



Interim Report 6 months

Reporting period:
01.07.2006-31.12.2006

Public Limited Company
KALEV

Reg.nr:10000952

Financial year:
01.07.2006-30.06.2007

Auditor: Ernst & Young Baltic AS

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- Net sales 458 mln EEK (29,3m €); net profit 10.5 mln EEK (0,67m €)
- Confectionary segment profitability growth faster than growth in product sales volume
- Flour confectionery segment gross profit doubles
- Expansion into publishing and printing segment

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1. COMMENTS ON ECONOMIC ACTIVITIES

1.1. General information and changes in organisational structure

AS Kalev pursues several fields of activity, including manufacturing and sale of foodstuffs, real-estate related activities, as well as publishing and printing services. The company has long-term experience in the chocolate, sugar and flour confectionery product segment as well as the dairy product segment. Foodstuff production is carried out in five production plants located in Põrguvälja (in Rae municipality), Paide, Viljandi, Jõhvi and Kiviõli. Kalev's sales activities are pursued through a pan-Estonian retail chain which consists of 15 candy stores and cafes. AS Kalev has also been involved in real estate development and administration for a longer period of time. As a good example of a multifaceted company, AS Kalev has also entered the publishing and printing segment.

Kalev Group launched the group restructuring process last financial year. The process will yield positive results in the first half-year 2006/2007.

In May 2006, AS Kalev Chocolate Factory was established for the purpose of manufacturing and marketing chocolate and sugar confectionery products. In September this financial year, AS Kalev Chocolate Factory also started manufacturing the bakery and flour confectionery products of subsidiaries AS Vilma and AS Kalev Jõhvi Tootmine.

A new subsidiary was added to the corporate structure in the first quarter of the financial year 2006/2007. AS Kalev Real Estate Company (AS Kalev REC) acquired BCA Center, a private limited company which has a share capital of 40 000 kroons and is fully owned by AS Kalev REC. Through OÜ BCA Center, AS Kalev REC participated in the Private Partnership for Tallinn Schools Project competition. Having won the competition, OÜ BCA Center has the obligation to reconstruct the real estate objects and to conduct maintenance (management, cleaning) and repairs on these objects during the contractual period. The investment obligation is secured by AS Kalev REC and must be fulfilled in the second half of 2008 at the latest.

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

In the second quarter of the financial year, several new subsidiaries and associated companies were incorporated into Kalev Group. AS Kalev acquired a 19.4% stake in AS PR Põhjarannik. AS Kalev won the right to purchase the company at the auction held on 21 November 2006. At the public oral auction, seven B-shares of AS PR

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Põhjarannik were sold, with AS Kalev declared the winning bidder. Each share grants one vote at the general meeting of AS PR Põhjarannik. The main fields of activity pursued by AS PR Põhjarannik include publishing, printing, and organisation of data broadcasting. Among other things, AS PR Põhjarannik issues the daily "Põhjarannik" in both Estonian and Russian, with the paper issue covering a majority of North-eastern Estonia.

On 28 November, AS Kalev concluded a contract under which the company acquired 100% of the shares of AS Inreko Press. The main fields of activity of AS Inreko Press include publishing, and organisation of public events and press events. The public limited company published journals and books (including, for instance, "Sporditäht" and "Ärielu").

On 19 December 2006, AS Kalev concluded a contract under which the company acquired all shares of OÜ Olliwood. Under the contract, the 100% ownership over the company will be transferred to AS Kalev on the moment of the notarisation of the contract of sale. OÜ Olliwood's main fields of activity include publishing and organisation of public events and press events. The private limited company publishes journals and books (including, for instance, "Just" and "Basket", and the children's publication "Muumi").

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

Kalev Group's parent company is AS Kalev. In addition, the group incorporates twelve subsidiaries. AS Kalev has a significant interest in the following companies:

Name of subsidiary	Location	As of 31.12.2006	As of 31.12.2005
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%	99.90%
AS Kalev Real Estate Company (AS Kalev REC)	Estonia	100%	100%
EOOD Stude REC	Bulgaria	100%	0%
OÜ BCA Center	Estonia	100%	0%
OÜ Maiasmokk	Estonia	81.26%	81.26%
AS Kalev Chocolate Factory	Estonia	100%	0%
AS Kalev Merchant Services Ltd	USA	100%	100%
OÜ Sugarstar	Estonia	100%	0%
AS Inreko Press	Estonia	100%	0%
OÜ Olliwood	Estonia	100%	0%

1.2. Financial results

In the first half-year of 2006/2007, Kalev Group employed an average of 770 people; in the comparative period of the last financial year, the group employed an average of 789 people.

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The net sales and net profit of AS Kalev Group companies for the first 6 months of the financial year 2006/2007 have been brought out in the below tables (in thousands of kroons and euros).

Data has been presented for 9 companies, because the balance sheet volume of AS Kalev Merchant Services Ltd only makes up less than 0.5% of the parent company's turnover. Neither do the tables include data on OÜ Olliwood and AS PR Põhjarannik because AS Kalev acquired the respective shares only in December 2006.

The data on AS Kalev Paide Tootmine and AS Kalev Real Estate Company also includes the corresponding results of their subsidiaries.

EEK	Net sales		Net profit	
	2006/2007	2005/2006	2006/2007	2005/2006
	6 months	6 months	6 months	6 months
AS Kalev	144 392	223 237	-21 951	476
AS Kalev Chocolate Factory	221 351	0	21 291	0
AS Kalev Paide Tootmine*	164 934	246 422	-400	-4 189
AS Kalev REC*	286 377	72 716	11 279	34 177
AS Kalev Jõhvi Tootmine	18 285	19 672	-2 450	106
OÜ Maiasmokk	4 156	3 531	178	-198
AS Vilma	13 107	20 974	252	965
OÜ Sugarstar	1 667	0	-372	0
AS Inreko Press	869	0	373	0

* consolidated

EUR	Net sales		Net profit	
	2006/2007	2005/2006	2006/2007	2005/2006
	6 months	6 months	6 months	6 months
AS Kalev	9228	14 267	-1 403	30
AS Kalev Chocolate Factory	14 147	0	1 361	0
AS Kalev Paide Tootmine*	10 541	15 749	-26	-268
AS Kalev REC*	18 303	4 647	721	2 184
AS Kalev Jõhvi Tootmine	1 169	1 257	-157	7
OÜ Maiasmokk	266	226	11	-13
AS Vilma	838	1 340	16	62
OÜ Sugarstar	107	0	-24	0
AS Inreko Press	56	0	24	0

* consolidated

The economic activities of AS Kalev and the profitability of the financial indicators of the group in the given period have been significantly affected by the group restructuring process and product portfolio reorganisation launched at the end of last financial year. In the first six months of the financial year 2006/2007, the consolidated

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net sales of the company amounted to 458 million kroons (29.3 million euros). Compared to the first 6 months of the last financial year, net sales decreased by 15%. This was conditioned by a significant decrease in the sales of AS Kalev Paide Tootmine which, in turn, was conditioned by a decrease in crude milk stocking volumes. The consolidated net profit of AS Kalev for the first half of the financial year amounted to 10.5 million kroons (0.67 million euros). The net profit for the comparative period amounted to nearly 28 million kroons (1.78 million euros). Higher profitability in the last financial year was conditioned by the realisation of certain projects of AS Kalev REC.

The loss of the parent company AS Kalev was conditioned by the expenses incurred on the restructuring of the company in the first 6 months of the financial year 2006/2007.

Important factors contributing to the results for the first 6 months of the financial year:

- 1) although the turnover from the dairy product segment has decreased by a third, the negative results from the segment have decreased several times faster than the drop in revenue, with activities in the dairy product segment being profitable;
- 2) the profitability of the confectionery product segment has increased faster than the segment product sales volume;
- 3) while turnovers are similar, the results of the flour confectionery segment exceed those for the comparative period by nearly two times.

AS Kalev has greatly increased financial gearing in the financing of its activities and development. The quick increase in the group's financial expenses has been conditioned by the refinancing of loans, redemption of bonds and new mortgages taken in the first six months of the financial year. The purposes mainly involve financing activities in the field of real estate administration and development.

The most important financial ratios of AS Kalev Group*

	AS Kalev Group	
	01.07.2006- 31.12.2006	01.07.2005 31.12.2005
Current ratio	0.88	0.73
Financial gearing	1.04	0.66
Asset turnover ratio	0.42	0.70
Net profit margin (%)	2.3%	5.6%
Return on assets, ROA (%)	1.0%	3.7%

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

Current ratio = current assets / current liabilities

Financial gearing = total liabilities / average total assets

Asset turnover ratio = revenue / average total assets

Net profit margin = net profit / revenue * 100%

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

1.3. Product market and sales

In the first half-year of 2006/2007 AS Kalev sold a total of 9,800 tons of confectionery and dairy products. Total sales decreased by 29% compared to the same period last financial year. 59% of the total sales were sold at the home market, and 41% exported.

1.3.1. Confectionery products

According to the retail trade survey conducted by AC Nielsen Eesti (November 2006), Kalev Group is still the leader of the Estonian chocolate and sugar confectionery market — the company's market share was 36% as regards turnover, and 42% as regards sales volumes.

The total sales of the sugar and chocolate confectionery products of Kalev Group increased by 9% in the first six months of the financial year 2006/2007, compared to the same period last year (incl. +11% in the 2nd quarter), amounting to 204 million kroons (13.1 million euros). The total sales volume in the segment amounted to 3,332 tons in the first 6 months of the financial year 2006/2007. This remains more or less on par with the total volume of sugar and chocolate confectionery products sold in the same period last financial year (-0.8%). At the same time, the dynamics of the sale of confectionery products was different for different product groups: a quicker-than-average growth could be seen in the sales of chocolate tablets (+15%) and boxed chocolate candies (+12%); the sale of candies increased by 7%, compared to the first 6 months of the last financial year. The sale of chocolate tablets showed the biggest growth in volume (+11%), compared to the same period last financial year. The profitability of the sugar and chocolate confectionery products, however, increased even faster than sales, growing by 13% from last year. These results were achieved through production efficiency enhancement, product portfolio optimising, price corrections and successful launch of new products.

The company launched two new chocolate tablets in the given period - Kalev milk chocolate with biscuit crumbs and plum bits (100 g) and Kalev white chocolate with pop rice and blueberry bits (200 g). The company also launched boxed chocolate candies: chocolate candy with cream liqueur filling (110 g), Praline with Indian nuts (105 g), selection of praline candies (150 g) and Kalev soufflé vanilla-flavoured candies with whipped filling (155 g). New candies included the Kalev Praline with chocolate (175 g). New uncoated candies included the Tallinn wafer candy (24 g).

In the last few months of 2006, AS Kalev Chocolate Factory sold a total of over 200 tons of (i.e. nearly 380 thousand) Christmas packages of different size and contents. This constitutes a 12% (i.e. over a 20-ton) increase compared to the same period last year. The total sale of Christmas candy amounted to 464 tons in 2006, of which candies made up 44%, chocolate tablets 28%, gingerbread 18% and boxed chocolate candy 10%. The Christmas selection includes 49 products with different thematic designs.

The sale of Kalev Group flour confectionery products (incl. bakery products, biscuits and flour mixes) decreased by nearly 4% in the first six months of the financial year 2006/2007. As regards volume, the total sales of the same segment amounted to 2,033 tons in the first six months of the financial year 2006/2007. The sale of flour confectionery products decreased by nearly 12% compared to the same period last financial year. Similarly to sugar and chocolate confectionery segments, different sales dynamics can be distinguished among the product groups of the flour confectionery segment: e.g. the sale of flour mixes increased by 22% compared to the first 6 months of last financial year, while the sale of biscuits and bakery products decreased. The share of export is still small in the flour confectionery segment - nearly 2%.

Kalev's market share at the Estonian biscuit market is 9.5%, as regards turnover (according to AC Nielsen survey from November 2006). The company ranks third on the biscuit market. New products included *Nisukliikiipsis* biscuits with fructose and linseeds (280 g), Kalev caramel-flavoured biscuits (180 g), Kalev chocolate-flavoured biscuits (180 g), and Kalev oat biscuits (220 g). In addition, the company renewed the design of all 180 g biscuit packages.

Kalev's market share on the Estonian bread market is 4% as regards turnover (AC Nielsen; November 2006). In the bakery product segment, the company focused on the new bread portfolio, launching 11 new bakery products under "Kalevipoe" and "Linda" trademarks at the beginning of September (6 dark bread and 5 white bread products). In addition, the company optimised its existing product portfolio.

Of the total sale of confectionery products (incl. sugar, chocolate and flour confectionery products) in the financial year 206/2007, domestic sales made up the majority (91%), with nearly 9% of the products being exported to foreign markets. Russia made up 38% of the total export of confectionery products in the financial year, the so-called Travel Trade segment 22%, Latvia 27% and other countries 13%. The export of confectionery products increased by nearly 5% compared to the same period last financial year.

1.3.2. Dairy products

The company sold a total of 6,177 tons of various dairy products manufactured from the crude milk stored by AS Kalev Paide Tootmine in the financial year — mainly skimmed milk and milk powder as well as high-temperature pasteurised milk and cream. The product sales volume is significantly (60%) smaller than sales in the same period in the financial year 2005/2006. Export to EU countries made up 79% of the total sales of dairy products. Germany was the most important export destination for dairy products, buying 64% of the total sales.

As regards product prices, a 4% increase could be seen in the price of skimmed milk powder at the beginning of the financial year, compared to the last period, as well as a certain increase in the price of butter. According to the Statistical Office of Estonia, the average buying-in price of crude milk — the most important production input — has somewhat decreased (by nearly 4%) from the same period last year.

1.3.3. Real estate activities

AS Kalev pursues real estate management and development activities through its subsidiary AS Kalev Real Estate Company. The company continues developing its ongoing real estate project. The greatest development can currently be seen in the registered immovable located at Tervise 5 in Tallinn. The company has also made preparations for selling its apartment buildings (the 19-apartment building in Marat street in Tallinn, and the 25-apartment building in Hommiku street in Pärnu).

1.4. Future activities

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

We take both the lack of skilled labour and the general wage increase into consideration when estimating production expenses under the profit margin dynamics. Further to the development in the supply of production factors, the investment plan includes projects designed for reducing the labour required for the processes. Product development will play an important role. In the chocolate confectionery segment, the company will focus on developing chocolate tablets, chocolate candy and boxed chocolate candy. In the sugar confectionery segment, the focus will lie on chewing candy and toffee. The product development will include both extension of the best before dates and creation of new flavours.

The company's goal in the bread segment of the bakery and flour confectionery sector is to obtain a 12% domestic market share in the medium-long perspective. The share of bakery products will increase in the flour confectionery segment, with continual focus to be paid to the biscuit and flour mix segment.

As regards the dairy product segment, AS Kalev will focus on product positioning in order to ensure sustainability the introduced changes. In order to achieve our goals, we will bring our product portfolio into line with the group strategy in accordance with the market situation. Raw material price and energy consumption remain the two key factors contributing to the cost price in the production of dairy products. In addition to the benefits received from long-term raw material contracts concluded with suppliers, we can also enhance efficiency of the production processes in AS Kalev Paide Tootmine, thus ensuring an increase in productivity.

Real estate activities are pursued through AS Kalev REC and its direct subsidiaries. Real estate sector — one of the most quickly-growing branches of economy in the present economic cycle — remains an important part of Kalev Group's diverse value creation process. In addition to residential and commercial space development, the company will also launch activities in the public real estate sector.

With the aim of diversifying the company's investment portfolio, AS Kalev plans to enter the print service and media-related sectors. Potential investments will include investments in the print industry as well as companies involved in the press market.

2. INTERIM FINANCIAL STATEMENTS

MANAGEMENT REPRESENTATION TO THE FINANCIAL STATEMENTS

The Management Board of AS Kalev takes responsibility for the correctness of the preparation of the interim financial statements of the first six months of the financial year 2006/2007 of AS Kalev set out on pages 10-27, and confirms that, to the best of its knowledge:

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

Põrguvälja, 21 February 2006



Oliver Kruuda
Managing Director

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INCOME STATEMENT

in thousands of kroons and euros

Note	Consolidated (in EEK)		Consolidated (in EUR)	
	2nd q 2007 financial year	2nd q 2006 financial year	2nd q 2007 financial year	2nd q 2006 financial year
3 Revenue	266 782	311 619	17 050	19 916
Cost of sales of goods and services	-192 402	-253 446	-12 297	-16 198
Gross profit	74 380	58 173	4 754	3 718
Marketing expenses	-29 323	-27 102	-1 874	-1 732
Administrative and general expenses	-31 126	-16 202	-1 989	-1 035
Other income and expenses	17 663	14 799	1 129	946
Operating profit	31 594	29 668	2 019	1 896
Other financial income and expenses	-7 453	-2 324	-476	-149
Profit/loss before minority interest	24 141	27 344	1 543	1 748
Share of minority shareholders	13	8	1	1
Net profit/loss for the financial year	24 154	27 352	1 544	1 748
Net earnings per share held by the owners of the parent company (basic and diluted; in kroons and euros)	1.02	1.16	0.07	0.07

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Note	Consolidated (in EEK)		Consolidated (in EUR)	
	1st half- year 2007 financial year	1st half- year 2006 financial year	1st half- year 2007 financial year	1st half- year 2006 financial year
3	Revenue	457 757	29 256	34 499
	Cost of sales of goods and services	-349 446	-22 334	-28 310
	Gross profit	108 311	6 922	6 189
	Marketing expenses	-53 490	-3 419	-3 130
	Administrative and general expenses	-48 487	-3 099	-2 012
	Other income and expenses	17 588	1 124	1 171
	Operating profit	23 922	1 529	2 218
	Other financial income and expenses	-13 447	-859	-403
	Profit/loss before minority interest	10 475	669	1 815
	Share of minority shareholders	22	1	-27
	Net profit/loss for the financial year	10 497	671	1 788
	Net earnings per share held by the owners of the parent company (basic and diluted; in kroons and euros)	0.44	0.03	0.08

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BALANCE SHEET

in thousands of kroons and euros

Note	Consolidated (in EEK)		Consolidated (in EUR)		
	31.12.2006	30.06.2006	31.12.2006	30.06.2006	
ASSETS					
Current assets					
	Cash and cash equivalents	18 028	10 080	1 152	644
	Receivables	161 407	134 930	10 316	8 624
	Prepayments	5 045	1 715	322	110
	Inventories	229 972	240 334	14 698	15 360
	Total current assets	414 452	387 059	26 488	24 738
Non-current assets					
	Long-term receivables	18 367	7 230	1 174	462
6	Investment property	119 428	89 944	7 633	5 748
7	Property, plant and equipment	566 682	545 840	36 218	34 886
8	Intangible assets	4 554	4 560	291	291
	Total non-current assets	709 031	647 574	45 315	41 388
	TOTAL ASSETS	1 123 483	1 034 633	71 804	66 125
LIABILITIES AND OWNER'S EQUITY					
Current liabilities					
9	Borrowings	221 468	240 464	14 154	15 368
	Prepayments received from customers	7 545	27 821	482	1 778
	Accounts payable and other payables	244 059	286 717	15 598	18 325
10	Provisions	0	3 200	0	205
	Total current liabilities	473 072	558 202	30 235	35 676
Non-current liabilities					
9	Borrowings	296 413	132 908	18 944	8 494
	Total non-current liabilities	296 413	132 908	18 944	8 494
	Total liabilities	769 485	691 110	49 179	44 170
	Minority interest	66	88	4	6
Owners' equity					
11	Share capital	236 325	236 325	15 104	15 104
	Mandatory reserve	4 020	4 020	257	257
	Revaluation reserve	116 315	116 315	7 434	7 434
	Retained earnings	-2 728	-13 225	-174	-845
	Total owner's equity	353 932	343 435	22 620	21 949
	TOTAL LIABILITIES, MINORITY INTEREST AND OWNER'S EQUITY	1 123 483	1 034 633	71 804	66 125

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CASH FLOW STATEMENT

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	2007	2006	2007	2006
	1st half-year	1st half-year	1st half-year	1st half-year
Operating activities				
Operating profit	23 922	34 700	1 529	2 218
Adjustment of operating profit	-10 325	31 853	-660	2 036
Change in assets related to operating activities	-3 185	16 733	-204	1 069
Change in liabilities related to operating activities	-67 678	-25 226	-4 325	-1 612
Total cash flow from operating activities	-57 266	58 060	-3 660	3 711
Cash flow from investing activities				
Investments into subsidiaries	-12 377	-8 872	-791	-567
Proceeds from disposals of non-current assets	7 522	26 922	481	1 721
Purchase of non-current assets	-47 787	-34 814	-3 054	-2 225
Loans granted	-16 282	-15 568	-1 041	-995
Interest received	1 407	721	90	46
Total cash flow from investing activities	-67 517	-31 611	-4 315	-2 020
Cash flow from financing activities				
Loan and bond repayments	-129 768	-6 231	-8 294	-398
Loans received, bonds issued	387 593	4 968	24 772	318
Repayment of finance lease principal	-87 179	-4 834	-5 572	-309
Change in overdraft and other financial instruments	-26 137	-13 730	-1 670	-878
Interest paid	-11 778	-8 111	-753	-518
Total cash flow from financing activities	132 731	-27 938	8 483	-1 786
Total cash flow	7 948	-1 489	508	-95
Cash and cash equivalents at the beginning of the period	10 080	5 708	644	365
Change in cash and cash equivalents	7 948	-1 489	508	-95
Cash and cash equivalents at the end of the period	18 028	4 219	1 152	270

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

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STATEMENT OF CHANGES IN EQUITY

in thousands of kroons

Consolidated	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Total owner's equity
30.06.2005	236 325	4 020	8 669	-20 857	228 157
Profit for the period	0	0	0	27 975	27 975
31.12.2005	236 325	4 020	8 669	7 118	256 132
30.06.2006	236 325	4 020	116 315	-13 225	343 435
Profit for the period	0	0	0	10 497	10 497
31.12.2006	236 325	4 020	116 315	-2 728	353 932

in thousands of euros

Consolidated	Share capital	Mandatory reserve	Revaluation reserve	Retained earnings	Total owner's equity
30.06.2005	15 104	257	554	-1 333	14 582
Profit for the period	0	0	0	1 788	1 788
31.12.2005	15 104	257	554	455	16 370
30.06.2006	15 104	257	7 434	-845	21 949
Profit for the period	0	0	0	671	671
31.12.2006	15 104	257	7 434	-174	22 620

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Background information

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

Note 2 Accounting principles and basis of estimations

A. Basis of preparation

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

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

B. Changes in accounting principles and comparative data

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

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

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

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

C. Basis of consolidation

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

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

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

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

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

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Note 3 Segment information

in thousands of kroons

	Confectionery products		Flour confectionery products		Dairy products		Real estate		Event marketing		Media		Total	
	2nd q 2007	2nd q 2006	2nd q 2007	2nd q 2006	2nd q 2007	2nd q 2006	2nd q 2007	2nd q 2006	2nd q 2007	3rd q 2006	3rd q 2007	3rd q 2006	2nd q 2007	2nd q 2006
Extra-group customers:														
Revenue	117 156	109 539	27 206	27 496	74 932	118 046	44 942	56 538	1 677	0	869	0	266 782	311 619
Other income	96	971	36	37	61	415	20 003	11 504	0	0	0	0	20 196	12 927
Revenue from other segments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue from segment	117 252	110 510	27 242	27 533	74 993	118 461	64 945	68 042	1 677	0	869	0	286 978	324 546
Gross profit from segment	25 698	26 382	5 686	4 288	2 009	-11 762	17 360	21 383	-372	0	373	0	50 753	40 291
Joint expenses													-19 159	-10 623
Operating profit/loss													31 594	29 668
Financial income and expenses													-7 453	-2 324
Profit before minority interest													24 141	27 344
Minority interest	0	0	13	8	0	0	0	0	0	0	0	0	13	8
Net profit/loss for the financial year													24 154	27 352

in thousands of euros

	Confectionery products		Flour confectionery products		Dairy products		Real estate		Event marketing		Media		Total	
	2nd q 2007	2nd q 2006	2nd q 2007	2nd q 2006	2nd q 2007	2nd q 2006	2nd q 2007	2nd q 2006	2nd q 2007	3rd q 2006	3rd q 2007	3rd q 2006	2nd q 2007	2nd q 2006
Extra-group customers:														
Revenue	7 488	7 001	1 739	1 757	4 789	7 545	2 872	3 613	107	0	56	0	17 050	19 916
Other income	6	62	2	2	4	27	1 278	735	0	0	0	0	1 291	826
Revenue from other segments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue from segment	7 494	7 063	1 741	1 760	4 793	7 571	4 151	4 349	107	0	56	0	18 341	20 742
Gross profit from segment	1 642	1 686	363	274	128	-752	1 110	1 367	-24	0	24	0	3 244	2 575
Joint expenses													-1 224	-679
Operating profit/loss													2 019	1 896
Financial income and expenses													-476	-149
Profit before minority interest													1 543	1 748
Minority interest	0	0	1	1	0	0	0	0	0	0	0	0	1	1
Net profit/loss for the financial year													1 542	1 748

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in thousands of kroons

	Confectionery products		Flour confectionery products		Dairy products		Real estate		Event marketing		Media		Total	
	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006
Extra-group customers:														
Revenue	197 966	184 522	46 072	46 320	164 796	237 422	46 377	71 524	1 677	0	869	0	457 757	539 788
Other income	299	1 175	36	76	143	2 417	20 003	13 474	0	0	0	0	20 481	17 142
Revenue from other segments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue from segment	198 265	185 697	46 108	46 396	164 939	239 839	66 380	84 998	1 677	0	869	0	478 238	556 930
Gross profit from segment	30 404	20 456	9 382	5 106	-391	-17 048	18 397	47 200	-372	0	373	0	57 793	55 714
Joint expenses													-33 871	-21 014
Operating profit/loss													23 922	34 700
Financial income and expenses													-13 447	-6 298
Profit before minority interest													10 475	28 402
Minority interest	0	0	22	-427	0	0	0	0	0	0	0	0	22	-427
Net profit/loss for the financial year													10 497	27 975

in thousands of euros

	Confectionery products		Flour confectionery products		Dairy products		Real estate		Event marketing		Media		Total	
	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006	1st h-y 2007	1st h-y 2006
Extra-group customers:														
Revenue	12 652	11 793	2 945	2 960	10 532	15 174	2 964	4 571	107	0	56	0	29 256	34 499
Other income	19	75	2	5	9	154	1 278	861	0	0	0	0	1 309	1 096
Revenue from other segments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenue from segment	12 671	11 868	2 947	2 965	10 542	15 329	4 242	5 432	107	0	56	0	30 565	35 594
Gross profit from segment	1 943	1 307	600	326	-25	-1 090	1 176	3 017	-24	0	24	0	3 694	3 561
Joint expenses													-2 165	-1 343
Operating profit/loss													1 529	2 218
Financial income and expenses													-859	-403
Profit before minority interest													669	1 815
Minority interest	0	0	1	-27	0	0	0	0	0	0	0		1	-27
Net profit/loss for the financial year													671	1 788

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Net sales by markets

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.10.2006- 31.12.2006	01.10.2005- 31.12.2005	01.10.2006- 31.12.2006	01.10.2005- 31.12.2005
Estonia	193 723	191 569	12 381	12 243
Other Baltic states	4 539	8 499	290	543
Scandinavia	953	3 722	61	238
Other EU member states	61 313	94 514	3 919	6 041
Other	6 254	13 315	400	851
TOTAL	266 782	311 619	17 050	19 916

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.07.2006- 31.12.2006	01.07.2005- 30.12.2005	01.07.2006- 30.09.2006	01.07.2005- 30.09.2005
Estonia	298 481	308 503	19 076	19 717
Other Baltic states	13 287	13 712	849	876
Scandinavia	1 842	8 702	118	556
Other EU member states	133 952	193 038	8 561	12 337
Other	10 195	15 833	652	1 012
TOTAL	457 757	539 788	29 256	34 499

Note 4 Personnel expenses

Total personnel expenses amounted to 54.3 million kroons in AS Kalev in the first half-year of 2006/2007 (with the group employing an average of 770 people); personnel expenses for the comparative period last year amounted to 46 million kroons (with an average of 789 people being employed in the group companies).

In the period between 1 July 2006 and 31 December 2006, AS Kalev laid off 11 employees, with termination compensation amounting to a total of 383 thousand kroons (24.5 thousand euros). In the comparative period last year, a total of 35 employees were laid off, with termination compensation amounting to 710 thousand kroons (45.4 thousand euros).

Note 5 Consolidated earnings per share

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Net profit/loss	10 497	27 975	671	1 788
Weighted average number of shares in the period (in thousands of units)	23 633	23 633	23 633	23 633
Earnings per share (EPS)	0.44	1.18	0.03	0.08

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

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Note 6 Investment property
in thousands of kroons

Consolidated	Investments	Prepayments for investments	Total
Net book value 30.06.2006	89 944	0	89 944
Acquisitions	16 548	0	16 548
Sales	-7 064		-7 064
Change in the fair value	20 000	0	20 000
Net book value 31.12.2006	119 428	0	119 428

in thousands of euros

Consolidated	Investments	Prepayments for investments	Total
Net book value 30.06.2006	5 748	0	5 748
Acquisitions	1 058	0	1 058
Net book value 31.12.2006	7 633	0	7 633
Net book value 30.06.2005	165 768	34 810	200 578
Acquisitions	20 518	1 300	21 818
Reclassification from non-current assets	3 038	0	3 038
Prepayments for investments	29 662	-29 662	0
Change in the fair value	1 949	0	1 949
Sales	-41 253	0	-41 253
Net book value 31.12.2005	179 682	6 448	186 130

in thousands of euros

Consolidated	Investments	Prepayments for investments	Total
Net book value 30.06.2005	10 595	2 225	12 819
Acquisitions	1 311	83	1 394
Reclassification from non-current assets	194	0	194
Prepayments for investments	1 896	-1 896	0
Change in the fair value	125	0	125
Sales	-2 637	0	-2 637
Net book value 31.12.2005	11 484	412	11 896

The company purchased a registered immovable located at Kohila 2a at a cost of 14.5 million kroons (0.93 million euros) in the reporting period. In addition, the company recorded the registered immovables located at Pärnu mnt 139 and Kohila 2 at fair value.

Note 7 Property, plant and equipment
in thousands of kroons

Consolidated	Land	Buildings and facilities	Machinery and equipment	Other non-current	Construction-in-progress	TOTAL
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				assets		
Acquisition cost 30.06.06	13 111	348 362	166 570	18 133	92 282	638 458
Accumulated depreciation 30.06.06	0	0	-82 255	-10 128	-235	-92 618
Net book value 30.06.06	13 111	348 362	84 315	8 005	92 047	545 840
Acquisition by way of mergers	0	0	0	26	0	26
Acquisitions	498	11 512	10 862	1 734	6 633	31 239
Sales	0	0	-472	-13	-8	-493
Depreciation charge	0	-5 507	-3 134	-1 289	0	-9 930
Net book value 31.12.2006	13 609	354 367	91 571	8 463	98 672	566 682
Acquisition cost 31.12.2006	13 609	359 845	170 004	13 676	98 907	656 041
Accumulated depreciation 31.12.2006	0	-5 478	-78 433	-5 213	-235	-89 359

in thousands of euros

	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Consolidated						
Acquisition cost 30.06.06	838	22 264	10 646	1 159	5 898	40 805
Accumulated depreciation 30.06.06	0	0	-5 257	-647	-15	-5 919
Net book value 30.06.06	838	22 264	5 389	512	5 883	34 886
Acquisitions	32	736	694	111	424	1 997
Sales	0	0	-30	-1	-1	-32
Depreciation charge	0	-352	-200	-82	0	-635
Net book value 31.12.2006	870	22 648	5 852	541	6 306	36 218
Acquisition cost 31.12.2006	870	22 998	10 865	874	6 321	41 929
Accumulated depreciation 31.12.2006	0	-350	-5 013	-333	-15	-5 711

in thousands of kroons

	Land	Buildings and facilities	Machinery and equipment	Other non-current assets	Construction-in-progress	TOTAL
Consolidated						
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
Net book value 30.06.05	11 486	244 442	76 263	7 144	7 981	347 316
Acquisitions	0	6 479	6 734	2 578	2 006	17 797
Sales	0	0	-1 281	-10	0	-1 291
Reclassification into investment property (Note 6)	0	52	6 232	29	-6 910	-597
Depreciation charge	0	-3 038	0	0	0	-3 038
Depreciation charge	0	-3 829	-7 258	-1 258	0	-12 345
Net book value 31.12.2005	11 486	244 106	79 626	8 633	3 077	346 928
Acquisition cost 31.12.2005	11 486	266 689	156 620	21 090	3 312	459 197
Accumulated depreciation 31.12.2005	0	-22 583	-76 994	-12 457	-235	-112 269

in thousands of euros

Consolidated	Land	Buildings and	Machinery and	Other non-	Construction-in-progress	TOTAL
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	facilities	equipment	current assets		
Acquisition cost 30.06.05	734	16 821	9 445	1 182	28 708
Accumulated depreciation 30.06.05	0	-1 199	-4 571	-725	-6 510
Net book value 30.06.05	734	15 623	4 874	457	22 198
Acquisitions	0	414	430	165	1 137
Sales	0	0	-82	-1	-83
Reclassification into investment property (Note 6)	0	3	398	2	-38
Depreciation charge	0	-194	0	0	-194
Net book value 31.12.2005	734	15 601	5 089	552	22 173
Acquisition cost 31.12.2005	734	17 045	10 010	1 348	29 348
Accumulated depreciation 31.12.2005	0	-1 443	-4 921	-796	-7 175

Note 8 Intangible assets
in thousands of kroons

	Consolidated Other intangible assets	Consolidated Goodwill	Consolidated Total
Acquisition cost 30.06.06	359	4550	4909
Accumulated amortisation 30.06.06	-349	0	-349
Net book value 30.06.2006	10	4550	4560
Amortisation charge	6	0	6
Net book value 31.12.2006	4	4 550	4554
Acquisition cost 31.12.2006	359	4550	4909
Accumulated amortisation 31.12.06	-355	0	-355

in thousands of euros

	Consolidated Other intangible assets	Consolidated Goodwill	Consolidated Total
Acquisition cost 30.06.06	23	291	314
Accumulated amortisation 30.06.06	-22	0	-22
Net book value 30.06.2006	1	291	291
Amortisation charge	0	0	0
Net book value 31.12.2006	0	291	291
Acquisition cost 31.12.2006	23	291	314
Accumulated amortisation 31.12.06	-23	0	-23

in thousands of kroons and euros

	Consolidated (in EEK) Other intangible assets	Consolidated (in EUR) Other intangible assets
Acquisition cost 30.06.05	359	23
Accumulated amortisation 30.06.05	-280	-18
Net book value 30.06.2005	79	5
Amortisation charge	-38	-1
Net book value 31.12.2005	41	4
Acquisition cost 31.12.2005	359	23
Accumulated amortisation 31.12.05	-318	-19

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Note 9 Borrowings

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Overdraft	19 915	37 459	1 273	2 394
Bonds	128 786	23 804	8 231	1 521
Bank loans	63 325	24 292	4 047	1 553
Other short-term loans	7 838	8 567	501	548
Finance lease liabilities	1 604	3 459	103	221
Total current liabilities	221 468	97 581	14 154	6 237
Long-term bank loans	282 787	84 755	18 073	5 417
Long-term finance lease liabilities	13 626	110 420	871	7 057
Total non-current liabilities	296 413	195 175	18 944	12 474

Refinancing

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

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

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

Bond issue

With the bonus issue on 20 December 2006, AS Kalev Real Estate Company issued bonds with a term of 1 year. The total volume of the issue was 70.19 million kroons. The nominal value of the bond is 10,000 kroons and the annual coupon rate 8%. Coupon payments are made on a quarterly basis. The bonds can be redeemed by the issuer or sold by the investor on each coupon date. Fulfilment of the liabilities arising from the bonds is guaranteed by AS Kalev. The issue was organised by SEB Eesti Ühispank.

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Note 10 Provisions

At the end of the financial year 2005/2006, the group subsidiary AS Kalev Paide Tootmine established a provision in the amount of 3,200 thousand kroons (205 thousand euros) in order to cover the potential loss arising from the unfavourable market situation for dairy products, and the crude milk buying-in contracts until December 2006. As of 31 December 2006, the provision was fully written off the balance sheet.

Note 11 Share capital

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

	Consolidated (in EEK)		Consolidated (in EUR)	
	31.12.2006	30.06.2006	31.12.2006	30.06.2006
Number of common shares (in thousands of units)	23 633	23 633	23 633	23 633
Nominal value	10	10	0.64	0.64

Note 12 Related party transactions

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

in thousands of kroons and euros

	Consolidated (in EEK)		Consolidated (in EUR)	
	01.07.2006- 31.12.2006	01.07.2005- 31.12.2005	01.07.2006- 31.12.2006	01.07.2005- 31.12.2005
Goods and services purchased				
Balance at the beginning of the period	7 028	26 974	449	1 724
Services	11 364	15 984	726	1 022
Goods	65 115	72 455	4 162	4 631
Balance at the end of the period	10 935	448	699	29
Goods and services sold				
Balance at the beginning of the period	1 820	3 168	116	202
Services	767	172	49	11
Goods	66 138	64 230	4 227	4 105
Balance at the end of the period	232	214	15	14

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

The Group supported non-profit associations related to the Management Board in the amount of 311 thousand kroons (20 thousand euros) in the period (290 thousand kroons, i.e. 19 thousand euros, in the comparative period).

A total of 222 thousand kroons (14 thousand euros) was paid in remuneration to the Management Board in the six months (150 thousand kroons, i.e. 10 thousand euros, in the comparative period).

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

Note 13 Events after the balance sheet date

13.1. Long-term raw material contract with dairy producers

AS Kalev's subsidiary AS Kalev Paide Tootmine concluded, for the first half-year 2007, crude milk buying-in contracts under which the company will supply nearly 160 tons of crude milk a day. The negotiated price formation was based on a co-operation model which considers a long-term partnership between the parties and which was satisfactory for both dairy producers and processors. Under the agreement, the price of crude milk will be formed on the basis of the European average prices for milk powder, skimmed milk powder and butter.

13.2. Acquisition of a stake in the printing and media business

Under the contract concluded on 3 January 2007, AS Kalev has the option of acquiring a share in the print service companies AS Uniprint and AS Unipress. If the company decides to go through with the transactions, AS Kalev will acquire a 20% stake in AS Uniprint and a 50% stake in AS Unipress. Under the contract, AS Kalev may become the owner of the shares after expiry of the term of the pre-emptive right. The shares will be paid for simultaneously with the transfer of the right of ownership.

On 9 February 2007, AS Kalev concluded a contract of sale of shares, acquiring 100% of AS Santenor. The sales price will depend on the economic results of AS Santenor. Under the contract, AS Kalev shall have the right to withdraw from the contract within a period of 1 month. The shares must be paid for within one month after conclusion of the contract of sale, with the right of ownership over the shares to be transferred to AS Kalev after payment of the sales price. AS Santenor's main activities include production of TV shows, as well as provision of audio and audio-visual services and media broadcasting.

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