



2006

Semi-annual financial statements

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Core activity	General contracting in the construction sector
Beginning of reporting period	1 January 2006
End of reporting period	30 June 2006
Auditor	KPMG Baltics AS

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Directors' report

Corporate profile

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 construction manager. In Estonia the Group also acts as an independent contractor in road construction and maintenance, environmental construction, and concrete works.

The activities of Group companies: the parent and AS Linnaehitus are engaged in general contracting and construction 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 general contracting and construction management activities in Ukraine. Its direct subsidiary Eurocon Ukraine LLC is engaged in general contracting and construction 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 shares are listed in the main list of Tallinn Stock Exchange.

The unaudited consolidated semi-annual financial statements of AS Eesti Ehitus 2006 comprise the parent company and its subsidiaries and the Group's interest in associates:

Company			30 June 2006	30 June 2005	31 December 2005
AS Linnaehitus	subsidiary	Estonia	100.0%	51.0%	100.0%
AS ASPI	subsidiary	Estonia	100.0%	52.9%	100.0%
AS Järva Teed	subsidiary	Estonia	100.0%	52.9%	100.0%
OÜ Hiiu Teed	subsidiary	Estonia	100.0%	52.9%	100.0%
OÜ Mapri Projekt	subsidiary	Estonia	52.0%	52.0%	52.0%
Estcon OY	subsidiary	Finland	100.0%	0.0%	100.0%
OÜ EE Elekter	subsidiary	Estonia	100.0%	100.0%	100.0%
OÜ Eurocon	subsidiary	Estonia	64.0%	100.0%	64.0%
Eurocon Ukraine LLC	subsidiary	Ukraine	61.4%	100.0%	64.0%
Passage Theatre LLC	subsidiary	Ukraine	61.4%	0.0%	64.0%
Eurocon West LLC	subsidiary	Ukraine	61.4%	0.0%	0.0%
Eurobeton LLC	subsidiary	Ukraine	61.4%	0.0%	0.0%
Bukovina Developments LLC	subsidiary	Ukraine	60.8%	0.0%	0.0%
V.I. Center LLC	associate	Ukraine	41.0%	0.0%	42.7%
Technopolis-2 LLC	associate	Ukraine	30.7%	32.0%	32.0%
OÜ Kastani Kinnisvara	associate	Estonia	26.0%	0.0%	0.0%

The main changes in the Group's structure relate to Ukraine – on 12 April 2006 a 4-percent stake in Eurocon Ukraine LLC, a 100 percent subsidiary of OÜ Eurocon, was sold to the Chief Executive Officer of Eurocon Ukraine LLC Oleg Drin and at the beginning of the second quarter three subsidiaries were established in Ukraine. Eurocon West LLC is going to coordinate construction activities in Western Ukraine, Eurobeton LLC is going to engage in concrete production – the entity has already invested in a plot suitable for a concrete factory near Kiev, and Bukovina Developments LLC is designed for real estate investment operations in Western Ukraine.

In the first half of 2006, the Group employed, on average, 826 people. At the end of June the number of people was 948 (including 46 outside Estonia), engineers and technical personnel (ETP) accounting for 51 percent of the total. Personnel expenses for the first half of 2006 amounted to EEK 101.8 million (€6.5 million), 54.6 percent up on a year ago.

Average number of the Group's employees

Period	ETP	Workers	Total average
First 6 months of 2006	409	417	826
First 6 months of 2005	248	443	691
2005	261	461	722

Revenue and segments

The Group's consolidated revenue for the first half of 2006 amounted to EEK 926.5 million (€9.2 million), a 34.8 percent increase on the corresponding period in 2005. In terms of business segments, the residential and non-residential segment contributed 62 percent (46.1 percent growth) and the civil engineering segment 38 percent (19.6 percent growth). In geographical terms, 94.3 percent of revenue was earned in Estonia; Ukraine contributed 5.7 percent (a year ago the corresponding figures were 92.9 percent and 7.1 percent).

Revenue by segments

Business segments	I half 2006	I half 2005	2005
Civil engineering	38%	43%	45%
Residential and non-residential	62%	57%	55%

Accelerated growth in the residential and non-residential segment was supported by a rapid rise of the commercial buildings (offices, trading premises) sub-segment where the largest contributor was AS Linnaehitus with projects in Tartu, Tallinn and Narva. The period's strong results are partly attributable to the implementation of the competencies of AS Linnaehitus outside Tartu and the trading premises projects of Eurocon Ukraine LLC. In 2006, the commercial buildings sub-segment became the Group's largest sub-segment in terms of results.

Compared to the first half of 2005, the period's fastest growing sub-segment was industrial and warehouse facilities. The primary contributor was the parent company although the area was important also for Eurocon Ukraine LLC.

The decline in the public buildings sub-segment is related to the completion of the Estonian Art Museum (performed together with AS Merko Ehitus) and the new main building of Tallinn University. New contracts do not yet to match the volume of those exceptionally large projects.

Compared to a year ago, the share of the residential buildings sub-segment has grown. However, the growth results mainly from a temporal shift – last year a major share of apartments was transferred to customers (and consequently related revenue was recognised) in the second half of the year.

Revenue allocation in the

residential and non-residential segment	I half 2006	I half 2005	2005
Residential buildings	11%	2%	11%
Public buildings	17%	44%	35%
Commercial buildings	47%	40%	37%
Industrial and warehouse facilities	25%	14%	17%

The contribution of the civil engineering segment has declined compared to a year ago, mostly due to the completion of extensive works at the Port of Sillamäe. New contracts do not yet match the volume of the completed one. Still, we are pleased to report that the road and environmental facilities contracts performed by AS Aspi have grown substantially, rendering road construction and maintenance the Group's second-largest sub-segment in 2006.

At the end of the first six months of 2006, the Group's order backlog totalled EEK 1.99 billion (€127 million) against EEK 1.2 billion (€76.9 million) a year ago and its structure corresponded, in principle, to our long-term revenue structure.

Profitability

In the first half of 2006, the Group's profitability was affected by three main factors.

Firstly, we were able to maintain our gross margin at the targeted 10 percent level (9.9 percent for the first 6 months of 2006 vs. 7.9 percent for the first 6 months of 2005). Despite the rapid upsurge of personnel expenses (the second-largest component of the cost of sales) which surpassed revenue growth by 16.7 percent, the high

efficiency of our project management teams allowed us to reduce the ratio of subcontracting and materials costs to revenue by more than 2.7 percent and, consequently, to improve the gross margin.

Secondly, we succeeded in maintaining the ratio of administrative expenses to revenue at the targeted 5 percent level (5 percent for the first 6 months of 2006 vs. 4.5 percent for the first 6 months of 2005) although the growth in administrative expenses outpaced revenue growth by 13.8 percent, largely on account of an increase in personnel expenses. On the one hand the latter resulted from an approximately 20-percent increase in the number of staff and on the other from the past few years' general upward pressure on wages in the construction industry.

And thirdly, profitability was enhanced by one-off gains (recognised as other operating income) from the divestment of certain items of plant and equipment and real estate. The largest transactions comprised the sale of a registered immovable to a non-related party for EEK 13.2 million (€0.85 million), the sale of the parent company's office premises to a non-related party for EEK 5.8 million (€0.37 million) in connection with the relocation of the office in the third quarter of 2006, the sale of a registered immovable to AS Eurox (a subsidiary of AS EE Grupp) for EEK 3.9 million (€0.25 million) in conjunction with a preliminary agreement on the provision of general contractor's services, and the exchange of some immovable properties located in nature conservation areas for an immovable suitable for the development of residential buildings in Tallinn which yielded EEK 2 million (€0.13 million).

In the first half of 2006, operating margin including other operating income amounted to 7.7 percent (a year ago 3.9 percent) whereas operating margin excluding other operating income amounted to 4.9 percent (a year ago 3.3 percent).

Consolidated net profit for the first six months of 2006 was EEK 53.5 million (€3.4 million) against EEK 10.9 million (€0.7 million) in the first half of 2005 while the profit attributable to equity holders of the parent amounted to EEK 54.7 million (€3.5 million) against EEK 7.2 million (€0.5 million) in the first half of 2005.

Balance sheet and cash flows

At 30 June 2006, the Group's balance sheet total was EEK 1.257 billion (€80.3 million), 98.2 percent up on a year ago. Above all, the notable upswing resulted from three important factors.

Firstly, in August 2005, following the acquisition of minority interests, the parent became the sole shareholder of AS Linnaehitus and AS Aspi. This increased the balances of intangible assets and loan liabilities substantially.

Secondly, long-term financial investments and property, plant and equipment have grown significantly: Ukrainian associates have been given loans (the largest for the acquisition of a plot for a concrete factory near Kiev) and AS Aspi has made extensive investments in plant and equipment. A monetary overview of the transactions can be found in the investing activities section of the statement of cash flows.

Thirdly, in May 2006 AS Eesti Ehitus earned EEK 130.5 million (€8.3 million) from an initial public offering of its shares; the amount is currently held in liquid funds.

Net operating cash flows for the first six months of 2006 totalled EEK 21.4 million (€1.4 million) (a year ago operating cash flows were negative to the extent of EEK 30.8 million (€2.0)), reflecting a solid improvement in the cash flow structure of our projects.

Significant financial ratios and figures

Ratio / figure	I half 2006	I half 2005	2005
Weighted average number of shares	8,113,000	3,000,000	3,160,631
Earnings per share (EEK)	6.75	2.39	27.5
Average number of employees	826	691	722
Revenue per employee (EEK'000)	1,122	995	2,319
Personnel expenses to revenue, %	11.0%	9.6%	10.9%

AS Eesti Ehitus
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Administrative expenses to revenue, %	5.0%	4.5%	4.3%
EBITDA, (EEK'000)	85,208	39,466	143,850
EBITDA margin, %	9.2%	5.7%	8.6%
Operating margin, %	7.7%	3.9%	7.0%
Net margin, %	5.8%	1.6%	5.6%
Return on invested capital, %	12.9%	9.7%	31.1%
Return on assets, %	6.5%	4.5%	15.8%
Return on equity, %	20.4%	6.7%	59.9%
Equity ratio, %	26.6%	22.9%	20.2%
Current ratio	1.18	1.13	1.14
Order backlog, EEK'000	1,987,547	1,203,301	1,232,349

Earnings per share = profit attributable to equity holders of the parent / weighted average number of shares

Revenue per employee = revenue / average number of employees

Personnel expenses to revenue = personnel expenses / revenue

Administrative expenses to revenue = administrative expenses / revenue

EBITDA = earnings before interest, taxes, depreciation and amortisation

EBITDA margin = EBITDA / revenue

Operating margin = operating profit / 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

Current ratio = total current assets / total current liabilities

Consolidated interim financial statements

Consolidated balance sheet

Unaudited, in thousands of Estonian kroons

	Note	30 June 2006	30 June 2005	31 December 2005
ASSETS				
Current assets				
Cash and cash equivalents		193,731	36,723	192,490
Trade receivables		341,985	194,994	210,944
Other receivables and prepayments	2	125,897	90,842	93,228
Inventories	3	219,437	155,451	140,360
Total current assets		881,050	478,010	637,022
Non-current assets				
Shares in associates		20,590	14,762	21,309
Other investments	4	24,693	300	10,748
Investment property		2,611	2,590	2,601
Property, plant and equipment	5	186,853	107,245	134,871
Intangible assets	5	141,580	31,526	131,845
Total non-current assets		376,327	156,423	301,374
TOTAL ASSETS		1,257,377	634,433	938,396
LIABILITIES				
Current liabilities				
Interest-bearing loans and borrowings	6	98,709	75,403	117,650
Trade payables		252,735	145,582	129,174
Tax liabilities		22,317	11,376	29,200
Other payables and advances	7	372,088	187,790	278,741
Provisions		3,019	2,287	2,912
Total current liabilities		748,868	422,438	557,677
Non-current liabilities				
Interest-bearing loans and borrowings	6	170,261	57,585	160,338
Other liabilities	7	1,794	8,009	29,126
Provisions		2,047	1,247	2,047
Total non-current liabilities		174,102	66,841	191,511
TOTAL LIABILITIES		922,970	489,279	749,188
EQUITY				
Minority interest	8	9,818	52,468	12,257
Total equity attributable to equity holders of the parent				
Share capital	8	153,784	30,000	34,819
Share premium	8	108,465	0	8,192
Statutory capital reserve	8	4,158	3,000	4,158
Other reserves	8	1,258	273	795
Retained earnings	8	2,182	52,243	42,180
Profit for the period		54,742	7,170	86,807
TOTAL EQUITY	8	334,407	145,154	189,208
TOTAL LIABILITIES AND EQUITY		1,257,377	634,433	938,396

Unaudited, in thousands of euro

		Note	30 June 2006	30 June 2005	31 December 2005
ASSETS					
Current assets					
Cash and cash equivalents			12,382	2,347	12,302
Trade receivables			21,857	12,462	13,482
Other receivables and prepayments		2	8,046	5,806	5,958
Inventories		3	14,024	9,935	8,971
Total current assets			56,309	30,550	40,713
Non-current assets					
Shares in associates			1,316	943	1,362
Other investments		4	1,578	20	687
Investment property			167	166	166
Property, plant and equipment		5	11,942	6,854	8,620
Intangible assets		5	9,049	2,015	8,426
Total non-current assets			24,052	9,998	19,261
TOTAL ASSETS			80,361	40,548	59,974
LIABILITIES					
Current liabilities					
Interest-bearing loans and borrowings		6	6,309	4,819	7,519
Trade payables			16,153	9,304	8,256
Tax liabilities			1,426	727	1,866
Other payables and advances		7	23,780	12,003	17,815
Provisions			193	146	186
Total current liabilities			47,861	26,999	35,642
Non-current liabilities					
Interest-bearing loans and borrowings		6	10,882	3,680	10,247
Other liabilities		7	115	512	1,861
Provisions			131	80	131
Total non-current liabilities			11,128	4,272	12,239
TOTAL LIABILITIES			58,989	31,271	47,881
EQUITY					
Minority interest		8	627	3,354	783
Total equity attributable to equity holders of the parent					
Share capital		8	9,829	1,917	2,225
Share premium		8	6,932	0	524
Statutory capital reserve		8	266	192	266
Other reserves		8	80	18	51
Retained earnings		8	139	3,338	2,696
Profit for the period			3,499	458	5,548
TOTAL EQUITY		8	21,372	9,277	12,093
TOTAL LIABILITIES AND EQUITY			80,361	40,548	59,974

Consolidated income statement

Unaudited, in thousands of Estonian kroons

	Note	Q2, 2006	Q2, 2005	I half 2006	I half 2005	2005
Revenue	9	583,945	370,235	926,514	687,579	1,674,454
Cost of sales	10	522,055	329,982	834,387	632,928	1,498,375
Gross profit		61,890	40,253	92,127	54,651	176,079
Administrative expenses	11	25,066	15,228	45,931	30,911	72,495
Other operating income	12	7,090	5,160	26,140	5,399	18,603
Other operating expenses	12	320	1,642	1,214	2,268	4,359
Operating profit before financing costs		43,594	28,543	71,122	26,871	117,828
Financing items						
Financial income		1,359	679	2,654	1,342	6,381
Financial expenses		4,450	1,380	9,475	2,478	11,075
Net financing costs	13	-3,091	-701	-6,821	-1,136	-4,694
Profit before tax		40,503	27,842	64,301	25,735	113,134
Income tax expense	14	4,379	14,877	10,801	14,877	19,159
Profit for the period		36,124	12,965	53,500	10,858	93,975
Attributable to						
Equity holders of the parent		36,519	11,021	54,742	7,170	86,807
Minority interest		-395	1,944	-1,242	3,688	7,168
Basic earnings per share (EEK)	8	2.88	3.67	6.75	2.39	27.47
Diluted earnings per share (EEK)	8	2.88	3.67	6.75	2.39	27.47

Unaudited, in thousands of euro

	Note	Q2, 2006	Q2, 2005	I half 2006	I half 2005	2005
Revenue	9	37,321	23,662	59,215	43,944	107,017
Cost of sales	10	33,365	21,089	53,327	40,451	95,764
Gross profit		3,956	2,573	5,888	3,493	11,253
Administrative expenses	11	1,603	974	2,936	1,976	4,633
Other operating income	12	453	330	1,671	345	1,189
Other operating expenses	12	20	105	78	145	279
Operating profit before financing costs		2,786	1,824	4,545	1,717	7,530
Financing items						
Financial income		87	43	170	86	408
Financial expenses		284	88	606	158	708
Net financing costs	13	-197	-45	-436	-72	-300
Profit before tax		2,589	1,779	4,109	1,645	7,230
Income tax expense	14	280	951	690	951	1,224
Profit for the period		2,309	828	3,419	694	6,006
Attributable to						
Equity holders of the parent		2,334	704	3,499	458	5,548
Minority interest		-25	124	-80	236	458
Basic earnings per share (euro)	8	0.18	0.23	0.43	0.15	1.76
Diluted earnings per share (euro)	8	0.18	0.23	0.43	0.15	1.76

Consolidated statement of cash flows

Unaudited, in thousands

	Estonian kroons		Euro	
	I half 2006	I half 2005	I half 2006	I half 2005
Cash flows from operating activities				
Cash receipts from customers	952,211	746,947	60,857	47,739
Cash paid to suppliers	-803,054	-684,230	-51,325	-43,730
Cash paid to and for employees	-113,939	-76,159	-7,282	-4,867
Income taxes paid	-13,814	-17,318	-883	-1,107
Net cash from operating activities	21,404	-30,760	1,368	-1,966
Cash flows from / used in investing activities				
Acquisition of property, plant and equipment and intangibles	-55,147	-6,274	-3,525	-401
Proceeds from sale of property, plant and equipment and intangibles	10,797	985	690	63
Acquisition of investment property for development and resale	-15,639	-61,921	-1,000	-3,957
Proceeds from sale of investment property	39,211	14,268	2,506	912
Acquisition of subsidiaries and associates	-24,631	-17,002	-1,574	-1,087
Loans given	-20,456	-4,713	-1,307	-301
Interest received	747	754	48	48
Net cash used in investing activities	-65,118	-73,903	-4,162	-4,723
Cash flows from financing activities				
Proceeds from issue of share capital	130,527	0	8,342	0
Proceeds from loans received	62,962	159,905	4,024	10,220
Repayment of loans received	-95,597	-72,121	-6,110	-4,609
Dividends paid	-32,160	-46,595	-2,055	-2,978
Payment of finance lease liabilities	-14,701	-12,382	-940	-791
Interest paid	-5,346	-1,948	-342	-124
Other payments made	-269	-484	-17	-31
Net cash from financing activities	45,416	26,375	2,903	1,686
Net increase / decrease in cash and cash equivalents	1,702	-78,288	109	-5,004
Cash and cash equivalents at beginning of period	192,490	113,732	12,302	7,269
Effect of exchange rate fluctuations	-461	1,279	-29	82
Cash and cash equivalents adjusted for exchange rate fluctuations	192,029	115,011	12,273	7,351
Increase / decrease	1,702	-78,288	109	-5,004
Cash and cash equivalents at end of period	193,731	36,723	12,382	2,347

Consolidated statement of changes in equity

Unaudited, in thousands of
Estonian kroons

Unaudited, in thousands of Estonian kroons	<u>Equity attributable to equity holders of the parent</u>								
		Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total	Minority interest	Total
Balance at 31 December 2004	Note	30,000	0	3,000	-568	80,614	113,046	65,509	178,555
Dividends declared		0	0	0	0	-28,000	-28,000	-18,595	-46,595
Changes from acquisition of subsidiaries		0	0	0	0	-371	-371	1,866	1,495
Foreign exchange differences on translating foreign operations		0	0	0	841	0	841	0	841
Profit for the period		0	0	0	0	7,170	7,170	3,688	10,858
Balance at 30 June 2005		30,000	0	3,000	273	59,413	92,686	52,468	145,154
Balance at 31 December 2005		34,819	8,192	4,158	795	128,987	176,951	12,257	189,208
Dividends declared	8	0	0	0	0	-30,000	-30,000	-2,160	-32,160
Issue of share capital	8	118,965	100,273	0	0	-96,265	122,973	0	122,973
Changes from acquisition of subsidiaries		0	0	0	0	-540	-540	1,410	870
Foreign exchange differences on translating foreign operations		0	0	0	463	0	463	-447	16
Profit for the period	9	0	0	0	0	54,742	54,742	-1,242	53,500
Balance at 30 June 2006		153,784	108,465	4,158	1,258	56,924	324,589	9,818	334,407

Unaudited, in thousands of euro

Unaudited, in thousands of euro	<u>Equity attributable to equity holders of the parent</u>								
		Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total	Minority interest	Total
	Note								
Balance at 31 December 2004		1,917	0	192	-36	5,152	7,225	4,187	11,412
Dividends declared		0	0	0	0	-1,790	-1,790	-1,188	-2,978
Changes from acquisition of subsidiaries		0	0	0	0	-24	-24	119	95
Foreign exchange differences on translating foreign operations		0	0	0	54	0	54	0	54
Profit for the period		0	0	0	0	458	458	236	694
Balance at 30 June 2005		1,917	0	192	18	3,796	5,923	3,354	9,277
Balance at 31 December 2005		2,225	524	266	51	8,244	11,309	783	12,093
Dividends declared	8	0	0	0	0	-1,917	-1,917	-138	-2,055
Issue of share capital	8	7,604	6,408	0	0	-6,152	7,860	0	7,860
Changes from acquisition of subsidiaries		0	0	0	0	-36	-36	90	54
Foreign exchange differences on translating foreign operations		0	0	0	29	0	29	-28	1
Profit for the period	9	0	0	0	0	3,499	3,499	-80	3,419
Balance at 30 June 2006		9,829	6,932	266	80	3,638	20,744	627	21,372

Notes to consolidated interim financial statements

NOTE 1. Significant accounting policies

AS Eesti Ehitus is a company registered in Estonia. Since 18 May 2006 the shares of AS Eesti Ehitus are listed at Tallinn Stock Exchange; 66.15 percent of the shares are held by AS EE Grupp.

The consolidated interim financial statements for the period ended 30 June 2006 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union. The interim financial statements have been prepared using the same accounting policies that were applied on the preparation of the consolidated annual financial statements for the year ended 31 December 2005.

According to management's assessment, the consolidated interim financial statements of AS Eesti Ehitus for the first six months of 2006 give a true and fair view of the Group's result of operations and all Group entities are going concerns. The interim financial statements have not been audited or otherwise checked by auditors and they contain only the consolidated financial statements of the Group.

The consolidated income statement does not include any gains or losses from changes in the management's judgements, estimates and assumptions arisen since the preparation of the consolidated annual financial statements for the year ended 31 December 2005.

The consolidated interim financial statements are presented in thousands of Estonian kroons (EEK) and in thousands of euro (€), unless indicated otherwise. According to the quotation of Eesti Pank, the Estonian kroon-euro exchange rate is EEK 15.6466 to €1.

NOTE 2. Other receivables and prepayments

In thousands	EEK		€	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
Receivables from the parent and other group companies	16,909	32,032	1,081	2,047
Receivables from associates	1,353	6,257	86	400
Miscellaneous receivables	12,024	3,257	768	208
Due from customers for construction work	87,208	48,349	5,574	3,090
Accrued income	0	32	0	2
Prepaid taxes	6,596	1,646	422	105
Other prepaid expenses	1,807	1,655	115	106
Total other receivables and prepaid expenses	125,897	93,228	8,046	5,958

Receivables from the parent and other group companies are related to construction contracts. Miscellaneous receivables comprise warranty receivables, whereas items due from customers for construction work are related to the accounting for construction contracts in progress at the balance sheet date.

Prepaid taxes comprise prepaid VAT and Ukrainian profits tax; prepaid expenses include mostly prepaid insurance premiums (industry-specific insurance).

NOTE 3. Inventories

In thousands	EEK		€	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
Raw and other materials	21,391	12,239	1,367	782
Work in progress	104,350	54,105	6,669	3,458
Prepayments to suppliers	32,121	8,453	2,053	540
Merchandise purchased for resale	61,575	65,563	3,935	4,191
Total inventories	219,437	140,360	14,024	8,971

Raw and other materials are primarily comprised of materials and equipment acquired for construction projects. No inventories were written down during the reporting period.

Work in progress comprises the costs of construction contracts in progress at the balance sheet date: expenses related to apartment houses under construction and the cost of materials acquired for other projects. Prepayments to suppliers consist of prepayments made for construction services and goods whereas merchandise purchased for resale comprises registered immovable properties acquired for residential construction purposes.

NOTE 4. Other investments

In thousands	EEK		€	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
Long-term receivables from associates	14,600	9,740	933	622
Miscellaneous investments	300	340	19	22
Other long-term receivables	9,793	668	626	43
Total other investments	24,693	10,748	1,578	687

Long-term receivables comprise loans given to associates V.I.Center and Technopolis-2 as well as the Ukrainian company European House, and the amount due for the sale of shares in OÜ Eurocon.

Miscellaneous investments comprise the subsidiary Eurocon Ukraine LLC's 10-percent investment in the Ukrainian company European House. The item is stated at cost because its fair value cannot be measured reliably.

NOTE 5. Property, plant and equipment and intangible assets

In thousands	EEK			€		
	Property, plant and equipment	Intangible assets	Total	Property, plant and equipment	Intangible assets	Total
Carrying amount at 31 December 2005	134,871	131,845	266,716	8,620	8,426	17,046
Acquisitions	68,707	10,343	79,050	4,391	661	5,052
Disposals	-5,779	0	-5,779	-369	0	-369
Depreciation/amortisation for the period	-13,478	-608	-14,086	-861	-39	-900
Depreciation of disposals	2,532	0	2,532	162	0	162
Carrying amount at 30 June 2006	186,853	141,580	328,433	11,942	9,049	20,991

The period's largest acquisition was land of EEK 37,481,000 (€2,395,000) purchased in Ukraine for the construction of a concrete factory. Road and other construction equipment acquisitions in Estonia totalled EEK 29,681,000.

NOTE 6. Interest-bearing loans and borrowings

Overview of interest-bearing loans and borrowings

In thousands of Estonian kroons			30.6.2006			
	Base currency	Interest rate	Limit	Up to 1 year	Over 1 year	Total
Bank loans						
Investment loan	EUR	4.10%	141,700	17,600	124,100	141,700
Investment loan	EUR	3.30%	17,000	0	5,230	5,230
Working capital loan	USD	4.50%	5,349	5,349	0	5,349
Working capital loan	EEK	3.40%	30,000	25,399	0	25,399
Investment loan	UAH	18.00%	15,070	48	11,553	11,601
Other loans						
Investment loan	USD	5.00%	19,934	19,934	0	19,934
Investment loan	USD	3.50%	13,202	13,204	0	13,204
Finance lease	3.00%-5.50%			17,175	29,378	46,553
			242,255	98,709	170,261	268,970

In thousands of euro			30.6.2006			
	Base currency	Interest rate	Limit	Up to 1 year	Over 1 year	Total
Bank loans						
Investment loan	EUR	4.10%	9,056	1,125	7,931	9,056
Investment loan	EUR	3.30%	1,086	0	334	334
Working capital loan	USD	4.50%	342	342	0	342
Working capital loan	EEK	3.40%	1,918	1,623	0	1,623
Investment loan	UAH	18.00%	963	3	739	742
Other loans						
Investment loan	USD	5.00%	1,274	1,274	0	1,274
Investment loan	USD	3.50%	844	844	0	844
Finance lease	3.00%-5.50%			1,098	1,878	2,976
			15,483	6,309	10,882	17,191

Changes in interest-bearing loans and borrowings

In thousands	EEK	€
Opening balance at 31 December 2005	277,988	17,767
Change in current portion of loans and borrowings	-16,318	-1,043
Long-term loans received	9,997	639
Settlement of long-term loans	-11,770	-752
New finance lease liabilities	23,774	1,520
Settlement of finance lease liabilities	-14,701	-940
Closing balance at 30 June 2006	268,970	17,191

NOTE 7. Other payables and advances and other liabilities

Other payables and advances

In thousands	EEK		€	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
Payables to the parent and other group companies	2,049	26,753	131	1,710
Payables to associates	0	94	0	6
Payables to employees	43,388	37,877	2,773	2,420
Due to customers for construction work	175,464	149,217	11,214	9,537
Accrued differences in contract costs	118,098	52,552	7,548	3,359
Accrued expenses	4,952	2,310	316	148
Customer advances for goods and services	28,137	9,938	1,798	635
Total other payables and advances	372,088	278,741	23,780	17,815

Due to customers for construction work is related to the accounting for construction contracts in progress at the balance sheet date and comprises the difference between progress billings and contract revenue recognised by reference to the stage of completion of contract activity.

Accrued differences in contract costs is related to the accounting for construction contracts under the stage of completion method and comprises the difference between the costs calculated by reference to the stage of completion of contract activity and the actual costs incurred. The stage or percentage of completion 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, which means that some costs are estimated.

Other liabilities

In thousands	EEK		€	
	30.6.2006	31.12.2005	30.6.2006	31.12.2005
Liabilities to suppliers	1,794	1,795	115	115
Liabilities to the parent and other group companies	0	27,331	0	1,746
Total other liabilities	1,794	29,126	115	1,861

In the reporting period, AS EE Grupp was repaid long-term loans of EEK 27,331,000 (€1,746,000).

NOTE 8. Equity

Shares and share premium

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 share capital of the company amount to EEK 120,000,000 (€7,669,000) and EEK 480,000,000 (€30,677,000) respectively. The share capital consists of ordinary shares with a par value of EEK 10 each.

On 18 April 2006, the company's share capital was increased with a capitalisation issue of 10,446,000 new registered ordinary shares. For each existing share, three new shares were issued. As a result of the capitalisation issue, share capital increased from EEK 34,819,000 (€2,225,000) to EEK 139,276,000 (€8,901,000). The issue was performed using share premium of EEK 8,192,000 (€524,000) and the profit for 2005 of EEK 96,265,000 (€6,152,000).

On 11 May 2006, the company issued 1,451,000 additional ordinary shares with a par value of EEK 10 which increased the share capital to EEK 153,784,000 (€9,829,000).

The new shares were subscribed during the initial public offering of the company's shares at Tallinn Stock Exchange where the final offer price was set at EEK 89.97 (€5.75). Thus, after the deduction of the issue costs (EEK 7,555,000 (€483,000)), the company was able to recognise share premium of EEK 108,465,000 (€6,932,000).

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

Dividends

Based on the results for 2005, shareholders were distributed a dividend of EEK 8.61 (€0.55) per share, i.e. EEK 30,000,000 (€1,917,000) in aggregate. The dividends were paid out on 28 April 2006.

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 shares.

	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Net profit for the period (in thousands of currency units)	54,742	7,170	3,499	458
Average number of shares (in thousands of shares)	8,113	3,000	8,113	3,000
Basic earnings per share	6.75	2.39	0.43	0.15
Diluted earnings per share	6.75	2.39	0.43	0.15

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

NOTE 9. Segment reporting

The Group's primary segment reporting format is business segments. Inter-segment pricing is determined, in all material respects, on an arm's length basis.

Business segments

	Residential and non-residential		Civil engineering		Eliminations		Consolidated	
In thousands of Estonian kroons	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers:								
Construction contract revenue	572,445	368,178	349,235	283,283	0	0	921,680	651,461
Other revenue	2,699	25,603	2,135	10,515	0	0	4,834	36,118
Total revenue from external customers	575,144	393,781	351,370	293,798	0	0	926,514	687,579
Inter-segment revenue	47,884	17,744	5,386	23,713	-53,270	-41,457	0	0
Total revenue	623,028	411,525	356,756	317,511	-53,270	-41,457	926,514	687,579
Segment result	69,116	45,588	21,769	12,751	1,242	-3,688	92,127	54,651
Unallocated expenses	0	0	0	0	0	0	-21,005	-27,780
Operating profit	0	0	0	0	0	0	71,122	26,871
Net financing costs	0	0	0	0	0	0	-6,821	-1,136
Income tax expense	0	0	0	0	0	0	-10,801	-14,877
Profit for the period							53,500	10,858
Segment assets	629,871	230,818	433,775	366,892	0	0	1,063,646	597,710
Unallocated assets	0	0	0	0	0	0	193,731	36,723
Total assets							1,257,377	634,433
Segment liabilities	471,030	167,335	328,865	207,129	0	0	799,895	374,464
Unallocated liabilities	0	0	0	0	0	0	123,075	114,815
Total liabilities							922,970	489,279
Cash flows from:								
operating activities	55,238	49,055	9,897	9,274	-43,731	-89,089	21,404	-30,760
investing activities	-126,782	-97,241	-19,290	-3,269	80,954	26,607	-65,118	-73,903
financing activities	96,389	62,938	29,981	-9,956	-80,954	-26,607	45,416	26,375
Net cash flows	24,845	14,752	20,588	-3,951	-43,731	-89,089	1,702	-78,288
Capital expenditure	28,599	27,172	25,227	16,743	0	0	53,826	43,915
Depreciation and amortisation expense	1,220	1,307	12,866	11,288	0	0	14,086	12,595

	Residential and non-residential		Civil engineering	Eliminations		Consolidated		
	For the first six months of the year							
In thousands of euro	2006	2005	2006	2005	2006	2005	2006	2005
Revenue from external customers:								
Construction contract revenue	36,595	23,531	22,320	18,105	0	0	58,915	41,636
Other revenue	163	1,636	137	672	0	0	300	2,308
Total revenue from external customers:	36,758	25,167	22,457	18,777	0	0	59,215	43,944
Inter-segment revenue	3,060	1,134	344	1,516	-3,404	-2,650	0	0
Total revenue	39,818	26,301	22,801	20,293	-3,404	-2,650	59,215	43,944
Segment result	4,417	2,914	1,391	815	80	-236	5,888	3,493
Unallocated expenses	0	0	0	0	0	0	-1,343	-1,776
Operating profit	0	0	0	0	0	0	4,545	1,717
Net financing costs	0	0	0	0	0	0	-436	-72
Income tax expense	0	0	0	0	0	0	-690	-951
Profit for the period							3,419	694
Segment assets	40,256	14,752	27,723	23,449	0	0	67,979	38,201
Unallocated assets	0	0	0	0	0	0	12,382	2,347
Total assets							80,361	40,548
Segment liabilities	30,104	10,694	21,018	13,238	0	0	51,122	23,932
Unallocated liabilities	0	0	0	0	0	0	7,867	7,339
Total liabilities							58,989	31,271
Cash flows from:								
operating activities	3,530	3,135	633	593	-2,795	-5,694	1,368	-1,966
investing activities	-8,103	-6,215	-1,233	-209	5,174	1,701	-4,162	-4,723
financing activities	6,160	4,022	1,917	-636	-5,174	-1,700	2,903	1,686
Net cash flows	1,587	942	1,317	-252	-2,795	-5,693	109	-5,004
Capital expenditures	1,828	1,737	1,612	1,070	0	0	3,440	2,807
Depreciation and amortisation expense	78	84	822	721	0	0	900	805

NOTE 10. Cost of sales

In thousands	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Depreciation and amortisation expense	13,351	11,844	853	757
Personnel expenses	74,868	49,431	4,784	3,159
Cost of materials, goods and services used	742,280	569,726	47,441	36,412
Other expenses	3,888	1,927	249	123
Total cost of sales	834,387	632,928	53,327	40,451

NOTE 11. Administrative expenses

In thousands	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Depreciation and amortisation expense	735	751	47	48
Personnel expenses	26,928	16,398	1,721	1,048
Cost of materials, goods and services used	16,360	12,777	1,046	817
Other expenses	1,908	985	122	63
Total administrative expenses	45,931	30,911	2,936	1,976

NOTE 12. Other operating income and expenses

Other operating income

In thousands	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Gains on sale of property, plant and equipment	6,842	880	437	56
Gains on sale of real estate	19,205	3,449	1,227	220
Foreign exchange gains	3	3	0	0
Expiry of liabilities	0	0	0	0
Other	90	1,067	6	68
Total other operating income	26,140	5,399	1,671	345

Other operating expenses

In thousands	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Write-off of property, plant and equipment	0	3	0	0
Sponsoring, membership fees	1,124	1,216	73	78
Foreign exchange losses	38	0	2	0
Losses from doubtful and irrecoverable receivables	18	159	1	10
Other	34	890	2	57
Total other operating expenses	1,214	2,268	78	145

NOTE 13. Net financing costs

In thousands	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Gains on sale of shares in subsidiaries	0	0	0	0
Gain/loss from investments in associates	-372	3	-24	0
Interest expense	-8,158	-2,047	-521	-131
Financial income and expenses on other investments	2,197	338	140	22
Foreign exchange gains and losses	-488	570	-31	36
Net financing costs	-6,821	-1,136	-436	-73

NOTE 14. Income tax expense

In thousands	EEK		€	
	I half 2006	I half 2005	I half 2006	I half 2005
Dividend tax - Estonia	10,801	14,714	690	940
Tax on profits - Ukraine	0	163	0	10
Total income tax expense	10,801	14,877	690	951

NOTE 15. 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 EE Grupp (the parent of AS Eesti Ehitus) and its shareholders;
2. subsidiaries and associates of AS Eesti Ehitus;
3. other companies of AS EE Grupp Group;

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

In the preparation of the consolidated interim financial statements, all intra-group receivables and liabilities and all intra-group transactions as well as related unrealised gains and losses were eliminated.

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

In thousands	EEK				€			
	I half 2006		I half 2005		I half 2006		I half 2005	
Related party	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
AS EE Grupp	9,100	260	0	0	582	17	0	0
Subsidiaries of AS EE Grupp	15	45,561	0	0	1	2,912	0	0
Company related to a member of the council of AS Eesti Ehitus	1,091	5,520	0	0	70	353	0	0
Total	10,206	51,341	0	0	652	3,281	0	0

In thousands	EEK		€	
	I half 2006		I half 2006	
Transaction	Purchases	Sales	Purchases	Sales
Construction contracts	0	31,702	0	2,026
Sale of real estate	0	19,212	0	1,228
Sale of goods, etc	0	427	0	27
Lease	10,191	0	651	0
Other services	15	0	1	0
Total	10,206	51,341	652	3,281

At the end of the reporting period, receivables from and liabilities to related parties broke down as follows:

In thousands	Transaction	EEK				€			
		30.6.2006		31.12.2005		30.6.2006		31.12.2005	
Related party	Transaction	Receivable	Payable	Receivable	Payable	Receivable	Payable	Receivable	Payable
AS EE Grupp		23	2,046	118	54,074	1	131	8	3,456
	construction								
Subsidiaries of AS EE Grupp	contracts	16,886	2	31,914	0	1,079	0	2,040	0
Company related to a member of the council of AS Eesti Ehitus	construction	4,107	0	524	0	262	0	33	0
Associates	loan	1,353	0	6,257	120	86	0	400	8
Total		22,369	2,048	38,813	54,194	1,343	131	2,081	3,456

In April 2006, all loans from AS EE Grupp were repaid in full together with associated interest, i.e. in an aggregate amount of EEK 53,213,000 (€3,401,000).

NOTE 16. Subsequent events

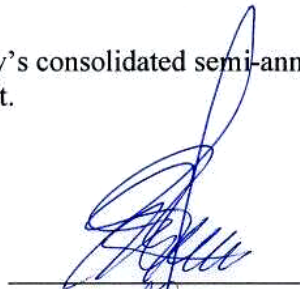
On 13 July 2006 an additional commercial pledge of EEK 30,000,000 was established for the benefit of AS Hansapank. As a result, liabilities of EEK 110,000,000 (€7,030,000) can be secured with a commercial pledge.

On 31 July 2006, AS Hansapank was repaid long-term loan of EEK 17,600,000 (€1,125,000) and associated loan interest of EEK 5,009,000 (€320,000).

Signatures

The board of AS Eesti Ehitus has prepared the company's consolidated semi-annual financial statements for 2006 which are presented on pages 3 to 21 of this report.

Jaano Vink Chairman of the Board

A blue ink signature of Jaano Vink, consisting of several loops and a long horizontal stroke at the end, written over a horizontal line.

8 August 2006

Avo Ambur Member of the Board

A blue ink signature of Avo Ambur, featuring a large loop at the start and a long horizontal stroke, written over a horizontal line.


8 August 2006

Andri Hõbemägi Member of the Board

A blue ink signature of Andri Hõbemägi, with a large loop and a long horizontal stroke, written over a horizontal line.

8 August 2006

Erkki Suurorg Member of the Board

A blue ink signature of Erkki Suurorg, with a large loop and a long horizontal stroke, written over a horizontal line.

8 August 2006