

**SAKU BREWERY LTD  
INTERIM FINANCIAL STATEMENTS  
9 MONTHS 2004**

**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 three-member management board. The chairman of the management board is Cardo Rimmel.**

**SAKU BREWERY LTD  
FINANCIAL STATEMENTS  
9 MONTHS 2004**

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## **Financial statements**

### **BALANCE SHEET**

(In thousands)

	EEK			€		
	30.9.2004	30.9.2003	31.12.2003	30.9.2004	30.9.2003	31.12.2003
<b>ASSETS</b>						
Cash and bank	21,018	21,036	22,023	1,343	1,344	1,408
Trade receivables (Note 2)	36,506	32,642	35,308	2,333	2,086	2,256
Other receivables and prepayments (Note 3)	7,813	13,026	3,882	499	833	248
Inventories (Note 4)	130,168	133,218	113,652	8,319	8,514	7,264
<b>TOTAL CURRENT ASSETS</b>	<b>195,505</b>	<b>199,922</b>	<b>174,865</b>	<b>12,494</b>	<b>12,777</b>	<b>11,176</b>
<b>Non-current assets</b>						
Long-term financial assets (Note 9)	13,160	15,999	14,060	841	1,023	899
Long-term receivables (Note 5)	18	54	45	1	4	3
Property, plant and equipment (Note 6)	246,611	234,861	245,843	15,762	15,010	15,712
Intangible assets (Note 7)	342	863	719	22	55	46
<b>TOTAL NON-CURRENT ASSETS</b>	<b>260,131</b>	<b>251,777</b>	<b>260,667</b>	<b>16,626</b>	<b>16,092</b>	<b>16,660</b>
<b>TOTAL ASSETS</b>	<b>455,636</b>	<b>451,699</b>	<b>435,532</b>	<b>29,120</b>	<b>28,869</b>	<b>27,836</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current liabilities</b>						
Debt obligations (Note 8)	420	1,057	907	27	68	58
Trade payables	11,602	19,046	12,226	742	1,217	782
Payables to group companies (Note 14)	9,272	918	4,600	593	59	294
Deposit liability (Notes 4, 6)	31,719	34,656	29,209	2,026	2,215	1,867
Tax liabilities (Note 10)	21,036	14,874	15,809	1,344	951	1,010
Payables to employees	2,999	3,761	4,288	192	240	274
Other accrued expenses	7,672	9,975	1,599	491	638	102
Provisions (Note 11)	336	2,190	373	21	140	24
<b>TOTAL CURRENT LIABILITIES</b>	<b>85,056</b>	<b>86,477</b>	<b>69,011</b>	<b>5,436</b>	<b>5,528</b>	<b>4,411</b>
<b>Non-current liabilities</b>						
Non-convertible debt (Note 8)		631	419		40	27
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>631</b>	<b>419</b>		<b>40</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	194,032	179,262	179,262	12,400	11,456	11,457
Net profit for the period	44,478	53,259	54,770	2,843	3,404	3,500
<b>TOTAL EQUITY</b>	<b>370,580</b>	<b>364,591</b>	<b>366,102</b>	<b>23,684</b>	<b>23,301</b>	<b>23,398</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>455,636</b>	<b>451,699</b>	<b>435,532</b>	<b>29,120</b>	<b>28,869</b>	<b>27,836</b>

**INCOME STATEMENT**

(In thousands)

	EEK			€		
	January- September 2004	January- September 2003	2003	January- September 2004	January- September 2003	2003
Revenue						
Sales revenue (Note 13)	416,027	370,023	463,362	26,589	23,648	29,614
Other revenue (Note 15)	554	396	736	35	25	47
Total revenue	416,581	370,419	464,098	26,624	23,673	29,661
Expenses (Note 16)						
Changes in work in progress and finished goods inventories	-7,581	-6,748	453	-484	-432	29
Materials, consumables and supplies used	188,962	147,609	185,104	12,077	9,434	11,830
Other operating expenses	96,596	91,268	112,158	6,173	5,833	7,168
Personnel expenses	44,237	38,105	52,091	2,827	2,435	3,329
Depreciation and amortization expense	32,749	34,330	46,216	2,093	2,194	2,954
Other expenses	2,953	3,857	4,688	189	246	300
Total expenses	357,916	308,421	400,710	22,875	19,710	25,610
<b>PROFIT FROM OPERATIONS</b>	<b>58,665</b>	<b>61,998</b>	<b>63,388</b>	<b>3,749</b>	<b>3,963</b>	<b>4,051</b>
Financial income and expenses (Note 17)	-133	-1,057	-936	-8	-68	-60
<b>PROFIT FOR THE PERIOD BEFORE TAX</b>	<b>58,532</b>	<b>60,941</b>	<b>62,452</b>	<b>3,741</b>	<b>3,895</b>	<b>3,991</b>
Income tax expense	14,054	7,682	7,682	898	491	491
<b>NET PROFIT FOR THE PERIOD</b>	<b>44,478</b>	<b>53,259</b>	<b>54,770</b>	<b>2,843</b>	<b>3,404</b>	<b>3,500</b>
Basic earnings per share (Note 18)	5.56	6.66	6.85	0.36	0.43	0.44
Diluted earnings per share (Note 18)	5.56	6.66	6.85	0.36	0.43	0.44

**Q3 INCOME STATEMENT**

(In thousands)

	EEK		€	
	Q3 2004	Q3 2003	Q3 2004	Q3 2003
Revenue				
Sales revenue	160,954	156,721	10,287	10,016
Other revenue	410	75	26	5
Total revenue	161,364	156,796	10,313	10,021
Expenses				
Changes in work in progress and finished goods inventories	3,289	-477	210	-31
Materials, consumables and supplies used	70,148	61,972	4,484	3,961
Other operating expenses	32,347	31,528	2,067	2,015
Personnel expenses	14,765	12,803	943	818
Depreciation and amortization expense	10,818	11,280	692	721
Other expenses	1,494	2,651	96	169
Total expenses	132,861	119,757	8,492	7,653
PROFIT FROM OPERATIONS	28,503	37,039	1,821	2,368
Financial income and expenses	-87	-228	-5	-15
Q3 NET PROFIT	28,416	36,811	1,816	2,353
Basic earnings per share	3.55	4.60	0.23	0.29
Diluted earnings per share	3.55	4.60	0.23	0.29

## CASH FLOW STATEMENT

(In thousands)

	EEK			€		
	January- September 2004	January- September 2003	2003	January- September 2004	January- September 2003	2003
Operating activities						
Profit from operations	58,665	61,998	63,388	3,749	3,963	4,051
Adjustments for						
Depreciation and amortization	32,749	34,330	46,216	2,093	2,194	2,954
Result of non-current asset sales and write-off	-329	1,490	1,577	-21	95	101
Transformation of a long-term receivable into a short-term one	27	44	53	2	2	3
Change in the value of financial assets	-180	-181		-11	-11	
Non-cash income (Note 19)	-393			-27		
Non-cash expenses (Note 19)	1,293		1,646	83		105
Change in inventories	-16,516	-14,738	4,828	-1,055	-942	309
Change in receivables	-5,129	-13,972	-7,494	-328	-893	-479
Change in current liabilities	16,532	14,303	-1,983	1,056	914	-127
Interest paid	-509	-1,000	-982	-33	-64	-63
Corporate income tax paid	-14,054	-7,682	-7,682	-898	-491	-491
Net cash from operating activities	72,156	74,592	99,567	4,610	4,767	6,363
Investing activities						
Acquisition of property, plant and equipment	-33,517	-10,383	-34,539	-2,142	-663	-2,207
Sale of property, plant and equipment	406	123	338	26	8	22
Liquidation of a subsidiary			99			6
Interest received	622	192	309	40	12	20
Net cash used in investing activities	-32,489	-10,068	-33,793	-2,076	-643	-2,159
Financing activities						
Dividends paid	-40,000	-40,000	-40,000	-2,556	-2,556	-2,556
Payment of finance lease principal (Note 8)	-606	-895	-1,158	-39	-58	-74
Bank overdraft		-5,821	-5,821		-372	-372
Net cash used in financing activities	-40,606	-46,716	-46,979	-2,595	-2,986	-3,002
Net cash flows	-939	17,808	18,795	-61	1,138	1,202
Effect of exchange rate fluctuations	-66	-68	-68	-4	-4	-4
Increase/decrease in cash and cash equivalents	-1,005	17,740	18,727	-65	1,134	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	21,018	21,036	22,023	1,343	1,344	1,408
Increase/decrease in cash and cash equivalents	-1,005	17,740	18,727	-65	1,134	1,198

## STATEMENT OF CHANGES IN EQUITY

(In thousands of EEK)	Share capital	Mandatory capital reserve	Other reserves	Accumulated profits	Net profit for the period	Total equity
1 January 2003	80,000	8,000	44,070	219,262	0	351,332
Dividends paid				-40,000		-40,000
Net profit for the period					53,259	53,259
30 September 2003	80,000	8,000	44,070	179,262	53,259	364,591
1 January 2004	80,000	8,000	44,070	234,032	0	366,102
Dividends paid				-40,000		-40,000
Net profit for the period					44,478	44,478
<b>30 September 2004</b>	<b>80,000</b>	<b>8,000</b>	<b>44,070</b>	<b>194,032</b>	<b>44,478</b>	<b>370,580</b>

(In thousands of €)	Share capital	Mandatory capital reserve	Other reserves	Accumulated profits	Net profit for the period	Total equity
1 January 2003	5,113	511	2,817	14,012	0	22,453
Dividends paid				-2,556		-2,556
Net profit for the period					3,404	3,404
30 September 2003	5,113	511	2,817	11,456	3,404	23,301
1 January 2004	5,113	511	2,817	14,956	0	23,397
Dividends paid				-2,556		-2,556
Net profit for the period					2,843	2,843
<b>30 September 2004</b>	<b>5,113</b>	<b>511</b>	<b>2,817</b>	<b>12,400</b>	<b>2,843</b>	<b>23,684</b>

During the reporting period no transactions or related income or expense were recognized directly in equity.

## Notes to the financial statements

### **Note 1. Accounting policies**

The interim financial statements for the first nine months 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		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Due from customers	36,625	33,547	2,341	2,144
Allowance for doubtful receivables	-200	-1,342	-13	-86
Write-off of irrecoverable items	92	466	6	30
Collection of irrecoverable items written off in prior periods	-11	-29	-1	-2
<b>Total</b>	<b>36,506</b>	<b>32,642</b>	<b>2,333</b>	<b>2,086</b>

The ratio of irrecoverable receivables written off in 2004 to sales revenue is 0.02%. Expenditure related to write-off of receivables is recognized as other expense.

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

(In thousands)	EEK		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Receivables from group companies (Note 14)	1,539	6,592	98	421
Miscellaneous short-term receivables	3,190	2,490	204	159
Prepaid VAT	254	1,419	16	91
Prepaid expenses	2,830	2,525	181	162
<b>Total</b>	<b>7,813</b>	<b>13,026</b>	<b>499</b>	<b>833</b>

## **Note 4. Inventories**

(In thousands)	EEK		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Materials	32,079	28,219	2,050	1,803
Work in progress	8,146	7,579	521	484
Finished goods	11,999	12,186	767	779
Merchandise purchased for resale	48,549	49,865	3,103	3,187
Prepayments to suppliers	273	713	17	46
Returnable containers held by customers	29,122	34,656	1,861	2,215
<b>Total</b>	<b>130,168</b>	<b>133,218</b>	<b>8,319</b>	<b>8,514</b>

In 2004 expenses from the write-down and write-off of inventories whose realizable value has decreased below cost amount to EEK 3,234,000 (€207,000). Write-off expenses are recognized under materials, consumables and supplies used.

Since 2003 inventories recognized in the balance sheet 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 18,000 (€1,000) 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 1 year: EEK 18,000 (€1,000).

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

#### **Movements in property, plant and equipment in the first 9 months 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 31.12.2003	3,186	128,258	254,989	7,559	3,915	62,217	6,058	4,065	4,269	22,316	496,832
Acquisitions		835	8,317	533	451	4,279		3,206		15,896	33,517
Write-off, termination of lease			-440	-1,774	-37				-2,007		-4,258
Closing balance 30.9.2004	3,186	129,093	262,866	6,318	4,329	66,496	6,058	7,271	2,262	38,212	526,091
<b>Depreciation</b>											
Opening balance 31.12.2003	0	31,851	158,723	5,790	2,886	43,670	3,331	1,628	3,110	0	250,989
Depreciation charge of 2004		4,262	15,534	915	719	8,737	454	1,182	569		32,372
Write-off, termination of lease			-311	-1,774	-37				-1,759		-3,881
Closing balance 30.9.2004	0	36,113	173,946	4,931	3,568	52,407	3,785	2,810	1,920	0	279,480
<b>Carrying amount</b>											
Opening balance 31.12.2003	3,186	96,407	96,266	1,769	1,029	18,547	2,727	2,437	1,159	22,316	245,843
<b>Closing balance 30.9.2004</b>	<b>3,186</b>	<b>92,980</b>	<b>88,920</b>	<b>1,387</b>	<b>761</b>	<b>14,089</b>	<b>2,273</b>	<b>4,461</b>	<b>342</b>	<b>38,212</b>	<b>246,611</b>

(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 31.12.2003	204	8,196	16,298	483	250	3,977	387	260	273	1,426	31,754
Acquisitions		53	532	34	29	273		205		1,016	2,142
Write-off, termination of lease			-28	-113	-2				-128		-271
Closing balance 30.9.2004	204	8,249	16,802	404	277	4,250	387	465	145	2,442	33,625
<b>Depreciation</b>											
Opening balance 31.12.2003	0	2,036	10,144	372	185	2,790	212	104	199	0	16,042
Depreciation charge of 2004		272	993	59	46	558	29	76	36		2,069
Write-off, termination of lease			-20	-113	-2				-113		-248
Closing balance 30.9.2004	0	2,308	11,117	318	229	3,348	241	180	122	0	17,863
<b>Carrying amount</b>											
Opening balance 31.12.2003	204	6,160	6,154	111	65	1,187	175	156	74	1,426	15,712
<b>Closing balance 30.9.2004</b>	<b>204</b>	<b>5,941</b>	<b>5,685</b>	<b>86</b>	<b>48</b>	<b>902</b>	<b>146</b>	<b>285</b>	<b>23</b>	<b>2,442</b>	<b>15,762</b>

Let assets comprise bar furniture, which has been leased under the terms of operating lease to support HoReCa sales. Operating lease income for the first nine months of 2004 amounted to EEK 57,000 (€4,000).

On 30 September 2004, kegs of EEK 2,597,000 (€166,000) were held by customers (the kegs belong to Saku Brewery Ltd). The deposits received from customers as security for the kegs are recognized as deposit liabilities.

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

(In thousands)

	EEK 30.9.2004	€ 30.9.2004
<b>Cost</b>		
Opening balance	1,759	112
Acquisition	0	0
Closing balance	1,759	112
<b>Amortization</b>		
Opening balance	1,040	66
Amortization charge for 2004	377	24
Closing balance	1,417	90
<b>Carrying amount</b>		
Opening balance	719	46
<b>Closing balance</b>	<b>342</b>	<b>22</b>

Intangible assets consist of computer software that has long-term significance for the business and has been specially adjusted to the company's needs. Amortization expense is recognized 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 7,271,000 (€465,000) and carrying amounts as of 30 September 2004 totalled EEK 4,461,000 (€285,000). The period's operating lease income of EEK 57,000 (€4,000) has been recognized as sales revenue. The assets' depreciation for the period of EEK 1,182,000 (€76,000) has been recognized 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 83,000 (€5,000);
- receivable between 1 and 4 years – EEK 221,000 (€14,000).

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

##### Finance lease

Motor vehicles are held under 8 finance lease agreements. On 30 September 2004 the current portion of finance lease liabilities amounted to EEK 420,000 (€27,000) and was recognized as a debt obligation.

The base currency of all 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 the company's dividend or financing policies. At the end of the lease term, Saku Brewery Ltd can buy the leased assets at carrying amounts. Assets held under finance lease have not been sublet.

## FINANCE LEASE OF MOTOR VEHICLES

(In thousands)

	EEK		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Cost	2,262	4,748	145	303
Accumulated depreciation	1,920	3,240	122	207
Principal payments made during the period	606	895	39	58
Interest payments made during the period	109	240	7	15
Minimum amount of lease payments	420	1,688	27	108
Incl. falling due within 1 year	420	1,057	27	68
falling due between 1 and 4 years		631		40
... incl. principal payments	385	1,424	25	91
falling due within 1 year	385	864	25	55
falling due between 1 and 4 years		560		36
... incl. interest payments	35	264	2	17
falling due within 1 year	35	193	2	13
falling due between 1 and 4 years		71		4

In the first nine months of 2004 the cost and accumulated depreciation of leased motor vehicles decreased by EEK 2,007,000 (€128,000) and EEK 1,759,000 (€113,000) respectively on account of termination of agreements. The depreciation charge for the first nine months of 2004 amounted to EEK 569,000 (€36,000) and has been recognized in the income statement as depreciation and amortization expense.

### Operating lease

During the reporting period we made and expensed operating lease payments of EEK 2,177,000 (€139,000) related to motor vehicles and operating lease payments of EEK 499,000 (€32,000) related to production plant and equipment. We have 45 agreements on the operating lease of vehicles and 2 on the operating lease of plant and equipment.

## OPERATING LEASE

(In thousands)

	EEK		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Lease payments made during the period	2,676	2,204	171	141
Incl. contingent lease payment for plant and equipment	345	0	22	0
Minimum amount of lease payments	3,554	2,038	227	130
Incl. payable within up to 1 year	1,709	1,195	109	76
payable between 1 and 5 years	1,845	843	118	54

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 lease payment the amount of which depends on how intensively the asset (can filling line) is used.

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

(In thousands)

	Number of instruments 30.9.2004	Cost EEK (€) 31.12.2003	Redemption / change in value EEK (€) 2004	Cost EEK (€) 30.9.2004	Interest (%)
AS Rocca al Mare Suurhall	22 registered B shares	3,060 (196)		3,060 (196)	0.006
AS Rocca al Mare Suurhall	101 registered bonds of one type	11,000 (703)	-900 (-58)	10,100 (645)	
<b>Total</b>		<b>14,060</b> <b>(899)</b>	<b>-900</b> <b>(-58)</b>	<b>13,160</b> <b>(841)</b>	

Saku Brewery Ltd has 22 B shares and 101 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 a 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. Therefore, since 2003 the shares are reported at amortized cost as required by IAS 39. The extent of the amortization 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. The amortization expense is recognized as financial expense.

The par value of a bond issued by AS Rocca al Mare Suurhall is EEK 100,000 (€6,000). The bonds were issued for a special purpose and since December 2003 bear an annual interest of 5% of the outstanding balance. 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 amortized 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, in the balance sheet as of 30 September 2004 the bonds have been 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)

	30.9.2004					30.9.2003				
	Effective interest rate	Maturity date				Effective interest rate	Maturity date			
		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	1,500	5,600	3,000	10,100	0.0	1,699	5,600	5,400	12,699
<b>Financial liabilities</b>										
Finance lease of vehicles	8.2	420			420	8.2	1,057	631		1,688

(In thousands of €)

	30.9.2004					30.9.2003				
	Effective interest rate	Maturity date				Effective interest rate	Maturity date			
		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	5.0	95	358	192	645	0.0	109	358	345	812
<b>Financial liabilities</b>										
Finance lease of vehicles	8.2	27			27	8.2	68	40		108

Exposure to credit risk, interest rate risk and foreign currency risk arises in the normal course of the company's 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		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Alcohol excise duty	13,494	11,370	862	727
Value-added tax	5,526	1,505	353	96
Personal income tax	666	640	43	41
Social tax	1,055	978	67	63
Income tax on fringe benefits, and non-business and entertainment expenses	217	319	14	20
Unemployment insurance contributions	42	35	3	2
Funded pension contributions	36	27	2	2
<b>Total</b>	<b>21,036</b>	<b>14,874</b>	<b>1,344</b>	<b>951</b>

### **Note 11. Provisions**

(In thousands)	EEK	€
	2004	2004
31 December 2003	373	24
Provisions created during the period	270	17
Provisions used during the period	307	20
<b>30 September 2004</b>	<b>336</b>	<b>21</b>
Current portion	336	21

Provisions include the cost 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.

Other reserves of EEK 44,070,000 (€2,817,000) comprise gains on translation of foreign currency accounts and receivables conducted in 1992 using the 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- September 2004	January- September 2003	January- September 2004	January- September 2003
Saku beers	311,938	299,269	19,936	19,127
Imported beers	21,641	9,555	1,383	611
Saku mineral water	3,894	1,266	249	81
Imported mineral water	14,733	17,862	941	1,141
Other Saku alcoholic beverages	39,109	25,088	2,500	1,603
Other imported alcoholic beverages	3,767		241	
Saku soft drinks	3,794		242	
Imported soft drinks	13,923	13,859	890	886
By-products	885	790	57	50
Services	920	994	59	63
Other goods	1,423	1,340	91	86
<b>Total</b>	<b>416,027</b>	<b>370,023</b>	<b>26,589</b>	<b>23,648</b>

### **SALES BY MARKETS**

(In thousands)

	EEK		€	
	January- September 2004	January- September 2003	January- September 2004	January- September 2003
Estonia	367,155	333,446	23,465	21,311
Exports (Lithuania, Latvia, Finland, the USA, and Japan)	48,872	36,577	3,124	2,337
<b>Total</b>	<b>416,027</b>	<b>370,023</b>	<b>26,589</b>	<b>23,648</b>



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

#### Purchases from related parties:

(In thousands)	EEK		€	
	January- September 2004	January- September 2003	January- September 2004	January- September 2003
A/O Aldaris	16,623	10,846	1,062	693
AB Svyturys-Utenos Alus	14,125	2,055	903	131
Baltic Beverages Holding AB	2,645	3,955	169	253
Baltic Beverages Holding OÜ	18	23	1	1
Ringnes a.s.	311	118	20	8
Sinebrychoff OY	317		20	
OAO PBK Slavutich	6			
OAO PBK Baltika	527		34	
Hartwall AB OY	2,451	2,792	157	178
Carlsberg Breweries A/S	1,027	348	66	22
<b>Total</b>	<b>38,050</b>	<b>20,137</b>	<b>2,432</b>	<b>1,286</b>

#### Sales to related parties:

(In thousands)	EEK		€	
	January- September 2004	January- September 2003	January- September 2004	January- September 2003
A/O Aldaris	11,714	1,610	749	103
AB Svyturys-Utenos Alus	18,972	14,727	1,213	941
Sinebrychoff OY	10,761		688	
OAO PBK Slavutich		14,715		940
Carlsberg Breweries A/S	463		29	
Baltic Beverages Holding OÜ	69	76	4	5
<b>Total</b>	<b>41,979</b>	<b>31,128</b>	<b>2,683</b>	<b>1,989</b>

#### Receivables from related parties:

(In thousands)	EEK	€
	30.9.2004	30.9.2004
A/O Aldaris	334	21
AB Svyturys-Utenos Alus	132	8
Sinebrychoff OY	820	52
Carlsberg Breweries A/S	243	16
Baltic Beverages Holding OÜ	10	1
<b>Total</b>	<b>1,539</b>	<b>98</b>

Payables to related parties:

(In thousands)	EEK	€
	30.9.2004	30.9.2004
A/O Aldaris	239	15
AB Svyturys-Utenos Alus	7,845	502
Baltic Beverages Holding AB	563	36
Sinebrychoff OY	625	40
<b>Total</b>	<b>9,272</b>	<b>593</b>

Sales comprise 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 are performed at BBH Group's transfer prices.

Payables to AB Svyturys-Utenos Alus include a short-term loan liability of EEK 7,823,000 (€500,000) and a related interest liability of EEK 7,000 (€450).

**Note 15. Other revenue**

(In thousands)	EEK		€	
	January- September 2004	January- September 2003	January- September 2004	January- September 2003
Gain on sale of non-current assets	406	51	26	3
Income from receivables	15	15	1	1
Interest on arrears received	24	6	1	
Insurance indemnification received	42	197	3	13
Foreign exchange gain	16	75	1	5
Other	51	52	3	3
<b>Total</b>	<b>554</b>	<b>396</b>	<b>35</b>	<b>25</b>

### **Note 16. Expenses**

(In thousands)	EEK		€	
	January- September 2004	January- September 2003	January- September 2004	January- September 2003
Materials	56,233	46,416	3,594	2,967
Ancillary materials	76,976	59,458	4,920	3,800
Imported beverages	30,724	19,484	1,963	1,245
Other	25,029	22,251	1,600	1,422
<b>Total materials, consumables and supplies</b>	<b>188,962</b>	<b>147,609</b>	<b>12,077</b>	<b>9,434</b>
Advertising	36,223	35,162	2,315	2,247
Transportation and vehicle expenses	29,323	26,583	1,874	1,699
Waste disposal	4,237	4,704	271	301
Renovation of buildings and equipment repair	3,752	2,763	240	176
Purchase of other services	14,124	13,830	902	884
Other expenses	8,937	8,226	571	526
<b>Total other operating expenses</b>	<b>96,596</b>	<b>91,268</b>	<b>6,173</b>	<b>5,833</b>
Wages and salaries	33,025	28,343	2,111	1,811
Social tax	11,062	9,636	707	616
Unemployment insurance contributions	150	126	9	8
<b>Total personnel expenses</b>	<b>44,237</b>	<b>38,105</b>	<b>2,827</b>	<b>2,435</b>
Loss on sale and write-off of non-current assets	128	1,592	8	102
Sponsoring, entertainment expenses and expenses not related to the core activity	2,090	1,614	134	103
Interest on arrears paid	9	14	1	1
Purchase and sale of returnable containers	563	418	36	26
Foreign exchange loss	163	219	10	14
<b>Total other expenses</b>	<b>2,953</b>	<b>3,857</b>	<b>189</b>	<b>246</b>

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

(In thousands)	EEK		€	
	January- September 2004	January- September 2003	January- September 2004	January- September 2003
Interest income	622	192	40	12
<b>Total financial income</b>	<b>622</b>	<b>192</b>	<b>40</b>	<b>12</b>
Interest expense	509	1,000	33	64
Foreign exchange losses	66	68	4	4
Change in the value of financial assets	180	181	11	12
<b>Total financial expenses</b>	<b>755</b>	<b>1,249</b>	<b>48</b>	<b>80</b>

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

	EEK		€	
	30.9.2004	30.9.2003	30.9.2004	30.9.2003
Net profit (in thousands)	44,478	53,259	2,843	3,404
Number of shares	8,000,000	8,000,000	8,000,000	8,000,000
<b>Basic earnings per share</b>	<b>5.56</b>	<b>6.66</b>	<b>0.36</b>	<b>0.43</b>
<b>Diluted earnings per share</b>	<b>5.56</b>	<b>6.66</b>	<b>0.36</b>	<b>0.43</b>

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

Significant non-cash transactions include the offsetting of the bonds issued by AS Rocca al Mare Suurhall against the latter's claim against Saku Brewery Ltd. The claim arises from a cooperation agreement between the parties and is related to provision of advertising services. In the period January-September 2004 the offset figure amounted to EEK 1,293,000 (€83,000).

### **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 nine months of 2004 as set out on pages 1 to 21 of this report, and confirms that to the best of its knowledge, information and belief:

- the policies applied in the preparation of the interim accounts comply with International Financial Reporting Standards;
- the interim 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 authorized for issue have been properly recognized and disclosed; and
- Saku Brewery Ltd is a going concern.



Cardo Rimmel  
Chairman of Management Board



Marko Loos  
Member of Management Board



Tarmo Lehtmets  
Member of Management Board

## **Note 21. Review of operations and performance**

Saku Brewery's beverage sales for the first nine months amounted to 52.7m litres, 7.8m litres or 17% up on the same period in 2003. Revenues totalled EEK 416.6m (€26.6m), an EEK 46.2m (€3.0m) or 12.5% improvement on the preceding year. Results improved largely thanks to an increase in the sales of beer and other alcoholic beverages, and a rise in the sales of soft drinks. On the other hand, sales growth was adversely affected by extremely bad weather in the summer, the high season in beverage sales. Moreover, purchases by tourists have declined on account of stiff competition in the Finnish retail market, which has led Finnish distributors to a price war and has caused Finnish beer prices to plummet.

According to the Estonian Breweries Association, in the first nine months the Estonian beer market grew by approximately 12%. At the end of the period, the market share of Saku Brewery Ltd was 41.8% (a year ago: 42.7%). Our share has declined slightly due to the onslaught of cheaper and stronger beers whose prices have decreased considerably due to the launch of the plastic bottle and which have therefore managed to increase their market share substantially.

Notwithstanding the growth in the relative importance of cheap and strong beers in the market in general, Saku Brewery succeeded in increasing its share in the premium beers segment. The rise was related, above all, to Cralsberg brand. Over the period it climbed 5% in the premium beers market, largely on account of cans filled at Saku Brewery. From 1 May Saku Originaal is distributed by the Finnish Sinebrychoff brewery. Compared to the same period last year, this has increased our Finnish exports four-fold.

Saku Brewery has expanded on other beverages markets during last years very rapidly. The cider and gin long drink markets continued growing at a solid pace, with 37% and 13% up on the same period in 2003 respectively. Our share in the cider market grew from 25% in the previous year to 34% and our share in the gin long drink market increased from 13% to 23%.

Expenses for the first nine months totalled EEK 357.9m (€22.9m), EEK 49.5m (€3.2m) or 16.0% up on the same period in 2003. The largest growth occurred in the cost of materials, consumables and supplies, triggered largely by an increase in sales and production volumes. The volume of beverages sold in one-way packaging (cans and PET) has almost doubled over the year, which has increased related materials costs considerably. The growth in output has also increased transport and personnel expenses.

Operating profit for the first nine months amounted to EEK 58.7m (€3.7m), EEK 3.3m (€333,000) down on a year ago. Profit has decreased due to stiff price competition, a rise in cheaper market segments and extraordinarily bad weather during the summer season. Net profit for the period amounted to EEK 44.5m (€2.8m) against the EEK 53.2m (€3.4m) earned a year ago. Net profit formation was also affected by income tax expense on dividends, which was roughly twice as large as last year because the final balance of corporate income tax that had been paid before the income tax reform was used up on on the distribution of dividends in 2003.

### **FINANCIAL RATIOS**

January- September 2004	January- September 2003
-------------------------------	-------------------------------

Operating margin (operating profit / total revenue)	14.1%	16.7%
Net margin (net profit / total revenue)	10.7%	14.4%
Return on assets (net profit / average total assets)	10.0%	12.1%
Return on equity (net profit / average equity)	12.1%	14.9%
Non-current asset turnover ratio (total revenue / average non-current assets)	1.6	1.4
Total assets turnover ratio (total revenue / average total assets)	0.9	0.8