



**AS Kalev**

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# **ANNUAL REPORT**

**(Translation from the Estonian original)**

**Beginning 01.01.2002**

**End 30.06.2002**

**Core activities:** Production, wholesale,  
retail, export and import of confectionery  
products incl. half finished products

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## **1. ACTIVITY REPORT**

### **1.1. TOP ACTIVITIES**

#### **The laying of the cornerstone of the new factory building and commencement of construction works.**

The cornerstone of the new factory building of AS Kalev on Põrguvälja Real Estate in Rae commune, Harju county, was laid on 18.05.2002. Construction of the new production complex started in May 2002; as per preliminary schedule, the new factory will be completed in May 2003. The entire Company is expected to move from Pärnu mnt, Tallinn to Põrguvälja by the end of 2003.

#### **The founding of a subsidiary in relation to the construction of the new factory building.**

In accordance with the decision of the Council (Supervisory Board) of AS Kalev on 06.12.2001 (minutes of meeting no 6, p.3), AS Kalev together with its strategic partner Skanska EMV AS founded a real estate development and administration subsidiary. AS Kalev owns 60% and Skanska EMV AS 40% of the shares of the subsidiary, AS Kalev Real Estate Company (in short AS Kalev REC).

The main activity of the subsidiary is organising the construction of the new factory building of AS Kalev and developing the Põrguvälja real estate. During the reporting period, AS Kalev purchased 20 ha ideal share of Põrguvälja real estate from AS Rakvere Lihakombinaat and now owns the entire 50 ha of real estate.

#### **Preparation for the II stage of direct distribution.**

At the beginning of 2001 AS Kalev ceased using resellers for marketing its products and started with direct distribution (stage I of direct distribution). In order to further improve sales and customer service, Kalev started preparing stage II of direct distribution in the 2<sup>nd</sup> quarter of 2002. Therefore, additional sales personnel were hired across Estonia – sales representatives and product distributors; 51 employees altogether. The new sales team started work in August.

#### **Development of the shop-café chain Kalevite Kodu.**

The main reason for founding the chain of shop-café is AS Kalev's intention and need to develop a café culture in different places in Estonia as well as making a wide selection of confectionery products available outside the main cities. Local labour force will be given preference during the establishment process of Kalevite Kodu shop-café and the personnel responsible for the daily operations of the shop-café will also be local.

During the first six months of 2002 two new Kalevite Kodu branches were opened – in Valga (in March) and in Kuresaare (in June). The chain currently consists of four

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shop-cafes altogether. AS Kalev is planning to establish similar shop-café's in all county centres in the future.

By the time this activity report is published, AS Kalev's daughter company AS Kalev REC would have purchased real estate in Jõhvi where the next branch of Kalevite Kodu is expected to open during the pre-Christmas period.

## **1.2. MARKET AND SALES OF CONFECTIONERY**

According to the research company ACNielsen, the market share of AS Kalev was 49 per cent in the confectioneries' market (pastry not included) in Estonia in the 1<sup>st</sup> quarter of 2002. During the reported year, the local market was also AS Kalev's primary market, where the company retained its leading position.

The total sale of confectioneries in 2002 amounted to 3275 tons, which constituted 9 per cent less than during the same period in the previous year. The decrease of total sales was linked with the reduction of exports to eastern markets.

Chocolate confectioneries (candy, bars and boxes) accounted for 60 per cent of the total sales during the first six months of 2002. Sugar confectioneries amounted to 30 per cent of the total sales. Sales of Draakon chewing candy and dragees progressed well, as advertising campaigns supported the launch of small packages on the market. Greater focus was placed on the development and sales of anniversary products (St.Valentine's day, Easter etc).

78.5 per cent of the total sales volume (in tons) during the first six months of 2002 were sold on the local market with 21.5 per cent being marketed elsewhere (during the first six months of 2001, these the equivalent figures were 73 per cent and 27 per cent of the total sales respectively). The biggest export market during the reported period was Latvia, which accounted for more than 37 per cent of export sales. The second largest export market for AS Kalev was the Ukraine, where sales increased by more than 23 per cent compared to the first six months in 2001. Additionally AS Kalev also exported to Lithuania, Russia and the Scandinavian countries. Small volumes were exported to the United States of America.

Similarly to previous periods the main export articles of AS Kalev during the first six months of 2002 were chewing candy, toffee and chewing gum.

## **1.3 OPERATING ACTIVITIES AND FINANCIAL RESULTS**

The net turnover of AS Kalev during the first six months of 2002 was 163 million EEK (10.4 million EUR), which is 10 per cent higher than the turnover in the same period in 2001. However, if the turnover from real estate activities is excluded, the turnover of confectioneries and other sales has decreased by 5 per cent – by 6.2 million EEK (nearly 400 thousand EUR) compared to the same period in 2001. The decrease in turnover is mainly caused by reduced export turnover on the eastern markets. The net profit of AS Kalev for the reporting period was 30.8 million EEK (nearly 2 million EUR); the net profit from the sales of confectioneries contributed 8.7 million EEK (556 thousand EUR) to profit; real estate activities' contribution to profit was 21.3 million EEK (1 361 thousand EUR). The results of real estate

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activities were mostly influenced by changes in the fair value of the investment property.

In comparison with the same period the previous year the financial costs of the company were reduced. This was caused by the decline in interest expenses resulting from scheduled payments of a long-term loan.

At the same time, the marketing costs of the company have increased. This has been the result of more active marketing (product development, consumer campaigns etc) on the one hand and the hiring of additional employees (due to the switch to the II stage of Direct Distribution) on the other. Also, the portfolio of Christmas products for 2002 was completed during the first six months.

As of 30.06.2002 AS Kalev employed 540 persons in full time positions, the average number of employees during the reporting period was 533.1. The average monthly salary of the company's employees was 5 947 EEK (380 EUR) during the reporting period. The Chairman and the members of Council were paid 222 000 EEK (14 188 EUR).

(Translation from the Estonian original)

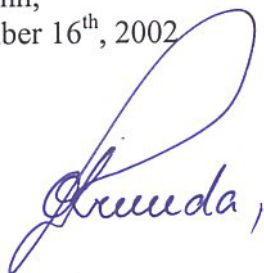
## 2. FINANCIAL STATEMENTS (audited)

Endorsement by the Chairman

The chairman of the Management Board of AS Kalev acknowledges his responsibility for the preparation, integrity and fair presentation of the annual financial statements of AS Kalev for 2002 as set out on pages 5 to 33 of this report, and confirms that to the best of his knowledge:

- the accounting policies applied to the preparation of the annual accounts comply with generally accepted accounting principles and International Accounting Standards;
- the annual financial statements give a true and fair view of the financial position of AS Kalev and the results of its operations;
- AS Kalev is a going concern.

In Tallinn,  
September 16<sup>th</sup>, 2002



Oliver Kruuda  
The Chairman

(Translation from the Estonian original)

## BALANCE SHEET (in EEK)

### ASSETS

	Note No.	30 June 2002 EEK	31 December 2001 EEK
<b>CURRENT ASSETS</b>			
CASH AND BANK	1	3 476 327	14 026 165
TRADE RECEIVABLES	2	32 244 225	29 638 468
OTHER RECEIVABLES	3	9 692 416	1 062 142
PREPAID EXPENSES	4	3 333 224	3 030 730
INVENTORIES	5	48 968 656	27 571 871
<b>TOTAL CURRENT ASSETS</b>		<b>97 714 848</b>	<b>75 329 376</b>

### NON-CURRENT ASSETS

LONG-TERM RECEIVABLES	6	887 180	887 180
LONG-TERM FINANCIAL INVESTMENTS	7	2 764 416	0
PROPERTY, PLANT AND EQUIPMENT	8,18	166 533 651	93 220 174
INVESTMENT PROPERTY	9	69 266 253	37 337 778
INTANGIBLE ASSETS	10	290 378	275 000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>239 741 878</b>	<b>131 720 132</b>

<b>TOTAL ASSETS</b>		<b>337 456 726</b>	<b>207 049 508</b>
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### LIABILITIES AND OWNERS' EQUITY

#### LIABILITIES

DEBT LIABILITIES	11	33 891 332	12 104 886
CUSTOMER PREPAYMENTS		53 274	207 977
TRADE PAYABLES		35 565 238	28 228 155
TAX LIABILITIES	12	3 997 352	8 531 521
OTHER LIABILITIES	13	33 826 371	4 850 260
<b>TOTAL CURRENT LIABILITIES</b>		<b>107 333 567</b>	<b>53 922 799</b>

LONG-TERM DEBT LIABILITIES	11	21 000 000	27 000 000
OTHER LONG-TERM PAYABLES	11	5 120 672	58 076
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>26 120 672</b>	<b>27 058 076</b>

#### OWNERS' EQUITY

SHARE CAPITAL		78 775 000	78 775 000
REVALUATION RESERVE		112 812 302	42 776 334
RETAINED LOSS		-18 341 560	-25 435 847
PROFIT FOR THE FINANCIAL YEAR		30 756 745	29 953 146
<b>TOTAL OWNERS' EQUITY</b>	14	<b>204 002 487</b>	<b>126 068 633</b>

<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>337 456 726</b>	<b>207 049 508</b>
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(Translation from the Estonian original)

## BALANCE SHEET (in EUR)

### ASSETS

	Note No.	30 June 2002 EUR	31 December 2001 EUR
<b>CURRENT ASSETS</b>			
CASH AND BANK	1	222 177	896 433
TRADE RECEIVABLES	2	2 060 776	1 894 239
OTHER RECEIVABLES	3	619 457	67 883
PREPAID EXPENSES	4	213 031	193 698
INVENTORIES	5	3 129 660	1 762 159
<b>TOTAL CURRENT ASSETS</b>		<b>6 245 101</b>	<b>4 814 412</b>

### NON-CURRENT ASSETS

LONG-TERM RECEIVABLES	6	56 701	56 701
LONG-TERM FINANCIAL INVESTMENTS	7	176 678	0
PROPERTY, PLANT AND EQUIPMENT	8,18	10 643 413	5 957 840
INVESTMENT PROPERTY	9	4 426 909	2 386 313
INTANGIBLE ASSETS	10	18 558	17 576
<b>TOTAL NON-CURRENT ASSETS</b>		<b>15 322 259</b>	<b>8 418 429</b>

<b>TOTAL ASSETS</b>		<b>21 567 361</b>	<b>13 232 842</b>
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### LIABILITIES AND OWNERS' EQUITY

#### LIABILITIES

DEBT LIABILITIES	11	2 166 045	773 641
CUSTOMER PREPAYMENTS		3 405	13 292
TRADE PAYABLES		2 273 027	1 804 103
TAX LIABILITIES	12	255 477	545 262
OTHER LIABILITIES	13	2 161 894	309 987
<b>TOTAL CURRENT LIABILITIES</b>		<b>6 859 848</b>	<b>3 446 286</b>

LONG-TERM DEBT LIABILITIES	11	1 342 141	1 725 610
OTHER LONG-TERM PAYABLES	11	327 270	3 712
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 669 411</b>	<b>1 729 322</b>

#### OWNERS' EQUITY

SHARE CAPITAL		5 034 627	5 034 627
REVALUATION RESERVE		7 210 002	2 733 899
RETAINED LOSS		-1 172 236	-1 625 643
PROFIT FOR THE FINANCIAL YEAR		1 965 709	1 914 350
<b>TOTAL OWNERS' EQUITY</b>	14	<b>13 038 102</b>	<b>8 057 234</b>

<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>21 567 361</b>	<b>13 232 842</b>
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(Translation from the Estonian original)

# INCOME STATEMENT (in EEK)

	Note No.	01.01. -30.06.2002 EEK	01.01. -31.12.2001 EEK
NET SALES	16	163 089 049	317 529 516
COST OF GOODS SOLD		113 746 132	199 251 141
<b>GROSS PROFIT</b>		<b>49 342 917</b>	<b>118 278 375</b>
MARKETING EXPENSES		22 640 797	35 724 592
ADMIN. AND GENERAL EXPENSES		14 518 512	33 489 718
OTHER INCOME	19	3 585 343	3 787 592
OTHER EXPENSES	19	1 551 572	17 343 102
<b>OPERATING PROFIT</b>		<b>14 217 379</b>	<b>35 508 555</b>
FINANCIAL INCOME	20	19 523 009	303 775
FINANCIAL EXPENSES	21	2 724 181	5 859 184
<b>PROFIT BEFORE TAX</b>		<b>31 016 207</b>	<b>29 953 146</b>
INCOME TAX		259 462	0
<b>NET PROFIT</b>		<b>30 756 745</b>	<b>29 953 146</b>
EARNINGS PER SHARE	23	3,90	3,80

# INCOME STATEMENT (in EUR)

	Note No.	01.01.-30.06.2002 EUR	01.01.-31.12.2001 EUR
NET SALES	16	10 423 263	20 293 783
COST OF GOODS SOLD		7 269 684	12 734 436
<b>GROSS PROFIT</b>		<b>3 153 579</b>	<b>7 559 347</b>
MARKETING EXPENSES		1 447 007	2 283 212
ADMIN. AND GENERAL EXPENSES		927 900	2 140 378
OTHER INCOME	19	229 145	242 071
OTHER EXPENSES	19	99 163	1 108 423
<b>OPERATING PROFIT</b>		<b>908 654</b>	<b>2 269 404</b>
FINANCIAL INCOME	20	1 247 744	19 415
FINANCIAL EXPENSES	21	174 106	374 469
<b>PROFIT BEFORE TAX</b>		<b>1 982 292</b>	<b>1 914 350</b>
INCOME TAX		16 583	0
<b>NET PROFIT</b>		<b>1 965 709</b>	<b>1 914 350</b>
EARNINGS PER SHARE	23	0,25	0,24

(Translation from the Estonian original)

## CASH FLOW STATEMENT (in EEK)

	Note No.	01.01.-30.06.2002 EEK	01.01.-31.12.2001 EEK
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
OPERATING PROFIT		14 217 379	35 508 554
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	8,18	4 809 941	9 921 676
DEPRECIATION OF INTANGIBLE ASSETS	10	35 277	25 000
PROFIT/LOSS FROM SALES OF NON-CURRENT ASSETS	19	25 183	-3 064 784
CHANGE IN RECEIVABLES		-11 538 525	-4 824 963
CHANGE IN INVENTORIES		-21 396 785	1 183 730
CHANGE IN LIABILITIES		6 533 939	-2 728 565
INTERESTS PAID		-2 132 108	-5 231 521
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>-9 445 699</b>	<b>30 789 127</b>

## CASH FLOW FROM INVESTING ACTIVITIES

INVESTMENTS TO SUBSIDIARIES	7	-2 764 400	0
PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT		0	6 786 720
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT INCLUDING PURCHASE BY INSTALMENT	8,9	-19 821 831	-17 097 808
PURCHASE OF INTANGIBLE ASSETS		8 000 000	0
CHANGE IN LOANS GIVEN		-50 655	-300 000
INTEREST RECEIVED		-1500 000	0
		66 332	156 754
<b>TOTAL CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-16 070 570</b>	<b>-10 454 334</b>

## CASH FLOW FROM FINANCING ACTIVITIES

LOAN REPAYMENTS		-6 000 000	-12 000 000
USED BANK OVERDRAFT		2 050 656	0
PROCEEDS FROM ISSUE OF BONDS	11	19 432 980	0
LEASE PAYMENTS		-183 480	-681 964
OTHER FINANCING INCOME/EXPENSES		0	-670 713
<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>15 300 156</b>	<b>-13 352 677</b>

<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-10 216 113</b>	<b>6 982 116</b>
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<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	1	<b>14 026 165</b>	<b>7 033 972</b>
CHANGE		-10 216 113	6 982 116
EFFECTS OF EXCHANGE RATE CHANGES	21	-333 725	10 077
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	1	<b>3 476 327</b>	<b>14 026 165</b>

(Translation from the Estonian original)

## CASH FLOW STATEMENT (in EUR)

	Note No.	01.01.-30.06.2002 EUR	01.01.-31.12.2001 EUR
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
OPERATING PROFIT		908 654	2 269 404
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	8,18	307 410	634 109
DEPRECIATION OF INTANGIBLE ASSETS	10	2 255	1 598
PROFIT/LOSS FROM SALES OF NON-CURRENT ASSETS	19	1 609	-195 875
CHANGE IN RECEIVABLES		-737 444	-308 371
CHANGE IN INVENTORIES		-1 367 500	75 654
CHANGE IN LIABILITIES		417 594	-174 387
INTERESTS PAID		-136 266	-334 354
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>-603 689</b>	<b>1 967 779</b>

## CASH FLOW FROM INVESTING ACTIVITIES

INVESTMENTS TO SUBSIDIARIES	7	-176 677	0
PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT		0	433 749
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT INCLUDING PURCHASE BY INSTALMENT	8,9	-1 266 843	-1 092 746
PURCHASE OF INTANGIBLE ASSETS		511 292	0
CHANGE IN LOANS GIVEN		-3 237	-19 173
INTEREST RECEIVED		-95 867	0
		4 239	10 018
<b>TOTAL CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-1 027 094</b>	<b>-668 152</b>

## CASH FLOW FROM FINANCING ACTIVITIES

LOAN REPAYMENTS		-383 469	-766 938
USED BANK OVERDRAFT		131 060	0
PROCEEDS FROM ISSUE OF BONDS	11	1 241 991	0
LEASE PAYMENTS		-11 726	-43 585
OTHER FINANCING INCOME/EXPENSES		0	-42 866
<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>977 856</b>	<b>-853 389</b>

<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-652 927</b>	<b>446 237</b>
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<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	1	<b>896 433</b>	<b>449 552</b>
CHANGE		-652 927	446 237
EFFECTS OF EXCHANGE RATE CHANGES	21	-21 329	644
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	1	<b>222 177</b>	<b>896 433</b>

## (Translation from the Estonian original)

## STATEMENT OF CHANGES IN EQUITY (in kroons)

EEK	Note No.	SHARE CAPITAL	CAPITAL RESERVE	REVALUATION RESERVE	PROFIT FOR THE FINANCIAL YEAR	RETAINED LOSS	TOTAL
<b>1 JANUARY 2001</b>		<b>78 775 000</b>	<b>0</b>	<b>46 930 612</b>	<b>20 288 765</b>	<b>-49 878 890</b>	<b>96 115 487</b>
CAPITAL RESERVE MADE		0	1 045 874	0	-1 045 874	0	0
COVERING RETAINED LOSS		0	-1 045 874	0	-19 242 891	20 288 765	0
SALE OF REVALUED PROPERTY, PLANT AND EQUIPMENT		0	0	-1 614 647	0	1 614 647	0
DEPRECIATION OF REVALUED PROPERTY, PLANT AND EQUIPMENT		0	0	-2 539 630	0	2 539 630	0
NET PROFIT		0	0	0	29 953 146	0	29 953 146
<b>31 DECEMBER 2001</b>		<b>78 775 000</b>	<b>0</b>	<b>42 776 334</b>	<b>29 953 146</b>	<b>-25 435 847</b>	<b>126 068 633</b>

<b>1 JANUARY 2002</b>		<b>78 775 000</b>	<b>0</b>	<b>42 776 334</b>	<b>29 953 146</b>	<b>-25 435 847</b>	<b>126 068 633</b>
CAPITAL RESERVE MADE		0	1 497 657	0	-1 497 657	0	0
COVERING RETAINED LOSS		0	-1 497 657	0	-4 822 989	6 320 646	0
DIVIDEND PAYMENT DECISION		0	0	0	-23 632 500	0	-23 632 500
REVALUATION OF FIXED ASSETS		0	0	70 809 609	0	0	70 809 609
FIXED ASSETS TO INVESTMENT PROPERTY		0	0	-340 207	0	340 207	0
DEPRECIATION OF REVALUED PROPERTY, PLANT AND EQUIPMENT		0	0	-433 434	0	433 434	0
NET PROFIT		0	0	0	30 756 745	0	30 756 745
<b>30 JUNE 2002</b>	12	<b>78 775 000</b>	<b>0</b>	<b>112 812 302</b>	<b>30 756 745</b>	<b>-18 341 450</b>	<b>204 002 487</b>

EUR	Note No.	SHARE CAPITAL	CAPITAL RESERVE	REVALUATION RESERVE	PROFIT FOR THE FINANCIAL YEAR	RETAINED LOSS	TOTAL
<b>1 JANUARY 2001</b>		<b>5 034 627</b>	<b>0</b>	<b>2 999 405</b>	<b>1 296 685</b>	<b>-3 187 834</b>	<b>6 142 883</b>
CAPITAL RESERVE MADE		0	66 843	0	-66 843	0	0
COVERING RETAINED LOSS		0	-66 843	0	-1 229 842	1 296 685	0
SALE OF REVALUED PROPERTY, PLANT AND EQUIPMENT		0	0	-103 195	0	103 195	0
DEPRECIATION OF REVALUED PROPERTY, PLANT AND EQUIPMENT		0	0	-162 312	0	162 312	0
NET PROFIT		0	0	0	1 914 350	0	1 914 350
<b>31 DECEMBER 2001</b>	12	<b>5 034 627</b>	<b>0</b>	<b>2 733 899</b>	<b>1 914 350</b>	<b>-1 625 643</b>	<b>8 057 234</b>

<b>1 JANUARY 2002</b>		<b>5 034 627</b>	<b>0</b>	<b>2 733 899</b>	<b>1 914 350</b>	<b>-1 625 643</b>	<b>8 057 234</b>
CAPITAL RESERVE MADE		0	95 718	0	-95 718	0	0
COVERING RETAINED LOSS		0	-95 718	0	-308 244	403 962	0
DIVIDEND PAYMENT DECISION		0	0	0	-1 510 388	0	-1 510 388
REVALUATION OF FIXED ASSETS		0	0	4 525 547	0	0	4 525 547
FIXED ASSETS TO INVESTMENT PROPERTY		0	0	-21 743	0	21 743	0
DEPRECIATION OF REVALUED PROPERTY, PLANT AND EQUIPMENT		0	0	-27 701	0	27 701	0
NET PROFIT		0	0	0	1 965 709	0	1 965 709
<b>30 JUNE 2002</b>	12	<b>5 034 627</b>	<b>0</b>	<b>7 210 002</b>	<b>1 965 709</b>	<b>-1 172 236</b>	<b>13 038 102</b>

(Translation from the Estonian original)

## ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with the International Accounting Standards (hereinafter IAS). The company's accounting is based on the accrual principle in accordance with historical cost convention, unless not indicated otherwise in the accounting principles below.

The main accounting principles are as follows:

### Financial year

From 01.07.2002 AS Kalev has changed its reporting period from the calendar year to the period of 01.07 - 30.06 of next calendar year. The relevant decision was made by the annual general meeting on 18.06.2002.

In connection with the switchover to the new reporting period, the annual report has been prepared and audited for the period of 01.01.2002 to 30.06.2002. Therefore figures for the reporting period have been presented for the six months period and comparative data for the twelve-month period. When considering the contents of the annual reports it is important to understand that there exists a performance discrepancy between the first and the second half of the calendar year. Economic indicators cannot be compared on a one-to-one basis as the seasonality of the confectionery business leads to higher sales (and hence other financial indicators) during the second half-year.

### Foreign currency transactions

The financial statements have been presented both in Estonian kroons and euros (1 EUR = 15,64664 EEK based on the foreign currency exchange rate of the Bank of Estonia) due to the adoption of the European common currency in most EU countries since January 2002.

Foreign currency transactions are recorded in Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currency as at 30 June 2002 have been revalued into Estonian kroons and euros based on the foreign currency exchange rates of the Bank of Estonia officially valid on the balance sheet date.

Exchange differences from foreign currency transactions are recorded as foreign exchange gains or losses in the income statement, foreign exchange gains and losses related to suppliers and purchasers are recorded as revenue and expenses, other exchange differences are recorded as financial income and expenses.

### Subsidiaries

Subsidiaries are companies where AS Kalev has a more than 50% participation or AS Kalev has general control over business decisions.

Investments to subsidiaries have been recorded in the balance sheet using the equity method. Subsidiaries are not consolidated because of the immaterial impact of the consolidation results on the annual report of AS Kalev. (see also notes 7).

## Fixed assets

Assets with a useful life of over 1 year and an acquisition cost of over 10 000 kroons (639 EUR) are considered to be fixed assets. Low-value items are fully expensed when acquired.

Land and buildings are recorded at revalued value less accumulated depreciation. Equipment and other fixed assets are recorded at acquisition cost minus depreciation of fixed assets.

The revaluation reserve of fixed assets has been recorded as owners' equity in the balance sheet. The latter reserve will be decreased and retained earnings will be increased by the amount of depreciation from revaluation. No payouts to shareholders are made from the revaluation reserve.

Reconstruction costs are added to the cost of fixed assets. Repair costs, not extending the useful life of assets, are recorded as expenses for the period.

Depreciation is calculated based on the straight-line method according to the useful life of an asset. The annual depreciation rates for the groups of fixed assets in AS Kalev are as follows:

Buildings and facilities	33 years	3 %
Plant, equipment and vehicles	5 years	20 %
Computers	2 years	50 %
Other equipment and fixtures	3,3 years	30 %

Land is a fixed asset with unlimited useful life and is not depreciated.

Profit or loss from the sale of fixed assets is recorded accordingly as revenue or expenses.

The expenses of objects, equipment, systems etc to be constructed are collected at the account of construction in progress which, when completed, are transferred to the account of fixed assets based on the act. The account of uninstalled plant and equipment includes the fixed assets purchased, but uninstalled during the reporting period.

## Investment property

According to IAS 40 valid from 1 January 2001 investment property is the land or building held by the company with the aim to lease the latter or expect the rise in market value. Investment property is assessed based on the fair value (market value) method. Changes in fair value are recorded as financial income or expenses.

## Intangible assets

Intangible asset is the acquired trademark and computer software. The amortisation of intangible assets is based on the straight-line method over five years; the acquisition cost of assets is decreased by the amount of amortisation.

### **Trade receivables**

Trade receivable are included in the balance sheet according to the probability of the receipt of the receivables assessed on an individual basis. Receivables that are overdue and collection is doubtful have been written down to the amount, which is likely to be received. Uncollectible receivables have been written off.

### **Inventories**

Inventories are recorded in the balance sheet at acquisition cost or net realisable value, based on whichever is lower. Inventories are valued based on the average weighted acquisition cost method. Raw materials are recorded at acquisition cost. Finished goods and work-in-progress are recorded at production cost, which includes direct and indirect production related expenses.

### **Accounting for bonds and loans**

Issued bonds and loans received are initially recorded in the acquisition cost (cash received less borrowing costs) in the balance sheet. Acquisition cost is adjusted later with the net interest rate using amortised cost method using the effective interest rate.

### **Payables to employees**

The company has a vacation pay provision according to the number of vacation days unused by employees. The vacation pay provision is calculated as a percentage of wage, social tax and (from 1 January 2002) unemployment insurance payments from the wage.

### **Deferred income tax**

According to Estonian Income Tax Law which took effect on 1 January 2000 no differences between the tax bases and carrying values of assets and liabilities exist. Dividends paid by the company to resident natural persons and non-residents are subject to income tax (26/74 of net dividend paid). Income tax liability is recorded in the balance sheet at the moment of announcing the dividends.

### **Accrued income and expenses**

The balance sheet includes accrued income and expenses, i.e. income and expenses (e.g. loan interests), which have been recorded in the income statement of the period, but have not yet been received.

### **Accounting for leases**

Leases are treated as a financial lease, when all material risks and earning opportunities subject to agreement are transferred to the lessee. All other agreements are treated as operating lease. Assets acquired on financial lease terms are recorded as fixed assets (the acquisition cost is considered as the present value of lease payments) and are depreciated according to the standards applicable in the company. Interest



**(Translation from the Estonian original)**

paid on lease payments is recorded as interest expenses of financial income in the income statement.

The present value of lease receivables of assets given on financial lease by the company are recorded as receivables, interest payments are recorded as interest income in the financial income section, when incurred.

Operating lease payments are recorded on the accrual bases in the period the expenses are incurred.

**Sales revenue**

Net sales reflects the amounts received for goods and services sold less discounts and VAT. Revenue from the sales of goods is recognised when the title has been transferred to the purchaser, which is generally the moment of sale. Revenue from the sales of services is recorded in the month of rendering the service.

**Research and development costs**

Research costs are expensed when incurred. Development costs are assessed on an individual basis according to the future financial income and are either capitalised or expensed based on the assessment.

**Earnings per share**

Earnings per share are calculated by dividing the net profit with the average weighted number of shares. The company has no convertibles therefore earnings per share are equal to diluted earnings per share.

**Cash flow statement**

Cash flow statement is prepared based on the indirect method.

**Capital reserve**

According to the Commercial Code the statutory legal reserve is based on the decision of the general meeting forming at least 5% of the net profit for the financial year, until the capital reserve forms 10% of the share capital. The capital reserve could be used for covering the retained loss or increasing the share capital. No payments are made from the capital reserve to the shareholders.

**Cash and cash equivalents**

Cash and cash equivalents are recorded in the acquisition cost. Cash and cash equivalents consist of the balances of cash and cash equivalents accounts, while short-term deposits (up-to 3 months) have been recorded under the bank accounts section. Overdraft is recorded as a short-term debt liability.



(Translation from the Estonian original)

### **Loan expenses**

Loan expenses are not capitalised, but are expensed on an accrual basis.

### **Segment reporting**

All assets related to segments are presented under segment assets and all liabilities related to the segment are presented under segment liabilities. Primary reporting format is based on business segments according to fields of activity, whereby confectionary production has been differentiated from investment property and other services and sales. Second reporting format is based on the geographical spread of activity.

(Translation from the Estonian original)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Cash and cash equivalents

	30.06.2002 EEK	30.06.2002 EUR	31.12.2001 EEK	31.12.2001 EUR
Bank accounts	3 476 327	222 177	13 991 165	894 196
Deposits	0	0	35 000	2 237
<b>TOTAL</b>	<b>3 476 327</b>	<b>222 177</b>	<b>14 026 165</b>	<b>896 433</b>

### 2. Trade receivables

	30.06.2002 EEK	30.06.2002 EUR	31.12.2001 EEK	31.12.2001 EUR
Trade receivables	49 209 086	3 145 025	46 603 329	2 978 488
Allowance for doubtful receivables	-16 964 861	-1 084 249	-16 964 861	-1 084 249
<b>TOTAL</b>	<b>32 244 225</b>	<b>2 060 776</b>	<b>29 638 468</b>	<b>1 894 239</b>

Changes in allowance for doubtful receivables

	30.06.2002 EEK	30.06.2002 EUR	31.12.2001 EEK	31.12.2001 EUR
Opening balance	-16 964 861	-1 084 249	-8 106 862	-518 122
Discount of doubtful receivables	0	0	-12 600 000	-805 285
Write-off of uncollectible receivables	0	0	3 742 001	239 157
<b>TOTAL</b>	<b>-16 964 861</b>	<b>-1 084 249</b>	<b>-16 964 861</b>	<b>-1 084 249</b>

Receivables from related parties – see note 26.

### 3. Other receivables

	30.06.2002 EEK	30.06.2002 EUR	31.12.2001 EEK	31.12.2001 EUR
Short-term lease receivables	12 018	769	100 152	6 401
Other accounts receivable	15 680 398	1 002 157	6 961 990	444 951
Other allowance for doubtful receivables	-6 000 000	-383 469	-6 000 000	-383 469
<b>TOTAL</b>	<b>9 962 416</b>	<b>619 457</b>	<b>1 062 142</b>	<b>67 883</b>

Other accounts receivable include a loan of 1 500 000 EEK (95 867 EUR) to OÜ Kanpol Kinnisvara. The due date is 31.12.2002, the interest rate is 6%. Additionally, other accounts receivable include receivable of 6 894 800 EEK (440 657 EUR) from OÜ Cassel Grupp, connected with repair works of the building at Pärnu mnt 139c. The due date of the payment is connected with the completion of the real estate development. (see also notes 26).

#### 4. Prepaid expenses

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Prepaid taxes	948 352	60 611	67 985	4 345
VAT of prospective periods	1 416 270	90 516	1 367 298	87 386
Other prepaid expenses	968 602	61 904	1 595 446	101 967
TOTAL	3 333 224	213 031	3 030 730	193 698

Tax prepayments include the VAT and corporate tax liability to be returned by the Tax Board as of 30.06.2002 and VAT liability as of 31.12.2001. VAT of prospective periods consists of the receivables from the Customs Board for the VAT. Other prepaid expenses comprise prepayments of insurance charges, periodicals etc.

#### 5. Inventories

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Raw materials	24 994 078	1 597 408	23 990 107	1 533 243
Work-in-progress	2 112 986	135 044	824 188	52 675
Finished goods	20 943 289	1 338 517	6 955 450	444 533
Goods for resale	2 423 378	154 882	0	0
Prepayments to suppliers	2 827 953	180 739	3 466 472	221 547
Allowance for inventories	-4 333 028	-276 930	-7 664 346	-489 840
TOTAL	48 968 656	3 129 660	27 571 871	1 762 159

During 01.01.2002 – 30.06.2002, low-value asset items were expensed and taken into use in the amount of 320 421 EEK (20 479 EUR), during 2001 in the amount of 808 394 EEK (51 666 EUR).

Goods for resale include two vehicles, subject to resale in 2002.

During the reporting period, the raw materials have been written down or written off the balance sheet in the amount of 31 318 EEK (2 002 EUR). General allowance for obsolete and slow moving inventories that has been made according to prudence principle during previous periods, was reduced by 3 300 000 EEK (210 908 EUR). In 2001, raw materials were written down or written off in amount of 4 116 478 EEK (263 090 EUR) and general allowances were made in amount of 3 000 000 EEK (191 734 EUR).

Inventories of 4 508 432 EEK (288 141 EUR) are recorded at net realisable value in the balance sheet. Pledged inventories – see note 25.

(Translation from the Estonian original)

## 6. Other long-term receivables

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Long-term prepayment	330 400	21 116	330 400	21 116
Other long-term receivables	556 780	35 585	556 780	35 585
TOTAL	887 180	56 701	887 180	56 701

The prepayment for the lease of the building of Kalevite Kodu located in Pärnu is recorded as long-term prepayment; the prepayment is subject to set-off during 2005. Other long-term receivables include receivables for the shares of Baltcom Eesti AS, the due date of payment is 01.10.2003.

## 7. Long-term financial investments

	30.06.2002	30.06.2002
	EEK	EUR
AS Kalev Real Estate Company	240,000	15,339
Kalev Merchant Services Ltd	2,524,416	161,339
TOTAL	2,764,416	176,678

As at 30.06.2002 AS Kalev has ownership in two subsidiaries.

Kalev Merchant Services Ltd is a subsidiary, owned 100% by AS Kalev. The company is located in USA; its activities are marketing and sales of AS Kalev products in USA.

In addition to the financial investments, balance sheet rows also include prepayment for a vehicle in the amount of 212 998 EEK (13 613 EUR), receivables for sales of goods in the amount of 648 467 EEK (41 444 EUR) and vehicle with trailer registered as non-current asset in the amount of 2 655 370 EEK (169 709 EUR).

AS Kalev's share in AS Kalev Real Estate Company (further AS Kalev REC) is 60%. As of 30.06.2002, AS Kalev REC has 400 shares with book value of 1000 EEK (64 EUR). The subsidiary's activity is developing real estates connected with AS Kalev. The company was established in 2002 and as of 30.06.2002 its main field of activity has not been started, thus the investment is recorded at acquisition cost.

As the consolidation of the assets and transactions of the subsidiaries during the reporting period are immaterial to AS Kalev as parent company, the subsidiaries are not consolidated as of 30.06.2002.

## 8. Property, plant and equipment

	Land	Buildings and facilities	Plant, equipment and vehicles	Other fixed assets	Construction in progress and uninstalled equipment	TOTAL
<b>In 2002 EEK</b>						
Acquisition cost 31.12.2001	34 223 551	52 820 902	37 465 236	10 189 745	5 768 078	140 467 512
Accumulated depreciation 31.12.2001	0	-9 004 192	-28 639 645	-9495 501	-108 000	-47 247 338
Residual value 31.12.2001	34 223 551	43 816 710	8 825 591	694 244	5 660 078	93 220 174
Purchase	0	0	435,648	1,168,213	5,587,648	7,191,509
Fixed assets taking into usage	0	1,777,977	2,655,370	0	-4,802,623	-369,275
Revaluation of fixed assets	2,308,205	68,501,406	0	0	0	70,809,611
Prepayments for fixed assets	0	0	0	0	2,630,322	2,630,322
Write-off	0	0	0	-25,183	0	-25,183
Depreciation charge for year	0	-796,701	-3,312,691	-700,548	0	-4,809,941
Reclassification to investment property	0	-2,113,564	0	0	0	-2,113,564
Acquisition cost 30.06.2002	36,531,756	120,748,762	40,555,818	11,148,921	9,183,425	218,168,683
Accumulated depreciation 30.06.2002		-9,562,936	-31,951,901	-10,012,195	-108,000	-51,635,032
<b>Residual value 30.06.2002 EEK</b>	<b>36,531,756</b>	<b>111,185,826</b>	<b>8,603,917</b>	<b>1,136,726</b>	<b>9,075,425</b>	<b>166,533,651</b>
<b>In 2002 EUR</b>						
Residual value 01.01.2002	2,187,278	2,800,391	564,057	44,370	361,744	5,957,840
Purchase	0	0	27,843	74,662	357,115	459,620
Fixed assets taken into usage	0	113,633	169,709	0	-306,943	-23,601
Revaluation of fixed assets	147,521	4,378,027	0	0	0	4,525,547
Prepayments for fixed assets	0	0	0	0	168,108	168,108
Write-off	0	0	0	-1,609	0	-1,609
Depreciation charge for year	0	-50,918	-211,719	-44,773	0	-307,410
Reclassification to investment property	0	-135,081	0	0	0	-135,081
Acquisition cost 30.06.2002	2,334,799	7,717,233	2,591,983	712,544	586,926	13,943,485
Accumulated depreciation 30.06.2002	0	-611,181	-2,042,093	-639,894	-6,902	-3,300,072
<b>Residual value 30.06.2002 EUR</b>	<b>2,334,799</b>	<b>7,106,051</b>	<b>549,889</b>	<b>72,650</b>	<b>580,024</b>	<b>10,643,413</b>

As at 30.06.2002, the fixed assets of AS Kalev have been revalued. In order to estimate the market value, the method based on discounted cash flows was used.

Without the impact of the revaluation the residual values of the fixed assets groups at 30.06.2002 would be: Land 18 117 064 EEK (1 157 888 EUR), Buildings and facilities 18 640 098 EEK (1 191 316 EUR).

During the reporting period, the shop-café Valga Kalevite Kodu was purchased; new cashier desks and computers to the shop-cafes of Kalevite Kodu chain were also purchased.

Construction in progress and uninstalled equipment also include investments into the new factory building in Põrguvälja in the amount of 6 074 259 EEK (388 215 EUR) and prepayments for toasting machine in the amount of 1 701 000 EEK (108 713 EUR) and for vehicle with a trailer in the amount of 212 998 EEK (13 613 EUR).

Pledged fixed assets – see note 25.

**(Translation from the Estonian original)**

Depreciation calculated on fixed assets – see note 18.

The company uses the following fully depreciated fixed assets in its production activities:

	30.06.2002 EEK	30.06.2002 EUR	31.12.2001 EEK	31.12.2001 EUR
Buildings and facilities (at acquisition cost)	341 767	21 843	241 768	15 452
Plant and equipment (at acquisition cost)	6 461 012	412 933	5 873 647	375 394
Other equipment and fixtures (at acquisition cost)	9 085 369	580 659	8 259 426	527 872
<b>TOTAL</b>	<b>15 888 148</b>	<b>1 015 435</b>	<b>14 374 841</b>	<b>918 717</b>

**Financial lease**

	30.06.2002 EEK	30.06.2002 EUR	31.12.2001 EEK	31.12.2001 EUR
Fixed assets acquired with financial lease	559 878	35 783	253 293	16 188
Accumulated depreciation	-19 554	-1 250	-219 521	-14 030
Incl. depreciation of reporting period	-19 554	-1 250	-50 659	-3 238
<b>Residual value</b>	<b>540 324</b>	<b>34 533</b>	<b>33 772</b>	<b>2 158</b>

Fixed assets acquired on financial lease terms (computer during this reporting period; trailers), forklifts and office cars during previous reporting period) are recorded as 'plant and equipment'. The short-term part of financial lease payments is recorded as other short-term debt liabilities, long-term part as long-term liabilities. See also note 24.

## 9. Investment property

	Land	Buildings	TOTAL
<b>In 2002 EEK</b>			
Value at 01.01.2002	8 793 750	28,544,028	37,337,778
Reclassification to investment property	0	2,113,564	2,113,564
Impairment of investment property	0	369,275	369,275
Change in fair value	0	19,445,636	19,445,636
Purchase	10 000 000	0	10,000,000
<b>Value 30.06.2002</b>	<b>18 793 750</b>	<b>50,472,503</b>	<b>69,266,253</b>
<b>In 2001 EUR</b>			
Value as at 1 January 2001	562 022	1,824,291	2,386,313
Reclassification to investment property	0	135,081	135,081
Impairment of investment property	0	23,601	23,601
Change in fair value	0	1,242,800	1,242,800
Purchase	639 114	0	639,114
<b>Value 30.06.2002</b>	<b>1 201 136</b>	<b>3,225,773</b>	<b>4,426,909</b>

AS Kalev considers the buildings and land leased out and not used in the production activities and held with the aim of gaining future income, as investment property. As a result of reclassification the investment property has been transferred in 2001 from the fixed asset line to investment property and calculation of depreciation of the latter was finished from the beginning of 2001. New investment properties acquired are recorded as investment properties.

The change in the fair value of the investment properties has been included in the report. The increase in the fair value is recorded in the income statement, on the 'financial income' line, see note 20.

During the reporting time, land on Põrguvälja real estate was purchased by instalment (see also note 11) and rental space at Pärnu mnt 139 was repaired.

Lease income from investment property is recorded as net sales of income statement, see Note 16.

As buildings are leased through an operator company no material direct maintenance or administration expenses regarding the investment property has been incurred for AS Kalev during the reporting period.

The commercial pledge has been set to the buildings as part of fixed assets in the investment property, in order to secure the bank claims. See also note 25.

(Translation from the Estonian original)

## 10. Intangible assets

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Residual value at the beginning of the period	275 000	17 576	0	0
Purchase	50 655	3 237	300 000	19 173
Amortisation	-35 277	-2 254	-25 000	-1 597
<b>Residual value at the end of the period</b>	<b>290 378</b>	<b>18 559</b>	<b>275 000</b>	<b>17 576</b>

During the reporting period, an anti-virus programme was purchased.

## 11. Debt liabilities and long-term liabilities

### Short-term liabilities

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Short-term part of long-term loan	12 000 000	766 938	12 000 000	766 938
Bank overdraft	2 050 656	131 060	0	0
Short-term bonds	19 621 987	1 254 070	0	0
Finance lease liabilities	218 689	13 977	104 886	6 703
<b>TOTAL</b>	<b>33 891 332</b>	<b>2 166 045</b>	<b>12 104 886</b>	<b>773 641</b>

Bonds include 2000 short-term bonds issued on 07.05.2002. The nominal interest rate of the bonds is 5,74%, redemption date is 06.11.2002 and redemption value is 10 000 EEK (639 EUR). The bonds are short-term and their emission costs were immaterial, thus the effective interest rate does not significantly differ from the nominal interest rate. Therefore the interest expenses in the report are calculated based on the nominal interest rate.

The interest rate of the bank overdraft is 7%.

### Long-term liabilities

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Long-term finance lease liability	320 672	20 495	58 076	3 712
Other long-term liabilities	4 800 000	306 775	0	0
Long-term loans	21 000 000	1 342 141	27 000 000	1 725 610
<b>TOTAL</b>	<b>26 120 672</b>	<b>1 669 411</b>	<b>27 058 076</b>	<b>1 729 322</b>

Other long-term liabilities record the long-term part of payments for the acquisition of land (see note 9 for investment property). The part that is subject to payment during one year is recorded as other liabilities.

The total long-term financing loan as at 30.06.2002 was 33 000 000 EEK (2 109 079 EUR), 21 000 000 EEK (1 342 141 EUR) of which has been recorded as long-term liability and 12 000 000 EEK (766 938 EUR) as short-term liability to be paid during 01.07.2002-30.06.2003.



(Translation from the Estonian original)

Loan repayments

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
During up to 1 year	12 000 000	766 938	12 000 000	766 938
1-2 years	12 000 000	766 938	12 000 000	766 938
2-5 years	9 000 000	575 203	15 000 000	958 672
To be repaid in total	33 000 000	2 109 079	39 000 000	2 492 548

The due date of the loan issued by Ühispank is 15.03.2005, repayments are made four times a year. As at 31.12.2001 the interest rate is an interest marginal (3.5%) plus 6-month EURIBOR. The 2<sup>nd</sup> rank mortgage and commercial pledge are the loan collaterals. See Note 25.

**12. Tax liabilities**

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Social insurance tax	2 281 174	145 793	3 120 017	199 405
Personal income tax	1 355 558	86 636	2 145 564	137 126
Income tax on dividends	259 462	16 583	0	0
VAT	0	0	3 221 882	205 915
Unemployment insurance tax	101 158	6 465	44 058	2 816
TOTAL	3 997 352	255 477	8 531 521	545 262

**13. Other liabilities**

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Payables to employees	6 159 959	393 692	4 474 772	285 989
Other accrued expenses	27 666 412	1 768 202	375 488	23 998
TOTAL	33 826 371	2 161 894	4 850 260	309 987

Payables to employees

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Payable as to wages	2 762 458	176 553	2 279 420	145 681
Other withholdings from wages	33 146	2 118	28 185	1 801
Vacation pay provision	3 364 355	215 021	2 167 167	138 507
TOTAL	6 159 959	393 692	4 474 772	285 989

**(Translation from the Estonian original)**

Other accrued expenses

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Interest payable	208 110	13 301	289 965	18 532
Dividends payable	23 632 500	1 510 388	0	0
Other accrued expenses	3 825 802	244 513	85 522	5 466
TOTAL	27 666 412	1 768 202	375 488	23 998

**14. Owners' equity**

	30.06.2002	30.06.2002	31.12.2001	31.12.2001
	EEK	EUR	EEK	EUR
Number of common shares	7 877 500	7 877 500	7 877 500	7 877 500
Nominal value	10	0,64	10	0,64

According to the Articles of Association the maximum share capital is 31 510 000 shares with the nominal value of 10 EEK (0,64 EUR). The tied-up capital as at 30.06.2002 is 191 587 302 EEK (12 244 629 EUR), free owners' equity 12 415 185 EEK (793 473 EUR).

See also statement of changes in equity.

**15. Dividends**

On 18.06.2002 the general meeting of shareholders of AS Kalev took the decision to pay dividends to the shareholders from the net profit of year 2001. Based on that decision, dividends of 3 EEK (0,19 EUR) per share with total amount of 23 632 500 EEK (1 510 388 EUR) was paid on 27.08.2002. On the balance sheet of 30.06.2002 the dividends payable are recorded at line 'other accrued expenses'.

Previous dividend payment was made in 1998 from the net profit of year 1997; the dividends were 1,25 EEK (0,08 EUR) per share, totalling 9 846 875 EEK (629 328 EUR).

Information about potential dividend income tax, see note 22.

## 16. Segments

The management treats the segments of business activities as primary in the group activities. More than 95% of the group assets, liabilities, acquisition of fixed assets and cash flows are related to the segments of confectionery and real estate (purchase, sale and leasing activities), therefore no detailed data have been disclosed on other activities.

Sales by activities:

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Confectionery	135 954 357	8 689 045	304 056 325	19 432 691
Real estate	24 320 608	1 554 366	6 053 866	386 912
Services and other sales	2,814,084	179 852	7 419 326	474 180
TOTAL	163 089 049	10 423 263	317 529 516	20 293 783

See note 9 investment property.

### Segment information:

01.01.2002-30.06.2002 EEK	Confectionery	Real estate	Services and other sales	TOTAL
Profit of segment	8,710,106	21,338,633	708,006	30,756,745
Assets of segment	261,055,672	76,401,053	0	337,456,726
Liabilities of segment	125,454,239	8,000,000	0	133,454,239
Investments in property, plant, equipment and intangible assets	12,396,902	10,240,000	0	22,636,902
Depreciation cost	4,809,941	0	0	4,809,941
01.01.2002-30.06.2002 EUR	Confectionery	Real estate	Services and other sales	TOTAL
Profit of segment	556,675	1,363,784	45,250	1,965,709
Assets of segment	16,684,456	4,882,905	0	21,567,361
Liabilities of segment	8,017,967	511,292	0	8,529,259
Investments in property, plant, equipment and intangible assets	792,304	654,454	0	1,446,758
Depreciation cost	307,410	0	0	307,410

**(Translation from the Estonian original)**

The table does not include information about internal transactions between segments as these are immaterial.

The sale of real estate accounts for 90% of the turnover of real estate segment; the rest of the turnover follows from the rental activities. The profit of real estate segment consists mainly of the change in the fair value of the assets of the segment (investment property), the rest of the profit follows from rental activities.

Geographical division is treated as secondary. All assets of the company are located in Estonia, thus no detailed data have been disclosed on the assets of the segment.

Sales by markets:

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Estonia	143 068 557	9 143 724	260 882 556	16 673 392
Russia, CIS countries	3 922 971	250 723	8 487 014	542 418
Ukraine	5 018 889	320 765	11 097 712	709 271
Baltic countries	9 860 612	630 206	30 971 312	1 979 423
Other	1 218 020	77 845	6 090 922	389 280
TOTAL	163 089 049	10 423 263	317 529 516	20 293 783

## **17. Personnel expenses**

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Wages and salaries	18 864 243	1 205 642	39 740 081	2 539 848
Incl. dismissal fees	0	0	1 795 840	114 775
Fee paid to foreigners	155 268	9 923	313 673	20 047
Social taxes on wages	6 160 413	393 721	12 984 103	829 833

The salaries of employees in production are included in the direct expenses of goods sold, salaries of employees in marketing and administration are recorded accordingly as marketing or administration and general expenses.

During 01.01.2002-30.06.2002 AS Kalev employed 533 employees on average, of which 83 employees were at the position of specialists and managers. The average monthly salary of the company's employees (incl. top management) during the period was 5 947 EEK (380 EUR), in 2001 the average salary was 6 273 EEK (401 EUR). There are 2 foreign citizens employed by the company.

## 18. Depreciation of fixed assets

Depreciation of fixed assets is included in the income statement on three lines:

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Depreciation of production fixed assets in costs of goods sold	3 601 109	230 152	6 244 310	399 083
Depreciation of fixed assets in marketing expenses	295 810	18 905	549 704	35 132
Depreciation of fixed assets in general and administration expenses	913 022	58 353	3 127 662	199 894
TOTAL	4 809 941	307 410	9 921 676	634 109

See also note 8

## 19. Other income and expenses

Other income:

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Profit from sales of property, plant and equipment	0	0	3 080 915	196 906
Revaluation of write down of inventories	3 300 000	210 908	0	0
Other income	285 343	18 237	706 677	45 165
TOTAL	3 585 343	229 145	3 787 592	242 071

Other expenses:

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Loss from sales and write-down of property, plant and equipment	25 183	1 609	16 131	1 031
Net currency loss	877 297	56 069	342 617	21 897
Write-down of receivables	0	0	15 600 000	997 019
Other expenses	649 092	41 484	1 384 354	88 476
TOTAL	1 551 572	99 163	17 343 102	1 108 423

## 20. Financial income

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Net currency profit	0	0	10 077	644
Interest income	66 332	4 239	156 754	10 018
Change in real value of investment property	19 445 636	1 242 799	0	0
Other financial income	11 041	706	136 945	8 752
TOTAL	19 523 009	1 247 744	303 775	19 415

## 21. Financial expenses

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Interest expenses	2 050 253	131 035	5 051 527	322 851
Net currency loss	333 726	21 328	0	0
Other financial expenses	340 202	21 743	807 657	51 619
KOKKU	2 724 181	174 106	5 859 184	374 469

## 22. Income tax

According to Estonian Income Tax Law which took effect on 1 January 2001 dividends paid by the company to resident individuals and non-residents are subject to income tax (26/74 of net dividend paid). Thus all temporary differences between the tax bases and carrying values of assets and liabilities ceased to exist.

As a result of the decision made by the General Meeting of Shareholders on 18.06.2002 to pay dividends (see note 15), income tax liability arises to AS Kalev in estimated amount of 954 065 EEK (60976 EUR). The company has the off-balance sheet income tax prepayment on dividends of 694 583 EEK (44 392 EUR) that can be used for covering the income tax liability in part. The rest of income tax liability, EEK 259 462 (16 583 EUR) is recorded in balance sheet on line 'tax liabilities' (see also note 12).

## 23. Earnings per share

The company's shares are common shares with the nominal value of 10 EEK (0,64 EUR).

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Net profit	30 756 745	1 965 709	29 953 146	1 914 350
Weighted average number of shares of period	7 877 500	7 877 500	7 877 500	7 877 500
Earnings per share (EPS)	3,90	0,25	3,80	0,24

The company has no potentially issued common shares, thus resolved earnings per share are the same as regular earnings per share.

## 24. Operating lease and financial lease

### Operating lease

The company leases cars, forklifts and computer equipment in terms of operating lease. It is possible for Kalev AS to terminate the lease contracts at any time, but the company has no plan to do so. The lease payments are divided as follows:

	01.01.2002-30.06.2002		01.01.2001-31.12.2001	
	EEK	EUR	EEK	EUR
Lease payments of the reporting period	1 291 623	82 550	2 500 186	159 791
To be paid during 1 year	2 625 067	167 772	2 370 256	151 487
To be paid during 1 to 5 years	2 223 067	142 080	2 722 370	173 991

The company leases buildings and office space in terms of operating lease. Such buildings and office space are recorded in the balance sheet as investment property. See note 16 for information about rental income.

### Financial lease

Financial lease payments are divided according to payment dates:

EEK	2002			2001		
	Main part	interest	Total payment	Main part	interest	Total payment
Up to 1 year	141 426	31 631	173 057	95 818	9 381	105 199
1 – 5 years	305 828	25 864	331 692	58 076	1 966	60 042

EUR	2002			2001		
	Main part	interest	Total payment	Main part	interest	Total payment
Up to 1 year	9 038	2 022	11 060	6 124	600	6 723
1 – 5 years	19 546	1 653	21 199	3 712	126	3 837

See also note 8.

## 25. Pledged assets

In order to meet the bank requirements the 2<sup>nd</sup> rank mortgage in value of 130 000 000 EEK (8 308 493 EUR) has been set on the real estate at Pärnu road 139 in Tallinn and the 3<sup>rd</sup> rank mortgage in value of 2 000 000 EEK (127 823 EUR) at Põrguvälja real estate in 3/5 part located at Rae commune, also commercial pledges in values of 50 000 000 EEK (3 195 574 EUR) and 6 000 000 EEK (383 469) have been set on all goods and raw material inventories and fixed assets of AS Kalev, (see also notes 5 and 8). The residual value of the pledged assets is 284 768 560 EEK (18 199 982 EUR) as at 30.06.2002.

## 26. Transactions with related parties

AS Kalev and AS Tallinna Piimatööstus are related through common ownership. AS Kohuke is the subsidiary of AS Tallinna Piimatööstus. AS Cassel Grupp is the shareholder of AS Kalev.

	Purchase 01.01.2002- 30.06.2002 EEK	Sale 01.01.2002- 30.06.2002 EEK	Balance of receivables 30-06.2002 EEK
AS Tallinna Piimatööstus (raw materials, goods)	11 039	608 055	-6 315
AS Kohuke (semiproduct)	3 275	106 205	488 959
AS Cassel Grupp (lease of the building)	190 927	2 228	-35 317

	Purchase 01.01.2002- 30.06.2002 EUR	Sale 01.01.2002- 30.06.2002 EUR	Balance of receivables 30-06.2002 EUR
AS Tallinna Piimatööstus (raw materials, goods)	706	38 862	-404
AS Kohuke (semiproduct)	209	6 788	31 250
AS Cassel Grupp (lease of the building)	12 202	142	-2 257

As at 30.06.2002, AS Cassel Grupp owes AS Kalev 6 894 800 EEK (440 657 EUR) for the building at Pärnu mnt 139c. The due date of the receivable is connected with the completion of the building. The interest rate on that receivable, paid by AS Cassel Grupp, is 7%.

In 2002 AS Kalev has purchased management services for the amount of 329 574 EEK (21 064) EUR from the companies where the members of the boards have a share. The liability for the mentioned services has been recorded in the balance sheet of 30.06.2002 in the amount of 54 929 EEK (3 511 EUR). The company's management estimates that the agreed prices used in related party transactions do not materially differ from the market prices.

## 27. Currency risk

Balances of assets and liabilities fixed in foreign currency:

Currency	Bank accounts	Customer receivables	Supplier payable	Total	Total EEK	Total EUR
USD	173 282	294 199	-66 577	400 905	6 325 311	404 260
DEM	0	8 565	0	8 565	68 524	4 379
GBP	0	0	-245	-245	-5 917	-378
RUB	0	0	-79 145	-79 145	-39 618	-2 532
EUR	460	34 378	-1 096 081	-1 061 243	-16 604 889	-1 061 243

The total amount of liabilities fixed in currency exceeds the amount of receivables denominated in currency by 10 256 588 EEK (655 514 EUR) as at 30.06.2002



## 28. Credit risk

Credit risk involves potential loss incurred from business partners, especially in Russia and CIS countries. Credit sale will be made available to the business partner based on the length of cooperation and the company's background. Cooperation partners in Russia and CIS countries receive goods with prepayment. The credit risk of major customers is hedged by the factoring of sales invoices without recourse. As at 30.06.2002 the receivables from Latvia, Lithuania, Russia and CIS countries made total of 4 641 754 EEK (296 661 EUR).

## 29. Fair value

The book value of financial assets and liabilities does not materially differ from their fair value.

## 30. Post balance sheet events

On 22.07.2002 AS Kalev gave a loan of 1 000 000 EEK (63 911 EUR) to its subsidiary AS Kalev REC. The interest rate of the loan is 6% and the due date is 31.12.2002.

On 07.08.2002 AS Kalev concluded a leasing contract for acquiring real estate located in Prääma tee 11, Paide and Paide milk plant equipment from Paide Piimakombinaadi AS. The acquisition cost of the investment is 45 000 000 EEK (2 876 017 EUR). The lease contract is concluded with AS Hansa Liising Eesti, the due date is 30.06.2005 and interest rate is 6-month EURIBOR plus interest marginal 3%.

On 21.08.2002 AS Kalev concluded a loan contract with AS Preatoni Pank for a short-term loan for the purpose of raising current assets. The amount of the loan is 6 000 000 EEK (383 469 EUR), the due date is 30.12.2002 and interest rate 9%. The loan is guaranteed by commercial pledge.

On 21.08.2002 a deed was concluded for non-monetary contribution for acquiring shares of subsidiary AS Kalev REC. AS Kalev acquired 24 000 new shares of AS Kalev REC with nominal value of 1 000 EEK (64 EUR), contributing by real estate in Kohila 6 and 8 in Tallinn and 3/5 Põrguvälja real estate in Rae commune. On 19.08.2002 Skanska EMV AS acquired 16 500 new shares of AS Kalev REC, making also a non-monetary contribution – real estate at Madara 7, Tallinn. By these transactions and issuance of shares, the share capital of AS Kalev REC was increased from 400 000 EEK (25 565 EUR) to 40 900 000 EEK (2 613 987 EUR).

### 31. Interest risk

Interest risk follows from the difference in contractual redeem dates of assets and obligations of AS Kalev that bear interest. Loans granted are considered as interest bearing assets (see note 3 and 26), loan (see note 11) and leasing (see note 26) liabilities are considered as interest bearing obligations.

(Translation from the Estonian original)

### 3. INTEREST OF MANAGEMENT AND SUPERVISORY BOARD

The shares belonging to the members of the Management Board and the Council of AS Kalev, as of 30.06.2002:

	Number of shares	%
Heino Priimägi	-	-
Ülo Suurkask	-	-
Kristel Soll	-	-
Oliver Kruuda	2 399 421	30,46% (via Linderin Group OÜ)

### 4. SHAREHOLDERS WITH SIGNIFICANT HOLDINGS

AS Kalev is one of the few Estonian food companies still based on local capital. As at 30.06.2002 the company had 1378 shareholders. Five of them had more than 5 per cent of shares:

	No of shares	Shareholding
Linderin Group OÜ	2 399 421	30,46%
AS Milestone	1 859 000	23,6%
OÜ Nante Holding	806 267	10,23%
Estonian Ühispank	590 088	7,50%
Cassel Group OÜ	580 384	7,37%

### 5. PROFIT ALLOCATION PROPOSAL

The net profit of AS Kalev in reporting period was 30 756 745 EEK (1 965 709 EUR).

The management board shall make a proposal to form the obligatory reserve capital from the net profit of the first 6 months of 2002 in the amount of 5%, i.e. 1 537 837 EEK (98 285 EUR) and to add the rest of the profit 29 218 908 EEK (1 867 423 EUR) to the accounting entry of retained profits/loss of the previous periods.

(Translation from the Estonian original)

## 6. SIGNATURES FOR THE ANNUAL REPORT 2002

The Annual Report of AS Kalev as at 30.06.2002, consisting of the Activity Report, Financial Statements, Profit Allocation Proposal and Auditor's report, shall be signed by the chairman and members of the council of the AS Kalev as follows:

Chairman of the  
Management Board:

Oliver Kruuda



Chairman of the Council:

Heino Priimägi

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Council member:

Kristel Soll

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Council member:

Ülo Suurkask

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Tallinn  
September 16th, 2002

## AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Kalev

We have audited the financial statements of AS Kalev (the Company) for the 6 month period ended 30 June 2002 as set out on pages 5 to 33. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 30 June 2002 and of the results of its operations and its cash flows for the 6 month period then ended in accordance with International Accounting Standards.



Urmas Kaarlep  
AS PricewaterhouseCoopers

16 September 2002