SAKU ÕLLETEHASE AS

ANNUAL REPORT 2004

Principal activities	**production, wholesale, import and export of low-alcohol beverages, mineral water and soft drinks**
Beginning of financial year	**1 January 2004**
End of financial year	**31 December 2004**
Auditors	**Andres Root, Andris Jegers** **KPMG Estonia**
Commercial Register no	**10030278**
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The activities of Saku Õlletehase AS are managed by a three-member management board. The chairman of the management board is Jaak Uus.

Attached documents
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 2004 the main factor which affected our operating environment was Estonia's accession to the EU. On the one hand it gave rise to additional freedom and opportunities but on the other ushered in new restrictions and challenges.

For the Estonian alcohol industry, the most important change was significant alleviation in quantitative restrictions on the transport of alcoholic products to other EU member states. Above all, this concerned strong alcohol taken to Finland by tourists. The effect on low-alcohol beverages including beer proved less conspicuous than expected since stiff competition in the Finnish retail trade led Finnish retailers to a price war and reduced Finnish beer prices considerably.

The food industry was adversely impacted by an increase in the price of a main input: sugar. In beer production, the importance of sugar is relatively low therefore our product costs were not materially affected. Although the sugar content of soft drinks, ciders and long drinks is higher, their price increase was not significant for the end consumer. Partly, this resulted from tough competition among producers and retailers. In 2004 there were no major mergers among producers but in the retail trade consolidation and chaining continued.

On the whole, Estonian economy was affected by a rise in fuel prices and the decline of the US dollar against the euro. The upswing in fuel prices was somewhat mitigated by arduous competition among trucking companies, which in an environment of oversupply were forced to absorb some of the price increase. The fall of the US dollar affected predominantly sectors and companies whose main clients and suppliers are outside the euro-zone. The beverage industry is not one of them.

According to the Statistical Office, in 2004 the consumer price index for foodstuffs grew 3.7% and the one for alcohol and tobacco products 2.1%. The producer price index for manufactured goods rose 2.9%.

The main changes in our legal environment were also EU accession related.

Under the new Consumer Protection Act, which entered into force on 15 April 2004, traders who offer goods to consumers have to disclose both the selling price and unit price of the goods and, in the case of goods packaged in returnable containers, the amount of the deposit assigned to the container.

The purpose of the new Packaging Act which entered into force on 1 June 2004 is to reduce waste and create a packaging reuse system. Under amendments to the Act, which become effective from 1 May 2005, producers have to take back packaging sold and have to arrange collection of the packaging at least to the extent required by the law (in 2005 60% of plastic and glass packaging and 40% of metal packaging that has been established a deposit). In addition to imposing a packaging recovery obligation, a deposit system and packaging excise duty, the Act prompts producers to establish a special packaging recovery organization. Saku Õlletehase AS participates in the foundation of the organisation (OÜ Eesti Pandipakend) together with other major producers through relevant professional and trade organisations (Estonian Breweries Association, Estonian Soft Drink Producers Association, Beer and Soft Drinks Importers Association, and Estonian Traders Association).

Amendments to Alcohol, Tobacco and Fuel Excise Duty Act which became effective on 1 May 2004 brought the taxation of alcohol, tobacco and fuel products in compliance with relevant EC directives. Above all, the amendments affect producers who deliver goods subject to excise duty from other EU member states to Estonia and vice versa. Shipping and aviation companies were influenced by abrogation of duty-free trade in takeaway alcohol and tobacco. Exemptions for takeaway alcohol and tobacco products preserved on board aircraft and vessels travelling to non-EU countries only. On aircraft and vessels destined for EU member states exemptions remained for alcohol consumed in on-board bars and restaurants during the flight or journey. In addition, amendments which entered into force on 1 January 2005 raised excise duty rates for alcohol: during the period 2005-2007 alcohol excise duty is going to increase at the rate of 5% per year.

The Surplus Stock Charges Act that became effective on 1 May 2004 established a procedure for levying charges on surplus stocks. The surplus stock charge is a non-recurring public law monetary charge which a handler has to pay for surplus stocks of agricultural products and sugar held at 1 May 2004 which it did not remove from the market within the term prescribed by the law. Since Saku Õlletehase AS did not have any excessive stocks, the charge does not apply to us.

At the end of the financial year, Saku Õlletehase AS had 3,718 shareholders. The average annual transaction price for a share was EEK 118.06 (€7.55). The highest price was recorded on 19 April 2004 at EEK 122.04 (€7.80) and the lowest on 5 January 2004 at EEK 93.88 (€6.00).

Highlights of 2004

In the past financial year Saku Õlletehase AS:

- succeeded in retaining a leading position in the Estonian beer market (41.6%) despite rapid growth in the importance of cheaper beers and strong alcohol in the alcohol market in general;
- began canning Carlsberg in 0.5 litre containers and attained a leading position in the imported beers segment;
- increased exports to Finland four-fold. Since 1 May Saku Originaal is distributed in Finland by the largest Finnish brewery Sinebrychoff OY. The export containers of Saku Originaal were included in the Finnish packaging deposit system.
- achieved a two-fold increase in the sales of cider and long drink and increased related market share considerably.

Market and consumption

<u>Beer</u>

According to the Estonian Breweries Association, in 2004 the Estonian beer market grew 13.6%, largely thanks to cheaper beers, including products in PET packaging, and purchases by Finnish tourists. Saku Brewery's domestic beer sales grew 11.6%.

Based on the information of Estonian Breweries Association, in the past financial year Saku Õlletehase AS retained its leading position with 41.6% of the market (2003: 42.4%). By the year-end, the share of products in glass bottles had declined to 51.7% (2003: 76.6%) whereas the one of PET packaged products had grown to 34.1% (2003: 12.4%). Increased purchases by Finnish tourists increased the share of canned beer to 14.2% (2003: 10.9%) of the total.

In the canned segment, our market share was one half notwithstanding Finnish producers' robust penetration to the Estonian market following Estonia's accession to the EU. We entered the PET packaged beer market in October 2003 and according to AC Nielsen in 2004 increased our share in the segment four-fold (2004: 33.8%; 2003: 8.1%). The main growth driver was Presidendi line in 2-litre containers.

In the premium segment our market share increased from 49.8% to 52.5%. Growth resulted largely from successful sales of Carlsberg whose canning was launched in Saku in February 2004. According to AC Nielsen, in the past financial year the share of Carlsberg in the premium segment of the Estonian retail beer market grew from 20% to 28%. According to AC Nielsen, growth in Saku Brewery's share of the premium segment was also facilitated by Saku Valge, which at the year-end accounted for 7% of the segment.

In the mainstream segment (which includes Saku Originaal, A Le Coq Premium and Rock), Saku Originaal was the only major brand which was able to maintain its market share. It also remained the most popular and best-sold beer brand in Estonia.

In the strong beers segment, we increased our share from 38% to 41%, largely thanks to successful sales of 2-litre Presidendi 8.

Cider and long drink

In the past two years Saku Õlletehase AS has increased its cider and long drink sales substantially, succeeding in diversifying its revenue base.

According to producers' associations, in 2004 the domestic cider market grew 36.8% to 6.4 million litres (2003: 4.7 million litres). The share of our Kiss line increased from 24.4% to 32.3%, mostly thanks to successful product and packaging development. In terms of litres, cider sales doubled thanks to market growth and effective competition. In September Kiss became market leader with a 36.6% share. The market share of our draught cider grew from 34% to 41%.

The Estonian gin long drink market grew from 7.0 million to 9.8 million litres (39.5%). According to producers' associations, the market share of Saku Gin Long Drink leaped from 13.1% in 2003 to 22.4% largely on account of successful product and packaging development. Sales more than doubled thanks to market growth and increase in market share.

Mineral water

According to our estimates, the mineral water market grew 7.8% to 37.4 million litres. The packaged water market grows at the expense of soft drinks thanks to consumers' increasing awareness of a healthy lifestyle and a decline in the use of tap water. In 2004 the market grew first and foremost thanks to cheaper lines (in 2004 the share of the so-called economy segment grew from 23.3% to 31.8%) and the popularity of flavoured waters (during the year the market share of flavoured waters grew from 34.8% to 37.1%).

On the basis of surveys by AC Nielsen, in 2004 Saku Brewery's share in the water market remained stable (2003: 11.9%; 2004: 11.7%).

Soft drinks

According to our estimates, in 2004 the soft drinks market grew 3.4%. Growth resulted mainly from an increase in the sales of cheaper local brands. The most notable growth occurred in local clear lemonades segment, which includes classical and local fruit flavoured brands. We succeeded in increasing our market share from 4.7% to 7.6%, largely thanks to strong sales of the Päikese line, which was launched in 2003. In 2004 the share of Päikese limps in the clear lemonades segment was 10.3% and the share of Päikese kali in the kvass segment was 11.9%.

Performance and operating results

Saku Õlletehase AS ended 2004 with revenues of EEK 531.6 million (€34.0), an EEK 67.5 million (€4.3 million) or 14.5% improvement on 2003. Sales results improved both in the domestic and export markets, especially in the beer and other alcoholic beverages (cider, long drink) segments.

In quantitative terms, beverage sales totalled 68.1 million litres, 20% up on 2003, domestic sales accounting for 58.0 million litres and exports for 10.1 million litres of the total. With sales of 46.0 million litres and a 41.6% market share Saku Õlletehase AS remained leader of the Estonian beer market. Other alcoholic beverages accounted for 4.3 million litres of beverages sold in the domestic market, approximately 106% up on 2003.

Expenses grew by EEK 66.8 million (€4.3 million) or 16.7% to EEK 467.5 million (€29.9 million). The largest growth occurred in the cost of materials, consumables and services, mostly because of an increase in output and sales. In the past financial year the share of products sold in one-way packaging (pet packaging, cans) roughly doubled. Therefore, related packaging costs rose substantially. Increasing operating capacities triggered growth in transport and personnel expenses.

Operating profit for the period amounted to EEK 64.1 million (€4.1 million), EEK 0.7 million (€0.04 million) or 1.1% up on 2003. Net profit amounted to EEK 50.0 million (€3.2 million), EEK 4.7 million (€0.3 million) or 8.6% down from 2003. Net profit formation was materially affected by dividend tax, which due to the depletion of the reserve acquired in the tax reform proved approximately twice as large as in 2003. Earnings per share amounted to EEK 6.25 (€0.40).

Our direct tax burden was EEK 279.7 million (€17.9 million), including alcohol excise duties of EEK 174.3 million (€11.1 million).

Personnel

At the end of 2004 Saku Brewery employed 252 people under contracts with an unspecified term. The annual average number of employees was 246. The remuneration of the supervisory board and top management (chairman of management board, production director, sales director, distribution director, marketing director, purchasing manager and finance manager) excluding taxes amounted to EEK 5.5 million (€0.3 million). The total contingent severance liability to members of the top management, including taxes, amounts to EEK 1.44 million (€0.1 million).

Investment

In 2004 we invested EEK 38.9 million (€2.5 million) in property, plant and equipment and intangibles. Investments in production and lab facilities totalled EEK 28.4 million (€1.8 million), the largest projects including completion of the PET line and technological upgrade of the brew house. Sales-related investments totalled EEK 9.0

million (€0.6 million) and investments in computer hard- and software amounted to EEK 0.5 million (€34,000).

Outlook

Similarly to previous years, in 2005 our primary objective is to remain leader of the Estonian beer market and to continue aggressive expansion in other beverage segments. In addition, we intend to sustain sales growth and innovative product and packaging development.

As market leader, we are prepared to change the structure of the beer market and to improve the competitiveness of the mainstream and premium segments through innovative product development and packaging solutions. We will focus on the mainstream and premium segments but expect to achieve and maintain a strong position also in other segments. Furthermore, we intend to sustain aggressive growth in other markets, especially those of cider and long drink.

In the near future a major development will be the packaging deposit system which will apply to beverage containers as of 1 May 2005. Under the Packaging Act, in every stage of use, returnable beverage containers are added a returnable container charge (a deposit), which adds value to the containers. On successful implementation, the system will improve recovery of containers and consumers' environmental awareness. In the foundation of the packaging recovery organisation, which is required for the system, Saku Õlletehase AS cooperates with AS A. Le Coq Tartu Õlletehas and AS Coca-Cola HBC Eesti through relevant professional and industrial associations.

In 2005 we will continue investment in production technologies and sales support. We will complete investments in our water treatment plant, will upgrade a part of the filling plant and will complete deposit-system related adjustments to financial accounting software.

In an environment of sustained consolidation, we will continue enhancing our internal competencies and will further improve cooperation and knowledge sharing with the Baltic and other companies of the BBH group.

2. ANNUAL FINANCIAL STATEMENTS

This annual report has been prepared by Saku Õlletehase AS, a company registered in Estonia, and listed on 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 Õlletehase AS have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The management board of Saku Õlletehase AS approved this report on 17 February 2005. In compliance with the Commercial Code, the annual report has to be reviewed by the supervisory board who has to prepare a written report on it. The report of 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 report prepared by the management board. The final approval of the annual report is decided by the general meeting of 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 Õlletehase AS for 2004 set out on pages 8 to 30 of this report, and confirms that to the best of its knowledge, information and belief:

- the policies applied in the preparation of the annual financial statements comply with International Financial Reporting Standards;
- the annual financial statements give a true and fair view of the financial position of Saku Õlletehase AS and of 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 Õlletehase AS is a going concern.

17 February 2005

Jaak Uus
Chairman of Management Board

Tarmo Lehtmets
Member of Management Board

Marko Loos
Member of Management Board

BALANCE SHEET

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
ASSETS				
Cash and bank balances	36,461	22,023	2,330	1,408
Trade receivables (Note 2)	43,319	35,308	2,768	2,256
Other receivables and prepayments (Note 3)	6,766	5,282	432	337
Inventories (Note 4)	109,674	113,652	7,009	7,264
TOTAL CURRENT ASSETS	196,220	176,265	12,539	11,265
Non-current assets				
Long-term financial investments (Note 5)	11,029	12,705	707	813
Property, plant and equipment (Note 6)	239,295	245,843	15,293	15,712
Intangible assets (Note 7)	596	719	38	46
TOTAL NON-CURRENT ASSETS	250,920	259,267	16,038	16,571
TOTAL ASSETS	447,140	435,532	28,577	27,836
LIABILITIES AND EQUITY				
Current liabilities				
Debt obligations (Note 8)	140	907	9	58
Trade payables	16,266	12,226	1,039	782
Other payables (Note 13)	471	4,600	30	294
Tax liabilities (Note 9)	23,314	15,809	1,490	1,010
Payables to employees	3,095	4,288	198	274
Other accrued expenses	3,078	1,599	196	102
Provisions (Note 10)	24,636	29,582	1,575	1,891
TOTAL CURRENT LIABILITIES	71,000	69,011	4,537	4,411
Non-current liabilities				
Finance lease liabilities (Note 8)		419		27
TOTAL NON-CURRENT LIABILITIES		419		27
Equity (Note 11)				
Share capital	80,000	80,000	5,113	5,113
Compulsory capital reserve	8,000	8,000	511	511
Other reserves	44,070	44,070	2,817	2,817
Retained earnings	194,032	179,262	12,401	11,457
Profit for the period	50,038	54,770	3,198	3,500
TOTAL EQUITY	376,140	366,102	24,040	23,398
TOTAL LIABILITIES AND EQUITY	447,140	435,532	28,577	27,836

INCOME STATEMENT

(In thousands)

	EEK		€	
	2004	2003	2004	2003
Revenue				
Sales revenue (Note 12)	530,865	463,362	33,928	29,614
Other revenue (Note 14)	705	736	46	47
Total revenue	531,570	464,098	33,974	29,661
Expenses				
Change in work in progress and finished goods inventories	-6,105	453	-390	29
Materials, consumables and services (Note 15)	241,305	185,104	15,422	11,830
Other operating expenses (Note 15)	125,292	112,158	8,008	7,168
Personnel expenses (Note 15)	58,081	52,091	3,712	3,329
Depreciation and amortisation charges (Notes 6, 7)	45,025	46,216	2,878	2,954
Other expenses (Note 15)	3,915	4,688	250	300
Total expenses	467,513	400,710	29,880	25,610
OPERATING PROFIT	64,057	63,388	4,094	4,051
Financial income and expenses (Note 16)	35	-936	2	-60
PROFIT BEFORE TAX	64,092	62,452	4,096	3,991
Income tax expense (Note 18)	14,054	7,682	898	491
PROFIT FOR THE PERIOD	50,038	54,770	3,198	3,500
Basic earnings per share (Note 17)	6.25	6.85	0.40	0.44
Diluted earnings per share (Note 17)	6.25	6.85	0.40	0.44

CASH FLOW STATEMENT UNDER THE INDIRECT METHOD

(In thousands)	EEK		€	
	2004	2003	2004	2003
Cash flows from operating activities				
Operating profit	64,057	63,388	4,094	4,051
Adjustments for				
Depreciation and amortisation charges (Notes 6, 7)	45,025	46,216	2,878	2,954
Result of non-current asset sales and write-off	-391	1,577	-25	101
Transformation of a long-term receivable into a short-term one	36	53	2	3
Non-cash expenses (Note 20)	1,914	1,646	123	105
Change in inventories	3,978	4,828	255	309
Change in receivables	-9,495	-7,494	-607	-479
Change in current liabilities	2,756	-1983	175	-127
Interest paid	-531	-982	-34	-63
Corporate income tax paid (Note 18)	-14,054	-7,682	-898	-491
Net cash from operating activities	93,295	99,567	5,963	6,363
Cash flows from investing activities				
Acquisition of non-current assets (Notes 6, 7)	-38,901	-34,539	-2,487	-2,207
Sale of non-current assets	453	338	29	22
Cash from liquidation of subsidiary		99		6
Interest received	361	309	24	20
Net cash used in investing activities	-38,087	-33,793	-2,434	-2,159
Cash flows from financing activities				
Dividends paid (Note 11)	-40,000	-40,000	-2,557	-2,557
Payment of finance lease principal (Note 8)	-701	-1,158	-45	-74
Repayment of bank overdraft		-5,821		-372
Intra-group loans received (Note 13)	61,016	57,893	3,900	3,700
Intra-group loans repaid (Note 13)	-61,016	-57,893	-3,900	-3,700
Net cash used in financing activities	-40,701	-46,979	-2,602	-3,002
Increase in cash and cash equivalents	14,507	18,795	927	1,202
Effect of exchange rate fluctuations	-69	-68	-5	-5
Net increase in cash and cash equivalents	14,438	18,727	922	1,197
Cash and cash equivalents at beginning of period	22,023	3,296	1,408	211
Cash and cash equivalents at end of period	36,461	22,023	2,330	1,408
Net increase in cash and cash equivalents	14,438	18,727	922	1,197

STATEMENT OF CHANGES IN EQUITY

(In thousands of EEK)	Share capital	Compulsory capital reserve	Other reserves	Retained earnings	Profit for the period	Total equity
1 January 2003	80,000	8,000	44,070	219,262	0	351,332
Dividends paid				-40,000		-40,000
Profit for the period					54,770	54,770
31 December 2003	80,000	8,000	44,070	179,262	54,770	366,102
1 January 2004	80,000	8,000	44,070	234,032	0	366,102
Dividends paid				-40,000		-40,000
Profit for the period					50,038	50,038
31 December 2004	80,000	8,000	44,070	194,032	50,038	376,140

(In thousands of €)	Share capital	Compulsory capital reserve	Other reserves	Retained earnings	Profit for the period	Total equity
1 January 2003	5,113	511	2,817	14,013	0	22,454
Dividends paid				-2,556		-2,556
Profit for the period					3,500	3,500
31 December 2003	5,113	511	2,817	11,457	3,500	23,398
1 January 2004	5,113	511	2,817	14,957	0	23,398
Dividends paid				-2,556		-2,556
Profit for the period					3,198	3,198
31 December 2004	5,113	511	2,817	12,401	3,198	24,040

Notes to the annual financial statements

Note 1. Significant accounting policies

The annual financial statements of Saku Õlletehase AS for 2004 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). They have been consistently applied.

The financial statements were authorised for issue by the management board on 17 February 2005.

Bases of preparation
The measurement and presentation currency of Saku Õlletehase AS is the Estonian kroon (EEK). In compliance with Tallinn Stock Exchange rules, the financial statements are also presented in euro (€). Figures in the statements are presented in thousands of currency units, rounded to the nearest thousand. The Estonian kroon is pegged to the euro at the rate of EEK 15.64664 to € 1. Therefore, exchange differences do not arise. The financial statements are prepared on the historical cost basis.

Cash and cash equivalents
In the cash flow statement cash and cash equivalents comprise cash on hand and in 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. Monetary 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.

Trade and other receivables
Trade and other receivables are stated at 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 expensed. Items whose collection is impossible or financially inexpedient are considered irrecoverable and written off the balance sheet.

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises their purchase price and expenditures incurred in bringing the inventories to their existing location and condition. 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.

Returnable glass bottles, plastic crates and trays (containers) which are sold to customers together with products and which have to be repurchased are recognised as inventories. The quantities of returnable containers are determined on the basis of their estimated turnover ratio. The carrying amount of returnable containers is their repurchase price, which is equal to their selling price.

Long-term financial investments
Held-to-maturity financial instruments are reported at amortised cost using the effective interest rate method. Other financial instruments that do not have an active market and whose fair value cannot be measured reliably are reported at cost less impairment losses. Purchases and sales of financial assets are recognised using settlement date accounting.

Property, plant and equipment
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. If an asset consists of significant differentiable components that have different useful lives, the components are recognised as separate assets and assigned depreciation rates that correspond to their useful lives.

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	10 – 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 expensed when incurred.

Management reviews the useful lives of assets and asset groups periodically. When the utilisation intensity or term of an item changes, its economic life is adjusted. The effect of the change in accounting estimate on depreciation expense is recognised in the reporting and subsequent periods.

Intangible assets
Intangible assets comprise computer software that has long-term significance for the business and which has been adjusted to our 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 expensed when incurred.

Leases
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.

Property, 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. Leased assets are depreciated over the shorter of their estimated useful life and lease term. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

Assets leased subject to operating lease are carried in the balance sheet analogously to other assets. Operating lease payments are recognised as income on a straight-line basis over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Impairment
At each balance sheet date, management reviews the carrying amounts of assets to determine whether there is any indication of impairment. If any such indication exists, the asset's (excl. inventories) recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its net selling price and value in use. Value in use is identified by discounting estimated future cash flows to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

When a later test indicates that the recoverable amount of an asset has increased above its carrying amount, the former impairment loss is reversed and the asset's carrying amount is increased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 between knowledgeable, willing parties in an arm's length transaction.

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

Corporate income tax
In accordance with the effective Income Tax Act, until 31 December 2004 the tax rate for dividends was 26/74 of the amount distributed as the net dividend and from 1 January 2005 the rate is 24/76. Income tax payable on dividends is recognised as the income tax expense of the period in which the dividend is declared irrespective of the period for which or in which the dividend is distributed. The maximum income tax liability that could arise on the distribution of dividends is disclosed in Note 19.

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, it is probable (over 50%) that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably.

Due to the nature of its business, Saku Õlletehase AS has the obligation to repurchase returnable glass bottles, plastic crates, trays and kegs. Containers in the possession of customers are stated as assets and the related repurchase obligation is reported as a provision. The quantity of containers circulating in the market, which underlies the calculation of the provision, is found on the basis of the containers' estimated turnover ratio.

Revenue
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised when there are significant uncertainties regarding recovery of consideration due or compensation of expenses, or if the buyer has a contractual right to return the goods within a certain period and the seller cannot estimate the probability of the return.

Revenue from services rendered is recognised in the period in which the services were rendered. Interest income is recognised on the basis of the asset's effective interest rate. The net effect of the sales and purchases of returnable containers (glass bottles, trays and crates) is recognised as other revenue or other expense depending on whether the transactions resulted in a profit or loss.

Segment reporting
Saku Õlletehase AS is engaged in the beverage business. Manufacturing takes place in Estonia and most of the output is sold in Estonia. In view of the fact that assets of the company cannot be allocated to different segments on a reasonable basis and that products are exported to markets that are in different stages of development, behave differently, and are by themselves insignificant, the company has not been divided into different business or geographical segments.

Related parties
For the purposes of this annual report, related parties are:
- Baltic Beverages Holding AB (BBH) that owns 75% of the shares of Saku Õlletehase AS;
- owners of BBH group and BBH group companies;
- members of the management and supervisory boards;
- companies controlled by members of the management and supervisory boards or their close family members.

Subsequent events
The annual financial statements reflect all significant circumstances related to transactions of the reporting and prior periods that became evident between the balance sheet date (31 December 2004) and the date on which the financial statements were authorised for issue and affect the valuation of assets and liabilities.

Subsequent events that have not been considered in the valuation of assets and liabilities but which have a significant effect on the result of the next financial year have been disclosed in the notes to the annual financial statements.

Note 2. Trade receivables

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Due from customers	43,479	35,807	2,778	2,288
Write-off of irrecoverable receivables	-177	-538	-11	-34
Collection of previously expensed items	17	39	1	2
Total	**43,319**	**35,308**	**2,768**	**2,256**

The ratio of irrecoverable receivables written off in 2004 to sales revenue is 0.03%. Write-offs of receivables are recognised as other operating expenses.

Note 3. Other receivables and prepayments

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Receivables from group companies (Note 13)	2,108	271	135	17
Miscellaneous short-term receivables	1,658	504	106	32
Prepaid VAT	199	669	13	43
Prepaid expenses	1,401	2,438	89	156
Bonds issued by AS Rocca al Mare Suurhall	1,400	1,400	89	89
Total	**6,766**	**5,282**	**432**	**337**

Note 4. Inventories

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Materials	22,789	26,230	1,456	1,676
Work in progress	7,341	4,363	469	279
Finished goods	11,328	8,201	724	524
Merchandise purchased for resale	45,929	47,984	2,935	3,067
Prepayments to suppliers	169		11	
Returnable containers in the possession of customers	22,118	26,874	1,414	1,718
Total	**109,674**	**113,652**	**7,009**	**7,264**

In 2004 inventory write-offs and write-downs totalled EEK 4,041,000 (€258,000), breaking down as follows:

- materials – EEK 1,054,000 (€67,000);
- finished goods – EEK 1,334,000 (€85,000);
- merchandise purchased for resale (containers) – EEK 1,653,000 (€106,000).

At 31 December 2004 inventories stated at net realisable value totalled EEK 7,252,000 (€464,000). At the end of 2004, inventories were 3.5% down on a year ago.

Returnable containers in the possession of customers comprise the estimated cost of returnable glass bottles, plastic crates and trays that are in circulation and which Saku

Õlletehase AS has to repurchase due to the nature of its business. The related repurchase obligation is disclosed in Note 10.

Note 5. Financial instruments

LONG-TERM FINANCIAL INVESTMENTS

(In thousands)	Number of instruments 31.12.2004	Balance EEK (€) 31.12.2003	Redemption / Change in value EEK (€) 2004	Balance EEK (€) 31.12.2004	Interest %
AS Rocca al Mare Suurhall	22 registered B shares	3,060 (196)	-240 (-15)	2,820 (181)	0.006
AS Rocca al Mare Suurhall	96 registered bonds of one type	11,000 (703)	-1,400 -(89)	9,600 (614)	
Long-term receivables		45 (3)	-36 (-2)	9 (1)	
Total		**14,105 (902)**	**-1,676 (-106)**	**12,429 (796)**	
Current investments		1,400 (89)		1,400 (89)	
Non-current investments		12,705 (813)		11,029 (707)	

Saku Õlletehase AS has 22 B shares in and 96 bonds issued by AS Rocca al Mare Suurhall. The shares and the bonds are part of a 10-year co-operation agreement (expiring in October 2011) according to which the recreational complex bears the name Saku Suurhall and grants Saku Õlletehase AS 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 dispose of 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, they are amortised at the rate of EEK 240,000 per year (€15,000) to reflect the decrease in the carrying amount of the benefits provided by the cooperation agreement that occurs over time. Amortisation expenses are recognised as financial expenses.

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 fixed purpose and bear an interest of 5% of the outstanding balance per year. The bonds are to be redeemed over the term of the cooperation agreement. Interest income on bonds is recognised as financial income.

Long-term receivables of EEK 9,000 (€1,000) comprise receivables from a company for sale of assets under an instalment plan. The amount should be fully settled in 2006.

INCOME-EARNING FINANCIAL ASSETS

(In thousands of EEK)

	31.12.2004					31.12.2003				
	Effective interest rate	Maturing within: Up to one year	Between 1 and 5 years	Over 5 years	Total	Effective interest rate	Maturing within: Up to one year	Between 1 and 5 years	Over 5 years	Total
Financial assets										
AS Rocca al Mare Suurhall bonds	5.00	1,400	5,600	2,600	9,600	5.00	1,400	5,600	4,000	11,000

(In thousands of €)

	31.12.2004					31.12.2003				
	Effective interest rate	Maturing within: Up to one year	Between 1 and 5 years	Over 5 years	Total	Effective interest rate	Maturing within: Up to one year	Between 1 and 5 years	Over 5 years	Total
Financial assets										
AS Rocca al Mare Suurhall bonds	5.0	89	358	167	614	5.0	89	358	256	703

Financial risks

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

<u>Credit risk</u>

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, considering 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, all agreements relating to the investment include a clause, which states that if ownership of the recreational complex changes, agreements will transfer to the new owner under the same terms and conditions.

<u>Interest rate risk</u>

As a rule, the activities of Saku Õlletehase AS 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 lease agreements is the Estonian kroon or euro and interest rates are fixed for the whole lease term.

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

Foreign currency risk
Nearly all purchase and sales transactions are performed in Estonian kroons, euro or currencies pegged to the latter. Therefore the currency risk is not significant.

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

Note 6. Property, plant and equipment

Movements in property, plant and equipment in 2004

(In thousands of EEK)	Land	Buildings and constructions	Plant and equipment	Motor vehicles	IT equipment	Other equipment and fixtures	Kegs	Leased assets (Note 8)	Assets held under finance lease (Note 8)	Prepayments and investments in progress	Total
Cost											
Opening balance	3,186	128,258	254,989	7,559	3,915	62,217	6,058	4,065	4,269	22,316	496,832
Acquisitions		2,251	24,737	533	460	4,470		3,206		2,890	38,547
Reclassification		4,824	17,492							-22,316	0
Sale		-26		-1,935	-37	-7					-2,005
Write-off, termination of lease			-5,705		-12	-3,392			-3,043		-12,152
Closing balance	3,186	135,307	291,513	6,157	4,326	63,288	6,058	7,271	1,226	2,890	521,222
Depreciation											
Opening balance		31,851	158,723	5,790	2,886	43,670	3,331	1,628	3,110		250,989
Depreciation charge for 2004		5,793	23,373	1,082	841	10,493	605	1,706	655		44,548
Sale		-10		-1,935	-37	-1					-1,983
Write-off, termination of lease			-5,576		-12	-3,392			-2,647		-11,627
Closing balance		37,634	176,520	4,937	3,678	50,770	3,936	3,334	1,118		281,927
Carrying amount											
Opening balance	3,186	96,407	96,266	1,769	1,029	18,547	2,727	2,437	1,159	22,316	245,843
Closing balance	**3,186**	**97,673**	**114,993**	**1,220**	**648**	**12,518**	**2,122**	**3,937**	**108**	**2,890**	**239,295**

(In thousands of €)	Land	Buildings and constructions	Plant and equipment	Motor vehicles	IT equipment	Other equipment and fixtures	Kegs	Leased assets (Note 8)	Assets held under finance lease (Note 8)	Prepayments and investments in progress	Total
Cost											
Opening balance	204	8,196	16,298	483	250	3,977	387	260	273	1,426	31,754
Acquisitions		144	1,581	34	29	286		205		185	2,464
Reclassification		308	1,118							-1,426	0
Sale		-2		-124	-2	-1					-129
Write-off, termination of lease			-365		-1	-217			-194		-777
Closing balance	204	8,646	18,632	393	276	4,045	387	465	79	185	33,312
Depreciation											
Opening balance		2,036	10,144	372	185	2,790	212	104	199		16,042
Depreciation charge for 2004		370	1,494	69	53	671	39	109	42		2,847
Sale		-1		-124	-2						-127
Write-off, termination of lease			-356		-1	-217			-169		-743
Closing balance		2,405	11,282	317	235	3,244	251	213	72		18,019
Carrying amount											
Opening balance	204	6,160	6,154	111	65	1,187	175	156	74	1,426	15,712
Closing balance	**204**	**6,241**	**7,350**	**76**	**41**	**801**	**136**	**252**	**7**	**185**	**15,293**

Leased assets comprise bar furniture, which has been leased under the terms of operating lease to support HoReCa sales. At 31 December 2004, its carrying amount was EEK 3,937,000 (€252,000). Information on operating lease income can be found in Note 8. In addition to leased assets, we have placed at the disposal of customers assets that support sales. At the year-end the carrying amount of such assets was EEK 16,626,000 (€1,062,000). At 31 December 2004, the carrying amount of kegs in the possession of customers was EEK 1,029,000 (€66,000) (kegs are recognised as items of property, plant and equipment).

Based on an assessment of the values and remaining useful lives of property, plant and equipment performed as of 31 December 2004, the management board decided to reduce the useful lives of six items belonging to the group of plant and equipment. As a result, depreciation charges for 2004 increased by EEK 633,000 (€40,000).

In 2004 property, plant and equipment of EEK 129,000 (€8,000) (total carrying amount) was written off. Related expenditure was recognised as other expense.

Note 7. Intangible assets

Movements in intangible assets in 2004

(In thousands)

	EEK	€
	31.12.2004	31.12.2004
Cost		
Opening balance	1,759	112
Acquisition	354	23
Closing balance	2,113	135
Amortisation		
Opening balance	1,040	66
Amortisation charge for 2004	477	31
Closing balance	1,517	97
Carrying amount		
Opening balance	719	46
Closing balance	**596**	**38**

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

Note 8. Finance and operating lease

Saku Õlletehase AS as a lessor

Operating lease

To support HoReCa sales, Saku Õlletehase AS leases bar furniture under the terms of operating lease. Further information on this can be found in the "Leased assets" column of Note 6. The period's operating lease income on leased assets amounted to EEK 82,000 (€5,000) and was recognised as sales revenue. The lease income of subsequent periods breaks down as follows:

receivable within up to 1 year – EEK 83,000 (€5,000);
receivable between 1 and 4 years – EEK 194,000 (€12,000).

Saku Õlletehase AS as a lessee

Finance lease

Certain motor vehicles are held under finance lease. Information on their total cost, accumulated depreciation and carrying amount can be found in the "Assets held under finance lease" column of Note 6.

The base currency of the agreements is euro. Interest rates range from 7.0%-8.7% and have been fixed for the entire terms of the agreements. The agreements do not impose restrictions on our dividend or financing policies. At the end of the lease term we can buy the leased assets at their carrying amounts based on the lease agreements. Assets held under finance lease have not been sublet.

FINANCE LEASE OF MOTOR VEHICLES

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Principal paid during the period	701	1,158	45	74
Interest payments made during the period	121	296	8	19
Minimum amount of lease payments	140	1,326	9	85
falling due within 1 year	140	907	9	58
falling due between 1 and 4 years		419		27
… incl. principal	127	1,128	8	72
falling due within 1 year	127	757	8	48
falling due between 1 and 4 years		371		24

In 2004 the cost and accumulated depreciation of leased motor vehicles decreased on account of termination of agreements by EEK 3,043,000 (€194,000) and EEK 2,647,000 (€169,000) respectively. The depreciation charge for 2004 amounted to EEK 655,000 (€42,000) and was recognised as depreciation and amortisation expense.

Operating lease

During the financial year we made and expensed operating lease payments of EEK 2,816,000 (€180,000) in respect of motor vehicles and operating lease payments of EEK 654,000 (€42,000) in respect of production plant and equipment (there were 47 agreements on the lease of vehicles and 2 on the lease of production plant and equipment). Payments made for additional warehouse space totalled EEK 953,000 (€61,000).

OPERATING LEASE

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Lease payments made during the period	4,423	3,169	283	202
Incl. contingent lease payments for plant and equipment	468	499	30	32
Minimum amount of lease payments	4,524	4,732	289	302
Incl. payable within up to 1 year	2,380	2,193	152	140
payable between 1 and 5 years	2,144	2,539	137	162

The base currency of all agreements on the lease of motor vehicles is the Estonian kroon and the one for agreements on the lease of production plant and equipment is euro. 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 which depends on how intensively the asset is used

Note 9. Tax liabilities

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Alcohol excise duty	15,644	12,058	1,000	771
Value-added tax	7,493	3,327	479	212
Social tax	72	118	4	8
Income tax on fringe benefits, non-business and entertainment expenses	105	306	7	19
Total	**23,314**	**15,809**	**1,490**	**1,010**

Note 10. Provisions

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Obligation to repurchase returnable containers				
- glass bottles, plastic crates and trays	22,118	26,874	1,414	1,717
- kegs	2,518	2,335	161	150
Consumer campaign prizes		373		24
Total	**24,636**	**29,582**	**1,575**	**1,891**

The provision for the obligation to repurchase reusable containers has been calculated for covering expenses that could arise on the repurchase of returnable containers circulating in the market as at 31 December 2004. The provision for the obligation to repurchase glass bottles, plastic crates and trays and the corresponding inventory account are adjusted at each balance sheet date using the quantities found on the basis of their estimated turnover ratios and repurchase prices. The provision for the obligation to repurchase kegs is adjusted on the release and collection of each keg on the basis of its deposit charge.

The obligation to repurchase returnable containers is a short-term obligation because the estimated circulation period of a container does not exceed one year.

Note 11. Equity

The share capital of Saku Õlletehase AS 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 80m (€5.113m) and EEK 320m (€20.45m) respectively. The minimum number of shares is 8m and the maximum one 32m. The number of shares issued did not change during the reporting period. The holders of shares are entitled to receive dividends and have one vote per share at meetings of the company. On 2 April 2004 the general meeting of shareholders approved the proposal of the management board to declare for 2003 a net dividend of EEK 40m (€2.6m). The dividend was paid out on 10 May 2004.

Compulsory capital reserve of EEK 8m (€511) has been established in accordance with the requirements of the Commercial Code. The capital reserve is established with annual net profit transfers. Every year, companies have to transfer to capital reserve at least 1/20 of their net profit until the reserve amounts to 1/10 of share capital. Capital reserve may be used to cover losses and to increase share capital. It cannot be used to make distributions to shareholders.

Other reserves of EEK 44,070,000 (€2,817,000) originate from the translation of foreign currency bank accounts and receivables performed in 1992 using the Bank of Estonia exchange rates as of 1 January 1992. Management has not determined the use of other reserves.

Note 12. Sales revenue

SALES OF PRODUCTS AND SERVICES

(In thousands)	EEK		€	
	2004	2003	2004	2003
Beer	427,417	387,286	27,318	24,752
Other alcoholic beverages	54,504	31,395	3,483	2,007
Mineral water	23,007	23,260	1,470	1,487
Soft drinks	21,615	17,375	1,381	1,110
By-products	1,234	966	79	62
Services	1,270	1,117	81	71
Other goods	1,818	1,963	116	126
Total	**530,865**	**463,362**	**33,928**	**29,614**

SALES BY MARKETS

(In thousands)	EEK		€	
	2004	2003	2003	2003
Estonia	469,262	419,974	29,991	26,841
Lithuania, Latvia, Finland, Ukraine, Denmark	61,603	43,388	3,937	2,773
Total	**530,865**	**463,362**	**33,928**	**29,614**

Note 13. Related party transactions

Related party transactions include transactions with the group companies of the direct parent Baltic Beverage Holding AB (BBH) and those of the owners of the latter, Carlsberg A/S and Scottish & Newcastle plc. 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.

Purchases by Saku Õlletehase AS

(In thousands)	EEK		€	
	2004	2003	2004	2003
A/O Aldaris	18,918	23,777	1,209	1,520
AB Svyturys-Utenos Alus	16,055	5,365	1,026	343
Baltic Beverages Holding AB	3,494	4,272	223	273
UAB BBH Baltic	2,816		180	
Hartwall AB OY	3,114		199	
Baltic Beverages Holding OÜ	18		1	
Ringnes a.s.	311		20	
Sinebrychoff OY	317		20	
OAO PBK Slavutich	6			
OAO PBK Baltika	527		34	
Carlsberg Breweries AS	1,174	128	75	8
Total	**46,750**	**33,542**	**2,987**	**2,144**

Sales by Saku Õlletehase AS

(In thousands)	EEK		€	
	2004	2003	2004	2003
A/O Aldaris	15,347	2,948	981	188
AB Svyturys-Utenos Alus	24,439	17,390	1,562	1,112
OAO PBK Slavutich		15,697		1,003
Sinebrychoff OY	11,857		758	
Carlsberg Breweries A/S	636		41	
Baltic Beverages Holding OÜ	77	109	5	7
Total	**52,356**	**36,144**	**3,347**	**2,310**

Receivables from related parties

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
A/O Aldaris	754	155	48	10
AB Svyturys-Utenos Alus	157	106	10	6
Sinebrychoff OY	667		43	
Carlsberg Breweries A/S	61		4	
Baltic Beverages Holding OÜ		10		1
UAB BBH Baltic	469		30	
Total	**2,108**	**271**	**135**	**17**

Liabilities to related parties

(In thousands)	EEK		€	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
A/O Aldaris	125	2,106	8	134
AB Svyturys-Utenos Alus	325	2,077	21	133
OAO PBK Slavutich		31		2
Hartwall AB OY		91		6
Carlsberg Breweries A/S	21		1	
Baltic Beverages Holding AB		295		19
Total	**471**	**4,600**	**30**	**294**

In the balance sheet, royalty liabilities to Carlsberg Breweries A/S which at 31 December 2004 amounted to EEK 522,000 (€33,000) have been recognised as accrued expenses.

In 2004 we took short-term loans from A/O Aldaris and AB Svyturys-Utenos Alus of EEK 53,193,000 (€3,400,000) and EEK 7,823,000 (€500,000) respectively and paid the creditors loan interest of EEK 397,000 (€25,000) and EEK 13,000 (€1,000) respectively. The loans were repaid in 2004.

Payments to management and supervisory board members
In 2004 payments to management and supervisory board members totalled EEK 5,462,000 (€349,000). The total contingent severance liability to members of the top management, including taxes, amounts to EEK 1.44 million (€0.1 million).

At 31 December 2004 only one supervisory board member Jaak Leimann had shares in the company (46 shares, i.e. 0.0006% of share capital). Other supervisory and management board members did not own shares of Saku Õlletehase AS.

Note 14. Other revenue

(In thousands)	EEK		€	
	2004	2003	2004	2003
Gain on sale of non-current assets	535	228	35	14
Income related to receivables	62	16	4	1
Interest on arrears received	46	8	3	1
Insurance indemnification received	42	225	3	14
Foreign exchange gain	20	259	1	17
Total	**705**	**736**	**46**	**47**

Note 15. Expenses

(In thousands)	EEK		€	
	2004	2003	2004	2003
Materials	72,871	54,514	4,657	3,484
Ancillary materials	99,843	71,106	6,381	4,544
Imported beverages	34,613	27,816	2,212	1,778
Other	33,978	31,668	2,172	2,024
Total materials, consumables and services used	**241,305**	**185,104**	**15,422**	**11,830**
Advertising expenses	44,451	41,420	2,841	2,647
Transportation and vehicle expenses	38,898,	34,522	2,486	2,206
Sewerage expenses	5,521	5,727	353	366
Renovation of buildings and equipment repair	4,616	3,750	295	240
Purchase of other services	23,699	15,205	1,515	972
Other expenses	8,107	11,534	518	737
Total other operating expenses	**125,292**	**112,158**	**8,008**	**7,168**
Wages and salaries	43,365	38,776	2,772	2,478
Social security charges	14,521	13,142	928	840
Unemployment insurance contributions	195	173	12	11
Total personnel expenses	**58,081**	**52,091**	**3,712**	**3,329**
Losses from non-current asset sales and write-off	144	1,592	9	102
Sponsoring, entertainment expenses and expenses not related to the core production	2,634	2,301	168	147
Interest on arrears paid	14	23	1	1
Purchase and sale of returnable containers	916	498	59	32
Foreign exchange loss	207	274	13	18
Total other expenses	**3,915**	**4,688**	**250**	**300**

Note 16. Financial income and expenses

(In thousands)	EEK		€	
	2004	2003	2004	2003
Interest income	875	355	56	23
Total financial income	**875**	**355**	**56**	**23**
Interest expense	531	982	34	63
Foreign exchange loss	69	68	5	4
Financial expenses related to securities	240	241	15	16
Total financial expenses	**840**	**1,291**	**54**	**83**
Financial income and expenses	**35**	**-936**	**2**	**-60**

Note 17. Earnings per share

	EEK		€	
	2004	2003	2004	2003
Net profit for the period(in thousands)	50,038	54,770	3,198	3,500
Number of shares	8,000,000	8,000,000	8,000,000	8,000,000
Basic earnings per share	**6.25**	**6.85**	**0.40**	**0.44**
Diluted earnings per share	**6.25**	**6.85**	**0.40**	**0.44**

Basic earnings per share are found by dividing net profit for the period by the period's average number of shares issued. Diluted earnings per share of Saku Õlletehase AS equal basic earnings per share.

Note 18. Income tax expense

(In thousands)	EEK		€	
	2004	2003	2004	2003
Dividends paid	40,000	40,000	2,556	2,556
Income tax rate applied	35.1%	19.2%	35.1%	19.2%
Income tax expense	**14,054**	**7,682**	**898**	**491**

In accordance with the effective Income Tax Act, in 2003 and 2004 the income tax rate for dividends was 26/74 (35.1%) of the amount distributed as the net dividend. Income tax payable on dividends may be reduced by the income tax paid on undistributed profits in 1994-1999. The option was used on the taxation of dividends paid in 2003. By 2004 the profits earned in 1994-1999 had been distributed and the dividends paid in 2004 were taxed at the maximum rate.

Note 19. Contingent liabilities

At 31 December 2004, the undistributed profits of Saku Õlletehase AS amounted to EEK 244,070,000 (€15,599,000). The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 58,577,000 (€3,744,000). Thus, the amount that could be distributed as the net dividend is EEK 185,493,000 (€11,855,000). 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 2005 cannot exceed distributable profits as of 31 December 2004.

The management board has proposed that EEK 56,000,000 (€3,579,043) 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 17,684,211 (€1,130,224).

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 2,600,000 (€166,000) and is valid from 15 November 2004 to 14 February 2006.

Note 20. Non-cash transactions

A significant non-cash transaction was the offsetting of the income receivable on AS Rocca al Mare Suurhall bonds belonging to Saku Õlletehase AS against Saku Brewery's liability to AS Rocca al Mare Suurhall. The liability is related to advertising services rendered under a cooperation agreement. In 2004 the amount that was offset was EEK 1,914,000 (€123,000).

Note 21. Subsequent events

Income tax rate
In accordance with the Income Tax Act, from 1 January 2005 the income tax rate is 24%. Consequently, dividend distributions are now taxed at the rate of 24/76 in place of the formerly applied 26/74 (see also Note 1. Significant Accounting policies).

Guarantee
Under an agreement made on 4 February 2005, Saku Õlletehase AS guarantees the funding of AS OÜ Eesti Pandipakend to the extent of EEK 20 million (€1.3 million). The funding of AS OÜ Eesti Pandipakend will be arranged in cooperation with AS Coca-Cola HBC Eesti and AS A. Le Coq Tartu Õlletehas to an extent required for launching OÜ Eesti Pandipakend in accordance with the latter's approved business plan and contracts that will be made, altogether in an amount of up to EEK 60 million.

OÜ Eesti Pandipakend is a packaging recovery organisation established by producers and traders on the basis of the Packing Act. Its objective is to arrange in Estonia collection and reuse of packaging that has been assigned a deposit. Under the Packaging Act, this encompasses PET, glass, and metal can packaging of water, soft drinks, beer and low-alcohol beverages.

3. SIGNATURES

The annual report of Saku Õlletehase AS for 2004 (pp. 1-30), comprising a review of operations and annual financial statements is signed by the following management and supervisory board members:

Jaak Uus
Chairman of Management Board

Tomas Kucinskas
Chairman of Supervisory Board

Management board members:

Tarmo Lehtmets

Marko Loos

Supervisory board members:

Saulius Endriuska

Claudia Lindby

Mauri Jouni Petteri Pelkonen

Jaak Leimann

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Estonia

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Auditor's report

To the shareholders of Saku Õlletehase AS

We have audited the accompanying balance sheet of Saku Õlletehase AS (the "Company") as of 31 December 2004 and the related income statement and statements of cash flows and changes in shareholders' equity for the year then ended, as set out on pages 8 to 30. These financial statements 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 as promulgated by the International Federation of Accountants. 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 a true and fair view, in all material respects, of the financial position of the Company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board

Tallinn, 17 February 2005

AS KPMG Estonia

Andres Root
Authorised Public Accountant

Andris Jegers
Authorised Public Accountant

218880 *

PROFIT ALLOCATION PROPOSAL

The management board of Saku Õlletehase AS proposes that the company:

- declare a net dividend (the share of profit payable to shareholders) of EEK 56,000,000 (€3,579,043), i.e. EEK 7 (€0.45) per share. According to the rules of Tallinn Stock Exchange, the shareholders who are entitled to the dividend will be identified on the basis of the list of shareholders at the Estonian Central Depository for Securities at 8 a.m. on the 15th stock exchange day from the date of the general meeting;
- increase retained earnings by net profit for 2004 of EEK 50,038,000 (€3,198,000); and
- distribute the dividend of EEK 56,000,000 (€3,579,043) from retained earnings.

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

At 31.12.2004

	Number of shares	Interest
Baltic Beverages Holding AB Registration no. 556425-2327 PO BOX 20182 S-16102, Bromma Sweden	6,000,841	75.0105%
Total	**6,000,841**	**75.0105 %**