials. The growth in other operating expenses resulted largely from more intensive marketing, i.e. various sales campaigns and relating taxes, and trademark and packaging development. The increase in personnel expenses was triggered by a wage review, which was conducted at the beginning of 2002 with a view to adjusting our wage levels to those of the labour market.

Operating profit amounted to EEK 40.2 million (EUR 2.6 million), a 28.3 percent (EEK 15.8 million, i.e. EUR 1.0 million) decrease on 2001. Net profit totalled EEK 38.8 million (EUR 2.5 million), a decline of 29.5 percent (EEK 16.2 million, i.e. EUR 1.0 million). Earning per share amounted to EEK 4.85 (EUR 0.31).

To ensure a balance between growth and profitability, we changed the budgeting process and responsibility for budget management. The changes were supported by a systematic application of value-driven assessment principles and performance management.

The company's direct tax burden totalled EEK 203.2 million (EUR 13.0 million). The share of alcohol excise duty was EEK 136.1 million (EUR 8.7 million), a 0.5 percent decrease on 2001.

At the end of 2002 we employed 253 people under open-ended employment contracts. The period's average number of employees was 259. The remuneration of the members of the management board (before taxes) amounted to EEK 6.4 million (EUR 0.4 million). Members of the supervisory board received EEK 0.1 million (EUR 6,000) in aggregate. The total liability that would arise if all members of the management board were dismissed amounts to EEK 4.2 million (EUR 0.3 million) (the figure includes both severance pay and related taxes).

## **1.5 Investment**

In 2002 we continued investing in quality, high operating efficiency and availability of required capacities. Tangible and intangible asset purchases totalled EEK 56.3 million (EUR 3.6 million), including production and packaging-related items of EEK 40.7 million (EUR 2.6 million) (upgrade of the bottle-filling line, supplements to the can filling and multipack equipment, and electronically controlled packaging and stacking equipment for multipacks). Sales-related investments totalled EEK 9.8 million (EUR 0.6 million), and investments in computer systems amounted to EEK 1.4 million (EUR 0.1 million).

## **1.6 Future plans**

As the oldest Estonian beer producer and leader of the local beer market and product development, Saku Brewery recognises its responsibility for the general development of the market.

Our main objective is to retain the leading position in the local beer market, especially as regards the premium beers category and its development.

Although our priority is the beer market, we also intend to increase our share in other beverages markets. Our principal targets are the self-produced alcoholic beverages and mineral water markets, especially the mainstream premium and mainstream cheap categories.

One of our strategic strengths is being part of Baltic Beverages Holding AB, one of the largest European groups of breweries. In December 2002 the leading Baltic breweries Saku Brewery, Aldaris AO and Svyturys-Utenos Alus AB established a joint taskforce to investigate opportunities for streamlining through tighter co-operation. Plans foresee joint purchasing operations, which should ensure more favourable raw material and service prices, and co-ordination of sales activities, including conclusion of contracts with the retail chains that operate in the three Baltic markets. We also expect to co-operate in the area of production and co-ordinate use of capacities. The efforts should result in notable product development and marketing synergies as well as purchasing benefits.

The co-operation of the Baltic market leaders indicates preparedness for integration in the European Union and the challenges of a new business environment.

## **2. ANNUAL FINANCIAL STATEMENTS**

### **Statement of management responsibility**

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the annual financial statements of Saku Brewery Ltd for 2002 as set out on pages 8 to 24 of this report, and confirms that to the best of its knowledge, information and belief:

- the accounting policies applied at the preparation of the annual accounts comply with generally accepted accounting principles;
- the annual financial statements give a true and fair view of the financial position of Saku Brewery Ltd and the results of its operations;
- all significant events that occurred before the date on which the financial statements were authorised for issue have been properly recognised and disclosed;
- Saku Brewery Ltd is a going concern.

3 February 2003

Cardo Remmel  
Chairman of Management Board

Members of management board:

Jüri Jänese

Marko Loos

Karin Sepp

Ants Tulp



**BALANCE SHEET**

(In thousands)

	EEK		EUR	
	31.12.2002	31.12.2001 Adjusted *	31.12.2002	31.12.2001 Adjusted *
<b>ASSETS</b>				
Cash and bank	3,296	20,180	211	1,290
Shares and other securities		3,907		250
Trade receivables (Note 2)	29,051	29,057	1,857	1,857
Other receivables and prepayments (Note 3)	2,645	2,110	169	135
Inventories (Note 4)	90,917	76,764	5,811	4,906
<b>TOTAL CURRENT ASSETS</b>	<b>125,909</b>	<b>132,018</b>	<b>8,048</b>	<b>8,438</b>
<b>Non-current assets</b>				
Long-term financial investments (Note 5)	16,000	17,400	1,023	1,112
Long-term receivables (Note 6)	98	186	6	12
Tangible assets (Notes 7, 8)	260,597	249,142	16,655	15,923
Intangible assets (Note 7)	1,147	747	73	48
<b>TOTAL NON-CURRENT ASSETS</b>	<b>277,842</b>	<b>267,475</b>	<b>17,757</b>	<b>17,095</b>
<b>TOTAL ASSETS</b>	<b>403,751</b>	<b>399,493</b>	<b>25,805</b>	<b>25,533</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Debt obligations (Note 8)	7,154	1,714	457	110
Trade payables	22,150	21,642	1,417	1,383
Payables to the parent (Note 12)	282		18	
Tax liabilities (Note 9)	12,376	12,123	791	775
Payables to employees	4,607	3,329	294	213
Other accrued expenses	3,463	365	222	24
Provisions (Note 10)	676		43	
<b>TOTAL CURRENT LIABILITIES</b>	<b>50,708</b>	<b>39,173</b>	<b>3,242</b>	<b>2,505</b>
<b>Non-current liabilities</b>				
Non-convertible debt (Note 8)	1,711	3,412	109	218
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,711</b>	<b>3,412</b>	<b>109</b>	<b>218</b>
<b>Equity</b>				
Share capital	80,000	80,000	5,113	5,113
Capital reserve	8,000	8,000	511	511
Other reserves	44,070	44,070	2,817	2,817
Accumulated profits	180,441	169,786	11,532	10,851
Profit for the period	38,821	55,052	2,481	3,518
<b>TOTAL EQUITY</b>	<b>351,332</b>	<b>356,908</b>	<b>22,454</b>	<b>22,810</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>403,751</b>	<b>399,493</b>	<b>25,805</b>	<b>25,533</b>

\* - Adjustment results from a change in accounting for kegs.

**INCOME STATEMENT**

(In thousands)

	EEK		EUR	
	2002	2001 Adjusted *	2002	2001 Adjusted *
Revenue				
Net sales (Note 11)	768,445	745,937	49,113	47,674
Change in work in progress and finished goods inventories	-964	555	-62	35
Other revenue (Note 13)	2,416	646	154	42
<b>Total revenue</b>	<b>769,897</b>	<b>747,138</b>	<b>49,205</b>	<b>47,751</b>
Expenses (Note 14)				
Materials, consumables and supplies	493,747	477,494	31,556	30,517
Other operating expenses	132,724	115,906	8,483	7,409
Personnel expenses	53,872	48,097	3,443	3,074
Depreciation	43,410	42,831	2,774	2,738
Other expenses	5,932	6,761	379	432
<b>Total expenses</b>	<b>729,685</b>	<b>691,089</b>	<b>46,635</b>	<b>44,170</b>
<b>OPERATING PROFIT</b>	<b>40,212</b>	<b>56,049</b>	<b>2,570</b>	<b>3,581</b>
Financial income (Note 15)	125	433	8	28
Financial expenses (Note 15)	1,516	1,430	97	91
<b>PROFIT FOR THE PERIOD</b>	<b>38,821</b>	<b>55,052</b>	<b>2,481</b>	<b>3,518</b>
Basic earnings per share (Note 16)	4.85	6.88	0.31	0.44
Diluted earnings per share (Note 16)	4.85	6.88	0.31	0.44

\* - Adjustment results from a change in accounting for kegs.

## CASH FLOW STATEMENT

(In thousands)

	EEK		EUR	
	2002	2001 Adjusted *	2002	2001 Adjusted *
Profit for the period	38,821	55,052	2,481	3,518
Depreciation	43,410	42,831	2,774	2,738
Non-current asset sales and write-off	-1,560	-186	- 99	-12
<b>Total</b>	<b>80,671</b>	<b>97,697</b>	<b>5,156</b>	<b>6,244</b>
Change in the value of short-term financial investments	3,907	25	250	1
Change in inventories	-14,153	7,947	-904	508
Change in receivables	-529	1,370	-34	88
Change in current liabilities	11,916	6,456	762	413
Redemption of bonds (Note 5)	1,400		89	
<b>Total</b>	<b>2,541</b>	<b>15,798</b>	<b>163</b>	<b>1,010</b>
<b>Net cash from operating activities</b>	<b>83,212</b>	<b>113,495</b>	<b>5,319</b>	<b>7,254</b>
Investing activities				
Acquisition of non-current assets	-56,297	-51,985	-3,598	-3,323
Sales of non-current assets at sales price	2,024	493	129	32
Acquisition of shares		-1,350		-86
Collection of long-term receivables	88	218	6	14
Acquisition of bonds		-5,400		-345
<b>Net cash used in investing activities</b>	<b>-54,185</b>	<b>-58,024</b>	<b>-3,463</b>	<b>-3,708</b>
Financing activities				
Distribution of dividends	-40,000	-40,000	-2,557	-2,557
Income tax paid on dividends	-4,397	-4,576	-281	-292
Settlement of finance lease liabilities (Note 8)	-2,031	-2,548	-130	-163
Incl. finance charges	517	691	33	44
<b>Net cash used in financing activities</b>	<b>-45,911</b>	<b>-46,433</b>	<b>-2,935</b>	<b>-2,968</b>
<b>Net decrease/increase in cash</b>	<b>-16,884</b>	<b>9,038</b>	<b>-1,079</b>	<b>578</b>
Cash at beginning of period	20,180	11,142	1,290	712
Cash at end of period	3,296	20,180	211	1,290
<b>Net decrease/increase in cash</b>	<b>-16,884</b>	<b>9,038</b>	<b>-1,079</b>	<b>578</b>

\* - Adjustment results from a change in accounting for kegs.

**STATEMENT OF CHANGES IN EQUITY**

(In thousands)

	EEK		EUR	
	2002	2001 Adjusted *	2002	2001 Adjusted *
Share capital	80,000	80,000	5,113	5,113
Capital reserve	8,000	8,000	511	511
Other reserves	44,070	44,070	2,817	2,817
Accumulated profits				
at beginning of period	224,838	214,362	14,370	13,700
Dividend distribution	-40,000	-40,000	-2,557	-2,557
Income tax paid on dividends	-4,397	-4,576	-281	-292
Accumulated profits				
at end of period	180,441	169,786	11,532	10,851
Profit for the period	38,821	55,052	2,481	3,518
Total equity	351,332	356,908	22,454	22,810

\* - Adjustment results from a change in accounting for kegs.

Share capital amounts to EEK 80 million (EUR 5.113 million) and is made up of 8 million registered shares with a par value of EEK 10 (EUR 0.64) each. The statutory minimum and maximum share capital amount to EEK 80 million (EUR 5.113 million) and EEK 320 million (EUR 20.45 million) respectively.

## **Notes to the annual financial statements**

### **Note 1. Significant accounting policies**

These annual financial statements for 2002 have been prepared in accordance with accounting principles generally accepted in the Republic of Estonia. The main requirements of generally accepted accounting principles are outlined in the Estonian Accounting Act and the guidelines and regulations issued by the Estonian Accounting Standards Board.

#### **Cash**

In the cash flow statement, "cash" denotes cash on hand, cash in the bank accounts and short-term deposits.

#### **Foreign currency**

Purchases of foreign currency are accounted for at the exchange rates quoted by the commercial bank at the date of the purchase. At the balance sheet date, the amounts are restated using the Bank of Estonia closing exchange rate. The amounts received in foreign currency, which are immediately converted into Estonian kroons, are reported at the exchange rate quoted by the commercial bank at the date of the receipt. Receivables and payables denominated in a foreign currency are recognised at the Bank of Estonia exchange rate of the date of the transaction and restated at the Bank of Estonia closing exchange rate. Amounts received in foreign currency, which are not immediately converted into Estonian kroons, are recognised at the Bank of Estonia exchange rate of the date of the receipt. Exchange gains and losses are reported as revenues and expenses respectively.

#### **Short-term financial investments**

Short-term financial investments are carried at the lower of cost and net realisable value. Increases and decreases in the values of investments are reported as financial income and financial expense respectively.

#### **Long-term financial investments**

Long-term financial investments comprise shares in a subsidiary, portfolio investments, and loans. Long-term financial investments are valued conservatively based on the net realisable value.

#### **Sales**

Sales revenue is recognised in the net amount and does not include taxes. It is recorded on an accrual basis as of the moment when a sales invoice is issued.

#### **Receivables**

Receivables are carried in recoverable amounts. Doubtful items and items that are more than 180 days overdue are expensed. Collection of previously expensed irrecoverable receivables is recognised as an adjustment to doubtful receivables.

#### **Long-term receivables**

Receivables from sale of assets under an instalment plan whose term exceeds one year are reported as non-current receivables.

#### **Inventories**

Inventories are counted and reported at the lower of cost and net realisable value. Work in progress and finished goods are carried at conversion cost including direct and indirect costs of production. The costs of materials, work in progress and finished goods are assigned using the FIFO formula.

### Tangible assets

Purchases are recognised as tangible assets if their estimated useful life extends beyond one year and acquisition cost exceeds EEK 10,000 (EUR 639). Tangible non-current assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method. The following depreciation rates are assigned:

Computers and software	33.3 %
Plant and equipment	12.5 – 20 %
Constructions	5 – 10 %
Buildings	3 – 5 %

### Intangible assets

Intangible assets comprise software, which is significant for the business, is intended for long-term use and has been adjusted to the company's needs.

### Operating and finance lease

Lease agreements which can be terminated without additional payments, and which do not transfer ownership of the asset to the lessee either during or at the end of the lease term are accounted for as operating leases. Operating lease payments are expensed on an accrual basis.

Leases that cannot be classified as operating leases are recognised as finance leases. A finance lease is recognised as an asset and a liability based on the lease term. Assets held under finance lease are reported at acquisition cost, less residual value and accumulated depreciation. Leased assets have to be returned. Therefore, they are assigned depreciable lives that equal their lease terms.

### Change in accounting policies

The useful life of kegs is 10 years. Therefore, from 1 January 2002 kegs are carried as non-current assets. Kegs were recognised as non-current assets based on their labelling as of 31 March 2002. The kegs were acquired before 2001. Therefore, their recognition as non-current assets increased depreciation expense and affected accumulated profits. Regrouping of items reduced inventories and deposits receivable and increased tangible assets (by the net book value of the kegs) and deposits payable.

Due to the change, the following adjustments were made:

#### ADJUSTMENT OF BALANCE SHEET ACCOUNTS

(In thousands)

	EEK 31.12.2001	EUR 31.12.2001
Trade receivables	-1,024	-65
Inventories	-4,003	-256
Tangible assets	3,484	223
<b>ASSETS</b>	<b>-1,543</b>	<b>-98</b>
Trade payables	587	38
Profit for the period	-557	-36
Accumulated profits	-1,573	-100
<b>LIABILITIES AND EQUITY</b>	<b>-1,543</b>	<b>-98</b>

### **Corporate income tax**

In accordance with the effective Estonian Income Tax Act, from 1 January 2000 income tax is not levied on profits earned but dividends distributed. The tax rate is 26/74 of the amount distributed as the net dividend. Therefore, there are no timing differences between the accounting and tax-purpose recognition of income and expenses that could result in deferred tax assets or liabilities.

Until 31 December 2002, when the dividend had been declared accumulated profits were reduced by the corporate income tax payable on dividends. In accordance with the Estonian Accounting Standards Board guideline, which became effective from 1 January 2003, the income tax payable on dividends in subsequent periods is recognised as the corporate income tax expense of the period where the dividend is declared. The maximum income tax liability that could arise at the distribution of dividends is disclosed in Note 17.

### **Note 2. Trade receivables**

(In thousands)	EEK		EUR	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Due from customers	29,607	29,164	1,892	1,864
Write-off of irrecoverable receivables	-586	-130	-37	-8
Collection of formerly expensed irrecoverable items	30	23	2	1
<b>Total</b>	<b>29,051</b>	<b>29,057</b>	<b>1,857</b>	<b>1,857</b>

The ratio of irrecoverable receivables expensed in 2002 to net sales was 0.08 percent. The largest expensed items were due from Baltic Food Eesti AS and Dagab Baltic Eesti AS.

### **Note 3. Other receivables and prepayments**

(In thousands)	EEK		EUR	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Receivable from subsidiary and parent companies		10		1
Other short-term receivables	1,050		67	
Accrued income		32		2
Prepaid VAT	394		25	
Other prepaid expenses	1,201	2,068	77	132
<b>Total</b>	<b>2,645</b>	<b>2,110</b>	<b>169</b>	<b>135</b>

#### **Note 4. Inventories**

(In thousands)	EEK		EUR	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Materials	31,710	27,159	2,027	1,736
Work in progress	7,392	8,064	472	515
Finished goods	5,625	5,917	360	378
Merchandise purchased for resale	42,716	34,683	2,730	2,217
Prepayments to suppliers	3,474	941	222	60
<b>Total</b>	<b>90,917</b>	<b>76,764</b>	<b>5,811</b>	<b>4,906</b>

Write-down and write-off of items whose realisable value had dropped below cost totalled EEK 3,682,000 (EUR 235,000). At the end of 2002 the inventory balance was 18 percent larger than at the end of 2001.

#### **Note 5. Long-term financial investments**

(In thousands)	Number of shares	Acquisition cost	Redemption	Acquisition cost	Interest (%)
	and bonds 31.12.2002	EEK (EUR) 31.12.2001	EEK (EUR) 2002	EEK (EUR) 31.12.2002	
Saku Keldri OÜ	1 share	100 (6)		100 (6)	100
AS Rocca al Mare Suurhall	22 registered B shares	3,300 (211)		3,300 (211)	0.04
AS Rocca al Mare Suurhall	126 registered bonds of one type	14,000 (895)	-1,400 (-89)	12,600 (806)	
<b>Total</b>		<b>17,400</b> <b>(1,112)</b>	<b>-1,400</b> <b>(-89)</b>	<b>16,000</b> <b>(1,023)</b>	

At 31 December 2002, the equity of the subsidiary Saku Keldri OÜ was equal to its share capital of EEK 100,000 (EUR 6,000). Saku Keldri OÜ will be liquidated in 2003 and its balance sheet volume is 0.03 percent of that of Saku Brewery Ltd, i.e. below the statutory consolidation requirement. Therefore, the accounts of Saku Keldri OÜ have not been consolidated with those of Saku Brewery Ltd.

Saku Brewery has 22 B shares in and 126 bonds issued by AS Rocca al Mare Suurhall. The par value of a share is EEK 100 (EUR 6) and the par value of a bond is EEK 100,000 (EUR 6,000). The shares were acquired with a premium of EEK 149,900 (EUR 9,580). The bonds were acquired and are carried at par value.

The shares grant the company the right to use and transfer one box in the hall, subject to agreed terms and conditions. The shares do not entitle the holder to a dividend.

The bonds were issued for a special purpose and are non-interest bearing. They are to be redeemed within ten years, beginning from one year of the implementation of the hall. They will be redeemed at par value, at the rate of one tenth of the aggregate per year. The decrease in the acquisition cost of the bonds, which will occur over time, is compensated for by a ten-year co-operation agreement on the use of the complex. According to the agreement, the recreational complex will bear the name Saku Suurhall and will grant Saku Brewery extensive sales and advertising rights. To hedge the credit risk of the bonds, all agreements relating to the investment include a



clause, which states that if ownership of the complex changes, the agreement will transfer to the new owner under the same terms and conditions.

**Note 6. Long-term receivables**

The balance of EEK 98,000 (EUR 6,000) is made up of receivables from two companies for sale of assets under an instalment plan.

**Note 7. Tangible and intangible assets**

**STRUCTURE OF TANGIBLE ASSETS**

(In thousands)

	EEK		EUR	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Net book value of tangible assets	242,937	229,246	15,527	14,652
Leased assets	2,838	4,997	181	319
Prepayments for tangible assets	283	6,265	18	400
Investments in progress	14,539	8,634	929	552
<b>Total</b>	<b>260,597</b>	<b>249,142</b>	<b>16,655</b>	<b>15,923</b>

Tangible assets include bar furniture, which has been let under the terms of operating lease to support HoReCa sales. The acquisition cost of the furniture amounts to EEK 2,945,000 (EUR 188,000), and net book value as of 31 December 2002 stood at EEK 2,388,000 (EUR 153,000). The period's operating lease income amounted to EEK 35,000 (EUR 2,000).

At 31 December 2002, kegs of EEK 2,188,000 (EUR 140,000) were deposited with customers.

Prepayments for tangible assets include a claim of EEK 196,000 (EUR 13,000) relating to the land owned by AS Saku Linnas. The claim is under consideration.

### Movements in non-current assets in 2002 (In EEK, thousands)

Asset group	31.12.2001		2002			31.12.2002		
	Acquisition cost	Depreciation	Recognised at acquisition cost	Acquisition cost of items sold, written down and written off	Depreciation of the period	Acquisition cost	Depreciation	Net book value
Tangible assets								
Buildings and constructions	117,857	23,864	841	1,361	4,764	117,337	27,476	89,861
Plant and equipment	211,017	121,630	45,378	5,322	21,884	251,073	138,307	112,766
Motor vehicles	9,177	4,830	876	678	1,558	9,375	5,949	3,426
IT equipment	3,171	2,035	1,360	846	975	3,685	2,105	1,580
Other equipment	61,178	27,276	6,731	1,580	11,652	66,329	37,348	28,981
Kegs	5,614	2,130	444		595	6,058	2,725	3,333
Land	2,997			7		2,990		2,990
<b>Total</b>	<b>411,011</b>	<b>181,765</b>	<b>55,630</b>	<b>9,794</b>	<b>41,428</b>	<b>456,847</b>	<b>213,910</b>	<b>242,937</b>
Intangible assets	877	130	745		345	1,622	475	1,147

### Movements in non-current assets in 2002 (In EUR, thousands)

Asset group	31.12.2001		2002			31.12.2002		
	Acquisition cost	Depreciation	Recognised at acquisition cost	Acquisition cost of items sold, written down and written off	Depreciation of the period	Acquisition cost	Depreciation	Net book value
Tangible assets								
Buildings and constructions	7,532	1,525	54	87	304	7,499	1,756	5,743
Plant and equipment	13,486	7,774	2,900	341	1,399	16,045	8,838	7,207
Motor vehicles	587	309	56	43	100	600	381	219
IT equipment	203	130	87	54	62	236	135	101
Other equipment	3,910	1,743	430	101	745	4,239	2,387	1,852
Kegs	359	136	28		38	387	174	213
Land	192					192		192
<b>Total</b>	<b>26,269</b>	<b>11,617</b>	<b>3,555</b>	<b>626</b>	<b>2,648</b>	<b>29,198</b>	<b>13,671</b>	<b>15,527</b>
Intangible assets	56	8	47		22	103	30	73

### **Note 8. Debt obligations**

Debt obligations of EEK 7,154,000 (EUR 457,000) comprise an overdraft of EEK 5,821,000 (EUR 372,000) and the short-term portion of the finance lease liability of EEK 1,333,000 (EUR 85,000).

The overdraft agreement is with Hansapank. The limit is EEK 15 million (EUR 0.96 million) and it is available until 17 May 2003. There is no security and the annual interest rate is 5.25 percent of the amount in use.

The period's operating lease payments for motor vehicles and production equipment totalled EEK 1,683,000 (EUR 108,000) and EEK 791,000 (EUR 51,000) respectively. The company has 27 operating lease agreements on motor vehicles and 2 on production equipment. Under effective agreements, operating lease payments for vehicles, which have to be made in 2003 amount to EEK 968,000 (EUR 62,000), and the ones that have to be made in subsequent periods total EEK 1,560,000 (EUR 100,000). The corresponding figures for production equipment are EEK 595,000 (EUR 38,000) and EEK 979,000 (EUR 63,000). Operating lease payments are recognised as expenses.

In addition, motor vehicles are used under 34 finance lease agreements. Finance lease liabilities and payments break down as follows:

#### **VEHICLES HELD UNDER FINANCE LEASE**

(In thousands)

	EEK		EUR	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Acquisition cost	5,886	7,829	376	500
Accumulated depreciation	3,048	2,832	195	181
Finance lease liability	3,044	5,125	195	328
Incl. payable within a year	1,333	1,713	85	110
Incl. payable within more than a year	1,711	3,412	110	218

Due to termination of agreements in 2002, the acquisition cost and accumulated depreciation of leased vehicles decreased by EEK 1,943,000 (EUR 124,000) and EEK 1,421,000 (EUR 91,000) respectively. Depreciation for the period amounted to EEK 1,637,000 (EUR 104,000). The period's finance lease payments totalled EEK 2,031,000 (EUR 130,000), including interest payments of EEK 517,000 (EUR 33,000). Contractual interest rates range from 7.0 - 10.5 percent.

### **Note 9. Tax liabilities**

(In thousands)

	EEK		EUR	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Alcohol excise duty	9,569	9,299	612	594
Value-added tax	2,301	2,634	147	168
Social tax	110	120	7	8
Income tax on fringe benefits, non-business and entertainment expenses	396	70	25	5
<b>Total</b>	<b>12,376</b>	<b>12,123</b>	<b>791</b>	<b>775</b>

### **Note 10. Provisions**

Provisions include the value of the grand prize (an apartment) of the sales campaign arranged for the promotion of Saku Originaal in September-November 2002 and relating taxes of EEK 676,000 (EUR 43,000) in aggregate. The prize was handed over in January 2003.

### **Note 11. Net sales**

#### **SALES OF PRODUCTS AND SERVICES**

(In thousands)

	EEK		EUR	
	2002	2001	2002	2001
Saku beers	368,962	359,986	23,581	23,007
Imported beers	10,763	4,806	688	307
Saku mineral water	1,864	1,998	119	128
Imported mineral water	20,040	20,812	1,281	1,330
Other Saku alcoholic beverages	13,828	9,937	884	635
Imported soft drinks	17,798	16,083	1,138	1,028
Other imported alcoholic beverages		237		15
Bottles, crates, pallets	328,227	323,258	20,978	20,660
By-products	1,040	1,072	66	69
Services	4,023	2,151	257	137
Other goods	1,900	5,597	121	358
<b>Total</b>	<b>768,445</b>	<b>745,937</b>	<b>49,113</b>	<b>47,674</b>

#### **SALES BY MARKETS**

(In thousands)

	EEK		EUR	
	2002	2001	2002	2001
Estonia	729,038	712,346	46,594	45,527
Exports (Lithuania, Latvia, Finland, the USA, and Japan)	39,407	33,591	2,519	2,147
<b>Total</b>	<b>768,445</b>	<b>745,937</b>	<b>49,113</b>	<b>47,674</b>

### **Note 12. Transactions with related parties**

Purchases from:

(In thousands)

	EEK		EUR	
	2002	2001	2002	2001
A/O Aldaris	15,666	15,458	1,001	988
AB Svyturys -Utenos Alus	7,006		448	
Baltic Beverages Holding AB	6,965	4,073	445	260
AB Svyturys		93		6
UAB Utenos Alus		59		4
Baltic Beverages Eesti AS	26		2	
<b>Total</b>	<b>29,663</b>	<b>19,683</b>	<b>1,896</b>	<b>1,258</b>

Sales to:		EEK		EUR	
(In thousands)		2002	2001	2002	2001
A/O Aldaris		1,435	2,062	92	132
AB Svyturys -Utenos Alus		25,863		1,653	
UAB Utenos Alus			1,359		87
UAB Jungtinis Alaus Centras			17,229		1,101
Baltic Beverages Eesti AS		104	102	6	6
<b>Total</b>		<b>27,402</b>	<b>20,752</b>	<b>1,751</b>	<b>1,326</b>

Receivable from related parties:

(In thousands)		EEK	EUR
		31.12.2002	31.12.2002
AB Svyturys -Utenos Alus		42	3
Baltic Beverages Eesti AS		12	1
<b>Total</b>		<b>54</b>	<b>4</b>

Payable to related parties:

(In thousands)		EEK	EUR
		31.12.2002	31.12.2002
A/O Aldaris		135	9
AB Svyturys -Utenos Alus		170	11
Baltic Beverages Holding AB		282	18
Baltic Beverages Eesti AS		23	1
<b>Total</b>		<b>610</b>	<b>39</b>

Related parties include companies of Baltic Beverages Holding AB (BBH) group. Transactions with related parties were effected at the group's transfer prices. Saku Brewery's sales comprise sales of finished goods and bottles and letting of premises. Purchases comprise purchase of goods, bottles, and management and consulting services.

### **Note 13. Other revenue**

(In thousands)	EEK		EUR	
	2002	2001	2002	2001
Gains on sale of non-current assets	1,517	229	97	15
Income from receivables	363	1	23	
Interest on arrears	6	12		1
Insurance indemnification	341	136	22	9
Foreign exchange gain	141	268	9	17
Other revenue	48		3	
<b>Total</b>	<b>2,416</b>	<b>646</b>	<b>154</b>	<b>42</b>

### **Note 14. Expenses**

(In thousands)	EEK		EUR	
	2002	2001	2002	2001
Materials	55,203	51,552	3,528	3,295
Ancillary materials	57,422	52,133	3,670	3,332
Bottles, crates and pallets	329,370	323,986	21,050	20,706
Imported beverages	25,966	21,795	1,660	1,393
Other	25,786	28,028	1,648	1,791
<b>Total materials, consumables and supplies</b>	<b>493,747</b>	<b>477,494</b>	<b>31,556</b>	<b>30,517</b>
Advertising	51,394	41,197	3,285	2,633
Transportation and vehicle expenses	36,207	34,748	2,314	2,221
Waste disposal	6,914	6,992	442	447
Renovation of buildings and equipment repair	7,604	6,795	486	434
Other services	17,649	10,908	1,128	698
Other expenses	12,956	15,266	828	976
<b>Total other operating expenses</b>	<b>132,724</b>	<b>115,906</b>	<b>8,483</b>	<b>7,409</b>
Wages and salaries	40,141	35,925	2,565	2,296
Social tax	13,550	12,172	866	778
Unemployment insurance premiums	181		12	
<b>Total personnel expenses</b>	<b>53,872</b>	<b>48,097</b>	<b>3,443</b>	<b>3,074</b>
Losses from non-current asset sales and write-off	5	42		3
Sponsoring, entertainment expenses and expenses not related to the core production	5,470	6,236	350	399
Interest on arrears	92	55	6	3
Foreign exchange loss	365	428	23	27
<b>Total other expenses</b>	<b>5,932</b>	<b>6,761</b>	<b>379</b>	<b>432</b>

### **Note 15. Financial income and expenses**

(In thousands)	EEK		EUR	
	2002	2001	2002	2001
Interest income	125	423	8	27
Foreign exchange gain		10		1
<b>Total financial income</b>	<b>125</b>	<b>433</b>	<b>8</b>	<b>28</b>
Interest expense	1,511	1,350	97	86
Foreign exchange loss	5	55		3
Expenses relating to shares in the subsidiary		25		2
<b>Total financial expenses</b>	<b>1,516</b>	<b>1,430</b>	<b>97</b>	<b>91</b>

### **Note 16. Earnings per share**

	EEK		EUR	
	2002	2001	2002	2001
Net profit (in thousands)	38,821	55,052	2,481	3,518
Number of shares	8,000,000	8,000,000	8,000,000	8,000,000
<b>Basic earnings per share</b>	<b>4.85</b>	<b>6.88</b>	<b>0.31</b>	<b>0.44</b>
<b>Diluted earnings per share</b>	<b>4.85</b>	<b>6.88</b>	<b>0.31</b>	<b>0.44</b>

### **Note 17. Contingent liabilities**

At 31 December 2002, undistributed profits amounted to EEK 219,262,000 (EUR 14,013,000). The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 53,083,000 (EUR 3,393,000). Thus, the maximum amount that could be distributed as the net dividend is EEK 166,179,000 (EUR 10,620,000). The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax reported in the income statement for 2003 cannot exceed the distributable profits of 31 December 2002.

The management board has proposed that EEK 40,000,000 (EUR 2,556,000) be distributed to the shareholders as dividends. The proposal has to be approved by the shareholders' general meeting. The distribution would result in an income tax liability of EEK 8,751,000 (EUR 559,000).

The alcohol excise duty liability to the Customs Board is secured with a bank guarantee as required by the law. The guarantee amounts to EEK 2,100,000 (EUR 134,000) and is valid from 1 January 2003 to 1 January 2004.

### **Note 18. Interests of management and supervisory board members**

At the balance sheet date, management and supervisory board members held the following number of Saku Brewery's shares:

**Supervisory board**

	Number of shares	Interest
Andres Erm	2,436	0.0304%
Vesa Eero Isohanni	-	-
Jaak Leimann	46	0.0006%
Lars Vegard Vonen	-	-
<b>Total</b>	<b>2,482</b>	<b>0.0310%</b>

**Management board**

	Number of shares	Interest
Cardo Remmel	-	-
Jüri Jänese	3,000	0.0375%
Karin Sepp	2,000	0.0250%
Ants Tulp	-	-
Marko Loos	-	-
<b>Total</b>	<b>5,000</b>	<b>0.0625%</b>

<b>Grand total</b>	<b>7,482</b>	<b>0.0935%</b>
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### **3. PROFIT ALLOCATION PROPOSAL**

The management board of Saku Brewery Ltd proposes that the company:

- declare a net dividend (the share of profit payable to shareholders) of EEK 40,000,000 (EUR 2,556,000), i.e. EEK 5 (EUR 0.32) per share. Thereat, according to the rules of Tallinn Stock Exchange, the shareholders who are entitled to the dividend will be identified based on the list of shareholders at the Estonian Central Depository for Securities at 8 a.m. on the 15th stock exchange day from the day of the general meeting.
- increase accumulated profits by the net profit for 2002 of EEK 38,821,000 (EUR 2,481,000); and
- distribute the dividend using EEK 22,761,000 (EUR 1,454,000) of the undistributed profits of 1994-1999 and EEK 17,239,000 (EUR 1,102,000) of the undistributed profits of 2000-2002.

**4. HOLDERS OF REGISTERED SHARES WHO HOLD OVER 5 PERCENT OF THE VOTES DETERMINED BY SHARES**

31.12.2002

	Number of shares	Interest
<b>Baltic Beverages Holding AB</b> Registration no. 556425-2327 PO BOX 20182 S-16102, Bromma Sweden	6,000,841	75.0105%
<b>Nordea Bank Finland Plc Clients Account Trading</b> Registration no. 513.752 Aleksis Kiven katu 9, 5th Floor FIN00020, Helsinki Finland	505,600	6.3200%
<b>Total</b>	<b>6,506,441</b>	<b>81.3305%</b>

**5. AUDITOR'S REPORT TO THE SHAREHOLDERS OF SAKU BREWERY Ltd**

We have audited the accompanying financial statements of Saku Brewery Ltd as of 31 December 2002. These financial statements, as set out on pages 8 to 24, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Estonian Guidelines on Auditing. Those guidelines 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Saku Brewery Ltd as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

Tallinn, 03 February 2003

AS KPMG Estonia

Andres Root  
*Authorised Public Accountant*

Andris Jegers  
*Authorised Public Accountant*

## **6. SIGNATURES**

This annual report (pp. 1- 28), which contains a review of operations, annual financial statements, a profit allocation proposal, a list of shareholders whose interest exceeds 5 percent and an auditor's report, is signed by the following members of the management and supervisory boards of Saku Brewery Ltd:

Cardo Remmel  
Chairman of Management Board

Andres Erm  
Chairman of Supervisory Board

Management Board Members:

Supervisory Board Members:

Jüri Jänese

Vesa Eero Isohanni

Marko Loos

Jaak Leimann

Karin Sepp

Lars Vegard Vonen

Ants Tulp