SAKU ÕLLETEHASE AS

ANNUAL REPORT 2007

Principal activities	production, wholesale, and import and export of low alcohol beverages, table water and soft drinks
Beginning of financial year	1 January 2007
End of financial year	31 December 2007
Auditor	Andris Jegers KPMG Baltics AS
Commercial Register number	10030278
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Corporate website	www.saku.ee

Saku Õlletehase AS is managed by a two-member management board. The chairman of the management board is Ireneusz Piotr Smaga.

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

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1. Review of operations

1.1 Brief overview of the Company

The origins of Estonia's largest and oldest brewery – Saku Õlletehas (Saku Brewery, Saku) – can be traced back to 1820 when the first beer was made in a small brewery founded by count Karl Friedrich von Rehbinder, the owner of Saku manor. Backed by tradition and the experience of almost two centuries, Saku Brewery continues to flourish. For the past decades, the company has been the leader of the Estonian beer market and the leading brewery in the country.
The product portfolio of Saku Õlletehase AS includes the most popular Estonian beer brand Saku Originaal, the first domestic premium beer Saku Kuld and other strong brands in each beer segment. In addition to strong domestic brands, the company distributes the well-known international beer brand Carlsberg. The product range also includes the KISS line of ciders, the SIN line of premium long drinks, the ZIP line of mainstream long drinks, as well as premium table water Vichy Classique and still flavoured water Vichy VivaFresh. Since 2007, Saku Õlletehase AS has been distributing the products of the Finnish beverage producer Sinebrychoff.
Majority of output is sold in the domestic market, approximately 15% is exported. The main export markets are the Baltic States and Finland, but also Ireland, Canada and the USA.

The strategic approach of Saku Õlletehase AS is to be the leading company in the beer market, focus on quality segment development and to grow in other beverage categories in aim of profitability.

The shares of Saku Õlletehase AS are listed in the secondary list of the Tallinn Stock Exchange. The company's share capital amounts to 80 million kroons. Seventy-five percent of the shares are held by the European beverage group Baltic Beverage Holding AB (BBH), whose shareholders are Carlsberg Breweries (50%) and Scottish & Newcastle (50%), and twenty-five percent belong to small shareholders (both companies and individuals).

As the leader of the Estonian beer market, Saku Õlletehase AS is committed to contributing to the development of the Estonian society by supporting sports and culture as well as various national initiatives.

1.2. Operating environment

1.2.1 Legal environment

The legal environment of 2007 brought upheaval for Estonian beverage producers. The industry's long-term strategic plans and the principles of the national alcohol policy were disrupted by an unexpected change in the schedule for increasing the national excise duty rates.
In 2008, the performance of Saku Õlletehase AS will be affected by the new excise rates provided in the Alcohol, Tobacco, Fuel and Electricity Excise Duty Act which took effect on 1 January 2008. With extremely short notice, legislative amendments revoked the schedule for increasing the national excise rates which had been adopted three years before, raising the Estonian excise rate for beer among the highest in the EU.

Chaotic regional sales restrictions imposed with uncommonly short warning hampered the industry's competitiveness, triggering beer market decline in the second half of the year, a trend aggravated by the continuing rise of other alcoholic beverages, especially strong alcohol.

In 2007, the Ministry of Economic Affairs and Communications drafted an amendment to the Advertising Act which postpones the start time for beer commercials by one hour but leaves the restrictions for strong alcohol unchanged. The bill is currently in the Parliament.

Other legislative changes were less significant for Saku Õlletehase AS. Amendments to Tallinn Stock Exchange rules (Requirements for Issuers section) and the Securities Act implemented for harmonizing national legislation with the provisions of the Transparency Directive (2004/109/EC) allow listed companies to choose any media channel which complies with the requirements of the Securities Act for disseminating information within the EU. As a result of the change, it is no longer necessary to disclose information first to the stock exchange. Instead, this may be done simultaneously with the disclosure of information via the chosen media channel. The amendments took effect in November. As Saku Õlletehase AS has always paid a lot of attention to notifying the public including the media, the regulation did not cause major changes to our practice. Amendments to the Consumer Protection Act and Law of Obligations Act, which took effect in December, prohibit dishonest and aggressive trading practices. Since Saku Õlletehase AS has never resorted to dishonest or aggressive sales and marketing activities, the amendments did not require us to make any changes.

1.2.2 Macroeconomic environment

In 2007, the development of the beverage industry was strongly affected by the overall cooling of the Estonian economy in the second half of the year and global price pressures, especially on raw materials.

Global price hikes prompted by a lack of capacities caused by rapid growth in Asian markets have raised the prices of hop, malt, molasses and packaging. The pressure on the prices of raw materials and an upsurge in national excise rates generate inflation and price escalation. This, in turn, influences the domestic consumers' brand preferences and subsequent years' market dynamics. According to the projections of the central bank and several commercial banks, inflation will slow down in the second half of 2008.

One of the factors that has led to the cooling of the macroeconomic environment is the decrease in tourism which has driven the beer market since 2004 when Estonia joined the EU. According to the Ministry of Finance, in the third quarter of 2007 the number of foreign tourists staying in Estonia decreased by 5.5% and hotels' and restaurants' revenue growth decelerated while growth in their operating expenses accelerated, bringing about a deterioration in profitability indicators.
The bill prepared by the Finnish government which foresees an increase in Finnish alcohol excise rates gives hope that the downward trend in purchases by tourists may turn around.

Similarly to other sectors, in 2007 the fixed costs of the beverage industry were materially affected by upward pressure on labour costs, resulting, among other factors, from the opening of the Finnish labour market to the new member states and the ensuing outflow of qualified labour as well as the rise of the Estonian construction sector. The central bank does not expect a notable rise in unemployment because labour needs in other countries will remain high. However, we believe that the situation may be alleviated by the contraction of the real estate and construction sector and the changes in several sectors of the manufacturing industry, which may release a substantial number of qualified workers.

According to the Ministry of Finance, in the third quarter of 2007, the Estonian economy grew by 6.4% while private consumption grew by 5.1% year-over-year. In monetary terms, households' expenditures on goods and services increased by 11.8%. The consumption of semi-durable goods remained high but the growth in the consumption of non-durable goods decreased by a half and the consumption of durables plummeted below the figure measured a year ago. In November, the rise in consumer prices reached 9.1%, 0.6 percentage points up on October.

1.2.3. Market and consumption

According to the Estonian Breweries' Association, in 2007 the Estonian beer market shrank by 1.4% to 128 million litres. Compared with prior years, the beer market seems to be stabilising against continuing rise of other alcoholic beverages.

In the first half of the year, the beer market continued growing but the months of the second half-year brought strong setbacks which left the overall volume at the level of 2006. The shrinkage of the market may be explained by the overall cooling of the economic environment, including a decrease in tourism which has driven alcohol sales in Estonia since 2004 when Estonia joined the EU, as well as chaotic regional sales restrictions which have caused a notable fall in the sales of premium brands. Excise duty recovery statistics show that in 2007 sales of vodka, wine and strong wine shot up by more than 10%.

Saku continues the leading role in Estonian beer market. According to market research company ACNielsen, in 2007 the Estonian beer market broke down between players as follows: Saku Õlletehase AS, the market leader, 46.3% (2006: 47.3%), AleCoq 34.2% (2006: 33.0%), Viru Õlu 4.4% (2006: 6.2%) and private label 10.1% (2006: 6.2%).

The largest increase was not achieved by any producer but the segment of unbranded and supermarkets' own products or private labels whose share already surpasses 10%, diminishing the value of the whole market. The main owners of private labels are supermarket chains VP Market and Säästumarket.

Saku continues the leading role on quality beer market development by owning approximately 60% share from premium and mainstream segment. According to ACNielsen, in terms of value, the Estonian beer market of 2007 broke down as follows: Saku Õlletehase AS, the driver of premium brands, 50.1%, AleCoq 34.8%, Viru Õlu 3.3% and private label 5.3%.

Saku continues active expenditure on other beverages markets. During the period, in other beverage markets, Saku production growth surpassed market general growth. The Estonian water market expanded largely thanks to active development of our flavoured Vichy Viva Fresh. If the market grew by 2%, sales of our water line shot up by an exceptional 38%.
Although the cider market shrank due to the same reasons as the beer market (7% contraction), Saku Õlletehase AS was able to increase cider sales thanks to successful product development. While the long drink market grew by 8% year-over-year, sales of Saku's products increased by a strong 35%.
The ice tea and energy drinks markets which are currently small and developing continue growing. In 2007, the domestic energy drink market grew by 44% and ice tea market by 67%. Saku entered those markets in the middle of 2007.

1.3. Highlights of 2007

Organisation:

- We implemented a new corporate logo which combines Saku's brewing tradition with the concept of product innovation and clearly positions Estonia's oldest brewery as the leader of the local beverage industry.
- We adjusted quickly to the macroeconomic and market changes of the second half-year, achieving strong operating results in the context of less favourable market dynamics.

Market position

- We maintained our leading position in the beer market, the leading position in the quality beer segment.
- Saku's sales in other beverages market surpassed market growth and we gained the leading position in the water market.
- We remained committed to product and brand development.

In 2007, we extended our premium cocktail line Sin, launched Vichy Classique Ice Tea and innovative long drink Zip Freezer, and supplemented our Kiss line with strawberry and peach flavoured ciders. In addition, we launched domestic energy drink Traffic, began producing international cider brand Strongbow Gold, attained dramatic growth in the water market through strong sales of Vichy Viva Fresh and re-launched Zip Grape which contains natural juice.

Exports and international relations

- In the reporting period, we began exporting our premium beer Saku Kuld to the Finnish market where it is carried in the product portfolio of the largest local brewery Sinebrychoff.
- We launched exports to Ireland and Germany and increased exports to Canada and the USA.
- We were the first in Estonia to be granted the right to produce an international brand - Scottish & Newcastle awarded us the rights to produce international cider brand Strongbow. In 2007, we developed and launched natural cider Strongbow Gold.

Investments

- Saku opened BBH's Baltic product development centre complete with lab equipment and highly qualified experts, which has already yielded several product innovations for Estonia, Latvia and Lithuania. The centre in Saku has developed Sin cocktails, beer drink DLight, Vichy Ice Tea and Viva Fresh flavoured waters whose sales are expanding in all Baltic countries.
- Saku was the first in Estonia to implement new generation multi-pack technology – the first plastic-based wrapping system for both cans and bottles.
- Saku was the first in Estonia to implement new generation ring pull cap technology for both beer and cider packaging.
- We established a centre for the manufacture of new wine with a view to producing ciders and other low alcohol beverages, and to ensure the availability of natural ingredients for Strongbow Gold.
- Total investments amounted to 88.3 million kroons (5.6 million euros), the main investments were made in technology and quality development as described above.

1.4. Performance and results of operation

The management board of Saku Õlletehase AS gave a good assessment to the business result of 2007. Compared to last year, Saku increased and diversified its revenue base and developed its position in the beer and other beverages market. Saku Õlletehase AS earned the highest ever operating profit in 2007, compared to previous years.

Revenue growth was driven by a rise in the sales of premium brands and later by above-market growth in the sales of other beverages. The increase in beer and other beverage sales was achieved thanks to long-term strategic investment in product and brand development. Besides good revenue growth, the business result was affected by the improvement in operating efficiency which may be attributed to rapid adjustment to changes in market dynamics and effective cost management in the second half of the year. Expenses were affected by personnel, raw material, packaging costs, which affected all domestic breweries. As the market leader, the brewery has to uphold the value of the market in a long term perspective by marketing activities focused on quality brands in spite of strong and economy segment driven market in the second half of year.

Saku Õlletehase AS ended 2007 with revenue of 920.1 million kroons (58.8 million euros), a 16% increase on 2006. Operating profit grew by 15% to 157.3 million kroons (10.0 million euros). Revenue growth was driven by quality brand sales in beer and other beverages market (mainly water and cider sales).

Our beverage sales totalled 92.7 million litres against 91.8 million litres in 2006. In the first half-year, beer sales were driven, first and fore most, by premium brands which are Saku's priority and account for approximately 60% of the premium beer market. The growth drivers included Saku Kuld, Saku on Ice, Saku DLight and Saku Originaal. Sales were supported by innovative product and packaging developments, especially the new generation ring pull cap and plastic wrapping for bottles. In the third and fourth quarters, market dynamics changed. The rise of premium brands levelled off while the sales of strong beer began climbing.
According to market research company AC Nielsen, Saku Õlletehase AS is the market leader in both quantitative and monetary terms. Our focus on premium brands finds reflection in the value-based distribution of the market where our share exceeds one half (ACNilesen: Saku Õlletehase AS 50.1%, the closest competitor Tartu Õlletehas 34.8%).

The company was successful in exports. In 2007, exports soared by 21%, accounting for 18% of quantitative sales. The main export markets were the other Baltic countries. Premium beer Saku Kuld was exported to Finland where it was distributed by the local market leader Sinebrychoff. In the third quarter, we increased exports of Saku Kuld and Saku Originaal to Canada, the USA, and Germany and began their export to Ireland.

Expenses increased because of sales growth. The largest rise occurred in the cost of materials, consumables and services used, primarily on account of an increase in the sales of goods distributed in one-way packaging. The period saw an upswing in the prices of packaging, especially cans whose prices rose by 10%. The growth in sales also boosted transport expenses. Raw materials costs increased in connection with a global upsurge in related prices, a trend affecting all European producers. Raw materials prices have rocketed because of an upturn in beer production, led by Asian, especially the Chinese beer market. The output of malt barley and hop does not meet the producers' needs. Increasing demand has doubled the world market price for malt and almost doubled the price for hop. In addition to limited capacities, barley supplies have been adversely affected by previous year's poor crop. The rise in wheat prices has triggered a 10% increase in the price of molasses. As the rest of Estonian companies, the company workforce expenses was higher compared to last year same period.

Net profit for 2007 amounted to 100.0 million kroons (6.4 million euros), 12% down from 2006 due to larger first quarter divided tax expense. Dividends paid for 2006 were the largest ever. As a result, the tax expense incurred was approximately 50% larger than the one incurred in the same period of 2006.
Twenty-five percent of the company's shares are held by small shareholders, mostly individuals residing in Estonia.
Fourth quarter revenue amounted to 197.3 million kroons (12.6 million euros), a 12% increase year-over-year. Operating profit for the fourth quarter amounted to 9.6 million kroons (617 000 euros) against 6.7 million kroons (0.4 m euros) for the fourth quarter of 2006. The quarter ended in a net profit of 9.6 million kroons (611 000 euros). The main revenue drivers were other beverages and the main achievement maintaining the value-based share in the beer market regardless of the overall shrinkage. The decrease in fourth quarter operating profit does not stem from the period's operating results but the revaluation of assets (packaging)

by 20 million kroons (1.3 million euros) undertaken for financial accounting purposes. The revaluation was based on the new Packaging Act, which entered into force in autumn of 2005.

1.5. Personnel

There were 300 employees in Saku Õlletehase AS by December 2007. In terms of workforce, the largest departments are production, distribution and sales. For the summer season approximately 60 people were employed due to the peak season. Workforce expenses for 2007 amounted to 96.1 million kroons (6.1 million euros), up 13% on the prior year. Saku implemented many personnel development programs and employer branding activities during the year.

1.6. Saku share

Saku Õlletehase AS was moved from Baltic Secondary List to Baltic Main List during 2007. The turnover of Saku's share amounted to 269.6 million kroons (17.3 million euros); the number of deals was 3506 during 2007. At 28 December 2007 the closing price was 199.49 kroons (12.8 euros). The highest price per year was 278.35 kroons (17.8 euros) and the lowest 187.76 kroons (12.3 euros).

1.7. Future outlook

In 2008, the Estonian beverage industry and market will be influenced by a general cooling of economy and a globally induced rise in input prices. In addition, our beer industry will have to prepare for an abrupt increase in excise rates, which will render the Estonian beer excise one of the highest in Europe, and a slowdown in economic growth, which will present an additional challenge for cost management.

The changes in market dynamics, triggered by economic downturn, challenge the development of premium brands. The trends which became visible in the second half of 2007 foster the rise of strong and cheap beers, a development evidenced by an upsurge in the consumption of private label products. It is the responsibility of Saku Õlletehase AS, as the market leader, to focus on the development of premium products in order to help the market overcome the slump and maintain its value and long-term development. Three years ago, when the market was ravaged by the onslaught of Russian and Ukrainian beers distributed in large plastic packaging, Saku helped restore the value and growth of the market by consciously investing in the competitiveness of premium brands. As a result, we were able to turn around the recession - the decline in value stopped and market development resumed, delivering a positive impact on our performance.

As the oldest Estonian brewery, we have positioned ourselves as the leader of the Estonian beer market both in terms of quality and product development. Our long-term objective is to develop the whole market. For this, we intend to gain and maintain the leading position in various categories of beer and different types of packaging although our main focus will remain on the premium segment.
We will continue expansion in other beverage markets which are profitable for us. To date, we have successfully penetrated and are strengthening our positions in the cider, long drink, table water, energy drink and ice tea markets.

Although an environment characterised by cost hikes (excises, global price pressures) and development restrictions (current and planned legislative restraints) does not favour investment, we will continue investing in product and quality development and will enhance our organisational capabilities through various talent management programmes.

We are committed to balanced development. Our main goal is to achieve long-term profitability in beer and beverage production through strong positions in our strategic markets and a diverse revenue base both in terms of product types and target markets.

1.8. Corporate governance report

The corporate governance report which indicates the issuer's compliance with the Corporate Governance Code (CGC) of Tallinn Stock Exchange is a separate chapter in the management report section of the issuer's annual report.

Article of CGC	Explanation of compliance	Explanation of non-compliance
1.	General meeting	
1.1.	Exercise of shareholder rights	
1.1.1.	Every shareholder may attend a general meeting, speak on items on the agenda, ask questions and make proposals. The annual general meeting of the reporting period was held on 28 March 2007 from 10 a.m. to 10.45 a.m. at the issuer's registered office located in the issuer's administrative building at Tallinna mnt 2, Saku, Harjumaa. An extraordinary general meeting was held on 14 June 2007 from 10 a.m. to 10.25 a.m. in the same location. The notices of both meetings announced that shareholders could send questions concerning items on the agenda to the issuer's e-mail address saku@pruul.ee before the general meeting. Shareholders did not exercise their right to ask questions before the general meeting. The controlling shareholder did not prejudice the rights of other shareholders.	
1.1.2.	According to the issuer's articles of association, the issuer has shares of one type only. Consequently, all shareholders are treated equally with respect to voting.	
1.1.3.	The issuer notified the shareholders of the date, time and location of the general meeting by publishing notices of the general meeting on the website of Tallinn Stock Exchange and in two national daily newspapers – the notice of the annual general meeting was published on 6 March 2007 in Postimees and Eesti Päevaleht and the notice of the extraordinary general meeting was published on 5 June 2007 in the same newspapers. The notice of the annual general meeting was also published on the issuer's website at www.saku.ee. The notice of the extraordinary general meeting could not be published on the issuer's website due to technical reasons. The general meetings could be attended by both shareholders and proxies with appropriate written authorisation. The issuer's Member of the Management Board Ireneusz Piotr Smaga and the issuer's CFO Inga Kuusik (since 17 May 2007 also a member of the management board) attended both general meetings and were available to shareholders and their questions throughout the meetings. The annual general meeting was also attended by Cardo Remmel, a member of the supervisory board, who was available for shareholders' questions.	
1.2.	Calling of a general meeting and information to be published	
1.2.1.	The issuer notified the shareholders of the date, time and location of the general meetings by publishing notices of the general meetings on the website of Tallinn Stock Exchange and in two national daily newspapers. The notice	

	of the annual general meeting was also published on the issuer's website at www.saku.ee.	
1.2.2.	Concurrently with publishing notices of the general meetings, the issuer's management and supervisory boards made available to shareholders all relevant information required for passing resolutions at the general meetings, as well as the issuer's annual report. The information and the annual report were made available at the issuer's registered office and on the websites of Tallinn Stock Exchange and the issuer. The extraordinary general meeting was called in connection with the resignation request of the Member of the Supervisory Board Genovaite Ravinskiene. Information on the issue was presented in the notice of the extraordinary general meeting. The shareholders did not submit the issuer any questions before the general meetings.	
1.2.3.	The management board provided all relevant information about the agenda of the general meeting, including the profit allocation proposal and information on the auditor's candidate KPMG Baltics AS and the audit partner Andris Jegers, in the notice of the general meeting. The information also included the supervisory board's proposals for resolutions related to items on the agenda.	
1.2.4.	The supervisory board published its proposals concerning items on the agenda in the notices of both general meetings.	
1.3.	Procedure of the general meeting	
1.3.1.	Both general meetings were chaired by attorney at law Vesse Võhma who ensured that the meetings were conducted smoothly and in consideration of the interests of all shareholders. The general meetings were conducted in Estonian. The meetings were attended by English language interpreter Maris Järve who interpreted the proceedings for the issuer's Chairman of the Management Board Ireneusz Piotr Smaga from Estonian into English and Mr Smaga's speech from English into Estonian. Mr Smaga does not speak Estonian. The general meetings were attended by Tallinn notary Reeli Eelmets who certified the minutes of both meetings.	
1.3.2.	The general meetings were attended by the issuer's management board members Ireneusz Piotr Smaga and CFO Inga Kuusik (a member of the management board since 17 May 2007). The annual general meeting was attended by the Member of the Supervisory Board Cardo Remmel and the auditor and auditor's candidate Andris Jegers.	
1.3.3.	The issuer did not make observing and attending the general meeting possible by means of communication equipment because relevant equipment was not available and it would have been too costly for the issuer. General Meeting was public for observers and results are public via stock exchange information system, www.saku.ee and press announcement.	The issuer did not make observing and attending the general meeting possible by means of communication equipment because relevant equipment was not available and

		it would have been too costly for the issuer.
1.3.4.	The allocation of profits was discussed separately in the annual general meeting and the meeting passed a separate resolution on the allocation of profits under agenda item no 2.	
2.	Management board	
2.1.	Duties	
2.1.1.	The management board has been independent in the day-to-day running of the issuer, acting in the best interests of all shareholders and ensuring sustainable development of the issuer in accordance with all set goals and strategies.	
2.1.2.	The management board has ensured the issuer's compliance with all applicable laws and regulations.	
2.1.3.	The management board has ensured the application of all appropriate risk management and internal controls.	
2.2.	Members and remuneration	
2.2.1.	From 1 January 2007 until 18 March 2007, the issuer's management board had two members - Ireneusz Piotr Smaga and Janno Veskimäe. From 19 March 2007 until 16 May 2007, the management board had one member - Ireneusz Piotr Smaga, because the issuer's supervisory board was looking for another management board member. Since 17 May 2007, the management board has had two members - Ireneusz Piotr Smaga and the issuer's CFO Inga Kuusik. The supervisory board has determined the areas of responsibility, duties and powers of the members of the management board. The chairman of the supervisory board has concluded a contract of service with the chairman of the management board.	
2.2.2.	Members of the management board are not members of any other issuer's management board or chairmen of any other issuer's supervisory board.	
2.2.3.	The supervisory board has adopted a policy for remunerating members of the management board in accordance with the provisions of CGC.	
2.2.4.	The bonus schemes of the management board are related to the activities of the members of the management board and based on explicit and comparable pre-determined factors.	
2.2.5.	The management board does not have any bonus schemes that involve the issuer's securities.	
2.2.6.	The severance compensation of members of the management board is connected with their prior performance and will not be paid if doing so would obviously damage the issuer's interests.	
2.2.7.	The issuer does not disclose the basic salary, performance pay, severance compensation and other benefits and bonus systems of a member of the management board or the essential features of such payments and benefits because this constitutes sensitive information for a member of the management board and the disclosure of such information is not strictly necessary for evaluating the issuer's governance.	The issuer does not disclose the basic salary, performance pay, severance compensation and other benefits and

		bonus systems of a member of the management board or the essential features of such payments and benefits because this constitutes sensitive information for a member of the management board and the disclosure of such information is not strictly necessary for evaluating the issuer's governance.
2.3.	Conflict of interests	
2.3.1.	Members of the issuer's management board avoid conflicts of interests in their activity.	
2.3.2.	The supervisory board has not approved any transactions between the issuer and a member of the management board or a person close or related to a member of the management board.	
2.3.3.	Members of the issuer's management board adhere to the prohibition on competition.	
2.3.4.	The issuer's management board members and employees do not ask or take any benefits from third parties in connection with their work and do not provide to third parties any concessions or benefits on behalf of the issuer.	
3.	Supervisory board	
3.1.	Duties	
3.1.1.	The issuer's supervisory board supervises the activities of the management board and participates in the adoption of all important decisions related to the issuer's activity, acting in the best interests of all shareholders. In 2007 the issuer's supervisory board held six ordinary meetings.	
3.1.2.	The issuer's supervisory board determines the issuer's strategy, action plan, risk management policies and annual budget and maintains regular contact with the management board in order to discuss issues related to the issuer's strategy, business and risk management.	
3.1.3.	The issuer's supervisory board evaluates the activities of the management board and the issuer's financial position on a regular basis. The supervisory board has not established any committees.	
3.1.4.	The work of the supervisory board is managed by the Chairman of the Supervisory Board Tomas Kucinskas, who performs his duties in accordance with the provisions of CGC.	
3.2.	Members and remuneration	
3.2.1.	Members of the supervisory board are elected from among	

	persons who have the knowledge and experience required for participating in the work of the supervisory board. From 1 January 2007 until the extraordinary general meeting of 14 June 2007, the issuer's supervisory board had five members – Tomas Kucinskas, Cardo Remmel, Piotr Sanetra, Genovaite Raviniskiene and Saulius Galadauskas. On 14 June 2007, the extraordinary general meeting recalled from the supervisory board Genovaite Raviniskiene, who had submitted a request for stepping down from the board.	
3.2.2.	All members of the supervisory board have been elected because of their expertise, professional skills and long-term experience in the issuer's area of activity so that they could contribute to the achievement of the best possible results for the shareholders.	
3.2.3.	The members and chairman of the supervisory board have enough time for performance of their duties.	
3.2.4.	The general meeting decided to remunerate members of the supervisory board for performance of their duties in 2007 similarly to 2006, i.e. with 100,000 kroons in aggregate. The procedure for disbursing the remuneration is decided by the supervisory board.	
3.2.5.	The issuer does not disclose the procedure for disbursing the remuneration of the members of the supervisory board which is decided by the supervisory board because disclosure of this information is not strictly necessary for evaluating the issuer's governance.	.
3.2.6.	All members of the issuer's supervisory board have attended more than half of the meetings of the supervisory board.	
3.3.	Conflict of interests	
3.3.1.	Members of the issuer's supervisory board avoid conflicts of interests and act in the best interests of all shareholders.	
3.3.2.	Members of the issuer's supervisory board have not had any conflicts of interests.	
3.3.3.	Since no members of the supervisory board have had conflicts of interests, no member of the supervisory board has stepped down or been recalled due to a conflict of interests.	
3.3.4.	Member of the issuer's supervisory board adhere to the prohibition on competition.	
4.	Cooperation of the management and supervisory boards	
4.1.	The issuer's management board and supervisory board cooperate closely in the interests of the issuer's development, as provided in the issuer's articles of association, and the management board observes all strategic instructions given by the supervisory board.	
4.2.	The management and supervisory boards ensure constant and adequate mutual exchange of information.	
4.3.	In exchanging information, members of the management and supervisory boards observe the rules of confidentiality. The issuer's management board has established rules for the handling of confidential inside information which may affect the issuer's share price by the issuer's supervisory and management boards and employees. The management board communicates these rules to members of the issuer's	

	governing bodies and employees who are included in the insider list maintained by the issuer.	
5.	Disclosure of information	
5.1.	The issuer treats all shareholders equally and notifies all shareholders equally through appropriate information channels, including its website.	
5.2.	The information disclosed on the website is made available in Estonian and in English. The website includes the issuer's financial calendar.	
5.3.	The issuer has disclosed on its website information which needs to be published according to CGC. The notice of the extraordinary general meeting of 15 June 2007 could not be published on the issuer's website due to technical reasons.	
5.4.	The management and supervisory boards describe the issuer's governance and compliance with the provisions of CGC in the annual report presented to the general meeting.	
5.5.	The issuer publishes any facts and estimates related to the issuer on its website. The issuer has not disclosed at a general meeting inside information which has not been formerly disclosed. Therefore, there has been no need to disclose such information after the general meeting.	
5.6.	The issuer has organised exchange of information with journalists and analysts with due care and deliberation and without compromising the parties' independence. The issuer has disclosed the dates and places of press conferences on its website and has allowed shareholders to participate in those events. The contents of the presentations have been disclosed in press releases which have been made available on the issuer's website. The issuer has not arranged meetings with analysts and investors directly before the disclosure of the financial statements.	
6.	Financial reporting and audit	
6.1.	Reporting	
6.1.1.	The issuer has published annual and interim reports and has made the annual report prepared by the management board, approved by the supervisory board and audited by the auditors available to the shareholders at the issuer's registered office and on the issuer's website.	
6.1.2.	The issuer does not have shareholdings in other companies which have significant importance to the issuer.	
6.1.3.	The issuer discloses the transactions performed with related parties in the notes to the annual financial statements.	
6.2.	Election of the auditor and audit of the financial statements	
6.2.1.	Together with the notice calling the general meeting, the supervisory board made available to shareholders information on the auditor's candidate KPMG Baltics and the audit partner Andris Jegers. According to the minutes of the annual general meeting (agenda item 4), Andris Jegers has confirmed that neither he nor AS KPMG Baltics has any professional, financial or other connections (business connections) which could affect his or AS KPMG Baltics' independence in auditing the issuer's financial statements for 2007, and the supervisory board had approved Andris Jegers' activities as the issuer's auditor in the previous	

	financial year. The auditor is remunerated in accordance with the agreement concluded with AS KPMG Baltics which sets out the auditor's responsibilities in auditing the issuer's financial statements.	The issuer does not disclose the audit fee because its non-disclosure does not affect the reliability of the audit services provided by the auditor.
6.2.2.	The issuer's supervisory board has acquainted itself with the draft audit agreement which provides the auditor's responsibilities, the audit schedule, the audit fee and other information required by CGC.	
6.2.3.	The issuer complies with the auditor rotation requirement because the engagement partner Andris Jegers has audited the issuer for three consecutive years, i.e. less than five consecutive years.	
6.2.4.	The auditor has performed all contractual obligations. Together with the auditor's report, the auditor has submitted a memorandum on compliance with CGC.	
6.2.5.	The issuer's management and supervisory boards and general meeting have allowed the auditor to perform the audit in accordance with International Standards on Auditing.	
6.2.6.	The auditor has presented to the supervisory board a written overview, analysis and opinion which comply with the criteria provided in CGC.	

25. veebruar 2008

Ireneusz Piotr Smaga
juhatuse esimees

Inga Kuusik
juhatuse liige

2. ANNUAL FINANCIAL STATEMENTS

Statement of management's responsibility

The management board acknowledges its responsibility for the preparation of the annual financial statements of Saku Õlletehase AS for 2007 and confirms that to the best of its knowledge, information and belief:

- The policies applied on 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.
- Saku Õlletehase AS is a going concern.
- The review of operations presents fairly the development, performance and financial position of the company as well as the main risks and uncertainties.

25 February 2008

Ireneusz Piotr Smaga	Inga Kuusik
Chairman of Management Board	Member of Management Board

BALANCE SHEET				
(In thousands)	EEK		EUR	
	31 December 2007	restated 31 December 2006	31 December 2007	restated 31 December 2006
ASSETS				
Cash and cash equivalents (note 2)	15,746	118,876	1,006	7,597
Trade receivables (note 3)	88,951	71,944	5,685	4,598
Other receivables and prepayments (note 4)	33,120	7,883	2,117	504
Inventories (note 5)	57,257	58,771	3,659	3,756
TOTAL CURRENT ASSETS	195,074	257,474	12,467	16,455
Non-current assets				
Long-term investments (note 6)	6,100	7,740	390	495
Property, plant and equipment (note 7)	280,552	277,788	17,931	17,754
Intangible assets (note 8)	491	990	31	63
TOTAL NON-CURRENT ASSETS	287,143	286,518	18,352	18,312
TOTAL ASSETS	**482,217**	**543,992**	**30,819**	**34,767**
LIABILITIES AND EQUITY				
Current liabilities				
Lease liabilities (note 9)	110	131	7	8
Trade payables	23,666	27,472	1,513	1,756
Other payables (note 10)	83,954	58,197	5,365	3,720
Packaging repurchase provision (note 11)	43,359	27,850	2,771	1,780
TOTAL CURRENT LIABILITIES	151,089	113,650	9,656	7,264
Non-current liabilities				
Finance lease liabilities (note 9)	239	376	16	24
TOTAL LIABILITIES	**151 328**	**114 026**	**9 672**	**7 288**
Equity (note 12)				
Share capital	80,000	80,000	5,113	5,113
Statutory capital reserve	8,000	8,000	511	511
Other reserves				
Retained earnings	141,966	227,099	9,073	14,514
Profit for the period	100,923	114,867	6,450	7,341
TOTAL EQUITY	330,889	429,966	21,147	27,479
TOTAL LIABILITIES AND EQUITY	482,217	543,992	30,819	34,767

INCOME STATEMENT				
(In thousands)	EEK		EUR	
	2007	restated 2006	2007	restated 2006
Sales revenue and other income				
Sales revenue (note 14)	911,685	770,133	58,267	49,220
Other income	8,390	1,511	536	97
Total sales revenue and other income	920,075	771,644	58,803	49,317
Expenses				
Changes in work in progress and finished goods inventories	-4,985	-1,973	-319	-126
Cost of materials, consumables and services used (note 15)	360,471	307,321	23,038	19,642
Other operating expenses (note 15)	252,404	182,063	16,132	11,636
Labour costs (note 15)	96,149	85,354	6,145	5,455
Depreciation and amortisation charges (notes 7, 8)	56,415	58,590	3,606	3,745
Other expenses (note 15)	2,263	3,904	144	249
Total expenses	762,717	635,259	48,746	40,601
OPERATING PROFIT	157,358	136,385	10,057	8,716
Financial income (note 16)	1,619	2,631	103	168
Financial expenses (note 16)	1 644	253	105	16
PROFIT BEFORE TAX	157,333	138,763	10,055	8,868
Income tax expense (note 18)	56,410	23,896	3,605	1,527
PROFIT FOR THE PERIOD	100,923	114,867	6,450	7,341
Basic earnings per share (note 17)	0.013	0.014	0.0008	0.0009
Diluted earnings per share (note 17)	0.013	0.014	0.0008	0.0009

CASH FLOW STATEMENT				
(In thousands)	EEK		EUR	
		restated		restated
	2007	2006	2007	2006
Cash flows from operating activities				
Operating profit	157,358	136,385	10,057	8,716
Adjustments for				
depreciation and amortisation charges (notes 7, 8)	56,415	58,590	3,606	3,745
Gain/loss on the disposal of property, plant and equipment and intangible assets	-7,968	2,459	-509	158
Non-cash expenses (note 20)	1,705	1,775	109	113
Change in inventories	1,514	-15,712	97	-1,005
Change in receivables	-42,244	-16,941	-2,700	-1,084
Change in current liabilities	37,460	31,886	2,393	2,039
Interest paid	-1,401	-250	-89	-16
Corporate income tax paid (note 18)	-56,410	-23,896	-3,605	-1,527
Net cash from operating activities	**146,429**	**174,296**	**9,359**	**11,139**
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets	-88,343	-52,361	-5,646	-3,346
Proceeds from sale of property, plant and equipment	37,624	3,454	2,404	221
Interest received	1,315	2,257	84	144
Net cash used in investing activities	**-49,404**	**-46,650**	**-3,158**	**-2,981**
Cash flows from financing activities				
Dividends paid (note 12)	-200,000	-80,000	-12,782	-5,113
Payment of finance lease principal (note 9)	-158	-174	-10	-11
Proceeds from loans received	104,931		6,706	
Repayment of loans received	-104,931		-6,706	
Net cash used in financing activities	**-200,158**	**-80,174**	**-12,792**	**-5,124**
Decrease/increase in cash and cash equivalents	-103,133	47,472	-6,591	3,034
Effect of exchange rate fluctuations	-3	-3	0	0
Net decrease/increase in cash and cash equivalents	**-103,130**	**47,469**	**-6,591**	**3,034**
Cash and cash equivalents at beginning of period	118,876	71,407	7,597	4,563
Cash and cash equivalents at end of period	15,746	118,876	1,006	7,597
Net decrease/increase in cash and cash equivalents	**-103,130**	**47,469**	**-6,591**	**3,034**

STATEMENT OF CHANGES IN EQUITY

EEK (In thousands)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Profit for the period	Total equity
1 January 2006	80,000	8,000	44,070	263,029	0	395,099
Dividend distribution	0	0	0	-80,000	0	-80,000
Transfer of other reserves	0	0	-44,070	44,070	0	0
Profit for the period					114,867	114,867
31 December 2006	80,000	8,000	0	227,099	114,867	429,966
1 January 2007	80,000	8,000	0	341,966	0	429,966
Dividend distribution	0	0	0	-200,000	0	-200,000
Profit for the period	0	0	0		100,923	100,923
31 December 2007	80,000	8,000	0	141,966	100,923	330,889

EUR (In thousands)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Profit for the period	Total equity
1 January 2006	5,113	511	2,817	16,810	0	25,251
Dividend distribution	0	0	0	-5,113	0	-5,113
Transfer of other reserves	0	0	-2,817	2,817	0	0
Profit for the period					7,341	7,341
31 December 2006	5,113	511	0	14,514	7,341	27,479
1 January 2007	5,113	511	0	21,855	0	27,479
Dividend distribution	0	0	0	-12,782	0	-12,782
Profit for the period	0	0	0	0	6,450	6,450
31 December 2007	5,113	511	0	9,073	6,450	21,147

Notes to the annual financial statements

Note 1. Significant accounting policies

General Information

These are the annual financial statements of Saku Õlletehase AS, a company registered in the Republic of Estonia. Saku Õlletehase AS has been listed on the Tallinn Stock Exchange since 12 August 1996; 75% of company's shares are in the ownership of Baltic Beverages Holding AB.

Pursuant to the Commercial Code of the Republic of Estonia, the final approval of the annual report including the annual financial statements prepared by the management board and approved by the supervisory board rests with the annual general meeting.

The management board approved and signed the annual financial statements as at and for the year ended on 31 December 2007 on 25 February 2008.

The company's principal areas of activity are the production and wholesale of low alcohol beverages, table water and soft drinks.

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.

Basis of preparation

The financial statements have been prepared under the historical cost convention.

The measurement and presentation currency of Saku Õlletehase AS is the Estonian kroon (EEK). In compliance with Tallinn Stock Exchange rules, the financial statements are also presented in euro (EUR). 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 EUR 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.

Changes in accounting policies

During the reporting period, management changed the accounting for handling fees payable in connection with the recovery of glass bottles. If previously the handling fee provision was recorded in respect of two months' sales, now the provision is recorded for all bottles for which a deposit liability has been recognised.

The company has to pay the provider of the recovery service a handling fee of 0.3 sents per bottle (on average). As at 31 December 2007, the company had recorded a handling fee liability of 5.7 million kroons. The handling fee provision is recognised in the composition of the packaging deposit provision.

Entry (in thousands of kroons)	2006 restated	Restatement	2006 before restatement
Goods, raw material, material, services	307,321	3,437	303,884

Entry (in thousands of euros)	2006 restated	Restatement	2006 before restatement
Goods, raw material, material, services	19,642	220	19,422

Restatement of opening balance sheet:

Entry (in thousands of kroons)	31 December 2006 restated	Restatement	31 December 2006 before restatement
Other payables	58,197	-1,266	59,463
Packaging repurchase provision	27,850	4,703	23,147
Net profit of the reporting year	114,867	-3,437	118,304

Entry (in thousands of euros)	31 December 2006 restated	Restatement	31 December 2006 before restatement
Other payables	3,720	-81	3,801
Packaging repurchase provision	1,780	301	1,479
Net profit of the reporting year	7,341	-220	7,561

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.

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 or cancelled, or expires.

Financial assets and liabilities are initially recognised at the fair value of the consideration given or received for them,

Regular way purchases or sales of financial assets that are conducted under market terms are recognised and derecognised using settlement date accounting.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts, and short-term bank deposits.

Foreign currency

Transactions in foreign currencies are translated to Estonian kroons at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Estonian kroons at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Trade and other receivables

Trade and other receivables are measured at their 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

In the balance sheet, inventories are measured at the lower of cost and net realisable value.

Work in progress and finished goods are measured at product cost which comprises their direct and indirect costs of conversion.

Other inventories are initially recognised at cost. The cost of other inventories comprises their purchase price, irrecoverable duties and taxes, and transport, handling and other costs directly attributable to their acquisition less trade discounts and rebates.

The cost of materials, work in progress and finished goods is based on the first-in first-out principle.

Packaging

The company recognises one-way packaging as inventories. Reusable glass bottles subject to a deposit are recognised as items of property, plant and equipment.

Financial assets

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

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any impairment losses. Land is not depreciated. If an asset consists of significant parts that have different useful lives, the parts are accounted for as separate assets and assigned depreciation rates that correspond to their useful lives.

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

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

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

Management reviews the useful lives of assets and asset groups periodically. When an asset's utilisation intensity or period changes, the depreciation rate of the asset is adjusted accordingly. The effect of the change 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 measured at cost less any accumulated amortisation. Intangible assets are amortised using the straight-line method at the rate of 33% 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 as incurred.

Impairment of assets

Management reviews the carrying amounts of the company's assets (except for inventories) at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if 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 value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. If it is not possible to estimate the recoverable amount of an individual asset (the asset does not generate cash inflows that are largely independent of those from other assets), the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

If tests of the recoverable amount indicate that an impairment loss recognised for an asset in prior periods not longer exists or has decreased, the 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.

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. 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 which qualify for recognition on the balance sheet. Operating lease payments are recognised as income on a straight-line basis over the lease term.

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

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 measured at amortised cost. Items that fall due within more than 12 months after the balance sheet date are recognised as non-current liabilities.

Short-term employee benefits

Short-term employee benefits include salaries, social security charges, paid annual leave, additional remuneration (if paid within 12 months after the end of the accounting period) and non-monetary benefits to current employees. Short-term employee benefits are recognised in an undiscounted amount in accrued expenses. The company recognises the expected cost of bonus payments when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

Corporate income tax

In accordance with the effective Income Tax Act, until 31 December 2007 the tax rate for dividends was 22/78 of the amount distributed as the net dividend. From 1 January 2008 the tax rate is 21/79. The 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 the dividend is declared or the period in which the dividend is distributed. The maximum income tax liability that could arise on the distribution of dividends is disclosed in note 19.

The income tax payable on dividends in future periods is not established a provision before a dividend is declared but information on it is disclosed in the notes to the financial statements.

Under the effective Income Tax Act, there can be no differences between the carrying amount of an asset or liability on the balance sheet and its tax base that could give rise to a deferred tax asset or liability

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, it is probable (over 50%) that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably.

Packaging repurchase provision

The company recognises on the balance sheet its packaging repurchase provision. Due to its nature, the item is reported in current liabilities. The company has a legal obligation to recover from the market reusable and one-way packaging which has been established a deposit. Reusable packaging not subject to a deposit is repurchased on the basis of agreements made with customers. Packaging repurchase provisions are calculated on the basis of the effective deposit values or repurchase prices of the packaging 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 company 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 reusable packaging not subject to a deposit is recognised in other income or other expense depending on whether the transactions resulted in a profit or loss.

Lease income is recognised in income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total lease income.

Earnings per share
Basic earnings per share are calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated similarly but the profit for the period, and the weighted average number of ordinary shares outstanding during the period, are adjusted for the effects of all dilutive potential ordinary shares.

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

Related parties
For the purposes of this annual report, related parties are:

- Baltic Beverages Holding AB (BBH) that owns 75% of the shares in Saku Õlletehase AS
- Shareholders of BBH Group and companies of BBH Group
- Members of the management and supervisory boards
- Close family members of the above
- Companies controlled by members of the management and supervisory boards or their close family members

Accounting estimates and judgements
The preparation of financial statements in conformity with IFRSs requires management to make accounting estimates and assumptions. Management also has to make judgements concerning the selection and application of accounting policies.

Management’s estimates and judgements are reviewed on an ongoing basis and they are based on historical experience and other factors, including projections of future events which are considered to be reasonable under the circumstances.

Areas involving significant or more complex judgements and estimates which have a significant impact on the financial statements include the determination of the useful lives of items of property, plant and equipment (note 7) and the measurement of the packaging repurchase provision (note 11).

Useful lives of items of property, plant and equipment
Management has determined the useful lives of buildings, plant and equipment, and reusable packaging by reference to the company’s production capacities, prevailing circumstances, historical experience and future prospects. According to estimates, the useful lives of buildings and structures range from 10 to 33 years, depending on their structure and application. The useful lives of items of plant and equipment range from 5 to 10 years, depending on application. The useful lives of items of other equipment and fixtures range from 3 to 5 years, depending on application, and the useful lives of items of reusable packaging range from 5 to 10 years.

Measurement of the packaging repurchase provision
The probability of the realisation of the provision is estimated on the basis of management’s best judgement, historical experience, all available evidence, and preconditions and assumptions for potential future events.

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 the reporting or prior periods.

Subsequent events that are indicative of conditions that arose after the balance sheet date but which will have a significant effect on the result of the next financial year are disclosed in the notes to the annual financial statements.

New International Financial Reporting Standards and Interpretations of the Financial Reporting Interpretations Committee (IFRIC) not yet adopted
To date, certain new standards and amendments and interpretations to existing standards have been published which will be mandatory for the company in annual periods beginning on or after 1 January 2008. The following is management's assessment of the impact these new standards, amendments and interpretations may have on the company's financial statements in the period of initial application.

- IFRS 2 Share-based Payment (effective from 1 January 2009). Revised IFRS 2 is not relevant to the Company's operations as the Company does not have any share-based compensation plans.
- IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009). Revised IFRS 3 is not relevant to the Company's operations as the Company does not have any interests in subsidiaries that will be affected by the revisions to the Standard.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the Entity that management monitors in making decisions about operating matters. The Company has not yet completed its analysis of the impact of the revised Standard.
- Revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The Company is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- IAS 23 Borrowing Costs (effective from 1 January 2009). Revised IAS 23 is not relevant to the Company's operations as the Company does not have any qualifying assets for which borrowing costs would be capitalised.
- IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). Revised IAS 27 is not relevant to the Company's operations as the Company does not have any interests in subsidiaries that will be affected by the revisions to the Standard.
- IFRIC 11 IFRS 2 – Company and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 is not relevant to the Company's operations as the Company has not entered into any share-based payment arrangements.
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). IFRIC 12 is not relevant to the Company's operations as none of the Company entities have entered into any service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits.

The Company does not expect the Interpretation to have any impact on the consolidated financial statements.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions (effective for annual periods beginning on or after 1 January 2008). The Company does not operate in countries that have a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.

Note 2. Cash and cash equivalents

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Cash on hand	7	8	1	1
Current accounts	15,739	118,868	1,005	7,596
Total	15,746	118,876	1,006	7,597

In 2007 the company used an overdraft from Hansapank from 19 April 2007-28 December 2007. The largest used amount was 104,931 thousand kroons (6,706 thousand euros).

Note 3. Trade receivables

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Due from customers	88,951	71,944	5,685	4,598

In 2007 the company wrote off irrecoverable receivables of 95 thousand kroons (6 thousand euros), in 2006 the corresponding amount was 87 thousand kroons (5.6 thousand euros).

The ratio of irrecoverable receivables written off in 2007 to sales revenue is 0.01% (2006: 0.01%). Expenses related to the write-off of receivables are recognised in Other operating expenses in the income statement.

Financial risk management is presented in note 21.

Note 4. Other receivables and prepayments

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Receivables				
Receivables from group companies (note 13)	21,508	4,498	1,375	288
Miscellaneous receivables	504	550	32	35
AS Rocca al Mare Suurhall bonds (note 6)	1,400	1,400	89	89
Total receivables	23,412	6,448	1,496	412
Prepayments				
Prepaid expenses	9,708	1,435	621	92
Total	33,120	7,883	2,117	504

Note 5. Inventories

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Raw and other materials	33,048	38,799	2,112	2,480
Work in progress	8,458	6,808	541	435
Finished goods	14,040	10,705	897	684
Goods purchased for resale	1,396	2,329	89	149
Prepayments to suppliers	315	130	20	8
Total	57,257	58,771	3,659	3,756

Write-off and write-down of inventories

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Raw and other materials	1,296	1,430	83	91
Finished goods	1,484	1,191	95	76
Total	2,780	3,523	178	225

The write-down of inventories is recognised in the income statement in the Cost of materials, consumables and services used. Inventories are written down and off when they are damaged, become unusable or their “use by” date expires.

Note 6. Financial assets

(In thousands)	AS Rocca al Mare Suurhall B shares EEK (EUR)	AS Rocca al Mare Suurhall bonds EEK (EUR)	Total EEK (EUR)
Number of instruments at 31 December 2005	22	82	
Carrying amount at 31 December 2005	2,580 (166)	8,200 (525)	10,780 (691)
Including current portion		1,400 (90)	1,400 (90)
Including non-current portion	2,580 (166)	6,800 (435)	9,380 (601)
Redemption / change in value in 2006	-240 (-15)	-1,400 (-90)	-1,640(-105)
Ownership interest in 2005	0.006		
Number of instruments at 31 December 2006	22	68	
Carrying amount at 31 December 2006	2,340 (151)	6,800 (435)	9,140 (586)
Including current portion		1,400 (91)	1,400 (91)
Including non-current portion	2,340 (151)	5,400 (344)	7,740 (495)
Redemption / change in value in 2006	-240 (-15)	-1,400 (-90)	-1,640 (-105)
Ownership interest in 2006	0.006		
Number of instruments at 31 December 2007	22	68	
Carrying amount at 31 December 2007	2,100 (136)	5,400 (344)	7,500 (480)
Including current portion		1,400 (90)	1,400 (90)

Including non-current portion	2,100 (136)	4,000 (254)	6,100 (390)
Redemption / change in value in 2006	-240 (-15)	-1,400 (-90)	-1,640 (-105)
Ownership interest in 2007	0.006		

Saku Õlletehase AS has 22 B shares in and 54 bonds issued by AS Rocca al Mare Suurhall. The shares and the bonds are part of a 10-year cooperation agreement (expiring in October 2011) according to which the recreational complex bears the name Saku Suurhall and grants Saku Õlletehase AS a number of significant sales and advertising rights.

The shares were acquired with a premium of 149,900 kroons (9,606 euros) 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 240,000 kroons (15,000 euros) per year to reflect the decrease in the carrying amount of the benefits provided by the cooperation agreement that occurs over time. Amortisation expenses are recognised in Financial expenses.

The par value of a bond issued by AS Rocca al Mare Suurhall is 100,000 kroons (6,401 euros). The bonds were issued for a designated purpose and bear interest at the rate of 5% 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 (305,000 kroons (19,000 euros)) has been recognised in the income statement in Financial income.

EEK (In thousands)	AS Rocca al Mare Suurhall bonds				
		Redemption			
	Effective interest rate	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2006	5.00	1,400	5,400		6,800
31 December 2007	5.00	1,400	4,000		5,400

EUR (In thousands)	AS Rocca al Mare Suurhall bonds				
		Redemption			
	Effective interest rate	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2006	5.00	90	345		435
31 December 2007	5.00	90	254		344

Note 7. Property, plant and equipment

EEK (In thousands)	Land	Buildings and structures	Plant and equipment	IT equipment and fixtures and fittings	Reusable packaging subject to a deposit	Reusable packaging not subject to a deposit	Assets leased out (note 9)	Finance lease (note 9)	Prepayments and assets under construction	Total
Cost at 31 December 2005	3,186	135,151	328,298	63,422	27,791	35,600	10,765	0	1,407	605,620
Accumulated depreciation at 31 December 2005		43,964	206,509	52,906	5,534	1,908	5,974	0		316,795
Carrying amount at 31 December 2005	3,186	91,187	121,789	10,516	22,257	33,692	4,791	0	1,407	288,825
Additions		1,862	11,099	6,449	22,188	2,531	2,388	681	4,879	52,077
Reclassification		1,407							-1,407	
Disposals			-7,183	-1,614	-3,512	-4,240				-16,549
Depreciation for the period		6,534	27,084	5,620	7,314	8,588	2,801	180		58,121
Cost at 31 December 2006	3,186	138,420	332,214	68,257	46,467	33,891	13,153	681	4,879	641,148
Accumulated depreciation at 31 December 2006		50,498	226,552	56,835	11,606	8,914	8,775	180		363,360
Carrying amount at 31 December 2006	3,186	87,922	105,662	11422	34,861	24,977	4,378	501	4,879	277,788
Additions		4,463	31,822	18,277	28,385	1,935	725		2,713	88,320
Reclassification		3,715	1,164						-4,879	
Disposals			-10,978	-16,214	-29,213	-16,698				-73,103
Depreciation for the period		7,037	24,886	6,183	9,325	5,839	2,459	164		55,893
Cost at 31 December 2007	3,186	146,598	354,222	70,320	45,639	19,128	13,878	681	2,713	656,365
Accumulated depreciation at 31 December 2007		57,535	240,460	46,814	12,194	7,232	11,234	344		375,813
Carrying amount at 31 December 2007	3,186	89,063	113,762	23,506	33,445	11,896	2,644	337	2,713	280,552

EUR (In thousands)	Land	Buildings and structures	Plant and equipment	IT equipment and fixtures and fittings	Reusable packaging subject to a deposit	Reusable packaging not subject to a deposit	Assets leased out (note 9)	Finance lease (note 9)	Prepayments and assets under construction	Total
Cost at 31 December 2005	204	8,636	20,982	4,054	1,776	2,275	688		90	38,705
Accumulated		2,810	13,199	3,381	353	122	382			20,247

depreciation at 31 December 2005										
Carrying amount at 31 December 2005	204	5,826	7,783	673	1,423	2,153	306		90	18,458
Additions		119	708	412	1,418	162	153	44	312	3,328
Reclassification		90							-90	
Disposals			-459	-103	-224	-271				-1,057
Depreciation for the period		418	1,731	359	467	549	179	12		3,715
Cost at 31 December 2006	204	8,845	21,231	4,363	2,970	2,166	841	44	312	40,976
Accumulated depreciation at 31 December 2006		3,227	14,478	3,632	742	570	561	12		23,222
Carrying amount at 31 December 2006	204	5,618	6,753	731	2,228	1,596	280	32	312	17,754
Additions		285	2,034	1,168	1,814	124	46		173	5,644
Reclassification		237	75						-312	
Disposals			-702	-1,036	-1,867	-1,067				-4,672
Depreciation for the period		450	1,591	395	596	373	157	11		3,573
Cost at 31 December 2007	204	9,367	22,638	4,495	2,917	1,223	887	44	173	41,948
Accumulated depreciation at 31 December 2007		3,677	15,367	2,992	779	462	718	22		24,017
Carrying amount at 31 December 2007	204	5,690	7,271	1,503	2,138	761	169	22	173	17,931

In 2007 the Company removed from property, plant and equipment glass bottles with an old design which were replaced with bottles with a new design. The carrying amount of bottles which were removed was 2,319 thousand kroons (148 thousand euros).
Wooden pallets with a carrying amount of 2,710 thousand kroons (173 thousand euros) were classified from property, plant and equipment to current assets due to their useful lives.

Assets leased out comprise bar furniture, which has been leased under the terms of operating lease to support HoReCa (hotels, restaurants and catering) sales. At 31 December 2007, the carrying amount of the furniture was 2,644,000 kroons (169,000 euros). At 31 December 2006, the corresponding figure was 4,378,000 kroons (280,000 euros). Information on operating lease income is presented in note 9. In determining the value in use of the assets, future cash flows are identified on the basis of estimated lease income and the profit earned on the products sold to the lessee.

In addition, have in their possession and are liable for sales support equipment belonging to the company. At 31 December 2007, the carrying amount of such equipment equalled 24,330,000 kroons (1,555,000 euros). At 31 December 2006, the corresponding figure was 10,354,000 kroons (662,000 euros).

At 31 December 2007, the carrying amount of reusable packaging subject to a deposit that was in the possession of customers was 20,778,000 kroons (1,328,000 euros). At 31 December 2006, the figure was 16,851,000 kroons (1,077,000 euros). At 31 December 2007, the carrying amount of reusable packaging not subject to a deposit that was in the possession of customers equalled 5,302,000 kroons (339,000 euros). At 31 December 2006, the corresponding figure was 2,052,000 kroons (131,000 euros).

Note 8. Intangible assets

(In thousands)	EEK	EUR
Cost at 31 December 2005	2,541	163
Accumulated amortisation at 31 December 2005	1,366	88
Carrying amount at 31 December 2005	1,175	76
Additions	284	18
Amortisation charge for the period	469	30
Cost at 31 December 2006	2,825	181
Accumulated amortisation at 31 December 2006	1,835	118
Carrying amount at 31 December 2006	990	63
Additions	23	1
Amortisation charge for the period	522	33
Cost at 31 December 2007	2,848	182
Accumulated amortisation at 31 December 2007	2,357	151
Carrying amount at 31 December 2007	491	31

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

Note 9. Finance and operating leases

The company as a lessor
To support HoReCa sales, Saku Õlletehase AS leases out bar furniture. The furniture is presented in the Assets leased out column of note 7.

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Lease income receivable in less than 1 year	41	76	3	5
Lease income receivable between 1 and 5 years	10	10	1	1

A received income from the leased property within the accounting period was 48 thousand kroons (3 thousand euros) and in 2006 76 thousand kroons (5 thousand euros).

The company as a lessee

Finance leases

The company holds production equipment under finance lease. The cost, accumulated depreciation and carrying amount of such equipment are presented in the Finance lease column of note 7.

The base currency of the leases is euro. Interest rates range from 4.0-4.75% and are fixed for the terms of the lease contracts. The leases do not impose restrictions on the company's dividend or financing policies. At the end of the lease term, title to the leased assets will transfer to the company. Assets held under finance lease have not been subleased.

FINANCE LEASES (In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Principal payments of the period	158	174	10	11
Interest payments of the period	25	10	2	1
Minimum amount of principal payable	349	507	23	32
In less than 1 year	110	131	7	8
Between 1 and 3 years	239	376	16	24
Interest payable	26	47	2	3
In less than 1 year	15	21	1	1
Between 1 and 3 years	11	26	1	1

In 2007, depreciation on leased assets amounted to 164,000 kroons (10,000 euros). The figure has been recognised in Depreciation and amortisation charges in the income statement.

Operating leases

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Lease payments of the period	10,517	5,778	672	369
Including:				
Rent of vehicles	5,923	4,529	379	289
Rent of production equipment	301	227	19	15
Rent of warehouse	4,293	1,022	271	65
Minimum rentals payable	5,992	4,503	383	288
In less than 1 year	2,611	2,213	167	141
Between 1 and 5 years	3,381	4,033	216	147

In the reporting period, the company made operating lease payments for vehicles under 75 lease agreements and in 2006 under 74 lease agreements. The base currency for all vehicle leases is the Estonian kroon and the one for equipment leases is the euro. The contracts do not impose restrictions on the company's dividend or financing policies and the assets have not been subleased.

Note 10. Other payables

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Alcohol excise duty	19,505	17,818	1,247	1,139
Value added tax	13,622	9,886	871	632
Social tax	2,617	159	167	10
Income tax on fringe benefits, non-business and entertainment expenses	130	210	8	13
Personal income tax	1,428	0	91	0
Unemployment insurance premiums	65	0	4	0
Funded pension premiums	103	0	7	0
Payables to employees	6,277	5,969	401	381
Payables to group companies (note 13)	30,275	7,932	1,935	507
Other accrued expenses	9,932	16,223	634	1,038
Total	83,954	58,197	5,365	3,720

Note 11. Packaging repurchase provision

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Provision to recover reusable packaging subject to a deposit	26,354	23,607	1,684	1,509
Provision to recover one-way packaging subject to a deposit	4,314	2,911	276	186
Provision to repurchase reusable packaging not subject to a deposit	12,691	1,332	811	85
Total	43,359	27,850	2,771	1,780

The provision to repurchase packaging has been recognised for expenses arising on the repurchase of packaging circulating in the market at period-end. The provision is recorded in an amount equal to the deposit or the repurchase value of the packaging. The provision to recover reusable packaging subject to a deposit includes the handling fees payable for the recovery of reusable glass bottles which at 31 December 2007 amounted to 5,721,000 kroons (366,000 euros), at 31 December 2006 the corresponding amount was 4,703,000 kroons (301,000 euros). The provision to repurchase packaging is a short-term provision because the estimated return period of packaging does not exceed one year. If it appears during the reporting period that the return rate of packaging is less than 100%, the liability decreases and the provision is adjusted accordingly.

Note 12. Equity

The share capital of Saku Õlletehase AS amounts to 80 million kroons (5.113 million euros) and is made up of 8 million ordinary shares with a par value of 10 kroons (0.64 euros) each. The shares have been fully paid for. According to the Articles of Association, the minimum and maximum authorised share capital amount to 8 million shares, i.e. 80 million kroons (5.113 million euros), and 32 million shares, i.e. 320 million kroons (20.45 million euros), 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 28 March 2007, the general meeting approved the proposal of the management board to declare for 2006 a net dividend of 200 million kroons (12.8 million euros), i.e. 25 kroons (1.6 euros) per share. The dividends were paid out on 20 April 2007.

The statutory capital reserve of 8 million kroons (511,000 euros) has been created in accordance with the requirements of the Commercial Code. The capital reserve is created with annual net profit transfers. Every year, the company has to transfer to the capital reserve at least one twentieth of its net profit until the reserve amounts to one tenth of the share capital. The capital reserve may be used to cover losses and to increase share capital but it cannot be distributed to shareholders.

Note 13. Related party transactions

Related party transactions include transactions with the direct BBH, companies belonging to the same group as the parent, the parent's shareholders Carlsberg Breweries A/S and Scottish & Newcastle plc, and companies belonging to Carlsberg Breweries A/S and Scottish & Newcastle plc groups. Sales comprise the sales of finished goods and packaging. Purchases include purchases of goods, packaging, and management and consulting services. Purchases and sales of finished goods are performed at the transfer prices of BBH group.

Purchases by Saku Õlletehase AS

(In thousands)	EEK		EUR	
	2007	2006	2007	2005
The parent company BBH	9,323	9,323	596	596
Companies belonging to the same group as the parent	46,696	39,971	2,984	2,555
Shareholders of the parent	55,963	1,905	3,576	122
Companies belonging to the same groups as shareholders of the parent	14,739	33,308	942	2,128
Total	126,721	84,507	8,098	5,401

Sales by Saku Õlletehase AS

(In thousands)	EEK		EUR	
	2007	2006	2007	2006
Companies belonging to the same group as the parent	55,191	78,087	3,527	4,991
Shareholders of the parent		495		32
Companies belonging to the same groups as shareholders of the parent	17,566	13,595	1,123	869
Total	72,757	92,177	4,650	5,892

Receivables from related parties

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
The parent company BBH				
Companies belonging to the same group as the parent	18,732	1,509	1,197	97
Companies belonging to the	2,776	2,989	177	191

same groups as shareholders of the parent				
Total	21,508	4,498	1,374	288

Liabilities to related parties

(In thousands)	EEK		EUR	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
The parent company BBH		472		30
Companies belonging to the same group as the parent	19,357	993	1,237	65
Shareholders of the parent	4,709	174	301	11
Companies belonging to the same groups as shareholders of the parent	6,209	6,293	397	401
Total	30,275	7,932	1,935	507

In 2007, the remuneration of management and supervisory board members totalled 6,488,000 kroons (415,000 euros). The corresponding figure for 2006 was 6,972,000 kroons (446,000 euros). At 31 December 2007, the contingent severance benefits payable to members of the top management, including taxes, totalled 2,287,000 kroons (146,000 euros). A year before, the corresponding figure was 2,835,000 kroons (181,000 euros).

Note 14. Revenue

Sales income across areas of activity (in thousands)	Code	EEK 31.12.2007	31.12.2006	EUR 31.12.2007	31.12.2006
Beer production	1105	621 078	571 126	39 694	36 502
Cider production	1103	40 461	51 693	2 586	3 304
Strong alcohol rectification and blending	1101	63 449	66 489	4 055	4 249
Non-alcohol beverage production; production of mineral and other water types	1107	750	2 391	48	153
Whole sale of beverages	4634	179 247	74 002	11 457	4 729
Waste		1 343	1 428	86	91
Services		449	559	28	36
Other goods		4 908	2 445	313	156
Total		**911 685**	**770 133**	**58 267**	**49 220**
ACROSS MARKETS (in thousands)					
Estonia		829 301	675 697	53 002	43 185
Lithuania, Latvia, Finland, Island, Ireland, Denmark, USA		82 384	94 436	5 265	6 035
Total		**911 685**	**770 133**	**58 267**	**49 220**

Note 15. Expenses

(In thousands)	EEK		EUR	
	2007	2006	2007	2006
Raw materials	97,947	96,079	6,260	6,141
Ancillary materials	133,159	138,485	8,511	8,851
Imported beverages	83,419	24,105	5,331	1,541
Other	45,946	48,652	2, 936	3,109
Total cost of materials, consumables and services used	360,471	307,321	20,038	19,642
Advertising expenses	91,006	65,033	5,816	4,156
Transport and vehicle expenses	61,332	52,145	3,920	3,333
Waste management expenses	6,597	6,852	422	438
Repair of buildings and equipment	7,948	9,574	508	612
Purchase of other services	58,753	39,044	3,755	2,495
Other expenses	26,768	9,415	1,711	602
Total other operating expenses	252,404	182,063	16,132	11,636
Wages and salaries	71,838	63,918	4,591	4,085
Social security charges	24,106	21,256	1,541	1,359
Unemployment insurance premiums	205	180	13	11
Total labour costs	96,149	85,354	6,145	5,455
Sponsoring, entertainment expenses and expenses not related to the core activity	2,129	2,099	136	134
Interest and interest on arrears paid	66	1,674	4	107
Foreign exchange losses	68	131	84	8
Total other expenses	2,263	3,904	144	249

Note 16. Financial items

(In thousands)	EEK		EUR	
	2007	2006	2007	2006
Interest income	1,619	2,631	103	168
Total financial income	1,619	2,631	103	168
Interest expense	1,401	10	90	1
Foreign exchange losses	3	3		
Financial expenses on shares	240	240	15	15
Total financial expenses	1,644	253	105	16
Net financial items	-25	2,378	-2	152

Note 17. Earnings per share

	EEK		EUR	
	2007	2006	2007	2006
Net profit	100,923,000	114,867,000	6,450,000	7,341,000
Number of shares outstanding	8,000,000	8,000,000	8,000,000	8,000,000
Basic earnings per share	12.62	14.36	0.81	0.92
Diluted earnings per share	12.62	14.36	0.81	0.92

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

Note 18. Income tax expense

(In thousands)	EEK		EUR	
	2007	2006	2007	2006
Dividends paid	200,000	80,000	12,782	5,113
Income tax rate applied	28.2%	29.9%	28.2%	29.9%
Income tax expense	56,410	23,896	3,605	1,527

In accordance with the effective Income Tax Act, in 2007 the income tax rate for dividends was 22/78 (28.2%). In 2006 the tax rate was 23/77 (29.9%) of the amount distributed as the net dividend.

Note 19. Contingent liabilities

Income tax liability

At 31 December 2007, the undistributed profits of Saku Õlletehase AS amounted to 242,889,000 kroons (15,523,000 euros). The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to 42,154,000 kroons (2,694,000 euros). Thus, the amount that could be distributed as the net dividend is 200,735,000 kroons (12,829,000 euros). 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 2008 cannot exceed the distributable profits as of 31 December 2007.

Alcohol excise duty liability

The alcohol excise duty liability to the Customs Board is secured with a bank guarantee as required by law. The guarantee amounts to 3,600,000 kroons (230,000 euros) and is valid from 8 October 2007 to 7 October 2008.

Guarantee to OÜ Eesti Pandipakend

In accordance with an agreement concluded on 14 December 2005, Saku Õlletehase AS guarantees the financing of OÜ Eesti Pandipakend (a packaging recovery organisation) to the extent of 10.9 million kroons (0.7 million euros). The guarantee is effective until 30 January 2009.

Note 20. Non-cash transactions

The income receivable on AS Rocca al Mare Suurhall bonds belonging to Saku Õlletehase AS is offset against the liability of Saku Õlletehase AS to AS Rocca al Mare Suurhall. The liability is related to advertising services rendered under a cooperation agreement.
In 2007, the offset amount equalled 1,705,000 kroons (109,000 euros). The corresponding figure for 2006 was 1,775,000 kroons (113,000 euros).

Note 21 Financial risks management

Financial risks

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

Credit risk

Saku Õlletehase AS has an effective 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 a high investment rating. Long-term financial investments are made when it is required for the development of the core activity, considering the conditions prevailing in the case.

At the balance sheet date, the most significant concentration of credit risk was related to AS Rocca al Mare Suurhall shares and bonds. To reduce the credit risk, all agreements relating to the investment include a clause that if ownership of the recreational complex changes, the agreements will transfer to the new owner under the same terms and conditions.

Interest rate risk

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.

External financing (finance lease) is used for the purchase of vehicles. As a rule, the base currency of lease contracts is the Estonian kroon or euro and interest rates are fixed for the entire lease term. Since the proportion of external financing in the capital structure is insignificant, related risks are minimal and have not been hedged.

Currency risk

Nearly all purchase and sales transactions are performed in Estonian kroons, euros 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.

3. SIGNATURES

The annual report of Saku Õlletehase AS for 2007 comprising the review of operations and the annual financial statements is signed by the following management and supervisory board members:

Ireneusz Piotr Smaga
Chairman of Management Board

Tomas Kucinskas
Chairman of Supervisory Board

Management board members:

Inga Kuusik

Supervisory board members:

Saulius Galadauskas

Cardo Remmel

Piotr Sanetra

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 80,000,000 kroons (5,113,000 euros), i.e. 10 kroons (0.64 euros) 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 20th stock exchange day after the date of the general meeting 23.59;
- increase retained earnings by net profit for 2007 of 100,923,000 kroons (6,230,000 euros); and
- distribute the dividend of 80,000,000 kroons (5,113,000 euros) from retained earnings.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Saku Õlletehase AS

Report on the Financial Statements

We have audited the accompanying financial statements of Saku Õlletehase AS, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 42.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saku Õlletehase AS as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 25 February 2008

KPMG Baltics AS

Andris Jegers
Authorized Public Accountant

Eva Jakunin
Authorized Public Accountant