



Interim statements for the period:  
01.07.2006-30.06.2007

**AS KALEV**

Registry code: 10000952

Financial year:  
01.07.2006-30.06.2007

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## Unaudited 12-month interim statements

- The group's net sales: 925.7 million kroons and net profit: 30.5 million kroons
- Increase in gross profit: 33%
- Increase in turnover from confectionery products: 10%, dairy product segment posted a profit
- Extensive expansion into media and printing industry

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## 1. COMMENTS ON ECONOMIC ACTIVITIES

### 1.1. General information and changes in organisational structure

AS Kalev pursues several fields of activity, including 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. Kalev's sales activities are 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.

A restructuring process was launched in AS Kalev Group last financial year. A significant portion of the results were already seen in the financial year. At the end of last financial year (in May 2006), AS Kalev Chocolate Factory was established for the purpose of manufacturing and marketing chocolate and sugar confectionery products. In September in the financial year 2006/2007, AS Kalev Chocolate Factory also started manufacturing the pastry and flour confectionery products of subsidiaries AS Vilma and AS Kalev Jõhvi Tootmine.

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 OÜ BCA Center, AS Kalev REC participated in the Private Partnership for Tallinn Schools Project competitions. Winning 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 Tallinn City for a term of thirty years. The average rent was established at 155 kr/m<sup>2</sup>, which includes maintenance and periodical major repairs of the school buildings and the surrounding areas (administration, maintenance of technical systems, interior and exterior cleaning) during 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 expansion of the investment portfolio towards the press market. As a socially active company, AS Kalev acknowledges its co-responsibility in the shaping of the 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.

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In the second quarter of the financial year, several new subsidiaries and associated companies were incorporated into Kalev Group. AS Kalev acquired a 19.4% stake in AS PR Põhjarannik. AS Kalev won the right to purchase the company at the 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 organisation of information dissemination. Among other things, AS PR Põhjarannik issues the daily "Põhjarannik" in both Estonian and Russian, with the paper issue 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 organisation of public events and press events. The public limited 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. Under the contract, the ownership was transferred to AS Kalev on the moment of the notarisation of the contract of sale. OÜ Olliwood's main activities include publishing - including, for instance, "Just" and "Basket", and the children's publication "Muumi" – and organisation of public and press events.

On 20 December 2006, AS Kalev's subsidiary AS Kalev Real Estate Company acquired 100% of the private limited company BCA Kinnisvara. OÜ BCA Kinnisvara has a share capital of 40,000 kroons. The purpose of the acquisition was to participate in various real estate development project competitions. As of this moment, OÜ BCA Kinnisvara has not yet started its economic activities.

The third quarter of the financial year saw the incorporation of a few more subsidiaries and associated companies into 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—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, AS Kalev paid 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 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 publication of "Avenüü" and "Avenüü Professional" journals.

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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 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 400000 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 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 development into a TV channel. The acquisition of the above share partially constitutes a related party transaction. 50% 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.

Kalev Group's parent company is AS Kalev. In addition, the group incorporates nineteen subsidiaries (AS Uniprint is considered a subsidiary since, under the shareholders' agreement, the group is obliged to purchase all shares of the company in 2008 at the latest). AS Kalev has a significant interest in the following companies:

Name of subsidiary	Location	As of 31.06.2007	As of 31.06.2006
AS Kalev Paide Tootmine	Estonia	100%	100%
AS Valmetek Invest	Estonia	65.6%	31%
AS Kalev Jõhvi Tootmine	Estonia	99.10%	99.10%
AS Vilma	Estonia	100%	100%
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	100%	100%

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EOOD Stude REC	Bulgaria	100%	0%
OÜ BCA Center	Estonia	100%	0%
OÜ BCA Kinnisvara	Estonia	100%	0%
OÜ Maiasmokk	Estonia	81.26%	81.26%
AS Kalev Chocolate Factory	Estonia	100%	0%
AS Kalev Merchant Services Ltd	USA	100%	100%
OÜ Sugarstar	Estonia	100%	0%
AS Inreko Press	Estonia	100%	0%
OÜ Olliwood	Estonia	100%	0%
AS Eksklusiv	Estonia	100%	0%
AS Kalev Meedia	Estonia	100%	0%
OÜ Eesti Spordikanal	Estonia	100%	0%
AS Uniprint	Estonia	40%	0%
AS Unipress	Estonia	40%	0%

**1.2. Financial results**

In the first 12 months of the financial year 2006/2007, AS Kalev Group had an average of 879 employees (787 employees in the comparative period last financial year).

The net sales and net profit of AS Kalev Group companies for the first 12 months of the financial year 2006/2007 have been brought out in the below tables (in thousands of kroons and euros), separately for each company. Comparative data has been brought out on 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	Net sales		Net profit	
	2006/2007 12 months	2005/2006 12 months	2006/2007 12 months	2005/2006 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

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AS Kalev Meedia*	1 431	0	-558	0
AS Uniprint*	54 755	0	2 294	0
* consolidated				
	<b>Net sales</b>		<b>Net profit</b>	
EUR	<b>2006/2007</b>	<b>2005/2006</b>	<b>2006/2007</b>	<b>2005/2006</b>
	<b>12 months</b>	<b>12 months</b>	<b>12 months</b>	<b>12 months</b>
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				

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 last financial year, product portfolio reorganisation and 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 nearly 30.5 million kroons (1.9 million euros), compared to the 1.2 million kroons (0.1 million euros) in the comparative period.

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

- 1) a near 33% increase in gross profit was guaranteed by the increase in revenue from goods created by the company (4.1%) while total expenses showed a decrease (1.5%);
- 2) an annual 10% increase in revenue from confectionery products;
- 3) 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 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

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mortgage loans. The purposes mainly involve financing activities in the field of real estate administration and development.

The most important financial ratios of AS Kalev Group have been brought out in the below table:

	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%

### 1.3. Product market and sales

The total sales volume of AS Kalev for the financial year 2006/2007 was 9,990 tons in the confectionery product segment and 11,643 tons in the dairy product segment. Thus, compared to last financial year, the sales volume decreased by 5.5% in the confectionery product segment and 15% in the dairy product segment.

#### 1.3.1. 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 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.

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 6,030 tons. The volume thus showed no material changes from last financial year. In the given period, 33% of 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 last



financial year. This was mostly conditioned by the near one-third decrease of Russian export, compared to last period.

AS Kalev Group's total volume of flour confectionery product sales, incl. pastry products and biscuits, amounted to 3,960 tons in the financial year 2006/2007, decreasing by 10% from last year. 99% of the flour confectionery products were sold on the domestic market, with the remainder exported to Baltic States and Russia.

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 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 20g format. In addition, the product selection was also expanded with the launch of the 35g Tallinn wafer candy. The giftbox series saw the addition of two new praline candies: "Kadriorg" (435g) and "Assortment of praline candies" (150g). The Souffle series was also expanded with the launch of "Kalev Souffle assortment" chocolate candies (235g) and Kalev Souffle 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 and flour confectionery product segment, the company launched 19 different white and dark bread products under "Linda" and "Kalevipoeg" trademarks in the financial year 2006/2007. In addition, Kalev launched 6 sorts of plaited buns, 4 sorts of cakes and 2 new sorts of muffins. 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 Kalev trademark. The popular Vilma flour mix series saw two new additions: Vilma chocolate muffin powder (400g) and Vilma wafer powder (380g).

### **1.3.2. 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.

The total volume of dairy product sales—skimmed milk and milk powder, high-temperature pasteurized milk, cream, 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).

Major changes in the period involved product sales prices. 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 last year (1,995 EUR/ton last year; 2,536 EUR/ton in the reporting year). Similar trends, albeit 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 3,301 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 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.

### **1.3.3. 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 Public-Private Partnership (PPP) for Tallinn Schools Project. Kalev REC also continued 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. Within the framework of the above projects, 17 and 22 apartments had been sold by the end of the financial year, respectively. The company also sold the registered immovable located at Tobias 5 in the Kadriorg region in Tallinn. According to the detailed plan, an apartment building with a total area of 1,800 m<sup>2</sup> may be built on the immovable. Kalev REC's Bulgarian-based subsidiary EOOD Stude REC launched construction of a 6,500 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 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 PPP project competitions. Several development project competitions were held in the public sector in 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 (but 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).

#### **1.3.4. Media and publishing**

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 Olliwood (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" 8,000 readers and "Basket" 8,000 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 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 launch of a new television channel.

In the reporting year, AS Kalev expanded its business into the printing service sector by acquiring a stake in AS Uniprint and Unipress. AS Uniprint is among the leading Estonian print houses, rendering high-quality printing services already for over 15 years. The AS Uniprint printing plant produces various advertising and small brochures, official documents and quality journals. AS Uniprint and Unipress both hold quality and environmental management system certificates ISO 9001:2001 and ISO 14001:1998.

In addition to Estonian customers, the sheet printing plant Uniprint and the periodicals printing plant Unipress which are both specialised in high-quality printing also serve Scandinavian and Russian customers through their branch offices. Thus, in addition to the existing customer base, AS Kalev's subsidiaries can also directly contribute to the satisfaction of AS Kalev Group's demand for different printing services in the production of advertising, small brochures and high-quality publications.

#### **1.4. Future activities**

The home market is the main market for AS Kalev's sugar and chocolate confectionery products. It is therefore important for the company to maintain its current market share. The company continues to pursue its goal of increasing the profitability of the sales of its confectionery and dairy products through assortment optimisation and production efficiency enhancement.

The profitability of the production activities are closely tied with various exogenous factors: the lack of skilled labour on the local market, and the general wage increase have a direct effect on the company's expenses, with the local economy and economic-political factors on foreign markets having an effect on the demand. Further to the development in the supply of production factors, the investment plan includes projects designed for reducing the labour required for the processes. 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. Product development will include both extension of the best before dates and creation of 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 continual focus to be paid to the biscuit and flour mix segment.

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 plans to develop its activities also 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.

Major changes in the next financial year will revolve around AS Kalev's new fields of activity—media and printing services. Namely, 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 stringer market position in the media sector. AS Kalev will develop the printing sector in accordance with the options of the sheet printing plant and periodicals printing plant which have specialised in high-quality printing services, satisfying the demand of Kalev Group and out-house customers for advertising and other printing services.

## 2. INTERIM FINANCIAL STATEMENTS

### MANAGEMENT REPRESENTATION TO THE FINANCIAL STATEMENTS

The Management Board of AS Kalev takes responsibility for the correctness of the preparation of the interim financial statements of the first nine months of the financial year 2006/2007 of AS Kalev set out on pages 14-35, and confirms that, to the best of its knowledge:

- the accounting principles used in preparing the interim financial statements are in compliance with the International Financial Reporting Standards (IFRS), as passed by the European Union;
- the interim financial statements give a true and fair view of the financial position of AS Kalev and the results of its operations and cash flows;
- material circumstances which became evident before the date of preparation of the interim financial statements have been appropriately accounted for and presented in the interim financial statements;
- AS Kalev is able to continue as a going concern.

Põrguvälja, 31 August 2007



Oliver Kruuda  
General Manager

## INCOME STATEMENT

in thousands of kroons and euros

Note	Consolidated (in EEK)		Consolidated (in EUR)		
	12 months 2007	12 months 2006	12 months 2007	12 months 2006	
3	Revenue	925 704	889 623	59 163	56 857
	Cost of sales of goods and services	-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>
	Marketing expenses	-117 675	-103 153	-7 521	-6 593
	Administrative and general expenses	-87 221	-61 012	-5 574	-3 899
	Other income and expenses	82 422	41 360	5 268	2 643
	<b>OPERATING PROFIT</b>	<b>68 996</b>	<b>21 084</b>	<b>4 410</b>	<b>1 347</b>
	Financial income	-38 288	-19 790	-2 447	-1 265
	<b>PROFIT BEFORE INCOME TAX</b>	<b>30 708</b>	<b>1 294</b>	<b>1 963</b>	<b>83</b>
	Income tax	-282	0	-18	0
	<b>NET PROFIT BEFORE MINORITY INTEREST</b>	<b>30 426</b>	<b>1 294</b>	<b>1 945</b>	<b>83</b>
	Profit attributable to minority interest	34	-141	2	-9
	<b>PROFIT ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>30 460</b>	<b>1 153</b>	<b>1 947</b>	<b>74</b>
	EPS attributable to owners of the parent company (basic EPS and diluted EPS, in kroons)	1,29	0,05	0,08	0,003

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Note	Consolidated (in EEK)		Consolidated (in EUR)		
	4th q 2007	4th q 2006	4th q 2007	4th q 2006	
3	Revenue	204 142	175 075	13 047	11 189
	Cost of sales of goods and services	-165 263	-149 573	-10 562	-9 559
	<b>GROSS PROFIT</b>	<b>38 880</b>	<b>25 502</b>	<b>2 485</b>	<b>1 630</b>
	Marketing expenses	-35 409	-29 454	-2 263	-1 882
	Administrative and general expenses	-15 136	-11 790	-967	-754
	Other income and expenses	32 701	-15 221	2 090	-973
	<b>OPERATING PROFIT</b>	<b>21 036</b>	<b>-30 963</b>	<b>1 344</b>	<b>-1 979</b>
	Financial income	-15 534	-9 427	-993	-602
	<b>PROFIT BEFORE INCOME TAX</b>	<b>5 502</b>	<b>-40 390</b>	<b>352</b>	<b>-2 581</b>
	Income tax	-282	0	-18	0
	<b>NET PROFIT BEFORE MINORITY INTEREST</b>	<b>5 220</b>	<b>-40 390</b>	<b>334</b>	<b>-2 581</b>
	Profit attributable to minority interest	5	274	0	18
	<b>PROFIT ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>5 225</b>	<b>-40 116</b>	<b>334</b>	<b>-2 564</b>
	EPS attributable to owners of the parent company (basic EPS and diluted EPS, in kroons)	0,22	-1,69	0,01	-0,11

## BALANCE SHEET

in thousands of kroons and euros

Note	Consolidated (in EEK)		Consolidated (in EUR)		
	30.06.2007	30.06.2006	30.06.2007	30.06.2006	
<b>ASSETS</b>					
<b>Current assets</b>					
	Cash	17 337	10 080	1 108	644
	Receivables	148 050	134 930	9 462	8 624
	Prepayments	2 653	1 715	170	110
	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>					
	Long-term investments and receivables	3 733	7 230	239	462
6	Investment property	214 601	89 944	13 716	5 748
7	Property, plant and equipment	644 876	545 840	41 215	34 886
8	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 OWNER'S EQUITY</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
9	Short-term borrowings	348 317	240 464	22 262	15 368
	Prepayments from customers	1 461	27 821	93	1 778
	Payables to suppliers and other payables	284 439	286 717	18 179	18 325
10	Provisions	0	3 200	0	205
	<b>Total current liabilities</b>	<b>634 218</b>	<b>558 202</b>	<b>40 534</b>	<b>35 676</b>
<b>Non-current liabilities</b>					
9	Long-term 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>Owner's equity</b>					
	Share capital	236 325	236 325	15 104	15 103
	Mandatory 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>Total equity attributable to owners of the parent company</b>	<b>373 395</b>	<b>343 435</b>	<b>23 864</b>	<b>21 950</b>
	<b>Minority interest</b>	<b>54</b>	<b>88</b>	<b>3</b>	<b>5</b>
	<b>Total owner's equity</b>	<b>373 449</b>	<b>343 523</b>	<b>23 867</b>	<b>21 955</b>
	<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>1 312 503</b>	<b>1 034 633</b>	<b>83 884</b>	<b>66 125</b>



## CASH FLOW STATEMENT

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	2007 12 months	2006 12 months	2007 12 months	2006 12 months
<b>Operating activities</b>				
Operating profit	68 996	21 084	4 410	1 348
Adjustment of operating profit:				
Depreciation of property, plant and equipment, and intangible assets	28 789	25 410	1 840	1 624
Profit from changes in the fair value of investment property	-90 486	-41 836	-5 783	-2 674
Profit/loss from disposals of non-current assets	-13 126	-4 398	-839	-281
Income tax	-282	0	-18	0
<u>Change in assets related to operating activities:</u>				
Inventories	29 114	-44 837	1 861	-2 866
Receivables	16 689	33 264	1 067	2 126
Other	195	-348	12	-22
<u>Change in liabilities related to operating activities:</u>				
Payables to suppliers and other payables	-68 582	-18 985	-4 383	-1 213
Prepayments	-26 360	23 896	-1 685	1 527
<b>Total cash flow from operating activities</b>	<b>-55 053</b>	<b>-6 750</b>	<b>-3 519</b>	<b>-431</b>
<b>Investing activities</b>				
Purchase of subsidiaries	-34 541	-6 314	-2 208	-404
Proceeds from disposals of subsidiaries, incl. transferred funds	0	1 744	0	111
Proceeds from disposals of non-current assets	31 619	56 923	2 021	3 638
Acquisition of non-current assets	-67 908	-57 447	-4 340	-3 672
Loans granted	-5 803	-42 571	-371	-2 721
Repayment of loans granted	7 726	2 551	494	163
Interest received	2 071	325	132	21
<b>Total cash flow from investing activities</b>	<b>-66 836</b>	<b>-44 789</b>	<b>-4 272</b>	<b>-2 863</b>
<b>Financing activities</b>				
Repayment of loans and bonds	-182 522	-40 513	-17 013	-2 589
Loans received and bonds issued	475 156	136 007	36 289	8 692
Repayment of finance lease principal	-92 062	-18 081	-6 375	-1 156
Change in overdraft	-29 091	-2 704	-1 859	-173
Interest paid	-42 335	-18 797	-2 684	-1 201
<b>Total cash flow from financing activities</b>	<b>129 146</b>	<b>55 912</b>	<b>8 359</b>	<b>3 573</b>
<b>Total cash flow</b>	<b>7 257</b>	<b>4 373</b>	<b>1 955</b>	<b>279</b>
Cash and cash equivalents at the beginning of the period	10 080	5 708	644	365
Change in cash and cash equivalents	7 257	4 372	464	279
Cash and cash equivalents at the end of the period	17 337	10 080	1 108	644

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Cash and cash equivalents in the cash flow statement correspond to the cash and cash equivalents in the balance sheet.

## STATEMENT OF CHANGES IN EQUITY

in thousands of kroons

Consolidated	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Total equity
30.06.2005	236 325	4 020	8 669	-20 857	228 157
Revaluation of PPE	0	0	112 626	0	112 626
Adjustment of the revaluation reserve	0	0	-4 980	4 980	0
Profit for the reporting period	0	0	0	1 153	1 153
Total profit and loss	0	0	107 646	6 133	113 779
Acquisition of minority interest	0	0	0	1 499	1 499
30.06.2006	236 325	4 020	116 315	-13 225	343 435
Adjustment of the revaluation reserve	0	0	-4 707	4 707	0
Decrease in value of assets at the expense of the reserve	0	0	-500	0	-500
Profit for the reporting period	0	0	0	30 460	30 460
30.06.2007	236 325	4 020	111 108	21 942	373 395

in thousands of euros

Consolidated	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Total equity
30.06.2005	15 104	257	554	-1 333	14 582
Revaluation of PPE	0	0	7 198	0	7 198
Adjustment of the revaluation reserve	0	0	-318	318	0
Profit for the reporting period	0	0	0	74	74
Total profit and loss	0	0	6 880	392	7 272
Acquisition of minority interest	0	0	0	96	96
30.06.2006	15 104	257	7 434	-845	21 950
Adjustment of the revaluation reserve	0	0	-301	301	0
Acquisition of minority interest	0	0	-32	0	-32
Profit for the reporting period	0	0	0	1 947	1 947
30.06.2007	15 104	257	7 101	1 402	23 864

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 Background information

AS Kalev is an Estonian company whose shares have been listed in the secondary list of the Tallinn Stock Exchange. Kalev Group's main fields of activity include manufacturing of various foodstuffs as well as pursuit of real estate, publishing and printing activities.

### Note 2 Accounting principles and basis of estimations

#### A. Basis of preparation

The consolidated interim financial statements of Kalev Group have been prepared in accordance with the International Financial Reporting Standards (IFRS), which include the International Accounting Standards approved by the International Accounting Standards Board (IASB), as passed by the European Union, and their interpretations, as well as the International Accounting Standards approved by the International Accounting Standards Committee (IASC) and the interpretations of the Interpretation Committee, established for the financial periods commencing on 1 July 2004.

The Estonian kroon is the underlying currency of the consolidated financial statements. For comparison purposes and pursuant to the requirements of the Tallinn Stock Exchange Rules, the financial indicators of this report have also been denominated in euros, translated from the original indicators denominated in Estonian kroons. No currency exchange rate differences occur on re-calculation of the financial indicators since the exchange rate between the Estonian kroon and the euro has been fixed (1 euro = 15.6466 kroons).

#### B. Changes in accounting principles and comparative data

The financial statements are prepared based on the principle of consistency and comparability. This means that the same accounting policies and presentation formats are used by the group on an on-going basis in preparation of financial statements. Changes will be introduced to the accounting principles and presentation formats only if so conditioned by the new or amended IFRS, or if the new accounting principles and/or presentation formats give a more objective overview of the financial position and economic results of the group and the parent company, as well as their cash flows.

The accounting principles used in the preparation of these financial statements differ from those used last year, which arise from the "stable platform" IAS 27 (accounting for equity participation) standards and the implementation of which is mandatory for the group during reporting periods commencing on 1 January 2005 or later.

The financial indicators of the subsidiary Kalev Merchant Services Ltd have not been consolidated in this interim report, since the balance sheet volume of the subsidiary only makes up less than 0.5% of the parent company's

turnover. The comparative data have not been adjusted, since the financial indicators of the subsidiary have no significant influence on those of the Group.

**C. Basis of consolidation**

The consolidation group (for the purposes of these statements, also the Group) consists of the parent company and the subsidiary - i.e. a company where the parent company holds over 50% of voting shares or the activities or financial policies of which can be controlled by the parent through other means.

Subsidiaries are consolidated from the day of their acquisition until the day they are sold, or until control over the particular subsidiary is waived. The subsidiaries' financial statements which are used as basis for consolidation have been prepared on the same period with those of the parent company, and by using the same accounting principles.

All intra-group receivables and payables, as well as the unrealised profit and loss arising from transactions between the Group companies (except in case of loss arising from decrease in net asset value) have been eliminated from the consolidated financial statements.

Minority interest - the share of the subsidiary's profit, loss and net assets which do not belong to the Group, are recorded under a separate entry in the consolidated income statement and balance sheet.

Associated company is an entity where the parent has an interest of less than 50%, and whose voting shares are not controlled by the parent. Associated companies are not consolidated line by line, and their profit is calculated by using the equity method.

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**Note 3 Segment information**

Consolidated	Confectionery products	Flour confectionery products	Dairy products	Real estate	Media	Printing	Event marketing	Total
in thousands of kroons	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months
	2007	2007	2007	2007	2007	2007	2007	2007
Extra-group customers								
- revenue	386 065	96 292	299 560	78 589	10 207	52 542	2 449	925 704
- other income	3 671	68	8 328	93 974	9	682	0	106 732
<b>Total segment revenue</b>	<b>389 736</b>	<b>96 360</b>	<b>307 888</b>	<b>172 563</b>	<b>10 216</b>	<b>53 224</b>	<b>2 449</b>	<b>1 032 436</b>
<b>Profit/loss from segment</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>
Joint expenses								-51 812
<b>Operating loss</b>								<b>68 996</b>
Net financial items								-38 570
<b>Profit before minority interest</b>								<b>30 426</b>
Minority interest	0	34	0	0	0	0	0	34
<b>Net profit for the financial year</b>								<b>30 460</b>

Consolidated	Confectionery products	Flour confectionery products	Dairy products	Real estate	Media	Printing	Event marketing	Total
in thousands of euros	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months
	2 007	2 007	2 007	2 007	2 007	2 007	2 007	2 007
Extra-group customers								
- revenue	24 674	6 154	19 145	5 023	652	3 358	157	59 163
- other income	235	4	532	6 006	1	44	0	6 821
<b>Total segment revenue</b>	<b>24 909</b>	<b>6 159</b>	<b>19 678</b>	<b>11 029</b>	<b>653</b>	<b>3 402</b>	<b>157</b>	<b>65 985</b>
<b>Profit/loss from segment</b>	<b>1 898</b>	<b>-51</b>	<b>692</b>	<b>5 231</b>	<b>-244</b>	<b>248</b>	<b>-53</b>	<b>7 721</b>
Joint expenses								-3 311
<b>Operating loss</b>								<b>4 410</b>
Net financial items								-2 465
<b>Profit before minority interest</b>								<b>1 945</b>
Minority interest	0	2	0	0	0	0	0	2
<b>Net profit for the financial year</b>								<b>1 947</b>

Consolidated	Confectionery products	Flour confectionery products	Dairy products	Real estate	Total
in thousands of kroons	12 months	12 months	12 months	12 months	12 months

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	2006	2006	2006	2006	2006
Extra-group customers:					
- revenue	350 967	86 322	397 847	54 487	889 623
- other income	1 298	152	9 685	46 576	57 710
Revenue from other segments	0	0	15 699	20 864	36 563
<b>Total segment revenue</b>	<b>352 265</b>	<b>86 474</b>	<b>423 231</b>	<b>121 926</b>	<b>983 896</b>
<b>Profit/loss from segment</b>	<b>34 842</b>	<b>1 668</b>	<b>-45 043</b>	<b>61 883</b>	<b>53 350</b>
Joint expenses					-32 266
<b>Operating loss</b>					<b>21 084</b>
Net financial items					-19 790
<b>Profit before minority interest</b>					<b>1 294</b>
Minority interest	0	-267	0	126	-141
<b>Net profit for the financial year</b>					<b>1 153</b>

Consolidated in thousands of euros	Confectionery products	Flour confectionery products	Dairy products	Real estate	Total
	12 months	12 months	12 months	12 months	12 months
	2006	2006	2006	2006	2006
Extra-group customers:					
- revenue	22 431	5 517	25 427	3 482	56 857
- other income	83	10	619	2 977	3 688
Revenue from other segments	0	0	1 003	1 333	2 337
<b>Total segment revenue</b>	<b>22 514</b>	<b>5 527</b>	<b>27 049</b>	<b>7 792</b>	<b>62 882</b>
<b>Profit/loss from segment</b>	<b>2 227</b>	<b>107</b>	<b>-2 879</b>	<b>3 955</b>	<b>3 410</b>
Joint expenses					-2 062
<b>Operating loss</b>					<b>1 348</b>
Net financial items					-1 265
<b>Profit before minority interest</b>					<b>83</b>
Minority interest	0	-17	0	8	-9
<b>Net profit for the financial year</b>					<b>74</b>

Net sales by markets

in thousands of kroons and euros

Consolidated (in EEK)		Consolidated (in EUR)	
01.07.2006-	01.07.2005-	01.07.2006-	01.07.2005-
30.06.2007	30.06.2006	30.06.2007	30.06.2006

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Estonia	591 736	507 093	37 819	32 409
Latvia and Lithuania	21 074	23 396	1 347	1 495
Scandinavia	20 761	9 101	1 327	582
Other EU members	261 800	314 975	16 732	20 131
Other countries	30 333	35 058	1 939	2 241
<b>TOTAL</b>	<b>925 704</b>	<b>889 623</b>	<b>59 163</b>	<b>56 857</b>

**Note 4 Personnel expenses**

Total personnel expenses for the period between 1 July 2006 and 30 June 2007 amounted to 123 million kroons (i.e. 7.9 million euros) (with the group employing an average of 879 people), compared to the 96 million kroons (i.e. 6.1 million euros) in the comparative period in the last financial year (with the group employing an average of 787 people).

In the financial year 2007, AS Kalev Group laid off 15 employees, with termination compensation amounting to a total of 664 thousand kroons (42 thousand euros). In the last financial year, a total of 62 employees were laid off, with termination compensation amounting to 1,373 thousand kroons (88 thousand euros).

**Note 5 Consolidated earnings per share**

in thousands of kroons and euros

As the Group has no contingently issuable common shares, diluted EPS equals to basic EPS.

	Consolidated (in EEK)		Consolidated (in EUR)	
	30.06.2007	30.06.2006	30.06.2007	30.06.2006
Net profit/loss	30 460	1 153	1 947	74
Weighed average number of shares (in thousands of units)	23 633	23 633	23 633	23 633
<b>Earnings per share</b>	<b>1.29</b>	<b>0.05</b>	<b>0.08</b>	<b>0.003</b>

**Note 6 Investment property**

in thousands of kroons

	Investments	Prepayments for investments	Total
Consolidated			
<b>Net book value 30.06.2006</b>	<b>89 944</b>	<b>0</b>	<b>89 944</b>
Additions	25 031	725	25 756
Reclassification of non-current assets	19 009	0	19 009
Reclassification into non-current assets	-2 456	0	-2 456
Disposals	-8 138	0	-8 138
Change in fair value	90 486	0	90 486
<b>Net book value 30.06.2007</b>	<b>213 876</b>	<b>725</b>	<b>214 601</b>



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in thousands of euros	Investments	Prepayments for investments	Total
Consolidated			
<b>Net book value 30.06.2006</b>	<b>5 748</b>	<b>0</b>	<b>5 748</b>
Additions	1 600	46	1 646
Reclassification of non-current assets	1 215	0	1 215
Reclassification into non-current assets	-157	0	-157
Disposals	-520	0	-520
Change in fair value	5 783	0	5 783
<b>Net book value 30.06.2007</b>	<b>13 669</b>	<b>46</b>	<b>13 716</b>

in thousands of kroons	Investments	Prepayments for investments	Total
Consolidated			
<b>Net book value 30.06.2005</b>	<b>165 768</b>	<b>34 810</b>	<b>200 578</b>
Additions	9 149	0	9 149
Reclassification of non-current assets	1 876	0	1 876
Reclassification into inventories	-99 224	0	-99 224
From prepayment into investment	21 910	-21 910	0
From prepayment into receivable		-12 900	-12 900
Change in fair value	41 836	0	41 836
Disposals	-51 371	0	-51 371
<b>Net book value 30.06.2006</b>	<b>89 944</b>	<b>0</b>	<b>89 944</b>

in thousands of euros	Investments	Prepayments for investments	Total
Consolidated			
<b>Net book value 30.06.2005</b>	<b>10 595</b>	<b>2 225</b>	<b>12 819</b>
Additions	585	0	585
Reclassification of non-current assets	120	0	120
Reclassification into inventories	-6 342	0	-6 342
From prepayment into investment	1 400	-1 400	0
From prepayment into receivable	0	-824	-824
Change in fair value	2 674	0	2 674
Disposals	-3 283	0	-3 283
<b>Net book value 30.06.2006</b>	<b>5 748</b>	<b>0</b>	<b>5 748</b>

**Note 7 Property, plant and equipment**

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Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Acquisition cost 30.06.06	13 111	348 362	166 570	18 133	92 282	638 458
Accumulated depreciation 30.06.06	0	0	-82 255	-10 128	-235	-92 618
<b>Net book value 30.06.06</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>
Additions from mergers	828	21	87 413	1 369	53	89 684
Additions	121	18 870	18 229	2 848	20 396	60 464
Disposals	-2 552	0	-575	-180	-7 047	-10 354
Reclassification	0	-16 399	21 544	2 590	-24 288	-16 553
Depreciation	0	-11 010	-10 276	-2 919	0	-24 205
<b>Net book value 30.06.2007</b>	<b>11 508</b>	<b>339 844</b>	<b>200 650</b>	<b>11 713</b>	<b>81 161</b>	<b>644 876</b>
Acquisition cost 30.06.2007	11 508	350 163	324 572	19 848	81 161	787 252
Accumulated depreciation 30.06.2007	0	-10 319	-123 922	-8 135		-142 376

in thousands of euros

Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Acquisition cost 30.06.06	838	22 264	10 646	1 159	5 898	40 805
Accumulated depreciation 30.06.06	0	0	-5 257	-647	-15	-5 919
<b>Net book value 30.06.06</b>	<b>838</b>	<b>22 264</b>	<b>5 389</b>	<b>512</b>	<b>5 883</b>	<b>34 886</b>
Additions from mergers	53	1	5 587	87	3	5 732
Additions	8	1 206	1 165	182	1 304	3 864
Disposals	-163	0	-37	-12	-450	-662
Reclassification	0	-1 048	1 377	166	-1 552	-1 058
Depreciation	0	-704	-657	-187	0	-1 547
<b>Net book value 30.06.2007</b>	<b>735</b>	<b>21 720</b>	<b>12 824</b>	<b>749</b>	<b>5 187</b>	<b>41 215</b>
Acquisition cost 30.06.2007	735	22 379	20 744	1 269	5 187	50 315
Accumulated depreciation 30.06.2007	0	-660	-7 920	-520	0	-9 099

in thousands of kroons

Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Acquisition cost 30.06.05	11 486	263 196	147 784	18 493	8 216	449 175
Accumulated depreciation 30.06.05	0	-18 754	-71 521	-11 349	-235	-101 859
<b>Net book value 30.06.05</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>
Additions from mergers	500	11 000	0	0	66 755	78 255
incl. non-monetary	-500	-11 000	0	0	-7 606	-19 106

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contributions						
Other additions	1 214	4 392	16 994	4 803	30 754	58 157
Disposals	0	0	-467	-264	-423	-1 154
Reclassification	0	-4 726	6 345	-1 118	-5 414	-4 913
Depreciation charge	0	-7 961	-14 820	-2 560	0	-25 341
Effect of revaluation	411	112 215	0	0	0	112 626
<b>Net book value 30.06.2006</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>
Acquisition cost 30.06.2006	13 111	348 362	166 570	18 133	92 282	638 458
Accumulated depreciation 30.06.2006	0	0	-82 255	-10 128	-235	-92 618

in thousands of euros

Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Acquisition cost 30.06.05	734	16 821	9 445	1 182	525	28 708
Accumulated depreciation 30.06.05	0	-1 199	-4 571	-725	-15	-6 510
<b>Net book value 30.06.05</b>	<b>734</b>	<b>15 623</b>	<b>4 874</b>	<b>457</b>	<b>510</b>	<b>22 198</b>
Additions from mergers incl. non-monetary contributions	32	703	0	0	4 266	5 001
Other additions	78	281	1 086	307	1 966	3 717
Disposals	0	0	-30	-17	-27	-74
Reclassification	0	-302	406	-71	-346	-314
Depreciation charge	0	-509	-947	-164	0	-1 620
Effect of revaluation	26	7 172	0	0	0	7 198
<b>Net book value 30.06.2006</b>	<b>838</b>	<b>22 264</b>	<b>5 389</b>	<b>512</b>	<b>5 883</b>	<b>34 886</b>
Acquisition cost 30.06.2006	838	22 264	10 646	1 159	5 898	40 805
Accumulated depreciation 30.06.2006	0	0	-5 257	-647	-15	-5 919

**Note 8 Intangible assets**

in thousands of kroons

	Consolidated Other intangible assets	Consolidated Goodwill	Consolidated Total
Acquisition cost 30.06.06	359	4 550	4 909
Accumulated amortisation 30.06.06	-349	0	-349
<b>Net book value 30.06.2006</b>	<b>10</b>	<b>4 550</b>	<b>4 560</b>
Additions from mergers	179	0	179
Acquisitions and additions from mergers	21	62 459	62 480
Amortised goodwill	0	-4 550	-4 550
Amortisation charge	-34	0	-34
<b>Net book value 30.06.2007</b>	<b>176</b>	<b>62 459</b>	<b>62 635</b>

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Acquisition cost 30.06.2007	712	62 459	63 171
Accumulated amortisation 30.06.07	-383	0	-383

in thousands of euros

	Other intangible assets	Goodwill	Total
Acquisition cost 30.06.06	23	291	314
Accumulated amortisation 30.06.06	-22	0	-22
<b>Net book value 30.06.2006</b>	<b>1</b>	<b>291</b>	<b>291</b>
Additions from mergers	11	0	11
Acquisitions and additions from merger	1	3 992	3 993
Amortised goodwill	0	-291	-291
Amortisation charge	-2	0	-2
<b>Net book value 30.06.2007</b>	<b>11</b>	<b>3 992</b>	<b>4 003</b>
Acquisition cost 30.06.2007	46	3 992	4 037
Accumulated amortisation 30.06.07	-24	0	-24

**Consolidated**

in thousands of kroons

	Consolidated Other intangible assets	Consolidated Goodwill	Consolidated Total
Acquisition cost 30.06.05	359	0	359
Accumulated amortisation 30.06.05	-280	0	-280
<b>Net book value 30.06.2005</b>	<b>79</b>	<b>0</b>	<b>79</b>
<b>Additions</b>	0	4 550	4 550
Amortisation charge	-69	0	-69
<b>Net book value 30.06.2006</b>	<b>10</b>	<b>4 550</b>	<b>4 560</b>
Acquisition cost 30.06.2006	359	4 550	4 909
Accumulated amortisation 30.06.06	-349	0	-349

in thousands of euros

	Consolidated Other intangible assets	Consolidated Goodwill	Consolidated Total
Acquisition cost 30.06.05	23	0	23
Accumulated amortisation 30.06.05	-18	0	-18
<b>Net book value 30.06.2005</b>	<b>5</b>	<b>0</b>	<b>5</b>
<b>Additions</b>	0	291	291
Amortisation charge	-4	0	-4
<b>Net book value 30.06.2006</b>	<b>1</b>	<b>291</b>	<b>291</b>
Acquisition cost 30.06.2006	23	291	314
Accumulated amortisation 30.06.06	-22	0	-22

**Note 9 Borrowings**

in thousands of kroons and euros

Consolidated (in EEK)		Consolidated (in EUR)	
30.06.2007	30.06.2006	30.06.2007	30.06.2006

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Overdraft	16 961	46 052	1 084	2 943
Bonds	167 558	74 834	10 709	4 783
Bank loans	139 392	110 698	8 909	7 075
Finance lease liabilities	24 407	8 880	1 560	568
<b>Total current liabilities</b>	<b>348 317</b>	<b>240 464</b>	<b>22 262</b>	<b>15 368</b>
Long-term bank loans	230 629	45 127	14 740	2 884
Long-term finance lease liabilities	74 208	87 781	4 743	5 610
<b>Total non-current liabilities</b>	<b>304 837</b>	<b>132 908</b>	<b>19 483</b>	<b>8 494</b>

### Refinancing

On 9 November 2006, AS Kalev's subsidiaries AS Kalev Chocolate Factory (hereinafter KCF) and AS Kalev Real Estate Company (hereinafter REC) signed contracts under which KCF acquired from REC, at a cost of 240 million kroons, the Põrguvälja plant building which was previously owned by AS Hansa Liising Eesti. To finance the purchase transaction, KCF concluded a loan agreement, under which AS DnB Nord Banka Estonia branch gave KCF a 200-million-kroon loan. A 240-million-kroon mortgage has been established on the registered immovable located at Põrguvälja tee 6 for the benefit of DnB NORD Banka as collateral to the loan agreement. With the transaction, AS Kalev Group refinanced existing loan and lease liabilities to creditors. The main purpose of the loan was to fully refinance the financial liabilities arising from construction of the AS Kalev production building at Põrguvälja tee 6 in Rae municipality, while at the same time erasing the 60-million-kroon pledge with which Estonia's most renowned trademark "KALEV" had been pledged.

KCF repays the loan in instalments since December 2006. The repayment due date of the loan is 15 November 2016. The bank calculates the amount of instalments on the basis of a 12-year annuity repayment schedule. On the loan repayment due date, KCF will repay the loan balance together with the interest, as a lump sum. The interest rate for the particular loan consists of the benchmark (6-month EURIBOR) and a margin, which amounted to 1.40% at the moment of the conclusion of the loan agreement. Under the loan agreement, the margin may only be lowered in accordance with the rise in the KCF loan coverage ratio.

With the transaction, the structure of the financial liabilities of AS Kalev has significantly changed—nearly 85 million kroons worth of current liabilities were recognised as long-term liabilities.

### Bond issue

With the bonus issue on 20 December 2006, AS Kalev Real Estate Company issued bonds with a term of 1 year. The total volume of the issue amounted to 70.19 million kroons. The nominal value of the bond was 10,000 kroons, and the semi-annual coupon rate 8%. The bonds can be redeemed by the issuer or sold by the investor on each coupon date. AS Kalev guarantees fulfilment of the liabilities arising from the bonds.

On 28 February 2007, AS Kalev issued, by placing, commercial papers in the total volume of 63.52 million kroons, and a term of 1 year. The nominal value of the bonds is 10,000 kroons, with the semi-annual yield amounting to 8.5% (achieved through underbidding). The commercial papers can be redeemed by the issuer or sold by the investor every three months.

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On 18 April 2007, AS Kalev issued, by placing, commercial papers with a term of 316 days and a redemption date of 28 February 2008 in the total amount of 39.78 million kroons. This constituted an increase in the volume of the commercial paper issue conducted on 28 February 2007. The nominal value of the commercial papers is 10,000 kroons. The annual yield is 10.0%. The commercial papers can be redeemed by the issuer or sold by the investor every three months. The issued commercial papers have been guaranteed with the shares of the issuer's subsidiary AS Kalev REC.

The above bond issue was organised by SEB Eesti Ühispank.

### **Note 10 Provisions**

At the end of the financial year 2005/2006, the group subsidiary AS Kalev Paide Tootmine established a provision in the amount of 3,200 thousand kroons (205 thousand euros) in order to cover the potential loss arising from the unfavourable market situation for dairy products, and the crude milk buying-in contracts until December 2006. As of 31 December 2006, the provision was fully written off the balance sheet. Global dairy product prices have soared since the beginning of 2007. The company is, however, not in the red, and no provisions have been established.

### **Note 11 Share capital**

According to the Articles of Association, the company can increase its share capital to 31,510,000 shares.

	<b>Consolidated (in EEK)</b>		<b>Consolidated (in EUR)</b>	
	<b>30.06.2007</b>	<b>30.06.2006</b>	<b>30.06.2007</b>	<b>30.06.2006</b>
Number of common shares (in thousands of units)	23 633	23 633	23 633	23 633
Nominal value	10	10	0.64	0.64

### **Short-term transfer of the shares of AS Kalev**

On 7 March 2007, GKG Investeeringute AS, a company related to the General Manager of AS Kalev, concluded contracts with Tere AS and Linderin Grupp OÜ, under which the company acquired 19.99% of the shares of AS Kalev. In order to conduct a short-term financing transaction, GKG Investeeringute AS transferred the shares on 8 March 2007, assuming, with the same transaction, the buyback obligation. The shares will be bought back on 28 February 2008 at the latest. Until the shares are bought back, the shares will be held on the customer account of Citibank International Plc (Luxembourg branch)/UBS Luxembourg S.A, encumbered with a pledge.

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Under the parties' agreement, the owner of the customer account will not intervene in the management of AS Kalev as a shareholder. The shareholder's rights at the General Meeting of AS Kalev will be exercised by GKG Investeeringute AS.

**Note 12 Related party transactions**

Transactions with companies related to the Management Board of AS Kalev:

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.07.2006- 30.06.2007	01.07.2005- 30.06.2006	01.07.2006- 30.06.2007	01.07.2005- 30.06.2006
<b>Goods and services purchased</b>				
Balance at the beginning of the period	7 028	26 974	449	1 724
Services	20 554	31 128	1 314	1 989
Goods	129 430	135 489	8 272	8 659
<b>Balance at the end of the period</b>	<b>4 562</b>	<b>7 028</b>	<b>292</b>	<b>449</b>
<b>Goods and services sold</b>				
Balance at the beginning of the period	1 820	3 168	116	202
Services	2 172	239	139	15
Goods	139 616	130 374	8 923	8 332
<b>Balance at the end of the period</b>	<b>665</b>	<b>1 820</b>	<b>43</b>	<b>116</b>

Most of the related party transactions include purchase and sale transactions with AS Tere (purchase of crude milk and sale of dairy products).

Services have mostly been outsourced from AS Solidum under the Group equipment maintenance contract concluded with the company.

The Group supported non-profit associations related to the Management Board in the amount of 1,065 thousand kroons (68 thousand euros) in the period (1,193 thousand kroons, i.e. 76 thousand euros, in the comparative period).

A total of 444 thousand kroons (28 thousand euros) was paid in remuneration to the Management Board in the twelve months (455 thousand kroons, i.e. 29 thousand euros, in the comparative period).

According to the management of the company, the prices used for related party transactions do not significantly differ from the market prices.

## **Note 13 Off-balance-sheet transactions and events after the balance sheet**

### **13.1. Mortgage and loan agreement concluded by OÜ BCA Center**

On 6 July 2007, AS Kalev Real Estate Company's subsidiary OÜ BCA Center concluded an agreement which establishes a combined mortgage for the benefit of AS Hansapank on the right of superficies held by the subsidiary. OÜ BCA Center holds the right of superficies over the registered immovables which are owned by the Tallinn City and which are located at Kopli 92, Õismäe tee 132, Kivimurru 9, Raudtee 73 and Pärnu mnt 71/73. The right of superficies was established on the registered immovables within the framework of the Private Partnership for Tallinn Schools Project. The mortgage is established for 400,000,000 kroons. The above combined mortgage serves as a collateral to AS Hansapank's claims against OÜ BCA Center, arising from the loan agreements concluded between OÜ BCA Center and AS Hansapank in June 2007.

With the loan agreement, the creditor provides OÜ BCA Center with a credit line of 23,227,000 euros. The loan will be issued in portions under the borrower's corresponding application. The credit line may be used until 31.12.2008. During this term, the borrower must pay a fee for the unused part of the credit line in the annual amount of 0.5%. The term of repayment of the used part of the loan is 30 September 2009. The annual loan interest rate is Euribor + 1.6%. The loan interest period is 1 month, and the borrower must pay interest on a monthly basis in accordance with the corresponding payment schedule.

Under the loan agreement, OÜ BCA Center shall have the right to cancel the unused part of the credit line, or a part of the unused credit, and to prematurely repay the loan or a part of the loan. The purpose of use of the loan is financing of the development period of the school building reconstruction work to be carried out by OÜ BCA Center within the framework of the Private Partnership for Tallinn Schools Project. Upon fulfilment of the reconstruction obligation, and collection of the rent from Tallinn City at the end of 2008, the company plans to refinance the development period loan with a long-term loan.

### **13.2 Acquisition of Soltari Invest OÜ, and share capital increase**

AS Kalev acquired the private limited company Soltari Invest under the contract concluded on 17 August 2007. Having acquired a share with a nominal value of 40,000 kroons, AS Kalev became the sole shareholder in the private limited company. The main field of activity of the subsidiary Soltari Invest OÜ is production, storage and reloading of grain products.

The above acquisition does not constitute a related party transaction in the meaning of the stock exchange rules.

### **13.3 Subsidiary's share capital increase and name change**



On 22 August 2007, AS Kalev resolved to increase the share capital of the new subsidiary Soltari Invest by 80,000 kroons, raising the subsidiary's share capital to 120,000 kroons. A monetary contribution was made for the share capital increase. In addition, AS Kalev will pay 1,620,000 kroons in share premium.

AS Kalev also decided to rename the private limited company AgriStock OÜ.

#### **13.4 Loan agreement concluded by AS Kalev Paide Tootmine**

On 27 July 2007, AS Kalev Paide Tootmine concluded a loan agreement with AS Hansapank. With the loan agreement, the creditor will provide AS Kalev Paide Tootmine with a credit line of 2,556,464 euros in order to finance the current fund of main activities. The loan can be taken into use until 26 August 2007, with the interest and loan principal to be repaid in monthly instalments. The annual loan interest rate is Euribor + 2.5%. The borrower will repay 30,000 thousand kroons of the loan in monthly annuity payments in accordance with the payment schedule, and the loan balance as a lump sum on the repayment due date (30 April 2008) in accordance with the loan agreement.