



Kalev Ltd

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12 MONTHS INTERIM REPORT

Beginning of the period 1.07.2003

End of the period 30.06.2004

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

Group structure

The financial indicators of Kalev Ltd and its subsidiaries have been consolidated line by line in this 12-month interim report.

The Kalev Group incorporates the parent company Kalev Ltd and five subsidiaries.

Subsidiary	Location	Share as at 30.06.2004
AS Kalev Paide Tootmine	Estonia	100%
AS Kalev Jõhvi Tootmine	Estonia	99.1%
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	59.3%
OÜ Maiasmokk	Estonia	81.26%
Kalev Merchant Services Ltd	USA	100%

By concluding the contract on 24 December 2003, Kalev Ltd acquired 99.1% of the shares of AS Kalev Jõhvi Tootmine (formerly known as AS Järle). The subsidiary manufactures flour confectionery products and baked goods.

By concluding the contract on 20 February 2004, Kalev Ltd acquired 59.52% of the shares of OÜ Maiasmokk. Pursuant to the contract concluded on 13 May 2004, Kalev Ltd acquired an additional 21.84% of the shares of OÜ Maiasmokk. The subsidiary manufactures and sells flour confectionery products in both – the cafe at Pikk Street in the Old Town of Tallinn and via other retail trade companies.

Pursuant to the agreement concluded between the shareholders of AS Kalev Real Estate Company (AS Kalev REC) on 3 May 2002, Kalev Ltd has the right to acquire all shares of AS Kalev REC held by AS Skanska EMV (i.e. 40.7% of the shares of AS Kalev REC) until 15 February 2005 for either 23.4 million kroons or 27.8 million kroons, depending on the time of purchase.

AS Kalev and Skanska EMV AS agreed on amending the shareholders' agreement so that Kalev Ltd would pay a total of 25.2 million kroons for the shares to be acquired. The downpayment amounted to 2.6 million kroons; the rest of the purchase price will be paid in equal quarterly instalments between 1 July 2004 and 30 June 2005. An instalment must be paid on the last day of the quarter at the latest. Kalev Ltd is obliged to pay interest (EURIBOR + annual 2%) on the last two instalments (a total of 11.3 million kroons) from 1 November 2004 onwards.

The public limited company Kalev will become the owner of the shares under the contract after completing the payment of the full amount. Upon acquiring the above shares, Kalev Ltd will become the full owner of Kalev REC.

Confectionery market and sales

According to the retail trade survey of the market research supplier AC Nielsen, Kalev Ltd's share at market was 46.1% in June/July of 2004 as regards chocolate and sugar confectionery products.

In the first half 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.

In the first half 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 3rd 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. Boxed chocolates *Tallinna Raekoda* and *Koorelikööri* were introduced in the 4th quarter.

In the second half of the financial year, Kalev Ltd enhanced sales in the baked goods sector by introducing a new series of biscuits, and renewing the packaging of several mold biscuits that used to form a part of the AS Kalev Jõhvi Tootmine product portfolio. According to the retail trade survey by AC Nielsen Eesti, Kalev Ltd's market share in the biscuits sector was 19.4% in June/July 2004.

In the first half of the financial year Kalev Ltd continued the production of other bakery products of AS Kalev Jõhvi Tootmine and sales of these in the local market, and started modernising bread and white bread packaging.

In addition to milk-based confectionery products, AS Kalev Paide Tootmine also enhanced in the given period the production of dairy products – mainly butter, skimmed milk and milk powder, as well as high-temperature pasteurized milk.

The total sales of Kalev Ltd's confectionery products amounted to nearly 7,300 tonnes in 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.

Domestic market constituted 76% of the total sales of confectionery products, and 24% of the sales was exported. In the given period, Latvia and, until 1 May 2004, Ukraine remained the company's main export countries. After Estonia's accession to the European Union, Kalev Ltd ended the export to the Ukraine, since the company's products are no longer competitive in the country due to their price. In addition to the above countries, Kalev Ltd also exported its products to Russia, the Scandinavian countries and the United States.

Economic activities and results

The consolidated net sales of Kalev Ltd in the financial year 2003/2004 totalled 564.9 million kroons (36.1 million euros), which exceeds the net sales of the last financial year by 62% (2002/2003: 347.7 million kroons – i.e. 22.2 million euros).

The consolidated net profit of the company in the given financial year amounted to 17.2 million kroons (1.1 million euros) - 48% less than in the last financial year (2002/2003: 32.5 million kroons - i.e. 2.1 million euros).

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 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 to Põrguvälja in the 1st 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 – increases 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 (2.4 million euros).

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 the production equipment of the chocolate plant as well as launch of production in the total amount of 15.2 million kroons (0.97 million euros). The expenses in the amount of 2.5 million kroons (160 thousand euros), which incurred upon the relocation of the caramel plant, were added to these costs in the last quarter of the financial year.

The 16% increase in marketing expenses in the given period was mostly conditioned by the incorporation of the new subsidiary – AS Kalev Jõhvi Tootmine – in the Kalev Group.

Other expenses of Kalev Ltd include 10.06 million kroons (643 thousand euros) of loss from the disposal of investment property.

In the financial year 2003/2004 the average number of employees in Kalev Group was 610 people – an 11% increase, 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 Chairman of the Management Board of Kalev Ltd, the consolidated interim report of Kalev Ltd, set out on pages 5-24, gives a true and fair view of the 12-month financial results of the company in accordance with the principle of going concern. This interim report has not been audited or otherwise inspected by auditors.

Tallinn, 30 August 2004

A handwritten signature in black ink, appearing to read 'Kruuda', with a large, stylized initial 'K' and a trailing flourish.

Oliver Kruuda
The Chairman

BALANCE SHEET (in kroons)

ASSETS	Note	30.06.04	30.06.03
		Consolidated	Consolidated
CURRENT ASSETS	No	EEK	EEK
CASH AND BANK		2 780 382	8 591 080
CUSTOMER RECEIVABLES	1	206 221 733	90 024 044
PREPAID EXPENSES		4 826 939	5 308 235
INVENTORIES	2	102 165 282	40 726 937
TOTAL CURRENT ASSETS		315 994 336	144 650 296

NON-CURRENT ASSETS

MISCELLANEOUS LONG-TERM RECEIVABLES		330 180	330 180
TANGIBLE ASSETS	3	351 168 558	255 038 885
REAL ESTATE INVESTMENTS	4	40 962 761	75 573 095
INTANGIBLE ASSETS	3	-9 017 055	217 715
TOTAL NON-CURRENT ASSETS		383 444 445	331 159 875

TOTAL ASSETS		699 438 780	475 810 171
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LIABILITIES AND OWNER' EQUITY**LIABILITIES**

CURRENT LIABILITIES	5	109 628 402	27 346 235
PREPAYMENTS FROM CUSTOMERS		3 416 983	497 042
SUPPLIER PAYABLES	2	161 155 063	76 162 122
TAXES PAYABLE		2 329 803	4 537 792
OTHER PAYABLES	6	41 606 668	10 275 440
TOTAL CURRENT LIABILITIES		318 136 918	118 818 631

NON-CURRENT LIABILITIES	5	123 323 114	116 381 525
TOTAL NON-CURRENT LIABILITIES		123 323 114	116 381 525

MINORITY INTEREST		184 070	
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OWNER'S EQUITY

SHARE CAPITAL		78 775 000	78 775 000
REVALUATION RESERVE		17 159 388	17 159 388
STATUTORY LEGAL RESERVE		1 537 837	1 537 837
RETAINED EARNINGS		143 137 191	110 675 117
NET PROFIT FOR THE FINANCIAL YEAR		17 184 663	32 462 673
TOTAL OWNER'S EQUITY		257 794 678	240 610 015

TOTAL LIABILITIES		699 438 780	475 810 171
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BALANCE SHEET (in euros)

ASSETS	Note	30.06.04 Consolidated	30.06.03 Consolidated
	No	EUR	EUR
CURRENT ASSETS			
CASH AND BANK		177 698	549 069
CUSTOMER RECEIVABLES	1	13 179 937	5 753 570
PREPAID EXPENSES		308 497	339 257
INVENTORIES	2	6 529 535	2 602 919
TOTAL CURRENT ASSETS		20 195 667	9 244 815

NON-CURRENT ASSETS

MISCELLANEOUS LONG-TERM RECEIVABLES		21 102	21 102
TANGIBLE ASSETS	3	22 443 704	16 299 914
REAL ESTATE INVESTMENTS	4	2 617 991	4 829 989
INTANGIBLE ASSETS	3	-576 293	13 914
TOTAL NON-CURRENT ASSETS		24 506 504	21 164 919

TOTAL ASSETS		44 702 171	30 409 734
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LIABILITIES AND OWNER' EQUITY**LIABILITIES**

CURRENT LIABILITIES	5	7 006 514	1 747 738
PREPAYMENTS FROM CUSTOMERS		218 384	31 767
SUPPLIER PAYABLES	1	10 299 659	4 867 634
TAXES PAYABLE		148 901	290 017
OTHER PAYABLES	6	2 659 144	656 719
TOTAL CURRENT LIABILITIES		20 332 603	7 593 875

NON-CURRENT LIABILITIES	5	7 881 763	7 438 116
TOTAL NON-CURRENT LIABILITIES		7 881 763	7 438 116

MINORITY INTEREST		11 764	
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OWNER'S EQUITY

SHARE CAPITAL		5 034 627	5 034 627
REVALUATION RESERVE		1 096 682	1 096 682
STATUTORY LEGAL RESERVE		98 285	98 285
RETAINED EARNINGS		9 148 149	7 073 411
NET PROFIT FOR THE FINANCIAL YEAR		1 098 297	2 074 738
TOTAL OWNER'S EQUITY		16 476 041	15 377 743

TOTAL LIABILITIES		44 702 171	30 409 734
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INCOME STATEMENT (in kroons)

	Note No	01.07.03 -30.06.04 Consolidated EEK	01.07.02 -30.06.03 Consolidated EEK
NET SALES	7	564 857 926	347 665 766
COST OF GOODS SOLD		422 481 837	240 414 863
GROSS PROFIT		142 376 089	107 250 903
MARKETING EXPENSES		71 422 289	61 017 665
ADMINISTRATIVE AND GENERAL EXPENSES		68 942 074	45 426 410
OTHER OPERATING INCOME		47 075 080	49 668 441
OTHER OPERATING EXPENSES		19 226 567	8 466 942
OPERATING PROFIT		29 860 239	42 008 327
FINANCIAL INCOME		2 166 626	3 355 717
FINANCIAL EXPENSES		14 865 495	12 901 371
PROFIT BEFORE INCOME TAX		17 161 371	32 462 673
MINORITY INTEREST		23 292	
NET PROFIT		17 184 663	32 462 673
EARNINGS PER SHARE	10	2,18	4,12

INCOME STATEMENT (in euros)

	Note No	01.07.03 -30.06.04 Consolidated EUR	01.07.02 -30.06.03 Consolidated EUR
NET SALES	7	36 100 909	22 219 835
COST OF GOODS SOLD		27 001 442	15 365 271
GROSS PROFIT		9 099 467	6 854 564
MARKETING EXPENSES		4 564 705	3 899 730
ADMINISTRATIVE AND GENERAL EXPENSES		4 406 190	2 903 269
OTHER OPERATING INCOME		3 008 638	3 174 384
OTHER OPERATING EXPENSES		1 228 798	541 135
OPERATING PROFIT		1 908 412	2 684 815
FINANCIAL INCOME		138 472	214 469
FINANCIAL EXPENSES		950 076	824 546
PROFIT BEFORE INCOME TAX		1 096 809	2 074 738
MINORITY INTEREST		1 489	
NET PROFIT		1 098 297	2 074 738
EARNINGS PER SHARE	10	0,14	0,26

**4th QUARTER INCOME
STATEMENT (in kroons)**

	Note No	01.04.04 -30.06.04 Consolidated EEK	01.04.03 -30.06.03 Consolidated EEK
NET SALES	7	232 649 900	81 758 045
COST OF GOODS SOLD		211 091 262	60 011 664
GROSS PROFIT		21 558 639	21 746 381
MARKETING EXPENSES		28 781 582	16 039 589
ADMINISTRATIVE AND GENERAL EXPENSES		3 510 242	20 717 580
OTHER OPERATING INCOME		14 389 957	20 878 045
OTHER OPERATING EXPENSES		3 890 910	2 859 752
OPERATING PROFIT		-234 138	16 446 521
FINANCIAL INCOME		1 176 722	2 778 725
FINANCIAL EXPENSES		5 723 704	4 712 408
PROFIT BEFORE INCOME TAX		-4 781 120	14 512 838
MINORITY INTEREST		-1 131	
NET PROFIT		-4 782 251	14 512 838
EARNINGS PER SHARE	10	-0,61	1,84

**4th QUARTER INCOME
STATEMENT (in euros)**

	Note No	01.04.04 -30.06.04 Consolidated EUR	01.04.03 -30.06.03 Consolidated EUR
NET SALES	7	14 869 001	5 225 278
COST OF GOODS SOLD		13 491 156	3 835 435
GROSS PROFIT		1 377 845	1 389 844
MARKETING EXPENSES		1 839 474	1 025 114
ADMINISTRATIVE AND GENERAL EXPENSES		224 345	1 324 091
OTHER OPERATING INCOME		919 684	1 334 347
OTHER OPERATING EXPENSES		248 674	182 771
OPERATING PROFIT		-14 964	1 051 122
FINANCIAL INCOME		75 206	177 592
FINANCIAL EXPENSES		365 810	301 177
PROFIT BEFORE INCOME TAX		-305 568	927 537
MINORITY INTEREST		-72	
NET PROFIT		-305 641	927 537
EARNINGS PER SHARE	10	-0,04	0,12

CASH FLOW STATEMENT (in kroons)

	Note	01.07.03 -30.06.04 Consolidated	01.07.02 -30.06.03 Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES	No	EEK	EEK
OPERATING PROFIT		29 860 239	42 008 327
DEPRECIATION OF TANGIBLE ASSETS	3	19 153 909	10 849 202
DEPRECIATION OF INTANGIBLE ASSETS	3		72 663
PROFIT (LOSS) FROM SALES OF NON- CURRENT ASSETS		1 056 610	-7 388 299
CHANGE IN RECEIVABLES		-95 329 339	-6 076 033
CHANGE IN INVENTORIES		-61 438 345	8 241 719
CHANGE IN LIABILITIES		146 021 610	38 244 536
INTEREST PAID		-13 112 001	-7 668 605
CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY			-32 428 914
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		26 212 683	45 854 596

CASH FLOWS FROM INVESTING ACTIVITIES

PURCHASE OF SHARES OF SUBSIDIARIES		-11 769 050	136 729 416
SALES OF NON-CURRENT ASSETS AT SALES PRICE		15 067 762	-174 353 910
PURCHASE OF FIXED ASSETS		-101 586 826	
CHANGE IN LOANS GRANTED	3,4		
INTEREST RECEIVED			
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		-98 288 114	-37 624 494

CASH FLOWS FROM FINANCING ACTIVITIES

LOAN REPAYMENTS		-33 259 655	-39 000 000
LOANS RECEIVED		118 028 812	73 145 237
OVERDRAFT USED		30 179 910	14 030 052
CHANGE IN SHORT-TERM LOANS			
CHANGE IN LONG-TERM PAYABLES			
LEASE PAYMENTS		-45 853 828	-9 518 712
BOND PAYMENTS		-1 600 000	-19 621 987
DIVIDENDS PAID			-23 632 500
OTHER FINANCING INCOME/EXPENSES			
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		67 495 239	-4 597 910

CHANGE IN CASH AND CASH EQUIVALENTS		-4 580 193	3 632 192
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CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		8 591 080	3 476 327
CHANGE IN CASH AND CASH EQUIVALENTS		-4 580 193	3 632 192
CHANGE IN CURRENCY EXCHANGE RATE		-1 230 505	1 482 561
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2 780 382	8 591 080

CASH FLOW STATEMENT (in euros)

	Note	01.07.03 -30.06.04 Consolidated	01.07.02 -30.06.03 Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES	No	EUR	EUR
OPERATING PROFIT		1 908 412	2 684 815
DEPRECIATION OF TANGIBLE ASSETS	3	1 224 155	693 389
DEPRECIATION OF INTANGIBLE ASSETS	3		4 644
PROFIT (LOSS) FROM SALES OF NON- CURRENT ASSETS		67 529	-472 197
CHANGE IN RECEIVABLES		-6 092 640	-388 328
CHANGE IN INVENTORIES		-3 926 616	526 741
CHANGE IN LIABILITIES		9 332 458	2 444 265
INTEREST PAID		-838 007	-490 112
CHANGE IN FAIR VALUE OF INVESTMENT PROPERTY			-2 072 580
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		1 675 291	2 930 635

CASH FLOWS FROM INVESTING ACTIVITIES

PURCHASE OF SHARES OF SUBSIDIARIES		-752 177	
SALES OF NON-CURRENT ASSETS AT SALES PRICE		963 003	8 738 580
PURCHASE OF FIXED ASSETS		-6 492 565	-11 143 217
CHANGE IN LOANS GRANTED	3,4		
INTEREST RECEIVED			
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		-6 281 739	-2 404 637

CASH FLOWS FROM FINANCING ACTIVITIES

LOAN REPAYMENTS		-2 125 674	-2 492 548
LOANS RECEIVED		7 543 397	4 674 821
OVERDRAFT USED		1 928 843	896 681
CHANGE IN SHORT-TERM LOANS			
CHANGE IN LONG-TERM PAYABLES			
LEASE PAYMENTS		-2 930 586	-608 355
BOND PAYMENTS		-102 258	-1 254 070
DIVIDENDS PAID			-1 510 388
OTHER FINANCING INCOME/EXPENSES			
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		4 313 721	-293 859

CHANGE IN CASH AND CASH EQUIVALENTS		-292 727	232 139
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CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		549 069	222 177
CHANGE IN CASH AND CASH EQUIVALENTS		-292 727	232 139
CHANGE IN CURRENCY EXCHANGE RATE		-78 643	94 753
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		177 698	549 069

STATEMENT OF CHANGES IN EQUITY (in kroons)

	Note	SHARE CAPITAL	MANDATORY RESERVE	REVALUATION RESERVE	PROFIT FOR FINANCIAL YEAR	RETAINED EARNINGS	TOTAL
CONSOLIDATED							
1 JULY 2002		78 775 000	0	112 812 302	30 756 745	-18 341 560	204 002 487
ADJUSTMENT TO REVALUATION RESERVE				-99 797 769		99 797 769	
PROFIT ALLOCATION			1 537 837		-30 756 745	29 218 908	
REVALUATED NON-CURRENT ASSETS				4 144 855			4 144 855
NET PROFIT					32 462 673		32 462 673
30 JUNE 2003		78 775 000	1 537 837	17 159 388	32 462 673	110 675 117	240 610 015
CONSOLIDATED							
1 JULY 2003		78 775 000	1 537 837	17 159 388	32 462 673	110 675 117	240 610 015
PROFIT ALLOCATION					-32 462 673	32 462 673	0
NET PROFIT					17 184 663		17 184 663
30 JUNE 2004		78 775 000	1 537 837	17 159 388	17 184 663	143 137 790	257 794 678

STATEMENT OF CHANGES IN EQUITY (in euros)

	Note	SHARE CAPITAL	MANDATORY RESERVE	REVALUATION RESERVE	PROFIT FOR FINANCIAL YEAR	PROFIT FOR THE YEAR ENDED	TOTAL
CONSOLIDATED							
1 JULY 2002		5 034 627	0	7 210 002	1 965 709	-1 172 236	13 038 102
ADJUSTMENT TO REVALUATION RESERVE				-6 378 224		6 378 224	
PROFIT ALLOCATION			98 285		-1 965 709	1 867 424	
REVALUATED NON-CURRENT ASSETS				264 904			264 904
NET PROFIT					2 074 738		2 074 738
30 JUNE 2003		5 034 627	98 285	1 096 682	2 074 738	7 073 411	15 377 743
CONSOLIDATED							
1 JULY 2003		5 034 627	98 285	1 096 682	2 074 738	7 073 411	15 377 743
PROFIT ALLOCATION					-2 074 738	2 074 738	0
NET PROFIT					1 098 297		1 098 297
30 JUNE 2004		5 034 627	98 285	1 096 682	1 098 297	9 148 149	16 476 041

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 Standards (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 12 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 30 June 2004, Kalev Ltd has an interest in five subsidiaries:

1. AS Kalev Paide Tootmine (share of Kalev Ltd in the subsidiary's share capital: 100%);
2. AS Kalev Jõhvi Tootmine (share of Kalev Ltd in the subsidiary's share capital: 99.1%);
3. AS Kalev Real Estate Company (AS Kalev REC) (share of Kalev Ltd in the subsidiary's share capital: 59.3%);
4. OÜ Maiasmokk (share of Kalev Ltd in the subsidiary's share capital: 81.26%);
5. Kalev Merchant Services Ltd (share of Kalev Ltd in the subsidiary's share capital: 100%).

Detailed information on the Kalev Group structure is provided under "Comments to the Financial Results".

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. The financial results of these subsidiaries have an effect on the results of the whole Group.

NOTES TO THE INTERIM REPORT

1. Customer receivables and supplier payables

The figures recorded on the balance sheet lines “Customer receivables” and “Supplier payables” have increased in connection with the increase in turnover - the number of customers and suppliers has grown due to the addition of subsidiaries and expansion of the field of activity.

2. Inventories

- The amount of goods in stock exceeded that of the comparative period by 28,378,063 kroons (1,813,684 euros). This is conditioned by the collective holiday of the staff of Kalev Ltd that started on 5 July, and the relocation of the caramel plant from Tallinn to the new production premises;
- Milk stock of the subsidiary AS Kalev Paide Tootmine amounted to 13,450,249 kroons (859,625 euros);
- The inventories of the subsidiary AS Kalev REC also include the net book value of unsold land lots of the real estate I and III of the Keila-Joa holiday facilities, which are owned by AS Kalev REC – in the total amount of 17,172,005 kroons (1,097,488 euros).

3. 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	74 377 787	64 983 608	9 268 908	131 361 311	309 670 814
Accumulated depreciation		-11 510 208	-36 122 641	-6 764 247	-234 833	-54 631 929
Net book value 01.07.2003	29 679 200	62 867 579	28 860 967	2 504 661	131 126 478	255 038 885
Transactions of the period						
Acquisition	434 020	31 535 620	51 313 239	4 736 767	58 502 877	146 522 523
incl. by merger	434 020	28 393 047	14 558 338	1 550 292		44 935 697
Depreciation charge		-12 752 043	-18 525 255	-2 991 182		-34 268 479
Sale	-23 315	-1 758 684	-876 411	-231 832	-13 234 129	-16 124 372
Recorded non-current assets		164 138 767	7 680 936		-171 819 703	
*Total transactions	410 705	17 024 893	31 911 573	1 513 754	45 268 748	96 129 672
Acquisition cost 30.06.2004	30 089 905	104 154 723	115 420 436	13 773 843	176 630 059	440 068 966
Depreciation charge		-24 262 251	-54 647 896	-9 755 429	-234 833	-88 900 408
Net book value 30.06.2004	30 089 905	79 892 472	60 772 540	4 018 415	176 395 226	351 168 558

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	4 753 595	4 153 199	592 390	8 395 496	19 791 522
Accumulated depreciation		-735 634	-2 308 652	-432 313	-15 009	-3 491 608
Net book value 01.07.03	1 896 842	4 017 960	1 844 547	160 077	8 380 488	16 299 914
Transactions of the period						
Purchase	27 739	2 015 488	3 279 505	302 734	3 739 006	9 364 472
incl. by merger	27 739	1 814 642	930 445	99 081		2 871 907
Depreciation charge		-815 002	-1 183 977	-191 171		-2 190 149
Sale	-1 490	-112 400	-56 013	-14 817	-845 813	-1 030 533
Recorded non-current assets		10 490 352	490 900		-10 981 252	
*Total transactions	26 249	1 088 086	2 039 516	96 746	2 893 193	6 143 790
Acquisition cost 30.06.2004	1 923 091	6 656 683	7 376 691	880 307	11 288 689	28 125 461
Depreciation charge		-1 550 636	-3 492 628	-623 484	-15 009	-5 681 757
Net book value 30.06.2004	1 923 091	5 106 047	3 884 063	256 823	11 273 681	22 443 704

Intangible assets

GROUP	EEK		
	Assets	Goodwill	Total
Intangible assets 01.07.2003			
Acquisition cost	350 655		350 655
Accumulated depreciation	-132 940		-132 940
Net book value 01.07.2003	217 715		217 715
Transactions of the period	8 500	-9 170 181	-9 161 681
Goodwill			
Depreciation	-73 089		-73 089
Transactions of the period			
Acquisition cost 30.06.2004	359 155	-9 170 181	-8 811 026
Depreciation charge	-206 029		-206 029
Net book value 30.06.2004	153 126	-9 170 181	-9 017 055

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	13 914		13 914
Transactions of the period	543	-586 080	-585 537
Goodwill			
Depreciation	-4 671		-4 671
Transactions of the period			
Acquisition cost 30.06.2004	22 954	-586 080	-563 126
Depreciation charge	-13 168		-13 168
Net book value 30.06.2004	9 787	-586 080	-576 293

4. Real estate investments

	GROUP		
	Land	Buildings	TOTAL
01.07.2003 in EEK			
Value 01.07.2003	49 102 750	26 470 345	75 573 095
Sale	81 156 295	4 500 000	85 656 295
Purchase	35 607 995	431 325	36 039 320
Prepayments	15 006 641		15 006 641
Value 30.06.2004	18 561 091	22 401 670	40 962 761
01.07.2003 in EUR			
Value 01.07.2003	3 138 230	1 691 759	4 829 989
Sale	5 186 819	287 602	5 474 421
Purchase	2 275 760	27 567	2 303 326
Prepayments	959 097		959 097
Value 30.06.2004	1 186 267	1 431 724	2 617 991

5. Debt obligations and long-term liabilities

	GROUP		GROUP	
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
	EEK	EEK	EUR	EUR
Short-term liabilities	109 628 402	27 346 235	7 006 514	1 747 738
Long-term liabilities	123 323 114	116 381 525	7 881 763	7 438 116
TOTAL	232 951 516	143 727 760	14 888 277	9 185 855

Change in liabilities:	01.07.03-30.06.04	01.07.03-30.06.04
	EEK	EUR
Balance 30.06.2003	143 727 760	9 185 855
Change in lease liabilities	6 264 530	400 375
Other short-term loans	45 843 727	2 929 941
Overdraft	30 173 910	1 928 459
Long-term lease liabilities	1 342 675	85 812
Other long-term liabilities	5 598 914	357 835
Balance 30.06.2004	232 951 516	14 888 277

AS Kalev REC took an additional loan in the amount of 35,464,654 kroons (2,266,599 euros) in connection with the construction of the new production facilities on the Põrguvälja real estate.

Additional financial resources used as of 30.06.2004:

Overdraft used by Kalev Ltd: 39,567,908 kroons (2,528,844 euros); overdraft used by AS Kalev Jõhvi Tootmine: 4,911,487 kroons (313,900 euros).

As of 30.06.2004, Kalev Ltd had financed stock inventories in the amount of 36,365,223 kroons (2,324,155 euros).

The company's liabilities include, among other, the liabilities of the subsidiaries acquired during the financial year.

6. Other liabilities

Other liabilities have increased by 25,200,000 kroons (1,610,569.42 euros) in connection with the AS Kalev REC shareholders' agreement pursuant to which Kalev Ltd is obliged to pay the above amount for the purchase of 40.7% of the shares of AS Kalev REC from AS Skanska EMV.

7. 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).

8. 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	
	01.07.03-30.06.04	01.07.02-30.06.03	01.07.03-30.06.04	01.07.02-30.06.03
	EEK	EEK	EUR	EUR
Confectionery products	318 370 788	327 575 384	20 347 550	20 935 829
Baked goods	12 346 475		789 082	
Cookies	5 565 235		355 682	
Dairy products	85 921 168		5 491 349	
Real estate transactions	50 415 162	6 189 810	3 222 108	395 600
Other sales	92 239 098	13 900 572	5 895 138	888 406
TOTAL	564 857 926	347 665 766	36 100 909	22 219 835

Sales by markets				
	GROUP		GROUP	
	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	EEK	EUR	EUR
Estonia	465 958 562	304 111 905	29 780 104	19 436 244
Eastern Europe	18 155 306	19 256 040	1 160 333	1 230 682
Baltic countries	26 639 360	19 599 673	1 702 561	1 252 644
Scandinavia	7 292 881		466 099	
Other countries	46 811 816	4 698 148	2 991 813	300 266
TOTAL	564 857 926	347 665 766	36 100 909	22 219 835

9. Compensation to employees

A total of 84 employees were laid off between 1 July 2003 and 30 June 2004. Dismissal compensations amounted to a total of 2,759,751 kroons (176,380 euros).

10. 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	17 184 663	32 462 673	1 098 297	2 074 738
Weighed average number of shares during the period	7 877 500	7 877 500	530 463	503 463
Earnings per share (EPS)	2,18	4,12	0,14	0,26

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

11. Transactions with related parties (in kroons)

Purchased goods and services	Services	Goods	Balance of receivables 01.07.03-30.06.04	Balance of receivables 01.07.02-30.06.03
From Tööstuse Teenindamise AS	30 255 411		918 528	1 698 327
From Tallinna Piimatööstuse AS		27 723 999	355 671	333 836
Other purchases	2 793 302	697 927	282 064	182 121
Payables at the beginning of the period	1 816 327	335 652	2 151 979	1 451 749
Payables at the end of the period	1 113 936	442 327	1 556 263	2 151 979
Sold goods and services				
Tallinna Piimatööstus		138 970 870	20 982 003	3 505
Other sales	2 013 509	1 288 393	2 935 165	148 946
Receivables at the beginning of the period	151 968		151 968	3 679 178
Receivables at the end of the period	1 847 998	22 068 599	23 916 597	151 968

Transactions with related parties (in EUR)

Purchased goods and services	Services	Goods	Balance of receivables 01.07.03-30.06.04	Balance of receivables 01.07.02-30.06.03
From Tööstuse Teenindamise AS	1 933 668		58 704	108 543
From Tallinna Piimatööstuse AS		1 771 882	22 731	21 336
Other purchases	178 524	44 606	18 027	11 640
Payables at the beginning of the period	116 084	21 452	137 536	92 783
Payables at the end of the period	71 193	28 270	99 463	137 536
Sold goods and services				
Tallinna Piimatööstus		8 881 835	1 340 991	224
Other sales	128 686	82 343	187 591	9 519
Receivables at the beginning of the period	9 713		9 713	235 142
Receivables at the end of the period	118 108	1 410 437	1 527 345	9 713

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 1,316,691 kroons (84,152 euros).

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