



9 MONTHS INTERIM REPORT

Started on July 1, 2005

Ended on March 31, 2006

Translation of the Estonian original

PUBLIC LIMITED COMPANY KALEV

Reg.nr: 10000952

Address:

Põrguvälja tee 6

Lehmja, Rae vald

Harjumaa 75301

The Republic of Estonia

Phone no: +372 6 077 710

Fax no: +372 6 077 725

Email: kalev@kalev.ee

<http://www.kalev.ee>

TABEL OF CONTENTS

TABEL OF CONTENTS.....	2
1. COMMENTS ON FINANCIAL RESULTS.....	3
1.1. Economic activities and financial results	4
1.2. Product market and sales	7
1.3. Real estate activities	9
2. INTERIM FINANCIAL STATEMENTS.....	10
DECLARATION OF THE MANAGEMENT BOARD	10
BALANCE SHEET	13
CASH FLOW STATEMENT	14
STATEMENT OF CHANGES IN EQUITY	15
NOTES TO THE FINANCIAL STATEMENTS	16
Note 1 Background information.....	16
Note 2 Accounting principles and basis of estimations	16
Note 3 Segment information.....	18
Note 4 Personnel expenses.....	20
Note 5 Investments.....	20
Note 6 Earnings per share	21
Note 7 Investment property.....	21
Note 8 Property, plant and equipment.....	22
Note 9 Intangible assets	23
Note 10 Borrowings	23
Note 11 Provisions	23
Note 12 Share capital	24
Note 13 Related party transactions	24

1. COMMENTS ON FINANCIAL RESULTS

Characteristic indicators for the first nine months of the financial year 2005/2006, compared to the same period last financial year:

in thousands of kroons and euros

	%	EEK	EUR
Increase in revenue	17	103 119	6 591
Increase in operating profit	2.8 times	33 742	2 157
Increase in revenue from dairy products	23	61 276	3 916
Increase in revenue from confectionery products	7	18 282	1 168
Increase in revenue from domestic market	12	47 552	3 039
Increase in export revenue	23	55 568	3 551

Kalev Group pursues three principal fields of activity: chocolate and sugar confectionery products and baked goods manufacturing and sale, dairy product manufacturing and sale, and real estate development and administration. The company manufactures its products in five production plants located in Põrguvälja (in the vicinity of Tallinn), Paide, Viljandi, Jõhvi and Kiviõli. AS Kalev also owns a pan-Estonian retail chain, consisting of 13 candy stores and cafes. The newest candy store was opened in the historic market building in Rakvere at the beginning of November 2005. The company is currently renovating a candy store/cafe in Võru, scheduled to be opened in the summer of 2006.

Kalev Group's parent company is AS Kalev. In addition to the parent company, the Group incorporates six subsidiaries. As of 31 March 2006, AS Kalev had a significant interest in the following companies:

Company	Location	As of 31.03.2006	As of 31.03.2005
AS Kalev Paide Tootmine	Estonia	100%	100%
AS Valmetek Invest (via AS Kalev Paide Tootmine)	Estonia	31%	0%
AS Kalev Jõhvi Tootmine	Estonia	99.1%	99.1%
AS Vilma	Estonia	100%	60,67%
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	100%	100%
OÜ Maiasmokk	Estonia	81.26%	81.26%
AS Kalev Merchant Services	USA	100%	100%

On 1 July 2004 AS Kalev acquired 60.7% of the shares of AS Vilma. Under the contract, AS Kalev assumed the obligation to acquire the remaining shares from the shareholders of AS Vilma under the same conditions in 2005. On 23 December 2005 AS Kalev acquired an additional 39.2% of the shares of AS Vilma. A total of 7,300 thousand kroons was paid for the above share. On 31 March 2006 AS Kalev acquired the remaining

0.1% of the shares, becoming the full owner of the company. A total of 16 thousand kroons was paid for the above share.

On 20 February 2006 AS Kalev's subsidiary AS Kalev Paide Tootmine acquired 31% of the shares of AS Valmetek Invest. An entry on the increase in the share capital of Valmetek Invest AS was made in the commercial register on the same date. As of the moment of the entry into force of the increase in the share capital of the company, AS Kalev Paide Tootmine became the owner of 20 thousand shares of Valmetek Invest AS (i.e. 31% of the share capital of the company).

Together with its two co-shareholders, AS Kalev Paide Tootmine plans to start producing cheese in Valmetek Invest AS. Kalev Group's strategic goal is to become the most efficient foodstuff producer in the coverage area. It was the above strategic goal that conditioned the need to expand production in the subsidiary AS Kalev Paide Tootmine. AS Kalev Paide Tootmine owned assets (equipment, registered immovable, etc.) that could be put into more efficient use. These assets were thus transferred to Valmetek Invest AS, with the receivables arising from the transfer transaction offset in the course of the Valmetek Invest AS share capital increase in the amount of 20,000 thousand kroons.

In the first quarter of the financial year 2005/2006, Kalev Group employed an average of 786 people. The shares of AS Kalev have been listed in the Tallinn Stock Exchange since 1996.

1.1. Economic activities and financial results

Unconsolidated net sales and net profit in the first nine months of the financial year 2005/2006 (by group companies; in thousands of kroons and euros):

	Net sales		Net profit	
	2005/2006	2004/2005	2005/2006	2004/2005
	9 months	9 months	9 months	9 months
EEK				
AS Kalev	319 797	299 788	-5 851	-18 955
AS Kalev Paide Tootmine	335 889	285 032	-14 229	-3 161
AS Kalev REC	68 984	57 523	67 418	30 326
AS Kalev Jõhvi Tootmine	25 929	28 794	-1 267	-3 028
OÜ Maiasmokk	5 055	1 386	-770	-270
AS Vilma	29 966	30 035	806	3 045

	Net sales		Net profit	
	2005/2006	2004/2005	2005/2006	2004/2005
	9 months	9 months	9 months	9 months
EUR				
AS Kalev	20 439	19 160	-374	-1 211
AS Kalev Paide Tootmine	21 467	18 217	-909	-202
AS Kalev REC	4 409	3 676	4 309	1 938
AS Kalev Jõhvi Tootmine	1 657	1 840	-81	-194
OÜ Maiasmokk	323	89	-49	-17
AS Vilma	1 915	1 920	52	195

The consolidated net sales of AS in the first nine months of the financial year 2005/2006 amounted to 714,548 thousand kroons (45,668 thousand euros), having increased by 17% compared to last financial year (2004/2005 – 611,429 thousand kroons, 39,077 thousand euros). The 23% increase in revenue from dairy products was the main contributor to the increase in AS Kalev's consolidated net sales. At the same time, revenue from confectionery products increased by 7%. The transfer of the Pärnu mnt 139E/2 immovable by the subsidiary AS Kalev REC also contributed to the growth in consolidated net sales.

In the first nine months of the financial year 2005/2006, the company posted a consolidated net profit of 41,269 thousand kroons (2,638 thousand euros). The net profit for the first nine months of the previous financial year amounted to 6,392 thousand kroons (409 thousand euros). Revenue from the transfer of the Pärnu mnt 139E/2 immovable by AS Kalev REC, and write-up of the Tervise 5 immovable to its fair value were the biggest contributors to the net profit increase. The economic indicators of group companies showed various changes, compared to the comparative period. The loss of the parent company AS Kalev has significantly reduced (see table above). This was accomplished by enhancing production efficiency, optimizing the product portfolio and increasing confectionery product sales on the domestic market (by 4%).

Marketing expenses increased by 17% in the first nine months, compared to the same period last financial year. Above all, this increase was conditioned by changes in the group structure. In the third quarter of the financial year, marketing expenses increased by 35%, supported mainly by new product development and advertising expenses. The 66% increase in administrative and general expenses was mainly conditioned by the increase in electricity, water, fuel and heating expenses.

The 4.9-time increase in other income and expenses (45,027 thousand kroons, 2,878 euros) was mainly generated by the write-up of the Tervise 5 immovable in Tallinn to its fair value by AS Kalev REC, sales of a legal share of the AS Kalev Paide Tootmine's immovable, and reduction of the provision established for AS Kalev Paide Tootmine at the end of the financial year 2004/2005. The provision was established for the purpose of covering the potential loss arising from the unfavourable market situation for dairy products and

the crude milk buying-in contracts until December 2005. The entry "Other income and expenses" was increased accordingly.

Kalev Group employed an average of 786 people in the first nine months of the financial year 2005/2006, compared to the 806 people in the same period last year.

Most important financial ratios in Kalev Group:

	Group	
	01.07.2005- 31.03.2006	01.07.2004- 31.03.2005
Liquidity ratio	0,67	0,93
Financial leverage	0,68	0,64
Total assets turnover	0,90	0,85
Net profit ratio (%)	5,8%	1,2%
Net ROA (%)	5,2%	1,0%

The ratios are calculated based on the following methods:

Liquidity ratio: current assets / current liabilities

Financial leverage: total liabilities / average total assets

Total assets turnover: revenue / average total assets

Net profit margin: net profit / revenue * 100%

Return on assets: net profit / average total assets * 100%

1.2. Product market and sales

1.2.1. Confectionery products

AS Kalev retains its position as the leader of the Estonian chocolate and sugar confectionery market. According to the retail trade survey conducted by the research company AC Nielsen Eesti, AS Kalev had a 41% market share in the chocolate and sugar confectionery product sector in February-March 2006. In the biscuit sector, the company's market share was 13% in the same period.

Product development is still considered a priority by AS Kalev. The company aims at developing and launching new and innovative products by considering the needs of the consumers on the domestic and foreign markets. In the reporting period, the company's marketing and sales activities involved preparation of the launch of special (Christmas, Valentine's Day) collections and the related sales campaigns, as well as development and launch of new products in the basic assortment. The company continued improving the existing products.

The following products of the basic assortment were launched at the market as a result of active product development in the first nine months of the financial year 2005/2006: the newest addition to the Draakon chews family is the apple-flavoured Draakon; in addition the company started selling strawberry, blueberry and apple-flavoured Draakon chews in 16.5-gram mini-packs. The gift-box series Collection now includes the 220-gram box of handmade candy (the Classic Collection) and the souffle series the new 340-gram souffle selection. The company also introduced a new series of pralines by launching three products in the series: marzipan praline, grilliage praline and praline with Indian nuts. These products are marketed as bulk goods as well as in 175-gram mini-packs. Marzipan praline and praline with Indian nuts are also sold in 20-gram bars. The purpose of the launch of a new praline series was to strengthen the company's position in the chocolate candy sector. A new addition was also made to Kalev's chocolate series – dark chocolate with cherries.

In addition, the company launched watermelon-flavoured caramels with vitamin C, yoghurt-coated raisin drage, new milk toffee and gift-box, containing chocolate candy with eggnog filling.

In the given period, the company also refreshed its candy packages. Five classic candies – marmalade candies Lily and Tiina, pralines Kalev and Oravake and wafer candies Tallinn – will, from now on, be more distinctive and bear a more recognizable product trademark. Other candies got new matching packages. The above changes aimed at better displaying the trademark on the products, thus better exploiting the strength of the trademark in the sales process. The packaging of Kalev's exclusive candies – the truffle series – was also renewed.

New biscuits launched by the company included the Kookose and Meepräänikud biscuits.

The popular AS Vilma flour mix package was also refreshed in the given period. The series include a total of 12 flour mixes for baking tarts, cakes, and muffins, as well as pizza.

1.2.2. Dairy products

The volume of crude milk stocked by AS Kalev Paide Tootmine increased by 11% in the first nine months of the financial year 2005/2006, compared to the same period last year. Crude milk was mostly used for producing whole milk and skimmed milk powder, cream and butter. The output was marketed mainly in EU countries.

In the first half-year, the EU market prices were mostly affected by the decrease in intervention prices (intervention buying-in price for butter dropped by 7.5% and that for skimmed milk powder by 5.3% from 1 July 2005), and export subsidies. Export subsidies for butter, skimmed milk powder and whole milk powder were abruptly cut by 25%, 46% and 21% respectively in May 2005. As a result of the situation on the global market, i.e. high skimmed milk powder price and drop in the price of butter, the regulatory objective conditioned a reduction of the export subsidy for skimmed milk powder (subsidy: 5 EUR/100 kg), while the export subsidy for butter has somewhat been increased to 96.5 EUR/100 kg. The export subsidy for whole milk powder has not been significantly changed since June 2005, staying at 50 EUR/100 kg. The above figures have been stated as of the end of March 2006.

Intra-EU prices have dropped, compared to last year. For example, the wholesale price for German whole milk powder has dropped by 5.0%, and butter by 9.6%, while the average price of skimmed milk powder has practically remained unchanged, compared to the same period (first nine months) last year.

The crude milk buying-in prices were relatively high on the Estonian market in the first half of the financial year. As a result of the drop in the market price of dairy products in the economic area, the dairy industry was not a profitable business sector in the financial year. The crude milk prices were somewhat adjusted on the market in January 2006. This had a positive effect on the company's economic results. Continual increase in the price of heat energy (as a result of the increase in the price of shale oil) has had a negative effect on the business sector. The company is continually enhancing its efficiency to remain competitive in the current market situation.

1.2.3. Product sales

The total sales of Kalev Group's confectionery and dairy products in the first nine months of the financial year 2005/2005 amounted to 20,400 tons, and did not significantly change from last financial year. 51% was sold at the home market; 49% was exported.

The total sales of Kalev Group's confectionery products, incl. chocolate and sugar confectionery products, amounted to 4,700 tons, and remained on par with last financial year. The home market constituted 84% of

the total sales of confectionery products; 16% of the sales were exported. In the given period, Russia made up 44% of the chocolate and sugar confectionery product export, Latvia 31%, Tax-Free 10%, Lithuania 9% and other countries (Finland, Germany, Ukraine, United States, etc.) 6%. Total exports of confectionery products increased by 23% in the period, compared to the first nine months of the last financial year.

The total sales of Kalev Group's baked goods amounted to 3,600 tons in the first nine months of the financial year 2005/2006, decreasing by 13%, compared to the same period last year. 99% of the output was sold on the domestic market. Approximately 4% of the biscuit output was exported to the Baltic States and Russia.

Kalev Group sold over 12,100 tons of dairy products, i.e. skimmed milk and milk powder, high-temperature pasteurized milk and butter, in the given period – nearly an 8% increase, compared to the same period in the financial year 2004/2005. 76% of the total sales of these products were exported to various EU countries. Germany was the biggest export destination for dairy products, buying 64% of the total sales.

1.3. Real estate activities

AS Kalev Real Estate Company (AS Kalev REC), AS Kalev's subsidiary involved in real estate administration and development, continued its operations on the public real estate market (both residential and commercial premises) in the first nine months of the financial year 2005/2006.

On 20.12.2005, AS Kalev REC transferred the immovable located at Pärnu mnt 139E/2 (i.e. the so-called Tere building) for a development project price of 39.4 million kroons (+VAT). The gross profit to be earned from the transaction will amount to an estimated 26 million kroons. Previous estimations predicted realization of the profit during a longer period of time (i.e. in the calendar year 2006).

2. INTERIM FINANCIAL STATEMENTS

DECLARATION OF THE MANAGEMENT BOARD

The Management Board of AS Kalev takes responsibility for the correctness of the preparation of the interim financial statements of the first nine months of the financial year 2005/2006 of AS Kalev set out on pages 10-24, and confirms that, to the best of its knowledge:

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

This interim report has not been audited or otherwise reviewed by auditors.

Põrguvälja, 19 May 2006

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

Oliver Kruuda
Chairman

INCOME STATEMENT

in thousands of kroons and euros

Notes	Consolidated in EEK		Consolidated on EUR	
	9 months	9 months	9 months	9 months
	2005/2006	2004/2005	2005/2006	2004/2005
3 Net sales	714 548	611 429	45 668	39 077
Cost of sales	-596 161	-489 928	-38 102	-31 312
Gross profit	118 387	121 501	7 566	7 765
Marketing expenses	-73 699	-62 886	-4 710	-4 019
Administrative and general expenses	-49 222	-51 864	-3 146	-3 315
Other income and expenses	56 581	11 554	3 616	738
Operating profit	52 047	18 305	3 326	1 170
Other net financial items	-10 363	-10 853	-662	-694
Net profit/loss for the financial year	41 684	7 452	2 664	476
incl.share of the owners of the parent company	41 269	6 392	2 638	409
minority interest	-415	-1 060	-27	-68
Net earnings per share (basic EPS and diluted EPS in kroons and euros)	1,76	0,27	0,11	0,02

in thousands of kroons and euros

Notes	Consolidated in EEK		Consolidated on EUR	
	III q 2005/2006	III q 2004/2005	III q 2005/2006	III q 2004/2005
3 Net sales	174 760	171 370	11 169	10 953
Cost of sales	-153 205	-148 765	-9 792	-9 508
Gross profit	21 555	22 605	1 378	1 445
Marketing expenses	-24 731	-18 319	-1 581	-1 171
Administrative and general expenses	-17 741	-10 638	-1 134	-680
Other income and expenses	38 264	9 006	2 446	576
Operating profit	17 347	2 654	1 109	170
Other net financial items	-4 065	-3 196	-260	-204
Net profit/loss for the financial year	13 282	-542	849	-35
incl.share of the owners of the parent company	13 294	-774	850	-49
minority interest	12	-232	1	-15
Net earnings per share (basic EPS and diluted EPS in kroons and euros)	0,56	-0,03	0,04	0,00

BALANCE SHEET

in thousands of kroons and euros

Notes	Consolidated EEK		Consolidated EUR	
	31.03.2006	30.06.2005	31.03.2006	30.06.2005
ASSETS				
Current assets				
	6 037	5 708	386	365
	117 977	114 860	7 540	7 341
	1 037	1 367	66	87
	108 766	106 541	6 951	6 809
Total current assets	233 817	228 476	14 944	14 602
Non-current assets				
	2 471	5 116	158	327
5 Investments	20 000	0	1 278	0
7 Investment property	204 018	200 578	13 039	12 819
8 Property, plant and equipment	351 370	347 316	22 457	22 198
9 Intangible assets	25	79	2	5
Total non-current assets	577 884	553 089	36 934	35 349
TOTAL ASSETS	811 701	781 565	51 877	49 951
LIABILITIES AND OWNER'S EQUITY				
Current liabilities				
10 Borrowings	126 464	119 416	8 083	7 632
	8 316	3 925	531	251
	214 877	233 426	13 733	14 919
11 Provisions	0	5 000	0	320
Total current liabilities	349 657	361 767	22 347	23 121
Non-current liabilities				
10 Borrowings	190 606	183 035	12 182	11 698
Total non-current liabilities	190 606	183 035	12 182	11 698
Total liabilities	540 263	544 802	34 529	34 819
Minority interest	2 012	8 606	129	550
Owner's equity				
12 Share capital	236 325	236 325	15 104	15 104
	4 020	4 020	257	257
	8 669	8 669	554	554
	20 412	-20 857	1 305	-1 333
Total owner's equity	269 426	228 157	17 219	14 582
TOTAL LIABILITIES, MINORITY INTEREST AND OWNER'S EQUITY	811 701	781 565	51 877	49 951

CASH FLOW STATEMENT

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005
Operating activities				
Operating profit	52 047	18 305	3 326	1 170
Adjustment of operating profit	-17 049	18 025	-1 090	1 152
Other financial expenses	2 049	0	131	0
Change in assets related to operating activities	5 675	56 492	363	3 610
Change in liabilities related to operating activities	-19 054	-18 588	-1 218	-1 188
Total cash flow from operating activities	23 668	74 234	1 513	4 744
Investing activities				
Purchase of subsidiaries	-8 888	-20 698	-568	-1 323
Proceeds from disposals of non-current assets	32 514	30 141	2 078	1 926
Purchase of non-current assets	-26 007	-16 233	-1 662	-1 037
Loans granted	1 120	0	72	0
Repayments of loans	-4 668	0	-298	0
Interest received	-1 112	0	-71	0
Total cash flow investing activities	-7 041	-6 790	-450	-434
Financing activities				
Repayment of loans and bonds	-60 206	-775	-3 848	-50
Loans received and bonds issued	75 223	-19 176	4 808	-1 226
Repayment of finance lease principal	-9 133	-6 844	-584	-437
Change in overdraft and other financial instruments	-9 665	-6 891	-618	-440
Interest paid	-12 517	0	-800	0
Total cash flow from financing activities	-16 298	-33 686	-1 042	-2 153
Total cash flow	329	33 758	21	2 158
Cash and cash equivalents at the beginning of the period	5 708	2 780	365	178
Change in cash and cash equivalents	329	33 758	21	2 158
Cash and cash equivalents at the end of the period	6 037	36 538	386	2 335

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

STATEMENT OF CHANGES IN EQUITY

in thousands of kroons

Consolidated	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Total equity
30.06.2004	78 775	3 161	17 159	158 699	257 794
					0
Profit allocation	157 550	859	0	-158 409	0
Goodwill	0	0	0	9 941	9 941
Profit for the reporting period	0	0	0	6 392	6 392
					0
31.03.2005	236 325	4 020	17 159	16 623	274 127
30.06.2005	236 325	4 020	8 669	-20 857	228 157
Profit for the reporting period	0	0	0	41 269	41 269
31.03.2006	236 325	4 020	8 669	20 412	269 426

in thousands of euros

Consolidated	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Total equity
30.06.2004	5 035	202	1 097	10 143	16 476
Profit allocation	10 069	55	0	-10 124	0
Goodwill	0	0	0	635	635
Profit for the reporting period	0	0	0	409	409
31.03.2005	15 104	257	1 097	1 062	17 520
30.06.2005	15 104	257	554	-1 333	14 582
Profit for the reporting period	0	0	0	2 638	2 638
31.03.2006	15 104	257	554	1 305	17 219

NOTES TO THE FINANCIAL STATEMENTS**Note 1 Background information**

AS Kalev is an Estonian company whose shares have been listed in the secondary list of the Tallinn Stock Exchange. Kalev Group pursues manufacturing and sale of various foodstuffs, and real estate development.

Note 2 Accounting principles and basis of estimations**A. Basis of preparation**

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

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

B. Changes in accounting principles and comparative data

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

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

The financial indicators of the subsidiary Kalev Merchant Services Ltd have not been consolidated in this interim report, since the balance sheet volume of the subsidiary only makes up less than 0.5% of the parent company's turnover. The comparative data have not been adjusted, since the financial indicators of the subsidiary have no significant influence on those of the Group.

C. Basis of consolidation

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

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

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

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

The economic indicators of AS Valmetek Invest, a company acquired by AS Kalev's subsidiary AS Kalev Paide Tootmine, have not been recognised in the consolidated financial statements, as the company is not actively operating at this point, and its financial indicators have no significant effect on those of the Group. The company's acquisition has been recognised under investments.

Note 3 Segment information

Main format - business segments

In accounting for segments, the confectionery, baked goods and dairy products as well as real estate activities are clearly distinguishable as segments.

in thousands of kroons

	Confectionery products		Baked goods		Dairy products		Real estate		Total	
	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Extra-group customers										
revenue	276 816	258 534	63 769	63 656	320 848	259 572	53 115	29 666	714 548	611 428
other revenue	6 160	7 384	1 202	53	10 921	202	43 476	11 326	61 759	18 965
Total segment revenue	282 976	265 918	64 971	63 709	331 769	259 774	96 591	40 992	776 307	630 393
Profit/loss from segment	4 448	10 984	4 706	2 243	-23 867	-1 924	67 380	9 029	52 667	20 332
Joint expenses									-620	-2 027
Operating profit/loss									52 047	18 305
Net financial items									-10 363	-10 853
Minority interest	0	0	-415	-1 060	0	0	0	0	-415	-1 060
Net profit/loss for the year									41 269	6 392

in thousands of euros

	Confectionery products		Baked goods		Dairy products		Real estate		Total	
	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Extra-group customers										
revenue	17 692	16 523	4 076	4 068	20 506	16 590	3 395	1 896	45 668	39 077
other income	394	472	77	3	698	13	2 779	724	3 947	1 212
Total segment revenue	18 085	16 995	4 152	4 072	21 204	16 603	6 173	2 620	49 615	40 289
Profit/loss from segment	284	702	301	143	-1 525	-123	4 306	577	3 366	1 299
Joint expenses									-40	-130
Operating profit/loss									3 326	1 170
Net financial items									-662	-694
Minority interest	0	0	-27	-68	0	0	0	0	-27	-68
Net profit/loss for the year									2 638	409

in thousands of kroons

	Confectionery products		Baked goods		Dairy products		Real estate		Total	
	III q	III q	III q	III q	III q	III q	III q	III q	III q	III q
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Extra-group customers										
revenue	92 294	84 709	17 449	26 672	83 426	80 490	-18 409	-20 502	174 760	171 369
other income	4 985	4 550	1 126	17	8 504	34	30 002	8 306	44 617	12 907
Total segment revenue	97 279	89 259	18 575	26 689	91 930	80 524	11 593	-12 196	219 377	184 276
Profit/loss from segment	-16 009	-26 318	-400	3 169	-6 819	4	20 180	-7 456	-3 048	-30 601
Joint expenses									20 395	33 255
Operating profit/loss									17 347	2 654
Net financial items									-4 065	-3 196
Minority interest	0	0	12	-232	0	0	0	0	12	-232
Net profit/loss for the financial year									13 294	-774

in thousands of euros

	Confectionery products		Baked goods		Dairy products		Real estate		Total	
	III q	III q	III q	III q	III q	III q	III q	III q	III q	III q
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Extra-group customers										
revenue	5 899	5 414	1 115	1 705	5 332	5 144	-1 177	-1 310	11 169	10 952
other income	319	291	72	1	544	2	1 917	531	2 852	825
Total segment revenue	6 217	5 705	1 187	1 706	5 875	5 146	741	-779	14 021	11 777
									0	
Profit/loss from segment	-1 023	-1 682	-26	203	-436	0	1 290	-477	-195	-1 956
Joint expenses									1 303	2 125
Operating profit/loss									1 109	170
Net financial items									-260	-204
Minority interest	0	0	1	-15	0	0	0	0	1	-15
Net profit/loss for the financial year									850	-49

Net sales by markets

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.07.2005- 31.03.2006	01.07.2004- 31.03.2005	01.07.2005- 31.03.2006	01.07.2004- 31.03.2005
Estonia	416 479	368 927	26 618	23 579
Baltic States	18 177	13 823	1 162	883
Scandinavia	9 217	37 765	589	2 414
Other EU countries	253 122	187 587	16 177	11 989
Other countries	17 553	3 326	1 122	213
TOTAL	714 548	611 428	45 668	39 077

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.01.2006- 31.03.2006	01.01.2005- 31.03.2005	01.01.2006- 31.03.2006	01.01.2005- 31.03.2005
Estonia	107976	93 750	6 901	5 992
Baltic States	4465	3 505	285	224
Scandinavia	515	8 753	33	559
Other EU countries	60084	64 526	3 840	4 124
Other countries	1720	836	110	53
TOTAL	174 760	171 370	11 169	10 953

Note 4 Personnel expenses

The Group laid off 51 employees between 1 July 2005 and 31 March 2006, with redundancy compensations amounting to a total of 825 thousand kroons (53 thousand euros). In the comparative period, 38 employees were laid off, with redundancy compensations totalling 907 thousand kroons (58 thousand euros).

Note 5 Investments

On 20 February 2006 AS Kalev's subsidiary AS Kalev Paide Tootmine acquired 31% of the shares of AS Valmetek Invest. An entry on the increase in the share capital of Valmetek Invest AS was made in the commercial register on the same date. As of the moment of the entry into force of the increase in the share capital of the company, AS Kalev Paide Tootmine became the owner of 20 thousand shares of Valmetek Invest AS (i.e. 31% of the share capital of the company).

Note 6 Earnings per share

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.03.2006	31.03.2005	31.03.2006	31.03.2005
Net profit/loss	41 269	6 392	2 638	409
Weighted average number of shares (in thousands of units)	23 633	23 633	1 510	1 510
Earnings per share	1,75	0,27	0,11	0,02

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

Note 7 Investment property

in thousands of kroons

Consolidated	Investments	Prepayments for investments	Total
Book value 30.06.2005	165 768	34 810	200 578
Additions	25 110	1 502	26 612
Prepayment	29 662	-29 662	0
Change in fair value	30 000	0	30 000
Disposals	-53 172	0	-53 172
Book value 31.03.2006	197 368	6 650	204 018

in thousands of euros

Consolidated	Investments	Prepayments for investments	Total
Book value 30.06.2005	10 595	2 225	12 819
Additions	1 605	96	1 701
Prepayment	1 896	-1 896	0
Change in fair value	1 917	0	1 917
Disposals	-3 398	0	-3 398
Book value 31.03.2006	12 614	425	13 039

Note 8 Property, plant and equipment

in thousands of kroons

Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Acquisition cost 30.06.05	11 486	263 196	147 784	18 493	8 216	449 175
Accumulated depreciation 30.06.05	0	-18 754	-71 521	-11 349	-235	-101 859
Book value 30.06.05	11 486	244 442	76 263	7 144	7 981	347 316
Additions	0	7 220	6 471	4 263	8 348	26 302
Disposals	0	0	2 078	-167	10	1 921
Reclassification	0	-2 986	4 516	48	-5 074	-3 496
Reclassification into investment property (Note 6)	0	0	0	0	0	0
Depreciation charge	0	-5 960	-11 053	-1 916	0	-18 929
Book value 31.03.2006	11 486	242 716	76 401	9 522	11 245	351 370
Acquisition cost 31.03.2006	11 486	267 430	156 693	22 637	11 480	469 726
Accumulated depreciation 31.03.2006	0	-24 714	-80 292	-13 115	-235	-118 356

in thousands of euros

Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Acquisition cost 30.06.05	734	16 821	9 445	1 182	525	28 708
Accumulated depreciation 30.06.05	0	-1 199	-4 571	-725	-15	-6 510
Book value 30.06.05	734	15 623	4 874	457	510	22 198
Additions	0	461	414	272	534	1 681
Disposals	0	0	133	-11	1	123
Reclassification	0	-191	289	3	-324	-223
Reclassification into investment property (Note 6)	0	0	0	0	0	0
Depreciation charge	0	-381	-706	-122	0	-1 210
Book value 31.03.2006	734	15 512	4 883	609	719	22 457
Acquisition cost 31.03.2006	734	17 092	10 015	1 447	734	30 021
Accumulated depreciation 31.03.2006	0	-1 580	-5 132	-838	-15	-7 564

Note 9 Intangible assets

in thousands of kroons and euros

	Consolidated (in EEK)	Consolidated (in EUR)
	Other intangible assets	Other intangible assets
Acquisition cost 30.06.05	359	23
Accumulated amortisation 30.06.05	-280	-18
Book value 30.06.2005	79	5
Amortisation charge	-54	-3
Book value 31.03.2006	25	2
Acquisition cost 31.03.2006	359	23
Accumulated amortisation 31.03.06	-318	-20

Note 10 Borrowings

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.03.2006	30.06.2005	31.03.2006	30.06.2005
Overdraft	38 751	41 277	2 477	2 638
Bonds	64 843	31 004	4 144	1 982
Bank loans	16 036	28 921	1 025	1 848
Other short-term loans	3 640	7 479	233	478
Finance lease liabilities	3 194	10 735	204	686
Total current liabilities	126 464	119 416	8 083	7 632
Long-term bank loans	89 650	88 887	5 730	5 681
Long-term finance lease liabilities	100 956	94 148	6 452	6 017
Total non-current liabilities	190 606	183 035	12 182	11 698

AS Kalev issued, by way of placing, a total of 64.8 million kroons (4,1 million euros) worth of bonds. The redemption date of the bonds is 28 February 2007. The bonds have a nominal value of 10,000 kroons. The interest rate for the first quarter is 8%. The bonds can be redeemed by the issuer or sold by the investor at nominal value on each interest payment date. The bonds have been secured with 39.4% of the shares of the subsidiary AS Kalev Real Estate Company. The funds raised through the issue will be used for redeeming previous bonds, as well as for development of Kalev Group's various product segments, with emphasis on production technology and product development.

Note 11 Provisions

At the end of the financial year 2004/2005, the Group subsidiary AS Kalev Paide Tootmine established a provision in the amount of 5,000 thousand kroons (320 thousand euros) in order to cover the potential loss arising from the unfavourable market situation for dairy products as well as the crude milk buying-in contracts until December 2005. The provision was recorded under "Other income and expenses", accordingly.

Note 12 Share capital

in kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.03.2006	30.06.2005	31.03.2006	30.06.2005
Number of common shares (in thousands of units)	23 633	23 633	23 633	23 633
Nominal value	10	10	0,64	0,64

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

Note 13 Related party transactions

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

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.07.2005- 31.03.2006	01.07.2004- 31.03.2005	01.07.2005- 31.03.2006	01.07.2004- 31.03.2005
Goods and services purchased				
Balance at the beginning of the period	26 974	1 556	1 724	99
Services	19 758	40 610	1 263	2 595
Goods	104 102	71 571	6 653	4 574
Balance at the end of the period	12 872	5 681	823	363
Goods and services sold				
Balance at the beginning of the period	3 168	23 917	202	1 529
Services	193	477	12	30
Goods	97 734	130 561	6 246	8 344
Balance at the end of the period	13 816	14 705	883	940

Most of the purchase and sales transactions were concluded with Tallinna Piimatööstuse AS. AS Kalev has purchased crude milk and sold dairy products. Services have mostly been outsourced from Tööstuse Teenindamise AS under the Group equipment maintenance contract concluded with the company.

The Group supported non-profit associations related to the General Manager in the amount of 511 thousand kroons (32 thousand euros) in the period (1,178 thousand kroons, i.e. 75 thousand euros, in the comparative period).

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