



INTERIM FINANCIAL STATEMENTS FOR 12 MONTHS

Beginning of the period: 1 July 2005

End of the period: 30 June 2006

AS KALEV

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COMMENTS ON FINANCIAL STATEMENTS

AS Kalev group pursues three principal fields of activity: production and sale of chocolate, sugar and flour confectionery products, production and sale of dairy products, 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. The pan-Estonian retail chain of AS Kalev consists of 15 candy stores and cafes. The newest candy store and café was opened in an historic market building in Rakvere in November 2005.

Characteristic indicators for the 12 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	5.6	47,073	3,009
Increase in operating profit	190.6	44,345	2,834
Increase in sales revenue from domestic market	7.9	37,023	2,366
Increase in export revenue	2.7	10,050	642

AS Kalev is the parent company of the AS Kalev group; the group also includes nine subsidiaries. AS Kalev had a significant interest in the following companies as of 30.06.2006:

Name of subsidiary	Location	as of 30.06.2006	as of 30.06.2005
AS Kalev Paide Tootmine	Estonia	100%	100%
AS Valmetek Invest	Estonia	31%	0%
AS Kalev Jõhvi Tootmine	Estonia	99.10%	99.10%
AS Vilma	Estonia	100%	60.67%
AS Kalev Real Estate	Estonia	100%	100%
Company (AS Kalev REC) EOOD Stude REC	Bulgaria	100%	0%
OÜ Maiasmokk	Estonia	81.26%	81.26%
AS Kalev Chocolate Factory	Estonia	100%	0%
AS Kalev Merchant Services Ltd	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 within 2005. On 23 December 2005 AS Kalev acquired an additional 39.2% of the shares of its subsidiary AS Vilma for the

total price of EEK 7.3 M (EUR 0.47 M). On 31 March 2006 AS Kalev acquired the remaining 0.1% of the shares and became the sole shareholder of AS Vilma. AS Kalev acquired these shares for EEK 16 000 (EUR 1000).

On 20 February 2006 an entry on the increase of the share capital of Valmetek Invest AS was made in the commercial register, as a result of which AS Kalev's subsidiary AS Kalev Paide Tootmine acquired 31% of the shares of AS Valmetek Invest. From the moment of the increase of share capital, AS Kalev Paide Tootmine became the holder of 20 000 shares of Valmetek Investment AS, which forms 31% of the company's share capital. Together with its two co-shareholders, AS Kalev Paide Tootmine plans to start producing cheese in Valmetek Invest AS. AS Kalev group's strategic choice is to be the most efficient foodstuff producer in the coverage area. It was the above strategic choice that caused the need to extend production in the subsidiary AS Kalev Paide Tootmine. AS Kalev Paide Tootmine owned assets (equipment, immovable, etc.) that could be put to more efficient use. These assets were thus transferred to Valmetek Invest AS and EEK 20 M (EUR 1.28 M) of the resulting claims were offset in the course of increasing the share capital of Valmetek Invest AS.

AS Kalev's subsidiary AS Kalev Real Estate Company (AS Kalev REC) founded a subsidiary in the Republic of Bulgaria in June 2006. The new company is called Stude REC EOOD and its main business is the development, administration, lease, purchase and sale of real estate in Bulgaria. The share capital of Stude REC EOOD is 100% owned by AS Kalev REC.

1. Economic results

In the financial year 2005/2006, AS Kalev employed 772 people on average; in the previous financial year, the group companies employed 806 people on average. The shares of AS Kalev have been listed on the Tallinn Stock Exchange since 1996.

The following Tables present the net sales and net profit of the AS Kalev group companies for the 12 months of the financial year 2005/2006 (in thousands of kroons and euros). The data of six companies are presented, since the subsidiary AS Kalev Chocolate Factory began its operations on 1 July 2006 and the financial indicators of AS Kalev Merchant Services Ltd are not consolidated because its balance sheet totals less than 0.5% of the parent company's turnover.

EEK	Net sales		Net profit	
	2005/2006	2004/2005	2005/2006	2004/2005
	12 months	12 months	12 months	12 months
AS Kalev	423,492	384,561	33,276	-29,920
AS Kalev Paide	413,546	435,057	-44,930	-26,073
Tootmine*				
AS Kalev REC*	75,363	41,952	127,496	32,448

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AS Kalev Jõhvi Tootmine	32,753	35,410	-3,728	-6,902
OÜ Maiasmokk	7,255	6,282	-3,099	-1,198
AS Vilma	36,064	39,989	-1,342	3,444

* consolidated

EUR	2005/2006	2004/2005	2005/2006	2004/2005
	12 months	12 months	12 months	12 months
AS Kalev	27,066	24,578	2,127	-1,912
AS Kalev Paide	26,430	27,805	-2,872	-1,666
Tootmine*				
AS Kalev REC*	4,817	2,681	8,148	2,074
AS Kalev Jõhvi	2,093	2,263	-238	-441
Tootmine				
OÜ Maiasmokk	464	401	-198	-77
AS Vilma	2,305	2,556	-86	220

* consolidated

The turnover of AS Kalev increased 5.6% in 2005/2006 compared to the previous period and the sales revenue amounted to EEK 890 M (EUR 56.9 M). The consolidated net profit for the period was EEK 1.153 M (EUR 73 700), while the previous financial year ended with a loss of EEK 14.048 M (EUR 2.623 M) for the company. The economic results in general and the net profit growth in particular were influenced by a greater production efficiency, optimisation of the product portfolio, the rapid growth of the sales of confectionery products on the domestic market, the favourable real estate market and successful real estate projects.

Marketing expenses increased 30% compared to the same period of the previous financial year. The reasons for the rapid growth of expenses lie in the changes of the group structure, development of the product portfolio and the general development of the economic environment. Marketing expenses increased especially rapidly in the fourth quarter of the financial year (1.8 times compared to the last quarter of the previous financial year) due to the development and advertising costs of new and renewed products. Administrative and general expenses decreased 0.4% compared to the previous period.

The positive balance of other operating income and expenses increased 4.5 times, amounting to EEK 41.7 M (EUR 2.7 M). This was mainly due to the appreciation by AS Kalev REC of the immovable at 5 Tervise St, Tallinn, to its fair value, and the reduction of the provision which was made for AS Kalev Paide Tootmine at the end of the financial year 2004/2005. The provision was made to cover the potential losses arising from the unfavourable situation on the dairy products market and from the purchase contracts of crude milk until December 2005.

The most important financial ratios of Kalev Group:*

	Group	
	01.07.2005- 30.06.2006	01.07.2004- 30.06.2005
Current ratio	0,69	0,63
Financial leverage	0,81	0,70
Asset turnover ratio	1,04	1,14
Net profit margin (%)	0,1%	-4,9%
Return on assets (%)	0,1%	-5,6%

* The ratios are calculated based on the following methods:

Current ratio = current assets/current liabilities

Financial leverage = total liabilities/average total assets

Asset turnover ratio = revenue/average total assets

Net profit margin = net profit/ revenue * 100%

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

2. Product market and sales

2.1. Confectionery products

AS Kalev is the firm leader of the Estonian market in chocolate and sugar confectionery products. According to an Estonian retail market survey conducted by the market research company AS Nielsen Eesti, AS Kalev's share of the chocolate and sugar confectionery products market reaches 42% by volume. AS Kalev occupies 14% of the cookies market by volume. Product development continues to be among the priorities of AS Kalev: new and innovative products are developed and launched in a way that meets the expectations of consumers in both the local and export markets.

Several new products of the ordinary assortment have reached the consumer as a result of active product development. The popular tastes of the Kalev chocolate series – milk chocolate with hazelnuts, milk chocolate with raisins and nuts and milk chocolate with almonds – were launched in the form of 200 g blocks. The Kalev 100 g chocolate series was supplemented by a new product: dark chocolate with cherry pieces. The chocolates Kalev and Linda, which have been part of the Kalev product range since the 1970s and 1980s respectively were given new packages with themes from the Estonian national epic. The family of chewing candies called Draakon was supplemented by the apple flavoured Draakon, while the strawberry, blueberry and apple Draakon candies are now also available in minipacks of 16.5 g. The Collection giftbox series was extended with a new 220 g box of assorted handmade chocolates called the Classic Collection, and the soufflé series was supplemented by a new 340 g box of assorted soufflés. A basis was laid for a new series of praline candies with the launch of four products in the series: praline with marzipan, praline with crocant, praline with cashew nut and praline with chocolate. These products are sold by weight and in small 175 g packs; pralines with marzipan and pralines with cashew nuts are

also available in 20 g sticks. The new praline series was launched in order to strengthen the company's position in the chocolate candy sector.

The small packages of Kalev candies have a new appearance. Five classic candies – the marmalade candies Lily and Tiina, the praline candies Kalev and Oravake and the wafer candy Tallinn – are packed into more distinguishable and easier to recognise packages bearing the product's trademark. The remaining candies received a uniform renewed small package. These changes were aimed at a better display of the trademark on the products and hence better utilisation of the strength of the trademark in the selling process. The package of the exclusive Kalev truffle candies was modernised.

New flour confectionery products – Kookos cookies and Meepräänik (honey) cookies were introduced to the market. The series of low-calorie cookies and cookies with healthy supplements was extended by Nisukliiküpsis (wheat bran cookies) with fructose and linseeds. The packaging of the popular flour mixes of the subsidiary AS Vilma was also refreshed. The series comprises 14 products, 12 of which are flour mixes for making cakes, muffins and pizza, and two products – powdered sugar and cocoa powder – are for flavouring and/or decorating cakes. The new packages bear the traditional dotted pattern and a sample photo of the end product, which makes it easier for consumers to find the product they need.

2.2. Dairy products

The crude milk purchased by AS Kalev Paide Tootmine is mainly used for making whole milk and skimmed milk powder, cream and butter. The bulk of these products are marketed in the European Union. Because of the world market situation – the high price of skimmed milk powder and the dropping price of butter – and regulatory intervention, skimmed milk powder is no longer subject to export subsidies (it was €15/100 kg at the beginning of the financial year). At the same time, export subsidies for butter and whole milk powder have decreased from €99.50/100 kg at the beginning of the period to €54/100 kg at the end of the period. The European Union internal market prices have followed a similar trend; e.g. the wholesale prices of German whole milk powder and butter have dropped 4.3% and 9.5% respectively. The average price of skimmed milk powder has been stable since the previous period. A minor price correction has occurred on the crude milk market in 2006: according to the Estonian Statistical Office, the average buying-in price of crude milk has dropped by EEK 0.12/kg (about 3%). The market price of finished products has dropped more than the price of crude milk during the reporting period; the continuous price rise in thermal energy is also having a negative impact on dairy industries.

2.3. Sales of products

The total sales of the various confectionery and dairy products of AS Kalev reached 24 300 tonnes in the financial year 2005/2006, which constitutes no major change since the previous financial year. Of this volume, 49% was sold on the domestic market and 51% on various export markets.

The total sales of AS Kalev confectionery products, including chocolate and sugar confectionery products, reached 6100 tonnes during the reporting period, which was at the same level as last year. Of confectionery products, 85% were sold on the domestic market and 15% were exported. The export of chocolate and sugar confectionery products in the reporting period broke down as follows: Russia 50%, Latvia 34%, Lithuania 8%, Finland 5%, Germany 2% and other countries 1%. The total export volume of confectionery products increased 17% compared to the previous financial year.

The sales volume of AS Kalev flour confectionery products, including bakery products and cookies, amounted to 4400 tonnes in the financial year 2005/2006, which is 13% less than in the previous financial year. 99% of these products were sold on the domestic market. About 6% of cookies were sold on the Baltic and Russian markets.

Dairy products – skimmed milk powder and milk powder, high-temperature pasteurized milk, and butter – were sold in a volume of 13 800 tonnes during the reporting period, which is 3% less than in the financial year 2004/2005. Of the sales volume of these products, 83% was exported to various European Union countries. The main export destination of dairy products was Germany where 68% of the volume of the products was sold.

3. Real estate activities

AS Kalev's subsidiary AS Kalev Real Estate Company (AS Kalev REC), which is engaged in the administration and development of real estate, continued its active operations on the public real estate market in both the dwellings and commercial premises sector in 2005/2006. This year Kalev REC commenced the development of two apartment buildings – a building with 19 apartments at Marati St, Tallinn, and another building with 25 apartments at Hommiku St, Pärnu; both buildings are expected to be finished by the end of 2006.

The largest real estate project in Tallinn is the development of the immovable at 5 Tervise St, Tallinn. According to the detailed plan being prepared, this area will have up to 45 000 m² of apartment premises; the detailed plan is expected to be ready by the summer of 2007. No suitable bids were received at the auction held by BRC Kinnisvara in June 2006 for selling this immovable at the initial price of EEK 165 M and Kalev REC continues to develop the land. The first development project outside Estonia was launched: a 6500 m² apartment building in the Bulgarian capital Sofia, which is being developed by its subsidiary Stude REC EOOD.

Kalev REC transferred several projects and real estate investments in the financial year 2005/2006; the largest of these were the sale of the Tere Maja development project, i.e. the immovable at 139E/2 Pärnu Rd, Tallinn, for EEK 39.4 M (EUR 2.5 M) and the sale of a legal share in the Tartu Cold Storage immovables for EEK 24 M (EUR 1.5 M).

2. INTERIM FINANCIAL STATEMENTS

MANAGEMENT REPRESENTATION

The Management Board of AS Kalev takes responsibility for the correctness of the preparation of the interim financial statements of the twelve months of the financial year 2005/2006 of AS Kalev set out on pages 10-23, 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, 31 August 2006

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

Oliver Kruuda
General Manager

INCOME STATEMENT

in thousands of kroons and euros

Notes	Consolidated in EEK		Consolidated in EUR	
	12 months	12 months	12 months	12 months
	2006	2005	2006	2005
	fin.year	fin.year	fin.year	fin.year
3 Net sales	889 623	842 550	56 857	53 849
Cost of sales	-745 734	-734 316	-47 661	-46 931
Gross profit	143 889	108 234	9 196	6 917
Marketing expenses	-103 153	-79 072	-6 593	-5 054
Administrative and general expenses	-61 392	-61 657	-3 924	-3 941
Other income and expenses	41 740	9 234	2 668	590
Operating profit	21 084	-23 261	1 348	-1 487
Other financial items	-19 790	-16 673	-1 265	-1 066
Profit (loss) before minority interest	1 294	-39 934	83	-2 552
Minority interest	141	-1 114	9	-71
Net profit (loss) for financial year	1 153	-41 048	74	-2 623
Net earnings per share in parent company (basic EPS and diluted EPS in kroons and euros)	0.05	-1.69	0.00	-0.11

Notes	Consolidated in EEK		Consolidated in EUR	
	IV Q	IV Q	IV Q	IV Q
	2006	2005	2006	2005
	fin.year	fin.year	fin.year	fin.year
3 Net sales	175 075	231 121	11 189	14 771
Cost of sales	-149 573	-244 388	-9 559	-15 619
Gross profit	25 502	-13 267	1 630	-848
Marketing expenses	-29 454	-16 186	-1 882	-1 034
Administrative and general expenses	-12 170	-9 793	-778	-626
Other income and expenses	-14 841	-2 320	-949	-148
Operating profit	-30 963	-41 566	-1 979	-2 657
Other financial items	-9 427	-5 820	-602	-372
Profit (loss) before minority interest	-40 390	-47 386	-2 581	-3 029
Minority interest	556	-54	36	-3
Net profit (loss) for financial year	-40 116	-47 440	-2 564	-3 032
Net earnings per share in parent company (basic EPS and diluted EPS in kroons and euros)	-1.71	0.00	-0.11	0.00

BALANCE SHEET

in thousands of kroons and euros

Notes	Consolidated in EEK		Consolidated in EUR	
	30.06.2006	30.06.2005	30.06.2006	30.06.2005
ASSETS				
Current assets				
Cash and cash equivalents	10 080	5 708	644	365
Receivables	134 930	114 860	8 624	7 341
Prepayments	1 715	1 367	110	87
Inventories	240 334	106 541	15 360	6 809
Total current assets	387 059	228 476	24 738	14 602
Non-current assets				
Long-term receivables	7 230	5 116	462	327
6 Investment property	89 944	200 578	5 748	12 819
7 Tangible assets	545 840	347 316	34 886	22 198
8 Intangible assets	4 560	79	291	5
Total non-current assets	647 574	553 089	41 388	35 349
TOTAL ASSETS	1 034 633	781 565	66 125	49 951
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
9 Borrowings	240 464	119 416	15 368	7 632
Prepayments received	27 821	3 925	1 778	251
Accounts payable and other payables	286 717	233 426	18 325	14 919
10 Provisions	3 200	5 000	205	320
Total current liabilities	558 202	361 767	35 676	23 121
Non-current liabilities				
9 Borrowings	132 908	183 035	8 494	11 698
Total non-current liabilities	132 908	183 035	8 494	11 698
Total liabilities	691 110	544 802	44 170	34 819
Minority interest				
	88	8 606	6	550
Owners' equity				
11 Share capital	236 325	236 325	15 104	15 104
Mandatory reserve	4 020	4 020	257	257
Revaluation reserve	121 295	8 669	7 752	554
Retained earnings	-18 205	-20 857	-1 164	-1 333
Total owners' equity	343 435	228 157	21 949	14 582
TOTAL LIABILITIES, MINORITY INTEREST AND OWNERS' EQUITY	1 034 633	781 565	66 125	49 951

CASH FLOW STATEMENT

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	30.06.2006	30.06.2005	30.06.2006	30.06.2005
Operating activities				
Operating profit	21 084	-23 261	1 348	-1 487
Adjustment of operating profit	13 504	6 482	863	414
Change in assets related to operating activities	32 510	79 367	2 078	5 072
Change in liabilities related to operating activities	41 234	58 104	2 635	3 714
Total cash flow from operating activities	108 332	120 692	6 924	7 714
Investing activities				
Purchase of subsidiaries	-55 198	-37 030	-3 528	-2 367
Proceeds from disposals of non-current assets	48 497	67 955	3 100	4 343
Purchase of non-current assets	-85 724	-176 956	-5 479	-11 310
Loans granted	-48 223	-14 876	-3 082	-951
Repayments of loans	2 551	8 530	163	545
Interest received	325	320	21	20
Total cash flow investing activities	-137 772	-152 057	-8 805	-9 718
Financing activities				
Repayment of loans and bonds	-59 908	-58 332	-3 829	-3 728
Loans received and bonds issued	136 007	151 526	8 692	9 684
Repayment of finance lease principal	-18 082	-11 850	-1 156	-757
Change in overdraft and other financial instruments	-2 704	-32 588	-173	-2 083
Interest paid	-21 501	-14 463	-1 374	-924
Total cash flow from financing activities	33 812	34 293	2 161	2 192
Total cash flow	4 372	2 928	279	187
Cash and cash equivalents at the beginning of the period	5 708	2 780	365	178
Change in cash and cash equivalents	4 372	2 928	279	187
Cash and cash equivalents at the end of the period	10 080	5 708	644	365

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
Share capital contributions	157 550	859	0	-158 409	0
Goodwill	0	0	0	9 942	9 942
Revaluation of investment property	0	0	1 469	0	1 469
Adjustment of the revaluation reserve			-9 959	9 959	
Profit for the period	0	0	0	-41 048	-41 048
30.06.2005	236 325	4 020	8 669	-20 857	228 157
30.06.2005	236 325	4 020	8 669	-20 857	228 157
Goodwill	0	0	9 681	0	9 681
Revaluation of investment property	0	0	102 945	0	102 945
Acquisition of minority interest	0	0	0	1 499	1 499
Profit for the period	0	0	0	1 153	1 153
30.06.2006	236 325	4 020	121 295	-18 205	343 435

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
Share capital contributions	10 069	55	0	-10 124	0
Goodwill	0	0	0	635	635
Revaluation of investment property	0	0	94	0	94
Adjustment of the revaluation reserve	0	0	-636	636	0
Profit for the period	0	0	0	-2 623	-2 623
30.06.2005	15 104	257	554	-1 333	14 582
30.06.2005	15 104	257	554	-1 333	14 582
Goodwill	0	0	619	0	619
Revaluation of investment property	0	0	6 579	0	6 579
Acquisition of minority interest	0	0	0	96	96
Profit for the period	0	0	0	74	74
30.06.2006	15 104	257	7 752	-1 164	21 949

NOTES TO THE FINANCIAL STATEMENTS

Lisa 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 — is recorded under a separate entry in the consolidated income statement and balance sheet.

Note 3 Segment information

Main format - business segments

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

	Confectionery products		Flour confectionery products		Dairy products		Real estate		Total	
	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Extra-group customers										
revenue	350 967	309 291	86 322	96 426	397 847	418 882	54 487	17 951	889 623	842 550
other income	1 298	8 567	151	194	9 686	3 844	46 576	14 534	57 711	27 139
Revenue from other segments	0	0	0	0	0	10 903	0	0	0	10 903
Total segment revenue	352 265	317 858	86 473	96 620	407 533	433 629	101 063	32 485	947 334	880 592
Profit/loss from segment	34 842	22 664	1 668	4 839	-45 043	-10 704	61 883	13 117	53 350	29 916
Joint expenses									-32 266	-53 177
Operating profit/loss									21 084	-23 261
Net financial items									-19 790	-16 673
Profit before minority interest									1 294	-39 934
Minority interest	0	0	267	-1 134	0	0	-126	20	141	-1 114
Net profit/loss for the year									1 153	-41 048

	Confectionery products		Flour confectionery products		Dairy products		Real estate		Total	
	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months	12 months
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
in thousands o euros										
Extra-group customers										
revenue	22 431	19 767	5 517	6 163	25 427	26 771	3 482	1 147	56 857	53 849
other income	83	548	10	12	619	246	2 977	929	3 688	1 734
Revenue from other segments	0	0	0	0	0	697	0	0	0	697
Total segment revenue	22 514	20 315	5 527	6 175	26 046	27 714	6 459	2 076	60 546	56 280
Profit/loss from segment	2 227	1 448	107	309	-2 879	-684	3 955	838	3 410	1 912
Joint expenses									-2 062	-3 399
Operating profit/loss									1 348	-1 487
Net financial items									-1 265	-1 066
Profit before minority interest									83	-2 552
Minority interest	0	0	17	-72	0	0	-8	1	9	-71
Net profit/loss for the year									74	-2 623

Net sales by markets

in thousands of kroons and euros

Consolidated (in EEK)		Consolidated (in EUR)	
01.07.2005-	01.07.2004-	01.07.2005-	01.07.2004-

	30.06.2006	30.06.2005	30.06.2006	30.06.2005
Estonia	507 093	470 070	32 409	30 043
Baltic States	23 396	17 965	1 495	1 148
Scandinavia	9 101	50 312	582	3 216
Other EU countries	314 975	295 132	20 131	18 862
Other countries	35 058	9 071	2 241	580
TOTAL	889 623	842 550	56 857	53 849

Note 4 Personnel expenses

The Group laid off 62 employees between 1 July 2005 and 30 June 2006, with redundancy compensations amounting to a total of 1 373 thousand kroons (88 thousand euros). In the comparative period, 47 employees were laid off, with redundancy compensations totalling 1 319 thousand kroons (84 thousand euros).

Note 5 Earnings per share

	Consolidated (in EEK)		Consolidated (in EUR)	
	30.06.2006	30.06.2005	30.06.2006	30.06.2005
Net profit/loss	141	-39 934	9	-2 552
Weighted average number of shares (in thousands of units)	23 633	23 633	1 510	1 510
Earnings per share	0,01	-1,69	0,00	-0,11

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

Lisa 6 Investment property

in thousands of kroons

Consolidated	Investments	Prepayments for investments	Total
Book value 30.06.2005	165 768	34 810	200 578
Additions	51 998	-34 810	17 188
Reclassification from non-current assets	4 913	0	4 913
Reclassification into inventories	-122 086	0	-122 086
Change in fair value	31 957	0	31 957
Disposals	-42 606	0	-42 606
Book value 30.06.2006	89 944	0	89 944

in thousands of euros

Consolidated	Investments	Prepayments for investments	Total
Book value 30.06.2005	10 595	2 225	12 819
Additions	3 323	-2 225	1 099
Reclassification from non-current assets	314	0	314
Reclassification into inventories	-7 803	0	-7 803
Change in fair value	2 042	0	2 042
Disposals	-2 723	0	-2 723
Book value 30.06.2006	5 748	0	5 748

Note 7 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	1 625	3 982	16 994	4 803	89 903	117 307
Disposals	0	0	-465	-264	-423	-1 152
Reclassification	0	187	6 345	-1 118	-5 414	0
Reclassification into investment property (Note 6)	0	-4 913	0	0	0	-4 913
Revaluation	0	112 626	0	0	0	112 626
Depreciation charge	0	-7 962	-14 822	-2 560	0	-25 344
Book value 30.06.2006	13 111	348 362	84 315	8 005	92 047	545 840
Acquisition cost 30.06.2006	13 111	352 192	166 570	18 133	92 282	642 288
Accumulated depreciation 30.06.2006	0	-3 830	-82 255	-10 128	-235	-96 448

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	104	254	1 086	307	5 746	7 497
Disposals	0	0	-30	-17	-27	-74
Reclassification	0	12	406	-71	-346	0
Reclassification into investment property (Note 6)	0	-314	0	0	0	-314

6)

Revaluation	0	7 198	0	0	0	7 198
Depreciation charge	0	-509	-947	-164	0	-1 620
Book value 30.06.2006	838	22 264	5 389	512	5 883	34 886
Acquisition cost 30.06.2006	838	22 509	10 646	1 159	5 898	41 050
Accumulated depreciation 30.06.2006	0	-245	-5 257	-647	-15	-6 164

Note 8 Intangible assets

in thousands of kroons

	Consolidated Other intangible assets	Consolidated Goodwill	Consolidated Total
Acquisition cost 30.06.05	359	0	359
Accumulated amortisation 30.06.05	-280	0	-280
Book value 30.06.2005	79	0	79
Additions	0	4550	4550
Amortisation charge	-69	0	-69
Book value 30.06.2006	10	4 550	4560
Acquisition cost 30.06.2006	359	4550	4909
Accumulated amortisation 30.06.06	-349	0	-349

in thousands of euros

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

Note 9 Borrowings

in thousands of kroons and euros

	Consolidated EEK		Consolidated EUR	
	30.06.2006	30.06.2005	30.06.2006	30.06.2005
Overdraft	46 052	41 277	2 943	2 638
Bonds	74 834	31 004	4 783	1 982
Bank loans	105 698	28 921	6 755	1 848
Other short-term loans	5 000	7 479	320	478
Finance lease liabilities	8 880	10 735	568	686

Total current liabilities	240 464	119 416	15 368	7 632
Long-term bank loans	39 378	88 887	2 517	5 681
Long-term finance lease liabilities	93 530	94 148	5 978	6 017
Total non-current liabilities	132 908	183 035	8 494	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 is regressive, dropping each quarter, with a total drop from 8% to 6%. 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.

AS Kalev REC has taken 45.9 million kroons (2.9 million euros) of additional loans from financing institutions for acquiring investment property and developing real estate projects.

Note 10 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.

In connection with fluctuations in crude milk stocking prices and sales prices on the dairy product market, a new provision was established at the end of the financial year 2005/2006 in the amount of 3 200 thousand kroons (205 thousand euros) in order to cover potential future losses.

Note 11 Share capital

	Consolidated (in EEK)		Consolidated (in EUR)	
	30.06.2006	30.06.2005	30.06.2006	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 12 Related party transactions

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

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.07.2005- 30.06.2006	01.07.2004- 30.06.2005	01.07.2005- 30.06.2006	01.07.2004- 30.06.2005
Goods and services purchased				
Balance at the beginning of the period	26 974	1 662	1 724	106
Services	31 128	33 840	1 989	2 163
Goods	135 489	129 650	8 659	8 286
Balance at the end of the period	7 028	26 974	449	1 724
Goods and services sold				
Balance at the beginning of the period	3 168	23 917	202	1 529
Services	239	2 716	15	174
Goods	130 374	156 200	8 332	9 983
Balance at the end of the period	1 820	3 168	116	202

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 Management Board in the amount of 1 193 thousand kroons (76 thousand euros) in the period (1,123 thousand kroons, i.e. 72 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.