SAKU BREWERY LTD
ANNUAL REPORT 2003

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 2003**
End of financial year:	**31 December 2003**
Auditors:	**Andres Root, Andris Jegers** **KPMG Estonia**

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Commercial Register number 10030278
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The activities of Saku Brewery Ltd are managed by a four-member management board. The chairman of the management board is Cardo Remmel.

Attachments:
1. **Auditor's report**
2. **Profit allocation proposal**
3. **List of shareholders whose interest exceeds 5%**

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1. REVIEW OF OPERATIONS

Operating environment

In the past financial year our operating environment was mainly affected by two factors:

- continuing concentration in the retail market, and
- record-low interest rates.

The ongoing concentration of retail establishments in combination with the opening of new super- and hypermarkets, stiff competition in the retail sector and the growing importance of chains in the overall retail turnover has started to exert pressure on all links of the value chain, including producers. Today sustained competitiveness assumes a concurrent mix of a better service, a wider range, more flexible terms and more favourable prices. Thanks to such an environment, the growth of the consumer price index remained negligible – according to the Statistical Office in 2003 annual growth in the foodstuffs sector was 0.2%. The total producer price index, on the other hand, grew by 0.3% and the one for the food and beverages industry by 2.8%.

The historically low interest rates of the year had a favourable effect both on investment on private consumption. An increasing use of various loan and lease products, however, is reducing the consumers' resources for other expenditures. It is claimed that the growth in the loan and lease burden is already impeding the development of durables distributors and the entertainment sector. A steep increase in interest rates would certainly have a negative impact on other sectors and the economy on the whole.

In contrast to previous years, our legal business environment remained relatively stable. There were no major upheavals. In general, the amendments that entered into force were aimed at improving the technical aspects of law enforcement. Enactment of the Alcohol, Tobacco and Fuel Excise Duty Act aligned the domestic excise legislation with that of the EU and extended the excise warehouse system from alcohol to tobacco and fuel, bringing the taxation of the three product types on which excise duties are levied on a uniform basis. The Act also detailed origination of the tax liability and the procedures for the calculation and administration of excise duty, and specified terms for exemption and obtaining a refund. Minor amendments were made also to other tax laws such as the Value-added Tax Act, Income Tax Act, Social Tax Act and Heavy Goods Vehicle Tax Act.

Accumulation of the shares of Saku Brewery Ltd in the hands of a smaller number of shareholders continued. At the year-end we had 3,773 shareholders. The annual average closing price of our share was EEK 71.44 (€4,57). On 30 December 2003, our share closed at Tallinn Stock Exchange at the highest ever level of EEK 92.47 (€5,91).

Main accomplishments and highlights of 2003

- Retention of a leading position in the Estonian beer market (with a 42.5% market share) notwithstanding a loss of 3.7 percentage points largely on account of heightened competition in the cheap and strong beers segment.
- In response to the increasing popularity of PET containers, in October Presidendi Pilsner and Presidendi 8 were launched in plastic containers.
- Beginning of investment in the installation of a PET line at Saku.
- Successfully penetration of the kvass and clear lemonade markets.
- Launch of canned cider and long drink accompanied by an abrupt increase in their sales figures.

Market and consumption

<u>Beer</u>
According to the Estonian Breweries Association, in 2003 the volume of the Estonian beer market levelled off at 97 million litres[1]. Per-capita consumption amounted to 70.7 litres.

In the first half of the year, the market shrank due to cold weather 7% on the same period in 2002. At the end of nine months, however, thanks to a recovery triggered by better weather conditions in the second half of the summer the domestic beer market was only 3% smaller than a year ago. In the fourth quarter, growth continued on account of an increase in the distribution of cheaper beers and price campaigns. In terms of the whole year, market volume the same as in 2002.

Based on the information of the Estonian Breweries Association, in 2003 the Estonian beer market was divided as follows: the leader was Saku Brewery Ltd with 42.5% of the market, followed by Tartu Õlletehas (35.4%), Viru Õlu (10.2%), imported beers (8.3%), Pärnu Õlletehas (2.4%), Nigula Õlu (0.8%), Saaremaa Õlletehas (0.4%) and Sillamäe Õlletehas (0.1%).

Increasing demand for cheaper beers allowed both cheaper import and cheaper and stronger domestic beers to expand their market share. The rise of cheaper beers increased use of one-way, especially plastic containers on account of bottles mostly. In 2003, 64% of the beer supplied to the Estonian market was bottled, 15% canned, 14% in plastic containers and 7% was draught.

In 2003 we continued putting a lot of effort in product development. In response to the increasing popularity of plastic containers and the rise of extra strong beers, we launched in October Presidendi Pilsner and Presidendi 8 in plastic containers and in March Presidendi 10, which improved our position in the extra strong segment. In summer we brought out an innovative seasonal product Saku on Ice Tequila.

<u>Cider</u>
According to the Estonian Breweries Association, in 2003 the domestic cider market grew to 4.7 million litres (37%). Sales of our Kiss line improved by an outstanding 80% thanks to new canned products. The line attained 25% of the accumulated market volume, 5.6 percentage points up on 2002.

<u>Long drink</u>
The Estonian long drink market grew to 7 million litres. The share of our Gin Long Drink line improved by 10 percentage points to 13% of the market.

<u>Mineral water</u>
The Estonian mineral water market grew to 35 million litres (12%). We compete in the premium segment with the Saku Vichy Classique line and in the mainstream cheap segment with the Montavit line. In 2003 sales of Saku mineral waters grew 22.5%. Our market share is 12% and Saku Vichy Classique is among the five most recognised mineral waters in Estonia.

<u>Soft drinks</u>
In 2003 the Estonian soft drink market shrank to 47 million litres (4.1%). Sales of Saku Brewery's soft drinks, however, grew 6.4%, largely on account of the launch of Päikese kvass and Päikese clear lemonade in the second half of the year.

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[1] In 2003 the figure for 2002 was adjusted to 96.9 million litres.

Performance and results

Saku Brewery Ltd ended 2003 with revenues of EEK 464.1m, (€29.7m), an EEK 21.5m (€1.4m), i.e. 4.8% improvement on 2002. Sales results improved both in the domestic and export markets, especially in the segment of other alcoholic beverages (cider and long drink).

Since 2003 the net result of the sales and purchases of returnable containers is recognised as other revenue or other expense depending on whether the transactions result in a gain or a loss. As a result, comparable revenues for 2002 have been reduced to the extent of EEK 328.2m (€21m).

In quantitative terms, our beverage sales totalled 57m litres, 1% up on 2002, the domestic market contributing 49.8m and export markets 7.2m of the total. With annual sales of 41.2m litres and a 42.5% market share we remained the leader of the Estonian beer market. Other alcoholic beverages accounted for 2.1m litres of beverages sold in the domestic market, 140% growth on 2002.

Expenses remained more or less stable, decreasing by EEK 1.7m (€109,000), i.e. 0.4% compared to 2002. Spending on materials, consumables and supplies grew by EEK 20.7m (€1.3m), largely on account of an increase in the output of canned products (up 4.3m litres). Other operating expenses, on the other hand, decreased by EEK 20.6m (€1.3m). The largest savings were attained in advertising where improved efficiency allowed to cut costs without a reduction in marketing operations but we cut back also in other areas.

Operating profit for the period amounted to EEK 63.4m (€4.1m), EEK 23.2m (€1.5m), i.e. 57.6% up on 2002. Net profit equalled EEK 54.8m (€3.5m), reflecting a 59.1% improvement on the adjusted figure for 2002. Earnings per share amounted to EEK 6.85 (€0.44).

Our direct tax burden was EEK 205.7m (€13.1m), including alcohol excise duties of EEK 136.9m (€8.7m).

Personnel

At the year-end we employed 245 people under contracts with an unspecified term. The average number of employees was 247. The remuneration of the top management (chairman of management board, production director, sales director, distribution director, marketing director, purchasing manager and finance manager), excluding taxes, amounted to EEK 5.8m (€0.4m). The remuneration of the members of the supervisory board amounted to EEK 0.1m (€4,000). The total contingent severance liability from the severance compensation payable to top management, including taxes, amounts to EEK 3.8m (€0.2m).

Investment

In 2003 we invested EEK 33.5m (€2.1m) in property, plant and equipment and intangible assets. Investments in production and laboratory facilities totalled EEK 21.3m (€1.4m). The largest projects were installation of a PET line, which began in 2003 and will be completed in 2004. Sales-related investments totalled EEK 5.6m (€0.4m) and investments in information systems and data security amounted to EEK 1.0m (€65,000).

Future plans

Saku Brewery Ltd continues to focus on the domestic market and its development. Our main objective is to remain leader of the Estonian beer market. The know-how and experience of the oldest Estonian beer producer should provide excellent qualifications for this. The changing environment, on the other hand, provides ever new challenges, which entail both threats and opportunities. To hedge the risks we will diversify our revenue base by continuing aggressive expansion and penetration of new profitable beverage markets. We have already successfully established ourselves in the cider, long drink, mineral water and soft drinks markets and are determined to improve our results.

The main changes that are going to affect our legal and economic environment in the near future are the enactment of a deposit system for beverage containers and Estonia’s accession to the EU.

In line with the deposit system provided in the Packaging Act, in every stage of use a container is added a returnable container charge (a deposit). The charge is a specific amount fixed by the state, which the consumer recovers on the return of the container. As such, the system should facilitate return of containers by consumers.

Estonia’s accession to the EU will impose new restrictions and open up new opportunities. Materials costs will be affected by an increase in the prices of sugar and molasses and tax expenses by the application of the heavy goods vehicle tax and an increase in the fuel excise duty. On the other hand, accession will lift restrictions from the export and import of beer and other alcoholic beverages to and from EU member states.

Parallel to product development, we invest in our technologies. In 2004 we are going to complete the installation of a plastic container filling line and will continue upgrading our key technologies.

To sustain balanced development based on profitability and growth, we will enhance our internal competencies and improve cooperation and knowledge sharing with the Baltic and other companies of the BBH Group. The fact that BBH (Baltic Beverages Holding) is owned by Carlsberg Breweries A/S and Scottish & Newcastle plc should provide us with a significant strategic edge since both of the latter have extensive common market experience.

2. ANNUAL FINANCIAL STATEMENTS

Saku Brewery Ltd is a company registered in Estonia. Saku Brewery Ltd has been listed in Tallinn Stock Exchange since 12 August 1996. Seventy-five percent of its shares are held by Baltic Beverages Holding AB.

The annual financial statements of Saku Brewery Ltd have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board and the interpretations issued by the International Financial Reporting Interpretations Committee. This reporting framework has been adopted for the first time.

These annual financial statements were approved by the management board of Saku Brewery on 12 February 2004. In compliance with the Commercial Code, the annual report is reviewed by the supervisory board that prepares a written report on it. The report by the supervisory board is submitted to the general meeting of the shareholders. In its report the supervisory board has to indicate whether it has approved the annual report prepared by the management board. The final approval of the annual report is decided by the general meeting of the shareholders.

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 2003 as set out on pages 7 to 29 of this report, and confirms that to the best of its knowledge, information and belief:

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

12 February 2004

Cardo Remmel Chairman of Management Board	Edvin Penart Member of Management Board
Jüri Jänese Member of Management Board	Tarmo Lehtmets Member of Management Board

BALANCE SHEET

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002 Adjusted *	31.12.2003	31.12.2002 Adjusted *
ASSETS				
Cash and bank	22,023	3,296	1,408	211
Trade receivables (Note 2)	35,308	29,051	2,256	1,857
Other receivables and prepayments (Note 3)	3,882	2,645	248	169
Inventories (Note 4)	113,652	118,480	7,264	7,572
TOTAL CURRENT ASSETS	174,865	153,472	11,176	9,809
Non-current assets				
Long-term financial assets (Notes 5, 10)	14,060	16,000	899	1,023
Other long-term receivables (Note 6)	45	98	3	6
Property, plant and equipment (Note 7)	245,843	260,597	15,712	16,655
Intangible assets (Note 8)	719	1,147	46	73
TOTAL NON-CURRENT ASSETS	260,667	277,842	16,660	17,757
TOTAL ASSETS	435,532	431,314	27,836	27,566
LIABILITIES AND EQUITY				
Current liabilities				
Debt obligations (Notes 9,10)	907	7,154	58	457
Trade payables	12,226	19,962	782	1,277
Payables to group companies (Note 15)	4,600	282	294	18
Deposit liability (Notes 4, 7)	29,209	29,751	1,867	1,901
Tax liabilities (Note 11)	15,809	12,376	1,010	791
Payables to employees	4,288	4,607	274	294
Other accrued expenses	1,599	3,463	102	222
Provisions (Note 12)	373	676	24	43
TOTAL CURRENT LIABILITIES	69,011	78,271	4,411	5,003
Non-current liabilities				
Non-convertible debt (Notes 9,10)	419	1,711	27	109
TOTAL NON-CURRENT LIABILITIES	419	1,711	27	109
Equity (Note 13)				
Share capital	80,000	80,000	5,113	5,113
Mandatory capital reserve	8,000	8,000	511	511
Other reserves	44,070	44,070	2,817	2,817
Accumulated profits	179,262	184,838	11,457	11,813
Net profit for the period	54,770	34,424	3,500	2,200
TOTAL EQUITY	366,102	351,332	23,398	22,454
TOTAL LIABILITIES AND EQUITY	435,532	431,314	27,836	27,566

* Comparable data on 2002 has been adjusted because in 2003 the principles of IAS 12 were implemented for the recognition of dividend tax (for further information refer to Note 13).
In addition, adjustments have been made for changes in the recognition of returnable containers (for further information refer to Note 4).

INCOME STATEMENT

(In thousands)	EEK		EUR	
	2003	2002 Adjusted *	2003	2002 Adjusted *
Revenue				
Sales revenue (Note 14)	463,362	440,218	29,614	28,135
Other revenue (Note 16)	736	2,416	47	154
Total revenue	464,098	442,634	29,661	28,289
Expenses (Note 17)				
Changes in inventories of work in progress and finished goods	453	964	29	62
Materials, consumables and supplies used	185,104	164,377	11,830	10,505
Other operating expenses	112,158	132,724	7,168	8,483
Personnel expenses	52,091	53,872	3,329	3,443
Depreciation and amortisation expense	46,216	43,410	2,954	2,774
Other expenses	4,688	7,075	300	452
Total expenses	400,710	402,422	25,610	25,719
PROFIT FROM OPERATIONS	63,388	40,212	4,051	2,570
Financial income and expenses (Note 18)	-936	-1,391	-60	-89
PROFIT FOR THE PERIOD BEFORE TAX	62,452	38,821	3,991	2,481
Income tax expense	7,682	4,397	491	281
NET PROFIT FOR THE PERIOD	54,770	34,424	3,500	2,200
Basic earnings per share (Note 19)	6.85	4.30	0.44	0.28
Diluted earnings per share (Note 19)	6.85	4.30	0.44	0.28

* Comparable data on 2002 has been adjusted because in 2003 the principles of IAS 12 were implemented for the recognition of dividend tax (for further information refer to Note 13).
In addition, adjustments have been made for changes in the recognition of returnable containers (for further information refer to Note 14).

CASH FLOW STATEMENT

(In thousands)	EEK		EUR	
	2003	2002 Adjusted *	2003	2002 Adjusted *
Operating activities				
Profit from operations	63,388	40,212	4,051	2,570
Adjustments for				
Depreciation and amortisation	46,216	43,410	2,954	2,774
Result of non-current asset sales and write-off	1,577	-1,560	101	-100
Transformation of a long-term receivable into a short-term one	53	88	3	6
Non-cash expenses (Note 21)	1,646	1,400	105	90
Change in inventories	4,828	-14,153	309	-905
Change in receivables	-7,494	-529	-479	-34
Change in current liabilities	-1,983	6,095	-127	390
Interest paid	-982	-1,511	-63	-97
Corporate income tax paid	-7,682	-4,397	-491	-281
Net cash from operating activities	99,567	69,055	6,363	4,413
Investing activities				
Acquisition of property, plant and equipment	-34,539	-56,297	-2,207	-3,598
Sale of property, plant and equipment	338	2,024	22	129
Liquidation of a subsidiary	99	3,907	6	250
Interest received	309	125	20	8
Net cash used in investing activities	-33,793	-50,241	-2,159	-3,211
Financing activities				
Dividends paid	-40,000	-40,000	-2,556	-2,556
Payment of finance lease principal (Note 9)	-1,158	-1,514	-74	-97
Bank overdraft	-5,821	5,821	-372	372
Net cash used in financing activities	-46,979	-35,693	-3,002	-2,281
Net increase or decrease in cash and cash equivalents	18,795	-16,879	1,202	-1,079
Effect of exchange rate fluctuations	-68	-5	-4	0
Net change in cash and cash equivalents	18,727	-16,884	1,198	-1,079
Cash and cash equivalents at beginning of period	3,296	20,180	211	1,290
Cash and cash equivalents at end of period	22,023	3,296	1,408	211
Net change in cash and cash equivalents	18,727	-16,884	1,197	-1,079

* Comparable data on 2002 has been adjusted because in 2003 the principles of IAS 12 were implemented for the recognition of dividend tax (for further information refer to Note 13).
In addition, adjustments have been made for changes in the recognition of returnable containers (for further information refer to Note 4).

STATEMENT OF CHANGES IN EQUITY

(In thousands of EEK)	Share capital	Mandatory capital reserve	Other reserves	Accumulated profits	Net profit for the period	Total equity
1 January 2002	80,000	8,000	44,070	224,838	0	356,908
Dividends paid *				-40,000		-40,000
Net profit for the period					34,424	34,424
31 December 2002	80,000	8,000	44,070	184,838	34,424	351,332
1 January 2003	80,000	8,000	44,070	219,262	0	351,332
Dividends paid				-40,000		-40,000
Net profit for the period					54,770	54,770
31 December 2003	**80,000**	**8,000**	**44,070**	**179,262**	**54,770**	**366,102**

(In thousands of euro)	Share capital	Mandatory capital reserve	Other reserves	Accumulated profits	Net profit for the period	Total equity
1 January 2002	5,113	511	2,817	14,369	0	22,810
Dividends paid *				-2,556		-2,556
Net profit for the period					2,200	2,200
31 December 2002	5,113	511	2,817	11,813	2,200	22,454
1 January 2003	5,113	511	2,817	14,013	0	22,454
Dividends paid				-2,556		-2,556
Net profit for the period					3,500	3,500
31 December 2003	**5,113**	**511**	**2,817**	**11,457**	**3,500**	**23,398**

* Comparable data on 2002 has been adjusted because in 2003 the principles of IAS 12 were implemented for the recognition of dividend tax (for further information refer to Note 13).

Notes to the annual financial statements

Note 1. Accounting policies

The annual financial statements of Saku Brewery Ltd for 2003 have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board, and the interpretations issued by the International Financial Reporting Interpretations Committee. International Financial Reporting Standards have been applied for the first time, based on the interpretations of SIC 8.

Bases of preparation
In compliance with Tallinn Stock Exchange rules, the financial statements are presented in Estonian kroons (EEK) and in euro (€), rounded to the nearest thousand. The measurement currency of Saku Brewery Ltd is the Estonian kroon. The Estonian kroon is pegged to the euro at the rate of EEK 15.64664 to € 1. The financial statements are prepared on the historical cost basis.

Cash
In the cash flow statement cash and cash equivalents comprise cash on hand and balances on bank accounts and short-term bank deposits.

Foreign currency
Transactions in foreign currencies are translated to Estonian kroons at the foreign exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Estonian kroons at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Estonian kroons at the foreign exchange rates ruling at the dates the values were determined.

Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses. The recoverability of amounts due from each customer is determined on an individual basis considering the information available on the debtor's creditworthiness. Doubtful receivables are recognised as an expense and reported in the balance sheet in a negative amount. Receivables whose collection is impossible or financially inexpedient are considered irrecoverable and written off the balance sheet.

Inventories
Inventories are counted and stated in the balance sheet at the lower of cost and net realisable value. The cost of inventories comprises the purchase price and other costs incurred in bringing the inventories to their present condition and location. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

In the case of manufactured inventories and work in progress, cost comprises direct and indirect production costs. The cost of materials, work in progress and finished goods is assigned using the first-in first-out principle.

Change in accounting policy: in accordance with IAS 37, an enterprise has to recognise a provision when it has an obligation as a result of a past event. The containers that Saku Brewery Ltd sells with the products and later repurchases also create such an obligation. Returnable containers held by customers are recognised as inventories. The related repurchase obligation is reported as a deposit liability.

Financial assets
Under IAS 39
- loans granted and receivables originated by the enterprise;
- held-to-maturity investments (e.g. bonds); and
- other financial assets that do not have an active market and whose fair value cannot be measured reliably

have to be reported at amortised cost using the effective interest rate method. Purchases and sales of financial assets are recognised using settlement date accounting.

Property, plant and equipment
Tangible assets are recognised as property, plant and equipment if their estimated useful life extends beyond one year and cost exceeds EEK 10,000 (€ 639). Items of property, plant and equipment are stated at cost less accumulated depreciation. Land is not depreciated.

Depreciation is charged to the income statement on a straight-line basis. The following annual depreciation rates are assigned:

IT equipment	33.3 %
Plant and equipment	12.5 – 20 %
Constructions	5 – 10 %
Buildings	3 – 5 %
Land	0 %

If a component of property, plant and equipment has been recognised as a separate asset, its replacement, general technical inspection and major overhaul costs are capitalised. Other subsequent expenditure relating to an item of property, plant and equipment is only recognised as an asset when the expenditure improves the condition of the asset beyond its originally assessed standard of performance. All other expenditure is recognised as an expense when incurred.

Intangible assets
Intangible assets comprise computer software that has long-term significance for the company's business and has been adjusted to the company's needs. Intangible assets are stated at cost less accumulated amortisation. Intangible assets are amortised using the straight-line method at the rate of 33.3% per year.

Subsequent expenditure on an intangible asset is only capitalised when the expenditure enables the asset to generate future economic benefits in excess of its originally assessed standard of performance. All other expenditure is recognised as an expense when incurred.

Leased assets
Leases that transfer substantially all the risks and rewards of ownership to the company are recognised as finance leases. Other leases are recognised as operating leases.

Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Leased assets are depreciated over the shorter of their estimated useful life and lease term.

Impairment of assets
At each balance sheet date the management assesses whether there is any indication that an asset (excl. inventories) may be impaired. If any such indication exists, the asset is tested for impairment and the recoverable amount measured. An impairment loss should be recognised when the recoverable amount of an asset or

the cash-generating unit to which the asset belongs is less than the carrying amount of the asset or the cash-generating unit. An impairment loss is recognised as an expense.

Recoverable amount is the higher of an asset's net selling price and its value in use. Estimating the value in use involves estimating the future cash inflows and outflows to be derived from the asset and applying the appropriate discount rate to these future cash flows. The discount rate should reflect the time value of money and the risks specific to the asset. If an asset does not generate independent cash flows, the recoverable amount of the cash-generating unit to which the asset belongs is determined. Short-term receivables are not discounted.

If a valuation indicates that the recoverable amount of an asset has increased beyond its carrying amount, the impairment loss recognised in prior years is reversed and the carrying amount of the asset is increased to its recoverable amount. The increased carrying amount should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior years.

Financial liabilities

Liabilities to credit institutions
Liabilities to credit institutions are reported at cost using settlement date accounting Thereafter they are measured at amortised cost using the effective interest rate method. The carrying amount of financial liabilities does not differ significantly from their fair value, i.e. the amount for which they could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. Borrowing costs are recognised as an expense on an accrual basis.

Trade and other payables
Trade and other payables are stated at cost. Items whose due dates fall within more than 12 months of the balance sheet date are recognised as long-term liabilities.

Corporate income tax
In accordance with the effective Estonian Income Tax Act, since 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 temporary differences between the accounting and tax-purpose recognition of income and expenses that could result in deferred tax assets or liabilities. The maximum income tax liability that could arise at the distribution of dividends is disclosed in Note 20.

<u>Change in accounting policy:</u> 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 IAS 12, the income tax payable on dividends is recognised as an income tax expense in the period in which the dividend is declared.

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

Provisions
A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Revenue
Sales revenue is stated at the net realisable value of goods sold and services rendered and it does not include taxes. Revenue from the sale of goods is recognised when all significant risks and rewards of ownership have transferred to the buyer. Revenue is not recognised when the company is not certain that the receivable will be collected or the expenses will be compensated or if the buyer has a contractual right to return the goods within a certain period and the company cannot estimate the probability of the return. Revenue is recognised on an accrual basis when an invoice has been issued to the buyer.

Change in accounting policy: the net effect of the sales and purchases of returnable containers (0.5-litre and 0.33-litre glass bottles, wooden pallets and plastic crates and trays) is recognised as other revenue or other expense depending on whether the transactions result in a profit or a loss.

Earnings per share
Basic earnings per share are calculated by dividing the net profit for the financial year by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the net profit for the financial year by the weighted average number of shares outstanding during the period.

Related parties
For the purposes of the annual financial statements of Saku Brewery Ltd, related parties include:
- Baltic Beverages Holding AB (BBH), who holds 75% of the shares issued by Saku Brewery Ltd;
- the owners and companies of BBH Group;
- members of the management and supervisor boards;
- persons close to the above; and
- companies controlled by members of the management and supervisory boards.

The shareholders of Baltic Beverages Holding AB are Carlsberg Breweries A/S (50%) and Scottish & Newcastle plc (50%).

Note 2. Trade receivables

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Due from customers	35,807	29,607	2,288	1,892
Write-off of irrecoverable receivables	-538	-586	-34	-37
Collection of previously expensed irrecoverable items	39	30	2	2
Total	**35,308**	**29,051**	**2,256**	**1,857**

The ratio of irrecoverable receivables written off in 2003 to sales revenue is 0.12%. Expenditures relating to write-off of receivables are recognised as other expenses.

Note 3. Other receivables and prepayments

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Receivables from group companies (Note 15)	271		17	
Miscellaneous short-term receivables	504	1,050	32	67
Prepaid VAT	669	394	43	25
Prepaid expenses	2,438	1,201	156	77
Total	**3,882**	**2,645**	**248**	**169**

Note 4. Inventories

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002 Adjusted	31.12.2003	31.12.2002 Adjusted
Materials	26,230	31,710	1,676	2,027
Work in progress	4,363	7,392	279	472
Finished goods	8,201	5,625	524	360
Merchandise purchased for resale	47,984	42,716	3,219	2,730
Prepayments to suppliers		3,474		222
Returnable containers held by customers	26,874	27,563	1,717	1,761
Total	**113,652**	**118,480**	**7,264**	**7,572**

In 2003 inventory write-off and write-down totalled EEK 6,598,000 (€422,000), breaking down as follows:

materials – EEK 1,522,000 (€97,000);
finished goods – EEK 498,000 (€32,000);
merchandise purchased for resale (containers) – EEK 4,578,000 (€293,000).

Write-off expenses are recognised as materials, consumables and supplies. At 31 December 2003 inventories stated at net realisable value totalled EEK 71,340,000 (€4,559,000). At the end of 2003 the inventory balance was 4% smaller than at the end of 2002.

Since 2003 inventories include returnable containers sold to customers. The related contingent repurchase obligation is reported as a deposit liability. The closing balances for 2002 have been adjusted accordingly. The value of the containers cannot be measured precisely because the repurchase system is open to many producers and distributors. As a result, the value of returnable containers is determined on the basis of its estimated turnover ratio.

Note 5. Long-term financial assets

On 21 October 2003, the auditor approved the closing balance sheet and asset distribution plan of Saku Brewery's Estonian subsidiary Saku Keldri OÜ. On the basis of the distribution plan, on 22 December 2003 a payment of EEK 99,000 (€6,000) was made to the sole shareholder Saku Brewery Ltd. The Commercial Register was submitted an application for the deletion of the subsidiary on 29 January 2004. In the annual financial statements the results of the subsidiary have not been consolidated with those of Saku Brewery Ltd.

Note 6. Other long-term receivables

Long-term receivables of EEK 45,000 (€3,000) comprise receivables from a company for sale of assets under an instalment plan.

Note 7. Property, plant and equipment

Movements in property, plant and equipment in 2003

(In thousands of EEK)	Land	Buildings and constructions	Plant and equipment	Motor vehicles	IT equipment	Other equipment and fixtures	Kegs	Let assets	Assets held under finance lease	Prepayments and investments in progress	Total
Cost											
Opening balance	2,990	117,337	251,073	9,375	3,685	63,384	6,058	2,945	5,886	14,822	477,555
Acquisitions		879	4,905		350	3,802		1,120		22,316	33,372
Reclassification	196	12,571	1,842							-14,609	0
Sale				-1,701	-45	-99					-1,845
Write-off, termination of lease		-2,529	-2,831	-115	-75	-4,870			-1,617	-213	-12,250
Closing balance	3,186	128,258	254,989	7,559	3,915	62,217	6,058	4,065	4,269	22,316	496,832
Depreciation											
Opening balance	0	27,476	138,307	5,949	2,105	36,791	2,725	557	3,048	0	216,958
Depreciation charge for 2003		5,318	23,247	1,527	901	11,794	606	1,071	1,187		45,651
Sale				-1,571	-45	-45					-1,661
Write-off, termination of lease		-943	-2,831	-115	-75	-4,870			-1,125		-9,959
Closing balance	0	31,851	158,723	5,790	2,886	43,670	3,331	1,628	3,110	0	250,989
Carrying amount											
Opening balance	2,990	89,861	112,766	3,426	1,580	26,593	3,333	2,388	2,838	14,822	260,597
Closing balance	**3,186**	**96,407**	**96,266**	**1,769**	**1,029**	**18,547**	**2,727**	**2,437**	**1,159**	**22,316**	**245,843**

(In thousands of €)	Land	Buildings and constructions	Plant and equipment	Motor vehicles	IT equipment	Other equipment and fixtures	Kegs	Let assets	Assets held under finance lease	Prepayments and investments in progress	Total
Cost											
Opening balance	191	7,499	16,047	599	236	4,051	387	188	376	947	30,521
Acquisitions		56	314		22	243		72		1,426	2,133
Reclassification	13	803	118							-934	0
Sale				-109	-3	-6					-118
Write-off, termination of lease		-162	-181	-7	-5	-311			-103	-13	-782
Closing balance	204	8,196	16,298	483	250	3,977	387	260	273	1,426	31,754
Depreciation											
Opening balance	0	1,756	8,839	380	135	2,351	174	36	195	0	13,866
Depreciation charge for 2003		340	1,486	99	58	753	38	68	76		2,918
Sale				-100	-3	-3					-106
Write-off, termination of lease		-60	-181	-7	-5	-311			-72		-636
Closing balance	0	2,036	10,144	372	185	2,790	212	104	199	0	16,042
Carrying amount											
Opening balance	191	5,743	7,208	219	101	1,700	213	152	181	947	16,655
Closing balance	**204**	**6,160**	**6,154**	**111**	**65**	**1,187**	**175**	**156**	**74**	**1,426**	**15,712**

Let assets comprise bar furniture, which has been leased under the terms of operating lease to support HoReCa sales. Operating lease income for 2003 amounted to EEK 46,000 (€3,000).

At 31 December 2002, kegs of EEK 2,335,000 (€149,000) were held by customers (the kegs belong to Saku Brewery Ltd). The deposits received from customers as security for the kegs are recognised deposit liabilities.

Change in measurement basis: based on an assessment of the values and remaining useful lives of property, plant and equipment performed as of 31 December 2003, the management board decided to reduce the useful lives of 9 items belonging to the group of buildings and constructions and 6 items belonging to the group of plant and equipment. As a result, depreciation charges for 2003 increased by EEK 943,000 (€60,000). The effect of the restatement on the income statements of subsequent periods (through an increase in depreciation) is the following:

2004: EEK 943,000 (€60,000);
2005 – 2008: EEK 2,593,000 (€166,000);
2008 – 2015: EEK 2,018,000 (€129,000);

In 2003 we wrote off property, plant and equipment of EEK 1,586,000 (€101,000). The expenditure related to the write-off has been recognised as other expense.

Note 8. Intangible assets

(In thousands)

	EEK	EUR
	31.12.2003	31.12.2003
Cost		
Opening balance	1,622	103
Acquisition	137	9
Closing balance	1,759	112
Amortisation		
Opening balance	475	30
Amortisation charge for 2003	565	36
Closing balance	1,040	66
Carrying amount		
Opening balance	1,147	73
Closing balance	**719**	**46**

Intangible assets consist of computer software that has long-term significance for the business and has been specially adjusted to our needs. Amortisation expense is recognised in the income statement together with depreciation expense.

Note 9. Finance and operating lease

The company as a lessor

Operating lease

To support HoReCa sales, Saku Brewery Ltd has let bar furniture under the terms of operating lease. The cost of the furniture amounts to EEK 4,065,000 (€260,000) and carrying amounts as of 31 December 2003 totalled EEK 2,437,000 (€156,000). The period's operating lease income of EEK 46,000 (€3,000) has been recognised as sales revenue. The depreciation of leased assets of EEK 1,071,000 (€68,000) has been recognised together with the depreciation of other items of property, plant and equipment. The lease income of subsequent periods breaks down as follows:

receivable within up to 1 year – EEK 60,000 (€4,000);
receivable within 1 – 4 years – EEK 88,000 (€6,000).

The company as a lessee

Finance lease

Motor vehicles are used under 23 finance lease agreements. On 31 December 2003 the current portion of finance lease liabilities amounted to EEK 907,000 (€58,000) and was recognised as debt obligations and the non-current portion amounted to EEK 419,000 (€27,000) and was recognised as non-convertible debt.

The base currency of the agreements is euro (except for 2 agreements where the base currency is the Estonian kroon). Interest rates range from 7.0-10.4% and have been fixed for the whole term of the agreement. The agreements do not impose restrictions on the company's dividend or financing policies. At the end of the lease term the company can buy the leased assets at their carrying amounts. Assets held under finance lease have not been sublet.

FINANCE LEASE OF MOTOR VEHICLES

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Cost	4,269	5,886	273	376
Accumulated depreciation	3,110	3,048	199	195
Carrying amount	1,159	2,838	74	181
Principal paid during the period	1,158	1,514	74	97
Interest payments made during the period	296	517	19	33
Minimum amount of lease payments	1,326	3,044	85	195
falling due within 1 year	907	1,333	58	86
falling due within 1 - 4 years	419	1,711	27	109
… incl. principal	1,128	2,504	72	160
falling due within 1 year	757	1,012	48	65
falling due within 1 - 4 years	371	1,492	24	95
… incl. interest payments	198	540	13	35
falling due within 1 year	150	321	10	21
falling due within 1 - 4 years	48	219	3	14

In 2003 the cost and accumulated depreciation of leased motor vehicles decreased on account of the termination of agreements by EEK 1,617,000 (€103,000) and EEK 1,125,000 (€72,000) respectively. The depreciation charge for 2003 amounted to EEK 1,187,000 (€76,000) and has been recognised in the income statement as depreciation and amortisation expense.

Operating lease

During the financial year we made and recognised as an expense operating lease payments of EEK 2,165,000 (€138,000) in respect of motor vehicles and operating lease payments of EEK 817,000 (€52,000) in respect of production plant and equipment. We have 32 agreements on the lease of vehicles and 2 on the lease of plant and equipment.

OPERATING LEASE

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Lease payments made during the period	2,982	2,474	191	158
Incl. contingent lease payment for plant and equipment	561	499	36	32
Minimum amount of lease payments	4,180	4,102	267	262
Incl. payable within up to 1 year	2,096	1,563	134	100
payable within 1-5 years	2,084	2,539	133	162

The base currency of all agreements on the lease of motor vehicles is euro. The agreements do not impose restrictions on our dividend or financing policies. Leased vehicles have not been sublet.

The base currency of agreements on the lease of plant and equipment is also euro and the agreements do not impose restrictions on our dividend or financing policies. Leased assets have not been sublet. One agreement sets out a contingent payment whose amount depends on how intensively the asset is used.

Note 10. Financial instruments

(In thousands)

	Number of instruments 31.12.2003	Cost EEK (EUR) 31.12.2002	Redemption / change in value EEK (EUR) 2003	Cost EEK (EUR) 31.12.2003	Interest %
AS Rocca al Mare Suurhall	22 registered B shares	3,300 (211)	-240 (-15)	3,060 (196)	0.006
AS Rocca al Mare Suurhall	110 registered bonds of one type	12,600 (806)	-1,600 (-103)	11,000 (703)	
Total		**15,900 (1,017)**	**-1,840 (-118)**	**14,060 (899)**	

Saku Brewery Ltd has 22 B shares in and 110 bonds issued by AS Rocca al Mare Suurhall, a recreational complex. The shares and the bonds are part of a 10-year co-operation agreement (expiring in October 2011) according to which the complex bears the name Saku Suurhall and grants Saku Brewery Ltd a number of extensive sales and advertising rights.

The shares were acquired with a premium of EEK 149,900 (€9,580) per share and grant the company the right to use and transfer one box in the complex, subject to agreed terms and conditions. The shares do not entitle the holder to a dividend. They are linked to a cooperation agreement and do not have an active aftermarket. Therefore, since 2003 the shares are reported at amortised cost as required by IAS 39. The extent of the amortisation is EEK 240,000 (€15,000) per year and should reflect the decrease in the carrying amount of the benefits provided by the cooperation agreement that occurs over time. The expense arising from the adjustment is recognised as financial expense.

The par value of a bond issued by AS Rocca al Mare Suurhall is EEK 100,000 (€6,000). The bonds were issued for a special purpose and since December 2003 bear an interest of 5% of the outstanding balance per year. The bonds are to be redeemed over the term of the cooperation agreement. Saku Brewery Ltd intends to hold the bonds until redemption. Therefore, in line with IAS 39 the bonds are reported at amortised cost, i.e. in an amount discounted at a rate appropriate for the instrument. To reduce 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.

INCOME-EARNING FINANCIAL ASSETS AND INTEREST-BEARING FINANCIAL LIABILITIES

(In thousands of EEK)

	31.12.2003					31.12.2002				
	Effective interest rate	Maturity date falling within				Effective interest rate	Maturity date falling within			
		Up to 1 year	1 – 5 years	Over 5 years	Total		Up to 1 year	1 – 5 years	Over 5 years	Total
Financial assets										
AS Rocca al Mare Suurhall bonds	5.00%	1,400	5,600	4,000	11,000	0.0%	1,600	5,600	5,400	12,600
Financial liabilities										
Overdraft						5.25%	5,821			5,821
Finance lease of vehicles	8.2%	907	419		1,326	8.2%	1,333	1,711		3,044

(In thousands of €)

	31.12.2003					31.12.2002				
	Effective interest rate	Maturity date falling within				Effective interest rate	Maturity date falling within			
		Up to 1 year	1 – 5 years	Over 5 years	Total		Up to 1 year	1 – 5 years	Over 5 years	Total
Financial assets										
AS Rocca al Mare Suurhall bonds	5.0%	89	358	256	703	0.0%	103	358	345	806
Financial liabilities										
Overdraft						5.25%	372			372
Finance lease of vehicles	8.2%	58	27		85	8.2%	86	109		195

Exposure to credit risk, interest rate risk and foreign currency risk arises in the normal course of the company's business.

Credit risk

The company has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Credit evaluations are performed systematically and all customers are assigned credit limits and settlement terms.

Short-term financial investments are allowed in liquid local and foreign money market instruments that have an investment rating. Long-term financial investments are made when it is required for the development of the core activity, on the basis of conditions prevailing in the case.

At the balance sheet date, the most significant concentration of credit risk was related to the shares in and bonds issued by AS Rocca al Mare Suurhall. To reduce 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.

Interest rate risk
As a rule, activities are financed with equity instruments. Owing to the seasonal nature of the business, however, from time to time short-term external financial instruments such as bank overdrafts, short-term loans, etc are used. Interest rates may be fixed or floating. Since 2003 the Baltic companies of the BBH Group have actively cooperated in managing their short-term liquidity.

External financing (finance lease) has been used for the purchase of motor vehicles. As a rule, the base currency of the lease agreements is euro and interest rates are fixed for the whole lease term.

Since the share of external finance in the entire capital structure is minimal, related risks are minimal and have not been hedged.

Foreign currency risk
Nearly all purchase and sales transactions are conducted in Estonian kroons, euro or currencies pegged to the latter. Therefore the need for the implementation of hedging instruments is minimal.

Fair values
The fair values of financial instruments do not differ significantly from their carrying amounts.

Note 11. Tax liabilities

(In thousands)	EEK		EUR	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Alcohol excise duty	12,058	9,569	771	612
Value-added tax	3,327	2,301	212	147
Social tax	118	110	8	7
Income tax on fringe benefits, non-business and entertainment expenses	306	396	19	25
Total	**15,809**	**12,376**	**1,010**	**791**

Note 12. Provisions

(In thousands)	EEK	EUR
	2003	2003
1 January 2003	676	43
Provisions created during the period	1,889	121
Provisions used during the period	2,192	140
31 December 2003	**373**	**24**
Current portion	373	24

Provisions include the costs of prizes used in sales campaigns.

Note 13. Equity

Change in accounting policy: comparable data on 2002 has been adjusted because income tax payable on dividends has been recognised in accordance with IAS 12 for the first time. Until 31 December 2002, after a dividend had been declared, accumulated profits were reduced by the corporate income tax payable on the distribution. In line with IAS, dividend tax should be recognised as an expense in the income statement of the period in which the dividend is declared.

The share capital of Saku Brewery Ltd amounts to EEK 80m (€5.113m) and is made up of 8m registered shares with a par value of EEK 10 (€0.64) each. The shares have been fully paid for. In compliance with the Articles of Association, the minimum and maximum share capital amount to EEK 8m (€5.113m) and EEK 320m (€20.45m) respectively. The minimum number of shares is 8m and the maximum 32m. The number of shares issued did not change during the reporting period. The holders of shares are entitled to receive dividends and are entitled to one vote per share at meetings of the company.

Other reserves of EEK 44,070,000 (€2,817,000) comprise the foreign exchange gains arising from the translation of foreign currency bank accounts and receivables that was performed in 1992 using the Bank of Estonia exchange rates as of 1 January 1992. The use of the reserves has not been determined.

During the financial year no transaction or associated income or expense was charged directly to equity.

Note 14. Sales revenue

SALES OF PRODUCTS AND SERVICES

(In thousands)	EEK		EUR	
	2003	2002 Adjusted	2003	2002 Adjusted
Saku beers	368,675	368,962	23,563	23,581
Imported beers	18,611	10,763	1,189	688
Saku mineral water	1,648	1,864	105	119
Imported mineral water	21,612	20,040	1,381	1,281
Other Saku alcoholic beverages	31,395	13,828	2,007	884
Imported soft drinks	17,375	17,798	1,110	1,138
By-products	966	1,040	62	66
Services	1,117	4,023	71	257
Other goods	1,963	1,900	126	121
Total	**463,362**	**440,218**	**29,614**	**28,135**

SALES BY MARKETS

(In thousands)	EEK		EUR	
	2003	2002 Adjusted	2003	2002 Adjusted
Estonia	419,974	407,221	26,841	26,026
Exports (Lithuania, Latvia, Finland, the USA, and Japan)	43,388	32,997	2,773	2,109
Total	**463,362**	**440,218**	**29,614**	**28,135**

Comparable data on 2002 has been adjusted because of a change in the recognition of the turnover of returnable containers. Since 2003 the net result of the sales and purchases of returnable containers is recognised as other revenue or other expense, depending on whether the transactions result in a gain or a loss.

Note 15. Transactions with related parties

Purchases:

(In thousands)	EEK		EUR	
	2003	2002	2003	2002
A/O Aldaris	23,777	14,955	1,520	955
AB Svyturys-Utenos Alus	5,365	5,395	343	345
Baltic Beverages Holding AB	4,272	6,965	273	445
Baltic Beverages Eesti AS		26		2
Carlsberg Breweries AS	128		8	
Total	**33,542**	**27,341**	**2,144**	**1,747**

Sales:

(In thousands)	EEK		EUR	
	2003	2002	2003	2002
A/O Aldaris	2,948	1,399	188	90
AB Svyturys-Utenos Alus	17,390	22,597	1,112	1,444
OAO PBK Slavutich	15,697		1,003	
Carlsberg Sverige AB		15		1
Baltic Beverages Eesti AS	109	101	7	6
Total	**36,144**	**24,112**	**2,310**	**1,541**

Receivables:

(In thousands)	EEK	EUR
	31.12.2003	31.12.2003
A/O Aldaris	155	10
AB Svyturys-Utenos Alus	106	6
Baltic Beverages Eesti AS	10	1
Total	**271**	**17**

Payables:

(In thousands)	EEK	EUR
	31.12.2003	31.12.2003
A/O Aldaris	2,106	134
AB Svyturys-Utenos Alus	2,077	133
OAO PBK Slavutich	31	2
Baltic Beverages Holding AB	295	19
Hartwall Ltd	91	6
Total	**4,600**	**294**

Sales revenue comprises income from the sales of finished goods, rendering of filling services, and letting of premises. Purchases include purchases of merchandise, containers, and management and consulting services. Purchase and sales transactions with related parties have been performed at the Group's transfer prices.

Note 16. Other revenue

(In thousands)	EEK		EUR	
	2003	2002	2003	2002
Gain on sale of non-current assets	160	1,517	10	97
Income from receivables	16	363	1	23
Interest on arrears received	8	6	1	
Insurance indemnification received	225	341	14	22
Foreign exchange gain	259	141	17	9
Other	68	48	4	3
Total	**736**	**2 416**	**47**	**154**

Note 17. Expenses

(In thousands)	EEK		EUR	
	2003	2002 Adjusted	2003	2002 Adjusted
Materials	54,514	55,203	3,484	3,528
Ancillary materials	71,106	57,422	4,544	3,670
Imported beverages	27,816	25,966	1,778	1,659
Other	31,668	25,786	2,024	1,648
Total materials, consumables and supplies	**185,104**	**164,377**	**11,830**	**10,505**
Advertising	41,420	51,394	2,647	3,285
Transportation and vehicle expenses	34,522	36,207	2,206	2,314
Waste disposal	5,727	6,914	366	442
Renovation of buildings and equipment repair	3,750	7,604	240	486
Purchase of other services	15,205	17,649	972	1,128
Other expenses	11,534	12,956	737	828
Total other operating expenses	**112,158**	**132,724**	**7,168**	**8,483**
Wages and salaries	38,776	40,141	2,478	2,565
Social tax	13,142	13,550	840	866
Unemployment insurance premiums	173	181	11	12
Total personnel expenses	**52,091**	**53,872**	**3,329**	**3,443**
Losses from non-current asset sales and write-off	1,592	5	102	
Sponsoring, entertainment expenses and expenses not related to the core production	2,301	5,470	147	350
Interest on arrears paid	23	92	1	6
Purchase and sale of returnable containers	498	1,143	32	73
Foreign exchange loss	274	365	18	23
Total other expenses	**4,688**	**7,075**	**300**	**452**

Comparable data on 2002 has been adjusted because of a change in the recognition of the turnover of returnable containers. Since 2003 the net result of the sales and purchases of returnable containers is recognised as other revenue or other expense, depending on whether the transactions result in a gain or a loss.

Note 18. Financial income and expenses

(In thousands)	EEK		EUR	
	2003	2002	2003	2002
Interest income	355	125	23	8
Total financial income	**355**	**125**	**23**	**8**
Interest expense	982	1,511	63	97
Foreign exchange loss	68	5	4	
Change in the value of a financial investment	241		16	
Total financial expenses	**1,291**	**1,516**	**83**	**97**

Note 19. Earnings per share

	EEK		EUR	
	2003	2002 Adjusted	2003	2002 Adjusted
Net profit (in thousands)	54,770	34,424	3,500	2,200
Number of shares	8,000,000	8,000,000	8,000,000	8,000,000
Basic earnings per share	**6.85**	**4.30**	**0.44**	**0.28**
Diluted earnings per share	**6.85**	**4.30**	**0.44**	**0.28**

Saku Brewery Ltd does not have potential ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

Note 20. Contingent liabilities

At 31 December 2003, undistributed profits amounted to EEK 234,032,000 (€14,957,000). The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 60,848,000 (€3,889,000). Thus, the amount that could be distributed as the net dividend is EEK 173,184,000 (€11,068,000). 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 2004 cannot exceed the distributable profits of 31 December 2003.

The management board has proposed that EEK 40,000,000 (€2,556,000) be distributed to 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 14,054,000 (€898,000).

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 (€134,000) and is valid from 19 November 2003 to 14 February 2005.

Note 21. Non-cash transactions

A significant non-cash transaction was the setoff of the income receivable on AS Rocca al Mare Suurhall bonds belonging to Saku Brewery Ltd against Saku Brewery's liability to the complex. The liability is related to advertising services rendered under the cooperation agreement. In 2003 the amount of the setoff was EEK 1,646,000 (€105,000).

Note 22. 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
Tomas Kučinskas	-	-
Saulius Endriuska	-	-
Vitalijs Gavrilovs	-	-
Mauri Jouni Petteri Pelkonen	-	-
Jaak Leimann	46	0.0006 %
Total	46	0.0006 %

Management board

	Number of shares	Interest
Cardo Remmel	-	-
Jüri Jänese	3,000	0.0375%
Edvin Penart	-	-
Tarmo Lehtmets	-	-
Total	3,000	0.0375%

Grand total	**3,046**	**0.0381%**

3. SIGNATURES

The annual report of Saku Brewery Ltd for 2003 (pp. 1-30), comprising a review of operations and annual financial statements to which have been attached an auditor's report, a profit allocation proposal and a list of shareholders whose interest in the company exceeds 5%, is signed by the following management and supervisory board members:

Cardo Remmel Chairman of Management Board	Tomas Kučinskas Chairman of Supervisory Board
Management Board Members:	Supervisory Board Members:
Jüri Jänese	Saulius Endriuska
Edvin Penart	Vitalijs Gavrilovs
Tarmo Lehtmets	Mauri Jouni Petteri Pelkonen
	Jaak Leimann

Saku, 25 February 2004

AUDITOR'S REPORT

To the shareholders of Saku Brewery Ltd

We have audited the accompanying financial statements of Saku Brewery Ltd (the "Company") as of 31 December 2003. These financial statements, as set out on pages 7 to 29, 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 International Standards on Auditing. 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 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 Company as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Tallinn, 13 February 2004

Andres Root	Andris Jegers
Authorised Public Accountant	*Authorised Public Accountant*

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 (€2,556,000), i.e. EEK 5 (€0.32) per share. 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;
- distribute the dividend using the net profit for 2003; and
- increase accumulated profits by the net profit for 2003 of EEK 14,770,000 (€944,000).

SHAREHOLDERS WHO HOLD OVER 5% OF THE VOTES DETERMINED BY SHARES

At 31.12.2003

	Number of shares	Interest
Baltic Beverages Holding AB Registration no. 556425-2327 PO BOX 20182 S-16102, Bromma Sweden	6,000,841	75.0105%
Nordea Bank Finland Plc Clients Account Trading Registration no. 513.752 Aleksis Kiven katu 9, 5th Floor FIN00020, Helsinki Finland	460,957	5.7620%
Total	**6,461,798**	**80.7725 %**