



Public limited company Kalev

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ANNUAL REPORT

Translation of the Estonian original

Beginning of period 1.07.2003

End of period 30.06.2004

Areas of activity: production, wholesale and retail sales,
exports and imports of all kinds of
confectionery products, incl. semi-finished products.

Development, management,
leasing, purchases and sales of real estate.

Production of food products.

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1. MANAGEMENT REPORT

1. Economic environment and its impacts

The following factors had a significant impact on the economic activities of AS Kalev during the 2003/2004 financial year.

1.1. Accession to the European Union

At 1 May of the current year, Estonia became a full member of the European Union (EU). The EU membership presents an opportunity for Estonia to develop its enterprise. The most important task for the improvement of the economies and the welfare of the citizens of the EU member states is to increase the competitiveness and economic growth of the EU.

Estonia supports the improvement of its domestic market with the help of attaining greater openness of its economic environment, continuing liberalisation of markets and reduction of excessive regulation. In 2003, the anticipation of joining the European Union magnified the tendencies that had already been evident earlier. There were no expected price increases and the preparations for joining the EU accelerated the process of making significant investments into Estonia and the implementation of support projects.

The lowering of interest rates helped propel the economic activities of Estonian enterprises and stimulate the borrowing by individuals. Low lending rates stimulating economic growth led to an increase of loan-based consumption in Estonia. In the future, the most important issue will be the international competitiveness of the Estonian economy.

The importance of the labour market continues to grow, incl. the impact of salary agreements to the whole economy. The four freedoms of the EU single market: free movements of people, goods, capital and services have presented new challenges to the entrepreneurs.

A characteristic of the economic environment is that the main trading partners of Estonia are the member states of the European Union. After the expansion of the EU, the EU already contributes to over 80% of the trade in goods of Estonia. Most of foreign investments to Estonia have been made by the EU member states.

Due to the differences in the income levels of Estonia and the European Union, the local prices have stayed somewhat lower. If the economic growth of Estonia remains higher than that of the EU, then it will lead to faster inflation. In principle, this means that with the harmonisation of the income levels, the harmonisation of price levels between Estonia and the EU will take place in the following decades.

The accession of Estonia to the European Union impacted AS Kalev via the price increase of its main raw material, sugar. The European Commission does not consider the current EU sugar sector sustainable and has proposed to reform the EU sugar regime. According to the

proposal, the sugar reform would start in 2005/2006 and would last for three years. During the reform, the reference prices of white sugar would fall in two stages by 33%. The current sugar regime is being criticised for the lack of competition, market distortions, high prices and their impact in the world market (especially in the context of developing countries).

1.2. Changes in legislation

Compliance with the obligation of recycling packages and packaging waste

AS Kalev has decided to join a recycling organisation managed and owned by Estonian packaging companies. The main objective of the recycling organisation is to free the packaging company from the recycling obligation. In our activities, we shall consider the following:

- the EU environmental principles and requirements for the promotion of preventing, reducing and recycling of packages and packaging waste;
- the obligations accompanying the entry into force of a new packaging law for the collection and recycling of packages brought to the market, carrying out necessary reporting and supervision;
- the interest to preserve and promote the industry's competitiveness within the framework of environmentally sound activities;
- the experience of other European countries in implementing the producer's liability principle with regard to recycling of packages and packaging waste.

Other market regulations concerning the confectionery industry

In conjunction with the accession to the European Union, its market regulations became effective also in Estonia:

1. The export subsidy system depending on target markets, which allows selling goods originating in the European single market in the world market at a more favourable price.
2. Subsidy rates apply to the following raw materials used by us: sugar, syrup, dairy products, and egg products.
3. Usage subsidy of dairy products with the goal to promote the consumption of butter and cream in the European Union member states. The target group of the subsidy are food businesses that use these products in making final products.
4. The recipient of the subsidy is the milk industry that processes the raw material in compliance with the requirements. The subsidy to the producer of a final product lies in the opportunity to obtain raw material at more favourable terms in accordance with previous agreements with the milk industry.

The Alcohol Excise Duty Act does not impact the economic activities of the company, as the Tallinn Customs House of the Tax and Customs Board issued at 23.01.2004 excise suspension permits for exemption from excise duty on alcohol necessary for the production of chocolate for the next 12 calendar months.

2. Group structure and its changes

As at 30.06.2004 AS Kalev had significant participation in the following entities:

Name of subsidiary	Location	As at 30.06.2004	As at 30.06.2003
AS Kalev Paide Tootmine	Estonia	100%	100 %
AS Kalev Jõhvi Tootmine	Estonia	99,1%	0%
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	59,3%	59,3 %
OÜ Maiasmokk	Estonia	81,26%	0%
AS Kalev Merchant Services	USA	100%	100 %

In the current annual report, the financial information of AS Kalev and its subsidiaries have been consolidated line-by-line.

2.1. Parent of consolidation group AS Kalev

The parent company of the consolidation group, AS Kalev is the oldest and largest confectionery company in Estonia whose main activities are the production and sales of sugar and chocolate confectionery products.

2.2. Subsidiary AS Kalev Paide Tootmine

The subsidiary makes dairy-based confectionery products; in addition to confectionery products, AS Kalev Paide Tootmine makes other dairy products – mostly butter, skimmed milk and milk and to a lesser degree, high-temperature pasteurised milk.

2.3. Subsidiary AS Kalev Jõhvi Tootmine

AS Kalev acquired 991 shares with the nominal value of 1 000 kroons (64 Euros), i.e. 99,1% of the share capital of AS Kalev Jõhvi Tootmine (previous business name AS Järle) with the contract entered into at 24.12.2004. For this stake, a total of 11 388 350 kroons (727 848 Euros) had to be paid.

The subsidiary makes flour confectionery and pastry products.

The objective of the acquisition of the shares of AS Kalev Jõhvi Tootmine (previous business name AS Järle) was a forceful entry into the local biscuit market and starting of its activities in the bread sector in line with AS Kalev's long-term development strategy. AS Kalev Jõhvi Tootmine has a strong position in the Estonian biscuit market, which gave AS Kalev a competitive advantage when acquiring the market share. An advantage for entry into the bread sector was the well-functioning production activities of the acquired entity and the existence of skilled labour.

2.4. Subsidiary AS Kalev Real Estate Company (AS Kalev REC)

According to the shareholders' agreement entered into by AS Kalev and Skanska EMV AS at 03.05.2002, AS Kalev has the right to purchase 40,7% of AS Kalev REC shares belonging Skanska EMV depending on the time of the purchase either for the price of 23,4 million kroons (1,5 million Euros) or 27,8 million kroons (1,8 million Euros) by 15.02.2005.

While changing the shareholders' agreement, AS Kalev and Skanska EMV AS agreed that AS Kalev would pay a total of 25,2 million kroons (1,6 million Euros) for the acquired shares. The amount of the first payment was 2,6 million kroons (0,2 million Euros), the remaining purchase amount needs to be paid in equal parts as quarterly payments between 01.07.2004 and 30.06.2005. The respective payment shall be paid at the last day of the quarter at the

latest. Beginning with 01.11.2004, Kalev is required to pay interest of EURIBOR + 2% annually on the amount of the two last payments (a total of 11,3 million kroons) (0,7 million Euros).

AS Kalev will become the owner of the shares after paying in full for the shares. After the acquisition of the shares, AS Kalev will own 100% of the sharers of AS Kalev REC.

Since the entity started its operations, the financial results of AS Kalev REC have been presented in the consolidated financial statements of AS Kalev.

The core activities of the subsidiary are the development, management, assessment, expert analyses, analyses, services, leasing, purchases and sales of real estate as well as real estate consulting.

2.5. Subsidiary OÜ Maiasmokk

With the agreement entered into at 20.02.2004, AS Kalev acquired a unit of OÜ Maiasmokk with the nominal value of 51 700 kroons (3 304 Euros), i.e. 59,52% of its share capital. With the agreement entered into at 13.05.2004, AS Kalev acquired an additional unit with the nominal value of 19 000 kroons (1 214 Euros), i.e. 21,84% of the share capital of OÜ Maiasmokk. For the 81,26% stake, a payment of 70 700 kroons (4 519 Euros) needed to be paid, this is also the nominal value of the unit belonging to AS Kalev.

OÜ Maiasmokk has a long-term experience of making and selling baked goods both in its own café as well as in other retail enterprises. With this subsidiary, AS Kalev is planning to open an exclusive café-store based on the current café that would sell in addition to baked goods also high quality sweets. Estonian Sweets Museum that has been open at Pärnu Road 139 for three years will be moved to this building. A collection of several thousand exhibits provides an overview of the approximately two hundred year old history of the local sweets industry that started at the location of the present day café of Maiasmokk.

Under the lease agreement, OÜ Maiasmokk uses the building with cultural value located at Pikk Street 16, Tallinn where the direct predecessor of AS Kalev, Lorenz Caviezel laid the foundation to the Estonian confectionery industry in 1806. In 1894, Georg Stude bought the building and opened a confectionery store under his own name there, offering among other things, exclusive hand-made marzipan figures and candies. AS Kalev still uses the marzipan moulds as well as several recipes used for making handmade sweets of its predecessor, the Stude business. OÜ Maiasmokk continues the tradition of making Stude's cakes and pies.

2.6. Subsidiary Kalev Merchant Services Ltd

Kalev Merchant Services Ltd is a subsidiary of AS Kalev located in the USA, whose core activities are the introduction and sales of AS Kalev's products in the USA.

3. Market and sales of confectionery products

3.1. Chocolate and sugar confectionery products

According to the research conducted by the research company AC Nielsen Eesti, the market share of AS Kalev by volume reached 46,1% in the chocolate and sugar confectionery product segment during the period of June and July of 2004.

In the first half of the 2003/2004 financial year, the main emphasis of the marketing and sales activities of AS Kalev was mostly directed at the preparation and successful implementation of Christmas sales. In October, AS Kalev introduced its largest ever collection of Christmas products, consisting of more than 50 items. The company expanded its product range with new products – gingerbread cookies and alcohol-free mulled wine.

In the first half of the current financial year, the company also introduced another product, Mõnus Maius made of toffee and corn puffs which was named the Best Confectionery Product of Estonia at the competition of Estonian Food Industry Association in 2003. In addition, new Bitter chocolate with new additives was introduced for sale at the export markets and the chocolates The Sealords and Mermaid for sale in the tax-free system.

In the third quarter of the 2003/2004 financial year, the company laid emphasis on the introduction and sales of a product portfolio for St. Valentine's Day and Easter. The new products introduced at the market were candy boxes Coco, hazelnut Maiuspala, Magus Mäng, Kuldne Kalev and vanilla Souffle. In addition, the expansion of the product family Ooops! banana and peppermint Ooops!. In the fourth quarter, new chocolate boxes Tallinna Raekoda and Kooreliköör were introduced in the chocolate box sector.

3.2. Flour confectionery products

In line with the long-term development strategy of AS Kalev, the company expanded its product portfolio with flour confectionery products, by acquiring a majority stake in AS Kalev Jõhvi Tootmine at the end of 2003. The company considers biscuits its most important product, but regionally bread products and cakes, etc. are also important.

AS Kalev became more active in the flour confectionery sector in the second half of the current financial year, introducing a new squirt cookie group and renewing several packages of the moulded cookies earlier belonging to the product portfolio of AS Kalev Jõhvi Tootmine. According to the retail research of AC Nielsen, AS Kalev's market share in the biscuit sector was 19,4% by volume in June-July 2004.

In the first half of the fiscal year, AS Kalev also continued the production and marketing of other pastry products in the local market. The modernisation of bread packaging was started.

3.3. Other products

During this period, in addition to dairy-based products AS Kalev Paide Tootmine also gradually increased the production of dairy products, such as butter, skim milk and milk powder, and to a lesser degree high-temperature pasteurised milk. The dairy products of the subsidiary are divided into subcontracting and semi-finished products.

3.4. Total sales of confectionery products

During the 2003/2004 financial year, the total sales of AS Kalev's confectionery products reached 7300 tonnes, increasing by almost 9% as compared to the same period last year. The increase of total sales was mostly caused by the addition of cookies and pastry products to the product portfolio of the company at the beginning of 2004. In the financial year, the sales of

chocolate confectionery products were more modest than normally as a result of a production stoppage due to the moving to a new location and the resulting shortages of certain products.

Of the total sales volume, 76% of the confectionery products were sold in the domestic market and 24% were exported. In the previous financial year, the domestic sales were 80% and exports 20%. A slight increase of the exports can be attributed to the peculiarity of the exported product portfolio – the major part of export products are made at the caramel department of AS Kalev, whose production was not shut down in conjunction with the start-up of the new production facility.

In the financial year under review, the main export target country continued to be Latvia and also Ukraine until 1.05.2004. After the accession to the European Union, AS Kalev ended its exports to Ukraine as the company's products are no longer competitive there due to the price increase. In addition to these countries, Kalev exported its products to Russia, the Scandinavian countries and the United States.

4. Operating activities and financial results

In the 2003/2004 financial year, the consolidated net sales of AS Kalev were 624,2 million kroons (39,9 million Euros), increasing by 79% as compared to the previous financial year (2002/2003 – 347,7 million kroons, 22,2 million Euros).

In the 2003/2004 financial year, the company's consolidated net profit was 17,2 million kroons (1,1 million Euros) which is 48% less than in the previous financial year (2002/2003 – 32,5 million kroons) (2,1 million Euros).

The consolidated net sales of AS Kalev were also helped by the acquisition of a new subsidiary, AS Kalev Jõhvi Tootmine (with the previous business name AS Järle) at the beginning of 2004. Also, the sales growth of two other subsidiaries – AS Kalev Paide Tootmine and AS Kalev Real Estate Company (AS Kalev REC) in the period under review.

The consolidated net profit of AS Kalev during the 2003/2004 financial year was impacted by other operating income. The core activity, i.e. the production and sales of confectionery products has stabilised since the company moved into the new production facility at Põrguvälja in the first quarter of the financial year and resolved the problems related to the launching of operations. The company continues a targeted and consistent work to increase its profitability.

At the same time, the price of the main raw material of AS Kalev – sugar – increased in connection with Estonia's becoming a member of the European Union by approximately 9 kroons per kilogramme, which will lead to an estimated 37 million kroons (2,4 million Euros) additional annual cost to the company.

The increase of the administrative expenses was also impacted by the relocation of AS Kalev to the new production facility. The administrative expenses include one-time expenses for the moving and assembly of the production equipment of the chocolate unit and the launching of production in the amount of 15,2 million kroons (0,97 million Euros). In addition, the moving expenses of the caramel unit in the amount of 2,5 million kroons (160 thousand Euros) were incurred in the last quarter of the financial year.

In the period under review, a 16 percent increase in the distribution costs was mostly caused by the addition of a new subsidiary, AS Kalev Jõhvi Tootmine to the AS Kalev group.

AS Kalev's other operating expenses include a 10,06 million kroon (643 thousand Euro) loss on the sale of an investment property.

5. Organisation and personnel

5.1. ISO 9001:2000 quality control system

A review of control systems started in the 2002/2003 financial year and their compliance with ISO 9001:2000 quality control system ended this financial year when the international certification body, BVQI (Bureau Veritas Quality International) issued two quality certificates that confirm the compliance of AS Kalev and AS Kalev Paide Tootmine, respectively, with ISO 9001:2000 standard.

AS Kalev was granted the certificate of quality for the sugar and chocolate confectionery products in the areas of product development, production and sales. The quality control standard is first and foremost aimed at the expansion of the client centre.

AS Kalev Paide Tootmine was granted a certificate for the production of dairy and dairy-based products as well as the production of confectionery products.

The certificate of quality is a proof of the company's success in the quality control of its products in addition to ensuring product quality, leading to the business partners' trust in the company.

5.2. Recruitment of employees – Contest of Stars

In conjunction with the expansion of its activities, AS Kalev conducted a recruiting contest at the beginning of 2004 with the goal of finding employees, mostly managers and specialists in 18 areas. The company received 652 applications. The most popular position was that of Events' Coordinator with 132 applications, followed by Client Service Manager with 66, Administrative Manager with 54 and Advertising Manager with 53 applications.

On the basis of these applications, 128 candidates or a fifth of all candidates were invited to participate in group projects. Of them, 34 candidates were invited for an interview in addition to those 30 who were directly invited. AS Kalev found 18 new employees through the recruiting contest, most of whom started to work at the company in the spring and summer of 2004.

5.3. Number of employees and their average salaries

In the 2003/2004 financial year, the average number of employees at AS Kalev was 712 people, a 28% increase when compared with the same period a year ago. This change was caused mostly by the addition of the employees of AS Kalev Jõhvi Tootmine to the group's staff.

Employees were paid wages and salaries in the total amount of 50 305 182 kroons (3 215 087 Euros). During the year, the members of the Management and Supervisory Boards were paid remuneration of 496 160 kroons (31 710 Euros).

During the reporting period, neither the letters of guarantee have been issued to nor the potential liabilities related to the company have been assumed by the members of the Management and Supervisory Boards.

6. Key events

6.1. AS Kalev – Estonia's most reputable company

According to the traditional research on reputation, conducted by the market research company TNS Emor in April 2004, the people of Estonia rated AS Kalev as the most reputable company.

The basis for the ranking of companies according to their reputation is the research conducted by TNS Emor on the recognition and reputation of companies which measures recognition, reputation strength and likeability of companies. The parameters mapped out in the study provide an overview of how residents of Estonia perceive the companies operating in the local market: which companies are known, which ones appear stronger to the residents and which ones are the most likeable.

According to TNS Emor, AS Kalev as well as other companies that have made it to the top of the reputation study are characterised by stability and relative independence of current media coverage. In its turn, the company's strong and established image helps it to continue with its stable development.

6.2. Construction of new production facility and relocation

AS Kalev started to construct its new production facility in May 2002. The facility was completed in September 2003, being the largest food processing production facility completed mostly in one step since Estonia's regaining its independence. The total area of Kalev's new production facility is 26 500 m², of which production and technical space is 16 500 m², warehouses are 6000 m², employee dressing rooms, the canteen and the laundry room are 2000 m² and the office is 2000 m².

The main advantage of Kalev's new production facility is the production in one facility on one floor instead of the previous eight production floors located in two separate buildings. At the same time, the warehouse space expanded and warehouse logistics improved at the new factory.

Most of the daily production activities were launched in the new production facility at 15.09.2003, after receiving the permit for a specified term in cocoa, and cocoa products, chocolate products and marzipan groups of the food processing area from the Veterinary and Food Board. As the last production unit, the company's caramel unit operated at the old location at Pärnu Road 139, Tallinn until May 2004. Most of the unit was moved to the production facility at Põrguvälja in June 2004.

6.3. Expansion of AS Kalev's areas of operation

In line with its long-term strategic development plan, AS Kalev successfully expanded its operations into a new area, i.e. flour confectionery sector in the 2003/2004 financial year. To attain the goals specified in the strategic development plan, AS Kalev acquired a majority holding in AS Kalev Jõhvi Tootmine (with the previous business name AS Järle).

6.4. Development of Kalevite Kodud (Kalev's Homes)

During the financial year of the current management report, the company stopped the development of its chain of shop-cafés Kalevite Kodud in conjunction with moving into the new production facility and launching of its operations there. As Kalevite Kodud are an important project for AS Kalev, its development will continue in the next financial year. In the future, Kalevite Kodud will be opened in all county centres of Estonia.

6.5. Conducting special audit and results

A special audit at AS Kalev was conducted at the request of the company's shareholder AS Milestone. At 04.03.2004, an Extraordinary General Meeting of Shareholders decided to conduct a special audit with regard to questions related to the management and financial situation of AS Kalev. AS PricewaterhouseCoopers was appointed to conduct the special audit, whereas the shareholder AS Milestone that had requested the conducting of a special audit at the General Meeting of Shareholders, voted against it.

The special audit covered the following topics:

- a) Facts related to the entry into lease agreements regarding the equipment and the immovable property of AS Paide Piimakombinaat;
- b) The settling of obligations arising from the contracts of suretyship entered into to guarantee the loans taken by AS ETFC Group;
- c) AS Kalev's transactions with Rein Kaseleht, Tiit Kõuhkna and Toomas Kõuhkna;
- d) AS Kalev's transactions with Tööstuse Teenindamise AS;
- e) AS Kalev's transactions with the Estonian Olympic Committee, Estonian Handball Association and OÜ Gunnar Klettenberg based on their cooperation and/or sponsor agreements;
- f) Transactions related to the acquisition of horse trailers by AS Kalev.

The special audit did not identify any damages caused to the company by the management of AS Kalev or any mistakes in the management of the company.

6.6. Real estate transactions

6.6.1. Transactions regarding the legal share of Pärnu Road 139 registered immovable

At 2.06.2004, AS Kalev entered into an agreement with OÜ Raldon to amend and supplement the sales contract with the repurchase right under the law of obligation with regard to the 18070/52410 legal share of the registered immovable property located at Pärnu Road 139. According to the agreement, AS Kalev sold this particular registered immovable property with its essential parts and accessories to OÜ Raldon for the price of 117 million kroons

(7,5 million Euros), of which the sales price is 87 million kroons (5,6 million Euros) and the fee for foregoing the repurchase right of 30 million kroons (1,9 million Euros).

The reason for foregoing the repurchase right for the legal share of this particular registered immovable property is the decision by AS Kalev to lay the main emphasis on the marketing activities of confectionery products in strategic markets, growing the company through new product groups and investing more into product development. Taking this into consideration, the Management Board of the company did not deem it necessary to use the repurchase right for this registered immovable in the future and decided to transfer it.

6.6.2. Transaction of subsidiary

The Finance Ministry of the Republic of Estonia and the subsidiary of AS Kalev, AS Kalev Real Estate Company (Kalev REC) entered into a sale and real rights contract at 16.09.2003, according to which the Ministry sold and Kalev REC purchased the registered immovables I and III of Keila-Joa recreation area.

The seller sold the items in the contract to the buyer for the price of fifty two million seven hundred thousand (52 700 000) kroons (3 368 144 Euros) which was the winning bid at an auction.

Kalev REC also concluded a sales contract under the law of obligation for these registered immovables with AS Hansa Liising Eesti according to which the latter financed the purchase transaction of these registered immovables in the amount of 30 million kroons (1.9 million Euros). The interest on the lease agreement is a 6-month EURIBOR + 2,75% annually, which was 4,94% at the time of the contract. The last payment according to the payment schedule will be at 15.09.2004.

The parties have agreed that during the validity of the contract, the obligation to make payments under the lease agreements of Kalev REC will be reduced by 100% from the payments received under preliminary contracts entered into regarding the partial transfer of the registered immovables.

According to the estimate of Kalev REC's management, the determining factor for the purchase of the above-mentioned registered immovables was their promising and high potential nature, and this with regard to real estate development. Kalev REC will prepare a detailed plan of these registered immovables which divides the acquired registered immovables into residential lots.

7. Main activities for the 2004/2005 financial year

In accordance with the development trends as defined in the strategy of AS Kalev, one of the goals of the company for the 2004/2005 financial year is the development of its activities in the flour confectionery sector. Also, the integration of the acquired subsidiary AS Kalev Jõhvi Tootmine and after the closing of the 2003/2004 financial year, the acquired subsidiary AS Vilma into the Kalev Group will be one of the most significant activities in the current financial year.

In the financial year under review, AS Kalev will continue consistent work on increasing the profitability of its core activity – the production and sales of confectionery products.

In the product development area, the product portfolio will be expanded both for domestic as well as export markets. An important goal is the fulfilment of consumer expectations considering their wishes.

As to the sales activities, the chain of the shop-cafes Kalevite Kodud will be further developed. At the beginning of 2005, Kalevite Kodud will be opened in Paide and Rakvere.

The priority of the economic activities is the increasing of the proportion of export markets and the strengthening of its position in existing markets. For this purpose, targeted development will continue in high priority target markets as defined in the development strategy of the company. Also, attention will be paid the analysis and usage of opportunities arising from the expansion of the European Union.

2. FINANCIAL STATEMENTS

Management Board's confirmation of the financial statements

The Management Board confirms the correctness and completeness of AS Kalev the parent and the consolidation group financial statements as presented on pages 15-73 and confirms that to the best of his knowledge:

- the accounting principles used in the preparation of the financial statements are in compliance with International Financial Reporting Standards;
- the financial statements give a true and fair view of the financial position, the results of operations and cash flows of the parent and the consolidation group;
- the parent and the entities belonging to the consolidation group are going concerns.

Põrguvälja, 9 November 2004



Oliver Kruuda
Chairman

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Initsiaalid/initials	TK
Kuupäev/date	09.11.2004
PricewaterhouseCoopers, Tallinn	

Balance sheet

	EEK	Note No.	Group 30.06.2004	Group 30.06.2003	Parent 30.06.2004	Parent 30.06.2003
ASSETS						
CURRENT ASSETS						
CASH AND BANK			2 780 382	8 591 080	1 963 174	8 477 782
TRADE RECEIVABLES <i>INCL. FROM OTHER GROUP COMPANIES</i>	2,3		206 221 734	90 024 044	261 433 679	117 990 220
	2,28		0	0	90 373 724	28 331 995
PREPAYMENTS	4		3 024 730	5 308 235	1 435 264	1 987 499
INVENTORIES	5		85 073 277	40 726 937	69 105 000	40 589 583
TOTAL CURRENT ASSETS			297 100 122	144 650 296	333 937 118	169 045 084
NON-CURRENT ASSETS						
LONG-TERM FINANCIAL INVESTMENTS			330 180	330 180	83 707 499	41 353 037
MISCELLANEOUS LONG-TERM RECEIVABLES			330 180	330 180	330 180	330 180
INVESTMENTS IN SUBSIDIARIES			0	0	83 377 319	41 022 857
PROPERTY, PLANT AND EQUIPMENT	6		351 168 558	255 038 885	81 891 482	105 607 242
INVESTMENT PROPERTY	7		58 054 766	75 573 095	8 063 950	38 123 950
INTANGIBLE ASSETS	8		-9 017 055	217 715	153 126	217 715
TOTAL NON-CURRENT ASSETS			400 536 450	331 159 875	173 816 056	185 301 944
TOTAL ASSETS			697 636 571	475 810 171	507 753 174	354 347 028
LIABILITIES AND EQUITY						
LIABILITIES						
BORROWINGS	9		109 628 402	27 346 235	85 853 061	21 211 712
CUSTOMER PREPAYMENTS	10		3 416 983	497 042	416 920	497 042
SUPPLIER PAYABLES	10		165 615 804	76 162 122	109 102 402	37 871 434
<i>INCL. TO OTHER GROUP COMPANIES</i>	28		0	0	9 673 463	36 458
TAX LIABILITIES	11		527 594	4 537 792	9 504 801	10 074 299
OTHER LIABILITIES	10		37 145 927	10 275 440	31 195 064	7 783 915
TOTAL CURRENT LIABILITIES			316 334 709	118 818 631	236 072 247	77 438 402
LONG-TERM BORROWINGS	9		123 323 114	116 381 525	13 886 249	36 298 611
TOTAL LONG-TERM LIABILITIES			123 323 114	116 381 525	13 886 249	36 298 611
TOTAL LIABILITIES			439 657 823	235 200 156	249 958 496	113 737 013
MINORITY SHARE			184 070	0	0	0
EQUITY						
SHARE CAPITAL	12		78 775 000	78 775 000	78 775 000	78 775 000
REVALUATION RESERVE			17 159 388	17 159 388	17 159 388	17 159 388
STATUTORY LEGAL RESERVE			3 160 971	1 537 837	3 160 971	1 537 837
RETAINED EARNINGS			141 514 656	110 675 117	141 514 656	110 675 117
PROFIT FOR THE FINANCIAL YEAR			17 184 663	32 462 673	17 184 663	32 462 673
TOTAL EQUITY			257 794 678	240 610 015	257 794 678	240 610 015
TOTAL LIABILITIES AND EQUITY			697 636 571	475 810 171	507 753 174	354 347 028

	EUR	Note	Group	Group	Parent	Parent
ASSETS		No.	30.06.2004.a.	30.06.2003.a.	30.06.2004.a.	30.06.2003.a.
CURRENT ASSETS						
CASH AND BANK			177 699	549 070	125 470	541 829
TRADE RECEIVABLES		2,3	13 179 971	5 753 585	16 708 675	7 540 949
INCL. FROM OTHER GROUP COMPANIES		2,28	0	0	5 775 934	1 810 745
PREPAYMENTS		4	193 315	339 258	91 730	127 024
INVENTORIES		5	5 437 173	2 602 926	4 416 614	2 594 147
TOTAL CURRENT ASSETS			18 988 159	9 244 839	21 342 472	10 803 950
NON-CURRENT ASSETS						
LONG-TERM FINANCIAL INVESTMENTS			21 102	21 102	5 349 884	2 642 941
MISCELLANEOUS LONG-TERM RECEIVABLES			21 102	21 102	21 102	21 102
INVESTMENTS IN SUBSIDIARIES			0	0	5 328 782	2 621 838
PROPERTY, PLANT AND EQUIPMENT		6	22 443 761	16 299 956	5 233 820	6 749 533
INVESTMENT PROPERTY		7	3 710 376	4 830 001	515 380	2 436 564
INTANGIBLE ASSETS		8	-576 295	13 915	9 787	13 915
TOTAL NON-CURRENT ASSETS			25 598 945	21 164 974	11 108 871	11 842 953
TOTAL ASSETS			44 587 103	30 409 812	32 451 342	22 646 903
LIABILITIES AND EQUITY						
LIABILITIES						
BORROWINGS		9	7 006 532	1 747 743	5 487 011	1 355 675
CUSTOMER PREPAYMENTS		10	218 385	31 767	26 646	31 767
SUPPLIER PAYABLES		10	10 584 779	4 867 647	6 972 914	2 420 426
INCL. TO OTHER GROUP COMPANIES		28	0	0	618 247	2 330
TAX LIABILITIES		11	33 719	290 018	607 467	643 865
OTHER LIABILITIES		10	2 374 057	656 720	1 993 728	497 483
TOTAL SHORT-TERM LIABILITIES			20 217 473	7 593 895	15 087 766	4 949 216
LONG-TERM BORROWINGS		9	7 881 784	7 438 135	887 493	2 319 904
TOTAL LONG-TERM LIABILITIES			7 881 784	7 438 135	887 493	2 319 904
TOTAL LIABILITIES			28 099 256	15 032 030	15 975 260	7 269 120
MINORITY SHARE			11 764	0	0	0
EQUITY						
SHARE CAPITAL		12	5 034 640	5 034 640	5 034 640	5 034 640
REVALUATION RESERVE			1 096 685	1 096 685	1 096 685	1 096 685
STATUTORY LEGAL RESERVE			202 023	98 286	202 023	98 286
RETAINED EARNINGS			9 044 453	7 073 429	9 044 453	7 073 429
PROFIT FOR THE FINANCIAL YEAR			1 098 300	2 074 743	1 098 300	2 074 743
TOTAL EQUITY			16 476 083	15 377 783	16 476 083	15 377 783
TOTAL LIABILITIES AND EQUITY			44 587 103	30 409 812	32 451 342	22 646 903

Income statement

	Note	Group	Group	Parent	Parent
	No.	01.07.2003- 30.06.2004	01.07.2002- 30.06.2003	01.07.2003- 30.06.2004	01.07.2002- 30.06.2003
EEK					
NET SALES	13	624 212 816	347 665 766	436 046 952	346 026 742
COST OF GOODS SOLD	14	486 836 727	240 414 863	315 736 225	242 782 780
GROSS PROFIT		137 376 089	107 250 903	120 310 727	103 243 962
DISTRIBUTION COSTS	15	71 422 289	61 017 665	67 874 875	59 802 613
ADMINISTRATIVE EXPENSES	16	68 942 074	45 426 410	62 937 240	44 092 107
OTHER OPERATING INCOME	17	47 075 080	49 668 441	46 716 052	36 814 295
OTHER OPERATING EXPENSES	18	14 226 567	8 466 942	25 613 733	6 736 887
OPERATING PROFIT		29 860 239	42 008 327	10 600 932	29 426 650
FINANCIAL INCOME	19	2 166 626	3 355 717	2 210 970	1 523 117
FINANCIAL EXPENSES	20	14 865 495	12 901 371	7 035 989	8 600 680
FINANCIAL INCOME FROM SUBSIDIARIES		0	0	11 408 751	10 113 586
PROFIT BEFORE TAX		17 161 371	32 462 673	17 184 663	32 462 673
MINORITY SHARE		23 292	0	0	0
NET PROFIT		17 184 663	32 462 673	17 184 663	32 462 673
EARNINGS PER SHARE	25	2,18	4,12	2,18	4,12

	Note	Group	Group	Parent	Parent
	No.	01.07.2003- 30.06.2004	01.07.2002- 30.06.2003	01.07.2003- 30.06.2004	01.07.2002- 30.06.2003
EUR					
NET SALES	13	39 894 470	22 219 892	27 868 480	22 115 140
COST OF GOODS SOLD	14	31 114 538	15 365 310	20 179 223	15 516 648
GROSS PROFIT		8 779 932	6 854 582	7 689 257	6 598 492
DISTRIBUTION COSTS	15	4 564 716	3 899 740	4 337 995	3 822 084
ADMINISTRATIVE EXPENSES	16	4 406 202	2 903 277	4 022 423	2 817 999
OTHER OPERATING INCOME	17	3 008 646	3 174 392	2 985 700	2 352 862
OTHER OPERATING EXPENSES	18	909 243	541 136	1 637 016	430 566
OPERATING PROFIT		1 908 417	2 684 821	677 523	1 880 706
FINANCIAL INCOME	19	138 473	214 469	141 307	97 345
FINANCIAL EXPENSES	20	950 078	824 548	449 682	549 684
FINANCIAL INCOME FROM SUBSIDIARIES		0	0	729 152	646 376
PROFIT BEFORE TAX		1 096 811	2 074 743	1 098 300	2 074 743
MINORITY SHARE		1 489	0	0	0
NET PROFIT		1 098 300	2 074 743	1 098 300	2 074 743
EARNINGS PER SHARE	25	0,14	0,26	0,14	0,26

Cash flow statement

EEK	Note	Group	Group	Parent	Parent
		01.07.2003-30.06.2004	01.07.2002-30.06.2003	01.07.2003-30.06.2004	01.07.2002-30.06.2003
	No.				
CASH FLOW FROM OPERATING ACTIVITIES					
OPERATING PROFIT		29 860 239	42 008 327	10 600 932	29 426 650
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	6	18 730 284	10 849 202	11 297 397	10 450 943
AMORTISATION OF INTANGIBLE ASSETS	8	73 089	72 663	73 089	72 663
PROFIT (-)/LOSS (+) FROM SALE OF NON-CURRENT ASSETS	17, 18	8 346 418	-7 388 299	10 001 629	- 7 388 299
CHANGE IN RECEIVABLES AND PREPAYMENTS RELATED TO OPERATING ACTIVITIES		-102 838 109	-6 076 033	-73 580 288	-16 563 289
CHANGE IN INVENTORIES		- 44 346 340	8 241 719	-28 515 418	8 379 073
CHANGE IN LIABILITIES AND PREPAYMENTS RELATED TO OPERATING ACTIVITIES		74 352 279	38 244 536	105 781 453	5 470 029
INTEREST PAID		-13 112 001	-7 668 605	-5 774 384	-4 967 320
CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY		0	-32 428 914		-20 060 000
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		-28 934 141	45 854 596	29 884 470	4 820 450
CASH FLOW FROM INVESTING ACTIVITIES					
INVESTMENTS INTO SUBSIDIARIES	26	-11 769 050	0	-11 769 050	0
PROCEEDS FROM SALE OF NON-CURRENT ASSETS	6,7	88 560 399	136 729 416	20 738 400	148 516 862
PURCHASE OF NON-CURRENT ASSETS	6,7	-95 599 546	-174 353 910	-21 650 044	-57 841 302
LOANS ISSUED		0	0	-58 316 262	-27 239 570
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		-18 808 197	-37 624 494	-70 996 956	63 435 990
CASH FLOW FROM FINANCING ACTIVITIES					
REPAYMENTS OF BORROWINGS		-29 542 335	-39 000 000	0	-39 000 000
PROCEEDS FROM BORROWINGS		44 464 674	73 145 237	6 348 494	11 009 891
BANK OVERDRAFT USED	9	28 404 687	14 030 052	23 487 199	14 030 052
PROCEEDS FROM SHORT-TERM LOANS RECEIVED		36 365 223	0	36 580 953	0
LEASE PAYMENTS MADE	9	-35 164 900	-9 518 712	- 29 233 546	-7 523 002
REPAYMENT OF BONDS	9	-1 600 000	-19 621 987	-1 600 000	-19 621 987
DIVIDENDS PAID		0	-23 632 500	0	-23 632 500
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		42 927 349	-4 597 910	35 583 100	-64 737 546
CHANGE IN CASH AND CASH EQUIVALENTS					
		-4 814 989	3 632 192	-5 529 386	3 518 894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
		8 591 080	3 476 327	8 477 782	3 476 327
CHANGE		-4 814 989	3 632 192	-5 529 386	3 518 894
EFFECT OF EXCHANGE RATE CHANGES	20	-995 709	1 482 561	-985 222	1 482 561
CASH AND CASH EQUIVALENTS AT END OF YEAR					
		2 780 382	8 591 080	1 963 174	8 477 782

EUR	Note	Group	Group	Parent	Parent
		01.07.2003-30.06.2004	01.07.2002-30.06.2003	01.07.2003-30.06.2004	01.07.2002-30.06.2003
	No.				
CASH FLOW FROM OPERATING ACTIVITIES					
OPERATING PROFIT		1 908 417	2 684 821	677 523	1 880 706
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	6	1 197 083	693 390	722 035	667 937
AMORTISATION OF INTANGIBLE ASSETS	8	4 671	4 644	4 671	4 644
PROFIT (-) /LOSS (+) FROM SALE OF NON-CURRENT ASSETS	17, 18	533 433	-472 198	639 221	-472 198
CHANGE IN RECEIVABLES AND PREPAYMENTS RELATED TO OPERATING ACTIVITIES		-6 572 533	-388 329	-4 702 637	-1 058 587
CHANGE IN INVENTORIES		-2 834 248	526 742	-1 822 467	535 520
CHANGE IN LIABILITIES AND PREPAYMENTS RELATED TO OPERATING ACTIVITIES		4 751 977	2 444 271	6 760 667	349 599
INTEREST PAID		-838 010	-490 113	-369 050	-317 470
CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY		0	-2 072 585	0	-1 282 068
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		-1 849 229	2 930 643	1 909 966	308 083

CASH FLOW FROM INVESTING ACTIVITIES

INVESTMENTS INTO SUBSIDIARIES	26	-752 179	0	-752 179	0
PROCEEDS FROM SALE OF NON-CURRENT ASSETS	6,7	5 660 041	8 738 602	1 325 425	9 491 957
PURCHASE OF NON-CURRENT ASSETS	6,7	-6 109 925	-11 143 246	-1 383 690	-3 696 733
LOANS ISSUED		0	0	-3 727 088	-1 740 926
TOTAL CASH FLOW FROM INVESTING ACTIVITIES		- 1 202 063	-2 404 643	-4 537 532	4 054 299

CASH FLOW FROM FINANCING ACTIVITIES

REPAYMENTS OF BORROWINGS		-1 888 099	-2 492 554	0	-2 492 554
PROCEEDS FROM BORROWINGS		2 841 811	4 674 833	405 743	703 660
BANK OVERDRAFT USED	9	1 815 390	896 684	1 501 106	896 684
PROCEEDS FROM SHORT-TERM LOANS RECEIVED		2 324 161		2 337 949	
LEASE PAYMENTS MADE	9	-2 247 447	-608 357	-1 868 364	-480 807
REPAYMENT OF BONDS	9	-102 259	-1 254 074	-102 259	-1 254 074
DIVIDENDS PAID		0	-1 510 392	0	-1 510 392
TOTAL CASH FLOW FROM FINANCING ACTIVITIES		2 743 558	-293 860	2 274 175	-4 137 483

CHANGE IN CASH AND CASH EQUIVALENTS		-307 734	232 139	-353 392	224 898
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		549 069	222 177	541 828	222 177
CHANGE		-307 734	232 139	-353 392	224 898
EFFECT OF EXCHANGE RATE CHANGES	20	-63 637	94 753	-62 967	94 753
CASH AND CASH EQUIVALENTS AT END OF YEAR		177 699	549 070	125 470	541 829

Statement of changes in equity

EEK	Note No.	SHARE CAPITAL	REVALUATION RESERVE	STATUTORY LEGAL RESERVE	RETAINED EARNINGS	PROFIT FOR THE FINANCIAL YEAR	TOTAL
GROUP							
1 JULY 2002		78 775 000	112 812 302	0	-18 341 560	30 756 745	204 002 487
ADJUSTMENT OF REVALUATION RESERVE		-	-99 797 769	-	99 797 769	-	-
DISTRIBUTION OF PROFIT		-	-	1 537 837	29 218 908	-30 756 745	-
REVALUATION OF NON-CURRENT ASSETS		-	4 144 855	-	-	-	4 144 855
NET PROFIT FOR FINANCIAL YEAR	25	-	-	-	-	32 462 673	32 462 673
30 JUNE 2003		78 775 000	17 159 388	1 537 837	110 675 117	32 462 673	240 610 015
GROUP							
1 JULY 2003		78 775 000	17 159 388	1 537 837	110 675 117	32 462 673	240 610 015
DISTRIBUTION OF PROFIT		-	-	1 623 134	30 839 539	-32 462 673	-
NET PROFIT FOR FINANCIAL YEAR	25	-	-	-	-	17 184 663	17 184 663
30 JUNE 2004		78 775 000	17 159 388	3 160 971	141 514 656	17 184 663	257 794 678

EUR							
GROUP							
1 JULY 2002		5 034 640	7 210 020	0	-1 172 239	1 965 714	13 038 135
ADJUSTMENT OF REVALUATION RESERVE		-	- 6 378 240	-	6 378 240	-	-
DISTRIBUTION OF PROFIT		-	-	98 286	1 867 429	-1 965 714	-
REVALUATION OF NON-CURRENT ASSETS		-	264 905	-	-	-	264 905
NET PROFIT FOR FINANCIAL YEAR	25	-	-	-	-	2 074 743	2 074 743
30 JUNE 2003		5 034 640	1 096 685	98 286	7 073 429	2 074 743	15 377 783
GROUP							
1 JULY 2003		5 034 640	1 096 685	98 286	7 073 429	2 074 743	15 377 783
DISTRIBUTION OF PROFIT		-	-	103 737	1 971 006	-2 074 738	-
NET PROFIT FOR FINANCIAL YEAR	25	-	-	-	-	1 098 297	1 098 297
30 JUNE 2004		5 034 640	1 096 685	202 023	9 044 435	1 098 300	16 476 083

The statement of changes in equity of the parent for 1 July 2003 – 30 June 2004 does not differ from the statement of changes in equity of the group

NOTES TO FINANCIAL STATEMENTS

Presentation of financial statements

The measurement currency of the Group is Estonian kroon. For the convenience of users and according to the Tallinn Stock Exchange Rules the information in these financial statements is also presented in euros. The part of financial statements presented in euros has been translated from the original in Estonian kroons. Because Estonian kroon is bound to euro with fixed exchange rate 1 euro = 15.6466 Estonian kroons, no foreign exchange differences result from the translation. The financial information is rounded to the nearest even number, if not specified otherwise.

1. Accounting policies and basis for preparation

The following accounting policies have been used in the preparation of the current financial statements:

Basis for preparation

The consolidated financial statements of the Group and the financial statements of AS Kalev (hereinafter parent) have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention except in cases described under the following accounting policies. For example, investment property that is measured at fair value.

Comparatives

The financial statements have been prepared using the consistency and comparability assumption as the basis. If the presentation or the methods for classification of items of financial statements have been changed, then the comparative information from previous periods has also been reclassified.

Principles of consolidation

The financial information of the parent and the subsidiaries (or entities in which the parent owns more than half of the voting power or otherwise has power to govern the subsidiary's operating or financial policies) are the consolidation group, hereinafter the Group.

Subsidiaries are consolidated from the date of their acquisition until the date of their disposal or until control is transferred. The acquisition of subsidiaries is measured under the purchase method.

The cost is the fair value of assets transferred, shares issued or liabilities assumed as at the acquisition date as well as the direct expenditures related to the acquisition. The difference between the acquisition cost of the stake acquired and the fair value of the net assets acquired is recognised as goodwill.

All intra-group receivables and liabilities, inter-group transactions and profits and losses arisen as a result of these have been eliminated.

If necessary, the accounting policies in consolidation procedure of the subsidiary have been adjusted to correspond to the accounting policies of the Group.

In the stand-alone statements of the parent, the investments into subsidiaries are measured under the equity method. Under the equity method, the impact of unrealised gains and loss arising as a result of intra-group transactions has been eliminated based on the participation of the Group or the parent in the subsidiary.

Foreign currency transactions

Foreign currency transactions have been translated into Estonian kroons using the official exchange rate of the respective currency of the Bank of Estonia prevailing at the balance sheet date. Assets and liabilities denominated in a foreign currency have been translated based on the official exchange rate of the Bank of Estonia prevailing at the balance sheet date. Profits and losses arising from the translation are recognised in the income statement.

The average annual exchange rate is used for the conversion of income statements and cash flows of foreign business entities into the Estonian kroons. Assets and liabilities denominated in a foreign currency are translated into the Estonian kroons based on the official exchange rate of the Bank of Estonia prevailing at 30 June. The exchange rate differences arising from the translation of financial statements are recognised in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are cash on hand, deposits held at call with banks and term deposits with original maturities of up to three months.

Trade receivables

Trade receivables are measured at the original invoice amount less allowances made for impairment. If it is probable that the Group may not be able to collect all receivables due, then the receivables shall be written down. The amount of the impairment is the difference between the book value and the recoverable amount that is the amount of expected future cash flows; discounted at the market interest rate of similar borrowers.

Other receivables

All other receivables (accrued income, loans granted and other short and long-term receivables), except for the receivables acquired for the purpose of selling, are carried at amortised cost.

The amortised cost of short-term receivables normally equals their original invoice amount (less provisions made for impairment), as a result of which short-term receivables are measured in the balance sheet at the estimated collectible amount.

Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently measured at amortised cost using the effective interest rate method.

Under the effective interest rate method, the loans made by entities are recognised at the transaction date.

Factoring

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

Factoring with recourse is recorded as a financing transaction (that is a borrowing with a collateral): the amount is recognised in the balance sheet as a receivable until collection or until expiration or the recourse. The related liability is recorded similarly to other borrowings.

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

Inventories

Inventories are measured in the balance sheet at the lower of cost or net realisable value. Inventories are accounted for by using the weighted average cost method. The cost of the finished products and work-in-progress consists of the cost of the raw materials, direct labour expenses, other direct costs and production overheads (based on normal production capacity used), with the exception of borrowing costs. Net realisable value is the estimated sales price in the ordinary course of business, less expenditures necessary for preparing the product for sale and making the sale.

Property, plant and equipment

Property, plant and equipment are generally assets with the cost of over 10 000 kroons (639 Euros) and with the useful life of over one year. At acquisition, low-value items are expensed.

If the book value of a building increases as a result of revaluation, it is charged directly to equity under the revaluation reserve of property, plant and equipment. The reduction of the book value of an asset arising as a result of revaluation shall be directly debited in the revaluation reserve to the extent not exceeding the amount that has arisen as a result of an earlier revaluation of the same asset. All other reductions arising from the revaluation of the book value of an asset are recorded as an expense in the income statement.

Depreciation is calculated using the straight-line method during the estimated useful life of the asset. The annual depreciation rates of the groups of property, plant and equipment are the following:

		Acquired since	Acquired since
		30.06.2003	01.07.2003
buildings and structures	33 years	3 %	3%
machinery, equipment and means of transport	5-10 years	20 %	10%
computer equipment	2-3,3 years	50 %	30%
other property, plant and equipment	3,3-5 years	30 %	20%

Land is not depreciated.

The Group evaluates the signs of potential existence of impairment losses of property, plant and equipment and other non-current assets, such as goodwill and intangible assets. If the asset's recoverable amount (higher of the following two measures: asset's net selling price or its value in use) is smaller than its carrying amount, the items of property, plant and equipment are written down to their recoverable amounts.

Profits and losses from the sale of an asset are the difference between net proceeds to be received and the book value and they are recorded in the income statement under other income. The revaluation reserve accounted for under equity is charged to retained earnings at the realisation of revaluated assets.

The repair and maintenance expenditures of property, plant and equipment are recognised under expenses of the reporting period. The repair expenditures of property, plant and equipment that increase the performance of the item of property, plant and equipment over its initially estimated level and probably will participate in generating future income, are added to the cost of the item. The repair expenditures are depreciated over the remaining useful life of the respective asset.

Investment property

Investment property is land and buildings held for earning long-term rental income or for capital appreciation and not used in Group's own economic activities. Investment property is initially recognised at cost that also includes transactions costs directly related to the acquisition (incl. notary fees, state fees, fees paid to advisors and other costs without which the purchase transaction would probably not have taken place). Investment property is subsequently measured at fair value that is based at the market value determined annually by the assessor. Changes in fair value are recorded in the income statement as revenues or expenses.

Intangible assets

Expenditures for the acquisition of patents, trademarks and licenses are capitalised and depreciated under the straight-line method during the estimated useful life, which is five years. Intangible assets are not revalued.

Goodwill on the acquisition of a new business unit is determined as the difference between the purchase price and the net fair value of the acquired unit. Goodwill on the acquisition of a subsidiary is included in intangible assets in the consolidated financial statements / in the parent's balance sheet as part of an investment into the subsidiary.

Positive goodwill is amortised into the expense by using the straight-line method over the estimated useful life of the acquired entity (over a maximum period of 20 years). The estimated useful life is determined by considering such factors as the market situation and potential growth of the acquired unit.

Negative goodwill is presented in the balance sheet as a negative asset (in the same balance sheet group as positive goodwill) and is amortised into revenues during the remaining average useful life of the assets acquired.

Group as the lessee

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Leases of property, plant and equipment where all relevant risks and rewards of ownership are assumed 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 divided into a finance charge (interest expense) and the reduction of the remaining balance outstanding of the liability. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under the finance lease are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term. Payments made under the operating leases are charged to income statement using the straight-line method over the period of the lease.

Group as the lessor

Assets leased out under operating lease terms are recognised in the balance sheet similarly to non-current assets. Assets leased out are depreciated during their useful lives, using the depreciation principles of similar assets. Rental income (net of amount of incentives given to the lessee) is recognised under the straight-line basis over the lease term.

Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses, bonds and other short and long-term borrowings) are initially recorded at the proceeds received net of transaction costs incurred. They are subsequently measured at amortised cost.

The amortised cost of short-term financial liabilities normally equals their nominal value, therefore short-term liabilities are measured in the balance sheet in their redemption value. The amortised cost of long-term financial liabilities is measured by using the effective interest rate method.

Provisions and contingent liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimate regarding the amount and timing of the expected outflows.

Taxes

Corporate income tax

According to the Income Tax act of the Republic of Estonia, the annual profit earned by enterprises is not taxed. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income 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.

Corporate income tax for US based subsidiary

According to the tax laws of the USA, the income tax liability arises only if the entity earns a profit. There are federal and state income taxes. The federal income tax rates are tiered and depend on the size of the profit. The minimum income tax rate is 15%, the state income tax rate of the state of New York is 7,5 %.

Other taxes

The following taxes impact the expenses of the Group:

- social security tax - 33 % of the payments and fringe benefits made to the employees
- unemployment insurance tax – 0,5% of the payments made to the employees
- income tax on fringe benefits – 26/74 of fringe benefits made to the employees
- pollution tax - on the basis of tonnage of pollutants
- water utilisation tax – 0,02-0,5 kr/m³ on water extracted from groundwater
- land tax – 0,5-2% of the taxable value of land per year
- income tax on expenses not related to business activities – 26/74 of the expenses not related to business activities

Government grants related to the purchase of property, plant and equipment

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to property, plant and equipment are deducted from the purchase price of the asset in the balance sheet and are recognised as income during the useful life of the asset via a lower depreciation charge.

Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of the revenue and the costs incurred in respect of the transactions can be measured reliably and its probable that economic benefits associated with the of completion.

Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the

effective interest rate, except if the receipt of the interest is uncertain. In such cases the interest income is accounted for on a cash basis. Revenue arising from royalties is recognised on an accrual basis in accordance with conditions of the agreement. Dividends are recognised when the right to receive payment is established.

Segment reporting

The first distinction of business segments is by activity, whereas an area of activity clearly distinguishable by its products/services and operating as an independent cash generating unit / profit centre is considered an independent business segment. The main business segments of the Group are the production and sales of chocolate, sugar and flour confectionery products, other food products, and dairy products as well as real estate development.

As most of the Group's activities occur in Estonia, they can be considered as one geographical segment in the context of the International Financial Reporting Standards, and thus no other segment is presented. Net sales by geographic regions are provided in Note 13.

All assets related to the segment are recorded as assets of that segment, and all liabilities related to the segment are recorded as liabilities of that segment.

Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares. The company has no potentially issuable ordinary shares and hence the basic earnings per share equal diluted earnings per share.

Statutory legal reserve

In accordance with the Commercial Code, the statutory legal reserve is formed on the basis of the decision by the General Meeting of Shareholders to transfer at least 5% of the net profit of the reporting period to it until the reserve reaches 10% of the share capital. The statutory legal reserve can be used to offset losses from the prior periods or to increase share capital. No distributions can be made from the statutory legal reserve.

Related parties

In preparing the financial statements of the Group, the parent and the subsidiaries, members of the Management Board of the parent and other persons under the significant influence of these persons and shareholders owning more than 10% of the company's shares are considered related parties.

2. Receivables

	Group	Group	Parent	Parent
	30.06.2004.a.	30.06.2003.a.	30.06.2004.a.	30.06.2003.a.
EEK				
Trade receivables	185 268 399	46 874 971	150 971 928	46 284 515
Receivables from group companies	0	0	90 373 724	28 331 995
Short-term loans	4 332 193	6 232 815	3 673 073	6 326 162
Receivable from AS Raldon *	15 100 000	43 800 000	15 100 000	43 800 000
Other debtors	1 243 858	7 346 793	968 585	7 346 798
Expense advances	133 012	94 570	135 527	94 570
Accrued income	392 858	276 489	391 858	407 834
Allowance for doubtful receivables **	-248 586	-14 601 594	-181 016	-14 601 594
TOTAL	206 221 734	90 024 044	261 433 679	117 990 280

EUR				
Trade receivables	11 840 809	2 995 857	9 648 865	2 958 120
Receivables from group companies	0	0	5 775 934	1 810 745
Short-term loans	276 878	398 348	234 752	404 315
Receivable from AS Raldon *	965 066	2 799 330	965 066	2 799 330
Other debtors	79 497	469 546	61 094	469 546
Expense advances	8 501	6 044	8 662	6 044
Accrued income	25 108	17 671	25 044	26 065
Allowance for doubtful receivables **	-15 888	-933 212	-11 569	-933 212
TOTAL	13 179 971	5 753 585	16 708 657	7 540 953

The item trade receivables contains a receivable for the sale of raw material in the amount of 93 621 414 kroons (5 983 499 Euros), that has been collected by the time of publishing the report.

The item Receivables from group companies contains receivables from the subsidiaries of AS Kalev (see note 28).

*At 2.06.2004, AS Kalev entered into an agreement with OÜ Raldon to amend and supplement the sale contract with the repurchase right under the law of obligation with regard to the 18070/52410 legal share of the registered immovable located at Pärnu Road 139. According to the agreement, AS Kalev sold this particular registered immovable with its essential parts and accessories to OÜ Raldon for the price of 117 000 000 kroons (7 477 663 Euros), of which the sales price was 87 000 000 kroons (5 560 313 Euros) and the fee for abandonment of the repurchase right of 30 000 000 kroons (1 917 349 Euros). The unpaid portion is 15 100 000 kroons (965 066 Euros). By the publishing of the report, these receivables have been collected.

** The allowance for doubtful receivables is presented in Note 3.

3. Allowance for doubtful receivables

	Group	Group	Parent	Parent
	01.07.03-30.06.04	01.07.02-30.06.03	01.07.03-30.06.04	01.07.02-30.06.03
EEK				
Balance at beginning of year	14 601 593	22 964 861	14 601 593	22 964 861
Uncollectible receivables	248 586	-5 474 475	181 016	-5 474 475
Revaluation of uncollectible receivables	-14 601 593	-2 888 793	-14 601 593	-2 888 793
Balance at end of year	248 586	14 601 593	181 016	14 601 593

EUR				
Balance at beginning of year	933 212	1 467 722	933 212	1 467 722
Uncollectible receivables	15 888	-349 883	11 569	-349 883
Revaluation of uncollectible receivables	-933 212	-184 628	-933 212	-184 628
Balance at end of year	15 888	933 212	11 569	933 212

The management of the company has analysed uncollectible receivables and concluded that those receivables whose payment according to the agreement has in material aspects occurred in the 2004/2005 financial year, can be considered collectible, and were written back to assets.

As a result of changed circumstances, AS Kalev will reduce uncollectible receivables in the amount of 14 601 593 kroons (933 212 Euros).

Uncollectible receivables are shown under the item other operating income and expenses of the income statement and under the sales of confectionary products in the segment report.

4. Prepayments

The prepayments include prepayments for an operating lease, insurance and publications in the amount of 3 024 730 kroons (193 315 Euros). In the comparative period, 5 308 235 kroons (339 280 Euros), which also contained a prepayment of subsidiary Kalev Real Estate Company at an auction for acquisition of Keila-Joa immovable.

5. Inventories

	Group	Group	Parent	Parent
	30.06.2004.a.	30.06.2003.a.	30.06.2004.a.	30.06.2003.a.
EEK				
Raw materials	32 765 954	21 574 879	29 690 349	21 574 879
Work-in-progress	2 104 087	2 253 497	1 461 802	2 253 497
Finished goods	45 408 779	16 731 975	33 335 740	16 731 975
Goods for resale	707 102	365 209	529 755	227 855
Prepayments to suppliers	4 523 249	6 271	4 523 249	6 271
Allowance	-435 894	-204 894	-435 894	-204 894
TOTAL	85 073 277	40 726 937	69 105 000	40 589 583

EUR				
Raw materials	2 094 126	1 378 886	1 897 559	1 378 886
Work-in-progress	134 476	144 025	93 426	144 025
Finished goods	2 902 150	1 069 368	2 130 542	1 069 368
Goods for resale	45 192	23 341	33 858	14 563
Prepayments to suppliers	289 088	401	289 088	401
Allowance	-27 859	-13 095	-27 859	-13 095
TOTAL	5 437 173	2 602 926	4 416 615	2 594 147

Write-down of inventories

In the current financial year inventories were written off at their cost price 3 524 077 kroons (225 229 Euros), in the comparative period they were written off at their cost price of 1 648 965 kroons (105 388 Euros). The balance of allowance made for inventories as at the balance sheet date is 435 894 kroons (27 859 Euros), in the comparative period 204 894 kroons (13 095 Euros)

6. Property, plant and equipment

GROUP	Land	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Construction in progress	TOTAL
EEK						
Property, plant and equipment at 01.07.03						
Cost	29 679 200	74 377 787	64 983 608	9 268 908	131 361 311	309 670 814
Accumulated depreciation	0	-11 510 208	-36 122 641	-6 764 247	-234 833	-54 631 929
Residual value at 01.07.03	29 679 200	62 867 579	28 860 967	2 504 661	131 126 478	255 038 885
Changes during the period						
Acquisitions incl. through business combinations	434 020	31 535 620	51 313 239	4 736 767	58 502 877	146 522 523
	434 020	28 393 047	14 558 338	1 550 292	0	44 935 697
Depreciation	0	-12 752 043	-18 525 255	-2 991 182	0	-34 268 479
Disposals	-23 315	-1 758 684	-876 411	-231 832	-13 234 129	-16 124 372
Initial recognition of property, plant and equipment	0	164 138 767	7 680 936	0	-171 819 703	0
Total changes	410 705	181 163 660	39 592 509	1 513 754	-126 550 955	96 129 672
Cost at 30.06.04	30 089 905	268 293 490	123 101 372	13 773 843	4 810 356	440 068 966
Accumulated depreciation	0	-24 262 251	-54 647 896	-9 755 429	-234 833	-88 900 408
Total residual value at 30.06.04	30 089 905	244 031 239	68 453 476	4 018 415	4 575 523	351 168 558

GROUP	Land	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Construction in progress	TOTAL
EUR						
Property, plant and equipment at 01.07.03						
Cost	1 896 847	4 753 607	4 153 210	592 391	8 395 518	19 791 572
Accumulated depreciation	0	-735 636	-2 308 658	-432 314	-15 009	-3 491 617
Residual value at 01.07.03	1 896 847	4 017 971	1 844 552	160 077	8 380 509	16 299 956
Changes during the period						
Acquisitions incl. through business combinations	27 739	2 015 493	3 279 514	302 735	3 739 015	9 364 496
	27 739	1 814 646	930 447	99 082	0	2 871 914
Depreciation	0	-815 004	-1 183 980	-191 171	0	-2 190 155
Disposals	-1 490	-112 400	-56 013	-14 817	-845 815	-1 030 535
Initial recognition of property, plant and equipment	0	10 490 379	490 901	0	-10 981 280	0
Total changes	26 249	11 578 468	2 530 423	96 746	-8 088 080	6 143 806
Cost at 30.06.04	1 923 095	17 147 079	7 867 612	880 309	307 438	28 125 533
Accumulated depreciation	0	-1 550 640	-3 492 637	-623 486	-15 009	-5 681 772
Total residual value at 30.06.04	1 923 095	15 596 439	4 374 975	256 823	292 429	22 443 761

In the financial year, items of property, plant and equipment have been mostly acquired through business combinations. AS Kalev's production facility at Põrguvälja as a construction-in-progress has been added to the item Buildings and structures. Equipment taken into use and

new production lines in the amount of 31 484 368 kroons (2 012 218 Euros) have been added to the item Machinery and equipment.

Parent	Land	Buildings and structures	Machinery and equipment	Other non-current assets	Construction in progress	TOTAL
EEK						
Property, plant and equipment at 01.07.03						
Cost	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
Residual value at 01.07.03	8 149 345	51 478 396	28 847 502	2 504 661	14 627 340	105 607 244
Changes during the period						
Acquisitions incl. through business combinations	0	395 181	31 484 368	3 105 878	10 705 249	45 690 676
	0	0	0	0	0	0
Depreciation	0	-1 403 294	-8 385 660	-1 508 445	0	-11 297 399
Disposals	0	-24 947 852	-19 630 468	-441 087	-13 089 632	-58 109 039
Initial recognition of property, plant and equipment	0	0	7 680 936	0	-7 680 936	0
Total changes	0	-25 955 965	11 149 176	1 156 345	-10 065 319	-23 715 762
Cost at 30.06.04	8 149 345	38 037 673	84 504 979	11 933 699	4 796 854	147 422 549
Accumulated depreciation	0	-12 515 242	-44 508 301	-8 272 692	-234 833	-65 531 068
Total residual value at 30.06.04	8 149 345	25 522 431	39 996 678	3 661 006	4 562 021	81 891 482

Parent	Land	Buildings and structures	Machinery and equipment	Other non-current assets	Construction in progress	TOTAL
EUR						
Property, plant and equipment at 01.07.03						
Cost	520 838	4 000 252	4 152 349	592 391	949 866	10 215 696
Accumulated depreciation	0	-710 183	-2 308 658	-432 314	-15 009	-3 466 163
Residual value at 01.07.03	520 838	3 290 069	1 843 691	160 077	934 857	6 749 533
Changes during the period						
Acquisitions incl. through business combinations	0	25 257	2 012 218	198 502	684 190	2 920 166
	0	0	0	0	0	0
Depreciation	0	-89 687	-535 941	-96 407	0	-722 035
Disposals	0	-1 594 458	-1 254 616	-28 191	-836 580	-3 713 845
Initial recognition of property, plant and equipment	0	0	490 901	0	-490 901	0
Total changes	0	-1 658 888	712 562	73 904	-643 291	-1 515 713
Cost at 30.06.04	520 838	2 431 050	5 400 852	762 702	306 575	9 422 018
Accumulated depreciation	0	-799 870	-2 844 599	-528 721	-15 009	-4 188 199
Total residual value at 30.06.04	520 838	1 631 181	2 556 254	233 981	291 566	5 233 820

In November 2003, AS Kalev, AS Hansa Liising Eesti and AS Kalev Paide Tootmine Paide entered into a contract to transfer the building and equipment of the production facility to AS Kalev Paide Tootmine in the amount of 38 178 247 kroons (2 440 035 Euros).

Cost of fully depreciated property, plant and equipment still in use

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Buildings	210 355	221 952	163 207	221 952
Machinery and equipment	35 077 259	18 688 529	32 047 307	18 688 529
Other property, plant and equipment	5 605 080	5 040 200	5 083 202	5 040 200
TOTAL	40 892 694	23 950 681	37 293 716	23 950 681

EUR				
Buildings	13 444	14 185	10 431	14 185
Machinery and equipment	2 241 845	1 194 415	2 048 196	1 194 415
Other property, plant and equipment	358 230	322 127	324 876	322 127
TOTAL	2 613 519	1 530 728	2 383 503	1 530 728

7. Investment property

	Group		
	Land	Buildings	TOTAL
EEK			
01.07.2003			
Value at 01.07.2003	49 102 750	26 470 345	75 573 095
Disposals	81 156 295	4 500 000	85 656 295
Acquisitions	52 700 000	431 325	53 131 325
Prepayments for investments	15 006 641	0	15 006 641
Value at 30.06.2004	35 653 096	22 401 670	58 054 766

EUR			
01.07.2003			
Value at 01.07.2003	3 138 238	1 691 763	4 830 001
Disposals	5 186 833	287 602	5 474 435
Acquisitions	3 368 144	27 567	3 395 711
Prepayments for investments	959 099	0	959 099
Value at 30.06.2004	2 278 648	1 431 728	3 710 376

	Parent		
	Land	Buildings	TOTAL
EEK			
01.07.2003			
Value at 01.07.2003	32 238 750	5 885 200	38 123 950
Disposals	30 060 000	0	30 060 000
Acquisitions	0	0	0
Prepayments for investments	0	0	0
Value at 30.06.2004	2 178 750	5 885 200	8 063 950

EUR			
01.07.2003			
Value at 01.07.2003	2 060 432	376 133	2 436 564
Disposals	1 921 184	0	1 921 184
Acquisitions	0	0	0
Prepayments for investments	0	0	0
Value at 30.06.2004	139 248	376 133	515 380

At 16.09.2003, the Finance Ministry of the Republic of Estonia and AS Kalev Real Estate Company (Kalev REC) entered into a sales contract according to which the State of Estonia sold and Kalev REC purchased the registered immovables I and III of Keila-Joa recreation areas. The seller sold the contract items to the buyer for the price of 52 700 000 kroons (3 368 144 Euros), which was the winning bid at an auction. As at 30.06.2004, some parts of these registered immovables have been sold in the amount of acquisition cost 35 527 995 kroons (2 270 653 Euros).

In Lehmja village of Harju county, AS Kalev REC has sold 6 hectares of shares of registered immovables for the total price of 15 568 300 kroons (994 996 Euros) .

In Tartu, AS Kalev REC sold the building right for 500 000 kroons (31 956 Euros).

In Lehmja village of Harju county, AS Kalev sold a 30 hectare registered immovable for the total book value of 30 060 000 kroons (1 921 184 Euros), sales price 20 000 000 kroons (1 278 233 Euros). The loss from the sale of investment property of the parent is recorded in other operating expenses (see Note 18).

The profit on the sale of investments of the subsidiary have been recorded under the item Operating income, since the subsidiary's main activities are real estate purchase and sales.

Fair value of investment property has not changed significantly during the financial year 2003/2004.

8. Intangible assets

		Group	
	Assets	*Goodwill	TOTAL
EEK			
Intangible assets at 01.07.2003			
Cost	350 655	-	350 655
Accumulated amortisation	-132 940	-	-132 940
Residual value at 01.07.2003	217 715	-	217 715
Changes during the period			
Acquisition	8 500	-9 170 181	-9 161 681
Accumulated depreciation	-73 089	-	-73 089
Total changes during the period	-64 589	-9 170 181	-9 234 769
Cost at 30.06.2004	359 155	-9 170 181	-8 811 026
Calculated amortisation	-206 029	-	-206 029
Residual value at 30.06.2004	153 126	-9 170 181	-9 017 055

EUR			
Intangible assets at 01.07.2003			
Cost	22 411	-	22 411
Accumulated amortisation	-8 496	-	-8 496
Residual value at 01.07.2003	13 915	-	13 915
Changes during the period			
Acquisition	543	-586 081	-585 538
Accumulated depreciation	-4 671	-	-4 671
Total changes during the period	-4 128	-586 081	-590 209
Cost at 30.06.2004	22 954	-586 081	-563 127
Calculated amortisation	-13 168	-	-13 168
Residual value at 30.06.2004	9 787	-586 081	-576 295

		Parent	
	Asset	*Goodwill	TOTAL
EEK			
Intangible assets at 01.07.2003			
Cost	350 655	-	350 655
Accumulated amortisation	-132 940	-	-132 940
Residual value at 01.07.2003	217 715	-	217 715
Changes during the period			
Acquisition	8 500	-	8 500
Accumulated depreciation	-73 089	-	-73 089
Total changes during the period	-64 589	-	-64 589
Cost at 30.06.2004	359 155	-	359 155
Calculated amortisation	-206 029	-	-206 029
Residual value at 30.06.2004	153 126	-	153 126

EUR			
Intangible assets at 01.07.2003			
Cost	22 411	-	22 411
Accumulated amortisation	-8 496	-	-8 496
Residual value at 01.07.2003	13 915	-	13 915
Changes during the period			
Acquisition	543	-	543
Accumulated depreciation	-4 671	-	-4 671
Total changes during the period	-4 128	-	-4 128
Cost at 30.06.2004	22 954	-	22 954
Calculated amortisation	-13 168	-	-13 168
Residual value at 30.06.2004	9 787	-	9 787

* With the contract entered into at 24.12.2003, AS Kalev acquired 991 shares, i.e. 99,1% of the share capital of AS Kalev Jõhvi Tootmine (previous business name - AS Järle). A payment in the amount 11 388 350 kroons (727 848 Euros) had to be paid for this stake. With the contract entered into at 20.02.2004, AS Kalev acquired 51 700 units, i.e. 59,52% of the share capital of OÜ Maiasmokk. AS Kalev acquired additional 19 000 units, i.e. 21,84% of the share capital OÜ Maiasmokk with the contract entered into at 13.05.2004. A payment in the amount of 70 700 kroons (4 519 Euros) had to be made for the 81,26% stake.

Purchase analysis on the acquisition of AS Kalev Jõhvi Tootmine (AS Järle)

	EEK	EUR
Cost of acquired production unit (in cash)	11 388 350	727 848
Assets and liabilities acquired with the production unit at fair value		
ASSETS		
Cash	221 204	14 138
Receivables	2 876 460	183 839
Inventories	2 602 539	166 333
Non-current assets	29 619 750	1 893 047
Total	35 319 953	2 257 356
LIABILITIES		
Supplier payables	4 192 081	267 923
Taxes payable	976 339	62 399
Payables to employees	764 484	48 859
Loans and leases	7 863 436	502 565
Total liabilities	13 796 340	881 747
Net assets	21 523 613	1 375 610
AS Kalev stake of 99,1%	21 329 900	1 363 229
Negative goodwill	9 941 550	635 381

Purchase analysis on the acquisition of OÜ Maiasmokk

	EEK	EUR
Cost of production unit acquired (in cash)	70 700	4 519
Assets and liabilities acquired with the production unit at fair value		
ASSETS		
Cash	66 786	4 268
Receivables	87 689	5 604
Inventories	95 660	6 114
Non-current assets	452 427	28 915
Total	702 562	44 902
LIABILITIES		
Supplier payables	53 408	3 413
Taxes payable	869 889	55 596
Payables to employees	466 284	29 801
Total liabilities	1 389 581	88 810
Net assets	-687 020	-43 909
AS Kalev participation of 81,26%	-558 272	-35 680
Goodwill	-628 972	-40 199

9. Borrowings

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Borrowings	45 632 133	0	36 365 223	0
Bank overdraft	44 479 396	14 305 486	39 567 908	14 305 486
Factoring liabilities	0	1 775 223	0	1 775 223
Finance lease liabilities	14 650 268	8 461 635	152 282	4 720 760
Other short-term liabilities	4 866 604	2 803 891	9 767 648	410 243
Total borrowings	109 628 402	27 346 235	85 853 061	21 211 712
Long-term finance lease liabilities	102 237 951	97 045 966	0	33 623 052
Other long-term liabilities	13 886 249	19 335 559	13 886 249	2 675 559
Long-term loans	7 198 915	0	0	0
Total long-term borrowings	123 323 114	116 381 525	13 886 249	36 298 611

EUR				
Borrowings	2 916 425	0	2 324 161	0
Bank overdraft	2 842 752	914 287	2 528 850	914 287
Factoring liabilities	0	113 457	0	113 457
Finance lease liabilities	936 323	540 797	9 733	301 712
Other short-term liabilities	311 033	179 201	624 267	26 219
Total borrowings	7 006 532	1 747 743	5 487 011	1 355 675
Long-term finance lease liabilities	6 534 196	6 202 368	0	2 148 905
Other long-term liabilities	887 493	1 235 767	887 493	170 999
Long-term loans	460 094	0	0	0
Total long-term borrowings	7 881 784	7 438 135	887 493	2 319 904

AS Hansapank and AS Kalev entered into a bank overdraft contract with the limit of 20 000 000 kroons (1 278 233 Euros) and interest of 4,8% and AS Kalev extended its bank overdraft contract with AS Eesti Ühispank with the limit of 20 000 000 kroons (1 278 233 Euros) and interest of 5 %. The factoring contracts with AS Hansa Liising were terminated.

Short- and long-term liabilities have increased due to the acquisition of subsidiaries.

AS Kalev Jõhvi Tootmine has received a loan from AS Sampo Pank in the amount of 9 192 468 kroons (587 506 Euros) for the construction of a factory in 2002.

AS Kalev Jõhvi Tootmine has entered into a bank overdraft contract with AS Sampo Pank in the amount of 5 000 000 kroons (319 558 Euros) and with the interest of 6 %.

10. Accrued expenses

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Customer prepayments	3 416 983	497 042	416 920	497 042
Payable to the constructor of the building	0	38 175 892*	0	0
Supplier payables	165 615 804	37 986 230	109 102 402	37 871 434
Payables to employees	5 805 480	3 604 977	4 079 948	3 604 211
Other accrued expenses	31 340 447**	6 670 463	27 115 116**	6 606 371
TOTAL	206 178 714	86 934 604	140 714 386	48 579 058

EUR				
Customer prepayments	218 385	31 767	26 646	31 767
Payable to the constructor of the building	0	2 439 884*	0	0
Supplier payables	10 584 779	2 427 763	6 972 914	2 420 426
Payables to employees	371 038	230 400	260 756	230 351
Other accrued expenses	2 003 020**	426 320	1 732 972**	422 224
TOTAL	13 177 222	5 556 134	8 993 288	3 104 768

* AS Kalev REC owed the construction cost of the production complex to AS Skanska EMV.

** Purchase obligation for the shares of Kalev Real Estate Company in the amount of 26 million kroons (1,7 million Euros) is included in other accrued expenses.

11. Taxes

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Social security tax	4 054 038	3 366 143	2 695 340	3 366 143
Personal income tax	1 597 103	1 564 048	1 301 285	1 564 048
Value added tax (- prepayment)	-6 243 488	-566 842	4 624 491	4 969 665
Corporate income tax	960 051	82 166	760 634	82 166
Unemployment insurance premium	159 889	92 277	123 050	92 277
TOTAL	527 594	4 537 792	9 504 801	10 074 299

EUR				
Social security tax	259 100	215 136	172 264	215 136
Personal income tax	102 074	99 961	83 167	99 961
Value added tax (- prepayment)	-399 032	-36 228	295 559	317 619
Corporate income tax	61 358	5 251	48 613	5 251
Unemployment insurance premium	10 219	5 898	7 864	5 898
TOTAL	33 719	290 018	607 467	643 865

12. Share capital

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Number of ordinary shares	7 877 500	7 877 500	7 877 500	7 877 500
Nominal value	10	10	10	10

EUR				
Number of ordinary shares	7 877 500	7 877 500	7 877 500	7 877 500
Nominal value	0,64	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 kroons (0,64 Euros).

13. Segment information

In accounting for segments, the confectionery, flour confectionery and dairy products as well as real estate are clearly distinguishable as segments.

Net sales by activity

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03. – 30.06.04	01.07.02 – 30.06.03
EEK				
Confectionery products	341 182 066	327 575 384	316 275 920	326 786 221
Intra-group sales	-69 816 295	-8 425	0	0
Consolidated confectionery products	271 365 771	327 566 959	0	0
Pastry products	16 115 912	0	52 185	0
Intra-group sales	-155 631	0	0	0
Consolidated pastry products	15 960 281	0	0	0
Biscuit products	11 130 470	0	5 565 235	0
Intra-group sales	-5 565 235	0	0	0
Consolidated pastry products	5 565 235	0	0	0
Dairy products	173 840 353	0	0	0
Intra-group sales	-5 990 260	0	0	0
Consolidated dairy products	167 850 093	0	0	0
Rental income on investment property	83 377 172	13 072 822	0	5 331 524
Intra-group sales	-32 520 885	-6 883 012	0	0
Consolidated rental income on investment property	50 856 287	6 189 810	0	0
Sale of other foodstuff	98 749 512	8 425	98 749 514	8 425
Intra-group sales	-1 538 462	0	0	0
Consolidated sales of other foodstuff	97 211 052	8 425	0	0
Other sales	15 404 098	13 900 572	15 404 098	13 900 572
TOTAL	624 212 816	347 665 766	436 046 952	346 026 742

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03. – 30.06.04	01.07.02 – 30.06.03
EUR				
Confectionery products	21 805 508	20 935 883	20 213 715	20 885 446
Intra-group sales	-4 462 074	-538	0	0
Consolidated confectionery products	17 343 434	20 935 344	0	0
Pastry products	1 029 995	0	3 335	0
Intra-group sales	-9 947	0	0	0
Consolidated pastry products	1 020 048	0	0	0
Biscuit products	711 367	0	355 683	0
Intra-group sales	-355 683	0	0	0
Consolidated pastry products	355 683	0	0	0
Dairy products	11 110 424	0	0	0
Intra-group sales	-382 847	0	0	0
Consolidated dairy products	10 727 576	0	0	0
Rental income on investment property	5 328 773	835 506	0	340 746
Intra-group sales	-2 078 463	-439 905	0	0
Consolidated rental income on investment property	3 250 309	395 601	0	0
Sale of other foodstuff	6 311 244	538	6 311 244	538
Intra-group sales	-98 326	0	0	0
Consolidated sales of other foodstuff	6 212 919	538	0	0
Other sales	984 501	888 408	984 501	888 408
TOTAL	39 894 470	22 219 892	27 868 480	22 115 140

Other sales include services of subsidiary AS Kalevs Paide in July 2003.

Segment information

GROUP						
EEK						
01.07.2003- 30.06.2004	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	20 231 581	-1 160 175	-7 778 063	10 367 897	8 199 000	29 860 239
Assets of segment	396 572 126	13 679 732	46 859 835	146 903 463	93 621 414	697 636 571
Liabilities of segment	196 627 344	15 094 461	54 984 087	124 965 074	47 986 857	439 657 824
Total liabilities	196 627 344	15 094 461	54 984 087	124 965 074	47 986 857	439 657 824
Investments in property, plant and equipment	11 370 487	3 827 392	3 304 005	54 111 325	0	72 613 209
Depreciation charge of segment	14 887 002	1 243 131	2 584 065	16 086	0	18 730 284

EEK						
01.07.2002- 30.06.2003	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	7 041 182	0	0	34 994 145	0	42 008 327
Assets of segment	294 132 017	0	0	181 678 154	0	475 810 171
Liabilities of segment	107 212 536	0	0	118 441 966	0	225 654 502
Indivisible liabilities	0	0	0	0	0	9 545 654
Total liabilities	408 358 735	0	0	335 114 265	0	235 200 156
Investments in property, plant and equipment	180 487 310	0	0	0	0	180 487 310
Depreciation charge of segment	10 523 600	0	0	398 265	0	10 921 865

Parent						
EEK						
01.07.2003- 30.06.2004	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	12 461 932	0	0	-10 060 000	8 199 000	10 600 932
Assets of segment	406 067 810	0	0	8 063 950	93 621 414	507 753 174
Liabilities of segment	201 971 639	0	0	0	47 986 857	249 958 496
Indivisible liabilities	0	0	0	0	0	0
Total liabilities	201 971 639	0	0	0	47 986 857	249 958 496
Investments in property, plant and equipment	11 370 487	0	0	0	0	11 370 487
Depreciation charge of segment	11 297 399	0	0	0	0	11 297 399

EEK						
01.07.2002- 30.06.2003	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	9 366 650	0	0	20 060 000	0	29 426 650
Assets of segment	316 223 078	0	0	38 123 950	0	354 347 028
Liabilities of segment	110 700 990	0	0	0	0	110 700 990
Indivisible liabilities	0	0	0	0	0	3 036 023
Total liabilities	0	0	0	0	0	113 737 013
Investments in property, plant and equipment	63 974 701	0	0	0	0	63 974 701
Depreciation charge of segment	10 523 616	0	0	0	0	10 523 616

GROUP						
EUR						
01.07.2003- 30.06.2004	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	1 293 034	-74 149	-497 109	662 629	524 012	1 908 417
Assets of segment	25 345 578	874 294	2 994 889	9 388 843	5 983 499	44 587 103
Liabilities of segment	12 566 778	964 712	3 514 124	7 986 724	3 066 919	28 099 256
Total liabilities	12 566 778	964 712	3 514 124	7 986 724	3 066 919	28 099 256
Investments in property, plant and equipment	726 707	244 615	211 164	3 458 344	0	4 640 830
Depreciation charge of segment	951 452	79 451	165 152	1 027	0	1 197 082

EUR						
01.07.2002- 30.06.2003	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	450 014	0	0	2 236 533	0	2 684 821
Assets of segment	18 798 462	0	0	11 611 350	0	30 409 812
Liabilities of segment	6 852 130	0	0	7 569 821	0	14 421 951
Indivisible liabilities	0	0	0	0	0	610 078
Total liabilities	26 098 880	0	0	21 417 705	0	15 032 030
Investments in property, plant and equipment	11 535 242	0	0	0	0	11 535 242
Depreciation charge of segment	672 581	0	0	25 454	0	698 034

Parent						
EUR						
01.07.2003- 30.06.2004	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	796 462	0	0	-642 951	524 012	677 523
Assets of segment	25 952 463	0	0	515 380	5 983 499	32 451 342
Liabilities of segment	12 908 340	0	0	0	3 066 919	15 975 260
Indivisible liabilities	0	0	0	0	0	0
Total liabilities	12 908 307	0	0		3 066 919	15 975 260
Investments in property, plant and equipment	726 707	0	0	0	0	726 707
Depreciation charge of segment	722 035	0	0	0	0	722 035

EUR						
01.07.2002- 30.06.2003	Confectionery	Flour confectionery products	Dairy products	Real estate	Sale of other foodstuff	Total
Operating profit of segment	598 638	0	0	1 282 068	0	1 880 706
Assets of segment	20 210 338	0	0	2 436 564	0	22 646 903
Liabilities of segment	7 075 083	0	0	0	0	7 075 083
Indivisible liabilities	0	0	0	0	0	194 037
Total liabilities	0	0	0	0	0	7 269 120
Investments in property, plant and equipment	4 088 729	0	0	0	0	4 088 729
Depreciation charge of segment	672 582	0	0	0	0	672 582

Net sales by markets

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Estonia	525 313 453	304 111 905	382 725 822	301 811 909
Eastern Europe	18 155 306	19 256 040	18 155 306	19 256 040
Other Baltic states	26 639 360	19 599 673	26 639 360	19 599 673
Scandinavia	7 292 881	0	7 292 881	0
Others	46 811 816	4 698 148	1 233 582	5 359 520
TOTAL	624 212 816	347 665 766	436 046 952	346 026 742

EUR				
Estonia	33 573 649	19 436 293	24 460 638	19 289 297
Eastern Europe	1 160 336	1 230 685	1 160 336	1 230 685
Other Baltic states	1 702 565	1 252 647	1 702 565	1 252 647
Scandinavia	466 100	0	466 100	0
Others	2 991 820	300 266	78 840	342 510
TOTAL	39 894 470	22 219 892	27 868 480	22 115 140

14. Cost of goods sold

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Raw materials	318 357 789	166 033 941	132 059 693	169 128 440
Wages and salaries	36 378 339	30 668 672	68 477 062	30 668 672
Depreciation	10 451 417	8 682 419	6 544 499	7 955 837
Maintenance of buildings and equipment	10 305 717	11 472 310	6 977 667	11 472 310
Electricity, water	17 450 382	15 538 360	8 759 134	15 538 360
Other costs	93 893 084	8 019 161	92 918 170	8 019 161
TOTAL	486 836 727	240 414 863	315 736 224	242 782 780

EUR				
Raw materials	20 346 771	10 611 503	8 440 153	10 809 277
Wages and salaries	2 325 000	1 960 085	4 376 482	1 960 085
Depreciation	667 967	554 908	418 270	508 471
Maintenance of buildings and equipment	658 655	733 214	445 954	733 214
Electricity, water	1 115 283	993 082	559 811	993 082
Other costs	6 000 862	512 518	5 938 553	512 518
TOTAL	31 114 538	15 365 310	20 179 223	15 516 648

15. Distribution costs

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Wages and salaries	21 157 220	22 160 368	19 108 946	22 160 368
Depreciation	1 536 357	317 438	1 351 770	317 438
Transportation costs	6 191 525	12 918 429	5 825 140	12 883 044
Advertising costs	16 127 819	15 294 212	16 089 242	15 294 212
Consulting, research	1 050 967	1 190 642	1 050 967	1 336 770
Rental and maintenance of space	1 922 648	4 058 805	1 887 898	2 733 010
Other costs	23 435 753	5 077 771	22 560 911	5 077 771
TOTAL	71 422 289	61 017 665	67 874 875	59 802 613

EUR				
Wages and salaries	1 352 193	1 416 306	1 221 284	1 416 306
Depreciation	98 191	20 288	86 394	20 288
Transportation costs	395 711	825 638	372 294	823 377
Advertising costs	1 030 755	977 478	1 028 290	977 478
Consulting, research	67 169	76 096	67 169	85 435
Rental and maintenance of space	122 880	259 405	120 659	174 671
Other costs	1 497 818	324 529	1 441 905	324 529
TOTAL	4 564 716	3 899 740	4 337 995	3 822 084

16. Administrative expenses

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Wages and salaries	11 063 440	11 275 213	9 321 027	10 339 175
Depreciation	3 291 121	1 663 471	991 031	1 265 206
Transport	7 520 869	1 557 430	7 519 793	1 557 430
Administrative expenses	23 438 036	9 379 952	21 829 797	9 379 952
Consulting - services	9 324 676	7 295 354	9 072 254	7 295 354
IT expenses	1 929 274	2 166 050	1 917 129	2 166 050
Travelling and training expenses	810 203	1 277 022	737 780	1 277 022
Moving expenses	10 665 464	8 366 963	10 665 464	8 366 963
Others	898 991	2 444 955	882 965	2 444 955
TOTAL	68 942 074	45 426 410	62 937 240	44 092 107

EUR				
Wages and salaries	707 083	720 617	595 722	660 794
Depreciation	210 341	106 315	63 338	80 861
Transport	480 671	99 538	480 602	99 538
Administrative expenses	1 497 964	599 488	1 395 178	599 488
Consulting - services	595 955	466 258	579 823	466 258
IT expenses	123 303	138 436	122 527	138 436
Travelling and training expenses	51 781	81 617	47 153	81 617
Moving expenses	681 647	534 746	681 647	534 746
Others	57 456	156 261	56 432	156 261
TOTAL	4 406 202	2 903 277	4 022 423	2 817 999

17. Other operating income

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Profit from disposal of property, plant and equipment	1 562 504	9 171 529	598 371	9 171 529
Change in fair value of investment property	0	34 394 145	0	20 060 000
Revaluation of receivables	13 952 573	3 000 000	13 952 573	3 000 000
Sale of option to Raldon	30 000 000	0	30 000 000	0
Other operating income	1 560 003	3 102 767	2 165 108	4 582 766
TOTAL	47 075 080	49 668 441	46 716 052	36 814 295

EUR				
Profit from disposal of property, plant and equipment	99 862	586 168	38 243	586 168
Change in fair value of investment property	0	2 198 187	0	1 282 068
Revaluation of receivables	891 732	191 735	891 732	191 735
Sale of option to Raldon	1 917 349	0	1 917 349	0
Other operating income	99 702	198 303	138 376	292 892
TOTAL	3 008 646	3 174 392	2 985 700	2 352 862

18. Other operating expenses

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Loss on disposal of investment property	10 310 280	1 795 893	10 066 689	1 795 893
Allowance for inventories	231 000	0	231 000	0
Cost of purchasing shares of Kalev REC	6 113 339	0	6 113 339	0
Write down of receivable*	0	0	9 157 944	0
Loss on changes in foreign exchange rates	1 009 452	1 935 348	993 533	1 322 080
Other operating expenses	-3 437 504	4 735 700	- 948 773	3 618 914
TOTAL	14 226 567	8 466 942	25 613 733	6 736 887

EUR				
Loss on disposal of investment property	658 947	114 778	643 379	114 778
Allowance for inventories	14 764	0	14 674	0
Cost of purchasing shares of Kalev REC	390 714	0	390 714	0
Write down of receivable*	0	0	585 299	0
Loss on changes in foreign exchange rates	64 516	123 691	63 498	84 496
Other operating expenses	-219 697	302 666	-60 638	231 291
TOTAL	909 243	541 136	1 637 016	430 566

* Receivable from subsidiary AS Kalev Paide Tootmine was written down to the extent that corresponds to the amount of negative owners' equity in that company.

19. Financial income

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Interest income	978 260	334 913	978 260	334 913
Other financial income	1 188 366	3 020 804	1 232 710	1 188 204
TOTAL	2 166 626	3 355 717	2 210 970	1 523 117

EUR				
Interest income	62 522	21 405	62 522	21 405
Other financial income	75 950	193 065	78 785	75 940
TOTAL	138 473	214 469	141 307	97 345

20. Financial expenses

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Interest expense	13 112 000	11 014 059	5 774 384	6 713 362
Loss on changes in foreign exchange rates	995 709	1 482 561	985 222	1 482 561
Other financial expenses	757 786	404 751	276 384	404 757
TOTAL	14 865 495	12 901 371	7 035 989	8 600 680

EUR				
Interest expense	838 010	703 927	369 050	429 062
Loss on changes in foreign exchange rates	63 637	94 753	62 967	94 753
Other financial expenses	48 431	25 868	17 664	25 869
TOTAL	950 078	824 548	449 682	549 684

21. Personnel expenses

	Group	Group	Parent	Parent
	01.07.03. – 30.06.04	01.07.02 – 30.06.03	01.07.03 – 30.06.04	01.07.02 – 30.06.03
EEK				
Employee wages and salaries	50 305 182	44 873 639	40 705 895	43 937 601
Other withholdings from salaries	16 526 775	14 721 786	13 564 388	14 721 786
Vacation pay accrual	5 163 748	4 508 829	3 936 113	4 508 829
TOTAL	71 995 705	64 104 254	58 206 396	63 168 216

EUR				
Employee wages and salaries	3 215 087	2 867 948	2 601 581	2 808 125
Other withholdings from salaries	1 056 253	940 894	866 922	940 894
Vacation pay accrual	330 024	288 167	251 563	288 167
TOTAL	4 601 364	4 097 009	3 720 067	4 037 185

During the year, the members of the Management and Supervisory Boards have been paid remuneration of 496 160 kroons (31 710 Euros), in the comparative period 444 000 kroons (28 377 Euros). The salaries of production workers are included in Cost of products sold and the wages of administrative and distribution employees respectively in Administrative and distribution costs.

The Group employed on average 712 people, including 450 employees at AS Kalev, in the comparative period 554. Compensation for lay-offs and employment termination was paid to 84 employees in the total amount of 2 759 751 kroons (176 380 Euros), including at the parent to 46 employees in the total amount of 2 014 176 kroons (128 729 Euros). In the comparative period, to 92 employees in the total amount of 3 024 369 kroons (193 292 Euros).

22. Operating lease (Group as the lessee)

The Group has leased automobiles, trucks and computer equipment under the operating lease terms. According to the lease terms, the company may terminate the agreement without making any additional lease payments. The company has no plans to prematurely terminate these agreements. During the financial year, operating lease payments have been made in the total amount of 7 340 435 kroons (469 139 Euros). During the comparative period, 5 609 913 kroons (358 539 Euros).

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
To be paid within 1 year	5 897 060	6 643 626	5 689 472	6 643 626
To be paid within 1-5 years	1 833 173	7 268 682	1 526 591	7 268 682

EUR				
To be paid within 1 year	376 891	424 605	363 624	424 605
To be paid within 1-5 years	117 161	464 553	97 567	464 553

AS Kalev REC leases out buildings and office space under the operating lease agreements, these are recorded in the balance sheet under Investment property. Rental income is presented in Note 24.

23. Finance lease (Group as the lessee)

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Present value of lease payments:				
Up to 1 year	11 690 227	8 461 635	152 228	4 720 760
1-5 years	60 548 321	77 809 277	0	33 623 052
Later	41 703 341	19 236 689	0	0
Total present value of lease payments	113 941 889	105 507 601	152 228	39 343 812
Future interest expense	-25 847 133	-10 695 692	-6 353	-6 369 115
Minimum amount of lease payments:				
Up to 1 year	16 732 295	14 567 911	158 581	6 845 230
1-5 years	78 094 869	98 996 356	0	37 867 697
Later	44 961 858	21 885 715	0	0
Total minimum amount of lease payments	139 789 022	135 449 982	158 581	44 712 927

EUR				
Minimum amount of lease payments:				
Up to 1 year	747 142	540 797	9 729	301 712
1-5 years	3 869 743	4 972 919	0	2 148 905
Later	2 665 329	1 229 449	0	0
Total minimum amount of lease payments	7 282 214	6 743 165	9 729	2 450 616
Future interest expense	-1 651 933	-683 579	-406	-407 061
Present value of lease payments:				
Up to 1 year	1 069 389	931 059	10 135	437 490
1-5 years	4 991 172	6 327 020	0	2 420 187
Later	2 873 586	1 398 752	0	0
Total present value of lease payments	8 934 147	8 656 832	10 135	2 857 677

Assets under the finance lease by asset groups

GROUP	Buildings and structures	Machinery and equipment	Buildings and structures	Machinery and equipment
	EEK	EEK	EUR	EUR
Balance as at 30.06.2003, acquired during 2002/2003				
At cost	37 099 646	18 971 930	2 371 100	1 212 527
Accumulated depreciation	856 571	1 661 535	54 745	106 191
Residual value	36 243 075	17 310 395	2 316 355	1 106 336

	EEK	EEK	EUR	EUR
Balance as at 30.06.2004, acquired during 2003/2004				
At cost	12 172 005	0	777 933	0
Accumulated depreciation	0	0	0	0
Residual value	12 172 005	0	777 933	0

Parent	Buildings and structures	Machinery and equipment	Buildings and structures	Machinery and equipment
	EEK	EEK	EUR	EUR
Balance as at 30.06.2003, acquired during 2002/2003				
At cost	25 312 200	18 971 930	1 617 744	1 212 527
Accumulated depreciation	47 947	1 661 535	3 064	106 191
Residual value	25 264 253	17 310 395	1 614 680	1 106 336

The parent transferred a finance lease to AS Kalev Paide Tootmine which resulted in the acquisition of production buildings and equipment with the acquisition cost of 38 178 247 kroons (2 440 035 Euros).

The parent had no property, plant and equipment acquired under the finance lease.

24. Rental income (Group as the lessor)

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Within 1 year	3 079 193	21 411 024	3 079 193	3 079 193
Within 1-5 years	5 413 505	171 288 192	5 413 505	171 288 192

EUR				
Within 1 year	196 796	1 368 414	196 796	196 796
Within 1-5 years	345 986	10 947 311	345 986	10 947 311

AS Kalev REC receives rental income on the space leased out in Tallinn, Jõhvi and Tartu. The book value of the leased out assets is 18 911 325 kroons (1 208 654 Euros). In the comparative period, 18 480 000 kroons (1 181 087 Euros). The data of the subsidiary coincide with those of the group. See also Segment reporting, Note 13.

25. Earnings per share

	Group	Group	Parent	Parent
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
EEK				
Net profit	17 184 663	32 462 673	17 184 663	32 462 673
Weighted average number of shares in the period	7 877 500	7 877 500	7 877 500	7 877 500
Earnings per share (EPS)	2,18	4,12	2,18	4,12

EUR				
Net profit	1 098 300	2 074 743	1 098 300	2 074 743
Weighted average number of shares in the period	7 877 500	7 877 500	7 877 500	7 877 500
Earnings per share (EPS)	0,14	0,26	0,14	0,26

The company has no potential ordinary shares to be issued, as a result of which the diluted earnings per share are the same as ordinary earnings per share.

26. Subsidiaries

As at 30.06.2004, AS Kalev has stakes in five subsidiaries.

1. Kalev Merchant Services Ltd. is a USA-based wholly owned subsidiary of AS Kalev, whose activity is the introduction and sale of AS Kalev's products in the USA.
2. AS Kalev has a 59,3% stake in AS Kalev Real Estate Company (AS Kalev REC). The main activity of the subsidiary is real estate development and management, expert analyses, services, leasing, purchases and sales, and real estate consulting.
3. AS Kalev Paide Tootmine is a wholly owned subsidiary of AS Kalev whose main activity is the production of dairy-based confectionery products as well as other dairy products.
4. AS Kalev has a 99,1% stake in AS Kalev Jõhvi Tootmine, whose main activity is the production and sale of flour confectionery and baking products.
5. AS Kalev has a 81,26% stake in OÜ Maiasmokk, whose main activity is the production and sale of confectionery and pastry products.

Subsidiaries as at 30.06. 2004	Participa tion	Location	*Equity capital EEK	*Equity capital EUR
AS Kalev Real Estate Company	59,3%	Estonia	89 155 313	5 698 063
Kalev Merchant Ltd.	100%	USA	76 292	4 876
AS Kalev Paide Tootmine	100%	Estonia	-9 157 944	-585 299
AS Kalev Jõhvi Tootmine	99,1%	Estonia	20 452 258	1 307 138
OÜ Maiasmokk	81,26%	Estonia	-759 859	-48 564

Subsidiaries as at 30.06. 2003	Participa tion	Location	**Equity capital EEK	**Equity capital EUR
AS Kalev Real Estate Company	59,3%	Estonia	59 938 783	3 830 786
Kalev Merchant Ltd.	100%	USA	979 359	62 592

* The equity column contains the equity of subsidiaries as at 30.06.2004

** The equity column contains the equity of subsidiaries as at 30.06.2003

AS Skanska EMV and AS Kalev have entered into an agreement based on which AS Skanska EMV has the right to sell and AS Kalev has the obligation to purchase all the shares of AS Kalev Real Estate Company belonging to AS Skanska EMV. Skanska EMV has executed the right to initiate the sales process. Hence, in the consolidated balance sheet this company is consolidated as if 100% of the shares belong to AS Kalev and the potential obligation to purchase has been recognised as a short-term liability.

Cash pooling agreement

Together with its subsidiaries AS Kalev REC, AS Kalev Paide Tootmine and AS Kalev Jõhvi Tootmine, AS Kalev has entered into a cash pooling agreement in Hansapank according to which the parent of the account is AS Kalev.

27. Income tax

In the 2003/2004 financial year, the profit was 17 184 663 kroons (1 089 300 Euros). At the recommendation of the Management Board, 5% of the profit shall be entered into the statutory legal reserve and on the share capital shall be increased through a bonus issue. No dividends shall be paid to the shareholders.

As the US based subsidiary has not made taxable profits, no income tax expense has occurred for the company and group.

The unrestricted equity of the company (taking into an account the statutory requirement to transfer 1/20 of finance year's net profit to statutory legal reserve) as at 30.06.2004 was 157 840 086 (30.06.2003: 141 514 656) kroons. As at balance sheet date it is possible to pay out dividends to the shareholders in the amount of 116 801 664 (30.06.2003: 104 720 846) kroons and the corresponding income tax would amount to 41 038 422 (30.06.2003: 36 793 811) kroons

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28. Related party transactions**Transactions between parent and its subsidiaries**

	01.07.03. – 30.06.04	01.07.03 – 30.06.04	01.07.02 – 30.06.03	01.07.02 – 30.06.03
	EEK	EUR	EEK	EUR
Net sales				
AS Kalev REC	14 727 199	941 240	6 491 297	414 869
Kalev Merchant Service Ltd	904 260	57 793	602 861	38 530
AS Kalev Paide Tootmine	49 280 727	3 149 613	0	0
AS Kalev Jõhvi Tootmine	2 048 047	130 894	0	0
OÜ Maiasmokk	62 814	4 015	0	0
Total net sales	67 023 047	4 283 553	7 094 158	453 399
Net sales of subsidiary with parent				
AS Kalev REC	20 308 934	1 297 977	391 305	25 009
Kalev Merchant Service Ltd	0	0	801 700	51 238
AS Kalev Paide Tootmine	64 175 330	4 101 551	0	0
AS Kalev Jõhvi Tootmine	4 950 904	316 420	0	0
OÜ Maiasmokk	40 632	2 597	0	0
Total net sales of subsidiary with parent	89 475 800	5 718 546	1 193 005	76 247
Purchase of property, plant and equipment				
AS Kalev REC	0	0	14 392 591	919 854
AS Kalev Paide Tootmine	24 947 850	1 594 458		
Total purchases of property, plant and equipment	24 947 850	1 594 458	14 392 591	919 852
Purchases of investment property				
AS Kalev REC	0	0	21 394 855	1 367 380
Total purchases of investment property	0	0	21 394 855	1 367 380

	01.07.03. – 30.06.04	01.07.03 – 30.06.04	01.07.02 – 30.06.03	01.07.02 – 30.06.03
	EEK	EUR	EEK	EUR
Parent's receivables from subsidiary				
Loans				
Interest on loan AS Kalev REC	832 662	53 217	221 454	14 153
Short-term loan AS Kalev REC (incl. overdraft)	43 818 649	2 800 522	13 302 777	850 202
Interest on loan AS Kalev Paide Tootmine	44 344	2 834	0	0
Short-term loan AS Kalev Paide Tootmine	15 424 838	985 827	0	0
Short-term loan AS Kalev Merchant Service Ltd	2 333 398	149 131	0	0
Total loans	62 453 891	3 991 531	13 524 231	864 356
Receivables for goods and services				
AS Kalev REC	7 175	459	307 354	19 644
Kalev Merchant Service Ltd	191 432	12 235	785 071	50 175
AS Kalev Paide Tootmine	27 845 506	1 779 652	0	0
AS Kalev Jõhvi Tootmine	62 000	3 963	0	0
OÜ Maiasmokk	34 872	2 229	0	0
Total receivable for goods and services	28 140 985	1 798 537	1 092 425	69 819
Total short-term receivables	90 594 876	5 790 068	14 616 656	934 175
Long-term receivables from subsidiaries				
Loan agreement AS Kalev REC	8 936 793	571 165	13 936 793	890 723
Total receivables of parent from subsidiaries	99 531 669	6 361 233	28 553 449	1 824 898
Parent's liabilities to subsidiaries				
Short-term borrowings				
Short-term loan AS Kalev Paide Tootmine	5 103 189	326 153	0	0
Short-term loan AS Kalev Jõhvi Tootmine	1 245 305	79 590	0	0
Total short-term loans	6 348 494	405 743	0	0
Liabilities for goods and services				
AS Kalev REC	65 951	4 215	0	0
AS Kalev Jõhvi Tootmine	3 259 018	208 289	0	0
Kalev Merchant Service Ltd	0	0	106 352	6 797
Total liabilities for goods and services	3 324 969	212 504	106 352	6 797
Total liabilities to subsidiaries	9 673 463	618 247	106 352	6 797

The parent has provided surety for the liabilities of AS Kalev Jõhvi Tootmine to AS Sampo Pank in the amount of 5 000 000 kroons (319 558 Euros).

Group has given loan to OÜ Miletac in the amount of 2 140 835 kroons (136 824 Euro) with interest 6% p.a.

Transactions with the enterprises related to the Chairman and the Supervisory Board of AS Kalev

	Services	Goods	Balance 30.06.04	Balance 30.06.03
EEK				
Goods and services purchased				
From Tööstuse Teenindamise AS	30 255 411	0	918 528	1 698 327
From Tallinna Piimatööstuse AS	0	27 723 999	355 671	333 836
Other purchases	2 793 302	697 927	282 064	182 121
Liability at beginning of year	1 816 327	335 652		
Liability at end of year	1 113 936	442 327	1 556 263	2 151 979
Services and goods sold to the company related to Chairman				
Services and goods sold				5 589 500
Services and goods sold				
Tallinna Piimatööstus	0	138 970 870	20 982 003	3 505
Other sales	2 013 509	1 288 393	2 935 165	148 946
Receivable at beginning of year	151 968	0		
Receivable at end of year	1 847 998	22 068 599	23 916 597	151 968

	Services	Goods	Balance 30.06.04	Balance 30.06.03
EUR				
Goods and services purchased				
From Tööstuse Teenindamise AS	1 933 673	0	58 705	108 543
From Tallinna Piimatööstuse AS	0	1 771 886	22 732	21 336
Other purchases	178 525	44 606	18 027	11 640
Liability at beginning of year	116 084	21 452		
Liability at end of year	71 193	28 270	99 463	137 537
Services and goods sold to the company related to Chairman				
Services and goods sold				357 234
Services and goods sold				
Tallinna Piimatööstus	0	8 881 857	1 340 994	224
Other sales	128 687	82 343	187 591	9 519
Receivable at beginning of year	9 713	0		
Receivable at end of year	118 109	1 410 441	1 528 549	9 713

Raw milk and dairy products have been sold to Tallinna Piimatööstuse AS.

An agreement for the maintenance of equipment has been entered into with Tööstuse Teenindamise AS.

The Group has supported non-profit organisations related to Chairman in the amount of 1 316 691 kroons (84 152 Euros), in the comparative period, 1 021 580 kroons (65 291 Euros) and provided surety to liability to AS Hansa Liising Eesti in the amount of 2 898 850 kroons (185 270 Euros).

The management estimates that the prices used in related party transactions do not materially differ from the market prices.

29. Management of credit, interest and foreign exchange risks

The Group manages credit risks by offering credit sales to its business partners depending on the length of the cooperation and the background information of the company. The cooperation partners in Russia and the CIS usually receive goods for an advance payment. The credit risks of larger buyers are managed through letters of guarantee of the bank.

The Group is exposed to foreign exchange risks through the purchasing of raw materials in different currencies. In managing interest and foreign exchange risks, the potential losses arising from the changes in interest rates and foreign exchange rates are compared with the costs that would arise from the management of risks with financial instruments. The Group has not used any financial instruments for the management of interest and foreign exchange risk, as the management is of the opinion that the costs related to the management of risks have exceeded the potential losses arising from the changes in interest rates and exchange rates.

30. Pledges, warranties and guarantee obligations

1. A mortgage encumbers the registered immovable at Pärnu Road 139, Tallinn in the amount of 4 245 210 kroons (271 318 Euros) for the benefit of the Republic of Estonia.
2. A mortgage encumbers the 24963/52410 legal share of the registered immovable at Pärnu Road 139, Tallinn in the amount of 26 000 000 kroons (1 661 703 Euros) for the benefit of AS Hansapank.
3. A mortgage encumbers the 2/5 legal share of the immovable at Põrguvälja, Lehmja village, Rae rural municipality in the amount of 6 500 000 kroons (415 426 Euros) for the benefit of AS Hansa Liising Eesti. The mortgage secures the obligations of AS Kalev, arising from the contracts under the law of obligation entered into by the parties.

4. A commercial pledge in the amount of 50 000 000 kroons (3 195 582 Euros) for the benefit of AS Eesti Ühispank. The commercial pledge secures the settling of obligations arising from the overdraft agreement entered into with AS Eesti Ühispank.
5. A commercial pledge in the amount of 8 000 000 kroons (511 293 Euros) for the benefit of AS SBM Pank.
6. A pledge contract of the trademark "Kalev" between AS Hansa Liising Eesti and AS Kalev. The pledge secures the obligations of AS Kalev and AS Kalev REC, that exceed the obligations in the total amount of 130 million kroons (8,3 million Euros). With the trademark pledge, the receivables in the amount of 22 million kroons (1,4 million Euros) have been secured.
7. At 21.07.2003 two contracts of suretyship have been concluded, with which AS Kalev secures its obligations to AS Hansa Liising Eesti in the amount of 2 898 850 kroons (185 270 Euros). The contract of suretyship will expire at 31.01.2006.
8. A contract of suretyship entered into at 16.02.2004, with which AS Kalev secures the obligations of AS Kalev Jõhvi Tootmine to AS Sampo Pank in the amount of 5 000 000 kroons (319 557 Euros).

31. Statements of claim

AS Milestone vs. AS Kalev

1. At 13.01.2003, AS Milestone, a shareholder of AS Kalev filed a statement of claim with the Tallinn City Court, with which it pursued to declare invalid resolution no. 4 of the General Meeting of Shareholders of AS Kalev from 08.12.2002.

At 31.10.2003, the Tallinn City Court rendered a judgement that satisfied the action and declared resolution no. 4 of the General Meeting of Shareholders of AS Kalev from 08.12.2002 invalid.

The ruling of the Tallinn City Court does not impact the financial results of AS Kalev as the realisation of the right arising from the contested resolution of the General Meeting of Shareholders expired at 08.12.2003 and not a single shareholder used his/her right.

Both parties appealed the ruling of the Tallinn City Court.

With its ruling from 31.03.2004, the Tallinn Circuit Court allowed the appeal of AS Kalev and annulled the court decision of the Tallinn City Court from 31.10.2003 and made a new ruling that left the contested resolution of the General Meeting of Shareholders valid. The appeal of AS Milestone was not satisfied.

AS Milestone filed an appeal in cassation to the ruling of the Circuit Court, which was reviewed by the Supreme Court of Estonia in September 2004.

2. In March 2003, AS Milestone failed a statement of claim with the Tallinn City Court to terminate the damage causing activity. The plaintiff pursued the termination of the damage causing activities, that is the sale of the legal share of the registered immovable located at Pärnu Road 139 on the basis on the sales contract under the law of obligation.

In addition to the statement of claim, the plaintiff submitted a request for securing the action, in which it asked to ban all transactions and activities with regard to the sale of the legal share of the registered immovable at Pärnu Road 139 and set a notation concerning prohibition for the disposition of the respective registered immovable located at Pärnu Road 139, Tallinn.

With its regulation from 18.03.2003, the Tallinn City Court did not accede the application of AS Milestone. According to the resolution, the plaintiff could not persuade the court that the satisfaction of the action was necessary.

By now, the sales transaction has been completed.

The plaintiff discontinued its action and with its resolution from 10.03.2004, the Tallinn City Court accepted it and terminated the proceeding in this civil dispute. The plaintiff was required to pay all legal costs to AS Kalev.

3. At 24.03.2003, AS Milestone field a statement of claim with the Tallinn City Court in which in asked to annul the resolutions of the General Meeting of Shareholders of AS Kalev from 13.06.2001 and 18.06.2002. In addition, the plaintiff requests the annulment of the resolution of the Supervisory Board of AS Kalev from 14.03.2003.

AS Kalev contests the action for the reason, that it has expired. Also, the obligated subject of the takeover bid cannot be the defendant but the person having a significant stake.

The court hearing of the Tallinn City Court in this civil matter will take place in December 2004.

4. At 04.06.2003, AS Milestone filed a statement of claim with the Tallinn City Court to annul the resolution of the Extraordinary General Meeting of Shareholders of AS Kalev from 04.03.2003.

The Extraordinary General Meeting was convened at the request of AS Milestone and at the proposal of the plaintiff the General Meeting decided to conduct a special audit at AS Kalev. The general meeting designated AS PricewaterhouseCoopers to conduct the special audit.

The hearing of the Tallinn City Court is set for 24.03.2005.

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5. At 04. 03. 2004, AS Milestone filed a statement of claim against AS Kalev and its nine shareholders with the Tallinn City Court, in which the plaintiff demands:
- the annulment of the vote of the shareholders as defendants at the General Meeting of Shareholders of AS Kalev at 14.12.2003;
 - the deduction of votes of shareholders as defendants from the quorum of the General Meeting at 14.12.2003;
 - the approving of the wording of the resolutions of the General Meeting that would be acceptable to the plaintiff by the court.

AS Kalev disputes the statement of claim, as the plaintiff pursues a resolution not based on the law. The plaintiff has not explained which of its rights had been violated. Therefore, the plaintiff does not seek acknowledgement of any of its rights.

The court cannot recognise the adoption of a resolution of such governing body that has never been adopted.

6. At 04 March 2004, AS Milestone filed a statement of claim with the Tallinn City Court regarding the revocation of a real right contract entered into between AS Kalev, OÜ Raldon and AS Hansapank at 09.10.2003 with regard to the transfer of the immovable property ownership and the increasing of the partial mortgage still encumbering the share in the common ownership transferable to the buyer.

AS Kalev disputes the statement of claim. The plaintiff AS Milestone is not the disputed party of the contract and does not have any rights regarding the contract. Therefore, in this case there is no violation of the rights and freedoms of the plaintiff in the contested contract.

AS KPMG Estonia vs. AS Kalev

At 08.04.2003, AS KPMG Estonia filed a statement of claim with the Tallinn City Court in which it demands the ordering of payment of 399 778 kroons (25 550 Euros) from AS Kalev for the benefit of the plaintiff.

At 21.06.2004, the Tallinn City Court satisfied the action and ordered the payment of 389 866 kroons (24 917 Euros) as well as the court fees of the plaintiff from AS Kalev for the benefit of the plaintiff.

At 09.07.2004, AS Kalev appealed the resolution of the Tallinn City Court at the Tallinn Circuit Court.

AS Kalev does not acknowledge the claim of the plaintiff. The plaintiff has not submitted the work performed on the basis of a contract letter. Therefore, the ordering of payment for the work not performed is unsubstantiated.

Management believes that additional cost is unlikely to occur and no provision is recorded.

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G. van den Bergh Nijmegen B.V vs. AS Paide Piimakombinaat, AS Hansa Liising Eesti and AS Kalev

G. van den Bergh filed an action against three defendants as solidary obligors in the amount of 9 267 802 kroons (592 320 Euros).

With its judgement from 28.05.2004, the Järva County Court satisfied the action and ordered solidarily the payment of 9 267 802 kroons (592 326 Euros) from the defendants for the benefit of the plaintiff.

At 15.06.2004, AS Kalev appealed the resolution of the Järva County Court at the Tallinn Circuit Court. The two other defendants also appealed the resolution of the Järva County Court.

Management believes that additional cost is unlikely to occur and no provision is recorded.

AS Kalev vs. Romet Puhk, Industrial Property Committee and Patent Office

AS Kalev filed a complaint with the Tallinn Administrative Court, in which it asked to annul the registration of the trademark Kalew under the name of Romet Puhk.

With its judgment from 15.12.2003, the Tallinn Administrative Court satisfied AS Kalev's complaint and declared the resolution for the registration of the Kalew trademark by the Patent Office unlawful.

With the judgment, the court fees were ordered to be paid to AS Kalev.

The respondents have appealed to the Tallinn Circuit Court.

AS Kalev vs. notary Aivar Mesikäpp, Tallinn

AS Kalev filed a complaint against the activities of notary Aivar Mesikäpp and asked the court to issue a precept to require Aivar Mesikäpp to perform a duty unlawfully left unperformed – to attest the minutes of the Extraordinary General Meeting of Shareholders of AS Kalev from 14.12.2003.

With its ruling from 17.05.2004, the Tallinn Administrative Court dismissed the complaint of AS Kalev against the notary.

In June 2004, AS Kalev appealed the ruling of the Administrative Court with the Tallinn Circuit Court.

AS Kalev vs. Minister of Finance

At 26.03.2004, AS Kalev filed a complaint at the Tallinn Administrative Court to revoke the directive of the Minister of Finance "Termination of supplementary proceedings and refusal to issue a permission to grant state aid " published in the publication Ametlikud Teadaanded.

In 2003, AS Kalev applied to Enterprise Estonia for the partial financing of the infrastructure construction of the new production facility from the means of the foundation "Support programme for the technical infrastructure related to enterprise". Enterprise Estonia satisfied the application of AS Kalev.

In the publication Ametlikud Teadaanded from 10.03.2004, the Minister of Finance refused to issue the permission to grant state aid.

AS Kalev vs. Financial Supervision Authority

At 06.05.2004, AS Kalev filed a complaint with the Tallinn City Court regarding the judgement on misdemeanour of the Financial Supervision Authority from 21.04.2004, which ordered AS Kalev to pay a fine of 30 000 kroons (1 917 Euros).

In its decision on misdemeanour, the Financial Supervision Authority concluded that in the preparation of the annual reports of the last two years as well as by not disclosing information on the stock exchange, AS Kalev had violated the requirements of IAS, the Accounting Act, the Securities Market Act and the rules and regulations of the exchange.

With its judgement from 06.07.2004, the Tallinn City Court satisfied the complaint of AS Kalev. With the judgement of the City Court, the judgement of the Financial Supervision Authority on misdemeanour from 21.04.04 was annulled in full and the misdemeanour procedure against AS Kalev was terminated.

The Financial Supervision Authority filed an appeal in cassation to the judgment of the City Court with the Supreme Court. The Supreme Court decided not to accept the appeal in cassation. The Supreme Court ruled that the complaint of the Financial Supervision Authority is unjustifiable.

32. Events after the balance sheet date

1. At 1.07.2004, AS Kalev acquired 60,6746% of the shares or 436 857 shares of the baking company AS Vilma of Viljandi.

For this participation, a payment of 11 244 699 kroons (718 667 Euros) had to be made. Of the purchase price, 7 496 466 kroons (479 112 Euros) had to be paid at 14.07.2004 at the latest and 3 748 233 kroons (239 556 Euros) will be paid at 31.12.2004 at the latest. The right of ownership of these shares was transferred when the agreement was entered into, i.e. at 01.07.2004.

According to the contract, AS Kalev is required to make a bid to the shareholders of AS Vilma to acquire the remaining shares under the same conditions.

AS Vilma currently makes pastry and confectionery products and flour-based semi-finished products.

The objective of the acquisition of the shares of AS Vilma is the expansion of AS Kalev's activities into the flour confectionery sector in line with the company's long-term development strategy. The majority ownership acquired at the end of the last year in AS Kalev Jõhvi Tootmine (with the previous business name of AS Järle) was AS Kalev's first step taken in this area.

AS Vilma has a well-established trademark Vilma in the flour confectionery sector. The company has also well-operating production operations and skilled labour. In 2003, approximately 125 people worked at the company.

Purchase analysis at the acquisition of AS Vilma

	EEK	EUR
Cost of production unit acquired (in cash)	11 244 699	718 667
Assets and liabilities acquired with the production unit at fair value		
ASSETS		
Cash	193 025	12 337
Receivables	2 688 548	171 830
Inventories	2 100 764	134 263
Non-current assets	18 249 493	1 166 355
Total	23 231 830	1 484 785
LIABILITIES		
Supplier payables	1 533 390	98 001
Taxes payable	968 447	61 895
Payables to employees	759 522	48 542
Loans and leases	10 654 514	680 948
Total liabilities	13 915 873	889 386
Net asses	9 315 957	595 398
AS Kalev participation 60,7%	5 652 420	361 255
Goodwill	-5 592 279	-357 411

- At 27.07.2004, the increase of the share capital of AS Kalev Paide Tootmine was entered in the Commercial Register. With the resolution of the sole shareholder of AS Kalev Paide Tootmine the share capital of the entity was increased through additional instalments by 38 178 240 (2 440 034 Euro) kroons and the new share capital was determined to be at 38 578 240 kroons (2 465 599 Euros). New shares with the nominal value of 10 kroons were issued, they were all acquired by AS Kalev.

When paying for the new shares, the claim of AS Kalev in the amount of 38 178 240 Eesti kroons (2 440 034 Euros) was set off against AS Kalev Paide Tootmine.

3. At 01.11.2004, the State Court of Estonia rendered a judgment according to which the cassation of AS Milestone at the judgment of the Tallinn District Court at 31.03.2004 was not satisfied and ordered AS Milestone to pay the court fees incurred at the cassation stage to AS Kalev (see Note 31, Statements of claim).

In its judgment, the State Court of Estonia agreed with the opinion of the Tallinn District Court that the disputed resolution of the General Meeting of AS Kalev is not in conflict with the provision of the Commercial Code that regulates the repurchase of the entity's own shares. The State Court of Estonia agreed with the Tallinn District Court that since Chairman of AS Kalev lacked dominant influence as defined in the Securities Market Act, then there was also no legal basis to exclude the votes of the shareholders referred to in the statement of claim of AS Milestone from the quorum of the General Meeting.

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Initsiaalid/initials	TK
Kuupäev/date	09.11.2004
PricewaterhouseCoopers, Tallinn	

Signature to the 2003/2004 Annual Report

The 2003/2004 Annual Report of AS Kalev, consisting of the Management Report, the Financial Statements, the Proposal for Distribution of Profit and the Auditor's Report shall be signed by the following members of the Management Board:

Chairman: Oliver Kruuda _____

Põrguvälja, November 2004

Interests of the members of the Management and Supervisory Boards

As at 30.06.2004, the size of the stakes of the members of the Management and Supervisory Boards of AS Kalev in the company via the entities under their control is the following :

	Number of shares	Participation
Heino Priimägi	-	-
Ülo Suurkask	-	-
Kristel Soll	-	-
	1 473 421	18,7 % (via OÜ Linderin Group)
Oliver Kruuda	806 267	10,2 % (via OÜ Mailtec)
	932 221	11,8% (via Tallinna Piimatööstuse AS)

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 2003 to 30 June 2004) ended 30 June 2004 as set out on pages 15 to 73. 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 2004 and of the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.



Tiit Raimla
Authorised auditor

9 November 2004

Proposal for Distribution of Profit

In the 2003/2004 financial year, the net profit of AS Kalev was 17 184 663 kroons (1 098 297 Euros).

The Management Board of the company proposes to increase the statutory legal reserve by 859 233 kroons (54 915 Euros). The total reserve capital is 4 020 204 kroons (256 938 Euros).

The Management Board also proposes to increase the share capital by non-monetary contribution (a bonus issue) by 157 550 000 kroons (10 069 280 Euros). The entity's new share capital is 236 325 000 kroons (15 103 920 Euros).

The bonus issue shall be covered from the "Retained earnings" in the amount of 141 514 656 kroons (9 044 435 Euros) and from the "Net profit for financial year" in the amount of 16 035 344 kroons (1 024 845 Euros).

The remaining profit in the amount of 290 087 kroons (18 540 Euros) shall be transferred to "Retained earnings".

Shareholders with significant participation

AS Kalev is one of the few food processing companies in Estonia that is still based on domestic capital. As at 30.06.2004 the company had a total of 1331 shareholders. There were five shareholders with more than 5 percent stakes:

	Number of shares	Participation
AS Milestone	1 844 050	23,4 %
Linderin Group OÜ	1 473 421	18,7 %
Tallinna Piimatööstuse AS	932 221	11,8 %
Mailtec OÜ	806 267	10,2 %
Eesti Ühispank	590 088	7,5 %