



AS Kalev

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6 MONTHS INTERIM REPORT

Beginning of the period 1.07.2003

End of the period 31.12.2003

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. COMMENTS ON FINANCIAL RESULTS

The consolidated net profit of Kalev Ltd in the 2nd quarter of the financial year 2003/2004 amounted to 8.9 million kroons (569 thousand euros). The consolidated net sales of the period totalled 115.8 million kroons (7.4 million euros). Compared to the 2nd quarter of the financial year 2002/2003, the net sales and net profit remained approximately on the same level.

The positive economic results in the 2nd quarter of the financial year were conditioned, above all, by the re-launch of the company's daily production activities after the relocation of the company to a new plant building, and a successful Christmas product sales campaign.

The consolidated net sales of Kalev Ltd in the first 6 months of the financial year 2003/2004 totalled 186.2 million kroons (11.9 million euros), and remained approximately on the same level, compared to the comparative period.

The consolidated net loss of the company amounted to 6.9 million kroons (441 thousand euros) in the first half-year. In the same period last year, the company's net profit amounted to 13.5 million kroons (865 thousand euros).

The following factors had a material effect on the decrease in the net profit in the first 6 months of the financial year 2003/2004.

In connection with the relocation of the company to a new plant building, Kalev Ltd stopped, on 30 April 2003, production in the chocolate department on Pärnu Rd in Tallinn. In May, the company launched the disassembly of the production equipment, and moved to the new plant building in the period between May and middle of June. In September 2003 (after receiving from the Veterinary and Food Board a fixed-term certificate for manufacturing food products in the following categories: cocoa and cocoa products, chocolate products and marzipan), Kalev Ltd re-launched most of its daily production in the new plant building.

During the time production was suspended, the company sold previously manufactured chocolate confectionery products as well as sugar confectionery products manufactured in the caramel plant in Pärnu Rd in Tallinn. However, previously manufactured goods failed to fully cover the needs during the period the production was suspended. Therefore, sales of confectionery products decreased by 10.7 million kroons (0.68 million euros), compared to the comparative period.

Expenses related to the relocation and assembly of production equipment as well as launch of production had their effect on the formation of net loss. The general administrative expenses in the 1st quarter of the financial year 2003/2004 included single costs in the total amount of 15.2 million kroons (0.97 million euros), including:

- Launch of production (i.e. testing, technological residues, utilisation of goods of inferior quality): 5.9 million kroons (0.38 million euros);
- Installation of production equipment: 5.8 million kroons (0.37 million euros).

Total sales of confectionery products of Kalev Ltd amounted to over 3,400 tonnes in the first 6 months of the financial year 2003/2004 – a decrease of approximately 11% compared to the same period last year. Decrease in total sales was the result of a goods deficit in certain product groups, which was conditioned by the 4-month suspension of production activities.

The home market constituted 76% of the total sales; 24% of the sales were exported. In the given period, Latvia and Ukraine remained the company's main export countries. In addition to the above countries, Kalev Ltd also exported its products to Russia, Scandinavian countries and the United States. The 4% increase in the share of export in total sales of confectionery products in the given period was conditioned by the specifics of the export product portfolio – a majority of export products are manufactured in the caramel department of Kalev Ltd in Tallinn, and production in this department was not suspended upon relocation to the new plant building.

The main marketing and sales focus of Kalev Ltd in the first 6 months of the financial year 2003/2004 lay in making preparations for and successfully organising the sales of the Christmas season.

In October, Kalev Ltd launched the biggest Christmas collection in the company's history – a collection of 50 product items. The company also expanded its selection by launching two new products – gingerbread and alcohol-free mulled wine. The Christmas sales were supported by the advertising campaign in various media channels. Kalev Ltd's total Christmas sales amounted to 520 tonnes, compared to more than 450 tonnes of Christmas candy in the previous year.

In the first half-year of the given financial year, the company launched several new products at the market – *Mõnus Maius* (mixture of toffee and corn flakes), the chocolate bar *Bitter* (for export markets) and chocolate *The Sealords* and *Mermaid* (for the tax-free sales system).

On 24 December 2003, AS Kalev acquired 99.1% of the shares of AS Järle. The purpose of acquiring the shares of AS Järle was to aggressively enter the Estonian baked goods market, and to launch operations in the bread and dark bread sector in accordance with the long-term development strategy of AS Kalev. The Extraordinary Meeting of the Shareholders of AS Järle held on 5 February 2004 decided to change the business name of the subsidiary. The company is now called AS Kalev Jõhvi Tootmine and is located at Põrguvälja Rd 6, Lehmja, Rae Parish, Harju County.

In the first half-year of 2003/2004, Kalev Ltd employed an average of 535 people – a decrease of 7%, compared to the same period last year.

2. FINANCIAL STATEMENTS

Management representation

The Chairman of the Management Board of Kalev Ltd confirms that the Interim Report of Kalev Ltd, set out on pages 4-20, gives a true and fair view of the results of the company's operations in the 6 months in accordance with the going concern principle. This Interim Report has not been audited or otherwise reviewed by auditors.

Põrguvälja, 23 February 2004

Oliver Kruuda
The Chairman

BALANCE SHEET (in kroons)

| ASSETS | Note | 31.12.03 | 31.12.02 | 30.06.03 |
|-----------------------------|------|---------------------|---------------------|---------------------|
| | No | Consolidated EEK | Consolidated EEK | Consolidated EEK |
| CURRENT ASSETS | | | | |
| CASH AND BANK | | 2 302 417 | 999 131 | 8 591 080 |
| CUSTOMER RECEIVABLES | 1 | 48 691 971 | 38 756 094 | 90 024 044 |
| PREPAID EXPENSES | | 5 985 730 | 27 332 035 | 5 308 235 |
| INVENTORIES | | 51 693 973 | 38 794 080 | 40 726 937 |
| TOTAL CURRENT ASSETS | | 108 674 091 | 105 881 340 | 144 650 296 |

NON-CURRENT ASSETS

| | | | | |
|-------------------------------------|---|--------------------|--------------------|--------------------|
| MISCELLANEOUS LONG-TERM RECEIVABLES | | 330 180 | 887 180 | 330 180 |
| TANGIBLE ASSETS | 2 | 351 011 366 | 292 375 281 | 255 038 885 |
| REAL ESTATE INVESTMENTS | 3 | 111 529 095 | 62 651 253 | 75 573 095 |
| INTANGIBLE ASSETS | 2 | -11 566 965 | 260 768 | 217 715 |
| TOTAL NON-CURRENT ASSETS | | 451 303 676 | 356 174 482 | 331 159 875 |

| | | | | |
|---------------------|--|--------------------|--------------------|--------------------|
| TOTAL ASSETS | | 559 977 767 | 462 055 822 | 475 810 171 |
|---------------------|--|--------------------|--------------------|--------------------|

LIABILITIES AND OWNER' EQUITY**LIABILITIES**

| | | | | |
|----------------------------------|---|--------------------|--------------------|--------------------|
| CURRENT LIABILITIES | 4 | 30 540 625 | 16 672 116 | 27 346 235 |
| PREPAYMENTS FROM CUSTOMERS | | 12 571 538 | 89 178 | 497 042 |
| SUPPLIER PAYABLES | | 75 737 808 | 71 465 760 | 76 162 122 |
| TAXES PAYABLE | | 7 901 996 | 14 050 661 | 4 537 792 |
| OTHER PAYABLES | | 10 712 720 | 7 283 945 | 10 275 440 |
| TOTAL CURRENT LIABILITIES | | 137 464 687 | 109 561 660 | 118 818 631 |

| | | | | |
|--------------------------------------|---|--------------------|--------------------|--------------------|
| NON-CURRENT LIABILITIES | 4 | 188 793 399 | 135 438 643 | 116 381 525 |
| | | | | |
| TOTAL NON-CURRENT LIABILITIES | | 188 793 399 | 135 438 643 | 116 381 525 |

| | | | | |
|--------------------------|--|--------------|--|--|
| MINORITY INTEREST | | 9 000 | | |
|--------------------------|--|--------------|--|--|

OWNER'S EQUITY

| | | | | |
|-----------------------------------|--|--------------------|--------------------|--------------------|
| SHARE CAPITAL | | 78 775 000 | 78 775 000 | 78 775 000 |
| REVALUATION RESERVE | | 17 159 388 | 112 812 302 | 17 159 388 |
| STATUTORY LEGAL RESERVE | | 1 537 837 | 1 537 837 | 1 537 837 |
| RETAINED EARNINGS | | 143 137 790 | 10 392 119 | 110 675 117 |
| NET PROFIT FOR THE FINANCIAL YEAR | | -6 899 334 | 13 538 261 | 32 462 673 |
| TOTAL OWNER'S EQUITY | | 233 710 681 | 217 055 519 | 240 610 015 |

| | | | | |
|--------------------------|--|--------------------|--------------------|--------------------|
| TOTAL LIABILITIES | | 559 977 767 | 462 055 822 | 475 810 171 |
|--------------------------|--|--------------------|--------------------|--------------------|

BALANCE SHEET (in euros)**ASSETS**

| | Note | 31.12.03 Consolidated EUR | 31.12.02 Consolidated EUR | 30.06.03 Consolidated EUR |
|-----------------------------|------|---------------------------------|---------------------------------|---------------------------------|
| CURRENT ASSETS | No | | | |
| CASH AND BANK | | 147 151 | 63 856 | 549 069 |
| CUSTOMER RECEIVABLES | 1 | 3 111 976 | 2 476 960 | 5 753 570 |
| PREPAID EXPENSES | | 382 557 | 1 746 831 | 339 257 |
| INVENTORIES | | 3 303 839 | 2 479 387 | 2 602 919 |
| TOTAL CURRENT ASSETS | | 6 945 523 | 6 767 034 | 9 244 815 |

NON-CURRENT ASSETS

| | | | | |
|--|---|-------------------|-------------------|-------------------|
| MISCELLANEOUS LONG-TERM RECEIVABLES | | 21 102 | 56 701 | 21 102 |
| TANGIBLE ASSETS | 2 | 22 433 658 | 18 686 138 | 16 299 914 |
| REAL ESTATE INVESTMENTS | 3 | 7 127 990 | 4 004 135 | 4 829 989 |
| INTANGIBLE ASSETS | 2 | -739 262 | 16 666 | 13 914 |
| TOTAL NON-CURRENT ASSETS | | 28 843 488 | 22 763 640 | 21 164 919 |

| | | | | |
|---------------------|--|-------------------|-------------------|-------------------|
| TOTAL ASSETS | | 35 789 011 | 29 530 674 | 30 409 734 |
|---------------------|--|-------------------|-------------------|-------------------|

LIABILITIES AND OWNER'S EQUITY**LIABILITIES**

| | | | | |
|----------------------------------|---|------------------|------------------|------------------|
| CURRENT LIABILITIES | 4 | 1 951 897 | 1 065 540 | 1 747 738 |
| PREPAYMENTS FROM CUSTOMERS | | 803 466 | 5 699 | 31 767 |
| SUPPLIER PAYABLES | | 4 840 516 | 4 567 483 | 4 867 634 |
| TAXES PAYABLE | | 505 028 | 897 999 | 290 017 |
| OTHER PAYABLES | | 684 666 | 465 528 | 656 719 |
| TOTAL CURRENT LIABILITIES | | 8 785 572 | 7 002 249 | 7 593 875 |

| | | | | |
|--------------------------------------|---|-------------------|------------------|------------------|
| NON-CURRENT LIABILITIES | 4 | 12 066 067 | 8 656 085 | 7 438 116 |
| | | | | |
| TOTAL NON-CURRENT LIABILITIES | | 12 066 067 | 8 656 085 | 7 438 116 |

| | | | | |
|--------------------------|--|------------|--|--|
| MINORITY INTEREST | | 575 | | |
|--------------------------|--|------------|--|--|

OWNER'S EQUITY

| | | | | |
|-----------------------------------|--|-------------------|-------------------|-------------------|
| SHARE CAPITAL | | 5 034 627 | 5 034 627 | 5 034 627 |
| REVALUATION RESERVE | | 1 096 682 | 7 210 002 | 1 096 682 |
| STATUTORY LEGAL RESERVE | | 98 285 | 98 285 | 98 285 |
| RETAINED EARNINGS | | 9 148 149 | 664 176 | 7 073 411 |
| NET PROFIT FOR THE FINANCIAL YEAR | | -440 947 | 865 250 | 2 074 738 |
| TOTAL OWNER'S EQUITY | | 14 936 797 | 13 872 340 | 15 377 743 |

| | | | | |
|--------------------------|--|-------------------|-------------------|-------------------|
| TOTAL LIABILITIES | | 35 789 011 | 29 530 674 | 30 409 734 |
|--------------------------|--|-------------------|-------------------|-------------------|

INCOME STATEMENT (in kroons)

| | Note | 01.07.-31.12.2003 | 01.07.-31.12.2002 |
|--|------|---------------------|---------------------|
| | No | Consolidated EEK | Consolidated EEK |
| NET SALES | 6 | 186 163 185 | 185 583 355 |
| COST OF GOODS SOLD | | 122 223 762 | 125 722 936 |
| GROSS PROFIT | | 63 939 423 | 59 860 419 |
| MARKETING EXPENSES | | 28 921 107 | 28 401 644 |
| ADMINISTRATIVE AND GENERAL EXPENSES | | 35 339 804 | 15 074 997 |
| OTHER OPERATING INCOME | | 1 689 521 | 4 556 175 |
| OTHER OPERATING EXPENSES | | 3 567 809 | 2 553 618 |
| OPERATING PROFIT | | -2 199 776 | 18 386 335 |
| FINANCIAL INCOME | | 585 377 | 176 021 |
| FINANCIAL EXPENSES | | 5 284 935 | 5 024 096 |
| PROFIT BEFORE INCOME TAX | | -6 899 334 | 13 538 260 |
| MINORITY INTEREST | | | |
| NET PROFIT | | -6 899 334 | 13 538 260 |
| EARNINGS PER SHARE | 8 | -0,88 | 1,72 |

INCOME STATEMENT (in euros)

| | Note | 01.07.-31.12.2003 | 01.07.-31.12.2002 |
|--|------|---------------------|---------------------|
| | No | Consolidated EUR | Consolidated EUR |
| NET SALES | 6 | 11 897 966 | 11 860 908 |
| COST OF GOODS SOLD | | 7 811 502 | 8 035 140 |
| GROSS PROFIT | | 4 086 463 | 3 825 768 |
| MARKETING EXPENSES | | 1 848 391 | 1 815 191 |
| ADMINISTRATIVE AND GENERAL EXPENSES | | 2 258 619 | 963 465 |
| OTHER OPERATING INCOME | | 107 980 | 291 192 |
| OTHER OPERATING EXPENSES | | 228 024 | 163 206 |
| OPERATING PROFIT | | -140 590 | 1 175 098 |
| FINANCIAL INCOME | | 37 412 | 11 250 |
| FINANCIAL EXPENSES | | 337 768 | 321 097 |
| PROFIT BEFORE INCOME TAX | | -440 946 | 865 251 |
| MINORITY INTEREST | | | |
| NET PROFIT | | -440 946 | 865 251 |
| EARNINGS PER SHARE | 8 | -0,06 | 0,11 |

CASH FLOW STATEMENT
(in kroons)

| | Note | 01.07.-31.12.2003 | 01.07.-31.12.2002 |
|---|------|-------------------|-------------------|
| | | Consolidated | Consolidated |
| CASH FLOWS FROM OPERATING ACTIVITIES | No | EEK | EEK |
| OPERATING PROFIT | | -2 199 776 | 18 386 336 |
| DEPRECIATION OF TANGIBLE ASSETS | 2 | 7 780 353 | 3 290 832 |
| DEPRECIATION OF INTANGIBLE ASSETS | 2 | 36 332 | 29 610 |
| PROFIT (LOSS) FROM SALES OF NON-CURRENT ASSETS | | -1 081 867 | |
| CHANGE IN RECEIVABLES | | 41 366 147 | -22 468 263 |
| CHANGE IN INVENTORIES | | -10 967 036 | 10 147 577 |
| CHANGE IN LIABILITIES | | 38 787 056 | 42 955 816 |
| INTEREST PAID | | -5 200 381 | -3 247 602 |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | | 68 520 828 | 49 094 306 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | | |
|---|---|---------------------|--------------------|
| PURCHASE OF SHARES OF SUBSIDIARIES | | -7 188 350 | |
| SALES OF NON-CURRENT ASSETS AT SALES PRICE | | 18 026 850 | |
| PURCHASE OF FIXED ASSETS | 2 | -126 999 365 | -32 187 156 |
| CHANGE IN LOANS GRANTED | | | 1 650 000 |
| INTEREST RECEIVED | | | |
| TOTAL CASH FLOWS FROM INVESTING ACTIVITIES | | -116 160 865 | -30 537 156 |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | | |
|---|--|-------------------|--------------------|
| LOAN REPAYMENTS | | -59 635 346 | -5 800 000 |
| LOANS RECEIVED | | 137 700 000 | |
| OVERDRAFT USED | | 4 183 686 | 7 571 389 |
| CHANGE IN SHORT-TERM LOANS | | | 320 279 |
| CHANGE IN LONG-TERM PAYABLES | | -1 600 000 | 25 829 282 |
| LEASE PAYMENTS | | -39 968 908 | -5 251 783 |
| BOND PAYMENTS | | | -19 621 987 |
| DIVIDENDS PAID | | | -23 632 500 |
| OTHER FINANCING INCOME/EXPENSES | | | -523 108 |
| TOTAL CASH FLOWS FROM FINANCING ACTIVITIES | | 40 679 432 | -21 108 428 |

| | | | |
|--|--|-------------------|-------------------|
| CHANGE IN CASH AND CASH EQUIVALENTS | | -6 960 605 | -2 524 278 |
|--|--|-------------------|-------------------|

| | | | |
|---|---|------------------|------------------|
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 8 591 080 | 3 476 327 |
| CHANGE IN CASH AND CASH EQUIVALENTS | | -6 960 605 | -2 524 278 |
| CHANGE IN CURRENCY EXCHANGE RATE | | 671 942 | 47 082 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 1 | 2 302 417 | 999 131 |

CASH FLOW STATEMENT
(in euros)

| | Note | 01.07.-31.12.2003 | 01.07.-31.12.2002 |
|---|------|-------------------|-------------------|
| | | Consolidated | Consolidated |
| CASH FLOWS FROM OPERATING ACTIVITIES | No | EUR | EUR |
| OPERATING PROFIT | | -140 591 | 1 175 098 |
| DEPRECIATION OF TANGIBLE ASSETS | 2 | 497 254 | 210 322 |
| DEPRECIATION OF INTANGIBLE ASSETS | 2 | 2 322 | 1 892 |
| PROFIT (LOSS) FROM SALES OF NON-CURRENT ASSETS | | -69 144 | 0 |
| CHANGE IN RECEIVABLES | | 2 643 772 | -1 435 980 |
| CHANGE IN INVENTORIES | | -700 920 | 650 272 |
| CHANGE IN LIABILITIES | | 2 478 938 | 2 745 370 |
| INTEREST PAID | | -332 364 | -207 559 |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | | 4 379 267 | 3 139 415 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | | | |
|---|--|-------------------|-------------------|
| PURCHASE OF SHARES OF SUBSIDIARIES | | -459 418 | |
| SALES OF NON-CURRENT ASSETS AT SALES PRICE | | 1 152 123 | |
| PURCHASE OF FIXED ASSETS | | -8 116 718 | -2 057 129 |
| CHANGE IN LOANS GRANTED | | | 105 454 |
| INTEREST RECEIVED | | | |
| TOTAL CASH FLOWS FROM INVESTING ACTIVITIES | | -7 424 013 | -1 951 675 |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | | |
|---|--|------------------|-------------------|
| LOAN REPAYMENTS | | -3 811 384 | -370 687 |
| LOANS RECEIVED | | 8 800 612 | |
| OVERDRAFT USED | | 267 386 | 483 899 |
| CHANGE IN SHORT-TERM LOANS | | | 20 470 |
| CHANGE IN LONG-TERM PAYABLES | | -102 258 | 1 650 788 |
| LEASE PAYMENTS | | -2 554 472 | -335 649 |
| BOND PAYMENTS | | | -1 254 070 |
| DIVIDENDS PAID | | | -1 510 388 |
| OTHER FINANCING INCOME/EXPENSES | | | -33 433 |
| TOTAL CASH FLOWS FROM FINANCING ACTIVITIES | | 2 599 884 | -1 349 070 |

| | | | |
|--|--|-----------------|-----------------|
| CHANGE IN CASH AND CASH EQUIVALENTS | | -444 862 | -161 330 |
|--|--|-----------------|-----------------|

| | | | |
|---|---|----------------|----------------|
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 549 069 | 222 177 |
| CHANGE IN CASH AND CASH EQUIVALENTS | | -444 862 | -161 330 |
| CHANGE IN CURRENCY EXCHANGE RATE | | 42 944 | 3 009 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 1 | 147 151 | 63 856 |

STATEMEN OF CHANGES IN EQUITY (in kroons)

| | Note No | SHARE CAPITAL | STATUTORY RESERVE | REVALUATION RESERVE | PROFIT FOR FINANCIAL YEAR | RETAINED EARNINGS | TOTAL |
|-------------------------|------------|------------------|----------------------|------------------------|---------------------------------|----------------------|-------------|
| CONSOLIDATED | | | | | | | |
| 1 JULY 2002 | | 78 775 000 | 0 | 112 812 302 | 0 | 12 415 185 | 204 002 487 |
| RETAINED EARNINGS | | | | | | -485 230 | -485 230 |
| NET PROFIT | | | | | 13 538 261 | | 13 538 261 |
| STATUTORY RESERVE MADE | | | 1 537 837 | | | -1 537 837 | |
| 31 DECEMBER 2002 | | 78 775 000 | 1 537 837 | 112 812 302 | 13 538 261 | 10 392 118 | 217 055 518 |
| CONSOLIDATED | | | | | | | |
| 1 JULY 2003 | | 78 775 000 | 1 537 837 | 17 159 388 | 0 | 143 137 790 | 240 610 015 |
| | | 0 | | | | 0 | 0 |
| NET PROFIT | | 0 | 0 | 0 | -6 899 334 | 0 | -6 899 334 |
| 31 DECEMBER 2003 | | 78 775 000 | 1 537 837 | 17 159 388 | -6 899 334 | 143 137 790 | 233 710 681 |

STATEMEN OF CHANGES IN EQUITY (in euros)

| | Note No | SHARE CAPITAL | STATUTORY RESERVE | REVALUATION RESERVE | PROFIT FOR FINANCIAL YEAR | RETAINED EARNINGS | TOTAL |
|-------------------------|------------|------------------|----------------------|------------------------|---------------------------------|----------------------|------------|
| CONSOLIDATED | | | | | | | |
| 1 JULY 2002 | | 5 034 627 | 0 | 7 210 002 | 0 | 793 473 | 13 038 102 |
| RETAINED EARNINGS | | | | | | -31 011 | -31 011 |
| NET PROFIT | | | | | 865 250 | | 865 250 |
| STATUTORY RESERVE MADE | | | 98 285 | | | -98 285 | |
| 30 DECEMBER 2002 | | 5 034 627 | 98 285 | 7 210 002 | 865 250 | 664 176 | 13 872 341 |
| CONSOLIDATED | | | | | | | |
| 1 JULY 2003 | | 5 034 627 | 98 285 | 1 096 682 | 0 | 9 148 149 | 15 377 743 |
| | | | | | | | |
| NET PROFIT | | | | | -440 947 | | -440 947 |
| 31 DECEMBER 2003 | | 5 034 627 | 98 285 | 1 096 682 | -440 947 | 9 148 149 | 14 936 796 |

99.8 million kroons (6.4 million euros) – amounts related to previously revaluated non-current assets and non-current assets sold during the financial year (including non-current assets, which were previously re-classified as real estate investments, and sold thereafter) as well as revaluated depreciation of non-current assets – have been re-classified from the revaluation reserve to retained earnings.

ACCOUNTING PRINCIPLES AND BASIS OF ESTIMATIONS

The following accounting principles have been used in the preparation of this Interim Report:

Basis of preparation

The consolidated interim financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The interim financial statements have been prepared in accordance with the generally accepted accounting principles, which require evaluation of the process of accounting for various assets, liabilities, income and expenditure.

The Estonian kroon is the currency used by the Group for accounting. For reader convenience, the report has also been prepared in euros.

No differences will occur in the currency exchange rates upon recalculation of financial indicators from Estonian kroons to euros, since the exchange rate of the Estonian kroon and the euro has been fixed (EUR 1 = EEK 15.64664).

According to the management of the company, Kalev Ltd's consolidated interim report for the 1st half-year of the financial year 2003/2004 gives a true and fair picture of the economic activities of the Group in accordance with the principle of going concern.

Income statement formats

The balance sheet and income statement of the Group have been prepared in accordance with the formats provided in the Accounting Act of the Republic of Estonia. In order to improve the general overview, some entries have been consolidated. Detailed information on the entries has been laid down in the notes to the interim report.

Background information on the company and consolidation principles

The principal fields of activity of the Group include the manufacturing, wholesale, retail, export and import of all types of confectionery products (including the production of semi-finished goods) as well as development, administration and rental of real estate.

The shares of Kalev Ltd have been listed in the secondary list of the Tallinn Stock Exchange.

Subsidiaries (except for subsidiaries that have been purchased for resale, and are accounted for in fair value) – i.e. companies, where the Group's interest exceeds over

50% of voting shares or which activities or financial policies can be controlled by the Group through other means – have been fully consolidated.

Subsidiaries are consolidated from the day of their acquisition until the day they are sold, or until the Group waives control over the particular subsidiary. All intra-group receivables and payables, as well as profit and loss arising from transactions between the Group companies (unless this can be covered) have been eliminated from the consolidated financial statements.

As at 31 December 2003, Kalev Ltd has an interest in four subsidiaries:

1. Kalev Merchant Services Ltd is a US-based subsidiary, which is fully owned by Kalev Ltd, and deals with the introduction and sales of Kalev Ltd's products in the United States.
2. Kalev Ltd's interest in AS Kalev Real Estate Company (hereinafter AS Kalev REC) is 59.3%. As at 30 September 2003, AS Kalev REC had a total of 40,900 shares with a nominal value of 1,000 kroons (64 euros).
3. AS Kalev Paide Tootmine is a company which is fully owned by Kalev Ltd and which manufactures confectionery products with milk as a raw material. The company has the capability to start manufacturing flour confectionery products.
4. Kalev Ltd's interest in AS Kalev Jõhvi Tootmine (formerly known as AS Järle) is 99.1%. The company manufactures flour confectionery products and baked goods.

Pursuant to the shareholder's agreement concluded between AS Skanska EMV and Kalev Ltd AS Skanska EMV has the right to sell, and Kalev Ltd to purchase, all shares held by AS Skanska EMV. The above subsidiary has been consolidated in the consolidated balance sheet in accordance with the agreement – i.e. as if Kalev Ltd held 100% of the shares, whereas the obligation to purchase the shares has been accounted for as a liability (together with the interest calculated on accrual basis).

AS Kalev Paide Tootmine launched its activities as an independent business unit on 1 August 2003.

AS Kalev Jõhvi Tootmine was acquired on 24 December 2003.

Comparative data

In the interim report, the financial indicators of the Group have been compared with the same period last financial year. Two subsidiaries have launched their activities within the Group. The subsidiary acquired at the end of 2003 has also been consolidated in the balance sheet (7% of the consolidated balance sheet volume).

NOTES TO THE INTERIM REPORT

1. Customer receivables

The balance sheet line "Customer receivables" includes a receivable from OÜ Raldon in the amount of 43,500,000 kroons (2,780,150 euros), which was generated by the sales of a legal share (18070/52410) of the Pärnu Rd 139 immovable, and which was paid on 8 October 2003.

2. Tangible and intangible assets

Tangible assets

| GROUP | EEK | | | | | |
|-------------------------------|------------|--------------------------|-------------------------|--------------------------|--------------------------|-------------|
| | Land | Buildings and facilities | Machinery and equipment | Other non-current assets | Construction in progress | Total |
| Non-current assets 01.07.2003 | | | | | | |
| Acquisition cost | 29 679 200 | 74 377 878 | 64 983 608 | 9 268 908 | 131 361 311 | 309 670 905 |
| Accumulated depreciation | | -11 510 208 | -36 122 641 | -6 764 247 | -234 833 | -54 631 929 |
| Net book value 01.07.2003 | 29 679 200 | 62 867 670 | 28 860 967 | 2 504 661 | 131 126 478 | 255 038 976 |
| Transactions of the period | | | | | | |
| Acquisition | 434 020 | 21 527 475 | 40 753 556 | 2 498 266 | 38 740 409 | 103 953 725 |
| incl. by merger | 434 020 | 21 527 475 | 7 199 728 | 493 137 | | 29 654 360 |
| Depreciation charge | | -1 620 334 | -5 328 486 | -831 533 | | -7 780 353 |
| Sales | | | | -200 984 | | -200 984 |
| *Total transactions | 434 020 | 19 907 141 | 35 425 070 | 1 465 749 | 38 740 409 | 95 972 388 |
| Acquisition cost 31.12.03 | 30 113 220 | 95 541 004 | 101 890 326 | 11 390 554 | 170 101 719 | 409 036 823 |
| Depreciation charge | | -12 766 194 | -37 604 288 | -7 420 142 | -234 833 | -58 025 457 |
| Net book value 31.12.03 | 30 113 220 | 82 774 810 | 64 286 038 | 3 970 412 | 169 866 886 | 351 011 366 |

| GROUP | EUR | | | | | |
|-------------------------------|-----------|--------------------------|-------------------------|--------------------------|--------------------------|------------|
| | Land | Buildings and facilities | Machinery and equipment | Other non-current assets | Construction in progress | Total |
| Non-current assets 01.07.2003 | | | | | | |
| Acquisition cost | 1 896 842 | 4 753 601 | 4 153 199 | 592 390 | 8 395 496 | 19 791 527 |
| Accumulated depreciation | | -735 634 | -2 308 652 | -432 313 | -15 009 | -3 491 608 |
| Net book value 01.07.03 | 1 896 842 | 4 017 966 | 1 844 547 | 160 077 | 8 380 488 | 16 299 920 |
| Transactions of the period | | | | | | |
| Acquisition | 27 739 | 1 375 853 | 2 604 620 | 159 668 | 2 475 957 | 6 643 837 |
| incl. by merger | 27 739 | 1 375 853 | 460 145 | 31 517 | | 1 895 254 |
| Depreciation charge | | -103 558 | -340 551 | -53 145 | | -497 254 |
| Sales | | | | -12 845 | | -12 845 |
| * Total transactions | 27 739 | 1 272 295 | 2 264 069 | 93 678 | 2 475 957 | 6 133 738 |
| Acquisition cost 31.12.03 | 1 924 581 | 6 106 167 | 6 511 962 | 727 987 | 10 871 453 | 26 142 151 |
| Depreciation charge | | -815 906 | -2 403 346 | -474 232 | -15 009 | -3 708 493 |
| Net book value 31.12.03 | 1 924 581 | 5 290 261 | 4 108 616 | 253 755 | 10 856 445 | 22 433 658 |

Intangible assets

| GROUP | EEK | | |
|------------------------------|----------|-------------|-------------|
| | Assets | Goodwill | Total |
| Intangible assets 01.07.2003 | | | |
| Acquisition cost | 350 665 | | 350 655 |
| Accumulated depreciation | -132 940 | | -132 940 |
| Net book value 01.07.2003 | 217 725 | | 217 725 |
| Transactions of the period | | | |
| Goodwill | | -11 748 348 | -11 748 348 |
| Depreciation | -36 332 | | -36 332 |
| Transactions of the period | -36 332 | -11 748 348 | -11 784 680 |
| Acquisition cost 31.12.2003 | 350 655 | -11 748 348 | -11 397 693 |
| Depreciation charge | 169 272 | | -169 272 |
| Net book value 31.12.2003 | 181 383 | -11 748 348 | -11 566 965 |

| GROUP | EUR | | |
|------------------------------|---------|----------|----------|
| | Assets | Goodwill | Total |
| Intangible assets 01.07.2003 | | | |
| Acquisition cost | 22 411 | | 22 411 |
| Accumulated depreciation | -8 496 | | -8 496 |
| Net book value 01.07.2003 | 13 915 | | 13 915 |
| Transactions of the period | | | |
| Goodwill | | -750 854 | -750 854 |
| Depreciation | -2 322 | | -2 322 |
| Transactions of the period | -2 322 | -750 854 | -753 176 |
| Acquisition cost 31.12.2003 | 22 411 | -750 854 | -728 443 |
| Depreciation charge | -10 818 | | -10 818 |
| Net book value 31.12.2003 | 11 592 | -750 854 | -739 262 |

3. Real estate investments

| | GROUP | | |
|--------------------------------|-------------------|-------------------|--------------------|
| | Land | Buildings | TOTAL |
| As at 01.07.2003 in EEK | | | |
| Value 01.07.2003 | 49 102 750 | 26 470 345 | 75 573 095 |
| Sales | 12 244 000 | 4 500 000 | 16 744 000 |
| Purchase | 52 700 000 | | 52 700 000 |
| Value 31.12.2003 | 89 558 750 | 21 970 345 | 111 529 095 |
| As at 01.07.2003 in EUR | | | |
| Value 01.07.2003 | 3 138 230 | 1 691 759 | 4 829 989 |
| Sales | 782 532 | 287 602 | 1 070 134 |
| Purchase | 3 368 135 | | 3 368 135 |
| Value 31.12.2003 | 5 723 833 | 1 404 157 | 7 127 990 |

4. Debt obligations and long-term liabilities

| | GROUP | | GROUP | |
|------------------------|-------------|-------------|------------|------------|
| | 31.12.2003 | 31.12.2002 | 31.12.2003 | 31.12.2002 |
| | EEK | EEK | EUR | EUR |
| Short-term liabilities | 30 540 625 | 16 672 116 | 1 951 897 | 1 065 540 |
| Long-term liabilities | 188 793 399 | 135 438 643 | 12 066 067 | 8 656 085 |
| TOTAL | 219 334 024 | 152 110 759 | 14 017 963 | 9 721 625 |

| Change in liabilities: | 01.07-31.12.03 | 01.07-31.12.03 |
|-----------------------------|----------------|----------------|
| | EEK | EUR |
| Balance 30.06.2003 | 143 733 760 | 9 186 238 |
| Change in lease liabilities | 2 826 188 | 180 626 |
| Other short-term loans | -13 007 935 | -831 356 |
| Overdraft | 4 183 686 | 267 386 |
| Long-term lease liabilities | 11 784 021 | 753 134 |
| Other long-term liabilities | 69 814 304 | 4 461 936 |
| Balance 31.12.2003 | 219 334 024 | 14 017 963 |

The 95.1% increase in the Group's debt obligations is conditioned by the construction of a new production complex in Põrguvälja. The loan obligation of AS Kalev REC for the purchase of the Keila-Joa sanatorium complex amounts to 30 million kroons (1.9 million euros).

5. Owner's equity

| | GROUP | | GROUP | |
|---------------------------|------------|------------|------------|------------|
| | 31.12.2003 | 31.12.2003 | 31.12.2002 | 31.12.2002 |
| | EEK | EUR | EEK | EUR |
| Number of ordinary shares | 7 877 500 | 7 877 500 | 7 877 500 | 7 877 500 |
| Nominal value | 10 | 0.64 | 10 | 0.64 |

Pursuant to the Articles of Association, the maximum share capital is 31,510,000 shares with a nominal value of EEK 10 (EUR 0.64).

6. Accounting for segments

Activities of business segments are laid down in the primary segment accounting format, whereas fields of activities, which function as independent units generating unique products/services, are considered independent business segments. Confectionery products and real estate transactions are the main business segments.

The Group's material activities are performed in Estonia. For the purposes of the International Financial Reporting Standards, the Group's activities can therefore be treated as a single geographical segment. Thus, no different geographical segments have been accounted for.

| Sales by fields of activities | | | | |
|--|----------------|----------------|----------------|----------------|
| | GROUP | | GROUP | |
| | 01.07-31.12.03 | 01.07-31.12.02 | 01.07-31.12.03 | 01.07-31.12.02 |
| | EEK | EEK | EUR | EUR |
| Confectionery products | 166 504 885 | 176 457 878 | 10 641 574 | 11 277 685 |
| Rental income from real estate investments | 12 032 974 | 4 198 249 | 769 045 | 268 316 |
| Other sales | 7 625 326 | 4 927 228 | 487 346 | 314 906 |
| TOTAL | 186 163 185 | 185 583 355 | 11 897 966 | 11 860 908 |

| Sales by markets | | | | |
|------------------------|----------------|----------------|----------------|----------------|
| | GROUP | | GROUP | |
| | 01.07-31.12.03 | 01.07-31.12.02 | 01.07-31.12.03 | 01.07-31.12.02 |
| | EEK | EEK | EUR | EUR |
| Estonia | 156 679 343 | 162 525 763 | 10 013 610 | 10 387 263 |
| Eastern Europe | 11 995 920 | 8 016 448 | 766 677 | 512 343 |
| Baltic states | 11 563 669 | 12 118 359 | 739 051 | 774 502 |
| Scandinavian countries | 2 020 901 | | 129 159 | |
| Other countries | 3 903 352 | 2 922 785 | 249 469 | 186 800 |
| TOTAL | 186 163 185 | 185 583 355 | 11 897 966 | 11 860 908 |

7. Compensation to employees

Kalev Ltd laid off 8 employees in the period between July 1 and December 31. Redundancy payments and dismissal compensations totalled 560,555 kroons (35,826 euros).

8. Earnings per share

| | GROUP | | GROUP | |
|--|----------------|----------------|----------------|----------------|
| | 01.07-31.12.03 | 01.07-31.12.02 | 01.07-31.12.03 | 01.07-31.12.02 |
| | EEK | EEK | EUR | EUR |
| Net profit | -6 899 334 | 13 538 260 | -440 947 | 865 250 |
| Weighed average number of shares during the period | 7 877 500 | 7 877 500 | 503 463 | 503 463 |
| Earnings per share (EPS) | -0.88 | 1.72 | -0.06 | 0.11 |

The company has no contingently issuable ordinary shares. Therefore, diluted EPS is equal to EPS.

9. Transactions with related parties (in kroons)

| | Services | Goods | Balance of receivables 01.07.03-31.12.03 | Balance of receivables 01.07.02-31.12.02 |
|---|------------|-----------|---|---|
| Purchased goods and services | | | | |
| From Tööstuse Teenindamise AS | 17 722 265 | | 17 722 265 | |
| From Tallinna Piimatööstuse AS | | 2 167 890 | 2 167 890 | 2 832 500 |
| Other purchases | 1 168 200 | 826 776 | 1 994 976 | |
| | | | | |
| Payables at the beginning of the period | 1 816 327 | 335 652 | 2 151 980 | 28 830 |
| Payables at the end of the period | 4 775 431 | 547 057 | 5 322 488 | 525 395 |
| | | | | |
| Sold goods and services | 212 638 | 4 956 268 | 5 168 906 | 1 916 699 |
| Receivables at the beginning of the period | 151 968 | | 151 968 | 122 014 |
| Receivables at the end of the period | 159 063 | 979 982 | 1 139 045 | 3 009 |
| | | | | |
| Other transactions with related parties (OÜ Cassel Grupp) | | | | |
| Purchased goods and services | | | | 231 313 |
| Payables at the beginning of the period | | | | 2 988 |
| Payables at the end of the period | | | | |
| Receivables at the beginning of the period | | | | 6 920 |
| Receivables at the end of the period | | | | 115 443 |

Transactions with related parties (in EUR)

| Purchased goods and services | Services | Goods | Balance of receivables 01.07.03-31.12.03 | Balance of receivables 01.07.03-31.12.03 |
|--|-----------|---------|---|---|
| From Tööstuse Teenindamise AS | 1 132 656 | | 1 132 656 | |
| From Tallinna Piimatööstuse AS | | 138 553 | 138 553 | 181 029 |
| Other purchases | 74 661 | 52 840 | 127 502 | |
| | | | | |
| Payables at the beginning of the period | 116 084 | 21 452 | 137 536 | 1 843 |
| Payables at the end of the period | 305 205 | 34 963 | 340 168 | 33 579 |
| | | | | |
| Sold goods and services | 13 590 | 316 762 | 330 352 | 122 499 |
| Receivables at the beginning of the period | 9 713 | | 9 713 | 7 798 |
| Receivables at the end of the period | 10 166 | 62 632 | 72 798 | 192 |
| Purchased goods and services | | | | 14 784 |
| Payables at the beginning of the period | | | | 191 |
| Payables at the end of the period | | | | |
| Receivables at the beginning of the period | | | | 442 |
| Receivables at the end of the period | | | | 7 378 |

Tööstuse Teenindamise AS, with whom the company has concluded the production equipment maintenance agreement, is considered a related party from the financial year 2003/2004 onwards.

Kalev Ltd has supported non-profit associations related to the director of Kalev Ltd in the amount of 804,629 kroons (51,424 euros).

According to the management of the company, the prices used for transactions with the above related parties do not significantly differ from the market prices.