AS Kalev

Reg.No: 10000952

Address: Pärnu mnt 139

Tallinn 11 317

Place of business: Põrguvälja tee 6, Lehmja, Rae vald

HARJUMAA 75301

Phone: 6 283 710

Fax: 6 283 725

E-mail: kalev@kalev.ee

http://www.kalev.ee

2002/2003 ANNUAL REPORT

Beginning of the period 1.07.2002

End of the period 30.06.2003

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

Development, management, leasing, purchase and sale of real estate

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1. ACTIVITY REPORT

1.1. MARKET AND SALES OF CONFECTIONARY

According to the retail market research company AC Nielsen, the market share of AS Kalev was 54,5 percent of the confectionary market in Estonia at the end of January 2003. This is a 6,2 percent increase from the prior period. In the chocolate confectioneries group, Kalev AS's market share increased by 2,8 percent to 58,4 percent.

The total sale of confectioneries in fiscal year 2002/2003 amounted to 7130,3 tons, which increased approximately by 2 percent when compared to the comparable period*. 80 percent of the product was sold on the local market and 20 percent was exported. During the reporting period main export countries continued to be Latvia and Ukraine. Other export countries included Russia, Scandinavian countries and the United States.

The sales increase on the local market was accomplished by more aggressive marketing activities and increase in sales staff in conjunction with the implementation of the new direct distribution system had an effect on increased sales.

Several new products were introduced during the reporting period such as Valik, handmade confectionary presented in a metal box, and also a gift box Vana Tallinn. These two products were targeted at the tourist segment of the market. At the beginning of October 2002, new Christmas collection was introduced. The Christmas collection included a line of traditional Christmas products (various chocolates and candy boxes), ''Päkapikutajate'' collection for children, and other new products timed to be indroduced during the holiday season (eg. candy Zurii). During the month of December 2002, Estonian National Puppet Theatre gave several performances of the Christmas play "Päkapikutajad" on the AS Kalev premises, approximately 23 thousand people went to see the play. According to the market study conducted by AS Emor, 7 people out of 10 bought AS Kalev Christmas products. The most popular products were chocolate bars in different sizes.

At the beginning of the year 2003 AS Kalev introduced three new candies: Banaani, Moonike and Marja. In February 2003, an assortment of candies was released for St. Valentine's Day of which the candy box Flirt was the most popular. Sales of St. Valentine's day products during the year of 2003 increased by 84 percent as compared to the prior period.

This year's Easter product line included various sweets such as chocolate bars, bunny and chick shaped gift packages, figures made from marzipan, and fruit dragee.

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* Comparable period – 1.07.2001 through 30.06.2002

Receipt of special food license

On February 11th, 2003 Health Protection Inspectorate issued AS Kalev a permit to handle special foods, according to which the enterprise is allowed to produce sugarfree products for specific purposes such as for people with difficulties to metabolise carbohydrates (diabetics). AS Kalev was the first and until now still the only producer of confectionary products in Estonia to be granted this permit. In May 2003, AS Kalev introduced the first and currently the only sugarfree product in Estonia, raspberry, lemon and pear caramel which is packed in 50 gram packaging.

Start-up of stage II of direct distribution

At the beginning of 2001 AS Kalev stopped 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 second quarter of 2002. For that in August 2003, 51 additional sales personnel were hired across Estonia – sales representatives and product distributors. Their responsibility is to guarantee a 98 per cent distribution level for AS Kalev products in Estonian market based on the approved product portfolio.

Development of the shop-cafe chain Kalev's Home

On December 15th, 2002 a new Kalev's Home was opened in Jõhvi. The chain currently consists of five shop-cafes. During fiscal year 2002/2003, the Company's primary investments were construction of its new production complex and moving its production to new facilities. Development of the shop-cafe chain received second priority. Expansion of Kalev's Home to other county centers in Estonia will continue during future reporting periods.

The main reason for establishing the chain of shop-cafes is AS Kalev's intention to develop a café culture in different places in Estonia as well as to make a wide selection of confectionery products available outside the main cities. Local labor force will be given preference during the establishment process of Kalev's Home shop-cafes and the personnel responsible for the daily operations of the shop-cafes will also be hired locally.

1.2. OPERATING ACTIVITIES AND FINANCIAL RESULTS

AS Kalev's last audited annual report covered only six months and therefore cannot be compared with the 2002/2003 annual report.

AS Kalev's 2002/2003 fiscal year's consolidated net sales were 347,7 million kroons (22,2 million EUR).

The Company's consolidated net profit in the fiscal year was 32,5 million kroons (2,1 million EUR). Net profit was affected by following factors: hiring of additional sales personnel in August; escalating costs of raw materials; and costs associated with moving to new production facility. The increase of the cost of raw materials was caused by the price increase of cocoabeans, an essential raw material for AS Kalev, on the world market. Based on AS Kalev's analysis, the cost of the Company's products consisting of cocoa increased to 11 million kroons during the reporting period.

AS Kalev estimates that forgone revenues during the reporting period from its principal activities were 9,61 million kroons (0,6 million EUR). The main reasons were following: suspension of production on 30.04.2003 in its production facility located at Pärnu mnt 139, compulsory redundancy payments to 30 administrative employees and 62 production employees, a 2-month vacation of production employees, and increase of inventory levels in its finished goods warehouse for production suspension period.

AS Kalev's profit was significantly influenced by the fair value of investment property in prior periods.

1.3. ORGANIZATION AND PERSONNEL

Implementation of management control system based on balanced performance report

AS Kalev started implementing the principles of balanced performance report in 2000. At that time, long- and short-term goals were set at the Company level in four different groups as follows: customers, core activities, development and personnel, and finance.

During fiscal year 2002/2003, AS Kalev improved the control system based on balanced performance report by changing its strategy, and by setting goals based on measurable indicators for which the monitoring system using an IT solution is currently in development.

To update the planning and motivation system, the Company is currently developing performance reports for its subunits and key personnel, which are based on the strategy and performance reports of the Company.

Reorganisation of Company's finances

From May through June 2003 AS Kalev's finances were reorganised due to the necessity to update the management of the Company. This area was also reorganised because of the demands set by finance auditing companies. The goal of updating financial management and accounting systems is to support the enterprise's principal processes through providing necessary figures. Instead of the previous 20 employees, the finance department currently emlpoys half as many employees. New software package has been installed, which is in accordance with other departments. A new finance director and head accountant have been employed, both of whom have long-term professional experience.

ISO 9001:2000 quality control system implementation

During fiscal year 2002/2003 AS Kalev started the inspection of its control systems, bringing them in compliance with ISO 9001:2000 quality control systems.

Employee count and average salary

During fiscal year 2002/2003, AS Kalev employed 554 people on average, an increase of 10 percent in comparison with the prior reporting period. In October 2002 AS Kalev assumed the employment obligations based on employment contracts with the employees of AS Paide Piimakombinaat. In August 2002, the sales staff was increased by 49 employees. On September 16th, 2002, 35 of AS Kalev's previous technical staff were transferred to Tööstuse Teenindamise AS. During the fiscal year, 92 employees left the company, 80 of whom left the Company due to the Company changing its location (moving out of Tallinn).

The average monthly salary of AS' Kalev employees during fiscal year 2002/2003 fiscal year was 6 716 kroons (429 EUR).

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* Comparable period – 1.07.2001 through 30.06.2002

1.4. IMPORTANT EVENTS DURING FISCAL YEAR 2002/2003

AS Kalev – Estonia's most reputable company

According to the tradititional study on the reputation of Estonian companies conducted by the market research company TNS Emor, local people ranked AS Kalev as the most reputable company in the country.

Emor conducts the above mentioned study in order to determine the recognition and image of the largest companies in Estonia based on two parameters – overall impression and image strength.

Parameters used in the study give an overview how residents of Estonia perceive companies doing business in the local market as follows: which companies are known, which companies appear stronger to people, and which companies people like the most. The results of the study show respondents' subjective opinion and their general perception of different companies.

The results of the reputation study reveal that AS Kalev's name is known to 95 percent of the population of Estonia. The Company has the same recognition level in different consumer segments and there are no major differences. AS Kalev has above average recognition level in the southern part of Estonia (where AS Kalev was known to all people questioned) and among middle and high income (2001 to 3000 kroons and above 3000 kroons per family member) population.

AS Kalev is perceived as one of the strongest companies in Estonia. Reputation studies show consistently that AS Kalev is the most likeable company, receiving higher appraisals than in prior years. By viewing the inter-relationship of two parameters (strength appraisal and personal attitude), **AS Kalev is a reputation leader.**

Construction of the new production facility and relocation

On January 30th, 2002, AS Kalev entered into project management contract with Skanska EMV AS to construct a new production facility on Põrguvälja registered immovable located in Rae rural municipality of Harju county. The construction of new production facility started after building permit was received in May 2002. The construction of the building will be completed in 2003 and it will be the largest food processing production facility completed in one step since regaining independence. The total area of AS Kalev's new production facility is 26 500 square meters of which production and technical space is 16 500 square meters, warehouses are 6000 square meters, and non-work facility is 4000 square meters. Employee dressing rooms, cafeteria and other rooms are located on the first floor of the 2000 square meter non-work facility and offices are located on the same space of the second floor.

On February 17th, 2003, finished goods warehouse, logistics warehouse and distribution center started operating in the new facility. On June 16th, 2003 office staff moved to Põrguvälja location.

Dismantling of machinery in the old production facility started on May 3rd, 2003. Moving took place from May to mid July. AS Kalev's caramel unit will continue its operations in Pärnu mnt., Tallinn until March 30th, 2004.

Forming a subsidiary AS Kalev Paide Tootmine

On June 18th, 2003, AS Kalev formed a subsidiary AS Kalev Paide Tootmine with share capital of 400 thousand kroons, which was paid in cash on July 1st, 2003. On July 17th, 2003, AS Kalev Paide Tootmine was entered into a commercial register.

The primary reason for forming a subsidiary was the need to reorganise the Company activities in order to ensure the most optimum and rational management of the organisation and processes. AS Kalev Paide Tootmine is an independently managed and operated business unit.

AS Kalev Paide Tootmine is currently producing milk based confectionery products. The Company has also the capacity to produce flour based confectioneries and glogg. To utilize all the production capacity, the subsidiary acting as a subcontractor is producing highly pasteurized drinking milk, milk based powders, butter and butter mixes.

On August 8th, 2002, AS Kalev and AS Hansa Liising Eesti entered into a lease agreement and capital lease agreement, which allows AS Kalev to lease the registered immovable and machinery belonging to AS Paide Piimakombinaat from AS Hansa Liising Eesti. AS Kalev started utilising the assets under lease agreement on October 10th, 2002.

Based on lease agreements, the purchase price for assets is 45 million kroons and an additional interest cost is 10 593 297 which accumulates over a 34-month leasing agreement period. Therefore, the total price for assets including interest is 55 593 297 million kroons.

Conducting a special audit

On March 4th, 2003, an emergency general meeting of the shareholders of AS Kalev was called together at the request of AS Kalev's shareholder AS Milestone. According to the shareholder, the reason for calling together the general meeting was the need to perform a special audit in the Company.

It was decided at the general meeting of the shareholders, that AS Kalev's management performance and financial condition will be audited by AS PricewaterhouseCoopers beginning with the year 2000. According to the commercial law in Estonia, a report based on the findings during the special audit will be issued to the general meeting of the shareholders by the auditors performing the audit.

On July 4th, 2003, AS Milestone filed a statement of claim to challenge the resolution of the general meeting of the shareholders for conducting a special audit (see chapter Shareholder claims).

Transactions regarding the legal share of Pärnu mnt 139 registered immovable

Sale of the 7093/52410 legal share of the registered immovable

On February 10th, 2003, AS Kalev sold its 7093/52410 legal share of the Pärnu mnt 139 registered immovable (AS Kalev's old non-work facility with adjoining commercial land) to OÜ Corigeer for 43 million kroons (2,7 million EUR). The buyer paid 17 million kroons (1,1 million EUR) in advance and the remaining 26 million (1,7 million EUR) was to be paid to AS Kalev no later than February 12, 2003.

From the proceeds of the sale, AS Kalev paid off prematurely the principal balance of 27 million kroons (1,7 million EUR) of long-term financing loan and 10 million kroons (0,6 million EUR) of overdraft to AS Eesti Ühispank.

Because the loans were paid off prematurely, the mortgage on the legal share of the property in the amount of 104 million kroons (6,6 million EUR) was transferred over to AS Hansapank according to the investment plan concerning the construction of a new production facility and acquisition of machinery.

Signing of commercial lease

On January 28th, 2003 AS Kalev signed a commercial lease with Tallinn Police Prefecture, according to which the Company leases non-work and administrative offices of the production facility as well as the parking lot located at Pärnu mnt. 139 to the prefecture.

The total area of the leased space amounts to 14 000 square meters, the term of the lease is 20 years.

On February 28th, 2003, an amendment to the commercial lease was signed, according to which the lessee has the right to decline leasing up to 6000 square feet. The lessee is obliged to notify the lessor in writing three months in advance.

Before leasing the space, AS Kalev was obliged to renovate it in accordance with the agreed upon construction project. The Company will also provide furniture and general lighting to the leased space.

According to the contract, the police prefecture pays the lessor 150 kroons (9,6 EUR) a month for every square meter utilised. The rent includes administration and maintenance of the building, as well as maintenance of the territory. Not included in the rent are utilities (including water, sewerage, electricy, heat, etc.) according to the actual usage.

Sale of the 18070/52410 legal share of the registered immovable

On March 11th, 2003 AS Kalev signed a sales conract under the law of obligations with the right to repurchse the 18070/52410 legal share of the registered immovable located in Pärnu mnt 139 (AS Kalev's old production facility with adjoining commercial land) for 87 million kroons (5,6 million EUR) with OÜ Raldon. The purchaser is committed to invest up to 90 million kroons (5,8 million EUR) in renovating the space of Tallinn Police Prefecture (date of moving in: 1.09.2003).

The purchaser is committed to pay 10 millions kroons (0,6 million EUR) no later than on March 14th. According to the amended sales contract (signed May 21st, 2003) the buyer is committed to pay 33,5 million kroons (2,1 million EUR) no later than May 23rd and 43,5 million kroons (2,8 million EUR) by October 3rd. The buyer actually paid the last portion of the sales price on October 8th, 2003. Because of late payment, the buyer paid 0,019% interest on arrears for every delayed day.

According to the signed contract, AS Kalev has the right to repurchase a part of the registered immovable during a five year period beginning with 1.09.2005. In case of repurchasing, the price of the object could amount to 177 million kroons (11,3 million EUR), in accordance with the contruction investments made by OÜ Raldon (up to 90 million kroons, 5,8 million EUR). The specified repurchase price is reduced by the depreciation expense, which is 2 percent per year as agreed to by both parties.

According to the signed contract, the buyer will assume all the rights and obligations of the lease contracts concerning the object (lease contracts signed with Tallinn Police Prefecture (see above), including the obligation to invest in the renovation of the future space of Tallinn Police Prefecture. Additionally, a nonessential lease contract was signed regarding the lease of 220 square feet on the first floor of the administrative space of the production facility). In case AS Kalev chooses to excercise the repurchase right in the future, all the rights and obligations stipulated in the lease contract will be transferred to AS Kalev.

Sale of the 2284/52410 legal share of the registered immovable

On March 25th, 2003, AS Kalev sold the 2284/52410 legal share of the Pärnu mnt. 139 registered immovable to OÜ Tartex Trading for 12 million kroons (0,8 million EUR). Of the sales price 4,8 million kroons (0,3 million EUR) had to be paid on the day of signing the contract, and buyer agreed to pay the remaining 7,2 million kroons (0,5 million EUR) within two banking days after signing the contract.

Both parties agreed that the seller has the obligation to repurchase the legal share of the registered immovable and the buyer has the obligation to resell the legal share within three years after signing the contract using the price which was used in selling the object of the contract to the buyer.

AS Kalev's legal share of registered immovable

After the described deals, AS Kalev owns a 24963/52410 legal share of the Pärnu mnt 139 registered immovable and it is encumbered by a mortgage in the amount of 14 million kroons (0,9 EUR) for the benefit of AS Hansapank. Additionally, the whole Pärnu mnt 139 registered immovable is encumbered by a mortagage in the amount of 4,2 million kroons (0,3 million EUR) for the benefit for the benefit of the Republic of Estonia.

1.5. MAIN AREAS OF ACTIVITY FOR THE 2003-2004 FISCAL YEAR.

The main goal of AS Kalev in fiscal year 2003/2004 continues to be not so much the rapid inrease of profits as the attainment of continuity and long-term development.

In the current fiscal year the whole supply chain will be inspected beginning with the purchasing of raw materials and finishing with the distribution of the finished product. To accomplish this the current situation will be assessed, areas that need improvement will be determined as well as activities will be reorganized in order to guarantee as effective a supply chain as possible.

One of the priorities of the fiscal year continues to be the development of exports and this primarily through entering new strategic markets. In current markets the goal is to further strengthen the position of the Company.

The marketing activity of AS Kalev is mostly directed at the critical inspection of the current product range: elimination of aging products and introduction of new potential products. Great emphasis continues to be laid on the so-called holiday products (Easter, Christmas, etc.). The Company is also planning to widen the important selection through baked confectionary products. For Christmas 2003, gingerbread cookies under the trademark of Kalev will reach the market, made by the subsidiary of AS Kalev, AS Kalev Paide Tootmine. Different brands of cookies will be introduced later. For the 2003 Christmas season the Company brings alcohol-free glogg to the market, also made by AS Kalev Paide Tootmine.

In the selling activity, the Company continues to concentrate on direct distribution and the opening of Kalev's Home cafe-shops in other county centers. New IT developments will guarantee faster servicing of clients and with fewer mistakes.

The top priority of production is the start-up of the new factory building and its full-scale production. The caramel department of the enterprise currently still operating in Pärnu mnt. will relocate to Põrguvälja from April until June 2004. It is estimated that full production of the new factory should be reached by the end of 2003/2004 fiscal year. New equipment both at the Põrguvälja factory of AS Kalev as well as at the subsidiary located in Paide should help to increase production efficiencies.

AS Kalev subsidiaries AS Kalev REC and Merchant Services Ltd located in the US will continue their main activities which are:

AS Kalev REC – development, administration, evaluation, expert assessment, servicing, leasing, purchasing and sale of real estate; real estate consultations

Kalev Merchant Services Ltd – introduction and sale of AS Kalev's products in the US.

2. ANNUAL REPORT

Endorsement by the Chairman

The Chairman of the Management Board of AS Kalev acknowledges his responsibility for the fair presentation of the annual report for the year ended on June 30th, 2003 of the parent company and group of AS Kalev as presented on pages 11 – 54 and confirms that to the best of his knowledge:

- the annual report has been prepared in accordance with generally accepted accounting principles and International Financial Reporting Standards
- the annual financial statements give a true and fair view of the financial position and the results of operatons of AS Kalev's parent company and the group
- AS Kalev and its group companies are going concern.

In Põrguvälja, November 21st, 2003

Kruuda,

Oliver Kruuda
The Chairman

BALANCE SHEET (in EEK)

ASSETS	Note	30.06.2003	30.06.2003	30.06.2002
		Group	Parent company	Parent company
CURRENT ASSETS	No	EEK	EEK	EEK
CASH AND BANK	1	8 591 080	8 477 782	3 476 327
TRADE RECEIVABLES	2,5	90 024 044	104 053 427	41 936 641
PREPAID EXPENSES	3	5 308 235	1 987 499	3 333 224
INVENTORIES	4	40 726 937	40 589 583	48 968 656
TOTAL CURRENT ASSETS		**144 650 296**	**155 108 291**	**97 714 848**
NON-CURRENT ASSETS				
LONG-TERM RECEIVABLES		330 180	14 266 973	887 180
INVESTMENT IN SUBSIDIARIES	18	0	41 022 857	2 764 416
PROPERTY, PLANT AND EQUIPMENT	6	255 038 885	105 607 242	166 533 651
INVESTMENT PROPERTY	7	75 573 095	38 123 950	69 266 253
INTANGIBLE ASSETS	8	217 715	217 715	290 378
TOTAL NON-CURRENT ASSETS		**331 159 875**	**199 238 737**	**239 741 878**
TOTAL ASSETS		**475 810 171**	**354 347 028**	**337 456 726**
LIABILITIES AND OWNERS' EQUITY				
LIABILITIES				
DEBT LIABILITIES	11	27 346 235	21 211 712	33 891 332
CUSTOMER PREPAYMENTS	14	497 042	497 042	53 274
TRADE PAYABLES	14	76 162 122	37 871 434	35 565 238
TAX LIABILITIES	15	4 537 792	10 074 299	3 997 352
OTHER LIABILITIES		10 275 440	7 783 915	33 826 371
TOTAL CURRENT LIABILITIES		**118 818 631**	**77 438 402**	**107 333 567**
LONG-TERM DEBT LIABILITIES	11	114 781 525	34 698 611	21 000 000
OTHER LONG-TERM PAYABLES	11	1 600 000	1 600 000	5 120 672
TOTAL NON-CURRENT LIABILITIES		**116 381 525**	**36 298 611**	**26 120 672**
TOTAL LIABILITIES		**235 200 156**	**113 737 013**	**133 454 239**
OWNERS' EQUITY				
SHARE CAPITAL		78 775 000	78 775 000	78 775 000
REVALUATION RESERVE		17 159 388	17 159 388	112 812 302
STATUTORY LEGAL RESERVE		1 537 837	1 537 837	0
RETAINED EARNINGS		110 675 117	110 675 117	-18 341 560
PROFIT FOR THE FINANCIAL YEAR		32 462 673	32 462 673	30 756 745
TOTAL OWNERS' EQUITY	16	**240 610 015**	**240 610 015**	**204 002 487**
TOTAL LIABILITIES AND OWNERS' EQUITY		**475 810 171**	**354 347 028**	**337 456 726**

BALANCE SHEET (in EUR)

ASSETS	Note	30.06.2003 Group EEK	30.06.2003 Parent company EEK	30.06.2002 Parent company EEK
CURRENT ASSETS				
CASH AND BANK	1	549 069	541 828	222 177
TRADE RECEIVABLES	2,5	5 753 570	6 650 209	2 680 233
PREPAID EXPENSES	3	339 257	127 024	213 031
INVENTORIES	4	2 602 919	2 594 140	3 129 660
TOTAL CURRENT ASSETS		**9 244 815**	**9 913 201**	**6 245 101**
NON-CURRENT ASSETS				
LONG-TERM RECEIVABLES		21 102	911 823	56 701
INVESTMENT IN SUBSIDIARIES	18	0	2 621 832	176 678
PROPERTY, PLANT AND EQUIPMENT	6	16 299 914	6 749 516	10 643 413
INVESTMENT PROPERTY	7	4 829 989	2 436 558	4 426 909
INTANGIBLE ASSETS	8	13 914	13 914	18 558
TOTAL NON-CURRENT ASSETS		**21 164 919**	**12 733 643**	**15 322 259**
TOTAL ASSETS		**30 409 734**	**22 646 844**	**21 567 361**

LIABILITIES AND OWNERS' EQUITY

LIABILITIES	Note	30.06.2003 Group EEK	30.06.2003 Parent company EEK	30.06.2002 Parent company EEK
DEBT LIABILITIES	11	1 747 738	1 355 672	2 166 045
CUSTOMER PREPAYMENTS	14	31 767	31 767	3 405
TRADE PAYABLES	14	4 867 634	2 420 420	2 273 027
TAX LIABILITIES	15	290 017	643 863	255 477
OTHER LIABILITIES		656 719	497 481	2 161 894
TOTAL CURRENT LIABILITIES		**7 593 875**	**4 949 203**	**6 859 848**
LONG-TERM DEBT LIABILITIES	11	7 335 858	2 217 640	1 342 141
OTHER LONG-TERM PAYABLES	11	102 258	102 258	327 270
TOTAL NON-CURRENT LIABILITIES		**7 438 116**	**2 319 898**	**1 669 411**
TOTAL LIABILITIES		**15 031 991**	**7 269 101**	**8 529 259**
OWNERS' EQUITY				
SHARE CAPITAL		5 034 627	5 034 627	5 034 627
REVALUATION RESERVE		1 096 682	1 096 682	7 210 002
STATUTORY LEGAL RESERVE		98 285	98 285	0
RETAINED EARNINGS		7 073 411	7 073 411	-1 172 236
PROFIT FOR THE FINANCIAL YEAR		2 074 738	2 074 738	1 965 709
TOTAL OWNERS' EQUITY	16	**15 377 743**	**15 377 743**	**13 038 102**
TOTAL LIABILITIES AND OWNERS' EQUITY		**30 409 734**	**22 646 844**	**21 567 361**

INCOME STATEMENT (in EEK)

	Note No	01.07.2002-30.06.2003 Group EEK	01.07.2002-30.06.2003 Parent company EEK	01.01.2002-30.06.2002 Parent company EEK
NET SALES	19	347 665 766	346 026 742	163 089 049
COST OF GOODS SOLD	20	240 414 863	242 782 780	113 746 132
GROSS PROFIT		**107 250 903**	**103 243 962**	**49 342 917**
MARKETING EXPENSES	21	61 017 665	59 802 613	22 640 797
ADMIN. AND GENERAL EXPENSES	22	45 426 410	44 092 107	14 518 512
OTHER INCOME	23	49 668 441	36 814 295	23 030 979
OTHER EXPENSES	24	8 466 942	6 736 887	1 551 572
OPERATING PROFIT		**42 008 327**	**29 426 650**	**33 663 015**
FINANCIAL INCOME	25	3 355 717	1 523 117	77 373
FINANCIAL EXPENSES	26	12 901 371	8 600 680	2 724 181
INCOME FROM SUBSIDIARY	18	0	10 113 586	0
PROFIT BEFORE TAX		**32 462 673**	**32 462 673**	**31 016 207**
INCOME TAX		0	0	259 462
NET PROFIT		**32 462 673**	**32 462 673**	**30 756 745**
EARNINGS PER SHARE	17	4,12	4,12	3,90

INCOME STATEMENT (in EUR)

	Note No	01.07.2002-30.06.2003 Group EUR	01.07.2002-30.06.2003 Parent company EUR	01.01.2002-30.06.2002 Parent company EUR
NET SALES	19	22 219 835	22 115 083	10 423 263
COST OF GOODS SOLD	20	15 365 271	15 516 608	7 269 684
GROSS PROFIT		**6 854 564**	**6 598 475**	**3 153 579**
MARKETING EXPENSES	21	3 899 730	3 822 074	1 447 007
ADMIN. AND GENERAL EXPENSES	22	2 903 269	2 817 992	927 900
OTHER INCOME	23	3 174 385	2 352 856	1 471 944
OTHER EXPENSES	24	541 135	430 564	99 163
OPERATING PROFIT		**2 684 815**	**1 880 701**	**2 151 453**
FINANCIAL INCOME	25	214 469	97 345	4 945
FINANCIAL EXPENSES	26	824 546	549 682	174 106
INCOME FROM SUBSIDIARY	18	0	646 374	0
PROFIT BEFORE TAX		**2 074 738**	**2 074 738**	**1 982 292**
INCOME TAX		0	0	16 583
NET PROFIT		**2 074 738**	**2 074 738**	**1 965 709**
EARNINGS PER SHARE	17	**0,26**	**0,26**	**0,25**

CASH FLOW STATEMENT (in EEK)

CASH FLOW FROM OPERATING ACTIVITIES	Note No	01.07.02-30.06.2003 Group EEK	01.07.02-30.06.2003 Parent company EEK	01.01.02-30.06.2002 Parent company EEK
OPERATING PROFIT		42 008 327	29 426 650	33 663 015
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	6	10 849 202	10 450 943	4 809 941
AMORTIZATION OF INTANGIBLE ASSETS	8	72 663	72 663	35 277
PROFIT/LOSS FROM SALES OF NON-CURRENT ASSETS	23,24	- 7 388 299	- 7 388 299	25 183
CHANGE IN RECEIVABLES		-6 076 033	-16 563 289	-11 538 525
CHANGE IN INVENTORIES		8 241 719	8 379 073	-21 396 785
CHANGE IN LIABILITIES		38 244 536	5 470 029	6 533 939
INTERESTS PAID		-7 668 605	-4 967 320	-2 132 108
CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY		-32 428 914	-20 060 000	-19 445 636
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		**45 854 596**	**4 820 450**	**-9 445 699**

CASH FLOW FROM INVESTING ACTIVITIES

INVESTMENTS TO SUBSIDIARIES	18	0	0	-2 764 416
PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT	6,7	136 729 416	148 516 862	0
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	6,7	- 174 353 910	-57 841 302	-11 821 831
PURCHASE OF INTANGIBLE ASSETS		0	0	-50 655
CHANGE IN LOANS RECEIVABLE		0	-27 239 570	-1 500 000
INTERESTS RECEIVED		0	0	66 332
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**-37 624 494**	**63 435 990**	**-16 070 570**

CASH FLOW FROM FINANCING ACTIVITIES

LOAN REPAYMENTS		-39 000 000	-39 000 000	-6 000 000
LOANS RECEIVED		73 145 237	11 009 891	0
USED BANK OVERDRAFT	11	14 030 052	14 030 052	2 050 656
PAYMENTS UNDER FINANCIAL LEASES	11	- 9 518 712	-7 523 002	-183 480
RECEIPTS FROM ISSUANCE OF PROMISSORY NOTES	11	0	0	19 432 980
REPAYMENTS OF PROMISSORY NOTES	11	- 19 621 987	-19 621 987	0
PAYMENT OF DIVIDENDS		-23 632 500	-23 632 500	0
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**-4 597 910**	**-64 737 546**	**15 300 156**

CHANGE IN CASH AND CASH EQUIVALENTS		**3 632 192**	**3 518 894**	**-10 216 113**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1	**3 476 327**	**3 476 327**	**14 026 165**
CHANGE		3 632 192	3 518 894	-10 216 113
EFFECTS OF EXCHANGE RATE CHANGES	26	-1 482 561	-1 482 561	-333 725
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1	**8 591 080**	**8 477 782**	**3 476 327**

CASH FLOW STATEMENT (EUR)

	Note	01.07.02-30.06.2003	01.07.02-30.06.2003	01.01.02-30.06.2002
		Group	Parent company	Parent company
CASH FLOW FROM OPERATING ACTIVITIES	No	EUR	EUR	EUR
OPERATING PROFIT		2 684 815	1 880 701	2 151 453
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	6	693 389	667 935	307 410
AMORTIZATION OF INTANGIBLE ASSETS	8	4 644	4 644	2 255
PROFIT/LOSS FROM SALES OF NON-CURRENT ASSETS	23,24	-472 197	-472 197	1 609
CHANGE IN RECEIVABLES		-388 328	-1 058 584	-737 444
CHANGE IN INVENTORIES		526 741	535 519	-1 367 500
CHANGE IN LIABILITIES		2 444 265	349 598	417 594
INTERESTS PAID		-490 112	-317 469	-136 266
CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY		-2 072 580	-1 282 064	-1 242 799
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		**2 930 635**	**308 082**	**-603 689**
CASH FLOW FROM INVESTING ACTIVITIES				
INVESTMENTS TO SUBSIDIARIES	18	0	0	-176 678
PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT	6,7	8 738 580	9 491 933	0
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	6,7	-11 143 217	-3 696 724	-755 551
PURCHASE OF INTANGIBLE ASSETS		0	0	-3 237
CHANGE IN LOANS RECEIVABLE		0	-1 740 921	-95 867
INTERESTS RECEIVED		0	0	4 239
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		**-2 404 637**	**4 054 288**	**-1 027 094**
CASH FLOW FROM FINANCING ACTIVITIES				
LOAN REPAYMENTS		-2 492 548	-2 492 548	-383 469
LOANS RECEIVED		4 674 821	703 658	
USED BANK OVERDRAFT	11	896 681	896 681	131 060
PAYMENTS UNDER FINANCIAL LEASES	11	-608 355	-480 806	-11 726
RECEIPTS FROM ISSUANCE OF PROMISSORY NOTES	11	0	0	1 241 991
REPAYMENTS OF PROMISSORY NOTES	11	-1 254 070	-1 254 070	0
PAYMENT OF DIVIDENDS		-1 510 388	-1 510 388	0
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		**-293 859**	**-4 137 473**	**977 856**
CHANGE IN CASH AND CASH EQUIVALENTS		**232 139**	**224 898**	**-652 927**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1	**222 177**	**222 177**	**896 433**
CHANGE		232 139	224 898	-652 927
EFFECTS OF EXCHANGE RATE CHANGES	26	94 753	94 753	-21 329
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1	**549 069**	**541 828**	**222 177**

STATEMENT OF CHANGES IN EQUITY
(in EEK)

	Note No	SHARE CAPITAL	STATUTORY RESERVE	REVALUATION RESERVE	PROFIT FOR THE FINANCIAL YEAR	RETAINED EARNINGS	TOTAL
1 JANUARY 2002		**78 775 000**	**0**	**42 776 334**	**29 953 146**	**-25 435 847**	**126 068 633**
Statutory 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		0	0	0	-23 632 500	0	- 23 632 500
Revaluation of fixed assets		0	0	70 809 609	0	0	70 809 609
Reclassification of fixed assets to investment property		0	0	-340 207	0	340 207	0
Accumulated depreciation of revalued assets		0	0	- 433 434	0	433 434	0
Net profit		**0**	**0**	**0**	30 756 745	**0**	30 756 745
30 june 2002		**78 775 000**	**0**	**112 812 302**	**30 756 745**	**- 18 341 560**	**204 002 487**
GROUP							
1 JULY 2002		**78 775 000**	**0**	**112 812 302**	**30 756 745**	**-18 341 560**	**204 002 487**
Adjustment to revaluation reserve		0	0	-99 797 769	0	99 797 769	0
Allocation of net profit		0	1 537 837	0	-30 756 745	29 218 908	0
Revaluation of fixed assets		0	0	4 144 855	0	0	4 144 855
Net profit		0	0	0	32 462 673	0	32 462 673
30 JUNE 2003		**78 775 000**	**1 537 837**	**17 159 388**	**32 462 673**	**110 675 117**	**240 610 015**

Statement of changes in equity for parent company 1 July 2002 – 30 June 2003 does not differ from the statement of changes in equity for group.

STATEMENT OF CHANGES IN EQUITY
(EUR)

	Note No	SHARE CAPITAL	STATUTORY RESERVE	REVALUATION RESERVE	PROFIT FOR THE FINANCIAL YEAR	RETAINED EARNINGS	TOTAL
1 JANUARY 2002		**5 034 627**	**0**	**2 733 899**	**1 914 350**	**- 1 625 643**	**8 057 234**
Statutory reserve made		0	95 718	0	- 95 718	0	0
Covering retained loss		0	- 95 718	0	- 308 244	403 962	0
Dividend payment		0	0	0	- 1 510 388	0	- 1 510 388
Revaluation of fixed assets		0	0	4 525 547	0	0	4 525 347
Reclassification of fixed assets to investment property		0	0	- 21 743	0	21 743	0
Accumulated depreciation of revalued assets		0	0	- 27 701	0	21 701	0
Net profit		0	0	0	1 965 709	0	1 965 709
30 june 2002		**5 034 627**	**0**	**7 210 002**	**1 965 709**	**-1 172 236**	**13 038 102**
GROUP							
1 JULY 2002		**5 034 627**	**0**	**7 210 002**	**1 965 709**	**-1 172 236**	**13 038 102**
Adjustment to revaluation reserve	6	0	0	- 6 378 223	0	6 378 223	0-
Allocation of net profit		0	98 285	0	-1 965 709	1 867 424	0
Revaluation of fixed assets		0	0	264 903	0	0	264 903
Net profit	6	0	0	0	2 074 738	0	2 074 738
30 JUNE 2003		**5 034 627**	**98 285**	**1 096 682**	**2 074 738**	**7 073 411**	**15 377 743**

Statement of changes in equity for parent company 1 July 2002 – 30 June 2003 does not differ from the statement of changes in equity for group.

ACCOUNTING POLICIES AND BASIS OF THE PREPARATION

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation

The Group consolidated financial statements and AS Kalev (hereinafter parent company) financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, investment property, available-for-sale investment securities, and financial assets and financial liabilities held-for-trading into the fair value.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, therefore the actual results ultimately may differ from those estimates.

The base currency of the Group and parent company is Estonian kroon. Current financial statements are presented in kroons in addition with euros.

Since Estonian kroon is fixed to euro (1 EUR = 15.6466 EEK), there are no differences in currency translations.

Comparatives

Due to changing the Company's reporting period from calendar year to a fiscal year, financial statements for 6 month period were prepared covering the period from January 1, 2002 to June 30, 2002. Therefore, financial statements for the fiscal year ended June 30,2003 are not comparable to the 6 month period. Financial year ending June 30 is more in accordance with the usual business cycle of the Company. Seasonality of the confectioneries market has the highest activity at the end of the calendar year.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Group accounting

The Group presented its financial statements for the year ended June 30, 2003 for the first time. For the financial year ending June 30, 2003, the Group had participating interest in some of the subsidiaries (see note 18), however, reporting those subsidiaries on the consolidated basis would not materially affect the financial results for the Group. Therefore, aforementioned subsidiaries were not consolidated.

Subsidiaries (excluding subsidiaries acquired for reselling purposes which are reported at fair value) of which the Group owns more than half of the voting stocks or shares or can otherwise exercise significant influence over its operating and financial policies are fully consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries.

The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

In the consolidated financial statements intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries, in the non-consolidated financial statements of a parent company are accounted for using the equity method. Unrealised gains on transactions between the Group and its subsidiaries are eliminated to the extent of the Group's or parent's share in the subsidiary.

Foreign currency translation
Foreign currency transactions are recorded in Estonian kroons based on the exchange rates of the Bank of Estonia officially valid on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into Estonian kroons based on the exchange rates of the Bank of Estonia officially valid on the balance sheet date. Foreign exchange gains and losses resulting from the translation are recognised in the income statement.

Dependent foreign business units' (Kalev Merchant Services Ldt) income statement and cash flow statement are translated into Estonian kroons based on the average exchange rate for the year. Assets and liabilities reported in currency other than the reporting currency are translated into Estonian kroons based on the exchange rates of the Bank of Estonia officially valid as of June 30. Currency rate differences resulting from currency translations are reported in the income statement.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and deposit accounts with original maturities of three months or less.

Trade receivables
Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

The receipt of the receivables that have been previously written down is accounted for as a decrease in doubtful receivable expense.

Other receivables
All other receivables (accrued income, given loans and other short- and long term receivables) except for receivables acquired for resale are carried at acquisition cost less provision made for impairment of these receivables.

Short-term receivables' adjusted cost generally equals to their face value (less potential discounts) and short-term receivables are accordingly recorded in the balance sheet based on the estimated collectibility.

Long-term receivable's adjusted cost is accounted for by recording the receivables first at fair value of amounts established as due, interest is calculated based on the outstanding amount using the effective interest rate method.

Factoring

Factoring is the sale of receivables. Depending on the type of the factoring contract the buyer has the right to resell the transferred receivable within the time agreed (factoring with recourse) or there is no right for resale and all the risks and benefits associated to the receivable are transferred from seller to purchaser (factoring without recourse).

Factoring with recourse is recorded as financing transaction (that is as collateralised borrowing): the amount is recognised in the balance sheet as a receivable until collection or until expiration of the recourse. Obligation under factoring agreement is reported similarly to other obligations.

Factoring without recourse is recorded as the sale of receivable. Related cost is recognised as financial expense or as a cost related to receivables, depending whether the purpose of the transaction was to manage the cash flows or to manage the credit risk.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average costing method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Property, plant and equipment

Fixed assets are generally assets with cost over 10 000 kroons (639 EUR) and with useful life over 1 year. Acquisitions that do not meet the minimum threshold for recognition are expensed. Land and buildings are reported at fair value less accumulated depreciation, other fixed assets are reported at acquisition cost less accumulated depreciation.

Increases in the carrying amount arising on revaluation of buildings are credited to fair value and other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value and other reserves; all other decreases are charged to the income statement.

Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from fair value and other reserves to retained earnings.

Depreciation is calculated on the straight-line method over their estimated useful lives as follows:

Buildings	33 years	3%
Machinery, equipment and motor vehicles	5 years	20%
Computer equipment	2 years	50%
Other fixed assets	3,3 years	30%

Land is not depreciated.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit in the income statement. When revalued assets are sold, the amounts included in fair value and other reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Intangible assets
Expenditure to acquire patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, that is 5 years. Intangible assets are not revalued.

Investment property
Investment property, principally comprising land and office buildings, is held for long-term rental yields or increase of market value and which the Group is not using for operating activities. The investment property is initially recognized in its acquisition costs which comprises other direct costs (notary fees, state duties, consultancy fees without what the transaction would not have occurred). Investment property is reported at fair value, which is based on market value annually assessed by real estate assessors. Changes in fair values are recorded in the income statement in other operating income and expenses.

Impairment of long lived assets
Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Leases

A Group company is the lessee
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Lease payments are allocated between the reduction of the principal balance outstanding and finance charges (interest expense). Finance charges are allocated over the lease period in a manner that interest rate charged against outstanding principal during the lease period remains fixed. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

A Group company is the lessor
Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term. The Group is not leasing out assets under the terms of finance lease.

Financial liabilities
Financial liabilities (trade payables, borrowings, accruals, issued bonds and other short and long-term liabilities) are recorded initially at the proceeds received, net of transaction costs incurred. Subsequent reporting of financial liabilities is at adjusted cost.

Short-term financial liabilitie's adjusted cost is generally equal to their face value and thus short-term financial liabilities are reported on the balance sheet at amounts established as owed. Long-term financial liabilities adjusted cost is accounted for by using the effective yield method.

Taxes

Corporate Income Tax
According to the current laws of the Republic of Estonia, enterprises income is not taxed, thus there are no income tax related deferred assets and liabilities. Instead of taxing the net profit, the distribution of retained earnings is subject to a dividend tax (26/74 of net dividend paid). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

One of the Group's subsidiaries (Kalev Merchant Services Ltd) is operating in the US. According to the US tax laws, the income tax liability only arises when company is showing a taxable profit. Income tax is levied by the federal government and by some of the states. Federal tax rates are tiered depending on the level of taxable income. Minimum tax rate set by federal government is 15 percent, tax rate for the State of New York is 7,5 percent.

Other taxes
The Group's result is affected by the following taxes:
- Social insurance tax - 33 % of the paid payroll to the employees and of the fringe benefits;
- Unemployment tax – 0,5 % of the paid payroll to the employees;
- Fringe benefits tax – 26/74 of the fringe benefits to the employees
- Pollution charges - is based on tonnage and type of waste.
- Water utilisation charges –0,02-0.5 kr/m^3 of used ground water;
- Land tax – 0,5-2 % of the taxable value of the land per annum
- Income tax on expenses not related to business activities - 26/74 of the expenses not related to business activities.

Government grants relating to purchase of property, plant and equipment
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property are subtracted from the cost of the property, plant and equipment and are reported as income over the life of the amortized asset by reduction of the amortization expense.

Revenue recognition
Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer and the collection is probable. Revenue from rendering of services is recognized after services are rendered, if service is rendered over longer period of time then completion stage method is used.

Interest income and dividend income is recognized when collection is probable and income can be reliably measured. Intrerest income is reported by using asset's effective interest rate except when collection of interest is estimated to be doubtful. In those cases, interest income is recognized in cash basis. Income from licence fees is recognized in accrual basis based on the terms specified in licencing agreements.

Dividends are recognised when the right to receive payment is established.

Segment reporting
Primary segment reporting format is presented based on the activities across business segments. Business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service that is subject to risks and returns that are different from those of other business segments. The main business segments are confectionery and real estate activities.

As most of the activities of the Group are taking place in Estonia, it is regarded as one geographical segment according to the International Financial Reporting Standards. Therefore, segment reporting is not presented across geographical segments.
The sales by geographical regions are presented in notes to the financial statements (see Note 20).
All assets and liabilities related to segments are recorded as segmental assets and liabilities, accordingly.

Earnings Per Share
Earnings per share is calculated by dividing the net profit for the year by weighted average number of shares for the same period. The Company has no potential ordinary shares and therefore the diluted earnings per share is equal to the basic earnings per share.

Statutory legal reserve
Statutory legal reserve is formed according to the resolution accepted on the general meeting and based on the commercial law from 5 percent of the net profit for the financial year until statutory legal reserve is 10 percent of the share capital. The statutory legal reserve can be used to offset losses from the prior periods or to increase share capital.

Related Parties
For the purposes of preparation of financial statements, the following entities and individuals are considered as related parties: parent company and subsidiaries, members of the Management Board and other individuals over which aforementioned individuals can exercise significant control and shareholders with controlling participating interest.

NOTES TO THE FINANCIAL STATEMENTS

1. Cash and bank accounts

In order to improve Company's cash management, group bank account is used in order to allow members of the Group to use group's resources within the limits set by AS Kalev.

2. Receivables

	Group 30.06.2003	Parent company 30.06.2003	Parent company 30.06.2002
EEK			
Trade receivables	46 874 971	47 376 940	49 209 086
Short-term loans	6 232 815	19 628 939	7 606 819
Receivable from AS Raldon*	43 800 000	43 800 000	0
Other deptors	7 346 793	7 346 798	7 780 324
Responsible individuals	94 570	94 570	305 273
Accrued income	276 489	407 834	0
Allowance for doubtful receivables (see note 5)**	-14 601 594	-14 601 594	-22 964 861
TOTAL	90 024 044	104 053 487	41 936 641
EUR			
Trade receivables	2 995 849	3 027 931	3 145 025
Short-term loans	398 348	1 254 515	486 163
Receivable from AS Raldon*	2 799 323	2 799 323	0
Other deptors	469 544	469 545	497 253
Responsible individuals	6 044	6 044	19 510
Accrued income	17 671	26 065	
Allowance for doubtful receivables (see note 5)**	-933 210	-933 210	-1 467 718
TOTAL	5 753 570	6 650 213	2 680 233

AS' Kalev short-term loans include overdraft provided to subsidiaries totalling 13 302 777 kroons (850 200 EUR), there was no overdraft provided to subsidiaries in comparative period. For receivables from subsidiaries see Note 18
* OÜ Raldon receivable is from the sale of Pärnu mnt 139 production facility (see note 6).

3. Prepayments, future periods expenses

Prepayments reported under parent company as of June 30, 2003 include operating lease prepayments in total of 1 289 000 kroons (82 382EUR). Operating lease prepayments for comparative period were 968 602 kroons (61 905 EUR).
Consolidated financial statements reflect subsidiary's AS Kalev REC prepayment of 2 709 777 kroons (173 186 EUR) for participation rights in public auction to purchase Keila-Joa summer houses (see note 32).

4. Inventories

	Group 30.06.2003	Parent company 30.06.2003	Parent company 30.06.2002
EEK			
Raw materials	21 574 879	21 574 879	24 994 078
Work-in-progress	2 253 497	2 253 497	2 112 986
Finished goods	16 731 975	16 731 975	20 943 289
Goods for resale	365 209	227 855	2 423 378
Prepayments to suppliers	6 271	6 271	2 827 953
Allowance for inventories*	-204 894	-204 894	-4 333 028
TOTAL	40 726 937	40 589 583	48 968 656
EUR			
Raw materials	1 378 883	1 378 883	1 597 409
Work-in-progress	144 024	144 024	135 044
Finished goods	1 069 365	1 069 365	1 338 517
Goods for resale	23 341	14 563	154 882
Prepayments to suppliers	401	401	180 739
Allowance for inventories*	-13 095	-13 095	-276 930
TOTAL	2 602 919	2 594 141	3 129 660

During the reporting period, inventories written down and inventories written off at cost were in total of 204 894 kroons (13 095 EUR) and 1 648 965 kroons (105 388 EUR), respectively. Inventories written down or written off during the comparative period were 31 318 kroons (2002 EUR).

Inventories reported at net realizable value are in total of 741 561 kroons (47 394 EUR). Inventories reported at net realizable value for comparative period are 4 508 432 kroons (288 141 EUR)

Company's inventories are pledged under commercial pledge (see note 30).

5. Doubtful receivables

	Group 01.07.02-30.06.03	Group 01.01.02-.30.06.02
EEK		
Balance at the beginning of the year	**22 964 861**	**22 964 861**
Receivables written off	-5 474 475	0
Collection of receivables previously written off	-2 888 793	0
Balance at the end of the year	**14 601 594**	**22 964 861**
EUR		
Balance at the beginning of the year	**1 467 718**	**1 467 718**
Receivables written off	-349 882	0
Collection of receivables previously written off	-184 627	0
Balance at the end of the year	**933 209**	**1 467 718**

Amounts reported under parent company do not differ from the Group.

6. Property, plant, and equipment

Group	Land	Building and facilities	Machinery and equipment	Other fixed assets	Construction in progress	TOTAL
EEK						
Property, plant, and equipment 30.06.02						
Acquisition cost	36 531 756	120 748 762	40 555 818	11 148 921	9 183 425	218 168 683
Accumulated depreciation	0	-9 562 936	-31 951 901	-10 012 195	-108 000	-51 635 032
Residual value 30.06.02	**36 531 756**	**111 185 826**	**8 603 917**	**1 136 726**	**9 075 425**	**166 533 651**
Change for the period 01.07.02 – 30.06.03						
Revaluation of land	4 144 855	0	0	0	0	4 144 855
Acquisition	0	28 282 877	25 296 564	1 020 530	125 887 339	180 487 310
Incl. Acquisitions through business combination (see note 12)	0	25 000 000	20 000 000	0	0	45 000 000
Depreciaition	0	-3 718 919	-5 790 316	-967 784	-372 183	-10 849 202
Sales	-10 997 411	-72 882 205	-1 252 969	0	-145 142	-85 277 727
Reclassification	0	0	2 003 771	1 315 190	-3 318 961	0
Property, plant, and equipment 30.06.03						
Acquisition cost 30.06.03	29 679 200	74 377 787	64 983 608	9 268 908	131 361 311	309 670 814
Accumulated depreciation		-11 510 208	-36 122 641	-6 764 247	-234 833	-54 631 929
Total residual value 30.06.03	**29 679 200**	**62 867 579**	**28 860 967**	**2 504 661**	**131 126 478**	**255 038 885**

Group	Land	Building and facilities	Machinery and equipment	Other fixed assets	Construction in progress	TOTAL
EUR						
Property, plant, and equipment 30.06.02						
Acquisition cost	2 334 799	7 717 233	2 591 983	712 544	586 926	13 943 485
Accumulated depreciation	0	-611 181	-2 042 093	-639 894	-6 902	-3 300 072
Residual value 30.06.02	**2 334 799**	**7 106 051**	**549 889**	**72 650**	**580 024**	**10 643 413**
Change for the period 01.07.02 – 30.06.03						
Revaluation of land	264 904	0	0	0	0	264 904
Acquisition	0	1 807 601	1 616 741	65 224	8 045 647	11 535 212
Incl. Acquisitions through business combination (see note 12)	0	1 597 787	1 278 230	0	0	2 876 017
Depreciaition	0	-237 682	-370 068	-61 853	-23 787	-693 389
Sales	-702 861	-4 658 010	-80 079	0	-9 276	-5 450 226
Reclassification	0		128 064	84 056	-212 120	0
Property, plant, and equipment 30.06.03						
Acquisition cost 30.06.03	1 896 842	4 753 595	4 153 199	592 390	8 395 496	19 791 522
Accumulated depreciation	0	-735 634	-2 308 652	-432 313	-15 009	-3 491 608
Total residual value 30.06.03	**1 896 842**	**4 017 960**	**1 844 547**	**160 077**	**8 380 488**	**16 299 914**

During the reporting period the production facility located at Pärnu mnt 139 (18070/52410 legal share of registered immovable) was sold to OÜ Raldon for 87 million kroons (5,6 million EUR). With the aforementioned transaction, the buyer assumed an investment obligation of up to 90 million kroons (5,8 million EUR) and rights and obligations arising from the lease agreement with Tallinn Police Prefecture. AS Kalev has the right to repurchase the aforementioned registered immovable within a five year period beginning with Setpember 1st, 2005. The repurchase price will depend on the investments made by OÜ Raldon and could amount to 177 million kroons (11,3 million EUR). The repurchase price will be reduced by 2 percent per year by depreciation expense. Profit from the proceeds of the aforementioned registered immovables are reported in other income.

During the reporting year, 99,8 million kroons (6,4 million EUR) has been reclassified from revaluation reserve to retained earnings. Aforementioned amount is associated with assets previously revalued and sold during the reporting year (including assets previously reclassified to investment property and later sold) and accumulated depreciation of revalued assets.

Largest acquisitions during the reporting period are buildings and equipment of Paide Piimakombinaat in total of 45 million kroons (2,9 million EUR) (see note 12) acquired through business combination and investments associated with construction of new production facility in Põrguvälja in total of 116 million kroons (7,4 million EUR). At the signing of the annual report, the new production facility has been placed in service (see note 31).

Financing of property, plant and equipment (see note 10).

Property, plant and equipment includes land revaluation of the new production facility. Revaluation was done as at 30 June 2003 based on the purchase and sale transactions of comparable properties.

Parent company	**Land**	**Buildings and structures**	**Machinery and equipment**	**Other fixed assets**	**Construction in process**	**TOTAL**
EEK						
Property, plant and equipment 30.06.02						
Acquisition cost	36 531 756	120 748 762	40 555 818	11 148 921	9 183 425	218 168 683
Accumulated depreciation	0	-9 562 936	-31 951 901	-10 012 195	-108 000	-51 635 032
Residual value 30.06.02	**36 531 756**	**111 185 826**	**8 603 917**	**1 136 726**	**9 075 425**	**166 533 651**
Changes during the period 01.07.02 – 30.06.03						
Acquisitoion	0	28 282 877	25 283 093	1 020 530	9 388 201	63 974 701
Including through business combinations(see note 12)	0	25 000 000	20 000 000	0	0	45 000 000
Depreciation	0	-3 320 659	-5 790 316	-967 784	-372 183	-10 450 943
Sale at residual value	-10 997 411	-84 669 650	-1 252 963	0	-145 143	-97 065 168
Included in fixed assets	0	0	2 003 771	1 315 190	-3 318 961	0
Contribution into subsidiary (see note 18)	-17 385 000	0	0	0	0	-17 385 000
Total changes	**-28 382 411**	**-59 707 432**	**20 243 585**	**1 367 935**	**5 551 915**	**-60 926 409**
Property, plant and equipment 30.06.03						
Acquisition cost 30.06.03	8 149 345	62 590 344	64 970 143	9 268 908	14 862 173	159 840 913
Accumulated depreciation	0	-11 111 948	-36 122 641	-6 764 247	-234 833	-54 233 669
Total residual value 30.06.03	**8 149 345**	**51 478 394**	**28 847 502**	**2 504 661**	**14 627 340**	**105 607 242**

Parent company	Land	Buildings and structures	Machinery and equipment	Other fixed assets	Construction in process	TOTAL
EUR						
Property, plant and equipment 30.06.02						
Acquisition cost	2 334 799	7 717 233	2 591 983	712 544	586 926	13 943 484
Accumulated depreciation		-611 181	-2 042 093	-639 894	-6 902	-3 300 072
Residual value 30.06.02	**2 334 799**	**7 106 051**	**549 889**	**72 650**	**580 024**	**10 643 413**
Changes during the period 01.07.02 – 30.06.03						
Acquisition	0	1 807 601	1 615 880	65 224	600 014	4 008 718
Including through business combinations	0	1 597 787	1 278 230	0	0	2 876 017
Depreciation	0	-212 228	-370 068	-61 853	-23 787	-667 935
Sale at residual value	-702 861	-5 411 363	-80 079	0	-9 276	-6 203 579
Included in fixed assets	0	0	128 064	84 056	-212 120	0
Contribution into subsidiary (see note 18)	-1 111 101	0	0	0	0	-1 111 101
Total changes	**-1 813 962**	**-3 815 991**	**1 293 798**	**87 427**	**354 831**	**-3 893 897**
Property, plant and equipment 30.06.03						
Acquisition cost 30.06.03	520 837	4 000 242	4 152 338	592 390	949 864	10 215 670
Accumulated depreciation	0	-710 181	-2 308 652	-432 313	-15 009	-3 466 154
Total residual value 30.06.03	**520 837**	**3 290 061**	**1 843 687**	**160 077**	**934 855**	**6 749 516**

Fully depreciated fixed assets in service at acquisition cost

	Parent company 30.06.2003	Parent company 30.06.2002
EEK		
Buildings	221 952	341 767
Machinery and equipment	18 688 529	6 461 012
Other fixed assets	5 040 200	9 085 369
TOTAL	23 950 681	15 888 148
EUR		
Buildings	14 185	21 843
Machinery and equipment	1 194 412	412 933
Other fixed assets	322 127	580 659
TOTAL	1 530 724	1 015 435

* Amounts reported under parent company are the same for the group

Pledged property, plant and equipment (see note 30).

7. Investment property

EEK	Land	Group Buildings	TOTAL
Value 30.06.2002	**18 793 750**	**50 472 503**	**69 266 253**
Contribution of minority partner (see note 18)	0	16 500 000	16 500 000
Change in fair value (see note 24)	30 309 000	4 085 145	34 394 145
Sale	0	- 44 587 303	-44 587 303
Value 30.06.2003	**49 102 750**	**26 470 345**	**75 573 095**

EUR	Land	Group Buildings	TOTAL
Value 30.06.2002	**1 201 136**	**3 225 773**	**4 426 909**
Contribution of minority partner (see note 18)	0	1 054 540	1 054 540
Change in fair value (see note 24)	1 937 093	233 836	2 198 181
Sale	0	-2 849 641	-2 849 641
Value 30.06.2003	**3 138 230**	**1 664 508**	**4 829 989**

EEK	Land	Parent company Buildings	TOTAL
Value 30.06.2002	**18 793 750**	**50 472 503**	**69 266 253**
Contribution to subsidiaries share capital (see note 18)	-6 615 000	0	-6 615 000
Change in fair value (see note 26)	20 060 000	0	20 060 000
Sale	0	-44 587 303	-44 587 303
Value 30.06.2003	**32 238 750**	**5 885 200**	**38 123 950**

EUR	Land	Parent company Buildings	TOTAL
Value 30.06.2002	**1 201 136**	**3 225 773**	**4 426 909**
Contribution to subsidiaries share capital (see note 18)	-422 774	0	-422 774
Change in fair value	1 282 064	0	1 282 064
Sale	0	-2 849 641	-2 849 641
Value 30.06.2003	**2 060 426**	**376 132**	**2 436 558**

Revaluations of investment property were done as of June 30, 2003. Land has been revalued based on purchase and sale transactions of comparable properties. Buildings have been revalued as of June 30, 2003 based on expert assessment.

During the reporting period, the Parent company has sold following properties. The profits from sales have been reported in other income (see note 23):

1) On March 25, 2003 AS Kalev sold 2284/52410 of legal share of Pärnu mnt 139 registered immovable to OÜ Tartex Trading for 12 million kroons (0,8 million EUR). According to the contract signed by both parties, the seller has the obligation to buy and the buyer has obligation to sell the registered immovable at the price the property was transferred on March 25, 2003 after 3 years from the signing of the contract.

2) On February 10, 2003 AS Kalev sold 7093/52410 of legal share of Pärnu mnt 139 registered immovable (AS Kalev previous office building and adjacent commercial land) to OÜ Corigeer for 43 million kroons (2,8 million EUR). The buyer paid 17 million kroons (1,1 million EUR) prior to signing of the contract. Remaining 26 million kroons (1,7 million EUR) was to be paid after signing the contract no later than February 12.

Rental income from investment property (see note 13).

8. Intangible assets

	Group	Parent company
EEK		
Intangible assets as of 30.06.02		
Acquisition cost	350 655	350 655
Accumulated depreciation	-60 277	-60 277
Residual value 30. 06. 02	**290 378**	**290 378**
Changes during the period 01.07.02-30.06.03		
Depreciation charges	-72 663	-72 663
Intangible assets as of 30.06.03		
Acquisition cost	350 655	350 655
Accumulated depreciation	-132 940	-132 940
Residual value 30.06.2003	**217 715**	**217 715**
EUR		
Intangible assets as of 30.06.02		
Acquisition cost	22 411	22 411
Accumulated depreciation	-3 852	-3 852
Residual value 30.06.02	**18 558**	**18 558**
Changes during the period 01.07.02-30.06.03		
Depreciation	-4 644	-4 644
Intangible assets as of 30.06.03		
Acquisition cost	22 411	22 411
Accumulated depreciation	-8 496	-8 496
Residual value 30.06.2003	**13 914**	**13 914**

9. Operating lease (Group as a lessee)

Group is leasing automobiles, trucks and computer equipment under operating lease terms.
It is possible for the Company to terminate the lease contracts at any time, but the Company has no plan to do so. During the financial year, the Company has made payments under operating leases in total sum of 5 609 913 kroons (358 538 EUR). Amounts for the comparative period are 1 291 623 kroons (82 550 EUR).

As at the period end, the minimum operating lease payments are as follows:

EEK	Group	Parent company
	30.06.2003	30.06.2002
Lease payments to be paid during 1 year	6 643 626	2 625 067
Lease payments to be paid during 1-5 years	7 268 682	2 223 067

EUR	Group	Parent company
	30.06.2003	30.06.2002
Lease payments to be paid during 1 year	424 604	167 772
Lease payments to be paid during 1-5 years	464 552	142 080

* Amounts reported under parent company as of June 30th, 2003 are the same for the group

10. Financial leases (Group as a lessee)

	Group	Parent company	Parent company
EEK	30.06.2003	30.06.2003	30.06.2002
Minimum lease payments:			
Lease payments to be paid during 1 year	14 567 911	6 845 230	173 057
Lease payments to be paid during 1-5 years	98 996 356	37 867 697	331 692
Lease payments to be paid after 5 years	21 885 715	0	0
Total minimum lease payments	**135 449 982**	**44 712 927**	**504 749**
Interest expense for future periods	-10 695 692	-6 369 115	-57 495
Present value of minimum lease payments	**105 507 601**	**38 343 812**	**447 254**
Lease payments to be paid during 1 year	8 461 635	4 720 760	141 426
Lease payments to be paid during 1-5 years	77 809 277	33 623 052	305 828
Lease payments to be paid after 5 years	19 236 689	0	0
Present value of minimum lease payments	**105 507 601**	**38 343 812**	**447 254**

	Grupp	Parent company	Parent company
EUR	30.06.2003	30.06.2003	30.06.2002
Minimum lease payments:			
Lease payments to be paid during 1 year	931 057	437 489	11 060
Lease payments to be paid during 1-5 years	6 327 004	2 420 181	21 199
Lease payments to be paid after 5 years	1 398 749	0	0
Total minimum lease payments	**8 656 810**	**2 857 670**	**32 259**
Interest expense for future periods	-683 578	-407 060	-3 675
Total present value of minimum lease payments	6 743 147	2 450 610	28 585
Lease payments to be paid during 1 year	540 796	301 711	9 039
Lease payments to be paid during 2-5 years	4 972 906	2 148 899	19 546
Lease payments to be paid after 5 years	1 229 445	0	0
Total present value of minimum lease payments	**6 743 147**	**2 450 610**	**28 585**

Under financial lease terms the Company acquired Paide's production facilities and machinery which lease obligation as of the balance sheet date is 38 000 000 kroons (2 428 636 EUR) (see note 12). Principal balance remaining under financial lease for Kalev's Homes used by AS Kalev and AS Kalev's production facility in Põrguvälja is 67 163 789 kroons (4 292 538 EUR) (see note 6). Title to the property under financial lease will be passed to the Company after final lease payment.

11. Liabilities

	Group	**Parent company**	**Parent company**
	30.06.2003	30.06.2003	30.06.2002
EEK			
Short-term part of long-term loan	0	0	12 000 000
Bank overdraft	14 305 486	14 305 486	2 050 656
Accounts pledged under factoring agreements	1 775 223	1 775 223	0
Short-term notes	0	0	19 621 987
Obligation under financial lease (see note 10)	8 461 635	4 720 760	218 689
Other short-term liabilities	2 803 891	410 243	0
Total liabilities	**27 346 235**	**21 211 712**	**33 891 332**
Long-term financial lease obligation (see note 10)	97 045 966	33 623 052	320 672
Other long-term liabilities	19 335 559	2 675 559	4 800 000
Long-term notes	0	0	21 000 000
Total long-term liabilities	**116 381 525**	**36 298 611**	**26 120 672**

EUR			
Short-term part of long-term loan			766 938
Bank overdraft	914 285	914 285	131 060
Accounts pledged under factoring agreements	113 457	113 457	0
Short-term notes	0	0	1 254 070
Obligation under financial lease (see note 10)	540 796	301 711	13 977
Other short-term liabilities	179 201	26 219	0
Total liabilities	**1 747 738**	**1 355 672**	**2 166 045**
Long-term financial lease obligation (see note 10)	6 202 352	2 148 899	20 495
Other long-term obligations	1 235 764	170 999	306 775
Long-term notes	0	0	1 342 141
Total liabilities	**7 438 116**	**2 319 898**	**1 669 411**

The Company has entered into bank overdraft agreement with AS Eesti Ühispank with 20 000 000 limit (1 278 230 EUR) with interest rate of 6,3 percent. There is a potential liability of 1 775 223 kroons (113 457 EUR) with 7 percent interest and 0,15 percent commission from assigned accounts from factoring agreement with recource with AS Hansa Liising. During 2002/2003 financial year the Company has redeemed notes in total of 19 621 987 kroons (1 254 070 EUR) with interest rate of 5,7 percent.

Põrguvälja land purchase is reported in other long-term liabilities section in the balance sheet in total of 1 600 000 kroons (102 258 EUR) according to the payment schedule, last payment being scheduled on December 1, 2004. The obligation in the sum of 16 600 000 kroons (1 060 931EUR) arising from the minority share purchase obligation contract between the shareholders AS Kalev REC and AS Skanska EMV is reported in the long-term liabilities section of the balance sheet. Term for the obligation is February 15, 2004 (see note 18) and accrued interest as of June 30, 2003 is 2 427 667 kroons (155 156 EUR) reported in other short-term liabilities of the balance sheet, interest rate is 11 percent.

12. Feasibility study for acquiring Paide production unit

On August 8 2002, AS Kalev and AS Hansa Liising entered into financial lease agreement. According to lease agreement, AS Kalev acquired AS' Paide Piimakombinaat property and equipment, and partially assumed receivables and obligations from the same company.

	EEK	EUR
Cost of acquired production unit	45 000 000	2 876 017
Including financial lease	45 000 000	2 876 017
Cash paid	0	0
Assets and liabilities received in acquisition of the production unit		
ASSETS		
Receivables	8 888 749	567 965
Fixed assets	45 000 000	2 876 017
Total	**53 886 749**	**3 443 982**
LIABILITIES		
Liabilities	-7 074 108	-452 117
Other long-term liabilities	-1 812 641	-115 849
Net Assets	**45 000 000**	**2 876 017**

Assets were placed in service by AS Kalev on October 10, 2002.

13. Rental income (Group as a lessor)

Under operating lease terms AS Kalev REC leases buildings and office space, which are reported on the balance sheet as real estate investments (see note 7). Rental income is reported in note 19.

Lease payments receivables under lease agreements:

	Group	Group
	30.06.2003	30.06.2003
	EEK	EUR
Lease payments to be paid during 1 year	21 411 024	1 368 410
Lease payments to be paid during 1-5 years	171 288 192	10 947 283

Amounts reported under parent company are the same for the group.

14. Accounts payable

	Group	Parent company	Parent company
	30.06.2003	30.06.2003.a.	30.06.2002
EEK			
Customer prepayments	497 042	497 042	53 274
Obligation to building contractor*	38 175 892	0	0
Trade accounts payable	37 986 230	37 871 434	35 565 238
Payables to employees	3 604 977	3 604 211	6 159 959
Accrued expenses	6 670 463	6 606 371	27 666 412
TOTAL	**86 934 604**	**48 579 058**	**69 444 883**
EUR			
Customer prepayments	31 767	31 767	3 405
Obligation to building contractor*	2 439 878	0	0
Trade accounts payable	2 427 756	2 420 420	2 273 027
Payables to employees	230 399	230 350	393 692
Accrued expenses	426 319	422 223	1 768 201
TOTAL	**5 556 120**	**3 104 760**	**4 438 326**

*Subsidiary AS Kalev REC has a liability to AS Skanska EMV related to construction of a new production facility in Põrguvälja (see note 6).

15. Tax liabilities

	Group 30.06.2003	Parent company 30.06.2003.a.	Parent company 30.06.2002
EEK			
Social insurance tax	3 366 143	3 366 143	2 281 174
Personal income tax	1 564 048	1 564 048	1 355 558
Income tax on dividends	0	0	259 462
VAT	- 566 842	4 969 665	0
Income tax on fringe benefits	82 166	82 166	0
Unemployment insurance tax	92 277	92 277	101 158
TOTAL	**4 537 792**	**10 074 299**	**3 997 352**
EUR			
Social insurance tax	215 135	215 135	145 793
Personal income tax	99 961	99 961	86 636
Income tax on dividends	0	0	16 583
VAT	-36 228	317 619	0
Income tax on fringe benefits	5 251	5 251	0
Unemployment insurance tax	5 898	5 898	6 465
TOTAL	**290 017**	**643 863**	**255 477**

16. Owner's equity

	Group 30.06.2003	Parent company 30.06.2003.a.	Parent company 30.06.2002
EEK			
Number of common shares	7 877 500	7 877 500	7 877 500
Nominal value	10	10	10
EUR			
Number of common shares	7 877 500	7 877 500	7 877 500
Nominal value	0,64	0,64	0,64

According to the Articles of Association the maximum share capital is 31 510 000 shares with the nominal value of 10 EEK (0,64EUR).

17. Earnings per share

	Group 30.06.2003	Parent company 30.06.2003.a.	Parent company 30.06.2002
EEK			
Net profit	32 462 673	32 462 673	30 756 745
Weighted average number of shares of period	7 877 500	7 877 500	7 877 500
Earnings per share (EPS)	4,12	4,12	3,90
EUR			
Net profit	2 074 738	2 074 738	1 965 709
Weighted average number of shares of period	7 877 500	7 877 500	7 877 500
Earnings per share (EPS)	0,26	0,26	0,25

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

18. Subsidiaries

As of June 30, 2003 AS Kalev has participating interest in three subsidiaries:

	Location	Participation 30.06.2003	Participation 30.06.2002
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	59,3%	60%
Kalev Merchant Services Ltd (KMS)	USA	100%	100%
Kõnekäsitluse OÜ	Estonia	56,2%	0

Kõnekäsitluse OÜ has been acquired in the purpose of reselling in the near future and therefore is not consolidated and is reported in short-term receivables in total of 430 000 kroons (27 482 EUR).
As of the confirmation date of the annual report, the participating interest has been sold (see note 31).

Participating interest in OÜ Kõnekäsitlus has been acquired through acquisition of participating interest in AS Baltcom and therefore services received during the reporting year and obligations to AS Baltcom Eesti as of June 30th, 2003 are reported as follows:

Services received from AS Baltcom Eesti and obligations	EEK	EUR
Liability as of 01.07.2002	12 508	799
Turnover	510 786	32 645
Liability as of 30.06.2003	14 160	905

Kalev Merchant Services Ltd core activities are marketing and sale of AS' Kalev products in the US.

Subsidiary AS Kalev REC core activity is real estate development and management. AS Kalev acquired ownership interest in AS Kalev REC in order to separate management and development of property used by AS Kalev from its core activities. In order to guarantee the competitiveness of its subsidiary, AS Kalev selected AS Skanska EMV for its strategic partner. AS Skanska EMV has international backround and long-term experience in real estate and construction. AS' Kalev REC main projects are construction of the production facility for AS Kalev in Harjumaa rural municipality of Rae (see note 6), development of the adjacent Põrguvälja registered immovable and management and development of remaining share of the registered immovable located in Pärnu mnt 139, Tallinn.

The share capital of AS Kalev is 40,9 million kroons (2,6 million EUR). During the reporting year, the parent company has made non-cash contribution to subsidiaries AS Kalev REC share capital in total of 24 million kroons (1,5 million EUR) acquiring 24 000 shares at face value of 1000 kroons (64 EUR). The shares were paid with registered immovable located in Kohila 6 and 8, Tallinn and with 3/5 of the Põrguvälja registered immovable located in rural municipality of Rae.

AS Skanska EMV and AS Kalev have entered into a contract granting AS Skanska EMV with a right to sell and obligating AS Kalev to buy all the shares belonging to AS Skanska EMV. Therefore, on the consolidated balance sheet the aforementioned company has been reported as if AS' Kalev participating interest is 100 percent. The potential liability from the sale and purchase contract with accrued interest has been reported as a liability (see note 11).

On June 18, 2003, AS Kalev started a subsidiary AS Kalev Paide Tootmine with share capital 400 000 kroons (25 565 EUR). Share capital contribution was paid on July 1, 2003 and subsidiary was entered into commercial register on July 17, 2003.

Transactions with subsidiaries		EEK	EUR
Sales			
	AS Kalev REC	6 491 297	414 868
	KMS	602 861	38 530
Total		7 094 158	453 398
Purchases			
	AS Kalev REC	391 305	25 009
	KMS	801 700	51 238
Total		1 193 005	76 247

Transactions with subsidiaries			
Acquisition of property, plant and equipment			
	AS Kalev REC		
Acquisition of fixed assets		14 392 591	919 852
Acquisition of investment property		21 394 855	1 367 377
	AS Kalev REC		
Total acquisition of investment property		**35 787 446**	**2 287 229**
Financial income and expenses			
	AS Kalev REC	- 221 454	-14 153
Total financial income and expenses		**- 221 454**	**-14 153**
Receivables from subsidiaries			
Loan interest AS Kalev REC		221 454	14 153
Bank overdraft AS Kalev REC		13 302 777	850 200
Total loans		13 524 231	864 354
Receivables from goods and services			
AS Kalev REC		307 354	19 643
KMS		785 071	50 175
Total receivables from goods and services		1 092 425	69 819
Total short-term receivables		**14 616 656**	**934 172**

Long-term receivables from subsidiaries		
Loan agreement AS Kalev REC	13 936 793	890 721
Total receivables from subsidiaries	**28 553 449**	**1 824 893**
Liabilities to subsidiaries		
KMS other receivables	106 352	6 797
Total liabilities to subsidiaries	**106 352**	**6 797**

Group bank account

AS Kalev and its subsidiary Kalev REC have entered into contract to open joint group bank account in AS Hansapank. According to the contract, AS Kalev is parent company, both companies are jointly liable for the balance on the account.

19. Segment information

Sales by activities	**Group**	**Parent company**	**Parent company**
	01.07.02.- 30.06.03	01.07.02 – 30.06.03	01.01.02 – 30.06.02
EEK			
Confectionery	327 575 384	326 794 646	135 954 357
Rental income from real estate	6 189 810	5 331 524	24 320 608
Other sales	13 900 572	13 900 572	2 814 084
TOTAL	**347 665 766**	**346 026 742**	**163 089 049**
EUR			
Confectionery	20 935 829	20 885 931	8 689 045
Rental income from real estate	395 600	340 746	1 554 366
Other sales	888 406	888 406	179 852
TOTAL	**22 219 835**	**22 115 083**	**10 423 263**

Other income includes sales from Paide production unit.

Segment information **Group**

EEK

01.07.2002-30.06.2003	**Confectionery**	**Real estate activities**	**Total**
Operating profit of segment	7 014 182	34 994 145	42 008 327
Assets of segment	294 132 017	181 678 154	475 810 171
Liabilities of segment	107 212 536	118 441 966	225 654 502
Liablities not segregated			9 545 654
Total liabilities			235 200 156
Investments in property, plant, equipment and intangible assets	180 487 310		180 487 310
Depreciation cost for segment	10 523 600	398 265	10 921 865

Segment information

01.07.2002-30.06.2003	Confectionery	Real estate activities	Parent company Total
Operating profit of segment	9 366 650	20 060 000	29 426 650
Assets of segment	316 223 078	38 123 950	354 347 028
Liabilities of segment	110 700 990		110 700 990
Liablities not segregated			3 036 023
Total liabilities			113 737 013
Investments in property, plant, equipment and intangible assets	63 974 701		63 974 701
Depreciation cost for segment	10 523 616		10 523 616

01.01.2002-30.06.2002	Confectionery	Real estate activities	Parent company Total
Operating profit of segment	8 710 106	22 046 639	30 756 745
Assets of segment	261 055 672	76 401 053	337 456 725
Liabilities of segment	125 454 239	8 000 000	133 454 239
Investments in property, plant, equipment and intangible assets	12 396 902	10 240 000	22 636 902
Depreciation cost for segment	4 809 941		4 809 941

EUR			Group
01.07.2002-30.06.2003	Confectionery	Real estate activities	Total
Operating profit of segment	448 287	2 236 528	2 684 815
Assets of segment	18 798 414	11 611 320	30 409 734
Liabilities of segment	6 852 112	7 596 802	14 421 914
Liablities not segregated			610 077
Total liabilities			15 031 991
Investments in property, plant, equipment and intangible assets	11 535 212		11 535 212
Depreciation cost for segment	672 579	25 454	698 033

Segment information

01.07.2002-30.06.2003	Confectionery	Real estate activities	Parent company Total
Operating profit of segment	598 637	1 282 064	1 880 701
Assets of segment	20 210 287	2 436 557	22 646 844
Liabilities of segment	7 075 065	0	7 075 065
Liablities not segregated			194 037
Total liabilities			7 269 101
Investments in property, plant, equipment and intangible assets	4 088 718	0	4 088 718
Depreciation cost for segment	672 579	0	672 579

Segment information			Parent company
01.01.2002-30.06.2002	**Confectionery**	**Real estate activities**	**Total**
Profit of segment	556 676	1 409 033	1 965 709
Assets of segment	16 684 456	4 882 905	21 567 360
Liabilities of segment	8 017 967	511 292	8 529 259
Investments in property, plant, equipment and intangible assets	792 304	654 454	1 446 758
Depreciation cost	307 410		307 410

Sales by markets	**Group**	**Parent company**	**Parent company**
	01.07.02 - 30.06.03	01.01.02 – 30.06.02	01.01.02 – 30.06.02
	EEK	EEK	EEK
Estonia	304 111 905	301 811 909	143 068 557
Russia, CIS countries	10 816 018	10 816 018	3 922 971
Ukraine	8 440 022	8 440 022	5 018 889
Baltic countries	19 599 673	19 599 673	9 860 612
Other	4 698 148	5 359 120	1 218 020
TOTAL	347 665 766	346 026 742	163 089 049
	EUR	EUR	EUR
Estonia	19 436 244	19 289 247	9 143 724
Russia, CIS countries	691 268	691 268	250 723
Ukraine	539 414	539 414	320 765
Baltic countries	1 252 644	1 252 644	630 206
Other	300 266	342 509	77 845
TOTAL	22 219 835	22 115 083	10 423 263

20. Cost of goods sold

	Group	**Parent company**	**Parent company**
	01.07.02-30.06.03	01.07.02- 30.06.03	01.01.02-30.06.02
EEK			
Raw materials	166 033 941	169 128 440	80 363 044
Salaries	30 668 672	30 668 672	15 655 293
Depreciation	8 682 419	7 955 837	3 732 607
Maintenance of buildings and machinery	11 472 310	11 472 310	1 106 398
Electricity, water	15 538 360	15 538 360	4 902 658
Other expenses	8 019 161	8 019 161	7 986 132
TOTAL	240 414 863	242 782 780	113 746 132

EUR			
Raw materials	10 611 476	10 809 250	5 136 121
Salaries	1 960 080	1 960 080	1 000 553
Depreciation	554 906	508 469	238 556
Maintenance of buildings and machinery	733 212	733 212	70 712
Electricity, water	993 080	993 080	313 336
Other expenses	512 516	512 516	510 406
TOTAL	15 365 271	15 516 608	7 269 684

21. Marketing expenses

	Group 01.07.02-30.06.03	Parent company 01.07.02- 30.06.03	Parent company 01.01.02-30.06.02
EEK			
Salaries	22 160 368	22 160 368	6 562 786
Depreciation	317 438	317 438	295 810
Transportation costs	12 918 429	12 883 044	3 247 866
Advertising costs	15 294 212	15 294 212	7 866 782
Consulting, research	1 190 642	1 336 770	924 644
Space rental and maintenace	4 058 805	2 733 010	1 210 075
Other expenses	5 077 771	5 077 771	2 532 834
TOTAL	**61 017 665**	**59 802 613**	**22 640 797**
EUR			
Salaries	1 416 302	1 416 302	419 437
Depreciation	20 288	20 288	18 906
Transportation costs	825 636	823 374	207 576
Advertising costs	977 476	977 476	502 778
Consulting, research	76 096	85 435	59 095
Space rental and maintenace	259 404	174 671	77 338
Other expenses	324 528	324 528	161 877
TOTAL	**3 899 730**	**3 822 074**	**1 447 007**

22. Administrative expenses

	Group 01.07.02-30.06.03	Parent company 01.07.02- 30.06.03	Parent company 01.01.02-30.06.02
EEK			
Salaries	11 275 213	10 339 175	3 963 003
Depreciaiton	1 663 471	1 265 206	810 178
Transport	1 557 430	1 557 430	579 544
Administrative expenses	9 379 952	9 379 952	2 402 753
Consulting - services	7 295 354	7 295 354	2 866 713
IT expenses	2 166 050	2 166 050	1 009 901
Traveling and training expenses	1 277 022	1 277 022	464 492
Moving expenses	8 366 963	8 366 963	
Other	2 444 955	2 444 955	2 421 928
TOTAL	45 426 410	44 092 107	14 518 512

EUR			
Salaries	720 616	660 792	253 281
Depreciaiton	106 315	80 861	51 780
Transport	99 538	99 538	37 040
Administrative expenses	599 487	599 487	153 564
Consulting - services	466 257	466 257	183 216
IT expenses	138 435	138 435	64 544
Traveling and training expenses	81 616	81 616	29 686
Moving expenses	534 745	534 745	
Other	156 261	156 261	154 789
TOTAL	2 903 269	2 817 992	927 900

23. Other income

	Group	Parent company	Parent company
	01.07.02-30.06.03	01.07.02- 30.06.03	01.01.02-30.06.02
EEK			
Profit from sales of fixed assets and investment property	9 171 529	9 171 529	0
Change in fair value of investment property	34 394 145	20 060 000	19 445 636
Revaluation or write down of inventories	3 000 000	3 000 000	3 300 000
Other income	3 102 767	4 582 766	285 343
TOTAL	49 668 440	36 814 295	23 030 979

EUR			
Profit from sales of fixed assets and investment property	586 166	586 166	0
Change in fair value of investment property	2 198 181	1 282 064	1 242 799
Revaluation or write down of inventories	191 734	191 734	210 908
Other income	198 302	292 891	18 237
TOTAL	3 174 384	2 352 856	1 471 944

24. Other expenses

	Group	Parent company	Parent company
	01.07.02-30.06.03	01.07.02- 30.06.03	01.01.02-30.06.02
EEK			
Loss from sales of property, plant and equipment	1 795 893	1 795 893	25 183
Net currency loss	1 935 348	1 322 080	877 297
Other expenses	4 735 700	3 618 914	649 092
TOTAL	8 466 941	6 736 887	1 551 572

EUR			
Loss from sales of property, plant and equipment	114 778	114 778	1 609
Net currency loss	123 691	84 496	56 069
Other expenses	302 666	231 290	41 484
TOTAL	541 135	430 564	99 163

25. Financial income

	Group 01.07.02-30.06.03	Parent company 01.07.02- 30.06.03	Parent company 01.01.02-30.06.02
EEK			
Interest income	334 913	334 913	66 332
Other financial income	3 020 804	1 188 204	11 041
TOTAL	3 355 717	1 523 117	77 373
EUR			
Interest income	21 405	21 405	4 239
Other financial income	193 064	75 940	706
TOTAL	214 469	97 345	4 945

26. Financial expenses

	Group 01.07.02-30.06.03	Parent company 01.07.02- 30.06.03	Parent company 01.01.02-30.06.02
EEK			
Interest expenses	11 014 059	6 713 362	2 050 253
Net currency losses	1 482 561	1 482 561	333 726
Other financial expenses	404 751	404 757	340 202
TOTAL	12 901 371	8 600 680	2 724 181
EUR			
Interest expenses	703 925	429 061	131 035
Net currency losses	94 753	94 753	21 329
Other financial expenses	25 868	25 869	21 743
TOTAL	824 546	549 682	174 106

27. Income tax

During the financial year ending June 30, 2002 decision was made to pay dividends in total of 23 362 500 kroons (1 510 388 EUR) which resulted in income tax liability of 259 462 kroons (16 583 EUR). No dividends were paid during the financial year ending June 30, 2003 and consequently there was no related income tax liability.

As of June 30, 2003, the enterprise's free share capital was in total of 143 137 790 kroons (9 148 149 EUR) and for the comparative period (ending July 30, 2002) the free share capital was 12 145 185 (793 473 EUR). Potential dividend payment available for the reporting year is in total of 105 921 965 kroons (6 769 630 EUR) resulting in income tax liability in total of 37 215 825 kroons (2 378 519 EUR). For the comparative period potential dividend payment available is in total of 9 187 237 kroons (587 170 EUR) resulting in income tax liability in total of 3 227 948 kroons (206 303 EUR).

Subsidiary located in US reported no income and therefore there was no related income tax liability.

28. Personnel expenses

	Group	Parent company	Parent company
	01.07.02-30.06.03	01.07.02- 30.06.03	01.01.02-30.06.02
EEK			
Employee and staff salaries	44 873 639	43 937 601	18 100 362
Other withholdings from salaries	14 721 786	14 721 786	6 064 117
Vacation reserve	4 508 829	4 508 829	2 016 603
TOTAL	64 104 254	63 168 216	26 181 082
EUR			
Employee and staff salaries	2 867 941	2 808 117	1 156 821
Other withholdings from salaries	940 891	940 891	387 567
Vacation reserve	288 166	288 166	128 884
TOTAL	4 096 998	4 037 174	1 673 272

Management's and management board members' salaries during the reporting and comparative period are 444 000 kroons (28 377 EUR) and 5 947 kroons (308 EUR), respectively. The salaries of production employees are included in the direct expenses of cost of goods sold, salaries of marketing and administrative staff are recorded as marketing and administrative expense. During the reporting and comparative periods AS Kalev employed on average 554 and 540 employees, respectively. The Company made compulsory redundancy payments to 92 employees in total of 3 024 369 kroons (193 292 EUR).

29. Transactions with related parties

Transactions with subsidiaries (see note 18).

EEK	01.07.02 – 30.06.03			01.01.02 – 30.06.02
Purchases from companies related to managing director	SERVICE	GOODS	TOTAL	TOTAL
Services and goods purchased:				
Tööstuse Teenindamise AS	22 091 236	0	22 091 236	0
Tallinna Piimatööstuse AS	0	12 356 568	12 356 568	4 991 181
Other purchases	777 149	1 334 549	2 111 698	5 376 356
Liability at the beginning of the year	119 649	1 332 100	1 451 749	28 830
Liability at the end of the year	1 816 327	335 652	2 151 979	6 315

Sales to companies related to managing director	SERVICE	GOODS	TOTAL	TOTAL
Goods and services sold	3 679 046	1 910 454	5 589 500	739 366
Receivables at the beginning of the year	3 190 219	488 959	3 679 178	1 220 014
Receivables at the end of the year	151 968	0	151 968	488 959

Transactions with other related companies (OÜ Cassel Grupp)	01.02.02 – 30.06.02
Goods and services purchased	388 401
Goods and services sold	6 920
Obligation at the beginning of the year	2 988
Obligation at the end of the year	35 317
Receivable at the beginning of the year	6 920
Receivable at the end of the year	10 933

EUR	01.07.02 – 30.06.03			01.01.02 – 30.06.02
Purchases from companies related to managing director	SERVICE	GOODS	TOTAL	TOTAL
Services and goods purchased:				
Tööstuse Teenindamise AS	1 441 884	0	1 441 884	0
Tallinna Piimatööstuse AS	0	789 727	789 727	318 994
Other purchases	49 669	85 293	134 962	343 611
Liability at the beginning of the year	7 647	85 136	92 783	1 843
Liability at the end of the year	116 084	21 452	137 536	403

Sales to companies related to managing director	SERVICE	GOODS	TOTAL	TOTAL
Goods and services sold	235 133	122 100	357 233	47 254
Receivables at the beginning of the year	203 892	31 250	235 142	77 973
Receivables at the end of the year	9 713	0	9 713	31 250

Transactions with other related companies (OÜ Gassel Grupp)	01.02.02 – 30.06.02
Goods and services purchased	24 823
Goods and services sold	442
Obligation at the beginning of the year	191
Obligation at the end of the year	2 257
Receivable at the beginning of the year	442
Receivable at the end of the year	699

As of June 30, 2003, OÜ Gassel is no longer considered a related party because company's participating interest has decreased.

At the same time, Tööstuse Teenindamise AS which is servicing AS' Kalev equipment is considered related party for the 2003 financial year.

AS Kalev is buying raw materials (milk powder) from Tallinn Piimatööstuse AS.

AS Kalev has supported nonprofit organizations related to managing director in total of 1 021 580 kroons (65 291 EUR).

According to the Company management, the price of transactions with aforementioned parties does not differ significantly from the market price.

30. Pledges, guarantees and guarantee obligations

As of June 30, 2003 following pledges were valid:

1. Commercial pledge for Eesti Ühispank in total of 50 000 000 kroons (3 195 574 EUR) as a bank overdraft guarantee.

As of June 30, 2003, overdarft used was 14 305 486 kroons (914 845 EUR).

2. Commercial pledge for AS Preatoni Pank in total of 8 000 000 kroons (511 292 EUR) as a loan guarantee.

As of June 30, 2003, the loan had no balance.

As of June 30, 2003 following contracts of suretyships were valid:

1. Surety to OÜ Evision Grupp in total of 918 850 kroons (58 725 EUR) for Contrailer OÜ automobile leasing agreements.

Mortgages as of June 30, 2003

1. For Republic of Estonia,Pärnu mnt. 139 registered immovable in total of 4 245 210 kroons (271 318 EUR).

2. For AS Hansa Liising Eesti, Pärnu mnt. 139 22654/5241 legal share in total of 14 000 000 kroons (894 761 EUR).

AS Kalev has guaranteed its employees overdraft in total of 85 000 kroons (5 432EUR).

Potential liability

KPMG Estonia is claiming from AS Kalev based on invoices originating from the contract dated May 1, 2002, fees related to late payment of those invoices and collection fees in total of 395 986,81 kroons (25 383,8 EUR). AS Kalev is claiming that KPMG Estonia has not submitted the work performed to AS Kalev as specified in the contract. Therefore, to request payment for services that were not performed is unsubstanciated.

Statements of action

1) On January 13, 2003, AS Kalev's shareholder AS Milestone filed a statement of action in Tallinn City Court to declare invalid AS Kalev's general meeting of shareholders (dated December 8th, 2002) resolution 4. The disputed resolution accepted during the general meeting of shareholders granted shareholders with legal rights to sell their shares back to the Company. On October 31th, 2003, Tallinn's City Court ruled to satisfy an action filed by AS Kalev's shareholder AS Milestone (see also note 31, Post balance sheet events).

2) On March 14, 2003, AS Kalev's shareholder AS Milestone filed a statement of action in Tallinn City Court to prohibit damage causing activity. According to the statement of action, the sale contract under the law of obligation AS Kalev signed on March 11, 2003 in order to sell its legal share of the registered immovable located at Pärnu mnt 139 is causing financial damage to shareholders. AS Milestone is demanding that the sale will be stopped.

In addition to the statement of action, AS Milestone submitted a claim to ban all transactions and activities and post restraint of disposition associated with the sale of legal share of registered immovable located Pärnu mnt 139.

Court ruled that satisfaction of action would cause significant economic damage to AS Kalev as well as to the third party not involved. Court explained in its ruling that the sale and purchase of property is part of economic activity for the parties involved and to put a stop to the sale would require an event of determinative importance. AS Milestone failed to persuade the court to satisfy the claim. Therefore, the court did not satisfy the claim.

As of the date of annual report, there has been one preliminary hearing where issues involving the case were not discussed.

3) On March 24, 2003, AS's Kalev shareholder AS Milestone filed a statement of claim in Tallinn City Court to declare invalid general meeting of shareholders' and members of the board meeting resolutions.

According to the statement of action, the major shareholder of the Company violated the takeover offer obligation. Based on the securities law, vote of the individual found violating the takeover offer obligation are not included in the quorum of the general shareholders meeting until the deadline for the violation has ended. Therefore, according to the claimant resolutions accepted on the general shareholders meeting held on June 13, 2001 and June 18, 2001 are void which in turn voids the resolutions accepted by the members of the board elected on the aforementioned meetings.

4) On June 4, 2003, AS' Kalev shareholder AS Milestone filed a statement of action in Tallinn City Court to declare invalid resolution accepted in AS' Kalev general meeting of the shareholders held on March 4, 2003 (see ''Conducting a special audit '').

According to the plaintiff, AS PricewaterhouseCoopers (PwC) is not qualified to perform special audit because of conflict of interests. PwC has audited the Company during the time periods covering the special audit or during the previous three years. In addition, the claimant is stating that the international auditing firm is not independent in relation to the AS' Kalev management.

AS Kalev finds aforementioned claims unfounded and they should be left unsatisfied. There are no potential liabilities associated with the filed statement of action.

31. Off balance sheet receivables

Off balance sheet receivable against AS ETFC Grupp

On April 22, 1997, AS Kalev and AS Eesti Ühispank entered into a contract of suretyship, whereby AS Kalev acted as a guarantor for a loan up to 13 million kroons (0,8 million EUR) for ETFC Group's loan from AS Eesti Ühispank. On April 22, 1997, AS ETFC Group entered into a loan agreement with AS Eesti Ühispank. The total amount of the loan that bank lended to ETFC Group was 45 million kroons (2,9 million EUR).

Permission to enter into a suretyship agreement was given by the management board of AS Kalev, whose members at that date were Märt Vooglaid, Jaak Roosipuu, Tiit Kõuhkna, Oliver Kruuda ja Ants Laos.

Owners of the AS ETFC Group at the time AS Kalev acted as a surety for a loan for AS ETFC Grupp were AS EPEKS (managing director – Toomas Kõuhkna) and AS Talinvest (management board – Priit Kotkas, Martti Kasemetsa, Meelis Männik, Rain Nuka and Peeter Saks).

AS ETFC Group's management included:
management – Ants Laos and Hanno Riismaa
management board – Jaak Roosipuu, Tiit Kõuhkna, Toomas Kõuhkna, Oliver Kruuda, Heino Priimägi, Martti Kasemetsa, Peeter Saks and Märt Vooglaid.

Because AS ETFC Group failed to fulfil its contractual obligations with AS Eesti Ühispank, on March 28, 2000 AS ETFC Group, AS Eesti Ühispank and AS Kalev entered into a three party contract to transfer the loan. With the loan transfer contract, AS Kalev assumed the liability of AS ETFC Grupp to Eesti Ühispank in amount of 13 million kroons (0,8 million EUR), which is the amount under suretyship agreement AS Kalev entered into on April 22, 1997.

AS Kalev published information regarding the transactions specified above in the note No 30 ''Post balance sheet events'' of its annual report for the year ended December 31st, 1999. It became evident during the liquidation proceedings of ETFC Group (now AS Greenbox) that the Company substantially has no assets and no commercial activity. Therefore, AS Kalev did not see relevant to report on its 2001 and 2002 annual reports its off balance sheet receivable from AS Greenbox.

Off balance sheet receivable against OAO Tšarodeika bankruptcy estate

Bankruptcy procedures against the former subsidiary of AS Kalev, AS Tšarodeika were started on January 4th, 2001.

According to the contract number 2-10/927 signed on November 1st, 2001 between AS Kalev and Kaliningrad's law office number 32 (the Dobralsks), the latter represents AS Kalev's interests in the bankruptcy case with OAO Tšarodeika in Kaliningrad. In the bankruptcy case, AS Kalev has set claims for 1 138 010 USD.

At the general meeting of OAO Tšarodeika's creditors, which took place on June 8th, 2001, AS Kalev's claim was accepted in the amount of 33 172 991,00 rubles of the Russian Federation.

According to the minutes of the general meeting of OAO Tšarodeika's creditors, AS Kalev's claim against the bankruptcy estate is 44 840 844,00 rubles of the Russian Federation, which is 97,2% of all claims against the debtor.

The increase in the receivable resulted from voidance of the unlawful payable.

According to the management of AS Kalev it is impossible to predict the probability of realising its claim against the debtor located in Kaliningrad region.

32. Post balance sheet events

Subsidiary AS Kalev Real Estate Company (Kalev REC) transactions

On September 16th, 2003 AS Kalev Real Estate Company (Kalev REC) and Ministry of Finance of the Republic of Estonia entered into sale and real right contract, according to which the ministry is selling and Kalev REC is buying the Keila-Joa resort's registered immovables I and III.

The seller will transfer the title of assets under contract to the buyer for the sum of 52,7 million kroons (3,4 million EUR) which was the winning bid in a public offering to buy the property. Of the purchase price, 2,6 million kroons (0,2 million EUR) was paid earlier by the buyer as a pledge to participate in the public offering of the property (see note 3). Before signing the contract, the buyer has deposited the remaining 50,1 million kroons (3,2 million EUR) of the total purchase price of assets in an escrow account. According to the contract, the notary will transfer the money to the seller from the escrow account within two banking days at the latest after he has received confirmation from the land register that the buyer is a legal owner of the property under contract.

Also, Kalev REC entered into a sales and leasing contract under the law of obligation with AS Hansa Liising Eesti, according to which the latter invested 30 million kroons (1,9 million EUR) in the sale of the registered immovables. The interest of the leasing contract is 6 month EURIBOR + 2,75% per year, which amounted to 4,94% at the time of signing the contract. According to the payment schedule, the last payment will be on September 15, 2004.

Contractual parties have agreed that during lease agreement, advance payments for the partial transfer of registred immovables based on preliminary contract will reduce AS Kalev REC's installment payments by 100 percent.

According to the management of AS Kalev REC, the reasons for purchasing the abovementioned registered immovables at Keila-Joa were their good prospects as well as their potential, this in light of the development of real estate. AS Kalev REC will devise a detailed plan, which divides the acquired registered immovables into residential lots.

At the beginning of 2003, AS Kalev REC participated in the auction organized by Riigi Kinnisvara AS to buy registered immovables in Meremõisa village of Keila rural municipality of Harju county (Keila-Joa resort I cadastral unit with the total area of 328 617 square meters and III cadastral unit with the area of 6802 square meters). The 52,7 million kroon (3,4 million kroons) bid was the winning bid at the auction.

59,3% of AS Kalev REC belongs to AS Kalev and 40,7% belongs to the strategic partner Skanska EMV AS.

Ownership transfer

On October 8, 2003, AS Kalev sold its participating interest in Baltcom Eesti AS.

In the fall of 2001, AS Kalev purchased 80 percent of Baltcom Eesti AS shares with the intention of selling them at a later date. According to the contracts with the Baltcom's management, people associated with the latter were obliged to buy back the securities by October 1, 2003.

On January 29th, 2003, shareholders of Baltcom (incl. AS Kalev) entered into a contract to form Kõnekäsitus OÜ. According to the contract shareholders of Baltcom exchanged their shares in Baltcom for the shares in Kõnekäsitluse OÜ. The distribution of share capital in the new company was proportionate to share capital in Baltcom. Also, the obligation to buy AS Kalev's 56,2 percent share in OÜ Kõnekäsitlus under a contract arising from the transfer of Baltcom's securities was transferred to OÜ Turundusteave and Olen Tegija OÜ, companies related to the shareholders of Baltcom. The purchase price of AS Kalev's share of Kõnekäsitlus OÜ is 31 471 USD which buyers will pay in Estonian kroons with the exchange rate of that day.

On October 1st, 2003, OÜ Turundusteave paid in full 644 700 kroons (41 203 EUR) to Kalev AS for its share in OÜ Kõnekäsitlus. On October 6th, 2003, Olen Tegija OÜ paid 50 percent of 241 800 kroons (15 453,8 EUR) at face value to AS Kalev for its share in OÜ Kõnekäsitlus. According to the transfer of deed, the remaining 50 percent was to be paid after the shares were registered in buyers' name in Eesti Väärtpaberite Keskregister. Olen Tegija OÜ paid for its share in OÜ Kõnekäsitlus in full on October 10, 2003.

During this time period, between entering into a contract to transfer the rights to the property and the final payment of purchasing price, buyers paid interest to AS Kalev at the annual rate of 8 percent.

Starting production in a new production facility

In October 2003, AS Kalev was granted an approval for a specified term from the Veterinary and Food Board to process food groups such as cocoa and cocoa based products, chocolate and marzipan products, and it started its production in the new Põrguvälja facility.

The approval was granted to all units in the new facility ready to produce, package, and store confectioneries. Other units that are not ready for production will be gradually granted approval after they have been placed in use and inspected by the Veterinary and Food Board.

The Company's caramel unit will continue its operations until March 30th, 2004 in the Tallinn's Pärnu maantee production facility making caramel and chewing candy, dragees and chewing gum. After the date specified above, machinery will be dismantled and moved to Põrguvälja. Caramel unit will start its operations in Põrguvälja at the end of 2003/2004 fiscal year.

Judicial decision

On October 31st, 2003 Tallinn's City Court ruled to satisfy an action filed by AS Kalev's shareholder AS Milestone against AS Kalev and declared invalid AS Kalev's general meeting of shareholders resolution number 4 which took place on December 8th, 2002. The disputed resolution accepted during the general meeting of shareholders granted shareholders legal rights to sell their shares back to the Company.

AS Kalev will appeal the court judgement of Tallinn's City Court. Notice for an appeal has been filed with Tallinn's City Court as stipulated in the law and within the statutory filing period.

Post balance sheet pledging, provision and guarantee contracts

1. AS Kalev's trademark has been pledged to Hansa Liising as a collateral in the amount of 22 000 000 kroons (1 406 053 EUR). The trademark has no book value.
2. A mortgage has been set up on 2/5 of the land of the registered immovable in Põrguvälja for the benefit of Hansa Liising in the amount of 6 500 000 kroons (415 425 EUR)

3. A contract of suretyship has been signed with Hansa Liising in the amount of 2 898 849 kroons (185 270 EUR), which provide surety for the leasing contracts of MTÜ GKG Ratsaspordiklubi.

Note 33 Fair value

As of June 30, 2003, there is no significant difference in assets and liabilities between the carrying amount and fair value.

Note 34 Managing the credit, interest, and currency risks

The Group is managing the credit risk by providing credit to its business partners based on the length of business relationship and backround information. Business partners in Russia and CIS countries generally have to prepay for goods. To manage credit risk associated with bigger buyers the Group is using factoring.

The Group is open to currency risk when purchasing raw materials in various currencies. In managing the interest and currency risks, potential losses arising from the interest and exchange rate changes are compared to expenses associated with use of financial instruments to manage those risks. During the fiscal year 2002/2003, the Group has not used financial instruments to manage the credit and interest risks because based on the management estimate expenses associated with utilization of financial instruments to manage aforementioned risks will exceed the potential losses born from those risks.

3. INTEREST OF MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS

The shares belonging to the members of the management and supervisory boards, as of June 30, 2003

	Number of shares	Participation
Heino Priimägi	-	-
Ülo Suurkask	-	-
Kristel Soll	-	-
Oliver Kruuda	2 399 421 966 267	30,4592 % (via Linderin Grupp OÜ) 12,2662 % (via OÜ Mailtec)

4. SHAREHOLDERS WITH SIGNIFICANT HOLDINGS

AS Kalev is one of the few Estonian food companies still based on local capital. As of June 30, 2003 the Company had 1327 shareholders. Four of them owned more than 5 percent of shares:

	No of shares	Participation
Linderin Grupp OÜ	2 399 421	30,46 %
AS Milestone	1 859 050	23,6 %
Mailtec OÜ	966 267	12,3 %
Eesti Ühispank	590 088	7,50 %

5. PROPOSAL FOR PROFIT ALLOCATION AND INCREASE OF SHARE CAPITAL BY MEANS OF A BONUS ISSUE

The net profit of AS Kalev in fiscal year 2002/ 2003 was 32 462 673 kroons (2 074 738 EUR).

The management board will make a proposal to increase the obligatory reserve capital by 1 537 837 kroons (98 285 EUR). The total reserve capital is 3 938 750 kroons (251 731 EUR).

Also, the management board will make a proposal to increase share capital by means of a bonus issue. Capitalisation of reserves will be attained through the accounting entry in owners' equity "Retained earnings of prior accounting periods" in the amount of 110 675 000 kroons (7 073 404 EUR), "Net profit of reporting period" in the amount of 27 924 000 (1 677 456 EUR), "Revaluation reserve" in the amount of 17 159 380 kroons (1 096 698 EUR).

The rest of the profit of 3 000 836 kroons (19 227 EUR) will be entered to the account "Retained earnings of previous periods".

6. SIGNATURE FOR THE 2002/2003 ANNUAL REPORT

The Annual Report of AS Kalev for the period ending on June 30th, 2003, consisting of the Activity Report, Financial Statements, Profit Allocation Proposal and Auditor's Report, shall be signed by the chairman and members of the management board of AS Kalev as follows:

Chairman of the Management Board:	Oliver Kruuda	____________________
Chairman of the Supervisory Board:	Heino Priimägi	____________________
Member of the Supervisory Board:	Kristel Soll	____________________
Member of the Supervisory Board:	Ülo Suurkask	____________________

Põrguvälja, November 21th, 2003

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia
www.pwc.com/ee/

Telephone +372 6 141 800
Facsimile +372 6 141 900

AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Kalev

We have audited the financial statements of AS Kalev (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the financial year (1 July 2002 to 30 June 2003) ended 30 June 2003 as set out on pages 11 to 54. These financial statements are the responsibility of the Parent Company's management board. 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 Parent Company and the Group as at 30 June 2003 and of the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

(signed)

Urmas Kaarlep
AS PricewaterhouseCoopers

24 November 2003