SAKU ÕLLETEHASE AS

ANNUAL REPORT 2005

Principal activities	production, wholesale, import and export of low-alcohol beverages, mineral water and soft drinks
Beginning of financial year	1 January 2005
End of financial year	31 December 2005
Auditor	Andris Jegers KPMG Baltics AS
Commercial Register no	10030278
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Saku Õlletehase AS is managed by a two-member management board. The chairman of the management board is Jaak Uus.

Attached documents	1. Auditor's report 2. Profit allocation proposal

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1. REVIEW OF OPERATIONS

Operating environment

In 2005, economic environment in Estonia was strongly affected by a notable upswing in the prices of motor fuel and an increase in housing expenses. For Saku Õlletehase AS, the rise in fuel prices was somewhat alleviated by stiff competition in the saturated haulage market which induced carriers to absorb some of the price increase. Continuously favourable loan terms and interest rates allowed the consumption-income ratio to reach new heights. The rising debt burden, on the other hand, triggered a decline in consumption.

According to the Statistical Office, in 2005 the Estonian consumer price index (CPI) rose by 4.1 percent. The CPIs relevant for Saku Õlletehase AS all followed a rising trend: the one for food and non-alcoholic beverages climbed by 3.5 percent and the ones for alcoholic beverages and foodstuffs in general rose by 4.2 percent and 3.7 percent respectively. The producer price index for manufactured goods edged up by 2.2 percent and the industrial output index for foodstuffs and beverages experienced a 6.1 percent upturn. Robust growth in foodstuff and beverage production contributed substantially to growth in average annual industrial output.

The legal environment remained relatively stable. The most important developments for Saku Õlletehase AS were the entry into force (7 January 2005) and amendment (10 July 2005) of the Packaging Act. In addition to the formerly established packaging excise duty, the Act and its amendments imposed on companies involved in packaging the obligation to recover the packaging, established a packaging deposit system and changed packaging recycling targets. Introduction of the above measures prompted companies to establish special packaging recovery and recycling organisations. Accordingly, the Estonian Beer and Soft Drinks Importers Association, the Estonian Breweries Association, the Estonian Soft Drink Producers Association and the Estonian Traders Association founded OÜ Eesti Pandipakend, a packaging recovery organisation which to date has been accredited by the Minister of the Environment.

Amendments to the Packaging Excise Duty Act which entered into force on 1 January 2005 and 10 July 2005 specified packaging excise duty liability and the possibilities for its transfer to a recovery organisation accredited by the Minister of Finance.

Alcohol, Tobacco and Fuel Excise Duty Act Amendment Act, which was adopted on 7 December 2005, provided new alcohol excise duty rates which will apply from 1 July 2006.

A significant event was also the preparation of the Code of Ethics of the Estonian Breweries Association, which was adopted on 30 June 2005. Members of the Association that signed the document voluntarily undertook to revise and agree the ethical principles to be observed in promoting and advertising alcohol.

Amendments to the Government of the Republic Regulation No 134 of 26 April 2004: *Approval of the Rules for the Definition, Description and Sales Presentation of Alcohol* changed the rules for the definition, description and sales presentation of other alcoholic beverages and amendments to Government of the Republic Regulation No. 324 of 19 December 2003: *Requirements to Food Labelling and the Procedure for Providing Information by Labelling and Other Means* changed the requirements to presenting information on allergens.

In addition, in 2005 the parliament passed the Commercial Code Amendment Act and Tallinn Stock Exchange adopted Generally Accepted Corporate Governance Principles. Both instruments which entered into force on 1 January 2006 are aimed at improving corporate governance and updating the regulation of related issues.

Highlights of 2005

- At the beginning of the year, Jaak Uus was appointed as the new Chairman of the Management Board of Saku Õlletehase AS.
- Saku Õlletehase AS was the first Estonian brewery to launch innovative high quality unbreakable packaging: the so-called AM bottle (the letters AM denote *Austusega Meistrilt!* – Respectfully from the Master), which has proven highly successful.
- Saku, the town housing the production facilities of Saku Õlletehase AS, was named Capital of Estonian Beer Culture.
- According to market research company EMOR, Saku Õlletehase AS is one of the three most prestigious companies in Estonia.
- One million Estonian kroons was won in a consumer game arranged by Saku Õlletehase AS.
- In the autumn, Saku Õlletehase AS successfully launched the first domestic super-premium beer *Saku Kuld*.
- Saku Õlletehase AS ended the year with a profit of EEK 75 million, 49.8 percent up on 2004.

Market and consumption

<u>Beer</u>
According to the Estonian Breweries Association, in 2005 (similarly to 2004) the Estonian beer market grew by 13.6 percent. The main growth drivers were cheaper beers but a significant role was also played by the new unbreakable AM bottle which Saku Õlletehase AS launched in February 2005. Saku Õlletehase AS' beer sales grew by 22 percent (2004: 11.6 percent).

In 2005, Saku Õlletehase AS not only remained the leader of the Estonian beer market but also increased its market share to 44.8 percent (2004: 41.6 percent), thereby further consolidating its position.

In the past financial year, the importance of glass bottles in the Estonian beer market declined. According to market research company ACNielsen, over the year the share of glass bottles dropped from 52 to 39 percent. The decrease is mainly attributable to an increase in the use of PET packaging which rose from 34 to 38 percent. The launch of the new unbreakable AM bottle surpassed expectations and by the year-end the three products which had been launched in AM packaging already accounted for 9 percent of the market. The share of cans levelled off at 14 percent of the market, mostly due to stabilization in the number of Finnish tourists.

In the fastest growing packaging segment, i.e. the PET segment, Saku Õlletehase AS increased its market share from 33.5 to 37 percent, thus attaining the leading position. Growth was facilitated by a successful launch of *Blond* and the sales of *Taurus* in 1-litre AM bottles and 2-litre PET packaging.

In the most expensive, premium segment Saku Õlletehase AS increased its market share from 46 to 57.5 percent. The launch of the new domestic super-premium brand *Saku Kuld* proved highly successful. The brand surpassed its sales targets almost three-fold and quickly became one of the main growth drivers of the last quarter where it seized 10 percent of the segment. Expansion in the segment was also facilitated by strong sales of the leading international beer brand *Carlsberg*.

In the highly competitive mainstream segment which is dominated by quality brands with the largest marketing support (*Saku Originaal, Rock* and *A Le Coq Premium*), Saku Õlletehase AS succeeded in increasing its share from 57 to 59 percent. This was achieved mainly thanks to the launch of the revolutionary AM bottle as packaging for *Saku Originaal* and *Rock*. With the AM bottle Saku Õlletehase AS continued its policy of enriching the Estonian beer market. The AM bottle combines the best qualities of PET and glass packaging - it is handy, convenient and preserves the fresh taste of beer.

In 2005, Saku Õlletehase AS expanded its share also in the cheap beers segment. The rise from 24 to 28.5 percent was attained mostly thanks to a successful launch of *Blond* and thriving sales of *Presidendi Pilsner* in an upgraded glass bottle.

In the strong beers segment, Saku Õlletehase AS increased the share from 41 to 45 percent, consolidating its leading position even further. Growth was attained mainly thanks to successful sales of *Taurus* (incl. in 1-litre AM bottle).

A successful launch of non-alcoholic *Saku Originaal* in a 0.5-litre bottle allowed the company to seize the leading position also in the non-alcoholic beers segment. Over the year, Saku Õlletehase AS' share of the segment grew from 27 to 34 percent. The launch of non-alcoholic *Saku Originaal* expanded the entire non-alcoholic beers segment. Compared to other European countries, however, the non-alcoholic segment of the Estonian beer market is still undersized, indicating strong potential for growth.

<u>Cider</u>

In 2005, the Estonian cider market grew by 13 percent to 7.3 million litres. Growth was accelerated by active product development which enriched the market with a number of new flavours. In the second half of the year, market growth was influenced by the launch of cider and juice mixes, a subcategory of cider (*Kiss Cariba*; *Fizz Cooler*). By the end of 2005, Saku Õlletehase AS' share of the Estonian cider market was 31.5 percent.

In 2005, sales of Saku Õlletehase AS' *KISS* line totalled 2.3 million litres (10 percent up on 2004). Growth was supported, above all, by active product development aimed at attracting the consumer with new flavours and enhancing the *KISS* brand. Sales were boosted by the launch of *KISS Light* in May 2005. *KISS Light* is the only domestic cider with a low calorie content which makes it appealing for weight conscious consumers. In addition to lightness, *KISS Light* attracts with a pleasant melon-raspberry flavour.

In November 2005, Saku Õlletehase AS launched *KISS Cariba*, a completely new *KISS* line that consists of mixed drinks (cider and juice). The first product was papaya-flavoured *KISS Cariba* in a 0.5-litre can. The *KISS Cariba* line was created to meet the demand for cider and juice mixes and to provide consumers with more refreshing and less sweet experiences.

According to a survey conducted in 2005 by market research company Saar Poll, 39 percent of the respondents considered Saku Õlletehase AS' *KISS* their favourite cider brand.

Long drink

In the past financial year, the Estonian long drink market expanded to 14.4 million litres (2004: 9.8 million litres; 38 percent up). Swift growth was triggered by vigorous product and flavour development. This is a beverage category with the most intense product development in Estonia. In 2005, market players launched new products almost every other month. According to market research company ACNielsen, in 2005 Estonian consumers were offered approximately 20 different flavours of long drink.

The market share of Saku Õlletehase AS was 26 percent, a slight improvement on 2004.

In 2005, the sales of Saku Õlletehase AS' *GIN Long Drink* grew to 3.5 million litres, 60 percent up on 2004. Growth resulted from energetic product (flavour) development as well as the implementation of large plastic bottles. In 2005, the company put a lot of effort in developing the *GIN Long Drink* brand. At the beginning of the year, the cactus-lemon flavoured long drink which had already attained success in small packaging was launched in 1.5 litre plastic bottles. According to market research company ACNielsen, over the year Saku Õlletehase AS increased its share in the segment of long drinks in large packaging from 16 to 24 percent.

In April, Saku Õlletehase AS launched *Power Long Drink*, a new energy drink-flavoured long drink, and in October *ApelGin Long Drink*, both of which had a positive impact of sales.

Mineral water

The Estonian mineral water market grew by 14 percent to 42.5 million litres. The main growth drivers were cheaper lines and the consumers' increasing awareness of the importance of a healthy and active lifestyle. The trend could be discerned already in 2004. In 2005, cheaper lines accounted for 37 percent of the water market (2004: 32 percent). The share of the premium segment remained steady at 5 percent.

A specific feature of the Estonian water market is a higher than average share of flavoured waters. According to market research company ACNielsen, in 2005 flavoured waters accounted for 36 percent and carbonated products for 74 percent of the water market.

In 2005, Saku Õlletehase AS' share of the water market remained stable at 11 percent. Outstanding results were attained with *Vichy Classique* which seized approximately a third of the mainstream waters segment. In March 2005, the line was supplemented with non-carbonated *Vichy Classique*.

In October, the *Montavit* line (the other product of Saku Õlletehase AS' water portfolio) was supplemented with mildly carbonated orange-flavoured *Montavit Active*. The product which has a fresh and clean taste and has been added minerals and vitamins belongs to the economy class.

Soft drinks

In contrast to other beverages, the Estonian soft drink market grew modestly (8 percent). Compared to 2004, however, growth has accelerated (2004: 3.4 percent). Around half of the Estonian soft drink market is ruled by colas and classical caramel-flavoured soft drinks.

Saku Õlletehase AS' market share remained similar to that of 2004, i.e. slightly above 6 percent. The market share of Saku Õlletehase AS' *Päikese Limps* (a line of clear lemonades) on the other hand increased from 4 to 5.4 percent.
In addition to the strawberry-melon flavour, the *Päikese Limps* line includes the traditional apple and peach-strawberry flavours.

Performance and operating results

In 2005, Saku Õlletehase AS sold 80.8 million litres of beverages, 18.6 percent or 12.7 million litres up on 2004. The company's sales revenue grew by EEK 114 million (€7.3 million), i.e. 21.5 percent (2004: 14.6 percent), to EEK 644.8 million (€41.2 million). The largest growth occurred in the sales of other alcoholic beverages.

Compared to 2004, revenue on the sales of other alcoholic beverages increased by EEK 31.2 million (€2 million), i.e. 57.3 percent (2004: 73.6 percent) to 13 percent (2004: 10.3 percent) of total sales revenue. Beer sales grew by EEK 80.4 million (€5.1 million), i.e. 18.8 percent, accounting for 78.8 percent (2004: 80.5 percent) of total revenue. In 2005, alcoholic beverages contributed 92 percent (2004: 90.8 percent) to total sales revenue.

As regards non-alcoholic beverages, sales of mineral water improved by EEK 3.3 million (€210,000), i.e. 14.1 percent, but their share of total sales revenue decreased slightly (from 4.33 percent to 4.07 percent). Income from sales of soft drinks dropped by 7.2 percent.

Expenses of the period totalled EEK 553 million (€35.34), EEK 85.5 million (€5.47 million) or 18.3 percent up on 2004. The largest growth occurred in personnel expenses, which increased by EEK 14.4 million (€0.9 million), i.e. 24.8 percent, but the ratio of personnel expenses to sales revenue remained more or less stable (2004: 10.9 percent; 2005: 11.2 percent). The ratio of the largest expense item, i.e. materials, consumables and services, to sales revenue declined (2004: 45.4 percent; 2005: 42.6 percent). The decrease in the expense ratio is also reflected by the ratio of operating profit to sales revenue (2004: 12.1 percent; 2005: 14.3 percent).

Growth in operating volumes and market share had a distinctly positive impact on the company's operating results: the year ended in a net profit of EEK 75 million (€4.8 million), a robust EEK 25 million (€1.6 million) or 49.8 percent upsurge on 2004.

Significant financial ratios as at 31 December 2004 and 31 December 2005 or for the years then ended:

	2005	2004
Export to sales ratio (%)	11.6%	10.9%
Net return on equity (%)	19.4%	13.5%
Net return on assets (%)	4.1%	2.8%
Operating margin (%)	14.3%	12.1%
Net margin (%)	11.6%	9.4%
Inventory turnover rate (times per year)	6.92	4.75
Property, plant and equipment turnover rate (times per year)	2.61	2.19
Dividend payout ratio (%)	111.9%	73.0%
Sales growth rate (%)	21.5%	14.6%

Formulas used:
Export to sales ratio (%) = exports / sales revenue X 100
Net return on equity (%) = net profit / average equity X 100
Net return on assets (%) = net profit / average assets X 100
Operating margin (%) = operating profit / sales revenue X 100
Net margin (%) = net profit / sales revenue X 100
Inventory turnover rate (times per year) = sales revenue / average inventory
Property, plant and equipment turnover rate (times per year) = sales revenue / average property, plant and equipment (carrying amount)
Dividend payout ratio (%) = Dividends paid / net profit for the preceding year X 100
Sales growth rate (%) = (sales revenue of the reporting year / sales revenue of the preceding year – 1) x 100

The share

At the end of 2005, Saku Õlletehase AS had 3758 shareholders. The average annual transaction price of the share was EEK 138.56 (€8.86). The highest and lowest prices of the year amounted to EEK 157.87 (€10.09) (13 April 2005) and EEK 101.70 (€6.50) (3 January 2005) respectively.

Personnel

In 2005, a new chairman of the management board was appointed to office. Together with the top and middle management he began updating the corporate values, and revising and streamlining the management system and processes. Special attention was paid to the development and expansion of the sales organisation. The work will continue in 2006.

Employee training and development are indispensable in improving competitiveness and attaining the strategic objectives of Saku Õlletehase AS. In 2005, the main efforts were put in developing the key competencies in marketing and sales but other significant areas were not overlooked either. For sustained personnel development, a number of new projects were launched, and partnerships with student associations Best and AIESEC, the Development Foundation of Tallinn University of Technology, etc were established.

At the end of 2005, Saku Õlletehase AS employed 240 people under contracts with an unspecified term. The annual average number of employees was 252. Employee remuneration expenses totalled EEK 54.2 million (€3.5 million). The remuneration of the supervisory board and top management amounted to EEK 3,099,000 (€198,000) (2004: EEK 5,462,000 (€349,000)). The total contingent severance liability to members of the top management, including taxes, amounts to EEK 3,669,000 (€234,000) (2004: EEK 1,440,000 (€100,000)).

Investment

In 2005, Saku Õlletehase AS' investments in property, plant and equipment and intangible assets totalled EEK 41 million (€2.6 million), a 5.4 percent increase on the EEK 38.9 million (€2.5 million) invested in the preceding year.

Investments in production and laboratory facilities amounted to EEK 27.7 million (€1.8 million). The largest amounts were directed at the enhancement of filling lines for both PET and glass packaging, and the improvement of water treatment facilities. Sales and logistics-related investments totalled EEK 9.8 million (€0.6 million) and EEK 2.5 million (€0.2 million) respectively, and investments in computer hard- and software amounted to EEK 0.9 million (€58,000).

Future outlook

The primary objective of Saku Õlletehase AS is to maintain its leading position in the Estonian beer market. Throughout its 185-year history Saku Õlletehas has been a beer expert and beer is going to retain its significant position in the company's product portfolio.

However, the company will also continue development in other beverage categories. Consumption patterns in the world have diversified and Saku Õlletehase AS intends to participate in any new beverage category that suits the taste of Estonian consumers. Good examples include flavoured light alcoholic beverages, new types of cider and mixed drinks (beer and soft drink, cider and juice, etc), flavoured and sweetened waters, and exciting soft drinks.

Other important objectives include sustaining sales growth and innovative product and packaging development, and taking advantage of unused opportunities in the HoReCA sector, both in respect of product development and attractive offers.

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 the shares of Saku Õlletehase AS 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) as adopted by the European Union.

The management board of Saku Õlletehase AS authorised this annual report for issue on 17 February 2006.

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 rests with the general meeting of the shareholders.

Statement of management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the annual financial statements of Saku Õlletehase AS for 2005 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 as adopted by the European Union;
- 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 Feabruary 2006

Jaak Uus
Chairman of Management Board

Janno Veskimäe
Member of Management Board

BALANCE SHEET

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
ASSETS				
Cash and cash equivalents	71,407	36,461	4,563	2,330
Trade receivables (Note 2)	57,918	43,319	3,701	2,768
Other receivables and prepayments (Note 3)	4,968	6,766	317	432
Inventories (Note 4)	76,751	109,674	4,904	7,009
TOTAL CURRENT ASSETS	211,044	196,220	13,485	12,539
Non-current assets				
Long-term financial investments (Note 5)	9,380	11,029	602	707
Property, plant and equipment (Note 6)	255,133	239,295	16,305	15,293
Intangible assets (Note 7)	1,175	596	76	38
TOTAL NON-CURRENT ASSETS	265,688	250,920	16,983	16,038
TOTAL ASSETS	476,732	447,140	30,468	28,577
LIABILITIES AND EQUITY				
Current liabilities				
Debt obligations (Note 8)		140		9
Trade payables	15,976	16,266	1,021	1,039
Other payables (Note 9)	41,728	29,958	2,666	1,914
Provisions (Note 10)	23,929	24,636	1,530	1,575
TOTAL CURRENT LIABILITIES	81,633	71,000	5,217	4,537
Equity (Note 11)				
Share capital	80,000	80,000	5,113	5,113
Statutory capital reserve	8,000	8,000	511	511
Other reserves	44,070	44,070	2,817	2,817
Retained earnings	188,070	194,032	12,020	12,401
Profit for the period	74,959	50,038	4,790	3,198
TOTAL EQUITY	395,099	376,140	25,251	24,040
TOTAL LIABILITIES AND EQUITY	476,732	447,140	30,468	28,577

INCOME STATEMENT

(In thousands)

	EEK		€	
	2005	2004	2005	2004
Revenue				
Sales revenue (Note 12)	644,836	530,865	41,212	33,928
Other revenue	149	705	10	46
Total revenue	644,985	531,570	41,222	33,974
Expenses				
Change in work in progress and finished goods inventories	3,129	-6,105	200	-390
Materials, consumables and services (Note 14)	274,842	241,305	17,566	15,422
Other operating expenses (Note 14)	153,073	125,292	9,783	8,008
Personnel expenses (Note 14)	72,474	58,081	4,632	3,712
Depreciation and amortisation charges (Notes 6, 7)	46,317	45,025	2,960	2,878
Other expenses (Note 14)	3,119	3,915	200	250
Total expenses	552,954	467,513	35,341	29,880
OPERATING PROFIT	92,031	64,057	5,881	4,094
Financial income and expenses (Note 15)	612	35	39	2
PROFIT BEFORE TAX	92,643	64,092	5,920	4,096
Income tax expense (Note 17)	17,684	14,054	1,130	898
PROFIT FOR THE PERIOD	74,959	50,038	4,790	3,198
Basic earnings per share (Note 16)	9.36	6.25	0.60	0.40
Diluted earnings per share (Note 16)	9.36	6.25	0.60	0.40

CASH FLOW STATEMENT

(In thousands)	EEK		€	
	2005	2004	2005	2004
Cash flows from operating activities				
Operating profit	92,031	64,057	5,881	4,094
Adjustments for				
Depreciation and amortisation charges (Notes 6, 7)	46,317	45,025	2,960	2,878
Result of non-current asset sales and write-off	24	-391	1	-25
Transformation of a long-term receivable into a short-term one	9	36		2
Non-cash expenses (Note 19)	1,844	1,914	118	123
Change in inventories	32,923	3,978	2,105	255
Change in receivables	-12,801	-9,495	-818	-607
Change in current liabilities	10,773	2,756	689	175
Transfer of reusable glass bottles from inventories to property, plant and equipment	-21,796		-1,393	
Interest paid	-233	-531	-15	-34
Corporate income tax paid (Note 17)	-17,684	-14,054	-1,130	-898
Net cash from operating activities	131,407	93,295	8,398	5,963
Cash flows from investing activities				
Acquisition of non-current assets (Notes 6,7)	-40,970	-38,901	-2,619	-2,487
Sales of non-current assets	8	453	1	29
Interest received	685	361	44	24
Net cash used in investing activities	-40,277	-38,087	-2,574	-2,434
Cash flows from financing activities				
Dividends paid (Note 11)	-56,000	-40,000	-3,579	-2,557
Payment of finance lease principal (Note 8)	-140	-701	-9	-45
Receipt of bank overdraft	62,586	61,016	4,000	3,900
Repayment of bank overdraft	-62,586	-61,016	-4,000	-3,900
Net cash used in financing activities	-56,140	-40,701	-3,588	-2,602
Increase in cash and cash equivalents	34,990	14,507	2,236	927
Effect of exchange rate fluctuations	-44	-69	-3	-5
Net increase in cash and cash equivalents	34,946	14,438	2,233	922
Cash and cash equivalents at beginning of period	36,461	22,023	2,330	1,408
Cash and cash equivalents at end of period	71,407	36,461	4,563	2,330
Net increase in cash and cash equivalents	34,946	14,438	2,233	922

STATEMENT OF CHANGES IN EQUITY

(In thousands of EEK)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Profit for the period	Total equity
1 January 2004	80,000	8,000	44,070	234,032		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
1 January 2005	80,000	8,000	44,070	244,070		376,140
Dividends paid				-56,000		-56,000
Profit for the period					74,959	74,959
31 December 2005	80,000	8,000	44,070	188,070	74,959	395,099

(In thousands of €)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Profit for the period	Total equity
1 January 2004	5,113	511	2,817	14,957		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
1 January 2005	5,113	511	2,817	15,599		24,040
Dividends paid				-3,579		-3,579
Profit for the period					4,790	4,790
31 December 2005	5,113	511	2,817	12,020	4,790	25,251

Notes to the annual financial statements

Note 1. Significant accounting policies

Statement of compliance

The annual financial statements of Saku Õlletehase AS have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.
The standards have been consistently applied.

The management board authorised these financial statements for issue on 17 February 2006.

Basis of preparation

The functional 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 (€). The figures in the financial statements are presented in thousands of currency units. The Estonian kroon is pegged to the euro at the rate of EEK 15.6466 to € 1. Therefore, no exchange differences arise.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Financial assets and liabilities

Financial assets comprise cash, shares and other securities, trade receivables, accrued income and other short- and long-term receivables. Financial liabilities comprise trade payables, accrued expenses and other short- and long-term debt obligations.

Financial assets and liabilities are initially recognised at cost, which is the fair value of the consideration given or received for them. The initial cost of a financial asset or liability comprises all expenses directly related to its acquisition.

The company recognises a financial asset or a financial liability on its balance sheet when the company becomes a party to the contractual provisions of the instrument. The company derecognises a financial asset when the company's contractual rights to the cash flows from the financial asset expire or it transfers the financial asset. The company removes a financial liability from the balance sheet when the liability is discharged, cancelled or expires.

A regular way purchase or sale of financial assets is recognised and derecognised using settlement date accounting.

Cash and cash equivalents
In the cash flow statement, cash and cash equivalents comprise cash on hand and at bank 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 amortised cost. The recoverability of amounts due 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 the expenditure 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 the estimated costs necessary to make the sale.

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

Inventories also include returnable packaging not subject to a deposit which is sold to customers together with the product. Returnable packaging not subject to a deposit consists of grouped and transport packaging which Saku Õlletehase AS has to repurchase at the buyer's request due to contractual obligations. The released quantities of the above packaging are determined on the basis of their estimated turnover ratio. The carrying amount of returnable packaging not subject to a deposit is equal to its repurchase price, which is also its selling price.

Since 1 October 2005 all glass bottles are subject to a deposit and the company sells packaged goods but not the packaging. As a result, returnable glass bottles belong to the company, they are used for more than one period and are therefore treated as items of property, plant and equipment.

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

Property, plant and equipment
Assets are recognised as items of property, plant and equipment when 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 and impairment losses. 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.

The Packaging Act provision requiring implementation of packaging deposits took effect on 1 October 2005. Since that date, returnable glass bottles which are subject to a deposit are recognised as items of property, plant and equipment.

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

IT equipment	20 - 33.3 %
Returnable packaging	10 - 20 %
Plant and equipment	10 - 20 %
Structures	5 - 10 %
Buildings	3 - 5 %
Land	0 %

If a component of property, plant and equipment has been recognised as a separate asset, its replacement, major inspection and overhaul costs are capitalised. 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. The carrying amount of parts of items of property, plant and equipment which are replaced subsequently is written off the balance sheet. All other expenditure is expensed when incurred.

Management reviews the useful lives of assets and asset groups periodically. When the utilisation intensity or period of an item changes, the depreciation rates are adjusted accordingly. The effect of the change in estimate on depreciation expense is recognised in the current and future periods.

Intangible assets

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

Items of property, plant and equipment which are acquired with finance lease are stated at an amount equal to the lower of their 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 out under the terms of 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 initially recognised at cost using settlement date accounting. Thereafter, the liabilities are measured at amortised cost using the effective interest rate method.

Trade and other payables
Trade and other payables are stated at amortised 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 Income Tax Act, until 31 December 2005 the tax rate for dividends was 24/76 of the amount distributed as the net dividend and from 1 January 2006 the rate is 23/77. 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 has been disclosed in Note 18.

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 percent) 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.

The company establishes packaging repurchase provisions. The company has a legal obligation to recover from the market returnable and one-way packaging which has been established a deposit. Returnable packaging not subject to a deposit is repurchased on the basis of agreements made with customers. The packaging repurchase provisions are calculated on the basis of the current deposit values or repurchase prices as appropriate.

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 sale and purchase of returnable packaging not subject to a deposit is recognised as other revenue or other expense depending on whether the transaction 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 percent of the shares of Saku Õlletehase AS;
- shareholders 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 events affecting the valuation of assets and liabilities that became evident between the balance sheet date and the date on which the financial statements were authorised for issue but are related to transactions of the reporting or prior periods.

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		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Due from customers	58,278	43,479	3,724	2,778
Write-off of irrecoverable receivables	-361	-177	-23	-11
Recovery of items previously written off	1	17		1
Total	**57,918**	**43,319**	**3,701**	**2,768**

The ratio of irrecoverable receivables written off in 2005 to sales revenue is 0.055 percent. Expenses related to the write-off of receivables are recognised as other operating expenses.

Note 3. Other receivables and prepayments

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Receivables from group companies (Note 13)	1,765	2,108	113	135
Miscellaneous receivables	116	1,658	8	106
Prepaid VAT		199		13
Prepaid expenses	1,687	1,401	107	89
Bonds issued by AS Rocca al Mare Suurhall (Note 5)	1,400	1,400	89	89
Total	**4,968**	**6,766**	**317**	**432**

Note 4. Inventories

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Materials	21,014	22,789	1,343	1,456
Work in progress	7,440	7,341	476	469
Finished goods	8,100	11,328	517	724
Merchandise purchased for resale	31,574	45,929	2,017	2,935
Prepayments to suppliers	93	169	6	11
Returnable packaging not subject to a deposit	8,530	22,118	545	1,414
Total	**76,751**	**109,674**	**4,904**	**7,009**

Write-off and write-down of inventories

(In thousands)	EEK		€	
	2005	2004	2005	2004
Materials	1,827	1,054	117	67
Finished goods	899	1,334	57	85
Returnable packaging not subject to a deposit	7,170	1,653	458	106
Total	**9,896**	**4,041**	**632**	**258**

The carrying amount of returnable packaging not subject to a deposit is written down to net realisable value on the basis of its maturity structure.

As at 31 December 2005, inventories stated at net realisable value totalled EEK 27,016,000 (€1,726,000). At the end of 2004, the corresponding figure was EEK 7,252,000 (€464,000).

Note 5. Financial instruments

(In thousands)	AS Rocca al Mare Suurhall B shares	AS Rocca al Mare Suurhall bonds	Long-term receivable	Total
	EEK(€)	EEK(€)	EEK(€)	EEK(€)
Number of instruments 31.12.2003	22	110		
Balance 31.12.2003	3,060 (196)	11,000 (703)	45 (3)	14,105 (902)
Incl. current portion		1,400 (89)		1,400 (89)
Incl. non-current portion	3,060 (196)	9,600 (614)	45 (3)	12,705 (813)
Redemption / change in value in 2004	-240 (-15)	-1,400 (-89)	-36 (-2)	-1676 (-106)
Ownership 2004	0.006			
Number of instruments 31.12.2004	22	96		
Balance 31.12.2004	2,820 (181)	9,600 (614)	9 (1)	12,429 (796)
Incl. current portion		1,400 (89)		1,400 (89)
Incl. non-current portion	2,820 (181)	8,200 (525)	9 (1)	11,029 (707)
Redemption / change in value in 2005	-240 (-15)	-1,400 (-89)	-9 (-1)	-1,649 (-105)
Ownership 2005	0.006			
Number of instruments 31.12.2005	22	82		
Balance 31.12.2005	2,580 (166)	8,200 (525)		10,780 (691)
Incl. current portion		1,400 (89))		1,400 (89)
Incl. non-current portion	2,580 (166)	6,800 (436)		9,380 (602)

Saku Õlletehase AS has 22 B shares in and 82 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 interest at 5 percent of the outstanding balance per year. The bonds are to be redeemed over the term of the cooperation agreement. The period’s interest income on the bonds (EEK 444,000 (€28,000)) has been recognised as financial income.

INCOME-EARNING FINANCIAL ASSETS

(In thousands of EEK)

	31.12.2005					31.12.2004				
	Effective interest rate	Maturing within				Effective interest rate	Maturing within			
		Up to one year	Between 1 and 5 years	Over 5 years	Total		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	1,200	8,200	5.00	1,400	5,600	2,600	9,600

(In thousands of €)

	31.12.2005					31.12.2004				
	Effective interest rate	Maturing within				Effective interest rate	Maturing within			
		Up to one year	Between 1 and 5 years	Over 5 years	Total		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	78	525	5.0	89	358	167	614

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 made 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) is 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 thousands of EEK)	Land	Buildings and constructions	Plant and equipment	IT equipment	Returnable packaging subject to a deposit	Assets leased out (Note 8)	Finance lease (Note 8)	Prepayments and investments in progress	Total
Cost 31.12.2003	**3,186**	**128,258**	**262,548**	**66,132**	**6,058**	**4,065**	**4,269**	**22,316**	**496,632**
Accumulated depreciation 31.12.2003		31,851	164,513	46,556	3,331	1,628	3,110		250,989
Carrying amount 31.12.2003	**3,186**	**96,407**	**98,035**	**19,576**	**2,727**	**2,437**	**1,159**	**22,316**	**245,843**
Addition		2,251	25,270	4,930		3,206		2,890	38,547
Reclassification		4,824	17,492					-22,316	0
Sales		-26	-1,935	-44					-2,005
Write-off, termination of lease			-5,705	-3,404			-3,043		-12,152
Depreciation of 2004		5,793	24,455	11,334	605	1,706	655		44,548
Cost 31.12.2004	**3,186**	**135,307**	**297,670**	**67,614**	**6,058**	**7,271**	**1,226**	**2,890**	**521,222**
Accumulated depreciation 31.12.2004		37,634	181,457	54,448	3,936	3,334	1,118		281,927
Carrying amount 31.12.2004	**3,186**	**97,673**	**116,213**	**13,166**	**2,122**	**3,937**	**108**	**2,890**	**239,295**
Addition			29,940	5,142		3,494		1,407	39,983
Reclassification			2,890		21,796			-2,890	21,796
Sales			-333	-23					-356
Write-off, termination of lease		-156	-1869,	-9,311	-63		-1,226		-12,625
Depreciation of 2005		6,457	27,254	7,789	1,661	2,640	108		45,909
Cost 31.12.2005	**3,186**	**135,151**	**328,298**	**63,422**	**27,791**	**10,765**		**1,407**	**570,020**
Accumulated depreciation 31.12.2005		43,964	206,509	52,906	5,534	5,974			314,887
Carrying amount 31.12.2005	**3,186**	**91,187**	**121,789**	**10,516**	**22,257**	**4,791**		**1,407**	**255,133**

(In thousands of €)	Land	Buildings and constructions	Plant and equipment	IT equipment	Returnable packaging subject to a deposit	Assets leased out (Note 8)	Finance lease (Note 8)	Prepayments and investments in progress	Total
Cost 31.12.2003	**204**	**8,196**	**16,781**	**4,227**	**387**	**260**	**273**	**1,426**	**31,754**
Accumulated depreciation 31.12.2003		2,036	10,516	2,975	212	104	199		16,042
Carrying amount 31.12.2003	**204**	**6,160**	**6,265**	**1,252**	**175**	**156**	**74**	**1,426**	**15,712**
Addition		144	1,615	315		205		185	2,464
Reclassification		308	1,118					-1,426	0
Sales		-2	-124	-3					-129
Write-off, termination of lease			-365	-218			-194		-777
Depreciation of 2004		370	1,563	724	39	109	42		2,847
Cost 31.12.2004	**204**	**8,646**	**19,025**	**4,321**	**387**	**465**	**79**	**185**	**33,312**
Accumulated depreciation 31.12.2004		2,405	11,599	3,479	251	213	72		18,019
Carrying amount 31.12.2004	**204**	**6,241**	**7,426**	**842**	**136**	**252**	**7**	**185**	**15,293**
Addition			1,913	329		223		90	2,555
Reclassification			185		1,393			-185	1,393
Sales			-21	-1					-22
Write-off, termination of lease		-10	-120	-595	-4		-79		-808
Depreciation of 2005		413	1,741	498	106	169	7		2,934
Cost 31.12.2005	204	8,636	20,982	4,054	1,776	688		90	36,430
Accumulated depreciation 31.12.2005		2,810	13,199	3,381	353	382			20,125
Carrying amount 31.12.2005	**204**	**5,826**	**7,783**	**673**	**1,423**	**306**		**90**	**16,305**

The requirement for the implementation of packaging deposits which was provided in the Packaging Act adopted in 2004 entered into force on 1 October 2005. At that date, returnable glass bottles subject to a deposit (both those in stock and those in the possession of customers) were recognised as items of property, plant and equipment at cost (EEK 21,796,000 (€1,393,000)).

Assets leased out comprise bar furniture, which has been leased under the terms of operating lease to support HoReCa sales. At 31 December 2005, the carrying amount of the furniture was EEK 4,791,000 (€306,000). At the end of 2004, the corresponding figure was EEK 3,937,000 (€252,000). Information on operating lease income has been presented in Note 8. In determining the value in use of the assets, future cash flows have been identified on the basis of estimated lease income and the profit earned on the products sold to the lessee.

In addition, customers have accepted into storage with liability sales support equipment belonging to the company. As at 31 December 2005, the carrying amount of such equipment was EEK 13,928,000 (€890,000). As at 31 December 2004, the corresponding figure was EEK 16,626,000 (€1,062,000). As at 31 December 2005, the carrying amount of returnable packaging subject to a deposit that was in the possession of customers was EEK 10,610,000 (€678,000). As at 31 December 2004, the corresponding figure was EEK 14,380,000 (€919,000).

Note 7. Intangible assets

Movements in intangible assets

(In thousands)

	EEK	€
Cost 31.12.2003	**1,759**	**112**
Accumulated amortisation 31.12.2003	1,040	66
Carrying amount 31.12.2003	**719**	**46**
Addition	354	23
Amortisation of 2004	477	31
Cost 31.12.2004	**2,113**	**135**
Accumulated amortisation 31.12.2004	1,517	97
Carrying amount 31.12.2004	**596**	**38**
Addition	987	64
Write-off	-559	-36
Amortisation of 2005	408	26
Cost 31.12.2005	**2,541**	**163**
Accumulated amortisation 31.12.2005	1,366	87
Carrying amount 31.12.2005	**1,175**	**76**

Intangible assets comprise computer software that has long-term significance for 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 Õlletehase AS leases out bar furniture. Further information on this can be found in the "Assets leased out" column of Note 6. The period's operating lease income on assets leased out amounted to EEK 93,000 (€6,000). In 2004 the corresponding figure was EEK 82,000 (€5,000). Operating lease income is recognised as sales revenue. The lease income of subsequent periods breaks down as follows:

receivable within up to 1 year – EEK 61,000 (€4,000);
receivable between 1 and 4 years – EEK 56,000 (€4,000).

The company as a lessee

Finance lease

The company's finance lease agreements expired in August 2005. The cost, accumulated depreciation and carrying amount of motor vehicles acquired with finance lease have been presented in the "Finance lease" column of Note 6.

FINANCE LEASE OF MOTOR VEHICLES

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Principal paid during the period	140	701	9	45
Interest paid during the period	13	121	1	8
Minimum amount of lease payments		140		9
falling due within 1 year		140		9
falling due between 1 and 4 years				
… incl. principal		127		8
falling due within 1 year		127		8
falling due between 1 and 4 years				

The depreciation charge for 2005 amounted to EEK 185,000 (€7,000) and was recognised in the income statement in depreciation and amortisation expense.

<u>Operating lease</u>

During the financial year, the company had 65 operating lease agreements on motor vehicles and 3 on production plant and equipment. Operating lease payments for motor vehicles amounted to EEK 3,077,000 (€197,000) and those for production plant and equipment to EEK 321,000 (€21,000) Payments made for additional warehouse space totalled EEK 1,350,000 (€86,000).

OPERATING LEASE

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Lease payments made during the period	3,398	4,423	217	283
Incl. contingent lease payments for plant and equipment	108	468	7	30
Minimum amount of outstanding lease payments	7,221	4,524	462	289
Incl. payable within up to 1 year	3,188	2,380	204	152
payable between 1 and 5 years	4,033	2,144	258	137

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 the company's dividend or financing policies and leased assets have not been sublet.

Note 9. Other payables

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Alcohol excise duty	16,699	15,644	1,067	1,000
Value-added tax	9,606	7,493	614	479
Social tax	2,044	72	131	4
Income tax on fringe benefits, non-business and entertainment expenses	252	105	16	7
Personal income tax	1,232		79	
Unemployment insurance premiums	80		5	
Funded pension contributions	71		4	
Payables to employees	3,508	3,095	224	198
Payables to group companies (Note 13)	2,708	471	173	30
Other accrued expenses	5,528	3,078	353	196
Total	**41,728**	**29,958**	**2,666**	**1,914**

Note 10. Provisions

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Obligation to recover returnable packaging subject to a deposit	13,524	2,518	865	161
Obligation to recover one-way packaging subject to a deposit	2,441		156	
Obligation to repurchase returnable packaging not subject to a deposit	7,964	22,118	509	1414
Total	**23,929**	**24,636**	**1,530**	**1,575**

Provisions for the obligation to repurchase packaging have been established to cover the expenses that could arise on the repurchase of packaging circulating in the market as at 31 December 2005 in an amount equal to the deposit or repurchase value of the packaging. The obligation results from the Packaging Act and the nature of the company's business. Glass and plastic bottles and metal cans were established deposits in 2005 in connection with the entry into force of the implementing provision of the Packaging Act which required implementation of deposits.

The provision for the obligation to repurchase packaging subject to a deposit has been calculated as a difference between the deposits of packaging released and the deposits of packaging not recovered from the market. The provision for returnable packaging not subject to a deposit is adjusted at each balance sheet date using quantities found on the basis of the estimated turnover rate and the repurchase price of the packaging. The obligation to repurchase returnable packaging is a short-term obligation because the estimated return period of packaging does not exceed one year. If it appears during a reporting period that the return rate of packaging is less than 100 percent, the liability becomes smaller and the provision is adjusted accordingly.

Note 11. Equity

The share capital of Saku Õlletehase AS amounts to EEK 80 million (€5.113 million) and is made up of 8 million registered ordinary 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 80 million (€5.113 million) and EEK 320 million (€20.45 million) respectively. The number of shares issued did not change during the reporting period. Shareholders are entitled to receive dividends and have one vote per share at meetings of the company. On 7 April 2005 the general meeting approved the proposal of the management board to declare for 2004 a net dividend of EEK 56 million (€3.6 million), i.e. EEK 7 (€0.44) per share. The dividend was paid out on 16 May 2005.

The statutory capital reserve of EEK 8 million (€511,000) has been established in accordance with the requirements of the Commercial Code. The capital reserve is established with annual net profit transfers. Every year, the company has to transfer to capital reserve at least 1/20 of its net profit until the reserve amounts to 1/10 of the share capital. Capital reserve may be used to cover losses and to increase share capital but it cannot be used to make distributions to shareholders.

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

Note 12. Sales revenue

SALES OF PRODUCTS AND SERVICES

(In thousands)	EEK		€	
	2005	2004	2005	2004
Beer	507,812	427,417	32,455	27,318
Other alcoholic beverages	85,727	54,504	5,479	3,483
Mineral water	26,257	23,007	1,678	1,470
Soft drinks	20,070	21,615	1,283	1,381
By-products	1,511	1,234	96	79
Services	828	1,270	53	81
Other goods	2,631	1,818	168	116
Total	**644,836**	**530,865**	**41,212**	**33,928**

SALES BY MARKETS

(In thousands)	EEK		€	
	2005	2004	2005	2004
Estonia	574,639	469,262	36,726	29,991
Lithuania, Latvia, Finland, Ukraine, Denmark	70,197	61,603	4,486	3,937
Total	**644,836**	**530,865**	**41,212**	**33,928**

Note 13. Related party transactions

Related party transactions include transactions with the direct parent Baltic Beverage Holding AS (BBH), companies belonging to BBH group, Carlsberg A/S and Scottish & Newcastle plc and companies belonging to Carlsberg A/S and Scottish & Newcastle plc groups (Carlsberg A/S and Scottish & Newcastle plc are shareholders of Baltic Beverage Holding AS). Sales comprise the sales of finished goods and filling services, and the letting of premises. Purchases include purchases of merchandise, packaging, and management and consulting services. Purchase and sales transactions with related parties have been performed using the transfer prices of BBH Group.

Purchases by Saku Õlletehase AS

(In thousands)	EEK		€	
	2005	2004	2005	2004
The parent company Baltic Beverages Holding AB	6,543	3,494	418	223
Companies belonging to the same group as the parent	32,071	38,340	2,050	2,450
Shareholders of the parent	2,283	1,174	146	75
Companies belonging to the same groups as shareholders of the parent	15,257	3,742	975	239
Total	**56,154**	**46,750**	**3,589**	**2,987**

Sales by Saku Õlletehase AS

(In thousands)	EEK		€	
	2005	2004	2005	2004
The parent company Baltic Beverages Holding AB		77		5
Companies belonging to the same group as the parent	50,163	39,786	3,206	2,543
Shareholders of the parent	182	636	12	41
Companies belonging to the same groups as shareholders of the parent	10,652	11,857	681	758
Total	**60,997**	**52,356**	**3,899**	**3,347**

Receivables from related parties

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Companies belonging to the same group as the parent	459	1,380	29	88
Shareholders of the parent		61		4
Companies belonging to the same groups as shareholders of the parent	1,306	667	84	43
Total	**1,765**	**2,108**	**113**	**135**

Liabilities to related parties

(In thousands)	EEK		€	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
The parent company Baltic Beverages Holding AB	472		30	
Companies belonging to the same group as the parent	1,159	450	74	29
Shareholders of the parent	295	21	19	1
Companies belonging to the same groups as shareholders of the parent	782		50	
Total	2,708	471	173	30

In the balance sheet, royalty liabilities to Carlsberg Breweries A/S which at 31 December 2005 amounted to EEK 89,000 (€6,000) (31 December 2004: EEK 522,000 (€33,000)) have been recognised as accrued expenses.

In 2005, payments made to management and supervisory board members totalled EEK 3,099,000 (€198,000). In 2004 the corresponding figure was EEK 5,462,000 (€349,000). The total contingent severance liability to members of the top management, including taxes, amounts to EEK 3,669,000 (€234,000). In 2004, the figure was EEK 1,440,000 (€100,000).

Note 14. Expenses

(In thousands)	EEK		€	
	2005	2004	2005	2004
Raw materials	76,668	72,871	4,900	4,657
Ancillary materials	119,187	99,843	7,618	6,381
Imported beverages	29,421	34,613	1,880	2,212
Other	49,566	33,978	3,168	2,172
Total materials, consumables and services used	**274,842**	**241,305**	**17,566**	**15,422**
Advertising expenses	57,439	44,451	3,671	2,841
Transportation and vehicle expenses	45,840	38,898	2,930	2,486
Sewerage expenses	5,691	5,521	364	353
Renovation of buildings and equipment repair	3,851	4,616	246	295
Purchase of other services	29,043	23,699	1,856	1,515
Other expenses	11,209	8,107	716	518
Total other operating expenses	**153,073**	**125,292**	**9,783**	**8,008**
Wages and salaries	54,182	43,365	3,463	2,772
Social security charges	18,058	14,521	1,154	928
Unemployment insurance premiums	234	195	15	12
Total personnel expenses	**72,474**	**58,081**	**4,632**	**3,712**
Losses from non-current asset sales and write-off	30	144	2	9
Sponsoring, entertainment expenses and expenses not related to the core production	2,304	2,634	148	168
Interest on arrears paid	48	14	3	1
Purchase and sale of packaging	581	916	37	59
Foreign exchange loss	156	207	10	13
Total other expenses	**3,119**	**3,915**	**200**	**250**

Note 15. Financial income and expenses

(In thousands)	EEK		€	
	2005	2004	2005	2004
Interest income	1,129	875	72	56
Total financial income	**1,129**	**875**	**72**	**56**
Interest expense	233	531	15	34
Foreign exchange loss	44	69	3	5
Financial expenses related to shares	240	240	15	15
Total financial expenses	**517**	**840**	**33**	**54**
Financial income and expenses	**612**	**35**	**39**	**2**

Note 16. Earnings per share

(In thousands)	EEK		€	
	2005	2004	2005	2004
Net profit	74,959	50,038	4,790	3,198
Number of shares	8,000,000	8,000,000	8,000,000	8,000,000
Basic earnings per share	**9.36**	**6.25**	**0.60**	**0.40**
Diluted earnings per share	**9.36**	**6.25**	**0.60**	**0.40**

Basic earnings per share are found by dividing net profit for the period by the period's weighted average number of shares issued. The company's diluted earnings per share equal its basic earnings per share.

Note 17. Income tax expense

(In thousands)	EEK		€	
	2005	2004	2005	2004
Dividends paid	56,000	40,000	3,579	2,556
Income tax rate applied	31.6%	35.1%	31.6%	35.1%
Income tax expense	**17,684**	**14,054**	**1,130**	**898**

In accordance with the present Income Tax Act, in 2004 the income tax rate for dividends was 26/74 (35.1 percent) of the amount distributed as the net dividend. In 2005 the rate was 24/76 (31.6 percent).

Note 18. Contingent liabilities

At 31 December 2005, the undistributed profits of Saku Õlletehase AS amounted to EEK 263,029,000 (€16,811,000). At 31 December 2004 the corresponding figure was 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 60,497,000 (€3,866,000). At the end of 2004 the corresponding figure was EEK 58,577,000 (€3,744,000). Thus, the amount that could be distributed as the net dividend is EEK 202,532,000 (€12,945,000). At the end of 2004, the corresponding figure was 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 2006 cannot exceed the distributable profits as of 31 December 2005.

The management board has proposed that EEK 80,000,000 (€ 5,113,000), i.e. EEK 10 per share, be distributed to shareholders as dividends. The proposal has to be approved by the general meeting. The distribution would result in an income tax liability of EEK 23,896,000 (€ 1,527,000).

The alcohol excise duty liability to the Customs Board has been secured with a bank guarantee as required by law. The guarantee amounts to EEK 3,130,000 (€200,000) and is valid from 11 November 2005 to 13 February 2007.

Note 19. Non-cash transactions

The income receivable on AS Rocca al Mare Suurhall bonds belonging to Saku Õlletehase AS is offset against Saku Brewery's liability to AS Rocca al Mare Suurhall.

The liability is related to advertising services rendered under a cooperation agreement. In 2005 the offset amount was EEK 1,844,000 (€118,000). In 2004 the corresponding figure was EEK 1,914,000 (€123,000).

3. SIGNATURES

The annual report of Saku Õlletehase AS for 2005, comprising the review of operations and the 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:

Janno Veskimäe

Supervisry board members:

Cardo Remmel

Piotr Sanetra

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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 2005 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 10 to 33. 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 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 17 February 2006

KPMG Baltics AS

Andris Jegers
Authorised Public Accountant

Viktoria Kuusk
Authorised Public Accountant

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 80,000,000 (€ 5,113,000), i.e. EEK 10 (€ 0,64) 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 other reserves of EEK 44,070,00 (€2,817,000 tuhat EUR).
- increase retained earnings by net profit for 2005 of EEK 74,959,000 (€ 4,790,000); and
- distribute the dividend of EEK 80,000,000 (€ 5,113,000) from retained earnings.