



## **AS Kalev**

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# **9 MONTHS INTERIM REPORT**

**Beginning of the period 1.07.2003**

**End of the period 31.03.2004**

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

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

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## 1. COMMENTS ON FINANCIAL RESULTS

The consolidated net sales of Kalev Ltd in the first 9 months of the financial year 2003/2004 totalled 332.2 million kroons (21.2 million euros), which exceeds the net sales of the last financial year by 24%. The consolidated net profit of the company in the given financial year amounted to 22 million kroons (1.4 million euros), which constitutes an increase of 22%, compared to the first 9 months of the financial year 2002/2003.

Increase in consolidated net sales was facilitated by the incorporation of the new subsidiary – AS Kalev Jõhvi Tootmine (formerly known as AS Järle) – in the Kalev Group at the beginning of 2004, as well as the sales growth of two subsidiaries – AS Kalev Paide Tootmine and AS Kalev Real Estate Company (AS Kalev REC) – in the given period.

The increase in the consolidated net profit of Kalev Ltd in the first 9 months of the financial year 2003/2004, compared to the same period last year, was conditioned by the revenue earned from other operating activities. The company's main activities – i.e. production and sales of confectionery products – have stabilised after the relocation of the company to the new plant building in the 1<sup>st</sup> quarter of the financial year, and after the initial difficulties upon launch of production were overcome. The company focuses on and continues to strive towards increasing profitability of the main activities.

At the same time, the price of Kalev Ltd's main raw material – sugar – is bound to increase by approximately 9 kroons per kilogram after Estonia's accession to the European Union. As a result, the company will incur annual additional expenses in the estimated amount of 37 million kroons.

Kalev Ltd's relocation to the new plant building also had an effect on the company's administrative and general expenses in the given period. General and administrative expenses include single costs on relocation and (dis)assembly of production equipment as well as launch of production in the total amount of 15.2 million kroons (0.97 million euros).

Other revenue of the company in the given period includes the fee for waiver from the right of repurchase agreed in the contract of purchase and sale under the law of obligations on the legal share (18070/52410) of the real estate located at Pärnu mnt 139 in Tallinn in the amount of 30 million kroons (1.9 million euros).

The total sales of Kalev Ltd's confectionery products amounted to nearly 6,000 tonnes in the first 9 months of the financial year 2003/2004 – an increase of 9%, compared to the same period last year. The increase in total sales was mostly conditioned by the addition of cookies and baked goods to the company's product portfolio at the beginning of 2004.

The domestic market constituted 76% of the total sales of confectionery products, and 24% of the sales was exported. In the given period, Latvia and Ukraine remained the company's main export countries. In addition to the above countries, Kalev Ltd also exported its products to Russia, the Scandinavian countries and the US.

In the first 6 months of the financial year 2003/2004, the main emphasis of Kalev Ltd's marketing and sales activities lay in the preparation and successful launch of Christmas sales.

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

In the first 6 months of the financial year, the company also launched a new product at the market – a mixture of toffee and puffed corn called *Mõnus Maius*, which was declared Estonia's Best Confectionery Product 2003 at the competition held by the Association of Estonian Food Industry. In addition, the company launched, for export purposes, *Bitter* chocolate with new additives, as well as *The Sealords* and *Mermaid* chocolates for sales through the tax-free system.

In the 3<sup>rd</sup> quarter of the financial year 2003/2004, the company focused on the launch and sales of the Valentine's Day and Easter product portfolio. New products included the boxed chocolate *Coco*, hazelnut candy *Maiuspala*, *Magus Mäng*, *Kuldne Kalev* and vanilla-flavoured *Souffle*. In addition, the company launched, as an extension of the *Oops!* candy family, the banana and peppermint-flavoured *Oops!* candies.

According to the retail trade survey of the market research supplier AC Nielsen, Kalev Ltd's share at market was 43.1% in February/March of 2004 as regards chocolate and sugar confectionery products. The company's position was strongest in the chocolate candy and candy bar sector, with market shares of 61.5% and 52.2%, respectively.

Kalev Ltd's market share in the cookie sector was 19.1% in February/March of the given period.

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

On 20 February 2004, Kalev Ltd concluded a sales agreement on the shares of 10 private individuals, thus acquiring 59.4% of the shares of the private limited company (OÜ) Maiasmokk. The company must pay 51,700 kroons for the above share.

OÜ Maiasmokk has long-term experience in the production and marketing of baked goods through both its cafe and other retail companies. Kalev Ltd plans to change the cafe, through the acquired subsidiary, into an exclusive coffee shop, and start offering high-quality candies in addition to baked goods. The company also plans to open the Estonian Candy Museum on the second floor of the building.

The building, located at Pikk 16 and leased indefinitely to OÜ Maiasmokk, is owned by the City of Tallinn. The specific amount of the investments required for renovating the facade of the building, and the cafe and museum premises, as well as the lease terms and conditions, are still being negotiated.

In the first 9 months of the financial year 2003/2004, the average number of employees amounted to 723 in Kalev Group—an increase of 22%, compared to the same period last year. This increase was mostly conditioned by the incorporation of the staff of AS Kalev Jõhvi Tootmine in the group.

## **2. FINANCIAL STATEMENTS**

### **Declaration of the Chairman**

According to the the Chairman of the Management Board of AS Kalev, the interim report of Kalev Group, set out on pages 5-21 gives a true and fair view of the financial results of the company in the first 9 months of the financial year in accordance with the principle of going concern.

The Kalev Group (hereinafter the Group) incorporates the parent company and five subsidiaries, of which the parent company Kalev Ltd is the majority shareholder.

This interim report has not been audited or otherwise inspected by auditors.

Põrguvälja, 27 May 2004

Oliver Kruuda

The Chairman

**BALANCE SHEET (in kroons)**

<b>ASSETS</b>	Note	31.03.04 Consolidated EEK	31.03.03 Consolidated EEK	30.06.03 Consolidated EEK
<b>CURRENT ASSETS</b>	No			
CASH AND BANK		3 254 736	1 138 053	8 591 080
CUSTOMER RECEIVABLES	1	123 610 798	131 297 696	90 024 044
PREPAID EXPENSES		19 740 351	11 917 363	5 308 235
INVENTORIES		85 853 581	57 695 522	40 726 937
<b>TOTAL CURRENT ASSETS</b>		<b>232 459 466</b>	<b>202 048 634</b>	<b>144 650 296</b>

**NON-CURRENT ASSETS**

MISCELLANEOUS LONG-TERM RECEIVABLES		330 180	887 180	330 180
TANGIBLE ASSETS	2	363 089 521	225 000 168	255 038 885
REAL ESTATE INVESTMENTS	3	61 665 519	18 063 950	75 573 095
INTANGIBLE ASSETS	2	-9 019 603	242 357	217 715
<b>TOTAL NON-CURRENT ASSETS</b>		<b>416 065 617</b>	<b>244 193 655</b>	<b>331 159 875</b>

<b>TOTAL ASSETS</b>		<b>648 525 083</b>	<b>446 242 289</b>	<b>475 810 171</b>
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**LIABILITIES AND OWNER' EQUITY****LIABILITIES**

CURRENT LIABILITIES	4	65 235 634	3 059 521	27 346 235
PREPAYMENTS FROM CUSTOMERS		14 333 000	93 347	497 042
SUPPLIER PAYABLES		127 466 816	72 211 471	76 162 122
TAXES PAYABLE		5 577 867	14 441 582	4 537 792
OTHER PAYABLES		16 595 672	11 030 543	10 275 440
<b>TOTAL CURRENT LIABILITIES</b>		<b>229 208 988</b>	<b>100 836 463</b>	<b>118 818 631</b>

NON-CURRENT LIABILITIES	4	156 549 867	123 938 734	116 381 525
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>156 549 867</b>	<b>123 938 734</b>	<b>116 381 525</b>

<b>MINORITY INTEREST</b>		<b>189 300</b>		
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**OWNER'S EQUITY**

SHARE CAPITAL		78 775 000	78 775 000	78 775 000
REVALUATION RESERVE		17 159 388	112 812 302	17 159 388
STATUTORY LEGAL RESERVE		1 537 837	1 537 837	1 537 837
RETAINED EARNINGS		143 137 790	10 392 119	110 675 117
NET PROFIT FOR THE FINANCIAL YEAR		21 966 913	17 949 834	32 462 673
<b>TOTAL OWNER'S EQUITY</b>		<b>262 576 928</b>	<b>221 467 092</b>	<b>240 610 015</b>

<b>TOTAL LIABILITIES</b>		<b>648 525 083</b>	<b>446 242 289</b>	<b>475 810 171</b>
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**BALANCE SHEET (in euros)**

<b>ASSETS</b>	Note	31.13.04 Consolidated EUR	31.13.03 Consolidated EUR	30.06.03 Consolidated EUR
<b>CURRENT ASSETS</b>	No			
CASH AND BANK		208 015	72 735	549 069
CUSTOMER RECEIVABLES	1	7 900 150	8 391 431	5 753 570
PREPAID EXPENSES		1 261 635	761 656	339 257
INVENTORIES		5 487 030	3 687 406	2 602 919
<b>TOTAL CURRENT ASSETS</b>		<b>14 856 830</b>	<b>12 913 228</b>	<b>9 244 815</b>

**NON-CURRENT ASSETS**

MISCELLANEOUS LONG-TERM RECEIVABLES		21 102	56 701	21 102
TANGIBLE ASSETS	2	23 205 591	14 380 095	16 299 914
REAL ESTATE INVESTMENTS	3	3 941 135	1 154 494	4 829 989
INTANGIBLE ASSETS	2	-576 546	15 489	13 914
<b>TOTAL NON-CURRENT ASSETS</b>		<b>26 591 371</b>	<b>15 606 779</b>	<b>21 164 919</b>

<b>TOTAL ASSETS</b>		<b>41 448 201</b>	<b>28 520 007</b>	<b>30 409 734</b>
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**LIABILITIES AND OWNER' EQUITY****LIABILITIES**

CURRENT LIABILITIES	4	4 169 306	195 538	1 747 738
PREPAYMENTS FROM CUSTOMERS		916 043	5 699	31 767
SUPPLIER PAYABLES		8 146 593	4 615 142	4 867 634
TAXES PAYABLE		356 490	922 983	290 017
OTHER PAYABLES		1 060 654	704 978	656 719
<b>TOTAL CURRENT LIABILITIES</b>		<b>14 649 087</b>	<b>6 444 608</b>	<b>7 593 875</b>

NON-CURRENT LIABILITIES	4	10 005 335	7 921 109	7 438 116
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>10 005 335</b>	<b>7 921 109</b>	<b>7 438 116</b>

<b>MINORITY INTEREST</b>		<b>12 098</b>		
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**OWNER'S EQUITY**

SHARE CAPITAL		5 034 627	5 034 627	5 034 627
REVALUATION RESERVE		1 096 682	7 210 002	1 096 682
STATUTORY LEGAL RESERVE		98 285	98 285	98 285
RETAINED EARNINGS		9 148 149	664 176	7 073 411
NET PROFIT FOR THE FINANCIAL YEAR		1 403 938	1 147 201	2 074 738
<b>TOTAL OWNER'S EQUITY</b>		<b>16 781 681</b>	<b>14 154 291</b>	<b>15 377 743</b>

<b>TOTAL LIABILITIES</b>		<b>41 448 201</b>	<b>28 520 007</b>	<b>30 409 734</b>
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**INCOME STATEMENT (in kroons)**

	Note	01.07.03 -31.03.04 Consolidated EEK	01.07.02 -31.03.03 Consolidated EEK
	No		
NET SALES	6	332 208 026	265 907 722
COST OF GOODS SOLD		211 390 576	180 403 200
<b>GROSS PROFIT</b>		<b>120 817 450</b>	<b>85 504 522</b>
MARKETING EXPENSES		42 640 707	44 978 076
ADMINISTRATIVE AND GENERAL EXPENSES		65 431 832	24 708 830
OTHER OPERATING INCOME		32 685 123	22 070 888
OTHER OPERATING EXPENSES		15 335 657	12 326 698
<b>OPERATING PROFIT</b>		<b>30 094 377</b>	<b>25 561 806</b>
FINANCIAL INCOME		989 904	576 992
FINANCIAL EXPENSES		9 141 791	8 188 963
<b>PROFIT BEFORE INCOME TAX</b>		<b>21 942 490</b>	<b>17 949 835</b>
MINORITY INTEREST		24 423	
<b>NET PROFIT</b>		<b>21 966 913</b>	<b>17 949 834</b>
EARNINGS PER SHARE	8	2,79	2,28

# INCOME STATEMENT (in euros)

	Note	01.07.03 -31.03.04 Consolidated EUR	01.07.02 -31.03.03 Consolidated EUR
	No		
NET SALES	6	21 231 908	16 994 557
COST OF GOODS SOLD		13 510 286	11 529 836
<b>GROSS PROFIT</b>		<b>7 721 623</b>	<b>5 464 721</b>
MARKETING EXPENSES		2 725 231	2 874 616
ADMINISTRATIVE AND GENERAL EXPENSES		4 181 846	1 579 178
OTHER OPERATING INCOME		2 088 955	1 410 583
OTHER OPERATING EXPENSES		980 125	787 818
<b>OPERATING PROFIT</b>		<b>1 923 376</b>	<b>1 633 693</b>
FINANCIAL INCOME		63 266	36 876
FINANCIAL EXPENSES		584 265	523 369
<b>PROFIT BEFORE INCOME TAX</b>		<b>1 402 377</b>	<b>1 147 201</b>
MINORITY INTEREST		1 561	
<b>NET PROFIT</b>		<b>1 403 938</b>	<b>1 147 201</b>
EARNINGS PER SHARE	8	0,18	0,15

**CASH FLOW STATEMENT**  
(in kroons)

	Note	01.07.03 -31.03.04	01.07.02 -31.03.03
		Consolidated	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	No	EEK	EEK
OPERATING PROFIT		30 094 378	25 561 805
DEPRECIATION OF TANGIBLE ASSETS	2	11 883 150	4 316 675
DEPRECIATION OF INTANGIBLE ASSETS	2	54 498	48 022
PROFIT (LOSS) FROM SALES OF NON-CURRENT ASSETS		2 919 669	
CHANGE IN RECEIVABLES		-17 307 302	-108 101 195
CHANGE IN INVENTORIES		-45 126 645	-8 726 866
CHANGE IN LIABILITIES		95 836 350	48 017 614
INTEREST PAID		-7 857 140	-5 720 932
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>70 496 958</b>	<b>-44 604 877</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

PURCHASE OF SHARES OF SUBSIDIARIES		-7 240 050	
SALES OF NON-CURRENT ASSETS AT SALES PRICE		40 900 720	138 537 048
PURCHASE OF FIXED ASSETS	2	-154 714 855	-64 133 673
CHANGE IN LOANS GRANTED			10 156 000
INTEREST RECEIVED			
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>-121 054 185</b>	<b>84 559 375</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

LOAN REPAYMENTS		-1 000 000	-11 900 000
LOANS RECEIVED		78 064 674	
OVERDRAFT USED		10 470 416	-2 050 656
CHANGE IN SHORT-TERM LOANS			2 714 160
CHANGE IN LONG-TERM PAYABLES			18 522 646
LEASE PAYMENTS		-40 120 478	-5 851 709
BOND PAYMENTS		-1 600 000	-19 621 987
DIVIDENDS PAID			-23 632 500
OTHER FINANCING INCOME/EXPENSES			-673 571
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>45 814 612</b>	<b>-42 493 617</b>

<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-4 742 615</b>	<b>-2 539 119</b>
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<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>8 591 080</b>	<b>3 476 327</b>
CHANGE IN CASH AND CASH EQUIVALENTS		-4 742 615	-2 539 118
CHANGE IN CURRENCY EXCHANGE RATE		539 729	200 843
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	1	<b>3 254 736</b>	<b>1 138 052</b>

**CASH FLOW STATEMENT**  
(in euros)

	Note	01.07.03 -31.03.04	01.07.02 -31.03.04
		Consolidated	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>No</b>	<b>EUR</b>	<b>EUR</b>
OPERATING PROFIT		1 923 376	1 633 693
DEPRECIATION OF TANGIBLE ASSETS	2	759 470	275 885
DEPRECIATION OF INTANGIBLE ASSETS	2	3 483	3 069
PROFIT (LOSS) FROM SALES OF NON-CURRENT ASSETS		186 600	0
CHANGE IN RECEIVABLES		-1 106 135	-6 908 908
CHANGE IN INVENTORIES		-2 884 111	-557 747
CHANGE IN LIABILITIES		6 125 043	3 068 877
INTEREST PAID		-502 161	-365 633
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>4 505 565</b>	<b>-2 850 764</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

PURCHASE OF SHARES OF SUBSIDIARIES		-462 722	
SALES OF NON-CURRENT ASSETS AT SALES PRICE		2 614 026	8 854 108
PURCHASE OF FIXED ASSETS		-9 888 056	-4 098 878
CHANGE IN LOANS GRANTED			649 085
INTEREST RECEIVED			
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>-7 736 753</b>	<b>5 404 315</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

LOAN REPAYMENTS		-63 911	-760 547
LOANS RECEIVED		4 989 229	
OVERDRAFT USED		669 180	-131 060
CHANGE IN SHORT-TERM LOANS			173 466
CHANGE IN LONG-TERM PAYABLES			1 183 810
LEASE PAYMENTS		-2 564 159	-373 991
BOND PAYMENTS		-102 258	-1 254 070
DIVIDENDS PAID			-1 510 388
OTHER FINANCING INCOME/EXPENSES			-43 049
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>2 928 080</b>	<b>-2 715 830</b>

<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-303 108</b>	<b>-162 279</b>
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<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>549 069</b>	<b>222 177</b>
CHANGE IN CASH AND CASH EQUIVALENTS		-303 108	-162 279
CHANGE IN CURRENCY EXCHANGE RATE		-37 946	12 836
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1</b>	<b>208 015</b>	<b>72 735</b>

**STATEMEN OF CHANGES IN EQUITY (in kroons)**

	Note No	SHARE CAPITAL	STATUTORY RESERVE	REVALUATION RESERVE	PROFIT FOR FINANCIAL YEAR	RETAINED EARNINGS	TOTAL
<b>CONSOLIDATED</b>							
<b>1 JULY 2002</b>		78 775 000	0	112 812 302	0	12 415 185	204 002 487
RETAINED EARNINGS						-485 230	-485 230
NET PROFIT					17 949 834		17 949 834
STATUTORY RESERVE MADE			1 537 837			-1 537 837	
<b>31 DECEMBER 2002</b>		78 775 000	1 537 837	112 812 302	17 949 834	10 392 118	221 467 091
<b>CONSOLIDATED</b>							
<b>1 JULY 2003</b>		78 775 000	1 537 837	17 159 388	0	143 137 790	240 610 015
NET PROFIT					21 966 913		21 966 913
<b>31 DECEMBER 2003</b>		78 775 000	1 537 837	17 159 388	21 966 913	143 137 790	262 576 928

**STATEMEN OF CHANGES IN EQUITY (in euros)**

	Note No	SHARE CAPITAL	STATUTORY RESERVE	REVALUATION RESERVE	PROFIT FOR FINANCIAL YEAR	RETAINED EARNINGS	TOTAL
<b>CONSOLIDATED</b>							
<b>1 JULY 2002</b>		5 034 627	0	7 210 002	0	793 473	13 038 102
RETAINED EARNINGS						-31 011	-31 011
NET PROFIT					1 147 201		1 147 201
STATUTORY RESERVE MADE			98 285			-98 285	
<b>30 DECEMBER 2002</b>		5 034 627	98 285	7 210 002	1 147 201	664 176	14 154 291
<b>CONSOLIDATED</b>							
<b>1 JULY 2003</b>		5 034 627	98 285	1 096 682	0	9 148 149	15 377 743
NET PROFIT					1 403 938		1 403 938
<b>31 DECEMBER 2003</b>		5 034 627	98 285	1 096 682	1 403 938	9 148 149	16 781 681

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

## **ACCOUNTING PRINCIPLES AND BASIS OF ESTIMATIONS**

This interim report has been prepared based on the following accounting principles:

### **Basis of preparation**

The consolidated interim report of the Group has been prepared in accordance with the International Financial Reporting Principles (IFRS) as well as the generally accepted accounting principles, which requires management's estimations of several assets and liabilities as well as revenue and expenses upon their recording.

The Estonian kroon is the accounting currency of the Group. For comparison purposes, the figures of the interim report have also been denominated in euros.

No currency exchange rate differences occur upon re-calculation of the financial indicators since the exchange rate between the Estonian kroon and the euro has been fixed (1 EUR = 15.64664 EEK).

According to the Management Board, the consolidated interim report of Kalev Ltd for the first 9 months of the financial year 2003/2004 gives a fair and true view of the financial results of the Group in accordance with the principle of going concern.

### **Income statement formats**

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

### **Background information on the company and consolidation principles**

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

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

Subsidiaries (except for subsidiaries that have been purchased for resale, and are accounted for in fair value) – i.e. companies, where the Group's interest exceeds over 50% of voting shares or which activities or financial policies can be controlled by the Group through other means – have been fully consolidated.

Subsidiaries are consolidated from the day of their acquisition until the day they are sold, or until the Group waives control over the particular subsidiary. All intra-group receivables and payables, as well as profit and loss arising from transactions between the

Group companies (unless this can be covered) have been eliminated from the consolidated financial statements.

As at 31 March 2004, Kalev Ltd has an interest in five subsidiaries:

1. Kalev Merchant Services Ltd is a US-based subsidiary, which is fully owned by Kalev Ltd, and deals with the introduction and sales of Kalev Ltd's production in the United States.
2. Kalev Ltd's interest in AS Kalev Real Estate Company (hereinafter AS Kalev REC) is 59.3%. AS Kalev REC has a total of 40,900 shares with a nominal value of 1,000 kroons (64 euros).
3. AS Kalev Paide Tootmine is fully owned by Kalev Ltd, and manufactures milk-based confectionery products, flour confectionery products and dairy products.
4. Kalev Ltd's interest in AS Kalev Jõhvi Tootmine (formerly known as AS Järle) is 99.1%. The company manufactures flour confectionery products and baked goods.
5. Kalev Ltd's interest in OÜ Maiasmokk is 59.4%. the company manufactures and sells flour confectionery products.

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

AS Kalev Paide Tootmine launched its activities as an independent business unit on 1 August 2003. The share in AS Kalev Jõhvi Tootmine was acquired on 24 December 2003. The share in OÜ Maiasmokk was acquired on 20 February 2004.

### **Comparative data**

The comparative data on the same period last financial year has been presented in the interim report. Compared to the same period last year, three subsidiaries have launched their successful activities within the Group, and make up 76% of the sales and 50% of the balance sheet volume for the 9 months.

## NOTES TO THE INTERIM REPORT

### 1. Customer receivables

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

### 2. Tangible and intangible assets

#### Tangible assets

GROUP	EEK					
	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	Total
Non-current assets 01.07.2003						
Acquisition cost	29 679 200	74 377 878	64 983 608	9 268 908	131 361 311	309 670 905
Accumulated depreciation		-11 510 208	-36 122 641	-6 764 247	-234 833	-54 631 929
Net book value 01.07.2003	29 679 200	62 867 670	28 860 967	2 504 661	131 126 478	255 038 976
Transactions of the period						
Acquisition	434 020	32 897 903	41 253 345	3 197 474	49 806 532	127 589 274
incl. by merger	434 020	21 527 475	7 652 155	458 528		30 072 178
incl. reclassification			6 566 576		-6 566 576	0
Depreciation charge		-1 900 442	-8 483 554	-1 217 428		-11 601 424
Sale	-23 315	-6 533 775	0	-357 525	-1 050 080	-7 964 694
*Total transactions	410 705	24 463 685	32 769 791	1 622 522	48 756 453	108 023 156
Acquisition cost 31.03.2004	30 089 905	97 875 198	108 929 759	11 876 894	173 551 187	422 322 942
Depreciation charge		-10 544 019	-40 759 356	-7 695 212	-234 833	-59 233 421
Net book value 31.03.2004	30 089 905	87 331 179	68 170 403	4 181 681	173 316 354	363 089 521

GROUP	EUR					
	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	Total
Non-current assets 01.07.2003						
Acquisition cost	1 896 842	4 753 601	4 153 199	592 390	8 395 496	19 791 527
Accumulated depreciation		-735 634	-2 308 652	-432 313	-15 009	-3 491 608
Net book value 01.07.03	1 896 842	4 017 966	1 844 547	160 077	8 380 488	16 299 920
Transactions of the period						
Purchase	27 739	2 102 554	2 636 563	204 335	3 183 209	8 154 420
incl. by merger	27 739	1 375 853	489 061	29 305		1 921 958

			419 680		-419 680	0
Depreciation charge		-121 460	-542 197	-77 808		-741 464
Sale	-1 490	-417 583	0	-22 850	-67 112	-509035
*Total transactions	26 249	1 563 510	2 094 366	103 698	3 116 097	6 903 920
Acquisition cost 31.03.2004	1 923 091	6 255 349	6 961 863	759 070	11 091 914	26 991 286
Depreciation charge		-673 884	-2 604 991	-491 812	-15 009	-3 785 696
Net book value 31.03.2004	1 923 091	5 581 465	4 356 872	267 257	11 076 906	23 205 591

### Intangible assets

GROUP	EEK		
	Assets	Goodwill	Total
Intangible assets 01.07.2003			
Acquisition cost	350 665		350 655
Accumulated depreciation	-132 940		-132 940
Net book value 01.07.2003	217 725		217 725
Transactions of the period			
Goodwill		-9 182 820	-9 182 820
Depreciation	-54 498		-54 498
Transactions of the period		-9 182 820	-9 182 820
Acquisition cost 31.03.2004	350 655	-9 182 820	-8 832 165
Depreciation charge	-187 438		
Net book value 31.03.2004	163 217	-9 182 820	-9 019 603

GROUP	EUR		
	Assets	Goodwill	Total
Intangible assets 01.07.2003			
Acquisition cost	22 411		22 411
Accumulated depreciation	-8 496		-8 496
Net book value 01.07.2003	13 915		13 915
Transactions of the period			
Goodwill		-586 888	-586 888
Depreciation	-3 483		-3 483
Transactions of the period		-586 888	-586 888
Acquisition cost 31.03.2004	22 411	-586 888	-564 477
Depreciation charge	-11 979		
Net book value 31.03.2004	10 431	-586 888	-576 456

### 3. Real estate investments

	GROUP		
	Land	Buildings	TOTAL
<b>01.07.2003 in EEK</b>			
Value 01.07.2003	49 102 750	26 470 345	75 573 095
Sale	62 107 576	4 500 000	66 607 576
Purchase	52 700 000		52 700 000
<b>Value 31.03.2004</b>	<b>39 695 174</b>	<b>21 970 345</b>	<b>61 665 519</b>
<b>01.07.2003 in EUR</b>			
Value 01.07.2003	3 138 230	1 691 759	4 829 989
Sale	3 969 387	287 602	4 256 989
Purchase	3 368 135		3 368 135
<b>Value 31.03.2004</b>	<b>2 536 978</b>	<b>1 404 157</b>	<b>3 941 135</b>

### 4. Debt obligations and long-term liabilities

	GROUP		GROUP	
	31.03.2004	31.03.2003	31.03.2004	31.03.2003
	EEK	EEK	EUR	EUR
Short-term liabilities	65 235 633	3 059 520	4 169 306	195 538
Long-term liabilities	156 549 867	123 938 734	10 005 334	7 921 109
<b>TOTAL</b>	<b>221 785 500</b>	<b>126 998 254</b>	<b>14 174 641</b>	<b>8 116 647</b>

<b>Change in liabilities:</b>	01.07.03-31.03.04	01.07.03-31.03.04
	EEK	EUR
Balance 30.06.2003	143 733 760	9 186 238
Change in lease liabilities	-1 089 436	-69 627
Other short-term loans	37 524 657	2 398 257
Overdraft	10 470 416	669 180
Long-term lease liabilities	-3 798 874	-242 792
Other long-term liabilities	34 944 977	2 233 385
<b>Balance 31.03.2004</b>	<b>221 785 500</b>	<b>14 174 641</b>

Increase in debt obligations by 95.1 million kroons (6.1 million euros) has been conditioned by the construction of the new production complex in Põrguvälja.

AS Kalev REC loan obligation for the purchase of the Keila-Joa holiday complex amounts to 30 million kroons (1.9 million euros).

## 5. Owner's equity

	GROUP		GROUP	
	31.03.2004	31.03.2004	31.03.2003	31.03.2003
	EEK	EUR	EEK	EUR
Number of common shares	7 877 500	7 877 500	7 877 500	7 877 500
Nominal value	10	0,64	10	0,64

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

## 6. Other revenue

Other revenue of the company in the given period includes the fee for waiver from the right of repurchase agreed in the contract of purchase and sale under the law of obligations on the legal share (18070/52410) of the real estate located at Pärnu mnt 139 in Tallinn in the amount of 30 million kroons (1.9 million euros).

## 7. Accounting for segments

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

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

Sales by fields of activities				
	GROUP		GROUP	
	01.07.03-31.03.04	01.07.02-31.03.03	01.07.03-31.03.04	01.07.02-31.03.03
	EEK	EEK	EUR	EUR
Confectionery products	239 908 110	249 251 174	15 332 884	15 930 013
Baked goods	8 024 246		512 841	
Cookies	2 469 939		157 858	
Dairy products	28 098 320		1 795 805	
Real estate transactions	44 966 424	6 510 545	2 873 871	416 099

Other sales	8 740 986	10 146 003	558 649	648 446
TOTAL	332 208 026	265 907 721	18 765 404	16 994 557

Sales by markets				
	GROUP		GROUP	
	01.07.03-31.03.04	01.07.02-31.03.03	01.07.03-31.03.04	01.07.02-31.03.03
	EEK	EEK	EUR	EUR
Estonia	288 981 042	234 000 917	18 469 208	14 955 346
Eastern Europe	15 314 613	11 706 644	978 780	748 189
Baltic countries	19 253 889	15 815 800	1 230 545	1 010 811
Scandinavia	4 755 974		303 961	
Other countries	3 902 508	4 384 360	249 415	280 211
TOTAL	332 208 026	265 907 721	21 231 908	16 994 557

## 8. Compensation to employees

A total of 50 employees were laid off between 1 July 2003 and 31 March 2004. Dismissal compensations amounted to a total of 1,621,738 kroons (103,648 euros).

## 9. Earnings per share

	GROUP		GROUP	
	01.07.03-31.03.04	01.07.02-31.03.03	01.07.03-31.03.04	01.07.02-31.03.03
	EEK	EEK	EUR	EUR
Net profit	21 966 913	17 949 835	1 403 938	1 147 201
Weighed average number of shares during the period	7 877 500	7 877 500	530 463	503 463
Earnings per share (EPS)	2,79	2,28	0,18	0,15

The company has no contingently issuable common shares. Therefore, diluted EPS equals to EPS.

## 10. Transactions with related parties (in kroons)

Purchased goods and services	Services	Goods	Balance of receivables 01.07.03-31.03.04	Balance of receivables 01.07.02-31.03.03
From Tööstuse Teenindamise AS	25 632 715		3 469 929	
From Tallinna Piimatööstuse AS		8 277 731	2 531 318	5 300 219
Other purchases	1 640 200	589 112	184 040	827 008
Payables at the beginning of the period	1 816 327	335 652	2 151 980	28 830
Payables at the end of the period	3 587 929	2 597 358	6 185 287	
Sold goods and services				
Tallinna Piimatööstus		71 578 250	23 279 975	
Other sales	250 529	524 273	694 999	11 250 334
Receivables at the beginning of the period	151 968		151 968	122 014
Receivables at the end of the period	174 473	23 800 501	23 974 974	
Purchased goods and services (OÜ Cassel Grupp)				351 880
Payables at the beginning of the period				2 988
Payables at the end of the period				
Receivables at the beginning of the period				6 920
Receivables at the end of the period				

## Transactions with related parties (in EUR)

Purchased goods and services	Services	Goods	Balance of receivables 01.07.03-31.03.04	Balance of receivables 01.07.02-31.03.03
From Tööstuse Teenindamise AS	1 638 225		221 768	
From Tallinna Piimatööstuse AS		529 042	161 780	338 745
Other purchases	104 828	37 651	11 762	52 855
Payables at the beginning of the period	116 084	21 452	137 536	1 843
Payables at the end of the period	229 310	166 001	395 311	
Sold goods and services				
Tallinna Piimatööstus		4 574 672	1 487 858	

Other sales	16 012	33 507	44 418	719 026
Receivables at the beginning of the period	9 713		9 713	7 798
Receivables at the end of the period	11 151	1 521 125	1 532 276	
Purchased goods and services (OÜ Cassel Grupp)				22 489
Payables at the beginning of the period				191
Payables at the end of the period				
Receivables at the beginning of the period				442
Receivables at the end of the period				

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

Kalev Ltd has supported non-profit associations related to the Manager of Kalev Ltd in the amount of 804,620 kroons (51,424 euros).

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