



ANNUAL REPORT

Business name	AS Eesti Ehitus
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Domicile	Republic of Estonia
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E-mail	eestiehitus@eestiehitus.ee
Website	www.eestiehitus.ee
Core activity	General construction of buildings and civil engineering works (4521)
Beginning of financial year	1 January 2006
End of financial year	31 December 2006
Legal form	Public limited company
Chief Executive Officer	Jaano Vink
Auditor	KPMG Baltics AS

Attached documents

1. Auditor's report
2. Profit allocation proposal
3. List of shareholders

Member of the Board _____

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Directors' report

THE YEAR IN RETROSPECT

For AS Eesti Ehitus Group, the past financial year was one of fundamental and pivotal change. On the one hand the successful listing of the company's share on Tallinn Stock Exchange was a logical continuation of prior developments, on the other it conveyed a clear message that we wish to be an open and reliable partner for our customers, employees and investors and that we feel ready for the responsibility of meeting their expectations.

Our decision to go public was assuredly supported by positive developments in the Estonian construction market and economy on the whole. However, the year also revealed the risks and pitfalls of rapid growth which after a satisfied review of the period's accomplishments will require our undivided attention. Strong upward pressure on labour costs, the scarcity of qualified workforce, and limited resources for responding to constantly growing capacities – these are but some of the factors confronting the market. Although we were able to resolve the issues successfully in 2006, we are aware that they will be topical also in 2007.

Admittedly, our success would not have been possible without the talent, dedication and commitment of our employees who defied all challenges and once again showed their true worth. In looking at the excellent but dry figures of our annual report we know that we have to focus on retaining and developing our most valuable asset – our people. This is the key to success.

STRATEGY

Mission

We are committed to providing premier value-added design and construction services by creating a successful partnership with our customers.

We seek to add value to the Group by recognising our employees and providing them with clear motivation, development opportunities and a contemporary work environment.

Vision

We strive to be a construction group which can always surpass the customer's expectations.

Values

Quality

We are professionals – we apply appropriate and efficient construction techniques and technologies and observe generally accepted quality standards. We provide our customers with integrated cost efficient solutions.

We are environmentally aware and operate sustainably.

We value our employees by providing them with a contemporary work environment which encourages creativity and a motivation system which fosters initiative.

Reliability

We always keep our promises and honour our agreements.

We act openly and transparently.

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We consistently support and promote the best construction practices.

We do not take risks at the expense of our customers.

Innovation

We are innovative and creative engineers.

We take maximum advantage of the benefits offered by information technology.

We inspire our employees to grow through consistent training and balanced career opportunities.

GROUP STRUCTURE

AS Eesti Ehitus is a construction group whose core business is the construction of buildings and structures in Estonia and Ukraine; the Group acts both as a general contractor and a project manager. In Estonia, the Group also operates as an independent contractor in road construction and maintenance, environmental engineering, and the assembly of reinforced concrete elements and structures and cast-on-site concrete works.

The activities of the Group companies are as follows: the parent and AS Linnaehitus are engaged in general contracting and project management. AS ASPI and its subsidiaries build environmental structures and roads and provide road maintenance services. Over two thirds of the revenue of OÜ Mapri Projekt results from concrete works; in addition, the company performs smaller general construction contracts. OÜ Eurocon coordinates the Group's construction and development activities in Ukraine. Its direct subsidiary Eurocon Ukraine LLC is engaged in general contracting and project management and owns interests in companies which develop real estate in and around Kiev and Lvov.

The parent of the Group is AS Eesti Ehitus, a company registered and seated in Tallinn, Estonia. Since 18 May 2006 the company's share has been quoted in the main list of Tallinn Stock Exchange.

The audited consolidated financial statements of AS Eesti Ehitus for 2006 comprise the parent company and its subsidiaries and the Group's interests in associates:

At 31 December		Ownership interests of AS Eesti Ehitus		
Company			2005	2006
AS Linnaehitus	subsidiary	Estonia	100.0%	100.0%
AS ASPI	subsidiary	Estonia	100.0%	100.0%
AS Järva Teed	subsidiary	Estonia	100.0%	100.0%
OÜ Hiiu Teed	subsidiary	Estonia	100.0%	100.0%
OÜ Mapri Projekt	subsidiary	Estonia	52.0%	52.0%
Estcon OY	subsidiary	Finland	100.0%	100.0%
OÜ EE Ressursid	subsidiary	Estonia	100.0%	100.0%
OÜ Eurocon	subsidiary	Estonia	64.0%	64.0%
Eurocon Ukraine LLC	subsidiary	Ukraine	64.0%	61.4%
Eurocon West LLC	subsidiary	Ukraine	0.0%	61.4%
Bukovina Developments LLC	subsidiary	Ukraine	0.0%	60.8%
Passage Theatre LLC	subsidiary	Ukraine	64.0%	55.3%
OÜ Kaurits	subsidiary	Estonia	0.0%	52.0%
V.I. Center LLC	associate	Ukraine	42.7%	38.7%
SIA Abagars	associate	Latvia	0.0%	34.3%
Eurobeton LLC	associate	Ukraine	0.0%	30.7%
Technopolis-2 LLC	associate	Ukraine	32.0%	30.7%
EA Reng Proekt LLC	associate	Ukraine	0.0%	31.3%
OÜ Kastani Kinnisvara	associate	Estonia	0.0%	26.0%

In 2006, the following significant changes occurred in the Group's structure:

- In April a 4% stake in Eurocon Ukraine LLC, a wholly-owned subsidiary of OÜ Eurocon, was sold to the Chief Executive Officer of Eurocon Ukraine LLC Oleg Drin. After the transaction, OÜ Eurocon's ownership in Eurocon Ukraine LLC is 96% and AS Eesti Ehitus' interest in Eurocon Ukraine LLC (considering minority interests in OÜ Eurocon) is 61.4%.
- In September, Eurocon Ukraine LLC and EA Reng AS, an Estonian company, established in Ukraine EA Reng Proekt LLC. The entity's core activity is architectural and constructive engineering design.
- In September, AS ASPI entered into an agreement for the acquisition of a 52% stake in OÜ Kaurits, a recognised lessor of earthworks and road construction equipment. Through the latter's subsidiary SIA Abagars the Group has now a presence also on the Latvian market. At the end of December all the procedures enabling AS ASPI to acquire an interest in OÜ Kaurits were finalised. Accordingly, the year-end consolidated financial statements include the assets, liabilities and equity of OÜ Kaurits.
- In November, V.I. Center LLC acquired a new investor – AG ECE European City Estates. As a result of the transaction, at the end of 2006 the shareholders of V.I. Center LLC were Eurocon Ukraine LLC (52%), AG ECE European City Estates (24%), Mr Volodymir Pechenik (13%) and OÜ Eurocon (11%). Considering minority interests in OÜ Eurocon and Eurocon Ukraine LLC, after the transaction AS Eesti Ehitus' interest in V.I. Center LLC is 38.99%. V.I. Center LLC holds a long-term lease on a 4.3-ha plot of commercial land on the Kiev-Borispol motorway. The plot will be used for the construction of commercial buildings with a total area of up to 60,000 square metres, including the 300-room Radisson SAS Airport Hotel Kiev

In 2006 the Group employed, on average 871 people, including 50 outside Estonia. The proportion of engineers and technical personnel (ETP) was 37.8%. Labour costs totalled 17,5 million euros, a 50.2% increase on a year ago. ETP training expenses totalled 123,000 euros (2005: 106,000 euros).

Average number of the Group's employees

Period	ETP	Workers	Total average
2006	329	542	871
2005	261	461	722
2004	217	393	610

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

General meeting

The general meeting of shareholders is the highest managing body of the Group. The ordinary general meeting is held once a year within six months after the end of the financial year. An extraordinary meeting can be called in cases stipulated by law or in the Articles of Association of the Company and in case of need.

The last ordinary annual general meeting convened on 1 April 2006 to approve the annual report for the year 2005, profit distribution and election of the auditor. Also, in connection with the company's flotation on Tallinn Stock Exchange, two extraordinary general meetings were held to adopt decisions on the new wording of the Articles of Association of the Company, and on the increase of share capital which accompanied the listing.

The first general meeting of the public limited company will convene in spring 2007 which will be held according to the Corporate Governance Recommendations.

Council

The council of AS Eesti Ehitus plans the activities of the Company, organises the management of the Company and supervises the activities of the board, as well as approves the transactions beyond day-to-day business activity. According to the Articles of Association of the Company, the council may have three to seven members. The members of the council are elected by the general meeting for five years. Meetings of the council are held when necessary but not less frequently than once every three months. There were twelve council meetings held in 2006.

The council of AS Eesti Ehitus has six members: Chairman Toomas Luman, Vice-Chairman Alar Kroodo and members Tiina Mõis, Meelis Milder, Mait Schmidt and Ain Tromp.

The majority shareholder has two representatives (Toomas Luman and Mait Schmidt) and the minority shareholders and the Group's subsidiaries also two (Alar Kroodo and Ain Tromp). In addition, there are two independent council members (Tiina Mõis and Meelis Milder).

In 2006, the total remuneration of the Group's council members amounted to 67,000 euros and the total remuneration of the subsidiaries' council members was 250,000 euros. The corresponding figures for 2005 were 31,000 euros and 42,000 euros.

Board

The board may consist of one to five members who are elected by the council for three years.

The board of AS Eesti Ehitus has four members: Chairman Jaano Vink (owns 16,500 shares as of 31 December 2006), Technical Director Avo Ambur (15,461 shares), Director of Finance Andri Hõbemägi (17,000 shares) and Construction Director Erkki Suurorg (2,075 shares). On the board, Jaano Vink and Andri Hõbemägi are responsible for the management of the Group as a whole while Avo Ambur and Erkki Suurorg are in charge of managing the parent company's core activity.

Subsidiaries are managed by Margus Vaim (Chairman of the Board of AS ASPI), Kalev Kase (Director of AS Linnaehitus), Andres Erm (Chairman of the Board of OÜ Eurocon) and Priit Jaagant (Member of the Board of OÜ Mapri Projekt).

In 2006 the remuneration of the members of the board of AS Eesti Ehitus amounted to 591,000 euros and that of the subsidiaries' board members totalled 573,000 euros. The corresponding figures for 2005 were 358,000 euros and 286,000 euros. Due to the confidentiality clause included in service agreements, the Company does not disclose remuneration payments to each board member separately.

Board members act on the basis of service agreements which, among other things, set out their responsibilities and bases for remuneration. A board member's remuneration consists of a service fee and additional remuneration which depends on the company's performance. On the expiry or termination of the contract, a board member is entitled to compensation equal to the past 6-12 months' average service fee, depending on circumstances.

There are no option nor pension fund payment programmes in place in AS Eesti Ehitus.

Auditor

The auditor of AS Eesti Ehitus is AS KPMG Baltics which conducts its audit procedures in two stages – during the interim audit and the year-end audit. In addition, the auditor performs specially requested internal audits and provides tax advice. AS KPMG Baltics has been the Group's auditor since 1996.

Management and internal control systems

Our internal controls operate on two levels. Firstly, the management system of AS Eesti Ehitus is described in a management manual which specifies the activities required for managing the processes affecting our organization's quality and environment. The system which complies with both ISO 9001 and ISO 14001 is audited internally and externally, i.e. by our own quality department and by Det Norske Veritas.

Secondly, at the request of the company's board and council, AS KPMG Baltics performs thematic internal audits. In line with the work plan approved for 2005 and 2006, auditors have analysed the risks of AS Eesti Ehitus and have conducted three internal audits encompassing the cost management system, management accounting, and the operation of the support functions. The internal processes of AS ASPI were analysed at the end of 2006 and the beginning of 2007. Specific audits will continue through 2007.

REVENUE AND SEGMENTS

The Group ended 2006 with consolidated revenue of 160 million euros, a solid 49.5% increase on a year ago. In terms of business segments, the Residential and non-residential segment contributed 54% (53.5% up) and

the Civil engineering segment 46% (43.6% up). In geographical terms, 91.5% of the Group's revenue was earned in Estonia, Ukraine contributed 8.5% (a year ago the corresponding figures were 93.5% and 6.5%).

Revenue by segments

Business segments	2004	2005	2006
Civil engineering	53%	45%	46%
Residential and non-residential	47%	55%	54%

The Group's revenue structure now corresponds to its long-term objective according to which the two segments should generate more or less equal revenue to maintain competitiveness and a presence in every significant segment of construction market.

Compared to 2005, the Commercial buildings sub-segment has become the largest in the Residential and non-residential segment whereas the Residential buildings sub-segment has shown the highest growth rate.

Revenue allocation in the Residential and non-residential segment

	2004	2005	2006
Residential buildings	10%	11%	17%
Public buildings	44%	35%	18%
Commercial buildings	24%	37%	41%
Industrial and warehouse facilities	22%	17%	24%

The largest sub-segment in the Civil engineering segment is Road construction and maintenance, which is also the Group's biggest sub-segment. The fastest growing sub-segment in Civil engineering is Environmental engineering.

Due to the seasonal nature of the construction business, approximately 60% of annual revenue is earned in the second and third quarter and roughly 85% in the second through fourth quarter. In the case of AS Eesti Ehitus, seasonality is further enhanced by the large proportion of road construction and environmental engineering revenue in its overall revenue mix. Due to weather sensitivity, major road construction and environmental engineering operations usually begin in the middle of the second quarter. In terms of percentages, annual revenue is generated as follows:

Revenue distribution over the year

Year	Q1	Q2	Q3	Q4
2006	14%	23%	33%	30%
2005	19%	22%	34%	25%
2004	15%	26%	31%	28%

At the end of 2006, the Group's order backlog was 157 million euros against 79 million euros a year ago.

PROFITABILITY AND CASH FLOWS

In 2006, the Group's gross margin improved by 1.7 percentage points to 12.2% (2005: 10.5%). Two direct cost items affecting gross margin the most, labour costs and subcontracting and materials costs increased at a slower pace than the Group's revenue (by 33.6% and 49.1% respectively), contributing to the improvement of the gross margin.

The ratio of administrative expenses to revenue was 5.0% (2005: 4.3%). Compared to a year ago, the growth in administrative expenses outpaced revenue growth by 23.9%, largely on account of an increase in labour costs, which, in turn was mostly affected by an increase in performance-related bonuses.

Operating margin for 2006 was 8.1% (a year ago 7.0%), whereas operating margin excluding gains on sale of property, plant and equipment and real estate was 7.0% (a year ago 6.2%).

Consolidated net profit for 2006 amounted to an exceptional 12 million euros against 6 million euros earned a year ago. The profit attributable to equity holders of the parent amounted to 11,2 million euros against 5.5 million euros for 2005.

Compared to 2005, net operating cash flows have remained stable. The figure for 2006 was 3.5 million euros while a year ago operating cash flows were 9.6 million euros, however, cash paid to suppliers in 2006 includes payments for land plots recognised as inventories in the amount of 6.1 million euros. Cash used in investing activities (2006: -2.4 million euros, 2005: -14.9 million euros) decreased significantly. On the one hand this may be explained by large transactions performed on the acquisition of minority interests in AS ASPI and AS Linnaehitus in 2005 but on the other hand it is clear that investment activities are becoming more evenly divided between the acquisition of property and equipment and development properties, and the acquisition and financing of subsidiaries and associates engaged in real estate development.

Cash flows from financing activities were primarily affected by cash inflows from a share issue, which net amount totalled 7.9 million euros, and the repayment of loans and borrowings (working capital loans and overdrafts) which reduced the net debt to debt plus equity ratio (financial gearing) from 26% a year ago to 15%. We believe that the changes in our capital structure provide excellent opportunities for funding additional growth.

SIGNIFICANT FINANCIALS

Ratio / figure	2004	2005	2006
Weighted average number of shares	3,000,000	13,606,318	14,837,796
Earnings per share, euros	1.18	0.41	0.75
Revenue growth	47.5%	5.4%	49.5%
Average number of employees	610	722	871
Revenue per employee, in thousands of euros	166	148	184
Labour costs to revenue, %	9.2%	10.9%	11.0%
Administrative expenses to revenue, %	3.4%	4.3%	5.0%
EBITDA, in thousands of euros	7,633	9,194	14,979
EBITDA margin, %	7.5%	8.6%	9.4%
Gross margin, %	9.6%	10.5%	12.2%
Operating margin, %	6.1%	7.0%	8.1%
Operating margin excluding gains on sale of property, plant and equipment and real estate, %	6.0%	6.2%	7.0%
Net margin, %	5.0%	5.6%	7.5%
Return on invested capital, %	40.4%	31.1%	33.7%
Return on assets, %	21.2%	15.8%	17.4%
Return on equity, %	59.8%	59.9%	56.1%
Equity ratio, %	32.5%	20.2%	34.9%
Debt to debt and equity, %	-13.9%	26.3%	14.6%
Current ratio	1.28	1.08	1.33
Order backlog, in thousands of euros	51,902	78,761	156,802

Revenue per employee = revenue / average number of employees

Labour costs to revenue = labour costs / revenue

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Administrative expenses to revenue = administrative expenses / revenue

EBITDA = earnings before interest, taxes, depreciation and amortisation

EBITDA margin = EBITDA / revenue

Gross margin = gross profit / revenue

Operating margin = operating profit / revenue

Operating margin excluding gains on sale of property, plant and equipment and real estate = (operating profit - gains on sale of property, plant and equipment - gains on sale of real estate) / revenue

Net margin = net profit for the period / revenue

Return on invested capital = (profit before tax + interest expense) / the period's average (interest-bearing liabilities + equity)

Return on assets = operating profit / average total assets for the period

Return on equity = net profit for the period / average total equity for the period

Equity ratio = total equity / total equity and liabilities

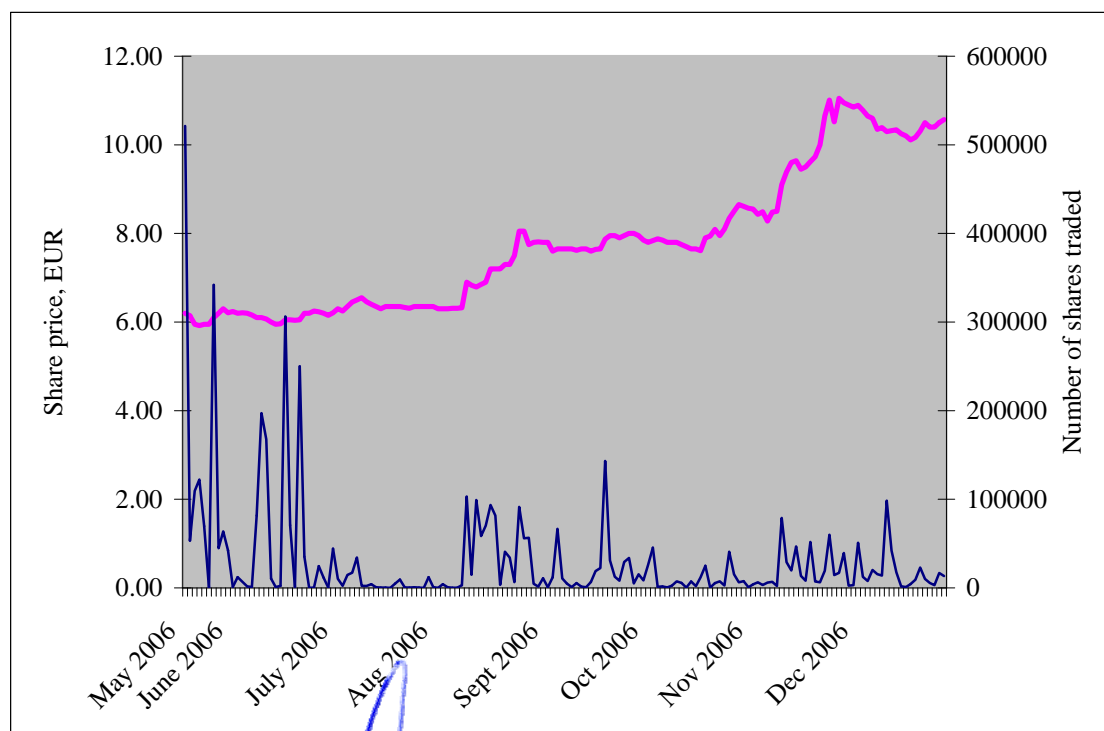
Gearing or net debt to debt plus equity ratio = (interest-bearing liabilities – cash and cash equivalents) / (interest bearing liabilities + equity)

Current ratio = total current assets / total current liabilities

COMPANY SHARE

Since 18 May 2006 the share of AS Eesti Ehitus has been listed in the main list of Tallinn Stock Exchange. The total number of listed shares is 15,378,364 and the par value of a share is 10 kroons (0.64 euros). The symbol of the share at Tallinn Stock Exchange is EEH1T.

In 2006, 5.023 million shares were traded. The opening price of the share was 6.20 euros. By 31 December 2006 it had risen to 10.57 euros, increasing the market capitalisation of AS Eesti Ehitus to 162.5 million euros. The period's highest share price was 12.0 euros and the lowest 5.86 euros. From the beginning of trading to 31 December, the share price grew 70.5%.



At the year-end, AS Eesti Ehitus had 1852 shareholders. The largest shareholder is AS Nordecon (formerly AS EE Grupp).

Largest shareholders at 31 December 2006	Number of shares	Interest
AS Nordecon	10,172,650	66.15%
Nordea Bank Finland PLC / non-resident legal entities	801,159	5.21%

Carnegie Investment Bank AB	341,345	2.22%
Ain Tromp	339,480	2.21%
ASM Investments OÜ	284,800	1.85%
Kalev Kase	279,796	1.82%
JP Morgan Chase Bank / Dekabank Deutsche Girozentrale	250,000	1.63%
Martin Sööt	228,924	1.49%
ING Luxembourg S.A.	200,250	1.30%
Clearstream Banking Luxembourg S.A. Clients	190,050	1.24%
Raul Rebane	178,052	1.16%
Aivo Kont	169,740	1.10%
Bank Austria Creditanstalt AG clients	130,099	0.85%
Others	1,812,019	11.78%
Total	15,378,364	100.00%

RISKS

Business risks

With a view to managing and mitigating business risks in Estonia, AS Eesti Ehitus, AS ASPI, AS Linnaehitus and OÜ Mapri Projekt have implemented the internationally recognised quality management standard ISO 9001:2000. In addition, AS Eesti Ehitus and AS ASPI have implemented environment management system ISO 14001. Altogether, the Group's entities employ 11 specialists who monitor quality and work safety on a daily basis.

To manage daily construction risks, Group companies purchase Contractors' All Risks insurance. Depending on the nature of the project, both general frame agreements and specially tailored project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee issued for the benefit of AS Eesti Ehitus. To remedy builder-caused deficiencies which may be detected during the warranty period, all Group companies create warranty provisions; at the year-end the provisions totalled 409,000 euros (2005: 301,000 euros).

Credit risk

For credit risk management, a potential partner's settlement behaviour and creditworthiness are analysed already in the tendering stage. Subsequent to the conclusion of a contract, customers' settlement behaviour is monitored on an ongoing basis from the making of an advance payment to adherence to the contractual settlement schedule, which usually depends on the documentation of the delivery of work performed. We believe that the system in place allows us to respond to customers' settlement difficulties with sufficient speed. As at the year-end, our customers' settlement practice was good.

Liquidity risk

Free funds are placed in overnight or fixed-interest term deposits with the largest banks in Estonia. To ensure timely settlement of liabilities, approximately two weeks' working capital is kept in current accounts or overnight deposits. Where necessary, overdraft facilities are used.

Interest rate risk

The loans taken from Estonian and Ukrainian banks have fixed interest rates. Finance lease contracts have floating interest rates and are linked to EURIBOR.

Currency risk

As a rule, construction contracts and subcontractors' service contracts are made in the currency of the host country: in Estonia, contracts are made in Estonian kroons, in Ukraine in Ukrainian grivnas. In Ukraine, some materials supply contracts are made in euro. In addition, the Group's parent AS Eesti Ehitus settles accounts with its Ukrainian subsidiary Eurocon Ukraine LLC in euro but the volumes are immaterial. The Ukrainian grivna fluctuates slightly against the US dollar. Therefore, in Ukraine the fluctuations of the grivna against the

euro give rise to a currency risk but possibilities for hedging the risk in cooperation with local banks are almost non-existent.

Economic environment

The past few years' rapid economic growth in Estonia (2004: 8.1%, 2005: 10.5%, initial estimates for 2006: around 11%), which has triggered a boom in the construction sector, has had a definite positive impact on the Group's financial performance. In addition, Estonia's accession to the EU has allowed us to participate successfully in major infrastructure and environmental tenders. Undoubtedly the trend will continue. However, we have to admit that we have been able to benefit from turbulent growth in the residential construction market only in Tartu where AS Linnaehitus has performed a number of high yield projects. Moreover, in the context of general optimism we should not overlook growth-induced problems which began emerging in 2006 and may affect construction companies' future results: subcontractors' increasing lack of qualified labour and the operation of the construction materials industry at maximum capacity, which have caused an upswing in construction prices and, possibly, setbacks in general construction quality. In addition, it has become clear that design capacities are unable to keep up with the surging construction capacities.

Dividend policy

Over the past few years, dividend distributions to shareholders have grown to 1.917 million euros. The amount of a distribution is determined based on the expectations of the majority shareholder AS Nordecon and the Group's optimal volume of debt and equity capital which would allow continuing investment at the current pace.

In consideration of the Group's operating results for 2006 and the company's dividend policy, the board of directors proposes that the general meeting approve a dividend of 0.19 euros per share.

OUTLOOK FOR 2007

The Group's strategy and primary objectives are not going to change significantly in 2007. In order to further adapt to market developments, we will focus on our strengths and, above all, the efficiency of our core activity. We expect to benefit from the changes emerging in the real estate development sector which has been expanding at exceptional speed – it is evident that weaker and less professional companies are gradually going out of business and releasing resources for mitigating the problems discussed above. We remain optimistic about investment in infrastructure facilities which are going to gain importance in the construction market. Undoubtedly, all those trends are preparing ground for further mergers and acquisitions.

Statement of management responsibility

The board of AS Eesti Ehitus acknowledges its responsibility for the preparation of the Group's consolidated financial statements and confirms that:

- the policies applied in the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial position of the Group and of the results of its operations and its cash flows;
- all significant events that occurred before the date on which the consolidated financial statements were authorised for issue (28 March 2007) have been properly recognised and disclosed; and
- AS Eesti Ehitus and its subsidiaries are going concerns.

Jaano Vink Chairman of the Board 28 March 2007

Avo Ambur Member of the Board 28 March 2007

Andri Hõbemägi Member of the Board 28 March 2007

Erkki Suurorg Member of the Board 28 March 2007

Member of the Board

Initialed for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kumäev 28.03.2007
Signature/allkiri
KPMG, Tallinn

Annual financial statements

Consolidated balance sheet

As at 31 December

In thousands of euros

	Note	2006	2005
ASSETS			
Current assets			
Cash and cash equivalents	2	9,969	10,702
Short-term investments	3	137	1,600
Trade receivables	4	24,340	13,482
Other receivables and prepayments	5	8,287	6,380
Deferred tax assets	6	65	0
Inventories	7	17,395	6,376
Total current assets		60,193	38,540
Non-current assets			
Investments in associates	9	1,354	1,362
Non-current receivables	10	2,106	687
Investment property	11	381	2,339
Property, plant and equipment	12	14,296	8,620
Intangible assets	13	10,548	8,426
Total non-current assets		28,685	21,434
TOTAL ASSETS		88,878	59,974
LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	15	4,475	7,519
Trade payables		11,759	8,256
Tax liabilities	16	2,743	1,866
Other payables and advances	17	25,873	17,815
Provisions	18	288	186
Total current liabilities		45,138	35,642
Non-current liabilities			
Interest-bearing loans and borrowings	15	12,528	10,247
Other liabilities	17	31	1,862
Provisions	18	121	131
Total non-current liabilities		12,680	12,240
TOTAL LIABILITIES		57,818	47,882
EQUITY			
Minority interest		2,511	783
Total equity attributable to equity holders of the parent			
Share capital	19	9,829	2,225
Share premium	19	6,932	523
Statutory capital reserve	19	266	266
Translation reserve	19	140	51
Retained earnings	19	11,382	8,244
Total equity attributable to equity holders of the parent		28,549	11,309
TOTAL EQUITY		31,060	12,092
TOTAL LIABILITIES AND EQUITY		88,878	59,974

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Consolidated income statement

For the year ended 31 December

In thousands of euros

	Note	2006	2005
Revenue	22	160,025	107,017
Cost of sales	23	140,434	95,764
Gross profit		19,591	11,253
Administrative expenses	24	8,036	4,633
Other operating income	25	1,716	1,189
Other operating expenses	25	326	279
Operating profit before financing items	22	12,945	7,530
Financing items			
Financial income	26	1,175	408
Financial expenses	26	1,217	707
Net financing costs		-42	-299
Share of loss of equity accounted investees	9	-63	-1
Profit before tax		12,840	7,230
Income tax expense	27	820	1,224
Profit for the period		12,020	6,006
Attributable to			
Equity holders of the parent		11,185	5,548
Minority interest		835	458
Basic earnings per share (in kroons)	19	0.75	0.41
Diluted earnings per share (in kroons)	19	0.75	0.41

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Consolidated statement of cash flows
For the year ended 31 December

In thousands of euros

	Note	2006	2005
Cash flows from operating activities			
Cash receipts from customers		181,428	128,243
Cash paid to suppliers		-160,008	-109,626
Cash paid to and for employees		-16,988	-7,797
Income taxes paid		-919	-1,224
Net cash from operating activities		3,513	9,596
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	-1,285	-805
Acquisition of intangible assets	13	-673	-7
Proceeds from sale of property, plant and equipment and intangibles		706	329
Acquisition of investment property	11	-215	-2,173
Proceeds from sale of property acquired for development		3,401	0
Acquisition of subsidiaries, net of cash acquired	8	-3,658	-11,057
Acquisition of associates	9	-517	-1,346
Proceeds from sale of subsidiaries	8	234	497
Proceeds from sale of associates	9	1,187	0
Loans granted	5;10	-2,159	-441
Repayment of loans given	5;10	381	0
Interest received		220	90
Other investments		0	-22
Net cash used in investing activities		-2,378	-14,935
Cash flows from financing activities			
Proceeds from issue of share capital	19	7,859	832
Proceeds from loans received	15	3,442	16,359
Repayment of loans received	15;28	-10,090	-2,107
Dividends paid		-2,055	-2,978
Payment of finance lease liabilities	14	-1,748	-1,366
Interest paid	14;15	-827	-367
Net cash used in / from financing activities		-3,419	10,373
Net decrease / increase in cash and cash equivalents		-2,284	5,034
Cash and cash equivalents at 1 January		12,302	7,268
Effect of exchange rate fluctuations		-49	0
Cash and cash equivalents at 31 December		9,969	12,302

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Consolidated statement of changes in equity

For the year ended 31 December

Equity attributable to equity holders of the parent									
In thousands of euros	Note	Share capital	Share premium	Statutory capital reserve	Translation reserve	Retained earnings	Total	Minority interest	Total
Balance at 1 January 2005		1,917	0	192	-36	5,152	7,225	4,187	11,412
Foreign exchange differences		0	0	0	87	0	87	-8	79
Profit for the period		0	0	0	0	5,548	5,548	458	6,006
Total recognised income and expense for the period		0	0	0	87	5,548	5,635	450	6,085
Dividends declared		0	0	0	0	-1,790	-1,790	-1,188	-2,978
Issue of share capital		308	523	0	0	0	831	0	831
Transfer to capital reserve		0	0	74	0	-74	0	0	0
Increase of minority interests resulting from changes in ownership of subsidiaries		0	0	0	0	-132	-132	377	245
Decrease of minority interests resulting from changes in ownership of subsidiaries		0	0	0	0	-460	-460	-3,043	-3,503
Balance at 31 December 2005		2,225	523	266	51	8,244	11,309	783	12,092
Foreign exchange differences		0	0	0	89	0	89	86	175
Profit for the period		0	0	0	0	11,185	11,185	835	12,020
Total recognised income and expense for the period		0	0	0	89	11,185	11,274	921	12,195
Dividends declared	19	0	0	0	0	-1,917	-1,917	-138	-2,055
Bonus issue	19	6,676	-523	0	0	-6,153	0	0	0
Issue of share capital	19	928	7,415	0	0	0	8,343	0	8,343
Issue costs	19	0	-483	0	0	0	-483	0	-483
Increase of minority interests resulting from changes in ownership of subsidiaries		0	0	0	0	23	23	945	968
Balance at 31 December 2006		9,829	6,932	266	140	11,382	28,549	2,511	31,060

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Notes to consolidated financial statements

NOTE 1. Significant accounting policies

AS Eesti Ehitus (the "Parent company") is a company registered in Estonia. The consolidated financial statements of the Parent company for the year ended 31 December 2006 comprise the Parent company and its subsidiaries (together referred to as the "Group") and Group's interest in associates. The Group's main activities include residential and commercial construction and civil engineering.

The financial statements were authorised for issue by the board of directors on 28 March 2007. The financial statements will be approved by the shareholders' general meeting.

The consolidated financial statements of AS Eesti Ehitus for 2006 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union further to the IAS Regulation (EC 1606/2002). All information in the financial statements are presented in thousands of euros. The Group has voluntarily prepared these financial statements presented in thousands of euros in accordance with IFRS as adopted by EU. The financial statements presented in Estonian kroons can be obtained from the Company's website www.eestiehitus.ee.

Basis of preparation

The financial statements are prepared on the historical cost basis except for financial investments at fair value through profit and loss measured at fair value. The accounting policies which are set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current year's presentation (see note 11).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 30.


Functional and presentation currency

The functional currency of the Parent company and its Estonian subsidiaries is the currency of the primary economic environment in which they operate – the Estonian kroon. Transactions in foreign currencies are translated at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The functional currency of foreign operations is the official currency of their primary economic environment. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to kroons at exchange rates at the reporting date. The income and expenses of foreign operations are translated to kroons at exchange rates approximating the rates at the dates of the transactions.

Exchange differences on translating foreign operations are recognised directly in equity as a foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

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The consolidated financial statements have been prepared in euros, which is the presentation currency of these financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are entities in which the investor has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the investor holds directly or indirectly through subsidiaries over 20% of the voting power of the investee. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the investment in the associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations on behalf of the associate.

Transactions eliminated in consolidation

In preparing the consolidated financial statements, all intra-group transactions, balances and unrealised gains and losses are eliminated. Unrealised gains from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Financial assets and financial liabilities

Financial assets comprise cash and cash equivalents, financial investments, trade receivables and other receivables. Financial liabilities comprise trade and other payables, other liabilities and interest-bearing borrowings and loans.

Upon initial recognition, financial assets and liabilities are measured at fair value which, in the case of a financial asset or financial liability not at fair value through profit or loss, also includes any transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

A financial asset is derecognised when the Group loses control of it or its contractual rights to the cash flows expire. A financial liability is removed from the balance sheet when it is discharged, cancelled or expires.

Other financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Liabilities that fall due within more than a year of the balance sheet date are stated as non-current liabilities; other liabilities are stated as current items.

Financial investments classified as at fair value through profit or loss are measured at fair value and changes therein are recognised in profit or loss.


Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in current accounts.

Receivables

Trade receivables comprise short-term receivables acquired in the ordinary course of the Group's business. Trade receivables are stated at amortised cost, which is generally equal to the nominal value of the items less impairment losses.

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All other receivables (accrued income, loan receivables and other short- and long-term receivables) are stated at amortised cost, using the effective interest rate method, less impairment losses.

Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as part of other payables in the balance sheet.

Inventories

Inventories are initially recognised at cost. The cost of inventories is based on the weighted average cost formula and includes the expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the balance sheet, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Expenses from the write-down of inventories are recognised in the *Cost of sales* as incurred.

Investment property

Investment properties are properties which the Group holds as the owner or under finance lease to earn rental income or for capital appreciation or both. Investment property is initially recognised at cost.

Subsequent to initial recognition, investment properties are stated using the cost model, i.e. at cost less accumulated depreciation and impairment losses. Investment properties are depreciated using the same depreciation rates and useful lives as those applied to similar items of property, plant and equipment. Subsequent expenditure that improves economic benefits that can be expected from an investment property is added to the cost of the property. Expenditure that is aimed at maintaining an investment property's level of performance is recognised as an expense as incurred.

Investment properties are reclassified only when there has been a change in use.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The Group recognises as items of property, plant and equipment significant tangible assets which are expected to be used during more than one period.

Where an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate assets and assigned depreciation rates that correspond to their useful lives. When a significant part of an item of property, plant and equipment is replaced, the cost of the new part is added to the cost of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The replaced part is written off the balance sheet.

Subsequent expenditure that improves economic benefits that can be expected from an item of property, plant and equipment is added to the cost of the item. Current maintenance and repair costs are expensed as incurred.

Items of property, plant and equipment are depreciated under the straight-line method. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

Asset group	Useful life
Buildings and structures	33 years
Machinery and tools	3-5 years
Plant and equipment	7-10 years
Non-road mobile machinery	5-7 years
Vehicles	5-7 years

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Temporary/movable onsite facilities	5 years
Other fixtures and fittings	3-5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Intangible assets

Goodwill

Business combinations are accounted for under the purchase method. Positive goodwill is the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Positive goodwill is attributed to a cash-generating unit or groups of cash-generating units and it is not amortised. Instead, it is tested for impairment annually at the balance sheet date. Subsequent to initial recognition, goodwill is measured at cost less impairment losses.

Negative goodwill is recognised immediately in profit or loss.

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with an indefinite useful life or the cash generating units they belong to are tested for impairment annually. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is recognised prospectively.

Intangible assets with finite useful lives are amortised using the straight-line method over the estimate useful lives. The estimated useful lives are as follows:

Asset group	Useful life
Licences, patents	3-5 years
Trademarks	5 years

Impairment

At each balance sheet date, management assesses whether there is any indication that an asset, other than construction contract assets, inventories, investment property and deferred tax assets, may be impaired. If there is such indication, the asset is tested for impairment and its recoverable amount is estimated. Where tests indicate that the recoverable amount of the asset or its cash generating unit (CGU) is lower than its carrying amount an impairment loss is recognised. Where the recoverable amount of an asset cannot be individually estimated, the recoverable amount of the smallest group of assets it belongs to (its cash generating unit) is determined. Impairment losses are recognised as an expense as incurred.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Calculation of recoverable amount

The recoverable amount of the Group's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the

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effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

A lease that transfers all significant risks and rewards of ownership to the lessee is recognised as a finance lease. Other leases are treated as operating leases.

The Group as a lessee

Assets acquired with finance lease and related finance lease liabilities are initially recognised at the lower of the fair value of the leased property and the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Provisions

Provisions are established for liabilities of uncertain timing and amount arising as a result of a past event, for which the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount and timing of provisions is determined on the basis of estimates made by management. Provisions are used to cover only those expenses for which they have been established.

The Group establishes provisions for warranty expenses. Warranty expenses are the costs which may be incurred after the completion of construction activity in connection with warranties given. The amount of the warranty liability of a project is determined on the basis of an expert opinion based on a weighting of all possible outcomes against their associated probabilities issued on the completion of construction activity. Warranty expenses are recognised as the costs of construction contracts and established short- and long-term provisions.

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Revenue

As soon as the outcome of a construction contract can be estimated reliably, revenue and expenses from the rendering of construction services are recognised in profit or loss in proportion to the stage of completion. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed bear to the estimated total contract costs and surveys of work performed. Any expected excess of total contract costs over total contract revenue is recognised as an expense immediately.

Revenue from the sale of real estate is recognised when all significant risks and rewards related to the asset have been transferred to the buyer and the Group is not obligated to perform significant additional work.

Financing items

Financing items comprise interest payable on loans and borrowings calculated under the effective interest rate method, dividend income, interest income and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues using the effective interest rate method. Dividend income is recognised when the right to receive payment is established.

Corporate income tax

In accordance with effective legislation, in Estonia income tax is not levied on profits earned; therefore, deferred tax assets and liabilities do not arise. Instead of profit earned, income tax is levied on dividends distributed. The tax rate is 28.21% (22/78) (to 31 December 2006: 29.87% (23/77)) of the amount distributed as the net dividend. The income tax payable on dividends is recognised in the income statement of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are paid.

The consolidated financial statements include the current and deferred tax calculated on the profits of the Group's Ukrainian subsidiaries and the dividend tax paid by Estonian Group companies.

Current tax in respect of Ukrainian operations is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date (25% for 2006 and 2005), and any adjustment to tax payable in respect of previous years.

Deferred tax in respect of the Ukrainian operations is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Under the effective Estonian Income Tax Act, there can be no temporary differences between the tax bases and carrying amounts of the assets and liabilities of Estonian Group companies which could give rise to deferred tax assets or liabilities.

No provision is established for income tax payable on a dividend distribution before the dividend has been declared but information on the contingent liability is disclosed in note 19 to the financial statements.

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Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's primary format for segment reporting is based on business segments.

New International Financial Reporting Standards and Interpretations of the Financial Reporting Interpretations Committee (IFRIC)

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements. The following is the Group's assessment of the possible impact these new standards, amendments or interpretations will have on its financial statements in the period of initial application.

- IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2007). The new Standard will require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risk. The Standard will require increased disclosures about financial instruments in the Group's financial statements.
- IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard requires that segment information should be presented on the basis of components whose results are reviewed regularly by management in making business decisions. The Group's management has not completed its analysis and consequently cannot assess the impact of IFRS 8 on the Group's financial statements.
- Amendments to IAS 1 - *Presentation of Financial Statements - Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007). The amendments and the Standard will require increased disclosures in financial statements with respect to the Group's share capital.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 will not affect the Group's financial statements.
- IFRIC 8 *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will not affect the Group's financial statements.
- IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. According to management's assessment, IFRIC 9 will not affect the Group's financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will not affect the Group's financial statements.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Group does not have agreements on share-based payment transactions. Therefore, IFRIC 11 will not affect the Group's financial statements.
- IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). The Group has not entered into concession arrangements. Therefore, IFRIC 12 will not affect the Group's financial statements.

NOTE 2. Cash and cash equivalents

In thousands of euros

As at 31 December	2006	2005
Current accounts	2,127	4,901
Short-term deposits	7,842	5,801
Total cash and cash equivalents	9,969	10,702

At the balance sheet date, the interest rate of overnight deposits was as follows: Hansapank 3.374%, Sampo Pank 3.15% and Ühispank 2.51%.

NOTE 3. Short-term investments

In thousands of euros

As at 31 December	2006	2005
Units in Hansa Intressifond (Hansa Fixed Income Fund) at fair value	0	1,600
Other shares, at cost	137	0
Total short-term investments	137	1,600

Other shares of 137,000 euros at 31 December 2006 are carried at cost, because their fair value could not be measured reliably.

NOTE 4. Trade receivables

In thousands of euros

As at 31 December	2006	2005
Accounts receivable	24,461	13,482
Allowance for doubtful receivables	-121	0
Total trade receivables	24,340	13,482

Allowance for doubtful receivables

In thousands of euros

As at 31 December	2006	2005
Opening balance	0	-1
Doubtful items collected during the period	0	0
Impairment losses on trade receivables	-121	-4
Items considered irrecoverable during the period	0	5
Closing balance	-121	0

Impairment losses are recorded in other operating expenses.

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NOTE 5. Other receivables and prepayments and prepaid taxes

As at 31 December

In thousands of euros	2006	2005
Receivables from the parent and other Nordecon group co's	652	2,047
Receivables from associates	1,568	400
Miscellaneous receivables	1,049	208
Due from customers for contract work	3,701	3,091
VAT receivables	7	2
Accrued income	504	105
Prepayments to suppliers	806	527
Total other receivables and prepayments	8,287	6,380

Further information on receivables from AS Nordecon and other companies belonging to AS Nordecon Group is disclosed in note 28.

A short-term loan to an associate in an amount of 364,000 euros has been reclassified to a long-term loan. New loans were issued in the amount of 1,507,000 euros, accrued interest receivable have increased by 60,000 euros and loans has been repaid in the amount of 381,000 euros. Other receivables from associates have increased by 334,000 euros. The effect of changes in exchange rates is 12,000 euros.

Miscellaneous receivables represent construction contract retentions receivable.

Due from customers for contract work is related to the accounting for construction contracts. Further information on construction contracts is presented in note 20.

Accrued income comprises interest receivable and other prepayments comprise mostly prepaid insurance premiums.

NOTE 6. Deferred tax assets

In determining the amount of tax adjustment for Eurocon Ukraine LLC's income tax for 2006, an allowance was made for expenses that could not be deducted.

As at 31 December

In thousands of euros	2006	2005
The effect of completion method	65	0
Deferred tax assets	65	0


NOTE 7. Inventories

As at 31 December

In thousands of euros	2006	2005
Raw and other materials	2,314	901
Work in progress	7,134	3,458
Property held for resale	7,947	2,017
Total inventories	17,395	6,376

At 31 December 2006, raw and other materials of 2,314,000 euros (2005: 901,000 euros) comprised mostly materials acquired for construction projects and road maintenance. No inventories were written down during the financial year.

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Work in progress comprises costs related to construction contracts in progress at the balance sheet date: the costs incurred in respect of apartment houses under construction and materials acquired for other projects.

As at 31 December

In thousands of euros	2006	2005
Costs related to apartment houses	5,069	2,856
Other construction projects	2,065	602
Total	7,134	3,458

Property held for resale comprises registered immovable properties of 7,947,000 euros acquired for residential construction purposes (2005: 2,017,000 euros).

NOTE 8. Shares in subsidiaries

Group control

AS Eesti Ehitus is a company registered in Estonia. The share of AS Eesti Ehitus has been quoted at Tallinn Stock Exchange since 18 May 2006. The majority shareholder (66.15%) of AS Eesti Ehitus is AS Nordecon which is also the parent of AS Eesti Ehitus Group.

AS Eesti Ehitus Group comprises the following subsidiaries:

As at 31 December In thousands of euros	Domicile	Ownership 2006 (%)	Share capital 2006	Ownership 2005 (%)	Share capital 2005	Core activity
AS Linnaehitus	Estonia	100.00	352	100.00	352	General construction
AS ASPI	Estonia	100.00	217	100.00	217	Road construction and maintenance, engineering
AS Järva Teed	Estonia	100.00	128	100.00	128	Road construction and maintenance
OÜ Hiiu Teed	Estonia	100.00	6	100.00	6	Road construction and maintenance
OÜ Kaurits	Estonia	52.00	383	0.00	0	Lease of machinery and equipment
OÜ EE Ressursid	Estonia	100.00	6	100.00	6	Management of mining and extraction operations
OÜ Eurocon	Estonia	64.00	5	64.00	5	Construction
OÜ Mapri Projekt	Estonia	52.00	26	52.00	26	Concrete works
Estcon OY	Finland	100.00	8	100.00	8	General construction
Eurocon Ukraine LLC	Ukraine	61.44	3	64.00	3	General construction
Passage Theatre LLC	Ukraine	55.30	240	64.00	240	Real estate
Eurocon West LLC	Ukraine	61.44	6	0.00	0	General construction
Bukovina Development LLC	Ukraine	60.80	6	0.00	0	General construction

In 2006 OÜ EE Elekter was renamed OÜ EE Ressursid. The entity's core activity changed from electrical works to management of mining and extraction operations.

In January 2006 the last instalment payment (1,497,000 euros) was made for the shares acquired in AS ASPI in 2005. In addition, a contractual payment of 66,000 euros was made for the shares in OÜ Mapri Projekt (acquired in 2005). The final payment for the shares in OÜ Mapri Projekt (66,000 euros) will be made in 2007.

AS ASPI acquired a 52% interest in OÜ Kaurits, a company engaged in leasing out road construction and earthworks equipment. The settlement date of the transaction was 27 December 2006. Thus, the acquisition of the interest did not affect the income statement for 2006.

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Positive goodwill of 1,563,000 euros acquired from the business combination is comprised of items which at the date of the combination did not classify for recognition as separately identifiable assets. The main values that were acquired included qualified labour and technical expertise.

Subsidiaries' net assets at the date of acquisition

OU Kaurits 52%

In thousands of euros	Note	Fair value of share of net assets acquired	Fair value of the identified assets and liabilities
Cash and cash equivalents		202	388
Receivables and prepayments		563	1,081
Long-term financial assets		106	204
Property, plant and equipment		2,350	4,519
Loans and borrowings		-2,043	-3,929
Payables and advances		-121	-232
Net identifiable assets and liabilities		1,057	2,031
Goodwill	13	1,563	
Cost		2,620	
Cash paid		-2,096	

The remaining payment of 524,000 euros for the shares in OU Kaurits, which is outstanding at 31 December 2006, will be paid for in full within 7 days of the registration of the transaction in the Commercial Register.

If the date of the business combination had been 1 January 2006, the Group's consolidated revenue and profit would have been 2,410,000 euros and 661,000 euros higher respectively.

According to management assessments the fair value of the net assets and liabilities of OU Kaurits at the date of acquisition did not differ significantly from book value of the net assets acquired. Fair value of plant and equipment of OU Kaurits was determined using depreciated replacement costs.

On 7 February 2006 Eurocon Ukraine LLC established a subsidiary in Ukraine. The name of the subsidiary is Eurocon West LLC and its share capital amounts to 36,000 grivnas (6,000 euros). Eurocon Ukraine LLC's share in the subsidiary is 100%. The contributed share capital (6,000 euros) is not presented in the consolidated cash flow statement. The entire share capital has been paid in. The Group's interest in the entity is 61.44%. The core activity of Eurocon West LLC is construction management in western Ukraine. In 2006 no major operations were performed. The Group's share in the consolidated loss for 2006 was 13,000 euros.

On 7 April 2006 Bukovina Developments LLC was established in Ukraine. The share capital of the entity is 36,000 grivnas (6,000 euros). Eurocon Ukraine LLC's share in the entity is 99% and the Group's share in the entity is 60.8%. In 2006, no major operations were performed. The Group's share in the consolidated loss for 2006 was 100 euros.

On 12 April 2006 Eurocon OÜ sold 4% of its shares in Eurocon Ukraine LLC to Oleg Drin. The sales price of the shares was 57,000 euros. According to the agreement, 14,000 euros of this will be paid in 2007 and the rest in equal instalments over the next three years. Gains on the transaction amounted to 56,000 euros. In the consolidated income statement the gain has been recognised in financial income.

In 2006, 38,000 euros was received from the sale of the shares of Eurocon OÜ that took place in 2005. The last instalment of 38,000 euros is due in 2007.

On 14 December 2006, Eurocon Ukraine LLC sold a 10% stake in Passage Teatre for 195,000 euros. Transaction gains of 2,000 euros have been recognised in financial income.

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Acquisitons of interests in Subsidiaries in 2005

In thousands of euros	% acquired	Fair value of investment	Share of net assets acquired	Cost	Goodwill
Mapri Projekt OÜ	52%	202	81	262	181
Linnaehitus AS*	49%	2,158	1,058	6,168	5,110
Aspi AS*	47.06%	5,197	2,445	3,742	1,297
Passage Theatre LLC	64.00%	1,933	1,933	1,933	0
Estcon OY	100%	8	8	11	3
					6,591

* Purchase of minority interest in subsidiaries already controlled by the Group.

Financial information on subsidiaries in which ownership interest declined in 2006:

In thousands of euros	31 December 2006	
	Eurocon Ukraine LLC (disposal 4%)	Passage Theatre (disposal 10%)
Cash and cash equivalents	51	0
Receivables and prepayments	2,752	51
Inventories	1,097	44
Long-term financial investments	3,067	0
Property, plant and equipment	248	513
Total assets	7,215	608
Interest-bearing loans and borrowings	652	0
Other payables and advances received	5,331	436
Total liabilities	5,983	436
Cost	3	1,933

NOTE 9. Shares in associates

As at 31 December	Domicile	Ownership 2006	Ownership 2005	Activity
OÜ Majahaldjas	Estonia	0.00%	31.40%	Real estate management
Technopolis-2 LLC	Ukraine	30.70%	32.00%	Real estate development
V.I.Center LLC	Ukraine	38.70%	42.67%	Real estate development
Eurobeton LLC	Ukraine	30.70%	0.00%	Building materials manufacturing
EA Reng Proekt LLC	Ukraine	31.30%	0.00%	Design
Kastani Kinnisvara OÜ	Estonia	26.00%	0.00%	Real estate development
Abagars SIA	Latvia	34.30%	0.00%	Lease of machinery and equipment

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Financial information on associates:

In thousands of euros	31 December 2006			2006	31 December 2006	
	Assets	Liabilities	Equity	Revenue	Profit/loss	Investment in the Group's accounts
Technopolis-2 LLC	1,429	1,671	-242	0	-136	425
V.I.Center LLC	69	30	39	2	-9	725
Eurobeton LLC	2,325	2,440	-115	0	-127	0
EA Reng Projekt LLC	58	79	-21	20	-47	0
Kastani Kinnisvara OÜ	1,262	1,302	-40	2	-43	0
Abagars SIA	539	392	147	0	0	204
	5,682	5,914	-232	24	-362	1,354
In thousands of euros	31 December 2005			2005	31 December 2005	
	Assets	Liabilities	Equity	Revenue	Profit/loss	Investment in the Group's accounts
OÜ Majahaldjas	36	14	22	143	-1	7
Technopolis-2 LLC	2,031	1,205	826	0	-259	476
V.I.Center LLC	54	0	54	3	4	879
	2,121	1,219	902	146	-256	1,362

On 9 March 2006 OÜ Mapri Projekt acquired a 50% interest in Vitesse OÜ, paying 2,000 euros for a share with the par value of 1,000 euros. Subsequent to acquisition, the name of the entity was changed for OÜ Kastani Kinnisvara. The entity is engaged in real estate development and is building two apartment houses in Haapsalu.

On 13 April 2006, Eurocon Ukraine LLC established Eurobeton LLC. Eurocon Ukraine LLC's interest in the new Ukrainian entity is 50%. The value of the investment was 3,000 euros. Eurobeton LLC was established to build a concrete products factory. In the consolidated financial statements, the entity is reported as an associate. The Group's interest in it is 30.7%. The loss for the period, on an equity accounted basis, amounted to 39,000 euros; 3,000 euros of this has been recognised in the income statement and 36,000 euros has been recorded off the balance sheet. At the balance sheet date, the carrying amount of the investment was zero because the loss for the period exceeded the value of the investment.

On 26 September 2006, Eurocon Ukraine LLC established EA Reng Projekt LLC. Eurocon Ukraine LLC's interest in the entity is 51%. The value of the investment was 13,000 euros. The core activity of EA Reng Projekt LLC is architectural and constructive engineering design. The loss for the period, on an equity accounted basis, amounted to 15,000 euros; 13,000 euros of this has been recognised in the income statement and 2,000 euros has been recorded off the balance sheet. At the balance sheet date, the carrying amount of the investment was zero because the loss for the period exceeded the value of the investment.

In 2006, OÜ Eurocon acquired shares in V.I. Center LLC both from outside the Group (20.3% for 499,000 euros) and from other Group companies (28% for 353,000 euros) and sold a 37.3% stake in V.I. Center LLC to ECE European City Estates AG for 1,180,000 euros.

In connection with the sale of an office building, the share in the associate OÜ Majahaldjas was sold to OÜ Infinite for 7,000 euros. The transaction did not result in any gains.

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In thousands of euros		2006	
Associate	Profit/loss under the equity method	Recognised in the consolidated income statement	Recorded off the balance sheet
Majahaldjas	0	0	0
Technopolis-2 LLC	-41	-41	0
V.I.Center LLC	-4	-4	0
Eurobeton LLC	-39	-3	-36
EA Reng LLC	-15	-13	-2
OÜ Kastani Kinnisvara	-20	-1	-19
Abagars SIA	0	0	0
	-119	-62	-57

In the case of OÜ Kastani Kinnisvara, the off-balance sheet amount includes the loss incurred under the equity method (9,000 euros) and a proportionate share of unrealised intra-group gains (9,000 euros) from a construction contract between OÜ Mapri Projekt and OÜ Kastani Kinnisvara.

In thousands of euros		2005	
Associate	Loss under the equity method	Recognised in the consolidated income statement	Recorded off the balance sheet
Majahaldjas OÜ	0	0	0
Technopolis-2 LLC	0	0	0
V.I.Center LLC	-1	-1	0
	-1	-1	0

NOTE 10. Non-current receivables and financial investments

As at 31 December

In thousands of euros	2006	2005
Long-term receivables from associates	1,116	169
Other long-term receivables	600	453
Other investments	19	22
Long-term trade receivables	371	43
Total non-current receivables	2,106	687

Long-term receivables from associates comprise loans given plus accrued interest. The base currency of the loans is the US dollar and the annual interest rate of the loans is 9.8% (fixed) and interest rate of euro is (EUR) loans is 3.8%-6.08% (fixed).

Long-term receivables from associates have increased during 2006 by 537,000 euros due to new loans, by 364,000 euros from earlier classification as a short-term loan and interests have been accrued in the amount of 63,000 euros. Effect of changes in exchange rates is 17,000 euros. See also note 28.

Other long-term receivables include receivables related to two 10-year loans given to European House. In 2005 European House was given a loan of 441,000 euros at 6.08% annual interest and in 2006 a loan of 114,000 euros) at 3.8% annual interest (fixed). Total accrued interest is 43,000 euros.

Long-term trade receivables include an item of 332,000 euros due from Kose Rural Municipality for the renovation of the stadium of Kose Secondary School. According to the payment schedule, the amount will be

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fully settled in 2009. The annual interest rate of the receivable is 12% (fixed). In addition, the line includes an item of 39,000 euros due from Oleg Drin for the shares in Eurocon Ukraine LLC.

NOTE 11. Investment property

In thousands of euros

Investment property 2005

Cost at 31 December 2004	167
Acquisitions	2,173
Cost at 31 December 2005	2,340
Accumulated depreciation at 31 December 2004	0
Depreciation charge for the year	0
Accumulated depreciation at 31 December 2005	1
Carrying amount at 31 December 2005	2,339

Investment property 2006

Cost at 31 December 2005	
Acquisitions	216
Disposals	-2,173
Cost at 31 December 2006	383
Accumulated depreciation at 31 December 2005	1
Depreciation charge for the year	0
Accumulated depreciation at 31 December 2006	2
Carrying amount at 31 December 2006	381

Investment property at 31 December 2006 comprises land of 376,000 euros and the carrying amount of a building of 5,000 euros. Investment properties are located in Harjumaa, Järvamaa, Hiiumaa and Tartu. In 2006, the Group did not incur any major property management expenses. Rental income amounted to 8,000 euros. Buildings are depreciated at the rate of 3% per year.

The 2006 transactions were performed with independent parties. Therefore, the fair values of these properties at 31 December 2006 are approximately equal to their acquisition cost. Properties acquired before 2006 are in rural areas and management believes that their fair value is approximately equal to their original acquisition costs.

Registered immovable properties acquired for residential construction purposes are reported in inventory (note 7).

During the current year, the Group identified that land for investment purposes acquired in 2005 had been inappropriately classified as inventory at 31 December 2005. In the 2006 financial statements comparative amounts have been reclassified resulting in an increase in investment property of 2,173,000 euros and a decrease of inventory for the same amount at 31 December 2005.

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NOTE 12. Property, plant and equipment

In thousands of euros	Land and buildings	Plant and equipment	Other items of PP&E	Assets under development	Total
Cost					
Balance at 1 January 2005	912	9,409	1,630	15	11,966
Acquisitions	69	1,465	456	2,124	4,114
Disposals	0	-1,045	-94	0	-1,139
Reclassification	0	94	-94	-15	-15
Effect of movements in foreign exchange	0	11	5	0	16
Balance at 31 December 2005	981	9,934	1,903	2,124	14,942
2006					
Acquisition through business combinations	0	4,508	12	0	4,520
Acquisitions	209	2,118	926	97	3,350
Disposals	-333	-168	-123	0	-624
Reclassification	12	0	0	-12	0
Effect of movements in foreign exchange	0	-17	-7	0	-24
Balance at 31 December 2006	869	16,375	2,711	2,209	22,164
Depreciation					
Balance at 1 January 2005	126	4,650	891	0	5,667
Depreciation charge for the year	28	1,330	372	0	1,730
Disposals	0	-1,006	-71	0	-1,077
Reclassification	0	53	-53	0	0
Effect of movements in foreign exchange	0	1	1	0	2
Balance at 31 December 2005	154	5,028	1,140	0	6,322
2006					
Depreciation charge for the year	18	1,531	370	0	1,919
Disposals	-109	-138	-122	0	-369
Reclassification	0	0	0	0	0
Effect of movements in foreign exchange	0	-2	-2	0	-4
Balance at 31 December 2006	63	6,419	1,386	0	7,868
Carrying amount					
Balance at 1 January 2005	786	4,759	739	15	6,299
Balance at 31 December 2005	827	4,906	763	2,124	8,620
Balance at 31 December 2006	806	9,956	1,325	2,209	14,296

Assets acquired with finance lease (included in property, plant and equipment above)

In thousands of euros	Plant and equipment	Other items of PP&E	Total
Cost at 31 December 2006	5,833	1,863	7,696
Carrying amount at 31 December 2006	2,817	747	3,564

In 2006 the Group entered into new finance lease contracts of 2,077,000 euros. The amount is not included in the acquisitions of property, plant and equipment reported in the statement of cash flows. Finance lease payments of the period totalled 1,748,000 euros.

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NOTE 13. Intangible assets

In thousands of euros	Goodwill	Software licences	Trademarks	Total
Cost				
Balance at 1 January 2005	1,798	37	0	1,835
Acquisition through business combinations	6,588	3	0	6,591
Acquisitions	0	34	0	34
Disposals	0	-1	0	-1
Effect of movements in foreign exchange	0	0	0	0
Balance at 31 December 2005	8,386	73	0	8,459
2006				
Acquisition through business combinations	1,563	0	0	1,563
Acquisitions	0	34	639	673
Disposals	0	0	0	0
Effect of movements in foreign exchange	0	0	0	0
Balance at 31 December 2006	9,949	107	639	10,695
Amortisation				
Balance at 1 January 2005	0	17	0	17
Acquisition through business combinations	0	1	0	1
Amortisation charge for the year	0	15	0	15
Disposals	0	0	0	0
Effect of movements in foreign exchange	0	0	0	0
Balance at 31 December 2005	0	33	0	33
2006				
Amortisation charge for the year	0	28	87	115
Effect of movements in foreign exchange	0	-1	0	-1
Balance at 31 December 2006	0	60	87	147
Carrying amount				
Balance at 1 January 2005	1,798	20	0	1,818
Balance at 31 December 2005	8,386	40	0	8,426
Balance at 31 December 2006	9,949	47	552	10,548

In 2006 the company acquired the *Eesti Ehitus* trademark from AS Nordecon for 639,000 euros (note 28).

In 2006, positive goodwill was not impaired. For the purposes of impairment testing, goodwill is allocated to specific subsidiaries which represent the lowest level with the Group at which goodwill is monitored for internal management purposes. The recoverable amount of each of the identified subsidiaries was measured based on value in use as determined by management.

Goodwill was attributed to the following subsidiaries:

In thousands of euros			
At 31 December	Ownership	2006	2005
AS Linnaehitus	100%	5,449	5,449
AS Aspi	100%	2,757	2,757
OÜ Mapri Projekt	52%	181	181
AS Kaurits	52%	1,563	0
Total		9,950	8,387

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The discounted cash flows of OÜ Mapri Projekt were calculated using the following assumptions:

1. a forecast period of 3 years + terminal year;
2. the discount rate of 13.9% is based on the actual debt/equity ratio for 2006 where the cost of debt is 5.5% and the cost of equity 15%;
3. revenue will grow in the forecast period at the rate of 10% per year;
4. gross margin will be the past three years' average;
5. administrative expenses will be the past three years' average and from 2008 the growth in administrative expenses will outpace revenue growth at the rate of 2% per year;
6. working capital investment will be the past three years' average, i.e. 10 cents per each euro of growth in revenue;
7. capital expenditures will be the past three years' average, thereafter the ratio to revenue will be at the level of 2006.

The discounted cash flows of AS Linnaehitus were calculated using the following assumptions:

1. a forecast period of 3 years + terminal year;
2. the discount rate of 13.5% is based on the actual debt/equity ratio for 2006 where the cost of debt is 5.5% and the cost of equity 15%;
3. revenue will grow in the forecast period at the rate of 10% per year;
4. gross margin will be the past three years' average;
5. administrative expenses will be the past three years' average and from 2008 the growth in administrative expenses will outpace revenue growth at the rate of 2% per year;
6. working capital investment will be the past three years' average, i.e. 20 cents per each euro of growth in revenue;
7. capital expenditures will be the past three years' average, thereafter the ratio to revenue will be at the level of 2006.

The discounted cash flows of AS ASPI were calculated using the following assumptions:

1. a forecast period of 3 years + terminal year;
2. the discount rate of 11.3% is based on the actual debt/equity ratio for 2006 where the cost of debt is 5.5% and the cost of equity 15%;
3. revenue will grow in the forecast period at the rate of 10% per year;
4. gross margin will be the past three years' average;
5. administrative expenses will be the past three years' average and from 2008 the growth in administrative expenses will outpace revenue growth at the rate of 2% per year;
6. working capital investment will be the past three years' average, i.e. 20 cents per each euro of growth in revenue;
7. capital expenditures will be the past three years' average, thereafter the ratio to revenue will be at the level of 2006

The investment in OÜ Kaurits was acquired at the end of 2006. Therefore, there was no need for impairment testing. The stake in OÜ Kaurits was acquired from an independent party in an arm's length transaction.

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NOTE 14. Finance and operating leases

In thousands of euros

Finance lease liability	As at 31 December	
	2006	2005
	6,656	2,395
Payable in less than one year	2,390	1,169
Payable between one and five years	4,266	1,226
Principal payments made during the period	1,748	1,366
Interest payments made during the period	124	106
Base currency	EUR	
Base currency	UAH	
Settlement terms	Monthly	Monthly
Interest rate in Estonia	3.0%-8.0%	3.0%-8.0%
Interest rate in Ukraine	10%-12%	10%-12%

The costs and carrying amounts of assets acquired with finance lease are presented in note 12.

Minimum non-cancellable finance lease payments are payable as follows:

In thousands of euros	2006			2005		
	Minimum lease rentals	Interest charge	Principal payments	Minimum lease rentals	Interest charge	Principal payments
Less than 1 year	2,534	143	2,390	1,239	70	1,169
Between 1 and 5 years	4,565	299	4,266	1,324	98	1,226
Total	7,099	442	6,656	2,563	168	2,395

In thousands of euros


Operating lease rental expense	At 31 December	
	2006	2005
Cars	806	563
Including cars leased from AS Nordecon	612	470
Construction equipment	1,048	590
Premises	281	276
Software	380	316
Total operating lease rental expense	2,515	1,745

According to effective contracts, operating lease rentals are payable as follows:

- 2007: at least 1,680,000 euros
- 2008: at least 1,696,000 euros
- 2009: at least 1,679,000 euros

The operating lease contracts may be terminated before expiry without payment of a penalty, provided notice is given of the termination in accordance with the terms and conditions of the contract.

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NOTE 15. Interest-bearing loans and borrowings

Current loans and borrowings

As at 31 December

In thousands of euros	Note	2006	2005
Short-term bank loans		894	2,731
Current portion of long-term bank loans		1,191	1,446
Other loans		0	2,173
Finance lease liabilities	14	2,390	1,169
Total current loans and borrowings		4,475	7,519

Non-current loans and borrowings

As at 31 December

In thousands of euros	Note	2006	2005
Long-term bank loans		8,262	9,021
Finance lease liabilities	14	4,266	1,226
Total non-current loans and borrowings		12,528	10,247


In connection with the acquisition of the subsidiary OÜ Kaurits, finance lease liabilities in the consolidated balance sheet increased by 3,929,000 euros.

Overview of loans

31 December 2006								
In thousands of euros	Base currency	Fixed interest rate	Limit	Up to 1 year		3-5 years	Over 5 years	Total
				year	1-2 years			
Bank loans								
Investment loan	EUR	4.10%	9,056	1,191	1,240	4,040	1,460	7,931
Investment loan	EUR	3.30%	1,086	334	0	0	0	334
Working capital loan	USD	6.00%	262	262	0	0	0	262
Working capital loan	EEK	3.40%	1,017	0	0	0	0	0
Investment loan	UAH	18.00%	672	298	0	297	0	595
Investment loan	EUR	4.18%	1,225	0	1,225	0	0	1,225
Overdraft	EEK	4.00%	1,287	0	0	0	0	0
				2,085	2,465	4,337	1,460	10,347

31 December 2005								
In thousands of euros	Base currency	Fixed interest rate	Limit	Up to 1 year		3-5 years	Over 5 years	Total
				year	1-2 years			
Bank loans								
Investment loan	EUR	4.10%	9,056	1,125	1,191	3,878	2,223	8,417
Investment loan	EUR	3.30%	1,086	0	672	0	0	672
Investment loan	EEK	4.10%	415	0	415	0	0	415
Working capital loan	EEK	3.60%	639	638	0	0	0	638
Working capital loan	USD	4.50%	342	342	0	0	0	342
Working capital loan	EEK	3.50%	3,196	1,751	0	0	0	1,751
Investment loan	UAH	18.00%	963	321	0	642	0	963
Overdraft	EEK	3.30%	639	0	0	0	0	0
Other loans								
Deferred payments for minority interests	EEK	6.00%	1,497	1,497	0	0	0	1,497
Investment loan	USD	3.50%	676	676	0	0	0	676
				6,350	2,278	4,520	2,223	15,371

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On 12 January 2006 the Group took out the last part of an investment loan from AS Hansapank. The portion amounted to 636,000 euros. On 31 July 2006 the Group repaid to the bank the first part of the loan (1,125,000 euros) as agreed in the payment schedule.

On 21 January 2006 the Group repaid to AS Hansapank a working capital loan of 639,000 euros, on 1 March 2006 an investment loan of 415,000 euros and on 20 March 2006 a part of an investment loan (337,000 euros).

A loan of 1,225,000 euros taken from SEB Eesti Ühispank is secured with immovable property. The loan is to be repaid by 14 July 2008.

In 2006 the Group took an additional working capital loan of 1,579,000 euros and repaid the bank a total of 3,686,000 euros. In addition, the Group repaid other loans of 676,000 euros.

In the accounts for 2005 the installment payment liabilities for the acquisition of minority interests have been recognised as a loan in the amount of 1,497,000 euros. In the cash flow statement for 2006 settlement of the liability is stated as acquisition of subsidiaries.

The effect of movement of changes in exchange rates in loan liabilities is 134,000 euros. Loan interest paid in 2006 amounted to 703,000 euros.

For financial risks, please refer to note 33.

NOTE 16. Tax liabilities

As at 31 December

In thousands of euros	2006	2005
Value-added tax	734	762
Personal income tax	722	399
Social tax	1,175	624
Unemployment insurance premiums	28	21
Funded pension premiums	48	23
Corporate income tax	14	28
Solid fuel excise	0	0
Extraction of natural resources, pollution charge	22	9
Total tax liability	2,743	1,866

NOTE 17. Other payables and advances and other liabilities

Other current payables and advances

As at 31 December

In thousands of euros	2006	2005
Payables to the parent and other group companies	2,697	1,710
Payables to associates	2	6
Payables to employees	4,682	2,421
Progress payments received in excess of contract work completed	11,208	9,537
Accrued expenses related to contract work	4,887	3,358
Other accrued expenses	665	148
Miscellaneous payables	97	0
Customer advances for goods and services	1,635	635
Total other current payables and advances	25,873	17,815

Payables to employees comprise remuneration and bonuses payable and accrued vacation pay liabilities.

Other accrued expenses include interest accrued on loan liabilities by the balance sheet date, the amount still payable for the shares acquired in OÜ Kaurits (524,000 euros), and unpaid loan interest (141,000 euros).

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Progress payments received in excess of contract work completed is related to the accounting for construction contracts and comprises the difference between progress billings and contract revenue recognised by reference to the stage of completion of contract activity.

Other non-current liabilities

As at 31 December

In thousands of euros	2006	2005
Liabilities to suppliers	31	115
Liabilities to the parent and other group companies	0	1,747
Total other non-current liabilities	31	1,862

NOTE 18. Provisions

Current provisions

As at 31 December

In thousands of euros	2006	2005
Warranties	288	170
Other	0	16
Total current provisions	288	186

Non-current provisions

As at 31 December

In thousands of euros	2006	2005
Warranties	121	131
Total non-current provisions	121	131

In accordance with the contracts for construction services, the Group is liable for its work during the post-construction warranty period which usually lasts for two years from the date the instrument of delivery and receipt is signed. Construction projects are established provisions on an individual basis. The provisions are classified as current and non-current items based on the expiry of the warranty period.

Movements in provisions

In thousands of euros

	2006	2005
Opening balance of warranties provision	301	291
Provisions used during the year	143	189
Provisions made during the year	251	199
Closing balance of warranties provision	409	301

NOTE 19. Equity

Shares and share premium

Number of shares, in thousands	2006	2005
At 1 January	3,481	3,000
Issued for cash	1,451	481
Bonus issue	10,446	0
Total	15,378	3,481

On 1 April 2006 the general meeting of the shareholders of AS Eesti Ehitus approved the company's new Articles of Association, according to which the minimum and maximum authorized share capital amount to

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120,000,000 kroons (7,669,000 euros) and 480,000,000 kroons (30,679,000 euros) respectively. Share capital consists of ordinary shares with a par value of 10 kroons (0.64 euros) each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the parent company

On 18 April 2006, outstanding share capital was increased by a bonus issue of 10,446,000 new ordinary registered shares. For each existing share, 3 new shares were issued. As a result of the bonus issue, share capital increased from 2,225,000 euros to 8,901,000 euros. The bonus issue was performed using share premium of 523,000 euros and 6,153,000 euros of the profit for 2005.

On 11 May 2006, 1,451,000 additional ordinary shares with a par value of 10 kroons (0.64 euros) were issued. Share capital now stands at 9,829,000 euros. The new shares were subscribed during the initial public offering of the shares on Tallinn Stock Exchange where the final offer price was set at 5.75 euros. Cash received amounted to 8,342,000 euros. After the deduction of issue costs (483,000 euros), the company was able to recognise share premium of 6,932,000 euros.

All new shares entitle the holder to dividends declared for periods beginning on or after 1 January 2006.

Statutory capital reserve

The Commercial Code requires companies to establish a capital reserve. Each year companies have to transfer to the capital reserve at least one twentieth of their profit for the period until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but cannot be distributed to shareholders. The Group's capital reserve includes the capital reserves of the subsidiary companies.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, whose functional currency differs from the functional currency of the Parent company.

Unrestricted equity

At 31 December 2006, unrestricted equity amounted to 11,382,000 euros. After 1 January 2007, dividend distributions will be accompanied by income tax expense of 22/78 (until 31 December 2005 the tax rate was 23/77) of the amount distributed as the net dividend. Thus, as at the balance sheet date the maximum amount that could be distributed to the shareholders as the net dividend is 8,878,000 euros and the distribution would give rise to income tax expense of 2,504,000 euros.

Dividends

Dividends distributed to the company's shareholders:

2005:	0.596 euros per share	1,790,000 euros (3,000,000 shares)
2006:	0.55 euros per share	1,917,000 euros (3,481,894 shares)

The amount of dividends reported in the statement of cash flows differs from the amount paid to the Parent company's shareholders by the portion of dividends paid to the subsidiaries' minority shareholders (see also p 16 Statement of changes in equity).

The board has made the following dividend distribution proposal:


2007:	0.19 euros per share	2,949,000 euros (15,378,364 shares)
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The income tax payable on dividends is recognised in the income statement in the period in which the dividend is declared.

Earnings per share

Basic earnings per share are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period, both adjusted for the effects of all dilutive potential share

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The weighted average number of shares has been found considering the effect of the bonus issue.

	Unit	2006	2005
Profit for the period	in thousands of euros	11,185	5,548
Weighted average number of shares	in thousands	14,838	13,606
Basic earnings per share		0.75	0.41
Diluted earnings per share		0.75	0.41

AS Eesti Ehitus has not issued any share options or other convertible instruments. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 20. Construction contracts

In thousands of euros		
Construction contracts	31 December 2006	31 December 2005
Costs under stage of completion method	135,477	85,170
Estimated profit	14,437	10,906
Revenue under stage of completion method	149,914	96,076
Progress billings	157,421	102,522
Adjustments	7,507	6,446
Including due from customers	3,701	3,090
Including due to customers	11,208	9,537

At 31 December 2006, the total contracted prices for the Group's construction contracts active during 2006 amounted to 306,716,000 euros. The projects' estimated costs amounted to 135,477,000 euros, estimated contract revenue, under the stage of completion method, amounted to 149,914,000 euros and the portion relating to future activity was 156,802,000 euros.

NOTE 21. Interests in joint ventures

The Group is involved in the performance of a construction contract which is under the joint control of three parties. By nature, the contract is a civil law partnership contract. The Group's share in the contract's revenue and profit is one third. Each party is responsible for the delivery and risks of the contract to the extent of its share in the venture. The penalty for a deliberate breach of contract is 100,000 euros.


In 2006, the portion of work performed by the Group under the above contract was 754,000 euros and costs incurred amounted to 704,000 euros, these amounts are included in revenues and cost of sales respectively. In the consolidated balance sheet, receivables and payables related to the performance of the contract amount to 358,000 euros and 273,000 euros respectively.

NOTE 22. Segment reporting

Segment reporting is presented in respect of business and geographical segments. The Group's primary format, business segments, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

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Business segments:

- Residential and non-residential. The construction of public, commercial, industrial and residential buildings and facilities.
- Civil engineering. The construction, maintenance and renovation of roads, the construction of railways, highways, and port and environmental structures and facilities.


The Group's construction activity takes place in two geographical areas: in Estonia and in Ukraine. The Ukrainian construction revenues account for 8.5% of the Group's total revenue. Therefore, reporting by geographical segments has been excluded from the financial statements.

Business segments

	Residential and non-residential		Civil engineering		Eliminations		Consolidated	
In thousands of euros	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers:								
Construction contract revenue	86,560	54,940	72,384	47,192	0	0	158,944	102,132
Other revenue	613	3,444	468	1,441	0	0	1,081	4,885
Total revenue from external customers	87,173	58,384	72,852	48,633	0	0	160,025	107,017
Inter-segment revenue	5,921	3,902	1,306	2,433	-7,227	-6,335	0	0
Total revenue	93,094	62,286	74,158	51,066	-7,227	-6,335	160,025	107,017
Segment result	13,249	8,391	7,177	3,320	-835	-458	19,591	11,253
Unallocated expenses	0	0	0	0	0	0	-6,646	-3,723
Operating profit	0	0	0	0	0	0	12,945	7,530
Net financing costs	0	0	0	0	0	0	-42	-299
Loss of equity accounted investees	-63	-1	0	0	0	0	-63	-1
Income tax expense	0	0	0	0	0	0	-820	-1,224
Profit for the period							12,020	6,006
Segment assets	50,224	35,968	37,300	22,644	0	0	87,524	58,612
Investments in associates	1,150	1,362	204	0	0	0	1,354	1,362
Total assets							88,878	59,974
Segment liabilities	19,944	24,652	20,462	7,329	0	0	40,406	31,981
Warranty liabilities	339	251	70	50	0	0	409	301
Unallocated liabilities	0	0	0	0	0	0	17,003	15,600
Total liabilities							57,818	47,882
Cash flows from:								
operating activities	-948	6,312	4,461	3,284	0	0	3,513	9,596
investing activities	1,547	-14,770	-3,925	-166	0	0	-2,378	-14,936
financing activities	-4,811	12,081	1,392	-1,707	0	0	-3,419	10,374
Net cash flows	-4,212	3,623	1,928	1,411	0	0	-2,284	5,034
Capital expenditure	967	2,861	2,383	1,253	0	0	3,350	4,114
Depreciation and amortisation expense	381	205	1,653	1,458	0	0	2,034	1,663

Unallocated liabilities include loans and borrowings.

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NOTE 23. Cost of sales

In thousands of euros

	2006	2005
Depreciation and amortisation expense	1,878	1,432
Labour costs	12,140	9,085
Cost of materials, goods and services used	125,490	84,149
Other expenses	926	1,098
Total cost of sales	140,434	95,764

NOTE 24. Administrative expenses

In thousands of euros

	2006	2005
Depreciation and amortisation expense	156	231
Labour costs	5,391	2,584
Cost of materials, goods and services used	2,124	1,356
Other expenses	365	462
Total administrative expenses	8,036	4,633

NOTE 25. Other operating income and expenses

Other operating income

In thousands of euros


	2006	2005
Gains on sale of property, plant and equipment	452	281
Gains on sale of real estate	1,227	660
Foreign exchange gains	4	69
Expiry of liabilities	0	119
Other	33	60
Total other operating income	1,716	1,189

Other operating expenses

In thousands of euros

	2006	2005
Impairment of property, plant and equipment	1	2
Sponsoring, membership fees	165	145
Foreign exchange losses	24	87
Losses from doubtful and irrecoverable receivables	121	4
Other	15	41
Total other operating expenses	326	279

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NOTE 26. Net financing costs

Financial income

In thousands of euros

	2006	2005
Gains on sale of shares in subsidiaries	59	113
Gains on sale of shares in associates	674	0
Interest income on loans to associates	134	51
Financial income on other investments	31	58
Interest income on short-term deposits in bank	277	0
Foreign exchange gains	0	186
Total financial income	1,175	408

Financial expenses

In thousands of euros

	2006	2005
Interest expense	-855	-478
Financial expenses on other investments	0	-122
Other financial expenses	-17	-3
Foreign exchange losses	-345	-104
Total financial expenses	-1,217	-707

NOTE 27. Income tax expense

In thousands of euros

	2006	2005
Current tax expense	820	1,224
Deferred tax expense	0	0
Total income tax expense	820	1,224

In thousands of euros


	2006	2005
Profit before tax	12,840	7,230
Income tax using the Company's domestic tax rate	0	0
Estonia - income tax on dividends paid	690	940
Ukraine - effect of tax rate in foreign jurisdictions	130	284
Total income tax expense	820	1,224

NOTE 28. Transactions with related parties

For the purposes of these financial statements, parties are related if one controls the other or exerts significant influence on the other's business decisions. Related parties include:

1. AS Nordecon (the parent of AS Eesti Ehitus) and its controlling shareholders;
2. the subsidiaries and associates of AS Eesti Ehitus;
3. other companies of AS Nordecon Group;

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4. the members of the company's board and council and individual shareholders whose interest is significant, except where the above cannot exert significant influence on the company's business decisions. Related parties also include close family members of and companies related to the above.

During the reporting period, Group entities performed purchase and sales transactions with related parties in the following volumes:

In thousands of euros Related party	2006		2005	
	Purchases	Sales	Purchases	Sales
AS Nordecon - the parent of AS Eesti Ehitus	1,226	32	1,014	35
Subsidiaries of AS Nordecon	56	8,682	12	3,657
Companies related to a member of the council of AS Eesti Ehitus	128	1,014	44	199
Member of the council of AS Eesti Ehitus	0	0	0	4
Associates of AS Eesti Ehitus	0	642	0	0
Total	1,410	10,370	1,070	3,895

At the balance sheet date, receivables from and liabilities to related parties broke down as follows:

In thousands of euros Related party	Transaction	31 December 2006		31 December 2005	
		Receivable	Payable	Receivable	Payable
AS Nordecon - the parent of AS Eesti Ehitus		0	138	8	3,456
Subsidiaries of AS Nordecon	construction contract	652	2,559	2,040	1
Companies related to a member of the council of AS Eesti Ehitus	construction contract	589	0	33	1
Member of the board of Eurocon Ukraine LLC	receivable	52	0	0	0
Associates of AS Eesti Ehitus	loan and interest	2,315	2	400	6
Associates of AS Eesti Ehitus	construction contract	370	0	0	0
Total		3,978	2,699	2,481	3,464

In 2006 AS Nordecon was repaid loans of 3,254,000 euros. In 2006 the Group acquired the Eesti Ehitus trademark from AS Nordecon for 639,000 euros. The price of the transaction was determined based on management's estimates. According to management's assessment, the prices applied in transactions with related parties do not differ significantly from normal market terms.

Remuneration of the members of the board:

In 2005, the remuneration of the members of the board of AS Eesti Ehitus and the members of the boards of Group entities totalled 358,000 euros and 286,000 euros respectively.

In 2006, the remuneration of the members of the board of AS Eesti Ehitus and the members of the boards of Group entities totalled 591,000 euros and 573,000 euros respectively.

On the expiry of their service contract, members of the board may receive compensation equal to their past 6-12 months' remuneration. Any such payments are entirely at the discretion of the council.

Remuneration of the members of the council:

In 2005, the remuneration of the members of the council of AS Eesti Ehitus and the members of the councils of Group entities totalled 31,000 euros and 42,000 euros respectively.

In 2006, the remuneration of the members of the council of AS Eesti Ehitus and the members of the councils of Group entities totalled 67,000 euros and 250,000 euros respectively.

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NOTE 29. Assets pledged as security

Loans and other obligations are secured with the following commercial pledge agreements:

1. The total current assets of AS ASPI have been encumbered with two commercial pledges of 1,278,000 euros in aggregate, established for the benefit of AS SEB Eesti Ühispank.
2. The total current assets of AS Linnaehitus have been encumbered with a commercial pledge of 799,000 euros established for the benefit of AS Hansapank.
3. A loan taken by AS Linnaehitus from AS SEB Eesti Ühispank is secured with a mortgage of one half of a legal share in an immovable property located in Tartu. The carrying amount of the property is 1,649,000 euros.
4. The total current assets of OÜ Mapri Projekt have been encumbered with a commercial pledge of 447,000 euros established for the benefit of AS SEB Eesti Ühispank.
5. The total current assets of AS Eesti Ehitus have been encumbered with four commercial pledges of 10,226,000 euros in aggregate established for the benefit of AS Hansapank.

The investment loans taken for the acquisition of registered immovable properties are secured with mortgages of 767,000 euros (in total) established for the benefit of AS Hansapank.

The loan taken from AS Hansapank for the acquisition of minority interests in subsidiaries is secured with the pledge of the shares in AS Linnaehitus and AS ASPI.

NOTE 30. Accounting estimates and judgements

Various disclosures in the consolidated financial statements are based on management estimates. Estimation involves applying the best knowledge and judgements. Still, actual results may differ from the estimates. Revisions to management estimates are recognised in the income statement of the period in which the estimate is revised.

Property, plant and equipment and intangible assets

Depreciation rates are reassessed at each balance sheet date and adjusted when circumstances arise that may have a significant impact on the useful life of an asset or asset group. The effect of changes in estimates is recognised in the current and subsequent reporting periods. Management's estimates are made on the basis of prevailing business conditions, operating volumes, historical experience and future prospects.

Positive goodwill acquired on the acquisition of subsidiaries is measured in the balance sheet by assessing the carrying values of CGUs to which goodwill has been allocated using the discounted cash flow method. There exists the risk that when the economic environment deteriorates or wrong management decisions are made, the subsidiaries' cash flows may prove smaller than projected, affecting future estimates of the value of the CGU. On the basis of analysis made for these consolidated financial statements using the subsidiaries' results for 2006 and expectations of future developments in the construction sector, Group management believes that the values in use of the CGUs to which goodwill is attributed significantly exceed their carrying values, creating a sufficient buffer for any negative developments.

Provisions

Provisions for construction warranties are recognised on the basis of management's estimates of the amount and timing of resources which may be required for settling relevant liabilities. Projects' warranty provisions are determined on an individual basis based on long-term historical experience. The size of a warranty provision depends on the type of the building or construction project and the qualification of subcontractors. Warranty provisions are reduced by the warranties given by the subcontractors.

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Determination of the stage of completion of construction contracts

Under the stage of completion method, contract revenue is recognised as revenue in the income statement in the accounting periods in which the work is performed. Contract costs are usually recognised as an expense in the income statement in the accounting periods in which the work to which they relate is performed. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate.

The changed estimates are used in the determination of the amount of revenue and expenses recognised in the income statement in the period in which the change is made and in subsequent periods.

For reliable determination of the stage of completion of construction contracts, the Group has a consistent and multi-level control system in place. Control begins with the determination of the stage of completion by the project manager and ends with its review and approval by a relevantly authorised member of management.

If the stage of completion of all open project were changed by 10% at 31 December 2006, revenue would change by approximately 4,320,000 euros and operating profit 709,000 euros.

NOTE 31. Off-balance sheet liabilities

Off-balance sheet liabilities comprise bank guarantees and surety agreements. At the balance sheet date, the Group's off-balance sheet liabilities totalled 20,844,000 euros. The realisation probability of the guarantees is low. Therefore, they have not been recognised as liabilities in the balance sheet.

Bank guarantees break down as follows:

AS SEB Eesti Ühispank	5,190,000 euros – guarantees to customers (performance guarantees)
AS Hansapank	8,174,000 euros – guarantees to customers (performance guarantees)
AS Hansa Liising Eesti	1,016,000 euros – guarantee (suretyship) agreement (Ukrainian borrowings)
AS Hansapank	4,039,000 euros – guarantees to customers (performance guarantees)
AS Hansapank	2,425,000 euros – guarantee (suretyship) agreement (Ukrainian borrowings)

Most of the guarantees expire in 2007 and 2008.

NOTE 32. Contingent liabilities

1. In accordance with an agreement made with the Ministry of Economic Affairs and Communications, AS Järva Teed may extract aggregates (sand and gravel) until 31 July 2007 based on the rights of usufruct relating to open-cast mines. Under the agreement, the costs of remedying the land damaged by extraction have to be compensated on the depletion of resources or at the demand of the owner. The contingent claims are secured with a guarantee of 3,000 euros taken from AS SEB Eesti Ühispank; the guarantee is to be honoured on the recipient's (owner's) first presentation.

2. At the end of 2005, a contract partner filed a claim of 40,000 euros against AS Eesti Ehitus. According to the claimant, the volume of work performed by the contract partner exceeded the volume agreed in the subcontract and part of the additional work was not paid for. AS Eesti Ehitus is of the opinion that the work has been paid for and the claim is baseless. Consequently no amount has been accrued with respect to this claim. The time of the hearing has not been set.

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NOTE 33. Management of financial risks

Fair values of financial assets and liabilities together with carrying amounts in the balance sheet

In thousands of euros	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	9,969	9,969	10,702	10,702
Short-term financial investments	137	137	1,600	1,600
Other receivables	32,040	32,040	19,440	19,440
Loans to associates	1,116	1,173	170	191
Other loans	600	542	453	474
Short-term loans	2,086	2,086	6,350	6,350
Long-term loans	8,261	8,062	9,021	8,541
Finance lease liabilities	6,656	6,631	2,395	2,339
Trade payables	11,790	11,790	10,117	10,117
	72,655	72,430	60,248	59,754
Unrecognised losses		-225		-494

Fair value

The Group's financial assets comprise cash, financial investments, and receivables. Financial liabilities comprise loans, finance lease liabilities and trade payables. Management has determined that the carrying amounts of the Group's financial current assets and liabilities do not differ significantly from their fair values due to the fact that they are expected to be settled in the short term. Carrying values of floating rate interest bearing instruments are also deemed to approximate fair value as these instruments reprice to market rates of interest at least annually.

Non-current fixed interest rate financial assets and liabilities were discounted by comparing the average market interest rate with the fixed interest rate and the changes in EURIBOR. The following interest rates were applied:

	2006	2005
	Average market interest rate	
Loans in Estonia	7.0%	5.6%
Loans in Ukraine	15.1%	16.4%
Finance leases	5% - 8%	5% - 8%

Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge an obligation and will cause the Group to incur a financial loss. At the balance sheet date, Group companies were not aware of any major risks related to trade receivables. For mitigation of credit risks, the customers' settlement behaviour and creditworthiness are monitored on an ongoing basis. According to management assessment, the Group does not have any significant credit risks.

Liquidity risk

The Group's main liquidity risk is related to its ability to satisfy timely its commitments to the banks, leasing companies and suppliers. Free monetary funds are held in the banks' liquid interest-bearing money market instruments. To ensure the ability to satisfy commitments on a timely basis, approximately two weeks' working capital is kept in current accounts or overnight deposits; when necessary overdraft facilities are used.

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Construction activity is financed primarily with advances and progress payments received from customers and instalment payments received under agreed settlement schedules. Where necessary, bank loans are used.

Currency risk

The Group operates in Estonia (currency the Estonian kroon (EEK)) and in Ukraine (currency the Ukrainian grivna (UAH)). At the end of 2006 a Latvian associate was acquired (currency Latvian lats (LVL)). As a rule, construction contracts and subcontracts are made in the currency of the country where the operations are performed. In Ukraine, some materials purchase contracts may be concluded in euro. In addition, the Parent company AS Eesti Ehitus settles accounts with its Ukrainian subsidiary Eurocon Ukraine LLC in euro but the amounts are insignificant. Considering that the Ukrainian grivna usually fluctuates in line with the US dollar, euro-based settlements in Ukraine involve a currency risk but possibilities for hedging it in cooperation with local banks are almost non-existent.

Interest rate risk

The majority of the loans the Group has taken from Estonian and Ukrainian banks have fixed interest rates. Some finance lease contracts have floating interest rates and are linked to EURIBOR (Euro Interbank Offered Rate).

The Group is exposed to interest rate price risk on its fixed rate borrowings and interest rate cash flow risk on its variable rate borrowings. The Group does not hedge these risks.

NOTE 34. Subsequent events

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the balance sheet date and the date on which the financial statements were authorised for issue but are related to the year ended 31 December 2006 or prior periods.

Subsequent events that are indicative of conditions that arose after the balance sheet date but which will have a significant effect on the result of the next financial year are disclosed in the notes to the annual financial statements.

On 26 February 2007 a judgement was rendered in a lawsuit between OÜ Mapri Projekt and AS L.Rei. According to the judgement, AS L.Rei will have to pay OÜ Mapri Projekt 164,000 euros, including 62,000 euros in compensation for the basic claim and 95,000 euros in interest in arrears. The defendant may file an appeal against the judgement to Tallinn Circuit Court.

On 13 February 2007, short term investment with the carrying amount 137,000 euros was sold. Sales gain amounted to 383,000 euros.

On 13 February 2007, OÜ Eurocon took a short-term loan from AS Hansapank (639,000 euros) and refinanced a previous loan (262,000 euros). Also, an overdraft agreement of 320,000 euros was concluded on the same date.

In 2005, AS Eesti Ehitus entered into a contract for the performance of construction services. The purchaser has not been able to fulfil its obligations over an extended period. Therefore, AS Eesti Ehitus suspended performance of the contract on 22 February 2007. To date there is no information whether or which judicial remedies will be implemented and whether the implementation of legal remedies will result in litigation. As a result, the nature and possible consequences of the litigation cannot be assessed. According to preliminary estimates, AS Eesti Ehitus may have to return to the customer 2.6 million euros. Any amounts which may be returned to the customer in connection with this contract are reported in the balance sheet in other payables and advances.

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Supplementary information on the Group's Parent company

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements, except that investments into the shares of subsidiaries, joint ventures and associates are accounted for at cost less any impairment recognized

Balance sheet (unconsolidated)

As at 31 December	2006	2005
In thousands of euros		
ASSETS		
Current assets		
Cash and cash equivalents	4,369	5,799
Trade receivables	10,693	6,183
Other receivables and prepayments	12,142	4,138
Inventories	3,444	1,613
Total current assets	30,648	17,733
Non-current assets		
Shares in subsidiaries	13,492	13,492
Shares in associates	0	7
Non-current receivables	481	497
Investment property	13	2,186
Property, plant and equipment	426	509
Intangible assets	559	13
Total non-current assets	14,971	16,704
TOTAL ASSETS	45,619	34,437
LIABILITIES		
Current liabilities		
Interest-bearing loans and borrowings	1,546	1,775
Trade payables	3,739	4,536
Tax liabilities	403	736
Other payables and advances	16,579	11,680
Provisions	73	70
Total current liabilities	22,340	18,797
Non-current liabilities		
Interest-bearing loans and borrowings	6,764	8,389
Other liabilities	31	1,861
Provisions	59	94
Total non-current liabilities	6,854	10,344
TOTAL LIABILITIES	29,194	29,141
EQUITY		
Share capital	9,829	2,225
Share premium	6,931	524
Statutory capital reserve	192	192
Retained earnings	-527	2,355
TOTAL EQUITY	16,425	5,296
TOTAL LIABILITIES AND EQUITY	45,619	34,437

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Income statement (unconsolidated)

For the year ended 31 December

In thousands of euros	2006	2005
Revenue	42,889	39,482
Cost of sales	39,197	37,245
Gross profit	3,692	2,237
Administrative expenses	2,117	1,396
Other operating income	1,682	890
Other operating expenses	128	154
Operating profit	3,129	1,577
Net financing items		
Financial income	2,499	1,465
Financial expenses	428	401
Net financing items	2,071	1,064
Profit / loss recognised under the equity method	0	0
Gains recognised under the equity method	0	0
Losses recognised under the equity method	0	0
Profit before tax	5,200	2,641
Income tax expense	13	175
Profit for the period	5,187	2,466

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Statement of cash flows (unconsolidated)
For the year ended 31 December

In thousands of euros

	2006	2005
Cash flows from operating activities		
Cash receipts from customers	50,479	55,903
Cash paid to suppliers	-45,982	-48,696
Cash paid to and for employees	-3,724	-2,158
Income taxes paid	-13	-174
Net cash from operating activities	760	4,875
Cash flows from investing activities		
Acquisition of property, plant and equipment	-122	-105
Acquisition of intangible assets	-649	-13
Proceeds from sale of property plant and equipment and intangible assets	661	71
Acquisition of investment property	0	-2,173
Proceeds from sale of investment property	3,401	0
Acquisition of subsidiaries	-1,562	-8,556
Proceeds from sale of subsidiaries	38	38
Loans given	-7,586	-1,814
Dividends received	1,875	1,237
Interest received	411	32
Other payments	-66	0
Net cash used in investing activities	-3,599	-11,283
Cash flows from financing activities		
Proceeds from issue of share capital	7,859	832
Loans received	639	12,572
Repayment of loans received	-4,626	-1,885
Dividends paid	-1,917	-1,790
Payment of finance lease liabilities	-23	-12
Interest paid	-523	-73
Net cash from financing activities	1,409	9,644
Net decrease / increase in cash and cash equivalents	-1,430	3,236
Cash and cash equivalents at 1 January	5,799	2,563
Decrease / increase in cash and cash equivalents	-1,430	3,236
Cash and cash equivalents at 31 December	4,369	5,799

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Statement of changes in equity (unconsolidated)

For the year ended 31 December 2006

In thousands of euros	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 1 January 2005	1,917	0	192	1,679	3,788
Dividends declared	0	0	0	-1,790	-1,790
Issue of share capital	308	524	0	0	832
Profit for 2005	0	0	0	2,466	2,466
Balance at 31 December 2005	2,225	524	192	2,355	5,296
Interests under control and significant influence carrying amount	0	0	0	-13,492	-13,492
Interests under control and significant influence carrying amount under the equity method	0	0	0	3,082	3,082
Restated unconsolidated equity at 31.12.2005	0	0	0	-8,055	-5,114
Balance at 1 January 2006	2,225	524	192	2,355	5,296
Dividends declared	0	0	0	-1,917	-1,917
Bonus issue	6,676	-524	0	-6,152	0
Issue of share capital	928	7,414	0	0	8,342
Issue costs	0	-483	0	0	-483
Profit for 2006	0	0	0	5,187	5,187
Balance at 31 December 2006	9,829	6,931	192	-527	16,425
Interests under control and significant influence carrying amount	0	0	0	-13,492	-13,492
Interests under control and significant influence carrying amount under the equity method	0	0	0	5,998	5,998
Restated unconsolidated equity at 31.12.2005	9,829	6,931	192	-8,021	8,931



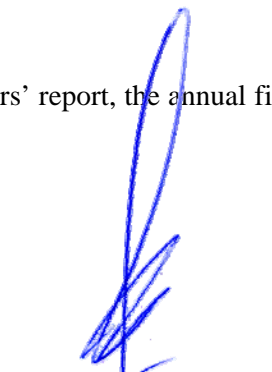
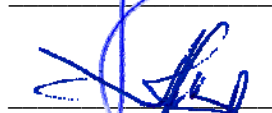


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Signatures

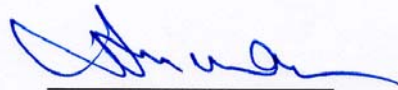
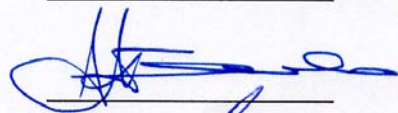

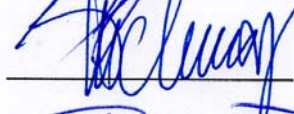
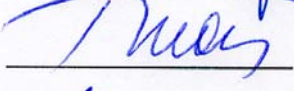

The board of AS Eesti Ehitus has prepared the directors' report, the annual financial statements and the profit allocation proposal for 2006.

Board:

Jaano Vink	Chairman		28 March 2007
Avo Ambur	Member		28 March 2007
Andri Hõbemägi	Member		28 March 2007
Erkki Suurorg	Member		28 March 2007

The council has reviewed the annual report prepared by the board, including the directors' report and the annual financial statements and the attached auditor's report, profit allocation proposal and list of shareholders, and has approved its presentation to the general meeting of the shareholders.

Council:

Toomas Luman	Chairman		12 April 2007
Alar Kroodo	Vice-Chairman		12 April 2007
Ain Tromp	Member		12 April 2007
Mait Schmidt	Member		12 April 2007
Tiina Mõis	Member		12 April 2007
Meelis Milder	Member		12 April 2007

Member of the Board 



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Eesti Ehitus

(translation from the Estonian original)

We have audited the accompanying consolidated financial statements of AS Eesti Ehitus, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Eesti Ehitus as of 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 28 March 2007

KPMG Baltics AS

Andris Jegers
Authorized Public Accountant

Eeli Lääne
Authorized Public Accountant



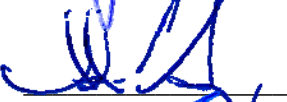

Profit allocation proposal


(In thousands of euros)

Retained earnings	197
Profit for 2006	11,185
Total distributable profits at 31 December 2006	11,382

The board proposes that profits be allocated as follows:

Dividend distribution	2,949
Transfer to capital reserve	259
Retained earnings after allocations	8,174

Jaano Vink	Chairman of the Board		28 March 2007
Avo Ambur	Member of the Board		28 March 2007
Andri Hõbemägi	Member of the Board		28 March 2007
Erkki Suurorg	Member of the Board		28 March 2007

Member of the Board 

List of shareholders whose interest exceeds 10%

At the date of the general meeting of the shareholders of AS Eesti Ehitus that approved the annual report (14 May 2007), the list of owners of registered shares who held over 10% of the votes determined by shares was the following:

1. AS Nordecon

Registration number:	10359185
Address:	Liivalaia 13/15, Tallinn
Type of share:	ordinary share
Number of shares:	10,172,788
Par value of a share:	10 kroons (0.64 euros)
Time of acquisition and subscription of the shares:	2002; 2005; 2006

