ANNUAL REPORT

for the financial year started on July 1, 2004
and ended on June 30, 2005

Translation of the Estonian original

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1. Economic and Legal Environment

1.1. Impact of the economic environment

In the financial year of 2004/2005, the business activities of AS Kalev were affected by several factors due to the accession of Estonia to the European Union (hereinafter referred as to "EU"), changes in the prices of raw materials in the world markets, legislation and developments in the domestic market.

Whereas before the accession to the EU, the growth of aggregate domestic demand exceeded the growth of national income, now the situation is vice versa. The acquisition of inventory and import growth that were characteristic of the previous periods have been replaced by growth of the export of goods produced in Estonia and investments. The nominal growth of economy more than by one-tenth per annum goes on for the fifth year in a row and such a growth rate is not affected even by the moderate changes in the prices of raw materials in the world market. Large volumes of cheap credits are being distributed in Estonia via the financial sector and it helps keeping up the fast growth rate of economy. The general rise in prices in Estonia reflects the effects of the fast development cycle as well as of globalisation. It is good for the economy as a whole that the share of production contributing to the value added has increased a lot in Estonia, that saving has not decreased and that export is growing.

The interest rates of loans continue to be low and in the circumstances of favourable borrowing terms, the ratio of consumption to income is at its peak. At the same time, one can perceive the growing precaution of the residents – the final consumption does not grow so fast as income anymore. Private consumption as the most important part of aggregate demand constitutes almost ¾ of final consumption in Estonia. As a ratio to demand, consumption is decreasing, as consumption is affected by the growth of debt as well as by the changes in the income of residents. The gross salary growth rate (previously over 10% per annum) is going down which also specifies changes in consumers' preferences. Thus, surveys of confectionery demand show that Estonian residents are very price-sensitive in their buying of products. We also see a significant change as to the consumer's increasing knowledge in the development of dietary habits.

As to the production inputs of the company, the changes that have taken place in the world market bear relevance to several factors. The increasing labour cost is related to the rate of domestic salary increase which exceeds 10% per annum. The trends in the labour market reflect not only the growing shortages of skilled workers and qualified personnel as a whole but also the ongoing integration of the Estonian labour market with the EU. As the rate of unemployment in Estonia is decreasing, we will be facing a situation where the continuing fast rate of economic development will be hindered by problems in the labour market.

The cocoa price has decreased by almost a third since the beginning of the year 2003 (to the level where it was at the end of the year 1998), however the world market prices of kernelled have multiplied during the same period – the price of nuts has increased almost four times and the price of almonds has doubled. The fuel prices have tripled in last seven years and are almost one-third higher the prices at the beginning of the year 2003. The domestic electricity price also increased in the reporting period. The changes in the prices of sugar in the world market are not adequately reflected for AS Kalev, as due to the intervention of the EU the price of sugar is distorted. Due to such intervention the price of sugar in the entire common market is significantly higher than in the world market.

The pressure on the competitiveness of domestic production in Estonia is shown also by the development of price levels: the general growth of the producer price index (up to 2% per annum) is much slower than the growth of consumer and import prices (4% and 3% per annum respectively) and significantly slower than the growth of construction prices (almost 7% per annum). The price-sensitive domestic consumer, the limited size of the market and the strong competition in the market of sweets squeeze the margin in our production sector.

Since the year 2004, the import of cocoa and cocoa products to Estonia has exceeded export by almost 1.9 million euros on the average in every month, except January 2005 when net import was almost twice as large as usually. The percentage of cocoa products in the total exports of Estonia is generally less than 0.1% (and approximately 0.3% in total imports). The import of sugar and confectionery products made of sugar into Estonia has grown significantly (the share of the net import of this group of products constitutes almost 2% of the trade balance of Estonia). Unlike the general development of agricultural products, the volume of dairy products in Estonia has grown in a year (by about 2%), whereas the percentage of milk and dairy products in Estonian foreign trade is still 1.5% of total exports and 0.3% of total imports.

1.2. Changes in the legal environment

The European Commission does not deem the present organisation of the sugar market in the EU sustainable and has presented proposals for changing the sugar regime of the EU. The objective of the reform is to decrease the target price of white sugar by 39% within two years, while retaining the system of production quota. As it is a production input, it will certainly be in the interests of AS Kalev, if the present price of sugar comes closer to the world market price.

As to the administratively influenced prices, the most important impact on the production came from the general growth of the electricity price and on consumption – the implementation of indirect prices within the framework of the tax policy of the EU (mainly the excise rates increased). The operations of AS Kalev are also more and more influenced by legislative changes deriving from the implementation of the directives of the European Commission. Several new rules regulate processing of foodstuff, hygiene of food products, protection of the environment, etc. For example, solely the amendments to the Packaging Excise Duty Act bring about costs that for Kalev are comparable to the costs of bringing a new product to the market.

The changes in the production inputs affect also the impact of labour costs on the company. Although the tax policy of Estonia is targeted at decreasing direct taxation and increasing indirect taxation, local enterprises will still have significant costs related to labour taxation. Beside state taxes, the price of labour is also effected by any agreements entered into between employers and labour unions. For example, statewide minimum wage agreements have been entered into in the past few years which has increased the minimum wage almost by 50% in Estonia, and has a direct impact on the general growth of salaries. In the circumstances where there is a shortage of skilled workers, the mobility of the labour market is relatively modest, the growth of productivity is limited and there are supplementary regulations deriving from the EU, a significant growth of the minimum wage may mean a pressure on the costs of a company as well as changes in the relative input costs. Such developments do not contribute to employment.

2. Overview of AS Kalev Group

Kalev Group operates in three main fields of activity: the production and sales of chocolate, sugar and flour confectionery products; the production and sales of dairy products; and real estate development and administration. The manufacturing operations of the company are carried out in five factory shops located in the vicinity of Tallinn at Põrguvälja, Paide, Viljandi, Jõhvi and Kiviõli. AS Kalev is also the owner of a national retail chain consisting of 12 candy stores and cafes.

806 people on the average were employed by the Group's enterprises in the given financial year. The shares of AS Kalev are listed on the Tallinn Stock Exchange since the year 1996.

The Parent of Kalev Group is AS Kalev. In addition, the Group comprises six subsidiaries. As of June 30, 2005 AS Kalev had a major holding in the following companies:

Name of subsidiaries	**Country of incorporation**	**As of June 30, 2005**	**As of June 30, 2004**
AS Kalev Paide Tootmine	Estonia	100%	100%
AS Kalev Jõhvi Tootmine	Estonia	99.1%	99.1%
AS Vilma	Estonia	60.67%	0%
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	100%	59.3%
OÜ Maiasmokk	Estonia	81.26%	81.26%
Kalev Merchant Services Ltd	USA	100%	100%

In these statements, the financial items of AS Kalev and its subsidiaries are incorporated in the consolidated financial statements on a line-by-line basis. The financial figures of the subsidiary Kalev Merchant Services Ltd are not incorporated in the consolidated financial statements as the total assets of the subsidiary constitutes less than

0.5% of the turnover of the Parent. The comparable data have not been adjusted as the indicators of the given subsidiary do not have a significant impact on the financial indicators of the Group.

2.1. AS Kalev, the Parent of the Group

AS Kalev, the Parent of the Group, is the oldest and the largest confectionery undertaking in Estonia, and its main fields of activities are the production and sales of sugar and chocolate confectionery products.

2.2. The subsidiary AS Kalev Paide Tootmine

The subsidiary manufactures dairy products: milk powder, skimmed milk powder, butter, high-temperature pasteurized milk. AS Kalev Paide Tootmine ended the production of cookies and confectionery based on dairy raw materials at the end of the given financial year, and the production of said products was moved into AS Kalev and AS Kalev Jõhvi Tootmine. AS Kalev Paide Tootmine will focus on the production of dairy products from the new financial year onwards.

2.3. The subsidiary AS Kalev Jõhvi Tootmine

The subsidiary manufactures flour confectionery and bakery products.

2.4. The subsidiary AS Vilma

AS Vilma produces bakery and confectionery products and flour-based prepared products. In the flour confectionery sector the undertaking has a well-established trademark Vilma. AS Vilma has also well-functioning manufacturing operations and skilled labour.

On July 1, 2004 AS Kalev acquired 60.6746% of the shares in the Viljandi bakery AS Vilma, i.e. 436 857 shares. 719 thousand euros was paid for said holding. According to the agreement, AS Kalev has undertaken to acquire also the remaining shares in AS Vilma within 2005 on the same terms from the shareholders that wish to sell their shares.

2.5. The subsidiary AS Kalev Real Estate Company (AS Kalev REC)

The main field of activity of the subsidiary is the development, administration, valuation, expert assessments, analysis, service, lease, sale and purchase of real estate and consultation related to real estate.

On January 6, 2005 Skanska EMV AS transferred to the securities account of AS Kalev 40.7% of the shares in the subsidiary AS Kalev REC, and thus AS Kalev became the owner of 100% of the shares in the subsidiary. Pursuant to the shareholders' agreement, AS Kalev paid 1 662 thousand euros in total for the shares to Skanska EMV AS.

On December 7, 2004 AS Kalev REC and United Real Estate OÜ (URE OÜ) entered into an agreement for free transfer of the share in the company whereby URE OÜ transferred to AS Kalev REC its share in Sõbra Korterid OÜ amounting to 1 278 euros and constituting 50% of the share capital of Sõbra Korterid OÜ. The field of activities of Sõbra Korterid OÜ is real estate development and administration. AS Kalev REC acquired the holding in Sõbra Korterid OÜ with the purpose of starting development activities in the housing market. Said company is currently constructing two new apartment buildings on a real estate at the address Kastani 183a and 183b in Tartu.

2.6. The subsidiary OÜ Maiasmokk

OÜ Maiasmokk has a long-term experience in manufacturing and distribution of bakery products in its own cafe as well as in other retail sale companies. OÜ Maiasmokk is using a building with a high cultural value at Pikk tn 16 in Tallinn on the basis of a lease agreement. In that building, Lorenz Caviezel, the direct predecessor of AS Kalev laid a basis for Estonian confectionery industry in 1806. In 1864 the building was acquired by Georg Stude who opened a confectionery shop there under his own name, and offered, among other things, exclusive hand-made marzipan figures and sweets. There is a cafe, a bakery shop and a marzipan museum room in the building at Pikk tn 16.

2.7. The subsidiary Kalev Merchant Services Ltd

Kalev Merchant Services Ltd is a subsidiary of AS Kalev located in the USA. Its main fields of activity are the introduction and sales of the products of AS Kalev in the USA .

3. Economic activities and financial results

The consolidated net sales of AS Kalev for the financial year 2004/2005 amounted to 53 849 thousand euros—a 35% increase, compared to the same period last year (2003/2004: 39 894 thousand euros).

Increase in the turnover generated by the subsidiary AS Kalev Paide Tootmine was a major contributor to the increase in the consolidated net sales of AS Kalev. So was the incorporation of the new subsidiary AS Vilma under Kalev Group in July 2004.

In the financial year 2004/2005, the company's consolidated net loss amounted to 2 623 thousand euros. In the comparable period, the company earned 1 098 thousand euros in net profit. The net loss of AS Kalev met the company's expectations. The company has developed its strategic objectives, and started pursuing the set goals in order to bring the company out of the red (see Clause 6 Main activity trends for the financial year 2005/2006).

The following factors contributed to the company's negative results in the financial year 2004/2005:

1. Significant increase in raw material price. The price of sugar increased by 2.7 times in the given period, while that of hazelnuts and almonds grew by 32.3%.

2. Dairy product price drop on the EU market. Milk powder price had dropped by 3% and butter price by 6% on the EU market in the first half-year of 2005, compared to the same period last year. The decrease in the above prices resulted in nearly a 639 thousand euros revenue decrease in the first half-year 2005.
3. Increase in the price of crude milk in Estonia, which incurred nearly 300 thousand euros (i.e. a monthly 50 thousand euros) of additional expenses on the company in the first half-year 2005.
4. Extraordinary expenses related to the integration of a new subsidiary under Kalev Group, as well as continuation of the integration of previously acquired subsidiaries.
5. Extraordinary expenses in the amount of 499 thousand euros related to the relocation and launch of the caramel factory in the new plant complex.
6. A 48% increase in energy, water, and sewerage expenses.
7. A 67.4% increase in product development expenses.
8. A 36% decrease in confectionery product export revenues.

The main contributor to the company's loss was the threefold increase in the price of sugar – the most important raw material – after Estonia's accession to the European Union in May 2004. Moreover, the price of yet another major raw material group – hazelnuts and almonds – continued to grow on the world market. For instance, the world market price of hazelnuts has increased four times, compared to the middle of 2003, while the price of almonds has doubled in the last few years. This has been caused by both a poor harvest in countries of origin, and political circumstances.

As a result of the increase in raw material prices, the company has reviewed the confectionery product recipes, and brought the product portfolio profitability into line with the increased prices of raw materials. The company has also developed and launched new chocolate and sugar confectionery products in order to enhance its competitive ability. The above actions taken by the company resulted in a 67.4% increase in product development expenses, compared to last year. The increase in product development and other marketing expenses is conditioned by future growth in profitability pursued by the company.

The dairy sector was characterised by the following trends. The price of raw material continued to grow on the local market in the given period. After the sudden increase in the milk buying-in price in Estonia at the end of 2003 (average buying-in price for 2003: 184 euros per ton), the price increased from 244 euros/ton (in the 1st quarter of 2004) by nearly 6% (average price for the 1st quarter of 2005: 259 euros/ton). At the same time, old EU members experienced the opposite trends – the average milk buying-in price dropped in both 2004 and 2005. The milk price has more or less levelled off by today.

The EU market regulation measures implemented for the purpose of supporting the dairy sector (namely, the drop in the buying-in price of butter and skimmed milk powder) also contributed to the drop in the price of milk. Intervention buying-in prices of butter and skimmed milk powder dropped from July 2004 by 7% and 5%, respectively. Due to stable world market prices, subsidies for export to third countries have continually been reduced. Since the end of the year is the high demand season for the dairy product market, the effects related to the drop in intervention buying-in prices could not be seen until the beginning of 2005. Milk powder price dropped by 3% and butter price by 6% on the EU market in the first half-year of 2005, compared to the same period last year. Since AS Kalev's subsidiary AS Kalev Paide Tootmine exports most of its output to EU countries, the low dairy product prices prevailing on the dairy product market had a significant effect on the group profit decrease. AS Kalev Paide Tootmine will continue focusing on developing partner relations with customers, enhancing efficiency and establishing a long-term partnership with milk producers.

Kalev Group saw further expansion in the financial year 2004/2005, with the incorporation of the Viljandi-based bakery AS Vilma. The integration of the above new subsidiary under the Group, as well as the continuing of the integration of previously acquired subsidiaries incurred extraordinary expenses. Above all, these expenses were related to integration of the production, sale and logistics systems, and other areas.

The launch of the Põrguvälja plant building, which was completed at the end of 2003, was more costly that initially expected. This was conditioned by bigger energy and sewerage expenses. In the summer of 2004, the caramel factory of Kalev Ltd was relocated to the new plant complex. The relocation and launch of the above factory incurred 498 thousand euros in extraordinary expenses.

The overall market situation of the period, characterised by tightening competition on the local baked goods and confectionery product market and the retail market in general, can be noted as one of the contributors to the company's loss. The tightening competition after accession to the EU is the result of the enhanced activities of producers in EU countries. Regardless of the established customs duties, Ukrainian and Russian products still hold a strong share on the local sweets market, especially in border regions. At the same time, the Kalev trademark has maintained its prominent position in Estonia. The company has a strong position on the local confectionery product market.

The company's export revenue decreased in the current financial year. This was conditioned by Estonia's accession to the EU, and the resulting establishment of double customs duties for trade with third countries.

The 11% increase in marketing expenses was, above all, due to incorporation of new subsidiaries in the Kalev Group in the given period. The expanded product assortment and the tightening competition on the end-consumer market also contributed to the growth in marketing expenses.

Administrative expenses decreased by 10.5% in the reporting period. Last financial year, these expenses included relocation to the new plant building.

The main financial ratios of Kalev Group (as of June 30, or the financial year then ended, respectively):

	Group	
	2005	2004
Current ratio	0.63	0.94
Debt ratio	0.70	0.63
Asset turnover ratio	1.14	1.06
Net profit margin (%)	-4.9%	2.8%
Return on assets (%)	-5.6%	2.9%

The ratios are calculated based on the following methods:

Current ratio: current assets / current liabilities
Debt ratio: total liabilities / total assets
Asset turnover ratio: revenue / average total assets
Net profit margin: net profit / revenue * 100%
Return on assets: net profit / average total assets * 100%

4. Confectionery product market and sales

4.1. Chocolate and sugar confectionery products

AS Kalev retained its strong position as the leader of the Estonian chocolate and sugar confectionery market in the given financial year. According to the retail survey conducted by AC Nielsen Eesti, AS Kalev's market share was 44% in June-July 2005, as regards chocolate confectionery and sugar confectionery products.

The Estonian chocolate and sugar confectionery market was characterised by stable growth in 2004/2005. Above all, this is related to the development of local retail trade business. AS Kalev succeeded in keeping pace with market growth in the important segments – e.g. chocolate bars, candy, etc.

Similarly to previous years, the share of sweets of a lower price category increased on the local market in the given period. With the aim of strengthening its position in the sector, the company launched a new product series under the Sonja trademark at the beginning of 2004. So far, AS Kalev's products have had a higher quality and price on the Estonian market. Product development in products of a lower price category has been minimal.

As regards marketing activities, the company maintained its focus on product development in the financial year 2004/2005. The company launched new products in both the chocolate confectionery and sugar confectionery sector. In addition to the above Sonja product series, AS Kalev launched chocolate-coated cocoa-flavoured praline candies, gift boxes Athena and Toompea, double-layered praline candy sticks and candies, blueberry-flavoured Draakon chews and candy sticks Õunasuflee and Rixx.

4.2. Flour confectionery products

In the given period, AS Kalev brought the biscuit series manufactured by AS Kalev Jõhvi Tootmine under the Kalev trademark, and modernised several dark bread and white bread packages of AS Kalev Jõhvi Tootmine. New products launched at the market included Mesikäpa, Tähekesed and the two-flavoured Nisukliiküpsised biscuits.

According to the retail survey conducted by AC Nielsen Eesti, AS Kalev market share was 14% in June-July 2005, as regards the biscuit sector.

4.3. Dairy products

As Kalev Paide Tootmine significantly (more than four times) increased dairy product manufacturing in the given period. Skimmed milk, milk powder, cream and butter – all showed growth in production volume. High-temperature pasteurized milk was also produced, in a smaller volume. The share of outsourced services decreased abruptly in the given period. The company started using the stockpiled raw material to manufacture goods on its own.

5. Product sales

Kalev Group's total confectionery and dairy product sales amounted to over 28 thousand tons in the financial year 2004/2005, having grown by 2.2 times, compared to the last financial year. 52% was sold at the home market; 48% was exported.

Kalev Group sold a total of over 6 300 tons of confectionery products (incl. chocolate and sugar confectionery products) in the given period—a decrease of 9%, compared to last year. The home market constituted 85% of the total sales of confectionery products; 15% of the sales were exported. In the current period, the Baltic States remained the Group's main export targets. In addition to the above countries, the company also exported its products to the Scandinavian countries, Russia and the United States.

Kalev Group's total flour confectionery product (incl. baked goods and biscuits) sales amounted to over 7 600 tons in the financial year 2004/2005. Most of the production was sold on the home market. In the comparative period, the company was not actively involved in the flour confectionery product sector.

Kalev Group sold over 14 300 tons of dairy products (incl. skimmed milk and milk powder, high-temperature pasteurised milk and butter) in the reporting period – nearly a quadruple increase, compared to the financial year 2003/2004. Over half (i.e. 62%) of the sales volume was exported to various EU countries.

6. Real estate activities

AS Kalev Real Estate Company (AS Kalev REC), AS Kalev's subsidiary involved in real estate administration and management, was initially established for the organisation of the construction of the new plant building of AS Kalev, as well as development of the 30-hectare Põrguvälja real estate in Rae parish in Harju County. The second objective was the administration and development of AS Kalev's real estate located at Pärnu mnt 139 in Tallinn.

AS Kalev REC has actively entered the so-called public real estate market, and launched active development operations in both the housing sector and the commercial space sector. Ongoing projects include construction of the office building at Pärnu mnt 139c in Tallinn (the so-called "Tere building") and new apartment buildings at Kastani 183a and 183b in Tartu (the so-called "Mesikäpa buildings"). Housing development projects have also been initiated in Tallinn.

7. Organisation and Personnel

7.1. ISO 9001:2000 Quality Management System

AS Kalev has a quality certificate issued by the international certification body BVQI (Bureau Veritas Quality International) since the year 2004 and AS Kalev Paide Tootmine has held it since the year 2003. Those certificates certify the conformity of said undertakings to the standard ISO 9001:2000.

The quality certificate of AS Kalev covers the product development, production and sales of sugar and chocolate confectionery products. The quality management standard is targeted mainly at increasing its focus on the client. The certificate of AS Kalev Paide Tootmine covers the production of dairy and dairy-based products and confectionery products.

7.2. Management

The strategic management principles of the company were altered in the given financial year. Consequently a strategic group was formed at AS Kalev, consisting of the company's Chairman, Financial Manager, Marketing Manager, Sales and Service Manager, Strategy and Organisational Development Manager and Production Manager. The function of the strategic group is to make the management decisions of the company and coordinate the implementation of plans.

The following key managers joined AS Kalev in the financial year 2004/2005: Sales and Service Manager Kati Kusmin, Strategy and Organisational Development Manager Andres Rannamäe and Production Manager Mait Nilson.

7.3. Average number of employees; average salary

In the financial year 2004/2005, Kalev Group employed an average of 806 people—a 13.2% increase, compared to the same period last year. This change was mainly due to incorporation of the employees of the AS Vilma among the group staff in the given financial year.

Total wages and salaries amounted to 4 130 thousand euros. Total remuneration paid to the members of the Management Board and Supervisory Board amounted to 55 thousand euros in 2004.

The Management Board has not issued any letters of guarantee or assumed other contingent liabilities.

8. Significant Events

8.1. AS Kalev – the company with the best reputation in Estonia

According to the traditional survey of the reputation of Estonian undertakings, conducted by the survey company TNS Emor, AS Kalev is the company with the best reputation in Estonia already for the third year in a row with its reputation valued at 8.7 points of ten on the average by people in Estonia.

The knowledge about and the reputation of the companies charted with the given survey show how people in Estonia perceive the companies operating in the market, which companies are known, which companies seem stronger to people and which seem more likeable. Therefore the results of the survey show the opinion of people and the general impression they have developed regarding different companies.

TNS Emor conducted the survey of the knowledge about and the reputation of companies for the sixth year in a row. In May this spring almost 1000 people of age 15 to 74 years and residing in Estonia answered the poll.

8.2. New subsidiary incorporation the Group of AS Kalev

On July 1, 2004 AS Kalev acquired 60.6746% of the shares in AS Vilma, a bakery in Viljandi. AS Vilma produces bakery and pastry products and flour-based prepared products under the trademark Vilma.

The purpose of the acquisition of the shares of AS Vilma was to expand the operations of AS Kalev in the field of flour confectionery according to the long-term development strategy of the company. The acquisition of a majority interests in AS Kalev Jõhvi Tootmine (previous AS Järle) at the end of the previous year was the first step of AS Kalev in the given field.

8.3. Increase of the share capital of the Parent

The Commercial Register registered an increase of the share capital of AS Kalev by 10 069 thousand euros in the given period. The company issued 15 755 000 new registered common shares with the nominal value of 0.64 euros per share by a fund issue.

Since January 27, 2005 the share capital of AS Kalev amounts to 15 104 thousand euros, consisting of 23 632 500 shares with the nominal value of 0.64 euros each.

The issued shares provide the right to dividends starting with the financial year 2004/2005 of AS Kalev.

8.4. Increase of the share capital of the subsidiary undertaking

AS Kalev as the sole shareholder of AS Kalev Real Estate Company (AS Kalev REC) decided to increase the share capital of AS Kalev REC by a non-monetary contribution of 4 756 thousand euros. The new share capital of the company amounts to 7 370 thousand euros.

The share capital was increased by an issue of new shares whereby 74 419 new registered shares with the nominal value of 63.9 euros each were issued. The rights deriving from the new shares are similar to those deriving from other shares and they include the right to dividends in the present financial year. All 74 419 new shares were acquired by AS Kalev.

In the payment for the new shares the claim of AS Kalev in the amount of 3 861 thousand euros against AS Kalev REC was set off and the obligation of AS Kalev REC to AS Kalev in the amount of 895 thousand euros was considered performed.

8.5. Completion of moving, concentration of the production of chocolate and sugar confectionery products in the new factory building

AS Kalev started the construction of a new factory building in May 2002. The building was completed in September 2003 and was the largest food industry’s production building constructed in one course after Estonia regained its independence. The main advantage of the new factory building of AS Kalev is the production in one building and on one floor instead of the previous eight production floors that were in two separate buildings. There is also more storage space in the new factory than in the old one and the logistics have improved.

A large part of the everyday production operations was started in the new factory building in September 2003. The caramel department of the company was the last production unit operating in the previous location at the address Pärnu mnt 139 in Tallinn up to May 2004. The unit was moved into Põrguvälja factory building mainly in June 2004 and was started at the beginning of the given financial year. The concentration of the production of chocolate and sugar confectionery products in the new factory building at Põrguvälja was complete with this.

8.6. Development of representative sales points

The company opened another representative shop and cafe in the given period – in Paide this time. At the same time, renovation and construction works were started in the historic market building in Rakvere with the purpose of opening a representative sales point there in autumn 2005.

In previous years, AS Kalev has opened representative shops and cafes in Põlva, Valga, Jõhvi and Kuressaare, sweets shops in Nukuteater in Tallinn, Sõbra centre in Tartu and in Pärnu. There are also cafes in the Old Town in Tallinn and in Võru. It is planned to start renovation works in Võru with the purpose of opening a representative sales point of AS Kalev, a sweets shop and a cafe there in the first half of 2006. In the given financial year AS Kalev opened also a factory outlet in the new production building at Põrguvälja.

AS Kalev operates on about the total of 2100 m^2 of retail sales area.

9. Main activity trends for the financial year 2005/2006

AS Kalev's main goal for the financial year 2005/2006 is to enhance product sales at the local and foreign markets. At the home market, the company will continue enhancing the efficiency of customer relations and expanding its retail network with the aim of marketing the company's versatile product selection to as many consumers as possible. In the autumn of 2005, the company will open yet another representative sales office in Rakvere, while continuing preparatory work for opening a similar office in Võru.

Product development is still considered a priority by AS Kalev. The company aims at developing and launching new and innovative products by considering the needs of the consumers at the home and foreign markets. The company will also pay extra attention to the development of flour confectionery products. AS Kalev is optimising its current product portfolio with the aim of paying increased attention to developing more profitable products and excluding less profitable products from the assortment.

According to the public image survey conducted by TNS Emor among Estonian companies, AS Kalev is the most reputable companies in Estonia, and a brand with one of the biggest consumer values. The survey revealed that there is still room for Kalev to expand its brand to other products and services, thus increasing the brand-related cash flows. Consequently, the company plans to expand the assortment produced under the trademark, and to enter new product segments.

AS Kalev will retain its position as the leader of the Estonian chocolate and sugar confectionery market in the next financial year. The company has set a goal of keeping pace with the estimated market growth while maintaining the current market position. The same goal has been set for the biscuit market.

As regards export, the company will focus on enhancing its activities at the neighbouring markets – in the Baltic States, Russia and Finland. In the financial year 2004/2005, the company conducted a market survey at the attractive St. Petersburg market. The aim of the survey was to map the repute of and associations with Kalev trademark in St. Petersburg. The survey revealed that, with a little help, nearly one-third of St. Petersburg's sweet tooths are familiar with Kalev. The survey also revealed that the general atmosphere for marketing Kalev's products is St. Petersburg is positive: young people are open to new and fascinating products, while recollection of a past consumption experience might produce good results among middle-aged and senior consumers. The survey was conducted by TNS Emor. By today, AS Kalev has found a local partner for marketing the products in the St. Petersburg region. The first sample lot was dispatched in September.

In the Latvian and Lithuanian market, the company plans to expand its product sales by making an aggressive entry in international chain stores, using, among other things, the customer relations developed at the Estonian market. Actual results can be seen in the second half of the financial year 2005/2006.

The company is also launching a limited assortment of sweets at the Ukrainian market. AS Kalev suspended export to this country upon Estonia's accession to the European Union. AS Kalev is also mapping out new potential markets, and finding local partners.

As regards dairy products, the company is expecting a fair crude milk price in the next financial year. The so-called fair price should guarantee sustainability to both milk producers and the dairy industry in general. The balance in the value chain is currently tilted in favour of milk producers. In order to achieve a fair crude milk price, the company will adjust the need for crude milk in accordance with the market situation and the strategic goals. Further activities in the sector will continue focusing on developing partner relations with customers, enhancing efficiency and establishing a long-term partnership with milk producers.

As regards the real estate sector, the company will mainly focus on residential building development in the financial year 2005/2006, while also continuing development of commercial premises. The so-called Tere office building at Pärnu mnt in Tallinn will be completed in the spring of 2006. In the next financial year, AS Kalev plans to transfer its production real estate to AS Kalev REC, which will start managing and administrating the real estate.

Kruuda

Oliver Kruuda

Chairman

FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

Hereby I take responsibility for the preparation of the financial statements of AS Kalev ("the Parent") and the consolidated financial statements of the Parent and its subsidiaries (together as "the Group") set out on pages 17 to 63 and confirm that:

- accounting principles used in preparing these financial statements are in compliance with International Financial Reporting Standards (IFRS);
- the financial statements give a true and fair view of the financial position of the Group and the Parent and the results of their operations and cash flows;
- AS Kalev and its subsidiaries are able to continue as a going concern.

Põrguvälja, November 28, 2005

Oliver Kruuda
Chairman

INCOME STATEMENT

for the financial years ended June 30, in thousands of euros

Notes		Group		Parent	
		2005	2004	2005	2004
3	Net sales	53 849	39 894	24 578	27 868
4	Cost of sales	-46 931	-31 114	-18 830	-20 179
	Gross profit	**6 918**	**8 780**	**5 748**	**7 689**
4	Marketing expenses	-5 054	-4 565	-4 644	-4 338
4	Administrative expenses	-3 941	-4 406	-2 811	-4 022
5	Other operating items	590	2 099	93	1 349
	Operating profit (loss)	**-1 487**	**1 908**	**-1 614**	**678**
18	Share of profit (loss) of subsidiaries	-127	0	-604	729
6	Other financial items	-938	-811	-405	-309
	Profit (loss) before minority interests	**-2 552**	**1 097**	**-2 623**	**1 098**
	Minority interests	-71	1	0	0
	Net profit (loss) fort he financial year	**-2 623**	**1 098**	**-2 623**	**1 098**
7	Basic and diluted earnings per share (in euros)	-0.11	0.05		

BALANCE SHEET

as of June 30, in thousands of euros

Notes		Group		Parent	
	ASSETS	**2005**	**2004**	**2005**	**2004**
	Current assets				
	Cash and cash equivalent	365	178	62	125
8	Receivables	7 341	13 180	6 324	16 709
	Prepaid expenses	87	193	47	91
10	Inventories	6 809	5 437	3 830	4 417
	Total current assets	**14 602**	**18 988**	**10 263**	**21 342**
	Non-current assets				
18	Investment in subsidiaries	0	0	12 916	5 329
8	Non-current receivables	327	21	190	21
11	Investment properties	12 819	3 710	0	515
12	Property, plant and equipment	22 198	22 444	3 788	5 234
13	Intangible assets	5	-576	5	10
	Total non-current assets	**35 349**	**25 599**	**16 899**	**11 109**
	TOTAL ASSETS	**49 951**	**44 587**	**27 162**	**32 451**
	LIABILITIES AND EQUITY				
	Current liabilities				
14	Borrowings	7 632	7 006	5 386	5 487
	Prepaid income	250	218	28	27
15	Accounts payable and other payables	14 919	12 993	6 751	9 574
16	Provisions	320	0	0	0
	Total current liabilities	**23 121**	**20 217**	**12 165**	**15 088**
	Non-current liabilities				
14	Borrowings	11 698	7 882	415	887
	Total non-current liabilities	**11 698**	**7 882**	**415**	**887**
	Total liabilities	**34 819**	**28 099**	**12 580**	**15 975**
	Minority interests	**550**	**12**	**0**	**0**
	Equity				
17	Share capital	15 104	5 035	15 104	5 035
2	Mandatory legal reserve	257	202	257	202
2	Revaluation reserve	554	1 096	554	1 096
	Retained earnings	-1 333	10 143	-1 333	10 143
	Total equity	**14 582**	**16 476**	**14 582**	**16 476**
	TOTAL LIABILITIES AND EQUITY	**49 951**	**44 587**	**27 162**	**32 451**

CASH FLOW STATEMENT

for the financial years ended June 30, in thousands of euros

Notes		Group 2005	Group 2004	Parent 2005	Parent 2004
	Operating activities				
	Operating profit (loss)	-1 487	1 908	-1 614	678
	Adjustments [1]	414	1 735	159	1 366
	Changes in assets related to operating activities	5 073	-9 406	6 435	-6 525
	Changes in liabilities related to operating activities	3 714	4 752	-1 421	6 760
	Net cash from operating activities	**7 714**	**-1 011**	**3 559**	**2 279**
	Investing activities				
18, 15	Acquisition of subsidiaries	-2 367	-740	-2 380	-758
	Proceeds from disposals of property, plant and equipment and investment property	4 343	5 648	3 069	1 331
	Purchases of property, plant and equipment and investment property	-11 309	-6 110	-900	-1 384
	Loans granted	-951	0	-3 631	-3 727
	Repayments of granted loans	545	0	1 277	0
	Interests received	20	0	24	0
	Net cash used for investing activities	**-9 719**	**-1 202**	**-2 541**	**-4 538**
	Financing activities				
	Repayments of borrowings	-3 728	-1 990	-1 598	-102
	Borrowings received	9 684	5 166	3 099	2 743
	Repayment of finance lease liabilities	-757	-2 247	-56	-1 868
14	Change in overdraft and inventory financing	-2 083	1 815	-2 128	1 501
	Interests paid	-924	-838	-398	-369
	Net cash (used for) from financing activities	**2 192**	**1 906**	**-1 081**	**1 905**
	Total net cash flow	**187**	**-307**	**-63**	**-354**
	Cash and cash equivalents at the beginning of the period	178	549	125	542
	Change in cash and cash equivalents	187	-307	-63	-354
	Foreign exchange effect	0	-64	0	-63
	Cash and cash equivalents at the end of the period	**365**	**178**	**62**	**125**

[1] Non-monetary expenses related to property, plant and equipment and investment property and gains and losses from disposal of these items.

Cash and cash equivalents in the cash flow statement is equal to their amount in the balance sheet.

STATEMENT OF CHANGES IN EQUITY

for the financial years ended June 30, in thousands of euros

Note	Group	Share capital	Manda-tory legal reserve	Revaluation reserve	Retained earnings	Total equity
	As of June 30, 2003	**5 035**	**98**	**1 096**	**9 149**	**15 378**
	Transfer from retained earnings to reserves	0	104	0	-104	0
	Net profit for 2003/2004	0	0	0	1 098	1 098
	As of June 30, 2004	**5 035**	**202**	**1 096**	**10 143**	**16 476**
2B	Negative goodwill	0	0	0	635	635
	Transfer from retained earnings to reserves	0	55	0	-55	0
17	Increase in share capital	10 069	0	0	-10 069	0
11	Reclassification effect (from property, plant and equipment to investment property)	0	0	94	0	94
	Transfer from revaluation reserve to retained earnings	0	0	-636	636	0
	Net loss for 2004/2005	0	0	0	-2 623	-2 623
	As of June 30, 2005	**15 104**	**257**	**554**	**-1 333**	**14 582**

There are no differences in the Group's and the Parent's statements of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Corporate information

The financial statements of AS Kalev for the year ended June 30, 2005 were authorized for issue in accordance with a resolution of the Chairman on November 28, 2005. According to the Estonian Business Code, the annual report, including the financial statements, is authorized by the shareholders' general meeting. The shareholders hold the power not to approve the annual report prepared and presented by the management board and the right to request a new annual report to be prepared.

AS Kalev is a limited company incorporated and domiciled in Estonia. Shares of AS Kalev have been listed in the Investors' List of Tallinn Stock Exchange. The principal activities of the Group are the production and sales of different food products and the developing of real estate.

Note 2 Summary of significant accounting policies

A Basis of preparation

The consolidated financial statements of the Group and the unconsolidated financial statements of AS Kalev have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remained in effect for the reporting period started on July 1, 2004.

The financial statements have been prepared in thousands of euros and based on a historical cost basis, unless indicated otherwise in the accounting principles below (e.g., investment properties are measured at fair value). The measurement currency of the Group is Estonian kroons. The current financial statements have been prepared in euros according to the requirements of the Tallinn Stock Exchange Rules. Because the Estonian kroon is bound to euro with fixed exchange rate 1 euro = 15.6466 kroons, no foreign exchange differences result from the translation.

B Changes in accounting policies and comparatives

The financial report is composed based on consistency and comparability principles, what means that the Group continually applies same accounting principles and presentation. Changes in accounting principles and presentation takes place only if it is required by new or revised IFRS standards or if new accounting principle and/or presentation give more objective overview of financial position, financial results and cash flows of the Group and the Parent.

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those standards designed to form the "stable platform" mandatory for the financial years beginning on or after 31 March 2004 – i.e., IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004).

In addition, with purpose to get more objective overview of the Group financial figures, some minor changes are made in presentation in the current financial statements. The changes which cause amendments in comparatives do not have an influence neither on Group owners' equity as of June 30, 2004 nor on the result of the financial year ended then.

IFRS 3 "Business combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible assets"

In accordance with standards IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004), these standards were adopted on the business combinations for which the agreement date was on or after March 31, 2004 and goodwill and other intangible assets, which arose from such business combinations, already in the previous financial year.

In the current financial year, these standards were also adopted on goodwill arising from business combinations, the agreement date of which was before 31 March 2004, and to other intangible assets.

The adoption of IFRS 3 and IAS 36 (revised 2004) has resulted in the Group ceasing annual goodwill amortization and negative goodwill recognition as an income over the certain period. Since July 1, 2004, goodwill is tested for impairment annually at the cash generating unit level, unless an event occurs during the year which requires the goodwill to be tested more frequently. According to IFRS 3, negative goodwill is fully recognised as income immediately. In accordance with IAS 22, which previously regulated business combinations recognition, negative goodwill was recognised as follows:

- To the extent that negative goodwill relates to expectations of identifiable future losses, the negative goodwill is recognised as income in the income statement when the future losses are recognised;
- The residual part of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining useful life of the identifiable acquired depreciable assets; the amount of negative goodwill in excess of the fair values of acquired non-monetary assets is recognised as income immediately.

In accordance with the requirements of the transitional provisions of IFRS 3, the Group has derecognized negative goodwill in the amount of 635 thousand euros with a corresponding entry to retained earnings.

Moreover, under the revised IAS 38 the useful life of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortized over its useful life, which together with the amortization method is reviewed at the earlier of annually or when an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure that their carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

C Basis of consolidation and investments into subsidiaries in unconsolidated financial statements

The Parent and its subsidiaries (i.e., the entity in which the Parent entity owns the majority of voting interest or there is other way the Parent is able to control the subsidiary's financial or business activity) compose the consolidation group (hereinafter together as the „Group").

Subsidiaries are consolidated from the date of acquisition and cease to be consolidated from the date on which control is transferred out of the Group. For the consolidation purposes, the financial statements of the subsidiaries are prepared for the same reporting period and using the same accounting principles as the Parent.

All inter-group transactions, balances and unrealized profits or losses on transactions between Group's companies have been eliminated in the consolidated financial statements. Unrealized losses are eliminated unless costs cannot be recovered.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement and balance sheet.

In the Parent's unconsolidated financial statements, investments in its subsidiaries are accounted for under the equity method of accounting. The investment in subsidiary is carried in the balance sheet at cost plus post-acquisition changes in the Parent's share of net assets of the subsidiary, less any impairment in value. Under the equity method the unrealized profits and losses are eliminated similarly to consolidation principles.

Business combinations

New subsidiaries (business combinations) have been included in the consolidated financials statements using the purchase method of accounting. Accordingly, the consolidated income statement and consolidated cash flow statement include the results and cash flows of new subsidiaries for the period starting from their acquisition date. The purchase consideration is allocated to the fair value of the assets acquired and liabilities and contingent liabilities assumed on the date of acquisition. The acquisition cost exceeding fair value of acquired net assets is accounted under goodwill (see accounting principle K). If acquisition cost is less than fair value of acquired net assets the difference is recorded as income immediately.

D Foreign exchange transactions

Foreign currency transactions are recorded in measurement currency at the exchange rates quoted by the Bank of Estonia at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Gains and losses from foreign currency transactions are recorded in the income statement (gains and losses arising from accounts receivable and accounts payable under operating items and gains and losses arising from other monetary assets and liabilities under financial items).

The foreign subsidiary Kalev Merchant Services Ltd is considered as "foreign operations that are integral to the operations of the Parent". It means that the individual items in the financial statements of the foreign subsidiaries are translated as if all its transactions had been entered into by the Parent itself (in practical purposes income statement and cash flow are converted into measurement currency using annual weighted average exchange rate of Bank of Estonia). The cost and depreciation of property, plant and equipment is translated using the exchange rate at the date of purchase of the asset. Monetary assets and liabilities are translated using the Bank of Estonia exchange rate valid on June 30. All differences are taken to the income statement.

E Cash and cash equivalents

Cash equivalents are short-term highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value, i.e., cash in hand, demand deposits in banks and time deposits with due date up to 3 months.

F Accounts receivable and other receivables

Trade receivables are recognised and carried at original invoice amount less discounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. An estimate for doubtful debt is difference between book value and recoverable amount, Recoverable amount is net present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

All other receivables (accrued receivables, loans granted and other short and long-term receivables), excluding receivables intended to sell, are recorded at amortised cost.

Amortised cost of short-term receivables is usually equal to their nominal cost (less possible discounts). Long-term receivables are initially recognised in their fair value, based on which an interest income is calculated in accordance with effective interest method (recorded in income statement on line "other financial items").

If there are circumstances that indicate that amortised cost of long-term receivables is impaired, the difference between the book value of the receivable and its recoverable amount (discounted by initial effective interest rate) is accounted as an impairment loss.

Receivables are derecognised when the money is collected, the receivables are sold or cash flows attributable to the receivable are passed through to an independent third party.

G Factoring

Factoring is the sale of receivables. Depending on the type of factoring contract, 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 rewards associated with receivable are transferred from the seller to the buyer (factoring without recourse).

Factoring with recourse is recorded as a financing transaction (i.e. the borrowing with collateral): the amount of receivable 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 expense is recognised as a financial expense or an allowance depending on whether the aim of the transaction was to manage the cash flows or to manage credit risk.

H Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories is assigned by using the weighted average cost method. Cost of finished goods and work-in-progress consists of cost of the raw materials, direct labour expenses, other direct expenses and production overheads (based on normal production capacity used).

I Property, plant and equipment

Assets with a useful life of over 1 year and an acquisition cost of over 639 euros (10 000 kroons) are considered to be property, plant and equipment. Low-value items are fully expensed at the acquisition.

Land and buildings are measured at revalued amount and other items at cost, which have been deducted by accumulated depreciation and any impairment in value.

At the revaluation date, the current cost of land and buildings is replaced by its fair value at the date of revaluation date and accumulated depreciation is eliminated. If the book value of asset increases as a result of revaluation, the difference between previous and new book value is charged directly to equity (under ”revaluation reserve”). If the book value of asset decreases as a result of revaluation, the difference between previous and new book value is recognised as an impairment loss in income statement, excluding that part which has arisen as a result of an earlier revaluation of same asset (debited directly in equity).

Revaluation reserve recorded in equity is transferred to retained earnings during the amortisation period of revalued assets. If an asset is derecognised before the end of its depreciation period, the revaluation reserve is transferred fully to retained earnings at derecognition moment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

▪ Buildings	3 %;
▪ Machinery, equipment and vehicles	10-20%;
▪ Computer equipment	30-50%;
▪ Other property, plant and equipment	20-30%.

Land is not depreciated.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds the estimated recoverable amount, which is specified as the higher of an asset's fair value less cost to sell and value in use, the assets are written down to their recoverable amount. Impairment loss is recorded on the same line of income statement as depreciation of impaired asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset is included in the income statement (under "other operating items") in the financial year the asset is derecognised.

Maintenance and repairs expenditures of property, plant and equipment are expensed in the period in which these are incurred. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised are added to the carrying amount of the assets when it is possible that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the enterprise. Such capitalised expenses are depreciated according to plan for a period not exceeding the useful life of the property, plant and equipment.

J Investment property

Investment property is property, land or a building held to earn rentals or for capital appreciation, and which is not used for the business activities (production of goods, supply of services and administrative activities) of the Group. Investment properties are initially recognised in the balance sheet at cost, including the transaction fees directly related to the acquisition (i.e., notary fee, state duty, fees paid to advisors, and other expenses without which the transaction would probably not have taken place). After initial recognition, investment properties are recorded by using the fair value model – i.e. the investment property is measured in its fair value on each balance sheet date. Professional experts are used to determine the fair value of the investment property. Gain/loss from the change in fair value is recorded under "other operating items" in the income statement. During the reclassification from the property, plant and equipment to the investments property, the gain from change in book value of property is recorded directly in the equity ("revaluation reserve").

K Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the acquisition over the fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

After initial recognition, the goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated (1) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and (2) is not larger than a segment based on the Group primary reporting format.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses of goodwill are recorded as "administrative expenses" in the income statement.

L Other intangible assets

Intangible assets acquired separately from a business are initially recognised at cost. Intangible assets acquired as the part of an acquisition of a business are recorded separately from goodwill if their fair value might be reliably assessed as at the date of acquisition. Following initial recognition, other intangible assets are stated at cost less accumulated amortisation and any accumulated impairment in losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either a finite or indefinite life. Intangible assets with finite lives are amortised over the useful economic life on a straight-line basis (maximum of five years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with finite life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite is made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is capitalised only when the Group can demonstrate (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete and its ability to use or sell the asset; (3) how the asset will generate future economic benefits; (4) the ability of resources to complete; and (5) the availability to measure reliably the expenditure during the development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

M Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as a lessee.

Finance leases are recognised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognised as operating expenses on a straight-line basis over the lease term.

Group as a lessor.

Assets leased out under operating lease terms are remain in Group's balance sheet similarly to other property, plant and equipment or investment properties. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

N Financial liabilities

All financial liabilities (account payable, borrowings, accrued expenses, bonds issued, and other short and long-term liabilities) are initially measured at cost, which includes also transaction related costs. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Borrowings are derecognised when the obligation under the liability is discharged or cancelled or expired.

Borrowing costs are recognised as an expense when incurred (under "other financial items").

O Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability.

Promises, guarantees and other commitments that in certain circumstances may become liabilities, but in the opinion of the Group's management the probability of an outflow to settle these liabilities is lower than 50%, are disclosed in the Notes to the financial statements as contingent liabilities.

P Income tax

According to Estonian Income Tax Law the company's net profit is not subject to income tax, but all dividends paid by the company are subject to income tax (26/74 of net dividend paid out before 31 December 2004; 24/76 of net dividend paid out during the calendar year 2005 and after that the rate will decrease every year by one point until 20/80 of net dividends paid out after 1 January 2009). Income tax from the payment of dividends is recorded as income tax expense at the moment of declaring the dividends irrespective of which period dividends relate to or when actual payment takes place.

According to the taxation regulations of USA, profit of the entity is a subject of income tax. Income tax is paid to federal and state government. Federal government income tax rates are progressive and depend on the amount of profit. Minimum income tax rate in USA is 15%, income tax in state New York is 7,5%.

R Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the conditions related to such grants and the grants will be received.

The Group applies the "net method" for the assets acquired with government grants. According to this method, the asset is recognised at cost less government grant received and hereafter government grants are recorded as income over the useful life of an asset – as a reduction of depreciation charge.

Government grants received as compensation for expenses are recorded, when related expenses incurred. The Group applies the "gross method" for compensation of expenses. According to this method expenses compensated and compensation received are presented separately in the income statement. Income related to government grants are recorded under "other operating items".

S Revenue

Sales revenue is recorded, when the significant risks related to ownership of goods have been transferred to the buyer and the costs incurred in respect of the transaction can be measured reliably. Sales revenue from services is recorded in the period when the service has been provided or if service is provided for longer period, completion method is used.

Sale of real estate is recorded when all significant risks related to the asset have been transferred to the buyer and seller has no further substantial acts to complete under the contract. In general, revenue is recognised when the real right contract is concluded. If according to the contract under the law of obligations, the buyer assigned to right of use and had paid the majority of purchase price, the sale is recorded at the signing of contract under the law of obligations. Payments received from clients in advance are recorded under "prepayments received" in balance sheet.

Interest income and dividend income is recognised when income is probable and the amount might be reliably assessed. Interest income is recognised based on effective interest rate unless when interest receivable is uncertain. In that case interest income is recognised on cash basis. Dividend income is recorded when the right for claim has occurred.

T Segment reporting

The primary segments of the Group are business segments 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 segments of the Group are confectionery production and sale, pastries production and sale, production and sale of dairy products, operations with real estate.

All assets directly related to the segments are recorded as the assets of the segment and all liabilities directly related to the segments are recorded as the liabilities of the segments. Unallocated assets and liabilities are recorded as the assets and liabilities of the Group. Expenses not related to a specific segment are recorded as unallocated expenses of the Group.

U Mandatory legal reserve

Reserves in equity include a mandatory legal reserve formed according to the Estonian Commercial Code. At least 5% of the net profit must be transferred to the mandatory legal reserve each financial year, until the mandatory legal reserve amounts to at least 10% of the share capital. Mandatory legal reserve can be used for covering the loss, if loss cannot be covered from the distributable shareholder's equity, as well as for increasing the share capital of the company. The mandatory legal reserve cannot be paid out as dividends.

V Related parties

In purpose of preparing financial statements, the related parties of the Group are: shareholders with over 10% of voting rights, key members of the management and the companies controlled by them and other parties which has significant influence in the Group.

Note 3 Segment information

for the financial years ended June 30 and as of 30 June, respectively, in thousands of euros

Primary segment format – business segments

For the purpose of segment information, the confectionery, pastries and dairy products as well as real estate are clearly distinguishable as segments.

2005	**Confec-tionery**	**Pastries**	**Dairy products**	**Real estate**	**TOTAL**
Revenue from external clients					
- net sales	**19 767**	**6 163**	**26 772**	**1 147**	**53 849**
- other operating income	548	12	245	929	1 734
Revenue from other segments	0	0	697	0	697
Total segment revenue	**20 315**	**6 175**	**27 714**	**2 076**	**56 280**
Segment result	**1 448**	**309**	**-684**	**838**	**1 912**
Unallocated expenses					-3 398
Operating profit (loss)					**-1 487**
Net financial items					-1 065
Minority interests	0	-72	0	1	-71
Net profit (loss)					**-2 623**
Segment assets	10 239	3 492	5 984	27 474	47 189
Unallocated assets					2 762
Total assets					**49 951**
Segment liabilities	4 574	771	8 056	2 088	15 489
Unallocated liabilities					19 330
Total liabilities					**34 819**
Segment capital expenditures for non-current assets	1 904	56	1 009	8 953	11 922
Segment depreciation and amortization	879	256	397	2	1 534
Other non-monetary expenses of segments (allowances, provisions etc.)	237	23	363	0	623

2004	Confec-tionery	Pastries	Dairy products	Real estate	Other	TOTAL
Revenue from external clients						
- net sales	**17 343**	**1 376**	**10 728**	**3 250**	**7 197**	**39 894**
- other revenue	0	62	0	1 955	0	2 017
Revenue from other segments	0	0	253	0	0	253
Total segment revenue	**17 343**	**1 438**	**10 981**	**5 205**	**7 197**	**42 164**
Segment result	**6 592**	**-292**	**-497**	**663**	**524**	**6 990**
Unallocated expenses						-5 082
Operating profit (loss)						**1 908**
Net financial items						-811
Minority interests	0	1	0	0	0	1
Net profit (loss)						**1 098**
Segment assets	24 194	862	2 328	9 389	5 983	42 756
Unallocated assets						1 831
Total assets						**44 587**
Segment liabilities	6 408	908	3 468	7 121	3 067	20 972
Unallocated liabilities						7 127
Total liabilities						**28 099**
Segment capital expenditures for non-current assets	727	245	211	3 458	0	4 641
Segment depreciation and amortization	951	79	165	1	0	1 196
Other non-monetary expenses of segments (allowances, provisions etc.)	148	0	0	0	0	148

Secondary segment format – geographical segments

Net sales by markets	**2005**	**2004**
Estonia	30 043	33 574
The Baltics	1 148	1 702
Scandinavia	18 862	1 102
Other EU countries	3 216	2 199
Others	580	1 317
Total	**53 849**	**39 894**

All significant assets of the Group are located in Estonia.

Note 4 Cost of sales, marketing expenses and administrative expenses

for the financial years ended June 30, in thousands of euros

	The Group		The Parent	
	2005	2004	2005	2004
Cost of materials and goods (incl. sold property recognised under inventory)	-38 000	-23 546	-14 632	-15 482
Personnel expenses	-2 864	-2 325	-1 521	-1 903
Depreciation and amortization	-1 157	-668	-359	-418
Expenses related to transport	-805	-190	-59	-38
Maintenance and rent of buildings and equipment	-1 157	-667	-1 354	-1 527
Electricity, water, heat	-1 785	-1 115	-745	-560
Other expenses	-1 163	-2 603	-160	-251
Total cost of sales	**-46 931**	**-31 114**	**-18 830**	**-20 179**
Personnel expenses	-1 691	-1 352	-1 302	-1 221
Depreciation and amortization	-234	-98	-102	-86
Expenses related to transport	-1 129	-396	-811	-372
Advertising expenses	-1 013	-1 031	-1 000	-1 028
Research and development expenses	-215	-129	-215	-129
Fees for consultations	-183	-67	-181	-67
Maintenance and rent of rooms	-35	-123	-457	-121
Other expenses	-554	-1 369	-576	-1 314
Total marketing expenses	**-5 054**	**-4 565**	**-4 644**	**-4 338**
Personnel expenses	-957	-707	-697	-596
Depreciation and amortization	-203	-210	-58	-63
Expenses related to transport	-296	-481	-211	-481
Maintenance and rent	-550	-1 498	-516	-1 395
Fees for consultations	-867	-596	-522	-580
Other expenses	-1 068	-914	-807	-907
Total administrative expenses	**-3 941**	**-4 406**	**-2 811**	**-4 022**

Above mentioned personnel expenses are divided as follows:

	The Group		The Parent	
	2005	2004	2005	2004
Salary and wages	-4 129	-3 296	-2 637	-2 790
Social taxes	-1 383	-1 088	-883	-930
Total personnel expenses	**-5 512**	**-4 384**	**-3 520**	**-3 720**

In the reporting period, the average number of employees of the Group amounted to 806 (2004: 712), including employees of AS Kalev 452 (2004: 450). In the Group the compensation for lay-offs and employment termination was paid to 47 employees (2004: 84) in total amount of 84 thousand euros (2004: 176 thousand euros); incl. 15 (2004: 46) employees of the Parent in total amount of 28 thousand euros (2004: 129 thousand euros).

Note 5 Other operating items

for the financial years ended June 30, in thousands of euros

	The Group		The Parent	
	2005	2004	2005	2004
Gain from disposals of property, plant and equipment	370	100	360	38
Gain from investment properties	927	0	0	0
Government grants	259	0	12	0
Sale of option to Raldon [2]	0	1 917	0	1 917
Net foreign exchange gains	0	0	3	0
Other operating income	181	100	178	139
Total other operating income	**1 737**	**2 117**	**553**	**2 094**
Loss from disposals of property, plant and equipment	-117	-659	0	-643
Impairment of inventories (Note 10)	-187	-15	-143	-15
Impairment of receivables [1]	-201	917	-178	336
Fine for delay and penalties	-229	-80	-76	-76
Provisions for onerous agreement (Note 16)	-320	0	0	0
Net foreign exchange losses	-2	-65	0	-64
Other operating expenses	-91	-116	-63	-283
Total operating expenses	**-1 147**	**-18**	**-460**	**-745**
Total other operating items	**590**	**2 099**	**93**	**1 349**

[1] In prior year the impairment of receivables of the Group and the Parent include among others reversal of impairment of receivable recorded previously in the amount of 933 thousand euros (see Note 9). Due to the negative equity of some subsidiaries, the Parent wrote down receivables from subsidiaries as follows: for the year ended on June 30, 2005 in the amount of 26 thousand euros and for the year ended on June 30, 2004 in the amount of 585 thousand euros (see Note 18).

[2] On June 2, 2004 AS Kalev concluded an agreement with OÜ Raldon, in order to amend and supplement the sale contract with the repurchase right under the law of obligations with regard to the 18070/52410 legal share of registered real estate located at Pärnu Road 139. According to the agreement, AS Kalev sold this part of the particular real estate with its essential parts and accessories to OÜ Raldon and abandon repurchase right receiving the fee for that in the amount of 1.9 million euros.

Note 6 Financial items

for the financial years ended June 30, in thousands of euros

	The Group		The Parent	
	2005	2004	2005	2004
Interest income	47	63	41	62
Net foreign exchange losses	-8	-64	-4	-63
Interest expenses	-974	-838	-440	-369
Other financial income	-3	28	-2	61
Total financial items	**-938**	**-811**	**-405**	**-309**

Note 7 Group's earnings per share

for the financial years ended June 30, in thousands of euros

	2005	2004
Net profit (loss)	-2 623	1 098
The weighted average number of shares in period (thousand pcs)	23 633	23 633
Earning per share (euros)	**-0.11**	**0.05**

Since the increase of share capital of the Parent was bonus issue (see additional information in Note 17), the new amount of shares has been used as an average number of ordinary shares for both current period and comparative period. It means that comparatives (0.14 euros) have been changed compared with results reported previously.

As the Group does not have any potential ordinary shares, then the diluted earnings per share are equal to basic earnings per share.

Note 8 Receivables

as of June 30, in thousands of euros

Short-term receivables

	The Group		The Parent	
	2005	2004	2005	2004
Accounts receivable from external customers [1]	4 725	11 841	2 924	9 649
Receivables from subsidiaries [4]	0	0	2 655	6 361
Short-term loans[2]	375	277	215	235
Other receivables [3]	502	1 053	223	1 036
Accrued income	51	25	42	25
Prepaid VAT	1 837	0	408	0
Allowance for receivables (Note 9)	-149	-16	-143	-597
Total receivables	**7 341**	**13 180**	**6 324**	**16 709**

[1] As of June 30, 2004 balance of accounts receivable was significantly higher compared to June 30, 2005; this was caused by sales of raw materials in large amount at the end of prior financial year, for which the money was collected during current financial year (in amount of 5 983 thousand euros).

[2] AS Kalev and AS Kalev REC had granted short-term loans without guarantee with average interest rate of 6%.

[3] On June 2, 2004 AS Kalev concluded an agreement with OÜ Raldon, in order to amend and supplement the sale contract with the repurchase right under the law of obligations with regard to the 18070/52410 legal share of registered real estate located at Pärnu Road 139 (see Note 5). Other receivables as of June 30, 2004 include among others receivable from OÜ Raldon for specified transaction in the amount of 965 thousand euros, which was collected during the current year.

Group's other receivables as of June 30, 2005 include among others government grants receivable from PRIA in the amount of 277 thousand euros (2004: zero).

[3] Receivables from subsidiaries include receivables arose from sales, loans granted and accrued interests.

Long-term receivables

As of June 30, 2005 long-term receivables include loans without guarantee granted by the Parent and Kalev REC in the amounts of 169 thousand euros and 137 thousand euros, respectively and other receivables of the Parent in the amount of 21 thousand euros (2004: Parent's other receivables amounted to 21 thousand euros). Loans' maturity date is December 31, 2006 and interest rate is in the range of 5-6%.

Note 9 Allowance for receivables

for the financial years ended June 30, in thousands of euros

	The Group		The Parent	
	2005	2004	2005	2004
Allowance for receivables at the beginning of period	-16	-933	-597	-933
Additional allowance	-133	-16	-132	-597
Derecognition on receivables impaired	0	0	585	0
Reversal of allowance recorded previously [1]	0	933	0	933
Total allowance for receivables	**-149**	**-16**	**-143**	**-597**

[1] In the prior year the Parent's management had analysed allowance for 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 decided to reverse the allowance in the amount of 933 thousand of euros (the named amount is related to confectionery segment)

In current period the receivables of the Parent and the Group have been considered as uncollectible receivables in the amounts of 46 thousand euros and 69 thousand euros, respectively (2004: zero), i.e. these receivables were written off from balance sheet without prior allowance recognistion.

Expenses form allowance for doubtful receivables and write-off of uncollectible receivables and reversal of allowances recorded previously are presented under "other operating items" in income statement.

Note 10 Inventory

as of June 30, in thousands of euros

	The Group		The Parent	
	2005	2004	2005	2004
Raw materials (at cost)	2 788	2 094	2 315	1 898
Work-in-progress (at conversion cost)	472	134	471	93
Finished products (at conversion cost)	2 393	2 902	910	2 131
Real estate for sale (at cost)	860	0	0	0
Goods purchased for resale (at cost)	223	46	18	34
Allowance for inventory	-215	-28	-171	-28
Prepayment to suppliers	288	289	287	289
Total inventories	**6 809**	**5 437**	**3 830**	**4 417**

Allowance for inventory

	The Group		The Parent	
	2005	2004	2005	2004
Allowance at the beginning of the period	-28	-13	-28	-13
Additional allowance	-187	-15	-143	-15
Allowance at the end of the period	**-215**	**-28**	**-171**	**-28**

As of June 30, 2005 the Group has written down raw materials in the amount of 171 thousand euros and finished products in the amount of 43 thousand euros (the Parent: raw materials in the amount of 171 thousand euros), as realisable value of inventories was lower than their cost. As of June 30, 2004 only raw materials of the Parent have been written down. The realisable value of inventories was lower than their book value because of decrease in sales price of milk products, slow-moving items and impairment in quality of raw materials.

Note 11 Investment property

for the financial years ended June 30, in thousands of euros

Group	Investment properties, excl. prepayments	Prepayments for investments	Total
Book value June 30, 2004	**2 751**	**959**	**3 710**
Acquisitions	6 660	2 292	8 952
Transfer from prepayments to investments	959	-959	0
Reclassification from property, plant and equipment (Note 12)	2 219	0	2 219
Reclassification to inventories	-1 097	-67	-1 164
Disposals	-1 827	0	-1 827
Change in fair value – recorded directly in equity *	94	0	94
Change in fair value – recorded in income statement	835	0	835
Book value June 30, 2005	**10 594**	**2 225**	**12 819**

* in connection with reclassification from property, plant and equipment to investment properties.

In the reporting period, AS Kalev REC earned rental income from investment properties in the total amount of 216 thousand euros and gain from disposals in the total amount of 93 thousand euros. All investments are measured in fair value in the balance sheet. For those investments purchased during the second half of the financial year, the revaluation has not been made, if there are no significant changes in market, as according to the management's estimates the acquisition costs does not differ significantly from the fair value of these assets as of balance sheet date. For determining the fair value of other items the external real estate experts were used.

Parent	Investment properties
Book value June 30, 2004	**515**
Disposals	-515
Book value June 30, 2005	**0**

Note 12 Property, plant and equipment

for the financial years ended June 30, in thousands of euros

Group	Land	Buildings	Machinery and equipments	Other items	CIP**	Total
Cost as of June 30, 2004*	1 923	17 147	7 868	880	307	28 125
Accumulated depreciation as of June 30, 2004	0	-1 551	-3 493	-623	-15	-5 682
Book value as of June 30, 2004	**1 923**	**15 596**	**4 375**	**257**	**292**	**22 444**
Acquisitions from business combination (Note 18)	7	1 429	141	178	1	1 755
Other acquisitions	108	1 176	1 242	184	259	2 969
Disposals	-1	-1 129	-8	-32	-42	-1 212
Reclassifications	0	-113	136	-23	0	0
Reclassifications to investment properties (Note 11)	-1 304	-915	0	0	0	-2 219
Depreciation charge	0	-421	-1 012	-107	0	-1 541
Book value as of June 30, 2005	**734**	**15 623**	**4 874**	**457**	**510**	**22 198**
Cost as of June 30, 2005*	734	16 821	9 445	1 182	525	28 707
Accumulated depreciation as of June 30, 2005	0	-1 199	-4 571	-725	-15	-6 510

Parent	Land	Buildings	Machinery and equipments	Other items	CIP**	Total
Cost as of June 30, 2004*	521	2 431	5 401	763	307	9 423
Accumulated depreciation as of June 30, 2004	0	-800	-2 845	-529	-15	-4 189
Book value as of June 30, 2004	**521**	**1 631**	**2 556**	**234**	**292**	**5 234**
Acquisitions	0	22	835	149	98	1 104
Disposals	-359	-1 484	0	0	-193	-2 036
Depreciation charge	0	-38	-389	-87	0	-514
Book value as of June 30, 2005	**162**	**131**	**3 002**	**296**	**197**	**3 788**
Cost as of June 30, 2005*	162	166	5 807	770	212	7 117
Accumulated depreciation as of June 30, 2005	0	-35	-2 805	-474	-15	-3 329

* for land and buildings – revalued cost. The latest revaluations were carried out as of 30 June 2002 and 2003. In order to estimate the market value of building, the discounted cash flow method was used and prices of comparable transactions were used for determining the market value of land.

** Construction in process (CIP) of the Group and the Parent includes also uninstalled equipment and prepayments for property, plant and equipment.

Cost of fully depreciated property, plant and equipments as of June 30:

	Group		Parent	
	2005	2004	2005	2004
Buildings	10	13	1	10
Machinery and equipment	2 639	2 242	2 070	2 048
Other items	378	358	337	325
Total	**3 027**	**2 613**	**2 408**	**2 383**

Note 13 Intangible assets

for the financial years ended June 30, in thousands of euros

	The Group				The Parent
	Positive goodwill	Negative goodwill	Other intangible assets	Total	Other intangible assets
Cost as of June 30, 2004	49	-635	23	-563	23
Accumulated amortization as of June 30, 2004	0	0	-13	-13	-13
Book value as of June 30, 2004	**49**	**-635**	**10**	**-576**	**10**
Derecognition of negative goodwill with corresponding entry to retained earnings	0	635	0	635	0
Depreciation charge (Note 4) [1]	-49	0	-5	-54	-5
Book value as of June 30, 2005	**0**	**0**	**5**	**5**	**5**
Cost as of June 30, 2005	0	0	23	23	23
Accumulated amortization as of June 30, 2005	0	0	-18	-18	-18

[1] Positive goodwill in the amount of 49 thousand euros was written down, as subsidiary OÜ Maiasmokk, purchase of which caused the goodwill, has earned losses during two prior years. According to the Group's management estimates, there are no signs that subsidiary's results may improve so that present value of net future cash flows could cover book value of subsidiary's net assets and goodwill.

Note 14 Borrowings

as of June 30, in thousands of euros

Group / 2005	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	2 638	0	2 638	4-5.5%	2006
Bonds	1 982	0	1 982	6.5%	2005
Short-term bank loans	498	0	498	5.5-7.5%	2005
Long-term bank loans	1 350	5 681	7 031	EURIBOR +0.85-5.3%	2005-2013
Inventory financing	478	0	478	5.15%	2006
Lease liabilities (Note 19)	686	6 017	6 703	4.2-10%*	2005-2013
Total borrowings	**7 632**	**11 698**	**19 330**		

* Certain leases have an interest rate related to Euribor (plus 2-3.25%) and others have a fixed interest rate (6-10%)

Group / 2004	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	2 843	0	2 843	4-5.5%	2006
Long-term bank loans	3 105	460	3 565	EURIBOR +5.3%	2004-2013
Other long-term loans	311	887	1 199	EURIBOR +0.85%	2006
Lease liabilities (Note 19)	747	6 535	7 282	EURIBOR +2.75-3.25%	2004-2013
Total borrowings	**7 006**	**7 882**	**14 888**		

Parent / 2005	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	2 249	0	2 249	4-5%	2006
Bonds	1 982	0	1 982	6.5%	2005
Long-term bank loans	624	312	936	EURIBOR +0.85%	2006
Inventories financing	475	0	475	5.15%	2006
Lease liabilities (Note 19)	56	103	159	6%	2005-2009
Total borrowings	**5 386**	**415**	**5 801**		

Parent / 2004	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	2 529	0	2 529	4-5%	31.05.05
Other short-term loans	2 324	0	2 324	6.5%	2005
Other long-term loans	624	887	1 511	EURIBOR +0.85%	31.12.06
Lease liabilities (Note 19)	10	0	10	6%	2005
Total borrowings	**5 487**	**887**	**6 374**		

The Parent and its subsidiaries have entered into a cash pooling agreement in Hansapank (with total credit limit of 1 278 thousand euros) and in Sampo Pank (without credit limit).

See Note 20 for information on pledged assets.

Note 15 Accounts payable and other payables

as of June 30, in thousands of euros

	The Group		The Parent	
	2005	2004	2005	2004
Accounts payables	13 783	10 585	3 947	6 973
Payables to subsidiaries	0	0	2 062	0
Taxes payable	654	34	357	607
Payables to employees	411	371	243	261
Other accrued expenses[1]	71	2 003	142	1 733
Total	**14 919**	**12 993**	**6 751**	**9 574**

[1] As of June 30, 2004 other accrued expenses (the Parent and the Group) include payable for shares of subsidiary AS Kalev REC in the amount of 1 662 thousand euros (see Note 18). As of June 30, 2005 the Parent's accrued expenses include liability to restore the negative equity of subsidiary OÜ Maiasmokk in the amount of 122 thousand euros (see Note 18).

The balance of taxes payable includes the following taxes:

	The Group		The Parent	
	2005	2004	2005	2004
Social tax	349	259	238	172
Personal income tax	135	102	92	83
VAT	89	-399	0	296
Other taxes	42	72	27	56
Tax penalties	39	0	0	0
Total	**654**	**34**	**357**	**607**

Note 16 Provisions

The Group's subsidiary AS Kalev Paide Tootmine has concluded long-term agreements (effective until December 31, 2005) for purchase of crude milk, with fixed minimum quantity, which the Group is obligated to buy as well as the fixed price. As prices of finished products of AS Kalev Paide Tootmine (i.e. milk and skim milk powder) are at low level on European market (the major market for dairy products of the Group) at the moment, the agreements specified above are considered as onerous agreements, and therefore the provision is recorded in the amount of 320 thousand kroons. The provision was recorded based on current prices, possible changes in prices, and quantity of products possible to produce from crude milk, which wasn't purchased as of June 30, 2005.

Note 17 Share capital

As of June 30, 2004 the share capital of the Parent consisted of 7 877 500 shares with nominal value of 0.64 kroons per share. According to Shareholders' General Meeting of AS Kalev from November 24, 2004, AS Kalev increased the share capital by 10 069 thousand kroons. The increase of share capital was a bonus issue, i.e. new shares were issued on account of retained earnings in the way that the Parent's shareholders received two new shares of 0.64 kroons for each share owned before issue. After share issue the share capital of AS Kalev consists of 23 632 500 ordinary shares. The increase of share capital was registered in the Business Register on January 27, 2005.

According to the Articles of Association of the Parent the maximum number of authorised ordinary shares is 31 510 000.

Note 18 Subsidiaries

in thousands of euros

As of June 30, 2005 AS Kalev participates in subsidiaries as follows:

1. Kalev Merchant Services Ltd. – the company is located in USA and its main activity is sales and introduction of AS Kalev products in USA;
2. AS Kalev Real Estate Company (AS Kalev REC) – the company is located in Estonia; the main field of activity is real estate development, maintenance, valuation, inspection, analysis, serving, rent, sale and purchase, real estate consultancy;
3. AS Kalev Paide Tootmine – the company is located in Estonia; the main field of activity is production of dairy products;
4. AS Kalev Jõhvi Tootmine – the company is located in Estonia; the main field of activity is manufacturing and sale of flour confectionery and pastry;
5. OÜ Maiasmokk – the company is located in Estonia; the main field of activity is manufacturing and sale of confectionery and pastry;
6. AS Vilma – the company is located in Estonia; the main field of activity is manufacturing of confectionery, pastry and flour half-finished products under Vilma trademark.

The subsidiary AS Kalev REC owns 50% of shares of OÜ Sõbra Korterid. Although ownership in OÜ Sõbra Korterid does not exceed 50%, the company is considered to be a subsidiary of the Group, as the Group has actual control over its financial and business decisions.

	June 30, 2005		June 30, 2004	
Subsidiaries	**Ownership %**	**Subsidiaries' share capital**	**Ownership %**	**Subsidiaries' share capital**
AS Kalev REC [1]	100.00%	12 528	59.30%	5 698
Kalev Merchant Services Ltd	100.00%	-125	100.00%	5
AS Kalev Paide Tootmine	100.00%	188	100.00%	-585
AS Kalev Jõhvi Tootmine	99.10%	853	99.10%	1 307
OÜ Maiasmokk	81.26%	-127	81.26%	-49
AS Vilma	60.67%	816	0	0
OÜ Sõbra Korterid	50.00%	-10	0	0

[1] As of June 30, 2004 according to the shareholders contract concluded between AS Skanska and AS Kalev, AS Skanska had right to sell and AS Kalev had an obligation to buy all shares of AS Kalev REC, which belong to AS Skanska EMV. As Skanska used its right. Therefore as of June 30, 2004 the subsidiary was consolidated as a fully

owned subsidiary in the consolidated balance sheet and payable for shares was recorded as short-term liability. Legal ownership of shares was transferred to AS Kalev in the current financial year.

The changes in Parent's investments into subsidiaries are following during the year ended on June 30:

	2005	2004
Book value at the beginning of the period	5 329	2 622
Influence of negative goodwill (see Note 13)	635	0
Business combinations	719	758
Other additional investments	6 611	1 220
Gain (loss) from equity method	-378	729
Book value at the end of the period	**12 916**	**5 329**

Equity method profit

As of June 30, 2005 equity of two subsidiaries' (OÜ Maiasmokk and Kalev Merchant Services Ltd) was negative and as of June 30, 2004 equity of OÜ Maiasmokk and AS Kalev Paide Tootmine was negative. Due to negative equity, loans granted to and other receivables from these subsidiaries were written down as of June 30, 2004 and 2005 in the amount of 130 thousand euros and 585 thousand euros, respectively. In addition, Parent's balance sheet include liability to restore negative equity of OÜ Maiasmokk in accordance with the requirements of the Commercial Code in the amount of 122 thousand euros.

The Parent recorded write downs of loans and receivables and liability to restore OÜ Maiasmokk's as an equity method gain (loss) in income statement. Therefore equity method gain (loss) for the period in the total amount of -604 thousand euros (2004: 729 thousand euros) consists of the following components: decrease of investment in the amount of -378 thousand euros; write downs of loans and interests in amount of 103 thousand euros and liability (see Note 15) in amount of -122 thousand euros (2004: 729 thousand euros as decrease of investment). Expenses from write down of other receivables in the amount of 26 thousand euros (2004: 585 thousand euros) are recorded under other operating expenses (see Note 5).

The Group's part of the loss of subsidiary Kalev Merchant Services Ltd has been recorded as an equity method gain (loss) of the Group in the amount of 127 thousand euros. This subsidiary is not consolidated, as it is considered as an immaterial subsidiary. Instead of consolidation, investment into Kalev Merchant Service Ltd is recorded by equity method – the principles which are applied to investments in the unconsolidated financial statements of the Parent.

Business combinations

In the reporting period (on July 1, 2004) Kalev AS acquired interest of 60.67% in AS Vilma i.e. AS Vilma's shares of 436 857. 719 thousand euros was paid for the participation. According to the agreement, AS Kalev has undertaken to acquire also the remaining shares in AS Vilma within 2005 on the same terms from the shareholders that wish to sell their shares. By the date of preparing financial statements, minority shareholders had made proposals, however no shares sale-purchase agreement have been concluded.

The purpose of the acquisition of the shares of AS Vilma was to expand the operations of AS Kalev in the field of flour confectionery according to the long-term development strategy of the company.

During the reporting period the Group received 50% of ownership in OÜ Sõbra Korter for free of charge.

In prior year AS Kalev purchased the following participations:

- According to the agreement concluded on December 24, 2004, AS Kalev purchased 991 shares i.e. 99.1% of shares of AS Kalev Jõhvi Tootmine (prior name AS Järle). Purchase price amounted to 728 thousand euros.
- According to the agreement concluded on February 20, 2004, AS Kalev purchased 51 700 shares i.e. 59.52% of shares of OÜ Maiasmokk. Additional 19 000 shares, i.e. 21.84% was purchased by AS Kalev on May 13, 2004. The purchase price of total 81.26% amounted to 4 thousand euros.

Acquisition cost of purchased business combinations can by allocated on the fair value of purchased net assets as follows (for the financial year ended 30 June):

	2005	**2004**
Cash	14	18
Other current assets	306	363
Property, plant and equipment	1 755	1 922
Borrowings	-681	-503
Other payables	-208	-468
Total net assets	**1 186**	**1 332**
Acquisition cost	719	732
Participation of AS Kalev in acquired net assets	719	1 327
Goodwill, incl:	**0**	**-595**
- positive goodwill	0	635
- negative goodwill	0	40
Cash obtained with subsidiary	14	18
Cash paid for business combinations	-719	-732
Net cash flow from business combinations	**-705**	**-714**

In addition, in the prior financial year AS Kalev established a 100% subsidiary AS Kalev Paide Tootmine. Monetary contribution into subsidiary's share capital was made in the amount of 26 thousand euros.

Effect of the acquisitions on the financial position of the Group at the reporting date and the results of the Group for the reporting period is following:

Vilma and Sõbra Korter related assets (+) and liabilities & minority interests (-) as of June 30, 2005	
Current assets	1 085
Non-current assets	1 609
Current liabilities	-849
Non-current liabilities	-476
Minority interest	-541

Vilma and Sõbra Korter related income and expenses (12 months period ended June 30, 2005)	
Net sales	2 496
Operating profit	224
Financial expenses	-30
Minority interests	-76
Net profit	118

Other additional investments into subsidiaries

On July 27, 2004 share capital increase of AS Kalev Paide Tootmine was registered in Commercial register. According to the AS Kalev Paide Tootmine sole shareholder decision share capital was increased by monetary contribution in amount of 2 440 thousand euros and new share capital amounted to 2 466 thousand euros. During share capital increase new shares with nominal value of 0.64 euros per share were issued. All new shares were purchased by AS Kalev. In settlement for shares AS Kalev receivable from AS Kalev Paide Tootmine in the amount of 2 440 thousand euros was netted. As in balance sheet of AS Kalev assigned receivable was previously written down in the amount of 585 thousand euros, investment into subsidiary increased by 1 855 thousand euros.

As a sole shareholder, AS Kalev made a decision to increase AS Kalev REC share capital by non-monetary contribution in amount of 4 756 thousand euros. The new share capital amounted to 7 370 thousand euros. Share capital was increased through share issue; 74 419 new shares with nominal value of 63.9 euros were issued. New shares are with the same rights as old ones and they give a right for dividends in current financial year. AS Kalev acquired all 74 419 of new shares. In settlement for shares the receivables from AS Kalev REC in amount of 3 861 thousand euros was netted in full amount, and AS Kalev payable to AS Kalev REC in the amount of 895 thousand euros was considered as settled.

Note 19 Leases

in thousands of euros

Finance leases – Group/Parent as a lessee

The future minimum lease payments under finance lease and the present value (PV) of the net minimum lease payments of the Group and the Parent have been presented below (as of June 30):

Group	2005		2004	
	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	951	686	1 069	747
After 1 year, but not more than 5 years	2 940	2 125	4 991	3 870
Over 5 years	5 015	3 893	2 874	2 665
Total minimum lease payments	**8 906**	**6 703**	**8 934**	**7 282**
Future financial charges	-2 203		-1 652	
PV of minimum lease payments	**6 703**	**6 703**	**7 282**	**7 282**

Parent	2005		2004	
	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	59	56	10	10
After 1 year, but not more than 5 years	110	103	0	0
Total minimum lease payments	**169**	**159**	**10**	**10**
Future financial charges	-10		0	
PV of minimum lease payments	**159**	**159**	**10**	**10**

Book value of non-current assets purchased under finance lease terms as of June 30:

	Group		Parent	
	2005	2004	2005	2004
Investment properties	2 174	353	0	0
Land and buildings recorded under property, plant and equipment	13 742	13 086	0	0
Machinery and equipment	1 161	858	190	0
Other items	12	9	8	10
Total	**17 089**	**14 306**	**198**	**10**

Operating leases – Group/Parent as a lessee

The Group has entered into operating lease agreement for renting cars, commercial vehicles and computers. These contracts are cancellable without any additional payments. The Group has no plans to cancel these agreements before due date. Additionally, the Parent leases a production building, office and shop-cafés "Kalevite Kodu" from its subsidiary.

In the reporting period the Group and the Parent paid lease payments in the total amount of 575 thousand euros and 1 903 thousand euros, respectively (2004: 469 and 1 538 thousand euros).

The future lease payments from non-cancellable agreements are as follows (as of June 30):

	Group		Parent	
	2005	2004	2005	2004
Within one year	0	0	1 264	1 226
After 1 year, but not more than 5 years	0	0	6 110	7 729
Over 5 years	0	0	5 756	5 781
Total	**0**	**0**	**13 130**	**14 736**

Operating leases – the Group as a lessor

The subsidiary AS Kalev REC leased out the real estate recorded as investment properties. As of June 30, 2005, the book value of leased assets amounted to 4 324 thousand euros (2004: 1 209 thousand euros). During the reporting period the subsidiary earned the rental income from external customers in the total amount of 166 (2004: 190) thousand euros.

As of June 30 there are no non-cancellable operating lease agreements.

Note 20 Pledged assets

as of June 30, in thousands of euros

The following assets have been pledged to secure the borrowings of the Group and the Parent, except lease liabilities (in book value):

	Group		Parent	
	2005	2004	2005	2004
Mortgage – real estate under inventories	860	1 097	0	0
Mortgage – real estate under property, plant and equipment	1 376	0	0	0
Mortgage – real estate under investment properties	7 595	2 231	0	0
Commercial pledge	4 414	3 707	3 707	3 707

The trademark „Kalev" (with book value of zero) has been additionally pledged in order to secure the borrowings of AS Kalev and AS Kalev REC received from AS Hansa Liising Eesti, which exceed 8.3 million euros. As of June 30, 2005 there was no excess (2004: the excess amounted to 1 406 thousand euros).

The lease liabilities have been secured by the assets purchased under finance lease terms (Note 19).

Note 21 Contingencies

as of June 30, in thousands of euros

Income tax from dividends

The Parent has no distributable equity as of 30 June 2005, therefore its has no possible income tax liability. The Group's subsidiaries registered in Estonia have distributable equity in the total amount of 5 965 thousand euros. The maximum possible income tax liability, which would become payable if retained earnings were fully distributed is 1 372 thousand euros, of which the Parent can use 1 343 thousand euros for reduction its income tax liability, when it has earned distributable profits and is paying it out as dividends.

Off-balance sheet guarantees

AS Kalev has granted the following guarantees. According to the management's estimates, it is not probable that these guarantees will realize and therefore no provision has been recorded to cover losses that may arise from these guarantees.

1. In July 2003 two guarantee agreements were signed, with which AS Kalev secures payables to AS Hansa Liising Eesti in the total amount of 185 thousand euros. These agreements will expire on 31 January 2006.
2. On 16 February 2004 a guarantee agreement was signed, with which AS Kalev secures AS Kalev Jõhvi Tootmine payables to AS Sampo Pank in the total amount of 320 thousand euros. This agreement will expire on 16 February 2006.
3. On 31 May 2004 a guarantee agreement was signed, with which AS Kalev secures AS Kalev REC payables to AS SBM Pank in the total amount of 511 thousand euros. This agreement will expire on 30 November 2006.

Statements of Claim

1. AS Milestone versus AS Kalev

1.1 On January 13, 2003 AS Milestone filed a statement of claim with Tallinn City Court, requesting that Resolution No. 4 of the General Meeting of AS Kalev, dated December 08, 2002 would be declared invalid. Under the Resolution of December 08, 2002, the shareholders of AS Kalev permitted the joint stock company to acquire its own shares during one year in such a manner that the total sum of the nominal values of the treasury shares would not exceed 1/10 of the share capital of the joint stock company. Said resolution set forth also the terms for the acquisition of treasury shares, including the pricing.

On October 31, 2003 Tallinn City Court passed a judgement, whereby it satisfied the statement of claim and declared Section 4 of the Resolution of the General Meeting of the Shareholders of AS Kalev, dated December 8, 2002, invalid. The judgement of Tallinn City Court does not have any effect on the economic results of AS Kalev, as the term for the exercise of the right deriving from the disputed resolution of the general meeting lapsed on December 08, 2003 and none of the shareholders exercised the right. Said judgement did not take effect.

With the judgement of March 31, 2004, Tallinn Circuit Court satisfied the appeal of AS Kalev and annulled the judgement of Tallinn City Court of October 31, 2003 by passing a new judgement, whereby the disputed resolution of the general meeting remained in force. The appeal of AS Milestone was not satisfied. AS Milestone filed an appeal in cassation against the judgement of the Circuit Court. On November 01, 2004 the Supreme Court passed a judgement whereby the judgement of the Civil Chamber of Tallinn Circuit Court of March 31, 2004 remained unchanged and the appeal in cassation, filed by AS Milestone, was dismissed.

1.2 On March 24, 2003 AS Milestone as a shareholder of AS Kalev filed a statement of claim with Tallinn City Court, requesting to recognise that the resolutions of the Annual General Meeting of the Shareholders of AS Kalev of June 13, 2001 and of the Annual General Meeting of Shareholders of June 18, 2002 were null and void. In addition, the plaintiff requested to recognise that the resolution of the Council of March 14, 2003 was null and void. Aktsiaselts Kalev disputed the action for the reason that the action had expired.

On December 06, 2004 Tallinn City Court passed a ruling on the termination of the proceeding, whereby it accepted the discontinuance of action, as filed by the plaintiff, and terminated the proceeding of the given civil matter. The City Court ordered the payment of 2.5 thousand euros from the plaintiff for the benefit of AS Kalev.

1.3 On June 04, 2003 AS Milestone filed an action with Tallinn City Court for declaring the Resolution of the Extraordinary General Meeting of the Shareholders of AS Kalev, held on March 04, 2003, invalid. The extraordinary general meeting was convened at the request of AS Milestone, and at the proposal of the plaintiff, the General Meeting decided to organise a special audit of AS Kalev. The general meeting appointed AS PricewaterhouseCoopers as the auditor for the special audit.

The hearing of Tallinn City Court is planned to be held on January 10, 2006.

1.4 On March 04, 2004 AS Milestone filed an action against AS Kalev and 9 shareholders of AS Kalev, whereby the plaintiff requests the following:

- the giving of votes by the defendants who are shareholders at the general meeting of AS Kalev on December 14, 2003 is to be held null and void;
- the votes of the defendants who are shareholders are to be deducted from the quorum of the general meeting of December 14, 2003;
- the court is to recognise the resolutions of the general meeting in the version that is suitable to the plaintiff.

AS Kalev disputed the action as the plaintiff requested a judgement that was not based on law. The court cannot recognise the passing of a resolution of a management body that has never been passed.

The plaintiff discontinued the action and on December 01, 2004 Tallinn City Court passed a ruling whereby it terminated the proceeding of the action of AS Milestone. The City Court ordered the payment of legal costs in the amount of 3.5 thousand euros from AS Milestone for the benefit of AS Kalev.

1.5 On March 04, 2004 AS Milestone filed a statement of claim with Tallinn City Court to recognise that the real right contract entered into between AS Kalev, OÜ Raldon and AS Hansapank on October 09, 2003 was null and void as to the transfer of immovable property ownership and as to the increase of the entry on the partial mortgage remaining to encumber the share in the common ownership to be transferred to the purchaser.

The plaintiff AS Milestone discontinued the action. On December 14, 2004 Tallinn City Court passed a ruling whereby it terminated the proceeding of the given civil matter and ordered the payment of 3.2 thousand euros from the plaintiff for the benefit of AS Kalev to cover the legal costs.

2 AS KPMG Estonia versus AS Kalev

On April 08, 2003 AS KPMG Estonia filed a statement of claim with Tallinn City Court, requesting that AS Kalev be ordered to pay 25.5 thousand euros for the benefit of the plaintiff. On June 21, 2004 Tallinn City Court satisfied the action and ordered the payment of 24.9 thousand euros for the benefit of the plaintiff and the legal costs of the plaintiff from AS Kalev.

On July 09, 2004 AS Kalev filed an appeal with Tallinn Circuit Court against the judgement of Tallinn City Court and therefore the judgement did not take effect.

With the court order of February 10, 2005 Tallinn Circuit Court approved the agreement between AS Kalev and AS KPMG Estonia, pursuant to which AS Kalev paid 21.7 thousand euros to AS KPMG Estonia.

3 G. Van den Bergh Nijmegen B.V versus AS Paide Piimakombinaat, AS Hansa Liising Eesti and AS Kalev

G. van den Bergh Nijmegen B.V filed a statement of claim against AS Paide Piimakombinaat, AS Hansa Liising Eesti and AS Kalev as joint and several debtors, the claim amounting to 592 thousand euros. With the judgement of May 28, 2004 Järva County Court satisfied the statement of claim and ordered the defendants jointly and severally to pay 592 thousand euros for the benefit of the plaintiff.

On June 15, 2004 AS Kalev filed an appeal against the judgement of Järva County Court with Tallinn Circuit Court. The judgement of Järva County Court was disputed also by the other two defendants. The judgement of Järva County Court did not take effect.

On June 03, 2005 the parties to the civil matter entered into a judicial agreement, whereby G van den Bergh Nijmegen B.V waived the claims set out in its statement of claim in the amount of 592 thousand euros against the defendants. The parties filed a petition with Tallinn Circuit Court for the approval of the agreement that had been entered into, for the annulment of the judgement of Järva County Court and for the termination of the proceeding of the given civil case.

4 Industrial Property Committee and Patent Office versus AS Kalev

To prevent the taking advantage of the reputation of AS Kalev, on March 02, 2001 AS Kalev filed a complaint for the nullification of the decision of the Patent Office of December 06, 2000 with the Industrial Property Committee of the Ministry of Economic Affairs. Under said decision of the Patent Office, the trademark Kalew was registered in the name of R. Puhk in the same class of goods and services where the trade mark Kalev had been registered earlier. The Industrial Property Committee dismissed the complaint of AS Kalev by its decision of June 03, 2001.

On October 08, 2001 AS Kalev filed a complaint with Tallinn Administrative Court, requesting that the decision of the Industrial Property Committee of July 03, 2001 be nullified. With its judgement of January 28, 2002 Tallinn Administrative Court nullified the decision of the Industrial Property Committee of July 03, 2001 and made a proposal to the Industrial Property Committee to make a new decision regarding the given matter.

On February 26, 2002 a third party participating the proceeding filed an appeal against the judgement of Tallinn Administrative Court of January 28, 2002. By its judgement of November 05, 2002 Tallinn Circuit Court dismissed the appeal of the third party and the judgement of the Administrative Court of January 28, 2002 remained unchanged. The Industrial Property Committee reviewed the complaint of AS Kalev for the second time and made a new decision on June 17, 2003, whereby the complaint of AS Kalev was again dismissed.

To dispute the decision of the Industrial Property Committee of June 17, 2003 and to nullify the decision of the Patent Office of December 06, 2000 AS Kalev filed a new complaint with Tallinn Administrative Court on September 15, 2003. By its judgement of December 15, 2003 Tallinn Administrative Court satisfied the complaint of AS Kalev for the second time and declared the decision of the Patent Office on the registration of the trademark Kalew unlawful. The judgement ordered the payment of legal costs for the benefit of AS Kalev.

The respondents have submitted appeals with Tallinn Circuit Court; negotiations are being held at present for ending the dispute by an agreement.

The judgement has no direct financial effect, as the register entry regarding the trademark and the decision of an extra-judicial dispute body have been disputed.

5 Ministry of Finance versus AS Kalev

On March 26, 2004 AS Kalev filed a complaint with Tallinn Administrative Court for the repeal of the Directive of the Minister of Finance, published in *Ametlikud Teadaanded* on March 10, 2004 – "Termination of Supplementary Proceeding and Refusal of Issue of Permit for Granting State Aid".

In 2003 AS Kalev addressed Enterprise Estonia with the application for partial financing of the construction of the infrastructure of new production buildings out of the funds of the Program for the Support for Industrial Infrastructure of Enterprises of the foundation. The financial committee of Enterprise Estonia acceded the application of AS Kalev. With the directive published in *Ametlikud Teadaanded* on March 10, 2004 the Minister of Finance refused to issue the permit for granting state aid.

With the judgement of May 24, 2005 Tallinn Administrative Court dismissed the complaint of AS Kalev. AS Kalev filed an appeal with Tallinn Circuit Court, but the time for the hearing has not been set yet.

The judgement has no direct financial effect, as AS Kalev has not received any grants from Enterprise Estonia, which should be returned under the decision of Ministry of Finance.

6 Financial Supervisory Authority versus AS Kalev

On May 06, 2004 AS Kalev filed a complaint with Tallinn City Court against the decision of the Financial Supervisory Authority, dated April 21, 2004, regarding a misdemeanour whereby a fine in the amount of 1.9 thousand euros was imposed on AS Kalev. In its decision on the matter of misdemeanour the Financial Supervisory Authority considered that AS Kalev had, in the preparation of the annual reports for the past two years and by its failure to reveal information on the Stock Exchange, violated the requirements set forth in the IFRS, the Accounting Act, the Securities Market Act and the Stock Exchange Rules.

With its judgement of July 06, 2004 Tallinn City Court satisfied the complaint of AS Kalev. The decision on the matter of misdemeanour, passed by the Financial Supervisory Authority on April 21, 2004 was fully nullified and the misdemeanour procedure with regard to AS Kalev was terminated by the judgement of the City Court.

The Financial Supervisory Authority filed an appeal in cassation against the judgement of the City Court. On September 15, 2004 the Supreme Court passed a judgement where it concluded that the appeal in cassation of the Financial Supervisory Authority was evidently unfounded, and did not accept the appeal for a proceeding.

7 Torgovõi Dom Pribaltiiski Kondiiter versus AS Kalev

On November 20, 2003 a Russian company Torgovõi Dom Pribaltiiski Kondiiter filed a statement of claim against AS Kalev with Kaliningrad Arbitration Court for the ordering of payment of accounts receivable for goods sold in the amount of RUR 1 195 274. On December 05, 2003 the same plaintiff filed a statement of claim with the same contents with Kaliningrad Arbitration Court in the amount of RUR 11 873 840.

Should the Arbitration Court decide that AS Kalev shall pay said invoices, it will not have any additional impact on the profit and equity of AS Kalev, as said invoices have already been recorded as liabilities in the accounting records of AS Kalev. The court disputes also have no material financial impact on AS Kalev, as AS Kalev has receivables due from the plaintiff in about a similar amount deriving from sale of raw materials to the plaintiff.

8 Trustee in bankruptcy of Tšarodeika versus AS Kalev

8.1 On March 15, 2004 the trustee in bankruptcy of a Russian company Tšarodeika (bankrupt) filed a statement of claim against AS Kalev with Kaliningrad Arbitration Court, requesting the nullification of the setoff in the amount of USD 584 600 that had taken place between the plaintiff and AS Kalev in 1998. With its award of April 25, 2005 the Arbitration Court of Kaliningrad district terminated the proceeding due to the nullity of the claim.

8.2 On March 16, 2004 the trustee in bankruptcy of the Russian company Tšarodeika (bankrupt) filed two statements of claim against AS Kalev with Moscow Arbitration Court in the respective amounts of USD 66 743 and USD 65 507. The claims were related to the sales transactions of goods that had taken place in 1998. Moscow Arbitration Court dismissed both statements of claim and recognised that the claims were null and void by its awards of June 30, 2004 and July 01, 2004.

9 Tax and Customs Board versus AS Kalev

On October 20, 2004 the Põhja tax centre of the Tax and Customs Board issued an order whereby inspection was commenced with the purpose of determining the stock of sugar on hand in AS Kalev during the period starting on March 1 and ending on May 31, 2004. On June 17, 2005 the Põhja tax centre of the Tax and Customs Board made a decision on the determination of the carry-over stock on hand and excess stock on hand as a result of its inspection. With its decision the Tax and Customs Board obligated AS Kalev to remove the excess sugar stock in the amount of 15.6 thousand tons that had been in its possession as of May 1, 2004 not later than by November 30, 2005.

AS Kalev filed a complaint against the aforesaid decision of the Tax and Customs Board with Tallinn Administrative Court on July 15, 2005.

AS Kalev is on the opinion that it declared its stock of sugar on hand correctly and the company was not the owner or possessor of 15.6 thousand tons of an excess stock of sugar on hand as established by the Tax and Customs Board as of May 1, 2004. The statements and conclusions set out in the decision of the Põhja tax centre of the Tax and Customs Board dated July 17, 1005 are incorrect and unfounded, provisions of substantive law have been applied incorrectly and procedural provisions have been violated. Therefore, in the opinion of the management of AS Kalev, the aforesaid decision shall be repealed and consequently the appropriation has not been recorded on the balance sheet.

As the decision of the Tax and Customs Board refers only to the quantity, there is no reliable information on the financial effect of the claim, in case AS Kalev would lose the dispute (in the opinion of the management of the Group, the probability of such result is remote).

10 Other

No claims for payment have been made with regard to the property of AS Kalev in the financial year of 2004/2005 or after the end of the financial year up to the date of the representation letter.

Note 22 Financial risk management

Currency risk

The Group manages credit risk 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 maximum credit risk exposure of unsecured receivables of the Group at the balance sheet date is 7 668 thousand kroons (2004: 13 201 thousand kroons).

Interest rate risk

The long-term borrowings of the Group is mainly related to EURIBOR, therefore these are dependent on changes in international financial markets. The Group compares the potential loss from interest rate fluctuations to costs from using risk management instruments continually. The Group did not use financial instruments to hedge interest rate risks in 2004, as based on the Management's assessment, the cost of risk management would have exceeded the potential loss arising from interest rate fluctuations.

Group / June 30, 2005	**<1 year**	**1-5 years**	**Total**
Fixed interest rate			
Interest-bearing receivables	260	306	566
Interest-bearing liabilities	-5 659	-116	-5 776
Net position	**-5 399**	**189**	**-5 210**
Floating interest rate			
Interest-bearing liabilities	-13 552	0	-13 552
Net position	**-13 552**	**0**	**-13 552**

Group / June 30, 2004	<1 year	1-5 years	Total
Fixed interest rate			
Interest-bearing receivables	236	0	236
Interest-bearing liabilities	-5 283	0	-5 283
Net position	**-5 047**	**0**	**-5 047**
Floating interest rate			
Interest-bearing liabilities	-9 605	0	-9 605
Net position	**-9 605**	**0**	**-9 605**

The division of interest-bearing receivables and liabilities between the groups of up to 1 year and 1-5 years is based on maturity date in the case of receivables and liabilities with fixed interest rates and repricing date in the case of floating interest rate. The table presented above does not include non-interest-bearing receivables and liabilities.

Currency risk

Most of the Group's contracts are related to Estonian kroons and euro in order to avoid exposure to currency risk. Similarly the Group has no significant foreign currency liabilities other than euro-based. All long-term loan agreements are also concluded in EUR, therefore these are considered as risk-free liabilities from currency risk perspective. Considering all this, the Group's exposure to currency risk is assessed to be minimal.

Risk related to changes in price of raw materials

The net sale of dairy products of the Group's subsidiary AS Kalev Paide Tootmine depends on the market situation in EU. The Company does not have long-term sales contracts and therefore it can quickly react to the changes in market situation. According to trends in sale prices, the products with higher profitability are produced and sold more.

Due to the joining with EU, the purchase price of sugar has been most increased in Estonia. In accordance with development plans of agricultural policy of EU, it is expected that the purchase price of sugar will decrease step by step (up to by 1/3). Such decrease would compensate the potential growth in prices of other raw materials and decrease the pressure to increase the price of confectionery.

The prices of cacao and nuts, the next significant components of raw materials of confectionery, develop on stock exchange. Regarding these raw materials, the derivatives are used to decrease the price changing risk on the operations of the Group. The expenses of cacao and nuts form approximately ¼ of total expenses of the Group's raw materials. As of June 30, 2005 there are no open derivatives for purchase of these materials.

Liquidity risk

Although the working capital of the Group is negative (as of June 30, 2005 -8 519 thousand euros and as of June 30, 2004 -1 229 thousand euros) and the Group earned net loss of 2 623 thousand euros in the financial year 2004/2005, in the opinion of the management there is no liquidity issue in the Group, as:

(1) the Group has several real estate objects, which can be profitable realised (considering the current demand of real estate market), if necessary; these objects have been recorded under investment properties (non-current assets) in the balance sheet;

(2) in necessary, the Group has opportunity to receive additional finances from the issue of bonds, i.e., after redemption of current bonds they can issue new bonds. The previous bond issue was subscribed in excess and the same situation is expected also for new issuance, resulted in the better price of bonds for AS Kalev;

(3) AS Kalev and its subsidiaries have continually reliable support of the financial sector, which helps the Group in its liquidity management and development processes – prior experiences have shown that, if necessary,:
    - the Group received additional financing with favorable interest rate;
    - it is possible to renew or refinance the existing borrowings.

Based on due dates the Group's borrowings can be divided as follows:

	<1 year	1-5 years	>5 years	Total
As of June 30, 2005	7 632	6 132	5 566	19 330
As of June 30, 2004	7 006	3 525	4 357	14 888

Fair values

In the opinion of the Group's management there are no significant differences between the carrying value and the fair value of financial assets and liabilities.

Note 23 Transactions with related parties

Transactions between the Parent and its unconsolidated subsidiary

During the reporting period the Parent sold goods and provided services to its subsidiary Kalev Merchant Services Ltd in the total amount of 42 thousand euros (2004: 58 thousand euros). As of the end of the financial year the Parent has receivable from Kalev Merchant Service Ltd in the amount of 151 thousand euros, which has been written down by 125 thousand euros, as the Parent's management estimates this receivable as doubtful receivable due to negative equity of the subsidiary.

Transactions with companies controlled by the key personnel of the management of AS Kalev

For the financial year ended June 30

	2005	2004
Purchases		
Balance of accounts payable at the beginning of the period	106	138
Services	2 163	2 112
Goods	8 286	1 816
Balance of accounts payable at the end of the period	1 724	106
Sales		
Balance of accounts receivable at the beginning of the period	1 529	10
Services	174	129
Goods	9 983	9 129
Balance of accounts receivable at the end of the period	202	1 529

Sales and purchases of goods are mostly related to Tallinna Piimatööstuse AS – raw milk and dairy products have been sold to and purchased from this company. Services have been mostly purchased from Tööstuse Teenindamise AS – maintenance services for the Group's machinery and equipment.

The Group has supported non-profit organisations related to Chairman in the amount of 72 thousand euros (2004: 84 thousand euros) and provide surety to liabilities to AS Hansa Liising Eesti in the amount of 185 thousand euros (2004: 185 thousand euros).

According to the management of the Group, the prices used in major transactions with related parties do not significantly differ from the market prices.

Directors' remuneration

The key personnel of the management received a remuneration totalling 55 thousand euros (2004: 32 thousand euros). The key personnel of the management do not receive pension entitlements from the Group

Lisa 24 Events after balance sheet date

1. AS Kalev filed a complaint against the decision of the Tax and Customs Board on the determination of the carry-over stock on hand and excess stock on hand (dated on June 17, 2005) with Tallinn Administrative Court on July 15, 2005 to ascertain that the decision was null and void and do not apply the excess stock fee law on the Company because of its disagreements with the constitution. AS Kalev is on the opinion that it declared its stock of sugar on hand correctly and the company was not the owner or possessor of 15.6 thousand tons of an excess stock of sugar on hand as established by the Tax and Customs Board as of May 1, 2004.

In accordance with the judgement of Tallinn Administrative Court of November 17, 2005, the court took the complaint specified above in process. The court decided that the application of legal protection of AS Kalev is legitimate and implemented it. The court stopped with its judgement force of decision of Tax and Customs Board until the enforcement of the court conclusion. Respondents The parties of this case will be additionally informed on the timing of hearing.

2. Based on the information published in press on October 25, 2005, AS Kalev found out that the Public Prosecutor's Office has started with criminal proceedings for investigation whether the real estate transactions of AS Kalev and its subsidiary AS Kalev Real Estate Company were unfavourable for the minority shareholders of AS Kalev

On October 26, 2005 AS Kalev asked from the Public Prosecutor's Office and the Security Police Board additional clearance on the information published in press and if the information is true, then in accordance with which bases and against which parties the criminal proceedings have been started.

AS Kalev received the responses of the Security Police Board and the Public Prosecutor's Office on November 2, 2005 and October 31, 2005, respectively. According to these responses the criminal proceedings were started on October 24, 2005 based on the complaint of the Estonian Investors Union and the minority shareholders of AS Kalev dated on October 19, 2005 and referring to the paragraph 289 of Criminal Law. In the complaint the Estonian Investors Union and the minority shareholders of AS Kalev claim that the management of AS Kalev Real Estate Company and AS Kalev sold real estate objects with terms below market prices (with jobbing) and thus caused significant loss for other shareholders. The Security Police Board informed AS Kalev that the criminal proceedings will be carried out by them.

AS Kalev is continually on the opinion that the transactions of Company and its subsidiary with real estates located in Tallinn (Pärnu Road 139) and Kelia-Joa were legally correct and the terms of these transactions were not unfavourable for the minority shareholders of AS Kalev.

3. AS Kalev increased the share capital of OÜ Maiasmokk. The monetary contribution in the amount of 102 thousand euros was made through Hansapank on October 19, 2005.

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Translation of the Estonian Original

AUDITOR'S REPORT TO THE SHAREHOLDERS OF AS KALEV

We have audited the financial statements of AS Kalev (hereafter "the Company") for the financial year ended June 30, 2005 and the consolidated financial statements of AS Kalev and its subsidiaries (hereafter "the Group") for the financial year ended June 30, 2005, which we have identified on the accompanying pages. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

We have not audited the financial statements of the Company and the Group for the year ended June 30, 2004, as that date was prior to our appointment as auditors for the Company. We were unable to satisfy ourselves as to the balances at that date by other audit procedures. The balances as of June 30, 2004 enter into the determination of results and cash flows for the year ended June 30, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to obtain sufficient evidence considering the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Group as of June 30, 2005, and the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 21. The Tax and Customs Board has made a decision under which AS Kalev has to remove from the market the excess sugar stock in the amount of 15.6 thousand tons, which had been in its possession as of May 1, 2004, not later than by November 30, 2005. AS Kalev has filed a complaint against the decision with Tallinn Administrative Court. As in the opinion of the management of the Company AS Kalev was not the owner or possessor of this sugar as of May 1, 2004 and it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, no provision has been recorded regarding the specified claim. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Tallinn, November 28, 2005

Hanno Lindpere
Ernst & Young Baltic AS

Marju Põldniit
Authorised Auditor

PROFIT ALLOCATION REPORT

The Chairman of AS Kalev proposes to the Shareholders' General Meeting to transfer the net loss for 2004/2005 in the amount of -2 623 thousand euros to the retained earnings of the previous periods.

INTERESTS OF MEMBERS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

As of June 30, 2005 the members of the Management Board and Supervisory Board of AS Kalev have the following interests in AS Kalev (directly or indirectly through the companies controlled by them):

	Number of shares	Participation %
Heino Priimägi	-	-
Ülo Suurkask	-	-
Oliver Kruuda	1 473 421	18.7 % (through OÜ Linderin Grupp)
	806 267	10.2 % (through OÜ Mailtec)
	932 221	11.8% (through Tallinna Piimatööstuse AS)

SHAREHOLDERS WITH SIGNIFICANT PARTICIPATIONS

AS Kalev is one of the few food processing companies in Estonia that is still based on domestic capital. As of June 30, 2005 the Company has 1 537 shareholders. There are six shareholders with participation of 5% or more:

	Number of shares	Participation %
Linderin Grupp OÜ	5 190 527	21.96 %
Skandinaviska Enskilda Banken AB Clients	3 594 146	15.21 %
Tallinna Piimatööstuse AS	3 018 000	12.77 %
Mailtec OÜ	2 418 801	12.23%
ING Luxembourg S.A.	1 700 000	7.19%
Skandinaviska Enskilda Banken Finnish Clients	1 180 000	4.99 %

Signatures on Annual Report 2004/2005

Hereby, the members of the Management Board and Supervisory Board of AS Kalev sign the Annual Report 2004/2005, which consists of Management Report, Financial Statements, Profit Allocation Report and Auditors' Report:

Management Board:	Oliver Kruuda	
Supervisory Board:	Ülo Suurkask	
	Heino Priimägi	
	Marko Kaha	

Põrguvälja, November 28, 2005