

**SAKU BREWERY LTD  
INTERIM FINANCIAL STATEMENTS  
Q1, 2004**

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

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

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

**Status of statements: unaudited**

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**The activities of Saku Brewery Ltd are managed by a four-member management board. The CEO is Cardo Rimmel.**

**SAKU BREWERY LTD**  
**INTERIM FINANCIAL STATEMENTS**  
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## **Financial statements**

### **BALANCE SHEET**

(In thousands)

	EEK			€		
	31.3.2004	31.3.2003	31.12.2003	31.3.2004	31.3.2003	31.12.2003
<b>ASSETS</b>						
Cash and bank	13,689	2,938	22,023	875	188	1,408
Trade receivables (Note 2)	33,429	23,834	35,308	2,136	1,523	2,256
Other receivables and prepayments (Note 3)	3,737	5,485	3,882	239	351	248
Inventories (Note 4)	120,790	125,102	113,652	7,719	7,995	7,264
<b>TOTAL CURRENT ASSETS</b>	<b>171,645</b>	<b>157,359</b>	<b>174,865</b>	<b>10,969</b>	<b>10,057</b>	<b>11,176</b>
<b>Non-current assets</b>						
Long-term financial assets (Note 9)	13,760	16,000	14,060	880	1,023	899
Long-term receivables (Note 5)	36	76	45	2	5	3
Property, plant and equipment (Note 6)	246,831	251,064	245,843	15,776	16,046	15,712
Intangible assets (Note 7)	585	1,012	719	37	64	46
<b>TOTAL NON-CURRENT ASSETS</b>	<b>261,212</b>	<b>268,152</b>	<b>260,667</b>	<b>16,695</b>	<b>17,138</b>	<b>16,660</b>
<b>TOTAL ASSETS</b>	<b>432,857</b>	<b>425,511</b>	<b>435,532</b>	<b>27,664</b>	<b>27,195</b>	<b>27,836</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current liabilities</b>						
Debt obligations (Note 8)	712	1,231	907	46	79	58
Trade payables	17,699	15,530	12,226	1,131	992	782
Payables to group companies (Note 14)	980	8,806	4,600	63	562	294
Deposit liability (Notes 4, 6)	22,713	26,830	29,209	1,451	1,715	1,867
Tax liabilities (Note 10)	15,559	19,005	15,809	994	1,215	1,010
Payables to employees	2,460	3,170	4,288	157	202	274
Dividends payable		40,000			2,557	
Other accrued expenses	5,641	4,954	1,599	361	317	102
Provisions	149		373	10		24
<b>TOTAL CURRENT LIABILITIES</b>	<b>65,913</b>	<b>119,526</b>	<b>69,011</b>	<b>4,213</b>	<b>7,639</b>	<b>4,411</b>
<b>Non-current liabilities</b>						
Non-convertible debt (Note 8)	258	1,287	419	16	82	27
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>258</b>	<b>1,287</b>	<b>419</b>	<b>16</b>	<b>82</b>	<b>27</b>
<b>Equity (Note 12)</b>						
Share capital	80,000	80,000	80,000	5,113	5,113	5,113
Capital reserve	8,000	8,000	8,000	511	511	511
Other reserves	44,070	44,070	44,070	2,817	2,817	2,817
Accumulated profits	234,032	179,262	179,262	14,957	11,457	11,457
Net profit/loss for the period	584	-6,634	54,770	37	-424	3,500
<b>TOTAL EQUITY</b>	<b>366,686</b>	<b>304,698</b>	<b>366,102</b>	<b>23,435</b>	<b>19,474</b>	<b>23,398</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>432,857</b>	<b>425,511</b>	<b>435,532</b>	<b>27,664</b>	<b>27,195</b>	<b>27,836</b>

## INCOME STATEMENT

(In thousands)

	EEK			€		
	January- March 2004	January- March 2003	2003	January- March 2004	January- March 2003	2003
Revenue						
Sales revenue (Note 13)	84,358	76,864	463,362	5,391	4,913	29,614
Other revenue (Note 15)	82	191	736	5	12	47
Total revenue	84,440	77,055	464,098	5,396	4,925	29,661
Expenses (Note 16)						
Changes in work in progress and finished goods inventories	-6,820	-6,243	453	-436	-399	29
Materials, consumables and supplies used	41,014	33,694	185,104	2,621	2,154	11,830
Other operating expenses	24,946	23,883	112,158	1,594	1,526	7,168
Personnel expenses	13,162	12,489	52,091	841	798	3,329
Depreciation and amortisation expense	10,936	11,618	46,216	699	743	2,954
Other expenses	720	354	4,688	46	22	300
Total expenses	83,958	75,795	400,710	5,365	4,844	25,610
PROFIT FROM OPERATIONS	482	1,260	63,388	31	81	4,051
Financial income and expenses (Note 17)	102	-212	-936	6	-14	-60
PROFIT FOR THE PERIOD BEFORE TAX	584	1,048	62,452	37	67	3,991
Income tax expense		7,682	7,682		491	491
NET PROFIT/LOSS FOR THE PERIOD	584	-6,634	54,770	37	-424	3,500
Basic earnings per share (Note 18)	0.07	-0.83	6.85	0.00	-0.05	0.44
Diluted earnings per share (Note 18)	0.07	-0.83	6.85	0.00	-0.05	0.44

## CASH FLOW STATEMENT

(In thousands)

	EEK			€		
	January- March 2004	January- March 2003	2003	January- March 2004	January- March 2003	2003
Operating activities						
Profit from operations	482	1,260	63,388	31	81	4,051
Adjustments for						
Depreciation and amortisation	10,936	11,618	46,216	699	743	2,954
Result of non-current asset sales and write-off	108	-30	1,577	-1	-2	101
Transformation of a long-term receivable into a short-term one	9	22	53		1	3
Change in the value of financial assets	-60	-60		4	-4	
Non-cash income (Note 19)	-135			-9		
Non-cash expenses (Note 19)	435		1,646	28		105
Change in inventories	-7,138	-6,622	4,828	-455	-423	309
Change in receivables	2,024	2,377	-7,494	129	152	-479
Change in current liabilities	-2,903	-504	-1,983	-186	-31	-127
Interest paid	-45	-153	-982	-3	-10	-63
Corporate income tax paid			-7,682			-491
Net cash from operating activities	3,713	7,908	99,567	237	507	6,363
Investing activities						
Acquisition of property, plant and equipment	-11,890	-2,149	-34,539	-760	-137	-2,207
Sale of property, plant and equipment		5	338			22
Liquidation of a subsidiary			99			6
Interest received	72	6	309	5		20
Net cash used in investing activities	-11,818	-2,138	-33,793	-755	-137	-2,159
Financing activities						
Dividends paid			-40,000			-2,557
Payment of finance lease principal (Note 8)	-229	-302	-1,158	-15	-20	-73
Bank overdraft		-5,821	-5,821		-372	-372
Net cash used in financing activities	-229	-6,123	-46,979	-15	-392	-3,002
Net cash flows	-8,334	-353	-18,795	-533	-22	1,202
Effect of exchange rate fluctuations		-5	-68			-4
Net change in cash and cash equivalents	-8,334	-358	18,727	-533	-22	1,198
Cash and cash equivalents at beginning of period	22,023	3,296	3,296	1,408	210	210
Cash and cash equivalents at end of period	13,689	2,938	22,023	875	188	1,408
Net change in cash and cash equivalents	-8,334	-358	18,727	-533	-22	1,198

## STATEMENT OF CHANGES IN EQUITY

(In thousands of EEK)	Share capital	Mandatory capital reserve	Other reserves	Accumulated profits	Net profit/loss for the period	Total equity
1 January 2003	80,000	8,000	44,070	219,262	0	351,332
Dividends declared				-40,000		-40,000
Net profit/loss for the period					-6,634	-6,634
31 March 2003	80,000	8,000	44,070	179,262	-6,634	304,698
1 January 2004	80,000	8,000	44,070	234,032	0	366,102
Net profit for the period					584	584
<b>31 March 2004</b>	<b>80,000</b>	<b>8,000</b>	<b>44,070</b>	<b>234,032</b>	<b>584</b>	<b>366,686</b>

(In thousands of €)	Share capital	Mandatory capital reserve	Other reserves	Accumulated profits	Net profit/loss for the period	Total equity
1 January 2003	5,113	511	2,817	14,013	0	22,454
Dividends declared				-2,556		-2,556
Net profit/loss for the period					-424	-424
31 March 2003	5,113	511	2,817	11,457	-424	19,474
1 January 2004	5,113	511	2,817	14,957	0	23,398
Net profit for the period					37	37
<b>31 March 2004</b>	<b>5,113</b>	<b>511</b>	<b>2,817</b>	<b>14,957</b>	<b>37</b>	<b>23,435</b>

During the reporting period no transactions or related income or expenses were recognised directly in equity.

## Notes to the financial statements

### Note 1. Accounting policies

The interim financial statements for Q1 of 2004 have been prepared in accordance with the same accounting policies that were applied in the preparation of the annual financial statements for 2003. The company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and they comply with IAS 34.

## **Note 2. Trade receivables**

(In thousands)	EEK		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Due from customers	33,456	23,894	2,138	1,527
Allowance for doubtful receivables	-75	-75	-5	-5
Write-off of irrecoverable items	48	31	3	2
Collection of irrecoverable items recognised as expenses in prior periods		-16		-1
<b>Total</b>	<b>33,429</b>	<b>23,834</b>	<b>2,136</b>	<b>1,523</b>

The ratio of irrecoverable receivables written off in 2004 to sales revenue is 0.06%. Expenditure related to write-off of receivables is recognised as other expense.

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

(In thousands)	EEK		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Receivables from group companies (Note 14)	754	292	48	19
Miscellaneous short-term receivables	649	2,121	42	136
Prepaid VAT	1,085	838	69	53
Prepaid expenses	1,249	2,234	80	143
<b>Total</b>	<b>3,737</b>	<b>5,485</b>	<b>239</b>	<b>351</b>

## **Note 4. Inventories**

(In thousands)	EEK		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Materials	25,177	29,048	1,609	1,856
Work in progress	8,445	7,945	540	508
Finished goods	10,939	11,316	699	723
Merchandise purchased for resale	54,677	49,669	3,494	3,174
Prepayments to suppliers	797	2,183	51	140
Returnable containers held by customers	20,755	24,941	1,326	1,594
<b>Total</b>	<b>120,790</b>	<b>125,102</b>	<b>7,719</b>	<b>7,995</b>

In Q1 expenses from the write-off and write-down of inventories whose realisable value had decreased below cost amounted to EEK 770,000 (€49,000) Write-off expenses are recognised in the composition of materials, consumables and supplies. Compared to Q1 of 2003, inventories are 3.4% smaller.

Since 2003 inventories include returnable containers sold to customers. The related contingent repurchase obligation is reported as a deposit liability. 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 their estimated turnover ratio.

### **Note 5. Long-term receivables**

Long-term receivables of EEK 36,000 (€2,000) comprise receivables from a company for sale of assets under an instalment plan. Receivables related to the transaction break down between periods as follows:

receivable within up to 1 year – EEK 36,000 (€2,000).

### **Note 6. Property, plant and equipment**

#### **Movements in property, plant and equipment in Q1 of 2004**

(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
<b>Cost</b>											
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			86		97	1,158		775		9,774	11,890
Write-off, termination of lease									-555		-555
Closing balance	3,186	128,258	255,075	7,559	4,012	63,375	6,058	4,840	3,714	32,090	508,167
<b>Depreciation</b>											
Opening balance	0	31,851	158,723	5,790	2,886	43,670	3,331	1,628	3,110	0	250,989
Depreciation charge for 2004		1,412	5,465	273	192	2,731	151	350	228		10,802
Write-off, termination of lease									-455		-455
Closing balance	0	33,263	164,188	6,063	3,078	46,401	3,482	1,978	2,883	0	261,336
<b>Carrying amount</b>											
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	94,995	90,887	1,496	934	16,974	2,576	2,862	831	32,090	246,831



(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
<b>Cost</b>											
Opening balance	204	8,196	16,298	483	250	3,977	387	260	273	1,426	31,754
Acquisitions			5		6	74		50		625	760
Write-off, termination of lease			-						-35		-35
Closing balance	204	8,196	16,303	483	256	4,051	387	310	238	2,051	32,479
<b>Depreciation</b>											
Opening balance	0	2,036	10,144	372	185	2,790	212	104	199	0	16,042
Depreciation charge for 2004		90	349	17	12	175	10	22	15		690
Write-off, termination of lease									-29		-29
Closing balance	0	2,126	10,493	389	197	2,965	222	126	185	0	16,703
<b>Carrying amount</b>											
Opening balance	204	6,160	6,154	111	65	1,187	175	156	74	1,426	15,712
Closing balance	204	6,070	5,810	94	59	1,086	165	184	53	2,051	15,776

Let assets comprise bar furniture, which has been leased under the terms of operating lease to support HoReCa sales. Operating lease income for Q1 of 2004 amounted to EEK 17,000 (€1,000).

On 31 March 2004, kegs of EEK 1,958,000 (€125,000) were held by customers (the kegs belong to Saku Brewery Ltd). The deposits received from customers as security for the kegs have been recognised as deposit liabilities.

### **Note 7. Intangible assets**

(In thousands)

	EEK 31.3.2004	€ 31.3.2004
<b>Cost</b>		
Opening balance	1,759	112
Acquisition	0	0
Closing balance	1,759	112
<b>Amortisation</b>		
Opening balance	1,040	66
Amortisation charge for 2004	134	9
Closing balance	1,174	75
<b>Carrying amount</b>		
Opening balance	719	46
Closing balance	585	37

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

### **Note 8. 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 4,840,000 (€309,000) and carrying amounts as of 31 March 2004 totalled EEK 2,862,000 (€183,000). The period's operating lease income of EEK 17,000 (€1,000) has been recognised as sales revenue. The assets' depreciation for the period of EEK 350,000 (€22,000) 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 68,000 (€4,000);
- receivable within 1 – 4 years – EEK 109,000 (€7,000).

#### **The company as a lessee**

##### Finance lease

Motor vehicles are used under 19 finance lease agreements. On 31 March 2004 the current portion of finance lease liabilities amounted to EEK 712,000 (€46,000) and was recognised as a debt obligation and the non-current portion amounted to EEK 258,000 (€16,000) and was recognised as non-convertible debt.

The base currency of the agreements is euro. Interest rates range from 7.0-8.7% and have been fixed for the terms of the agreements. The agreements do not impose restrictions on the company's dividend or financing policies. At the end of the lease term, Saku Brewery Ltd 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		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Cost	3,714	5,438	238	348
Accumulated depreciation	2,883	3,116	185	199
Principal paid during the period	229	302	15	20
Interest payments made during the period	46	88	3	5
Minimum amount of lease payments	970	2,518	62	161
falling due within 1 year	712	1,231	46	79
falling due within 1 - 4 years	258	1,287	16	82
... incl. principal	824	2,122	53	136
falling due within 1 year	596	969	39	62
falling due within 1 - 4 years	228	1,153	14	74
... incl. interest payments	146	396	9	25
falling due within 1 year	116	262	7	17
falling due within 1 - 4 years	30	134	2	8

In Q1 of 2004 the cost and accumulated depreciation of leased motor vehicles decreased by EEK 555,000 (€35,000) and EEK 455,000 (€29,000) respectively on account of termination of agreements. The depreciation charge for Q1 of 2004 amounted to EEK 228,000 (€15,000) and has been recognised in the income statement under depreciation and amortisation expense.

### Operating lease

During the financial year we made and recognised as an expense operating lease payments of EEK 736,000 (€47,000) related to motor vehicles and operating lease payments of EEK 140,000 (€9,000) related to production plant and equipment. We have 39 agreements on the lease of vehicles and 2 on the lease of plant and equipment.

## OPERATING LEASE

(In thousands)

	EEK		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Lease payments made during the period	876	736	56	47
Incl. contingent lease payment for plant and equipment	41	0	3	0
Minimum amount of lease payments	7,043	3,366	450	215
Incl. payable within up to 1 year	2,477	1,195	158	76
payable within 1-5 years	4,566	2,171	292	139

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 (can filling line) is used.

### **Note 9. Financial instruments**

(In thousands)

	Number of instruments 31.3.2004	Cost EEK (€) 31.12.2003	Redemption / change in value EEK (€) 2003	Cost EEK (€) 31.3.2003	Interest %
AS Rocca al Mare Suurhall	22 registered B shares	3,060 (196)		3,060 (196)	0.006
AS Rocca al Mare Suurhall	107 registered bonds of one type	11,000 (703)	-300 (-19)	10,700 (684)	
<b>Total</b>		<b>14,060</b> <b>(899)</b>	<b>-300</b> <b>(-19)</b>	<b>13,760</b> <b>(880)</b>	

Saku Brewery Ltd has 22 B shares and 107 bonds issued by AS Rocca al Mare Suurhall. The shares and the bonds are part of a 10-year cooperation agreement (expiring in October 2011) according to which the recreational complex bears the name Saku Suurhall and grants Saku Brewery Ltd 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 the cooperation agreement and do not have an active aftermarket. 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, which should reflect the decrease in the carrying amount of the benefits provided by the cooperation agreement that occurs over time. Amortisation expenses 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 special purpose and since December 2003 bear an interest of 5% of the outstanding balance per year. The bonds are 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. at an amount discounted at a rate appropriate for the instrument. According to estimates, the nominal interest of the bonds is roughly equal to their discount rate. Therefore, at 31 March 2004 the bonds are reported at par value. To reduce the credit risk of the bonds, all agreements related 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)

	31.3.2004					31.3.2003				
	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
<b>Financial assets</b>										
AS Rocca al Mare Suurhall bonds	5.00	1,400	5,600	3,700	10,700	0.0	1,600	5,600	5,400	12,600
<b>Financial liabilities</b>										
Finance lease of vehicles	8.2	712	258		970	8.2	1,231	1,287		2,518

(In thousands of €)

	31.3.2004					31.3.2003				
	Effective interest rate	Maturity date falling within				Effective interest rate	Maturity date falling within			
		up to one year	1-5 years	over 5 years	Total		up to one year	1 – 5 years	over 5 years	Total
<b>Financial assets</b>										
AS Rocca al Mare Suurhall bonds	5.0	89	358	237	684	0.0	103	358	345	806
<b>Financial liabilities</b>										
Finance lease of vehicles	8.2	46	16		62	8.2	79	82		161

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

### Credit risk

Saku Brewery Ltd has a credit policy in place and 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, based on the conditions prevailing in the case.

At the balance sheet date, the most significant concentration of credit risk was related to the shares and bonds issued by AS Rocca al Mare Suurhall. To reduce the credit risk, all agreements relating to the investments 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) is 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 financing 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 hedging instruments is minimal.

#### **Fair values**

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

### **Note 10. Tax liabilities**

(In thousands)	EEK		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Alcohol excise duty	11,296	7,678	722	491
Value-added tax	2,013	869	129	55
Personal income tax	754	1,005	48	64
Social tax	1,170	1,472	75	94
Income tax on fringe benefits, non-business and entertainment expenses	239	197	15	13
Unemployment insurance premiums	46	56	3	4
Funded pension premiums	41	46	2	3
Income tax payable on dividends		7,682		491
<b>Total</b>	<b>15,559</b>	<b>19,005</b>	<b>994</b>	<b>1,215</b>

### **Note 11. Provisions**

(In thousands)	EEK	€
	2004	2004
31 December 2003	373	24
Provisions created during the period	0	0
Provisions used during the period	224	14
<b>31 March 2004</b>	<b>149</b>	<b>10</b>
Current portion	149	10

Provisions include the costs of sales campaign prizes.

## **Note 12. Equity**

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 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 the shareholders approved the proposal of the management board to declare a net dividend of EEK 40m (€2.6m) in aggregate for 2003. The dividend was paid out on 10 May 2004. As a result, related transactions have been recognised in the accounts for Q2.

Other reserves of EEK 44,070,000 (€2,817,000) comprise gains on translation of foreign currency accounts and receivables conducted in 1992 using Bank of Estonia exchange rates of 1 January 1992. The use of the reserve has not been determined.

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

## **Note 13. Sales revenue**

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

(In thousands)

	EEK		€	
	January- March 2004	January- March 2003	January- March 2004	January- March 2003
Saku beers	64,504	63,329	4,122	4,047
Imported beers	4,646	2,534	297	162
Saku mineral water	512	305	33	20
Imported mineral water	3,742	3,689	239	236
Other Saku alcoholic beverages	5,524	2,868	353	183
Other imported alcoholic beverages	1,230		79	
Saku soft drinks	33		2	
Imported soft drinks	3,440	3,098	220	198
By-products	298	252	19	16
Services	255	493	16	32
Other goods	174	296	11	19
<b>Total</b>	<b>84,358</b>	<b>76,864</b>	<b>5,391</b>	<b>4,913</b>

### **SALES BY MARKETS**

(In thousands)

	EEK		€	
	January- March 2004	January- March 2003	January- March 2004	January- March 2003
Estonia	75,400	71,129	4,819	4,546
Exports (Lithuania, Latvia, Finland, the USA, and Japan)	8,958	5,735	572	367
<b>Total</b>	<b>84,358</b>	<b>76,864</b>	<b>5,391</b>	<b>4,913</b>

### **Note 14. Transactions with related parties**

#### Purchases:

(In thousands)	EEK		€	
	January- March	January- March	January- March	January- March
	2004	2003	2004	2003
A/O Aldaris	3,482	3,001	223	192
AB Svyturys-Utenos Alus	3,110	299	198	19
Baltic Beverages Holding AB	944	2,193	60	140
Baltic Beverages Eesti AS		23		1
Ringnes a.s.	311	524	20	34
Sinebrychoff OY	273		17	
OAO PBK Slavutich	6			
OAO PBK Baltika	527		34	
Hartwall AB OY	712	1,274	46	82
Carlsberg Breweries A/S	481	161	31	10
<b>Total</b>	<b>9,846</b>	<b>7,475</b>	<b>629</b>	<b>478</b>

#### Sales:

(In thousands)	EEK		€	
	January- March	January- March	January- March	January- March
	2004	2003	2004	2003
A/O Aldaris	2,673	112	171	7
AB Svyturys-Utenos Alus	5,130	3,868	328	247
Carlsberg Breweries A/S	89		6	
Baltic Beverages Eesti AS	23	24	1	2
<b>Total</b>	<b>7,915</b>	<b>4,004</b>	<b>506</b>	<b>256</b>

#### Receivables:

(In thousands)	EEK	€
	31.3.2004	31.3.2004
A/O Aldaris	520	33
AB Svyturys-Utenos Alus	136	9
Carlsberg Breweries A/S	89	5
Baltic Beverages Eesti AS	9	1
<b>Total</b>	<b>754</b>	<b>48</b>



Payables:

(In thousands)	EEK		€	
	31.3.2004		31.3.2004	
A/O Aldaris		378		24
AB Svyturys-Utenos Alus		136		9
Baltic Beverages Holding AB		381		24
Carlsberg Breweries A/S		85		6
<b>Total</b>		<b>980</b>		<b>63</b>

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 advisory services. Purchase and sales transactions with related parties have been performed at the Group's transfer prices.

**Note 15. Other revenue**

(In thousands)	EEK		€	
	January- March 2004	January- March 2003	January- March 2004	January- March 2003
Gain on sale of non-current assets		5		
Income from receivables	17	4	1	
Interest on arrears received	16	3	1	
Insurance indemnification received	42	169	3	11
Foreign exchange gains	7	10		1
<b>Total</b>	<b>82</b>	<b>191</b>	<b>5</b>	<b>12</b>

### **Note 16. Expenses**

(In thousands)	EEK		€	
	January- March 2004	January- March 2003	January- March 2004	January- March 2003
Materials	12,774	11,164	816	714
Ancillary materials	14,274	12,217	912	781
Imported beverages	7,355	4,617	470	295
Other	6,611	5,696	423	364
<b>Total materials, consumables and supplies</b>	<b>41,014</b>	<b>33,694</b>	<b>2,621</b>	<b>2,154</b>
Advertising	7,862	8,935	502	571
Transportation and vehicle expenses	7,269	6,462	465	413
Waste disposal	1,104	1,385	71	89
Renovation of buildings and equipment repair	1,149	672	73	43
Purchase of other services	5,519	3,865	352	247
Other expenses	2,043	2,564	131	163
<b>Total other operating expenses</b>	<b>24,946</b>	<b>23,883</b>	<b>1,594</b>	<b>1,526</b>
Wages and salaries	9,819	9,275	627	593
Social tax	3,299	3,172	211	203
Unemployment insurance premiums	44	42	3	2
<b>Total personnel expenses</b>	<b>13,162</b>	<b>12,489</b>	<b>841</b>	<b>798</b>
Sponsoring, entertainment expenses and expenses not related to the core activity	512	291	33	19
Interest on arrears paid	4			
Purchase and sale of returnable containers	123	6	8	
Foreign exchange loss	81	57	5	3
<b>Total other expenses</b>	<b>720</b>	<b>354</b>	<b>46</b>	<b>22</b>

### **Note 17. Financial income and expenses**

(In thousands)	EEK		€	
	January- March 2004	January- March 2003	January- March 2004	January- March 2003
Interest income	207	6	13	
<b>Total financial income</b>	<b>207</b>	<b>6</b>	<b>13</b>	
Interest expense	45	153	3	10
Foreign exchange losses		5		
Change in the value of financial assets	60	60	4	4
<b>Total financial expenses</b>	<b>105</b>	<b>218</b>	<b>7</b>	<b>14</b>

### **Note 18. Earnings per share**

	EEK		€	
	31.3.2004	31.3.2003	31.3.2004	31.3.2003
Net profit/loss (in thousands)	584	-6,634	37	-424
Number of shares	8,000,000	8,000,000	8,000,000	8,000,000
<b>Basic earnings per share</b>	<b>0.07</b>	<b>-0.83</b>	<b>0.00</b>	<b>-0.05</b>
<b>Diluted earnings per share</b>	<b>0.07</b>	<b>-0.83</b>	<b>0.00</b>	<b>-0.05</b>

Net profit is significantly affected by dividend tax. Due to differences in the timing of the general meetings, in 2003 dividend tax was recognised in the accounts for Q1 whereas in 2004 it has been recognised in the accounts for Q2.

### **Note 19. Non-cash transactions**

A significant non-cash transaction has been the offsetting of the bonds issued by AS Rocca al Mare Suurhall with the latter's claim against Saku Brewery Ltd. The claim arose from a cooperation agreement between the parties and was related to provision of advertising services. In the period January-March 2004 the offset figure amounted to EEK 435,000 (€28,000).

### **Note 20. 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 the first three months of 2004 as set out on pages 1 to 20 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.

### **Review of operations and performance**

In Q1 the beverage sales of Saku Brewery Ltd amounted to 11.3m litres, 1.8m litres or 18% up on the corresponding period of 2003. Revenues for the period amounted to EEK 84.4m (€5.4m), EEK 7.4m (€0.5m) or 9.6% up on a year ago. The main contributors to growth were other alcoholic beverages and beers. If in Q1 of 2003 sales of beers and other alcoholic beverages accounted for 86% and 4% of total sales respectively, then in Q1 of 2004 the corresponding figures were 82% and 8%. Although according to the Estonian Breweries Association in Q1 the beer market grew by 16%, the revenue potential of beers was adversely affected by stiff competition in the strong and cheap beers segment and because of the enlarging of the segment. At the end of Q1, Saku Brewery Ltd as the market leader held 42% of the total beer market, the corresponding figure for total accumulated 2003 was 42%.

During a year Saku Brewery has aggressively enlarged in other beverages markets as cider and gin long drink and entered into kvass and lemonades markets. The cider market continued growing at swift pace, attaining a 75% increase on a year ago. Saku Brewery Ltd tripled its cider sales and succeeded in increasing its share in the cider market from 18% in Q1 of 2003 to 34%. In the first quarter the company doubled its gin long drink sales and reached to 21% market share. In the same period last year it was 9%.

Expenses of the period amounted to EEK 84.0m (€5.4m), an EEK 8.2m (€0.5m) or 10.8% increase on a year ago. The largest growth occurred in expenses on materials, consumables and supplies, largely because of bigger sales. In addition, the volume of beverages sold in one-way packaging (cans, PET packaging) has almost doubled compared to Q1 of 2003, which has increased related materials expenses.

Operating profit for Q1 amounted to EEK 0.5m (€31,000), somewhat less than the EEK 1.3m (€81,000) earned a year ago. Net profit for the period amounted to EEK 0.6m (€37,000) against the EEK 6.6m (€0.4m) loss incurred in Q1 of 2003. The difference results from income tax payable on dividends, which is recognised in the income statement of the period in which the dividend is declared. In 2003 the general meeting which decided to distribute dividends took place in March. In 2004 the meeting convened in April, which is why the arising tax expense will be recognised in the accounts for Q2.

In the first quarter Saku Brewery Ltd and the leader of the Finnish beer market Oy Sinebrychoff Ab made an agreement according to which from May 2004 Sinebrychoff began to distribute Saku Originaal in Finland. The agreement covers marketing and sales. Saku Originaal will be available among the Sinebrychoff portfolio in recyclable cans. Objective is to increase exports of Saku Brewery in Finnish market and to sell 2 million litres Saku Originaal in Finland in the first year.

On February Saku Brewery Ltd as the first Estonian brewery began canning the well-known international beer brand Carlsberg for the Baltic market. Inclusion of an international beer brand in Saku Brewery's production process requires linking the Estonian factory into Carlsberg's stringent worldwide quality control system. The purpose of the 0.5-litre beer products that is canned in Estonia is to increase Carlsberg's sales in Estonia to 1.2m litres per year, to seize 25% of the local premium beers market, and to export an additional 350,000 litres to the Latvian and Lithuanian markets.

In the quarter Saku Brewery Ltd finished its 23 m EEK investment in PET product filling equipment to expand in beverages market. The company has expanded last year in cider and gin long drink markets and entered into kvass and lemonade market.

<b>FINANCIAL RATIOS</b>	January- March 2004	January- March 2003
Operating margin (operating profit / total revenue)	0.6%	1.6%
Net margin (net profit / total revenue)	0.7%	-8.6%
Return on assets (net profit / average total assets)	0.1%	-1.5%
Return on equity (net profit / average equity)	0.2%	-2.0%
Non-current asset turnover ratio (total revenue / average non-	0.3	0.3

current assets)

Total assets turnover ratio (total revenue / average total assets)

0.2

0.2