Reg.no: 10000952

CONSOLIDATED ANNUAL REPORT

for the financial year started on July 1, 2007 and ended on June 30, 2008

Translation of the Estonian original

Public LIMITED company Kalev

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CONSOLIDATED MANAGEMENT REPORT

1. Economic and legal environment

1.1. Effect of the economic environment

In the financial year 2007/2008, AS Kalev was affected by the chaotic macroeconomic climate, factor price increases, increase in the price of loan capital and the development of the company's activity directions. With regard to production inputs, several significantly unfavourable changes could be seen in certain raw material prices; similarly to the previous period. Personnel expenses continued to show a rapid increase as well. At the same time, the demand for AS Kalev's goods was sustained by major export markets, as well as by the domestic market, which reached the end of its period of quick economic growth.

The rate of growth of Estonian GDP and total demand showed a sudden deceleration during the period. The average rate of growth in demand for the past three years (nearly an annual 9%) dropped to 1%. This real growth is many times smaller than the indicator for a longer period, with the growth in demand being smaller than the rate of growth in total output for the first time in a decade. Even though real demand in the Estonian economy grew by 1.2%, with GDP growing twice that amount, total output for the period from July 2007 to June 2008 decreased by nearly 5%. Different sectors showed different dynamics. Food and beverage production decreased by 10% (while the turnover from these goods increased by 10%). With regard to the activities pursued by Kalev Group (see Chapter 2), the biggest growth can be seen in the turnover from pastry products, which showed an increase of nearly 18% compared to the same period last year. At the same time, the production volume of these goods only showed marginal growth of 1%. As a result of the rapid decrease in domestic demand, the production volumes have dropped, regardless of the increase in export turnover. The dairy sector, for example, saw one of the biggest drops in production (13%), even though the price increase boosted both export and total turnover by nearly 15%. Profitability indicators showed a similar trend – the average for the processing industry dropped by two percentage points compared to last year, amounting to 7% in the period. Food and beverage production showed a profit margin of 5% (i.e. a drop of one percentage point) and dairy production a decrease of 3% (i.e. a drop of one percentage point).

Kalev Group products fall among commodities for which real demand has remained modest or negative. Even though wage dynamics supported growth in general consumption, the real annual growth in private consumption was lower than 2% (compared to the 10% in the previous three years). At the same time, real growth in wages has been rapid in Estonia, while tensions brewing on the labour market with regard to both skills and availability—for the employer, such an employment situation means limited options in a situation where production capacities need to be increased. For this reason, Kalev Group made the necessary investments in order to control the changes caused by the quick growth in the cost structure. Overall development indicates that the slow growth in productivity exerts major pressure on the competitive abilities of Estonian companies. The production branches with the biggest cost pressure are showing the lowest profit margin. The price pressure has a negative effect on the entire economy, being divided between some or all branches of economy and causing a cost combination through lower wage levels, smaller profit and/or a decrease in budget revenue. According to Statistics Estonia, the real growth in the export of domestic goods has been negative for the past four quarters (-3.5%), compared to the 5% growth in the previous period.

The increase in consumer prices was rapid for the fourth year in a row. The shopping cart price increase exceeds an annual 11% at the moment of the preparation of the financial statements. Food prices have shown an even greater increase of 18%. Inflation in Estonia reflects both the particular stage of the economic cycle and the consequent "bottlenecks" as well as the effect of EU economic integration and globalisation. The double-digit inflation has reduced the purchasing power in the domestic market and is affecting consumer behaviour. This is especially evident in a situation where expenses on food and energy make up a relatively big part of the local consumer's budget. High and/or rising inflation often reflects bigger changes and uncertainty regarding the future, and does not therefore facilitate corporate investments. It is vital for the economy in general that the inflation be stopped and the general price increase in Estonia diminish to the level of the first half of the decade (4%).

At the same time, we have detected signs of growing caution since the middle of 2007—end consumption is no longer growing as fast as income. Since private consumption forms the most important part of total demand (making up more than a half of total demand), the above changes in consumption decelerate economic growth. In addition, we must take into consideration the changes in consumer preferences. Surveys on demand for sweets indicate great price sensitivity among the Estonian population. At the same time, we can also see signs of a major shift towards growth in consumer awareness of healthier eating habits. Product development in the chocolate confectionery segment is therefore paying more attention to exploiting the potential of dark chocolate in order to materialise scientific conclusions of the health benefits of the particular foodstuff with respect to higher antioxidant levels in products with a bigger cocoa content.

The cost of debt capital required for financing activity has also showed an increase compared to the last financial year. As the loan conditions have become stricter, and the overall cost of capital has increased, this will have its effect on the demand for construction and capital goods, as well as consumption. Under the conditions of poor external demand and low economic activity, the cost pressure is of secondary importance in the profit margin. In such conditions, maintaining of the market share and increasing of the total sales plays a much bigger role.

Final product price formation is based on various factors of demand and supply. In Estonia, cost prices of industrial goods have increased a little over 7% in the period, while the increase in the price of food and beverages amounts to an annual 20%. The price increase of energy carriers as well as different production factors is evident in the production cost dynamics. For example, the price of cocoa beans (quoted in US dollars on the global market) showed a 50% increase, and reached an all-time record height at the end of June 2008. As the demand for cocoa beans exceeds supply, and the raw material deficit will last through 2009, the cocoa bean future prices on the London stock exchange have rocketed. It is only due to the strengthening of the Estonian kroon (which is pegged to the euro through the currency board system) that the real increase in the price of cocoa beans has remained relatively modest: approximately 30%. Cocoa bean futures prices (also quoted in US dollars on the global market) are showing a 4-5% drop for 12 months. Still, the continually negative global harvest estimates of major cocoa producers do not raise confidence with respect to any drop in the price of the raw material.

The buying-in price of the second important raw material for Kalev Group—milk—has increased by nearly 25% in the past 12 months in Estonia. The price dynamics varied—while at the beginning of 2008, milk buying-in price had increased by one-third, compared to June 2007, the price has showed some decrease from April 2008. Year-on-year, the milk buying-in price in Estonia had increased by less than one-fifth as of June 2008. Crude milk prices have shown a remarkable increase in Europe in the past 12 months (up to 80%), and have conditioned a near 20% increase in the dairy product prices of different countries. The "Agricultural Outlook for 2008 to 2017" forecast prepared by OECD and FAO for the next 10 years with respect to sugar, grain and milk powder forecasts an average of 30% price increase in this product group, while the price of butter is forecasted to increase by over 60% from the current level.

Corporate expenses on packaging, transport and logistics have gone up. This is especially due to the increase in production input prices. For this reason, the profit forecasts of the food industry are significantly affected by the above factors. In the world's leading food concerns (e.g. Cadbury, Nestlé, Danone) in the branch, the negative effect of the raw material price increases on the corporate profit margin is estimated to amount to an average of 300 base points. For the Estonian companies in general, the negative increase in profitability has lasted for over a year: from the second quarter of 2007, the surplus and mixed income from corporate operations has decreased with each quarter, compared to the same period last year.

1.2. Changes in the legal environment

The Estonian tax policy pushes towards direct remission of taxes and increase of indirect taxation. Nonetheless, the major expenses incurred by local companies on labour will prevail, as changes in production factor prices influence the effect of labour expenses on the company. In addition to state taxes, personnel expenses are also affected by agreements concluded between employees and trade unions, as well as minimum wage agreements established by the state. Minimum wage agreements concluded in the past three years have raised the minimum wage in Estonia by an aggregated 62% (from 1 January 2008, minimum wage increased by nearly 21%, compared to the previous period). Such quick growth has had a direct effect on overall wage increase. Under the conditions of a lack of skilled workers, a relatively modest flexibility of the labour market, limited growth in production and establishment of additional EU regulations, a rapid increase in minimum wage may exert ever-increasing pressure on the expenses and profit margin of companies.

In June 2008, the new draft Employment Contracts Act was prepared in co-operation between social partners, aiming at modernising the legislation regulating the Estonian labour market. Several international surveys and comparisons indicate the hampering effect of the Estonian labour market regulations on the growth of employment and their non-compliance with modern employment relationships—i.e. which is officially recognised as inflexibility of the labour market (with sights on ensuring flexibility). As employment relations is in dire need of modernisation in Estonia, we are looking forward to a constructive discussion and passing of the regulations by the parliament.

In July 2006, the European Commission initiated reform in order to change the organisation of the community sugar market within the framework of the EU community agricultural policy. As a result of the reform, the minimum price for white sugar, which was three times higher than the global market price, will drop by a total of 36% in four years (the lowering of the sugar price in stages: 20% by the first year, 27.5% by the second year, 35% by the third year and 36% by the fourth year). Standardisation of the EU sugar price with the global sugar price (i.e. price reduction) serves the best interests of AS Kalev.

In June 2007, the European Commission resolved to cancel all subsidies for dairy product export. This is in line with the reform of the EU common agricultural policy (CAP) and is conditioned by the development of the global raw material prices. For instance, the price of both milk powder and butter has reached an all-time high. At the same time, the European Commission has taken the position that, should the market reverse, the intervention in dairy product trade will resume. On 1 April 2008, EU milk production quotas were raised by 2% within the framework of the CAP reforms. The gradual increase in quotas resulted in the above decrease in milk price. As the reform provides for full cancellation of the quotas in the European Union by the year 2015, the European Commission has recommended, in order to ensure a smooth transition to the market conditions, a 1% increase in quotas between 2009 and 2014. Further reforms will provide for the cancellation of the obligation to leave uncultivated 10% of the land. The growing food demand will thus result in the increase in the production of agricultural products.

2. Overview of AS Kalev Group

AS Kalev pursues several fields of activity, including manufacturing and sale of foodstuffs, media, real-estate-related activities, publishing and printing activities. The company has long-term experience in the chocolate, sugar and flour confectionery product segment as well as the pastry and dairy product segment. AS Kalev has also pursued various real estate development and management projects for a longer period of time. Last financial year, AS Kalev expanded its activities into media, publishing and related areas. These areas have shown remarkable development in the period. Among other things, the company launched a television channel. Foodstuff production is divided into five production plants, located in Põrguvälja (in Rae Municipality, Harju County), Paide, Viljandi, Jõhvi and Kiviõli. Kalev's products are sold, among other channels, through the pan-Estonian retail chain which consists of 15 candy stores and cafes.

The table below lists the fields of activity pursued by AS Kalev in accordance with the Estonian Classification of Economic Activities (EMTAK 2008) as well as the Estonian version of the classification of economic activities in the European Community (NACE, Rev. 2):

EMTAK code	NACE code	Field of activity
1082	C 10.82	Production of chocolate and sugar confectionery products
1071	C 10.71	Production of pastry products
1051	C 10.51	Milk processing, production of dairy products and cheese
6810,6820	L 68.10,68.20	Real estate activities
5814	J 58.14	Publishing of magazines and other periodicals
6020	J 60.20	Television programmes and broadcasting
94995	S 94.99	Leisure and entertainment activities
18122	C 18.12	Printing of periodicals, advertising materials, etc.

Kalev Group's parent company is AS Kalev. In addition, the group incorporates eighteen subsidiaries. The share of AS Kalev in these companies has been disclosed in Note 21. AS Kalev group underwent a restructuring process in 2006. This was reflected in the financial results for both the previous financial year and the reporting period. AS Uniprint became was incorporated as a subsidiary in the last financial year. Pursuant to the shareholders' agreement, AS Kalev had the right to purchase all of the company's shares. However, AS Kalev did not exercise this right (see Note 21.6).

The first organisational change was introduced at the beginning of the financial year 2007/2008. Namely, AS Kalev acquired a share with a nominal value of 40 thousand EEK in the private limited company Soltari Invest under the contract concluded on 17 August 2007. With the transaction, AS Kalev became the sole shareholder of the private limited company which was renamed into AgriStock OÜ. The subsidiary is involved in the development of the processing of, storage of and reloading of grain products. The above acquisition does not constitute a related party transaction in the meaning of the stock exchange rules.

At the end of 2007, AS Kalev Chocolate Factory launched the transition to product group-based production, starting to manufacture pastry products and flour confectionery products in different production plants. The specialisation served the goal of enhancing logistical and production efficiency in order to ease the pressure on cost price increase, and bring the know-how under a single production unit. The first stage of this process involved changes in biscuit production in the Kiviõli production plant of AS Kalev Jõhvi Tootmine. In the second stage, pastry production was fully transferred to the Jõhvi plant, partly by exploiting the labour resources made available with the first stage. At the same time, the group's flour confectionery production was transferred to the AS Vilma production plant in Viljandi.

In February 2008, Kati Kusmin, who also serves as member of the management boards of AS Kalev's subsidiaries AS Kalev Chocolate Factory, AS Kalev Jõhvi Tootmine and AS Vilma, was appointed the new managing director of OÜ Maiasmokk. In January 2008, AS Kalev transferred its share in the subsidiary OÜ Maiasmokk to its other subsidiary AS Kalev Chocolate Factory. The transfer of the share of OÜ Maiasmokk and appointment of a new managing director had to do with the transfer of the food production companies of AS Kalev.

The members of the Management Board of AS Kalev are elected and removed pursuant to the procedure provided by the Commercial Code. Under the Commercial Code, the members of the Management Board and appointed and removed by the Supervisory Board of AS Kalev. A member of the Management Board shall be elected for a specified term of three years unless the Articles of Association prescribe another term. Extension of the term of office of a member of the Management Board shall not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the law or the Articles of Association

A member of the Management Board may be removed by resolution of the Supervisory Board of AS Kalev regardless of the reason. Rights and obligations arising from a contract concluded with the member of the Management Board shall terminate pursuant to the contract. A member of the Management Board may resign from the Management Board with good reason if he or she gives notice of his or her resignation to the Supervisory Board and, if this is impossible, submits a relevant application to the registrar of the commercial register. With good reason, a court may appoint a new member to replace a removed member of the Management Board on the petition of the Supervisory Board, a shareholder or other interested person. The authority of the court-appointed member of the Management Board shall continue until appointment of a new member of the Management Board by the Supervisory Board. The members of the Management Board of AS Kalev shall be appointed for a term of three years in accordance with the Articles of Association of AS Kalev. If the Management Board has more than two members, the Supervisory Board of AS Kalev shall elect the Chairman of the Management Board amongst the members of the Management Board.

Pursuant to the Commercial Code, a resolution on amendment of the Articles of Association shall be adopted if at least two-thirds of the votes that participate in the meeting are in favour. A resolution on amendment of the Articles of Association shall enter into force as of the making of a corresponding entry in the commercial register. The Articles of Association of AS Kalev have not prescribed a greater majority requirement. AS Kalev only has one type of share.

AS Kalev may be represented in all legal acts by any member of the Management Board. Under the Articles of Association, if the Management Board of AS Kalev has three or more members, the public limited company may be represented in all legal acts by the Chairman of the Management Board alone, or by other members of the Management Board together with the Chairman of the Management Board. Pursuant to the Commercial Code, joint representation shall apply with regard to third persons only if it is entered in the commercial register. The members of the Management Board of AS Kalev shall not have the right to issue or repurchase shares. No agreements have been concluded between AS Kalev and its Management Board members or employees, stipulating any monetary compensation in connection with the takeover set forth in section 19 of the Securities Market Act.

A contract of purchase and sale of shares was concluded on 20 September 2007 between AS Kalev and Alta Capital Partners S.C.A on the transfer of the shares of AS Kalev Paide Tootmine, AS Kalev Chocolate Factory, AS Kalev Jõhvi Tootmine, AS Vilma and OÜ Maiasmokk. Since Alta Capital Partners S.C.A failed to pay the purchase price for the shares by the established term (30 May 2008), the seller did not transfer the shares which formed the object of the contract of purchase and sales. AS Kalev thus considered the contract of purchase and sale, concluded with Alta Capital Partners S.C.A as terminated.

3. Economic activities and financial results

AS Kalev remains one of the most reputable companies in the eyes of people living in Estonia, as revealed by the prominence and reputation survey conducted among major Estonian companies by TNS Emor in April 2008. The survey was conducted among about fifty of the most reputable local companies for the ninth year in a row. According to the latest poll, Estonians consider Kalev the most agreeable company after AS Hansapank (the survey was conducted before the bank's name change), with respect to both attitude scales and general mindset as well as authority image. The results of the survey conducted by TNS Emor reveal that, according to Estonian residents, Kalev has been the most reputable company for the past five years, with an average rating of 8.1 points.[1]

AS Kalev's financial results for the financial year 2007/2008 were affected by several factors, including the group's rapid expansion into other fields of activity, the effect of macroeconomic conditions on the decrease in demand and increase in factor prices, reorganisation of the product portfolio and group restructuring, which was launched in the previous period.

The net sales and net profit of AS Kalev Group companies for the financial year 2007/2008 are shown in the below tables (in thousands of EEK and euros) separately for each company. Comparative data is given for 14 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 is not 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.

	Net sales		Net profit	
EEK	2007/2008 12 months	2006/2007 12 months	2007/2008 12 months	2006/2007 12 months
AS Kalev**	433	144 479	75 894	-62 792
AS Kalev Paide Tootmine*	262 337	315 726	8 505	29 407
AS Kalev REC*	417 249	87 518	79 560	79 373
AS Kalev Jõhvi Tootmine	45 025	40 575	-3 381	-3 877
OÜ Maiasmokk	7 866	7 121	258	-916
AS Vilma	32 937	29 503	188	-1 316
AS Kalev Chocolate Factory	527 083	452 182	6 890	23 614
OÜ Sugarstar	5 934	3 613	-2 343	-1 065
AS Inreko Press***	0	3 853	-335	-288
OÜ Olliwood***	0	4 911	-668	-1 852
OÜ Eksklusiv	3 666	1 350	-1 702	-1 305
AS Kalev Meedia*	18 630	1 431	-58 106	-558
AS Uniprint*	116 941	54 755	1 480	2 294
OÜ AgriStock	25 062	0	-12 698	0

[1] TNS Emor applies a 10-point scale for the survey, with 1 being "very negative" and 10 "very positive"

* consolidated

** calculated change in turnover, as a result of which production activities previously attributed to AS Kalev have been attributed to AS Kalev Chocolate Factory since 01.07.2006, and sale of goods since 01.09.2006.

*** the activities of subsidiaries involved in the media segment have been attributed to AS Kalev Meedia since 01.06.2007.

	Net sales		Net profit	
EUR	2007/2008 12 months	2006/2007 12 months	2007/2008 12 months	2006/2007 12 months
AS Kalev**	28	9 234	4 851	-4 013
AS Kalev Paide Tootmine*	16 766	20 179	544	1 879
AS Kalev REC*	26 667	5 593	5 085	5 073
AS Kalev Jõhvi Tootmine	2 878	2 593	-216	-248
OÜ Maiasmokk	503	455	16	-59
AS Vilma	2 105	1 886	12	-84
AS Kalev Chocolate Factory	33 687	28 900	440	1 509
OÜ Sugarstar	379	231	-150	-68
AS Inreko Press***	0	246	-21	-18
OÜ Olliwood***	0	314	-43	-118
OÜ Eksklusiv	234	86	-109	-83
AS Kalev Meedia*	1 191	91	-3 714	-36
AS Uniprint*	7 474	3 499	95	147
OÜ AgriStock	1 602	0	-812	0

* consolidated

** calculated change in turnover, as a result of which production activities previously attributed to AS Kalev have been attributed to AS Kalev Chocolate Factory since 01.07.2006, and sale of goods since 01.09.2006.

*** the activities of subsidiaries involved in the media segment have been attributed to AS Kalev Meedia since 01.06.2007.

Important factors contributing to the results of core activities of AS Kalev Group for the financial year 2007-2008 are the following:

	%	EEK	EUR
Increase in revenue	45.7%	422 693	27 015
Increase in operating profit	118%	81 659	5 219
Increase in domestic revenue	77,1%	455 983	29 143
Increase in export revenue	-10,0%	-33 289	-2 128
Change in revenue from dairy products	-7.3%	-21 859	-1 397
Change in revenue from confectionery products	11.5%	44 323	2 833

The consolidated net sales of AS Kalev for the financial year 2007/2008 amounts to 1,348 million EEK (86,2 million EUR), - i.e. 46% growth compared with the net sales of the previous financial year. The substantial increase reflects Kalev Group's expansion, — an outcome of implementing the activity plans set out in the previous period. The consolidated net profit for the financial year 2007/2008 amounted to 97,9 million EEK (6,26 million EUR); compared to 30,4 million EEK (1,95 million EUR) in the comparative period.

Important factors contributing to the consolidated financial results of AS Kalev Group for the financial year 2007-2008 are the following:

1. Almost 46% increase in net sales of goods and services compared to the comparative period;
2. 16% increase in consolidated gross profit compared to the comparative period;
3. The importance of domestic revenue has increased – almost 70% of sales are from Estonia, whereby the importance of exported decreased from 36% in the comparative period to 30% in the current period;
4. the revenue from media and event marketing has increased rapidly – sales of those segments has doubled, however the result of afore mentioned business segments are still negative;
5. the realization in the real estate segment has tripled compared to the comparative period – various projects initiated in previous years were launched. The focus from residential and commercial space development has moved to public sector real estate. In conclusion, the real estate segment proved to be one of the most significant business segments during the financial period;
6. 2% nominal increase was achieved in sales of grocery segment, the most significant increase was in sales of sugar- and chocolate confectionery product segment (11.5% to the comparative period)

AS Kalev has slightly increased its gearing in order to finance its development. Company issued bonds to refinance the obligations of its core activity. The increase in current assets eased the financial pressure and increased the current ratio of the Group (see the table below). The increase in finance leverage was caused by increasing liabilities of the Group followed by the increase in financial expenses. However, the increase in sales of goods exceeded the Group's financial expenses. Therefore the overall growth of financial leverage has been marginal.

In terms of expense items, the biggest growth – one third on annual basis - took place in administrative expenses. However, it will remain 11 percent point below the increase that took place in the previous year. This growth has been caused by the current period trends in the macro-economy as well as by the expansion of activities to various sectors.
The 44% growth in personnel expenses of Kalev Group has been largely caused by the number of employees, that increased by more than one third and by the inflationary environment of the Estonian labour market. AS Kalev Group employed an average of 1,184 people in the financial year 2007-2008; in the comparative year the Group employed 879 people as an average.

An overview of the risks (including both financial and non-financial risks) affecting the economic activities of AS Kalev, and corporate risk management, has been provided in Note 25.

The profitability of the Group has improved compared to the previous period (see net profit margin indicators in the following table). Return on assets (ROA) has more than doubled compared to the previous period, reaching 6.4% of consolidated financial results of Group.

The most important financial ratios of AS Kalev Group*:

	AS Kalev Group	
	01.07.2007-30.06.2008	**01.07.2006-30.06.2007**
Current ratio	0.46	0.61
Financial gearing	0.74	0.80
Asset turnover ratio	0.86	0.79
Net profit margin (%)	7.26%	3.3%
ROA (%)	6.27%	2.6%

* The financial ratios have been calculated as follows:

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. Sales volume

As regards volume, the total sales of AS Kalev's confectionery and dairy products amounted to 21,988 tons in the financial year 2007/2008 (21,633 tons in the previous financial year). This constitutes 1.6% real growth, year-on-year. Still, the product sales dynamics are different for different groups of goods: in the confectionery segment, AS Kalev's sales decreased by 6.8% (the total output for the financial year amounted to 9,312 tons, compared to the 9,990 tons in the previous financial year). In the dairy product segment, total sales increased by 8.8% (a total of 12,676 tons, compared to the 11,643 tons in the last financial year).

4.2. Confectionery products

According to the retail trade survey conducted by AC Nielsen in June/July 2008, AS Kalev Chocolate Factory is the Estonian market leader in the chocolate and sugar confectionery segment: The survey revealed that Kalev's market share is nearly 37%, as regards turnover, and 41% as regards volume (33% and 39% in the comparative period, respectively). Compared to the previous period, the company's market share increased the most in the chocolate candy category, with the market share rising to 53% as regards turnover and 65% as regards volume. The market share also increased in the boxed chocolate category, with the share amounting to 32% as regards turnover and 35% as regards volume. Kalev maintained its market share in the chocolate bar category at 54% as regards turnover and 55% as regards volume. In the domestic biscuit market, Kalev Group's market share was approximately 9% in the period (on par with last year), with the market share as regards volume exceeding 11%, ranking Kalev third among manufacturers in the segment. According to AC Nielsen, the total sales of AS Kalev rank the company second on the Baltic sweets market, with the market share amounting to 12% as regards turnover and 14% as regards volume.

As a result of active product development, the company launched a total of 86 new products in the financial year 2007/2008 (including 36 products in the sugar and chocolate confectionery segment and 50 products in the flour confectionery segment). The turnover of new products amounted to 10% of the total turnover in the period.

Three new flavours were launched in the Kalev brand chocolate series: dark chocolate with raspberry (100g), milk chocolate with whole hazelnuts (200g) and white chocolate with cranberry and coconut (100g). The Kalev brand 200-gram chocolate series saw two new additions — dark chocolate with raspberry (previously marketed in 100g bars) and milk chocolate with cookie pieces and plum. The company also launched a new Kalev Special chocolate series — white chocolate with cashews (50g), milk chocolate with hazelnuts (50g) and milk chocolate in three different packages (50g, 100g, 300g).

Two new products — cocoa flavoured chewing candy and fruit flavoured chewing candy — were introduced in the Draakon chewing candy series. The Kalev Toffee series also saw two additions: the Kalev Toffee Cocoa toffee with cookie pieces (150g) and Kalev Toffee Mix (475g). The company also launched a new caramel candy - the Kalev Caramel green apple flavoured hard candy with vitamin C (in 150 g and 2 kg packaging). New candy in the Kalev Praline series included the tiramisu-flavoured praline candy, praline candy with almond, praline candy with strawberry, plum-flavoured praline candy as well as praline candy with coffee and caramelised nuts. Black currant and plum-flavoured candy (175g) was added to the Kalev Marmalade series. The boxed chocolate candy series saw new praline candy products – Tallinna Vanalinn (175g), Kannel (350g), Kalev Finest Pralinės - selection of praline candy (350g) and the Kalev Finest Pralinės tiramisu-flavoured praline candy (85g). In the giftbox series, the company launched new dragee products: the tiramisu-flavoured cocoa-coated almonds, cherry in milk chocolate and hazelnut in milk chocolate in Kalev Dragee 130-gram packages. Three of the most popular products in the Kalev Praline series — the tiramisu flavoured candy, candy with almonds and candy with cashews — were also launched in 150-gram giftboxes and in a mixed 350-gram package.

As regards volume, Kalev Group's total sale of sugar and chocolate confectionery products amounted to 9,312 tons in the financial year 2007/2008. This constitutes a 6% decrease, compared to the total volume of sales of confectionery products in the comparative period.

At the same time, the dynamics of the sale of confectionery products was different for different product groups: quicker-than-average growth could be seen in the sale of chocolate bars (25%), dragee (21%) and boxed chocolate candies (15%); the sale of candy increased by 6% compared to the last financial year. The biggest growth (as regards volume), compared to the same period in the last financial year, could be seen in the sale of chocolate bars (+22%). The same of boxed chocolate candy increased by 15%, while the sale of candy decreased by 5%. Christmas sales were a great contributor to the total sale of confectionery products: in the last few months of 2007, AS Kalev Chocolate Factory sold a total of over 250 tons of (i.e. nearly 440 thousand) Christmas packages of different size and contents. This constitutes a 23% (i.e. over 46 tons) growth, compared to the same period last financial year. Total Christmas sales amounted to 550 tons, with candy packages 45%, chocolate bars 29%, gingerbread cookies 18% and boxed chocolate candy 8%. The Christmas selection included 37 products with different thematic designs.

In the pastry and flour confectionery group, the company launched a total of 19 different pastry products under "Linda", "Kalevipoeg" and "Sakala" trademarks in the financial year 2007/2008. Kalev launched four new pastries under the "Linda" trademark: cherry pie (3x55 g), flaky cheese pastry (2x55 g), curd pie (3x60 g) and vanilla rolls (3x60 g). The classic "Linda" curd cake (250 g) was added to the coffee cake selection. The company also launched a new muffin. A new selection (a total of 14 products) of cakes was launched under the "Linda" trademark, with the group's cake portfolio seeing the addition of three new flavours—-the peach cheesecake (850 g), cheesecake (700g) and chocolate cheesecake (730g). The popular "Vilma" flour mix series saw two new additions—-the thin crust pizza powder (400g) and the vanilla-flavoured cake powder (350g). In the biscuit segment, all biscuits have a new visual and packaging. The tiramisu-flavoured biscuits (180 g) were added to the product portfolio, with "Nisukliiküpsis" biscuits with raspberry and pumpkin seeds added to the low-calorie series with healthy ingredients.

The total volume of sale of flour confectionery products (including pastry products, biscuits and flour mixes) for the financial year 2007/2008 amounted to 2,956 tons. This constitutes a 23% decrease from the total sales of flour confectionery products in the comparative period. Similarly to sugar and chocolate confectionery segments, different sales dynamics can be distinguished among the product groups of the flour confectionery segment: for instance, the total volume of sale of flour mixes increased by nearly 17%, compared to the comparative period, and the sale of biscuits by 9%. The share of export is immaterial in the flour confectionery segment.

In the first half of the financial year 2007/2008, a majority (88%) of the confectionery product output (i.e. sugar, chocolate and flour confectionery products) was sold at the domestic market, with export amounting to 12% of the turnover (8% in the last financial year). Export sales of confectionery products increased by 80%, compared to last year. In the financial year, export to Baltic countries made up more than half of Kalev Group's confectionery product export: 33% was exported to the Lithuanian market (only 3% in the comparative period) and 26% to Latvia; 22% was sold to *Travel Trade*; 9% to Russia and 8% to Finland.

4.3. Dairy products

Different dairy products were produced from the crude milk[2] supplied by AS Kalev Paide Tootmine in the financial year. Due to the market conditions and production/economic reasons, the company focused mainly on the production of cream, skimmed milk and condensed skimmed milk (these made up nearly 77% of the output). AS Kalev Paide Tootmine added higher-fat powders, skimmed milk and milk concentrate to its list of products in the reporting period.

Due to the unfavourable raw material and final price situation in Estonia and abroad, the company temporarily suspended production activities in AS Kalev Paide Tootmine in March 2008. At the same time, sales activities were continued. From April 2008, AS Kalev Paide Tootmine provides contracting services, including to AS Tere. These services mainly include manufacturing of products (mainly powder, fresh cream and drinking milk) which require no milk purchase by the company. Condensed skimmed milk sales made up nearly 37% of the total sales volume of AS Kalev Paide Tootmine in the period. The share of cream was 29% and skimmed milk powder 10% of the total sales volume. Production volume increased by nearly 10.7%, compared to the comparative period, amounting to a total of 12,676 tons. Nearly two-thirds (nearly four-fifths in the comparative period) of the total output of AS Kalev Paide Tootmine was exported to the European Union (mainly Germany).

The increase in the price of stocked milk has had a significant influence on the results for the financial year, as well as on the whole dairy market. According to Statistics Estonia, the average increase in production prices for agricultural products increased by one-fifth from last year, with the price of milk rising by 22%. By the time of preparation of this report, the raw material price increases in Estonia had ceased.

The main focus of product development in AS Kalev Paide Tootmine lies in the creation of additional options for enhancing the value of the raw material. The company thus made bigger investments than in the comparative period — the cream production line was improved with automatic sample-takers in order to get a better sample of the raw material. The company also implemented methods of analysis

[2] Stocking of raw material and use of the raw material in the production process took place in the first three quarters of the financial year; raw materials were not stocked in the fourth quarter, with the company pursuing service projects.

for more accurate measurement of the fat content. For enhancing the value of milkfat by offering it in powdered form, the cream powder production technology was improved: AS Kalev Paide Tootmine added a homogenisator to the production line, and renewed the powder transportation system to bring it into line with the requirements for transporting more glutinous powder. The most important development project focused on creating additional option for valuation of skimmed milk and milk in the production of concentrate (as an alternative to the drying technology), as well as creating loading options for the concentrate.

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 real estate activities, the group bases the portfolio formation on the principle of conservatism. Quick macro-economic changes in the market segment have no significant effect on the group's economic results. 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 (the scheduled term of completion of three schools was July 2008 and two schools December 2008).

The earlier real estate projects of AS Kalev REC have been further developed - the company has sold all apartments in the 19-apartment building in Marati tänav in Tallinn, as well as the 25-apartment building in Hommiku tänav in Pärnu. By the time of preparation of this report, a detailed plan for the Ringi 56a real estate owned by AS Kalev REC's associate OÜ Ringi Haldus has been completed, permitting construction of a 4,600 m^2 apartment building. Design work on the building has already commenced. Detailed plans on Kalev REC's registered immovables at Tervise 5 and Pärnu mnt 139 (legal share) have been completed in the volume of the preliminary building design documentation.

In January 2008, Kalev REC concluded a real right contract on the acquisition of 10 apartment properties in the Tallinn Old Town (at Kinga 1). The transaction price amounted to 77 million EEK, of which the buyer paid 15.4 million EEK prior to the conclusion of the contract, and the remainder after the presentation of the real right contract to the land registry department. Kalev REC has established a combined mortgage on the acquired apartment properties in the amount of 42 million EEK and 18.6 million EEK for the benefit of AS Hansapank.

AS Kalev REC's Bulgarian-based subsidiary EOOD Stude REC is about to complete construction of the 6,500 m^2 apartment building in Sofia. A permit for use of the building will be applied by the end of 2008. Brokers have already been appointed for the sale of the apartments (apartments have been on sale since August 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. The Kalev Group's subsidiary involved in the real estate segment is still eager to participate in various private partnership projects.

4.5. Media

AS Kalev Meedia and its subsidiary OÜ Eesti Spordikanal are involved in three segments: print media, Internet and television. AS Kalev Meedia publishes the gossip magazine *Just*, the financial magazine *Ärielu*, sports magazines *Sporditäht*, *Basket* and *Jalka*; the fashion and lifestyle magazines *Avenüü* and *Avenüü Professional*, the IT magazine *Praktiline Arvutikasutaja* as well as the children's magazines *Muumi* and *Muumi Mõistatuste ja Värviraamat*. These publications had the following average print runs in the financial year: *Just* 13,300, *Ärielu* 5,000, *Sporditäht* 6,200, *Basket* 4,600, *Jalka* 6,900, *Avenüü* 7,400, *Avenüü Professional* 1,400, *Muumi* 9,100, *Muumi Mõistatuste- ja Värviraamat* 5,000, *Praktiline Arvutikasutaja* 4,000. At the same time, actual reader numbers are remarkably bigger for these publications—according to the Estonian Media Survey conducted by TNS Emor in the second quarter of 2008, *Just* had 41,000, *Sporditäht* 12,000, *Avenüü* 15,000, *Muumi* 14,000, *Ärielu* 5,000, *Basket* 7,000 and *Praktiline Arvutikasutaja* 7,000 readers.

In the reporting period, the company upgraded the sports magazine *Sporditäht*. With a new concept and under the supervision of a new editor-in-chief, the magazine is published as a weekly since September 2007. To launch the new product, the company organised an extensive advertising campaign. This was also the first bigger public campaign for AS Kalev Meedia. Major changes were introduced to the contents and format of the gossip magazine Just at the end of 2007. In February 2008, AS Kalev Meedia acquired the IT publication *Praktiline Arvutikasutaja*, with Ando Urbas remaining as the editor-in-chief. AS Kalev Meedia believes *Praktiline Arvutikasutaja* has great potential—the magazine can be marketed to an even wider target group.

The company has also completed several bigger projects. In October 2007, a new concept was developed for the financial magazine *Ärielu*. A new web-based news portal, www.kalev.ee, was completed. In March 2008, the company introduced changes in the design and functionality of the news portal with the aim of making the portal more attractive and the contents more user-friendly for the readers. According to the current statistics, the news portal had an average of 22,516 unique visitors per week, 74,477 per month.

The new sports-orientated news and entertainment channel KalevSport was launched by AS Kalev Meedia's subsidiary OÜ Eesti Spordikanal on 12 November 2007. According to the TV Audience Meter Survey conducted by TNS EMOR between 12 November 2007 and 30 June 2008 (target group: Estonian population over the age of 4), the *Daily Reach* of Kalev Sport was 40,000, the *Daily Reach* % was 3.1 and the *Daily Share* was 0.3%. A total of 446,000 people watched the Kalev Sport channel in the period.

To create synergy between the different pursuits - print media, Internet, telemedia - and ensure the consequent increase in content quality, cost efficiency and competitiveness, the different editorial offices were brought to AS Kalev Meedia's new premises at Tornimäe 5 in the heart of Tallinn. The company also completed the photo studio in the reporting period. As of 30 June 2008, 119 people were employed in Kalev Group's media segment (including 82 in AS Kalev Meedia and 37 in OÜ Spordikanal).

5. Securities

The shares of AS Kalev have been listed in the secondary list of the OMX Tallinn Stock Exchange since 12 August 1996. The share has a nominal value of 10 EEK. 23,632,500 shares have been listed on the stock exchange (AS Kalev's share ISIN number: EE3100002460; abbreviation: KLV1T).

In the period from 1 July 2006 to 30 June 2008, a total of 7.9 million shares of AS Kalev were traded, generating a turnover of 222 million EEK (14.2 million euros). An average of 7 transactions were made per trading day. The average price for the period amounted to 24.46 EEK (1.56 euros) per share. The highest price for the period was 31.29 EEK (2 euros), and the lowest price 17.32 EEK (1.1 euros). The closing price as of 30 June 2008 was 24.25 EEK (1.55 euros) per share. AS Kalev's market capitalisation increased a little more than 30%, compared to the beginning of the period, amounting to 573 million EEK (36.6 million euros) as of 30 June 2008.

AS Kalev's biggest shareholders as of the end of the financial year 2007/2008 (i.e. on 30 June 2008) included Rubla AS (73.14% of the shares), Vipes Invest OÜ (10%) and Moonrider OÜ (7.52%).

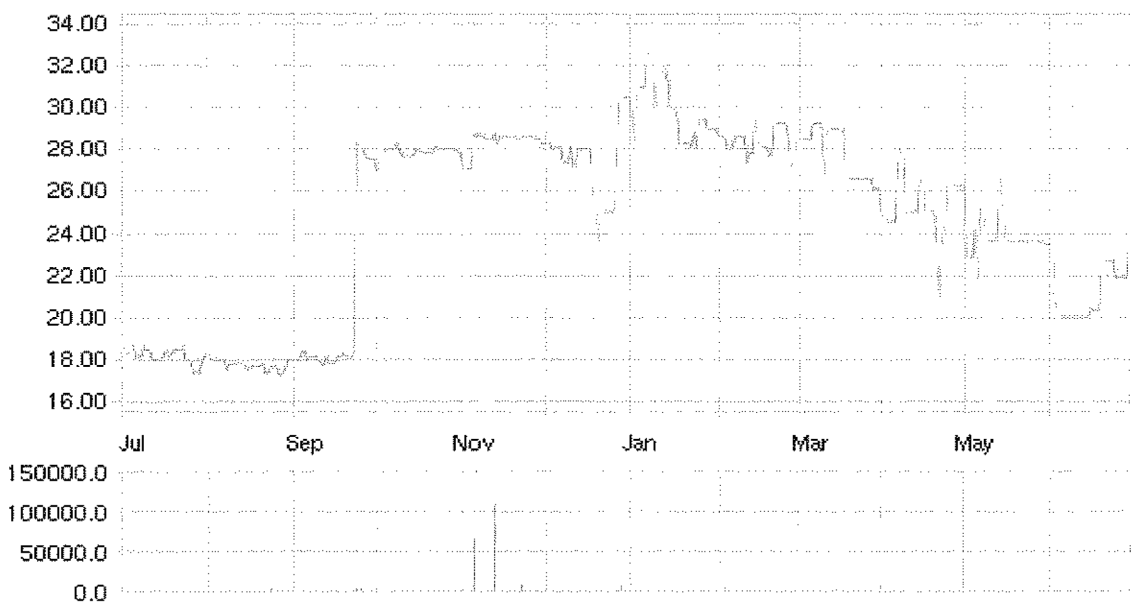

Figure 1. AS Kalev's share: price and turnover (in EEK) for the financial year 2007/2008 (01.07.07-30.06.08)
(*source*: OMX Tallinn Stock Exchange)

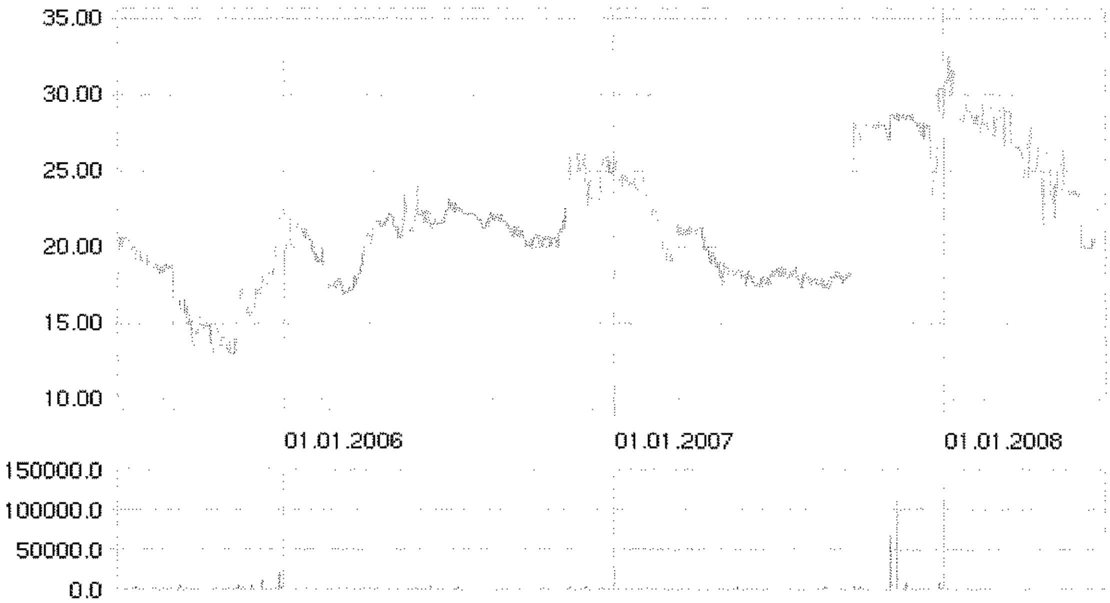

Figure 2. AS Kalev's share: price and turnover (in EEK) for the period 01.07.2005-30.06.2008 (source: OMX Tallinn Stock Exchange)

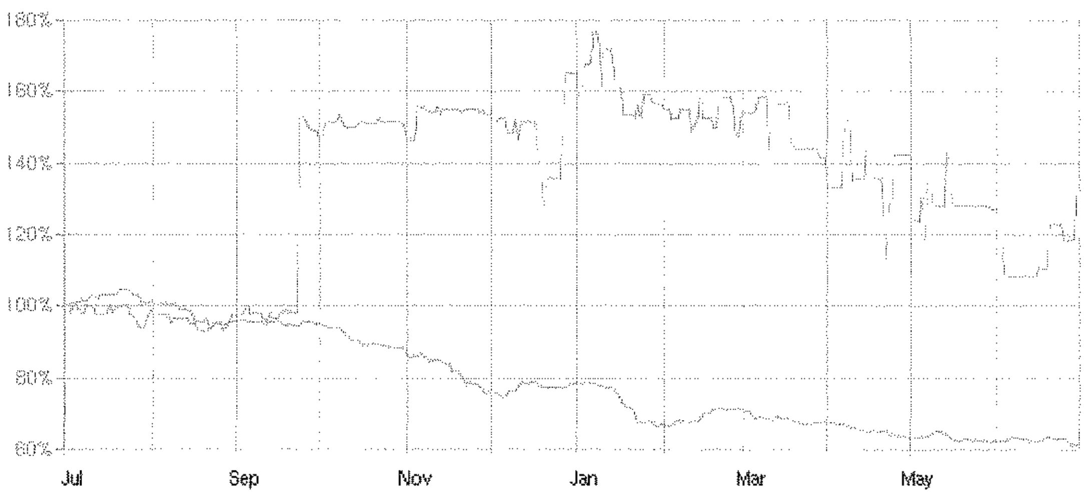

Figure 3. AS Kalev share price and OMX Tallinn index dynamics for the period 01.07.2007-30.06.2008 (AS Kalev's share – grey line, OMX stock index – orange line; *source*: OMX Tallinn Stock Exchange)

6. Organisation and personnel

6.1. Organisational management

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

The organisation has also expanded into a new segment – the media. To assure the implementation of coordinated activity toward changes, a new Group company – AS Kalev Meedia – was to take over the staff, assets and product management of the media companies.

6.2. Human resource management

AS Kalev Group's personnel expenses reached to nearly 156, 2 million EEK (9,98 million EEK) and the average number of employees in the group was 1184. Personnel expenses in terminative business activities amounted to 106 million EEK (6.77 million EUR) and 881 people were employed in those segments. In the previous comparative period personnel expenses were 123 million EEK (7,86 million EUR) and the average number employed in the Group was 879 people. The significant increase in number of employees in Group is based on the rapid development of media segment, however due to the restructuring in food industry segment in the beginning of 2008, 42 employees were made redundant. During the period of July 1, 2007 until June 30, 2008 altogether 58 employees were made redundant from Kalev Group The compensation fee in amount of 1,3 million EEK (0,08 million EUR) was paid. In the comparative period of the previous financial year 15 employees were made redundant, who got compensation fee in amount of 0,7 million EEK (0,04 million EUR)

The significant increase in personnel expenses has been largely caused by the need to offer competitive salary in Estonian labour market, which experienced a rapid growth of salaries.

The company conducted 77 recruitment competitions and the staff turnover amounted to 12,2%. With the growing tension between supply and demand on the Estonian labour market, the staff turnover has not increased and compared to the previous financial year the indicator has decreased. Due to restructuring of process flows, the number of possible errors has been reduced and therefore risks related to core activities decreased.

Among the biggest projects, installment of personnel-, working hours- and salary accounting software combined with training, health and other components, was completed. The upgraded system enables to prepare better surveys and reports, and also gives better IT possibilities to promote personnel administration. The system for giving instructions to blue-collar workers, for aptitude test, for training and remuneration was developed in relation to the project "20 Võtit" and will be implemented in AS Kalev Chocolate Factory in the next financial year.

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 in previous financial year (the company holds the corresponding BVQI-issued quality certificates). AS Kalev, who is expanding business areas has 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 management 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 established by the OMX Tallinn Stock Exchange and the Financial Supervision Authority (harmonized version covering all three Baltic stock exchange since January 1, 2007) is to change the activity and management of listed company more transparent, 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"). Together with the annual report AS Kalev presents 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 with 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 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 the 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 the General Meeting held on December 14, 2005.

Monthly salary (fixed amount in 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 subjects 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 on these events 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 first and foremost 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 time schedules and content 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 Financial Statements*

On the Annual General Meeting of the shareholders of AS Kalev on December 20, 2007, an auditor was chosen for the financial period of 2007-2008. Based on the shareholders decision, the financial statements 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 as agreed between the parties it is not disclosed. 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

From different fields of activities of AS Kalev, the dairy production development is executed by AS Kalev Paide Tootmine. Dairy production is mainly influenced by developments on the world market and by positioning of company's product portfolio. The goal of AS Kalev in this field is to keep expanding. (e.g. well recognized companies of OÜ Põlva Piim Tootmine and AS Tere were acquired after the end of the current financial year) and to become the biggest dairy processor instead of being so called commodity-type producer. Performed technical work to design the product portfolio of AS Kalev Paide Tootmine creates additional possibilities to process fat and gives more opportunities to increase export. AS Tere offers one of the broadest ranges of production by having over 160 different products in its portfolio. OÜ Põlva Piim Tootmine has already specialized on producing (*commodity*) dairy products for export. Afore mentioned changes in consolidating dairy production result from the goal to become competitive supplier of dairy products in all Baltic countries.

The development of the second segment in food production of Kalev group – confectionary products – executed by AS Kalev Chocolate Factory. The aim is to remain on the leader's position in domestic market in both the sugar and chocolate confectionery segment and hold its position in the Baltic countries' market. 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 chocolate confectionery segment, the company will focus on developing chocolate bars, chocolate candy and boxed chocolate candy. In the sugar confectionery segment, the focus is lie on chewing candy and toffee. In the pastry and flour confectionery sector, the main focus is on the domestic market, where over two third of the production is realized. At the same time we can detect potential in biscuit and flour mix export and therefore the attention in the future will be put in afore mentioned product groups. The general product development activity and equipment investments will support mainly the most important product groups. The goal of expansion is to increase profitability, improve export capacity, increase production efficiency and decrease the volume of handwork by implementing new equipment. Assortment optimization supports the profitability increase.

AS Kalev's real estate activities are pursued by AS Kalev REC and its subsidiaries. The past 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 on residential and commercial space development. In the future, the company plans to develop its activities in the public sector real estate, including projects in the form of public-privat partnership. AS Kalev has reassessed its operation strategy due to the sector dynamics and the recent signals about the changes in the real estate sector.

Significant changes are taking place in media and event marketing sector, a new field of activity for AS Kalev. It is planned to continue the development of magazines (content and volume), increase the number of readers and sale of advertisement. Recently a photo-studio was completed to provide publications with operational and high-quality photo material. In addition to the current activities, we are considering opportunities for expansion in media sector, including the launch of a new publication. The development activities comprise also internet news portal www.kalev.ee and television channel "Kalev Sport" aiming to enhance their market position in media sector. In addition to focusing on current television channel of news and sport, the development of media segment is open also to other directions.

Oliver Kruuda
Manager

Kruuda

Tallinn, 3.December 2008

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 27 to 78 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.

Oliver Kruuda
Manager

Tallinn, 3.December 2008

For identification purposes only
ERNST & YOUNG
03.12.2008

CONSOLIDATED INCOME STATEMENT

for the financial years ended June 30

	in thousand EEK		in thousand EUR*		Notes
	2008	2007	2008	2007	
Sales of goods (incl. sold property recognized under inventory)	1 326 241	917 616	84 762	58 646	
Sales revenue from services	14 647	3 460	936	221	
Rental income	7 510	4 629	480	296	
Total net sales	**1 348 398**	**925 705**	**86 178**	**59 163**	6
Cost of sales	-1 125 928	-734 235	-71 960	-46 926	7
Gross profit	**222 470**	**191 470**	**14 218**	**12 237**	
Other operating income	206 807	106 731	13 217	6 822	8
Marketing expenses	-144 878	-117 675	-9 259	-7 521	7
Administrative expenses	-116 207	-87 221	-7 427	-5 574	7
Other operating expenses	-17 537	-24 309	-1 121	-1 554	8
Operating profit	**150 655**	**68 996**	**9 629**	**4 410**	
Financial income	15 168	4 274	969	273	9
Financial expenses	-67 448	-42 562	-4 311	-2 720	9
Pretax profit	**98 375**	**30 708**	**6 287**	**1 963**	
Income tax	-431	-282	-28	-18	
Net profit for the financial year	**97 944**	**30 426**	**6 260**	**1 945**	
net profit (loss) attributable to minority interest	-5	-34	0	-2	
net profit (loss) attributable to the shareholders of the Parent	97 939	30 460	6 260	1 947	10
Basic and diluted earnings per share for net profit (loss) attributable to the shareholders of the Parent (in EEK / in EUR)	4.144	1.289	0.265	0.082	10

* 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.

For identification purposes only
ERNST & YOUNG
03.12.2008

CONSOLIDATED BALANCE SHEET

as of June 30

	in thousand EEK		in thousand EUR*		Notes
	2008	2007	2008	2007	
ASSETS					
Current assets					
Cash and cash equivalents	103 495	17 337	6 615	1 108	
Receivables	170 678	148 050	10 908	9 462	11,12
Prepayments	2 149	2 653	137	170	
Inventories	191 952	218 617	12 268	13 972	13, 14
Total current assets	**468 274**	**386 657**	**29 928**	**24 712**	
Non-current assets					
Investment in associates	30 629	129	1 957	8	21
Long term financial assets	382 673	3 604	24 457	230	11
Investment properties	335 990	214 601	21 474	13 716	15
Property, plant and equipment	572 024	644 876	36 559	41 215	16
Intangible assets	20 761	62 635	1 327	4 003	17
Total non-current assets	**1 342 077**	**925 846**	**85 774**	**59 172**	
TOTAL ASSETS	**1 810 352**	**1 312 503**	**115 703**	**83 884**	
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	696 070	348 317	44 487	22 262	18
Customer prepayments	18 584	1 461	1 188	93	19
Trade accounts payable and other payables	304 817	284 439	19 481	18 179	19
Total current liabilities	**1 019 471**	**634 217**	**65 156**	**40 534**	
Non-current liabilities					
Borrowings	319 489	304 837	20 419	19 483	18
Total non-current liabilities	**319 489**	**304 837**	**20 419**	**19 483**	
Total liabilities	**1 338 960**	**939 054**	**85 575**	**60 017**	
Equity					
Share capital	236 325	236 325	15 104	15 104	
Mandatory legal reserve	5 543	4 020	354	257	
Revaluation reserve	106 215	111 108	6 788	7 101	
Retained earnings	123 251	21 941	7 877	1 402	
Equity attributable to the shareholders of the Parent	**471 334**	**373 395**	**30 124**	**23 864**	20
Minority interests	**58**	**54**	**4**	**3**	
Total equity	**471 392**	**373 449**	**30 127**	**23 867**	
TOTAL LIABILITIES AND EQUITY	**1 810 352**	**1 312 503**	**115 703**	**83 884**	

* 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.

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CONSOLIDATED CASH FLOW STATEMENT

for the financial years ended June 30

	in thousand EEK		in thousand EUR*		
	2008	2007	2008	2007	Notes
Operating activities					
Pretax profit	98 375	30 708	6 287	1 963	
Adjustments to profit:					
Depreciation, amortization and impairment of tangible and intangible assets	51 412	28 789	3 286	1 840	16,17
Gain from the revaluation of investment properties	-33 850	-90 486	-2 163	-5 783	8
Profit (loss) from disposals of non-current assets [1]	-13 697	-13 126	-875	-839	8
Allowance of accounts receivable and inventory	8 011	10 045	512	642	
Financial income	-15 168	-4 274	-969	-273	
Financial expenses	67 448	42 562	4 311	2 720	
Changes in assets related to operating activities:					
Inventories	26 665	28 777	1 704	1 839	13
Receivables	-377 241	6 981	-24 110	446	11
Other	18 514	-87	1 183	-6	
Changes in liabilities related to operating activities:					
Trade accounts payable and other payables	-38 659	-68 582	-2 470	-4 383	19
Customer prepayments	17 123	-26 360	1 094	-1 685	19
Decrease in non-current assets due to de-consolidation	88 613	0	5 663	0	
Decrease in liabilities due to de-consolidation	-13 883	0	-887	0	
Change from subsidiary to an associate	30 480	0	1 948	0	
Income tax paid	-713	0	-46	0	
Net cash from operating activities	**-86 570**	**-55 053**	**-5 533**	**-3 519**	
Investing activities					
Acquisition of subsidiaries and other long term shares	-10 250	-34 541	-655	-2 208	
Proceeds from disposals of non-current assets [1]	30 100	31 619	1 924	2 021	8,15,16
Purchases of non-current assets [1]	-145 410	-67 908	-9 293	-4 340	15,16
Loans granted	-31 547	-5 803	-2 016	-371	
Repayments of granted loans	47 266	7 726	3 021	494	
Interests received	16 681	2 071	1 066	132	
Net cash used for investing activities	**-93 160**	**-66 836**	**-5 954**	**-4 272**	
Financing activities					
Repayments of borrowings	-210 441	-182 522	-13 450	-11 665	
Borrowings received and issued bonds	628 520	475 156	40 170	30 368	
Repayment of finance lease liabilities	-87 365	-92 062	-5 584	-5 884	
Change in overdraft	2 697	-29 091	172	-1 859	18
Interests paid	-67 523	-42 335	-4 316	-2 706	
Net cash from financing activities	**265 888**	**129 146**	**16 993**	**8 254**	
Total net cash flow	**86 158**	**7 257**	**5 506**	**464**	
Cash and cash equivalents at the beginning of the period	**17 337**	**10 080**	**1 108**	**644**	
Change in cash and cash equivalents	86 158	7 257	5 506	464	
Cash and cash equivalents at the end of the period	**103 495**	**17 337**	**6 615**	**1 108**	

[1] 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 consolidaed financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial years ended June 30

in thousand EEK	Equity attributable to the shareholders of the Parent						
	Share capital	Mandatory legal reserve	Revaluation reserve	Retained earnings	Total	Minority interests	Total equity
As of June 30, 2006	**236 325**	**4 020**	**116 315**	**-13 225**	**343 435**	**88**	**343 523**
Transfer from revaluation reserve to retained earnings	0	0	-4 707	4 707	**0**	**0**	**0**
Impairment of assets	0	0	-500	0	**-500**	**0**	**-500**
Net profit for the financial year	0	0	0	30 460	**30 460**	**-34**	**30 426**
Total recorded changes in 2006/2007	0	0	-5 207	35 167	**29 960**	**-34**	**29 926**
As of June 30, 2007	**236 325**	**4 020**	**111 108**	**21 942**	**373 395**	**54**	**373 449**
Transfer from revaluation reserve to retained earnings (note 5.10)	0	0	-4 893	4 893	**0**	**0**	**0**
Transfer to legal reserve	0	1 523	0	-1 523	**0**	**0**	**0**
Net profit for the financial year	0	0	0	97 939	**97 939**	**5**	**97 944**
Total recorded changes in 2007/2008	0	1 523	-4 893	101 309	**97 939**	**5**	**97 944**
As of June 30, 2008	**236 325**	**5 543**	**106 215**	**123 251**	**471 334**	**58**	**471 392**

Additional information on the share capital has been presented in Note 20. Information on the formation and potential uses of the mandatory legal reserve and the revaluation reserve has been presented in Note 5.17.

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in thousand EUR*	Equity attributable to the shareholders of the Parent						
	Share capital	Mandatory legal reserve	Revaluation reserve	Retained earnings	Total	Minority interests	Total equity
As of June 30, 2006	**15 104**	**257**	**7 434**	**-845**	**21 949**	**6**	**21 955**
Transfer from revaluation reserve to retained earnings	0	0	-301	301	**0**	**0**	**0**
Impairment of assets (note 16)	0	0	-32	0	**-32**	**0**	**-32**
Net profit for the financial year	0	0	0	1 947	**1 947**	**-2**	**1 945**
Total recorded changes in 2006/2007	0	0	-333	2 248	**1 915**	**-2**	**1 913**
As of June 30, 2007	**15 104**	**257**	**7 101**	**1 402**	**23 864**	**4**	**23 867**
Transfer from revaluation reserve to retained earnings (note 5.10)	0	0	-313	313	**0**	**0**	**0**
Transfer to legal reserve	0	97	0	-97	**0**	**0**	**0**
Net profit for the financial year	0	0	0	6 259	**6 259**	**1**	**6 260**
Total recorded changes in 2007/2008	0	97	-313	6 475	**6 259**	**1**	**6 260**
As of June 30, 2008	**15 104**	**354**	**6 788**	**7 877**	**30 124**	**4**	**30 128**

* 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.

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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, 2008 were authorized for issue by the Manager on 3 December 2008. 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.

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, publishing magazines, printing service and the developing of real estate. The structure of the Group as of June 30, 2008 has been disclosed in Note 21.

AS Kalev address is Tornimäe 5, Tallinn, 10145, Republic of Estonia.

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 from the presentation currency to the supplemental information in Euro.

The consolidated financial statements have been prepared on a historical cost basis except investment properties, which are measured at fair value and land and buildings under property, plant and equipment, which are measured at revalued amount.

According to the Estonian Accounting Act the financial statement of the Parent that are not a required part of the consolidated financial statements are presented in consolidated financial statements (see Note 29) , which is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. 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 Note 3 and 5.20).

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.

All intra-group transactions, balances and unrealized profits and losses 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 financials statements using the purchase method of accounting. Accordingly, the consolidated income statement and consolidated cash flow statement include the results and cash flows of new subsidiaries for the period starting from their acquisition date. The purchase consideration is allocated to the fair value of the assets acquired and liabilities and contingent liabilities assumed on the date of acquisition. The acquisition cost exceeding fair value of acquired net assets is accounted under goodwill (see accounting principle 5.11). Goodwill represents a payment made in anticipation of future economic benefits from assets of an acquire 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 statements:

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;

IAS 1 Presentation of Financial Statements. This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes of managing capital;

IFRIC 10 Interim Financial Reporting and Impairment. This interpretation establishes that an entity must 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;

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group amended its accounting policy accordingly. The Group has not issued instruments caught by this interpretation.

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. The Group has applied the principles outlined in IFRIC 12 already in its 2007/2008 financial statements. Please refer to Note 27 for more details.

3.2 New IFRS standards and interpretations

In the opinion of the management of the Group, some of 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, will have an effect on the value of the assets and liabilities of the Group as of June 30, 2008 and will also affect disclosures. These standards and interpretations will be applied starting from their effective date or following endorsement by the European Union if later:

IAS 23 Borrowing costs (revised). The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The revised IAS 23 will be effective for financial years beginning on or after 1 January 2009 and is expected to have an impact on the financial statements of the Group;

IFRS 8 Operating segments. IFRS 8 was issued in November 2006 and is effective for financial years beginning on or after 1 January 2009. IFRS 8 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The Group has determined that the operating segments disclosed in IFRS 8 will be the same as the business segments disclosed under IAS 14. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2009;

IFRIC 13 Customer Loyalty Programmes. IFRIC Interpretation 13 becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC Interpretation 14 becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

IFRIC 15 Agreement for the Construction of Real Estate. IFRIC 15 becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27Consolidated and Separate Financial Statements. The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements. The revised standards become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests.

IAS 1 Revised Presentation of Financial Statements. The revised Standard becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation. These amendments to IAS 32 and IAS 1 become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. These amendments to IAS 39 become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of ihflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRS 2 Share-Based Payment (Amendments). The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is cancelled. This amendment will be effective for financial years beginning on or after 1 January 2009.

Improvements to IFRSs. In May 2008, IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The following standards have been amended:

IAS 1 Presentation of Financial Statements
IAS 8 Accounting Policies, Change in Accounting Estimates and Errors
IAS 10 Events after the Reporting Period:
IAS 16 Property, Plant and Equipment
IAS 23 Borrowing Costs
IAS 28 Investment in Associates
IAS 31 Interest in Joint ventures
IAS 36 Impairment of Assets

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IAS 38 Intangible Assets
IFRS 7 Financial Instruments: Disclosures

The Group anticipates that these changes will have no material effect on the financial statements.

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 classification of real estate.items.

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. Information on the carrying amount of real estate has been presented in Notes 13, 15 and 16.

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.

4.2 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.

<u>4.2.1 Contingent liability related to so-called sugar fine</u>

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 24.2.3.

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 2008 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 342,719 thousand EEK as of 30.06.2008 (2007: 351,352 thousand EEK).

4.2.3 Impairment test of assets

Due to indications of impairment, the Group has performed an impairment test on the assets of pastry, chocolate and media segments, by comparing the carrying amounts of the segment's assets with recoverable amount. 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. The Group verified that the recoverable amount of the segments' assets (determined by assets' fair value less costs to sell) is higher than their carrying amount and there are no needs for impairment loss. Information on the carrying amount of the assets of pastry, chocolate and media segments has been presented in Note 6.

4.2.4 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, 2008 was 19,098 thousand EEK (2007: 62,459 thousand EEK). During the financial year 2008 impairment loss of 4,091 thousand EEK was recognized. More details have been laid out in Notes 5.11 and 17.

4.2.5 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, 2008 amounts to 38,955 thousand EEK (2007: 54,690 thousand EEK). For additional information on loans granted, see Note 11.

4.2.6 Impairment test of real estate items belonging to property, plant and equipment

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. 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 deprecation 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. Subscription prepayments for magazines are initally recorded as deferred income and recognised as revenue linearly during the subscription period. Advertising revenue is recognised in the period when advertisements are published. Until then, prepayments for advertisements are recorded under "customers' prepayments" in balance sheet.

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. 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.

The functional currencies of the foreign subsidiaries Kalev Merchant Services Ltd and Stude REC EOOD is the currency of their primary economic environment (United States of America and Bulgaria, respectively), 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

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 at the time of acquisition.

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. Receivables include also trade accounts receivable. The Group does not have financial assets that are classified as fair value through profit or held to maturity financial assets.

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. Fair value changes are recorded in equity. The Group does not have available-for-sale financial assets.

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).

TV program licences are valued at their acquisition cost. Cost of such inventories is assigned by using the individual cost method. Licences, as well as costs of self-produced programs are expensed after being broadcasted, while 2/3 is expensed after the first broadcast and 1/3 is expensed after the broadcast has been repeated.

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". Any resulting decrease in the carrying amount of the property is recognised in profit or loss. However, to the extent that an amount is included in revaluation reserve for that property, the decrease is charged against 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 5.13).

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.

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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 (22/78 of net dividend paid out before December 31, 2007; 21/79 of net dividend paid / payable out during the calendar year 2008).

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The Group'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 Group's retained earnings as dividends is disclosed in Note 20.

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 Group'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 Group. 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 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 financials statements of the Parent as described in IAS 27. See Note 29 for details.

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.

5.23 Service concession arrangements

The service arrangement presentation principles are based on the guidance in IFRIC 12 and applied if the Group:

(a) contractually obliges to provide the services to the public on behalf of the public sector entity.
(b) the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.
(c) the Group is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
(d) the contract sets the initial prices to be levied by the Group and regulates price revisions over the period of the service arrangement.
(e) the Group is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

Infrastructure is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the Group. The Company has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

Under the terms of contractual arrangements the Group acts as a service provider where it constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Group recognises and measures revenue in accordance with IAS 11 and 18 for the services it performs. If more than one service (ie construction or upgrade services and operation services) is performed under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. The nature of the consideration determines its subsequent accounting treatment.

The subsequent accounting for consideration received as a financial asset and as an intangible asset is detailed as follows:

If the Group provides construction or upgrade services the consideration received or receivable by the Group is recognised at its fair value. The consideration may be rights to:

(a) a financial asset, or
(b) an intangible asset.

The Group recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the Group ensuring that the infrastructure meets specified quality or efficiency requirements.

The Group recognises an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components is recognised initially at the fair value of the consideration received or receivable.

The nature of the consideration given attributable to the arrangement are capitalised during the construction phase of the arrangement.

NOTE 6 SEGMENT INFORMATION

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

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.

2008	Confectionery (except pastries)	Pastries	Dairy products	Real estate	Media	Printing services	Event marketing	Total
Revenue from external clients:								
- net sales	430 388	89 707	277 701	415 204	21 591	108 453	5 354	1 348 398
- other operating income	835	173	836	61 928	184	288	0	64 244
Total segment revenue	**431 223**	**89 880**	**278 537**	**477 132**	**21 775**	**108 741**	**5 354**	**1 412 642**
Segment result	**64 735**	**4 697**	**10 354**	**53 877**	**-58 671**	**5 482**	**-2 319**	**78 155**
Undivided other income								142 563
Unallocated expenses								-70 062
Operating profit								**150 655**
Pretax profit								98 375
Income tax								-431
Net financial items								-52 280
Net profit for the financial year								**97 944**
Segment assets	465 138	48 879	155 421	873 125	28 739	0	185	1 571 487
Unallocated assets								238 865
Total assets								**1 810 352**
Segment liabilities	231 213	16 929	71 948	655 326	23 379	0	1 231	1 000 026
Unallocated liabilities								338 934
Total liabilities								**1 338 960**
Segment capital expenditures for non-current assets	40 882	3 642	5 777	87 539	3 316	7 703	0	148 859
Unallocated capital expenditures for non-current assets								25 545
Total expenditures for non-current assets								**174 404**
Segment depreciation and amortization	-10 465	-4 358	-14 494	-176	-429	-8 907	-5	-38 834
Depreciation and amortization of unallocated assets								-12 578
Total depreciation, amortization and impairment of assets								**-51 412**
Other non-monetary expenses of segments (allowances, provisions etc.)	11 129	317	905	0	603	0	0	12 954

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

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2007	Confectionery (except pastries)	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**
Total segment revenue	**389 736**	**96 360**	**307 888**	**181 104**	**10 216**	**53 224**	**2 449**	**1 040 977**
Segment result	**29 694**	**-791**	**10 825**	**81 846**	**-3 819**	**3 879**	**-826**	**120 808**
Unallocated expenses								-51 812
Operating profit								**68 996**
Net financial items								-38 288
Pretax profit								30 708
Income tax								**-282**
Net profit for the financial year								**30 426**
Segment assets	359 753	51 998	140 384	531 090	23 754	172 553	399	1 279 931
Unallocated assets								32 572
Total assets								**1 312 503**
Segment liabilities	279 455	17 808	123 712	225 072	4 828	100 206	970	752 051
Unallocated liabilities								187 003
Total liabilities								**939 054**
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
Total expenditures for non-current assets								**239 063**
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
Total depreciation, amortization and impairment of assets								**-24 739**
Other non-monetary expenses of segments (allowances, provisions etc.)	8 397	213	4 550	122	1 315	0	0	14 597

6.2 Secondary segment format – geographical segments

Sales:	2008	2007
- Estonia	1 047 719	591 736
- Latvia and Lithuania	42 665	21 074
- Scandinavia	30 335	20 761
- Other EU countries	200 783	261 800
- Others	26 896	30 333
Total	**1 348 398**	**925 704**

Division to geographical segments is based on the location of the Group's customers. All significant assets of the Group are located in Estonia.

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6.3 Sales according to EMTAK classification

EMTAK code	NACE code	Field of activity	2008	2007
1082	C.10.8.2	Manufacture of cocoa, chocolate and sugar confectionary	430 388	386 065
1071	C.10.7.1	Manufacture of bread; manufacture of fresh pasty goods and cakes	89 707	96 292
1051	C.10.5.1	Operation of dairies and cheese making	277 701	299 560
6810,6982	C.68.1.0;C.68.2.0	Real estate activities	415 204	78 589
5814	J.58.1.4	Publishing of journals and periodicals	19 651	10 207
6020	J.60.2.0	Television programming and broadcasting activities	1 940	0
94995	S.93.2.9	Other amusement and recreation activities	5 354	2 449
18122	C.18.1.2	Printing of periodicals, promotion materials etc.	108 453	52 542
TOTAL			**1 348 398**	**925 704**

NOTE 7 COST OF SALES, MARKETING EXPENSES AND ADMINISTRATIVE EXPENSES

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

	2008	2007
Cost of materials and goods (incl. sold property recognised under inventory)	-904 331	-571 783
Personnel expenses	-105 420	-62 846
Depreciation (Note 16, 17)	-37 427	-16 701
Expenses related to transport	-7 810	-9 541
Maintenance and rent of buildings and equipment	-33 060	-26 147
Electricity, water, heat	-28 842	-32 770
Other expenses	-9 038	-14 447
Total cost of sales	**-1 125 928**	**-734 235**
Personnel expenses	-41 248	-36 083
Depreciation (Note 16, 17)	-4 506	-4 278
Expenses related to transport	-37 693	-22 922
Advertising expenses	-36 195	-28 353
Research and development expenses	-5 328	-4 400
Fees for consultations	-4 560	-4 232
Maintenance and rent of premises	-5 637	-3 855
Other expenses	-9 711	-13 551
Total marketing expenses	**-144 878**	**-117 675**
Personnel expenses	-31 087	-25 281
Depreciation, amortization (Notes 16, 17)	-5 388	-3 260
Expenses related to transport	-7 469	-6 079
Maintenance and rent of rooms	-26 131	-6 907
Legal service expense	-1 170	-7 478
Fees for consultations	-11 650	-19 599
Other services bought in	-10 224	-603
Other expenses	-23 088	-18 014
Total administrative expenses	**-116 207**	**-87 221**

Abovementioned personnel expenses are divided as follows:

Salary and wages	-134 045	-92 675
Social taxes	-43 710	-30 539
Total personnel expenses	**-177 755**	**-123 214**

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In the reporting period, the average number of employees of the Group amounted to 1,184 (2006/2007: 879). Compensation for lay-offs and employment termination was paid to 58 employees (2006/2007: 15) in the total amount of 1,318 thousand EEK (2006/2007: 664 thousand EEK).

NOTE 8 OTHER OPERATING ITEMS

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

	2008	2007
Gain from disposals of property, plant and equipment	4 867	8 125
Gain from the revaluation of investment properties (Note 15)	33 850	90 486
Gain from sales of investment properties	10 195	5 001
Government grants [1]	0	685
Other operating income [3]	157 896	2 434
Total other operating income	**206 808**	**106 732**
Loss from disposals of property, plant and equipment	-1 365	-136
Impairment of inventories (Note 14) [2]	-1 987	-337
Impairment of receivables (Note 12)	-6 024	-9 708
Fines for delay and penalties	-2 407	-4 492
Net foreign exchange losses	-439	-367
Impairment of goodwill (Note 17)	-4 091	-4 550
Other operating expenses	-1 224	-4 719
Total other operating expenses	**-17 537**	**-24 309**
Total other operating items	**189 270**	**82 422**

[1] The subsidy was received regarding sales of dairy product and sugar outside of the European Union.

[2] Amount of the impairment also includes inventories in the amount of 337 thousand EEK that were expensed directly (i.e. these inventories were written off from balance sheet without prior allowance recognition) (2007: 287 thousand EEK).

[3] Other income in 2008 consists of the following items:

Fines and compensations from Alta	142 274
Fine for cancellation of a contract	7 000
Other	8 622
Total other operating income	**157 896**

Fines and compensatsions from Alta are related with the breach of agreement concluded between AS Kalev and Alta. See also Note 28.13.

NOTE 9 FINANCIAL ITEMS

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

	2008	2007
Interest income	14 680	4 263
Other financial income	488	11
Total financial income	**15 168**	**4 274**
Net foreign exchange losses	-733	-142
Interest expenses	-63 577	-41 375
Other financial expenses	-3 098	-1 045
Total financial expenses	**-67 448**	**-42 562**
Total financial items	**-52 280**	**-38 288**

NOTE 10 EARNINGS PER SHARE

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

	2008	2007
Net profit (loss) attributable to the shareholders of the Parent	97 939	30 460
The weighted average number of shares in the period (in thousands)	23 633	23 633
Earning per share	**4.14**	**1.29**

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 20.

NOTE 11 RECEIVABLES

as of June 30, in thousands of kroons

11.1 Short-term receivables

	2008	2007
Short-term receivables		
Trade accounts receivable	62 896	78 432
Short-term loans [1]	38 955	54 690
Other receivables [2]	60 894	439
Accrued income	2 571	4 084
VAT prepayment	6 079	18 010
Allowance for receivables (Note 12)	-716	-7 605
Total short-term receivables	**170 678**	**148 050**

[1] The Group has granted short-term loans without collaterals with an average effective interest rate of 8% (2007: 6%).

[2] Other receivables are connected with other income in 2008 see Note 8 for further information.

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11.2 Long-term receivables

	2008	2007
Long-term investments	3 476	3 564
Long-term loans given	0	40
Other receivables[1]	379 197	0
Total long-term receivables	**382 673**	**3 604**

[1] Other receivable are connected with the schools' renovation project, see Note 27 for futher information.

NOTE 12 ALLOWANCE FOR RECEIVABLES

as of June 30, in thousands of kroons

	2008	2007
Allowance for receivables at the beginning of period	-7 605	-1 572
Additional allowance	-317	-7 570
Derecognition of impaired receivables	7 206	1 537
Total allowance for receivables	**-716**	**-7 605**

During the reporting period the receivables of the Group have been considered as uncollectible receivables in the amount of 5,707 thousand EEK (2007: 2,138 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.

The aging of receivables is presented below:

		Past due but not impaired				
	Neither past due nor impaired	up to 3 months	up to 6 months	up to 12 months	over 12 months	Total
2008	530 398	4 539	275	955	5 775	**541 942**
2007	103 269	14 844	9 915	5 573	0	**133 601**

In 2008, there were approximately 6 million EEK of receivables overdue more than one year that had not been provided for. According to the Management of AS Kalev, these receivables are collectible. By the date of issuing the annual report approximately 4 million of these receivables have been collected.

NOTE 13 INVENTORIES

as of June 30, in thousands of kroons

	2008	2007
Raw materials	24 359	36 770
Work-in-progress	2 753	2 405
Finished products	13 866	35 250
Real estate for sale *	147 893	139 132
Goods purchased for resale	2 643	4 257
Allowance for inventories (Note 14)	0	-50
Prepayments to suppliers	438	853
Total inventories	**191 952**	**218 617**

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As of June 30, 2008, real estate for sale includes purchased land for resale purpose in 82,425 thousand EEK (2007: 82,282 thousand EEK) and on balance sheet date real estate projects in the development process in the amount of 64,531 thousand EEK (2007: 56,850 thousand EEK). After the balance sheet date 82,425 thousand EEK of inventories have been realized.

NOTE 14 ALLOWANCE FOR INVENTORIES

For the financial years ended June 30, in thousands of kroons

	2008	2007
Allowance at the beginning of the period	-50	-2 208
Allowence written off from balance sheet	50	2 208
Additional allowance	0	-50
Allowance at the end of the period	**0**	**-50**

As of June 30, 2008 the Group has provided no allowance for inventories (2007: 50 thousand EEK). The book value (i.e. net realizable value) of inventories, for which the allowance has been provided for, is 0 EEK as of June 30, 2008 (2007: 50 thousand EEK).

Inventory allowance is presented under "other operating items". (Note 8)

NOTE 15 INVESTMENT PROPERTY

in thousands of kroons

	Investment properties, excl. prepayments	Prepayments for investments	Total
Book value June 30, 2006	**89 944**	**0**	**89 944**
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
Book value June 30, 2007	**213 876**	**725**	**214 601**
Acquisitions	69 460	18 079	87 539
Reclassification	15 400	-15 400	0
Change in fair value – recorded in income statement	33 850	0	33 850
Book value June 30, 2008	**332 586**	**3 404**	**335 990**

In the reporting period, the Group earned rental income from investment properties in the total amount of 7,510 thousand EEK and received no gain from disposals (2007: 4,629 thousand EEK and 5,001 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, 2008, the carrying amount of investment property whose fair value has not been determined by an independent valuer amounts to 321,853 thousand EEK (2007: 208,750 thousand EEK).

NOTE 16 PROPERTY, PLANT AND EQUIPEMENT

as of June 30, in thousands of kroons

	Land	Buildings	Machinery and equipment	Other items	CIP*	Total
Book value as of June 30, 2006	**13 111**	**348 362**	**84 315**	**8 005**	**92 047**	**545 840**
Acquisitions from business combination (Note 21)	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	0	-500	0	0	0	-500
Depreciation charge	0	-11 010	-10 276	-2 919	0	-24 205
Book value as of June 30, 2007	**11 508**	**339 844**	**200 650**	**11 713**	**81 161**	**644 876**
Acquisitions	0	2 242	18 808	19 230	44 384	84 664
Disposals	0	-18 689	-941	-216	-1 890	-21 736
Reclassifications	1 179	10 788	27 335	11 156	-50 458	0
Other movements (Note 21)	0	0	-88 275	-338	0	-88 613
Depreciation charge	0	-9 486	-20 971	-5 425	-11 282	-47 167
Book value as of June 30, 2008	**12 687**	**324 699**	**136 603**	**36 120**	**61 915**	**572 024**
Cost / revalued amount as of June 30, 2006	13 111	348 362	166 570	18 133	92 282	638 458
Accumulated depreciation as of June 30, 2006	0	0	-82 255	-10 128	-235	-92 618
Cost / revalued amount as of June 30, 2007	11 508	350 163	324 572	19 849	81 160	787 252
Accumulated depreciation as of June 30, 2007	0	-10 319	-123 922	-8 135	0	-142 376
Cost / revalued amount as of June 30, 2008	12 687	340 813	225 946	45 134	73 197	697 777
Accumulated depreciation as of June 30, 2008	0	-18 114	-87 343	-9 014	-11 282	-125 753

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

	2008	2007
Machinery and equipment	11 292	12 297
Other items	1 286	2 767
Buildings	58	224
Total	**12 578**	**15 064**

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 amortized replacement cost method were used and prices of comparable transactions were used for determining the fair value of land.

The carring amounts of land and buildings that would have been recognised had the assets been carried under the cost model are 13,880 thousand EEK and 228,454 thousand EEK for buildings (2007: 12,700 thousand EEK and 237,804 thousand EEK).

*Construction in process (CIP) of the Group includes uninstalled equipment or equipment currently under installation and prepayments for property, plant and equipment (as of June 30, 2008: 72,919 thousand EEK and 278 thousand EEK and 2007: 77,853 thousand EEK and 3,307 thousand EEK, respectively is amortized).

Depreciation charge has been recognised as follows: -37,427 thousand EEK (2007: -16,701 thousand EEK) as cost of sales, -4,506 thousand EEK (2007: -4,278 thousand EEK) as marketing expenses, and -5,388 thousand EEK (2007: -3,226 thousand EEK as administrative expenses.

NOTE 17 INTANGIBLE ASSETS

as of June 30, in thousands of kroons

	Goodwill	Other intangible assets	Total
Book value as of June 30, 2006	**4 550**	**10**	**4 560**
Acquisitions from business combination (Note 21)	62 459	200	62 659
Impairment of positive goodwill	-4 550	0	-4 550
Amortisation charge	0	-34	-34
Book value as of June 30, 2007	**62 459**	**176**	**62 635**
Acquisitions	0	2 201	2 201
Impairment	0	-400	-400
Acquisitions from business combination (Note 21)	4 091	0	4 091
Impairment of positive goodwill (Note 8)	-4 091	0	-4 091
Other movements (Note 21)	-43 361	-160	-43 521
Amortisation charge	0	-154	-154
Book value as of June 30, 2008	**19 098**	**1 663**	**20 761**
Cost as of June 30, 2006	4 550	359	4 909
Accumulated amortisation	0	-359	-359
Cost as of June 30, 2007	62 459	559	63 018
Accumulated amortisation	0	-383	-383
Cost as of June 30, 2008	19 098	1 926	21 024
Accumulated amortisation	0	-264	-264

Reporting period amortisation charge has been recognised only on administrative expenses for the total of -154 thousand EEK (2007: -34 thousand EEK).

Outstanding goodwill balance as of June 30, 2008 originates from acquisitions of AS Inreko Press, OÜ Olliwood and AS Eksklusiiv. Goodwill was tested against the impairment at year-end. 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 2% was used and discount factor of 9% 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. A 1% change in the terminal value growth rate would change the recoverable value by 10% and a 1% change in the discount rate would change the recoverable value by 15%. Change in the expected lifetime of the asset by one year would affect the recoverable value by 12%.

In the previous period, 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.

For goodwill related with other subsidiares, the value in use was 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. The present value of cash flows was found to exceed the book value of subsidiary's net assets and goodwill.

NOTE 18 BORROWINGS

as of June 30, in thousands of kroons

2008	Current portion	Non-current portion	Total borrowings	Interest rates	Due dates
Overdraft	19 658	0	19 658	6 month EURIBOR+1.5%	2008-2009
Bonds	184 571	60 626	245 197	12.0%	2008-2009
Other loans	101 163	0	101 163	6-12%	2008-2009
Short-term bank loans	300 177[1]	0	300 177	6 month EURIBOR+1.5%, 6%	2008-2009
Long-term bank loans	81 562	227 559	309 121	6 month EURIBOR+1.4%-2.5%	2008-2016
Lease liabilities (Note 22)	8 939	31 304	40 243	6 month EURIBOR+0.95%-2%	2009-2015
Total borrowings	**696 070**	**319 489**	**1 015 559**		

[1]Subsequent to the balance sheet date, BCA Center and Hansapank concluded an amendment to the loan agreement, according to which the due date for the loan repayment was changed to 30 September 2009. See also Note 18.1.

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 22)	24 407	74 208	98 615	5.37-5.923%	2008-2014
Total borrowings	**348 317**	**304 837**	**653 154**		

Certain leases have an interest rate related to Euribor (plus 2-3,25%) and others have a fixed interest rate (6-10%).
All loans have been denominated in EEK or EUR. See Note 23 for information on pledged assets.

18.1. 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 mentioned above secures the receivables of AS Hansapank against OÜ BCA Center rising from a loan agreement concluded between the parties. According to the loan agreement, OÜ BCA Center is granted a loan limit of 23,227 thousand euros. 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 initial loan repayment date was 30 April 2009, but subsequent to the balance sheet date the loan repayment was changed to 30 September 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.

By the date of preparing the annual report, ownership in OÜ BCA Center has been disposed of (Note 28.5)

18.2. 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 euros for the purpose of financing its working capital. The due date for withdrawing the loan was August 26, 2007. Interest and principal loan payments will be made on a monthly basis. Interest rate on the loan is Euribor+2.5% According to the payment schedule the loan repayments were set as annual instalments until April 30, 2008. In May 2008 the outstanding loan amount 10,000 thousand EEK (639,116 euros) was extended until August 30, 2008. The loan has been repaid by the date of preparing the annual report.

18.3. Loan agreement concluded by AS Kalev Real Estate Company

At the end of January, 2008 AS Kalev Real Estate Company (hereafter Kalev REC) acquired a tenement in Tallinn, Kinga street 1. The total purchase price of tenement is 77 million EEK. The transaction was partially financed by debting 3,226,739 euros (50.5 million EEK) from AS Hansapank. The due date of the loan in amount of 989,831 euros was April 18, 2008 (with a fixed interest rate 14.5% pa) and the due date of the loan in amount of 2,236,908 euros is January 18, 2010 (with interest rate of 6 months EURIBOR + 2.0%).

On the tenement AS Kalev REC has set joint mortgage in favour of AS Hansapank in amount of 42 million EEK and 18.6 million EEK.

18.4. The emission of bonds

On September 18, 2007 AS Kalev Real Estate Company issued bonds by private placement and with maturity period of 2 years. The initial volume of emission was 2,983 million euros, which was later increased by 958 thousand euros. The total volume of emission exceeded 3.9 million euros. Bond's nominal value is 1 thousand euros with an annual coupon of 12% and coupon payments take place quarterly. 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 December 20, 2007 AS Kalev Real Estate Company issued bonds by directed emission in the total volume of 4.5 million euros with maturity period of 6 months. Bond's nominal value is 1 thousand euros with and annual coupon of 12% (coupon payment takes place on maturity date). Bonds are warranted by AS Kalev and the emission was facilitated by SEB Eesti Ühispank.

On February 28, 2008 AS Kalev issued short-term bonds by directed emission in the total volume of 6.88 million euros (107.7 million EEK); with maturity date August 28, 2008. Bond's nominal value is 1,000 thousand euros with an annual interest rate of 12%. The emission was facilitated by SEB Eesti Ühispank. Bonds issued by emission are warranted with the shares of issuer's subsidiary – AS Kalev REC. Additional finances from the issue of bonds are used by AS Kalev to redeem previous bonds.

On June 20, 2008, AS Kalev Real Estate Company issued bonds by directed emission with maturity period of 3 months (bond redemption date September 20, 2008). The nominal value of issued bonds were 1 thousand euros in the total volume of 4.8 million euros (75.9 million EEK); annual interest rate is 12%. The volume of bidding, which exceeded the volume of emission almost twice, described interest of investors, who noted the bonds. The emission was facilitated and obligations from the emission are warranted by AS Kalev. The purpose of this emission is redemption of bonds issued by AS Kalev Real Estate Company in 2007. The bonds have been redeemed by the date of preparing the annual report.

NOTE 19 PAYABLES AND PREPAYMENTS

as of June 30, in thousands of kroons

	2008	2007
Trade accounts payable	180 796	156 929
Taxes payable [2]	18 766	12 451
Payables to employees	11 059	9 908
Other payables [1]	94 196	105 151
Total	**304 817**	**284 439**

[1] *Other payables as of 30 June 2008 are mostly related with liabilities arising from buying option of the shares of Valmetek* Invest AS (please refer to Note 21.5) and Alta's claim guarantee in the amount of 59,825 thousand EEK (please refer to Note 8).

[2] the balance of taxes payable includes the following taxes:

	2008	2007
Social tax	7 927	6 353
Personal income tax	4 307	3 597
VAT	5 321	1 506
Other taxes	1 211	995
Total	**18 766**	**12 451**

Customer prepayments	2008	2007
Prepayments received for real estate	16 858	280
Prepayment received for magazins	1 367	0
Other prepayments	359	1 181
Total	**18 584**	**1 461**

NOTE 20 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 AS Kalev in 2006/2007 and also in 2007/2008. According to the Articles of Association of the Parent the maximum number of authorized ordinary shares is 31,510,000.

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NOTE 21 SUBSIDIARIES AND ASSOCIATES

21.1. Business combinations

As of June 30, AS Kalev holds a stake in the following subsidiaries and associates:

Entity	Country	Field of activity	Participation % 2008	Participation % 2007
AS Kalev REC	Estonia	real estate development and management real estate consulting	100%	100%
Stude REC EOOD	Bulgaria	real estate rental, purchase and sale	100%	100%
OÜ BCA Center	Estonia	real estate development and management	100%	100%
OÜ BCA Kinnisvara	Estonia	real estate development and management	100%	100%
Ringi Halduse OÜ	Estonia	real estate development and management	49%	49%
Kalev Merchant Services Ltd	USA	promotion and sale of A Kalev's products in USA	100%	100%
AS Kalev Paide Tootmine	Estonia	dairy products production and sale	100%	100%
AS Valmetek Invest	Estonia	cheese production	66.7%	65.6%
AS Kalev Jõhvi Tootmine	Estonia	production of flour confectionery and pastry products	99.10%	99.10%
AS Vilma	Estonia	production of flour confectionery and pastry products	100%	100%
AS Kalev Chocolate Factory	Estonia	production of sugar confectionery products	100%	100%
OÜ Maiasmokk	Estonia	production and sale of pastry products	86.40%	81.30%
OÜ Sugarstar	Estonia	event organisation	100%	100%
AS Inreko Press	Estonia	magazine publication	100%	100%
OÜ Olliwood	Estonia	magazine publication	100%	100%
AS Kalev Meedia	Estonia	magazine publication	100%	100%
OÜ Eesti Spordikanal	Estonia	production and broadcasting of entertainment shows	100%	100%
AS Eksklusiiv	Estonia	magazine publication	100%	100%
AS Uniprint [1]	Estonia	printing	40%	40%
AS Unipress	Estonia	printing	40%	40%
OÜ AgriStock	Estonia	processing of grain products	100%	0%

[1] In 2007, Uniprint was accounted for as a subsidiary since according to shareholders' agreement, Kalev was entitled to acquire all shares in Uniprint by 2009 the latest. This option has not be used by the date of writing the annual report.

21.2. Increase in the share capital of AS Kalev Chocolate Factory

On 26 June 2007, AS Kalev resolved to increase the share capital of its subsidiary AS Kalev Chocolate Factory by 47,356,340 EEK, issuing 4,735,634 new registered shares with a nominal value of 10 EEK per share. The new shares were acquired by AS Kalev. The shares were paid for by offsetting a 47,356,340 EEK receivable from the subsidiary. The entry on the increase of the share capital was made in the commercial register on 5 July 2007. AS Kalev Chocolate Factory's share capital amounts to 138,353,340 EEK after the transaction.

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21.3. Acquisition of OÜ Soltari Invest. Share capital increase and name change

AS Kalev acquired a share with a nominal value of 40 thousand EEK in the private limited company Soltari Invest under the contract concluded on 17 August 2007. With the transaction, AS Kalev became the sole shareholder of the private limited company.

On 22 August 2007, AS Kalev resolved to increase the share capital of OÜ Soltari Invest by making a monetary contribution of 80 thousand EEK. The share capital of the subsidiary now amounts to 120 thousand EEK. AS Kalev also paid 1,620 thousand EEK in share premium. In addition, AS Kalev resolved to rename the private limited company AgriStock OÜ.

The subsidiary AgriStock OÜ is involved with the development of the processing of, storage of and reloading of grain products.

The fair value of assets, liabilities and contingent liabilities of OÜ Agristock was equal their book value and is presented in the table below (in thousands of kroons):

		OÜ Agristock
Current assets		33 803
Non-current assets		-
Liabilities	-	37 854
Net assets	**-**	**4 051**
Cost value		40
AS Kalev ownership in equity	-	4 051
Goodwill		4 091

Resulting goodwill was expensed during the financial period since the initial plans related to the subsidiary did not realize.

21.4. Increase in the share capital of the subsidiary OÜ Maiasmokk, and transfer of a share in the company

With the resolution of 6 November 2007, the shareholders of OÜ Maiasmokk increased the share capital of the subsidiary by 30 thousand EEK. An entry was made on the increase of the share capital in the commercial register on 16 November 2007. OÜ Maiasmokk's share capital now amounts to 120 thousand EEK. Under the resolution, the company issued one share with a nominal value of 30 thousand EEK, and a share premium of 4,680 thousand EEK. The rights granted by the new share are the same as those provided by other shares. The share was acquired by AS Kalev who made a monetary contribution of 4,710 thousand EEK on 12 November 2007. The difference between the acquisition cost of minority interests and carrying value of minority interests has been recognised directly in equity.

On 10 January 2008, AS Kalev transferred its share in the subsidiary OÜ Maiasmokk to its other subsidiary AS Kalev Chocolate Factory. With the transaction, AS Kalev sold a share with a nominal value of 103,700 thousand EEK (i.e. 86.3% of the share capital) to AS Kalev Chocolate Factory for a price of 103,700 thousand EEK.

21.5 The share of AS Kalev Paide Tootmine in AS Valmetek Invest

According to Valmetek Invest AS shareholders agreement other investor's have the right to sell their shares of Valmetek Invest AS to AS Kalev Paide Tootmine and AS Kalev Paide Tootmine has an obligation to realize one of the two possible call options after January 1, 2008:

i. Obligation 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. Obligation 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.

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The specified 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 11 April 2007, AS Kalev Paide Tootmine acquired 22,065 shares of AS Valmetek Invest. As a result of the transaction, the share of AS Kalev's subsidiary in AS Valmetek Invest was raised to 65.6%. Under the shareholders' agreement, the other investor's have the right to sell their shares of Valmetek Invest AS and AS Kalev Paide Tootmine is required to purchase the remaining shares of AS Valmetek Invest from the other party from 1 January 2008 onwards. In 2008, AS Kalev Paide Tootmine increased its participation in AS Valmetek Invest to 66.7%. For the remaining shares of Valmetek Invest AS he other investors still have the right to sell and AS Kalev Paide Tootmine has the obligation to buy the shares.

21.6 Financial investment in AS Uniprint

Under the contract concluded on 20 February 2007, AS Kalev acquired the right to increase its participation in AS Uniprint by acquiring an 80% stake. Since AS Kalev had previously concluded a contract on the acquisition of 20% of the shares of AS Uniprint, AS Kalev would have become full owner of AS Uniprint after the transaction. AS Kalev failed to make the payment for the above shares within the established term. Consequently, as of 1 April 2008, AS Uniprint is treated as an associate.

NOTE 22 LEASES

as of June 30, in thousands of kroons

22.1 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:

	2008		2007	
	Minimum lease payments	PV of lease payments	Minimum lease payments	PV of lease payments
Within one year	11 234	8 940	29 413	24 407
After 1 year, but not more than 5 years	36 307	29 632	79 244	71 488
Over 5 years	1 771	1 772	2 784	2 720
Total minimum lease payments	**49 312**	**40 244**	**111 441**	**98 615**
Future financial charges	-9 068	-	-12 825	-
PV of minimum lease payments	**40 244**	**40 244**	**98 615**	**98 615**

In the financial year, the Group purchased machinery in the total amount of 29,964 thousand EEK (2007: 18,812 thousand EEK) under finance lease terms. See note 18 for futher information.
Book value of non-current assets purchased under finance lease terms as of June 30:

	2008	2007
Investment properties	11 400	11 400
Land and buildings recorded under property, plant and equipment	0	6 737
Machinery and equipment	50 264	99 020
Other items	101	66
Uninstalled items	8 058	8 762
Total	**69 823**	**125 985**

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22.2 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 11,892 thousand EEK (2007: 6,840 thousand EEK).

22.3 Operating leases – the Group as a lessor

The Group leases its investment properties out as office and other rooms. As of June 30, 2008, the book value of leased assets amounted to 102,275 thousand EEK (2007: 74,378 thousand EEK). The rental income for the reporting period amounted to 7,510 thousand EEK (2007: 4,629 thousand EEK).
As of June 30 there are no non-cancellable operating lease agreements.

NOTE 23 PLEDGED ASSETS

as of June 30, in thousands of kroons

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

	2008	2007
Mortgage – real estate under inventories	82 000	82 282
Mortgage – real estate under property, plant and equipment	296 630	366 495
Mortgage – real estate under investment properties	387 559	30 879
Commercial pledge	90 650	241 375

AS Kalev has issued 77 million EEK warranty for the bonds of AS Kalev REC.
The lease liabilities have been secured by the assets purchased under finance lease terms (Note 22.1).

NOTE 24 CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES

24.1 Income tax on dividends

Retained earnings as of 30 June 2008 is 118,358 thousand EEK. The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 24,855 thousand EEK. The maximum possible net dividends thus amount to 93,504 thousand EEK. 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.

24.2 Pending court cases of AS Kalev

24.2.1. AS Kalev vs AS Elveso

On 7 December 2005, AS Kalev filed a claim against the Rae Municipality water undertaking AS Elveso in Harju County Court, for performance of the contractual liabilities and ascertainment of the contractual right. AS Kalev asked the court to ascertain the company's right to receive waste water disposal services from AS Elveso under the prices established by Rae Municipality Government, and to verify that AS Elveso has no right to block the plaintiff's waste water disposal without legal basis provided by the regulation of the Rae Municipality Government and the contract.

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On 15 March 2007, Harju County Court ruled partially in favour of AS Kalev. Harju County Court ruled that AS Elveso had no right to block AS Kalev's waste water disposal without legal basis provided by law and the Rae Municipality Council. The court also ruled that AS Kalev had the right to receive waste water disposal services from AS Elveso only under the prices established with the regulation of the Rae Municipality Government. The pollution charge demanded by AS Elveso has not been established pursuant to procedure. Therefore, there is no basis for demanding pollution charge from AS Kalev.

On 25 June 2007, the Tallinn Circuit Court passed a ruling, partially annulling the previous ruling of the Harju County Court. AS Kalev filed an appeal with the Supreme Court.

On 4 October 2007, the Supreme Court refused to accept the claim of AS Kalev.

The court case revolved around a dispute concerning the method of price calculation in the contested period. No proprietary dispute was involved.

24.2.2 AS Elveso vs AS Kalev

In January 2008, Harju County Court accepted a claim filed by the Rae Municipality water undertaking AS Elveso against AS Kalev. The plaintiff demands payment of the unpaid overpollution charge and a fine for delay in the total amount of 21.8 million EEK. Harju County Court has established a judicial mortgage on two registered immovables of AS Kalev as collateral to the plaintiff's claim.

To all intents and purposes, the court case is a follow-up of the previous claims and court dispute initiated by AS Kalev due to AS Elveso charging unjustifiably high waste water disposal fees from AS Kalev.

AS Kalev has contested the claim, and has filed a petition for non-application of the local government regulations which form the basis for the water undertaking's claim, and initiation of constitutional review proceedings with respect to these regulations.

In a territory covered by public water supply and sewerage, the owner or administrator of the public water supply and sewerage system (in Rae Municipality, AS Elveso) must develop the system to such an extent as to allow waste water disposal from all registered immovables on the territory via the public sewerage system. AS Rae Municipality has failed to develop its treatment facilities to the required capacity, AS Kalev had to establish its own preliminary treatment facilities in order to avoid further waste water disputes.

No ruling had been passed in the case by the time of preparation of these financial statements.

24.2.3 Tax and Customs Board vs AS Kalev

On 17 June 2005, the Northern Regional Tax Centre of the Tax and Customs Board (hereinafter Northern RTC) passed a resolution on the ascertainment of carryover stock and excessive goods in stock. With the resolution, the Northern RTC obliged AS Kalev to eliminate from the market, by 30 November 2005, 15.6 thousand tons of excessive sugar stocks allegedly in the company's possession as of 1 May 2004.

AS Kalev contested the above resolution of the Northern RTC in the Tallinn Administrative Court on 15 July 2005.

The Tallinn Administrative Court accepted the claim with the court ruling of 17 November 2005. The court also satisfied AS Kalev's application for initial legal protection and suspended the validity of the resolution of the Northern RTC until settlement of the claim.

On 6 November 2006, the Northern Regional Tax Centre of the Tax and Customs Board (hereinafter the Northern RTC) passed a resolution, annulling retroactively its resolution of 17 June 2005 regarding ascertainment of AS Kalev's carryover stock and excessive goods in stock as of the moment of the issue of the resolution. The Northern RTC found that the annulled resolution had no legal basis.

On 7 December 2006, the Tallinn Administrative Court terminated proceeding of the administrative case, ordering payment of the court expenses of AS Kalev.

On 29 March 2007, the Northern RTC issued a tax notice, re-establishing AS Kalev's excessive sugar stocks at 15.6 thousand EEK and imposing a surplus stock charge of 135.6 million EEK.

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AS Kalev filed a claim for annulment of the Northern RTV tax notice from 29 March 2007, as well as a petition for suspension of the execution of the tax notice.

With its ruling of 30 April 2007, the Tallinn Administrative Court accepted the claim and suspended the execution of the Northern RTC tax notice.

On 23 May 2007, the Tallinn Administrative Court partially satisfied the appeal filed by the Northern RTC against the ruling of 30 April 2007 which suspended the execution of the tax notice, and stipulated conditions under which execution of the tax notice would continue to be suspended.

AS Kalev believes that the company correctly declared its sugar stock in accordance with the provisions of the Surplus Stock Charges Act (SSCA), and that, as of 1 May 2004, the company was not the owner or possessor of 15.6 thousand tons of sugar stock assessed as surplus stock by the Northern RTC.

AS Kalev believes the claims made and conclusions drawn by the Northern RTC in the tax notice of 29 March 2007 to be incorrect and unjustifiable, with the Northern RTC misinterpreting the provisions of substantive law, violating procedural provisions as well as general principles of the law.

According to the management of AS Kalev, the tax notice must therefore be annulled. The company has therefore recorded no relevant provision in the balance sheet.

24.2.4 AS Lõhmus, Haavel & Viisemann vs AS Kalev

In April 2007, AS Lõhmus, Haavel & Viisemann filed a claim against AS Kalev for 2,500 thousand EEK. According to the plaintiff, the defendant owes the above amount for the shares of AS Santenor. AS Kalev has not acquired any shares of AS Santenor.

With its ruling of 19 December 2007, the Harju County Court confirmed the compromise solution agreed between the parties, and terminated proceeding of the civil case. According to AS Kalev, the court dispute had no financial effect on the company.

24.2.5 AS Kalev vs Financial Supervision Authority

On 15 January 2008, AS Kalev filed a claim with the Tallinn Administrative Court for annulment of the Financial Supervision Authority's confidential request of 15 January 2008 and the resolution of 29 January 2008. AS Kalev contested the administrative acts, claiming these to be unmotivated. It remained unclear for AS Kalev which information was required for the inspection of which circumstance, and who was being inspected. AS Kalev also claimed the information requested by the Financial Supervision Authority to be neither appropriate nor necessary, considering the purpose of the supervision proceedings.

With its ruling of 20 June 2008, the Tallinn Administrative Court dismissed the claim of AS Kalev. AS Kalev has appealed the ruling with the Tallinn Circuit Court.

NOTE 25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

25.1 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 unwarranted receivables of the Group at the balance sheet date is 490,767 thousand EEK (2007: 169,120 thousand EEK).

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25.2 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 as of June 30(in thousands of kroons):

	2008			2007		
	<1 year	1-5 years	Total	<1 year	1-5 years	Total
Fixed interest rate						
Interest-bearing receivables	38 955	0	38 955	54 730	3 257	57 987
Interest-bearing liabilities	-283 034	-60 626	-343 660	-138 235	-73 735	-211 970
Net position	**-244 079**	**-60 626**	**-304 705**	**-83 505**	**-70 478**	**-153 983**
Floating interest rate						
Interest-bearing liabilities	-157 885	-514 014	-671 900	-210 082	-231 102	-441 184
Net position	**-157 885**	**-514 014**	**-671 900**	**-210 082**	**-231 102**	-441 184

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.

The Group estimates that a 1% change in interest rates would be reasonably possible. The sensitivity analysis of profit before tax demonstrated that a 1 percentage point change (rise or decline) in interest rates would affect (increase or reduce) profit before tax for 2008 by 8,473 thousand EEK (2007: 4,986 thousand EEK).

25.3 Currency risk

Most of the Group's contracts are related to kroons and euros 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 euro, 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.

25.4 Liquidity risk

In the opinion of the management there is no liquidity issue in the Group since:

- the Group has several assets, which can be realized, if necessary (incl. food production companies);
- if 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 (which has been done subsequent to the balance sheet date, see Note 28.12). 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;
- subsequent to the disposal of the shares in subsidiary OÜ BCA (Note 28.5), the liabilities of Kalev Group decreased;
- expansion in dairy business segment (Note 28). The revenue and EBITDA of additional business in 2007 calendar year was 1,994,597 thousand EEK and 216,784 thousand EEK respectively;
- AS Kalev and its subsidiaries have in the past had continually reliable support of the financial sector, which helps the Group in its liquidity management and development processes – prior experiences have shown that,

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- 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.

It would also be possible to obtain additional financing by setting a mortgage on the real estate owned by the group or pledging the brand "Kalev" and shares of AS Kalev subsidiaries.

Based on due dates and contractual undiscounted payments, the Group's borrowings can be divided as follows:

	<3 months	3-12 months	1-5 years	>5 years	Total
As of June 30, 2008					
Borrowings	192 233	285 934	565 316	82 653	1 126 137
Trade accounts payable and other payables	215 866	29 126	0	0	244 992
Total	408 099	315 061	565 316	82 653	1 371 129
As of June 30, 2007					
Borrowings	52 938	327 745	276 868	105 804	763 354
Trade accounts payable and other payables	210 056	74 383	0	0	284 439
Total	262 994	402 128	276 868	105 804	1 047 793

25.5 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.

25.6 Capital management

Capital risk management is based on the principle of cost effective system so as to minimize risk occurring from core activities. As all risks related to business growth can not be covered due to practical and monetary restrictions, then preventive risk management system is used. To assure continuing risk management according to an overall, yet simple scheme, equity ratio has been kept on at least 25%. As at June 30, 2007 and June 30, 2008 the aforesaid ratio has been accordingly 28.5% and 26.9% - which is to some extent higher than the minimum standard set.

Decision about dividend payments is very important for the Group, as it may have an effect on the capital structure and share price. Company's strategy developments, shareholders interest and other factors have to be considered to make the decision about dividend payments. Taking into consideration that AS Kalev is entering into new business activities as well as potential extension of current segments, it has been proposed not to distribute profit of the financial year and to transfer the net profit to retained earnings or to other capital reserves, but also possibility to increase share capital through equity financing.

25.7 Information on financial instruments by category

	2008	2007
Cash and cash equivalents	103 495	17 337
incl. loans and receivables	*103 495*	*17 337*
Receivables	549 875	148 050
incl. loans and receivables	*549 875*	*148 050*
Other financial assets	34 105	3 733
incl. loans and receivables	*34 105*	*3 733*
Total financial assets	**687 475**	**169 120**
Loans and borrowings	1 015 559	653 154
incl. carried at amortized costs	*1 015 559*	*653 154*
Payables	304 988	284 439
incl. carried at amortized costs	*304 988*	*284 439*
Total financial liabilities	**1 320 547**	**937 593**

NOTE 26 TRANSACTIONS WITH RELATED PARTIES

in thousands of kroons

The following parties have been identified 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;
- entities controlled by the companies and persons specified above;

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

26.1 Transactions with companies controlled by key personnel of the management

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

	2008	2007
Goods and services purchased		
Services purchased	2 364	20 554
Goods purchased	0	129 430
Goods and services sold		
Services sold	30	2 172
Goods sold	0	139 616
Balances		
Payables at the beginning of the period	4 562	7 028
Payables at the end of the period	355	4 562
Receivables at the beginning of the period (unsecured)	665	1 820
Receivables at the end of the period (unsecured)	48	665

The key personnel of the management received a remuneration totaling 444 thousand EEK (2007: 444 thousand EEK). The key personnel of the management do not receive pension entitlements from the Group.

26.2 Transactions with companies controlled by common owners

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

	2008	2007
Goods and services purchased		
Services purchased	28 776	0
Goods purchased	28 096	0
Goods and services sold		
Services sold	276	0
Goods sold	45 090	0
Balances		
Payables at the beginning of the period	0	0
Payables at the end of the period	8 142	0
Receivables at the beginning of the period (unsecured)	0	0
Receivables at the end of the period (unsecured)	43	0

26.3 Transactions with associated companies

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

	2008	2007
Goods and services purchased		
Services purchased	2 729	0
Balances		
Payables at the beginning of the period	0	0
Payables at the end of the period	2 345	0

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. In the last quarter of the financial year the above mentioned services purchased include also services rendered by AS Uniprint and AS Unipress.

The Group has supported non-profit organisations related to the Manager in the amount of 1,350 thousand EEK (2007: 1,065 thousand EEK).

During the reporting period, the Group has granted loans in the amount of 4,100 thousand EEK (2007: 6,008 thousand EEK) to related parties and accrued interest income on these loans in the amount of 637 thousand EEK (2007: 2,896 thousand EEK). Balance of these loans at the balance sheet date is 2,097 thousand EEK (2007: 41,562 thousand EEK), accrued interests for these loans as of June 30, 2007 in 278 thousand EEK (2007: 3,184 thousand EEK).

During the financial year, AS Kalev has granted loans to GKG Investeeringud AS in the amount of 25 166 thousand kroons. The respective loan has been paid back during the financial year. Interest income on this loan amounted to 623 thousand kroons.
AS Kalev has also received loans from GKG Investeeringud AS in the amount of 2 097 thousand kroons and from AS Rubla in the amount of 12 000 thousand kroons. The outstanding loans payable amount to 3 200 thousand kroons as of year-end. Interest on these loans amounted to 275 thousand kroons.

GKG Investeeringute AS has granted 59 825 thousand kroons to Kalev AS as a guarantee for AS Kalev receivable against Alta. The respective amount is to be paid back to GKG Investeeringud AS in the amount equal to the amount retrieved from Alta plus reasonable amount of interest. Until the receivable has not been paid to AS Kalev, the deposit is not paid back to GKG Investeeringute AS.

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NOTE 27 SERVICE CONCESSION ARRANGEMENTS

On 9 November 2006, OÜ BCA Center and Tallinn City Administration concluded premise lease agreements for five schools (Karjamaa Gümnaasium, Haabersti Vene Gümnaasium, Sikupilli Gümnaasium, Nõmme Gümnaasium ning Tallinna Ühisgümnaasium) with a maturity period of 30 years. For executing the renovation obligation arising from premises lease agreements, Tallinn City has disposed in favour of OÜ BCA Center real estate right of superficies with a maturity period of also 30 years. According to premises lease agreements BCA Center is obliged to maintain, administrate and repair school and real estate to the extent set in the agreements. The rental payments will be paid monthly according to invoices based on the contractual rates stipulated in lease agreements. Building utilities (heat, electricity, recycling, sanitary engineering) are charged to the lessee in according to the service volume consumed.

After the period of right of superficies, school buildings will be handed over to the city either for an amount equal to replacement cost or an amount that is based on estimated expenditure on renovation and depreciated on a straight-line basis over the estimated useful life of 40 years (depending on which of the two is higher). The period of right of superficies can be prolonged by the two counterparties.

As of end of the financial year, the receivable against the local administration amounts to 407,329 thousand EEK (see Note 11). For the purposes of this project, the Group has taken a loan in the amount of 255,151 thousand EEK. OÜ BCA Center was disposed of by the date of preparation of these financial statements (Note 28.5).

NOTE 28 EVENTS AFTER THE BALANCE SHEET DATE

28.1 Resolutions of the extraordinary general meeting of the shareholders of AS Kalev

On 9 October 2008, an extraordinary general meeting of the shareholders of AS Kalev was held to discuss and pass resolutions in the following issues:

1. Granting consent to the management of the company for taking a subordinated loan from the related party AS Rubla (AS Kalev's parent company) in the amount of up to 625 million EEK.

The meeting granted consent to the conclusion of the loan agreement between AS Kalev and AS Rubla, under which AS Rubla would grant AS Kalev a loan in the amount of up to 625 million EEK. The loan will be due for repayment within 7 years. Under the conditions stipulated in the draft loan agreement, AS Kalev is not required to pay interest on the loan. AS Kalev's general manager Oliver Kruuda was appointed the representative of AS Kalev in the transaction.

2. Approval of the transaction on the acquisition of a stake in Põlva Piim Tootmine OÜ

The meeting resolved to approve the contract of purchase and sale of shares concluded between AS Kalev Paide Tootmine and OÜ AH Seenior, OÜ Hatike, Faasani Kaubandus OÜ and OÜ M.V.Food on 27 August 2008, under which AS Kalev Paide Tootmine would purchase all shares of OÜ Põlva Piim Tootmine under the terms and conditions stipulated in the contract.

3. Approval of the transaction on the acquisition of a stake in Tere AS

The meeting resolved to approve the contract of purchase and sale of shares concluded between AS Kalev and AS Rubla on 29 September 2008, under which AS Kalev Paide Tootmine would purchase from AS Rubla all shares of AS Tere under the terms and conditions stipulated in the contract.

28.2 Acquisition of a stake in OÜ Põlva Piim Tootmine by AS Kalev Paide Tootmine

On 27 August 2008, AS Kalev's subsidiary AS Kalev Paide Tootmine signed a contract of purchase and sale of shares with OÜ AH Seenior, OÜ Hatike, Faasani Kaubanduse OÜ and OÜ M.V.Food. The contract was concluded on the purchase of four shares of OÜ Põlva Piim Tootmine (hereinafter "PPT") which have a total nominal value of 10,060 thousand EEK (642,951 euros) and make up 100% of the share capital. The purchase price amounts to 312,932 thousand EEK (20,000 thousand euros), less PPT's interest-bearing liabilities as of the transaction date. The buyer made an advance payment of 8,000 thousand EEK (511,293 euros) upon conclusion of the contract of sale. The buyer will pay an annual interest of 8% on the difference between the final purchase price and the advance payment until full payment of the purchase price. The full purchase price will be paid to the sellers on the date of completion of the ownership transfer transaction. The acquired shares have been encumbered for the benefit of AS SEB Pank in the amount of 197,000 thousand EEK (12,590,595 euros) and serve to guarantee PPT's financial liabilities to AS SEB Pank.

On 26 September 2008, the Director General of the Estonian Competition Authority issued a resolution, granting permit for the merger of AS Kalev Paide Tootmine and OÜ Põlva Piim Tootmine. The Estonian Competition Authority found that, after the merger, the parties would not be able to act on the crude milk buying-in, dairy product, butter, butter mix and powder sales markets independently from other competitors, buyers and suppliers, and that the market would therefore remain competitive after the merger. The merger will not create a market dominating status on the crude milk stocking, dairy product, butter, butter mix or powder market in the meaning of the Competition Act.

The transaction is not a transaction with a related party in the meaning of the requirements established for issuers by the Tallinn Stock Exchange.

The main activity of OÜ Põlva Piim Tootmine is milk processing and marketing of dairy products. One-third of the company's turnover is generated from the domestic market. Export generates two-thirds of the turnover. Total assets of the company as of 31.12.2007 amounted to 216 592 thousand kroons and revenue for the financial year then ended amounted to 486 214 thousand kroons.

On 17 October 2008, AS Kalev Paide Tootmine completed the contract of purchase and sale of the 100% stake in OÜ Põlva Piim Tootmine. Under the memorandum on the completion of the transaction, the final purchase price of OÜ Põlva Piim Tootmine amounted to 231,845,640 EEK (14,817,637 euros), of which AS Kalev Paide Tootmine has paid 8,000 thousand EEK (511,293 euros) in advance, with 8,031,640 EEK (513,315 euros) to be paid before the end of 2008. The remainder of the final purchase price was paid on 17 October 2008 as payment against transfer of shares. For payment of the purchase price, AS Kalev Paide Tootmine used the monetary contribution made in the increase of the company's share capital by the parent company AS Kalev, as well as financial resources gained under the syndicate loan contract concluded with Nordea Bank Finland Plc and Bank DnB Nord A/S.

28.3 The share of AS Kalev Paide Tootmine in AS Tere; merger agreement between the companies

On 29 September 2008, AS Kalev Paide Tootmine signed a contract of purchase and sales of shares with AS Rubla. The contract was concluded on the purchase of 8,000 thousand shares of Tere AS (hereinafter „TERE"), nominal value: 10 EEK (0.64 euros) per share, at a total nominal value of 80,000 thousand EEK (5,112,932 euros), which makes up 100% of the share capital. Upon timely fulfilment of the preliminary conditions, including approval of the acquisition of the stake by the general meeting of the shareholders of AS Kalev, the transaction would be completed on 18 October 2008 at the latest. The total purchase price of the shares amounts to 929,376,750 EEK (59,398 thousand euros) and will be paid to the seller against transfer of ownership on the transaction completion date. The purchase price has been established based on the fair value analysis of TERE, conducted by AS Deloitte Advisory. With the acquisition of TERE, AS Kalev will complete the strengthening and restructuring of its dairy area. In the course of the process, AS Kalev's majority shareholder AS Rubla will incorporate all dairy activities into a single company.

Under the rules established for the issuer by the Tallinn Stock Exchange, the above contract of sale must be treated as a related party transaction. The transaction constitutes an intra-group transaction, under which AS Kalev's majority shareholder AS Rubla will sell the shares of its subsidiary TERE to a subsidiary of AS Kalev (i.e. AS Kalev Paide Tootmine). The transaction on the acquisition of the shares of TERE is treated as a related party transaction under the rules of the Tallinn Stock Exchange.

On 17 October 2008, AS Kalev Paide Tootmine completed the transaction on the purchase of 100% of the shares of AS Tere. Under the memorandum on the completion of the transaction, the final purchase price of the shares of TERE amounts to 929,376,750 EEK (59,398 thousand euros). All preliminary conditions for the transaction (the permit of the Estonian Competition Authority and the corresponding approval of the general meeting of the shareholders of AS Kalev) have been fulfilled.

AS Kalev Paide Tootmine paid 786,578,288 EEK (50,271,515 euros) for the shares of TERE. As regards the remainder of the purchase price, 142,798,462 EEK (9,126,485 euros), the parties will offset mutual receivables so that AS Rubla will assign to AS Kalev Paide Tootmine its payable to TERE, the company which is to be acquired by AS Kalev Paide Tootmine. The corresponding part of the purchase price will thus be considered as paid to AS Rubla. For payment of the purchase price, AS Kalev Paide Tootmine used the monetary contribution made in the increase of the company's share capital by the parent company AS Kalev, as well as financial resources gained under the syndicate loan contract concluded with Nordea Bank Finland Plc and Bank DnB Nord A/S.

On 30 October 2008, AS Kalev Paide Tootmine and its subsidiary TERE concluded a merger agreement on the companies' merger, with TERE (acquiring company) incorporating AS Kalev Paide Tootmine (company being acquired). The company being acquired will be considered as dissolved upon completion of the merger proceedings. By merger, the company being acquired will assign all of its assets to the acquiring company. The balance sheet date of the merger is 1 December 2008. The shares of TERE, which will be assigned to AS Kalev by merger, shall grant the right to participate in the profit allocation of the acquiring company from the moment of entry of the merger information in the commercial register. As the acquiring company, TERE will grant the company being acquired (i.e. AS Kalev Paide Tootmine) the same rights as those provided to the shareholder of the acquiring company by law and the articles of association.

No special benefits will be granted to the members of the management boards and supervisory boards of the merging companies in connection with the merger. The Management Board and Supervisory Board structure of TERE will not be changed. Ülo Kivine will continue as the Managing Director of TERE, and Oliver Kruuda, Taavi Toots and Allan Viirma as members of the Supervisory Board. By merger, the share capital of the company being acquired will be replaced by the share capital of the acquiring company. AS Kalev will be provided 8,000 thousand shares of AS Tere against the 42,974,324 shares of AS Kalev Paide Tootmine. After the merger, the share capital of the acquiring company will amount to 80,000 thousand EEK, with all 8,000 thousand shares of the acquiring company (nominal value: 10 EEK or 0.64 euros per share), which make up 100% of the shares of the acquiring company, held by AS Kalev.

According to the management of AS Kalev, the above merger should have no effect on the share price of AS Kalev, as the merger involves the merger of two subsidiaries of AS Kalev, which are involved in a similar field of activity, with no major changes introduced in the issuer's economic activities. Total assets of the company as of 31.12.2007 amounted to 307 754 thousand kroons and revenue for the financial year then ended amounted to 492 624 thousand kroons.

In the meaning of the Tallinn Stock Exchange rules, the parties to the merger agreement constitute related parties.

28.4 Loan agreement with related party; AS Kalev Paide Tootmine share capital increase

On 9 October 2008, AS Kalev concluded a loan agreement with AS Rubla. Under the agreement, AS Rubla would provide AS Kalev with a loan in the total amount of 625,000 thousand EEK (39,944,780 euros) within one year after the conclusion of the agreement. The loan will be disbursed in instalments under the borrower's corresponding applications. The borrower is obliged to repay the loan amount within seven years after the conclusion of the loan agreement. AS Kalev is not required to pay interest, regardless of the credit used. The loan is intended for the purpose of financing the investments required for expansion of the business activities of AS Kalev.

The transaction constitutes a related party transaction—AS Rubla is a shareholder of AS Kalev. The loan agreement was approved by the general meeting of the shareholders of AS Kalev on 9 October 2008.

On 9 October 2008, AS Rubla transferred to AS Kalev the first instalment of 391,165 thousand EEK (25,000 thousand euros). The sum was used by AS Kalev as a monetary contribution to the share capital of AS Kalev's subsidiary AS Kalev Paide Tootmine.

28.5 Transfer of a share in BCA Center OÜ

On 15 October 2008, AS Kalev concluded a contract of sale of the share of its subsidiary AS Kalev Real Estate Company (hereinafter Kalev REC), transferring its share in OÜ BCA Center. Kalev REC transferred the share with a nominal value of 60 thousand EEK, making up 100% of the share capital of OÜ BCA Center. The purpose of the transfer of the share is to reduce the interest-bearing liabilities of AS Kalev Group in accordance with the request of the banks which finance the dairy companies of AS Kalev Group (Note 18.1).

No changes will be introduced in the daily economic activities of OÜ BCA Center. The contracts concluded with the city will continue to be performed by the same team. Ott Karolin and Peeter Lillestik will continue as members of the Management Board of OÜ BCA Center after the transfer.

Under the contract, Kalev REC shall have the right to repurchase the share within one year after transfer of ownership. The object of the repurchase agreement is the share of OÜ BCA Center, which makes up 100% of the share capital of the private limited company, and votes represented by shares. With the expiry of the above term, the buyer shall be obliged to co-ordinate with Kalev REC a corresponding part of the transfer and encumbrance agreements, the share capital of OÜ BCA Center, amendment of the Articles of Association, removal of and appointment of new members of the management bodies as well as transfer or encumbrance of the assets of the private limited company.

The buyer obliged to pay 70,000 thousand EEK (4,473,815 euros) to Kalev REC for the share. This amount has been paid in full.

The transaction is not a related party transaction in the meaning of the Tallinn Stock Exchange rules.

28.6 Option agreement on acquisition of the shares of AS Uniprint

On 19 September 2008, AS Kalev concluded an option agreement under which AS Kalev shall have the right to acquire 100% of the shares of AS Uniprint before 5 March 2009. With the option agreement, the parties restructured the contract of purchase and sale of the shares of AS Uniprint, which was concluded on 20 February 2007 and under which AS Kalev would have acquired the shares of AS Uniprint by 5 April 2009 at the latest (having previously made the contractual payments by the established terms). With the entry into force of the above option agreement, the contract of purchase and sale of the shares of AS Uniprint, concluded on 20 February 2007, will be terminated, with the parties concluding a new AS Uniprint shareholders' agreement.

The price of the shares to be acquired was not changed with the conclusion of the option agreement. AS Kalev shall have the right, during the option term, to acquire from the sellers all shares held by the sellers at a purchase price of 54,800 thousand EEK (3,502,358 euros), of which 4,000 thousand EEK (255,647 euros) had already been paid to the sellers in February 2007. The contractual option fee amounts to 0.7% of the unpaid purchase price per calendar month.

As collateral to the fulfilment of the terms and conditions of the option agreement, AS Kalev will transfer to the sellers' securities account the 160 shares of AS Uniprint, which have been acquired by AS Kalev through previous transactions. Upon acquisition of the shares which form the object of the option agreement, the aforementioned shares will be returned to AS Kalev's securities account free of charge.

AS Kalev's representatives will retain, during the option term, one seat in the Supervisory Board of AS Uniprint.

28.7 AS Kalev Paide Tootmine share capital increase

On 9 October 2008, AS Kalev (sole shareholder) resolved to increase the share capital of its subsidiary AS Kalev Paide Tootmine by 391,165 thousand EEK (25,000 thousand euros). The subsidiary will issue 39,116,500 new shares with a nominal value of 10 EEK (0.64 euros) each, with all shares acquired by AS Kalev. AS Kalev has made a monetary contribution in full payment of the shares. The new shares provide the same rights as those provided by other shares, granting the right to receive dividends in the financial year when the entry on the increase of the share capital is made in the commercial register.

After the above changes, the share capital of AS Kalev Paide Tootmine will amount to 429,743,240 EEK (27,465,599 euros).

28.8 Change in the Management Board of AS Kalev Paide Tootmine

On 19 September 2008, AS Kalev's subsidiary AS Kalev Paide Tootmine appointed Taavi Toots as member of the Management Board of the public limited company. Member of the Management Board of AS Kalev Paide Tootmine, Taavi Tootsi, has served as the financial director of AS Tere since July 2007, and is a member of the Supervisory Board of AS Tere. Taavi Toots has also served as member of the supervisory boards of AS Solidum and AS Meier since June 2007.

28.9 Change in the management of OÜ Põlva Piim Tootmine

With the resolution of the shareholder of AS Kalev Paide Tootmine's subsidiary OÜ Põlva Piim Tootmine from 11 November 2008, Ülo Kivine was appointed member of the Management Board of the private limited company. The previous management board members Raul Lusti, Viljar Veevo and Andrus Roiland, who had served as management board members so far, were removed. Aivar Häelm will continue as management board member together with Ülo Kivine. With the same resolution, the articles of association of OÜ Põlva Piim Tootmine were amended, establishing a supervisory board for the private limited company, with Oliver Kruuda, Taavi Toots and Allan Viirma appointed as supervisory board members.

Management board member Ülo Kivine serves as the managing director of Tere AS since July 2007. OÜ Põlva Piim Tootmine supervisory board members Oliver Kruuda, Taavi Toots and Allan Viirma serve as members of the supervisory board of AS Tere since July 2007. Oliver Kruuda and Taavi Toots also serve as members of the Management Board of the private limited company's parent company AS Kalev Paide Tootmine.

Oliver Kruuda holds shares of AS Kalev through various companies.

28.10 Channel Neljas purchased by AS Kalev Meedia

On 17 October 2008, AS Kalev group companies AS Kalev Meedia and OÜ Eesti Spordikanal (hereinafter Kalev Meedia) concluded a contract with the telecommunication company Starman on the purchase of the TV channel Neljas. Under the contract, control of the management of the television channel Neljas, which is currently available only to Starman and ZUUMtv customers, and is planned to be switched to other TV operator networks after the entry into force of the transaction, will be transferred to Kalev Meedia. The channel will retain its present frequency on Starman networks and in the ZUUMtv package.

Channel Neljas, which was launched in February 2008, is an Estonian language television channel which focuses on quality entertainment, TV series and movies. Starman is the operator of the biggest cable network in Estonia, and renders television, Internet and telephone services to over 135,000 digital and analogue television customers. In addition to the cable network, Starman also broadcasts via the digital terrestrial television ZUUMtv. AS Starman's shares have been listed on the main list of the Tallinn Stock Exchange.

The transaction is not a related party transaction in the meaning of the Tallinn Stock Exchange rules.

28.11 Magazine Bravo acquired by AS Kalev Meedia

On 7 November 2008, AS Kalev Meedia signed a contract on the purchase of the Russian-language gossip and entertainment magazine Bravo. The weekly Bravo was established in 2007 and has a print run of 8,000 copies. The Bravo's target group is the Russian population in Estonia, between the ages of 18 and 50.
The transaction is not a related party transaction in the meaning of the Tallinn Stock Exchange rules.

28.12 Bond issue

On 28 August 2008, AS Kalev issued, by placing, bonds with a term of 2 years (redemption date: 28 August 2010). The issuer issued bonds in two parts: 116,500 thousand EEK (7,445,707 euros) worth of bonds on 28 August 2008, and 79,100 thousand EEK (5,100 thousand euros) worth of bonds on 20 September 2008. The purpose of the bond issue was redemption of the previously issued bonds of AS Kalev and AS Kalev Real Estate Company.

The bonds have a nominal value of 1 thousand euros and an interest rate of 3-month Euribor + margin (depends on the collateral). 51% of the shares of AS Kalev's subsidiary AS Kalev Real Estate Company have been established as collateral to the obligations arising from the bonds.

28.13 Alta Foods' application to burden shares of Kalev Paide Tootmine AS and Kalev Chocolate Factory AS

Harju Country Court made a court order on 21.11.2008, with which shares of AS Kalev Paide Tootmine and AS Kalev Chocolate Factory belonging to AS Kalev were blocked in order to partially satisfy AS Alta Foods application.

Court order is built on AS Alta Foods application of mere words, thus giving no possibility for AS Kalev to evaluate predicable claim or its justification. It appears from the court order that petition against AS Kalev has not been presented to Stockholm Chamber of Commerce Arbitrage Court and elsewhere.

AS Kalev sees considering the amount of predicable claim of AS Alta Foods that disproportionally large amount of AS Kalev assets has been burdened with the court order. At the same time the court order is voidable and AS Kalev intends to use every legal means to protect its interests. AS Kalev acknowledges that during resolution of prosecution guaranteeing regulation the court obtained information communicated by AS Alta Foods only. Thus, the law enables the same court to look through the prosecution guaranteeing after requested by application by AS Kalev.

AS Kalev does not agree with the statement announced by AS Alta Foods on 24.11.2008 that according to sales contract concluded on 20.09.2007 between AS Kalev Chocolate Factory and certain other AS Kalev subsidiary business associations the prepayment paid to AS Kalev in the amount of 93,9 million EEK should be paid back to AS Alta Foods. AS Kalev sees that AS Alta Foods did not have a basis to back out from the contract under discussion and by not fulfilling its contractual duties AS Alta Foods has caused AS Kalev considerable damage.

AS Kalev has also submitted an extrajudicial claim against Alta in the amount of 23.,6 million kroons. A part of this claim in the amount of 142,274 thousand EEK has been recognised as other income in the reporting period (see Note 8). Additionally, interest and fines for delays in the amount of 11,421 thousand kroons related with the abovementioned claim has been recognised as financial income in the reporting period (see Note 9). Out of this claim, 6 million EUR (93,880 thousand kroons) has already been received from Alta. The rest of the claim is outstanding among other receivables and has been guaranteed by a related party. See also Notes 8, 19 and 26.

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NOTE 29 NON-CONSOLIDATED MAIN FINANCIAL STATEMENTS OF THE PARENT

The Parent's unconsolidated primary financial statements are 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. These unconsolidated primary financial statements do not constitute the Parent's separate financial statements as defined in IAS 27 (Consolidated and Separate Financial Statements).

29.1 Balance sheet of the Parent

in thousands of kroons, as of June 30

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	98 157	1 011
Receivables	92 784	74 893
Prepayments	561	605
Inventories	0	2 095
Total current assets	**191 502**	**78 604**
Non-current assets		
Non-current receivables	0	3 845
Investment in subsidiaries	337 315	322 397
Property, plant and equipment	34 662	15 472
Intangible assets	1	3
Total non-current assets	**371978**	**341 717**
TOTAL ASSETS	**563 480**	**420 321**
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities		
Borrowings	169 201	107 368
Customer prepayments	0	29
Trade accounts payable and other payables	184 601	180 662
Total current liabilities	**353 802**	**288 059**
Total liabilities	**353 802**	**288 059**
Equity		
Share capital	236 325	236 325
Mandatory legal reserve	5 543	4 020
Revaluation reserve	3 689	3 689
Retained earnings	-35 879	-111 772
Total equity	**209 679**	**132 262**
TOTAL LIABILITIES AND EQUITY	**563 480**	**420 321**

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29.2 Income statement of the Parent

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

	2008	2007
Revenue	433	144 479
Cost of sales	-996	-127 410
Gross margin	**-563**	**17 069**
Marketing expenses	-10 458	-28 521
Administrative expenses	-49 492	-37 552
Other operating items	135 908	-6 524
Operating profit (loss)	**75 395**	**-55 528**
Financial income	15 890	1 197
Financial expenses	-15 392	-9 366
Net profit (loss) for the financial year	**75 893**	**-63 697**

29.3 The Parent's statement of changes in equity

in thousands of kroons

	Share capital	Manda-tory legal reserve	Revalua-tion reserve	Retained earnings	Total equity
As of June 30, 2006	**236 325**	**4 020**	**3 689**	**-48 075**	**195 959**
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**
As of June 30, 2007	**236 325**	**4 020**	**3 689**	**-111 772**	**132 262**
Net profit for the financial year	0	1 523	0	75 893	**77 416**
Total income and expense for 2007/2008	0	1 523	0	75 893	**77 416**
As of June 30, 2008	**236 325**	**5 543**	**3 689**	**-35 879**	**209 678**

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

	2008	2007
Equity in the non-consolidated balance sheet of the Parent	209 678	132 262
Carrying value of subsidiaries in the non-consolidated balance sheet of the Parent	-337 315	-322 397
Value of subsidiaries calculated in accordance with equity method accounting	598 971	563 530
Adjusted equity of the Parent	**471 334**	**373 395**

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29.4 Parent's Cash flow statement

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

	2008	2007
Cash flow from operating activities		
Net profit (loss)	75 893	-63 697
Adjustments of net profit (loss):		
Depreciation and amortisation of property, plant and equipment and intangible assets	*3 582*	*1 383*
Gain / loss from disposal of property, plant and equipment	-23	-1 304
Financial income	-15 890	-1 197
Financial expenses	15 392	9 366
Changes in assets related to operating activities	29 827	68 420
Changes in liabilities related to operating activities	69 186	-69 567
Net cash flows from operating activities	**177 967**	**-56 596**
Cash flow from investing activities		
Acquisition of subsidiaries	-14 918	-42 757
Proceeds from disposal of property, plant and equipment	2 757	19 463
Acquisition of property, plant and equipment and intangible assets	-25 504	-9 020
Loans granted	-58 719	-12 838
Repayments of granted loans	20 641	15 022
Interests received	13 759	119
Net cash flow from investing activities	**-61 984**	**-30 011**
Cash flow from financing activities		
Repayments of borrowings	-264 982	-132 533
Proceeds from borrowings	313 442	155 420
Capital lease principle payments	0	-1 643
Changes in overdraft and inventory financing	-53 944	71 154
Interests paid	-13 353	-7 277
Net cash flow from financing activities	**-18 837**	**85 121**
Total net cash flow	**97 146**	**-1 486**
Cash and cash equivalents at the beginning of the year	**1 011**	**2 497**
Change in cash and cash equivalents	97 146	-1 486
Cash and cash equivalents at the end of the year	**98 157**	**1 011**

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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 30 June 2008, 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 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.

Basis for Qualified Opinion

(1) Based on the conditions of the shareholders' agreement, the Group consolidated the financial statements of AS Uniprint and AS Unipress for the financial year ended 30 June 2007. Indicating the loss of control (Note 21.6), the Group has not consolidated the revenue and the costs of AS Uniprint and AS Unipress for the period April – June 2008 and the assets and liabilities of AS Uniprint and AS Unipress as of 30 June 2008. In our opinion, it is not justified to stop consolidation of AS Uniprint and AS Unipress as of 31 March 2008. Furthermore, for the period 1 July 2007 - 31 March 2008 AS Uniprint and AS Unipress, whose aggregated total revenues to external clients and net profit are EEK 108 452 thousand and EEK 1 480 thousand respectively, which are included into these consolidated financial statements, have not been audited. Based on our audit procedures we were not able to obtain evidence to assess the potential impact on the Group's assets and liabilities as of 30 June 2008 and revenues and costs of the last three month period of the financial year of not consolidating the financial statements of AS Uniprint and AS Unipress as of 30 June 2008 and for the full year then ended as well as the correctness of total sales and net profit for the nine months period included in these consolidated financial statements.

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(2) The Group applies the fair value principle for recognition of investment property. According to the principle, all investment properties are valued at their fair value on every balance sheet date. As of 30 June 2008 there are investment properties in the balance sheet of EEK 335 990 thousand on what the Group itself has performed the fair value valuations. Because of the uncertainty related to the market conditions and lack of suitable comparable transactions, we were not able to obtain independent assurance about the validity of management estimations and, consequently, about the fair value of investment property as of 30 June 2008.

(3) The Group has mostly uninstalled equipment of EEK 63 569 thousand as tangible fixed assets, which have indications of potential impairment as on 30 June 2008. The management of the Group has not performed an impairment test as of 30 June 2008. Based on our audit procedures, we were unable to obtain sufficient audit evidence that the value of those fixed assets is not impaired in the Group.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to obtain sufficient evidence regarding the matters described in section "Basis for Qualified Opinion", the financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2008, 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

(1) Without further qualifying our opinion we draw attention to the fact that the intangible assets of the Group include the value of goodwill in EEK 19 098 thousand. Goodwill requires an impairment test at every balance sheet date. As of 30 June 2008, the management of the Group has performed the impairment test that revealed no need for impairment (Note 17). As the value of goodwill is derived primarily from the discounted terminal value, then its value and the need for impairment, if any, is dependent on the realization of management's estimations regarding future cash flows. As of 30 June 2008, the financial statements do not reflect any amendments related to the uncertainty of realization of those estimations.

(2) Without further qualifying our opinion we draw attention to section "Basis for Qualified Opinion" as the circumstances described there can have potentially negative impact on the financial result and net assets of the Group, and to the impact of the information presented in Note 28 "Events after the balance sheet date" and also to the fact that the operating cash flows and the working capital of the Group have been negative for several consecutive periods. The ability of AS Kalev and the Group to continue as a going concern is dependent on the realization of management plans, disclosed in more details in Note 25.4. As of 30 June 2008, the financial statements do not reflect any amendments related with the uncertainty of realization of those plans.

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, 3 December 2008

Hanno Lindpere
Ernst & Young Baltic AS

STATEMENT OF PROFIT ALLOCATION

The Manager of AS Kalev proposes to the Shareholders' General Meeting to transfer the net profit for 2007/2008 in the amount of 97,939 thousand EEK as follows:

- 93,042 thousand EEK to retained earnings
- raise the mandatory legal reserve by 4,897 thousand EEK.

Tallinn, 3. December 2008

Oliver Kruuda
Manager

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2007/2008

Hereby, the members of the Management Board and Supervisory Board of AS Kalev sign the Annual Report 2007/2008, 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

Tallinn, 3 December 2008