



## **CONSOLIDATED ANNUAL REPORT**

**for the financial year started on July 1, 2006  
and ended on June 30, 2007**

**Translation of the Estonian original**

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## CONSOLIDATED MANAGEMENT REPORT

### 1. Economic and legal environment

#### 1.1. Effect of the economic environment

AS Kalev's results for the financial year 2006-2007 were affected by both organisational changes and developments on domestic and export markets. Regarding production inputs, unfavourable changes could be seen in certain raw material prices; unlike in the previous period. The price of labour also showed quick growth. Developments of important export markets for AS Kalev's products ensured an increase in demand, similar to that in domestic demand, which was backed by quick economic development.

The rate of growth in GDP and total demand in Estonia remained high in the reporting period, exceeding the long-term balancing speed. Real GDP growth significantly surpassed total production growth in the period, with corresponding annual figures amounting to 11% and 16%. Regardless of the quick economic growth in Estonia, the increase in production volumes in different segments is quite imbalanced – the food and beverage industry has grown nearly two times slower than the average for all fields of activity, with the growth of dairy product volumes only slightly larger than the general inflation speed. Total profitability indicators for the same period revealed a similar trend – while the average indicator for the processing industry amounted to 8%, the indicator for the food and beverage industry remained below 5%, and that of the dairy industry at barely 2%.

At the same time, private consumption has shown an exceptional near -16% real growth in the last 12 months. The demand for products manufactured by Kalev Group companies has not increased that much. For example, domestic sales of food products have, in current prices, increased by more than an annual 10%. Contributors to the increase in consumption also included wage dynamics, favourable loan market conditions and the real estate market. Consumer prices have shown quite a growth for the third year in a row, exceeding an annual 6%, and the general price increase has not ceased. Inflation in Estonia reflects the rapid development of a small economy, the consequent "bottlenecks" as well as the effect of EU economic integration and globalisation.

Real growth in wages has been rapid in Estonia, while tensions are brewing on the labour market with regard to both skills and availability – for the employer, such a full employment situation means limited options in a situation where production capacities need to be increased. For this reason, Kalev Group has made the necessary investments in order to control the changes caused by the quick growth in the cost structure. General growth, however, shows that, considering the slower growth in productivity indicators, the above changes exert pressure on the competitiveness of Estonian companies. An increase in domestic product exports has already slowed down, being two times smaller than the growth in total GDP.

The cost of debt capital has shown a significant increase, compared to the last financial year. As loan conditions have become stricter and less favourable, this will have its effect on the demand for construction and capital goods, and will fuel consumption. At the same time, we can detect signs of growing caution – end-consumption is no longer growing as fast as income. With private consumption, the most important contributor to total demand, making up three-fourths of the final consumption in Estonia, economic growth is bound to slow down. Customer priorities are also changing: surveys on the demand for sweets indicate a price-sensitivity among Estonian

buyers. At the same time, we can also see signs of a major shift towards growth in the consumer awareness of healthier eating habits.

Product price formation is based on the various factors of demand and supply. In the given period, the producer prices of industrial products increased 8% in Estonia, while that of food and beverage products increased by 7%. The cost dynamics can be explained by the price increase of energy and raw materials, as well as production factors. For example, the global price for cocoa beans, translated into Estonian kroons, has increased by nearly 20% in the period, and reached a four-year-high. Cocoa bean future prices (US dollars quoted on the global market) reveal that the raw material prices are expected to rise by at least 10% over the year. The milk buying-in price in Estonia has increased by a little over 3% in the financial year, with a significant increase (nearly 10%) seen from 1 July 2007. Packaging and transportation expenses have also increased, having much to do with the increase in the price of raw materials. Consequently, the profit expectations from the food industry have been affected in both 2007 and 2008.

## **1.2. Changes in legal environment**

Although the Estonian tax policy has moved towards reducing direct taxation and increasing indirect taxation, local entrepreneurs still incur significant expenses on staff recruitment. Changes in production factors also involve the effect of personnel expenses on the company. In addition to state taxes, personnel expenses are also affected by agreements concluded between employees and trade unions. Nationwide minimum wage agreements concluded in the past three years have raised the minimum wage in Estonia by 45% (including that on 1 January 2007, the minimum wage was raised by 20%). This increase has a direct effect on overall wage increases. Under the conditions of a lack of skilled workers, a relatively modest mobility of the labour market, limited growth in production and the establishment of additional EU regulations, a material increase in the minimum wage may exert an ever-increasing pressure on the expenses of companies.

Even though the Government of the Republic approved the euro adoption plan (according to which the euro would be adopted as the account currency, in accounting, and contractual relations on 1 January 2007) in September 2005, it is still unclear as to when the transition will be made. If Estonia fails to fulfil the economic and legal requirements for countries who wish to join the euro zone, the adoption will be postponed. Uncertainty regarding the future of the adoption of the euro has also postponed related preparations for AS Kalev.

Deeming the current sugar market arrangement unsustainable, the European Commission decided at the end of 2005, after six months of disputing, to reform the sugar regime of the common EU agricultural policy. As a result of the reforms implemented in July 2006, the minimum price of white sugar (which so far had been three times higher than the global price) will be lowered by a total of 36% in the following four years (-20% in the first year of the reform, -27.5% in the second year, -35% in the third year and -36% in the fourth year). The standardisation of the EU sugar price with the global sugar price (i.e. price reduction) serves the best interests of AS Kalev, since sugar constitutes an important production input for the company.

In June 2007, the European Commission resolved to cancel all dairy product export refunds. This measure is in line with the reforms in the EU common agricultural policy, and is conditioned by a quick growth in the global prices of raw materials. For instance, the price of both milk powder and butter has reached an all-time high. At the same time, the European Commission does not rule out the possibility of restoring its intervention in the dairy product trade in the case of a reversal of market trends.

## 2. Overview of AS Kalev Group

AS Kalev pursues several fields of activity, including the manufacturing and sale of foodstuffs, real estate-related activities, and media (publishing and printing services). The company has long-term experience in the chocolate, sugar and flour confectionery product segment as well as the dairy product segment. Foodstuff production is carried out in five production plants located in Põrguvälja (in Rae Municipality), Paide, Viljandi, Jõhvi and Kiviõli. As a part of Kalev's sales activities, it is also pursued through a pan-Estonian retail chain which consists of 15 candy stores and cafes. AS Kalev has also been involved in real estate development and administration for a longer period of time. AS Kalev has continually diversified its activities, branching out to the media business, publishing and printing. Kalev's business activities according to the Estonian Classification of Economic Activities (EMTAK) are provided in the table below:

EMTAK code	Activity
15842	Producing of chocolate and sugar confectionery product
15811	Producing of bread
15511	Processing of raw milk
70111	Real estate development and sales
92349	Other entertainment
22131	Publishing magazines
22225	Printing of advertising materials and business catalogues

A restructuring process was launched in the AS Kalev Group in the last financial year. A significant portion of the results were already seen in the financial year. At the end of the last financial year (in May 2006), AS Kalev Chocolate Factory was established for the purpose of the manufacturing and marketing of chocolate and sugar confectionery products. In September in the financial year 2006-2007, the AS Kalev Chocolate Factory also started marketing the pastry and flour confectionery products of other group subsidiaries AS Viima and AS Kalev Jõhvi Tootmine. In addition, at the end of the last financial year as a part of organizational restructuring, an event marketing division was disassociated from AS Kalev and transformed into a separate company named OÜ Sugarstar. AS Kalev is the sole shareholder of OÜ Sugarstar, which main business activity is providing event marketing services to AS Kalev Group as well as outside the group and which started its activity in financial year 2006-2007.

A new subsidiary was incorporated under the AS Kalev Group structure in the first quarter of the financial year 2006-2007: AS Kalev Real Estate Company (AS Kalev REC) acquired BCA Center, a private limited company which has a share capital of 40 000 kroons and is fully owned by AS Kalev REC. Through the OÜ BCA Center, AS Kalev REC participated in the Private Partnership for Tallinn Schools Project competitions. Winning one of these competitions, OÜ BCA Center concluded a contract on the right of superficies on registered immovables which accommodate five schools. OÜ BCA Center obliged to reconstruct the real estate objects (a total area of nearly 27 700 m<sup>2</sup>) and lease them out to the City of Tallinn for a term of thirty years. The average rent was established at 155 kroons/m<sup>2</sup>, which includes the maintenance and periodical major repairs of the school buildings and surrounding areas (administration, maintenance of technical systems, and interior and exterior cleaning) over the term of the contract. The investment obligation is secured by AS Kalev REC and must be fulfilled in the second half of 2008 at the latest.

As the most renowned Estonian company and a major advertiser, AS Kalev has a direct relationship with the media market. This is also the reason for the expansion of the investment portfolio towards the press market. As a socially active company, AS Kalev acknowledges its co-responsibility in the shaping of public opinion, even though the company has no intentions of intervening in the contents of the acquired publications. The company aims at creating additional value for various publications. In the publishing and printing segment, AS Kalev is expecting a long-term and stable profit from the relatively quickly growing media market.

In the second quarter of the financial year, several new subsidiaries and associated companies were incorporated into the group structure. AS Kalev acquired a 19.4% stake in AS PR Põhjarannik. AS Kalev won the right to purchase the company at an auction held on 21 November 2006, where AS Kalev was declared the best bidder. AS PR Põhjarannik's main activities include publication, printing services and the organisation of information dissemination. Among other things, AS PR Põhjarannik issues the daily "Põhjarannik" in both Estonian and Russian, with the paper issued covering a majority of north-eastern Estonia.

On 28 November, AS Kalev concluded a contract under which the company acquired 100% of the shares of AS Inreko Press. The main fields of activity of AS Inreko Press include publishing and the organisation of public events and press events. The company publishes journals and books (including, for instance, "Sporditäht" and "Ärielu"). On 19 December 2006, AS Kalev concluded a contract under which the company acquired all shares of OÜ Olliwood. OÜ Olliwood's main activities include publishing – including, for instance, "Just" and "Basket", and the children's publication "Muumi" – and the organisation of public and press events.

The third quarter of the financial year saw the incorporation of a few more subsidiaries and associated companies into the AS Kalev Group. On 20 February, AS Kalev concluded a contract on the purchase and sale of an 80% stake in AS Uniprint. AS Uniprint is involved with the provision of printing services – i.e. various advertising and small publications, official documents and quality journals. AS Kalev had previously concluded a contract under which the company acquired 20% of the shares in the above public limited company. With the transaction, AS Kalev thus effectively became the full owner of AS Uniprint. Under the contract, AS Kalev had to pay a total of nearly 54.8 million kroons for 80% of the shares, with 4 million kroons of the purchase price paid by AS Kalev on the day of conclusion of the contract of sale. In April 2008, AS Kalev will pay 24.1 million kroons of the transaction price, with nearly 26.7 million kroons to be paid by 5 April 2009 at the latest. If the company pays for the shares before the term indicated in the contract of sale, the purchase price will be reduced by deducting an annual 6% of the purchase price for the period of advance payment of the purchase price by AS Kalev. The right of ownership over the shares will be transferred to AS Kalev on the day of payment of the last instalment. Until the transfer of the right of ownership over the shares, the sellers shall encumber the AS Uniprint shares which form the object of the contract of sale for the benefit of AS Kalev. With the contract concluded on 3 January 2007, AS Kalev also acquired, in March, 50% of the shares of AS Uniprint's subsidiary AS Unipress.

On 12 March 2007, AS Kalev concluded a contract under which the company acquired all shares of AS Eksklusiiv. Under the contract, the ownership over 100% of the shares was transferred to AS Kalev on 14 March 2007. AS Eksklusiiv's main field of activity is the publication of "Avenüü" and "Avenüü Professional" journals.

On 11 April 2007, AS Kalev's subsidiary AS Kalev Paide Tootmine acquired 22 065 shares of Valmetek Invest AS – i.e. 34.4% of the total number of the company's shares. AS Kalev Paide Tootmine now holds a 65.6% stake in Valmetek Invest AS, since nearly one-third of the shares of the above company was already acquired by AS

Kalev Paide Tootmine in February 2006. AS Kalev Paide Tootmine will pay a total of 27.96 million kroons for the acquired shares, with 5 million kroons of the purchase price paid prior to the conclusion of the contract of sale of shares, and 4.57 million kroons paid by the buyer on 1 June 2007. The remainder of the purchase price must be paid in equal quarterly instalments from 1 September 2007 to 1 September 2008. An annual 10% interest rate will be charged from AS Kalev Paide Tootmine on the unpaid part of the purchase price. The buyer has the right to prematurely pay the purchase price or a part of the purchase price.

The above acquisitions do not constitute related party transactions in the meaning of the stock exchange rules.

On 17 May 2007, an entry was made in the commercial register on the establishment of AS Kalev Meedia. The company is fully owned by AS Kalev, and has a share capital of 400 000 kroons, which is divided into 40 000 shares with a nominal value of 10 EEK per share. AS Kalev Meedia is AS Kalev's subsidiary, which is involved in the media sector, managing and developing publishing activities. AS Kalev Meedia will take over the publications of AS Inreko Press and OÜ Olliwood (Ärielu, Sporditäht, Just, Basket, Muumi) and integrate all media products to be acquired or developed in the future.

On 12 June 2007, AS Kalev Meedia concluded a contract under which the company acquired all shares of OÜ Eesti Spordikanal. The rights associated with the shares were transferred to the buyer upon the conclusion of the contract. AS Kalev Meedia is now the sole shareholder of the company, holding one share with a nominal value of 40 000 kroons. The main field of activity of OÜ Eesti Spordikanal is TV program production and broadcasting. The company is still in its early stages of developing into a TV channel. The acquisition of the above share partially constitutes a related party transaction. Fifty percent of OÜ Eesti Spordikanal was owned by Oliver Kruuda, General Manager of AS Kalev. Under the contract of sale, AS Kalev Meedia will pay Oliver Kruuda the sales price of the share which corresponds to the nominal value of the share – i.e. 20 000 kroons.

AS Kalev is the parent company of Kalev Group. The group also incorporates 19 other subsidiaries. The share of AS Kalev in these companies has been disclosed in Note 22.

### **3. Economic activities and financial results**

According to the results of the "Recognition and reputation of Estonian companies" survey conducted by TNS Emor in April 2007 among nearly 50 local companies for the eighth year in a row, AS Kalev remains the most reputable company in Estonia. The results reveal that (similarly to previous years) Estonians consider Kalev the most pleasant company. This means that Kalev ranked first in the attitude scale. With an average score of 8.6 on a ten-point scale, AS Kalev was elected the most reputable company for the fifth year in a row.

The economic activities of AS Kalev and the financial indicators of the group for the financial year 2006-2007 were affected by several factors, of which group restructuring, which was launched at the end of the last financial year, product portfolio reorganisation and the effects of the external environment proved to be the most significant. The consolidated net sales for the 12 months of the financial year amounted to 925.7 million kroons (59.2 million euros). Net sales have increased by 4% compared to the same period last year, with the decrease in sales of dairy products having the biggest effect on total sales. The consolidated net profit for the financial year

2006-2007 amounted to 30.4 million kroons (1.9 million euros), compared to 1.3 million kroons (0.1 million euros) in the comparative period.

The net sales and net profit of AS Kalev Group companies for the financial year 2006-2007 have been brought out in the tables below (in thousands of kroons and euros), separately for each company. Comparative data has been brought out for 13 companies. The financial indicators of the subsidiary Kalev Merchant Services Ltd. have not been consolidated, since the balance sheet volume of the subsidiary only makes up less than 0.5% of the parent company's turnover. Data on associated companies has not been included in the tables. The data on AS Kalev Paide Tootmine, AS Kalev Real Estate Company, AS Kalev Meedia and AS Uniprint also include the corresponding financial results of their subsidiaries.

EEK	Sales revenue		Net profit	
	2006/2007	2005/2006	2006/2007	2005/2006
	12 months	12 months	12 months	12 months
AS Kalev	144 479	423 491	-62 792	28 989
AS Kalev Paide Tootmine*	315 726	413 546	29 407	-44 930
AS Kalev REC*	87 518	75 363	79 373	127 496
AS Kalev Jõhvi Tootmine	40 575	32 753	-3 877	-3 728
OÜ Maiasmokk	7 121	7 255	-916	-3 099
AS Vilma	29 503	36 064	-1 316	-1 342
AS Kalev Chocolate Factory	452 182	0	23 614	0
OÜ Sugarstar	3 613	0	-1 065	0
AS Inreko Press	3 853	0	-288	0
OÜ Olliwood	4 911	0	-1 852	0
OÜ Eksklusiv	1 350	0	-1 305	0
AS Kalev Meedia*	1 431	0	-558	0
AS Uniprint*	54 755	0	2 294	0

\* consolidated

EUR	Sales revenue		Net profit	
	2006/2007	2005/2006	2006/2007	2005/2006
	12 months	12 months	12 months	12 months
AS Kalev	9 234	27 066	-4 013	1 853
AS Kalev Paide Tootmine*	20 179	26 430	1 879	-2 872
AS Kalev REC*	5 593	4 817	5 073	8 148
AS Kalev Jõhvi Tootmine	2 593	2 093	-248	-238
OÜ Maiasmokk	455	464	-59	-198
AS Vilma	1 886	2 305	-84	-86
AS Kalev Chocolate Factory	28 900	0	1 509	0
OÜ Sugarstar	231	0	-68	0
AS Inreko Press	246	0	-18	0
OÜ Olliwood	314	0	-118	0
OÜ Eksklusiv	86	0	-83	0
AS Kalev Meedia*	91	0	-36	0
AS Uniprint*	3 499	0	147	0

\* consolidated



Important factors contributing to the results of the AS Kalev Group for the financial year 2006-2007:

	%	EEK	EUR
Increase in revenue	4.1%	36 081	2 306
Increase in operating profit	227%	47 912	3 062
Increase in domestic revenue	16.7%	84 643	5 410
Increase in export revenue	-12.7%	-48 562	-3 104
Increase in revenue from dairy products	-24.7%	-98 287	-6 282
Increase in revenue from confectionery products	10.0%	35 098	2 243

Important factors contributing to the growth in net profit of the AS Kalev Group are as follows:

- 1) The near 33% increase in gross profit was conditioned by an increase (4.1%) in revenue from goods produced by the company while total expenses decreased (1.5%);
- 2) an annual 10% increase in revenue from confectionery products;
- 3) a reversal of the previous negative results from dairy product sales in a situation where the segment turnover decreased by one-fourth;
- 4) a near one-third increase in profit from the real estate segment, compared to the previous period.

AS Kalev has increased its gearing in the financing of its activities and development. The company has issued short-term bonds. The group's financial expenses have been increased by loan refinancing, bond redemption and new mortgage loans. The purposes mainly involve financing activities in the field of real estate administration and development.

As regards expense items, the biggest growth (43% compared to the last period) can be seen in administrative and general expenses. This growth has been conditioned both by the quick increase in personnel expenses and the information and consulting expenses incurred in connection with the expansion of activities (into media). The 27% increase in the personnel expenses of Kalev Group have been largely conditioned by the inflational environment of the Estonian labour market, which affected the whole market in the financial year.

The near 100% increase in the positive balance of other income and expenses, which amounted to a total of 82.4 million kroons (5.3 million euros), was above all affected by the re-valuation of real estate into its fair value by AS Kalev REC. An overview of the risks (including both financial risks and non-financial risks) affecting the economic activities of AS Kalev, and corporate risk management, has been provided in Note 26.

Most important financial ratios of AS Kalev Group\*:

	AS Kalev Group	
	01.07.2006- 30.06.2007	01.07.2005- 30.06.2006
Current ratio	0.61	0.63
Financial gearing	0.80	0.70
Asset turnover ratio	0.79	1.14
Net profit margin (%)	3.3%	-4.9%
ROA (%)	2.6%	5.6%

\* The financial ratios have been calculated based on the following methods:

Current ratio = current assets/current liabilities

Financial gearing = total liabilities/average total assets

Asset turnover ratio = revenue/average total assets

Net profit margin = net profit/revenue \* 100%

Return on assets (ROA) = net profit/average total assets \* 100%

## **4. Product market and sales**

### **4.1. Confectionery products**

According to the retail trade survey conducted by AC Nielsen (as of April/May 2007), AS Kalev Group is the firm leader of the Estonian chocolate and sugar confectionery product market. The company's market share was nearly 37% as regards turnover (an increase of 0.4 percentage points from last year) and 40.2% as regards volume. Kalev's market share in the local biscuit market has increased to 10.1%, moving the company up to second position; and the market share in the white and dark bread market has increased to 3%. As a result of active product development, the company launched a total of 65 new products in the financial year 2006-2007, of which flour confectionery goods made up two-thirds. The sales volume of new products made up 10% of total sales for the period.

Three new flavours were launched in the Kalev brand chocolate series – Kalev's tiramisu-flavoured milk chocolate with biscuit pieces (100g), Kalev's milk chocolate with biscuit and plum pieces (100g) and Kalev's white chocolate with biscuit and strawberry pieces (100g). One of the most popular flavours of the series – white chocolate with rice crisp and blueberry pieces – was also launched as a 200g tablet. Kalev also expanded its Bitter series, adding new products Bitter dark chocolate with almonds (100g) and Bitter dark chocolate with hazelnuts (50g). The children's chewing candy series Draakon saw the addition of a new cherry yoghurt-flavoured Draakon, as well as the launch of the new Draakon Mix (420g). New candies launched by Kalev included the cocoa-flavoured wafer candies and cherry-flavoured jelly candy, with the latter also launched in a 20g format. In addition, the product selection was also expanded with the launch of the 35g Tallinn wafer candy. The gift box series saw the addition of two new praline candies: "Kadriori" (435g) and "Assortment of praline candies" (150g). The Soufflé series was also expanded with the launch of "Kalev Soufflé assortment" chocolate candies (235g) and Kalev Soufflé vanilla-flavoured chocolate candies (155g). In addition to the launch of the above new products, Kalev modernised the packages of several boxed candy products.

In the pastry product and flour confectionery product segment, Kalev launched a total of 19 different white and dark bread products under the "Linda" and "Kalevipoeg" trademarks in the financial year 2006-2007, plus 6 plaited buns, 4 cakes and 2 new muffins under the "Linda" series. The traditional mould biscuit series were complemented by toffee and chocolate-flavoured biscuits, with "Kaeraküpsis" (220g) biscuits added to the confectionery biscuit series and "Nisukliiküpsis" biscuits with fructose and strawberry pieces added to the low-calorie biscuit series with healthy additives.

A new tart portfolio with 11 new products was launched under the Kalev trademark. The popular Vilma flour mix series saw the addition of two new products – the Vilma chocolate muffin powder (400g) and Vilma wafer powder (380g).

## 4.2. Dairy products

The company manufactured a total of 11 453 tons of various dairy products from the crude milk stored by AS Kalev Paide Tootmine in the financial year 2006-2007 – mainly cream, skimmed milk and milk powder as well as high-temperature pasteurized milk. Whole milk and skimmed milk powder as well as cream made up the majority (nearly 87%) of the total output. New products launched by AS Kalev included cream powder.

Major changes in the period involved product sales prices. In the reporting period, the internal EU prices for whole milk and skimmed milk powder were more favourable for the producer, compared to the base period. For instance, the average wholesale price of skimmed milk powder increased by nearly 30% in Germany compared to July of last year (1995 EUR/ton last year; 2536 EUR/ton in the reporting year). Similar trends, although smaller, can be seen in milk powder prices in Europe. Influenced by the price rally on the global market, the prices for skimmed milk and milk powder continued to rise (e.g. the average wholesale price of skimmed milk powder at the end of the second quarter of 2007 was 3301 EUR/ton). For the producer these are positive trends, since the increase in the price of raw materials is regulated by previous agreements. Namely, AS Kalev's subsidiary AS Kalev Paide Tootmine concluded, for the first half-year of 2007, crude milk buying-in contracts under which the company will supply nearly 160 tons of crude milk a day. The negotiated price formation was based on a co-operation model which considers a long-term partnership between the parties and which was satisfactory for both dairy producers and processors. Under the agreement, the price of crude milk will be formed on the basis of the European average prices for milk powder, skimmed milk powder and butter.

## 4.3. Sales volume

The total sales volume of AS Kalev for the financial year 2006-2007 was 9990 tons in the confectionery product segment and 11 643 tons in the dairy product segment. Thus, compared to the last financial year, the sales volume decreased by 5.5% in the confectionery product segment and by 15% in the dairy product segment.

90% of the confectionery products of Kalev Group were sold on the domestic market, and 10% exported to different foreign markets. The total volume of chocolate and sugar confectionery products sold amounted to 6030 tons. The volume thus showed no material changes from the last financial year. In the given period, 33% of the total export of chocolate and sugar confectionery products went to Russia (i.e. a significant decrease from last year), 32% to Latvia, 8% to Finland, 4% to Lithuania, and 6% to other countries, with total sales in the *Travel Retail* segment amounting to 17%. The total export volume of confectionery products decreased by 9% compared to the last financial year. This was mostly conditioned by the near one-third decrease in Russian exports compared to the last period.

AS Kalev Group's total volume of flour confectionery product sales, including pastry products and biscuits, amounted to 3960 tons in the financial year 2006-2007, decreasing by 10% from the last year. Ninety-nine percent of the flour confectionery products were sold on the domestic market, with the remainder exported to the Baltic States and Russia.

The total volume of dairy product sales – skimmed milk and milk powder, high-temperature pasteurized milk, cream, and butter – amounted to 11 643 tons in the given period, with 80% being exported to EU members and one-fifth sold in Estonia. Similarly to previous periods, Germany remained the most important export destination

for dairy products, making up 84% of the total export of dairy products (i.e. 66% of the total sales of dairy products).

#### **4.4. Real estate activities**

AS Kalev pursues real estate management and development activities through its subsidiary AS Kalev Real Estate Company (hereinafter Kalev REC) and through its subsidiaries and associated companies. In the real estate segment, the most important project had to do with the development activities of the subsidiary OÜ BCA Center in the reconstruction of five schools within the framework of the Private Partnership for Tallinn Schools Project. Kalev REC also continued the further development of ongoing real estate projects: the company completed the 19-apartment residential building in Marat Street in Tallinn and the 25-apartment building in Hommiku Street in Pärnu. From the above projects, 17 and 22 apartments had been sold by the end of the financial year, respectively. According to the detailed plan, a 1800 m<sup>2</sup> apartment building may be constructed on the sold real estate in Kadriorg, Tallinn. Kalev REC's Bulgarian-based subsidiary EOOD Stude REC launched the construction of a 6500 m<sup>2</sup> apartment building in Sofia. The building is scheduled to be completed in the spring or early summer of 2008.

Although the company's real estate segment has so far focused on the development of residential and commercial space, AS Kalev REC is paying increasing attention to the public real estate market. With this purpose, the company has actively participated in the so-called private partnership project competitions. Several development project competitions were held in the public sector over the financial year. The biggest projects included the auction of the right of superficies on the so-called Kopli lines, organised by the City of Tallinn, and the auction of the right of superficies on Pae Park in Lasnamäe. AS Kalev REC came second in the first competition (though the winner failed to conclude a contract with the City of Tallinn). The results of the second competition had not been published as of the moment of the preparation of this Annual Report (the terms and conditions of the competition were contested).

#### **4.4. Media**

AS Kalev became actively involved in the media market in the financial year 2006-2007: AS Kalev acquired several media companies with the aim of expanding its investment portfolio into the relatively quickly-growing publishing and printing segment. In the course of business expansion, AS Kalev acquired AS Inreko Press (whose main publications include the gossip magazine "Ärielu" and the sport magazine "Sporditäht"), OÜ Ollywood (which publishes the tabloid "Just", the children's magazine "Muumi" and the sports magazine "Basket"), AS Ekslusiiv (which publishes the "Avenüü" and "Avenüü professional" magazines, which are mainly designed for women), and OÜ Eesti Spordikanal (which aims at launching a new television channel on the Estonian media landscape). According to the Estonian Media Survey conducted by TNS Emor in the second quarter of 2007, "Just" had 45 000 readers, "Sporditäht" 30 000 readers, "Avenüü" 20 000 readers, "Muumi" 18 000 readers, "Ärielu" 8000 readers and "Basket" 8000 readers.

In order to bring AS Kalev's media activities under a single organisational structure, AS Kalev Meedia was established on 18 May 2007. The aim was to consolidate different publishing companies, allowing for the opportunity to create synergy in the future, and to optimise activities and resources. AS Kalev has specified the objectives and further development of the offered products in the media segment. Future expectations have to do

with achieving the growth targets established for the published journals, as well as new media products, including the launch of a new television channel.

During the reporting year, AS Kalev expanded its activities also to market of printing services by acquiring shareholdings in AS Uniprint and AS Unipress. AS Uniprint, which is one of the leading printing companies in Estonia, produces quality printed works for more than 15 years. Printing house of Uniprint is producing diversified sector of advertising and small size printed works, official templates and quality magazines. AS Uniprint and Unipress has quality and environmental quality certificates ISA 9001:2001 and ISO 14001:1998.

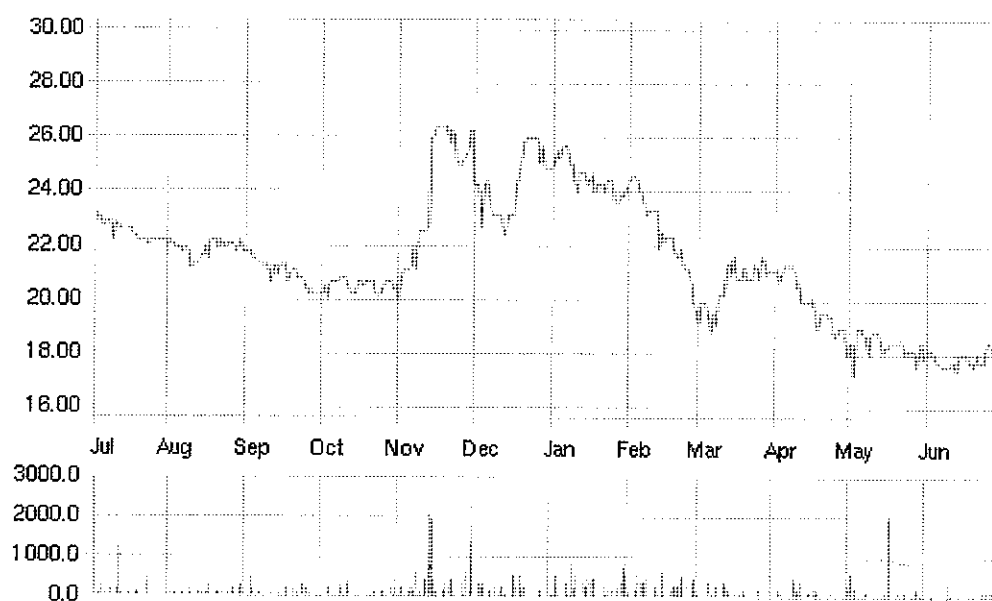
AS Uniprint which is specialized on quality printed sheets and AS Unipress, which is specialized on printing periodicals are providing its services through their branches also to Scandinavian and Russian clients. Thus, in addition to its current solid and wide client base, these subsidiaries of AS Kalev can contribute to satisfying the needs of Kalev Group for advertising and small brochures and quality printed works.

## 5. Securities

The shares of AS Kalev have been listed in the secondary list of the OMX Tallinn Stock Exchange since 1996. With a nominal value of 10 Estonian kroons (EEK 10) per share, the company has listed 23 632 500 shares on the stock exchange.

Over 2.1 million shares of AS Kalev were traded in the period between 01.07.2006 and 30.06.2007, generating a turnover of 46.25 million kroons. With an average of 10 transactions made with the shares per trading day, the highest price for the share in the period was EEK 26.5, and the lowest price EEK 17.2. The closing price of the last stock exchange day of the financial year of AS Kalev – i.e. on 29 June 2007 – was EEK 18.46. Compared to the end of the last financial year, AS Kalev's market capitalisation decreased by 17.5%, amounting to 436.3 million kroons as of 30 June 2007.

As of the end of the financial year 2006-2007, AS Kalev's biggest shareholders (with a share of over 10%) included Citibank International Plc (Luxembourg branch)/UBS Luxembourg S.A. (19.99% of the shares), customers of Skandinaviska Enskilda Banken AB' (16.19%), Mailtec OÜ (10.24%), Nordea Bank Finland Plc. (8.06%), Vipes Invest OÜ (7.49%), and ING Luxembourg S.A. (7.19%).



AS Kalev share price and turnover for the period 02.07.2006-29.06.2007 (source: OMX Tallinn Stock Exchange)

## 6. Organisation and personnel

### 6.1. Organisational management

Kalev Group's strategic management is going according to plan and in accordance with the new strategic choices. Consequently, the organisation adjusted to the expansion into new segments, as well as the optimising of its product portfolio and enhancement of profitability. In order to increase the efficiency of the implementation of its strategy, AS Kalev has made improvements in terms of better combining strategic and operative planning and enhancing transparency.

Several organisational changes were introduced at the end of the financial year 2006-2007 in order to improve the management of AS Kalev and enhance financial transparency. As a result of these changes, the Jüri-based production facility was turned into a separate subsidiary (AS Kalev Chocolate Factory). In addition, AS Kalev established a separate subsidiary (OÜ Sugarstar) on the basis of its event marketing department. New management board and supervisory board members were appointed for the companies in connection with these changes. As a result of the introduced changes, the Management Board of AS Kalev has taken on the role of guide and supervisor, while maintaining its presence in the supervisory boards of all subsidiaries.

The organisation has also expanded into a new segment – the media. OÜ Olliwood, AS Inreko Press, and AS Eksklusiiv operate in the field of publishing, and publish the "Just", "Muumi", "Basket", "Sporditäht", "Ärielu", "Jalka", "Avenüü", and "Avenüü Professional" magazines. Under the contracts of purchase and the sale of shares, AS Kalev has acquired AS Uniprint and AS Unipress, companies which operate in the field of printing, publishing various advertising and small brochures, documents and quality magazines.

In the second half-year, the media companies OÜ Olliwood and AS Inreko Press were incorporated under AS Kalev Group. As a result of the above organisational changes, a new company – AS Kalev Meedia – was established within the group, taking over the staff, assets and product management of the media companies.

## **6.2. Human resource management**

AS Kalev Group employed an average of 748 people in the financial year 2006-2007 – 40 less than in the same period last year. However, since the acquisition of the media companies added 30 people to the AS Kalev Group structure, the average number of employees in the group, which has undergone organisational changes, is 778. The company conducted 56 recruitment competitions, with the staff flow amounting to 27%. With the growing tension between supply and demand on the Estonian labour market, the staff flow has increased and it is increasingly difficult for the company to recruit new specialists and workers.

AS Kalev Group's personnel expenses made up nearly 13% of its operating expenses, amounting to 123.2 million kroons in the financial year (increasing by nearly 22% from the previous period). The significant increase in personnel expenses has to do with the need to offer competitive remuneration in the conditions of increasing wages on the Estonian labour market, as well as the positions added in connection with the expansion into the media sector.

## **6.3. Quality management**

AS Kalev Group companies pursue quality, thus continually contributing to quality management. AS Kalev Paide Tootmine passed the ISO 2001:2000 regular audit without any non-compliance (the company holds the corresponding BVQI-issued quality certificates). AS Kalev waived itself from formal re-certification and ISO certificates, while continuing the use of the quality management system, and further development activities in the company.

# **7. Corporate Governance Recommendations**

Exercising its management practices in legitimate manner, AS Kalev as a listed company acts in accordance with Estonian legislation and the requirements of the Tallinn Stock Exchange. AS Kalev acts in accordance with the following principles: openness and the equal treatment of shareholders. The operative information to the public and investors is delivered through the webpage of Kalev Group: providing the users with all stock exchange news, financial reports, historical background, information regarding production development, affairs, campaigns etc. Since the group consist of several bigger subsidiaries, the webpage also refers to relevant contact information. Kalev's webpage also enables to register online orders from company's broad product portfolio and send filled order to preferred place throughout Estonia.

The Management Board members, nominated by the parent company, are responsible for operative management of business activities of the companies belonging to the group. The Supervisory Board members are responsible for strategic management of various business areas of the group. Outside of Estonia the commercial customs are supervised by local management. Considering the small number of management team, there has been no need for the establishment of special committees or other supplementary management bodies. The internal procedures necessary for the sustainable development of the group are regulated by appropriate rules and

prescriptions. The Management and the Supervisory Board meetings are held on agreed regularity. Risk evaluation and risk management is regularly performed by internal audit function and its findings are reported to the management.

## 7.1. Corporate Governance Recommendations Report 2007

The purpose of the Corporate Governance Recommendations (effective since January 1, 2006) established by the Tallinn Stock Exchange and the Financial Supervision Authority is to point out the rights of shareholders to get better distribution of information and effective management of companies. In accordance with Corporate Governance Recommendations (hereinafter "CGR") AS Kalev presents together with the annual report also a report where the Management Board confirms their compliance with the CGR or explains the reasons for non-compliance. AS Kalev has complied with the CGR while preparing the annual report; however AS Kalev can not comply with some points of the CGR arising from peculiarities of business of the company. Following are the points mentioned and explanations for non-compliance:

*2.2.1 "The Management Board has more than one member and a Chairman is elected amongst the members. The Management Board or Supervisory Board establish' the area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The principles for co-operation between the members of the board is established. The Chairman of the Supervisory Board concludes a service contract with each member of the board."*

AS Kalev has a single manager, nominated by the Supervisory Board. With the manager a service contract is concluded where also the duties, obligations and responsibilities of the manager is defined.

The Management Board of majority of AS Kalev subsidiaries consist of two or more members with whom respective service contracts have been concluded.

*2.2.7 „Base wages, bonuses, resignation compensation, other payable benefits and bonus schemes of each Management Board member as well as their essential features are disclosed in clear and unambiguous manner on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published is clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure."*

The service fee of the Management Board member is received just by the manager of AS Kalev according to the contract concluded by the Supervisory Board. The Contract concluded with the manager of AS Kalev defines base wages (fixed amount every month), however resignation compensations, bonuses or other additional payments are not provided in the contract.

*3.2.5 „The amount of remuneration of a member of the Supervisory Board is published in the Corporate Governance Recommendations Report, indicating separately base and bonus payments (incl. compensation for termination of contract and other payable benefits)."*

The Supervisory Board and its members of AS Kalev are as follows:

Heino Priimägi, who was nominated as a Supervisory Board member with the resolution of AS Kalev shareholders on a General Meeting held on December 02, 2004; Ülo Suurkask, whose authority as Supervisory Board member was prolonged until December 2, 2009 according to the resolution of AS Kalev General Meeting held on December 08, 2006; Marko Kaha, who was nominated as a Supervisory Board member with the resolution of AS Kalev shareholders on General Meeting held on December 14, 2005.

Monthly salary (fixed amount every month) has been decided to the members of AS Kalev Supervisory Board (see Note 22). No additional payments or supplementary compensations are paid to the Supervisory Board of AS Kalev.



5.3 *"General strategy directions of the Issuer as also approved by Supervisory Board are accessible to the shareholders on the Issuer's website."*

The Management of the group is on the opinion that strategy is a part of a business secret and not a subject of disclosure. However, general directions and material topics are covered in the management report which is a mandatory part of the annual report.

5.6 *"The Issuer discloses the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website. The Issuer enables the shareholders to participate of the actions mentioned and discloses the presentations on its website. The Issuer does not arrange meetings with analysts and presentations for investors directly before deadlines of publishing financial reports".*

The group acts in accordance with the principle of equal treatment of shareholders. Mandatory, important and price sensitive information is in the first order disclosed in Tallinn Stock Exchange system and then on company's webpage. In addition, every shareholder has the right to receive information from the company at their own convenience, and arrange meetings.

However, the management of the company does not prioritize keeping the schedules of shareholders' meetings since the information is limited to public only. The same rule applies to all meetings, including those held immediately before publishing the financial reports.

#### 6.2. Election of the Auditor and auditing of the Annual Accounts

On the Annual General Meeting of the shareholders of AS Kalev on December 14, 2005, an auditor was chosen for the financial periods of 2005-2006 and 2006-2007. Based on the shareholders decision, the annual accounts of AS Kalev for the designated period is audited by Ernst & Young Baltic AS. Information about the auditor is obtainable on the auditor's website. Remuneration of the auditor is stated in the audit contract and it was agreed between the parties not to disclose the fees. According to the guidelines of the Financial Supervision Authority "Public financial supervision over the rotation of auditors of certain persons." from September 24, 2003, the company organizes the rotation of the auditor, assuring the independence of the auditor and replacing the executive auditor at least after every five years.

## 8. Main activity directions for the financial year 2007-2008

Several changes were introduced in the financial year in order to correct the organisational structure of AS Kalev and to bring the structure into line with the activity trends, thus ensuring an increase in the efficiency of the company's core processes. AS Kalev also plans to continue these pursuits throughout the entire organisation in the next financial year, aiming to enhance general efficiency and transparency, and to acclimatize itself to the significant changes. We must also take into consideration the factors preventing a material improvement in the profit margin – the continual increase in production expenses, backed by the price increase in inputs (labour market restrictions, including a lack of labour and the consequent wage increase, and an increase in energy expenses). As a result of the developments in the supply of production factors, the company is, for instance, pursuing projects which help to decrease the labour requirement for different processes. As the domestic market is characterised by tight competition between domestic and foreign companies, this sets restrictions on achieving the highest margin.

AS Kalev Chocolate Factory aims to remain the leader of the domestic market (as regards monetary turnover) in both the sugar and chocolate confectionery segment. The company continues to pursue its goal of increasing the profitability of the sales of its most important products through assortment optimisation and production efficiency enhancement. Product development will play an important role. In the chocolate confectionery segment, the company will focus on developing chocolate tablets, chocolate candy and boxed chocolate candy. In the sugar confectionery segment, the focus will lie on chewing candy and toffee. In general product development, the company is pursuing the extension of expiry dates as well as the creation of healthy products and new flavours.

In the pastry and flour confectionery sector, the company is continually pursuing its goal of achieving a material increase in the white and dark bread market share in the next few years, thus taking third position among Estonian bakeries. The share of pastry products will increase in the flour confectionery segment, with a continual focus to be paid to the biscuit and flour mix segment.

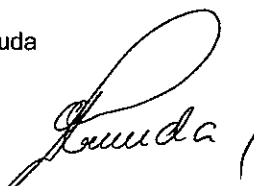
Regardless of some setbacks in the spring/summer of 2007, AS Kalev is also optimistic about the foreign sector. In general the demand for export goods is supported by the favourable situation on the target markets. In the export of sugar and chocolate confectionery products, AS Kalev will focus in the next few years on strengthening its position in the Baltic States. The chocolate confectionery sector in particular is expected to show an increase in export volumes. On other foreign markets, the company plans to maintain its existing customer base and sales volumes, as well as the focus on *Travel Trade*.

Further activities in the dairy product sector will depend on the global market as well as on AS Kalev's strategy in the sector, which has yet to be specified. We expect to focus on product positioning, in order to guarantee sustainable production in the conditions of the planned changes. In order to achieve the established goals, we plan to review our product portfolio, and bring it into line with the group strategy by considering the market situation.

AS Kalev's real estate activities are pursued through AS Kalev REC and its direct subsidiaries. The quick growth in the real estate sector in Estonia has allowed AS Kalev Group to actively pursue real estate development and management. So far, the main attention has focused around residential and commercial space development. In the future, the company also plans to develop its activities in the public real estate sector. AS Kalev is set to change its strategy in accordance with the dynamics of the sector and the occurrences on the real estate market.

The next financial year will see significant changes in the media and printing sector, a new field of activities for AS Kalev. In the media sector, the company is planning to renew its current product portfolio, both in essence and form. AS Kalev also plans to launch several new products in the next financial year, including a new television channel. The general objective of AS Kalev Meedia is to achieve a significantly stronger market position in the media sector. Development of the printing sector is based on AS Uniprint and AS Unipress opportunities of meeting the demand for printed marketing and other printed products of the Kalev group and also of wider client base.

Oliver Kruuda  
Manager



## CONSOLIDATED FINANCIAL STATEMENTS

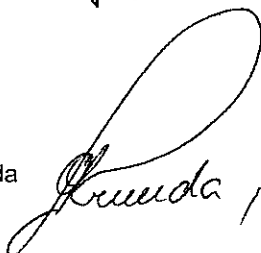
### STATEMENT OF MANAGEMENT RESPONSIBILITY

Hereby I take responsibility for the correct preparation of the consolidated financial statements of AS Kalev (hereinafter "the Parent") and its subsidiaries (hereinafter together as "the Group") set out on pages 15 to 46 and confirm that:

- accounting policies used in preparing the consolidated financial statements are in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the Group and the results of its operations and cash flows;
- the Group and the Parent are able to continue as a going concern.

Põrguvälja, 06. Sept., 2007

Oliver Kruuda  
Manager



## CONSOLIDATED INCOME STATEMENT

for the financial years ended June 30

### Notes

		in thousand EEK		in thousand EUR*	
		2007	2006	2007	2006
	Sales of goods (incl. sold property recognized under inventory)	917 616	884 230	58 646	56 513
	Sales revenue from services	3 460	2 244	221	143
	Rental income	4 629	3 149	296	201
6	<b>Total net sales</b>	<b>925 704</b>	<b>889 623</b>	<b>59 163</b>	<b>- 56 857</b>
7	Cost of sales	-734 235	-745 734	-46 926	-47 789
	<b>Gross profit</b>	<b>191 470</b>	<b>143 889</b>	<b>12 237</b>	<b>9 196</b>
8	Other operating income	106 731	57 710	6 822	3 689
7	Marketing expenses	-117 675	-103 153	-7 521	-6 593
7	Administrative expenses	-87 221	-61 012	-5 574	-3 899
8	Other operating expenses	-24 309	-16 350	-1 554	-1 045
	<b>Operating profit</b>	<b>68 996</b>	<b>21 084</b>	<b>4 410</b>	<b>1 348</b>
9	Financial income	4 274	3 831	273	245
9	Financial expenses	-42 562	-23 621	-2 720	-1 510
	<b>Pretax profit</b>	<b>30 708</b>	<b>1 294</b>	<b>1 963</b>	<b>83</b>
21	Income tax	-282	0	-18	0
	<b>Net profit for the financial year</b>	<b>30 426</b>	<b>1 294</b>	<b>1 945</b>	<b>83</b>
	incl. net profit (loss) attributable to the shareholders of the Parent	30 460	1 153	1 947	74
	minority interests	-34	141	-2	9
10	Basic and diluted earnings per share for net profit (loss) attributable to the shareholders of the Parent (in EEK / in EUR)	1.29	0.05	0.08	0.003

\* In accordance with the rules of Tallinn Stock Exchange, the main financial statements are presented also in euro (EUR), which represents unaudited supplementary information that does not form part of the Group's consolidated financial statements.

Notes to the consolidated financial statements set out on pages 25 to 66 form an integral part of these financial statements.

## CONSOLIDATED BALANCE SHEET

as of June 30

### Notes

		in thousand EEK		in thousand EUR*	
		2007	2006	2007	2006
<b>ASSETS</b>					
<b>Current assets</b>					
	Cash and cash equivalents	17 337	10 080	1 108	644
11, 12	Receivables	148 050	134 930	9 462	8 624
	Prepayments	2 653	1 715	170	110
13, 14	Inventories	218 617	240 334	13 972	15 360
	<b>Total current assets</b>	<b>386 657</b>	<b>387 059</b>	<b>24 712</b>	<b>24 738</b>
<b>Non-current assets</b>					
11	Long term financial assets	3 733	7 230	239	462
15	Investment properties	214 601	89 944	13 716	5 748
16	Property, plant and equipment	644 876	545 840	41 215	34 886
17	Intangible assets	62 635	4 560	4 003	291
	<b>Total non-current assets</b>	<b>925 846</b>	<b>647 574</b>	<b>59 172</b>	<b>41 388</b>
	<b>TOTAL ASSETS</b>	<b>1 312 503</b>	<b>1 034 633</b>	<b>83 884</b>	<b>66 125</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
18	Borrowings	348 317	240 464	22 262	15 368
19	Customer prepayments	1 461	27 821	93	1 778
19	Trade accounts payable and other payables	284 439	286 717	18 179	18 325
20	Provisions	0	3 200	0	205
	<b>Total current liabilities</b>	<b>634 217</b>	<b>558 202</b>	<b>40 534</b>	<b>35 676</b>
<b>Non-current liabilities</b>					
18	Borrowings	304 837	132 908	19 483	8 494
	<b>Total non-current liabilities</b>	<b>304 837</b>	<b>132 908</b>	<b>19 483</b>	<b>8 494</b>
	<b>Total liabilities</b>	<b>939 054</b>	<b>691 110</b>	<b>60 017</b>	<b>44 170</b>
<b>Equity</b>					
21	Share capital	236 325	236 325	15 104	15 103
	Mandatory legal reserve	4 020	4 020	257	257
	Revaluation reserve	111 108	116 315	7 101	7 434
	Retained earnings	21 941	-13 225	1 402	-845
	<b>Equity attributable to the shareholders of the Parent</b>	<b>373 395</b>	<b>343 435</b>	<b>23 864</b>	<b>21 950</b>
	<b>Minority interests</b>	<b>54</b>	<b>88</b>	<b>3</b>	<b>5</b>
	<b>Total equity</b>	<b>373 449</b>	<b>343 523</b>	<b>23 867</b>	<b>21 955</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 312 503</b>	<b>1 034 633</b>	<b>83 884</b>	<b>66 125</b>

\* In accordance with the rules of Tallinn Stock Exchange, the main financial statements are presented also in euro (EUR), which represents unaudited supplementary information that does not form part of the Group's consolidated financial statements.

Notes to the consolidated financial statements set out on pages 25 to 66 form an integral part of these financial statements.

For identification purposes only

 **ERNST & YOUNG**

## CONSOLIDATED CASH FLOW STATEMENT

for the financial years ended June 30


Notes	in thousand EEK		in thousand EUR*	
	2007	2006	2007	2006
<b>Operating activities</b>				
Pretax profit	30 708	1 294	1 963	83
<u>Adjustments to operating profit:</u>				
16,17 Depreciation, amortization and impairment of intangible assets	28 789	25 410	1 840	1 624
15 Gain from the revaluation of investment properties	-90 486	-41 836	-5 783	-2 674
8 Profit (loss) from disposals of non-current assets <sup>1</sup>	-13 126	-4 398	-839	-281
Allowance of accounts receivable and inventory	10 045	2 633	642	168
Financial income	-4 274	-3 831	-273	-245
Financial expenses	42 562	23 621	2 720	1 510
<u>Changes in assets related to operating activities:</u>				
Inventories	28 777	-47 010	1 839	-3 004
Receivables	6 981	32 804	446	2 097
Other	-87	-348	-6	-22
<u>Changes in liabilities related to operating activities:</u>				
Trade accounts payable and other payables	-68 582	-18 985	-4 383	-1 213
Customer prepayments	-26 360	23 896	-1 685	1 527
<b>Net cash from operating activities</b>	<b>-55 053</b>	<b>-6 750</b>	<b>-3 519</b>	<b>-431</b>
<b>Investing activities</b>				
22 Acquisition of subsidiaries and other long term shares	-34 541	-6 314	-2 207	-404
Proceeds from disposal of subsidiaries, net of cash disposed	0	1 744	0	111
8,15,16 Proceeds from disposals of non-current assets <sup>1</sup>	31 619	56 923	2 021	3 638
15,16 Purchases of non-current assets <sup>1</sup>	-67 908	-57 447	-4 340	-3 672
Loans granted	-5 803	-42 571	-371	-2 721
Repayments of granted loans	7 726	2 551	494	163
Interests received	2 071	325	132	21
<b>Net cash used for investing activities</b>	<b>-66 836</b>	<b>-44 789</b>	<b>-4 272</b>	<b>-2 863</b>
<b>Financing activities</b>				
Repayments of borrowings	-182 522	-40 513	-11 665	-2 589
Borrowings received	475 156	136 007	30 368	8 692
Repayment of finance lease liabilities	-92 062	-18 081	-5 884	-1 156
18 Change in overdraft	-29 091	-2 704	-1 859	-173
Interests paid	-42 335	-18 797	-2 706	-1 201
<b>Net cash from financing activities</b>	<b>129 146</b>	<b>55 912</b>	<b>8 254</b>	<b>3 573</b>
<b>Total net cash flow</b>	<b>7 257</b>	<b>4 373</b>	<b>464</b>	<b>279</b>
<b>Cash and cash equivalents at the beginning of the period</b>				
	<b>10 080</b>	<b>5 708</b>	<b>644</b>	<b>365</b>
Change in cash and cash equivalents	7 257	4 372	464	279
<b>Cash and cash equivalents at the end of the period</b>	<b>17 337</b>	<b>10 080</b>	<b>1 108</b>	<b>644</b>

<sup>1</sup> i.e., property, plant and equipment, intangible assets and investment properties.

\* In accordance with the rules of Tallinn Stock Exchange, the main financial statements are presented also in euro (EUR), which represents unaudited supplementary information that does not form part of the Group's consolidated financial statements.

Notes to the consolidated financial statements set out on pages 25 to 66 form an integral part of these financial statements.

For identification purposes only

 **ERNST & YOUNG**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial years ended June 30

in thousand EEK

	Equity attributable to the shareholders of the Parent						Total equity
	Share capital	Mandatory legal reserve	Revaluation reserve	Retained earnings	Total	Minority interests	
<b>As of June 30, 2005</b>	<b>236 325</b>	<b>4 020</b>	<b>8 669</b>	<b>-20 857</b>	<b>228 157</b>	<b>8 606</b>	<b>236 763</b>
<i>Revaluation of property, plant and equipment (Note 16)</i>	0	0	112 626	0	112 626	0	112 626
<i>Transfer from revaluation reserve to retained earnings (note 5.10)</i>	0	0	-4 980	4 980	0	0	0
<i>Net profit for the financial year</i>	0	0	0	1 153	1 153	141	1 294
<i>Total recorded changes in 2005/2006</i>	0	0	107 646	6 133	113 779	141	113 920
<i>Purchase of minority interests (Note 22)</i>	0	0	0	1 499	1 499	-8 659	-7 160
<b>As of June 30, 2006</b>	<b>236 325</b>	<b>4 020</b>	<b>116 315</b>	<b>-13 225</b>	<b>343 435</b>	<b>88</b>	<b>343 523</b>
<i>Transfer from revaluation reserve to retained earnings (note 5.10)</i>	0	0	-4 707	4 707	0	0	0
<i>Impairment of assets (note 16)</i>	0	0	-500	0	-500	0	-500
<i>Net profit for the financial year</i>	0	0	0	30 460	30 460	-34	30 426
<i>Total recorded changes in 2006/2007</i>	0	0	-5 207	35 167	29 960	-34	29 926
<b>As of June 30, 2007</b>	<b>236 325</b>	<b>4 020</b>	<b>111 108</b>	<b>21 942</b>	<b>373 395</b>	<b>54</b>	<b>373 449</b>

Additional information on the share capital has been presented in Note 21. Information on the formation and potential uses of the mandatory legal reserve and the revaluation reserve has been presented in Note 5.17.

in thousand EUR\*

	Equity attributable to the shareholders of the Parent						Total equity
	Share capital	Mandatory legal reserve	Revaluation reserve	Retained earnings	Total	Minority interests	
<b>As of June 30, 2005</b>	<b>15 104</b>	<b>257</b>	<b>554</b>	<b>-1 333</b>	<b>14 582</b>	<b>550</b>	<b>15 132</b>
<i>Revaluation of property, plant and equipment (Note 16)</i>	0	0	7 198	0	7 198	0	7 198
<i>Transfer from revaluation reserve to retained earnings (note 5.10)</i>	0	0	-318	318	0	0	0
<i>Net profit for the financial year</i>	0	0	0	74	74	9	83
<i>Total recorded changes in 2005/2006</i>	0	0	6 880	392	7 272	9	7 281
<i>Purchase of minority interests (Note 27)</i>	0	0	0	96	96	-553	-458
	<b>15 104</b>	<b>257</b>	<b>7 434</b>	<b>-845</b>	<b>21 949</b>	<b>6</b>	<b>21 955</b>
<b>As of June 30, 2006</b>							
<i>Transfer from revaluation reserve to retained earnings (note 5.10)</i>	0	0	-301	301	0	0	0
<i>Impairment of assets (note 16)</i>	0	0	-32	0	-32	0	-32
<i>Net profit for the financial year</i>	0	0	0	1 947	1 947	-2	1 945
<i>Total recorded changes in 2006/2007</i>	0	0	-333	2 248	1 915	-2	1 913
<b>As of June 30, 2007</b>	<b>15 104</b>	<b>257</b>	<b>7 101</b>	<b>1 402</b>	<b>23 864</b>	<b>4</b>	<b>23 867</b>

\* In accordance with the rules of Tallinn Stock Exchange, the main financial statements are presented also in euro (EUR), which represents unaudited supplementary information that does not form part of the Group's consolidated financial statements.

Notes to the consolidated financial statements set out on pages 25 to 66 form an integral part of these financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of AS Kalev and its subsidiaries for the year ended June 30, 2007 were authorized for issue by the Manager on September 6, 2007. According to the Estonian Business Code, the annual report, including the consolidated financial statements, prepared by the Management Board and approved by the Supervisory Board, 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. AS Kalev shares are listed in the Investors' List of Tallinn Stock Exchange. The principal activities of the Group are the production and sales of different food products, writing magazines, printing service and the developing of real estate. In comparison with prior period, media, printing services and event marketing segment are included as additional segments in the reporting period.

The structure of the Group as of June 30, 2007 has been disclosed in Note 22.

### NOTE 2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Estonian kroon (EEK), which is pegged to euro (EUR) with the exchange rate of 1 EUR = 15.6466 EEK, is the Parent's functional currency and the presentation currency of the consolidated financial statements of the Group. All other currencies are considered to be foreign currencies. The consolidated financial statements are presented in thousands of the Estonian kroons except when otherwise indicated. Pursuant to the requirements of Tallinn Stock Exchange, the main financial statements (i.e., balance sheet, income statement, cash flow statement and statement of changes in equity) are presented also in euros (rounded to the nearest thousand); this represents supplemental information, which does not form a part of the Group's consolidated financial statements. As the Estonian kroon is pegged to euro with the fixed exchange rate, no foreign exchange rate differences arise in the translation of the financial statements.

The consolidated financial statements have been prepared on a historical cost basis unless indicated otherwise below (e.g., investment properties, which are measured at fair value and land and buildings under property, plant and equipment, which are measured at revalued amount).

The main financial statements of the Parent as required by the Estonian Accounting Act and that are not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union have been disclosed in the notes of the consolidated financial statements (see Note 29). Such financial information is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles. These statements have been prepared using the same accounting methods and measurement bases that were used for the preparation of the consolidated financial statements, except for investments into subsidiaries (see also Note 5.22).

#### 2.1 Basis of consolidation

The Parent and its subsidiaries compose the consolidation group (hereinafter together also as the Group). A subsidiary is an entity that is controlled by the Parent. Generally, a subsidiary is considered to be under the control of the Parent, when the Parent owns, directly or indirectly (through other subsidiaries), more than half of the voting power of an entity or the Parent has otherwise power to govern the financial and operating policies of a subsidiary under a contractual agreement or otherwise.

Subsidiaries are consolidated line-by-line from the date of acquisition and continue to be consolidated until the date that such control ceases. For the consolidation purposes, the financial statements of the subsidiaries are prepared for the same reporting period. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

All intra-group transactions, balances and unrealized profits on transactions between Group's companies have been eliminated in full 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 consolidated balance sheet (within equity).

New subsidiaries (business combinations) are included in the consolidated financial 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 5.11). Goodwill represents a payment made in anticipation of future economic benefits from assets of an acquiree that are not capable of being individually identified and separately recognized. If acquisition cost is less than fair value of acquired net assets the difference is recorded as income immediately.

In the case of the acquisition of minority interests, the entire difference between the acquisition cost and the book value of the minority interests (in the consolidated balance sheet) is taken directly to the equity attributable to the shareholders of the Parent.

### **NOTE 3        CHANGES IN ACCOUNTING POLICIES AND PRESENTATION**

The consolidated financial report is composed based on consistency and comparability principles, which means that the Group continually applies same accounting principles and presentation. Changes in accounting policies and presentation take place only if these are required by new or revised IFRS standards and interpretations or if new accounting policy and / or presentation give more objective overview of financial position, financial results and cash flows of the Group.

#### **3.1    Changes in the presentation and accounting principles**

The accounting policies and presentation adopted in preparation of the current financial statements are consistent with those of the previous financial year. In addition, the following new/revised standards have been adopted, which had no material effect on the financial results and disclosures of 2006:

- IFRS 4        Insurance Contracts – Financial Guarantee Contracts (amendments): related amendment has been also issued to IAS 39;
- IFRS 6        Exploration for and Evaluation of Mineral Resources: related amendment has been also issued to IFRS 1 ;
- IAS 19        Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (amendments);
- IAS 21        The Effect of Changes in Foreign Exchange Rates (amendments): specify circumstances, in which a loan shall be considered to be a part of the Group's net investment in a foreign operation and currency, which has to be used for such investment;
- IAS 39        Financial Instruments: Recognition and Measurement: these amendments are related to hedges of forecast intragroup transactions and the use of the fair value option;
- IFRIC 4        Determining whether an Arrangement Contains a Lease;

- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6 Liabilities Arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment;
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Environments;
- IFRIC 8 Scope of IFRS2;
- IFRIC 9 Reassessment of Embedded Derivatives.

### 3.2 New IFRS standards and interpretations

In the opinion of the management of the Group the new or revised IFRS standards and their interpretations issued by the time of preparing the current consolidated financial statements, but not effective yet, and not applied early by the Group, do not have any effect on the value of the assets and liabilities of the Group as of June 30, 2007. These standards and interpretations will be applied starting from their effective date:

- IFRS 7 Financial Instruments: Disclosures; IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. Effective for annual periods beginning on or after January 1, 2007; no early adoption;
- IFRS 8 Operating segment. The standard sets out requirements for disclosure information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. Effective for annual periods beginning on or after 1 January 2007; no early adoption;\*
- IAS 1 Presentation of Financial Statements. This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital. Effective for annual periods beginning on or after January 1, 2007; no early adoption;
- IFRIC 10 Interim Financial Reporting and Impairment. This interpretation establishes that entity shall not reverse and impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. Effective for annual periods beginning on or after 1 November 2006; no early adoption;
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. Effective for annual periods beginning on or after 1 March 2007; no early adoption;
- IFRIC 12 Service Concession Agreements. The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRS) to account for the obligations they undertake and rights they receive in service concession arrangements. Effective for annual periods beginning on or after 1 January 2008; no early adoption;\*
- IAS 23 Borrowing costs (revised); effective for annual periods beginning on or after 1 January 2007; no early adoption.\*

\* The standard or interpretation has not yet been endorsed by the European Union.

## NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards as adopted by the European Union requires the management of the Group to make estimates and judgements that affect the reported amounts and accounting policies of assets and liabilities.

Although the estimations and judgements are reviewed by the management consistently and these are based on the previous experiences and the best knowledge on future trends, the actual outcomes may differ from the current estimates.

#### 4.1. Judgements

In the process of applying the Group's accounting policies, the management of the Group has made the following judgements, which have a significant effect on the amounts recognised in the financial statements:

##### 4.1.1 Classification of real estate

The classification of real estate items into classes as inventories, investment property or property, plant and equipment (construction-in-progress) is based on the intention of the management on the future use of the real estate. The accomplishment of the management's plans depends also on the decisions not controlled by the Group (i.e., changing registered intended use of land, approving architectural drawings, licence for construction etc), which may affect the final classification of real estate.

The real estate items with the intention on the future use for development and sale have been classified as inventories. Real estate items purchased for sale have also been recognized as inventories.

The aim of the purchase of an investment property is to earn rental income or income from capital appreciation. The real estate items held for long-term perspective and with several possible intentions on future use are also considered to be investment properties.

The property being constructed or developed or improved for the future use as commercial spaces leased out under operating lease terms (except these items being re-developed for continued future use as investment property) have been recorded as constructions-in-progress under property, plant and equipment and after the completion of work (i.e., after receiving a use permit) have been re-classified to investment property.

Existing investment property that is being re-developed for continued future use as investment property is not temporarily re-classified to construction-in-progress.

##### 4.1.2 Investments into shares of AS Uniprint

During the financial year AS Kalev has entered into a forward purchase contract in respect of the shares of AS Uniprint and its subsidiary AS Unipress. For that 40% of shares of AS Unipress was acquired and according to the shareholders' agreement a conditional obligation was taken to acquire also the remaining 60% of ownership.

Since AS Kalev has potential voting rights exercisable over the 60% and present access to benefits of AS Uniprint, it means that there is no recognition of minority interest. Therefore, a financial liability (see "other payables", Note 19) has been recognized to meet the liability to buy the rest of 60%. This financial liability is initially recognised at its fair value – eg. the present value of the total amount payable. The liability is subsequently re-measured at each reporting date to the present value of the amount payable on exercise.

#### 4.2 Estimation uncertainty

The estimates made by the management of the Group are based on the previous experiences and all information available by the date of the financial statements authorized for issue. There is either lower or higher risk that the estimates reported at the balance sheet date and related to value of assets, liabilities, revenue and expenses will change in the future. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### 4.2.1 Contingent liability related to so-called sugar fine

The Tax and Customs Board has made a decision on 17.06.2005, which obligates AS Kalev to remove sugar stock in the amount of 15.6 thousand tons from the market (i.e. excess stock as of May 1, 2004). AS Kalev filed a complaint against the aforesaid decision, as in the opinion of the management, the Group did not have such

excess sugar stock as of May 1, 2004. On 06.11.2006 Tax and Customs Board retrospectively invalidated its decision form 17.06.2005 concerning AS Kalev excess stock. The Tax and Customs Board found, that the invalidated decision was made on illegitimate basis. On 29.03.2007 the Tax and Customs Board made a decision – tax notice, in which it charged 135.7 million Estonian kroons from AS Kalev for identified 15.6 thousand tons of excess sugar stock (as of 01.05.2004). AS Kalev has submitted a complaint on this decision of the Tax and Customs Board to the Administrative Court of Tallinn. In addition AS Kalev has applied for suspension of the decision – tax notice and the Administrative Court has satisfied this appeal. According to the management's estimation, it is not probable that the Group will lose this case in court. AS Kalev continually claims, that they have declared their sugar stock reserve correctly and did not own 15.6 thousand tons of sugar, identified as excess stock by the Tax and Customs Board.

For more detailed information on the case, see also Note 25.2.2.

#### 4.2.2 Fair value of land and buildings under property, plant and equipment

Land and buildings under property, plant and equipment are revalued to their revalued amount (i.e., fair value) frequently enough that the fair value of a revalued asset does not differ materially from its carrying amount.

The discounted cash flow method has been used as a valuation technique for determining fair value of buildings. Estimating the discounted cash flows requires an appraiser to forecast rental income generated by the real estate and related expenses. In order to calculate the present value of those cash flows an appraiser has to choose a suitable discount rate, which reflects the time value of money and specific risks related to the assets in the best way. During 2007 financial year no carrying amounts were revalued by using the discounted cash flows method. Previous revaluation took place on 30.06.2006 and revalued carrying amount of the buildings amounted 351,352 thousand kroons as of 30.06.2007 (2006: 361,473 thousand kroons).

#### 4.2.3 Determining the useful lives of property, plant and equipment

Management has estimated the useful lives of property, plant and equipment and intangible assets, taking into consideration conditions and volumes of business activities, historical experience in this area and future outlook. The further information on the management's estimation regarding the useful lives has been disclosed in Notes 5.10 and 16.

#### 4.2.4 Impairment test of assets of the pastries segment

As it is disclosed in segment reporting (Note 6), the pastries segment has earned loss throughout the current financial year. Such a situation indicates that assets of the segment may be impaired. Therefore the Group has performed the impairment test by comparing the carrying amounts of the segment's assets with their fair values. The recoverable amount of assets is the higher of the two following values: assets' fair value less costs to sell and assets' value in use. Assets' value in use is thereby a present value of expected future cash flows of a given asset (or asset's group). As a result of this comparison, the Group verified that the recoverable amount of the pastries product segment's assets is higher than their carrying amount (as of 30.06.2007 AS Vilma amounted 17,303 thousands kroons and Kalev Jõhvi Tootmine AS – 27,679 thousands kroons) and there are no needs for impairment loss. For the evaluation of assets' value in use a realistic projection was made including cash flows of given assets for the next five years and calculated present value of these cash flows. As a discount rate for calculation of present value of cash flows, such an interest rate was used, that investors would expect to receive as return from investment similar in type.

#### 4.2.5 Impairment test of goodwill

The Group determines whether goodwill arisen from business combinations is impaired at least on an annual basis. This requires an estimation of fair value (less costs to sell) or value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of June 30, 2007 was 62,459 thousand EEK (2006: 4,550 thousand EEK). During the financial year 2007 impairment loss of 4,550 thousand EEK was recognized. More details have been laid out in Notes 5.11 and 17.

#### 4.2.6 Carrying value of receivables

The Group has granted several unsecured loans, which recoverable amounts depends mainly on whether the borrower is able to pay its loan back. The book value of unsecured loans as of June 30, 2007 amounts to 54,690 thousand EEK (2006: 63,883 thousand EEK). For additional information on loans granted, see Note 11.

Trade accounts receivable include the receivable from Torgovõi Dom Pribaltiiski Kondiiter (in the amount of 4,760 thousand EEK) whose due date was already several years ago. As the Group has a payable to the same company, the allowance for this receivable has not been recognised. The court dispute with Torgovõi Dom Pribaltiiski Kondiiter has been started; if the Group loses the dispute, an allowance may arise. See also Note 25.2.4.

#### 4.2.7 Impairment test of real estate

The Group is accounting its land and buildings according to the revaluation method. For that the Group determines whether revalued fixed assets are impaired on regular basis. This requires an estimation of fair value (less costs to sell) or value in use of the cash-generating units where fixed assets are locating. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As of June 30, 2007 previously revalued fixed assets were found to be impaired by 500 thousand EEK. For details see also Note 16.

### **NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **5.1 Segment information**

The primary segment reporting format is determined to be business segments. A segment has been disclosed as a separate reportable segment, if its products and services distinctly differ from the products and services offered by other segments, and it operates as an independent profit centre. The main segments of the Group are confectionery production and sale, pastries production and sale, production and sale of dairy products, publishing of magazines (media), printing service, operations with the real estate and event marketing.

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of other revenue that can be allocated on reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the Group.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include general administrative expenses, interest expenses and other expenses that arise at the Group level and related to the Group as a whole.

Segment result is segment revenue less segment expenses.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets include current assets, investment property, property, plant and equipment and intangible assets related to the operating activities. If a particular item of depreciation or amortization is included in segment expenses, the related asset is also included in segment assets. Segment assets do not include assets used for general Group or head-office purposes or which cannot be allocated directly to the segment. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

Segment liabilities are those liabilities that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities include, for example, trade accounts payables and other payables, accrued expenses, customers' prepayments, provisions and other products and services related liabilities. Segment liabilities do not include

loans, finance leases, bonds and other liabilities related to financing activities. Income tax liability is not also included in segment liabilities.

The secondary segment reporting format is determined to be geographical segments.

## 5.2 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the revenue and related expenses can be reliably measured and it is probable that the economic benefits will flow to the Group. 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 recognized when the real right contract is concluded. If according to the contract under the law of obligations, the buyer was 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 "customers' prepayments" in balance sheet.

Interest income and dividend income is recognized when income is probable and the amount might be reliably assessed. Interest income is recognized based on effective interest rate. Dividend income is recorded when the right for claim has occurred.

## 5.3 Foreign currency transaction

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

The functional currencies of the foreign subsidiaries Kalev Merchant Services Ltd and Stude REC EOOD is the currency of their primary economic environment, which differs from the functional currency of the Parent. The following exchange rates are used for translation of financial statements of these subsidiaries into the Estonia kroons:

- the assets (incl. goodwill and fair value adjustments arising from business combinations) and liabilities of these subsidiaries are translated at the rate of exchange quoted by the Bank of Estonia ruling at the balance sheet date;
- income and expenses are translated at the weighted average exchange rates for the year.

The exchange differences arising on the translation are taken directly to the equity (under "Foreign currency translation reserve").

## 5.4. Cash and cash equivalents

For the purpose of cash flow statements, cash and 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.

## 5.5 Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Other receivables include also trade accounts receivable.

Loans and other receivables are initially recognized at cost, being the fair value of the consideration given, plus directly attributable transaction costs.

After initial measurement, these financial assets are carried at amortized cost using the effective interest method. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

If there is objective evidence that an impairment loss on loans and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment loss on receivables related to operating activities is recognized under "other operating expenses" and impairment loss on receivables related to investing activities is recognized under financial expenses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Such reversal is recognized as a reduction of the expense where impairment loss was previously recognized.

The derecognition of loans and other receivables takes place when the money is collected, the receivables are sold or the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and the Group has transferred substantially all the risks and rewards of the asset.

### 5.5.1 Factoring

Factoring is the sale of receivables. Depending on the type of the factoring contract, the buyer has the right to sell back 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 of 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.

## 5.6 Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, except investments in equity instruments whose fair value cannot be reliably measured, which are measured at cost.



## 5.7 Inventories

Inventories are valued at the lower of cost and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business, less estimated cost necessary to make the sale. 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 incurred upon bringing the inventories to their present condition and location (based on normal production capacity).

## 5.8 Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

For the consolidation purposes, the financial statements of the associate are prepared for the same reporting period. If a associate uses accounting policies other than those adopted by the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the Group's financial statements

The Group determines whether it is necessary to recognise an additional impairment loss of the investment in associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the book value and recognises the amount in the income statement.

## 5.9 Investment property

Investment property is property, i.e. land or buildings, 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 measured initially at cost, including directly related transaction costs (i.e. notary fees, state duty, fees paid to advisers, and other expenses in order to complete the transaction). Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the income statement under "other operating income" or "other operating expenses". For a transfer from property, plant and equipment to investment property, the positive difference between fair value at that date and its previous carrying amount is recognized directly in equity under "revaluation reserve".

## 5.10 Property, plant and equipment

Property, plant and equipment items are initially recognized at cost, consisting of the purchase price and expenditures directly related to the acquisition.

After initial measurement, land and buildings are stated at revalued amount and other property, plant and equipment items are stated at cost, less accumulated depreciation and any impairment in value.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized (e.g. replacements of part of some items) are added to the carrying amount of the assets, if the following criteria

are met, i.e. (a) it is probable that future economic benefits associated with the item will flow to the Group, and (b) the cost of the item can be measured reliably. The replaced items are derecognised. All other expenditures are recognized as an expense in the period in which it is incurred.

At the revaluation date, the current cost of land and buildings is replaced by their fair value at the date of revaluation and accumulated depreciation is eliminated. Any revaluation surplus is credited to "revaluation reserve" included in the equity of the balance sheet. However, the increase is recognized in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement. A revaluation deficit is recognized in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the "revaluation reserve".

Revaluation reserve recorded in equity is transferred to retained earnings during the depreciation period of revalued assets. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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 residual value, method of depreciation and useful lives of items of property, plant and equipment are reviewed at least at each financial year and; if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimation, i.e. prospectively.

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 (see also the accounting policy 5.11).

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 derecognition of the asset (i.e., difference between the net disposal proceeds and the book value of the item) is included in the income statement (under "other operating income" or "other operating expenses").

### 5.11 Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities 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, from the acquisition date, 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.

For the accounting policy of impairment, see also Note 5.13.

## 5.12 Other intangible assets

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

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 (i.e., over 5 years) on a straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired (see the accounting policy 5.13). 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 recognized in the income statement in the expense category consistent with the function of the intangible asset.

### 5.12.1 Research and development expenditures

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is capitalized 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 availability of resources to complete; and (5) the ability 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 capitalized is amortized 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.

## 5.13 Impairment of assets

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment test for an asset is required, the Group makes an estimate of the asset's or cash generating unit's recoverable amount. Where the carrying amount of an asset exceeds the estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and the present value of its estimated future cash flows (i.e., value in use). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If necessary, external experts are used for determining the fair value. Impairment losses are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. As a result of reversal, the carrying amount of an asset is increased to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized as a reduction of the expense where impairment loss was previously recognized. Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

#### 5.14 Financial liabilities

Financial liabilities (trade accounts payable, loans, accrued expenses, bonds and other short- and long-term liabilities) are recognized initially at cost, net of directly attributable transaction costs. In subsequent periods, financial liabilities are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the financial liability. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expired.

Borrowing costs are recognized as an expense when incurred (under "financial expenses").

#### 5.15 Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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.

Present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources of the Group will be required or whose value can not be reliably measured, are considered to be contingent liabilities. Contingent liabilities are not recognized in the balance sheet, but disclosed in the notes to the consolidated financial statements.

#### 5.16 Income tax

According to Estonian Income Tax Law the company's net profit is not subject to income tax, thus there are no temporary differences between the tax bases and carrying values of assets and liabilities that may cause the deferred income tax. Instead of net profit, all dividends paid by the company are subject to income tax (23/77 of net dividend paid out before December 31, 2006; 22/78 of net dividend paid / payable out during the calendar year 2007 and after that the rate will decrease every year by one point until 18/82 of net dividends paid out after January 1, 2011).

The company's potential income tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum possible tax liability related to the payment of the company's retained earnings as dividends is disclosed in Note 21.

Income tax from the payment of dividends is recorded as income tax expense at the moment of declaring the dividends.

In accordance with income tax acts, the company's net profit adjusted by temporary and permanent differences determined in income tax acts is subject to income tax in the USA and Bulgaria (tax rate is 15% in Bulgaria and 22,5% as a minimum in the USA).

In connection with the foreign subsidiaries, deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized only when it is probable that profit will be available against which the deferred tax assets can be utilized.

#### 5.17 Mandatory legal reserve

Mandatory legal reserve is 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. This reserve can be used for covering the loss, if loss cannot be covered from the distributable shareholder's equity, and for increasing the share capital of the company. The mandatory legal reserve cannot be paid out as dividends.

#### 5.18 Government grants

Government grants are recognized at fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

The Group applies the "net method" for the assets acquired with government grants. According to this method, the asset is recognized 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 are 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 income".

#### 5.19 Employee benefits

The Group makes social insurance contributions under the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Group pays fixed contributions to a privately administered pension insurance plan. The Group will have no legal or constructive obligations to pay further contributions if the statutory fund or the private pension plan cannot settle their liabilities towards the employees. The cost of these payments is included into the income statement in the same period as the related salary cost.

#### 5.20 Leases

A finance lease is a lease that transfers substantially all the risks and benefits incidental to ownership of the leased item. All other lease transactions are treated as operating lease.

##### 5.20.1 Group as a lessee

Finance leases are capitalized 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. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as operating expenses on a straight-line basis over the lease term.

##### 5.20.2 Group as a lessor

In case of operating lease, the leased assets are recorded in the lessor's balance sheet, like other items of property, plant and equipment and investment property. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

#### 5.21 Subsequent events

Material circumstances that have an effect on the valuation of assets and liabilities and become evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the consolidated financial statements.

Subsequent events that have not been taken into consideration when valuing the assets and liabilities but have a material effect on the financial results, are disclosed in the consolidated financial statements.

## 5.22 Investments into subsidiaries in the non-consolidated main financial statements of the Parent

The main financial statements of the Parent as required by the Estonian Accounting Act are not prepared as separate financial statements of the Parent as described in IAS 27.

Investments in subsidiaries are measured at cost in the non-consolidated main financial statements of the Parent. Accordingly, the investment is initially recognized at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses.

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If such indications exist, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and the present value of its estimated future cash flows (i.e., value in use). Impairment loss is recognized in the income statement as a financial expense for the period.

Dividends paid by the subsidiaries are recognized, at the moment when the Group's right to receive the dividends is established, as financial income, excluding the part of the dividends disbursed from the free equity accumulated prior to the acquisition of the investment by the Group. That proportion of the dividends is recorded as a decrease in the carrying value of the investment.

## NOTE 6 SEGMENT INFORMATION

for the financial years ended June 30, in thousand EEK

### 6.1 Primary segment format – business segments

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

2007	Confectionery	Pastries	Dairy products	Real estate	Media	Printing services	Event marketing	Total
Revenue from external clients:								
- net sales	386 065	96 292	299 560	78 589	10 207	52 542	2 449	925 704
- other operating income	3 671	68	8 328	93 974	9	682	0	106 732
Revenue from other segments	0	0	0	8 541	0	0	0	8 541
<b>Total segment revenue</b>	<b>389 736</b>	<b>96 360</b>	<b>307 888</b>	<b>181 104</b>	<b>10 216</b>	<b>53 224</b>	<b>2 449</b>	<b>1 040 977</b>
<b>Segment result</b>	<b>29 694</b>	<b>-791</b>	<b>10 825</b>	<b>81 846</b>	<b>-3 819</b>	<b>3 879</b>	<b>-826</b>	<b>120 808</b>
Unallocated expenses								-51 812
Operating profit								68 996
Net financial items								-38 288
Pretax profit								30 708
Income tax								-282
<b>Net profit for the financial year</b>								<b>30 426</b>
Segment assets	359 753	51 998	140 384	531 090	23 754	172 553	399	1 279 931
Unallocated assets								32 572
<b>Total assets</b>								<b>1 312 503</b>
Segment liabilities	279 455	17 808	123 712	225 072	4 828	100 206	970	752 051
Unallocated liabilities								187 003
<b>Total liabilities</b>								<b>939 054</b>
Segment capital expenditures for non-current assets	28 618	6 501	7 524	25 823	19 730	137 743	0	225 939
Unallocated capital expenditures for non-current assets								13 124
<b>Total expenditures for non-current assets (Notes 15 and 16)</b>								<b>239 063</b>
Segment depreciation and amortization	-8 155	-3 141	-2 117	-156	-76	-3 592	0	-17 237
Impairment of assets	-500							-500
Depreciation and amortization of unallocated assets								-7 002
<b>Total depreciation, amortization and impairment of assets (Notes 16 and 17)</b>								<b>-24 739</b>
Other non-monetary expenses of segments (allowances, provisions etc.)	8 397	213	4 550	122	1 315	0	0	14 597

Transfer prices between business segments are set on arm's length basis in a manner similar to transactions with third parties.

2006	Confectionery	Pastries	Dairy products	Real estate	Total
Revenue from external clients:					
- net sales	350 967	86 322	397 847	54 487	889 623
- other operating income	1 298	152	9 685	46 576	57 710
Revenue from other segments	0	0	15 699	20 864	36 563
Total segment revenue	352 265	86 474	423 231	121 926	983 896
Segment result	34 842	1 668	-45 043	61 883	53 350
Unallocated expenses					-32 266
Operating profit					21 084
Net financial items					-19 790
Net profit for the financial year					1 294
Segment assets	193 393	56 282	173 887	511 568	935 130
Unallocated assets					99 503
Total assets					1 034 633
Segment liabilities	73 339	14 161	181 066	47 609	316 175
Unallocated liabilities					374 935
Total liabilities					691 110
Segment capital expenditures for non-current assets	30 698	7 303	6 562	14 755	59 318
Unallocated capital expenditures for non-current assets					382
Total expenditures for non-current assets (Notes 15 and 16)					59 700
Segment depreciation and amortization	12 751	4 116	6 637	143	23 647
Depreciation and amortization of unallocated assets					1 763
Total depreciation and amortization (Notes 16 and 17)					25 410
Other non-monetary expenses of segments (allowances, provisions etc.)	522	164	5 147	0	5 833

## 6.2 Secondary segment format – geographical segments

	2007	2006
<b>Sales:</b>		
- Estonia	591 736	507 093
- Latvia and Lithuania	21 074	23 396
- Scandinavia	20 761	9 101
- Other EU countries	261 800	314 975
- Others	30 333	35 058
<b>Total</b>	<b>925 704</b>	<b>889 623</b>

45,695 thousand EEK of assets is locating in Bulgaria as real estate for sale (inventory).  
The rest of all significant assets, liabilities and costs of the Group are located in Estonia.



## NOTE 7 COST OF SALES, MARKETING EXPENSES AND ADMINISTRATIVE EXPENSES

for the financial years ended June 30, in thousand EEK

	2007	2006
Cost of materials and goods (incl. sold property recognised under inventory)	-571 783	-583 096
Personnel expenses	-62 846	-47 896
Depreciation (Note 16)	-16 701	-18 698
Expenses related to transport	-9 541	-12 790
Maintenance and rent of buildings and equipment	-26 147	-21 513
Electricity, water, heat	-32 770	-38 087
Other expenses	-14 447	-23 654
<b>Total cost of sales</b>	<b>-734 235</b>	<b>-745 734</b>
Personnel expenses	-36 083	-31 017
Depreciation (Note 16)	-4 278	-4 212
Expenses related to transport	-22 922	-18 173
Advertising expenses	-28 353	-22 624
Research and development expenses	-4 400	-4 502
Fees for consultations	-4 232	-5 762
Maintenance and rent of premises	-3 855	-3 058
Other expenses	-13 551	-13 805
<b>Total marketing expenses</b>	<b>-117 675</b>	<b>-103 153</b>
Personnel expenses	-25 281	-17 482
Depreciation, amortization (Notes 16 and 17)	-3 260	-2 500
Expenses related to transport	-6 079	-5 370
Maintenance and rent of rooms	-6 907	-6 696
Fees for consultations	-19 599	-12 328
Other expenses	-26 095	-16 636
<b>Total administrative expenses</b>	<b>-87 221</b>	<b>-61 012</b>

Abovementioned personnel expenses are divided as follows:

Salary and wages	-92 675	-72 758
Social taxes	-30 539	-23 637
<b>Total personnel expenses</b>	<b>-123 214</b>	<b>-96 395</b>

In the reporting period, the average number of employees of the Group amounted to 879 (2006: 787). Compensation for lay-offs and employment termination was paid to 15 employees (2006: 62) in the total amount of 664 thousand EEK (2006: 1,373 thousand EEK).

## NOTE 8 OTHER OPERATING ITEMS

for the financial years ended June 30, in thousand EEK

	2007	2006
Gain from disposals of property, plant and equipment	8 125	75
Gain from the revaluation of investment properties (Note 15)	90 486	41 836
Gain from sales of investment properties (Note 15)	5 001	4 739
Government grants <sup>1</sup>	685	10 772
Other operating income	2 434	288
<b>Total other operating income</b>	<b>106 731</b>	<b>57 710</b>
Loss from disposals of property, plant and equipment	-136	-416
Impairment of inventories (Note 14) <sup>2</sup>	-337	-2 173
Impairment of receivables (Note 12)	-9 708	-460
Fines for delay and penalties	-4 492	-8 281
Provisions for onerous agreement (Note 20)	0	-3 200
Net foreign exchange losses	-367	-38
Impairment of goodwill	-4 550	0
Other operating expenses	-4 719	-1 782
<b>Total other operating expenses</b>	<b>-24 309</b>	<b>-16 350</b>
<b>Total other operating items</b>	<b>82 422</b>	<b>41 360</b>

<sup>1</sup> The subsidy was received regarding sales of dairy product and sugar outside of the European Union.

<sup>2</sup> Amount of the impairment also includes inventories in the amount of 287 thousand EEK (2006: 146 thousand EEK) that were expensed directly (i.e. these inventories were written off from balance sheet without prior allowance recognition).

## NOTE 9 FINANCIAL ITEMS

for the financial years ended June 30, in thousand EEK

	2007	2006
Interest income	4 263	1 401
Gain from disposal of subsidiary	11	2 430
<b>Total financial income</b>	<b>4 274</b>	<b>3 831</b>
Net foreign exchange losses	-142	-136
Interest expenses	-41 375	-22 794
Other financial expenses	-1 045	-691
<b>Total financial expenses</b>	<b>-42 562</b>	<b>-23 621</b>
<b>Total financial items</b>	<b>-38 288</b>	<b>-19 790</b>

## NOTE 10 EARNINGS PER SHARE

for the financial years ended June 30, in thousand EEK

	2007	2006
Net profit (loss) attributable to the shareholders of the Parent	30 460	1 153
The weighted average number of shares in the period (in thousands)	23 633	23 633
<b>Earning per share (kroons)</b>	<b>1,29</b>	<b>0,05</b>

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

Further information on the number of shares is presented in Note 21.

## NOTE 11 SHORT AND LONG TERM RECEIVABLES AND INVESTMENTS

for the financial years ended June 30, in thousand EEK

### 11.1 Short-term receivables

	2007	2006
<b>Short-term receivables</b>		
Trade accounts receivable	78 432	61 800
Short-term loans <sup>1</sup>	54 690	56 653
Other receivables <sup>2</sup>	439	3 865
Accrued income	4 084	1 881
VAT prepayment	18 010	12 303
Allowance for receivables (Note 12)	-7 605	-1 572
<b>Total short-term receivables</b>	<b>148 050</b>	<b>134 930</b>

<sup>1</sup> The Group has granted short-term loans without collaterals with an average effective interest rate of 6% (2006: 6%).

<sup>2</sup> Group's other receivables as of June 30, 2006 include receivable from the Estonian Agricultural Registers and Information Board (PRIA) in the amount of 2,425 thousand EEK. There are no outstanding receivables from PRIA as of June 30, 2007.

### 11.2 Long-term receivables

	2007	2006
Long-term investments	3 597	0
Long-term loans given	40	6 900
Other long-term receivables	96	330
<b>Total long-term receivables</b>	<b>3 733</b>	<b>7 230</b>

During the reporting financial year provided long-term loans for the total of 3,000 thousand EEK were paid into the share capital of portfolio investments as contribution in kind and 3,900 thousand EEK – reclassified into short-term loans. For more information about long-term investments see note 22.

## NOTE 12 ALLOWANCE FOR RECEIVABLES

for the financial years ended June 30, in thousand EEK

	2007	2006
Allowance for receivables at the beginning of period	-1 572	-2 326
Additional allowance	-7 570	-1 536
Derecognition of impaired receivables	1 537	490
Reversal of allowance recorded previously	0	1 800
<b>Total allowance for receivables</b>	<b>-7 605</b>	<b>-1 572</b>

During the reporting period the receivables of the Group have been considered as uncollectible receivables in the amount of 2,138 thousand EEK (2006: 724 thousand EEK), i.e. these receivables were written off from balance sheet without prior allowance recognition.

Expenses from 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 13 INVENTORIES

for the financial years ended June 30, in thousand EEK

	2007	2006
Raw materials	36 770	37 473
Work-in-progress	2 405	7 366
Finished products	35 250	42 455
Real estate for sale *	139 132	152 150
Goods purchased for resale	4 257	1 307
Allowance for inventories	-50	-2 208
Prepayments to suppliers	853	1 791
<b>Total inventories</b>	<b>218 617</b>	<b>240 334</b>

As of June 30, 2006, real estate for sale includes purchased land for resale purpose in 82,282 thousand EEK (2006: 0) and real estate projects in the development process in the amount of 56,850 thousand EEK (2006: 152, 150 thousand EEK).

## NOTE 14 ALLOWANCE FOR INVENTORIES

for the financial years ended June 30, in thousand EEK

	2007	2006
Allowance at the beginning of the period	-2 208	-3 357
Previously recorded allowance used due to sales of respective inventories	2 208	3 176
Additional allowance	-50	-2 027
<b>Allowance at the end of the period</b>	<b>-50</b>	<b>-2 208</b>

As of June 30, 2007 the Group has written down raw materials in the amount of 50 thousand EEK (2006: 50 thousand EEK and finished goods for 2,158 thousand EEK) as realisable value of inventories was lower than their cost. The book value (i.e. net realizable value) of inventories, for which the allowance has been provided for, is 50 thousand EEK as of June 30, 2007 (2006: 23,469 thousand EEK).

The realisable value of inventories was lower than their book value due to a decrease in usage of raw materials and packaging materials and lower quality of raw materials.

## NOTE 15 INVESTMENT PROPERTY

for the financial years ended June 30, in thousand EEK

	Investment properties, excl. prepayments	Prepayments for investments	Total
<b>Book value June 30, 2005</b>	<b>165 768</b>	<b>34 810</b>	<b>200 578</b>
Acquisitions	9 149		9 149
Transfer from prepayments to investments	21 910	-21 910	- 0
Transfer from prepayments to receivables	0	-12 900	-12 900
Reclassification from property, plant and equipment	1 876	0	1 876
Reclassification to inventories	-99 224	0	-99 224
Disposals	-51 371	0	-51 371
Change in fair value – recorded in income statement	41 836	0	41 836
<b>Book value June 30, 2006</b>	<b>89 944</b>	<b>0</b>	<b>89 944</b>
Acquisitions	25 031	725	25 756
Reclassification from property, plant and equipment	19 009	0	19 009
Reclassification to property, plant and equipment	-2 456	0	-2 456
Disposals	-8 138	0	-8 138
Change in fair value – recorded in income statement	90 486	0	90 486
<b>Book value June 30, 2007</b>	<b>213 876</b>	<b>725</b>	<b>214 601</b>

In the reporting period, the Group earned rental income from investment properties in the total amount of 4,629 thousand EEK and gain from disposals in the total amount of 5,001 thousand EEK (2006: 3 149 thousand EEK and 4,739 thousand EEK, respectively). All investments are measured at fair value in the balance sheet. Fair value is based on both values determined by independent valuers and intragroup real estate experts (mostly based on the discounted cash flow method based on the market yield). As of June 30, 2007, the carrying amount of investment property whose fair value has not been determined by an independent valuer amounts to 208,750 thousand EEK (2006: 79,841 thousand EEK).

## NOTE 16 PROPERTY, PLANT AND EQUIPEMENT

for the financial years ended June 30, in thousand EEK

	Land	Buildings	Machinery and equipment	Other items	CIP*	Total
<b>Book value as of June 30, 2005</b>	<b>11 486</b>	<b>244 442</b>	<b>76 263</b>	<b>7 144</b>	<b>7 981</b>	<b>347 316</b>
Acquisitions from business combination (Note 22)	500	11 000	0	0	66 755	78 255
incl. non-monetary contribution made by the Group	-500	-11 000	0	0	-7 606	-19 106
Other acquisitions	1 214	4 392	16 994	4 803	30 754	58 157
Disposals	0	0	-467	-264	-423	-1 154
Reclassifications	0	187	6 345	-1 118	-5 414	0
Reclassifications to investment properties (Note 15)	0	-1 876	0	0	0	-1 876
Reclassifications to inventories	0	-3 037	0	0	0	-3 037
Depreciation charge	0	-7 961	-14 820	-2 560	0	-25 341
Revaluations <sup>1</sup>	411	112 215	0	0	0	112 626
<b>Book value as of June 30, 2006</b>	<b>13 111</b>	<b>348 362</b>	<b>84 315</b>	<b>8 005</b>	<b>92 047</b>	<b>545 840</b>
Acquisitions from business combination (Note 22)	828	21	87 413	1 369	53	89 684
Other acquisitions	121	19 370	18 229	2 848	20 396	60 964
Disposals	-2 552	0	-575	-180	-7 047	-10 354
Reclassifications	0	154	21 544	2 590	-24 288	0
Reclassifications from investment properties (Note 15)	0	2 456	0	0	0	2 456
Reclassifications to investment properties (Note 15)	0	-19 009	0	0	0	-19 009
Impairment loss <sup>2</sup>	0	-500	0	0	0	-500
Depreciation charge	0	-11 010	-10 276	-2 919	0	-24 205
<b>Book value as of June 30, 2007</b>	<b>11 508</b>	<b>339 844</b>	<b>200 650</b>	<b>11 713</b>	<b>81 160</b>	<b>644 876</b>

### June 30, 2005

Cost / revalued amount	11 486	263 196	147 784	18 493	8 216	449 175
Accumulated depreciation	0	-18 754	-71 521	-11 349	-235	-101 859

### June 30, 2006

Cost / revalued amount	13 111	348 362	166 570	18 133	92 282	638 458
Accumulated depreciation	0	0	-82 255	-10 128	-235	-92 618

### June 30, 2007

Cost / revalued amount	11 508	350 163	324 572	19 849	81 160	787 252
Accumulated depreciation	0	-10 319	-123 922	-8 135	0	-142 376

\* CIP – construction in process

As of June 30, 2007 the CIP balance includes uninstalled cheese production assets in EEK 62 711 thousand. By the time of compiling the annual report the production has not started but it is expected by the management to happen during the financial year ending June 30, 2008.

<sup>1</sup> There has been no revaluation of land and buildings carried out during the reporting financial year. The latest revaluation was performed on June 30, 2006. Revaluations before that were carried out as of June 30, 2002 and 2003. In order to estimate the fair value of buildings, the discounted cash flow method and amortised replacement cost method were used and prices of comparable transactions were used for determining the fair value of land.

<sup>2</sup> Due to impairment, the net book value of Valga candy shop real estate has been written down by 500 thousand EEK. The impairment has been recorded directly in equity as a reduction of revaluation reserve. Fair value less costs to sell were taken as the basis for recoverable value. For principles see also Note 4.2.7.

The carrying amounts of land and buildings that would have been recognised had the assets been carried under the cost model are 12 700 thousand EEK for land and 237 804 thousand EEK for buildings (in 2006 respectively 12,700 thousand EEK and 227,478 thousand EEK).

Construction in process (CIP) of the Group includes also uninstalled equipment or equipment currently under installation and prepayments for property, plant and equipment (as of June 30, 2007: 77,853 thousand EEK and 3,307 thousand EEK and 2006: 82,818 thousand EEK and 5,270 thousand EEK, respectively).

Depreciation charge has been recognised as follows: 16,701 (2006: 18,698) thousand EEK as cost of sales, 4,278 (2006: 4,212) thousand EEK as marketing expenses, and 3,226 (2006: 2,431) thousand EEK as administrative expenses.

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

	2007	2006
Buildings	224	243
Machinery and equipment	12 297	40 350
Other items	2 767	5 389
<b>Total</b>	<b>15 288</b>	<b>45 982</b>

## NOTE 17 INTANGIBLE ASSETS

for the financial years ended June 30, in thousand EEK

	Positive goodwill	Other intangible assets	Total
<b>Book value as of June 30, 2005</b>	<b>0</b>	<b>79</b>	<b>79</b>
Acquisitions from business combination (Note 22)	4 550	0	4 550
Amortisation charge	0	-69	-69
<b>Book value as of June 30, 2006</b>	<b>4 550</b>	<b>10</b>	<b>4 560</b>
Acquisitions from business combination (Note 22)	62 459	200	62 659
Impairment of positive goodwill <sup>1</sup>	-4 550	0	-4 550
Amortisation charge	0	-34	-34
<b>Book value as of June 30, 2007</b>	<b>62 459</b>	<b>176</b>	<b>62 635</b>
<b>Cost as of June 30, 2005</b>	<b>0</b>	<b>359</b>	<b>359</b>
Accumulated amortisation	0	-280	-280
<b>Cost as of June 30, 2006</b>	<b>4 550</b>	<b>359</b>	<b>4 909</b>
Accumulated amortisation	0	-349	-359
<b>Cost as of June 30, 2007</b>	<b>62 459</b>	<b>559</b>	<b>63 018</b>
Accumulated amortisation	0	-383	-383

Amortisation charge has been recognised only on other intangible assets for the total of 34 thousand EEK (2006: 69 thousand EEK).

<sup>1</sup> Impairment loss of positive goodwill in the amount of 4,550 thousand EEK was recognised. The goodwill resulted from the purchase of shares of Valmetek Invest AS. It was considered to be impaired, as Valmetek Invest AS has not yet commenced its economic activities and according to the Group's management estimates, there are no signs that the present value of net future cash flows could cover the book value of subsidiary's net assets and goodwill.

<sup>2</sup> At the balance sheet date, the rest of the goodwill, originated from the new acquisitions: AS Uniprint, AS Inreko Press, OÜ Olliwood and AS Eksklusiiv, was tested against the impairment as well. The recoverable amount has been determined based on value in use, determined on cash flow projections for three to five years. Long term growth rate of 6% was used in order to balance somehow more aggressive increase in the short term and discount factor in the range of 15-20% was applied. In all cases the present value of cash flows was found to exceed the book value of subsidiary's net assets and goodwill.

## NOTE 18 BORROWINGS

for the financial years ended June 30, in thousand EEK

2007	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	16 961	0	16 961	6 month EURIBOR+5.3%	2008
Bonds	167 558	0	167 558	10,0%	2008
Other loans	62	0	62	10,0%	2007
Short-term bank loans	84 997	0	84 997	6 month EURIBOR+2.2%	2007-2008
Long-term bank loans	54 333	230 629	284 962	6 month EURIBOR+1.4 5.3%	2008-2016
Lease liabilities (Note 23)	24 407	74 208	98 615	5.37-5.923%	2008-2014
<b>Total borrowings</b>	<b>348 317</b>	<b>304 837</b>	<b>653 154</b>		

2006	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	46 052	0	46 052	4-6%	2007
Bonds	74 834	0	74 834	6,5%	2007
Other loans	5 000	0	5 000	17,6-20%	2006
Short-term bank loans	12 000	0	12 000	7,5%	2006
Long-term bank loans	93 698	45 127	138 825	4,1-7,5%	2005-2015
Lease liabilities (Note 23)	8 880	87 781	96 661	5,2-7%	2005-2013
<b>Total borrowings</b>	<b>240 464</b>	<b>132 908</b>	<b>373 372</b>		

Borrowings include loans in the amount of 1,406 thousand EEK and lease liabilities in the amount of 71,480 thousand EEK arising from business combinations

Certain leases have an interest rate related to Euribor (plus 2-5,3%) and others have a fixed interest rate (6-10%).

All loans have been denominated in EEK or EUR. See Note 24 for information on pledged assets.



### 18.1. Refinancing

The subsidiaries of AS Kalev – AS Kalev Chocolate Factory (hereafter KCF) and AS Kalev Real Estate Company (hereafter REC) – concluded agreements on November 9, 2006, whereupon for 240 million EEK KCF acquired from REC a factory building in Põrguvälja, which till the very moment was owned by AS Hansa Liising Eesti. KCF financed the transaction by borrowing 200 million EEK from AS DnB Nord Banka Eesti branch. For loan collateral Põrguvälja 6 property is mortgaged in favour of AS DnB Nord Banka in 240 million EEK. By the means of the transaction Kalev group refinanced outstanding loan and leasing obligations. The main objective of the new loan was complete refinancing of construction of Põrguvälja 6 factory building, but it was also employed to release from pledge the most famous brand in Estonia, „Kalev“, in 60 million EEK.

KCF repays the loan in down payments starting from December 2006. The due date of the loan is November 15, 2016. The amount of down payments is calculated by the bank, based on 12 year long annuity, and KCF has to repay remaining part of the loan along with interests incurred in one single down payment on the due date. The interest rate of this loan is 6 months EURIBOR + 1,4%. As per the loan agreement, the 1,4% margin may be reduced depending on the change of KCF debt ratio.

As a result of the transaction the structure of financial liabilities of AS Kalev has changed significantly – ca 85 million EEK of current liabilities were transferred to non-current liabilities.

### 18.2. The emission of bonds

On December 20, 2006 AS Kalev Real Estate Company issued bonds by directed emission and with maturity period of 1 year. The total volume of emission was 70.19 million EEK. Bond's nominal value is 10 thousand EEK with an annual coupon of 8%. Bonds can be recalled by the issuer or sold by the investor on each coupon day. Bonds are warranted by AS Kalev and the emission was facilitated by SEB Eesti Ühispank.

On February 28, 2007 AS Kalev issued commercial papers by directed emission in 63.52 million EEK with maturity period of 1 year. Bond's nominal value is 10 thousand EEK with an annual coupon of 8.5% (determined via underbidding). Bonds can be recalled by the issuer or sold by the investor on quarterly bases.

On April 18, 2007 AS Kalev issued commercial papers by directed emission in 39.78 million EEK with maturity period of 316 days and maturity date on February 28, 2008. It was the increase of 28.02.2007 emission. Bond's nominal value is 10 thousand EEK with an annual yield of 10%. Bonds can be recalled by the issuer or sold by the investor on quarterly bases. The directed emission was facilitated by SEB Eesti Ühispank and is warranted with the shares of issuer's subsidiary – AS Kalev Real Estate Company.

## NOTE 19 TRADE ACCOUNTS PAYABLE AND OTHER PAYABLES

for the financial years ended June 30, in thousand EEK

	2007	2006
Trade accounts payable	156 929	211 973
Taxes payable	12 451	10 119
Payables to employees	9 908	6 535
Other payables <sup>1</sup>	105 151	57 402
<b>Total</b>	<b>284 439</b>	<b>286 717</b>

<sup>1</sup> Other payables are mainly related to liabilities arising from buying option of the shares of Valmetek Invest AS in the amount of 29,126 thousand EEK, redemption obligation of AS Uniprint shares in the amount of 46,162 thousand EEK (includes loan principle 45,257 thousand EEK and accrued interest in 905 thousand EEK) and redemption obligation of AS Eksklusiiv shares in the amount of 2,000 thousand EEK. Please refer to Note 22.1 and 22.2 for more detailed information.

The balance of taxes payable includes the following taxes:

	2007	2006
Social tax	6 353	6 026
Personal income tax	3 597	3 084
VAT	1 506	212
Other taxes	995	501
Tax penalties	0	296
<b>Total</b>	<b>12 451</b>	<b>10 119</b>

**Customer prepayments**

	2007	2006
Prepayments received for real estate	280	27 505
Other prepayments	1 181	316
<b>Total</b>	<b>1 461</b>	<b>27 821</b>

**NOTE 20 PROVISIONS**

for the financial years ended June 30, in thousand EEK

<b>Book value as of June 30, 2005</b>	<b>5 000</b>
Provision used	-5 000
Recording of provision	3 200
<b>Book value as of June 30, 2006</b>	<b>3 200</b>
Provision used	-3 200
<b>Book value as of June 30, 2007</b>	<b>0</b>

The Group's subsidiary AS Kalev Paide Tootmine had concluded long-term agreements (effective until December 31, 2006) for purchase of crude milk, with fixed price and minimum quantity, which the Group is obligated to buy. As prices of finished products of AS Kalev Paide Tootmine (i.e. milk and skim milk powder and butter) were at low level on the European market (the major market for dairy products of the Group) at the moment, the agreements specified above were considered as onerous agreements, and therefore the provision was recorded in order to cover related "extra" costs.

In 2007, the situation on milk market has improved and since the beginning of 2007 calendar year, the market prices have constantly increased, generating profit for the company. Therefore, the previous provision was used and there is no need to provide any new provision for onerous contracts as of June 30, 2007.

## NOTE 21 EQUITY

The share capital of AS Kalev consists of 23 632 500 ordinary shares with nominal value of 10 EEK per share. There were no changes in the share capital of the Parent during the reporting period.

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

### 21.1 Temporary disposal of AS Kalev shares

GKG Investeeringute AS, which is a related party of AS Kalev (through the manager), concluded an agreement with Tere AS and Linderin Grupp OÜ on March 7, 2007, whereupon it purchased 19.99% of AS Kalev shares. For the purpose of short-term financing GKG Investeeringute AS disposed these particular shares on March 8, 2007 under REPO transaction with due date of February 28, 2008. Until then the shares are on the client account in Citibank International Plc (Luxembourg branch)/UBS Luxembourg S.A. and pledged as the collateral for REPO transaction. As per mutual agreement, the holder of the account does not intervene as a shareholder into the management of AS Kalev and on the general meeting of AS Kalev the authority of shareholder is fulfilled by GKG Investeeringute AS.

### 21.2 Dividends and related income tax

During the reporting period, subsidiary AS Uniprint announced dividends in the amount of 1,000 thousand EEK, out of which 800 thousand EEK was payable to other shareholders outside the Group. The respective amount has been recorded under income statement caption "other financial expenses" in the reporting period. As of June 30, 2007 the dividends had not been paid out. Income tax on dividends in the amount of 282 thousand EEK has been recorded in the income statement of the reporting period.

## NOTE 22 SUBSIDIARIES

for the financial years ended June 30, in thousand EEK

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

Subsidiary	Country of incorporation	Main activities	Ownership %, 2007	Ownership %, 2006
AS Kalev REC	Estonia	real estate development, maintenance, real estate related consultancy	100%	100%
Stude REC EOOD	Bulgaaria	real estate development, maintenance, rent, sale and purchase of real estate	100%	100%
OÜ BCA Center	Estonia	real estate development, maintenance, real estate related consultancy	100%	0%
OÜ BCA Kinnisvara	Estonia	real estate development, maintenance, real estate related consultancy	100%	0%
Kalev Merchant Services Ltd	USA	sales and introduction of AS Kalev products in USA	100%	100%
AS Kalev Paide Tootmine	Estonia	production of dairy products	100%	100%
AS Valmetek Invest	Estonia	production of cheese	65,6%	31,2%
AS Kalev Jõhvi Tootmine	Estonia	manufacturing and sale of flour confectionery and pastry	99,10%	99,10%
OÜ Maiasmokk	Estonia	manufacturing and sale of confectionery and pastry	81,30%	81,30%
AS Vilma	Estonia	manufacturing of confectionery, pastry and flour half-finished products	100%	100%
AS Kalev Chocolate Factory	Estonia	Production of chocolate and sugar confectionery	100%	100%
OÜ Sugarstar	Estonia	event marketing	100%	0%
AS Inreko Press	Estonia	publishing services	100%	0%
OÜ Olliwood	Estonia	publishing services	100%	0%
AS Kalev Meedia	Estonia	publishing services	100%	0%
OÜ Eesti Spordikanal	Estonia	entertainment tv show production	100%	0%
AS Eksklusiv	Estonia	publishing services	100%	0%
AS Uniprint	Estonia	printing services	40%	0%
AS Unipress	Estonia	printing services	40%	0%

<sup>1</sup> AS Uniprint is considered as a subsidiary as per shareholders' agreement, the Group is obliged to acquire all shares of the company by 2009. See also note 4.1.2.

### 22.1 Business combinations

#### 22.1.1 Acquisitions of subsidiaries

##### AS Kalev acquired 100% shareholding in three media companies in the reporting period

AS Kalev acquired 100% shares of AS Inreko Press. The relevant acquisition agreement is dated November 28, 2006. Main business activities of AS Inreko Press are publishing and the facilitation of public events and press conferences. The company publishes periodicals and books. The best known publications are "Sporditäht" and "Arielu".

AS Kalev acquired 100% shares of OÜ Olliwood. The relevant acquisition agreement is dated December 19, 2006. Main business activities of OÜ Olliwood are publishing and the facilitation of public events and press

For identification purposes only

conferences. The company publishes periodicals and books. The best known publications are "Just", "Basket" and children oriented "Muumi".

The acquisition dates of Inreko Press and Olliwood match with the agreement dates.

On March 14, 2007 AS Kalev acquired 100% shares of AS Eksklusiiv. The initial down payment was 1,500 thousand EEK and according to the acquisition agreement the remaining part of the purchase price depends on the company's EBITDA for the period from January 01, 2008 to March 31, 2008. Depending on whether EBITDA is positive or negative, the corresponding amount of EBITDA is either added to or withheld from the remaining part of the payment. According to management's judgement, EBITDA for the period specified above will approximately amount to zero and therefore, according to the acquisition agreement, 2,000 thousand EEK will need to be paid additionally. AS Eksklusiiv publishes such periodicals as "Avenüü" and "Avenüü Professional".

The fair value of assets, liabilities and contingent liabilities of all three media companies equals their book value and is presented in the table below:

	AS Inreko Press	OÜ Olliwood	AS Eksklusiiv
Cash	191	50	483
Current assets	1 209	1 303	2 023
Non-current assets	200	81	193
Liabilities	- 1 999	- 7 617	- 1 456
Net assets	- 399	- 6 183	1 243
Cost value	5 330	4 930	3 500
AS Kalev ownership in equity	- 399	- 6 183	1 243
Goodwill	5 729	11 113	2 257

Goodwill in media entities is related to the benefit from synergies of integrated management of the entities.

#### AS Uniprint

On January 3, 2007, AS Kalev entered into an agreement for acquisition of ownership in AS Uniprint. On February 20, 2007, additional share purchase agreement was concluded whereupon AS Kalev acquires 80% shares of AS Uniprint. Previously concluded agreement gave AS Kalev the option to purchase 20% of shares of AS Uniprint. Therefore, upon the realization of both agreements, AS Kalev will become 100% shareholder of AS Uniprint. AS of July 30, 2007 AS Kalev was legally entitled to 40% of shares in AS Uniprint. AS Uniprint is a printing service company, which makes various printed advertisements, official templates and periodicals.

In connection with the share purchase agreement concluded on January 3, 2007, AS Kalev paid 25,000 thousand EEK. In addition of cash payment AS Kalev took over also former owner's receivable in 3,257 thousand EEK. For 80% of shares that are the subject of share purchase agreement as of February 20, 2007, AS Kalev is obliged to pay 54,793 thousand EEK. A portion of 4,000 thousand EEK was paid upon the conclusion of the agreement. Remaining payments should be made in two parts – 24,105 thousand EEK (including principle amount 21,390 thousand EEK and interest 2,715 thousand EEK) no later than April 5, 2008 and 26,687 thousand EEK (including principle amount 23,867 thousand EEK and interest 2,821 thousand EEK) no later than April 5, 2009. For premature payments the purchase price is reduced by the annual interest rate of 6% per each day remained till the due date.

The ownership over the shares of AS Uniprint will be transferred to AS Kalev in the day, when final payment is made. Until then, the shares of AS Uniprint are pledged as collateral in favour of AS Kalev. As a result of this transaction AS Kalev also acquired 100% shares of AS Unipress, which is 100% owned subsidiary of AS Uniprint.

The fair value of consolidated assets, liabilities and contingent liabilities of AS Uniprint equals their book value and is presented in the table below:

	<u>Fair value</u>
Cash and cash equivalents	11 052
Other current assets	29 722
Non current assets	89 210
Other liabilities	-102 344
<b>Net assets</b>	<b>27 640</b>
Acquisition cost	71 000
AS Kalev participation in acquired net assets	27 640
<b>Goodwill</b>	<b>43 360</b>

Goodwill in printing services is related to benefit from synergies of owning media segment.

#### Acquisition of OÜ Spordikanal

On June 12, 2007 AS Kalev's subsidiary AS Kalev Meedia acquired all shares of OÜ Spordikanal. Acquisition cost of OÜ Spordikanal was 40 thousand EEK, out of which 20 thousand EEK was paid instantly and other 20 thousand will be paid before December 31, 2007. OÜ Spordikanal was not an active entity at the moment of acquisition. Costs amounting to 230 thousand EEK which were incurred until June 12, 2007 were expensed.

It is not practicable to disclose the revenue and profit (loss) of the combined entity for the period as though the acquisition had been at the beginning of the reporting period due to the fact that the reporting periods of subsidiaries differ from the Group's reporting period and subsidiaries do not prepare interim financial statements.

#### Acquisitions in the prior reporting period

In the prior reporting period (on February 20, 2006), a subsidiary AS Kalev Paide Tootmine acquired 31.2% of voting rights in Valmetek Invest AS. This acquisition took place through an issue of new shares of the subsidiary. Non-monetary contribution in the amount of 20 million EEK was paid for these shares by the Group. The purpose of the acquisition of the shares of Valmetek Invest AS was to expand the operations of the Group in the field of dairy products (starting with the production of cheese).

The fair value of assets, liabilities and contingent liabilities of Valmetek Invest AS at the date of acquisition were:

	<u>Fair value</u>	<u>Carrying value</u>
Cash and cash equivalents	846	846
Other current assets	5 141	5 141
Non-current assets	78 255	78 255
Liabilities	-21 132	-21 132
<b>Net assets</b>	<b>63 110</b>	<b>63 110</b>

#### Acquisition cost:

Purchase price (non-monetary)	20 000
Liability from the put option	47 660
	<u>67 660</u>

Participation of AS Kalev in acquired net assets	<u>63 110</u>
<b>Goodwill</b>	<b>4 550</b>

Goodwill is related to the benefit from synergies, which the dairy product segment obtains through using skim for more profitable dairy products (i.e., for cheese).

## 22.1.2 Establishing new subsidiaries

In the reporting financial year, the Group established four new subsidiaries with 100% of ownership. The establishments took place through monetary contribution into the share capital of subsidiaries: OÜ Sugarstar with the share capital of 1,000 thousand EEK and AS Kalev Meedia with the share capital of 400 thousand EEK. AS Kalev Real Estate established OÜ BCA Center which has a share capital of 40 thousand EEK and OÜ BCA Kinnisvara with a share capital of 49 thousand EEK.

In the prior reporting financial year, the Group established two new subsidiaries with 100% of ownership. The establishments took place through monetary contribution into the share capital of subsidiaries: 400 thousand EEK into the share capital of AS Kalev Chocolate Factory and 40 thousand EEK into the share capital of Stude REC EOOD.

## 22.2 Acquisition of minority interests

According to Valmetek Invest AS shareholders agreement AS Kalev Paide Tootmine has an obligation to realize one of the two possible call options after January 1, 2008:

- i. Right to purchase Valmetek Invest AS shares with the price equal with Valmetek Invest AS fivefold EBITDA of previous year (e.g. Valmetek Invest AS previous year's operating profit to which depreciation and amortisation will be added), multiplied by investor's share in Valmetek Invest AS share capital. Participators will be informed about the realization of the call option six months in advance starting from July 1, 2007. Or;
- ii. Right to purchase Valmetek Invest AS shares with the price equal with another investor's investment in Valmetek Invest AS share capital plus cumulative interest. Participators will be informed about the realization of the call option six months in advance starting from July 1, 2007.

The afore mentioned contract gives to AS Kalev Paide Tootmine a right to purchase shares owned by other participants, whereby in case of the realization of the call option, the subsidiary has a right to purchase corresponding investor's investment in Valmetek Invest AS.

The price of the shares acquired by AS Kalev Paide Tootmine will be determined by the choice of the selling investor, either based on fixed yield or profitability based price model. Six month advance notice is applicable to the realization of the call option.

On April 11, 2007 AS Kalev's subsidiary, AS Kalev Paide Tootmine, acquired 22 065 shares of Valmetek Invest AS, which is 34.4% of a total shares of Valmetek Invest AS. As a result AS Kalev Paide Tootmine becomes an owner of 65.6% of Valmetek Invest AS. The acquisition cost for AS Kalev Paide Tootmine was 27.96 million EEK, of what 5 million EEK was paid before the conclusion of the purchase contract. The rest of the sum will be paid in quarterly instalments from September 1, 2007 till September 1, 2008. For the outstanding liability AS Kalev Paide has to pay an annual interest of 10%. Acquirer has a right to settle its liability before the due date.

The rest of 34,4% of shares of Valmetek Invest AS is still subject to the call option.

In the prior reporting period, AS Kalev acquired following minority interests: on December 23, 2005 AS Kalev acquired 39.2% of and on March 31, 2006 0.1% of shares of AS Vilma. The difference between the acquisition cost of minority interests (i.e., 7 160 thousand EEK) and carrying value of minority interests in the amount of 1 499 thousand EEK has been recognised directly in equity. After these acquisitions the Group owns 100% of shares of AS Vilma.

## 22.3 Acquisition of associated company

AS Kalev Real Estate Company has acquired 49% of a real estate company OÜ Ringi Haldus by paying 20 thousand EEK. As of June 30, 2007 the value of Ringi Halduse OÜ by using the equity method is 0.

## 22.4 Portfolio investments

AS Kalev has acquired 19.4% of newsletter publishing company AS PR Põhjarannik. A subsidiary of AS Kalev, AS Kalev Real Estate Company has acquired 12.5% of real estate management company Uusarenduse OÜ. Total value of portfolio investments at cost is 3,597 thousand EEK. No gains or losses have been recognised on the financial investments carried at cost during the financial year. See also notes 5.6 and 11.2.

## NOTE 23 LEASES

in thousand EEK

### 23.1 Finance leases – Group as a lessee

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

	2007		2006	
	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	29 413	24 407	13 498	8 880
After 1 year, but not more than 5 years	79 244	71 488	57 094	33 541
Over 5 years	2 784	2 720	49 878	54 240
<b>Total minimum lease payments</b>	<b>111 441</b>	<b>98 615</b>	<b>120 470</b>	<b>96 661</b>
Future financial charges	-12 825		-23 809	
<b>PV of minimum lease payments</b>	<b>98 615</b>	<b>98 615</b>	<b>96 661</b>	<b>96 661</b>

In the financial year, the Group purchased machinery in the total amount of 18,812 thousand EEK (2006: 9,859 thousand EEK) under finance lease terms. Book value of non-current assets purchased under finance lease terms as of June 30:

	2007	2006
Investment properties*	11 400	8 228
Land and buildings recorded under property, plant and equipment	6 737	249 395
Machinery and equipment **	99 020	18 247
Other items	66	112
Uninstalled items	8 762	0
<b>Total</b>	<b>125 985</b>	<b>275 982</b>

\* Change in the value of investment properties under finance lease derives from revaluation of the assets.

\*\* Machinery and equipment under finance lease terms includes leased assets of companies acquired through business combinations.



### 23.2 Operating leases – Group 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.

In the reporting period the Group paid lease payments in the total amount of 6,840 thousand EEK (2006: 7,391 thousand EEK).

### 23.3 Operating leases – the Group as a lessor

The Group leases its investment properties out as office and other rooms. As of June 30, 2007, the book value of leased assets amounted to 74,378 thousand EEK (2006: 27,666 thousand EEK). The rental income for the reporting period amounted to 4,629 (2006: 3,149) thousand EEK.

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

## NOTE 24 PLEDGED ASSETS

as of June 30, in thousand EEK

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

	2007	2006
Mortgage – real estate under inventories	82 282	122 086
Mortgage – real estate under property, plant and equipment	366 495	303 053
Mortgage – real estate under investment properties	30 879	41 788
Commercial pledge	241 375	74 000

As of June 30, 2007 the trademark "Kalev" is not pledged.

As of June 30, 2006 the trademark „Kalev" was pledged in order to secure the borrowings of AS Kalev and AS Kalev REC received from AS Hansa Liising Eesti, which exceed 130 million EEK. As of June 30, 2006, borrowings secured with this pledge amounted to 70,118 thousand EEK.

The lease liabilities have been secured by the assets purchased under finance lease terms (Note 23.1).

## **NOTE 25      CONTINGENT LIABILITIES AND COMMITMENTS**

as of June 30, in thousand EEK

### **25.1      Income tax of dividends**

As of June 30, 2007, the Group's retained earnings amount to 21,871 thousand EEK. The maximum possible income tax liability related to the payment of the Group's retained earnings as dividends is 4,812 thousand EEK. The Group can thus pay 17,059 thousand EEK in net dividends.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses would not exceed the distributable profit as of the end of the financial year.

### **25.2      Court cases**

During the financial year 2006/2007, the Group has been a party of the following court cases that can be treated as contingent liabilities:

#### **25.2.1      AS Elveso versus AS Kalev**

On December 7, 2007 AS Kalev filled a claim against a water-entity in Rae Parish, AS Elveso, into Harju County Court. In its claim AS Kalev wishes to verify contractual obligation and rights. AS Kalev applied the court for the safeguard to get sewerage service from AS Elveso based on prices established by Rae Parish and also that AS Elveso has no legal right to block plaintiffs' sewerage.

AS Elveso can be considered as a monopoly according to the Competition Act (CompA) § 17. According to the act AS Elveso has a dominant position and it should not misuse that position on the market. For example without any legal grounds, they can not ask AS Kalev to pay unjustified high prices for sewerage.

On March 13, 2007 Harju County Court made a decision where it partially satisfied AS Kalev's claim. Harju County Court reached a verdict that AS Elveso had no legal right to block the sewerage of AS Kalev. The Court also found that AS Kalev has the right to receive sewerage services according to the prices determined by Rae Parish. Pollution fee demanded by AS Elveso is not stated lawfully and there is no legal ground to request it from AS Kalev.

On June 25, 2007 Tallinna District Court reached a verdict in which it partially revoked the precious verdict reached by Harju County Court.

AS Kalev issued an appeal on that District Court decision to the Supreme Court.

As there has been no proprietary dispute, it is impossible to predict any economical consequence by the time of compiling the financial statements. At the same time the issue is just about the method of calculating the price during a specified period.

The pollution fees claimed by AS Elveso amount to 3,881 thousand EEK. AS Kalev has not provided for this claim in the financial statements.

#### **25.2.2      Tax and customs board versus AS Kalev**

On June 17, 2005 the Northern Tax and Custom Centre of Estonian Tax and Customs Board (hereafter ETCB) made a decision on the determination of the carry-over stock on hand and excess stock on hand. With its decision the ETCB 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 ETCB decision to Tallinn Administrative Court on July 15, 2005.

On November 17, 2005 Tallinn's Administrative Court took aforesaid complaint into process and also satisfied AS Kalev preliminary legal protection application to stop the validity of ETCB decision until the enforcement of final court decision.

With its decision from November, 6 2006, ETCB revoked its previous verdict about the determination of the carry-over stock on hand and excess stock on hand in AS Kalev. ETCB found that their previous verdict relied on illegitimate ground.

On December 7, 2006 Tallinn Administrative Court ended proceedings in aforementioned administrative case and ordered payment of legal fees made in favour of AS Kalev.

On March 29, 2007 ETCB made a decision-tax notice, with this verdict they determined again AS Kalev's excess sugar stock in the amount of 15.6 thousand tons and the penalty for that excess sugar stock in 135.6 million EEK. AS Kalev appealed against that decision-tax notice in order to abolish it, also an appeal for decision-tax notice suspension was submitted.

On April 30, 2007 Tallinn Administrative Court took the appeal into process and stopped the fulfilment of ETCB decision-tax notice.

On May 23, 2007 Tallinn Administrative Court specified the condition on which the fulfilment of decision-tax notice is continuously stopped, based on the appeal of ETCB.

AS Kalev is continually in the opinion that as of May 1, 2004 it declared its stock of sugar on hand correctly and according to Charge Payable for Surplus Stock Act and the company was not the owner or possessor of the 15.6 thousand tons of sugar as established by ETCB. The statements and conclusions set out in the decision of ETCB, dated March 29, 2007 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 provision has not been recorded on the balance sheet.

#### **25.2.3 AS Lõhmus, Haavel & Viisemann versus AS Kalev**

On April, 2007 AS Lõhmus, Haavel & Viisemann filed a statement of claim against AS Kalev for 2,500 thousand EEK. According to plaintiff defendant owes that sum for the shares of AS Santenor. AS Kalev has not acquired the shares of AS Santenor.

According to defendant aforesaid lawsuit does not have an influence to AS Kalev.

#### **25.2.4 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 trade accounts receivable for goods sold in the amount of 1 195 274 RUR (538 590 EEK). On December 5, 2003 the same plaintiff filed a statement of claim with the same contents with Kaliningrad Arbitration Court in the amount of 11 873 840 RUR (5 350 352 EEK).

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.

No adjudication in this matter has been made in a financial year 2006/2007.

The court disputes also have no material financial impact on AS Kalev, as AS Kalev has receivables due from the plaintiff from sale of raw materials to the plaintiff.

#### **25.2.5 Other contingent liabilities**

The Group has not recorded a liability in the amount of 5,476 thousand EEK arising from purchase of goods in the financial year 2004/2005 in its balance sheet, as in the opinion of the management the goods were substandard and the Group does not have to pay for the purchase. In the opinion of the management, it's not probable that the group has to pay for these goods and therefore no provision has been recognised.

## NOTE 26 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

in thousand of EEK

### 26.1 Credit 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 receivables of the Group at the balance sheet date is 169,120 thousand EEK (2006: 150,934 thousand EEK).

### 26.2 Interest rate risk

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

Below, a summary of the Group's exposure to interest rate risk is presented (in thousand EEK):

	June 30, 2007			June 30, 2006		
	<1 year	1-5 years	Total	<1 year	1-5 years	Total
<u>Fixed interest rate</u>						
Interest-bearing receivables	54 690	40	57 987	56 653	6 900	63 553
Interest-bearing liabilities	-138 235	-73 735	-211 970	-225 388	-11 501	-236 889
<b>Net position</b>	<b>-83 545</b>	<b>-73 695</b>	<b>-153 983</b>	<b>-168 735</b>	<b>-4 601</b>	<b>-173 336</b>
<u>Floating interest rate</u>						
Interest-bearing liabilities	-210 082	-231 102	-441 184	-187 674	0	-187 674
<b>Net position</b>	<b>-210 082</b>	<b>-231 102</b>	<b>-441 184</b>	<b>-187 674</b>	<b>0</b>	<b>-187 674</b>

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 case of receivables and liabilities with fixed interest rates and re-pricing date in the case of floating interest rate.

### 26.3 Currency risk

Most of the Group's contracts are related to EEK and EUR in order to minimize exposure to currency risk. Similarly, the Group has no significant foreign currency liabilities other than Euro-based. All material 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.

### 26.4 Liquidity risk

The working capital of the Group is negative -247,631 thousand EEK as of June 30, 2007 and -171,143 thousand EEK as of June 30, 2006. Such a change occurred mainly due to classifying long-term loans to short-term loans and taking on additional short-term loans for investment activities. 2006/2007 operating profit is considerably bigger than in a previous year: 68,996 thousand EEK (2006: 21,084 thousand EEK). In the opinion of the

management there is no liquidity issue in the Group considering that the economic results have improved (net profit for the period of 2006/2007 was 30,460 thousand EEK) and:

- the Group has several real estate objects, which can be profitably realized, if necessary; these objects have been recorded under investment properties (non-current assets) in the balance sheet;
- in necessary, the Group has an opportunity to receive additional finances from the issue of bonds, i.e., after redemption of current bonds, new bonds can be issued. 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;
- 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, it is possible to get additional financial resources with favourable interest rate;
  - if necessary, it is possible to renew or refinance 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, 2007	348 317	209 844	94 993	653 154
As of June 30, 2006	240 464	55 135	77 773	373 372

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

## 26.5 Fair value

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. Fair value has been determined based of the discounted cash flow method.

## NOTE 27 TRANSACTIONS WITH RELATED PARTIES

in thousand EEK

The following parties have been considered to be related parties in the consolidated financial statements:

- shareholders' of the Parent that own a significant influence over the Parent (i.e, with an ownership more than 20%);
- close relatives of these shareholders;
- key personnel of the management and their close relatives (incl management and supervisory board);
- entities controlled by the companies and persons specified above;
- associated companies.

Significant influence is assumed when party has more than 20% of the ownership.

### 27.1 Transactions with companies controlled by key personnel of the management

for the financial years ended June 30, in thousand EEK

	2007	2006
<b>Goods and services purchased</b>		
Services purchased	20 554	31 128
Goods purchased	129 430	135 489
<b>Goods and services sold</b>		
Services sold	2 172	239
Goods sold	139 616	130 374
<b>Balances</b>		
Payables at the beginning of the period	7 028	26 974
Payables at the end of the period	4 562	7 028
Receivables at the beginning of the period (unsecured)	1 820	3 168
Receivables at the end of the period (unsecured)	665	1 820

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

The Group has supported non-profit organisations related to the Manager in the amount of 1,065 thousand EEK (2006: 1,193 thousand EEK).

During the reporting period, the Group has granted loans in the amount of 6,008 thousand EEK (2006: 34,964) to related parties and accrued interest income on these loans in the amount of 2,896 thousand EEK (2006: 288 thousand EEK). Balance of these loans at the balance sheet date is 41,562 thousand EEK (2006: 34,964 thousand EEK), accrued interests for these loans as of June 30, 2007 in 3,184 thousand EEK (2006: 288 thousand EEK). Loans granted earn an interest of 4-8% p.a. (2006: 4-8%) and the maturity dates of these loans are in 2008. The granted loans are unsecured.

In addition 50% of ownership in OÜ Eesti Spordikanal was acquired from the manager of AS Kalev in par value of 20 thousand EEK.

### 27.3 Remunerations paid to the management

The key personnel of the management received a remuneration totalling 444 thousand EEK (2006: 455 thousand EEK). The key personnel of the management do not receive pension entitlements from the Group

## NOTE 28 EVENTS AFTER BALANCE SHEET DATE

### 28.1 OÜ BCA Center concluded a mortgage and loan agreement

On July 06, 2007, OÜ BCA Center, the subsidiary of AS Kalev Real Estate Company, concluded an agreement according to which joint mortgage in favour of AS Hansapank is placed on the right of superficies that is belonging to the subsidiary. OÜ BCA Center is the owner of the right of superficies on the following real estate objects belonging to Tallinn city: Kopli str 92, Õismäe road 132, Kivimurru str 9, Raudtee str 73 ja Pärnu road 71/73. The rights of superficies of these real estate objects were granted for the purpose of public-private partnership project for schools in Tallinn. The mortgage amount is 400 000 thousand EEK and it secures the receivables of AS Hansapank against OÜ BCA Center rising from a loan agreement concluded between the parties in June 2007. According to the loan agreement, OÜ BCA Center is granted a loan limit of 23 227 thousand EUR. Loan is remitted in portions according to the loanee's application and the loan limit is available until December 31, 2008. Until the due date, fee in the amount of 0,5% pa on the unused loan limit is paid by the loanee. The loan repayment date is September 30, 2009. Interest rate on the loan is Euribor+1,6% pa. Interest period is 1 month and payments are made monthly according to the payment schedule. According to the loan agreement, OÜ BCA Center is entitled to cancel the unused loan limit or a partial amount of it and repay the loan or a partial amount of it before the repayment due date. The purpose of the loan is to finance the renovation works undertaken in connection with the public-private partnership project for schools in Tallinn. After the renovation works have been completed and lease payments from Tallinn city have commenced towards the end of 2008, the loan is to be refinanced with a long-term loan.

### 28.2 Acquisition of Soltari Invest OÜ

On August 17, 2007 AS Kalev concluded an agreement according to which it acquired one share of OÜ Soltari Invest with the nominal amount of 40 thousand EEK, after which AS Kalev is the sole shareholder of OÜ Soltari Invest. Main activities of Soltari Invest OÜ are production, storage and reloading of grain products. This acquisition is not a transaction with related undertakings for the purposes of the rules of the stock exchange.

### 28.3 Increase of subsidiary's share capital and amendment to it's name

On August 22, 2007, AS Kalev decided to increase the share capital of Soltari Invest OÜ by 80 thousand EEK, whereinafter the share capital of the respective subsidiary will be 120 thousand EEK. The increase of share capital was made by monetary contribution and in addition, share premium in the amount of 1 620 thousand EEK was paid in. The name of the subsidiary was also changed with the new name being AgriStock OÜ.

### 28.4 Loan agreement concluded by AS Kalev Paide Tootmine

On July 27, 2007 AS Kalev Paide Tootmine concluded a loan agreement with AS Hansapank. According to the loan agreement, AS Kalev Paide Tootmine is granted a loan limit of 2 556 thousand EUR for the purpose of financing its working capital. According to the loan agreement, AS Kalev Paide Tootmine is granted a loan limit of 2 556 thousand EUR. The due date for withdrawing the loan is August 26, 2007. Interest and principal loan payments will be made on a monthly basis. Interest rate on the loan is Euribor+2,5% p.a. According to the repayment schedule, the monthly payments will be 30 000 thousand EEK and on April 30, 2008, which is the repayment due date, the remaining amount of the loan will be repaid in full."

**NOTE 29 NON-CONSOLIDATED MAIN FINANCIAL STATEMENTS OF THE PARENT**  
in thousand EEK

The main financial statements of the Parent as required by the Estonian Accounting Act and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles.

**29.1 Balance sheet of the Parent**  
as of June 30

	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1 011	2 497
Receivables	74 893	90 249
Prepayments	605	1 438
Inventories	2 095	60 472
<b>Total current assets</b>	<b>78 604</b>	<b>154 656</b>
<b>Non-current assets</b>		
Non-current receivables	3 845	330
Investment in subsidiaries	322 397	235 640
Property, plant and equipment	15 472	25 987
Intangible assets	3	10
<b>Total non-current assets</b>	<b>341 717</b>	<b>261 967</b>
<b>TOTAL ASSETS</b>	<b>420 321</b>	<b>416 623</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Borrowings	107 368	110 434
Customer prepayments	29	179
Trade accounts payable and other payables	180 662	109 335
<b>Total current liabilities</b>	<b>288 059</b>	<b>219 948</b>
<b>Non-current liabilities</b>		
Borrowings	0	716
<b>Total non-current liabilities</b>	<b>0</b>	<b>716</b>
<b>Total liabilities</b>	<b>288 059</b>	<b>220 664</b>
<b>Equity</b>		
Share capital	236 325	236 325
Mandatory legal reserve	4 020	4 020
Revaluation reserve	3 689	3 689
Retained earnings	-111 772	-48 075
<b>Total equity</b>	<b>132 262</b>	<b>195 959</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>420 321</b>	<b>416 623</b>



## 29.2 Income statement of the Parent

for the financial years ended June 30, in thousand EEK

	2007	2006
Revenue	144 479	423 491
Cost of sales	-127 410	-294 978
<b>Gross margin</b>	<b>17 069</b>	<b>128 513</b>
Marketing expenses	-28 521	-93 355
Administrative expenses	-37 552	-43 739
Other operating items	-6 524	50 502
<b>Operating profit (loss)</b>	<b>-55 528</b>	<b>41 921</b>
Financial income	1 197	533
Financial expenses	-9 366	-13 465
<b>Net profit (loss) for the financial year</b>	<b>-63 697</b>	<b>28 989</b>

## 29.3 The Parent's statement of changes in equity

for the financial years ended June 30, in thousand EEK

	Share capital	Manda-tory legal reserve	Revalua-tion reserve	Retained earnings	Total equity
<b>As of June 30, 2005</b>	<b>236 325</b>	<b>4 020</b>	<b>8 669</b>	<b>-82 044</b>	<b>166 970</b>
Annual transfer of revaluation reserve	0	0	-4 980	4 980	0
Net loss for the financial year	0	0	0	28 989	28 989
Total income and expense for 2005/2006	0	0	0	33 969	28 989
<b>As of June 30, 2006</b>	<b>236 325</b>	<b>4 020</b>	<b>3 689</b>	<b>-48 075</b>	<b>195 959</b>
Net loss for the financial year	0	0	0	-63 697	-63 697
Total income and expense for 2006/2007	0	0	0	-63 697	-63 697
<b>As of June 30, 2007</b>	<b>236 325</b>	<b>4 020</b>	<b>3 689</b>	<b>-111 772</b>	<b>132 262</b>

Adjusted equity of the Parent according to the Estonian Accounting Law (as of June 30):

	2007	2006
Equity in the non-consolidated balance sheet of the Parent	132 262	195 959
Carrying value of subsidiaries in the non-consolidated balance sheet of the Parent	-322 397	-235 640
Value of subsidiaries calculated in accordance with equity method accounting	563 530	383 116
<b>Adjusted equity of the Parent</b>	<b>373 395</b>	<b>343 435</b>

## 29.4 Parent's Cash flow statement

for the financial years ended June 30, in thousand EEK

	2007	2006
<b>Cash flow from operating activities</b>		
Operating profit (loss)	-55 528	41 921
Adjustments of operating profit (loss):		
Depreciation and amortisation of property, plant and equipment and intangible assets	1 383	8 849
Gain / loss from disposal of property, plant and equipment	-1 304	-48 968
Changes in assets related to operating activities	68 420	-18 376
Changes in liabilities related to operating activities	-69 567	5 170
<b>Net cash flows from operating activities</b>	<b>-56 596</b>	<b>25 348</b>
<b>Cash flow from investing activities</b>		
Acquisition of subsidiaries	-42 757	-99 288
Proceeds from disposal of property, plant and equipment	19 463	91 274
Acquisition of property, plant and equipment and intangible assets	-9 020	-24 215
Loans granted	-12 838	-4 010
Repayments of granted loans	15 022	289
Interests received	119	117
<b>Net cash flow from investing activities</b>	<b>-30 011</b>	<b>-35 833</b>
<b>Cash flow from financing activities</b>		
Repayments of borrowings	-132 533	-38 988
Proceeds from borrowings	155 420	83 434
Capital lease principle payments	-1 643	-846
Changes in overdraft and inventory financing	71 154	-23 224
Interests paid	-7 277	-8 363
<b>Net cash flow from financing activities</b>	<b>85 121</b>	<b>12 013</b>
<b>Total net cash flow</b>	<b>-1 486</b>	<b>1 528</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2 497</b>	<b>969</b>
Change in cash and cash equivalents	-1 486	1 528
<b>Cash and cash equivalents at the end of the year</b>	<b>1 011</b>	<b>2 497</b>

Translation of the Estonian Original

## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders of AS Kalev

#### Report on the Financial Statements

We have audited the consolidated financial statements of AS Kalev and its subsidiaries (hereafter "the Group"), which comprise the balance sheet as of June 30, 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of June 30, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

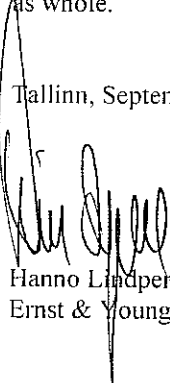
***Emphasis of Matter***

Without qualifying our opinion we draw attention to the fact that as of June 30, 2007 the balance sheet includes production assets of EEK 63 million that were acquired more than two years ago. By the time of concluding our audit the production has not started yet. The value of these assets is related to whether and when the production would be started by the Group, which is expected by the management to be financial year ending June 30, 2008 (Note 16). The financial statements do not include any potential adjustments related with this uncertainty.

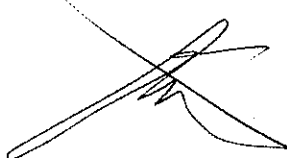
**Report on Other Legal and Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of AS Kalev as a parent company in Note 29 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, September 6, 2007



Hanno Lindpere  
Ernst & Young Baltic AS



Erki Usin  
Authorised Auditor

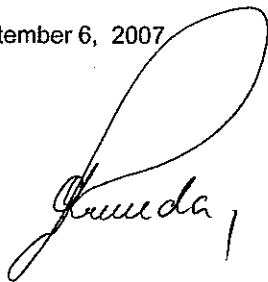
## STATEMENT OF PROFIT ALLOCATION

The Manager of AS Kalev proposes to the Shareholders' General Meeting to distribute the net profit for 2006/2007 in the amount of 30,460 thousand EEK as follows:

- increase mandatory legal reserve by 1,523 thousand EEK
- 28,937 thousand EEK transfer to retained earnings

Põrguvälja, September 6, 2007

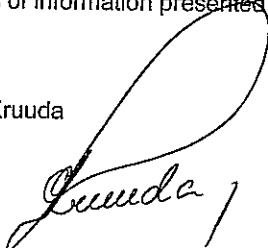
Oliver Kruuda  
Manager

A handwritten signature in black ink, appearing to read 'Kruuda', with a large, stylized loop at the top.

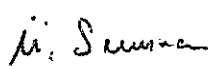
## APPROVAL OF ANNUAL REPORT 2006/2007

Hereby, the members of the Management Board and Supervisory Board of AS Kalev sign the Annual Report 2006/2007, which consists of Management Report, Financial Statements, Profit Allocation Report and Auditors' Report, confirming the correctness of information presented in it:

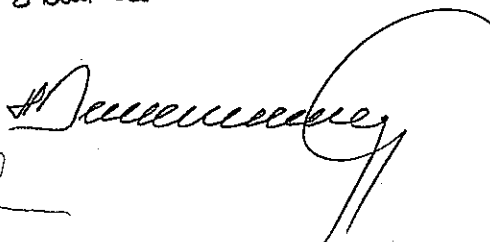
Manager: Oliver Kruuda



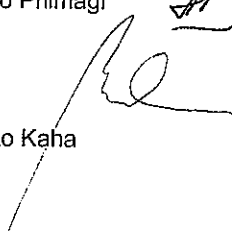
Supervisory Board: Ülo Suurkask



Heino Priimägi



Marko Kaha



Põrguvälja, September \_\_, 2007