OFFERING CIRCULAR

Offering of up to 2 950 324 Offer Shares

AS EESTI EHITUS

(Incorporated with limited liability in the Republic of Estonia)

Offer Price Range EEK 82.50 – 97.80 per Offer Share

Up to 2 950 324 shares with a nominal value of EEK 10 each (the "Offer Shares") of AS Eesti Ehitus (the "Company", together with its subsidiaries, the "Group" or "Eesti Ehitus") are being offered in a combined offering (the "Combined Offering"), which comprises (i) an offering of up to 1 499 536 existing Offer Shares by AS EE Grupp (the "Selling Shareholder" or "EE Grupp") and (ii) an offering of up to 1 450 788 new Offer Shares by the Company. The Combined Offering is made (i) to institutional investors in and outside Estonia (the "Institutional Offering") in reliance on certain exemptions available under the laws of each jurisdiction where the Institutional Offering is being made and (ii) to the public in Estonia (the "Retail Offering"). This Offering Circular relates only to the Retail Offering. The offer price per Offer Share (the "Offer Price") will be determined through a book building process and shall be the same for all investors in the Combined Offering. The offer price range for the Offer Shares is EEK 82.50 – 97.80 (the "Offer Price Range"). See "Underwriting - General" for a discussion of certain factors affecting the Offer Price. The Selling Shareholder has granted the Global Coordinator an option (the "Over-Allotment Option"), exercisable within 30 days of the date of commencement of trading in the shares of the Company on the Tallinn Stock Exchange, to require the Selling Shareholder to sell up to an additional 327 814 existing shares of the Company (the "Additional Shares") for purposes of covering possible over-allotments.

Prior to the Combined Offering, there has been no public market for the Offer Shares or the existing shares of the Company (together, the "Shares"). The Company has made an application to list the Shares on the Main List of the Tallinn Stock Exchange. Trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 18 May 2006. See "Listing".

The existing Offer Shares and, once the increase of share capital relating to the issue of new Offer Shares is registered with the Estonian Commercial Register, the new Offer Shares will rank *pari passu* with all the remaining existing shares of the Company and will be eligible for any dividends declared and paid on the Shares for the financial period starting on 1 January 2006, and for any dividends declared and paid thereafter. Possible dividends paid by the Company to shareholders who are not generally subject to taxation in Estonia may be subject to deduction of Estonian taxes as described in "Taxation."

See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SHARES ARE SUBJECT TO CERTAIN SELLING RESTRICTIONS. SEE "UNDERWRITING — SELLING RESTRICTIONS."

Advisor to the Company, Global Coordinator and Lead Manager:

Suprema Securities

Joint Lead Managers for the Estonian Retail Offering:

Suprema Securities **Hansapank**

The date of this Offering Circular is 28 April 2006.

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This Offering Circular has been prepared by the Company in connection with the Retail Offering and the listing of the Shares on the Tallinn Stock Exchange. The information contained in this Offering Circular has been provided by the Company and other sources identified herein. It is prohibited to copy or distribute the Offering Circular or to reveal or use the information contained therein for any other purpose than considering an investment in the Offer Shares.

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts and contains no omission likely to affect its import.

EE Grupp accepts responsibility for the information in the subsection "Company, Share Capital and Ownership Structure — Controlling Shareholder." To the best of the knowledge and belief of EE Grupp, having taken all reasonable care to ensure that such is the case, the information contained in the said subsection is in accordance with the facts and contains no omission likely to affect its import.

Tallinn, 28 April 2006

AS Eesti Ehitus *Management Board*	*AS EE Grupp* *Management Board*
Jaano Vink	*Toomas Luman*
Andri Hõbemägi	
Avo Ambur	
Erkki Suurorg	

The Combined Offering will be governed by and construed in accordance with Estonian law. Any disputes relating to the Combined Offering will be settled in a competent court of law, having its jurisdiction in Estonia.

No person has been authorized to give any information or to make any representation in connection with the Combined Offering other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or by Aktsiaselts Suprema Securities (the "Global Coordinator"). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Offer Shares in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offering or sale of the Offer Shares in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular may come are required by the Company and the Global Coordinator to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offering and sale of the Offer Shares and the distribution of this Offering Circular is set out in "Underwriting – Selling Restrictions". Neither the delivery of this Offering Circular nor any sale made in connection with the Combined Offering shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that the affairs of the Company have not since changed. The Company will update any information presented in this Offering Circular in accordance with the applicable provisions of the Estonian Securities Market Act.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Offer Shares may not be lawfully offered or sold to persons in the United Kingdom except in circumstances which do not constitute an offer to the public in the United Kingdom within the definition of the Financial Services and Markets Act 2000 (the "FSMA") as amended or otherwise in compliance with all applicable provisions of the FSMA. Neither this nor any other document issued in connection with the offer of the Offer Shares has been approved by an authorized person for the purposes of section 21 of the FSMA and hence may not be passed on to any person in the United Kingdom unless that person is entitled to receive this document by virtue of him falling into one of the categories of exemptions under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or is a person to whom the document may otherwise lawfully be issued or passed on.

Each prospective purchaser and subscriber of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Offer Shares or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Offer Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and none of the Company and the Global Coordinator shall have any responsibility for these obligations.

The contents of this Offering Circular are not to be construed as legal, business or tax advice. Each prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

AVAILABLE INFORMATION

The annual reports of the Company for the financial years ended 31 December 2003, 2004 and 2005 and the Articles of Association of the Company are available at its head office located at Narva mnt 24, Tallinn, Estonia and on the Company's website (www.eestiehitus.ee). Any interested party may obtain a copy of these items from the Company without charge. References to the Company's website in this Offering Circular should not be deemed to incorporate the information on the Company's website by reference.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in "Summary", "Risk Factors", "Business", "Management's Discussion and Analysis of the Group's Financial Condition and Results of Operations" and elsewhere in this Offering Circular are forward-looking. Such forward-looking statements and information are based on the beliefs of the Company's management (the "Management") or are assumptions based on information available to the Company. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with the Company's technological development, growth management, relations with customers and suppliers and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under "Risk Factors." Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Company does not intend, and does not assume any obligation, to update the forward-looking statements included in this Offering Circular as at the date set forth on the cover.

PRESENTATION OF FINANCIAL INFORMATION AND DEFINITION OF TERMS

Until 1 January 2005, the Company prepared its financial statements in accordance with Estonian generally accepted accounting principles (the "Estonian GAAP"), which differ in certain significant respects from international financial reporting standards as adopted by the EU ("IFRS"). For a description of certain differences between the Estonian GAAP and IFRS, see "Annex A — Summary of Significant Differences Between Estonian GAAP and IFRS."

Certain financial and other information set forth in a number of tables in this Offering Circular has been rounded off, for the convenience of readers. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given.

All references in this Offering Circular to (i) "kroon" or "EEK" refer to the currency of Estonia, (ii) "U.S. dollars", "U.S.$" or "USD" refer to the currency of the United States of America, (iii) "UAH" or "hryvnia" refers to the currency of Ukraine, and (iv) "euro" or "EUR" refer to the single currency of the European Union Member States participating in the European Monetary Union ("EMU").

SUMMARY

This summary should be read as an introduction to this Offering Circular. The summary information set out below is based on, should be read in conjunction with, and is qualified in its entirety by, the full text of this Offering Circular, including the financial information presented herein. Any consideration to invest in the Offer Shares should be based on consideration of this Offering Circular as a whole by the investor. Where a claim relating to the information contained in this Offering Circular is brought before an Estonian court, the plaintiff investor might, under Estonian law, have to bear the costs of translating this Offering Circular in the course of the legal proceedings or before such proceedings are initiated. The Company assumes civil liability in respect of this summary only if it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular.

Overview

The Group offers integrated services in residential and non-residential construction and civil engineering segments mostly as main contractor and project manager. The customers of the Group include both public and private sector companies. The customers of the Group vary from year to year, depending on the pending projects and the Group's success in project tenders. The Group's success relies on its qualified and well-motivated project management personnel and extensive engineering know-how and expertise, which is valued by its customers, especially in relation to complicated civil engineering projects. Since its establishment in the end of 1988, the Company has succeeded in becoming one of the leading Estonian construction companies. The growth of the Group has been achieved by organic growth as well as several acquisitions. The Group operates in two geographical markets, Estonia and Ukraine.

The Group's revenue primarily depends on the volume of construction industry, the Group's ability to successfully participate in tenders, level of competition, cost of subcontracting and seasonality. The total revenue of the Group has increased considerably in the last three financial years. During the year ended 31 December 2003 the Group generated revenues of approximately EEK 1.1 billion. Two years later, in the year ended 31 December 2005, the revenues reached approximately EEK 1.7 billion, which translates into a compounded annual growth rate of 24.7 per cent. The Group's revenues are evenly balanced between the two principal business segments of non-residential and residential construction and civil engineering. The Group's consolidated net profit after tax and minority interest of approximately EEK 86.8 million for the financial year ended 31 December 2005 was approximately EEK 31.5 million or 57.0 per cent higher than in the financial year ended 31 December 2004.

For the period ended 31 March 2006, the Group's revenue increased by approximately 7.7 per cent or by EEK 24.5 million compared to three month period ended 31 March 2005, reaching approximately EEK 341.8 million. The Group's consolidated net profit after tax and minority interest of approximately EEK 18.2 million for the three month period ended 31 March 2006 was approximately EEK 22.1 million higher than in the three month period ended 31 March 2005.

Group Structure

AS Eesti Ehitus, a company with limited liability incorporated under the laws of the Republic of Estonia, is the operating parent company of the Group.

The Company owns all shares in its subsidiaries Aktsiaselts ASPI ("ASPI") and Aktsiaselts Linnaehitus ("Linnaehitus"), both incorporated in Estonia. ASPI in turn owns all shares in its subsidiaries Aktsiaselts Järva Teed ("Järva Teed") and Osaühing Hiiu Teed ("Hiiu Teed"), both incorporated in Estonia. The Company has a 64 per cent shareholding in a holding company Osaühing Eurocon ("Eurocon"), incorporated in Estonia, which has a 96 per cent shareholding in its subsidiary Eurocon Ukraine LLC ("Eurocon Ukraine"), incorporated in Ukraine. Eurocon Ukraine has four subsidiaries: Passage Teatralnyi LLC, Eurobeton LLC, Eurocon West LLC and Bukovina Developments LLC, all incorporated in Ukraine. The Company also has a 52 per cent shareholding in its subsidiary Osaühing Mapri Projekt ("Mapri Projekt"), incorporated in Estonia.

The Company is also a sole shareholder of Osaühing EE Elekter, a company incorporated in Estonia, and Estcon Oy, a company incorporated in Finland. Both companies are currently dormant.

Strategy

The Group's strategic objective is to continue improving and consolidating its position as one of the leading construction groups in Estonia and capitalize on its experience in the Ukrainian market for further exapansion. The Group intends to achieve its strategic objectives by:

- Remaining focused on main contracting and project management services in selected business segments.
- Continuing to expand the Group's operations in Estonia and Ukraine.
- Expanding to new geographical markets.
- Enhancing the Group's project management capabilities further to sustain a high level of efficiency.
- Enhancing the Group's engineering and design capabilities.
- Remaining focused on performance and quality.
- Developing and maintaining strong relationships with customers and strategic partners.

Competitive Strengths

The Company's competitive strengths include:

- Operations in diverse construction business segments.
- Acknowledged expert in civil engineering construction.
- Highly qualified and motivated employees.
- Proven management team.
- Recognised for its innovative and creative approach to engineering.
- Highly sophisticated integrated systems for project management.
- Integrated IT systems.
- Qualified for both local and national tenders.
- Operations in Ukraine.

Risk Factors

Before purchasing Offer Shares, prospective investors should carefully consider the risks described in "Risk Factors" in addition to the other information contained in this Offering Circular. The risks described in "Risk Factors" are not the only risks that the Group and investors in the Offer Shares will face. Additional risks not currently known to the Group or that the Group currently believes are immaterial may also adversely affect its business, financial condition and results of operation. The trading price of the Offer Shares could decline due to any of these risks and investors could lose all or part of their investment. For a more detailed description of the risks, see "Risk Factors".

Management and Employees

The control and management of the Company is divided among the general meeting of shareholders (the "General Meeting of Shareholders"), the supervisory council (the "Supervisory Council") and the management board (the "Management Board"). The current members of the Supervisory Council are Toomas Luman, Mait Schmidt, Tiina Mõis, Meelis Milder, Alar Kroodo and Ain Tromp. The current members of the Management Board are Jaano Vink, Andri Hõbemägi, Avo Ambur and Erkki Suurorg.

The average number of the Group's employees in 2005 was 722, largest part of whom was employed by ASPI and its subsidiaries (427). In 2005, out of all Group's employees, 261 were engineering-technical personnel (ETP).

Shares and Shareholders

As of the date of this Offering Circular, the Company's registered share capital is EEK 139 275 760 divided into 13 927 576 fully paid Shares with a nominal value of EEK 10 each. Each Share entitles its holder to one vote at the General Meeting of Shareholders. The Company has only one class of shares and all existing Shares rank *pari passu* in all respects.

As of the date of this Offering Circular, the Company has 16 shareholders. The largest shareholder, EE Grupp, owns approximately 86.16 per cent of the Shares. EE Grupp is ultimately controlled by Toomas Luman, the Chairman of the Company's Supervisory Council, who controls, directly or indirectly, 55 per cent of the votes represented by the shares of EE Grupp.

For the description of transactions entered into between the Group companies with related parties, see "Business—Related Party Transactions".

Dividends

The existing Offer Shares and, once the increase of share capital relating to the issue of new Offer Shares is registered with the Estonian Commercial Register, the new Offer Shares will be eligible for dividends, if any, declared in respect of the financial year commencing 1 January 2006, and for subsequent periods. See "Dividends and Dividend Policy."

Combined Offering

The Combined Offering comprises up to 1 499 536 existing and up to 1 450 788 new Offer Shares. The Combined Offering comprises (i) the Institutional Offering to institutional investors in and outside Estonia and (ii) the Retail Offering to the public in Estonia. In addition, the Selling Shareholder has granted the Global Coordinator an option (the Over-Allotment Option) to require the Selling Shareholder to sell up to an additional 327 814 existing Shares for purposes of covering possible over-allotments.

The Offer Shares represent approximately 23.5 per cent of the Company's share capital immediately prior to the Combined Offering and approximately 21.3 per cent of the Company's share capital following the completion of the Combined Offering assuming that the Over-Allotment Option is exercised in full.

The purpose of the Combined Offering is to finance the Group's expansion, create a new source of finance to support the Group's development and broaden the Group's shareholder base. The Combined Offering provides the prerequisites for the Company's listing.

Offer Price

The Offer Price will be decided by the Company and the Selling Shareholder in consultation with the Global Coordinator after the completion of the book-building process directed to the institutional investors. The Offer Price will be in the Offer Price Range of EEK 82.50 – 97.80.

Distribution and Allocation

In the event that the demand for the Offer Shares exceeds the number of Offer Shares available, the allocation will be decided by the Company and the Selling Shareholders in consultation with the Global Coordinator.

In the Retail Offering the Offer Shares will be allocated to investors by using the stepped allocation methodology.

Use of Proceeds

The aggregate net proceeds to the Company from the Combined Offering are estimated to amount to approximately EEK 122 million, after deducting the expenses of the Combined Offering, based on the mid-point of the Offer Price Range. The fees and expenses payable by the Company in connection with the Combined Offering are estimated to amount to approximately EEK 9 million (including applicable taxes), based on the mid-point of the Offer Price Range.

The Company plans to use the funds received by it from the issue of Offer Shares to fund the business development and geographic expansion of the Group, as well as for other general corporate purposes. The Company may also use the proceeds to finance acquisitions of other businesses or interests in them.

Lock-up

The Company has agreed not to issue or sell Shares or securities convertible into Shares for 12 months subsequent to signing the Underwriting Agreement (as defined hereafter) without the prior written consent of the Global Coordinator. All current shareholders of the Company and all members of the Supervisory Council and Management Board have agreed not to sell or otherwise transfer Shares for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator.

Settlement

The Offer Shares allocated to the investors will be transferred to their securities accounts on or about 17 May 2006 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares.

In order to facilitate settlement, some Offer Shares to be transferred to investors (corresponding to the number of new Offer Shares) will be temporarily borrowed from EE Grupp so that all investors in the Combined Offering will receive only existing Offer Shares.

Listing and Trading

In connection with the Combined Offering, the Company has applied for listing of its Shares on the Main List of the Tallinn Stock Exchange.

Trading in the existing Shares is expected to commence on or about 18 May 2006.

The international securities identification number (ISIN code) for the Shares is EE3100039496, the trading code in the Tallinn Stock Exchange trading system is EEH1T.

Key Dates

	2 May 2006	–	Start of the Offer Period
	11 May 2006	–	End of the Offer Period
	12 May 2006	–	Publication of the Offer Price
On or about	17 May 2006	–	Settlement and delivery of Offer Shares
On or about	18 May 2006	–	Opening of trading in the Shares on the Tallinn Stock Exchange

Summary of the Consolidated Financial Statements of the Company

Profit or loss account data (EEK, ´000)	Year ended 31 December				Three months ended 31 March	
	2003	2004	2004	2005	2005	2006
	EGAAP	EGAAP	IFRS	IFRS	IFRS	IFRS
	(audited)				(unaudited)	
Revenue	**1 076 954**	**1 588 010**	**1 588 010**	**1 674 454**	**317 344**	**341 794**
Operating profit	65 837	96 843	96 843	117 828	(1 672)	27 528
Profit before income tax and minority interests	57 273	87 847	93 465	113 134	(2 107)	23 798
Net profit for the financial period*)	**27 220**	**49 316**	**55 305**	**86 807**	**(3 851)**	**18 223**

*) Attributable to the equity shareholders of the parent company.

Balance sheet data (EEK, '000)	Year ended 31 December				Three months ended 31 March	
	2003	2004	2004	2005	2005	2006
	EGAAP	EGAAP	IFRS	IFRS	IFRS	IFRS
	(audited)				(unaudited)	
Cash and cash equivalents	114 381	113 732	113 732	192 490	79 187	229 857
Trade receivables	63 680	139 751	134 802	210 944	107 758	171 324
Non-trade receivables	28 093	65 301	67 676	93 228	68 429	94 008
Inventories	31 966	63 985	103 846	140 360	96 464	138 781
Current assets	**238 121**	**382 769**	**420 056**	**637 022**	**351 838**	**633 970**
Long-term investments	12 224	37 627	2 714	34 658	3 100	40 606
Fixed assets	95 089	98 552	98 552	134 871	101 520	131 369
Intangible assets	18 888	13 474	28 453	131 845	31 458	131 827
Total assets	**364 323**	**532 422**	**549 775**	**938 396**	**487 916**	**937 772**
Current liabilities	196 801	326 221	328 256	557 677	263 575	543 792
Non-current liabilities	36 120	42 964	42 964	191 511	45 699	190 007
Total liabilities	232 921	369 185	371 220	749 188	309 274	733 799
Minority share*)	59 526	65 509	65 509	12 257	68 758	9 110
Total shareholders' equity (excl. minority share)	**71 876**	**97 729**	**113 046**	**176 951**	**109 884**	**194 863**
Total liabilities and shareholders' equity (incl. minority share)	**364 323**	**532 422**	**549 775**	**938 396**	**487 916**	**937 772**

*) Minority share presentation in the balance sheet under IFRS was amended in 2005 and under the new standard it should be indicated as part of the shareholders' equity. In order to facilitate the comparison between the financial statements for all periods above, the minority share is not presented as part of the shareholders' equity.

Cash flow data (EEK, ´000)	Year ended 31 December				Three months ended 31 March	
	2003	2004	2004	2005	2005	2006
	EGAAP	EGAAP	IFRS	IFRS	IFRS	IFRS
	(audited)				(unaudited)	
Cash flow from operating activities	133 506	87 543	107 694	156 837	(16 245)	67 623
Cash flow used in investing activities	(15 662)	(63 366)	(63 406)	(240 384)	(13 536)	(9 044)
Cash flow from financing activities	(42 411)	(24 827)	(44 937)	162 305	(4 764)	(21 212)

Ratios and indicators	Year ended 31 December				Three months ended 31 March
	2003	2004	2004	2005	2006
	EGAAP	EGAAP	IFRS	IFRS	IFRS
	(derived from audited information)				(unaudited)
Adjusted weighted average number of shares	3 000 000	3 000 000	3 000 000	3 160 631	3 481 894
Earnings per share (EPS), EEK	9.1	16.4	18.4	27.5	5.2
Revenue per employee, EEK ´000	2 032	2 603	2 603	2 319	432
EBITDA	84 730	119 425	119 425	143 850	-
EBITDA margin, %	7.9	7.5	7.5	8.6	-
Operating profit margin, %	6.1	6.1	6.1	7.0	8.1
Return on investment (ROI), %	27.0	39.4	40.4	31.1	7.4
Return on assets (ROA), %	18.3	21.6	21.2	15.8	3.9
Return on equity (ROE), %	42.7	58.2	59.8	59.9	12.0
Equity ratio, %	36.1	30.7	32.5	20.2	21.8

RISK FACTORS

Before investing in the Offer Shares, prospective investors should carefully consider the risks described below in addition to the other information contained in this Offering Circular. The risks described below are not the only risks that the Group and investors in the Offer Shares will face. Additional risks not currently known to the Group or that the Group currently believes are immaterial may also adversely affect its business, financial condition and results of operation. The trading price of the Offer Shares could decline due to any of these risks and investors could lose all or part of their investment.

Risks Relating to the Group's Business

Growth and its control

Over the past years the Group has grown relatively rapidly, largely through acquisitions. Management expects that it will continue growing, both through organic expansion of its business and through further acquisitions. The Group's ability to achieve future growth will require expansion in to new geographic markets and to new operational segments in existing and new markets. In addition, the Group needs to continually improve its financial and management controls, reporting systems and procedures, implement new systems when necessary and support, train and manage its personnel.

Growth through possible acquisitions will cause separate risks, partly because of risks inherent in acquiring businesses and partly connected with the integration of the acquired businesses into the Group. The Group plans to actively evaluate or pursue potential acquisitions, and may in the future acquire other construction businesses and seek to integrate them into its own operations. The Group may fail to identify suitable acquisition targets, fail to negotiate or complete an acquisition or lose a target to a higher bidder. The Group may fail to integrate the acquired business in accordance with its business strategy and the target may have undiscovered contingent liabilities. Potential acquisitions may divert Management's attention away from the Group's primary areas of operation, result in the loss of key customers and/or personnel and expose the Group to unanticipated liabilities.

If the Group fails to control its growth and development successfully, this may have an adverse effect on its profits and financial position. The continuing growth requires investments in fixed assets and additional working capital. The availability of additional financing on advantageous terms cannot be assured.

High working capital requirements

Certain business segments, such as road construction, real estate development and construction of environmental structures, require significant working capital. The Group needs to regularly invest large amounts of working capital to purchase materials and perform engineering, construction and other work on projects before payment is received from the customers. According to the Management, the most working capital intensive projects of the Group are the ones financed by EU related funds where the Group has in the past been forced to accept lengthy payment terms and has effectively funded to greater or lesser extent the working capital requirements of the projects. Management envisages that lengthy payment terms in such projects will be necessary also in the future, and that the Group may need to incur additional indebtedness to satisfy its working capital requirements.

Shortage in working capital may increase the Group's receivables and short-term borrowings. Sustained increase in working capital requirements may have an adverse effect on the Group's financial condition and results of operations.

Dependence on key personnel

The Group's performance depends to a significant extent on its ability to attract and retain highly qualified engineering, technical and business personnel experienced in both gaining and managing construction and civil engineering projects. The Group anticipates that demands on management and professional staff will increase. The loss of the services of these key persons could adversely affect the results of operations of the

Group. For example, if one or more key persons joins a competitor or forms a competing company, the resulting competition could hurt the Group's business. In addition, in the event of the loss of any key employee, it may not be possible or practicable to prevent the unauthorized disclosure or use of the Group's procedures, practices, new product developments or customer lists. Under Estonian law, confidentiality and non-competition covenants are enforceable after termination of the contract only as long as the employee receives a salary or other compensation from his/her former employer. The service contracts with those executives who are members of the management board of any Group company contain both confidentiality and non-competition covenants which extend beyond termination. In relation to the employment contracts with other employees the Group has chosen to follow the earlier Estonian practice, and include only limited confidentiality covenants and no non-competition covenants. With a view to the limitations to the enforceability of confidentiality covenants and non-competition covenants, the Group relies largely on other measures designed to encourage loyalty of the workforce, such as competitive compensation and benefits packages. However, Management is currently considering extending the confidentiality and non-competition covenants in the employment agreements with key employees beyond termination.

Also, future success depends on the continuing ability of the Group to identify, hire, train and retrain such personnel in the future. See "Business - Employees" and "Management."

Dependence on suppliers and subcontractors

The Group relies on a number of key suppliers and contractors providing services and materials to its projects. Management believes that there are a large number of alternative sub-contractors available to the Group and, accordingly, the Group is not directly dependent on any one of its contractors. The Group sources its materials from local and international suppliers. However, there cannot be any assurance that the Group could find a cost-effective replacement for a key contractor or supplier in a particular project, which could result in increased project cost and reduced profitability as well as making it more difficult for the Group to gain further projects. See "Business – Suppliers".

Ability to qualify for, win and execute large engineering construction contracts

Most of the Group's projects are gained by participating in a competitive bidding process. In selecting contractors for major projects, customers usually only accept tenders from pre-qualified contractors. For pre-qualification purposes, customers apply criteria such as experience, technological expertise, past performance, reputation for quality, safety record, financial strength and the ability to issue performance guarantees as well as the contractor's past record from projects of equivalent size and type. Bids from pre-qualified contractors tend to be decided mainly on the price. Pre-qualification is the key for the Group for winning major projects. The Group is currently pre-qualified to bid for projects up to a certain value and therefore may find it difficult to compete for larger projects. The Group's ability to bid for and win such major projects is dependent on achieving experience from large engineering, procurement and construction (EPC) contracts and technically complex integrated projects and developing its engineering expertise.

Management envisages that an increasing portion of the Group's business will be in larger and integrated projects, which may increase the volatility of the Group's results and increase its exposure to risks attaching to individual contracts. Larger projects may also lead into proportionally bigger cost overruns, which may negatively affect the Group's operating margins. Whilst the Group has generally been successful in managing its exposure to cost overruns in the past, it has also had projects where the costs have exceeded the budget.

Management believes that relatively few major contracts will continue representing a major part of the Group's business in the foreseeable future. If the Group fails to achieve the expected margins or suffers losses on one or more of these large contracts, this could have a material adverse effect on the Group's results of operations or financial condition.

Dependence on relatively low labour costs

As a Member State of the European Union, Estonia is becoming increasingly integrated in the European markets, and the Estonian price levels and salaries are gradually becoming aligned with those in the other member countries. Whilst the Estonian wages and salaries generally remain lower than in the older Member States, the further integration with the European Union, coupled with economic and legislative developments, is expected to result in a gradual erosion of this competitive advantage of Estonian businesses. The labour costs can rise particularly fast in areas of economy where the workforce is mobile, such as construction. If the Group fails to achieve new competitive advantages to off-set the impact of the rising labour costs, this could have a material adverse effect on the Group's results of operations or financial condition.

Dependence on cost of equipment, materials and fuel

Materials costs constitute a significant part of the Group's operating expenses. The Group's construction operations require various bulk construction materials such as steel, cement and bitumen. In addition, the Group is required under its construction contracts to procure equipment such as process and mechanical equipment, machinery, piping materials and electrical components. Fuel costs for operating construction and other equipment also constitute a significant part of Group's operating expenses, especially in the infrastructure projects. Some of these items, such as steel and fuel, have recently experienced significant price volatility. Fixed-price contracts and contracts with limited price variation provisions may restrict the Group's ability to pass the increased costs to the customer. Increases in costs for equipment, material or fuel costs which were unforeseeable at the time when projects were priced, may adversely affect the Group's results of operations and its financial conditions.

Dependence on government entities or municipalities as customers

In the financial years 2003-2005, customers in the public sector accounted for approximately 47 per cent of the Group's revenue. The Group's business is dependent on road construction and maintenance, environmental and other civil engineering projects undertaken by the government authorities and agencies or local authorities and municipalities. Such projects are often related to European Union initiatives and financed through European Union structural and other funds and subject to extensive bureaucratic requirements. Complications in these projects can delay their completion or result in delays in collection of receivables from the customer. Certain operations of the Group require significant working capital and delayed collection of receivables could significantly adversely affect the Group's liquidity and results of operations.

Financing and loan agreements

The loan agreements entered into by the Group include several negative undertakings and requirements to obtain the lender's consent for, among other things, further financing, changes in the Group's corporate structure or the nature of its business, and consolidating or merging with another corporation.

All of the Group's loan agreements with financial institutions and performance guarantees issued by financial institutions in connection with the Group's projects contain customary events of default, including cross-default provisions. These cross-default clauses expose the Group to default risks based on contract performance under other agreements with the financial institutions in question. In addition, under most loan agreements, it is an event of default if the borrower takes significant additional financial obligations or a third party acquires in whole or in part the issued share capital of the borrower without the prior consent of the lender.

Further, one of the Group's loan agreements, entered into between the Company and AS Hansapank on 19 July 2005, regarding the financing of the acquisition of the shares in ASPI and Linnaehitus by the Company, requires the Group to maintain a prescribed minimum consolidated operating profit and to achieve a prescribed minimum consolidated equity by the end of the financial year 2006. Assuming the Offer Price is set within the Offer Price Range set forth on the cover of this Offering Circular, the Group will meet the minimum levels upon completion of the Combined Offering. However, future adverse developments of the Group's business and results of operations could result in the Group being unable to maintain the profit or equity at the prescribed limits. Furthermore, the loan agreement requires the Company to ensure that EE Grupp maintains a controlling interest in the Company for as long as the loan remains outstanding. The term of this loan agreement extends until 31 July 2012.

Any failure to comply with the loan agreements or any demand for early repayment made by the banks could have a material adverse effect on the Group's business, results of operations and financial condition.

Intellectual property

Whilst construction is generally not considered a high-tech or technology-intensive industry, rapidly developing technology is nevertheless one of the determining factors of success in the construction business. Advanced technology and sophisticated IT solutions for project management are particularly critical in large and complex infrastructure projects. However, apart from three utility models and eight trademarks, the intellectual property of the Group consists entirely of know-how which cannot be registered and accordingly is protected solely by confidentiality. The Group has sought to protect its business secrets by including confidentiality clauses in its agreements with third parties. However, due to complexities of enforcing confidentiality covenants in employment agreements in Estonia, the Group has a confidentiality covenant extending beyond the termination of employment only in the service contracts with those executives who are members of the management board of any Group company. Whilst Management believes that the competitive compensation and benefits packages offered by the Group support employee loyalty, no assurance can be given that a key employee of the Group could not disclose or utilise the Group's technology or IT solutions after leaving its employ, which could impact the Group's competitive position on the market and have a material adverse effect on the Group's business, results of operations and financial condition.

The Group companies own the trademarks "EE", "Linnaehitus" "Eurocon" and "EE Eurocon" which are registered in Estonia. Whilst the Group owns the trademark "Linnaehitus", which is also the business name of one of the companies in the Group ("Aktsiaselts Linnaehitus"), there is also an unrelated Estonian construction sector company registered under the name "Tallinna Linnaehituse Aktsiaselts". No assurance can be given that Linnaehitus and Tallinna Linnaehituse AS could not be confused with another in the market, or that the Group could not be prevented from using its current trademarks and/or trade names in new geographical markets, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Contractual risks

A dispute may arise between the Group and its contractual counterpart on the interpretation or the validity of a contract or fulfilling of contractual obligations, which can lead to arbitration or litigation with an unfavourable outcome for the Group. Contractual claims and other demands may also have an adverse effect on the Group's profits or financial position. See "Business - Legal Proceedings."

Most of the construction contracts with Ukrainian customers and agreements with Ukrainian sub-contractors are subject to Ukrainian law and subject to the jurisdiction of Ukrainian courts. See "Risk Factors – Political, Economic and Legal Risks – Risks of doing business in Ukraine".

Construction liability

The Group's business inherently exposes it to potential liability for defects in construction, materials or workmanship. The Group may be subject to claims resulting from defects arising out of engineering, procurement and/or construction services within the warranty period. Under Estonian law, construction is subject to statutory warranty period of two years, which cannot be reduced by contract. Claims can be made under the general rules of statute of limitations for 5-10 years unless the parties have agreed a shorter claims period in the construction contract. Accordingly, most of the Group's construction contracts provide for a warranty that covers defects appearing within two years from the delivery of the works to the customer. Due to competitive pressure, the Group has occasionally granted warranties for a longer period than the statutory minimum warranty.

In Ukraine, the statutory warranty period is 10 years from the acceptance of the works by the customer which is a significantly longer period than in Estonia.

The Group seeks to cover its exposure for warranty claims mainly through creating reserves and also through limited insurance, which is designed to cover claims during the contractual warranty period. However, these measures may not always be sufficient. The Group passes the warranty liability on to its subcontractors, but they may not have adequate financial resources to fully indemnify the Group. Losses may arise from risks not addressed in the Group's indemnity agreements or insurance policies, or it may no longer be possible to obtain adequate insurance coverage against some risks on commercially reasonable terms. Failure to effectively cover the Group's exposure to risk arising from engineering and construction liabilities could expose the Group to substantial costs and potentially lead to substantial losses. Additionally, liabilities relating to defects in engineering and construction may also adversely affect public perception about the operations of the Group and the perception of customers, suppliers and employees, leading to an adverse effect on the Group's business, results of operations and financial condition.

Real estate development

The Group has made some relatively significant investments in land designed for its real estate development operations. Some of the land has been acquired with a view to exchanging it with authorities or other companies for properties that are better suited for development. No assurances can be given that the Group will be able to successfully exchange these properties or that it will be able to engage in successful and profitable property development in relation to these properties. Should the Group fail to develop these properties, it may not be able to recoup all or part of its investment in purchasing the land.

Environmental issues

The Group's activities are and will continue to be subject to laws and regulations relating to environmental protection. Such laws and regulations typically cover a wide range of matters, including, among other things, waste handling, protection of ambient air and use of water. Management believes that the Group complies in all material aspects with the Estonian environmental legislation currently in force. However, as Estonia is a Member State of the European Union, there is a risk that the laws and regulations applicable to construction companies may become more stringent and require an increased level of investment by the Group to comply with such standards of environmental safety.

The Group has been involved in the construction of complex infrastructure projects, such as port facilities, landfills and roads. As a rule, such projects are subject to numerous, extensive and evolving laws, regulations and permits, including those related to the environmental protection. The Group's construction contracts with its customers also contain terms and conditions related to the environmental matters. The Group has introduced internal procedures, which Management believes to be appropriate to ensure reasonable compliance with the respective laws, regulations, permits and contractual terms and conditions. However, failure to comply with these laws, regulations, permits and contractual terms and conditions could result in substantial costs and liabilities, which could adversely affect the Group's business, its financial condition and results of operations.

The Group companies ASPI, Järva Teed and Hiiu Teed are required to hold certain environmental permits for their activities. These permits are normally issued for a limited period and must be renewed upon expiry. Failure by any of these companies to renew its environmental permits could prevent it from operating the facilities that require the said permit. The authorities may also impose burdensome conditions or emission limit values upon the renewal of a permit, which could result in increased costs and capital expenditure. This could adversely affect the Group's business, its financial condition and results of operations.

In connection with the acquisition of its facilities in Harju county in the year 2003, ASPI acquired a bore well and a waste water treatment facility. However, the Group does not currently have the competence or facilities to operate such facilities and it has recently breached the terms of its water permit in respect of the wastewater treatment facility. The Group is currently conducting negotiations with Saue municipality and Saku municipality with a view to transfer these facilities to either one of them. Management believes that these negotiations will be concluded in the near future. Should it not be possible to transfer the facilities to either one of these municipalities, the Group will have to consider other possible alternatives, which may include closing down these facilities or acquiring the requisite competence and facilities for the continued operation of these facilities.

In addition, ASPI and Järva Teed have been subject to several inspections by the Estonian Environmental Supervisory Authority, and have been fined for some occasional breaches of environmental rules regarding handling of waste, air pollution, keeping records and reports as required by its water permit. In the years 2003–2005 the aggregate amount of fines has been approximately EEK 28,000 (approximately EUR 1,790). Management believes that the Group has taken reasonable measures to correct the breaches of environmental rules by ASPI and Järva Teed. However, no assurances can be given that occasional breaches of such rules will not occur in the future and that such breaches will not have a financial impact on the Group. See "Business – Environmental Issues".

Health and safety

The construction industry generally engages in inherently dangerous operations, which may result in work accidents, equipment failures, fires or explosions, including hazards that may cause injury and loss of life, severe damage to and destruction of property and equipment, and environmental damage. The Group has adopted appropriate safety regulations and health and safety procedures are assessed on an on-going basis on all of its construction sites. However, no assurance can be given that employees or former employees would not file claims against the Group in the future in respect of injury or illness suffered as a result of working conditions. Such claims, if successful, could have an adverse effect on the financial condition and results of operations of the Group.

Inability to keep pace with technical and technological developments in the engineering construction industry

The Group's recent experience indicates that its customers are increasingly developing large, technically complex infrastructure and civil engineering projects. To meet customer demand, the Group must continuously update existing, and develop new technology for its engineering and construction services. In addition, rapid and frequent developments in technology and market demand can often render existing technologies and equipment obsolete, requiring substantial capital expenditure and/or write downs of assets. The Group has made significant investments in new equipment and updating its expertise, but failure to anticipate or to respond adequately to changing technical, market demands and/or customer requirements could adversely affect the Group's business and financial results.

Government regulations may lead to increasing compliance costs

The cost of complying with government regulations can be substantial. Governmental authorities in the European Union regulate various aspects of the Group's business and operations. The regulations applicable to the Group's existing and future products and services may change and/or increase substantially.

In addition, no assurance can be given that the governments in the Group's core markets will not implement regulations or fiscal or monetary policies, including regulations or policies relating to or affecting taxation, the environment, health and safety, public procurement, or exchange controls, or otherwise take actions which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects and/or which could adversely affect the market price and liquidity of the Shares.

Competition

The Group operates in a highly competitive business environment. Whilst the operational segments of the Group are subject to a varying level of competitive pressure, the Group generally faces intense competition from AS Merko Ehitus, Skanska EMV AS, AS YIT Ehitus, AS Talter, AS TREF and AS Teede REV-2.

While quality of service, technological expertise, past performance, health and safety records and quality of personnel, as well as reputation and experience do impact the customer decisions, the price ultimately remains the decisive factor for most tender awards. The Group's industry is subject to intense price competition. Some of the Group's competitors are subsidiaries of major international construction groups, which have greater financial resources and marketing capabilities than the Group. They may also benefit from greater economies of scale and operating efficiencies. Competitors may, whether through consolidation or growth, present more credible integrated and/or lower cost solutions than the Group does. If the Group fails to remain competitive and fails to be awarded the contracts for projects, the Group could fail to increase, or maintain, its volume of order intake and operating revenues. See "Business - Competition".

Relationship with the principal shareholder

Prior to the Combined Offering, EE Grupp owns the majority of the Shares. Following the completion of the Combined Offering, this shareholder will continue to own or control approximately 66 per cent of the Shares, assuming that the Over-Allotment Option is exercised in full and EE Grupp will not acquire any Offer Shares in the Combined Offering. As a result, EE Grupp will be able to exercise significant control over all matters requiring shareholder approval, including the election of members of the Supervisory Council and approval of significant corporate transactions, which could delay or prevent an outside party from acquiring control of the Company. The ability of insiders to prevent or delay these transactions could cause the price of the Shares to decline.

The Group and EE Grupp have contractual relationships relating to certain matters, including, among others, leasing of rights under computer software licenses by EE Grupp to the Group and leasing of cars by EE Grupp to the Group. Two of the land parcels of the Company, located in Tallinn, are encumbered with a mortgage in favour of EE Grupp to secure the Company's performance under its agreements with EE Grupp. While the Company believes that all these contracts reflect market terms, many of them were entered into prior to, or as part of, the preparation of the Combined Offering and were not subject to a competitive process. Accordingly, there can be no assurance that the terms of some or all of these contracts are not less favorable to the Group than the terms that the Group would have been able to obtain from an independent third party. See "Business – Related Party Transactions."

Operations outside Estonia

In addition to Estonia, Eesti Ehitus has operations in Ukraine and Management believes that a part of the Group's future growth potential will be in Ukraine and other markets outside Estonia. Management proposes to continue the Group's expansion to new markets. The Group faces numerous risks characteristic of international businesses, such as the need to adapt to a large number of different rules and regulations, unexpected changes in export tariffs, tax practice or import and export quotas, foreign exchange rate fluctuations and general difficulties in operating in a new market such as enforcing contracts. In addition, the expansion of the Group's operations requires financial resources. These factors may have adverse effects on the Group's operating results and financial position.

Currency exchange risks

An investment in shares denominated in kroons by a foreign currency investor exposes the investor to a foreign currency risk. Any depreciation or appreciation of the kroon in relation to such foreign currency will correspondingly reduce or increase the value of the investment in foreign currency terms.

Due to the accession of Estonia to the European Union on 1 May 2004 and the adoption of the euro expected to take place some time later than the originally projected transition date of 1 January 2007, the operating results and the financial position of the Group are expected to be reported in euros at some point in the future.

During the financial year ended 31 December 2005, approximately 6.5 per cent of the Group's revenues and 8 per cent of its net income was generated in Ukranian hryvnia. Fluctuations in the value of the Estonian kroon (or euro, as the case may be) against the hryvnia may have a material effect on the operating margins of Eesti Ehitus. The Group is not engaged in, and is not expected to engage in, exchange rate hedging activities and thus is fully exposed to currency exchange risk. See "Management Discussion and Analysis of the Group's Financial Condition and Results of Operations - Currency Fluctuation Impact."

The official and only legal tender in Estonia is the kroon. The kroon is pegged to the euro at the fixed rate of EEK 15.6466 for 1 EUR. Although the Bank of Estonia has expressed its intention to maintain the current fixed exchange rate and the currency board system, there can be no guarantee that the Estonian Parliament will not amend the relevant laws and that the fixed exchange rate will be maintained in the coming years. Foreign investors can open both kroon and foreign currency accounts in banks registered in Estonia. Any foreign currency may be freely purchased and sold at the market exchange rates. There are no capital movement restrictions. Any devaluation or revaluation of the kroon may have negative consequences for the Estonian economy as a whole and may have a material adverse effect on the Group's financial condition and results of operations.

Potential tax liabilities

Estonia currently enjoys a corporate income tax regime under which income tax is deferred until profits are distributed. Estonian companies are currently subject to income tax of 23 per cent, however, the effective rate is approximately 29.87 per cent of dividends and other distributions paid (23/77 of the net amount of distributed profits), which rate is due to decrease over the next three years. In addition, an Estonian dividend withholding tax of 23 per cent, which rate is due to decrease to 20 per cent by 2009, is currently imposed on dividends paid by the Company to non-resident legal persons, holding less than 20 per cent of the shares or votes of the Company.

The European Union has granted Estonia a transition period expiring on 31 December 2008 following which time Estonia may be required to at least partly adjust its current tax regime. The possibility that Estonia may change its corporate taxation policy has periodically been subject to political discussion but it is currently not possible to assess whether or, if so, when any such change may occur. Any change in Estonian corporate taxation policy could have a material adverse effect on the Group's business, results of operations and financial condition. See "Taxation".

Estonian tax laws and regulations have not been in force for significant periods, in contrast to more developed market economies; therefore, implemented laws and regulations may be unclear or nonexistent. Accordingly, there is limited case law on the application and interpretation of these laws. Often, differing opinions regarding legal interpretations exist both among and within tax authorities, thus creating uncertainties and areas of conflict.

The Group's tax position may be subject to possible review and investigation by tax authorities, authorized to impose severe fines, penalties and interest charges. If for any reason the Group's tax position were to be disputed by the tax authorities, the possible tax liabilities of the Group could have a substantial material adverse impact on the Group's operating results, and therefore could have a material adverse impact on the market price for the Shares.

Significant differences between Estonian GAAP and IFRS

Until 1 January 2005, the Group prepared its financial statements in accordance with Estonian GAAP. Significant differences exist between IFRS and Estonian GAAP that might be material to the financial information herein. Other than as disclosed in "Annex A - Summary of Significant Differences between Estonian GAAP and IFRS" elsewhere herein, there has been no attempt to describe the impact of those differences. In making an investment decision, a prospective investor must rely upon his own examination of the Group, the terms of the Combined Offering and the financial information. Prospective investors should consult their own professional advisers for an understanding of the differences between Estonian GAAP and IFRS, and how those differences might affect the financial information herein.

Risks Relating to the Group's Industry

Industry is susceptible to economic cycles

The construction business is cyclical in nature and its profitability tends to fluctuate due to changes in the general economic conditions and level of fixed capital investment. Revenues from the construction industry may be adversely affected if the economic development slows down or enters into recession or fixed capital investment reduces. No assurance can be made that the Group's business may not be materially and adversely affected if Estonia's economy slows down or fixed capital investments reduces, or the Estonian public sector reduces its investments in infrastructure developments.

Lack of qualified workforce and construction materials

The Estonian construction market has grown very rapidly during the recent years. At the same time, following the Estonian accession to the European Union, a significant number of the Estonian construction workers have chosen to work in other member countries, where wages are currently higher than in Estonia. As a consequence, Estonian contractors often face shortage of qualified staff and are forced to raise wages and salaries in order to retain their workforce or attract new employees.

Also, the Estonian production capacity for construction materials remains lower than demand created by the market growth, which can cause delays in procurement of materials. Whilst the Group has made an effort to strengthen its relationships with key material suppliers and the Group has not faced major disruptions to its materials procurement to date, no assurance can be given that the Group or its subcontractors will have undisrupted access to the necessary construction materials.

Should the Group face serious shortages of workers or disruptions of materials supply, it could result in the Group failing to meet project timetables or the actual costs exceeding the budget, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Weather conditions

Generally, there are no extreme weather conditions in Estonia. However, the Group has experienced occasional difficulties in performing its construction contracts due to weather conditions. The Estonian climate is characterised by a relatively severe winter period during which extended periods of ice, storms, snow and ground frost prevent work in certain areas of the Group's business, such as road construction and maintenance, concrete works and hydro-technical works. As a result, the active period available for completing such projects is shorter than in a milder climate, and adverse weather conditions during the summer period can cause delays in the completion of these projects or increase the cost of the projects. Moreover, a delay during the active period can cause the project being delayed beyond the winter break, which can have serious financial implications. Even other areas of the Group's business can experience disruptions at times of exceptionally harsh weather conditions, such as temperatures below -15°C for extended periods of time.

The Group has included provisions in its standard construction contract, which excuse the Group from performing its obligations in adverse weather conditions. However, no assurance can be given that extreme weather conditions could not cause serious delays in the completion of projects thus requiring additional working capital for extended periods of time, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks Associated with the Combined Offering

Volatility of share prices

There can be no assurances regarding the future development of a market for the Shares or the ability of holders of the Shares to sell their Shares or the price of any such sale. Prevailing market prices from time to time will depend on many factors, including then-existing interest rates, industry and market conditions, the Group's operating results and cash flows and the market for the securities of companies in the same or similar industries.

The Tallinn Stock Exchange, where the Shares are expected to be listed, is a member of the OMX Exchanges group. Currently the Tallinn Stock Exchange is in the process of harmonizing its standards with those of OMX. While the implementation of this change might cause some disruption to trading in the Shares, the Group expects that in the longer term it will benefit from relying on a uniform trading system in the Northern European region. OMX group is also intending to create a pan-Nordic and Baltic stock exchange list, the details of which have not been released. Should the Company fail to meet the criteria for such a combined list, that may affect the liquidity of the Shares.

In recent years, most major stock markets have experienced significant price and trading volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of the underlying companies. Accordingly, there could be significant fluctuations in the price of the Shares, including a substantial decline, following the Combined Offering even if the Group's operating results meet expectations.

Prior to this Combined Offering, there has been no public market for the Shares. The Offer Price for the Shares will be determined through negotiations among the Global Coordinator, the Selling Shareholder and the Company. This initial Offer Price may vary from the market price of the Shares after the Combined Offering. Investors, who purchase Shares in connection with the Combined Offering, may not be able to resell those Shares at or above the Offer Price.

Liquidity

An application has been made to the Tallinn Stock Exchange for the Shares to be listed on the Main List of the Tallinn Stock Exchange. However, no assurance can be given that the Shares will be listed or that, following the listing, an active trading market for the Shares will emerge, develop or be sustained after completion of the Combined Offering.

The average daily trading turnover on the Tallinn Stock Exchange from 1 January 2005 to 31 December 2005 was EEK 118.8 million. A total of 15 companies were listed on the Tallinn Stock Exchange as of 31 March 2006. As of 31 March 2006, the two largest companies in terms of market capitalization, AS Eesti Telekom and AS Tallink Grupp, represented approximately 58 per cent of the Tallinn Stock Exchange's aggregate market capitalization of approximately EEK 46 billion. Consequently, the Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the Tallinn Stock Exchange, which could increase the volatility of the price of the Shares. De-listing of any of the large companies listed on the Tallinn Stock Exchange would be likely to have a negative effect on the market capitalization and liquidity of the Tallinn Stock Exchange.

Prices on the Tallinn Stock Exchange may also be affected by external factors, such as the performance of world markets generally, or other emerging markets in particular, or the imposition of or changes in trading or capital gains taxes.

Offer for sale of substantial number of additional shares may depress the Share price

Sales or issuance of additional Shares into the public market following the Combined Offering could adversely affect the market price of the Shares. The Company and all its current shareholders have agreed to a lock-up commitment for a period of 12 months in connection with the Combined Offering (see "Underwriting - Lock-up"). These shareholders together own or control approximately 78.7 per cent of all the Shares issued and outstanding immediately following the Combined Offering assuming that the Over-Allotment Option is exercised in full and none of the current shareholders acquires any Offer Shares in the Combined Offering.

Future payments of dividends on the Shares

There is no assurance that the Company will pay dividends on the Shares, nor is there any assurance as to the amount of any dividend it might pay. The payment and the amount of any dividend will be subject to the discretion of the Company's Management Board, Supervisory Council and, ultimately, the General Meeting of Shareholders and will depend on available cash balances, anticipated cash needs, results of operations and financial condition of the Group and any loan agreement restrictions binding the Company as well as other relevant factors. See "Dividends and Dividend Policy."

Continued analyst cover

The trading market for the Shares will depend on the research and reports that industry or securities analysts may publish about the Group or its business. The Group has no control over these analysts. If one or more of the analysts who cover the Group downgrade their ratings of the Shares, the price of the Shares may decline. If one or more of these analysts cease coverage of the Group or fail to publish regular reports on it, the Company could lose visibility in the financial markets, which in turn could cause the price of the Shares or trading volume to decline.

Political, Economic and Legal Risks

Risks relating to doing business in Estonia

Investors investing in emerging markets such as Estonia should recognize that these markets are subject to greater risks than more mature markets, including legal, economic and political risks. Estonia has experienced significant political, legal and economic changes and liberalization during the last two decades of transition from the Soviet rule and plan economy to independence and a market economy.

For purposes of its accession to the European Union, Estonia implemented significant social and economic changes, as well as reforms of its legal and regulatory framework. As a result, the volume of Estonian legislation and other regulations has increased and is expected to increase further pursuant to the obligation to apply European Community law.

The Estonian civil code and corporate, competition, securities, environmental and other laws have been substantially revised during the last two decades as part of Estonia's transition to a market economy and to meet EU requirements and standards. The new legislation remains in part largely untested in courts and no clear administrative or court interpretation practice has evolved.

Estonian businesses are in the process of adapting the business standards and practices of the European Union. Many Estonian companies, including Eesti Ehitus, are still adopting and developing management tools for competition law related risks, corporate governance, internal controls and risk management.

Risks of doing business in Ukraine

The Group has business operations in Ukraine, and Management believes that a part of the future growth potential for the Group will be in Ukraine. Although some progress has been made since independence in 1991 to reform Ukraine's economy and its political and judicial systems, Ukraine still lacks the necessary legal infrastructure and regulatory framework which are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms.

Absence of reliable statistics and market data

Official statistics and other data published by Ukrainian State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. Only a limited amount of publicly available data is available about the real estate market in Ukraine.

Political instability

Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene. Authorities, as well as the Ukrainian government's policies and the political leaders, are subject to rapid change.

President Yushchenko's policies are generally expected to have a positive effect on the economy and political stability of Ukraine. However, with a view to the divergent factions within the eastern and western regions of Ukraine, relations with Russia, unpopularity of economic reforms and lack of a political consensus, there is no certainty that President Yushchenko's policies will succeed. Political instability in Ukraine may have negative effects on the economy and thus on the Group's business prospects, financial condition and results of operations.

Economic instability

In recent years, the Ukrainian economy has been characterised by a number of features, which contribute to economic instability, such as a weak banking system, tax evasion, capital flight and low wages.

Although the Ukrainian Government has generally been committed to economic reform, the implementation of reform has consistently been impeded by a lack of political consensus and controversies over privatisation, the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors and the limited extent of cooperation with international financial institutions.

The absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future. Under such circumstances, any failure of Ukraine to receive support from official creditors and international financial institutions could adversely affect Ukraine's financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which in turn may adversely affect the Group's business prospects in Ukraine, the financial condition of the Group and results of its operations.

Legal system

Ukraine's legal system is in transition and is therefore subject to greater risks and uncertainties than a more mature legal system, such as ambiguously worded laws and regulations, inconsistencies between different levels of laws and regulation, lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, relative inexperience of judges and courts and the general inconsistency in their interpretation, corruption within the judiciary and high degree of discretion on the part of governmental authorities.

Large parts of important legislation either have only recently become effective or are still pending in the Ukrainian Parliament. In many cases the implementing regulations contemplated in the legislation have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the legislation, which results in a lack of clarity and growing conflicts with regulatory authorities.

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain largely untested. The courts system is understaffed and underfunded. Judges and courts are generally inexperienced in business and corporate law. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. The recently introduced judicial reform made the Ukrainian judicial system even more complicated and hierarchical and is expected to prove even slower than before. Enforcement of court orders and judgments can, in practice, be very difficult in Ukraine. The State Execution Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine, but it has limited authority to enforce court orders and judgments quickly and effectively.

The uncertainties of Ukraine's legal system pose significant risks to the Group's growth potential in Ukraine, particularly with a view to its ability to enforce contracts, collect payments and effectively defend itself against unfair competition and claims from customers or sub-contractors.

Tax system

Ukraine has a number of laws related to various taxes and levies imposed by both central and regional government authorities. These tax laws have not been in force for significant periods of time, compared to more developed market economies, often resulting in unclear or non-existent implementing regulations. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems.

Whilst Management believes that the Group is currently in compliance in all material respects with the Ukrainian tax laws, it is possible that the relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may result in a material adverse effect on the Group's business and prospects in Ukraine.

TERMS AND CONDITIONS OF THE RETAIL OFFERING

These terms and conditions ("Terms") relate only to the Retail Offering.

The Combined Offering

The Combined Offering comprises up to 2 950 324 existing and new Shares (the Offer Shares), which are being offered to institutional investors in and outside Estonia (the Institutional Offering) as well as to the public in Estonia, including the employees and members of the supervisory council and management board of the Company and its subsidiaries, EE Grupp and its subsidiary AS Eurox (the Retail Offering). Up to 1 499 536 existing Offer Shares will be offered and sold by EE Grupp (the Selling Shareholder) and up to 1 450 788 new Offer Shares will be issued by the Company. The Selling Shareholder has granted the Global Coordinator an option (the Over-Allotment Option), exercisable within 30 days of the date of the commencement of trading in the Shares on the Tallinn Stock Exchange, to require the Selling Shareholder to sell up to an additional 327 814 existing Shares for purposes of covering possible over-allotments.

The division of Offer Shares between the Institutional Offering and the Retail Offering has not been pre-determined. The number of Offer Shares included in the Institutional Offering and in the Retail Offering will be decided by the Company and the Selling Shareholder in consultation with the Global Coordinator. This decision will be taken in conjunction with the allocation process, which will take place after the expiry of the Offer Period. The total amount of Offer Shares to be sold by EE Grupp and issued by the Company may decrease in case any part of the Combined Offering is cancelled – see "Cancellation of Combined Offering".

When deciding the division of Offer Shares between the Institutional Offering and the Retail Offering, the Company and the Selling Shareholder will consider mainly (i) the overall demand for the Offer Shares, (ii) the demand for the Offer Shares in the Retail Offering and (iii) the variance in the size of orders in the Retail Offering and the distribution of orders of different sizes in the Retail Offering. When deciding such division the Company and the Selling Shareholder aim to determine a proportion between the Institutional Offering and the Retail Offering which (i) gives the Company a wide shareholder base and (ii) can be expected to contribute to a stable and favourable development of the share price in the aftermarket.

The Company expects to announce the Offer Price and the results of the allocation process, including the division of Offer Shares between the Institutional Offering and the Retail Offering, no later than on 12 May 2006 through the Tallinn Stock Exchange and no later than on 15 May 2006 in one daily newspaper circulated throughout Estonia.

Offer Period

Investors may submit purchase orders for the Offer Shares (a "Purchase Order") during the offer period, which commences at **9 a.m. on 2 May 2006** and terminates at **4 p.m. on 11 May 2006** (the "Offer Period").

Cancellation of Combined Offering

The Company and the Selling Shareholder have reserved the right to jointly cancel the Combined Offering in part or in its entirety at any time until they have received the full payment for all the Offer Shares, if (i) the General Meeting of Shareholders fails to decide the issue of new Offer Shares prior to settlement and/or (ii) the Underwriting Agreement (as defined hereafter) among the Company, the Selling Shareholder and the Global Coordinator has not been entered into on or before 12 May 2006 or (iii) the obligations of the Global Coordinator under the Underwriting Agreement (a) have not become unconditional or (b) terminate prior to settlement. Any cancellation of the Combined Offering or any part thereof will be announced through the Tallinn Stock Exchange. All rights and obligations of the parties in relation to the cancelled part of the Combined Offering will be considered terminated at the moment when such announcement is made public.

Offer Price

The Company and the Selling Shareholder will decide the Offer Price in consultation with the Global Coordinator after the completion of the book-building process directed to the institutional investors. The Offer Price will be based on the tenders for the Offer Shares obtained from institutional investors, taking also into account the total demand in the Institutional Offering, the price sensitivity of such demand and the quality of the demand. The Offer Price will be in the Offer Price Range of EEK 82.50 – 97.80.

The Offer Price will be same in the Institutional Offering and in the Retail Offering.

Right to participate in the Retail Offering

The Retail Offering is directed to all natural and legal persons in Estonia, except the following categories of institutional investors ("*kutselised investorid*"):

(i) credit institutions, investment firms, investment funds and management companies of such funds, insurance companies and other authorised or regulated financial institutions;

(ii) the Republic of Estonia, regional and local government entities, Estonian Central Bank and international organisations;

(iii) natural persons and small and medium-sized enterprises who have been registered as institutional investors in the respective lists maintained by the Estonian Financial Supervision Authority;

(iv) companies which are not small and medium-sized enterprises; and

(v) financial institutions, whose sole corporate purpose is to invest in securities.

For the purposes of these Terms, a natural person will be deemed to be "in Estonia" if he/she has a securities account with Estonian Central Register of Securities ("ECRS") and his/her address recorded in ECRS records in connection with his/her securities account is located in Estonia. A legal person will be deemed to be "in Estonia" if it has a securities account with ECRS and its address recorded in ECRS records in connection with its securities account is located in Estonia and/or its registration code recorded in ECRS records is the registration code of the Estonian Commercial Register. A legal person will qualify as an institutional investor under paragraph (iv) above only if it provides its latest annual financial statements to the Global Coordinator and such financial statements evidence that it does not fall under the definition of "small and medium-sized enterprises" as set forth in the Estonian Securities Market Act. A person will qualify as an institutional investor under paragraph (v) above only if it provides a copy of its articles of association or partnership agreement to the Global Coordinator and such a document evidences that its sole field of activity is to invest in securities.

Submission of Purchase Orders

The Company and Selling Shareholder invite investors to submit Purchase Orders in accordance with these Terms. Purchase Orders may be submitted during the Offer Period. An investor may submit a Purchase Order only at the upper limit of the Offer Price Range, i.e. at EEK 97.80 ("Maximum Price").

Should an investor submit more than one Purchase Order, all Purchase Orders by the same investor will be added together and considered one single Purchase Order for the purposes of the allocation.

In order to submit a Purchase Order an investor must have a securities account with the ECRS. Such securities account may be opened through any custodian of the ECRS ("Custodian"). As at 28 April 2006 the following banks and investment firms operated as Custodians:

- Aktsiaselts Hansapank
- Aktsiaselts SEB Eesti Ühispank

- Nordea Bank Finland Plc Estonian branch
- AS Sampo Pank
- Aktsiaselts Lõhmus Haavel & Viisemann
- Aktsiaselts Eesti Krediidipank
- AS SBM Pank
- Tallinna Äripanga AS
- AS Parex banka.

An investor wishing to submit a Purchase Order should contact the Custodian operating its/his/her ECRS securities account and register a transaction instruction for the purchase of securities in the form set out below. The Purchase Order can be submitted by any means accepted by its/his/her Custodian (such as through personal visit to a branch office, via letter or internet).

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's Custodian
Security:	share of AS Eesti Ehitus
ISIN code:	EE3100039496
Number of securities:	maximum number of Offer Shares which the investor wishes to acquire
Price (per share):	Maximum Price
Transaction amount:	maximum number of Offer Shares which the investor wishes to acquire multiplied by the Maximum Price
Counterparty:	AS Suprema Securities
Securities account of counterparty:	99100869929
Custodian of the counterparty:	AS Hansapank
Value date of the transaction:	17 May 2006
Type of transaction:	"purchase"
Type of settlement:	"delivery against payment"

An investor may submit a Purchase Order either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Purchase Order.

An investor must ensure that all information contained in the Purchase Order is correct, complete and readable. The Company and the Selling Shareholder reserve the right to reject any Purchase Orders which are incomplete, incorrect or unclear.

An investor may submit a Purchase Order through a nominee account only if it/he/she authorizes and instructs the owner of the nominee account in writing to disclose its/his/her identity to the registrar of the ECRS (AS Eesti Väärtpaberikeskus). A Purchase Order submitted by an investor through the nominee account will be taken into consideration in the allocation only if the owner of the nominee account has disclosed the identity of such investor in writing to the registrar of the ECRS.

A Purchase Order will be deemed submitted and binding on the investor from the moment the registrar of the ECRS receives a duly completed transaction instruction from the investor's Custodian.

An investor bears all costs and fees charged by the Custodian in connection with the submission of a Purchase Order.

By submitting a Purchase Order an investor:

- accepts these Terms and agrees with the Company and the Selling Shareholder that these Terms will be applicable to the investor's acquisition of any Offer Shares;
- acknowledges that the Retail Offering does not constitute an offer ("*pakkumus"*) of the Offer Shares by the Company or the Selling Shareholder in legal terms or otherwise and that the submission of a Purchase Order does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of Offer Shares;
- accepts that the number of Offer Shares indicated by the investor in the Purchase Order will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the "Maximum Amount") and that the investor may receive less (but not more) Offer Shares than the Maximum Amount– see "Distribution and allocation";
- undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her in accordance with these Terms;
- authorizes and instructs its/his/her Custodian to forward the registered transaction instruction to the registrar of the ECRS;
- authorizes the Custodian and the registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to insert in the transaction instruction (i) the number of Offer Shares allocated to the investor as the number of securities, (ii) the Offer Price (as determined after the Offer Period) as the price per share and (iii) the amount reached by multiplying the Offer Price with the number of Offer Shares allocated to the investor as the transaction amount.

Amendment or cancellation of Purchase Orders

An investor may amend or cancel a Purchase Order at any time before the expiry of the Offer Period. To do so the investor must contact its/his/her Custodian through whom the Purchase Order in question has been made, and carry out the procedures required by the Custodian for amending or cancelling a Purchase Order (such procedures may differ between different Custodians). All fees payable in connection with an amendment and/or cancellation of a Purchase Order will be borne by the investor.

A cancellation of a Purchase Order becomes effective at the moment when the transaction instruction of the investor in question has been cancelled in the ECRS on the basis of the cancellation order received from the investor's Custodian.

Payment

By submitting a Purchase Order, an investor authorises and instructs the credit institution operating the investor's cash bank account connected to its/his/her securities account (which may or may not be also the investor's Custodian) to immediately block the transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these Terms. The transaction amount to be blocked will be equal to the Maximum Price multiplied by the Maximum Amount. An investor may submit a Purchase Order only when there are sufficient funds on the cash account connected to its/his/her ECRS securities account to cover the transaction amount.

Returning of funds

Should the Combined Offering be cancelled or in the event that an investor's Purchase Order is rejected, the funds blocked on the investor's cash account will be released in full by the Custodian on or about 17 May 2006. Should the Offer Price be lower than the Maximum Price and/or if the number of Offer Shares allocated to the investor is smaller than the Maximum Amount, the transaction amount in the investor's Purchase Order will be recalculated (by multiplying the Offer Price with the number of Offer Shares allocated to the investor) and the amount in excess of what the investor is required to pay for the allocated Offer Shares will be released to the investor on or about 17 May 2006. The Company and the Selling Shareholder assume no liability for the release of the amounts by the Custodian or for the payment of any interest accrued on the released amount during time when the amount was blocked.

Distribution and allocation

The Company and the Selling Shareholder reserve the right to reject any Purchase Order, which has not been completed and submitted during the Offer Period in accordance with all the requirements set out in these Terms.

The Offer Shares will be allocated to investors by using the stepped allocation methodology. Under the stepped allocation methodology, the Company and the Selling Shareholder, together with the Global Coordinator, will determine one or more allocation bands (in number of shares) and the allocation percentages applied in each band. This determination will take place as part of the allocation procedures after the expiry of the Offer Period. For example, assuming three allocation bands, that part of each Purchase Order which is within allocation band A (up to and including X Offer Shares) will be allocated α per cent, whilst that part of each Purchase Order which is within allocation band B (more than X Offer Shares up to and including Y Offer Shares) will be allocated β per cent and that part of each Purchase Order which is within allocation band C (more than Y Offer Shares) will be allocated γ per cent.

The principal criteria to be used in the determination of the bands and the allocation percentages are as follows: (i) the size of the Retail Offering (ii) the total demand for the Offer Shares in the Retail Offering (iii) the size of Purchase Orders in the Retail Offering and (iv) the number of investors who have submitted Purchase Orders in the Retail Offering.

All Purchase Orders (submitted in accordance with the Terms) shall be fully accepted up to 100 Offer Shares (included).

Each investor will be allocated a full number of Offer Shares without fractions. If necessary, the number of allocated Offer Shares will be rounded down to the closest full number of Offer Shares. Any remaining Offer Shares, which cannot be allocated using the process described above will be allocated to investors at random.

The table below illustrates the application of the allocation principles set forth above. The calculations in the table have been made on the following basis:

- four investors have submitted Purchase Orders – Jüri, Maie, OÜ X and Toomas;
- the total number of Offer Shares included in the Retail Offering is 750;
- there are three allocation bands A, B and C with respective allocation percentages of 100 per cent, 75 per cent and 7 per cent; and
- the Offer Price equals the mid-point of the Offer Price Range.

The information above has been used merely for the purposes of exemplifying the application of the allocation principles. Under no circumstances should an investor base its investment decision upon such information or consider such information as an indication of the actual allocation bands and percentages or the actual Offer Price and size of the Retail Offering.

		JÜRI	MAIE	OÜ X	TOOMAS	TOTAL
Maximum Amount [1)]		**68**	**143**	**908**	**2 345**	
Maximum Price (EEK)		97.80	97.80	97.80	97.80	
Transaction amount blocked (EEK)		6 650.40	13 985.40	88 802.40	229 341.00	
Total number of Shares in Retail Offering						**750**
Allocation bands	**Allocation %**					
Band A - 0 to 100 shares	**100% (α)**					
Part of Purchase Order within Band A		68	100	100	100	
Calculation		68 x 100%	100 x 100%	100 x 100%	100 x 100%	
Shares allocated to investor within Band A		**68**	**100**	**100**	**100**	**368**
Band B - 101 to 200 shares	**75% (β)**					
Part of Purchase Order within Band B		-	43	100	100	
Calculation			43 x 75%	100 x 75%	100 x 75%	
Shares allocated to investor within Band B		-	**32**	**75**	**75**	**182**
Band C - 201 - … shares	**7% (γ)**					
Part of Purchase Order within Band C		-	-	708	2145	
Calculation				708 x 7%	2 145 x 7%	
Shares allocated to investor within Band C		-	-	**49**	**150**	**199**
Shares allocated within Bands						**749**
Unallocated shares						1
Random allocation		-	**1**	**-**	**-**	**1**
Shares allocated to investors		**68**	**133**	**224**	**325**	**750**
Offer Price (EEK)		90.15	90.15	90.15	90.15	
Final (recalculated) transaction amount (EEK)		6 130.20	11 989.95	20 193.60	29 298.75	
Funds to be returned to the investor (EEK)		520.20	1 995.45	68 608.80	200 042.25	

[1)] Number of shares which the investor wishes to acquire, i.e. number inserted in the field "number of securities" in the Purchase Order.

The Company and the Selling Shareholder will decide the allocation after deciding the Offer Price after the expiry of Offer Period, and no later than on 12 May 2006.

An investor may obtain information about the number of Offer Shares allocated to it/him/her after the settlement has been completed by submitting an inquiry to the Custodian operating its/his/her respective securities account in accordance with the terms and conditions applied by that Custodian.

Preferential allocation to Employees

The employees and members of the supervisory council and management board of the Company, its subsidiaries and EE Grupp and AS Eurox ("Employee" or "Employees") may be given a preferential allocation in the Retail Offering. The bands to be used in the stepped allocation in respect of the Employees may be different from those used for other investors and/or the allocation percentages to be applied in each band may be higher in respect of the Employees than those used for other investors in the Retail Offering.

For the purposes of these Terms, an Employee means a person who, as at 8:00 AM on 2 May 2006, had a valid employment contract for an unspecified term with the Company, any of its subsidiaries, EE Grupp or AS Eurox or is a member of the supervisory council or management board of the Company, any of its subsidiaries, EE Grupp or AS Eurox.

Allocation to management and connected persons

The Company and the Selling Shareholder reserve the right to apply, in respect of the Management and Connected Persons, allocation bands and percentages which are different from those applied to other investors provided this is necessary to ensure compliance with the free float requirement set forth in the conditional listing decision of the Listing and Surveillance Committee of the Tallinn Stock Exchange of 26 April 2006, see “Listing”. For the purposes of the above, Management and Connected Persons means the members of the supervisory council, management board and other management (in Estonian: *tegevjuhtkond*) of the Group companies and their connected persons (*lähikondsed*) as at 8:00 AM on 11 May 2006.

Settlement and trading

The Offer Shares allocated to the investors will be transferred to their securities accounts on or about 17 May 2006 through the “delivery versus payment” method simultaneously with the transfer of payment for such Offer Shares. In no event will the date of settlement be later than 24 May 2006.

In the event that an investor has submitted more than one Purchase Order through more than one securities account, the Offer Shares allocated to such investor will be transferred to his securities accounts proportionally. The number of Offer Shares to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a full number of Offer Shares is transferred to each securities account. In the event that the settlement cannot be completed due to lack of sufficient funds on the investor’s cash account, the Purchase Order which was made through the securities account connected to such cash account will be rejected and the investor will lose all rights to the respective Offer Shares covered by such Purchase Order.

In order to facilitate settlement, some Offer Shares to be transferred to investors (corresponding to the number of new Offer Shares) will be temporarily borrowed from EE Grupp so that all investors in the Combined Offering will receive only existing Offer Shares.

Trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 18 May 2006.

Applicable Law and Dispute Resolution

The Retail Offering shall be governed by the laws of Estonia. Any disputes arising in connection with the Retail Offering shall be settled by the competent court in Estonia.

BACKGROUND TO THE COMBINED OFFERING

The purpose of the Combined Offering is to finance the Group's expansion, create a new source of finance to support the Group's development and broaden the Group's shareholder base. The Combined Offering provides the prerequisites for the Company's listing. The listing is expected to enhance the Company's profile among current and prospective customers, co-operation partners and prospective future employees to be recruited by the Company as well as eventually provide liquidity to the Company's existing shareholders.

For a discussion of the Company's plans concerning the use of proceeds from the Combined Offering, see "Use of Proceeds."

LISTING

In connection with the Combined Offering, the Company has applied for listing of its Shares on the Main List of the Tallinn Stock Exchange.

On 26 April 2006, the Listing and Surveillance Committee of the Tallinn Stock Exchange made a decision to list the Shares conditionally on the Main List of the Tallinn Stock Exchange. According to the decision, the following conditions must be met for the Shares to be listed:

- the Retail Offering has been completed in accordance with its terms and conditions and its results have been announced to the public and the Offer Shares have been transferred to the investors' securities accounts in the ECRS;
- as a result of the Combined Offering, at least twenty per cent of the Shares are held by the public;
- a market making agreement has been entered into in compliance with the requirements of the Tallinn Stock Exchange; and
- the Company has submitted to the Tallinn Stock Exchange a report confirming the fulfilment of the above conditions.

Trading in the existing Shares is expected to commence on or about 18 May 2006.

USE OF PROCEEDS

The aggregate net proceeds to the Company from the Combined Offering are estimated to amount to approximately EEK 122 million, after deducting the expenses of the Combined Offering, based on the mid-point of the Offer Price Range set forth on the cover of this Offering Circular. The fees and expenses incurred in connection with the Combined Offering and payable by the Company are estimated to amount to approximately EEK 9 million (including applicable taxes), based on the mid-point of the Offer Price Range.

The Company intends to use such proceeds to fund the business development and geographic expansion of the Group, as well as for other general corporate purposes. The Company may also use the proceeds to finance acquisitions of other businesses or interests in them.

The aggregate net proceeds to the Selling Shareholder from the sale of the Offer Shares and Additional Shares in the Combined Offering are estimated to amount to approximately EEK 155 million, after deducting the expenses of the Combined Offering, based on the mid-point of the Offer Price Range set forth on the cover of this Offering Circular. The Company will not receive any portion of the proceeds from the sale of the Offer Shares by the Selling Shareholder.

DIVIDENDS AND DIVIDEND POLICY

The Offer Shares will be eligible for dividends, if any, declared in respect of the financial year commencing 1 January 2006, and for subsequent periods. Once the share capital increase relating to the issue of new shares of the Company has been registered with Estonian Commercial Register, the newly issued shares will rank equally with the outstanding shares for any dividends.

The Company has historically paid dividends, although it has had no fixed dividend policy. The table below shows dividends on Shares that the Company has declared and paid for the last three years:

	2003	2004	2005
Aggregate amount dividend[1)], EEK	23 000 000	28 000 000	30 000 000
Number of Shares	3 000 000	3 000 000	3 481 894
Dividend per Share, EEK	7.7	9.3	8.6

[1)] Dividends paid to the shareholders of the Company.

The Company expects to continue paying dividends also in the future and to maintain the aggregate amount of dividends at the level of the financial year 2005. However, the Company cannot assure that dividends will be paid in the future or if dividends are paid, how much they will amount to. The declaration and payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management Board to be relevant at the time. Therefore, dividends paid historically are not representative of dividends to be paid in the future.

Moreover, the Company has entered into certain loan agreements with financial institutions, which require the Company to meet and maintain prescribed financial ratios. Because of these financial covenants, the Company must carefully consider how much dividends can be declared, if any.

As to the tax considerations applicable to the dividends, see "Taxation – Dividends". As to the procedure and regulatory restrictions relating to the payment of dividends, see "Company, Share Capital and Ownership Structure – Shareholder Rights – Dividends and other distributions".

CAPITALIZATION

The following table sets forth the actual capitalization and indebtedness of the Company based on consolidated figures as of 31 March 2006 and as adjusted for the Combined Offering and the application of the estimated net proceeds as described above under “Use of Proceeds”, expected to be EEK 131 million (not taking into account costs and fees to be paid by the Company). The estimate is based on the Offer Price of EEK 90.15. The table should be interpreted in conjunction with the financial statements presented elsewhere in this Offering Circular. For further information on the Company’s capitalization and indebtedness, see the Notes to the Financial Statements for the Financial Year Ended 31 December 2005.

	As of 31 March 2006	
	Actual	**As adjusted**
	(EEK)	**(EEK)**
Cash and cash equivalents		
Short-term interest-bearing liabilities	106 281	106 281
Long-term interest-bearing liabilities	184 264	184 264
Shareholders’ equity (including minority share)	203 973	334 762
Total capitalization and indebtedness	**494 518**	**625 307**

INDUSTRY OVERVIEW

European Construction Market

The construction sector is one of the most important drivers of the economies of the 25 members of the European Union. According to Euroconstruct estimates, it employs over 26 million people and its revenue reached EUR 1.2 trillion in 2005 or 10 per cent of GDP of EU. It can be broken down into three broad segments: residential, non-residential and civil engineering. Residential construction and renovation represent the largest part with 46 per cent of total revenue, followed by non-residential construction (24 per cent) and civil engineering (21 per cent). The sector is overwhelmingly dominated by 'micro companies', employing less than 500 people, which represent 97 per cent of all companies operating in this industry. Consequently no single company can be described as a dominant player either nationally or internationally. The few larger companies are increasingly acting as 'general managers,' outsourcing most of the work to cheaper and smaller companies which are often based in the new Member States which joined the EU on 1 May 2004. Geographically, Germany has the largest EU construction market generating 20 per cent of total sector output, followed by France, Italy and the UK.

The size of the Central and Eastern European ("CEE") construction sector, which includes most of the new EU Member States, reached 4 per cent, or EUR 48 billion, of total EU construction output in 2005. In the CEE, the breakdown between industry segment differs significantly from that in the 15 more developed European Union Members States (the "EU-15"). This difference reflects the rapid growth of GDP in the CEE countries. Non-residential construction accounts for 45 per cent of the CEE construction market, stemming from the demand for new and better facilities of growing businesses. Civil engineering projects represent 32 per cent of output and are expected to increase when more cohesion funds become available to the new EU Member States. Residential construction accounts for 23 per cent of the total, which is mostly new construction.

The CEE region has experienced strong growth in every major sector of the economy over the past 15 years, including the construction sector. The growth is expected to continue and even accelerate, as the accession to the EU presents new opportunities and responsibilities to the new Member States. Whilst new housing construction is the main growth driver in the EU-15 countries, infrastructure projects are the key driver in the construction sector in Eastern Europe. As countries in this region join or prepare to join the EU, they need to bring their infrastructure in line with the EU standards and regulations. A significant portion of international funds is invested in the construction or repairing of roads, railways, seaports and airports, environmental projects and water treatment facilities.

The table below sets forth the allocation of EU structural funds in 2004-2006:

Country	**Funds Available EUR mln**
Poland	12 810
Hungary	3 207
Czech Republic	2 621
Slovakia	1 757
Lithuania	**1 538**
Latvia	**1 164**
Estonia	**695**
Slovenia	456
Cyprus	113
Malta	89
TOTAL	**24 450**

Source: EUROPA

According to the 2007-2013 Financial Perspective passed by the European Council on 16 December 2005, the ten new Member States will receive a total of EUR 158 billion in structural funds over the period of seven years, EUR 62 billion of which will be used for further development of transport and environmental infrastructures.

The non-residential construction activity is expected to follow the general economic trend provided that this CEE region retains its current cost effectiveness and liberal legal requirements.

The demand for residential construction in the CEE is primarily driven by the need to replace the outdated multi-apartment housing structures that were mostly built over 40 years ago. Demand for detached houses is also increasing following the rapid rise in the individual income.

Baltic Construction Markets

The three countries Estonia, Latvia and Lithuania, surrounded by Finland in the north, Russia to the east, Belarus to the south and the Baltic Sea to the west, are home to 7.3 million people. In 2005 these three Baltic countries generated a GDP of EUR 37 927 million. With current GDP growth ranging from 7.0 per cent in Lithuania to 10 per cent in Latvia, the Baltic States are expected to remain one of the most dynamic regions in the EU over the next several years. According to the national statistical offices, the construction sectors of these three countries have grown significantly, with the Estonian construction sector demonstrating the strongest annual growth of 17 per cent on average in 2000-2004, followed by Lithuania (16 per cent) and Latvia (13 per cent). In comparison with the European average, the construction sector turnovers of the Baltic countries are relatively small compared to the national GDP, which implies that the construction output is expected to continue growing at an annual rate of 13-16 per cent. However, the three countries' ability to efficiently absorb EU cohesion funding is one of the key conditions for continued strong growth in the construction sector. This will require efficient planning and cooperation between the public and the private sectors. The EU funding earmarked for the Baltic countries for the period of 2004-2006 amounts to the total of EUR 3.4 billion, of which approximately EUR 1.4 billion is planned for co-financing of transport and environmental infrastructure.

Ukrainian Construction Market

To the south, bordering Russia, Poland, Belarus and the Black Sea, lies Ukraine, one of the largest European countries, which is home to 48 million people. In 2004 it generated a GDP of EUR 250 000 million, 12 per cent higher than in the previous year.

According to a research report prepared by Business Monitor International, in 2004 the value of the Ukrainian construction industry amounted to EUR 2 670 million. It is undergoing a revival, having grown 27 per cent in 2004. Compared to EU countries, the Ukrainian construction sector is largely underdeveloped, which indicates aggressive growth rates in the construction output as the whole economy expands. The number of people involved in construction business has fallen almost to a half from 1.5 million people in 1995 to 800 000 in 2004. The decrease is mainly attributable to increased efficiency, as private enterprises have taken over most of the sector in the past 10 years. As in the rest of Eastern Europe, the non-residential sector represents the largest share of the Ukrainian construction revenue, followed by a rapidly expanding new residential construction sector and civil engineering projects.

The activity in the Ukrainian non-residential construction sector concentrates mostly on building office and commercial premises in the four largest cities, while the industrial projects involve building independent energy infrastructure and improving the processing capacity of the country's main exports, such as metals, machinery and chemicals. Demand for offices and commercial premises exceeds supply, which has lead to increased construction activity in this segment. The construction of offices and commercial space increased by 25 per cent and 35 per cent, respectively, in 2004. According to Business Monitor International, Ukrainian construction companies have planned to build as much as 150 000 m² of new offices and commercial space in 2005 to meet increasing demand. The revenue generated by industrial construction is also on the increase, although development in this segment tends to be confined to natural resource companies developing their transport and processing capacities. In addition, the non-residential construction segment is expected to receive a boost from the country's improving image as a tourist destination. In the past, Ukraine served as a major vacation destination for millions of people of the former Soviet bloc, who were attracted by the region's warm climate and the Black Sea resorts. The country is not nearly as popular now, mainly due to undeveloped transport infrastructure and a deteriorating hospitality sector. A number of hotels have been recently built in Ukraine to address this issue, with future projects planned both in large cities and major vacation destinations.

Civil engineering projects in the infrastructure sector are forecasted to dominate the Ukrainian construction market in the next several years. According to government estimates, investments in telecommunication lines, energy systems, transportation and environmental infrastructures will amount to over EUR 30 billion over the next several decades. Furthermore, an increasing involvement of the European Bank of Reconstruction and Development (EBRD) is expected to boost growth, as EBRD plans to double its investment into the Ukrainian infrastructure to EUR 0.6 billion. Significant funds are expected to be directed towards the construction of international and local paved road links, expansion of gas transit capacity, building up to 11 new nuclear reactors and expansion of the seaports' throughput capacity.

Most of the residential Ukrainian construction activity takes place in the capital city of Kiev and the three other large industrial cities. Output in this sector has grown at a more moderate pace, mostly due to a lack of widespread mortgage financing as well as the introduction of the 20 per cent VAT on sale of new apartments, which significantly increased real estate prices. Nevertheless, demand for residential properties continues to increase, due to factors such as rising incomes and the need to replace the outdated Soviet-era housing. Currently, the average space per person in Kiev is half of the European average.

Estonian Construction Market

General overview

In 2004, the Estonian construction industry generated EUR 1 177 million in revenues and employed over 35 thousand people. Boosted by the expanding economy, it had grown 18.1 per cent in 2004 as compared to the previous year. According to the preliminary reports by the Estonian statistical office, in 2005 construction output has reached EUR 1 484 million, having grown 26 per cent as compared to 2004. The Estonian construction industry resembles those in the other Eastern European emerging economies with a majority of the revenue being generated in non-residential construction. However, the non-residential market is considered to have reached maturity and is not expected to expand much further in the future. Residential construction has been the real growth driver over the past several years, while civil engineering is forecasted to dominate the sector in the future, when Estonia absorbs more EU cohesion funding. In addition to EUR 0.7 billion of EU funding allocated to Estonia for 2004-2006, the Estonian Government approved on 20 February 2006, a preliminary distribution of a further EUR 3.4 billion earmarked for the country for the period of 2007-2013. The government has agreed to allocate 44 per cent, or EUR 1.5 billion of this amount to environmental and infrastructure projects. According to the general EU guidelines, 15 per cent of an EU-approved project has to be co-financed by the recipient government, which brings the total amount of funds dedicated to environmental and infrastructure projects close to EUR 1.8 billion or EUR 0.3 billion annually for 2007-2013. As a result, infrastructure projects are expected to surpass business and commercial construction as the dominant segment of the Estonian construction market.

The table below illustrates the size and development of the segments of the Estonian construction market in 2002-2004:

	Revenue							
	2002 EUR mln	**%**	**2003 EUR mln**	**%**	**2004 EUR mln**	**%**	**2005 EUR mln**	**%**
Non-residential building construction	448	*50.1*	491	*49.2*	512	*43.5*	n.a.	*n.a.*
Residential building construction	123	*13.8*	159	*15.9*	218	*18.5*	n.a.	*n.a.*
Civil engineering construction	323	*36.1*	347	*34.8*	447	*37.9*	n.a.	*n.a.*
TOTAL	**894**	***100.0***	**997**	***100.0***	**1 177**	***100.0***	**1 484**	***100.0***

Source: Estonian Statistical Office

The structure of the market is similar to other European countries, with 2 722 registered construction companies, of which only 2 per cent employ more than 100 people. In 2004, Estonian construction companies on average had 12 employees each. The majority of the large projects are awarded to the four biggest companies, who mostly act as 'general contractors' outsourcing most of the work to the smaller companies. The public sector involvement in constructions is very limited, apart from minor public works performed by local municipalities. In terms of geographical breakdown, Tallinn accounted for 41 per cent of all construction activities in 2004. Tallinn is the capital of Estonia located in the Harju county. Most of the residential and commercial construction takes place in Tallinn, while construction outside of the capital concentrates on environmental and public infrastructure projects.

The table below sets forth the breakdown of Estonian construction activity by county in 2004:

	Revenue	
	EUR mln	**%**
Harju county	644	*54.7*
Ida-Viru county	123	*10.5*
Tartu county	100	*8.5*
Pärnu county	79	*6.7*
Other	230	*19.6*
TOTAL	**1 177**	***100.0***

Source: Estonian Statistical Office

Non-residential and residential buildings construction

Non-residential buildings

Non-residential construction is the largest segment of the Estonian construction market representing 43 per cent, or EUR 512 million, of the total revenue in 2004. Historically, industrial/warehouse and office construction have been the two largest components of this segment, both of which experienced below average growth rates in 2004.

The table below illustrates the size and development of the Estonian non-residential construction segment in 2002-2004:

Non-residential construction	**Revenue**					
	2002 EUR mln	**%**	**2003 EUR mln**	**%**	**2004 EUR mln**	**%**
Industrial/warehouse	120	*26.7*	135	*27.5*	144	*28.0*
Public sector	86	*19.3*	79	*16.1*	110	*21.4*
Office premises	75	*16.7*	87	*17.7*	85	*16.6*
Other	166	*37.2*	190	*38.7*	174	*34.0*
TOTAL	**448**	***100.0***	**491**	***100.0***	**512**	***100.0***

Source: Estonian Statistical Office

As Estonia progressively transforms from an industrial economy in to a service-oriented one, the demand for industrial/warehouse segment is forecasted to decline. At the moment, the country is experiencing significant growth in the number of tourists attracted by a combination of European-class service, relatively low prices and well-preserved historic monuments. Consequently, construction of hotels and other guest accommodation facilities is expected to account for an increasing share of revenue in the non-residential construction sector. Another area of the economy that heavily relies on developed infrastructure is the transit of goods (mostly oil and oil products) from the former Soviet Union countries to the ice-free Estonian seaports. Storage facilities, harbour quays and other logistics infrastructure have attracted major investment in recent years. Volume of transit goods passing through the country's ports has grown by 28 per cent over the past five years, following the rise in the global demand for oil. This trend, however, is not considered sustainable in the long term, as Russia has recently initiated a number of significant seaport projects which are designed to minimize the cost associated with transporting oil through the neighbouring countries.

The market for office premises, concentrated in and around the capital city of Tallinn, experienced its strongest growth during 1996-1999 when the majority of the current office buildings were erected. This market is now considered saturated, with current demand only for high-end premises.

The only significant sub-sector in this category which experienced significant growth in 2004 was public sector construction, as a result of increased public spending by the government and the inflow of structural funding from the EU.

Residential buildings

The construction in the Estonian residential market constituted EUR 218 million of the revenue, or 19 per cent of the total market, in 2004. Over the past 5 years it has been growing at an annualized rate of 40 per cent, making it the fastest growing sub-segment of the Estonian construction market. Activity in this segment is almost solely concentrated on construction of multi-apartment housing. Demand is driven by the need to replace the outdated Soviet-era housing and the availability of mortgage financing from the local banks. As the number of available sites within the city borders diminishes, construction is moving towards suburban areas, where detached and terraced houses are also gaining popularity. Future growth in this sector will be driven by continued strong credit and the upturn of the residential markets in other major cities. According to the recently published data by the Estonian Central Bank, the total value of outstanding housing loans issued by the local banks as of the end of 2005 stood at EUR 2.6 billion, having grown 75 per cent as compared to the previous year.

The table below illustrates the development of the Estonian housing mortgage market in 2003-2005 and its value relative to GDP:

	Outstanding mortgage value					Outstanding mortgage value to GDP
	2003 EUR mln	2004 EUR mln	Growth %	2005 EUR mln	Growth %	2005 %
Estonia	950	1 500	*57.9*	2 620	*74.7*	*28.9*

Source: Bank of Estonia

Civil engineering construction – roads and infrastructure

The Estonian civil engineering market generated EUR 447 million in 2004, having grown 29 per cent since 2003. Electricity and communications lines and road construction account for 85 per cent of the revenue in this segment. When Estonia joined the European Union on 1 May 2004, it became eligible to receive EUR 0.7 billion in infrastructure financing, which has been the main reason for the recent strong growth in this segment.

The table below illustrates the size and development of the civil engineering construction segment in 2002-2004:

Civil engineering construction	Revenue					
	2002 EUR mln	%	2003 EUR mln	%	2004 EUR mln	%
Roads and transport infrastructure	142	*43.9*	155	*44.7*	209	*46.8*
Water and electricity networks	129	*39.9*	132	*38.0*	165	*37.0*
Sewerage and waste treatment	14	*4.3*	20	*5.8*	24	*5.5*
Other	38	*11.9*	40	*11.5*	48	*10.7*
TOTAL	**323**	***100.0***	**347**	***100.0***	**447**	***100.0***

Source: Estonian Statistical Office

Paved road infrastructure is one of the key areas that is expected to attract EU infrastructure support for Estonia in the coming years. According to the Estonian Road Administration, the projects involving EU financing for the period of 2005-2010 include construction and rehabilitation of 281 kilometres of paved roads and construction of a bridge to the island of Saaremaa.

Other areas of the country's infrastructure where significant investments are expected to be made include reconstruction of border stations, renovation of the electricity and water networks and upgrades of the water treatment facilities.

Competition

For discussion of the competitive environment, see "Business - Competition."

BUSINESS

Summary

The Group offers integrated services in all major segments of the construction business: residential and non-residential construction and civil engineering. Its primary focus is in major infrastructure projects such as roads, ports and environmental constructions, large-scale office or industrial developments and high-profile public buildings like concert halls and museums.

The Group operates as a pure main contractor and project manager in the residential and non-residential segments, and subcontracts most or all of the construction and design work to third parties. On the other hand, the Group executes infrastructure projects, such as roads and waste disposal sites largely with its own resources, without resorting to subcontractors. The Group is also involved in residential real estate development.

The customers of the Group include both public and private sector. The Group's customers for public buildings and road construction and maintenance tend to be of government agencies and municipalities. In residential, industrial and commercial buildings the customers are almost exclusively from the private sector. The customer base is mixed in hydro-technical and environmental construction, including both private and public entities. The customers of the Group vary from year to year, depending on the pending projects and the Group's success in project tenders.

The Group's mission is to provide its customers with the best possible integrated services in constructing and developing buildings and facilities, and thus enhance the value of customers' assets. The Group's success relies on its qualified and well-motivated project management personnel and extensive engineering know-how and expertise which is valued by the customers, especially in relation to complicated civil engineering projects.

Since its establishment in the end of 1988, the Company has succeeded in becoming one of the leading Estonian construction companies. The growth of the Group has been achieved by organic growth as well as acquisitions. Today, the Group includes the following main companies: the Company, ASPI, Järva Teed, Hiiu Teed, Linnaehitus, Eurocon, Eurocon Ukraine and Mapri Projekt. The Group operates in two geographical markets, Estonia and Ukraine.

Management believes that the Group's experience from technologically complicated large-scale civil engineering projects will enable the Group to take advantage of the anticipated growth in the Estonian civil engineering market. Nine years' experience from the vast and rapidly growing Ukrainian construction market gives the Group a good position to further expand its activities in the construction and real estate development sectors of the Ukrainian market.

Competitive Strengths

Eesti Ehitus is a leading construction group in Estonia, involved with non-residential and residential construction, road construction and maintenance, and other infrastructure projects.

The Group's competitive strengths include:

- ***Diversification.*** The Group has a strong market position in hydro-technical, environmental and road construction as well as commercial, industrial and public buildings construction. Management believes that a full range of construction services is a competitive advantage. In addition, diversification mitigates the vulnerability against changes in market demand in any one business segment. Extensive resources in different areas of business give the Group the flexibility needed for large and complicated construction projects. Due to its diversification, the Group is less dependent on outsourcing and sub-contracting. Furthermore, a large and diversified organisation enables and facilitates the development of extensive in-depth know-how on each business segment, which can be shared across the Group.

- ***Acknowledged expert in civil engineering construction.*** With more than 20 hydro-technical and port facility projects completed and over 1 billion kroons of revenue generated from these projects since 1995, the Group is considered as an expert in hydro-technical construction in Estonia. Strong presence in road construction and maintenance segment is achieved through ASPI, who was the second largest road construction company in Estonia in 2004 and 2005 in terms of revenue generation.

- ***Highly qualified and motivated employees.*** The Group has an educated and qualified work force, with low employee turnover. Out of some 700 employees, 261 have engineering qualifications. Approximately 60 per cent of these engineers have a university degree. Project management personnel, who are critical to the success of the Group, have on average worked for the Group for seven years.

- ***Proven management team.*** The Group has an experienced management team, which has been responsible for the Group's development for the past four years. The original founders of the Company are still actively involved in the strategic management of the Company as members of the Supervisory Council, and two major subsidiaries, ASPI and Linnaehitus are still run by their original founders. Each of these persons possesses around 25 years of industry experience. Mapri Projekt is also run by its original founders.

- ***Recognised for its innovative and creative approach.*** The Group has accumulated extensive project management know-how and expertise during its long operational history, which is valued by its customers, especially in relation to complicated civil engineering projects and considered by Management as one of the Group's major competitive advantages.

- ***Highly sophisticated integrated systems for project management.*** The Group has developed a sophisticated integrated information technology system for managing construction projects, which provides a strong platform for enhanced management capabilities and improved resource allocation. The project management systems are also integrated with the Group's accounting and human resources systems. Furthermore, the Group has developed and follows strict project management practises including documentation procedures that enhance efficiency and reduce risks inherent in the construction business.

- ***Integrated IT systems.*** The Group has integrated information and communication technology systems across almost all of its operations, which facilitate fast communication and efficient decision making. This is essential for participating and winning construction tenders and finding solutions to bottle-necks in the construction processes.

- ***Qualified for both local and national tenders.*** In addition to Tallinn, the Group has a presence in Harju, Tartu, Järva and Hiiu counties, which gives it an advantage in competing for local projects and makes the Group better equipped to implement national projects located outside the Tallinn area.

- ***Operations in Ukraine.*** Eesti Ehitus has been active in Ukraine for almost 9 years, originally constructing major industrial installations, which enabled the Group to establish a strong reputation in this rapidly expanding market. Ukraine is one of the fastest developing countries in the former Soviet Union / CEE area, and its long experience in operating in the Ukrainian market gives the Group an advantage in expanding its operations there.

Strategy

The Group's strategic objective is to continue improving and consolidating its position as one of the leading construction groups in Estonia and capitalize on its experience in the Ukrainian market for further expansion.

The Group intends to achieve its strategic objectives by:

- ***Remaining focused on main contracting and project management services in selected business segments.*** The Group intends to remain focused on its current business segments of residential and non-residential, road construction and maintenance and infrastructure construction, both as a main contractor and project manager. In addition, the Group is selectively engaged in real estate development projects in co-operation with its strategic partners or on its own, although Management does not envisage the Group's own real estate development to account for more than up to 20 per cent of the total revenue of the Group.

- ***Continuing to expand the Group's operations in Estonia and Ukraine.*** The Group proposes to expand and enhance its position in Estonia and Ukraine by capitalizing on the Group's local expertise, established contacts with local customers and suppliers and familiarity with the local culture and working conditions. The Group's experience from large-scale technologically complicated civil engineering projects puts Eesti Ehitus in a strong position to take advantage of the anticipated growth in Estonian infrastructure and environmental construction markets fuelled by past under-investment, growing state budget and funding from EU structural funds. Nine years of activities on the vast and rapidly growing Ukrainian construction market gives the Group a good position to further expand its activities in construction and real estate development sectors of the Ukrainian market.

- ***Expanding to new geographical markets***. The Group continuously analyses opportunities in the markets close to Estonia in order to expand to new geographical markets where it can capitalize on its existing expertise and experience, either through acquisitions or by entering into joint ventures with partners whose resources, capabilities and strategies are complementary to those of the Group. Management believes that the Lithuanian construction market presents currently the best growth opportunities for the Group.

- ***Enhancing the Group's project management capabilities further to sustain a high level of efficiency.*** The Group intends to continue enhancing and developing its project management capabilities and improve efficiency of its operations, by introducing advanced technologies, designs and project management tools to increase productivity.

- ***Enhancing the Group's engineering capabilities.*** The Group plans to continue enhancing its engineering capabilities in order to provide more value added engineering services and to win larger and technically more complex projects, especially in the civil engineering sectors. The Group aims to recruit young promising engineers and give them extensive training and work experience, which Management believes will safeguard the Group with an adequate supply of resources for its future development.

- ***Remaining focused on performance and quality.*** The Group intends to continue focussing on performance and project execution in order to maximize both customer satisfaction and profitability. The Group has a reputation for high quality and reliable main contracting and project management service. Management believes that the Group's high quality standards can be maintained and developed further through continued recruitment of high-quality staff, planning of resources, specific training, and continuous control and audits.

- ***Developing and maintaining strong relationships with customers and strategic partners.*** The Group's business depends on large civil engineering projects undertaken by public sector and funded by governments or international and multilateral financial institutions. Such projects require joint ventures or a consortia or sub-contracting relationships with other construction companies. The Group proposes to actively seek project-based strategic alliances with suitable partners, whose resources, skills and strategies are complementary to those of the Group.

History

The origins of the Company go back to the foundation of a Finnish-Soviet joint venture SRV Eesti Ehitus in 1988. The joint venture commenced operations in the first half of 1989. Its first project was to construct water purification equipment for a meat processing plant, Rakvere Lihakombinaat, in northern Estonia. With 17 years of operating history, the Company is one of the oldest construction companies in the Estonian construction market.

In 1990-2000 the Company operated mainly in the Estonian and Russian construction markets as a general contractor and a project manager. In Estonia, it constructed office buildings, industrial production premises and port facilities. The Company's best known projects from this period include a concrete production facility for E-Betoonelement (1989-1990), the Paulig coffee factory (1992-1994), a warehouse and expansion of a production facility for Coca-Cola Eesti (1993-1994), an office building at Rävala Street, in Tallinn (1996-1997), rebuilding of a concert hall of Vanemuine in Tartu (1998) to name a few. In the Russian market, the Company focussed on building military accommodation for Soviet Army officers returning from Germany. Following the Russian economic crisis in 1997-98, the Company shifted its export activities from Russia to Ukraine which had been identified as a new and promising market.

SRV, a Finnish construction company and a major shareholder of the Company, withdrew from the joint venture in 1996, which was renamed OÜ Eesti Ehitus.

By 2000, the Company had developed into one of the major construction companies in Estonia, managing annually up to 25 projects and generating revenue of more than 500 million Estonian kroons.

In connection with a reorganisation in 2002, the Company introduced new management structures which laid the foundation for further rapid growth in revenues and profits. The same year, the Company acquired 53 per cent of shares of ASPI, a road construction and maintenance company and 51 per cent of shares of Linnaehitus, a real estate development and general construction company operating in southern Estonia. In both cases, the Company acquired these shares from its parent company EE Grupp, which had acquired them in 1998.

Even though the Company had closely co-operated with these two companies before, the acquisition in 2002 enabled the Company to fully integrate ASPI and Linnaehitus into the Company's organisational and management systems. These acquisitions gave the Company critical mass to develop high quality services for construction, renovation and maintenance of roads and other infrastructure, and enhanced its real estate development business.

In parallel to these changes in the corporate structure, major changes took place in the Company's management. The Company was reorganised as a public limited company, AS Eesti Ehitus. The major individual majority shareholders of the Company who had previously formed its operational management moved to the newly formed Supervisory Council and a new management team led by the Chief Executive Officer Mr. Jaano Vink was introduced. Almost the same management team remains responsible for running Eesti Ehitus today.

The Group's revenues exceeded 1 billion kroons for the first time in 2003. In the same year, the Group introduced a fully integrated project management and accounting software, which covers the key areas of its operations. This software was rolled out across the Group in the course of 2003. Eesti Ehitus was among the first construction companies to implement such an extensive software solutions in Estonia. The software has facilitated the Group to achieve significant improvement in cost controls and efficiency of its activities. Furthermore, the introduction of the software has enabled a better communication throughout the organization, which in turn has given Management a more efficient control over the Group.

The Group established a subsidiary in Ukraine, Eurocon Ukraine, in 2003, in order to further strengthen the Group's position in that market. Even though the Group had already been active in the Ukraine already for six years, until that time the Company had conducted its Ukrainian operations directly. The subsidiary was incorporated and registered as a Ukrainian limited liability company. The Company owns Eurocon Ukraine through an Estonian subsidiary, Eurocon, which was formed in the same connection.

The rapid development of the Group continued in 2005. The Company acquired a 52 per cent interest in Mapri Projekt, a company specialising in the construction of cast-on-site concrete structures. This acquisition strengthened the Group's position in the construction industry further, because concrete is currently a major factor in every construction project. Acquiring a controlling interest in Mapri Projekt was strategically important and essential for the future development of the Group. As this company was acquired relatively recently, Group is still in the process of integrating Mapri Projekt into the procedures, systems and policies of the Group.

Also in 2005, the Company acquired the remaining minority shareholdings in ASPI and Linnaehitus, which consolidated the 100 per cent ownership of these subsidiaries into the Group. The Group recruited three new members of senior management for its Ukrainian operation, with a task to expand the Group's activities in Ukraine.

In the following table the most significant construction projects in the history of the Group have been described. As to ASPI and Linnaehitus significant projects since 2002 have been included.

Date	Description
1996 - 1997	The Company was awarded the contract to build a **parking house at Rävala Road**, which involved the first use of steel reinforced concrete in a building in Estonia.
1997 - 1998	The Company acted as the main contractor for the Estonian Customs Board in the project to construct **Luhamaa border station**, the largest Estonian border facility thus far.
1998 - 1999	The Company was awarded the contract to rebuild the **head office for Hansapank**, the leading Baltic commercial bank.
1997 - 1998	The Company was awarded the contract to build **Imavere Saeveski**, the largest saw mill in Estonia.
1999 - 2000	The Company acted as the main contractor in building a new **5th quay and passenger gangway for the Port of Tallinn**, which remains the biggest hydro-technical construction project in Estonia built in a functioning harbour.
1999 - 2000	The Company was awarded the contract to build the first stage of a **container terminal in the Port of Muuga**, which involved building a technologically advanced and unique construction of 50 x 200m on steel piling over the sea. The Company received the Estonian "Concrete Building of a Year 2001" award for this construction.
2000	The Company was awarded the contract to build a **central warehouse for Kesko Eesti**, a leading regional wholesaler.
2001 - 2003	The Company was awarded the contract to build the **Galvex galvanization plant**, the largest greenfield investment made in Estonia to date.
2001 - 2004	The Company acted as the main contractor in building **Eurox Office Building**, a class A office building in the central part of Tallinn.
2002 - 2003	The Company was awarded the contract to build a **logistical centre for DFDS Transport AS**, a leading global supplier of transport and logistic services.
2001 - 2003	Linnaehitus acted as the main contractor building three **multi-apartment buildings in Tartu**, which at the time of construction was the largest residential real estate project in the Tartu area.
2003 - 2004	ASPI was a leading partner in a consortium to rebuild ca 40 km of the **Tallinn-Pärnu highway**, part of the Via Baltica route. This is one of the largest road construction projects in the history of ASPI.
2003 - 2007	The Company and ASPI have both been lead contractors in different stages of the decommissioning of a **radioactive waste disposal site in Sillamäe,** which is a unique project in terms of its size and nature in Eastern Europe.
2004 - 2006	The Company was awarded the contract to build **a main building for Tallinn University**.
2003 - 2005	The Company acted as the main contractor building **the first stage of Port of Sillamäe** in North-Eastern Estonia, the only entirely new cargo port built in Estonia since independence.
2004 - 2005	The Company was awarded the contract to build **a distillery in Tsherkassi**, Ukraine, which is the largest project of Eesti Ehitus in Ukraine to date.
2000 - 2005	Linnaehitus was awarded the contract to build an **extension to Lõunakeskus, the largest shopping malls in southern Estonia**, and related winter sports facilities.
2005	ASPI participated in a consortium that reconstructed a part of the **Tallinn-Narva highway between Jõelähtme and Maardu**. Tallinn-Narva highway is one of the major transportation routes in Estonia. This was one of the largest road reconstruction projects in Estonia since it regained its independence.

Operational Segments

The Group offers integrated services in every major segment of the construction business: residential and non-residential construction, road construction and maintenance, and other infrastructure segments. The Group operates as a pure main contractor and project manager in the residential and non-residential segment, and subcontracts most or all of the construction and design work to third parties. On the other hand, the Group executes road construction and maintenance as well as other infrastructure projects largely with its own resources, without resorting to subcontractors. The Group is also involved in residential real estate development. Most of the residential construction of the Group is construction for the Group's own development projects.

The operational segments of the Group can be summarised as follows:

Group

Residential and non-residential construction	**Civil Engineering**
▪ Non-residential buildings: o industrial premises and warehouses o commercial buildings o public buildings ▪ Residential buildings o apartment buildings	**Road projects** ▪ road construction ▪ road maintenance **Other infrastructure** ▪ hydro-technical structures ▪ environmental structures o waste disposal sites o pipes and utility lines
the Company Mapri Projekt Linnaehitus Eurocon Ukraine	the Company ASPI

For analysis of revenue structure and development please see section "Management's Discussion and Analysis of the Group's Financial Condition and Results of Operations".

In order to assure that its operations conform to current international standards and best practises, the Group obtained ISO qualifications from the certification company Det Norske Veritas. The Company was awarded with the quality management certificate ISO 9001:2000 and construction main contractor certificate ISO 14001:2004. ASPI has been awarded with a quality management certificate ISO 9001:2000 and environment management certificate ISO 9001:2000, ISO 14001:1996. Linnaehitus has been awarded with quality management certificate ISO 9001:2000.

Residential and non-residential construction

The Group's operations in the residential and non-residential construction segment can be divided into the following categories:

- industrial and warehouse buildings;
- commercial buildings;
- public buildings; and
- residential buildings.

The residential and non-residential business segment of the Group comprises of four companies: the Company, Linnaehitus, Mapri Projekt and Eurocon Ukraine.

The Company has been involved in the residential and non-residential construction segment for the past 17 years and specialises mainly in constructing industrial facilities and warehouses as well as public and commercial buildings. The Company considers its expertise in the construction of industrial facilities and warehouses one of its key competitive advantages. The Company operates as a pure general contractor and outsources all project design and construction functions to subcontractors. However, it has two experienced and three junior in-house design engineers whose role is to assist with projects of exceptional complexity and when timetables fail in other projects. In 2005, total revenue, operating and net profit of the Company were 618 million kroons, 25 million kroons and 39 million kroons, respectively. These figures include also the civil engineering segment.

Linnaehitus concentrates on constructing public, residential and commercial buildings mostly in the southern part of Estonia. It operates mostly as a main contractor and project manager. In 2005, total revenue, operating and net profit of Linnaehitus were 365 million kroons, 42 million kroons and 37 million kroons, respectively.

In the Ukrainian market, the Company is recognized as an expert in industrial buildings. Most of the Group's initial Ukrainian projects originated from Baltic Beverages Holding (BBH), a joint venture between Carlsberg and Scottish & Newcastle Breweries and a leading brewery company in Russia, Ukraine and the Baltic countries. The complexity and scale of these projects as well as the construction of the biggest distillery in Europe, allowed the Group to establish a strong reputation in the Ukrainian construction market. In line with the Company, Eurocon Ukraine acts as a pure general contractor without a construction workforce of its own. Until the end of 2005, the project management of the design work for Eurocon Ukraine was performed by other Group companies in Estonia. In 2005, total revenue, operating and net profit of Eurocon Ukraine were 103 million kroons, 16 million kroons and 11 million kroons, respectively.

Mapri Projekt is engaged in constructing cast-on-site concrete structures and acts as a main contractor and project manager in smaller construction projects. In 2005, total revenue, operating and net profit of Mapri Projekt were 84 million kroons, 6 million kroons and 6 million kroons, respectively.

For a detailed description of the manner in which the Group executes its construction projects see "Business - Operations".

Industrial and warehouse buildings

The Group has executed numerous projects involving construction of industrial facilities and warehouses in Estonia, Ukraine and Russia. The Group has experience from building industrial facilities and warehouses in food and beverage, transport and logistics, agricultural and metal processing sectors. The most significant projects in this sub-segment are listed in the following table.

Project name	**Year of construction**	**Builder**	**Location**
Kolos factory construction	1990; 1994-1995	the Company	Lviv, Ukraine
Paulig coffee factory construction	1992-1994	the Company	Estonia
Shumilkino customs warehouse	1996	the Company	Shumilkino, Russia
Slavutitchi brewery rebuilding	1997-1998	the Company	Zaporozhje, Ukraine
Rebuilding of Coca-Cola factory in Tallinn	1998	the Company	Tallinn, Estonia
Balti Transport office and warehouse building	1999-2000	the Company	Tallinn, Estonia
Kolos brewery	2000	the Company	Lviv, Ukraine
Kesko Agro Eesti central warehouse	2000	the Company	Harju county, Estonia
Tamro Eesti medicinal products distribution centre	2000-2001	the Company	Tallinn, Estonia
Galvex Estonia sheetmetal galvanisation facility	2001-2003	the Company	Harju county, Estonia
DFDS Transport logistics centre	2002-2003	the Company	Harju county, Estonia
Balbiino ice cream factory alteration	2002-2003	the Company	Tallinn, Estonia
Distillery in Tsherkassi	2004-2005	the Company	Tsherkassi, Ukraine
Zvenigorodka cheese factory rebuilding	2002-2003	the Company	Zvenygorodka, Ukraine

Commercial buildings

The primary commercial construction projects of the Group include retail space developments, banks, embassies and office buildings. The most significant projects in this sub-segment are listed in the following table.

Project name	Year of construction	Builder
Eesti Ehitus and Eesti Energia office building	1989-1991	the Company
Rävala office building	1996-1997	the Company
Hoiupanga office building and multi-storey car park	1996-1997	the Company
German embassy	1997-1998	the Company
Danish embassy	1998	the Company
Hansapank office building (Liivalaia 12)	1998-1999	the Company
Pirita Selver supermarket	2000	the Company
Estonian Republic Embassy rebuilding in Berlin	2000-2001	the Company
Eurox office building	2001-2004	the Company
London hotel in Tartu	2001 - 2002	Linnaehitus
Lõunakeskus construction	2000-2005	Linnaehitus
Tirsi supermarket	2003	Linnaehitus
Mercedes Benz car centre	2003-2004	Linnaehitus
Pallas Hotel construction	1998-2999	Linnaehitus
Lvov hotel construction	2005 - pending	Eurocon Ukraine

Public buildings

The Group's most significant projects involving public buildings include

Project name	Year of construction	Builder
Vanemuise Concert Hall rebuilding	1998	Linnaehitus
Luhamaa border station	1998-1999	the Company
Valga-Valka common border station with Latvia	1999-2000	the Company
Tallinn Central Library rebuilding	2000-2001	the Company
Tiit Sokk Basketball school	2001-2002	the Company
Nõmme Private School rebuilding	2002	the Company
Lasnamäe sports hall	2002-2003	the Company
Estonian National Art Museum (KUMU) construction	2003-2005	the Company
Tallinn University main building	2004-2006	the Company

Residential buildings

Whilst the Group has been involved with the construction of apartment buildings, semi-detached houses and dormitories, this sub-segment is not among its primary focus businesses. Most of the residential construction of the Group is constructed for the Group's own development projects. See "Business – Operational Segments – Real estate development". The Group's major residential construction projects for third parties include a dormitory for Tartu University built in 2002 by Linnaehitus and new residential project undertaken in the centre of Tallinn at Luther residential block in 2005 by the Company.

Civil engineering

The Group's operations in the civil engineering segment can be divided into:

- road construction and maintenance; and
- other infrastructure projects (hydrotechnical and environmental construction).

Expertise in infrastructure projects is one of the core competences of the Group. During the past ten years the Group has successfully completed 10 major harbour projects, has constructed or rehabilitated four waste disposal sites and during the last five years has laid over 600 000 tons of asphalt. Such extensive experience has this far remained unchallenged by competitors and gives the Group a considerable competitive advantage when tendering for sophisticated civil engineering projects.

Road construction and maintenance

ASPI specialises in road construction throughout Estonia, including constructing and maintaining roads and asphalting areas around buildings. The company is headquartered in Tallinn, with several representative offices in other parts of the country. The company was established in 1990, when 14 management members and employees of the Harju Road Administration formed a commercial company to perform road construction services. Since that time, ASPI has become one of the largest road construction and maintenance companies in Estonia, with two wholly-owned subsidiaries in the Järva and Hiiu counties. As part of the Group, ASPI can participate in the largest and most complicated projects. In 2005, total revenue, operating and net profit of ASPI were 597 million kroons, 28 million kroons and 20 million kroons, respectively.

The road construction business segment can be divided into the following categories:

- asphalting;
- milling;
- stabilising; and
- kerb installation.

ASPI offers a full range of asphalting services with its own workforce. As at the end of 2005, the company employed four asphalt-laying teams. The only services outsourced to subcontractors are installation of traffic signs and road barriers and painting of traffic lines. These outsourced services tend to account for only a minor part of the total project cost, and outsourcing them saves the Group the cost of maintaining its own resources for these highly competitive low-margin services.

The company has made significant investments in machinery and equipment over the last ten years and now has now a modern asset base. Its first major investment was the purchase of an asphalt-laying machine in 1993. Since then, the company has modernized its fixed asset base by acquiring only the most modern equipment available. For example, in 1999 it purchased one of the first mobile asphalt mixing plants in Estonia. This plant set a new standard for the industry, as ASPI could now relocate its plant to any location in Estonia within five days. The company now owns two mobile plants of this type, which make it self-sufficient in asphalt production.

ASPI intends to continue upgrading its machinery frequently and plans to keep the average age of its equipment under three years. For the time being, Management is not planning a major expansion of asphalting capacity, as the current resources allow the company to meet the existing demand.

Milling means either removing old asphalt or levelling roads with uneven surfaces, and it is customarily provided in conjunction with the asphalting service. Management believes its milling crew to be the most experienced in Estonia. The company owns one milling machine for use on the highways and two smaller ones for urban work.

Stabilising involves milling of old asphalt, re-mixing it with a stabilising substance and re-laying asphalt. There was demand for this service in the second half of the 1990's, as it costs 50 per cent less than laying new asphalt. By the year 2000, the market for stabilising old roads had ceased to exist because of environmental and quality concerns. Oil shale bitumen, which is used as the stabilising substance, is highly dangerous for the surrounding environment and its quality can be variable. Management believes that the stabilising service market may reappear in near future, as cement has replaced oil shale bitumen as a stabilising substance, which reduces the environmental concerns associated with stabilising. Management expects most of the demand to originate from local municipalities, who could use stabilising to make secondary gravel roads dust free.

ASPI provides a kerb installation service only as an ancillary service to major road construction projects. There is no specialised machinery available for this labour intensive work. Kerb installation is a minor source of revenue for the company, which employs only three full time workers for these services.

ASPI has road maintenance agreements with the counties of Järva and Hiiu, as well as with the Keila district. The company acquired two wholly-owned subsidiaries, Järva Teed and Hiiu Teed, in 2002, which provide road maintenance services to municipalities in Järva and Hiiu counties. Maintenance contracts are normally concluded for an average term of 3 years and cover performing road maintenance during the summer and winter periods. In general, pricing of the maintenance work is reviewed annually. ASPI established a further road maintenance department for the Tartu district in 2004.

The road maintenance service contracts for the summer period cover coating, repair works, maintenance of pavement marking lines and road signs, waste management and lawn moving. ASPI provides all these services, except marking lines and road sign replacement and maintenance, which are outsourced to subcontractors. Road maintenance in winter includes snow and ice removal, as well as de-icing with salt treatment. ASPI provides all winter services with its own workforce and equipment.

ASPI's major road construction projects include:

Project name	Year of construction	Builder
Risti-Koluvere major repairs	2003	ASPI
Tallinn-Rapla-Türi major repairs (Lelle-Lokuta)	2003	ASPI
Tallinn-Pärnu major repairs (VIA Baltica)	2003-2004	ASPI
Ratla-Valjala major repairs	2005	ASPI
Kernu-Kohila major repairs	2005	ASPI
Tallinn-Narva major repairs (Jõelähtme - Maardu)	2005	ASPI
Piibe highway major repairs (Aegviidu - Kukevere)	2005	ASPI

Hydro-technical structures

Hydro-technical construction comprises erecting and renovating breakwaters, berths, jetties and other port facilities. The Company specialises in these projects, alongside with ASPI which has experience from building breakwaters and moles. In the hydro-technical sub-segment the Company acts mostly as the main contractor and project manager. The Company has been actively involved in construction of hydrotechnical structures since 1995. The Company has gradually built a considerable expertise in this area. It selected Terramare Oy, now a subsidiary of an international dredging contractor, Royal Boskalis Westminster NV, as its strategic partner in Estonia. Initially, the Company participated in tenders in consortium with Terramare Oy, whose knowledge and experience helped win the initial tenders. Later on, the Company received orders for several large-scale port construction projects and became an experienced player itself. The Company has leased equipment from Terramare Oy in most of its port construction projects since 1995. The Company continues to rent and import all of the port construction equipment required on individual projects, as investments in such equipment would require major financial outlays and there is only a limited usage for it in Estonia.

The Company is involved only in port construction and has not undertaken any marine construction in the open sea.

Since 1995, the Company has completed more than 20 hydro-technical and port facility projects for the total value of over 1 billion Estonian kroons. The construction of the first stage of the Port of Sillamäe has been the Company's largest hydro-technical project this far. This contract involved construction of a one-kilometre long breakwater, four container berths and a double-sided oil jetty. In addition, the Company has rebuilt and reconstructed a number of berths in most of the four harbours of the Port of Tallinn.

Engineering expertise is a key prerequisite for a successful hydro-technical project, either in-house or through a highly competent strategic partner. Most tenders for hydro-technical structures require the bidder to submit a project design plan specifying the proposed engineering solution. The quality of such solution has a major effect on the cost competitiveness of the bid. For the medium and large-scale tenders, the engineers of the Company and Terramare Oy work closely together in order to find the most suitable solution for the customer.

Once the solution is found, the next critical decision is to select a competent design contractor for the project. To date, the Company has mostly used Merin AS as its design subcontractor in the hydro-technical projects. The pool of subcontractors in this segment has grown gradually and currently the Company can choose from a number of potential project partners in this field.

The Company's major references in the field of hydrotechnical projects include:

Project name	Year of construction	Builder
Muuga Port 7th quay construction	1995-1996	the Company
Tallinn Port 5th quay construction and passenger gallery	1998	the Company
Muuga Port container terminal construction	2000-2001	the Company
Tallinn Port cruise quay construction	2003-2004	the Company
Sillamäe Port mole construction	2003-2005	the Company
Sillamäe Port double sided oil-jetty and cargo beths construction	2004-2005	the Company

Environmental structures

ASPI is mainly responsible for the Group's operations in the field of environmental construction. This business segment can be divided into two categories:

- waste disposal sites; and
- pipe and utility networks.

The major part of environmental construction is related to earthworks services. ASPI is one of the few companies in Estonia capable of executing large landmass projects. Earthworks also forms part of the road construction where earthworks are required for building the foundation for roads and parking lots, soil peeling, backfilling and structural layers. A majority of the Group's road construction projects include these earthworks.

One of the Group's largest earthworks projects this far has been ASPI's more than 100 million kroon project for the construction of the Port of Sillamäe. ASPI has this far been the sole earthworks contractor on this site.

The Group is the leading contractor in one of the largest Estonian environmental projects, which is also located in Sillamäe. The Group has been appointed to cover up a large waste disposal site with soil. The project started in 2000 and will be completed in 2007. Up to date, the company has moved close to 2 million cubic meters of soil in Sillamäe, with a total of 3 million cubic meters to be moved before the project is completed. Once the project is completed, the former waste collection site will be completely covered and the location will resemble a naturally formed hill covered with lawn and trees. Furthermore, ASPI has been contracted by an electricity company, AS Narva Elektrijaamad to construct a water treatment facility for the purpose of treating the alkaline water and lead a closure of an ash field number 2 in Narva.

Apart from two bulldozers owned by ASPI, the Group has restricted its investments in earthworks equipment in machinery, which cannot easily be leased from third parties. ASPI subcontracts transportation and other services related to this activity from companies specialising in leasing road construction and earthwork equipment and machinery.

In the sub-segment of pipes and utility lines, ASPI constructs water, storm water and sewerage networks. The company's primary equipment for pipe and utility networks' construction are shovel loaders. The average age of this equipment is less than three years.

Project name	Year of construction	Builder
Slavutitchi brewery's water treatment plant in Ukraine	2000	the Company
Sillamäe radioactive waste disposal site rehabilitation	2000-2007	ASPI
Closure of Kotinuka waste disposal site	2004-2005	ASPI
Water and sewerage lines at Lauliku Street in Tallinn	2005	ASPI
Construction at Uikala landfill	2005-2006	ASPI
Water and sewerage lines at Rapla	2006	ASPI
Water supply system for a fire brigade in Muuga port	2006	ASPI
Closure of ash field no 2 in Narva	2005-2007	ASPI

Real estate development

In addition to its construction operations, the Group is also involved in the real estate development business through Linnaehitus in the southern part of Estonia and the Company in Tallinn. The real estate development activities of the Group thus far are limited to the residential sector and involve development of multi-apartment buildings for private individuals. The first real estate development project of the Group started in 2001 and involved developing three 4 to 5-storey buildings in Tartu with a total net area of 7 955 square meters. This project was the largest residential development project in the Tartu region at the time. The development of apartment buildings in Õie Street in Tallinn was completed in 2004 and it was awarded a prize for the best Estonian glue-laminated timber construction in 2005.

The Group's real estate development projects include:

Project name	Year of construction	Builder
Näituse apartment buildings, Tartu	2001 - 2003	Linnaehitus
Urva apartment building	2002	the Company
Veskitammi apartment buildings, Tallinn	2003	the Company
Õie apartment buildings, Tallinn	2004	the Company
Pepleri apartment building	2004	Linnaehitus
Kalda apartment buildings, Tartu	2004-2005	Linnaehitus

The Group intends to continue its real estate development activities and has purchased several land parcels in Estonia as well as Ukraine to enhance this activity. However, the Group intends to remain focused on the construction sector as main constructor and project manager and Management plans to retain the share of real estate development projects below 20 per cent of its annual revenues. In 2005, the Group's consolidated revenue from real estate development and related construction work totalled at 71 million kroons and accordingly represented approximately 4.2 per cent of the Group's total revenues.

Operations

Typically for the construction industry, detailed and complex construction contracts are critically important for the Group's business and operations. The terms and conditions of every project are agreed in a contract between the Group and its customer, and these contracts have an important impact on the financial performance of the Group. The Group's main contractor, project management and construction contracts are typically either fixed price contracts or variable price contracts.

Fixed price contracts

Most of the Group's projects are based on a fixed price agreed for the entire project, based on assumptions and project criteria specified in the contract. The price can be fixed either by setting a total cost ceiling for the project or by agreeing a fixed unit price. The most appropriate units are selected in accordance with the characteristics of the project and accordingly, they can vary from project to project.

If the actual costs exceed the estimates used in setting the fixed price, the Group's margins suffer and the project can result in a loss. Unforeseen conditions, such as changes in operating environment and variations in the productivity of labour and equipment over the term of the contract can cause the costs to vary from the estimates, which may impact the actual revenues and gross profit realized on a fixed-price contract. Unanticipated costs or delays in performing one part of the contract can have a compounding effect and increase the costs of performing other parts and, consequently, the entire project. Depending on the size of a project, these variations can have a significant effect on the Company's operating results in any financial year or quarter. To the extent that the additional costs are caused by the customer's changes to the project specifications after the contract has been awarded, the Company can recover them from the customer through a contract variation. According to the Company's accounting policy on contract variations and claims, all costs are recognised when they have been incurred. Revenue associated with contract variations and claims is recognized only when an agreement is reached with the customer with respect to the amended scope and adjusted price. Consequently, revenue may appear in a different financial reporting period from the one in which the corresponding costs were reported.

Variable price contracts

The Group uses variable price contracts mainly in project management, where the Group's revenue on a project is typically fixed as a project management fee equal to a percentage of the total construction cost. The project management fee is usually capped at a fixed monetary amount. From the risk management point of view these contracts are more favourable to the Group than the fixed price contracts, as they leave the risk of cost increases for the customer.

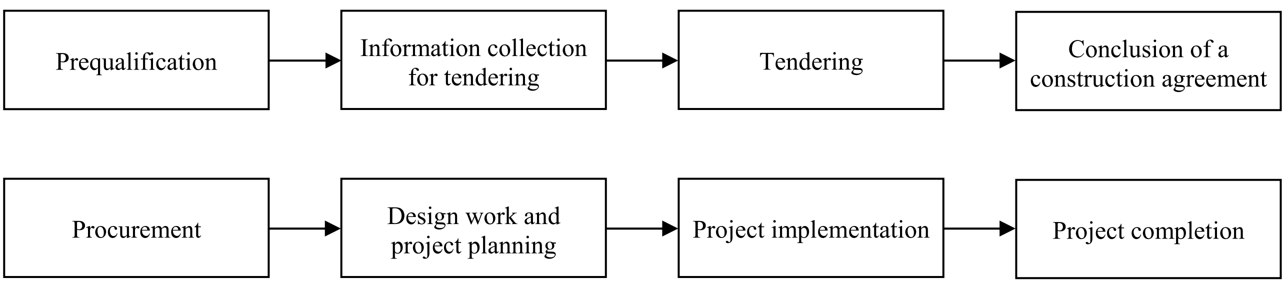
Project consortia

The Group normally bids for projects as the sole contractor and assumes the full responsibility for every aspect of the project, including selection and supervision of subcontractors. On larger or more technically complex projects, the Group may choose to participate in a consortium with other engineering and construction companies, which will share risks and combine financial, technical and other resources. Typically, the Company seeks consortium partners when a project requires equipment, manpower or other resources in excess of what is available to the Company or when it wishes to share the risk on a particularly large project.

In a project consortium each member shares the risks and revenues of the project according to a predetermined agreement. The consortium agreement identifies the work to be performed by each party, the procedures for managing the consortium, the manner in which profits and losses are shared, the equipment, personnel or other assets that each party will make available to the consortium and the method by which any disputes will be resolved. Although the consortium often imposes joint and other liabilities on the partners, the Group's policy is to ensure that such liabilities are contractually limited to the scope of work of each involved party. Such a consortium exists only for the duration of the project and is liquidated when the project is completed.

Procedures of construction business

A typical project management process in the main contracting and project management operations of the Company, Linnaehitus, Eurocon Ukraine and Mapri Projekt includes (i) pre-qualification; (ii) information collection for tendering; (iii) tendering; (iv) conclusion of a general contracting agreement; (v) procurement; (vi) design work and project planning; (vii) project implementation; (viii) project completion. ASPI and – to the extent concrete works are concerned - Mapri Projekt follow somewhat different construction procedures in relation to procurement, design and planning, because they have their own construction workforce and equipment and accordingly are less dependent on outsourcing to third parties.



Pre-qualification

When selecting contractors for major projects, customers usually limit the tender to those contractors that they have pre-qualified on the basis of several criteria such as technological expertise, past performance, reputation for quality, safety record, financial strength and the ability to issue performance guarantees as well as the contractor's past record from projects of equivalent size and type. Bids from pre-qualified contractors tend to be decided mainly on the price.

The Company cannot predict with any degree of certainty, the frequency, timing or location of new contracts to the Group. The Group acts as the principal contractor in the majority of its projects, and therefore it is a priority for the Group to be qualified itself. In the event the Group does not qualify directly for a project, due to the size of the project or technical reasons, the Group will seek to enter into a consortium or strategic alliance with contractors who have relevant experience and are qualified to participate in such projects.

Information collection for tendering

Virtually all of the Group's construction projects are gained by participating in a competitive tendering process. Most of the information about the tendering process is specified in the announcements issued by the project owners. Alternatively, the Group may be invited to participate in a tendering process directly by the project owners. Management believes that the following factors have enabled the Company to be included in the final tendering list and ultimately win the bid: (i) a well-known brand name; (ii) extensive experience and (iii) solid reputation among its customers.

Tendering

The aim of a tendering process is to submit a competitive offer, which (i) follows specifications set by the customer; (ii) follows the construction standards; (iii) is optimal in terms of technical solutions and price and (iv) results in contract negotiations.

Because preparing a bid involves significant cost and management resources, the Group only bids on selected projects. Each potential project is carefully analysed by estimating the costs and assessing its financial and legal aspects. When evaluating bid opportunities, the Group considers factors like (i) the customer's reputation and financial capability; (ii) complexity of work; (iii) status of the financing arrangements for the proposed project; (iv) projected workload; (v) the likelihood of additional work; (vi) the project cost and estimated profitability; and (vii) competitive advantages over the other likely bidders.

After being invited to a tender, the main conditions of the tender are analysed. If it is decided to participate in the tendering process, the offer is compiled. Once the offer documents are compiled and formatted in compliance with customer requirements, the offer is approved by a relevant person within the Group and submitted to the customer.

Conclusion of a construction agreement

Once the tender is won, negotiations over a construction agreement are initiated between the Group and the customer. The length of the negotiations depends on the complexity of the project. The agreement is reviewed, amended if necessary and finally approved by the Company's in-house counsel, the CFO and the technical director of the Company.

Procurement

Since the Group mainly acts as a general contractor, the procurement process for outsourced services is crucial for the success of the project. The Group procures major building materials for its construction business on a project-by-project basis, following the principle of materiality. The project manager decides the scale of procurement. The procurement process affects the financial outcome of the project and the quality of the work, because it determines the supply of materials, machinery and other aspects necessary for project completion. The selection of sub-contractors is the most important part of this process, since the quality and timely delivery of the project is largely dependent on their performance.

In order to meet the deadlines set out by the customer, the Group usually pre-selects the potential suppliers or sub-contractors on the basis of specific criteria that are relevant to the project. The Group prepares a procurement document according to which the selected parties are invited to offer their services. Thereafter the sub-contracting agreement negotiations are held, keeping track of responsibilities, liabilities, quality requirements, environmental and occupational safety issues. Minutes of these negotiations are added to the sub-contracting appendices. The procurement of materials and machinery is finalised in writing or in a contract of sale.

Design work and project planning

Quality design should be the foundation for any construction project. Well-performed design work results in documentation which meets customer's needs and expectations, is economically rational and complies with the environmental and construction standards.

The Group has accumulated considerable in-house design work experience over the years. Nevertheless, it outsources all of its design work to third parties, except in relation to projects of exceptional complexity and projects, which have past their timetable. For these purposes, the Company has five in-house design professionals in its staff.

Tendering for the design, subcontracting is carried out on the basis of the materials required by the project, which have been thoroughly discussed with the customer and amended accordingly. Material sourcing forms a separate subcontracting project, which allows the Group to initiate tenders based on particular needs at any given moment. The design work is granted to those bidders who have the best expertise, references, resources and suitability for a specific project.

The project planning stage includes resource planning as well as planning of the division of responsibilities and project management structure. The resulting project plan covers various aspects of a construction project such as management structure, schedules, project accounting, design works, procurements, control plan, general construction site planning, environmental planning, safety and health planning and project reporting.

Project implementation

The project implementation procedures are designed to guarantee that project is completed in accordance with the general contracting agreement, the project plan and applicable laws and regulations. The responsibility for the project implementation lies with the project manager. The Group has project implementation policies, which assist in running the construction activities smoothly through proper communication with the customer, sub-contractors and suppliers, documentation of construction activities, cost accounting and reporting, supervision of fulfilment of occupational and environmental safety requirements. These policies cover all aspects of construction from legal documentation to actual construction activities.

Project completion

The project completion stage is designed to demonstrate to the customer that the project has been implemented in accordance with the general contracting agreement. The activities performed at this stage include the final inspection of the project with the customer, the final report on project economics and project finalisation meetings.

Customers

The customers of the Group include both public and private sector entities and companies. In 2003 - 2005, private sector customers, on average, accounted for 53 per cent of the Group's revenue, while public sector contributed 47 per cent of the revenues. Public sector clients include both, Estonian Government authorities and local municipalities and business entities owned by the Government or municipalities. The customers of the Group vary from year to year, depending on the pending projects and the Group's success in project tenders. In the following table revenue breakdown by type of customer has been included.

Customer group	Share in total revenue		
	2003	2004	2005
Private sector	50%	56%	53%
Government	39%	36%	32%
Municipalities	11%	8%	15%

The Group's customer base in the civil engineering projects (hydro-technical and environmental structures and road construction and maintenance) comprises mainly public sector entities and tends to be relatively stable. The largest customers in road construction and maintenance are Estonian Road Administration and local municipalities.

The demand for general residential and non-residential construction, such as multi-unit residential buildings, is mainly driven by the private sector, whereas customers in industrial facilities and warehouses, as well as commercial buildings, are entirely from the private sector. Construction of public buildings, such as schools and hospitals, is done exclusively for public sector entities. The share of private individuals in the overall portfolio of customers is very small and is mostly limited to construction of residential buildings.

All of the Group's customers in Ukraine are private businesses, mainly Ukrainian subsidiaries of large international groups. However, the Group has recently been contracted also by local Ukrainian companies. The Group has not participated in any tenders for public sector construction projects in Ukraine.

The following table summarizes the major customers of the Company in 2003, 2004 and 2005.

Customer	Project	Percentage of revenues of year	Segment	Customer segment
2005				
AS Sillamäe Sadam	Different projects at the Port of Sillamäe	14%	Civil engineering	Private
Estonian Road Administration	Different road construction and maintenance projects	12%	Civil engineering	Public
AS Merko Ehitus	Estonian Art Museum	8%	Residential and non-residential	Public
Tallinn University	Main building for Tallinn University	5%	Residential and non-residential	Public
Natsionalnaja Vodotšnaja Kompanija	Tserkassi distillery in Ukraine	4%	Residential and non-residential	Private
Total		**42%**		
2004				
AS Sillamäe Sadam	Different projects at the Port of Sillamäe	23%	Civil engineering	Private
Estonian Road Administration	Different road construction and maintenance projects	15%	Civil engineering	Public
AS Tallinna Sadam	Different projects at the Port of Tallinn	7%	Civil engineering	Public
AS Merko Ehituse	Estonian Art Museum	7%	Residential and non-residential	Public
Natsionalnaja Vodotšnaja Kompanija	Tserkassi distillery in Ukraine	6%	Residential and non-residential	Private
Total		**58%**		

2003				
AS Tallinna Sadam	Port of Tallinn	17%	Civil engineering	Public
Estonian Road Administration	Different road construction and maintenance projects	12%	Civil engineering	Public
DFDS Transport AS	DFDS Logistics Centre	8%	Residential and non-residential	Private
AS Sillamäe Sadam	Different projects at the Port of Sillamäe	6%	Civil engineering	Private
AS TREF	Tartu-Tallinn highway	6%	Civil engineering	Public
Total		**49%**		

For the three years ended 31 December 2003, 2004 and 2005, the revenues generated from the Group's five largest customers accounted for an aggregate of approximately 49 per cent, 58 per cent and 42 per cent respectively, of the Group's total revenue, and the revenue generated from the Group's largest customer accounted for approximately 17 per cent, 23 per cent and 14 per cent, respectively, for the same period. Although the biggest customers may have a relatively large share of the annual revenue of the Group, this is usually due to several different projects being pending to the same customer.

Suppliers

The major suppliers to the Group are sub-contractors and building material providers. In the business segment of residential and non-residential construction, the Group operates mostly as a project management company, with all of the major construction and design work subcontracted. Accordingly, the Group's major suppliers in this segment are construction companies operating in Estonia and Ukraine. According to Management, the pool of potential subcontractors is large and is sufficient to provide the Group with requisite services both in Estonia and Ukraine. Due to the specific know-how and expertise required in hydro-technical and design works, there are fewer reliable cooperation partners in this segment than in the residential and non-residential construction segment.

Building material suppliers and material vendors are the major suppliers in the business segments of road construction and maintenance and environmental projects. Very little sub-contracting is used in this segment of the Group's business.

Principal Markets and Market Developments

The Group operates in two geographical markets, Estonia and Ukraine. Although the Ukrainian market at the moment contributes relatively little to the Group's total revenue stream (6.5 per cent in 2005), it has grown rapidly. The following table shows the Group's revenue breakdown by geographic region in 2003-2005:

	Revenue					
	2003 (EEK mln)	**%**	**2004 (EEK mln)**	**%**	**2005 (EEK mln)**	**%**
Estonia	1 048	*97.3*	1 540	*97.0*	1 566	*93.5*
Ukraine	29	*2.7*	48	*3.0*	108	*6.5*
TOTAL	**1 077**	***100***	**1 588**	***100***	**1 674**	***100***

Estonia

Estonia remains the Group's main market in the coming years. Management predicts the market growth in Estonia to be in a corridor of approximately 10 – 15 per cent annually and aims to slightly outgrow the market. In Estonia, the Group predicts the strongest growth in the demand for civil engineering, while residential and non-residential construction is expected to develop at a more moderate pace.

Nevertheless, Management believes the residential and the non-residential construction segments in Estonia to continue expanding in the coming years. Management believes that the majority of the growth in this segment will be generated in public and residential building construction. Management believes that rapid economic growth and the resulting increase in the incomes of the population, as well as growth of budgets of the local municipalities and the central government further increase investments into the improvement of living conditions, as well as construction and renovation of schools, hospitals, museums and other public facilities. Management expects commercial and industrial construction to exhibit a more stable development, after several years of strong growth.

Management expects the demand for road construction segment to increase as a result of the inflow of EU structural funding, almost half of which has been earmarked for infrastructure projects. Furthermore, Management expects that technological developments may create new opportunities in the road construction sub-segments, such as road stabilisation recycling which ceased earlier because of environmental concerns relating to the use of oil shale-based bitumen.

Management believes that civil engineering projects such as hydro-technical structures, waste disposal sites and utility networks are likely to contribute most of the Group's future development potential in Estonia. Management expects that projects of this type will be primarily financed by EU funds, which Management hopes to give a steady project pipeline for the Group. Winning complex civil engineering projects depends on the technical expertise of the bidder in a given area, as opposed to residential and non-residential construction projects where the estimated project cost usually decides the outcome. Since the Group has been heavily involved in this particular business segment for an extended period of time, Management is optimistic about the possibilities of developing the civil engineering business in the future.

Ukraine

In Ukraine the Group's focus is in western regions and capital Kiev where the business culture and economic activity is more developed. Although Ukraine currently represents a small proportion of the Group's total revenue, Management intends to establish a much stronger presence in this market. Management considers Ukraine strategically important, as virtually every construction sub-segment remains largely underdeveloped in this market.

The Management expects the residential and non-residential segments to develop well in this market, with the Group currently concentrating on non-residential projects such as warehouses and other industrial facilities and commercial properties, such as office premises and retail spaces, for which there is a great demand. Furthermore, the Group is planning to enhance its real estate development activities in Ukraine. Currently, the Group plans to undertake a development of a logistical centre and an office building in the region of Kiev.

Since this market is still relatively underdeveloped, many of its operational and regulatory processes need further development before Ukraine can be considered a construction market of Western European standards. Success in winning projects in Ukraine requires an extensive contact network and personal references, which can be a barrier to entry for many international construction companies. At the same time, few of the local construction companies have performance records and levels of efficiency comparable to those of the Group. Accordingly, the competitive pressure remains relatively low, and Management believes that this can mean improved margins for those companies that currently operate in this market. Whilst the Ukrainian operations represented 6.5 per cent of the Group's total revenues in 2005, they represented 8 per cent of the Group's net profit over the same period.

Competition

The Group operates in a competitive environment. The competitive pressure varies depending on whether the project is in the road construction, other infrastructure or residential and non-residential construction. Whilst quality, technical capability, performance record and availability of qualified personnel are always considered during the bidding process, in the residential and non-residential construction segment the price is usually the deciding factor.

In Estonia, the Group competes against major local and international companies. Throughout its history, the

Group has been one of the leading construction groups in Estonia. The Group was the third largest construction group in Estonia in 2005 in terms of revenue generation. The following table summarizes the revenues of major competitors of the Group on a consolidated basis.

Name of the company [1]	**2002 (EEK m)**	**2003 (EEK m)**	**2004 (EEK m)**	**2005 (EEK m) preliminary, unaudited**
The Group	985	1 077	1 588	1 674
AS YIT Ehitus	792	1 038	1 607	1 480
AS Merko Ehitus	1 670	2 708	3 110	3 232
Skanska EMV AS	1 150	1 002	1 137	1 850

Source: Estonian Commercial Registry, Public sources for 2005

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[1] The table presents consolidated numbers for major competitors, which include significant revenues of AS Merko Ehitus and AS YIT Ehitus from Latvia and Lithuania. Therefore, these numbers should not be relied on when estimating the market shares of the competitors in Estonian construction market.

In residential and non-residential construction Management considers AS Merko Ehitus and the Estonian subsidiaries of Scandinavian Skanska and YIT as its primary competition. In smaller general construction projects, the pool of competitors tends to be larger and includes approximately 10–15 construction companies operating in Estonia.

Competitive pressure in the segment of civil engineering is considerably weaker than in residential and non-residential one as qualifying for infrastructure projects is more complicated. Management believes the Group to be one of the leading infrastructure companies in Estonia. AS Merko Ehitus and AS YIT Ehitus are considered primary competitors for hydrotechnical and environmental projects, while in road construction and maintenance the Group competes against AS Teede REV 2, AS Talter and AS TREF. According to Management, ASPI is one of the leading road construction companies in Estonia with an estimated market share of 20 per cent in 2004.

Name of the company	**2002 (EEK m)**	**Estimated market share**	**2003 (EEK m)**	**Estimated market share**	**2004 (EEKm)**	**Estimated market share**
ASPI	390	16%	399	17%	577	20%
AS Teede REV 2	525	21%	551	24%	655	23%
AS Talter	427	17%	348	15%	523	18%
AS TREF	230	9%	292	13%	330	11%
Other	928	37%	710	31%	815	28%
Total	2 500	100%	2 300	100%	2 900	100%

Source: Estonian Commercial Registry

As the Group’s operations in Ukraine are relatively small in comparison to the size of the Ukrainian construction market, the Group competes there mainly with small and mid-sized construction companies. Management does not believe that the Group is facing intense competition in Ukraine, as the potential customers tend to prefer construction companies with international background because of better quality and more transparent working principles.

Project Pipeline

In the construction sector, a project pipeline is used as an indicator of potential future performance since it represents a prediction of the future revenue stream. The Group’s strategy is not focused solely on increasing the project pipeline but rather on capturing high-quality project with potentially high margins.

The project pipeline consists of anticipated revenue from the uncompleted portions of existing contracts, which the Group defines as signed contracts for which all pre-conditions to entry into force have been met. To the extent the work on these contracts advances, it is progressively removed from the pipeline. The pipeline includes only the Group’s proportionate share of projects where the Group participates as a member of a consortium. Based on unaudited information, the total project pipeline of the Group as of 31 March

2006 amounted to approximately 1.8 billion Estonian kroons up from approximately 1.2 billion kroons as of 31 December 2005. The amount of project pipeline does not include expected revenue from road maintenance contracts and those own account residential development projects where the construction works have not yet started, which are expected to total close to 100 million kroons in 2006. On 31 December 2003 and 2004, the project pipeline of the Group amounted to approximately 0.7 and 0.8 billion kroons, respectively.

In the following table, major projects of the Group's pipeline as of 31 March 2006 have been described. This particular project pipeline includes projects where more than 50 million kroons will be generated from 31 March 2006 onwards. The estimated revenue numbers in the table are unaudited.

Project	**Company**	**Project pipeline in EEK**
Hypermarket in Kiev	Eurocon Ukraine	289 680 000
Renovation of Luther residential block in Tallinn	the Company	191 373 000
Jõhvi-Tartu-Valga highway	ASPI	143 536 965
Decommissioning of a radioactive waste disposal site in Sillamäe	ASPI	134 345 041
I and II stage of Veeriku residential apartments	Linnaehitus	89 919 636
Fama retail centre in Narva	Linnaehitus	67 403 026
TVMK plywood factory in Kohila	the Company	63 860 107
Hortiza distillery in Zaporozhje, Ukraine	Eurocon Ukraine	61 455 000
Construction of 4 border stations at eastern boarder	the Company	58 694 962
Lohusalu kindergarden	the Company	54 474 857

In addition, Eurcon Ukraine has recently won a tender for constructing a supermarket in Lutsk, Ukraine. The estimated amount of the agreement is EEK 80 million. However, at the date of this Offering Circular, the construction agreement has not been entered into yet.

Construction Insurance and Guarantees

The Group's operations are subject to hazards inherent to engineering and/or construction work, such as risk of equipment failure and accidents at work. In the context of construction, these hazards can cause injury and loss of life, severe damage to and destruction of property, equipment and environmental damage. The Group may also receive claims for defects arising from engineering, procurement and/or construction services. In Estonia, the minimum statutory warranty period for construction is 2 years. The Group's policy is to follow the best practices of the construction sector in Estonia, which require longer periods of warranty for certain structures: the warranty for doors, windows and facades runs normally for up to 5 years and the warranty for roofing for up to 10 years. In Ukraine, the statutory warranty period for construction is 10 years.

In addition, the Group is subject to risks of force majeure events, such as fire, earthquake, flood, acts of terrorism and explosion and other events not directly connected to the construction business.

The Group's policy is to obtain appropriate and specialized insurance cover against all construction risks (Contractor's All Risks or CAR) and liabilities towards third parties (Third Party Liability or TPL) for each project for the duration of the project. In addition, the Group's policy is to maintain a comprehensive insurance coverage of the assets and operations at levels which the Group believes to be appropriate. Loss or damage to equipment, materials or other property used in a project are normally covered by the contractors' all risks insurance. The all risk insurance typically also provides cover against debris removal and damage to the surrounding properties owned by the customer as a result of the loss event. Under the cross liability clause risks of loss or damage to project works and materials are often insured jointly with the customer and the sub-contractor. Accidental bodily injuries of third parties or accidental loss or damage to the property belonging to third parties is insured under third party liability cover.

Separate cover applies to the construction plant and machinery (CPM), which covers against unexpected loss or damage to the property and possible accidents while in traffic or during the transport of the property.

For personal accidents there is separate group accident insurance policy, which provides compensation to the employees (or their family) in case of death or permanent disability.

The Group maintains insurance policies mostly through the following Estonian insurers: ERGO Kindlustuse AS, Seesam Rahvusvaheline Kindlustuse AS and AS If Eesti Kindlustus. The Group uses the services of an insurance broker AS AON Eesti Kindlustusmaakler.

In addition, the Group holds compulsory automobile liability insurance policies, which covers the liability arising from the bodily injury or damage to the property caused to third parties whilst in traffic. Also there is compulsory health insurance, which covers the medical expenses and costs of hospitalization of an employee.

The Group is often required to provide pre-payment, performance and guarantee-period guarantees from financial institutions, to secure the Group's performance and/or financial obligations in a construction project. The amount of performance guarantee facilities available to the Group and the cost attached to obtaining such guarantees depends on the Group's financial condition and its ability to provide adequate collateral security to the financial institution issuing the guarantee. As at the date of this Offering Circular, the maximum annual limit of the Group's aggregate guarantees was approximately 355 million kroons. The guarantees are obtained by the relevant Group companies from either AS Hansapank or AS SEB Eesti Ühispank. This limit has proved sufficient this far to cover the Group's requirements for the guarantees.

Employees

General overview

The following table sets out the average number of the Group's employees for each of the financial years 2003, 2004 and 2005 broken down by group companies:

Financial year	The Company	Linnaehitus	ASPI[1)]	Eurocon[2)]	Eurocon Ukraine	Mapri Projekt	Total
2005	130	65	427	6	18	76	**722**
2004	133	71	397		9	-[3)]	**610**
2003	125	73	332			-[3)]	**530**

1) Including the subsidiaries Järva Teed and Hiiu Teed, direct subsidiaries of ASPI.
2) Not including Eurocon Ukraine, the direct subsidiary of Eurocon.
3) Shareholding in Mapri Projekt was acquired in 2005.

The following table sets out the average number of the Group's employees for each of the financial years 2003, 2004 and 2005 broken down into engineer-technical personnel (ETP) and other employees:

Financial year	ETP	Other employees	Average
2005	261	461	**722**
2004	217	393	**610**
2003	191	339	**530**

Human resource management principles

The Group considers motivated and highly qualified employees to be one of its key strengths. Management has implemented high-standard working environment, motivating pay schemes, balanced work schedules and adequate training programmes which support maintaining and developing the operational environment. The Group's objective is to enhance employee loyalty by improving the professional and social well-being of the workforce.

The Group's human resource management involves developing management and working policies, as well as developing individual employment positions that best fit into the Group's current needs. In-house policies facilitate loyalty, teamwork and independent thinking by establishing **‘**vertical**’** liability within the Group.

Management strives to allocate an optimal number of employees to each individual project, so that the workload of each employee is measurable. Additional workforce is recruited when necessary.

The Group pays special attention to the employees’ physical and mental well-being. It encourages its employees to take full advantage of their vacation time by creating balanced work schedules for employees in the construction sites as well as for its office staff. Each employee is invited to a medical examination at least once in every three years. The results of this examination are available both to the employee and the employer for the purposes of managing the general occupational health risk in the Group.

Recruitment and Training

Eesti Ehitus is committed to developing operational expertise of its employees and managers and continuously invests in ongoing training. The Group has tailored recruitment policies and training programmes designed to maintain and enhance the expertise and skills of its staff.

Even though Management considers work experience an essential asset for the Group’s workforce, academic and vocational education of engineers is also considered important. In co-operation with the Cultural Endowment of Estonia (*Kultuurkapital*), the Company sponsors scholarships and internship programmes to students.

Management regularly assesses the needs for training in different fields. The employees are encouraged to identify areas where further training may be necessary. The Group provides continuous in-house training in languages, computer skills as well as vocational courses required for the professional qualification as a construction engineer. In-house training also provides opportunity to analyse past projects and to learn from internal experience and best practices.

In addition to in-house training programmes, the Group has selected qualified outside partners to provide additional development programmes. Estonian Business School developed a special programme for the Group called “*Development programme for mid-managers and specialists: strategic management, communication and motivation, cooperation and negotiations*". This programme was mandatory for all target employees. Furthermore, external training was provided to Linnaehitus’ employees on management psychology, self-establishment, delegation, negotiation techniques and team building.

The emphasis on personnel development is reflected in the training expenditure: the Group has increased its training budget by more than 60 per cent over the past two years, while the average number of employees has increased at the same period by about 33 per cent.

Labour union and collective agreements

The only unionised part of the Group is Järva Teed, where 41 employees belong to the Estonian Transport and Road Workers Trade Union (*Eesti Transpordi- ja Teetöötajate Ametiühing*).

Järva Teed has concluded a collective agreement with the Estonian Transport and Road Workers Trade Union, effective as of 1 September 2005 for the period of one year. The collective agreement provides a number of benefits for the employees.

Property, Plant and Equipment

Land ownership

The Group owns a number of land parcels (*kinnisasi*) and apartments (*korteriomand*).

In the years 2003-2005 the Company has acquired several land parcels mostly for the purposes of engaging in real estate development in the future. The Company acquired five land parcels in central Tallinn and in its suburbs in 2004 for the total consideration of approximately 29 million Estonian kroons. It acquired four further land parcels in Tallinn in 2005 for the total consideration of 15 million Estonian kroons and exchanged three land parcels bought in 2004 in new ones in central Tallinn.

The table below summarises the land parcels that the Company owns at the date of this Offering Circular.

Location	Area	Purpose of use
F.R.Kreutzwaldi 2/Narva mnt 24, Tallinn [1)]	708 m^2	Location of Company's head office
Vatsla village, Saue parish, Harju county [2)]	23 395 m^2	Location of Company's technical equipment division
Laagri hamlet, Saue parish, Harju county	0,43 ha	Leftover from division of immovables, no particular use
Poska 13, Tallinn [3)]	1 664 m^2	Real estate development
Lauka 4B, Tallinn	11 096 m^2	Real estate development [5)]
Puhkekodu tee 71A, Tallinn [4)]	5 488 m^2	Real estate development [5)]
Puhkekodu tee 73, Tallinn [4)]	8 493 m^2	Real estate development [5)]
Vete 18, Tallinn	20 732 m^2	Real estate development [5)]

[1)] Company is a co-owner with 71/321 ownership interest.
[2)] Company is a co-owner with 8/9 ownership interest.
[3)] Encumbered with mortgage in favour of AS Hansapank.
[4)] Encumbered with mortgage in favour of EE Grupp.
[5)] The Company proposes to exchange these land parcels for other land parcels, which are more suitable for development purposes.

The land parcel at Kreutzwaldi 2/Narva mnt 24, Tallinn currently contains the Company's head office. However, with a view to the growth of the Company, Management considers it necessary to move into larger head office premises with more parking spaces. The Company, together with the other co-owner Eesti Energia AS, is currently planning to sell the land parcel and has received offers from interested potential purchasers. When this sale is completed, the Company proposes to move its head office to a new office building which is currently being constructed in the district of Mustamäe in Tallinn. The new office premises will be used by the Company under lease agreement and the Company expects to complete the relocation in July – August 2006.

The table below summarises the land parcels and apartments that ASPI and Hiiu Teed own at the date of this Offering Circular:

Location	Area	Purpose of use
Allika 40, Kärdla, Hiiu county [1)]	169.1 m^2	Location of office premises
Tubala village, Pühalepa parish, Hiiu county	2.94 ha	Location of facilities
Vabaduse 59, Kärdla, Hiiu county	9 234 m^2	Location of facilities
Nõmme 4A, Käina hamlet, Hiiu county	15 015 m^2	Location of facilities
Orjaku village, Käina parish, Hiiu county	1,58 ha	Location of recreational cottage
Roosna-Alliku hamlet, Järva county	2 574 m^2	Location of facilities
Roosna-Alliku hamlet, Järva county	12 736 m^2	Location of office premises and other facilities
Sillaotsa village, Paide parish, Järva county	28 397 m^2	Location of facilities
Sillaotsa village, Paide parish, Järva county	6 827m^2	Location of office premises
Sillaotsa village, Paide parish, Järva county	8.43 ha	Location of asphalt factory and other facilities
Paide, Järva county	2 560 m^2	Waste disposal land
Tehase 1, Paide, Järva county	11 483 m^2	Open storage area
Harju-Risti village, Padise parish, Harju county	15 575 m^2	Location of office premises and other facilities
Paldiski 33, Keila, Harju county	27 172 m^2	Location of office premises and other facilities
Nõmme village, Käina parish, Hiiu county	17 214 m^2	Location of facilities

[1)] Apartment together with 1691/3009 ownership interest in the land containing the apartment (2 089 m^2).

In the years 2003-2005 Linnaehitus has acquired several land parcels for the purposes of real estate development. Linnaehitus acquired six land parcels in 2003, for the total consideration of approximately 4 million Estonian kroons. It further acquired two land parcels in 2004 for the total consideration of approximately 13 million Estonian kroons, and three land parcels in 2005 for the total consideration of approximately 30 million Estonian kroons. In 2006 Linnaehitus acquired a 18 237 m^2 land parcel in Tartu for the total consideration of approximately 18.2 million Estonian kroons (advance payment of 6.1 million Estonian kroons was made in 2005). The land parcel is located within the boundaries of Anne Nature Protection Area.

The table below summarises the land parcels that Linnaehitus owns at the date of this Offering Circular.

Location	Area	Purpose of use
A. Haava 22, 24, Tartu	1 907 m^2	Real estate development
Raja 31a, Tartu [1)]	31 754 m^2	Real estate development
Väike-Turu 5, Tartu	9 349 m^2	Real estate development (apartments)
A. Haava 26, Tartu	2 297 m^2	Real estate development
Veeriku 12B, Tartu	17 629 m^2	Real estate development (apartments)
Savi 39, Tartu [2)]	22 650 m^2	Real estate development (apartments)
Mõisavahe 85, Tartu	18 237 m^2	Real estate development (apartments)
Luha 6, Tartu	2 790 m^2	Real estate development (apartments)

[1)] Encumbered with a mortgage in favour of AS Hansapank.
[2)] Linnaehitus is a co-owner with 11470/22648 ownership interest.

For the purposes of certain construction projects in Ukraine, Eurocon Ukraine has acquired shares in Ukrainian companies, which own or lease land parcels relating to these projects. As at the date of this Offering Circular, Eurocon Ukraine owns 50 per cent of the shares in Technopolis-2 LLC and 66.67 per cent of the shares in V.I.Center LLC. Both of these are Ukrainian companies owning or leasing land parcels in the areas surrounding Kiev. In addition, Eurocon Ukraine has acquired all of the shares in Passage Teatralnyi LLC in connection with the renovation of a building in the central part of Lvov. Technopolis-2 LLC, V.I.Center LLC and Passage Teatralnyi LLC are all special purpose vehicles formed solely for the purpose of holding real property, and they have no other assets or business interests.

In addition, Eurocon Ukraine has a 10 per cent shareholding in European House LLC. This shareholding was acquired in connection with financing a construction project in Lvov, Ukraine.

The Group's aggregate investment in these four companies in Ukraine amounts to approximately EEK 53 million.

The below table summarises the land parcels that Technopolis-2 LLC, V.I.Center LLC and Passage Teatralnyi LLC respectively own or have on leasehold at the date of this Offering Circular:

Company	Location	Area	Purpose of use
V.I.Center LLC	Kiev - Borispol road	4.3 ha	Building of business park – office, hotel, warehouse (land is on leasehold)
Technopolis-2 LLC	Borispol district (7 km from Kiev)	4.5 ha	Building of logistic centre (1 ha of land is owned, 3.5 ha is on leasehold)
Technopolis-2 LLC	Kiev – Kharkov road (12 km from Kiev)	12 ha	Building of logistic centre (land is owned)
Passage Teatralnyi LLC	Lviv	2 700 m2	Building of trade centre (land is on leasehold, building is owned)

In April 2006 the Group entered into a preliminary agreement for the purchase of two land parcels with a total area of 10.7 ha in Brovari district in the suburbs of Kiev for the total price of USD 3.2 million. The Group intends to build a prefabricated concrete factory on these land parcels through a newly established company Eurobeton LLC, see "Company, Share Capital and Ownership Structure – Subsidiaries". The final purchase agreement is expected to be signed in the beginning of May 2006. Fifty per cent of the purchase price will be financed through a loan given by OÜ Santora Trade, a company belonging to LSR Group to Eurocon, and the remaining part will be financed through a loan given by the Company to Eurocon.

Machinery and equipment

ASPI is the only Group company with a substantial fixed asset base. All other companies in the Group operate primarily as a general contractor and project manager, and accordingly, their fixed assets are very limited (apart from land ownership).

The following analysis is based on ASPI as a stand alone entity and does not take into consideration investments made by its subsidiaries. It should be noted, that the analysis below includes only investments for the period of 2003-2005 and with acquisition cost value of EEK 500 thousand or more.

ASPI has made considerable investments into fixed assets during the last three years. In 2003-2005, ASPI invested in aggregate approximately EEK 67.0 million. Management estimates that the average age of fixed assets is approximately three years.

ASPI's most significant investments have included acquiring an asphalt mixing plant Hot Mix 30 in 2003, which allowed the company to double its asphalt production capacity. The investment amounted EEK 19.6 million and Management believes this plant is one of the most modern mobile plants in Estonia. It can be dismantled, transported to another location and rebuilt in five days. In 2005, the company invested approximately EEK 3.5 million into purchasing an asphalt-laying machine Titan 326EPM/V B78, which enabled ASPI to form a new asphalt laying team. The other investments into road construction during the last three years include the purchase of three road rollers and one loader truck for an aggregate purchase price of EEK 4.6 million. Furthermore, ASPI has purchased three trucks for road maintenance purposes with total investment of approximately EEK 2.0 million.

ASPI's road maintenance equipment includes asphalt repairing equipment Loth.Schäfer Blow-Patcher, scrub cutting machine Slagkraft and pitch laying machine Savalco HM10HD (aggregate investment EEK 2.4 million). Furthermore, the company has invested approximately EEK 0.6 million into a maintenance bus, which enables the company to have quick on-site maintenance and to limit the time required for equipment repairs.

In the years 2003-2005 ASPI also invested approximately EEK 10.2 million in earthworks equipment, including crawler tractors, crawler bulldozers, shovel loaders and trucks and other equipment required to increase the company's capacity in earthworks. The most significant investments have been made into shovel loaders and crawler tractors, with investment values of EEK 5.2 million and EEK 2.6 million, respectively.

Further, ASPI has invested around EEK 5.3 million into building new facilities and improving the existing ones in Keila and EEK 0.9 million into premises in Padise. The company built a new repair shop in Keila in 2003, which is equipped with modern maintenance tools for all road construction and maintenance equipment. Major repairs were made to the old office building to create facilities in conformity with modern standards. The company also made further investments into a new workshop, which brought the company's maintenance space to a satisfactory level.

ASPI and its subsidiaries supplement their machinery and equipment by leasing certain road construction and other equipment, tractors and motor vehicles from third parties.

The movable assets of the Company and Linnaehitus are encumbered with commercial pledges in favour of AS Hansapank. The movable assets of ASPI and Mapri Projekt are encumbered with commercial pledges in favour of AS SEB Eesti Ühispank. Certain motor vehicles of ASPI have been separately pledged in favour of AS SEB Eesti Ühispank.

The Company leases small motor vehicles and a forklift from AS Hansa Liising Eesti.

Leased properties

The table below summarises the office premises that the Group has on leasehold:

Location	Nature of lease	Area (m2)
Narva mnt 24/ Kreutzwaldi 2, Tallinn	Office premises leased by the Company from Eesti Energia AS	103.7
Kreutzwaldi 4, Tallinn	Office premises leased by the Company from OÜ Luman ja Pojad	240.4
Kreutzwaldi 4, Tallinn	Office premises leased by the Company from OÜ Belinger Grupp	113
Peterburi tee 46, Tallinn	Office premises leased by ASPI from AS Susi Bürookeskus	203
Sillaotsa village, Paide parish	Office premises leased by ASPI from the Republic of Estonia (Road Administration of Northern Region)	210
Ringtee 12 and 12 A, Tartu	Office premises (513 m^2), warehouse (144 m^2) and storage area (1 940 m^2) leased by Linnaehitus from OÜ Tähering	2597
Katusepapi 4, Tallinn	Office premises and storage area leased by Mapri Projekt from KC Kinnisvara AS	210.4
4/6 B P.Lumumba str., Kiev, Ukraine	Office premises leased by Eurocon Ukraine from a local third party lessor	120

In addition, ASPI leases from the Republic of Estonia (*Saarte Teedevalitsus*) a 20 821 m^2 land parcel in Käina hamlet, Hiiumaa, which contains a sand depot. Mapri Projekt leases storage space from the Company.

Intellectual Property

The Group companies own the trademarks "EE", "Linnaehitus" "Eurocon" and "EE Eurocon" which are registered in Estonia. In addition, the trademark "EE Eurocon" owned by the Group has been registered under the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating Thereto with designations in respect of Byelorussia, Latvia, Lithuania, Russia and Ukraine. Certain limitations apply in respect of protection in Russia where, among others, the trademark is not protected in class 37 (Building construction, repair, installation services).

Environmental Issues

The Group has gradually improved its environmental efficiency in order to diminish the potential harmful impact that its operations may have on the environment. The Company obtained ISO 14001 certification for its environmental management systems from Det Norske Veritas in April 2002. The certification was renewed in April 2005. Det Norske Veritas issued ISO 14001 certification to ASPI in June 2003. Management believes that these certifications illustrate its focus on reasonably environmentally friendly practices and commitment to the protection of the environment.

ASPI and its subsidiaries Järva Teed and Hiiu Teed are required to hold certain environmental permits for their activities. These companies currently hold the following environmental permits:

Group company	Permit	Expiry date
ASPI	Registration Certificate No. RE.JÄ.HA-36205 for Waste Handling	31.12.2010
ASPI	Permit No. HR0752 (L.VV.HA-27304) for Special Use of Water	20.05.2009
ASPI	Ambient Air Pollution Permit No. L.ÕV.PÕ-29678	31.12.2008
ASPI	Ambient Air Pollution Permit No. L.ÕV.PM-19444	30.09.2008
ASPI	Ambient Air Pollution Permit No. L.ÕV.LV-18859	30.09.2008
ASPI	Ambient Air Pollution Permit No. L.ÕV.HA-38326	-
ASPI	Ambient Air Pollution Permit No. L.ÕV.HA-24357	31.12.2009
ASPI	Ambient Air Pollution Permit No. L.ÕV.JÄ-42239	-
ASPI	Ambient Air Pollution Permit No. L.ÕV.IV-39888	01.07.2007
Hiiu Teed	Registration Certificate No. RE.JÄ.HI-34591 for Waste Handling	08.11.2014
Järva Teed	Waste Permit No. JARM-001/2003	07.02.2008
Järva Teed	Ambient Air Pollution Permit No. 21/2001	15.04.2006
Järva Teed	Permit No. 13 for Special Use of Water	01.07.2007

In connection with the acquisition of its facilities in Harju county in the year 2003, ASPI acquired a bore well and a waste water treatment facility. However, the Group does not currently have the competence or facilities to operate such facilities and it has recently breached the terms of its water permit in respect of the wastewater treatment facility. The Group is currently conducting negotiations with the municipalities of Saue and Saku with a view to transfer these facilities to either one of them. Management believes that these negotiations will be concluded in the near future. Should it not be possible to transfer the facilities to either one of these municipalities, the Group will have to consider other possible alternatives, which may include closing down these facilities or acquiring the requisite competence and facilities for the continued operation of these facilities.

In addition, ASPI and Järva Teed have been subject to several inspections by the Estonian Environmental Supervisory Authority. In the years 2003–2005 ASPI and Järva Teed have been fined the aggregate amount of approximately EEK 28,000 (approximately EUR 1,790) for breaches of environmental rules regarding handling of waste, air pollution, keeping records and reports as required by its water permit. Management believes that the Group has taken reasonable measures to correct the breaches of environmental rules by ASPI. However, no assurances can be given that occasional breaches of such rules will not occur in the future and that such breaches will not have a financial impact on the Group.

Health and Safety

Construction as a field of activity is one of the most dangerous business sectors in the European Union and also in Estonia. According to the statistics of the Estonian Labour Inspectorate, over the last 4 years 7.2 per cent of the average number of employees in Estonia are engaged in construction sector and 8 per cent of the total number of occupational accidents occur in the construction sector.

Occupational accidents may bring about employees' claims against the employer, mainly for the compensation of damages incurred in relation to occupational accidents. Such claims, if successful, could also have an adverse effect on the financial condition and results of operations of the Group.

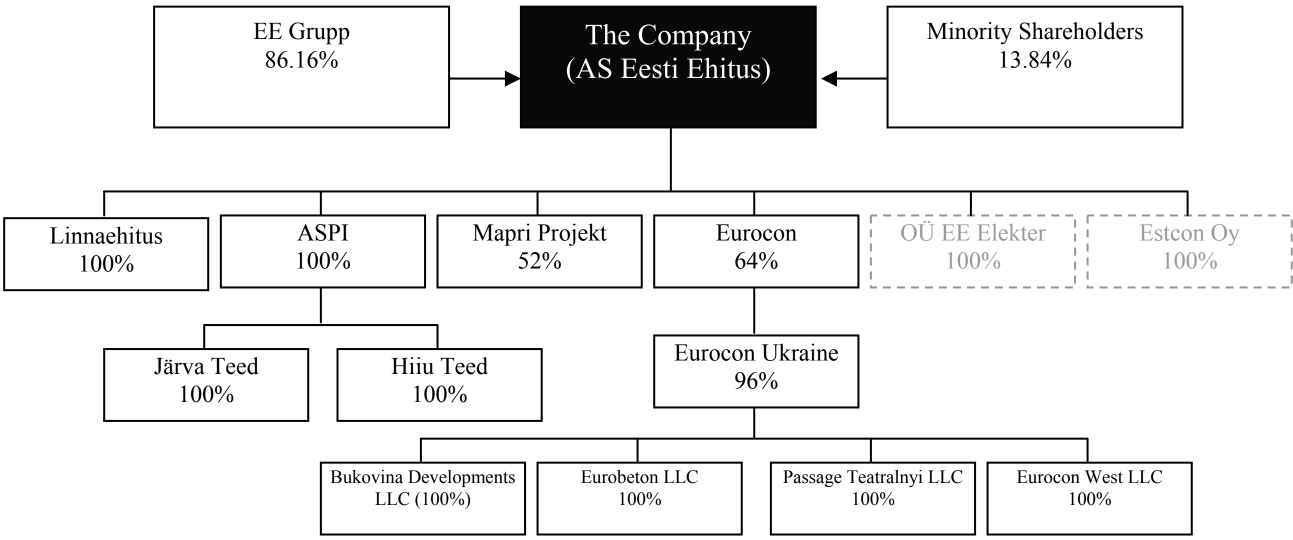
Management believes that the Group has been taken all appropriate measures to avoid occupational accidents and possible claims resulting from such accidents. Among other things, the Group has established safety rules and introduced them to employees as well as provided appropriate personal protection equipment to the employees.

The following table sets out the number of occupational accidents occurred among the employees of the Company, ASPI and Linnaehitus in the years 2002-2005:

Year	Company	ASPI	Linnaehitus
2005	1	5	0
2004	0	4	2
2003	0	0	2
2002	2	1	1

Organisational Structure

Below is a structural chart showing the companies belonging to the Group as at the date of this Offering Circular. The percentage indicated means the percentage of shares held by the Company or its relevant subsidiary in the relevant company. See "Company, Share Capital and Ownership Structure— Subsidiaries" for more detailed information about the subsidiaries of the Company.



Estcon Oy, the Company's subsidiary incorporated in Finland, is currently dormant. The company was formed in August 2005 in order to facilitate the Group's participation in tenders for project management and construction works in Finland. A few offers that have been made so far have not resulted in awards. However, the Management will continue to seek opportunities to participate in future tenders in Finland through the company.

OÜ EE Elekter, the Company's subsidiary incorporated in Estonia, was formed in 1998 with its main field of activity being the performance of electrical works. In view of the developments in the market the whole business of the company was transferred to a third person purchaser in 2000 after which the company has remained dormant. Currently the Management does not have any specific plans in respect of the company.

Holdings in Associated Companies

Eurocon Ukraine also has a 50 per cent shareholding in Technopolis-2 LLC and a 66.67 per cent shareholding in V.I.Center LLC, both incorporated in Ukraine. Since the shareholders agreement among the shareholders of Eurocon requires the approval of Eurocon's minority shareholders for material decisions relating to the management of V.I.Center LLC, the Company's control over V.I.Center LLC is restricted and the latter is not considered as a Company's subsidiary.

Technopolis 2 LLC and V.I.Center LLC are both special purpose vehicles formed solely for the purpose of holding real property – see "Business – Property, Plant and Equipment – Land ownership".

In addition, Eurocon Ukraine has a 10 per cent shareholding in European House LLC, a company incorporated in Ukraine. This shareholding was acquired in connection with financing a construction project in Ukraine.

The Company also has a 31.4 per cent shareholding in OÜ Majahaldjas, a company incorporated in Estonia. OÜ Majahaldas provides real estate maintenance and management services in respect of premises at Kreutzwaldi 4 and Narva mnt 24, Tallinn. It is likely that the company will be liquidated once the Company has moved into new headquarters.

Material Contracts

Acquisition of shareholdings in subsidiaries

On 17 December 2004, the Company entered into a share purchase agreement with Priit Jaagant and Mait Rõõmusaar for the acquisition of a 52 per cent interest in Mapri Projekt. The sellers remained minority shareholders and members of the management board. Half of the purchase price was paid on 5 January

2005, and the rest will be paid in two instalments in 2006 and 2007, subject to an adjustment to the purchase price on the basis of the net profit of Mapri Projekt for financial years 2005 and 2006.

On 4 August 2005, the Company entered into a share purchase agreement with OÜ Tähering for the acquisition of the 49 per cent minority interest in Linnaehitus (in which the Company already owned a 51 per cent interest). The seller was a company owned by Alar Kroodo, Kalev Kase, Martin Sööt and Raul Rebane. The purchase price has been paid in full.

On 15 August 2005, the Company entered into a share purchase agreement for the acquisition of a 47.06 per cent minority interest in ASPI (in which the Company already owned a 52.94 per cent interest). The shareholding was acquired from Ain Tromp, Margus Vaim, Aivo Kont, Genadi Bulatov, Andres Aguraiuja and Meelis Artov. The purchase price has been paid in full.

The aggregate purchase price for these three acquisitions was approximately EEK 160 million. The acquisitions of the minority interests in Linnaehitus and ASPI were financed through a bank loan from AS Hansapank. This loan is secured by the pledge of all shares of ASPI and Linnaehitus in favour of the lender.

Loan agreements

The Group's loan agreements with banks are discussed in "Management's Discussion and Analysis of the Group's Financial Condition and Results of Operations — Liquidity and Capital Resources — Bank Loans".

Litigation

The Group companies are party to a number of legal proceedings which have arisen in the ordinary course of its business. However, during the 12 months preceding the date of this Offering Circular the Group companies have not been and are not currently involved in any such governmental, legal or arbitration proceedings which may have or have had a material adverse effect on the Group's financial position or profitability. The Management is not aware of any facts or circumstances that could reasonably be expected to lead to any such proceedings in the foreseeable future.

Related Party Transactions

The Group companies have entered into certain agreements with related parties. The most relevant of the recent agreements and ongoing agreements (excluding intra-group related party transactions) are the following:

- Agreements between EE Grupp (as the service provider) and the Company, ASPI, Linnaehitus, Eurocon and Mapri Projekt (as customers), respectively, whereby EE Grupp leases to these companies rights under computer software licenses. The fees payable under the agreements to EE Grupp vary from year to year depending on the number of licenses involved. In 2005, the Group companies paid a total fee of approximately EEK 5 million to EE Grupp.
- A trademark transfer agreement between EE Grupp and the Company dated 17 March 2006 whereby EE Grupp transferred the trademarks "EE", "Eurocon" and "EE Eurocon" to the Company for the total price of EEK 10 million. Under the agreement EE Grupp has a non-exclusive right to use the trademark "EE" until the end of 2006 for a license fee of EEK 167,000.
- A license agreement between the Company (as the licensor) and AS Eurox (as the licensee), dated 17 March 2006 whereby the Company grants AS Eurox a non-exclusive license to use the trademark "EE". The yearly license fee payable by AS Eurox is EEK 200,000.
- Lease agreements between EE Grupp (as the lessor) and the Company, ASPI, Linnaehitus, Mapri Projekt and Eurocon (as the lessees), respectively, whereby EE Grupp leases motor vehicles to these companies. In 2005, the rent payments paid by the Group companies to EE Grupp totalled approximately EEK 7.4 million.

- Sales agreement between the Company (as the seller) and AS Eurox (as the purchaser), dated 27 December 2005 and 10 January 2006, whereby the Company sold an immovable of 1 956 m^2 at Vesivärava tn 16/Vilmsi tn 17, Tallinn to AS Eurox for the total consideration of EEK 17.7 million (VAT included).

- Sales agreement between the Company (as the seller) and AS Eurox (as the purchaser), dated 1 March 2006, whereby the Company sold to AS Eurox land parcels at Lembitu 2, Tallinn (410 m^2) and Lembitu 4, Tallinn (872 m^2) for the total consideration of EEK 22.7 million (VAT included).

- Lease agreement between Linnaehitus (as the lessee) and OÜ Tähering (as the lessor), dated 1 January 2005 whereby Linnaehitus leases 2,597 m^2 premises at Ringtee 12, Tartu from OÜ Tähering, a company controlled by Mr. Alar Kroodo, a member of the Supervisory Council, and Mr. Kalev Kase, a chairman of the management board of Linnaehitus. The monthly rent payment is EEK 118 780 (plus VAT). The agreement has been entered into for the term until 31 December 2010.

- Customer agreement between Carl Engeli Maja OÜ (as the customer) and the Company (as the contractor), dated 15 June 2005, regarding performance of designing and rebuilding works of the building located at Lai 15, Tallinn. Carl Engeli Maja OÜ was established in 2005 in connection with a particular construction project. Fifty per cent of the shares in Carl Engeli Maja OÜ are owned by AS Eurox, which is the subsidiary of EE Grupp. The price payable by Carl Engeli Maja OÜ under the agreement is EEK 21,000,000 (exclusive of VAT). In connection with this construction project the Company has also issued a letter of guarantee in favour of AS Hansapank, dated 23 May 2005, whereby the Company guarantees the performance of additional own financing and additional expenditure obligations of Carl Engeli Maja OÜ under a loan agreement between Carl Engeli Maja OÜ and AS Hansapank.

- The Company's land parcels located at Puhkekodu 71A and Puhkekodu 73, Tallinn are encumbered with a combined mortgage in favour of EE Grupp as a security of the Company's liabilities in respect of EE Grupp.

- Sales agreement between Linnaehitus (as the seller) and Alar Kroodo (as the purchaser), dated 20 April 2006, whereby Linnaehitus sold to Alar Kroodo an apartment at Luha 6, Tallinn for the total consideration of EEK 745 000 (including VAT).

- The Company has performed design and construction works for Tehnopolis Kinnisvara AS, an indirect subsidiary of EE Grupp, in connection with a building located at Akadeemia tee 15, Tallinn. As a part of this construction project the Company has issued a letter of guarantee in favour of AS Hansapank, dated 16 September 2005, whereby the Company guarantees to AS Hansapank the performance of the respective designing and construction works.

- On 21 April 2006, the Company repaid to EE Grupp a loan in the amount of EEK 7 million and on 26 April 2006 it repaid to EE Grupp two loans in the amounts of EEK 19.1 million and EEK 6.9 million respectively. On 21 April 2006, Eurocon repaid to EE Grupp all its existing loans in the total amount of EEK 17.9 million. As at the date of this Offering Circular, none of the Group companies has any outstanding loans to or from EE Grupp.

The Group has also executed several intra-group transactions, such as loan agreements, subcontracting agreements, guarantees and other agreements. For additional information about related party transactions, see Note 25 to the financial statements of the financial year ended 31 December 2005, Note 22 to the financial statements of the financial year ended 31 December 2004 and Note 23 to the financial statements of the financial year ended 31 December 2003.

Management believes that all the above agreements have been entered into at an arm's length basis.

SELECTED FINANCIAL DATA

The following tables set forth selected financial data as at the end of each of the three financial years ended 31 December 2003, 2004 and 2005, and for each of the three months ended 31 March 2005 and 2006. Results for interim periods are not necessarily indicative of results for the full financial year. The financial information has been derived from the audited (years ended 31 December 2003, 2004, and 2005) and unaudited (three months ended 31 March 2005 and 2006) condensed consolidated financial statements of Eesti Ehitus. The financial information for years ended 31 December 2003 and 2004 is prepared in accordance with Estonian GAAP, the financial information for the year ended 31 December 2004 is also restated in accordance with the IFRS and the financial information for the year ended 31 December 2005 and for the interim periods is prepared in accordance with IFRS. Estonian GAAP differs in certain areas from IFRS. For a discussion of certain of these differences, see "Annex A — Summary of Significant Differences Between Estonian GAAP and IFRS". The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations" and the financial statements including Notes thereto included elsewhere in this Offering Circular.

The ratios and indicators set forth in the table below are provided to illustrate certain aspects of Group's business and financial performance. Certain of these ratios and indicators are used by the Company's management to evaluate the Group's performance, while others are provided for the benefit of investors considering an investment in the Offer Shares. Although certain of these ratios and indicators are not calculated in accordance with IFRS, the Company believes that the ratios and indicators set forth below are customary and often used by public companies to illustrate their business and financial performance.

'	Year ended 31 December				Three months ended 31 March	
Profit or loss account data (EEK, ´000)	**2003**	**2004**	**2004**	**2005**	**2005**	**2006**
	EGAAP	**EGAAP**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
		(audited)			(unaudited)	
Revenue	**1 076 954**	**1 588 010**	**1 588 010**	**1 674 454**	**317 344**	**341 794**
Cost of sales	967 786	1 435 985	1 435 984	1 498 375	302 946	311 557
Gross profit	109 168	152 026	152 026	176 079	14 398	30 237
Operating expenses	45 708	57 137	57 137	76 854	16 309	21 759
Other operating income	2 377	1 954	1 954	18 603	239	19 050
Operating profit	65 837	96 843	96 843	117 828	(1 672)	27 528
Net financial items	(8 563)	(8 996)	(3 378)	(4 694)	(435)	(3 730)
Profit before income tax and minority interests	57 273	87 847	93 465	113 134	(2 107)	23 798
Income tax	5 204	14 709	14 338	19 159		6 422
Minority interests	(24 849)	(23 822)	(23 822)	(7 168)	1 744	(847)
Net profit for the financial period*)	**27 220**	**49 316**	**55 305**	**86 807**	**(3 851)**	**18 223**

*) Attributable to the equity shareholders of the parent company.

	Year ended 31 December				Three months ended 31 March	
Balance sheet data (´000, EEK)	**2003**	**2004**	**2004**	**2005**	**2005**	**2006**
	EGAAP	**EGAAP**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
		(audited)			(unaudited)	
Cash and cash equivalents	114 381	113 732	113 732	192 490	79 187	229 857
Trade receivables	63 680	139 751	134 802	210 944	107 758	171 324
Non-trade receivables	28 093	65 301	67 676	93 228	68 429	94 008
Inventories	31 966	63 985	103 846	140 360	96 464	138 781
Current assets	**238 121**	**382 769**	**420 056**	**637 022**	**351 838**	**633 970**
Long-term investments	12 224	37 627	2 714	34 658	3 100	40 606
Total fixed assets	95 089	98 552	98 552	134 871	101 520	131 369
Intangible assets	18 888	13 474	28 453	131 845	31 458	131 827
Total assets	**364 323**	**532 422**	**549 775**	**938 396**	**487 916**	**937 772**
Trade creditors	78 392	145 205	145 205	129 174	89 764	95 764

Other short-term payables	51 769	42 042	143 166	307 941	134 609	364 740
Short-term provisions	31 544	101 333	2 246	2 912	1 649	1 907
Short-term debt	35 097	37 639	37 639	117 650	37 553	81 381
Total current liabilities	**196 801**	**326 221**	**328 256**	**557 677**	**263 575**	**543 792**
Long-term liabilities	34 577	32 491	32 490	160 338	35 385	158 252
Other long-term payables and provisions	1 543	10 473	10 474	31 173	10 314	31 755
Total non-current liabilities	**36 120**	**42 964**	**42 964**	**191 511**	**45 699**	**190 007**
Total liabilities	**232 921**	**369 185**	**371 220**	**749 188**	**309 274**	**733 799**
Minority share[*)]	59 526	65 509	65 509	12 257	68 758	9 110
Share capital	30 000	30 000	30 000	34 819	30 000	34 819
Paid in over par				8 192		8 192
Reserves	3 000	3 000	3 000	4 158	3 000	4 158
Retained earnings (loss)	11 727	15 947	25 309	42 180	80 975	128 954
Net profit (loss) for financial period	27 220	49 316	55 305	86 807	(3 851)	18 223
Currency translation	(71)	(534)	(568)	795	(240)	517
Total shareholders' equity (excl. minority share)	**71 876**	**97 729**	**113 046**	**176 951**	**109 884**	**194 863**
Total liabilities and shareholders' equity (incl. minority share)	**364 323**	**532 422**	**549 775**	**938 396**	**487 916**	**937 772**

[*)] Minority share presentation in the balance sheet under IFRS was amended in 2005 and under the new standard it should be indicated as part of the shareholders' equity. In order to facilitate the comparison between the financial statements for all periods above, the minority share is not presented as part of the shareholders' equity.

	Year ended 31 December				**Three months ended 31 March**	
Cash flow data ('000, EEK)	**2003**	**2004**	**2004**	**2005**	**2005**	**2006**
	EGAAP	**EGAAP**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
	(audited)				(unaudited)	
Cash flow from operating activities	133 506	87 543	107 694	156 837	(16 245)	67 623
Cash flow used in investing activities	(15 662)	(63 366)	(63 406)	(240 384)	(13 536)	(9 044)
Cash flow from financing activities	(42 411)	(24 827)	(44 937)	162 305	(4 764)	(21 212)

Key ratios and indicators

	Year ended 31 December				**Three months ended 31 March**
Ratios and indicators	**2003**	**2004**	**2004**	**2005**	**2006**
	EGAAP	**EGAAP**	**IFRS**	**IFRS**	**IFRS**
	(derived from audited information)				(unaudited)
Adjusted weighted average number of shares	3 000 000	3 000 000	3 000 000	3 160 631	3 481 894
Earnings per share (EPS), EEK	9.1	16.4	18.4	27.5	5.2
Revenue per employee, EEK	2 032	2 603	2 603	2 319	432
EBITDA[1)]	84 730	119 425	119 425	143 850	-
EBITDA margin, %[2)]	7.9	7.5	7.5	8.6	-
Operating profit margin, %[3)]	6.1	6.1	6.1	7.0	8.1
Return on investment (ROI), %[4)]	27.0	39.4	40.4	31.1	7.4
Return on assets (ROA), %[5)]	18.3	21.6	21.2	15.8	3.9
Return on equity (ROE), %[6)]	42.7	58.2	59.8	59.9	12.0
Equity ratio, %[7)]	36.1	30.7	32.5	20.2	21.8

Calculation of Financial Ratios

1) EBITDA	Earnings before interest, taxes, depreciation and amortization. EBITDA is included here as a supplemental item, because we believe that EBITDA, when considered in connection with cash flows from operating, investing and financing activities, may provide useful information. EBITDA is not a measure of operating performance calculated in accordance with IFRS and should not be considered as a substitute for operating profit, net income, cash flow from operations or other profit or loss or cash flow data determined in accordance with IFRS.
2) EBITDA margin	EBITDA / Revenue. EBITDA margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and are independent of the company's financing and tax position and depreciation related estimate.
3) Operating profit margin	Operating profit / Revenue. Operating profit margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and are independent of both the company's financing and tax position.
4) Return on investment (ROI)	(Profit before tax + interest expense) / average (interest-bearing liabilities + shareholders' equity+ minority interest). Return on investment measures the relationship between profits and the investment required to generate them.
5) Return on assets (ROA)	Operating profit / Average total assets. Return on assets compares income with total assets (i) measuring management's ability and efficiency in using the firm's assets to generate (operating) profits and (ii) reporting the total return accruing to all providers of capital (debt and equity), independent of the source of capital.
6) Return on equity (ROE)	Net profit / average shareholders' equity. Return on equity excludes debt in the denominator and uses either pre-tax income or net income.
7) Equity ratio	(Equity + minority interest) / Total assets. Equity ratio is a measure of financial leverage providing analysis of a company's capital structure.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements of the Company, including the notes thereto (see the Company's financial statements beginning on page F-1), and the information on the interim period ended 31 March 2006 presented elsewhere in this Offering Circular. The Group's financial statements presented herein for the period ended 31 December 2003 have been prepared in accordance with Estonian GAAP, the financial statements for the period ended 31 December 2004 have been presented in accordance with Estonian GAAP and IFRS and the financial reports for the year ended 31 December 2005 have been presented in accordance with IFRS only. Estonian GAAP differs in certain respects from IFRS. For a discussion of significant differences between Estonian GAAP and IFRS, in relation to the Group, see "Annex A — Summary of Significant Differences Between Estonian GAAP and IFRS".

The discussion below is based on an analysis of revenues of the business segments of the Group which is more detailed than the revenue segmentation used in the Group's financial statements. This detailed revenue segmentation is based on a revenue analysis prepared by Management for business development purposes. The detailed revenue segmentation and the financial statements are derived from the same accounting information.

Overview

Set forth below is a discussion of the important drivers of the revenues and operating expenses of Eesti Ehitus, together with information regarding the influence of currency exchange rate fluctuations on its financial results. These drivers are discussed below in light of the results of operations for the financial years ended 31 December 2003, 2004 and 2005. A number of important macroeconomic developments such as the Estonian accession to the European Union and ensuing strong development in the Baltic countries have had an impact on the Group's financial results during this three-year period.

Factors Affecting Results of Operations

The Group's main source of revenue are sales of main contracting and project management services, sales of road construction and maintenance services and sales of residential development projects.

The Group's revenue primarily depends on the factors discussed below.

Volume of construction industry

The main markets where the Group operates have grown considerably in recent years. The overall strength of each segment of the construction market determines the level of construction activity in the construction market and the number of tenders carried out. This in turn has a direct effect on the Group's revenues. As a result, market conditions cause inherent instability to the Group's revenues, which fluctuate with the overall construction. Whilst the overall demand for construction services fluctuates with the macroeconomic developments, there is also further fluctuation in each of the construction segments where the Group is involved, where the relative size of the market in each segment may be expanding or contracting.

Management believes that the Group's presence in different construction market segments mitigates the impact of market fluctuations on the Group. The Group has taken further steps to diversify, by engaging in the real estate development sector, which alleviates the risk of downturn in the Group's traditional main business areas of non-residential construction and civil engineering.

Ability to successfully participate in tenders

Success in tendering processes for residential, non-residential and civil engineering contracts is essential for the Group. Its operating results are primarily due to the Group's ability to generate sales through winning tenders. Success in tendering is mostly due to in-house engineering expertise and experience and knowledge of budgeting and the pricing of new projects.

Level of competition

The Group's principal market is in Estonia, where the construction sector has in recent years grown faster than in the more developed European countries. The economic transition in Estonia following its accession to the EU has lead into extensive infrastructure development and residential and non-residential projects, which have made the country an attractive market for construction companies. As a result, the Estonian construction market is highly competitive.

Cost of subcontracting

As the Group mainly operates as a general contractor, the availability of subcontractors for various construction tasks and the cost of subcontracting have a major impact on the Group's net margin. Management believes that there is currently a sufficient availability of subcontractors to enable the Group to obtain subcontracting services, competitive terms and reasonable cost. Notwithstanding this, it is always possible that the net result of the Group is affected negatively by miscalculations in project budgeting. Such miscalculations can arise if the Group fails to foresee changes in the market conditions and in the availability of subcontractors between the time when the tender is prepared and the time when the project is being built.

Seasonality

The revenue of the Group is seasonal and varies to a great extent throughout the quarters. The fluctuation in revenue results mainly from road construction and maintenance and hydro-technical construction activities which can be performed only during certain time period of the year. The numbers presented in the table below are based on management reporting and are unaudited.

Year ended 31 December (EEK, ´000)	Jan - Mar	Apr - Jun	Jul - Sep	Oct- Dec
2003	182 419	286 728	273 034	334 773
2004	237 994	406 116	497 387	446 513
2005	316 977	370 608	575 584	411 286

Results of Operations

The total revenue of the Group has increased considerably in the last three financial years. During the year ended 31 December 2003 the Group generated revenues of approximately EEK 1.1 billion. Two years later, in the year ended 31 December 2005, the revenues reached approximately EEK 1.7 billion, which translates into a compounded annual growth rate of 24.7 per cent.

The Group's revenues are evenly balanced between the two principal business segments of non-residential/ residential and civil engineering. The non-residential/residential business segment generated 52.9 per cent of revenues in 2005, whilst the corresponding share for civil engineering was 47.1 per cent. The revenue structure of the Group has been relatively stable over the last three years. The fastest growth has been experienced in the residential and non-residential segment, where revenues have increased from EEK 455.7 million in 2003 to EEK 885.8 million in 2005, which equals a compound annual growth rate of 39.4 per cent. Growth in the civil engineering segment has been slower, with revenues growing with a compound annual growth rate of 12.7 per cent from EEK 621.2 million in 2003 to EEK 788.7 million in 2005.

The following table sets forth certain income and expense items as a percentage of total revenues for the periods indicated:

Profit or loss account data (EEK, ´000)	Year ended 31 December 2003 EGAAP	2004 EGAAP	2004 IFRS	2005 IFRS	Three months ended 31 March 2005 IFRS	2006 IFRS
Revenue	1 076 954	1 588 010	1 588 010	1 674 454	317 344	341 794
residential and non-residential	455 712	708 830	708 830	885 799	n/a	n/a
civil engineering	621 242	879 180	879 180	788 655	n/a	n/a
Cost of sales	-90%	-90%	-90%	-89%	-95%	-91%
Gross profit	10%	10%	10%	11%	5%	9%
Operating expenses	-4%	-4%	-4%	-5%	-5%	-6%
Other operating income	0%	0%	0%	1%	0%	6%
Operating profit	6%	6%	6%	7%	-1%	8%
Net financial items	-1%	-1%	0%	0%	0%	-1%
Profit before income tax and minority interests	5%	6%	6%	7%	-1%	7%
Income tax	0%	-1%	-1%	-1%	0%	-2%
Minority interests	-2%	-2%	-2%	0%	1%	0%
Net profit for the financial period*)	3%	3%	3%	5%	-1%	5%

*) Attributable to the equity shareholders of the parent company.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Revenue

In the year ended 31 December 2005, the Group's revenue increased by 5.4 per cent to approximately EEK 1.7 billion from approximately EEK 1.6 billion in the previous financial year.

This growth rate was moderate when compared to the increase in revenue in the previous year. The moderate increase was primarily due to the cyclical nature of hydro-technical construction, in addition to which it was affected by certain general construction projects of considerable size starting later than anticipated.

Revenue generated from hydro-technical construction tends to be volatile due to the cyclicality in the volume of projects undertaken in any given year and due to the relatively high project cost. Revenues of the Group’s hydro-technical projects segment were considerably lower in the financial year ended 31 December 2005 than in the financial year ended 31 December 2004. In nominal terms, the revenue decreased from approximately EEK 380.9 million in the financial year ended 31 December 2004 to EEK 250.7 million in the financial year ended 31 December 2005. The main reason for this decline was the decrease in revenue from the Port of Sillamäe construction works.

The environmental construction segment also had a negative effect on the Group's revenue. The segment's revenue decreased by some 24.0 per cent from EEK 118.6 million in the year ended 31 December 2004 to EEK 90.0 million in the year ended 31 December 2005. One of the reasons for this decrease was completion of Muuga wagon park construction.

Revenues from the Group’s commercial buildings and road construction and maintenance projects segments, in turn, grew significantly in the financial year ended 31 December 2005. Revenue from the commercial buildings segment increased by EEK 145.7 million from EEK 165.9 million in the financial year ended 31 December 2004 to EEK 311.6 million the financial year ended 31 December 2005, representing a growth of some 87.8 per cent. Revenue from the road construction and maintenance segment reached EEK 441.9 million in the year ended 31 December 2005, which represents an increase of 17.0 per cent or EEK 64.3 million.

Approximately 93.5 per cent of the Group’s revenues were generated in Estonia during the financial year ended 31 December 2005. The balance of approximately 6.5 per cent was derived from Ukraine. In the financial year ended 31 December 2004, the Ukrainian operations accounted for 3.0 per cent of the Group’s revenues. This increase of approximately 3.5 percentage points is quite considerable and in nominal terms means more than doubling of the consolidated revenue from Ukrainian operations.

Cost of goods sold

The cost of goods sold amounted to EEK 1.5 billion in the year ended 31 December 2005, representing an increase of 4.3 per cent from the previous year.

The cost of goods sold as a percentage of revenue decreased by approximately 0.9 per cent in the year ended 31 December 2005 from the previous year. This enhanced the Group's gross profit margin, which reached 10.5 per cent for the year ended 31 December 2005.

Costs relating to services, goods and materials purchased accounted for approximately 88 per cent or EEK 1.3 billion of the total cost of goods sold in the year ended 31 December 2005. This was by far the most important cost item of the Group that year. These costs as a percentage of revenue decreased from 80.5 per cent in the year ended 31 December 2004 to 78.6 per cent in the year ended 31 December 2005, which enhanced the gross margin by 1.9 per cent.

The Group had created significant provisions in 2004 to cover estimated losses from ongoing projects and to cover potential losses that were expected to arise from major damage caused by adverse weather conditions in relation to major projects, in particular damage caused by ice and wind in the Sillamäe Port project. These positions were eliminated during the financial year 2005, which was the main reason for the reduction in costs related to service, goods and materials. The Group was able to eliminate these provisions because of its success in recovering damages from insurance and positive developments in the final costs of the projects provisions were created for.

Direct labour costs as a percentage of revenue amounted to approximately 8.5 per cent in the year ended 31 December 2005 and 7.3 per cent in the year ended 31 December 2004. The direct labour costs increased by 22.9 per cent from EEK 115.7 million in year 2004 to EEK 142.1 million in 2005. This cost increase had a negative impact on gross margin of approximately 1.2 per cent. The increase in labour costs was attributable mainly to the increase of approximately 100 persons in the Group's personnel. Some 70 persons were added through the acquisition of Mapri Projekt and approximately 30 persons were hired by ASPI. At the time of the acquisition, Mapri Projekt had significantly higher direct labour costs in proportion to revenue than the Group. The additional staff in the Group were hired mainly because of the rapid expansion of operations during the year ended 31 December 2004 which created a shortage of staff in the Group.

The Group also paid substantial employee bonuses in the year ended 31 December 2005. These bonuses are linked to the overall performance of the Group and successful completion of construction projects rather than the revenues of the year. The Group's bonus reserves are adjusted annually on the basis of the projected success in project completions on the basis of past experience. Whilst many projects extend beyond one financial year, the bonuses are paid in the financial year when the project is completed, and as a result, the entire bonus expense relating to a major project may be incurred in a different financial year from that when the major part of revenues from the same project were received. The Group has chosen not to make provisions for future bonus payments. During the financial year 2005, the Group completed both the construction of the Sillamäe Port mole and the Art Museum of Estonia. The profitability of both projects exceeded the Management estimates, which resulted in additional bonus costs.

According to Management estimates, the Group has increased salaries at an average rate of 5-10 per cent per annum. Even though the salary increases are not directly linked to annual inflation, it is one of the factors that Management considers in connection with salary increases.

Depreciation and other costs amounted to EEK 39.6 million for the year ended 31 December 2005, which represented approximately 2.6 per cent of the total cost of goods sold and 2.4 per cent of revenues. The Group managed to achieve a net reduction of 0.3 per cent of these cost items in proportion to revenues when compared to the year ended 31 December 2004.

A major part of the depreciation charge of EEK 19.5 million in the year ended 31 December 2005 was attributable to ASPI which has a more extensive fixed asset base than the other Group companies.

Operating expenses

Operating expenses comprise administrative and general expenses and other operating charges records in the Group's accounts. Operating expenses were EEK 57.1 million in the year ended 31 December 2004 and EEK 76.9 million in the year ended 31 December 2005, representing an increase as a percentage of revenue from 3.6 per cent to 4.6 per cent.

Administrative and general expenses increased from EEK 53.9 million in the year ended 31 December 2004 to EEK 72.5 million in the year ended 31 December 2005. The increase resulted mainly from labour costs, which increased by almost EEK 10 million.

The increase in labour costs resulted mainly from the new operations of Eurocon Ukraine and administrative and managerial support to Eurocon. Additional staff was hired for both companies and in addition, the operations in Ukraine resulted in increased travelling costs and related per diem allowances.

Labour costs also increased when the Company acquired the remaining minority interests in ASPI and Linnaehitus and the majority interest in Mapri Projekt. Expenses from Mapri Projekt contributed to the nominal growth in expenses through consolidation. Furthermore, the Group amended the remuneration principles for the senior management of ASPI and Linnaehitus during the second half of 2005, putting more emphasis on salary component of the remuneration package. Prior to the acquisition, most members of the senior management were also minority shareholders, and as result, the remuneration focussed more on dividends rather than on salaries.

In the year ended 31 December 2005 the Group recorded the payment of bonuses for the members of project teams due to the completion of the major projects of Sillamäe Port mole and the Art Museum of Estonia. Furthermore, Linnaehitus paid significantly increased bonuses, due to good annual operating results.

Other operating charges remained relatively stable in the year ended 31 December 2005 compared to the year ended 31 December 2004. The total cost account increased by approximately EEK 1.1 million to EEK 4.4 million, which resulted mainly from the increase in currency exchange losses of EEK 0.9 million to EEK 1.4 million. As the currency exchange gains for the period amounted to EEK 1.1 million, the currency exchange loss is offset by that amount and the Group recognised a net loss of approximately EEK 0.3 million. As a positive development, the Group incurred less losses from net doubtful receivables compared to the year ended 31 December 2004. The total cost of net doubtful receivables amounted to EEK 56 thousand in the year ended 31 December 2005.

Other operating income

Other operating income includes items such as profit made from sales of fixed assets or real estate, exchange gains, discharge of payment obligation due to the liability becoming time-barred.

Other operating income increased significantly in the year ended 31 December 2005 as compared to the year ended 31 December 2004. The total of other operating income increased from EEK 2.0 million in 2004 to EEK 18.6 million in 2005 correspondingly. The increase was mainly due to transactions involving fixed assets and real estate.

The Group realised a gain of EEK 4.4 million in 2005 from sales of fixed assets, which was significantly more than the year before. A major part of this profit was derived from selling fully depreciated equipment of ASPI in connection with the replacement of fixed assets.

The increase in other operating income was also due to recognition of EEK 10.3 million gain from real estate transactions. The profit was realised from the sale of real estate in Vesivärava/Vilmsi to AS Eurox and revaluation of registered immovable acquired through exchange transaction. Gains from the latter transactions were approximately EEK 7.0 million and around EEK 3.0 million respectively

A total EEK 1.9 million of the Group's liabilities were discharged during the year ended 31 December 2005 due to statute of limitations. This was an exceptional, non-reoccurring item, which was recorded as income by the Group after it had obtained legal opinion from an Estonian law firm confirming the discharge of the liability.

Furthermore, the Group realised an exchange gain of EEK 1.1 million from foreign currency translation, as opposed to EEK 0.5 million in the year ended 31 December 2004.

Net financial items

Net financial items amounted to a negative balance of EEK 4.7 million in the year end 31 December 2005, which was approximately EEK 1.3 million more than in the previous year. Even though the change in the aggregate amount of net financial items was relatively insignificant, the structure of the underlying items for the year ended 31 December 2005 was largely different from those in the year ended 31 December 2004.

The Company acquired the shares held by the minority shareholders in ASPI and Linnaehitus in 2005, and sold 36 per cent of the shares in Eurocon to the three members of Eurocon's management board. The Group recognized a gain from the transaction of EEK 1.8 million.

Interest expenses increased significantly from EEK 3.2 million in the year ended 31 December 2004 to EEK 7.5 million in the year ended 31 December 2005. This increase was mainly due to the additional borrowing required to finance the acquisition of the minority interests in ASPI and Linnaehitus and the acquisition of 100 per cent shares in an Ukrainian real estate development company Passage Teatralnyi LLC. The total balance of the loan taken to finance these acquisitions was EEK 180.8 million as at 31 December 2005, bearing weighted average interest rate of 5.5 per cent per annum. The overall balance of bank loans increased from EEK 29.0 million to EEK 206.5 million and financial lease obligations decreased from EEK 41.1 million to EEK 37.5 million in the years ended 31 December 2004 and 2005, respectively.

Corporate income tax

The Group recorded income taxes in total of approximately EEK 19.2 million in the year ended 31 December 2005, representing an increase of 33.6 per cent compared to the year ended 31 December 2004. The increase in dividend payments in 2005 increased the corporate income tax accrued by EEK 1.3 million from EEK 13.4 million recognised in the year ended 31 December 2004. The Ukrainian income tax on the profits of Eurocon Ukraine increased by approximately EEK 3.6 million from EEK 0.8 million in the year ended 31 December 2004 to EEK 4.4 million in the year ended 31 December 2005.

The Group declared and paid a total of EEK 46.6 million of dividends, including minority shareholders, net of taxes in the year ended 31 December 2005. Under Estonian income tax law, dividend distributions during 2005 were subject to a corporate income tax at the rate of 24 per cent of the grossed up amount of dividends (the effective rate being 24/76 of the amount of dividends paid). It is the Estonian practice to declare dividends net of corporate income tax (see "Taxation – Corporate Income Tax"). The Group's dividend payments and the corporate income tax on dividend payments in the year ended 31 December 2005 amounted to EEK 61.3 million, and the total amount of corporate income tax on dividends amounted to approximately EEK 14.7 million.

Minority interest

Minority interest decreased significantly during the year ended 31 December 2005. While in the year ended 31 December 2004 the Group accounted an amount of EEK 23.8 million for minority interest, in the year ended 31 December 2005 the amount decreased to EEK 7.2 million. This change was due to the acquisition of shares held by the minority shareholders in ASPI and Linnaehitus.

In the year ended 31 December 2005, the Group accounted a minority interest of EEK 3.0 million from the profits of Mapri Projekt , approximately EEK 0.1 million from the profits of Eurocon, EEK 4.1 million from the profits of Eurocon Ukraine and EEK 0.05 million from the losses of Passage Teatralnyi LLC in Ukraine.

Net profit

The Group's consolidated net profit after tax and minority interest of EEK 86.8 million for the financial year ended 31 December 2005 was approximately EEK 31.5 million or 57.0 per cent higher than in the financial year ended 31 December 2004. This translates into a net profit margin of 5.2 per cent for the year ended 31 December 2005. In the year ended 31 December 2004 the consolidated net profit after tax and minority interest was EEK 55.3 million and the net profit margin 3.5 per cent. The increase was due to improved management in all cost positions of the Group which improved gross, operating and net margins. The net result for the year ended 31 December 2005 was also improved by the decrease in minority share of net profit from EEK 23.8 million in the year ended 31 December 2004 to EEK 7.2 million in the year ended 31 December 2005.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

The Group changed the basis on which it prepares its financial statements from Estonian GAAP to IFRS on 1 January 2005. The following analysis of the financial results of the Group for the year ended 31 December 2003 as compared to the financial statements for the year ended 31 December 2004 is based on the Group's financial statements prepared in accordance with the Estonian generally accepted accounting principles.

Revenue

During the year ended 31 December 2004, the Group's revenues increased by 47.5 per cent or EEK 511.1 million to EEK 1.6 billion. This increase was due to strong increase in revenues from hydro-technical construction, supported by environmental construction and construction of public buildings.

Hydro-technical construction was by far the Group's most important business segment during the year, contributing approximately EEK 149 million or 64.3 per cent of the Group's revenue growth of the year ended 31 December 2004 when compared to the year ended 31 December 2003. This increase was mainly due to revenues from construction activities in the Sillamäe Port project and a project to re-build the cruiser quay in Tallinn Port.

Total revenues in the environmental construction segment increased from EEK 62.1 million in the year ended 31 December 2003 to EEK 118.6 million in the year ended 31 December 2004. Over half of the 2004 revenue in this segment originated from the construction projects in Muuga and Sillamäe, worth approximately EEK 77.3 million in aggregate.

The revenue in the public buildings segment was EEK 320.9 million in the year ended 31 December 2004, 3.6 times higher than in the previous year. The biggest projects in this segment in 2004 were the Art Museum of Estonia and the Institute of Chemistry of the Tallinn University of Technology, which in aggregate contributed to approximately EEK 165.2 million of the revenues.

Approximately 97.0 per cent of the Group's revenues for the year ended 31 December 2004 were generated in Estonia. The Ukrainian operations' share of consolidated revenues increased slightly from 2.7 per cent in the year ended 31 December 2003 to 3.0 per cent in the year ended 31 December 2004. Even though the percentage increase of Ukrainian operations from Group's revenues was only 0.3 per cent for the year ended 31 December 2004, it implies of revenue growth higher than for the Group as a whole. The Group's operations in Ukraine grew by approximately 67.9 per cent or EEK 19.5 million as compared to the year ended 31 December 2003. The growth in the Ukrainian revenues was negatively affected in the Group's accounting by the consolidation effect resulting from restructuring of the Group's operations in Ukraine. During the year ended 31 December 2003 most of the sales in the Ukrainian market were done by the Company and thus accounted for as sales by an Estonian company in the Ukrainian market. Following reorganisation of the Ukrainian operations, most of the customer contracts in 2004 were concluded by

Eurocon Ukraine, the Company's subsidiary in Ukraine. As a result, all sales of construction materials from Eurocon to Eurocon Ukraine were eliminated from revenue through consolidation.

Cost of goods sold

The cost of goods sold increased by EEK 468.2 million during the year ended 31 December 2004, reaching EEK 1.4 billion. The percentage increase in cost of goods was higher than the growth in revenue, and as a result, the gross profit margin of the Group decreased from 10.1 per cent in the year ended 31 December 2003 to 9.6 per cent in the year ended 31 December 2004.

Based on unaudited accounts, the most important item contributing to increased costs was cost of services, goods and materials which increased from EEK 835.3 million in the year ended 31 December 2003 to EEK 1.3 billion in the year ended 31 December 2004. The costs increased as a percentage of revenue by 2.9 per cent from 77.6 per cent in the year ended 31 December 2003 to 80.5 per cent in the year ended 31 December 2004. The primary cause for this cost increase were the provisions made against potential losses from a hydro-technical construction project which had been subject to damage by adverse weather conditions and against expected cost overruns in one of the public construction projects. The actual losses proved smaller than the provisions, with the excess provisions being released to the revenue during the year ended 31 December 2005.

Based on unaudited accounts, the labour related costs increased in nominal terms by EEK 28.7 million and totalled EEK 115.7 million for the year ended 31 December 2004. As percentage of revenue, the direct labour costs decreased from 8.1 per cent in the year ended 31 December 2003 to 7.3 per cent in the year ended 31 December 2004.

Operating expenses

For the purposes of this Offering Circular, the Group presents operating expenses as a sum of administrative and general expenses and other operating charges. Operating expenses as a percentage of revenue decreased from 4.2 per cent in the year ended 31 December 2003 to 3.6 per cent in the year ended 31 December 2004. In nominal terms, the operating expenses increased from EEK 45.7 million in the year ended 31 December 2003 to EEK 57.1 million in the year ended 31 December 2004.

Administrative and general expenses increased by almost EEK 12.0 million to EEK 53.9 million in the year ended 31 December 2004 as opposed to approximately EEK 41.9 million in the year ended 31 December 2003. Based on unaudited accounts, labour-related costs accounted for EEK 8.1 million and services, goods and materials accounted for approximately EEK 4.6 million of this increase. Labour costs and services, goods and materials together represent approximately 89.3 per cent of the total administrative expenses in 2004. The total administrative labour-related costs amounted to EEK 30.5 million and services, goods and materials to EEK 17.6 million in the year ended 31 December 2004.

Other operating expenses were EEK 3.2 million in the year ended 31 December 2004, representing a decrease of approximately EEK 0.5 million in comparison to EEK 3.7 million in the year ended 31 December 2003. Based on unaudited accounts, almost EEK 0.4 million of this decrease was a result of cutting back sponsorship and membership fees.

Other operating income

Other operating income decreased by 17.8 per cent from EEK 2.4 million in the year ended 31 December 2003 to EEK 2.0 million in the year ended 31 December 2004. The decrease was due to a fall in profits from sale of fixed assets. While in the year ended 31 December 2003 the Group had realised a profit from sale of fixed assets equal to EEK 1.7 million (based on unaudited accounts), the corresponding profit from the year ended 31 December 2004 was EEK 1.3 million, showing a decrease of approximately EEK 0.4 million. However, this change was off-set by an increase in the foreign exchange gains and a decrease in other expenses, which together amounted to approximately EEK 0.5 million.

Net financial items

Net financial items for the year ended 31 December 2004 increased by EEK 0.4 million from the negative balance of EEK 8.6 million to a negative balance of EEK 9.0 million. Exchange losses of EEK 1.7 million were the biggest contributing factor to this decrease. The exchange losses had been EEK 0.1 million in the year ended 31 December 2003.

Amortisation of goodwill contributed in total EEK 5.6 million to the net financial items. This cost item has been very stable, showing a slight increase of EEK 0.04 million in the year ended 31 December 2004 compared to the year ended 31 December 2003. The Group recognised goodwill of EEK 5.3 million from the acquisition of Linnaehitus and EEK 22.9 million from the acquisition of ASPI. Both transactions took place during the year ended 31 December 2002. As the Group amortises the goodwill over the period of five years, the corresponding annual expense amounts to approximately EEK 1.1 million in respect of Linnaehitus and EEK 4.5 million for ASPI.

Corporate income tax

During the year ended 31 December 2004, the Group recorded income taxes of approximately EEK 14.7 million, more than doubling the corresponding amount in the previous period.

Taking into account the minority interest, the Group declared and paid a total of EEK 40.8 million of dividends net of corporate income tax in the year ended 31 December 2004. Under Estonian income tax law, dividend distributions during 2004 were subject to a corporate income tax at the rate of 26 per cent grossed up on the amount of paid dividends (the effective rate was 26/74 of the amount of dividends). It is Estonian practice to declare dividends net of corporate income tax (see “Taxation – Corporate Income Tax”). The Group’s dividend payments and the corporate income tax on dividend payments in the year ended 31 December 2004 amounted to EEK 55.1 million, and the total amount of corporate income tax on dividend payments to approximately EEK 14.3 million. However, by distributing profits earned before the year ended 31 December 2000, ASPI was able save some EEK 0.9 million in corporate income tax. Accordingly, the final balance of corporate income tax paid by the Group in the year ended 31 December 2004 amounted to EEK 13.4 million.

In addition to the corporate income tax on profit distributions incurred in Estonia, the consolidation of Eurocon Ukraine resulted in the recognition of Ukrainian corporate income tax of approximately EEK 1.3 million.

Minority interest

The ownership interests in the Group companies did not change during the year ended 31 December 2004. Also, the financial results of the subsidiary companies remained stable in the year ended 31 December 2004, compared to the year ended 31 December 2003. As a result, the minority interest remained relatively stable over the year ended 31 December 2004.

The minority interest for the year ended 31 December 2004 amounted to EEK 23.8 million, of which EEK 11.1 million was due to the minority shareholders’ profit share in Linnaehitus and EEK 12.7 million to the minority shareholders’ profit share in ASPI.

The Group recorded a total of EEK 24.8 million for the minority interest for the period ended 31 December 2003 of which EEK 12.0 million was due to the minority shareholders’ profit share in Linnaehitus and EEK 12.8 million to the minority shareholders’ profit share in ASPI.

Net profit

In nominal terms, the Group almost doubled its net profit to EEK 49.3 million over the period ended 31 December 2004, showing an increase of EEK 22.1 million. The growth in the net income of 81.2 per cent well exceeded the growth of revenues of 47.5 per cent in the year ended 31 December 2004, which indicates improvement in the Group's net margin.

Growth in the cost of goods sold balance outpaced the growth in the Group's revenues Group during the year ended 31 December 2004. This had a negative impact of approximately 0.5 per cent on gross margin. The Group was able to recoup the negative impact on gross margin by increasing efficiency in operating expenses. The percentage of cost to revenue decreased from 4.2 per cent in the year ended 31 December 2003 to 3.6 per cent in the year ended 31 December 2004. This positive development offset the decline in gross margin and enabled the Group to maintain its operating profit margin at the level of 6.1 per cent and to record operating profit of EEK 96.8 million for the year ended 31 December 2004.

Net profit for the year ended 31 December 2004 increased by EEK 22.1 million representing an increase of 81.2 per cent when compared to the previous year. Net profit margin improved by 0.6 per cent compared to the financial year ended 31 December 2003 and reached the 3.1 per cent.

The improvement resulted from the fact that majority of profit increase in consolidated accounts was generated from the Company, and from the operations of Eurocon Ukraine in the year ended 31 December 2004. The combined profit from Linnaehitus and ASPI decreased in the corresponding period and the minority share in consolidated income statement decreased around EEK 1 million. Thus the minority interest decreased from 2.3 per cent to 1.5 per cent as a percentage of revenue in the years ended 31 December 2003 and 2004 correspondingly.

The positive impact of 0.8 per cent in net margin derived from minority interest was somewhat diminished by corporate income tax, which rose from EEK 5.2 million in the year ended 31 December 2003 to EEK 14.7 million in the year ended 31 December 2004, which had a negative impact of 0.4 per cent on net profit margin. The change was due to increase in dividend payments.

Net financial items increased from a negative balance of EEK 8.6 million in the year ended 31 December 2003 to EEK 9.0 million in the year ended 31 December 2004, which had a positive impact of 0.2 per cent on net profit margin.

Recent Developments and Outlook

Three Months Ended 31 March 2006 Compared to Three Months Ended 31 March 2005

Revenue

For the period ended 31 March 2006, the Groups revenue increased by 7.7 per cent or by EEK 24.5 million compared to three month period ended 31 March 2005, reaching EEK 341.8 million.

During the three month period ended 31 March 2006, the most significant segments in terms of revenue generation were non-residential buildings segments, which contributed well above 50 per cent of the revenues for the period of three month ended 31 March 2006. The total revenue from this segment amounted to more than EEK 200 million, out of which the commercial buildings and industrial premises and warehouses contributed more than 85 per cent.

Public buildings segment's share of total revenues for the period ended 31 March 2006 has decreased compared to the three-month period ended 31 March 2005 due to finalisation of construction works of Estonian National Art Museum and Tallinn University main building.

Revenues from residential construction for the three months ended 31 March 2006 were not in line with Management's expectations. This was caused by the delay in commencement of construction of Luther residential block at Tallinn, the largest residential construction project of the Group. As the project involves refurbishment of already existing houses, the real estate development company has made changes in project design plan in order to reflect special construction conditions discovered in closer examination of the houses.

Construction of environmental structures and road construction and maintenance contributed approximately 20 per cent of the revenue. ASPI continued the decommissioning of a radioactive waste disposal site in Sillamäe and the closure of an ash field no 2 in Narva in three months period ended 31 March 2006. Also some increase in revenue was derived from better terms and conditions of road maintenance services contracts which are negotiated on annual basis.

Revenue from the construction of hydro-technical structures decreased during the period of three months ended 31 March 2006 compared to the same period in 2005. This is mainly due to completion of projects of significant scale in Sillamäe.

Cost of goods sold

The cost of goods sold amounted to approximately EEK 311.6 million in the three months period ended 31 March 2006, representing an increase of 2.8 per cent from the same period in the previous year.

The cost of goods sold as a percentage of revenue decreased by approximately 4.3 per cent in the three months period ended 31 March 2006 from the previous year. This enhanced the Group's gross profit margin by 4.3 per cent compared to the same period in the previous year, resulting gross profit margin to reach 8.8 per cent for the three month period ended 31 March 2006.

Costs relating to services, goods and materials purchased accounted for approximately 87.0 per cent or EEK 271.2 million of the total cost of goods sold in the three month period ended 31 March 2006. These costs as a percentage of revenue decreased from 86.7 per cent in the three month period ended 31 March 2005 to 79.3 per cent in the three month period ended 31 March 2006, which enhanced the gross margin by 7.3 per cent. The decrease in costs of services, goods and materials purchased as percentage of revenue resulted mainly from strong gross profit margins from non-residential buildings segment and positive developments in residential construction in Tartu.

Operating expenses

Operating expenses comprise administrative and general expenses and other operating charges recorded in the Group's accounts. Operating expenses amounted to EEK 16.3 million in the three month period ended 31 March 2005 and EEK 21.8 million in the three month period ended 31 March 2006, representing an increase as a percentage of revenue from 5.1 per cent to 6.4 per cent.

Administrative and general expenses increased from EEK 15.7 million in the three month period ended 31 March 2005 to EEK 20.9 million in the three month period ended 31 March 2006. The increase was caused mainly by cost of services, goods and materials used and labour costs, which increased by EEK 3.1 million and EEK 1.5 million respectively.

The increase in the cost of services, goods and materials used was mainly attributable to information technology related expenses. Those included costs of implementation and usage of information and communication technology systems implemented by the Group in Mapri Projekt. Furthermore, as the number of employees has increased, the Group has incurred costs related to licensing and purchases of relevant equipment. Also, the increase in personnel resulted in an increase of fringe benefit costs.

The increase in labour costs was caused mainly by the increase in number of administrative staff employed and increase in wages.

Labour costs also increased when the Company acquired the remaining minority interests in ASPI and Linnaehitus and the management remuneration principles were shifted from dividend based motivation scheme to salary based remuneration.

Other operating charges remained relatively stable in the three month period ended 31 March 2006 compared to the same period in the previous year. The total cost account increased by approximately EEK 0.3 million to EEK 0.9 million.

Other operating income

Other operating income showed a considerable increase in three months ended 31 March 2006 as compared to the same period in the previous year. The Group recognised a EEK 17.2 million gain from the sale of real estate in Gonsiori/Vilmsi and the sale of Lembitu 2 and Lembitu 4 land parcels in Tallinn. The Group recorded an increase in gains from sale of fixed assets of approximately EEK 0.9 million in three months ended 31 March 2006 compared to 31 March 2005 and increase in other gains in an amount of EEK 0.7 million.

Net financial items

Net financial items amounted to a negative balance of EEK 3.7 million in the three month period ended 31 March 2006, which was approximately EEK 3.3 million more than in the previous year. The biggest item contributing to this increase was interest expense which increased from a negative balance of EEK 0.9 million in the three month ended 31 March 2005 to a negative balance of EEK 4.1 million during the same period in current year. The increase is mainly attributable to an increase of loan balances taken for the acquisition of minority shares in Linnaehitus and ASPI and for financing development projects in Ukraine.

Corporate income tax

The Group recorded income taxes in total of approximately EEK 6.4 million in the three month period ended 31 March 2006. The Group incurred no income taxes for the three month period ended 31 March 2005.

The income tax resulted from declaration of net dividends in Linnaehitus of EEK 17.0 million and in Mapri Projekt of EEK 4.5 million. The income tax at rate of 23/77 payable on dividends is recognised in the income statement of the period in which the dividends are declared, irrespective of the period for which they are declared or in which they are paid.

Minority interest

The Group recorded consolidated profit before minority interest of EEK 17.4 million in the three-month period ended 31 March 2006. While in the three month period ended 31 March 2005 the Group accounted an amount of EEK 1.7 million for minority interest, in the three month period ended 31 March 2006 the amount decreased by EEK 2.6 million. The minority interest had a positive balance for the period of three months ended 31 March 2005 due to strong operating results of Linnaehitus and negative balance of EEK 0.8 million in three months ended 31 March 2006 due to a recognised loss in Eurocon.

Net profit

The Group's consolidated net profit after tax and minority interest of approximately EEK 18.2 million for the three month period ended 31 March 2006 was approximately EEK 22.1 million higher than in the three month period ended 31 March 2005. This translates into a net profit margin of 5.3 per cent for the three month period ended 31 March 2006. In the three month period 31 March 2005 the consolidated net loss after tax and minority interest was EEK 3.9 million and thus the net profit margin was negative 1.2 per cent. The increase for the three months period ended 31 March 2006 compared to corresponding period in previous year resulted from improved gross margin and recognition of approximately EEK 18.1 million from gain from sale of fixed assets and real estate.

Liquidity and Capital Resources

The following table outlines the Group's equity and balances of interest-bearing obligations as at 31 December 2003, 2004 and 2005 and 31 March 2005 and 2006.

	Year ended 31 December				Three months ended 31 March	
(EEK, ´000)	2003	2004	2004	2005	2005	2006
	EGAAP	EGAAP	IFRS	IFRS	IFRS	IFRS
Equity	71 876	97 729	113 046	176 951	109 884	194 863
Interest-bearing liabilities	89 835	78 130	78 130	328 900	80 938	290 545

Source: Management

Over the period of the last three financial years, the Group has financed its operations mainly from operating cash flows and interest-bearing liabilities.

Operating cash flows

The Group calculates cash flow by applying the direct method. Accordingly, cash flow from operating activities is calculated by deducting cash payments to suppliers for goods and services, cash payments to and on behalf of employees and cash payments or refunds of income taxes from the sum of receipts from the sale of goods or services. The cash flow figures for the period ended 31 December 2003 are based on unaudited figures.

Cash flows from operations were approximately EEK 136.4 million the year ended 31 December 2003, EEK 107.7 million the year ended 31 December 2004 and EEK 156.8 million for the year ended 31 December 2005. Decline of some 21 per cent in operating cash flow during the year ended 31 December 2004 was mainly due to the payments to suppliers increasing faster than customer receipts. The Group's operating cash flow of 156.8 million in the year ended 31 December 2005 was due to cash receipts from customers of some EEK 2,007 million, payments to suppliers of approximately EEK 1,709 million and payments to employees of EEK 122 million and corporate income tax of EEK 19 million.

Equity

The Group had one new share issue during the year ended 31 December 2005. The share price in this issue was EEK 27, and the new issue resulted in an increase in share capital of EEK 4.8 million and an increase in the share premium of EEK 8.2 million. The main objective of this share new issue was to enable the minority shareholders of Linnaehitus and ASPI to subscribe for shares in the Company. Following this share issue, the minority shareholders of Linnaehitus and ASPI now own approximately 13.8 per cent of share capital of the Company.

Working capital

Management believes that, taking into account the Group's existing assets and financial condition, the Group's working capital is sufficient to meet all liabilities as they fall due for at least the 12-month period following the date of this Offering Circular.

Capital expenditure

Apart from land ownership, ASPI is the only Group company with a substantial asset base. As other companies in the Group operate primarily as a general contractor and project manager and, accordingly, their fixed assets are very limited.

The capital expenditure of ASPI accounts for more than half of the Group's total capital expenditure. ASPI's share of the Group capital expenditure was approximately 90.7 per cent in the financial year ended

31 December 2003, 88.3 per cent in the financial year ended 31 December 2004 and 79.4 per cent in the financial year ended 31 December 2005, excluding construction in progress and prepayments, which amounted to EEK 239,000 in the year ended 31 December 2004 and to EEK 33.2 million in the year ended 31 December 2005.

As of 31 December 2005, ASPI has made EEK 3.6 million commitment for purchase of asphalt-laying machine Titan 326 in 2006. The purchase was financed with cash at hand and financial lease. Financial lease contract was concluded during April 2006.

In addition to commitment taken by ASPI as of 31 December 2005, during the period of three months ended 31 March 2006 ASPI has made commitment for purchase of road roller Dynapac 252 for approximately EEK 1.3 million. The purchase was financed with cash at hand and financial lease. Financial lease contract was concluded during April 2006.

During the three month period ended 31 March 2006, ASPI purchased one road roller Dynapac CC 222 HF, grader Vammas RG 281 and truck weighing machine MWS-2/60 for an aggregate value of approximately EEK 5.3 million. The purchase of weighing machine was financed with cash at hand while the other purchases were financed with combination of cash at hand and with operating or financial lease.

	Year ended 31 December (audited)				Three months ended 31 March (unaudited)	
(EEK, ´000)	**2003**	**2004**	**2004**	**2005**	**2005**	**2006**
	EGAAP	**EGAAP**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
Material fixed assets acquisitions	42 973	26 241	26 241	62 289	3 127	6 824
incl. ASPI	38 966	23 201	23 201	23 235	2 517	5 131

Bank loans

	Year ended 31 December (audited)				Three months ended 31 March (unaudited)	
(EEK, ´000)	**2003**	**2004**	**2004**	**2005**	**2005**	**2006**
	EGAAP	**EGAAP**	**IFRS**	**IFRS**	**IFRS**	**IFRS**
Bank loans outstanding	20 009	29 002	29 002	206 509	32 107	192 458
Other interest bearing liabilities	0	0	0	10 581	0	13 385
Financial leasing liabilities	49 664	41 128	41 128	37 480	40 831	33 790
Loans from parent company	20 162	8 000	8 000	50 912	8 000	50 912
Liabilities to minority shareholders	0	0	0	23 418	0	0
Total	89 835	78 130	78 130	328 900	80 938	290 545
total short term liabilities	55 258	37 639	37 639	142 549	37 553	106 281
total long term liabilities	34 577	40 491	40 491	186 351	43 385	184 264

The outstanding balance of bank loans was EEK 20.0 million as at 31 December 2003 and EEK 29.0 million as at 31 December 2004, which reflects a relatively stable debt position. The loans were taken to cover fluctuations in cash flow within a financial year and, accordingly, they can be classified as working capital borrowing. The Group made considerable acquisitions during the financial year ended 31 December 2005. Financing of these acquisition required aggregate borrowing of approximately EEK 180.8 million.

As at 31 December 2003, the total balance of outstanding bank loans amounted to EEK 20.0 million. The outstanding loans comprised one working capital loan and an overdraft limit of EEK 10 million, of which the Group had drawn down EEK 9 400 as at 31 December 2003.

During the financial year ended 31 December 2004 the Group repaid EEK 10 million of the working capital loan. An additional working capital loan agreement was concluded during the same year with a credit limit of EEK 20 million, due for repayment in January 2006. Furthermore, the Group financed a real estate acquisition with a loan of EEK 6.5 million.

By 31 December 2004, the Group had drawn down EEK 12.5 million of the additional working capital loan. As the Group had no outstanding overdraft balance, the total balance of outstanding loans to credit institutions totalled EEK 29.0 million as at the same date.

The Group made significant acquisitions during the financial year ended 31 December 2005, which were in part financed through bank loans. During the year, the Group acquired 52.0 per cent of the shares in Mapri Projekt, 49.0 per cent of the shares in Linnaehitus and 47.06 per cent in ASPI. In addition, the Group acquired 100 per cent of the shares in the capital of Technopolis-2 LLC, Estcon Oy and Passage Teatralnyi LLC as well as a 66.7 per cent ownership interest in V.I. Center LLC. The aggregate cost of these transactions amounted to approximately EEK 219.5 million.

In the year ended 31 December 2005, the Group's outstanding loans taken to finance acquisitions totalled EEK 180.8 million, of which around EEK 146.8 million were bank loans and EEK 34 million loans from other sources. The latter amount consists in part of the deferred payment for the shares in ASPI and of a loan from certain private companies for the acquisition of Passage Teatralnyi LLC.

In addition to acquisition financing, the Group has taken an additional investment loan to finance purchases of real estate in Tallinn with a total credit limit of EEK 17.0 million. As at 31 December 2005, the outstanding balance of this loan amounted to EEK 10.5 million.

The Group concluded an agreement for an additional working capital loan in 2005 with an aggregate credit limit of EEK 5.3 million. The outstanding balance of this loan as at 31 December 2005 was EEK 5.3 million. The credit loan limit in one of the working capital loans for the year 2005 was increased from EEK 20 million to EEK 50 million. The outstanding balance of this loan as at 31 December 2005 was EEK 27.4 million.

The working capital loan agreement of EEK 10 million for the year 2004 was extended and no repayments were made during the year ended 31 December 2005.

The repayment obligations of the Group's bank loans outstanding as at 31 December 2005 divide between future periods as follows:

	Within one year	**1-2 years**	**3-5 years**	**over 5 years**	**Total**
	(EEK)	**(EEK)**	**(EEK)**	**(EEK)**	**(EEK)**
Bank loans	65 358 000	35 638 000	70 728 000	34 785 000	206 509 000

Management believes that the Group has reached its optimal gearing, and assuming that the business conditions of the Group remain stable, Management does not expect increases in the bank loans in the short term.

The loan agreements entered into by the Group contain several negative undertakings and requirements to obtain the lender's consent for, among other things, further financing, changes in the Group's corporate structure or the nature of its business, and consolidating or merging with another corporation.

Further, one of the Group's loan agreements, entered into between the Company and AS Hansapank on 19 July 2005, regarding the financing of the acquisition of the shares in ASPI and Linnaehitus by the Company, requires the Group to maintain a prescribed minimum consolidated operating profit and to achieve a prescribed minimum consolidated equity by the end of the financial year 2006. Assuming the Offer Price is set within the Offer Price Range set forth on the cover of this Offering Circular, the Group will meet the minimum levels upon completion of the Combined Offering. However, future adverse developments on the Group's business and results of operations could result in the Group being unable to maintain the profit or equity at the prescribed limits. The term of this loan agreement extends until 31 July 2012.

Financial leasing liabilities

The Group has reduced its financing leasing liabilities over the last three years. The balance has been reduced from EEK 49.7 million as at 31 December 2003 to EEK 41.1 million at 31 December 2004 and further to EEK 37.5 million at 31 December 2005.

The Group uses financial leasing mainly for purchases of machinery and equipment for road construction. The aggregate unappreciated acquisition cost of the fixed assets purchased through financial leasing was EEK 85.4 million as at 31 December 2003 and EEK 83.4 million as at 31 December 2004. As at 31 December 2005 the aggregate of the purchase value of fixed assets purchased through financial leasing had increased to total of EEK 94.2 million.

Off-Balance Sheet Arrangements

The Group concluded an overdraft agreement with a credit limit of EEK 10 million in the financial year ended 31 December 2003. The term of this loan has been extended in subsequent financial years with the same credit limit of EEK 10 million. There was been no outstanding balance from this overdraft as at 31 December 2004 or 31 December 2005.

Part of the Group's asset base is leased under operating lease contracts. During the financial year ended 31 December 2003 the Group paid the total of EEK 12.2 million in operating lease payments, including EEK 6.5 million for the cars, EEK 2.2 million for office premises and EEK 3.5 million for computer software. Most of the Group's cars are leased from EE Grupp, and the payments under these leases amounted to EEK 5.3 million for the financial year ended 31 December 2003. Also, the computer software is leased from EE Grupp.

The payments under operating leases totalled EEK 22.1 million in the year ended 31 December 2004 and EEK 27.3 million in the year ended 31 December 2005. The considerable increase was due to the use of leased construction equipment, which contributed EEK 7.4 million during the year ended 31 December 2004 and EEK 9.2 million during and the year ended 31 December 2005 respectively. Operating lease payments for the cars increased from EEK 6.9 million in 2004 to EEK 8.8 million in 2005. The majority of the car operating lease payments were made to EE Grupp, EEK 6.5 million in 2004 and EEK 7.4 million in 2005.

Operating lease payments for the rooms have remained relatively stable over the two last financial years, amounting to EEK 3.2 million in the year ended 31 December 2004 and EEK 4.3 million in the year ended 31 December 2005. Payments for use of computer software have increased over the period of the last three years: they totalled EEK 4.5 million in the year ended 31 December 2004 and EEK 4.9 million in the year ended 31 December 2005.

The liquidity of the Group is influenced by the amount of construction guarantees the Group has outstanding to its customers. Therefore, the majority of the Group's off-balance sheet liabilities comprise construction guarantees and, to a lesser extent, guarantees for Group companies such as suretyships and import guarantees. As at 31 December 2003 the Group had the total of EEK 100.4 million of outstanding off-balance sheet guarantees. The balance increased considerably during the financial year 2004 and the year end balance reached EEK 147.9 million. The total balance of outstanding off-balance sheet guarantees was EEK 159.1 million as at 31 December 2005, which included construction guarantees of EEK 132.4 million, suretyships for other liabilities of other Group companies of EEK 15.9 million and import guarantees for the benefit of other Group companies of EEK 10.8 million.

Critical Accounting Policies

Revenue recognition

The Group recognises revenue from the sale of goods when all significant risks and rewards of ownership have been transferred to the buyer and the revenue and expenses associated with the transaction can be measured reliably.

Revenue from the rendering of construction services is recognised using the percentage of completion method. Under this method, the revenue and profit arising on the provision of a service are recognised in proportion to and in the same periods as related costs. Interest income is recognised on the basis of the asset's effective interest rate. Dividend income is recognised when the right to receive payment is established.

Revenue from 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. Normally, revenue from the sale of real estate is recognised when the sales contract has been concluded.

Corporate income tax

In accordance with legislation currently in force, Estonia levies no income tax on the profits of companies upon the generation of profits. Income tax is imposed on the profits upon their distribution. Accordingly, no deferred tax assets or liabilities arise. The tax rate is 23 per cent (until 31 December 2005: 24 per cent) of the gross amount distributed, thus the effective rate is 23/77 of the amount of dividends declared and paid. The income tax on dividends is recognised in the income statement of the period in which the dividends are declared, irrespective of the period for which they are declared or in which they are paid.

The Group's consolidated financial statements include the current and deferred tax calculated on the profits of its Ukrainian subsidiaries and the income tax on dividends paid by Estonian Group companies. Under Ukrainian legislation, corporate income tax is a tax on profit earned. Verified business expenses are deducted from income and profit is taxed with income tax at the rate of 25 per cent.

The Group does not make provisions for corporate income tax on dividends before the dividend has been declared but information on the contingent liability is disclosed in the notes to the financial statements.

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

Inflationary Impact

Most of the Group's projects are based on a fixed price agreed for the term of the entire project, based on assumptions and project criteria specified in the project documentation. The Group is not always able to mitigate the risk of cost variances that may be caused by negative inflationary impact.

Currency Fluctuation Impact

The Group has no material exposure to foreign currency fluctuation as the majority of its revenues and expenses are incurred either in Estonian kroons or in Euro. Other foreign currencies, including USD, are used infrequently and in relatively small amounts.

The currency fluctuation has a certain impact on the Group's operations in Ukraine. When a project budget forecasts that a large part of project purchases will be made in currencies other than Ukrainian hryvnia, the Group may experience exchange differences between the budgeted and actual costs. The Group does not currently hedge its Ukrainian hryvnia position, due to the lack of suitable hedging instruments in the Ukrainian market.

Interest Rate Risk

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

MANAGEMENT

Pursuant to the provisions of the Estonian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided among the General Meeting of Shareholders, the Supervisory Council and the Management Board. See "Estonian Securities Market – Corporate Governance" for further information.

Supervisory Council

The Supervisory Council is responsible for planning the business activities of the Company, organizing the management of the Company and supervising the activities of the Management Board. The Supervisory Council reports to the General Meeting of Shareholders. According to Company's Articles of Association, the Supervisory Council's functions also include the following:

- approval of the Company's strategy;
- approval of the Company's three-year development plan;
- approval of the outline of the budgets to be prepared by the Management Board;
- approval of the budgets prepared by the Management Board;
- appointment of the Chairman of the Management Board if the Management Board has more than two members, and election and recalling of members of the Management Board;
- approval of the Company's management structure;
- approval of the Company's internal book-keeping and financial accounting procedures;
- approval of internal auditing regulations and internal audit plans;
- deciding on the execution or termination of the employment agreement with the internal auditing manager and on his/her bonuses and penalties;
- review of the Company's quarterly economic results;
- review and assessment of the Company's annual report before the submission of the report for the approval at the General Meeting of Shareholders; and
- deciding on conclusion of transactions and on the conduct of legal disputes with members of the Management Board and appointment of the representative of the Company for such purposes.

According to the Company's Articles of Association, the Supervisory Council's approval is required for transactions, which are beyond the ordinary course of business of the Company, especially transactions involving:

- acquisition or disposal of holdings in other companies;
- acquisition, disposal or winding up of businesses;
- establishment and closing of foreign branches and representative offices;
- establishment and winding up of subsidiaries;
- disposal and encumbering of real estate and registered movables, excluding passenger cars;
- disposal of fixed assets except when the disposal is set forth in the annual budget;
- investments which are not set out in the investment budget;
- borrowing or incurring debt, issuing or securing loans or debt obligations in excess of the limits set out in the annual budget or beyond the ordinary course of business.

According to the Company's Articles of Association, the Supervisory Council comprises three to seven members elected by the General Meeting of Shareholders for a term of five years. The members of the Supervisory Council elect the chairman among themselves. The chairman is responsible for organizing the activities of the Supervisory Council.

As of the date of this Offering Circular, the Supervisory Council of the Company is as follows:

Name	Year of birth	Member since	Position	Current term expires
Toomas Luman	1959	2002	Chairman	9 January 2011
Mait Schmidt	1960	2002	Member	9 January 2011
Tiina Mõis	1957	2002	Member	9 January 2011
Meelis Milder	1958	2002	Member	9 January 2011
Alar Kroodo	1958	2006	Member	9 January 2011
Ain Tromp	1956	2006	Member	16 March 2011

Toomas Luman. Mr. Toomas Luman, born 1959, is the Chairman of the Supervisory Council. He was the managing director of the Company from 1989 to 1996, and the chairman of the Management Board of the Company from 1996 to 2002, when he was elected the Chairman of the Supervisory Council. He has been a member of the supervisory council of Eesti Energia AS (Estonian Energy Company) since 1998 and the chairman of the supervisory council of AS Eesti Põlevkivi (Estonian Oil Shale Company) since 2005. He is also a member of the supervisory councils of AS Eurox, Tehnopolis Kinnisvara AS, AS Kuldlõvi and Lohusalu Sadam OÜ and a member of the management boards of EE Grupp, OÜ Luman ja Pojad, OÜ Väokivi and OÜ Eurox Kinnisvara. Mr. Luman was a member of the supervisory council of AS International Baltic Golfmarina until 2003, Tallinna Kaubamaja AS until 2002 and Tallinna Kaubamaja Kinnisvara AS, A-Selver AS and AS Tartu Kaubamaja until 2001. He was a member of the management boards of Osaühing E-Inseneribüroo and Osaühing Tartu Hansakeskus until 2003. Mr. Luman has been the president of Estonian Chamber of Commerce and Industry since 1995. He is also a member of the management board of Estonian Association of Construction Entrepreneurs (*Eesti Ehitusettevõtjate Liit*). Mr. Luman graduated in 1982 from the Tallinn Polytechnic Institute (now Tallinn University of Technology), where he specialized in industrial and civil engineering.

Mait Schmidt. Mr. Mait Schmidt, born 1960, has been a member of the Supervisory Council since 2002. From 1998 to 2002 he served as the technical director of the Company. Mr. Schmidt is also a member of the supervisory councils of EE Grupp, AS Eurox, AS Kuldlõvi, OÜ Eurox Kinnisvara and AS International Baltic Golfmarina and a member of the management boards of AS EGCC (Estonian Golf & Country Club), OÜ Pro Solutions and OÜ Schmidt & Sons. He was a member of the management board of OÜ E-Inseneribüroo until 2003 and OÜ Väokivi until 2004. Mr. Schmidt graduated in 1978 from the Tallinn Polytechnic Institute, where he specialized in industrial and civil engineering. Mr. Schmidt is a Chartered Engineer.

Tiina Mõis. Ms. Tiina Mõis, born 1957, has been a member of the Supervisory Council of the Company since 2002. She was a member of the supervisory council of AS Hansapank from 1998 until 2005 and worked as the chief accountant of AS Hansapank from 1991 to 1995. Ms. Mõis is also a member of the supervisory councils of AS Alexela Terminal, Rocca al Mare Kooli AS, Rocca al Mare Koolimaja AS, AS Freedman Trade Group, AS Haabersti Jäähall, AS Martinson Trigon, AS Pakri Marine Investments and HTB Investeeringute AS and a member of the management board of AS Genteel. She was also a member of the supervisory council of AS Tallinna Olümpiapurjespordikeskus until 2002 and AS Eesti Telekom and AS Ida-Tallinna Keskhaigla until 2004. Ms. Mõis graduated in 1980 from the Faculty of Economics of the Tallinn Polytechnic Institute.

Meelis Milder. Mr. Meelis Milder, born 1958, has been a member of the Supervisory Council of the Company since 2002. He has been the chairman of the management board and managing director of AS Baltika since 1991. He was a member of the supervisory council of AS Hansapank from 1998 to 2004. He is also a member of the supervisory councils of Tallinna Kaubamaja AS, EE Grupp, AS Helmes, AS Virulane, Elina STC AS, OÜ Baltika Tailor and OÜ Baltman and a member of the management boards of BMIG OÜ, BML Invest OÜ, OÜ Kodreste, OÜ LVM Projekt and OÜ Maisan. He was a member of the supervisory councils of Tallinna Kaubamaja Kinnisvara AS, A-Selver AS and OÜ Olimar Investeeringud until 2001. Mr. Milder graduated in 1981 from the Faculty of Economic Cybernetics of the University of Tartu.

Alar Kroodo. Mr. Alar Kroodo, born 1958, has been a member of the Supervisory Council of the Company since 2006. He was one of the founders of Linnaehitus in 1992, and served as the chairman of its management board from 1992 until 2003 when he was elected the chairman of the supervisory council of Linnaehitus. He worked as a managing director of AS EVIKO (*Tartu Ehitustrusti Ehitusvalitsus nr 1*) from 1991 to 1992 and as a manager of *Tartu Ehitustrusti Ehitusvalitsus nr 1* 1985-1991. He is also a member of the supervisory councils of OÜ Hotell Pallas and OÜ Hotell London and a member of the management boards of ASM Investments OÜ, Kvintett Kinnisvara OÜ, OÜ Tartu Hansakeskus, OÜ Tähering and OÜ Kvissental. Mr. Kroodo graduated in 1981 from the Tallinn Polytechnic Institute, where he specialized in industrial and civil engineering.

Ain Tromp. Mr. Ain Tromp, born 1956, has been a member of the Supervisory Council of the Company since 2006. He was one of the founders of ASPI in 1990, and served as the chairman of the management board and general director of ASPI from 1990 until 2006 when he was elected the chairman of the supervisory council of ASPI. He graduated in 1979 from the Tallinn Polytechnic Institute, where he specialized in road engineering.

Management Board

The Management Board manages the Company's daily business operations. See "Estonian Securities Market – Corporate Governance" for further information on the tasks of the Management Board.

According to Company's Articles of Association, the Management Board consists of one to five members elected by the Supervisory Council for a term of three years. If the Management Board has more than two members, the Supervisory Council shall appoint the Chairman of the Management Board.

As of the date of this Offering Circular, the Management Board is as follows:

Name	Year of birth	Member since	Position	Current term expires
Jaano Vink	1969	2002	Chairman, CEO	1 August 2008
Andri Hõbemägi	1972	2002	Member, CFO	1 August 2008
Avo Ambur	1969	2002	Member, Technical Director	1 August 2008
Erkki Suurorg	1971	2005	Member, Construction Director	1 December 2008

Jaano Vink. Mr. Jaano Vink, born 1969, is the Chairman of the Management Board of the Company. Before joining the Company in 2002, he was a development director of AS Muuga CT. From 1997-2001 he worked for AS Tallinna Sadam (Port of Tallinn) where he held the positions of an infrastructure division director, head of infrastructure department and the head of the technical department of the Port of Muuga. He is also a member of the supervisory council of OÜ Unigate. Mr. Vink graduated in 1993 from the Tallinn University of Technology, where he specialized in industrial and civil engineering, and he is currently continuing his master studies in international business administration at the Estonian Business School. Mr. Vink is a Chartered Engineer.

Andri Hõbemägi. Mr. Andri Hõbemägi, born 1972, is the Chief Financial Officer of the Company. He has been a member of the Management Board since 2002. Before joining the Company in 2002, he was a general director of MTÜ Jalgpalliklubi FC Flora from 2001 to 2002. From 1993 to 2001 he worked at AS Hansapank where he held the positions of a corporate clients division director, large client relations department director and loan department analyst. Mr. Hõbemägi graduated in 1995 from the Faculty of Economics, Tallinn University of Technology.

Avo Ambur. Mr. Avo Ambur, born 1969, is the Technical Director of the Company. He has been a member of the Management Board of the Company since 2002. Before joining the Company, he was a project manager for Lemminkäinen Eesti AS from 1996 to 2002. Mr. Ambur graduated in 1993 from the Tallinn University of Technology, where he specialized in industrial and civil engineering.

Erkki Suurorg. Mr. Erkki Suurorg, born 1971, is the Construction Director of the Company. He has been a member of the Management Board of the Company since 2005. He joined the Company in 1999 and worked for the Company as a manager of the I Construction Division from 2004 to 2005 and as a project manager from 1999 to 2004. Before joining the Company, he worked as a project manager for AS Wicom from 1998 to 1999 and for AS Inrestauraator from 1994 to 1998. Mr. Suurorg graduated in 1997 from the Tallinn University of Technology, where he specialized in engineering, administration and economics. Mr. Suurorg is a Chartered Engineer.

Other Key Executives

Name	Year of birth	Position
Kalev Kase	1958	Chairman of the management board of Linnaehitus
Margus Vaim.	1964	Chairman of the management board of ASPI
Andres Erm	1960	Chairman of the management board of Eurocon
Priit Jaagant	1972	Chairman of the management board of Mapri Projekt
Priit Pluutus	1972	Manager of the II construction division of the Company
Ene Kaldam	1957	Chief accountant of the Company
Alo Tamm	1976	Legal counsel of the Company

Kalev Kase. Mr. Kalev Kase, born 1958, is the chairman of the management board of Linnaehitus. He joined Linnaehitus in 1991 and before the appointment to his current position in 2003, he served as its deputy general director from 1999 to 2003 and as the construction director from 1991 to 1999. From 1984 to 1991, he was the chief engineer of *Tartu Ehitustrusti Ehitusvalitsus nr 1*. He is also a member of the supervisory councils of OÜ Hotell Pallas and OÜ Hotell London and a member of the management boards of Kvintett Kinnisvara OÜ, OÜ Tartu Hansakeskus, OÜ Tähering and OÜ Kvissental. Mr. Kase graduated in 1981 from the Tallinn Polytechnic Institute, where he specialized in industrial and civil engineering.

Margus Vaim. Mr. Margus Vaim, born 1964, is the chairman of the management board of ASPI. He joined ASPI in 1998 and served as its construction director until he was appointed to his current position in 2004. From 1990 to 1998, he worked for ASPI as a project manager. From 1983 to 1990, he worked as a division manager at Harju TREV. He is also a member of the management board of AS Tackmer Air. Mr. Vaim graduated in 1983 from the Tallinn College of Engineering.

Andres Erm. Mr. Andres Erm, born 1960, is the chairman of the management board of Eurocon. He joined the Group in November 2004 and was appointed to his current position in 2005. From 1994 to 2004 he worked for Baltic Beverages Holding. He is still a member of the management board Baltic Beverages Holding OÜ. He is also a member of the supervisory council of AS Pandion Fish. He was a member of the supervisory council of Saku Õlletehase AS until 2003. Mr. Erm graduated in 1985 from the Tallinn Polytechnic Institute, where he specialized in economics.

Priit Jaagant. Mr. Priit Jaagant, born 1972, is the chairman of the management board of Mapri Projekt. Before joining Mapri Projekt in 2001, he was a member of the management board of AS KC Kinnisvara from 2000 until 2001. He was also a member of the management board of OÜ Fassaadipartner until 2004. From 1997 to 1999 he worked for AS Merko Ehitus as a construction site manager. Mr. Jaagant graduated in 1995 from the Tallinn University of Technology, where he specialized in civil engineering.

Priit Pluutus. Mr. Priit Pluutus, born 1972, is the manager of the Company's II Construction Division since 2002. He joined the Company in 1997 as a project manager and was appointed to his current position in 2002. Mr. Pluutus graduated from the Tallinn University of Technology in 1995, where he specialized in civil engineering, and from the Estonian Business School in 2000, where he specialized in international business management.

Ene Kaldam. Ms. Ene Kaldam, born 1957, has been the chief accountant of the Company since 1991. Before joining the Company in 1991, she worked as an economist for *Tallinna Linnauurimise Instituut* from 1988 to 1991. Ms. Kaldam graduated in 1981 from the Faculty of Economy of University of Tartu.

Alo Tamm. Mr. Alo Tamm, born 1976, is the legal counsel of the Company. He joined the Company as a quality manager in 1999 and was appointed to his current position in 2002. Mr. Tamm graduated in 2005 from the Institute of Law of University of Tartu and from the Tallinn University of Technology in 2000, where he specialized in civil engineering. He obtained a degree of Master of Science in Engineering from the same university in 2002.

The business address of all of the above persons is: c/o AS Eesti Ehitus, Narva mnt. 24, 10120 Tallinn, Estonia.

Remuneration

The following table sets forth the aggregate gross amounts of salaries and other remuneration paid by the Group to the members of its Supervisory Council, Management Board and other key executives for the financial year ended 31 December 2005:

	Salary (EEK)	**Bonuses (EEK)**	**Total remuneration (EEK)**
Supervisory Council	360 000[1)]	-	360 000[1)]
Management Board	1 703 678[2)]	3 720 101[2)]	5 423 779[2)]
Other key executives	2 697 787	1 346 050	4 043 837

1) This amount includes remuneration paid to Mr. Toomas Luman, Mr. Mait Schmidt, Mr. Meelis Milder, Mr. Egon Mats and Ms. Tiina Mõis who served as members of the Supervisory Council during the financial year ended 31 December 2005. On 9 January 2006, Mr. Mats was recalled from the Supervisory Council and Messrs. Kroodo and Tromp were elected as members of the Supervisory Council.

2) This amount includes remuneration paid to Mr. Jaano Vink, Mr. Andri Hõbemägi, Mr. Avo Ambur and Mr. Erkki Suurorg, the current members of the Management Board, as well as remuneration paid to Mr. Ando Voogma and Mr. Toomas Jõgeva who served as members of the Management Board until 29 March 2005.

In addition, the Group offers to the members of the Supervisory Council and Management Board and other key executives benefits similar to those offered to all employees, for example health coupons (coupons which can be used for payment for services in different health centres, pools, gyms, *etc.*), food stamps, *etc*. In addition, the Group covers the cost of an accident insurance policy for the employees and fifty per cent of the cost of their home insurance.

No agreements have been concluded between the Company and the members of its Supervisory Council providing for benefits upon termination of appointment as a member of the Supervisory Council.

Upon termination of the service agreement of a member of the Management Board, the Company will pay compensation to such member in the amount of six months' remuneration (calculated on the basis of the remuneration paid to the said member of the Management Board within the 12 months preceding termination of the service agreement, including any bonuses). No compensation is paid when the member of the Management Board resigns or if the agreement is terminated by the Company due to breach or non-compliance by the Management Board member with given duties, which breach or failure has caused damage to the Company. Nor is compensation paid when the service agreement is replaced with a new service agreement upon re-election of the member of the Management Board for a new term.

None of the members of the Supervisory Council, Management Board or other key executives is entitled to any pension benefits from the Company.

Incentive Schemes

The Company pays a bonus to the Management Board members for good results of the financial year in the amount of 0.65 per cent of the Group's consolidated profit before taxes and after the deduction of minority interests in net profit. In case the above sum exceeds the limits of EEK 140 million in 2006, EEK 180 million in 2007 or EEK 250 million in 2008, the Company pays to the Management Board members an additional bonus in the amount of 1.3 per cent of the sum by which the above sum exceeds the set limits.

Other than their rights as shareholders, no member of the Supervisory Council or Management Board nor any other key executive of the Company has any options to purchase or sell Shares, or rights to subscribe for new Shares or shares in any other company within the Group.

Share Ownership

The table below sets forth the shareholdings of the members of the Supervisory Council and Management Board and other key executives in the Company as of the date of this Offering Circular:

Name	Position	Number of Shares	Shareholding (%)
Toomas Luman	Chairman of the Supervisory Council	[1]	[1]
Mait Schmidt	Member of the Supervisory Council	[2]	[2]
Alar Kroodo	Member of the Supervisory Council	[3]	[3]
Ain Tromp	Member of the Supervisory Council	339 480	2.44
Jaano Vink	Chairman of the Management Board	13 928	0.10
Andri Hõbemägi	Member of the Management Board	13 928	0.10
Avo Ambur	Member of the Management Board	13 928	0.10
Margus Vaim	Chairman of the management board of ASPI	113 160	0.81
Kalev Kase	Chairman of the management board of Linnaehitus	279 796	2.01

[1] Toomas Luman controls, directly or indirectly, 55 per cent of the votes represented by the shares of EE Grupp, which, in turn, as at the date of this Offering Circular, controls approximately 86.16 per cent of the votes represented by the shares of the Company.

[2] Mait Schmidt controls, directly or indirectly, 15 per cent of the votes represented by the shares of EE Grupp, which, in turn, as at the date of this Offering Circular controls approximately 86.16 per cent of the votes represented by the shares of the Company.

[3] Alar Kroodo has a shareholding in the Company through ASM Investments OÜ, which controls as at the date of this Offering Circular approximately 2.01 per cent of the votes represented by the shares of the Company.

Apart from Toomas Luman and Mait Schmidt, all the persons listed above acquired their Shares in the share issue, completed in August 2005. The new shares were issued at a price of EEK 27 per share and were paid for in cash.

In addition, Mr. Andres Erm, the chairman of the management board of Eurocon, has a 19 per cent interest in Eurocon. Mr. Priit Jaagant, the chairman of the management board of Mapri Projekt, has a 24 per cent interest in Mapri Projekt.

Except as provided above, the members of the Supervisory Council and Management Board and other key executives of the Group do not own or control any shares in the Company or its subsidiaries.

Transactions with Eesti Ehitus, Legal Issues

No member of Supervisory Council or Management Board has had any interest in transactions effected by the Company or its subsidiaries, which are unusual in their nature or which contain unusual terms or conditions, during the financial years ended 31 December 2004 and 2005 or the current financial year. See also “Business—Related Party Transactions.”

The Company is not aware of any convictions in relation to fraudulent offences, bankruptcies, receiverships or liquidations or any official public incrimination and/or sanctions with respect to the members of its Supervisory Council or Management Board or other key executives. The Company is not aware that any of the above mentioned persons has been disqualified by any court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer. The Company is not aware of any potential conflicts of interest between the duties of the above mentioned persons to the Company and their private interests or other duties.

COMPANY, SHARE CAPITAL AND OWNERSHIP STRUCTURE

General Information on the Company

Name, place of registration, legal form

The legal (business) name of the Company is Aktsiaselts Eesti Ehitus. The Company is a public limited company (*aktsiaselts*) incorporated pursuant to the laws of the Republic of Estonia. The Company is registered with the Estonian Commercial Register (*Äriregister*) under registration code 10099962.

The legal predecessor of the Company was a Finnish-Soviet joint venture named SRV Eesti Ehitus, which was registered with the Ministry of Financial Affairs of the Soviet Union on 21 December 1988. On 4 November 1996 the Company was re-registered in the Estonian Commercial Register in the form of a private limited company under the name OÜ Eesti Ehitus. Such re-registration was made in order to comply with requirements of the Commercial Code of Estonia. The Company's reorganisation into a public limited company AS Eesti Ehitus was registered in the Estonian Commercial Register on 16 September 2002.

Pursuant to its Articles of Association, the Company has been established for an indefinite term.

Registered office

The Company's registered office is in Tallinn, Estonia at the address Narva mnt 24, 10120 Tallinn, telephone (+372) 6 400 450.

Fields of activities

Pursuant to Article 1.3 of the Company's Articles of Association, the Company's fields of activities are (i) performance of construction and other works as project manager, main contractor or sub-contractor; (ii) preparation of general construction drawings without the right to conduct architectural design works; (iii) construction supervision; (iv) expert assessment of structural part of design-build drawings and building structures; (v) geodetic surveys on the construction site; (vi) construction related geodetic and geotechnical investigations; (vii) geodetic and cartographic works; (viii) real estate development, transactions with real estate and land; (ix) maintenance of buildings and facilities; (x) operational or financial lease of movable property, including construction equipment; (xi) provision of accounting services; and (xii) consulting in the fields of constructional design, construction, management, financing and other.

Financial year

The financial year of the Company runs from 1 January to 31 December.

Subsidiaries

The Company is the operating parent company of the Group.

The Company owns all shares of its subsidiary Aktsiaselts ASPI, incorporated in Estonia with its registered office at Peterburi tee 46, Tallinn, Estonia. The share capital of ASPI is EEK 3 400 000 (approximately EUR 217 300) divided into 340,000 shares of nominal value EEK 10 each.

The main field of activity of ASPI is construction of roads and infrastructure facilities.

ASPI in turn owns all shares of its subsidiaries Aktsiaselts Järva Teed (share capital EEK 2 000 000 and registered office at Mäo tee 1, Sillaotsa küla, Paide vald, 72751 Järvamaa) and Osaühing Hiiu Teed (share capital EEK 100 000 and registered office at Allika 40, 92412 Kärdla), both incorporated in Estonia. Both of these companies specialize in road maintenance works.

The Company owns all shares of its subsidiary Aktsiaselts Linnaehitus, incorporated in Estonia with its registered office at Ringtee 12, 53013 Tartu, Estonia. The share capital of this company is EEK 5 500 000 (approximately EUR 351 514) divided into 550 000 shares of nominal value EEK 10 each.

The activities of Linnaehitus are concentrated in Southern Estonia with the main focus on management of design works and construction projects and performance of construction works as a main contractor. In recent years, Linnaehitus has also been increasingly involved in real estate development.

Since January 2005, the Company has a 52 per cent shareholding in its subsidiary Osaühing Mapri Projekt, incorporated in Estonia with its registered office at Katusepapi 4, 11412 Tallinn, Estonia. The remaining shares in Mapri Projekt are held by the members of its management board Messrs. Mait Rõõmusaar and Priit Jaagant. The share capital of this company is EEK 400,000 (approximately EUR 25 565). Mapri Projekt specializes in the performance of concrete works.

The Company has a 64 per cent shareholding in its subsidiary Osaühing Eurocon, incorporated in Estonia with its registered office at Narva mnt 24, 10120 Tallinn, Estonia. The remaining shares in Eurocon are held by the members of its management board Messrs. Andres Erm (19 per cent), Toomas Jõgeva (8.5 per cent) and Aivar Noormets (8.5 per cent). The share capital of this company is EEK 80,000 (approximately EUR 5,113).

Eurocon is a holding company which has a 96 per cent shareholding in its subsidiary Eurocon Ukraine LLC incorporated in Ukraine with a share capital UAH 18 500 and registered office at P. Lumumba 4/6, 01042 Kiev, Ukraine. As a result of the share transfer executed on 12 April 2006, the remaining 4 per cent of the shares in Eurocon Ukraine are held by its new managing director Mr. Oleg Drin. The main field of activity of Eurocon Ukraine is performance of construction and other works as project manager and main contractor.

Eurocon Ukraine in turn has a 100 per cent shareholding in its four subsidiaries Passage Teatralnyi LLC, Bukovina Developments LLC, Eurocon West LLC and Eurobeton LLC. Passage Teatralnyi LLC has been established in order to develop a retail shopping centre in Lvov with an estimated size of 6 500 m^2. Bukovina Developments LLC has been established in order to participate in a tender for a certain land parcel and, upon success, to develop and construct retail premises on this land. Eurocon West LLC has been established for the purpose of managing the Group's business in the Western region of Ukraine. Eurobeton LLC has been formed with a view to build a prefabricated concrete factory in the Kiev oblast. In order to share operational risks and provide the new entity with required know-how and expertise the Group seeks to engage a strategic partner into the newly established Eurobeton LLC.

The Company is also the sole shareholder of its subsidiaries Osaühing EE Elekter, a company incorporated in Estonia, and Estcon Oy, a company incorporated in Finland. Both of these subsidiaries are currently dormant – see "Business – Organizational Structure".

Information on Share Capital and Shares

As of 31 December 2005, the Company's registered share capital was EEK 34 818 940 divided into 3 481 894 fully paid Shares with a nominal (par) value of EEK 10 each.

As of the date of this Offering Circular, the Company's registered share capital is EEK 139 275 760 divided into 13 927 576 fully paid Shares with a nominal value of EEK 10 each. See "Changes in the Share Capital".

After the completion of the Combined Offering, the share capital of the Company will be EEK 153 783 640 divided into 15 378 364 Shares with a nominal (par) value of EEK 10 each.

The existing Offer Shares have been issued, and the new Offer Shares will be issued, under the laws of the Republic of Estonia. All existing Offer Shares are fully paid up. All existing Offer Shares and, once the increase of share capital relating to the issue of new Offer Shares is registered with the Estonian

Commercial Register, the new Offer Shares will rank *pari passu* in all respects with all the remaining existing Shares.

The Shares are registered in book-entry form in the Estonian Central Register of Securities (as maintained by AS Eesti Väärtpaberikeskus, address Tartu mnt 2, Tallinn, 10145) under the identification number (ISIN code) EE3100039496.

Free transferability of the Shares has not been restricted in the Company's Articles of Association, nor are the Shares subject to any transfer restrictions other than those described in this Offering Circular regarding particular shareholders. See "Underwriting — Lock-up".

Changes in the Share Capital

Since the registration of the Company in the Commercial Register on 4 November 1996, the amount of the share capital and the number of shares of the Company have changed as follows:

	Change in share capital (EEK)	New share capital (EEK)	Change in number of Shares	New number of Shares	Registered in Commercial Register
Registration of the Company in Commercial Register		5 000 000		500,000	4 November 1996
Share capital increase (new issue)	+15 000 000	20 000 000	+1 500 000	2 000 000	23 September 1997
Share capital increase (new issue)	+10 000 000	30 000 000	+1 000 000	3 000 000	30 October 2000
Share capital increase (new issue)	+4 818 940	34 818 940	+481 894	3 481 894	30 August 2005
Share capital increase (bonus issue)	+ 104 456 820	139 275 760	+ 10 445 682	13 927 576	18 April 2006

On 2 August 2005, EE Grupp (as the Company's sole shareholder at the time) decided to increase the Company's share capital from EEK 30 000 000 to EEK 34 818 940 by issuing 481 894 new Shares with a nominal value of EEK 10 each. The new Shares were issued at a premium of EEK 17 per Share. The payment for the new Shares was made in cash by 20 August 2005. The share capital increase was registered in the Commercial Register on 30 August 2005.

On 1 April 2006, the General Meeting of Shareholders decided to increase the Company's share capital from EEK 34 818 940 to EEK 139 275 760 by issuing 10 445 682 new Shares with a nominal value of EEK 10 each. This increase was a bonus issue, i.e. new Shares were issued on account of the share premium in the amount of EEK 8 192 198 and retained earnings in the amount of EEK 96 264 622. Each of the shareholders of the Company received three new Shares for each Share they owned before the issue. The share capital increase was registered in the Commercial Register on 18 April 2006.

Issue of New Offer Shares and Dilution

In connection with the Combined Offering the Company will issue 1 450 788 new Offer Shares. The General Meeting of Shareholders is expected to approve the issue of new Offer Shares on or about 11 May 2006. The notice calling this General Meeting of Shareholders has been published on 2 May 2006 through the Tallinn Stock Exchange. The Management Board will propose that the General Meeting of Shareholders should waive the pre-emptive right of shareholders to subscribe for the new Offer Shares in order to conduct the Combined Offering and thereby extend the shareholder base of the Company. The decisions of the General Meeting of Shareholders will be published through the Tallinn Stock Exchange no later than on 12 May 2006.

The Offer Shares represent approximately 23.5 per cent of the Company's share capital immediately prior to the Combined Offering and approximately 21.3 per cent of the Company's share capital following the completion of the Combined Offering assuming that the Over-Allotment Option is exercised in full.

Option Rights, Securities with Warrants, Convertible Securities and Capital Loans

In absence of express authorisation in the Articles of Association, any decision which alters the share capital or number of shares in an Estonian public limited company must be passed by the general meeting of shareholders. Under Estonian law, convertible bonds are the only debt instruments granting a conversion right into the company's shares. The general meeting of shareholders can decide on the issuance of any convertible bonds, if such right has been provided for in the Articles of Association.

In addition, upon the decision of the general meeting of shareholders for conditional share capital increase, share subscription rights may be granted to the employees and members of governing bodies of the company or related undertakings. Such subscription rights may be granted also in connection with the preparation for a merger.

The Company's Articles of Association do not provide for the right to issue convertible bonds. The Company has not issued any option rights, convertible bonds, bonds or other securities with warrants, capital loans or other instruments convertible into or exchangeable for Shares.

Shareholders of the Company

According to the shareholder register of the Company as maintained in the ECRS, the Company had 16 shareholders as at the date of this Offering Circular.

The following table presents the holdings of the largest shareholders prior to the Combined Offering. The information given in the table is calculated on the basis of shareholdings as at the date of this Offering Circular.

Name	**Number of Shares**	**%**
AS EE Grupp	12 000 000	86.16
Ain Tromp	339 480	2.44
ASM Investments OÜ	279 800	2.01
Kalev Kase	279 796	2.01
Martin Sööt	228 924	1.64
Raul Rebane	178 052	1.28
Aivo Kont	169 740	1.22
Other existing shareholders	451 784	3.24
Total	**13 927 576**	**100**

None of the major shareholders have any different voting rights compared to other shareholders.

As of the date of this Offering Circular, neither the Company nor any of its subsidiaries owns any of the Shares.

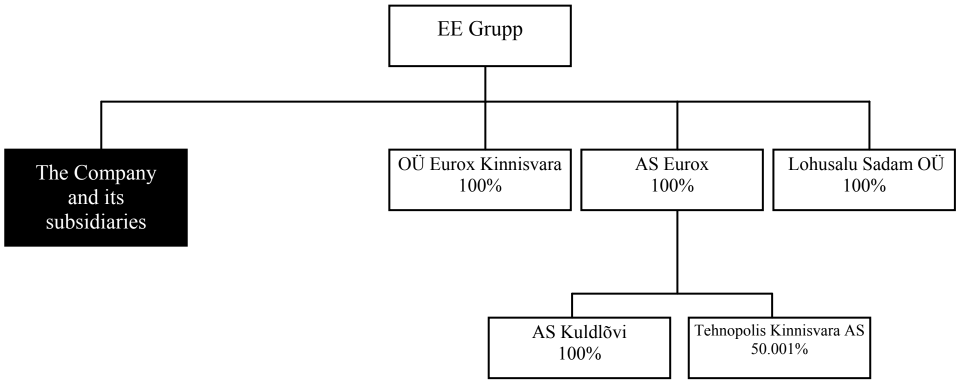
Controlling Shareholder

As of the date of this Offering Circular, EE Grupp owns 12 000 000 Shares representing approximately 86.16 per cent of the votes that can be cast in the General Meeting of Shareholders.

EE Grupp is a public limited company registered in the Estonian Commercial Register under registration code 10359185. The registered office of EE Grupp is Liivalaia 13/15, Tallinn 10118.

EE Grupp is ultimately controlled by Toomas Luman, the Chairman of the Company's Supervisory Council, who controls, directly or indirectly, 55 per cent of the votes represented by the shares of EE Grupp. Other shares of EE Grupp are ultimately controlled by Mr. Egon Mats, who controls, directly or indirectly, 30 per cent of the votes represented by the shares, and Mr. Mait Schmidt, who controls, directly or indirectly, 15 per cent of the votes represented by the shares of EE Grupp.

Below is a structural chart showing the subsidiaries of EE Grupp as at the date of this Offering Circular. For information about the Company and its subsidiaries see “Business – Organizational Structure”.



For the description of transactions entered into between the Group companies and EE Grupp and its subsidiaries, see “Business—Related Party Transactions”.

In the Combined Offering EE Grupp is offering up to 1 499 536 Offer Shares for sale. In addition, EE Grupp has granted the Global Coordinator an option to require EE Grupp to sell up to 327 814 Additional Shares for purposes of covering possible over-allotments (the Over-Allotment Option).

It is expected that immediately after the Combined Offering EE Grupp will still control approximately 66 per cent of the votes that can be cast in the General Meeting of Shareholders, provided that it will not acquire any Offer Shares in the Combined Offering and assuming that the Over-Allotment Option is exercised in full and EE Grupp sells all the Additional Shares covered by the Over-Allotment Option.

Shareholders’ Agreements

To the knowledge of the Management Board, no shareholders’ agreements exist between shareholders in relation to their holdings of shares in the Company.

In connection with the Combined Offering, certain restrictions on sale and transfer of Shares have been agreed between the relevant parties. See “Underwriting — Lock-up.”

Shareholder Rights

General meetings of shareholders

Under the Estonian Commercial Code, shareholders exercise their power to decide on corporate matters at general meetings of shareholders. The general meeting of shareholders considers, among other things, the annual report and the distribution of profits. Resolutions may be adopted at either annual or extraordinary general meetings.

In accordance with the Commercial Code, an annual general meeting of shareholders must be held within six months after the end of a financial year. An extraordinary general meeting of shareholders may be held whenever the management board deems it appropriate (including when it is required by the Commercial Code, e.g., in the event that the equity capital decreases below the legally required minimum equity), or if the supervisory council, shareholders whose shares represent at least one-tenth of the share capital of the company or the auditor of the company make such a request to the management board. If the management board does not convene an extraordinary general meeting within one month following receipt of such a request, the shareholders, the supervisory council or the auditor are entitled to convene an extraordinary general meeting themselves.

Notices to convene annual general meetings of shareholders must be given at least three weeks prior to the meeting, and notices to extraordinary general meetings of shareholders must be given at least one week in advance. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the shareholders' register of the company as maintained in the ECRS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. Notices may be sent also by unregistered mail or fax provided that the letter or fax is appended by a notice requiring the recipient to immediately return the confirmation of receipt to the management board. However, if the company has more than 50 shareholders, notices need not be sent to shareholders, but may be published in at least one national daily newspaper in Estonia.

The supervisory council of the company usually determines the agenda of the general meeting of shareholders. If, however, the shareholders or the auditor convene a general meeting, they must also determine the agenda of that meeting. The management board or one or more shareholders whose shares represent at least one-tenth of the share capital of the company may require that other items be included on the agenda of a general meeting. If, upon convening a general meeting, the requirements of law or the articles of association have been breached, no decision may be adopted at the meeting unless all shareholders participate or are represented at the meeting.

In order to have the right to attend and vote at a general meeting of shareholders, a shareholder must be registered in the shareholders' register on the day which is ten days before the meeting. Voting rights may not be exercised by a shareholder if such shareholder's shares are registered in the name of a nominee unless the nominee account holder grants a power of attorney to the shareholder.

A general meeting of shareholders is capable of passing resolutions if more than one-half of the votes represented by shares held by shareholders are present at the meeting. If the quorum requirement has not been fulfilled, the management board shall call a new general meeting of shareholders for a date not more than three weeks but not less than seven days after the date of the prior meeting. There are no quorum requirements for the newly called general meeting.

Voting rights

The Company has one class of shares of EEK 10 nominal value each. Each share entitles the holder to one vote. A shareholder may attend and vote at a general meeting of shareholders in person or by proxy. At a general meeting of shareholders, resolutions generally require the approval of a majority of the votes represented at the general meeting. However, certain resolutions, such as amending the articles of association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division, reorganisation or liquidation of the company, require a majority of two-thirds of the votes represented at the general meeting. Any issuance of new shares on terms other than in accordance with the existing shareholders' pre-emptive subscription rights requires a majority of at least three quarters of the votes represented at the general meeting. Issuing a different class of shares requires amendment of the articles of association (by a two-thirds majority of votes represented at the general meeting). According to Estonian law, rights attached to a class of shares may be amended by the general meeting through a decision supported by a qualified majority of four-fifths of all votes and nine-tenths of the votes of the shareholders whose rights are proposed to be amended.

Dividends and other distributions

Pursuant to the Estonian Commercial Code, a general meeting may authorize the payment of dividends on the terms and conditions set out in the profit distribution proposal presented by the management board. The supervisory council has the right to make changes to the proposal of the management board before submission to the general meeting.

Dividends, if any, should be paid in cash or, if the shareholders consent, in kind. The shareholders decide annually the dividend amount and procedure of payment on the basis of the approved annual report, as set out in the Articles of Association (the decision may, however, stipulate that the dividends are paid out in several instalments). As a general rule, no interim dividends may be paid in respect of a financial period for which an annual report (together with the audited financial statements) has not yet been approved by the general meeting. However, the articles of association may provide that the management board has the right, upon the consent of the supervisory council, to make advance payments to the shareholders on account of the estimated profit after the end of a financial year but before the approval of the annual report, provided that such advance payments do not exceed one-half of the amount that may be distributed among shareholders. The Company's Articles of Association do not provide for such right of the management board.

Dividends may only be paid out from net profit or undistributed profit from previous financial years, and from which uncovered losses from previous years have been deducted. Dividends may not be paid to the shareholders if the net assets of the company, as recorded in the approved annual report of the previous financial year, are less than or would be less than the total of share capital and reserves, which, pursuant to applicable law or the Articles of Association, may not be distributed to the shareholders.

Dividends of companies listed on the Tallinn Stock Exchange are paid only to those shareholders (or their nominees) who are entered on the list of shareholders (shareholders' register) as maintained in the ECRS on the respective record date. The Tallinn Stock Exchange Rules provide that a listed company is required to disclose information about closing the list of shareholders (fixing the record date) at least nine trading days before the record date. If a general meeting adopts a resolution that relates to rights attached to the shares (e.g., the declaration of payment of dividends), the record date may not be fixed at an earlier date than ten trading days after the date of the relevant general meeting.

All existing Shares and, once the increase of share capital relating to the issue of new Offer Shares is registered with the Estonian Commercial Register, the new Offer Shares, rank *pari passu* with regard to dividends and other distributions of the Company (including distribution of assets in the event of dissolution).

For a description of restrictions on payment of dividends, see "Dividends and Dividend Policy".

Pre-emptive subscription rights

Under Estonian law, existing shareholders of limited liability companies have pre-emptive rights to subscribe for new shares in the company, in proportion to their existing shareholding. A resolution waiving pre-emptive rights must be approved by at least three-fourths of all votes represented at the general meeting of shareholders.

Right to acquire own shares

A public limited company is entitled to acquire its own shares only if the following conditions are met:

(i) the acquisition occurs within one year after the adoption of a resolution of the general meeting which specifies the conditions and term for the acquisition and the price to be paid for the shares;

(ii) the sum of the nominal value of the shares held by the company does not exceed one-tenth of its share capital; and

(iii) the shares are paid for from assets excluding the share capital, reserve capital and premium.

However, a public limited company may acquire its shares by inheritance or by a resolution of the supervisory council without requiring a resolution of the general meeting if the acquisition of the shares is necessary to prevent significant damage to the company. The shareholders must be informed of the circumstances of the acquisition of the company's own shares at the next general meeting of shareholders. In any event, a public limited company, which has acquired its own shares, must transfer those shares within one year from the date on which they were acquired. In the event that the public limited company acquires its own shares in violation of the law, such shares must be disposed of or cancelled (by decreasing the share capital) within three months of acquisition. In the event that the shares acquired contribute to more than one-tenth of the share capital, such excess shares must be disposed of within six months of their acquisition.

The rules regarding acquisition of a company's own shares are also applied to the acquisition of a parent company's shares by the subsidiaries. In the event that a subsidiary acquires the shares of its parent company, the parent company shall be regarded as the acquiring party.

Disclosure of shareholdings

Pursuant to the Estonian Commercial Code, the management board is required to submit to the Estonian Commercial Register, together with the approved annual report, a proposal for profit distribution and auditors' report, a list of shareholders holding more than ten per cent of the votes as of the date of the approval of the annual report by the general meeting of shareholders. See "Estonian Securities Market—Estonian Company Law— The Estonian Central Registry of Securities and registration of shares" for a description of other instances when information concerning the shareholders is accessible to the public.

Taxation of dividends

See "Estonian Taxation."

ESTONIAN SECURITIES MARKET

Estonian Company law

The following describes certain of the provisions of Estonian legislation regulating the legal status and management of public limited companies. The following description does not constitute an exhaustive description of the subject matter. It is based on the laws of Estonia as in force on the date of this Offering Circular, and is subject to changes as a result of any future amendments to Estonian legislation.

Introduction

Under Estonian law, limited liability companies are divided into two main categories—private limited companies (*osaühing*, abbreviated as OÜ) and public limited companies (*aktsiaselts*, abbreviated as AS). Public limited companies have greater capital requirements and can issue more classes of shares than private limited companies, and are required to register their shares with the ECRS. See "The Tallinn Stock Exchange and the Estonian Securities Market" below for details regarding the functions of the ECRS. Pursuant to Estonian law, the legal capacity of a company is effective upon its entry in the Commercial Register. Therefore, a public limited company organized under Estonian law must be registered with the Commercial Register. The Commercial Register is a record maintained by the registration departments of the various courts of first instance.

Public limited companies must have a minimum share capital of EEK 400,000. A public limited company's share capital must be fully paid-up as a condition of registration in the Commercial Register.

The shares of public limited companies must have a nominal value of EEK 10 each or a full multiple thereof. Shares are freely transferable, but the company's Articles of Association may confer a pre-emptive right on other shareholders. Dividends must be distributed to shareholders pro rata, based upon the nominal value of the shares held by each shareholder. Where a public limited company has different classes of shares, owners may enjoy different rights upon distribution of profits and upon distribution of remaining assets in case of liquidation of the company, such as the right of preferred shareholders to receive dividends in a pre-determined amount.

Corporate governance

General meeting of shareholders is the highest authority in a public limited company and makes its most important decisions. See "Company, Share Capital and Ownership Structure - General meetings of shareholders" for further information on the tasks and procedures related to the general meeting. A public limited company incorporated in Estonia must also have a two-tier management structure, comprising a supervisory council and a management board.

The management board is an executive body charged with the day-to-day management of the relevant company, as well as with representing the company in its relations with third parties, for example, by entering into contracts on behalf of the company. The management board must adhere to the lawful orders of the supervisory council. At least one-half of the management board members of a public limited company must be residents of Member States of the European Economic Area or Switzerland. Members of the management board may not simultaneously serve on the supervisory council.

The supervisory council engages in oversight and longer-term management activities, such as supervising the management board and devising business plans. No residency requirements apply to the members of the supervisory council. The supervisory council reports to the general meeting.

Members of the management board and supervisory council must fulfil various general duties to the company, including upholding a fiduciary duty of loyalty, acting with due diligence, performing their duties with sufficient skill and in a manner commensurate with their knowledge and abilities, and acting to maximize benefits to the company and to prevent any losses.

The Tallinn Stock Exchange Rules provide that should any shareholder hold more than 30 per cent of the votes represented by shares in the share capital of an issuer, there shall be at least two members of the supervisory council that are not connected with such shareholder. The current composition of the Supervisory Council is in compliance with the above requirements.

Members of governing bodies must also keep the company informed of all material facts related to the performance of their obligations, such as any conflicts of interest which may arise. A strict confidentiality requirement also applies where members of governing bodies learn of facts that the company has a legitimate interest in keeping confidential. For example, the members of governing bodies are required to maintain the confidentiality of the company's business secrets. The confidentiality obligation continues after the management board or supervisory council member's term of service expires, to the extent necessary to protect the company's interests. Exceptions to the confidentiality obligation arise where the company authorizes disclosure, or where the law requires disclosure. Unauthorized disclosure of business secrets may result in criminal sanctions.

Pursuant to the Commercial Code, a public limited company is required to engage an auditor who must be appointed by the general meeting of shareholders. The general meeting of shareholders shall also determine the principles of remuneration of the company's auditors. The auditors may be appointed for a specified term or for a single audit.

The Commercial Code provides that a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90 per cent of the share capital of a public limited company, is entitled to acquire the remaining outstanding shares of the company for fair monetary compensation. A resolution on the acquisition of these shares shall be adopted, and shall bind all shareholders, if at least 95 per cent of the votes represented by shares are in favour.

Various additional restrictions and limitations on the activities of a company listed on the Tallinn Stock Exchange and its managing bodies are imposed by the Tallinn Stock Exchange Rules, which to a large extent have been applicable to the Company with effect from the submission by the Company of its application for listing of the Shares on the Tallinn Stock Exchange.

Furthermore, the Estonian Financial Supervision Authority (the "EFSA") has approved the Corporate Governance Recommendations, which entered into force as of 1 January 2006. As of such date, all companies whose shares are admitted to trading on the Tallinn Stock Exchange are required to either comply with the Recommendations or explain reasons for their non-compliance ('comply or explain'). The recommendations regulate, among others matters, the calling and procedure of general meetings, requirements for the composition, duties and activities of the management board and supervisory council, requirements for the disclosure of information and financial reporting. As regards the composition of the supervisory council, the recommendations provide stricter requirements than Tallinn Stock Exchange Rules requiring that at least one-half of the members of the supervisory council must be independent.

Although the Supervisory Council of the Company does not formally meet the strict independence requirements set out in the recommendations, the Company does not plan to make any changes in the composition of the Supervisory Council. The Company believes that the current composition of the Supervisory Council provides an excellent combination of general business experience and expertise and of the experience and expertise in the main fields of activity of the Group. All members of the Supervisory Council have been selected upon careful consideration of their experience and personal qualities and on the basis of their ability to contribute to the management and development of the Company. To the knowledge of the Company, the members of the Supervisory Council do not have any such relationships with other persons or entities that could affect their decisions due to conflict of interests. Therefore, the Company believes that the present composition of the Supervisory Council is in the best interests of the Company and all of its shareholders.

The Tallinn Stock Exchange and the Estonian Securities Market

Set out below is a summary of certain information concerning the Estonian regulated securities market and certain provisions of Estonian law and Estonian securities market regulations in effect on the date of this Offering Circular. The summary is based on Estonian laws and securities market regulations and publicly available information on OMX AB group, the principal shareholder of the company operating the Tallinn Stock Exchange, and on NOREX.

The Tallinn Stock Exchange

The Tallinn Stock Exchange is the only stock exchange operating in Estonia. It is operated by AS Tallinna Börs, a public limited company whose principal shareholder is the Swedish company OMX AB, through its Finnish subsidiary. OMX AB group companies also operate the Copenhagen Stock Exchange, the Stockholm Stock Exchange, the Helsinki Stock Exchange, the Riga Stock Exchange and the Vilnius Stock Exchange. The Tallinn Stock Exchange is also a member of NOREX, an alliance of Nordic and Baltic stock exchanges.

The activities of, and trading on, the Tallinn Stock Exchange are subject to two tiers of regulation. Laws and government regulations comprise the basic regulatory framework, which is supplemented by the Tallinn Stock Exchange Rules. The principal laws governing the activities of, and trading on, the Tallinn Stock Exchange are the Estonian Securities Market Act and the Estonian Central Registry of Securities Act. The Tallinn Stock Exchange Rules are established by the operator of the Tallinn Stock Exchange (AS Tallinna Börs) to ensure the regular and lawful operation of the stock exchange. The operator may unilaterally amend the Tallinn Stock Exchange Rules, though the EFSA must approve such amendments. The Tallinn Stock Exchange Rules are binding on the members of the Tallinn Stock Exchange and the issuers whose securities are listed on the Tallinn Stock Exchange or admitted to trading on the separate Free Market regulated by the Tallinn Stock Exchange.

The Estonian Central Registry of Securities and registration of shares

The Estonian Central Registry of Securities (*Eesti väärtpaberite keskregister,* the ECRS) is a public register established, among other matters, for the registration of shares and other securities stipulated in the Estonian Central Registry of Securities Act (*Eesti väärtpaberite keskregistri seadus*) and transactions executed with such securities (including pledges). The ECRS is operated by the Estonian Central Securities Depository (*AS Eesti Väärtpaberikeskus*, the "ECSD"). The ECSD is organized as a public limited company, and its shares are fully owned by AS Tallinna Börs. The ECSD's primary functions include clearing and settling securities transactions, maintaining records of share ownership and pledges, and providing securities-related services to issuers and investors.

All shares listed and traded on the Tallinn Stock Exchange must be registered in the ECRS. No share certificates are issued with respect to shares registered in the ECRS. Shares are registered in the ECRS in book-entry form and are held in dematerialized form in the respective shareholders' securities accounts opened in the ECRS. Consequently, all transactions involving shares listed on the Tallinn Stock Exchange must be recorded on the ECRS' electronic database by account operators and are cleared and settled through the ECSD. The rights attached to the shares belong to the persons who are registered as the shareholders in the share register of the issuer maintained by the ECSD.

The public has access to certain information, and has the right to obtain extracts and transcripts of documents from the ECRS, concerning the issuer (its name, seat and registry code) and the securities (the type, nominal value and amount of securities) registered with the ECRS. If shares are quoted on the stock exchange, the information concerning the shareholders is also accessible to the public. The Estonian Central Registry of Securities Act stipulates further circumstances when additional information registered with the ECRS is accessible to third parties.

A securities account can be opened in the ECRS by any Estonian or foreign person. The opening of the account takes place through an account operator (custodian). Account operators are institutions that qualify under Estonian law as professional participants in the securities market, such as investment firms, credit institutions and other persons specified by law. In certain cases, foreign persons may act as account operators. Under certain conditions, a nominee account can be opened in the ECRS, in which case a notation is made in the ECRS indicating the nominee status of the relevant account. Shares held in the nominee account are deemed to be the client's shares, and not the shares of the account owner. The person who is entitled to exercise the rights arising from shares held in the nominee account is the account owner. In the exercise of voting rights and other rights arising from a share, the owner of a nominee account must follow the instructions of the client. At the request of the client, the owner of a nominee account must grant authorization in the required format to the client for the client to represent the owner in the exercise of rights arising from the shares.

Listing on the Tallinn Stock Exchange

There are two different lists available for trading of shares on the Tallinn Stock Exchange: (i) the main list and (ii) the investor list. In addition to securities listed on the Tallinn Stock Exchange, securities admitted to the Free Market of the Tallinn Stock Exchange can be traded through the exchange's trading system. The principal differences between admission to the main list and the investor list are the minimum required length of operating history of an issuer (three and two years, respectively) and the minimum required market value of the issuer's shares (EUR 4 million and EUR 1 million, respectively). Currently, the shares of 15 companies are listed for trading on the Tallinn Stock Exchange, of which nine companies are listed on the main list. Application has been made to list the Shares on the main list. In order to list shares on the main list of the Tallinn Stock Exchange, among other requirements, a sufficient number of such shares must be held by the public. As a general rule, this condition is fulfilled if at least 25 per cent of the share capital represented by the shares to be listed is held by the public, or taking into consideration the number of shares and their distribution among the public, the market would also operate properly at a lower percentage of shares held by the public, or such level of distribution is expected to be achieved shortly after listing. The Tallinn Stock Exchange Rules set out certain specific requirements when the shares are not deemed to be held by the public.

Trading on the Tallinn Stock Exchange

The trading system of the Tallinn Stock Exchange is open for trading to its members. Trading on the Tallinn Stock Exchange takes place on each business day from 10:00 a.m. to 2:00 p.m. (Estonian time). The Tallinn Stock Exchange uses the Nordic-Baltic trading system SAXESS, which in addition to Estonia is used by exchanges in Sweden, Finland, Denmark, Norway, Iceland, Latvia and Lithuania. The official trading currency of the Tallinn Stock Exchange trading system is the euro. Transactions can be concluded on the Tallinn Stock Exchange either through automatic matching or through negotiated deals. In the case of automatic matching, the buy and sell orders are matched by the trading system automatically according to price and time priorities. Automatically matched transactions are settled on the third day after the transaction (T+3), unless agreed otherwise. Negotiated trades can be concluded during the Tallinn Stock Exchange trading period at a price between the best bid and offer prices quoted at the time of concluding the transaction. Negotiated deals concluded after the Tallinn Stock Exchange's trading period must be concluded at a price at or between the best bid and offer prices quoted during trading on that day. Negotiated deals are negotiated between stock exchange members outside the system and brokers must enter the deal in the trading system as soon as possible, and in any event not later than five minutes, after its conclusion. Negotiated deals may have a settlement day between T+1 (inclusive) and T+6 (inclusive) if agreed between the relevant stock exchange members. The operator of the Tallinn Stock Exchange is required to ensure constant access on its website to information on the securities traded on the market, including the acquisition and transfer prices of the securities, recent prices, price changes, the highest and lowest prices and the volume and number of transactions. The Tallinn Stock Exchange operates an electronic trading system that provides real-time stock quotes, distributes issuer announcements and displays information regarding executed transactions, statistics and other such data.

The operator of the Tallinn Stock Exchange must record at least the following regarding transactions concluded on the exchange: (i) the time at which the transaction is concluded; (ii) information regarding the market participant who concluded the transaction; (iii) the securities which served as the object of the transaction; and (iv) their number, nominal value and price. In accordance with the Tallinn Stock Exchange Rules, the operator of the Tallinn Stock Exchange has the right to request additional information regarding a transaction for the purposes of recording the transaction.

The Listing and Supervisory Committee of the Tallinn Stock Exchange has the right, for the purpose of ensuring sufficient liquidity of a security, to demand from the issuer applying for listing the conclusion of a market-making agreement with a member of the Tallinn Stock Exchange in respect of the securities to be listed. The Company and AS Suprema Securities intend to enter into a market-making agreement in connection with the listing of the Shares on the Tallinn Stock Exchange.

Supervision over the Tallinn Stock Exchange

Activities of the Tallinn Stock Exchange are supervised by the Estonian Financial Supervision Authority (*Finantsinspektsioon*, the EFSA). Compliance with the Tallinn Stock Exchange Rules by its members is monitored by the Listing and Surveillance Committee of the Tallinn Stock Exchange. The operator of the Tallinn Stock Exchange exercises supervision over the exchange with respect to the prices of securities traded on the exchange and the conducting and execution of transactions for the purpose of detecting and reducing transactions conducted on the basis of inside information, market manipulation and other violations of law. The operator is under an obligation to notify the EFSA immediately of any violation of law. The EFSA also has specific supervisory obligations for monitoring transactions concluded on the exchange.

Disclosure of transactions and ownership

A person who has acquired in an issuer, either directly or indirectly, individually or together with persons operating in concert, a qualifying holding and in connection therewith or thereafter has acquired or increased the number of votes owned by such person over 10 per cent, 20 per cent, one-third, 50 per cent or two-thirds of all votes represented by the shares of the issuer, must immediately, and in any event by no later than four business days thereafter, notify the issuer and the EFSA of the number of votes owned by such person. The same notification requirements also apply in case the holding falls below the prescribed levels. The EFSA has the right to make exemptions from such notification requirements in certain circumstances. In the case of a company whose shares are listed on the Tallinn Stock Exchange, the disclosure obligations described above also apply in the case of the acquisition or reduction of a holding of five per cent. The issuer is also required to ensure that shareholders holding more than 5 per cent of the shares of the issuer disclose, through the issuer, all the significant provisions of all the agreements made with other shareholders or third parties which are aimed at restricting the free transferability of the shares or which may have a significant effect on the price of the shares. In order to ensure that disclosure obligations established by law are also fulfilled in respect of shareholdings held by nominee accounts, the operator of a nominee account is required to enter into written agreements with the clients on whose behalf the operator holds securities. These agreements must, among other requirements, require the client to notify the issuer and/or the competent supervisory body (the exact person to whom the notification must be submitted may vary depending on a particular transaction) if a holding in a company exceeds the threshold established by law or to obtain the permission of the competent supervisory body for the holding to exceed the threshold established by law (such permission is required, for example, in the case of the acquisition of a holding above a certain level in financial institutions, or in the case of an acquisition subject to concentration control by competition authorities). The Tallinn Stock Exchange Rules also regulate the disclosure of the issuer's dealings in its own shares.

Market abuse

Estonian law prohibits market abuse, which (within the meaning of the Estonian Securities Market Act) is misuse of inside information and market manipulation. Restrictions established for the misuse of inside information also apply to financial instruments that are not admitted to trading in Estonia or in a Member State of the European Economic Area (the "EEA") but the value of which depends on a financial instrument that is admitted to trading in Estonia or in an EEA Member State.

Inside information is precise information which has not been made public, relating, directly or indirectly, to the financial instrument or its issuer and which, if it were made public, would be likely to have a significant effect on the price of the financial instrument or on the price of related derivative financial instruments. The law establishes additional conditions under which information may qualify as inside information.

An insider is a person who possesses inside information by virtue of being a partner in the issuer, or by virtue of his membership of the management or supervisory bodies of the issuer, or by virtue of his shareholding in the issuer, or by virtue of having access to the information through the exercise of his employment, profession or duties, or by virtue of his criminal activities. Third parties who possess inside information are also treated as insiders if they knew or should have known that the information is inside information. The Tallinn Stock Exchange Rules stipulate that, among other persons, persons who hold or control at least 10 per cent of shares in an issuer, the subsidiaries of the issuer and certain officials of such shareholders and subsidiaries and persons associated with them are deemed to be insiders for the purpose of the Tallinn Stock Exchange Rules.

Misuse of inside information comprises, among other actions, the trading on the basis of inside information, unauthorized disclosure of inside information, and the making of recommendations on the basis of inside information for the acquisition or disposal of financial instruments to which that information relates.

Misuse of inside information is a criminal offence, and may result in fines or imprisonment. Issuers of publicly-traded securities and other individuals or entities that have regular access to inside information are required to establish internal rules and procedures to prevent the disclosure of such information.

The Estonian Securities Market Act contains a non-exhaustive list of actions that are deemed to constitute market manipulation. Under the Estonian Securities Market Act, market manipulation may be punishable by a fine.

The Tallinn Stock Exchange Rules also restrict transactions involving an issuer's securities by certain officials of the issuer and by persons connected with such officials, to avoid profiting from short-term price fluctuations of the issuer's securities and during restricted periods (in particular, after the end of a financial period but when the financial results of the issuer have not yet been made public). The Listing and Supervisory Committee of the Tallinn Stock Exchange has the right to make exemptions from the requirement to abstain from trading during a restricted period if the Committee is of the opinion that the transaction will not be executed on the basis of confidential information.

Mandatory takeover bid

A person who has gained, either directly or together with other persons acting in concert, a dominant influence over a company whose shares are listed on the Tallinn Stock Exchange, is required to make within 20 days a takeover bid for all the outstanding shares of such issuer. Exemptions from the obligation to make the mandatory take-over bid may be granted by the EFSA in case of certain specific circumstances provided by law. For these purposes, a "dominant influence" is a situation where a person: (i) owns the majority of votes represented by the issuer's shares; or (ii) being a shareholder of the company, has the right to appoint or remove a majority of the members of the supervisory council or management board of the company; or (iii) being a shareholder of the company, controls a simple majority of the votes represented by the company's shares on the basis of an agreement entered into with other shareholders.

TAXATION

The following summary is based on the tax laws of Estonia as in effect on the date of this Offering Circular, and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any country other than Estonia. You are advised to consult your own professional tax advisors as to the Estonian or other tax consequences of the Combined Offering and the purchase, ownership and disposition of Offer Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Corporate Income Tax

The Estonian Income Tax Act (*Tulumaksuseadus*) provides that the accrued profit of a legal entity resident in Estonia, such as the Company, is not subject to corporate income tax at the moment the profits are generated, but corporate income tax is charged on dividend distributions or other profit distributions and other payments considered as not related to the business of the legal entity by law.

In particular, pursuant to the Income Tax Act, corporate income tax is charged on:

- dividends and other profit distributions;
- expenses and payments not related to the business of the Company;
- fringe benefits granted to employees;
- loans and advances to natural persons related to the Company, exceeding 50 per cent of the expenses of the Company which are subject to Estonian social tax;
- costs of entertaining, catering, accommodation and transportation of guests of the Company, which exceed 2 per cent of the expenses of the Company which are subject to Estonian social tax; and
- gifts and donations.

The rate of income tax is 23 per cent of the gross amount distributed, although the income tax is calculated on the amount of the distributed dividends or other profit distributions by applying the tax rate of 23/77 meaning that the effective rate is approximately 29.87 per cent of the net amount of the distribution. The relevant amount of income tax due is required to be paid by the tenth day of the month following the month in which the payment was made. Estonian taxation regulations provide that this currently applicable rate of income tax will be reduced to 22 per cent (22/78) on 1 January 2007, to 21 per cent (21/79) on 1 January 2008 and to 20 per cent (20/80) on 1 January 2009.

The Income Tax Act provides exemptions from the corporate income tax. An Estonian resident company receiving dividends does not have to pay corporate income tax upon redistributing the part of dividends from which the tax has been paid either in Estonia or abroad, if it owned at least 20 per cent of the shares of the distributing company at the time of distribution. Further exemptions apply to the taxation of Estonian resident companies upon the distribution of profits earned from interest payments, license fees and royalties received from resident companies of certain European Union Member States, if the payer and the recipient are associated companies, i.e., at the time of payment and during the period of at least two years immediately preceding the payment one company has a holding of at least 25 per cent in the capital of the other company or a company resident in a Member State of the European Union owns at least 25 per cent of the share capital of both the payer company and the recipient company.

Dividends

No Estonian dividend withholding tax is imposed on dividends paid to Estonian residents (whether legal persons or individuals) or to non-resident individuals.

However, an Estonian dividend withholding tax of 23 per cent is currently imposed on dividends paid by the Company to non-resident legal persons. A limited exemption from this dividend withholding tax applies where the non-resident legal person owns at least 20 per cent of the share capital or votes of the Company. However, the exemption does not apply where the relevant non-resident legal person is located in a "low tax rate territory" for the purposes of Estonian taxation regulations. Additional exemptions or more favorable tax rates available to non-resident legal persons may be enjoyed under international treaties in effect between Estonia and certain other states, including European Union Member States. For applying the more favorable tax rates under the treaties, the non-resident legal person subject to Estonian withholding tax has to provide the Company with a document claiming the benefits of the applicable tax treaty from the non-resident's competent taxing authority confirming that the non-resident is a resident of the applicable jurisdiction for treaty purposes. Such document should correspond to the form provided by the Estonian Ministry of Finance.

Estonian taxation regulations provide that the currently applicable rate of dividend withholding tax of 23 per cent referred to above will be reduced to 22 per cent on 1 January 2007, to 21 per cent on 1 January 2008 and to 20 per cent on 1 January 2009.

Capital Gains

Income tax is not charged on gains realized by non-residents (whether legal persons or individuals) from the sale or exchange of shares of Estonian companies, except in the case of a sale or exchange of more than 10 per cent of the shares of an Estonian "real estate company." A real estate company is a company with more than 75 per cent of its property comprising real property (immovables) or structures as movables located in Estonia (calculated by reference to the company's balance sheet on the last day of the financial year preceding the relevant sale or exchange). The Company is currently not a real estate company for this purpose.

In addition, as the current income tax system applicable in Estonia provides that the profits of Estonian legal persons are not taxed upon their generation but are only taxed upon their distribution to shareholders, income tax is not charged on capital gains realized by Estonian legal persons from the sale or exchange of Shares upon their generation.

Income tax is, however, charged on gains realized by Estonian individuals from the sale or exchange of Shares.

If income tax is due to be paid as described in the previous paragraphs, it is charged on the gains realized from the sale or exchange of a shareholding, with the gains being deemed to be equal to the difference between the acquisition costs and the sale/exchange price of the relevant shareholding. Capital gains realized are currently subject to income tax of 23 per cent, and are required to be declared annually by the relevant person by 31 March in each year.

Payments made by the Company as a result of any redemption of its Shares or any repurchase of its Shares or the proceeds of any liquidations of the Company which are paid to Estonian individuals or non-residents (whether legal persons or individuals) are also treated as capital gains which are chargeable as described above (even if such non-residents' capital gains are not chargeable upon a sale or exchange of the Shares).

Estonian taxation regulations provide that the currently applicable income tax rate of 23 per cent chargeable on capital gains referred to above will be reduced to 22 per cent on 1 January 2007, to 21 per cent on 1 January 2008 and to 20 per cent on 1 January 2009.

Stamp Duty and Other Transfer Taxes

There are currently no stamp duties or other transfer taxes payable on the transfer of Shares. However, fees and charges are generally levied by the operators of securities accounts in the ECRS on transactions in the Shares which are cleared and settled through the ECSD.

UNDERWRITING

General

The Company and the Selling Shareholder are expected to sign an underwriting agreement (the "Underwriting Agreement") with the Global Coordinator, AS Suprema Securities on 11 May 2006.

According to the Underwriting Agreement, the Company will agree to issue and the Selling Shareholder will agree to sell the Offer Shares and, subject to the terms and conditions of the Underwriting Agreement, the Global Coordinator will agree to purchase or procure purchasers for and in case of new Shares issued by the Company, subscribe or obtain subscribers for Offer Shares at a price equal to the Offer Price.

According to the Underwriting Agreement, the Company and the Selling Shareholder will pay to the Global Coordinator an underwriting commission equal to three per cent of the Offer Price per Offer Share. Therefore, in connection with the Combined Offering, the Global Coordinator will receive total commissions of approximately EEK 8.9 million. The calculation is based on the Offer Price of EEK 90.15 assuming that the number of Offer Shares is not changed and the Over-Allotment Option is exercised in full. The Company and the Selling Shareholder have agreed in the Underwriting Agreement to indemnify the Global Coordinator against certain liabilities, including liabilities under the Estonian Securities Market Act. In addition, the Company has agreed to reimburse the Global Coordinator for certain expenses.

The obligations of the Global Coordinator under the Underwriting Agreement are subject to certain conditions precedent, including compliance by the Selling Shareholder and the Company with the representations and warranties set forth in the Underwriting Agreement and the non-occurrence of certain adverse changes as described in the Underwriting Agreement. The Global Coordinator may terminate the Underwriting Agreement at any time before the Offer Shares have been issued and paid, if in its opinion, there shall have been a change in national or international financial, political, economic or market conditions or currency exchange rates or exchange controls, as would in its reasonable view, be likely to prejudice materially the success of the Combined Offering and distribution of, or dealings in, the Offer Shares in the secondary market.

The Offer Price will be determined by negotiation between the Company, the Selling Shareholder and the Global Coordinator. Prior to the Combined Offering, there has been no public market for the Shares. Factors relevant to the determination of the Offer Price include results of operations, the current financial condition of the Group, future prospects, markets, the economic conditions in and future prospects for the industry in which the Group competes, its management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly-traded companies considered comparable to the Company.

The Global Coordinator will enter into a separate agreement with AS Hansapank regarding the rights and duties of AS Hansapank as the Retail Joint Lead Manager.

Over-Allotment, Over-Allotment Option and Stabilization

In connection with the Combined Offering, the Global Coordinator may purchase and sell Shares in the open market. These transactions may include, among others, over-allotment which involves sales of Shares in excess of the principal amount of Offer Shares being offered in the Combined Offering.

Subject to the terms and conditions of the Underwriting Agreement, the Selling Shareholder has granted the Global Coordinator an Over-Allotment Option, exercisable within 30 days from the commencement of trading in the Shares on the Tallinn Stock Exchange, to purchase up to an aggregate of 327 814 Additional Shares at the Offer Price. The Additional Shares are intended to cover possible over-allotments. If all Additional Shares are purchased, they will represent approximately 0.21 per cent of all the shares in the Company and votes that can be cast in the Company's General Meeting of Shareholders.

The Global Coordinator may effect transactions that stabilize or maintain the market price of the Offer Shares, in accordance with applicable laws, during a 30-day period starting from the commencement of trading in the Shares on the Tallinn Stock Exchange. Any such stabilization activity will be decided by the Global Coordinator at its sole discretion and there is no obligation on the Global Coordinator to do this. Such stabilization transactions may result in a market price of the Shares that is higher than would otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

In connection with settlement and stabilization, the Global Coordinator, has entered into a share lending arrangement with EE Grupp as part of the underwriting agreement. In accordance with the share lending provisions of the underwriting agreement, the Global Coordinator may borrow a number of Shares equal to the number of Additional Shares subject to the Over-Allotment Option that will allow it to settle over-allotments made, if any, in connection with the Combined Offering. In addition, the Global Coordinator will borrow from EE Grupp a number of Shares corresponding to the number of new Shares issued in connection with the Combined Offering in order to facilitate settlement. To the extent the Global Coordinator borrows Shares under these provisions, it will be required to return an equivalent number of Shares or rights representing such number of Shares to EE Grupp in accordance with the provisions of the underwriting agreement.

Lock-up

The Company has agreed not to issue or sell shares of the Company or securities convertible into shares of the Company for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator.

Each current shareholder of the Company and each member of the Company's Supervisory Council and Management Board has agreed not to sell or otherwise transfer shares of the Company without the prior written consent of the Global Coordinator for 12 months subsequent to signing the Underwriting Agreement.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by the Global Coordinator or the Company that would permit a public offering of the Offer Shares, or the possession or distribution of any documents relating to the Combined Offering, or any amendment or supplement thereto, in any country or jurisdiction where specific action for that purpose is required. The Global Coordinator will comply with all applicable laws and regulations in each jurisdiction concerning acquiring, offering or selling of Offer Shares or possession or distribution of any offering documents or any amendment or supplement thereto.

Each purchaser of Offer Shares will be deemed to have acknowledged, by its purchase of Offer Shares, that the Company, the Global Coordinator, their respective affiliates, and other persons will rely upon the truth and accuracy of the acknowledgements, representations and agreements set forth below.

Buyers of Offer Shares sold by the Global Coordinator may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

No action has been taken in any jurisdiction by the Company or the Global Coordinator that would permit a public offering of the Offer Shares offered hereby. No offer or sale of Offer Shares may be made in any jurisdiction except under circumstances that will result in compliance with the applicable laws of such jurisdiction. Persons receiving a copy of this Offering Circular are required by the Company and the Global Coordinator to inform themselves about and to observe any restrictions as to the offering of Offer Shares and the distribution of this Offering Circular.

United States

The Offer Shares have not been and will not be registered under the United States Securities Act or with any securities regulatory authority of any State of the United States and may not be offered or sold within the United States or to or for the account of U.S. persons.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the relevant implementation date), an offer of the Offer Shares described in this Offering Circular may not be made to the public in that relevant Member State prior to the publication of a prospectus in relation to the Offer Shares that has been approved by the competent authority in that relevant Member State or, where appropriate, approved in another relevant Member State and notified to the competent authority in that relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant Member State at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net revenues of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of the Offer Shares located within a relevant Member State (other than Estonia) will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. For purposes of this provision, the expression an "offer to the public" in any relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the expression may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant Member State.

The sellers of the Offer Shares have not authorized and do not authorize the making of any offer of the Offer Shares through any financial intermediary on their behalf, other than offers made by the Global Coordinator with a view to the final placement of the Offer Shares as contemplated in this Offering Circular. Accordingly, no purchaser of the Offer Shares, other than the Global Coordinator, is authorized to make any further offer of the Offer Shares on behalf of the sellers or the Global Coordinator.

United Kingdom

The Global Coordinator has represented and agreed that:

(i) it has not offered or sold, and will not offer or sell, prior to the expiry of a period of six months from the date of the Combined Offering, and will not offer or sell any Shares to persons in the United Kingdom except when the offer is made to or directed at qualified investors only (as defined in the FSMA) or the offer is made to or directed at fewer than 100 persons, other than qualified investors, per EEA State and will not constitute an offer to the public in the United Kingdom within the definition of the Financial Services and Markets Act 2000 (FSMA) (as amended);

(ii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares, in, from or otherwise involving or capable of having an effect in the United Kingdom; and

(iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the offering of the Offer Shares in circumstances in which section 21(1) of the FSMA does not or would not otherwise apply to the Company.

This document is directed only at persons who are (i) outside United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2) of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged only with relevant persons.

Latvia

The Combined Offering does not constitute a public offering of securities as defined in the Financial Instruments Market Law of the Republic of Latvia. Accordingly, the Offer Shares may, with respect to the Republic of Latvia, be offered and distributed only to qualified investors as defined in the Financial Instruments Market Law of the Republic of Latvia, i.e.:

(i) banks, undertakings that pursuant to law are entitled to manage collective investment undertakings, investment brokerage firms, pension funds, insurers, reinsurers, commodity dealers and any legal persons licensed to perform activities in financial markets or persons that have not been so licensed or regulated, but whose business objective is solely to invest in securities, provided that they are registered in the Republic of Latvia or a Member State of the European Union;

(ii) national and regional governments, central banks, international and supranational institutions;

(iii) other legal entities which do not qualify as small or medium-sized enterprises;

(iv) natural persons recognised as qualified investors by the decision of the competent authority of the Member State of the European Union;

(v) small and medium-sized enterprises recognised as qualified investors by the decision of the competent authority of the Member State of the European Union.

For the purposes of above, small and medium-sized enterprises shall mean companies which, according to their last annual or consolidated accounts, meet at least two of the following three criteria: (i) an average number of employees during the financial year of less than 250, (ii) a total balance sheet not exceeding EUR 43 000 000 and (iii) an annual net turnover not exceeding EUR 50 000 000.

Finland

This document is being distributed to a limited number of pre-selected investors in circumstances where the offering of the Offer Shares in connection with this document does not constitute a public offer as defined in the Securities Markets Act of the Republic of Finland. The Offer Shares may not be offered or sold, directly or indirectly, to any resident of the Republic of Finland, or in the Republic of Finland, except pursuant to the applicable Finnish laws and regulations. Specifically, the Offer Shares may not be offered or sold, directly or indirectly, to the public in the Republic of Finland.

Sweden

The Combined Offering is restricted in Sweden strictly to (i) qualified investors (*kvalificerade investerare*) as defined in the Swedish Financial Instruments Trading Act (*lag om handel med finansiella instrument*) and (ii) less than 100 legal and natural persons that are not such qualified investors. This document is not a prospectus and has not been prepared in accordance with the requirements set out in the Swedish Financial Instruments Trading Act nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority nor any other Swedish public body has examined, approved or registered this document. Neither this document nor any hereto related document may without the prior written consent of the Global Coordinator be distributed in any form or manner to any person other than the addressees to which such documents have been sent directly by the Global Coordinator. Any resale of the Offer Shares by any investor will be considered for the purposes of the requirements set out in the Swedish Financial Instruments Trading Act as a separate offer made solely by such party.

Austria

The Combined Offering does not constitute an offer or an invitation to make an offer within the meaning of the Austrian Capital Markets Act (Kapitalmarktgesetz) for the acquisition of securities by investors in Austria nor are such securities available to investors in Austria unless an exemption from the Austrian Capital Markets Act and its public offer-ing requirements applies. In particular, the Offer Shares may be offered to institutional qualified investors according to Section 3 para. 1 subpara. 11 of the Austrian Capital Markets Act. Qualified investors are investors defined in Section 1 para. 1 subpara. 5a of the Austrian Capital Markets Act and include, inter alia, (i) legal entities that are authorised or regulated to operate in the financial markets, national or regional governments, central banks or international and supranational institutions; as well as, (ii) under certain conditions, natural persons who are resident in Austria or small and medium-sized enter-prises registered as qualified investors. Such institutional investors are persons whose ordinary business activities include the acquisition of the respective securities for the purpose of their business and who are interested in the securities not with the purpose of offering such securities to third parties in Austria.

Denmark

This Offering Circular does not constitute a prospectus under any Danish laws or regulations and has not been filed with or approved by the Danish Supervisory Authority as this Offering Circular has not been prepared in the context of a public offering of securities in Denmark within the meaning of the Danish Securities Trading Act no. 843/2005 as amended from time to time or any Executive Orders issued in connection thereto. This Offering Circular will only be directed to (i) qualified investors as defined in Section 2 of the Executive Order no. 306/2005 and/or to (ii) less than 100 individuals or legal entities, who are not qualified investors.

Germany

The Offer Shares have not been offered or sold and will not be offered or sold in the Federal Republic of Germany other than in compliance with the provisions of the German Securities Prospectus Act (Wertpapierprospektgesetz) of June, 22 2005 (as amended), or any other laws applicable in the Federal Republic of Germany governing the issue, offer and sale of securities.

Lithuania

The Offer Shares are not being issued for public trading in the Republic of Lithuania, and the Combined Offering does not constitute a public offer of securities as defined in the Law on Securities Market of the Republic of Lithuania (16 January 1996, No I-1169). Accordingly, this document may be distributed, and the Offer Shares may be offered and sold in the Republic of Lithuania only:

(i) legal entities which are authorised or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which meets at least two of the following criteria: (i) an average number of employees during the financial year is more than 250, (ii) a total balance sheet exceeds EUR 43,000,000, and (iii) an annual net turnover exceeds EUR 50,000,000;

(iii) to fewer than 100 natural persons or legal entities; or

(iv) in any other manner which does not require a prior publication of a prospectus pursuant to the Law on Securities Market of the Republic of Lithuania.

France

This document is not being distributed in the context of a public offering in France within the meaning of Article 411-1 of the French Monetary and Financial Code (*Code Monétaire et Financier*) and has thus not been submitted to the Autorité des Marchés Financiers (AMF) for prior approval and clearance procedure. This document is not to be further distributed or reproduced (in whole or in part) by the addresses, and has been distributed on the undertaking that addressees would invest for their own account and undertake not to transfer directly or indirectly the Offer Shares to the public in France other than in compliance with applicable laws and regulation.

Each of the Global Coordinator and the Company represents and agrees that it has not offered or sold, and will not offer or sell, directly or indirectly, the Offer Shares to the public in the Republic of France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, this documents or any other offering materials relating to the Offer Shares, and that such offers, sales and distributions have been and shall only be made in the Republic of France to (i) Providers of investment services relating to portfolio management for the account of third parties, (ii) qualified investors (*investisseurs qualifiés*) within the meaning of Article L.411-2 and D.411-1 of the French Monetary and Financial Code, and/or (iii) a restricted circle of investors (*cercle restraint d' investisseurs*) within the meaning of Article L.411-2 and D.411-2 of the French Monetary and Financial Code, provided that each such investors fall within Article L.341-2 and D.341-1 of the French Monetary and Financial Code (all such persons together being referred to as “relevant persons” in the next paragraph).

This document or any other offering materials relating to the Offer Shares are directed only at persons who are (i) outside France and/or (ii) relevant persons. This document must not be acted on or relied by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged only with relevant persons.

Investors in the Republic of France may only participate in the issue of the Offer Shares for their own account in accordance with the conditions set out in Articles D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code. The Offer Shares may only be issued, directly or indirectly, to the public in the Republic of France in accordance with Articles L.411-1, L.411-2, L.412-1, and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Italy

This document and offering of the Offer Shares has not been cleared by CONSOB - Commissione Nazionale per le Società e la Borsa (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and accordingly, no Offer Shares may be offered, sold or delivered, nor may copies of this document or of any other document relating the Offer Shares be distributed in the Republic of Italy, except:

(i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended.

(ii) in circumstances which are exempted from the rules on solicitation on investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "Financial Act") and Article 33, first paragraph, of CONSOB Regulation No. 119871 of 14 May 1999, as amended, or

(iii) to an Italian resident who submits an unsolicited offer to purchase the Offer Shares.

Any offer sale or delivery of the Offer Shares or distribution of copies of this document or any other document relating to the Offer Shares in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the financial Service Act and Legislative Decree No. 385 of 1 September 1993 (the "Banking Act").

(b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy; and

(c) in compliance with any other applicable laws and regulations.

Norway

The Combined Offering is, with respect to Norway, directed solely to professional investors according to the Norwegian Securities Trading Act section 5-4 No. 8 and the regulation thereunder on exceptions from the prospectus requirements of 9 December 2005 No 1424. Subscriptions or offers to purchase Offer Shares from any other Norwegian person or body corporate will be rejected.

The Netherlands

The offer of the Offer Shares is subject to the provisions of the Prospectus Directive referred to above in the section headed 'European Economic Area'. The Offer Shares can only be offered in the Netherlands without the publication, approval or notification of a prospectus in relation to the Offer Shares if an exemption applies. In the case of the offering of the Offer Shares in the Netherlands, an exemption applies in the view of the fact that the Offer Shares will be offered to professional market parties within the meaning of Section 1a paragraph 3 of the Exemption Regulation to the Act on the Supervision of Securities Transactions 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*).

The Global Coordinator has represented and agreed that, in order to offer the Offer Shares in the Netherlands, it is either licensed or exempt under Section 7 up to and including 10 of the Act on the Supervision of Securities Transactions 1995 (*Wet toezicht effectenverkeer 1995*).

Poland

The Offer Shares are not being issued for public trading in Poland, and the Combined Offering does not constitute a public offer of securities as defined in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005 (*Ustawa o ofercie publicznej i warunkach wprowadzania instrumentów finansowych do zorganizowanego systemu obrotu oraz o spółkach publicznych*), as amended from time to time. Accordingly, the Offer Shares may not be sold, promised to be sold, offered, solicited, advertised and/or marketed within the Poland in an offering that can be construed as a public offering under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005 (*Ustawa o ofercie publicznej i warunkach wprowadzania instrumentów finansowych do zorganizowanego systemu obrotu oraz o spółkach publicznych*), as amended from time to time.

LEGAL MATTERS

In respect of Estonian law, certain legal matters will be passed upon for the Company by Raidla & Partners, Attorneys at Law, Roosikrantsi 2, 10119 Tallinn, Estonia.

In respect of English law, certain legal matters will be passed upon for the Global Coordinator by Curtis, Mallet-Prevost, Colt & Mosle LLP, 53 New Broad Street, London EC2M 1BB, United Kingdom.

INDEPENDENT AUDITORS

Pursuant to the Estonian Commercial Code, the General Meeting of Shareholders decides the number of auditors and elects the auditors. In the General Meeting of Shareholders held on 1 April 2006, KPMG Baltics AS, Ahtri 10A, 10151 Tallinn Estonia, was elected auditor of the Company for the financial year ending 31 December 2006. KPMG Baltics AS has been the Company's auditor since 2002.

The consolidated financial statements of Eesti Ehitus for the financial years ended 31 December 2003, 2004 and 2005 appearing in this Offering Circular have been audited by the Company's auditors, KPMG Baltics AS. The financial information of Eesti Ehitus for the quarter ended 31 March 2006 appearing in this Offering Circular has not been audited.

Certain financial information presented in this Offering Circular has been obtained directly from the audited financial statements of the Company, while certain other financial information presented herein has been recomputed by the Management from amounts contained in the audited financial statements. This financial information is presented in the following sections: Summary, Selected Financial Information, Management's Discussion and Analysis of the Group's Financial Condition and Results of Operations, Business and Management. All other financial information contained in this Offering Circular, including certain information in the aforementioned sections and all information concerning the quarter ended 31 March 2006, has been derived by the Management from the Company's unaudited records.

INDEX TO FINANCIAL STATEMENTS

Statement of Management Responsibility

The Board of AS Eesti Ehitus acknowledges its responsibility for the preparation of the consolidated financial statements of the Group, as set out on pages F-2 to F-38 of this Offering Circular, 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 (10 April 2006) have been properly recognised and disclosed; and
- AS Eesti Ehitus and its subsidiaries are going concerns.

Jaano Vink	Chairman of the Board	…………..……	10 April 2006
Avo Ambur	Member of the Board	…………..……	10 April 2006
Andri Hõbemägi	Member of the Board	…………..……	10 April 2006
Erkki Suurorg	Member of the Board	…………..……	10 April 2006

Consolidated Balance Sheet

As at 31 December

In thousands of Estonian kroons	Note	2005	2004
ASSETS			
Current assets			
Cash and cash equivalents	2	192,490	113,732
Trade receivables	3	210,944	134,802
Other receivables and prepayments	4; 25	93,228	67,676
Inventories	5	140,360	103,846
Total current assets		**637,022**	**420,056**
Non-current assets			
Shares in associates	7	21,309	110
Other investments	8	10,748	0
Investment property	9	2,601	2,604
Property, plant and equipment	10	134,871	98,552
Intangible assets	11; 32	131,845	28,453
Total non-current assets		**301,374**	**129,719**
TOTAL ASSETS		**938,396**	**549,775**

LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	12; 13	117,650	37,639
Trade payables		129,174	145,205
Tax liabilities	14	29,200	15,363
Other payables and advances	15; 25	278,741	127,803
Provisions	16	2,912	2,246
Total current liabilities		**557,677**	**328,256**
Non-current liabilities			
Interest-bearing loans and borrowings	12; 13	160,338	32,490
Other liabilities	15	29,126	8,169
Provisions	16	2,047	2,305
Total non-current liabilities		**191,511**	**42,964**
TOTAL LIABILITIES		**749,188**	**371,220**
EQUITY			
Minority interest		12,257	65,509
Total equity attributable to equity holders of the parent			
Share capital	17	34,819	30,000
Share premium	17	8,192	0
Statutory capital reserve	17	4,158	3,000
Other reserves	17	795	-568
Retained earnings	17	42,180	25,309
Profit for the period		86,807	55,305
TOTAL EQUITY	17; 32	**189,208**	**178,555**
TOTAL LIABILITIES AND EQUITY		**938,396**	**549,775**

Consolidated Income Statement

In thousands of Estonian kroons

	Note	2005	2004
Revenue	19	1,674,454	1,588,010
Cost of sales	20	1,498,375	1,435,984
Gross profit		**176,079**	**152,026**
Administrative expenses	21	72,495	53,915
Other operating income	22	18,603	1,954
Other operating expenses	22	4,359	3,222
Operating profit before financing costs	19	**117,828**	**96,843**
Net financing costs			
Financial income		6,381	1,626
Financial expenses		11,075	5,004
Net financing costs	**23**	**-4,694**	**-3,378**
Profit before tax		**113,134**	**93,465**
Income tax expense	24	19,159	14,338
Profit for the period		**93,975**	**79,127**
Attributable to:			
Equity holders of the parent		86,807	55,305
Minority interest		7,168	23,822
Basic earnings per share (Estonian kroons)	17	27.47	18.44
Diluted earnings per share (Estonian kroons)	17	27.47	18.44

Consolidated Cash Flow Statement

In thousands of Estonian kroons

	Note	2005	2004
Cash flows from operating activities			
Cash receipts from customers		2,006,573	1,793,835
Cash paid to suppliers		-1,708,586	-1,539,795
Cash paid to and for employees		-122,002	-131,637
Income tax paid		-19,148	-14,709
Net cash from operating activities		**156,837**	**107,694**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles	10	-12,701	-16,074
Proceeds from sale of property, plant and equipment and intangibles	10	5,143	1,525
Acquisition of investment property for development and resale	5; 9	-40,696	-29,813
Acquisition of subsidiaries and associates	6; 7	-194,077	-20,162
Proceeds from sale of subsidiaries	6	7,770	0
Acquisition of other investments	8	-340	0
Loans given	4	-6,899	0
Interest received	23	1,416	1,118
Net cash used in investing activities		**-240,384**	**-63,406**
Cash flows from financing activities			
Proceeds from issue of share capital	17	13,011	0
Proceeds from loans received	13	255,972	36,512
Repayment of loans received	13	-32,968	-19,520
Dividends paid	17	-46,595	-40,839
Payment of finance lease liabilities	12	-21,375	-18,819
Interest paid	12; 23	-5,740	-2,278
Other payments made		0	7
Net cash from / used in financing activities		**162,305**	**-44,937**
Net increase / decrease in cash and cash equivalents		**78,758**	**-649**
Cash and cash equivalents at 1 January	2	113,732	114,381
Increase / decrease		78,758	-649
Cash and cash equivalents at 31 December	2	192,490	113,732

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the parent							
In thousands of Estonian kroons	**Note**	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total	Minority interest	Total
Balance at 1 January 2004		**30,000**	**0**	**3,000**	**-71**	**38,947**	**71,876**	**59,526**	**131,402**
Dividends declared		0	0	0	0	-23,000	-23,000	-17,839	-40,839
Foreign exchange differences on translating foreign operations		0	0	0	-497	0	-497	0	-497
Profit for 2004		0	0	0	0	64,667	64,667	23,822	88,489
Balance at 31 December 2004		**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
Issue of share capital	17	4,819	8,192	0	0	0	13,011	0	13,011
Transfer to statutory capital reserve	17	0	0	1,158	0	-1,158	0	0	0
Changes in minority interest		0	0	0	0	-9,276	-9,276	-41,703	-50,979
Foreign exchange differences on translating foreign operations	17	0	0	0	1,363	0	1,363	-122	1,241
Profit for the period		0	0	0	0	86,807	86,807	7,168	93,975
Balance at 31 December 2005		**34,819**	**8,192**	**4,158**	**795**	**128,987**	**176,951**	**12,257**	**189,208**

Notes to the 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 2005 comprise the Parent company and its subsidiaries (together referred to as the "Group").

The financial statements were authorised for issue by the Board of Directors on 10 April 2006. The financial statements will be approved by the general meeting.

The consolidated financial statements of AS Eesti Ehitus for 2005 have been prepared for the first time 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 consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards applicable to the Group and effective for periods beginning on or after 1 January 2005. An explanation of how the transition to IFRSs has affected the Group's financial position, financial performance and cash flows is provided in note 32.

Basis of preparation

The financial statements are prepared on the historical cost basis except for the cases described below. Group companies use in all material respects uniform accounting principles. The accounting policies which have been set out below have been applied consistently to all periods presented in these consolidated financial statements.

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.

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 the Eesti Pank exchange rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Estonian kroons at the Eesti Pank 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 financial statements are presented in Estonian kroons, rounded to the nearest thousand. In consolidation, the assets and liabilities of foreign operations are translated using the exchange rate ruling at the balance sheet date (1 Ukrainian grivna = 2.6208 Estonian kroons). The revenues and expenses of foreign operations are translated using the weighted average exchange rate (1 Ukrainian grivna = 2.4652 Estonian kroons). Exchange differences on translating foreign operations are recognised in other reserves in equity.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent so as to obtain benefits from their activities. Control exists when the parent owns directly or indirectly through subsidiaries more than half of the voting power of an entity, or when the parent has the power to govern the financial and operating policies of an entity under a contract or agreement, or when the parent has the power to appoint or remove the majority of the members of the board of directors and the highest governing body. 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. Significant influence exists when the investor holds directly or indirectly through subsidiaries over 20 percent of the voting power of the investee. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis. 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 and losses from transactions with associates are eliminated to the extent of the Group's interest in the entity.

AS Eesti Ehitus is part of AS EE Grupp group which also prepares consolidated financial statements in which all intra-group balances and unrealised gains are eliminated. Therefore, in the consolidated financial statements of AS Eesti Ehitus gains from transactions with companies belonging to AS EE Grupp group but not to AS Eesti Ehitus Group have not been eliminated.

IFRS 3 Business Combinations, IAS 36 Impairment of Assets and IAS 38 Intangible Assets

In accordance with IFRS 3, IAS 36 (revised in 2004) and IAS 38 (revised in 2004), those standards are to be applied to the accounting for business combinations for which the agreement date was on or after 31 March 2004 and to goodwill and other intangible assets arising from such business combinations already in the preparation of the financial statements for the year ended 31 December 2004.

In the preparation of these consolidated financial statements, the above standards have also been applied to the accounting for goodwill and other intangible assets arisen from business combinations which occurred before 31 March 2004.

In connection with the application of IFRS 3 and IAS 36 (revised 2004), the Group has discontinued amortising positive goodwill.

Financial assets and financial liabilities

Financial assets comprise cash, short-term financial assets, trade receivables and other short- and long-term receivables. Financial liabilities comprise trade payables, accrued expenses and other short- and long-term debt obligations.

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. A financial liability is removed from the balance sheet when it is discharged, cancelled or expires.

Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date the assets are transferred to / by the Group.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in current accounts, short-term deposits and shares in money market funds. In the statement of cash flows, cash flows from operating, investing and financing activities are reported under the direct method.

Financial assets at fair value through profit or loss

Debt and equity securities are classified as financial assets at fair value through profit and loss. Fair value is determined on the basis of the value of the financial asset at the balance sheet date. When fair value cannot be determined reliably, financial assets are stated at cost less impairment losses.

Receivables and prepayments

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 any allowances for doubtful amounts.

Only recoverable items are carried in the balance sheet. The recoverability of receivables is reviewed on an individual basis, considering the information available on the debtor's creditworthiness. Doubtful receivables are recognised as other operating expenses. Irrecoverable receivables are written off the balance sheet. Recovery of previously expensed items is recognised as a reduction of expenses from doubtful receivables.

All other receivables (accrued income, loan receivables and other short- and long-term receivables) are stated at amortised cost.

Construction contracts

Contract revenue and contract costs associated with a construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. Under this method, contract revenue is matched with contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. Contract revenue and contract costs are recognised in the income statement in the accounting periods in which the work to which they relate is performed. Any expected excess of total contract costs over total contract revenue is recognised as an expense immediately. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs and surveys of work performed.

Inventories

Inventories are initially recognised at cost. Cost comprises the costs of purchase and other direct expenses that are required for taking the inventories to their present condition and location.

Inventories are recognised as an expense and their carrying amount is determined using the weighted average cost formula. In the balance sheet, inventories are stated at the lower of cost and net selling price.

Expenses from the write-down or write-off 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, which includes directly attributable transaction charges.

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 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 when their purpose changes. The reclassified items are subjected to the same accounting policies as those applied to the group of assets to which they are transferred from the date the transfer is performed.

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 items which are expected to be used during more than one period. Assets with a shorter useful life are expensed as of implementation and accounted for off the balance sheet.

Where an item of property, plant and equipment consists of significant differentiable parts that have different useful lives, the parts are recognised 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, assuming that it corresponds to the definition of property, plant and equipment and the recognition criteria. 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 is not depreciated. As a rule, the following useful lives are applied:

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
Means of transport	5 – 7 years
Cars and minibuses	5 years
Portable warming up and other onsite facilities	5 years
Other fixtures and fittings	3 – 5 years

Owing to specific nature, the useful life of an item of property, plant and equipment may differ from the one of its asset group. In such a case, the item is viewed separately and assigned an appropriate depreciation period.

Depreciation rates are reassessed 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 periods.

Intangible assets

Intangible assets are recognised and accounted for using the same principles as those applied to items of property, plant and equipment.

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 are amortised using the straight-line method. Positive goodwill is not amortised. As a rule, the following useful lives are applied:

Asset group	Useful life
Licences, patents	3 years

Goodwill

Business combinations involving acquisitions of interests in companies are accounted for under the purchase method. Positive goodwill is the excess of the cost of the acquisition over the acquirer's interest in the fair value of net assets acquired. It represents the payment made by the acquirer in anticipation of future economic benefits from assets which cannot be individually identified and separately recognised.

Positive goodwill is related to a cash generating unit 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 the excess of the acquirer's interest in the fair value of net assets acquired over the cost of the acquisition. Negative goodwill is recognised immediately in profit or loss.

Impairment

At each balance sheet date, management assesses whether there is any indication that an asset may be impaired. If there is such indication, the asset is tested for impairment and its recoverable amount is identified. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use which is found using the discounted cash flow method. Where tests indicate that the recoverable amount of the asset is lower than its carrying amount, the asset is written down to the recoverable amount. Where the recoverable amount of an asset cannot be identified, 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.

If tests of the recoverable amount indicate that an impairment loss recognised for an asset in prior years no longer exists or has decreased, the former write-down is reversed and the asset's carrying amount is increased. The increased carrying amount cannot exceed the carrying amount that would have been determined (considering normal depreciation) had no impairment loss 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 are carried as assets and liabilities at amounts equal to the fair value of the leased property. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Provisions and contingent liabilities

Provisions are established for liabilities of uncertain timing and amount. The amount and timing of provisions is determined on the basis of estimates made by management or independent experts. 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 issued on the completion of construction activity. Warranty expenses are recognised as the costs of construction contracts and established short- and long-term provisions.

Contingent liabilities are liabilities whose settlement probability is less than 50 percent or which cannot be measured reliably. Contingent liabilities are not recognised in the balance sheet.

Revenue

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the revenue and expenses associated with the transaction can be measured reliably.

Revenue from the rendering of construction services is recognised using the percentage of completion method. Under this method, the revenue and profit arising on the provision of a service are recognised in proportion to and in the same periods as related costs.

Interest income is recognised on the basis of the asset's effective interest rate. Dividend income is recognised when the right to receive payment is established.

Revenue form 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. As a rule, sales of real estate are recognised on the conclusion of the real right contract.

Expenses

Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Net financing costs

Net financing costs 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 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 23/77 (until 31 December 2005: 24/76) 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 they 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.

Under Ukrainian legislation, corporate income tax is a tax on profit earned. Verified business expenses are deducted from income and profit is taxed with income tax at the rate of 25 percent.

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 the notes to the financial statements.

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.

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.

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

Certain new standards, and amendments and interpretations to existing standards have been published, which are mandatory for the Group in annual periods beginning on or after 1 January 2006. 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.

- Amendment to IAS 1 - *Presentation of Financial Statements - Capital Disclosures* (effective from 1 January 2007). The Group has not elected to adopt the amendment early. The amendment will require increased disclosures in the financial statements in respect of the Group's capital.
- Amendment to IAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures* (effective from 1 January 2006). The amendment establishes additional requirements to the disclosure of actuarial gains and losses. The amendment will not affect the Group's financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from 1 January 2006). The amendment will not affect the Group's financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option* (effective from 1 January 2006). The amendment changes the definition and restricts the designation of financial instruments as "at fair value through profit or loss". The amendment will not affect the Group's financial statements.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts* (effective from 1 January 2006). The Group has not elected to adopt the amendment early. According to management assessment, at the preparation of the financial statements application of the amendments will not cause changes in the recognition of the Group's existing assets and liabilities.

- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). The amendment will not affect the Group's financial statements.

- IFRIC 4 *Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). The Interpretation requires that whether an arrangement contains a lease should be determined based on the substance of the arrangement. For this, the entity has to assess whether (a) fulfilment of the arrangement depends upon a specific asset and (b) the arrangement involves a transfer of the right to use of the underlying asset. Group management has not completed its analysis and cannot assess the impact of IFRIC 4 on the Group's financial statements.

- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 will not affect the Group's financial statements.

- IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005). IFRIC 6 will not affect the Group's financial statements.

- IFRIC 7 *Applying the Restatement Approach under* IAS 29 *Financial Reporting in Hyperinflationary Economies*. (effective from 1 March 2006). IFRIC 7 will not affect the Group's financial statements.

- IFRIC 8 *Scope of IFRS 2* (effective from 1 May 2006). IFRIC 8 will not affect the Group's financial statements.

NOTE 2. Cash and cash equivalents

As at 31 December

In thousands of Estonian kroons	**2005**	**2004**
Cost of shares in Hansa Intressifond	25,000	34,789
Number of shares	*177,650*	*254,515*
Fair value of shares in Hansa Intressifond	25,042	35,212
Current accounts	76,678	78,520
Short-term deposits	90,770	0
Total cash and cash equivalents	**192,490**	**113,732**

Temporarily free funds are used to acquire shares in Hansa Intressifond. Gains on the shares:

2004: EEK 62,000
2005: EEK 387,000

The term of the short-term deposit is one month; interest rate is 2.43 percent.

NOTE 3. Trade receivables

As at 31 December

In thousands of Estonian kroons	2005	2004
Accounts receivable	210,944	134,818
Allowance for doubtful receivables	0	-16
Total trade receivables	**210,944**	**134,802**

Allowance for doubtful receivables
As at 31 December

In thousands of Estonian kroons	2005	2004
Opening balance	**-16**	**-2**
Doubtful items collected during the period	11	87
Items considered doubtful during the period	-66	-247
Items considered irrecoverable during the period	71	146
Closing balance	**0**	**-16**

NOTE 4. Other receivables and prepayments

As at 31 December

In thousands of Estonian kroons	Note	2005	2004
Receivables from the parent and other group companies	25	32,032	9,734
Receivables from associates	25	6,257	1
Receivables from companies related to members of supervisory council	25	524	831
Miscellaneous receivables		2,733	14,260
Due from customers for construction work	18	48,349	34,811
Accrued income		32	110
Prepaid VAT		1,646	6,429
Other prepaid expenses		1,655	1,500
Total other receivables and prepaid expenses		**93,228**	**67,676**

Further information on receivables from AS EE Grupp and other AS EE Grupp Group companies is disclosed in note 25.

Other receivables include warranty receivables that fall due in 2006.

Due from customers for construction work is related to the accounting for construction contracts. Further information on construction contracts is presented in note 18.

NOTE 5. Inventories

As at 31 December

In thousands of Estonian kroons	2005	2004
Raw and other materials	12,239	9,118
Work in progress	54,105	43,137
Prepayments to suppliers	8,453	16,678
Merchandise purchased for resale	65,563	34,913
Total inventories	**140,360**	**103,846**

At 31 December 2005, raw and other materials of EEK 12,239,000 (2004: EEK 9,118,000) comprised mostly materials and equipment acquired for construction projects. No inventories were written down during the financial year.

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

In thousands of Estonian kroons	2005	2004
Expenses related to apartment houses	44,680	27,072
Other construction projects	9,425	16,065

Prepayments to suppliers of EEK 8,453,000 comprise prepayments for construction services and goods (2004: EEK 16,678,000).

Merchandise purchased for resale comprises registered immovable properties of EEK 65,563,000 acquired for residential construction purposes (2004: EEK 34,913,000).

NOTE 6. Shares in subsidiaries

Group control

The majority shareholder (86.16 percent) of the Parent company AS Eesti Ehitus is AS EE Grupp which is also the parent of the Group.AS Eesti Ehitus Group comprises the following subsidiaries:

As at 31 December In thousands of Estonian kroons	**Domicile**	**Ownership (%)**	**Share capital**	**Core activity**
AS Linnaehitus	Estonia	100,00	5,500	General construction
AS Aspi	Estonia	100,00	3,400	Road construction and maintenance, engineering
AS Järva Teed	Estonia	100,00	2,000	Road construction and maintenance
OÜ Hiiu Teed	Estonia	100,00	100	Road construction and maintenance
OÜ EE Elekter	Estonia	100,00	100	Electrical works
OÜ Eurocon	Estonia	64,00	80	Electrical works
OÜ Mapri projekt	Estonia	52,00	400	Concrete works
Estcon OY	Finland	100,00	125	General construction
Eurocon Ukraine LLC	Ukraine	64,00	52	General construction
Passage Theatre LLC	Ukraine	64,00	3,807	Real estate

Subsidiaries' net assets at the acquisition date

		OÜ Mapri Projekt		AS Linnaehitus		AS Aspi		Estcon OY		Passage Theatre LLC		
In thousands of Estonian kroons	Note	Net assets acquired	Fair value of investment	Net assets acquired	Fair value of investment	Net assets acquired	Fair value of investment	Net assets acquired	Fair value of investment	Net assets acquired	Fair value of investment	Total
Cash and cash equivalents		63	122	0	0	8,479	18,017	125	125	0	0	
Receivables and prepayments		2,827	5,436	8,688	17,731	69,557	147,804	0	0	0	0	
Inventories		165	317	16,121	32,899	9,803	20,831	0	0	0	0	
Investment property		0	0	18,390	37,530	232	492	0	0	0	0	
Property, plant and equipment		413	794	745	1,521	44,123	93,760	0	0	31,829	31,829	
Intangible assets		23	44	123	251	20	42	0	0	0	0	
Loans		-431	-114	-212	-432	-13,476	-28,636	0	0	0	0	
Payables and advances		-1,790	-3,443	-27,306	-55,727	-80,473	-171,000	0	0	1	1	
Net identifiable assets and liabilities		1,269	3,156	16,549	33,773	38,264	81,310	125	125	31,830	31,830	
Goodwill	11	**2,831**		**79,973**		**20,280**		**47**		**0**		**103,131**
Cost		4,100		96,522		58,544		172		31,830		191,168
Cash paid		-2,050		-96,522		-35,126		-172		-31,830		-165,700

On 1 January 2005, the Group acquired 52 percent of private limited company OÜ Mapri Projekt for EEK 4,100,000; EEK 2,050,000 of this was paid immediately and the rest will be settled in 2006 and 2007 in equal instalments based on the satisfaction of contractual terms regarding the company's profit. OÜ Mapri Projekt is engaged in concrete works. Its share in the Group's consolidated net profit for 2005 was EEK 3,229,000.

On 4 August 2005, the Group acquired 49 percent of the shares in AS Linnaehitus for EEK 96,522,000. The purchase price was paid in full in 2005. The Group's share in AS Linnaehitus' profit for 2005 amounted to EEK 36,728,000.

On 15 August 2005, the Group acquired 47.06 percent of the shares in AS Aspi for EEK 58,544,000; EEK 35,126,000 of the purchase price was paid in 2005 and EEK 23,418,000 on 12 January 2006. The Group's share in AS Aspi's profit for 2005 amounted to EEK 20,178,000.

In August 2005, the Group acquired all the shares in the Finnish company Estcon OY for EEK 172,000. The positive goodwill arisen on the transaction (EEK 47,000) has been recognised as an expense of the period. In 2005, the company did not have any business operations.

On 28 December 2005, the Group acquired all the shares in the Ukrainian real estate company Passage Theatre LLC for EEK 31,830,000. Through the transaction, a building of high market value was acquired.

In July 2005, the Group sold 36 percent of the shares in the subsidiary OÜ Eurocon for EEK 1,800,000. In accordance with the contract, the Group received EEK 600,000 of the agreed price in 2005 and the rest will be settled in the next two years.

The effect of the period's business combinations on the Group's consolidated revenue and profit was insignificant because mostly the Group acquired minority interests in its existing subsidiaries.

The positive goodwill arisen on the acquisitions comprises soft values which at the date of acquisition did not meet the criteria for recognition as intangible assets.

NOTE 7. Shares in associates

In thousands of Estonian kroons	**Domicile**	**Ownership 31.12.2005**	**Ownership 31.12.2004**	**Activity**
OÜ Majahaldjas	Estonia	31,40%	31,40%	Real estate management
Technopolis-2 LLC	Ukraine	32,00%	0,00%	Real estate development
V.I.Center LLC	Ukraine	42,67%	0,00%	Real estate development

Summary financial information on associates:

In thousands of Estonian kroons

	31 December 2005			**2005**		**31 December 2005**
	Assets	**Liabilities**	**Equity**	**Revenues**	**Profit/loss**	**Value of investment in Group's accounts**
Majahaldjas OÜ	563	219	344	2,242	-6	108
Technopolis-2 LLC	31,777	18,848	12,929	0	-4,057	7,446
V.I.Center LLC	839	2	837	45	63	13,755
	33,179	19,069	14,110	2,287	-4,000	21,309
	31 December 2004			**2004**		**31 December 2004**
Majahaldjas OÜ	547	198	350	2,264	102	110

On 30 June 2005, Eurocon Ukraine LLC acquired all the shares in the Ukrainian company Technopolis-2 LLC for EEK 14,617,000. The purpose of the acquisition was to acquire land suitable for real estate development. The acquisition gave rise to positive goodwill of EEK 12,540,000. At the end of the financial year, 50 percent of the shares in the subsidiary were sold and the investment is recognised as an investment in an associate of EEK 7,446,000.

On 12 October 2005, Eurocon Ukraine LLC acquired 66.67 percent of the shares in V.I.Center LLC to acquire the rights arising from a long-term lease of land. The cost of the acquisition of EEK 13,760,000 includes positive goodwill of EEK 13,193,000.

NOTE 8. Other investments

As at 31 December

In thousands of Estonian kroons	**2005**	**2004**
Long-term receivables from associates	9,740	0
Miscellaneous investments	340	0
Other long-term receivables	668	0
Total other investments	**10,748**	**0**

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

Other long-term receivables of EEK 668,000 comprise the amount due for the sale of shares in OÜ Eurocon.

NOTE 9. Investment property

In thousands of Estonian kroons

Investment property at 31 December 2004	
Cost	2,610
Accumulated depreciation	6
Carrying amount	**2,604**
Investment property at 31 December 2005	
Acquisitions	0
Depreciation charge for the year	3
Cost	2,610
Accumulated depreciation	9
Carrying amount	**2,601**

Investment property comprises land of EEK 2,520,000 and the carrying amount of a building of EEK 81,000. Investment properties are located in Harjumaa, Järvamaa, Hiiumaa and Tartu. In 2005, the Group did not incur any major expenses from the management of investment property. Buildings are depreciated at the rate of 3 percent per year.

The transactions were performed with independent parties. Therefore, the fair values of the investment properties are equal to their cost.

Registered immovable property that is acquired for residential construction purposes is stated as inventory (note 5).

NOTE 10. Property, plant and equipment

In thousands of Estonian kroons	Land and buildings	Plant and equipment	Other	Construction in progress	Prepayments	Total
Balance at 31 December 2003						
Cost	9,680	136,345	21,628	0	0	167,653
Accumulated depreciation	1,666	59,246	11,652	0	0	72,564
Carrying amount	**8,014**	**77,099**	**9,976**	**0**	**0**	**95,089**
Acquisitions	4,584	15,508	5,910	0	239	26,241
Disposals	0	4,633	2,034	0	0	6,667
Depreciation charge for the year	309	18,004	4,146	0	0	22,459
Disposals	0	4,501	1,847	0	0	6,348
Balance at 31 December 2004						
Cost	14,264	147,220	25,504	0	239	187,227
Accumulated depreciation	1,975	72,749	13,951	0	0	88,675
Carrying amount	**12,289**	**74,471**	**11,553**	**0**	**239**	**98,552**
Changes in cost						
Acquisitions through business combinations	0	827	1,259	0	0	2,086
Other acquisitions	1,077	22,093	5,881	33,056	181	62,288
Disposals	0	16,350	1,465	0	0	17,815
Reclassification	0	1,464	-1,464	0	-239	-239
Effect of movements in foreign exchange	0	170	81	0	0	251
Changes in depreciation						
Acquisitions through business combinations	0	585	706	0	0	1,291
Depreciation charge for the year	442	20,220	5,118	0	0	25,780
Reclassification	0	832	-832	0	0	0
Disposals	0	15,743	1,111	0	0	16,854
Effect of movements in foreign exchange	0	20	15	0	0	35
Balance at 31 December 2005						
Cost	15,341	155,424	29,796	33,056	181	233,798
Accumulated depreciation	2,417	78,663	17,847	0	0	98,927
Carrying amount	**12,924**	**76,761**	**11,949**	**33,056**	**181**	**134,871**

Assets acquired with finance lease

In thousands of Estonian kroons	Plant and equipment	Other	Total
Cost at 31 December 2005	70,817	23,347	94,164
Carrying amount at 31 December 2005	45,748	16,188	61,936

NOTE 11. Intangible assets

	Goodwill	Licences	Total
Balance at 31 December 2003			
Cost	28,137	261	28,398
Accumulated amortisation	0	147	147
Carrying amount	**28,137**	**114**	**28,251**
Acquisitions	0	324	324
Amortisation charge for the year	0	122	122
Balance at 31 December 2004			
Cost	28,137	585	28,722
Accumulated amortisation	0	268	269
Carrying amount	**28,137**	**317**	**28,453**
Acquisitions through business combinations	0	53	53
Acquisitions	103,131	516	103,647
Disposals	0	17	17
Effect of movements in foreign exchange	0	2	2
Acquisitions through business combinations	0	9	9
Amortisation charge for the year	0	242	242
Write-down	47	0	47
Disposals	0	5	5
Effect of movements in foreign exchange	0	1	1
Balance at 31 December 2005			
Cost	131,268	1,139	132,407
Accumulated amortisation and value adjustments	47	515	562
Carrying amount	**131,221**	**624**	**131,845**

Intangible assets comprise software and positive goodwill. Software is amortised within three years. Positive goodwill is not amortised.

Positive goodwill is tested for impairment and written down when necessary. In 2005, there were no significant impairment charges related to goodwill. Only positive goodwill of EEK 47,000 arisen on the acquisition of Estcon OY was expensed.

The cost of the share in OÜ Mapri Projekt was determined using the discounted cash flow method, whereby the company's operating profit, depreciation and investments in current and non-current assets were projected for the next three years and the terminal year. The periods' free cash flows so found were discounted to the base year. The value of equity used to determine the cost of the share was identified by deducting the company's loans from its discounted free cash flows.

The costs of the minority interests in AS Linnaehitus and AS Aspi were found using the discounted cash flow method. The companies' operating profit, depreciation and investments in current and non-current assets were projected for the next three years and the terminal year. The periods' free cash flows so found were discounted to the base year. The value of equity used to determine the cost of the interests was identified by deducting the companies' loans from their discounted free cash flows.

Positive goodwill was tested for impairment using the discounted cash flow method and calculating the companies' values on the basis of the three next years and the terminal year. The average growth rates of the Estonian construction market were applied: 15 percent for the first year, 10 percent for subsequent years.

In thousands of Estonian kroons

At 31 December 2005	OÜ Mapri Projekt	AS Linnaehitus	AS Aspi	Total
Discount rate	12%	11%	11%	
Value of company	22,343	353,549	268,935	644,827
Value of all shares	24,649	370,255	205,553	600,457
Value of shares attributable to the Group	**12,839**	**370,255**	**205,553**	**588,647**
Cost in the balance sheet	**4,100**	**108,584**	**98,144**	**210,828**
Difference	**8,739**	**261,671**	**107,409**	**377,819**

NOTE 12. Operating and finance lease

In thousands of Estonian kroons

Finance lease liability at 31 December 2004	**41,128**
Payable in less than one year	15,137
Payable between one and five years	25,990
Principal payments made during the period	18,819
Interest payments made during the period	1,907
Base currency	EEK
Settlement terms	Monthly
Interest rate	3.6%-5.2%

Finance lease liability at 31 December 2005	**37,480**
Payable in less than one year	18,292
Payable between one and five years	19,188
Principal payments made during the period	21,375
Interest payments made during the period	1,656
Base currency	EEK
Settlement terms	Monthly
Interest rate	3.0%-8.0%

The costs and carrying amounts of assets acquired with finance lease are presented in note 10

In thousands of Estonian kroons	**At 31 December**	
Operating lease payments	**2005**	**2004**
Cars	8,806	6,896
Including cars leased from AS EE Grupp	7,355	6,535
Construction equipment	9,237	7,432
Premises	4,311	3,250
Software	4,948	4,494
Total operating lease payments	**27,302**	**22,072**

According to effective contracts, the minimum operating lease payments of 2006 amount to EEK 26,800,000.

NOTE 13. Interest-bearing loans and borrowings

Current liabilities

As at 31 December

In thousands of Estonian kroons	**Note**	**2005**	**2004**
Short-term bank loans		42,736	22,502
Current portion of long-term bank loans		22,623	0
Other loans		33,999	0
Finance lease liabilities	12	18,292	15,137
Total current items		**117,650**	**37,639**

Non-current liabilities

As at 31 December

In thousands of Estonian kroons	**Note**	**2005**	**2004**
Long-term bank loans		141,150	6,500
Finance lease liabilities	12	19,188	25,990
Total non-current items		**160,338**	**32,490**

Overview of loans

	31 December 2005							
In thousands of Estonian kroons	**Base currency**	**Interest rate**	**Limit**	**Up to 1 year**	**1-2 years**	**3-5 years**	**Over 5 years**	**Total**
Bank loans								
Investment loan	EUR	4,10%	141,700	17,600	18,638	60,681	34,785	131,704
Investment loan	EUR	3,30%	17,000	0	10,500	0	0	10,500
Investment loan	EEK	4,10%	6,500	0	6,500	0	0	6,500
Working capital loan	EEK	3,60%	10,000	10,000	0	0	0	10,000
Working capital loan	USD	4,50%	5,349	5,349	0	0	0	5,349
Working capital loan	EEK	3,50%	50,000	27,386	0	0	0	27,386
Investment loan	UAH	18,00%	15,070	5,023	0	10,047	0	15,070
Overdraft	EEK	3,30%	10,000	0	0	0	0	0
Other loans								
Deferred payments for minority interests	EEK	6,00%	23,418	23,418	0	0	0	23,418
Investment loan	USD	3,50%	10,581	10,581	0	0	0	10,581

	31 December 2004							
In thousands of Estonian kroons	**Base currency**	**Interest rate**	**Limit**	**Up to 1 year**	**1-2 years**	**3-5 years**	**Over 5 years**	**Total**
Bank loans								
Investment loan	EEK	4,10%	6,500	0	6,500	0	0	6,500
Working capital loan	EEK	3,60%	10,000	10,000	0	0	0	10,000
Working capital loan	EEK	3,50%	50,000	12,502	0	0	0	12,502

On 15 March 2005 the Group took from AS Hansapank a short-term working capital loan which was repaid on 15 December 2005.

On 23 December 2005, in connection with the sale of a registered immovable the Group repaid the bank EEK 6,500,000 of the investment loans taken for the acquisition of registered immovable property.

Information on financial risks is disclosed in note 30.

NOTE 14. Tax liabilities

As at 31 December

In thousands of Estonian kroons	**2005**	**2004**
Value-added tax	11,915	2,036
Personal income tax	6,237	5,208
Social tax	9,766	7,559
Unemployment insurance premiums	351	318
Funded pension premiums	362	242
Corporate income tax	433	0
Solid fuel excise	2	0
Extraction of natural resources, pollution charge	134	0
Total tax liability	**29,200**	**15,363**

NOTE 15. Other payables and advances and other liabilities

Other payables and advances

As at 31 December

In thousands of Estonian kroons	Note	2005	2004
Payables to the parent and other group companies	25	26,753	1,874
Payables to associates	25	94	41
Payables to employees		37,877	24,376
Due to customers for construction work	18	149,217	50,681
Accrued differences in contract costs	18	52,552	48,407
Accrued expenses		2,310	1,881
Customer advances for goods and services		9,938	543
Total other payables and advances		**278,741**	**127,803**

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

Accrued expenses comprise interest accrued on loan liabilities.

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 the 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 to date bear to the estimated total contract costs and surveys of work performed, which means that some costs are estimated.

Other liabilities

As at 31 December

In thousands of Estonian kroons	Note	2005	2004
Liabilities to suppliers		1,795	169
Liabilities to the parent and other group companies	25	27,331	8,000
Total other liabilities		**29,126**	**8,169**

NOTE 16. Provisions

Current provisions

As at 31 December

In thousands of Estonian kroons	2005	2004
Warranties	2,654	2,246
Other	258	0
Total current provisions	**2,912**	**2,246**

Non-current provisions

As at 31 December

In thousands of Estonian kroons	2005	2004
Warranties	2,047	2,305
Total non-current provisions	**2,047**	**2,305**

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 Estonian kroons

	2005	2004
Opening balance of warranties provision	4,551	3,740
Provisions used during the year	2,965	2,214
Provisions made during the year	3,115	3,025
Closing balance of warranties provision	**4,701**	**4,551**

NOTE 17. Equity

Shares and share premium

AS Eesti Ehitus is a public limited company. According to the Articles of Association, its minimum and maximum share capital amount to EEK 30,000,000 and EEK 120,000,000 respectively. Share capital consists of ordinary shares with a par value of EEK 10 each.

Each share gives the shareholder one vote, which grants the right to participate in the governance of the company and the distribution of profit and remaining assets on the dissolution of the company.

In a direct placement arranged in 2005, the company issued 482,000 additional shares with a par value of EEK 10 each. The shares were sold for EEK 27 per share, the transaction resulting in share premium of EEK 8,192,000. At 31 December 2005, all issued shares were fully paid for.

As part of the transaction, the minority shareholders of AS Linnaehitus and AS Aspi were allowed to acquire shares in AS Eesti Ehitus: the minority shareholders of AS Linnaehitus acquired a 6.94-percent aggregate stake and the minority shareholders of AS Aspi a 6.5-percent aggregate stake.

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.

Unrestricted equity

At 31 December 2005, the Group's unrestricted equity amounted to EEK 128,987,000. After 1 January 2006, a dividend distribution will be accompanied by income tax expense of 23/77 (until 31 December 2005 the tax rate was 24/76) of the amount distributed as the net dividend. Thus, as at the balance sheet date the amount that could be distributed to the shareholders as the net dividend is EEK 99,320,000 and the distribution would give rise to income tax expense of EEK 29,667,000.

Dividends

The amount of the dividend distribution is determined based on

1. the expectations of the majority shareholder AS EE Grupp;

2. the Group's optimal volume of debt and equity capital which would allow continuing investment at the current pace; and

3. the Parent company's and AS Linnaehitus' project based work arrangement which does not require significant capital investment in the core business .

In financial planning, dividend distributions are expected to remain steady (EEK 30 million).

The Board has proposed the following distributions:

In 2005:	EEK 9.33 per share	EEK 28,000,000 (28,000,000 : 3,000,000 shares)
In 2006:	EEK 8.61 per share	EEK 30,000,000 (30,000,000 : 3,481,894 shares)

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.

In thousands	2005	2004
Number of shares issued at 1 January	3,000	3,000
Effect of shares issued on 30 August	161	0
Weighted average number of shares at 31 December	**3,161**	**3,000**

Basic earnings per share in 2005: 86,807,000 : 3,160,631 = 27.47
in 2004: 55,305,000 : 3,000,000 = 18.44

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

NOTE 18. Construction contracts

In thousands of Estonian kroons

Construction contracts in progress	Note	31 December 2005	31 December 2004
Costs under stage of completion method		1,332,620	970,093
Estimated profit		170,638	118,582
Revenue under stage of completion method		1,503,258	1,088,675
Progress billings		1,604,125	1,104,546
Adjustments		100,867	15,871
Including due from customers	4	48,350	34,810
Including due to customers	15	149,217	50,681

t 31 December 2005, the total value of the Group's construction contracts in progress was EEK 2,735,607,000. The projects' estimated costs amounted to EEK 1,332,620,000; the figure including contract costs incurred of EEK 52,552,000. Estimated contract revenues amounted to EEK 1,503,258,000 and the portion relating to future activity was EEK 1,232,349,000.

NOTE 19. 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.

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, construction of railways, highways, and port and environmental structures and facilities.

Geographical segments

- Estonia
- Ukraine

In geographical segments, segment revenue is based on the geographical location of customers or the project. Segment assets are based on the geographical location of the assets.

The Group's construction activity takes place in two geographical areas: in Estonia and in Ukraine. The Ukrainian construction revenues account for 6.5 percent 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 Estonian kroons	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from external customers:								
Construction contract revenue	859,626	485,835	738,396	796,080	0	0	1,598,022	1,281,915
Other revenue	53,880	264,838	22,552	41,257	0	0	76,432	306,095
Total revenue from external customers:	913,506	750,673	760,948	837,337	0	0	1,674,454	1,588,010
Inter-segment revenue	61,054	106,857	38,065	25,565	-99,119	-132,422	0	0
Total revenue	974,560	857,530	799,013	862,902	-99,119	-132,422	1,674,454	1,588,010
Segment result	131,297	110,144	51,954	65,704	-7,172	-23,822	176,079	152,026
Unallocated expenses	0	0	0	0	0	0	-58,251	-55,183
Operating profit	0	0	0	0	0	0	117,828	96,843
Net financing costs	0	0	0	0	0	0	-4,694	-3,378
Income tax expense	0	0	0	0	0	0	-19,159	-14,338
Profit for the period							93,975	79,127
Segment assets	634,748	301,396	282,339	248,269	0	0	917,087	549,665
Investments in associates	21,309	110	0	0	0	0	21,309	110
Total assets							938,396	549,775
Segment liabilities	389,646	170,081	115,457	160,012	0	0	505,103	330,093
Unallocated liabilities	0	0	0	0	0	0	244,085	41,127
Total liabilities							749,188	371,220
Cash flows from operating activities	105,458	97,624	51,379	10,070	0	0	156,837	107,694
Cash flows from investing activities	-237,792	-52,003	-2,592	-11,403	0	0	-240,384	-63,406
Cash flows from financing activities	189,020	-21,420	-26,715	-23,517	0	0	162,305	-44,937
Capital expenditure	41,464	16,142	19,599	10,099			61,063	26,241
Depreciation and amortisation expense	3,201	1,881	22,821	20,700	0	0	26,022	22,581

NOTE 20. Cost of sales

As at 31 December

In thousands of Estonian kroons	2005	2004
Depreciation and amortisation expense	22,408	21,262
Personnel expenses	142,143	115,651
Cost of services, goods and materials used	1,316,645	1,277,820
Other expenses	17,179	21,251
Total cost of sales	**1,498,375**	**1,435,984**

NOTE 21. Administrative expenses

As at 31 December

In thousands of Estonian kroons	2005	2004
Depreciation and amortisation expense	3,614	1,319
Personnel expenses	40,428	30,529
Cost of services, goods and materials used	21,229	17,611
Other expenses	7,224	4,456
Total administrative expenses	**72,495**	**53,915**

NOTE 22. Other operating income and expenses

Other operating income
As at 31 December

In thousands of Estonian kroons	2005	2004
Gains on sale of property, plant and equipment	4,395	1,278
Gains on sale of real estate	10,328	0
Foreign exchange gains	1,074	458
Expiry of liabilities	1,865	0
Other	941	218
Total other operating income	**18,603**	**1,954**

Other operating expenses
As at 31 December

In thousands of Estonian kroons	2005	2004
Write-off of property, plant and equipment	32	51
Sponsoring, membership fees	2,272	1,993
Foreign exchange losses	1,365	476
Losses from doubtful and irrecoverable receivables	56	245
Other	634	457
Total other operating expenses	**4,359**	**3,222**

NOTE 23. Net financing costs

In thousands of Estonian kroons

	2005	2004
Gain on sale of shares in subsidiaries	1,768	0
Gain/loss from investment in associates	-55	32
Interest expense	-7,481	-3,190
Financial income and expense on other investments	-207	1,438
Foreign exchange gain/loss	1,281	-1,658
Total net financing costs	**-4,694**	**-3,378**

NOTE 24. Income tax

In thousands of Estonian kroons

	2005	2004
Estonia - dividend tax	14,714	13,449
Ukraine - tax on profits	4,445	889
Total income tax expense	**19,159**	**14,338**

The Ukrainian tax on profits, both for 2004 and 2005, is the final amount.

NOTE 25. 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.

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

In thousands of Estonian kroons		**2005**		**2004**	
Relate party	**Relationship**	**Purchases**	**Sales**	**Purchases**	**Sales**
AS EE Grupp	Parent company of AS Eesti Ehitus	15,863	545	14,875	146
AS Eurox Ärimaja	Subsidiary of AS EE Grupp	0	0	0	20,862
AS Tehnopolis Kinnisvara	Subsidiary of AS EE Grupp	0	42,093	0	55,365
AS Eurox	Subsidiary of AS EE Grupp	186	15,063	0	0
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	0	59	0	47
OÜ Luman ja Pojad	Company related to a member of the supervisory board of AS Eesti Ehitus	476	0	476	0
OÜ Tähering	Company related to a member of the supervisory board of AS Eesti Ehitus	223	0	768	1,814
OÜ Carl Engeli Maja	Company related to a member of the supervisory board of AS Eesti Ehitus	0	3,132	0	0
Mait Schmidt	Member of the supervisory board of AS	0	55	0	0
Total		**16,748**	**60,947**	**16,119**	**78,234**

Purchases from AS EE Grupp, OÜ Luman ja Pojad and OÜ Tähering include mostly operating lease services; sales to them comprise sales of materials and construction services. Sales to OÜ Carl Engeli Maja comprise sales of construction services.

Mait Schmidt was sold a plot of unimproved profit-yielding land for EEK 55,000 (EEK 27 per square metre). The property did not have any commercial value for AS Eesti Ehitus.

Sales to AS Eurox comprise primarily sales of a registered immovable; purchases comprise real estate management services.

The Group's receivables from and payables to related parties at the balance sheet date:

In thousands of Estonian kroons		**31 December 2005**		**31 December 2004**	
Related party	**Relationship**	**Receivables**	**Payables**	**Receiva**	**Payables**
AS EE Grupp	Parent company of AS Eesti Ehitus	118	54,074	3	9,874
AS Eurox	Subsidiary of AS EE Grupp	17,702	10	0	0
AS Tehnopolis Kinnisvara	Subsidiary of AS EE Grupp	14,212	0	9,731	0
OÜ Tähering	Company related to a member of the supervisory board of AS Eesti Ehitus	0	16	831	21
OÜ Carl Engeli Maja	Company related to a member of the supervisory board of AS Eesti Ehitus	524	0	0	0
OÜ Majahaldjas	Associate of AS Eesti Ehitus	0	40	1	40
Technopolis-2	Associate of AS Eesti Ehitus	6,257	0	0	0
V.I.Center	Associate of AS Eesti Ehitus	0	54	0	0
Total		**38,813**	**54,194**	**10,566**	**9,935**

Receivables from AS EE Grupp, OÜ Tähering and OÜ Carl Engeli Maja comprise items due for construction services. The receivable from AS Eurox is related to the sale of real estate. The associate Technopolis-2 was given a loan.

The payable to OÜ Tähering comprises operating lease payments outstanding at the balance sheet date.

Payables to the parent company and group companies comprise short term and long-term unsettled invoices of EEK 1,665,000 (2004: EEK 1,874,000) and loans received together with unpaid interest accruals. Information on loans from AS EE Group is as follows:

In thousands of Estonian kroons								
Loans from AS EE Grupp	**Base Currency**	**Interest rate**	**Limit**	**Total**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Investment loan	EEK	4,00%	7,000	7,000	7,000	0	0	0
Investment loan	EUR	10,00%	19,113	19,113	0	0	19,113	0
Investment loan	EUR	6,08%	6,899	6,899	0	0	6,899	0
Investment loan	EEK	10,00%	6,500	6,500	6,500	0	0	0
Investment loan	EEK	12,00%	6,500	6,500	6,500	0	0	0
Investment loan	EEK	12,00%	4,900	4,900	4,900	0	0	0
Interest accrued in 2005				1,979				
Interest paid in 2005				-509				
				52,382				

On 11 July 2005, AS EE Grupp was repaid a loan of EEK 8,000,000.

Payments made to members of Group Board:

2004: EEK 6,405,000

2005: EEK 10,078,000

On the termination of their service contract, members of the Board are entitled to compensation equal to their past 6-12 months' remuneration, depending on the reason for the termination.

Payments made to Group Council:

2004: EEK 1,089,000

2005: EEK 1,139,000

NOTE 26. Collateral and pledged assets

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

1. The movables of AS ASPI have been encumbered with two commercial pledges of EEK 19,600,000 in aggregate established for the benefit of AS SEB Eesti Ühispank.
2. The movables of AS Linnaehitus have been encumbered with a commercial pledge of EEK 12,500,000 established for the benefit of AS Hansapank.
3. The movables of OÜ Mapri Projekt have been encumbered with a commercial pledge of EEK 4,000,000 established for the benefit of AS SEB Eesti Ühispank.
4. The movables of AS Eesti Ehitus have been encumbered with two commercial pledges of EEK 80,000,000 in aggregate established for the benefit of AS Hansapank.

The investment loans taken for the acquisition of registered immovable property are secured with three mortgages of EEK 27,500,000 in aggregate established for the benefit of AS Hansapank.

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

NOTE 27. 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.

In the case of intangible assets, the Group first determines whether the item has an indefinite or finite useful life. Intangible assets with a finite useful life are amortised over their useful lives (up to five years) using the straight-line method. Such items are tested for impairment when circumstances arise which indicate that their recoverable amount may be lower than their carrying amount. The period and method of the amortisation of intangible assets with a finite useful life are reassessed annually. Changes in the useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for as changes in the amortisation period and method respectively, i.e. as changes in accounting estimates. The amortisation expense of intangible assets with a finite useful life is recognised in the income statement in the group of expenses to which the specific asset functionally relates.

The positive goodwill acquired on the acquisition of subsidiaries is measured in the balance sheet using the discounted cash flow method. There exists the risk that when the economic environment deteriorates or wrong management decisions are made, the companies' cash flows may prove smaller than projected, affecting future estimates of the value of the asset. On the basis of analysis made for these consolidated financial statements using the subsidiaries' results for 2005 and expectations of moderate future growth in line with the general growth of the construction sector, Group management believes that the present value of the investments covers the goodwill acquired on acquisition at least two-fold, creating a sufficient buffer for any negative developments.

Provisions

Provisions for construction warranties are recognised on the basis of management 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.

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.

NOTE 28. 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 EEK 159,100,000. The realisation probability of the guarantees is low. Therefore, they have not been recognised as liabilities in the balance sheet.

Bank guarantees and sureties are as follows:

AS SEB Eesti Ühispank	EEK 59,800,000 – guarantees to customers
AS Hansapank	EEK 72,594,000 – guarantees to customers
AS Hansa Liising Eesti	EEK 15,897,000 – surety agreement
AS Hansapank	EEK 10,809,000 – import guarantee

Most of the guarantees expire in 2006 and 2007.

NOTE 29. Contingent liabilities

1. In accordance with an agreement made with the Ministry of Economic Affairs and Communications, AS Järva Teed may extract aggregates until 31 July 2007 based on the rights of usufruct relating to open-casts. 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 taken from AS SEB Eesti Ühispank in an amount of EEK 50,000; the guarantee is to be honoured on first presentation.

2. In 2004, a contractual partner filed a claim for collection of EEK 512,000 from AS Eesti Ehitus, maintaining that AS Eesti Ehitus had recorded incorrect volumes and prices in the statements of work performed. According to AS Eesti Ehitus, the claimant breached quality requirements and deadlines. This is a typical construction industry dispute where a lot depends on evidence presented. The result of the litigation cannot be estimated but according to a law office, the probability that AS Eesti Ehitus wins is higher.

3. A contractual partner has filed a claim against AS Eesti Ehitus with a view to annulling an agreement made in 2005 and collecting EEK 220,000. AS Eesti Ehitus has rejected the claim and has filed a counterclaim together with a claim for EEK 104,000 if the validity of the agreement is not recognised. The hearing has not taken place yet. The result of the lawsuit depends largely on the testimony of witnesses and whether and to what extent the court deems the testimony reliable. According to the preliminary assessment of a law office, the position of AS Eesti Ehitus is somewhat stronger.

4. At the end of 2005, a contractual partner filed a claim for payment of EEK 620,000 against AS Eesti Ehitus. According to the claimant, the volume of work performed exceeded the volume agreed in the subcontracting contract

and part of the additional work has not been paid for. AS Eesti Ehitus is of the opinion that the work has been paid for and the claim is groundless. The time of the hearing has not been set. This is a typical construction industry dispute where a lot depends on evidence presented and whether the court deems the testimony of the witnesses reliable or not. The result of the litigation cannot be estimated but according to the preliminary assessment of a law office, the position of AS Eesti Ehitus is stronger.

5. OÜ Mapri Projekt has filed a claim for collection of EEK 1,500,000 from a contractual partner. The claim is based on two contracts for services according to which OÜ Mapri Projekt has performed all the agreed works but the contractual partner has not paid for them. According to a law office, an unfavourable judicial decision is highly unlikely.

NOTE 30. Management of financial risks

Fair value

The Group's financial assets comprise cash, available-for-sale securities, and other receivables. Financial liabilities comprise loans, finance lease liabilities and trade payables. The carrying amounts of the Group's financial assets and liabilities do not differ significantly from their fair values.

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.

Construction activity is financed primarily with customer advances and instalment payments made under agreed financing schedules. Where necessary, loan financing is used. Generally, loan liabilities have a fixed interest rate.

Currency risk

The Group operates in Estonia (currency the Estonian kroon (EEK)) and in Ukraine (currency the Ukrainian grivna (UAH)). As a rule, construction contracts and subcontracting contracts 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 loans the Group has taken from Estonian and Ukrainian banks and AS EE Grupp have fixed interest rates. Some finance lease contracts have floating interest rates and are linked to EURIBOR (Euro Interbank Offered Rate).

The interest rate risk depends on the economic situation of Group companies' domiciles and changes in the banks' average interest rates. According to management's assessment, the Group does not have significant interest rate and cash flow risks. Therefore, no hedging instruments are used.

NOTE 31. 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 (31 December 2005) and the date on which the financial statements were authorised for issue (10 April 2006) but are related to the reporting 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.

In 2006, the Group plans to sell an office building and associated land which are currently in co-ownership. At the balance sheet date, the carrying amount of the building was EEK 3,466,000. The property is not recognised in the consolidated financial statements as a non-current asset held for sale because due to the co-owner's decision, sales activity began in January 2006. Expected gain on the transaction amounts to EEK 5,500,000.

On 12 January 2006, the Group took from AS Hansapank the last portion of an investment loan (EEK 9,996,000) and made the minority shareholders of AS ASPI the last instalment payment of EEK 23,418,000. A working capital loan of EEK 10,000,000 was repaid to AS Hansapank on 20 January 2006. The overdraft agreement (EEK 10,000,000) was not extended.

On 1 March 2006 the Group sold AS Eurox and on 21 March the Group sold OÜ Admirali Korterid some registered immovable properties located in Tallinn. The properties were sold for development. In connection with the transactions, the Group repaid AS Hansapank investment loans of EEK 11,770,000. On 28 March 2006, the Group sold AS E-Betoonelement a part of a registered immovable in Harku.

In February 2006, Eurocon Ukraina LLC established a wholly-owned subsidiary Eurocon West with the share capital of 36,000 Ukrainian grivnas.

On 9 March 2006, OÜ Mapri Projekt acquired a 50-percent stake in OÜ Vitesse for EEK 25,000. The par value of the interest was EEK 20,000. The name of the investee was changed for Kastani Kinnisvara OÜ.

NOTE 32. Explanation of transition to IFRSs

These are the Group's first consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRSs balance sheet at 1 January 2004.

In preparing its IFRSs financial statements, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (the Estonian GAAP). An explanation of how the transition from the previous GAAP to IFRSs has affected the Group's financial position and financial performance is set out in this note.

The transition to IFRS has not affected the presentation of cash flows in the cash flow statement in the financial statements for the year ended 31 December 2004, only the method has been changed.

Adjustments to consolidated balance sheet

In thousands of Estonian kroons		**2004**		**2004**
As at 31 December	**Note**	**Estonian GAAP**	**Effect of transition to IFRSs**	**IFRS**
ASSETS				
Current assets				
Cash and cash equivalents		113,732	0	113,732
Trade receivables	d	139,751	-4,949	134,802
Other receivables and prepayments	a; d	65,302	2,374	67,676
Inventories	c; d	63,984	39,862	103,846
Total current assets		**382,769**	**37,287**	**420,056**
Non-current assets				
Shares in associates		110	0	110
Investment property	c	37,517	-34,913	2,604
Property, plant and equipment		98,552	0	98,552
Intangible assets	b	13,474	14,979	28,453
Total non-current assets		**149,653**	**-19,934**	**129,719**
TOTAL ASSETS		**532,422**	**17,353**	**549,775**
LIABILITIES				
Current liabilities				
Interest-bearing loans and borrowings		37,639	0	37,639
Trade payables		145,205	0	145,205
Tax liabilities	e	10,640	4,724	15,364
Other payables and advances	e	31,403	96,400	127,803
Provisions	e	101,333	-99,087	2,246
Total current liabilities		**326,220**	**2,037**	**328,257**
Non-current liabilities				
Interest-bearing loans and borrowings		32,490	0	32,490
Other liabilities		8,169	0	8,169
Provisions		2,305	0	2,305
Total non-current liabilities		**42,964**	**0**	**42,964**
TOTAL LIABILITIES		**369,184**	**2,037**	**371,221**
EQUITY				
Minority interest		65,509	0	65,509
Total equity attributable to equity holders of the parent				
Share capital		30,000	0	30,000
Statutory capital reserve		3,000	0	3,000
Other reserves	a	-534	-34	-568
Retained earnings	b	15,947	9,362	25,309
Profit for the period	a; b	49,316	5,988	55,304
TOTAL EQUITY		**163,238**	**15,316**	**178,554**
TOTAL LIABILITIES AND EQUITY		**532,422**	**17,353**	**549,775**

Adjustments to consolidated income statement

In thousands of Estonian kroons	Note	2004 Estonian GAAP	Effect of transition to IFRSs	2004 IFRS
Revenue		1,588,010	0	1,588,010
Cost of sales		1,435,984	0	1,435,984
Gross profit		**152,026**	**0**	**152,026**
Administrative expenses		53,915	0	53,915
Other operating income		1,954	0	1,954
Other operating expenses		3,222	0	3,222
Operating profit		**96,843**	**0**	**96,843**
Financial income				
Financial income on investments in subsidiaries		0	0	0
Financial income on investments in associates		32	0	32
Financial income on other investments		65	0	65
Foreign exchange gains		0	0	0
Financial income and expenses on other long-term receivables		1,529	0	1,529
Total financial income		**1,626**	**0**	**1,626**
Financial expenses				
Financial expenses from investments in subsidiaries	b	5,617	-5,617	0
Financial expenses from investments in associates		0	0	0
Interest expenses		3,190	0	3,190
Foreign exchange losses		1,658	0	1,658
Other financial expenses		156	0	156
Total financial expenses		**10,621**	**-5,617**	**5,004**
Profit before tax		**87,848**	**5,617**	**93,465**
Income tax expense	a	14,709	-371	14,338
Profit for the period		**73,139**	**5,988**	**79,127**
Including attributable to equity holders of the parent		49,317	5,988	55,305
minority interest		23,822	0	23,822

(a)
The amount of income tax in the Ukrainian entity's income statement for 2004 has been reconciled with the filed tax return. The change increased the consolidated profit for 2004 by EEK 371,000. In the consolidated balance sheet, prepaid income tax increased by EEK 337,000, unrealised exchange differences recognised in other reserves decreased by EEK 34,000 and profit increased due to the decrease in income tax liabilities by EEK 371,000.

(b)
IFRS 3 *Business Combinations* has been applied to all business combinations which took place before 31 December 2004. Under IFRS 3, investments in subsidiaries are stated at cost and positive goodwill is not amortised.

In thousands of Estonian kroons

Change in intangible assets

Balance at 31 December 2004	13,474
Amortisation of positive goodwill accumulated before 2004	9,362
Amortisation of positive goodwill accrued in 2004	5,617
Adjusted balance at 31 December 2004	28,453

Change in retained earnings

Balance at 31 December 2004	15,947
Reversal of amortisation of positive goodwill	9,362
Adjusted balance at 31 December 2004	25,309

Change in profit for the period

Balance at 31 December 2004	49,317
Reversed amortisation of goodwill	5,617
Change in income tax expense	371
Adjusted balance at 31 December 2004	55,305

In the consolidated income statement for 2004, amortisation of positive goodwill of EEK 5,617,000 has been eliminated and consolidated profit has increased accordingly.
In the consolidated balance sheet, amortisation of positive goodwill which had accumulated until 1 January 2004 of EEK 9,362,000 has been eliminated. The adjustment has been recognised through retained earnings.

(c)
Investment properties of EEK 34,913,000 have been reclassified to inventories because they comprise properties acquired for residential construction purposes.

(d)
Offsetting of tax receivables and payables of EEK 2,037,000 has been eliminated, as a result of which prepaid taxes and tax liabilities increased; other receivables and trade receivables have been adjusted to the extent of EEK 4,949,000.

In thousands of Estonian kroons

Change in receivables and prepayments

Balance at 31 December 2004	65,302
Elimination of offsetting of tax items	2,037
Adjustment of income tax in the income statement	337
Adjusted balance at 31 December 2004	67,676

(e)
Tax liabilities of EEK 2,687,000 have been reclassified from other payables (accrued expenses) to tax liabilities and payables of EEK 99,087,000 have been reclassified from provisions to other payables. The items are related to calculation of the percentage of completion.

In thousands of Estonian kroons

Change in other payables and advances

Balance at 31 December 2004	31,403
Elimination of the offsetting of tax items	99,087
Adjustment of income tax in the income statement	-2,687
Adjusted balance at 31 December 2004	127,803

NOTE 33. Parent company's separate financial statements

Disclosure of the separate principal reports of parent company is required by Estonian Accounting Law. In connection with AS Eesti Ehitus' transition to IFRSs from 1 January 2005, the comparative information on 2004 has been restated accordingly.

As at 31 December	**2005**	**2004**
In thousands of Estonian kroons		**Restated**
ASSETS		
Current assets		
Cash and cash equivalents	90,742	40,105
Trade receivables	96,745	43,996
Other receivables and prepayments	64,738	51,974
Inventories	59,247	47,015
Total current assets	**311,472**	**183,090**
Non-current assets		
Shares in subsidiaries	211,104	51,841
Shares in associates	108	110
Other non-current receivables	7,776	0
Investment property	198	198
Property, plant and equipment	7,962	7,423
Intangible assets	203	97
Total non-current assets	**227,351**	**59,669**
TOTAL ASSETS	**538,823**	**242,759**
LIABILITIES		
Current liabilities		
Interest-bearing loans and borrowings	27,772	10,132
Trade payables	70,978	69,545
Tax liabilities	11,510	2,923
Other payables and advances	31,311	36,906
Provisions	152,539	47,922
Total current liabilities	**294,110**	**167,428**
Non-current liabilities		
Interest-bearing loans and borrowings	131,261	6,645
Other liabilities	29,125	8,169
Provisions	1,463	1,248
Total non-current liabilities	**161,849**	**16,062**
TOTAL LIABILITIES	**455,959**	**183,490**
EQUITY		
Share capital	34,819	30,000
Share premium	8,192	0
Statutory capital reserve	3,000	3,000
Retained earnings	-1,731	-17,222
Profit for the period	38,584	43,491
TOTAL EQUITY	**82,864**	**59,269**
TOTAL LIABILITIES AND EQUITY	**538,823**	**242,759**

Income statement

In thousands of Estonian kroons	**2005**	**2004 Restated**
Revenue	617,753	741,371
Cost of sales	582,748	690,077
Gross profit	**35,005**	**51,294**
Administrative expenses	21,850	23,092
Other operating income	13,928	153
Other operating expenses	2,415	2,275
Operating profit	**24,668**	**26,080**
Net financing income		
Gains on sale of shares in subsidiaries	1768	0
Gains and losses from investments in subsidiaries	-47	
Financial income and expenses from investments in associates	-2	32
Financial income and expenses from other investments	19,558	19,637
Interest expense	-4,766	-890
Foreign exchange gains and losses	-69	-19
Other financial income and expenses	206	0
Net financing income	**16,648**	**18,760**
Profit before tax	**41,316**	**44,840**
Income tax expense	2,732	1,349
Profit for the period	**38,584**	**43,491**

Statement of cash flows

In thousands of Estonian kroons	**2005**	**2004 Restated**
Cash flows from operating activities		
Cash receipts from customers	874,689	805,031
Cash paid to suppliers and employees	-811,375	-760,860
Income taxes paid	-2,721	-1,349
Net cash from operating activities	**60,593**	**42,822**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-1,845	-1,000
Proceeds from sale of property plant and equipment and intangible assets	1,114	184
Acquisition of investment property	-18,314	-29,302
Acquisition of subsidiaries	-133,871	-20,161
Proceeds from sale of subsidiaries	600	0
Loans given	-28,388	-100
Dividends received	19,350	19,161
Interest received	503	477
Net cash used in investing activities	**-160,851**	**-30,741**
Cash flows from financing activities		
Proceeds from issue of share capital	13,011	0
Loans received	196,716	24,020
Repayment of loans received	-29,500	-19,520
Dividends paid	-28,000	-23,000
Payment of finance lease liabilities	-191	-81
Interest paid	-1,141	-823
Net cash from / used in financing activities	**150,895**	**-19,404**
Net increase / decrease in cash and cash equivalents	**50,637**	**-7,323**
Cash and cash equivalents at 1 January	40,105	47,428
Increase / decrease in cash and cash equivalents	50,637	-7,323
Cash and cash equivalents at 31 December	90,742	40,105

Statement of changes in equity

In thousands of Estonian kroons	Share capital	Share premium	Statutory capital reserve	Translation reserve	Retained earnings	Total
Balance at 1 January 2004	**30,000**	**0**	**3,000**	**-71**	**38,947**	**71,876**
Dividends declared	0	0	0	0	-23,000	-23,000
Exchange differences on translating foreign operations	0	0	0	-463	0	-463
Profit for 2004	0	0	0	0	49,316	49,316
Balance in the accounts for 2004	**30,000**	**0**	**3,000**	**-534**	**65,263**	**97,729**
Effect of changes in accounting policies	0	0	0	534	-38,994	-38,460
Restated balance at 31 December 2004	**30,000**	**0**	**3,000**	**0**	**26,269**	**59,269**
Dividends declared	0	0	0	0	-28,000	-28,000
Issue of share capital	4,819	8,192	0	0	0	13,011
Change in retained earnings	0	0	0	0	0	0
Profit for the period	0	0	0	0	38,584	38,584
Balance at 31 December 2005	**34,819**	**8,192**	**3,000**	**0**	**36,853**	**82,864**

Gains under the equity method

In thousands of Estonian kroons	**2005**
Profit of the parent	38,584
Dividends received	-19,350
Gains under the equity method	67,573
Total profit for the period	86,807

Auditor's report to the shareholders of AS Eesti Ehitus

We have audited the consolidated balance sheet of AS Eesti Ehitus (the "Company") as of 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements, as set out on pages F-2 to F-38 of the Offering Memorandum, are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements of the Company based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Baltics AS

Andris Jegers	Eeli Lääne
Authorised Public Accountant	*Authorised Public Accountant*

The audit of the consolidated financial statements for the financial year ended 31 December 2005 was completed on 10 April 2006, except for the minor financial statements presentation amendments, as to which the date is 28 April 2006.

Statement of management responsibility

The Board of AS Eesti Ehitus acknowledges its responsibility for the preparation of the financial statements of AS Eesti Ehitus (the "Parent company") and the consolidated financial statements of the Parent company and its subsidiaries (the "Group"), as set out on pages F-40 to F-59 of this Offering Circular, and confirms that:

1. the policies applied in the preparation of the Parent company's financial statements and the consolidated financial statements of the Group comply with accounting principles generally accepted in Estonia (the Estonian GAAP);

2. the financial statements give a true and fair view of the financial positions of the Parent company and the Group and of the results of their operations and their cash flows;

3. all significant events that occurred before the date on which the financial statements were authorised for issue (15 March 2005) have been properly recognised and disclosed; and

4. AS Eesti Ehitus and its subsidiaries are going concerns.

Jaano Vink	Chairman of the Board	…………..……	15 March 2005
Avo Ambur	Member of the Board	…………..……	15 March 2005
Andri Hõbemägi	Member of the Board	…………..……	15 March 2005
Toomas Jõgeva	Member of the Board	…………..……	15 March 2005
Ando Voogma	Member of the Board	…………..……	15 March 2005

Consolidated and Parent Company Balance Sheet

ASSETS	Note	Group		Parent company	
As at 31 December		**2004**	**2003**	**2004**	**2003**
Current assets					
Cash and cash equivalents	**2**	113,732,445	114,381,479	40,104,897	47,428,447
Trade receivables					
Accounts receivable		139,767,402	63,683,823	43,996,054	17,631,278
Allowance for doubtful receivables		-16,438	-3,370	0	-1,470
Total trade receivables		139,750,964	63,680,453	43,996,054	17,629,808
Other receivables					
Receivables from the parent, subsidiaries and other group companies	**22**	9,734,379	7,334,628	23,806,574	7,582,113
Receivables from associates	**22**	926	562	926	562
Miscellaneous receivables		15,090,089	935,990	1,530,528	299,135
Due from customers for construction work	**16**	34,810,139	18,938,325	22,040,333	1,665,444
Total other receivables	**3**	59,635,533	27,209,505	47,378,361	9,547,254
Accrued income					
Interest receivable		9,095	84,263	0	0
Other accrued income		101,220	0	0	0
Total accrued income		110,315	84,263	0	0
Prepayments					
Prepaid and refundable taxes	**4**	4,055,242	0	4,413,109	0
Prepaid expenses		1,500,242	799,478	112,446	387,714
Total prepayments		5,555,484	799,478	4,525,555	387,714
Inventories					
Raw and other materials		9,117,790	4,188,420	4,297,761	315,453
Work in progress		43,137,561	14,997,745	9,075,945	4,644,156
Merchandise purchased for resale		0	26,542	0	26,542
Prepayments to suppliers		11,729,188	12,753,486	4,253,428	4,828,468
Total inventories	**5**	63,984,539	31,966,193	17,627,134	9,814,619
Total current assets		**382,769,280**	**238,121,371**	**153,632,001**	**84,807,842**
Non-current assets					
Long-term financial assets					
Shares in subsidiaries	**6**	0	0	90,301,201	84,939,275
Shares in associates	**7**	109,900	77,893	109,900	77,893
Other long-term receivables		0	2,613,458	0	0
Total long-term financial assets		109,900	2,691,351	90,411,101	85,017,168
Investment property	**8**	37,517,316	9,532,881	29,586,514	349,330
Property, plant and equipment					
Land		860,410	860,410	439,822	439,822
Buildings		13,403,172	8,819,608	5,792,516	5,792,516
Plant and equipment		147,220,592	136,345,505	11,134,265	11,032,443
Other equipment, tools and fixtures		25,504,622	21,627,927	7,776,068	7,999,284
Accumulated depreciation		-88,675,986	-72,564,078	-17,720,449	-17,744,642
Construction in progress and prepayments		238,909	0	0	0
Total property, plant and equipment	**9**	98,551,719	95,089,372	7,422,222	7,519,423
Intangible assets					
Licences and other intangible assets		316,942	113,615	97,132	96,195
Positive goodwill		13,157,193	18,774,549	0	0
Total intangible assets	**10**	13,474,135	18,888,164	97,132	96,195
Total non-current assets		**149,653,070**	**126,201,768**	**127,516,969**	**92,982,116**
TOTAL ASSETS		**532,422,350**	**364,323,139**	**281,148,970**	**177,789,958**

LIABILITIES AND EQUITY	Note	Group		Parent company	
As at 31 December		**2004**	**2003**	**2004**	**2003**
LIABILITIES					
Current liabilities					
Interest-bearing loans and borrowings					
Short-term loans and borrowings	**12**	15,137,275	20,009,351	10,000,000	20,000,000
Current portion of long-term loans and borrowings	**11**	22,502,199	15,087,206	131,652	67,414
Total interest-bearing loans and borrowings		37,639,474	35,096,557	10,131,652	20,067,414
Customer advances for goods and services		543,317	169,685	0	0
Trade payables		145,205,415	78,391,645	69,544,820	23,792,904
Other payables					
Payables to the parent, subsidiaries and other group companies	**22**	1,873,693	21,436,857	23,742,176	22,288,243
Payables to associates	**22**	40,539	27,206	40,539	27,206
Miscellaneous payables		1,155	18,025	0	0
Total other payables		1,915,387	21,482,088	23,782,715	22,315,449
Tax liabilities	**4**	10,639,605	11,117,585	1,919,298	5,512,563
Accrued expenses					
Payables to employees		24,375,940	15,300,537	11,256,040	5,366,234
Other accrued expenses		4,568,542	3,698,653	2,801,787	2,708,806
Total accrued expenses	**13**	28,944,482	18,999,190	14,057,827	8,075,040
Provisions					
Due to customers for construction work	**16**	50,680,554	3,721,174	13,530,712	2,607,168
Warranty provisions		2,246,522	2,540,720	1,333,226	1,997,719
Accrued differences in contract costs		48,406,014	25,282,104	33,058,159	20,257,676
Total provisions	**14**	101,333,090	31,543,998	47,922,097	24,862,563
Total current liabilities		**326,220,770**	**196,800,748**	**167,358,409**	**104,625,933**
Non-current liabilities					
Interest-bearing loans and borrowings					
Loans and finance lease liabilities	**11**	32,490,550	34,576,927	6,645,131	114,600
Other liabilities					
Liabilities to the parent and other group companies	**22**	8,000,000	0	8,000,000	0
Miscellaneous liabilities		168,699	344,094	168,699	344,094
Total other liabilities	**15**	8,168,699	344,094	8,168,699	344,094
Other provisions	**14**	2,304,565	1,199,207	1,247,983	829,150
Total non-current liabilities		**42,963,814**	**36,120,228**	**16,061,813**	**1,287,844**
Total liabilities		**369,184,584**	**232,920,976**	**183,420,222**	**105,913,777**
Minority interest		**65,509,018**	**59,525,982**	**0**	**0**
EQUITY					
Share capital		30,000,000	30,000,000	30,000,000	30,000,000
Reserves					
Statutory capital reserve		3,000,000	3,000,000	3,000,000	3,000,000
Retained earnings		15,947,140	11,726,649	15,947,140	11,726,649
Profit for the period		49,316,083	27,220,491	49,316,083	27,220,491
Unrealised exchange differences		-534,475	-70,959	-534,475	-70,959
Total equity	**18**	**97,728,748**	**71,876,181**	**97,728,748**	**71,876,181**
TOTAL LIABILITIES AND EQUITY		**532,422,350**	**364,323,139**	**281,148,970**	**177,789,958**

Consolidated and Parent Company Income Statement

	Note	Group		Parent company	
		2004	2003	2004	2003
Revenue	**19**	1,588,010,098	1,076,953,665	741,370,840	474,349,544
Cost of sales		1,435,984,589	967,786,047	690,077,382	449,639,036
Gross profit		**152,025,509**	**109,167,618**	**51,293,458**	**24,710,508**
Administrative expenses		53,915,036	41,965,178	23,092,223	15,901,526
Other operating income		1,954,199	2,376,803	152,618	545,526
Other operating expenses		3,221,678	3,742,530	2,274,777	3,064,572
Operating profit		**96,842,994**	**65,836,713**	**26,079,076**	**6,289,936**
Financial income and expenses					
Financial income and expenses on shares in subsidiaries	**6**	0	0	24,986,619	21,954,363
Amortisation of positive goodwill	**6**	-5,617,356	-5,581,187	0	0
Financial income and expenses on shares in associates	**7**	32,007	132,656	32,007	132,656
Interest expenses		-3,189,628	-3,741,582	-890,541	-1,258,876
Foreign exchange loss		-1,658,019	-126,681	-19,028	-126,681
Other financial income and expenses		1,437,336	753,560	476,726	229,093
Total financial income and expenses		-8,995,660	-8,563,234	24,585,783	20,930,555
Profit before tax		**87,847,334**	**57,273,479**	**50,664,859**	**27,220,491**
Income tax expense		14,709,390	5,204,325	1,348,776	0
Minority interest		-23,821,861	-24,848,663	0	0
PROFIT FOR THE PERIOD		**49,316,083**	**27,220,491**	**49,316,083**	**27,220,491**

Consolidated and Parent Company Cash Flow Statement

	Group		Parent company	
	2004	2003	2004	2003
Cash flows from operating activities				
Profit for the period	49,316,083	27,220,491	49,316,083	27,220,491
Adjustments for				
Depreciation, amortisation and value adjustments	22,407,837	18,895,390	1,319,343	1,265,194
Net gain/loss on sale of property, plant and equipment				
and intangibles	-1,271,523	-1,666,225	-54,378	-146,271
Write-down and write-off of inventories	0	65,260	0	3,446
Gain/loss on shares in subsidiaries	0	0	-24,986,619	-21,954,363
Gain/loss on shares in associates	-32,007	-132,656	-32,007	-132,656
Change in receivables and prepayments related to				
operating activities	-69,096,563	40,839,817	-16,091,557	-3,921,119
Change in other receivables	-25,150,168	35,908,530	-37,731,107	51,204,246
Change in prepaid taxes	-4,055,242	4,844,575	-4,482,686	3,471,545
Change in prepaid expenses	-700,764	1,098,128	275,268	-125,940
Change in inventories	-32,018,346	-11,768,712	-7,812,516	-6,152,565
Change in payables and advances related to				
operating activity	67,187,402	-14,357,036	45,751,916	-25,932,139
Change in other payables	594,799	-2,611,774	21,628,766	-6,193,389
Change in tax liabilities	-477,980	4,865,698	-3,523,688	4,139,604
Change in other current liabilities	80,839,742	30,304,457	18,898,506	38,587,579
Net cash from operating activities	**87,543,270**	**133,505,943**	**42,475,324**	**61,333,663**
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangibles	-14,915,659	-7,999,541	-999,815	-2,556,053
Acquisition of investment property	-29,748,864	-3,847,516	-29,301,804	0
Proceeds from sale of property, plant and equipment	1,460,246	10,524,757	184,070	169,895
Acquisition of subsidiaries and associates	-20,161,500	-16,770,000	-20,161,500	-16,770,000
Proceeds from sale of subsidiaries and associates	0	2,150,000	0	2,150,000
Loans given	0	0	-100,000	0
Repayment of loans given	0	280,000	0	280,000
Dividends received	0	0	19,161,177	10,905,717
Net cash used in investing activities	**-63,365,777**	**-15,662,300**	**-31,217,872**	**-5,820,441**
Cash flows from financing activities				
Proceeds from loans received	36,512,571	26,665,873	24,019,723	22,456,522
Repayment of loans received	-19,519,723	-21,456,522	-19,519,723	-21,456,522
Payment of finance lease principal	-18,819,375	-26,620,208	-81,002	-57,058
Dividends paid	-23,000,000	-21,000,000	-23,000,000	-10,905,717
Net cash used in financing activities	**-24,826,527**	**-42,410,857**	**-18,581,002**	**-9,962,775**
NET CASH FLOWS	**-649,034**	**75,432,786**	**-7,323,550**	**45,550,447**
Cash and cash equivalents at beginning of period	**114,381,479**	**38,948,693**	**47,428,447**	**1,878,000**
Decrease / increase in cash and cash equivalents	**-649,034**	**75,432,786**	**-7,323,550**	**45,550,447**
Cash and cash equivalents at end of period	**113,732,445**	**114,381,479**	**40,104,897**	**47,428,447**

Statement of Changes in Equity

	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	**Total**
Balance at 31 December 2002	**30,000,000**	**3,000,000**	**0**	**22,632,366**	**55,632,366**
Profit for the period	0	0	0	27,220,491	**27,220,491**
Dividends declared	0	0	0	-10,905,717	**-10,905,717**
Exchange differences on translating foreign operations	0	0	-70,959	0	**-70,959**
Balance at 31 December 2003	**30,000,000**	**3,000,000**	**-70,959**	**38,947,140**	**71,876,181**
Profit for the period	0	0	0	49,316,083	**49,316,083**
Dividends declared	0	0	0	-23,000,000	**-23,000,000**
Exchange differences on translating foreign operations	0	0	-463,516	0	**-463,516**
Balance at 31 December 2004	**30,000,000**	**3,000,000**	**-534,475**	**65,263,223**	**97,728,748**

Notes to the Financial Statements

Note 1. Significant accounting policies

The annual financial statements of AS Eesti Ehitus (the "Parent company") and the consolidated financial statements of the Parent company and its subsidiaries (the "Group") for 2004 have been prepared in accordance with accounting principles generally accepted in the Republic of Estonia (the Estonian GAAP). The Estonian GAAP is based on internationally recognised accounting and reporting standards and its basic requirements are set out in the Estonian Accounting Act and the standards issued by the Estonian Accounting Standards Board.

The income statements of the Parent company and the Group have been prepared using format 2 provided in Appendix 2 to the Estonian Accounting Act. The financial statements are presented in Estonian kroons (EEK). Group companies use uniform accounting policies.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent. Control exists when the parent owns directly or indirectly through subsidiaries more than half of the voting power of an entity, or when the parent has the power to govern the financial and operating policies of an entity under a contract or agreement, or when the parent has the power to appoint or remove the majority of the members of the board of directors and the highest governing body. 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. Significant influence exists when the investor holds directly or indirectly through subsidiaries over 20 percent of the voting power of the investee. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis. 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. AS Eesti Ehitus is part of AS EE Grupp group which also prepares consolidated financial statements in which all intra-group balances and unrealised gains are eliminated. Therefore, in the consolidated financial statements of AS Eesti Ehitus unrealised gains and losses from transactions with companies belonging to AS EE Grupp group but not to AS Eesti Ehitus Group have not been eliminated.

Accounting for investments in subsidiaries and associates in the separate financial statements of the Parent

In the Parent company's separate financial statements, investments in subsidiaries and associates are accounted for under the equity method whereby the investment is initially recognised at cost and adjusted thereafter for the investor's share in the subsidiary's or associate's profit or loss after the date of acquisition. The equity method is not applied when the shares in the associate or subsidiary are acquired and held for sale in the current or the next reporting period.

Financial assets and liabilities

Financial assets comprise cash, short-term financial assets, trade receivables and other short- and long-term receivables. Financial liabilities comprise trade payables, accrued expenses and other short- and long-term debt obligations.

Financial assets and liabilities are initially recognised at cost, which is the fair value of the consideration given or received for them. The initial cost of a financial asset or liability comprises all expenses directly related to its acquisition.

A financial asset is derecognised when the Group loses control of it. A financial liability is removed from the balance sheet when it is discharged, cancelled or expires.

Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date the assets are transferred to / by the Group.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in current accounts, in demand and short-term deposits and shares in money market funds. In the statement of cash flows, cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are reported under the direct method.

Short-term financial assets

Short-term investments in debt and equity securities are stated at fair value which is considered equal to the market value of the asset at the balance sheet date. Where fair value cannot be measured reliably, short-term financial assets are stated at amortised cost.

Trade receivables

Trade receivables are stated at cost less impairment losses. Only recoverable items are carried in the balance sheet. The recoverability of receivables is reviewed on an individual basis, considering the information available on the debtor's creditworthiness. Doubtful receivables are recognised in other operating expenses. Irrecoverable receivables are written off the balance sheet. Recovery of previously expensed items is recognised as a reduction of expenses from doubtful receivables.

Inventories

Inventories are initially recognised at cost. Cost comprises the costs of purchase and other direct expenses that are required for taking the inventories to their present condition and location.

Inventories are recognised as an expense and their carrying amount is determined using the weighted average cost formula. In the balance sheet, inventories are stated at the lower of cost and net realisable value. Materials and work in progress are written down if the estimated cost of related finished goods exceeds the net realisable value of those finished goods.

Expenses from the write-down or write-off of inventories are recognised in the cost of sales as incurred.

Investment property

Investment properties are properties held as the owner or under finance lease to earn rental income or for capital appreciation or both. Investment property is initially recognised at cost, which includes directly attributable transaction charges.

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 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 when their purpose changes. The reclassified items are subjected to the same accounting policies as those applied to the group of assets to which they are transferred from the date the transfer is performed.

Property, plant and equipment

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

Assets are recognised as items of property, plant and equipment if their cost exceeds EEK 10,000 and they are expected to be used during more than one period. Assets with a lower cost or a shorter useful life are expensed as of implementation and accounted for off the balance sheet.

Where an item of property, plant and equipment consists of significant differentiable parts that have different useful lives, the parts are recognised as separate assets and assigned depreciation rates that correspond to their useful lives.

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 is not depreciated. As a rule, the following depreciation rates and useful lives are applied:

Asset group	Annual depreciation rate	Useful life
Buildings and structures	3%	33 years
Machinery and tools	20%-33%	3-5 years
Plant and equipment	10%-14%	7-10 years
Non-road mobile machinery	14%-20%	5-7 years
Means of transport	14%-20%	5-7 years
Cars and minibuses	20%	5 years
Portable warming up and other onsite facilities	20%	5 years
Other fixtures and fittings	20%-33%	3-5 years

Owing to specific nature, the useful life of an item of property, plant and equipment may differ from the one of its asset group. In such a case, the item is viewed separately and assigned an appropriate depreciation period.

Depreciation rates are reassessed 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 periods.

Intangible assets

Intangible assets are recognised and accounted for using the same principles as those applied to items of property, plant and equipment.

Intangible assets are amortised using the straight-line method. As a rule, the following amortisation rates and useful lives are applied:

Asset group	**Annual amortisation rate**	**Useful life**
Licences, patents	33%	3 years
Positive goodwill	20%	5 years

Positive goodwill

Positive goodwill is the excess of the cost of the acquisition over the acquirer’s interest in the real value of the net assets acquired. Goodwill arisen on the acquisition of subsidiaries and associates is recognised in the Parent company’s separate financial statements in *Shares in subsidiaries and associates* and amortised under the straight-line method over its expected useful life which is 5 years. The amortisation of positive goodwill is offset against income and recognised in financial expenses or financial income. In the consolidated financial statements, positive goodwill is recognised as an intangible asset and amortised within 5 years.

Negative goodwill is the excess of the acquirer’s interest in the fair value of net assets acquired over the cost of the acquisition. Negative goodwill is recognised as an asset with a negative value and recognised as income depending on the reasons for its origination.

Acquisitions of interests in entities under common control are recognised using the adjusted purchase method. Increases and decreases in the acquirer’s equity are recognised in the acquirer’s balance sheet in *Share premium.* If the balance on the *Share premium* account is not sufficient for deducting the difference arisen from the application of the adjusted purchase method, the exceeding portion is recognised as a reduction of *Retained earnings.*

Leases

A lease is 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.

Accounting by the lessee

Assets acquired with finance lease are carried as assets and liabilities at amounts equal to the fair value of the leased property. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Provisions and contingent liabilities

Provisions are established 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 issued on the completion of construction activity. Warranty expenses are recognised as the costs of construction contracts and established short- and long-term provisions.

Contingent liabilities are liabilities whose settlement probability is less than 50 percent or which cannot be measured reliably. Contingent liabilities are not recognised in the balance sheet.

Corporate income tax

In accordance with the effective Estonian Income Tax Act, dividends are taxed at the rate of 24/76 of the amount distributed as the net dividend. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared, irrespective of the period for which they are declared or in which they are paid.

The maximum income tax liability that could arise on a dividend distribution is disclosed in note 17.

Revenue

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the revenue and expenses associated with the transaction can be measured reliably.

Revenue from the rendering of services is recognised using the percentage of completion method. Under this method, the revenue and profit arising on the provision of a service are recognised in proportion to and in the same periods as associated costs.

Interest income is recognised on the basis of the asset's effective interest rate. Dividend income is recognised when the right to receive payment is established.

Foreign currency

Transactions in foreign currencies are translated to the presentation currency using the Eesti Pank exchange rates of the date of the transaction. Assets and liabilities that are denominated in a foreign currency at the balance sheet date are restated using the Eesti Pank exchange rates ruling at that date. Foreign exchange gains and losses are reported in the income statement of the period.

In consolidation, the assets and liabilities of foreign operations are restated using the exchange rate ruling at the balance sheet date and the revenues and expenses of foreign operations are restated using the weighted average exchange rate. The translation differences are recognised in equity in *Unrealised exchange differences.*

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 (31 December 2004) and the date on which the financial statements were authorised for issue (15 March 2005) but are related to the reporting 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.

Note 2. Cash and cash equivalents

As at 31 December	**Number of shares**	**Group**		**Parent company**	
	2004	**2004**	**2003**	**2004**	**2003**
Cash on hand and in bank accounts		78,520,295	103,049,412	40,104,897	47,428,447
Shares in Hansa Intressifond (cost)		*34,789,377*	*10,913,388*	0	0
Shares in Hansa Intressifond (fair value)	254,515	35,212,150	11,332,067	0	0
Total		**113,732,445**	**114,381,479**	**40,104,897**	**47,428,447**

Note 3. Other receivables

Information on receivables from the parent, subsidiaries, associates and other group companies is presented in note 22.

Miscellaneous receivables comprise warranty receivables that fall due in 2005.

Due from customers for construction work is related to construction contracts in progress at the balance sheet date. Further information on construction contracts is presented in note 16

Note 4. Tax receivables and liabilities

	Group				Parent company			
As at 31 December	**2004**		**2003**		**2004**		**2003**	
Tax	**Receivable**	**Liability**	**Receivable**	**Liability**	**Receivable**	**Liability**	**Receivable**	**Liability**
Value-added tax	4,049,694	0	0	2,333,033	4,320,657	0	0	3,649,475
Personal income tax	0	4,243,591	0	3,452,839	0	741,171	0	716,170
Social tax	0	5,960,743	0	4,802,902	0	1,088,922	0	1,017,485
Unemployment insurance premiums	0	248,993	0	198,795	0	43,445	0	40,265
Funded pension premiums	0	186,278	0	110,811	0	45,760	0	30,858
Corporate income tax	5,548	0	0	115,702	92,452	0	0	58,310
Natural resource tax	0	0	0	103,503	0	0	0	0
Total	**4,055,242**	**10,639,605**	**0**	**11,117,585**	**4,413,109**	**1,919,298**	**0**	**5,512,563**

Note 5. Inventories

As at 31 December	**Group**		**Parent company**	
Inventory group	**2004**	**2003**	**2004**	**2003**
Raw and other materials	9,117,790	4,188,420	4,297,761	315,453
Work in progress	43,137,561	14,997,745	9,075,944	4,644,156
Prepayments to suppliers	11,729,188	12,753,486	4,253,429	4,828,468
Merchandise purchased for resale	0	26,542	0	26,542
Total	**63,984,539**	**31,966,193**	**17,627,134**	**9,814,619**

The balances of raw and other materials in the Parent company's and the Group's balance sheets of EEK 4,297,761 and EEK 9,117,790 respectively include mostly materials and equipment purchased for construction projects.

The balances of work in progress in the Parent company's and the Group's balance sheets of EEK 9,075,944 and EEK 43,137,561 respectively include the costs of construction contracts in progress at the balance sheet date.

Prepayments to suppliers of EEK 4,253,429 (Parent company) and EEK 11,729,188 (the Group) comprise prepayments for construction services and goods.

Note 6. Shares in subsidiaries

Group control

The Parent company is a wholly-owned subsidiary of AS EE Grupp, which is also the parent of the Group.

Name	Domicile	Interest	Interest	Share capital	Equity
		2004	2003	As at 31 December 2004	
AS Linnaehitus	Estonia	51%	51%	5,500,000	37,843,153
AS Aspi	Estonia	52,94%	52,94%	3,400,000	99,799,610
AS Järva Teed	Estonia	52,94%	52,94%	2,000,000	6,804,786
OÜ Hiiu Teed	Estonia	52,94%	52,94%	100,000	7,311,946
OÜ EE Elekter	Estonia	100%	100%	100,000	1,808,943
OÜ Eurocon	Estonia	100%	100%	80,000	3,201,321
Eurocon Ukraine LLC	Ukraine	100%	100%	43,040	4,834,942

In January 2005, AS Eesti Ehitus acquired a new subsidiary, purchasing 52 percent of OÜ Mapri Projekt for EEK 4,100,000; EEK 2,050,000 of the purchase price was paid immediately, the rest will be settled within two years in accordance with the terms of the contract.

	AS Linnaehitus	AS Aspi	OÜ EE Elekter	OÜ Eurocon	Total
Domicile	Estonia	Estonia	Estonia	Estonia	
Core activity	General construction	Road construction			
Number of shares at 31 December 2003	280,580	180,000	**1**	**1**	
Number of shares at 31 December 2004	**280,580**	**180,000**	1	1	
Interest at 31 December 2003	51%	52,94%	100%	100%	
Interest at 31 December 2004	51%	52,94%	100%	100%	
Cost at 31 December 2003	12,061,500	39,600,000	100,000	80,000	51,841,500
Cost at 31 December 2004	12,061,500	39,600,000	100,000	80,000	51,841,500
Carrying amount at 31 December 2003	**22,495,331**	**61,709,078**	**318,427**	**416,439**	**84,939,275**
Gains under the equity method	10,489,500	9,758,205	1,652,747	3,086,167	24,986,619
Unrealised exchange differences	0	0	-162,231	-301,285	-463,516
Dividends declared during the reporting year	11,220,000	7,941,177	0	0	19,161,177
Carrying amount at 31 December 2004	**21,764,831**	**63,526,106**	**1,808,943**	**3,201,321**	**90,301,201**

The shares in AS Linnaehitus were acquired in 2002 from AS EE Grupp for EEK 12,061,500. At the balance sheet date, the cost of the investment has been paid in full. The final instalment of EEK 4,061,500 was paid in 2004. According to the purchase analysis, the transaction gave rise to positive goodwill of EEK 5,281,751. At the balance sheet date, the positive goodwill had been amortised to the extent of EEK 2,816,928. The amortisation charge for 2004 of EEK 1,056,348 has been recognised in the income statement as financial expense.

At the year-end, the Group's share in AS Linnaehitus' profit for 2004 and net assets amounted to EEK 11,545,848 and EEK 19,300,008 respectively; the corresponding figures for the minority interest were EEK 11,093,070 and EEK 18,543,145 respectively.

The shares in AS Aspi were acquired in 2002 from AS EE Grupp for EEK 39,600,000. At the balance sheet date, the purchase price has been paid in full. The last instalment payment of EEK 16,100,000 was made in 2004. According to the purchase analysis, the transaction gave rise to positive goodwill of EEK 22,855,058. At the balance sheet date, the goodwill has been amortised to the extent of EEK 12,162,688. The amortisation charge for 2004 of EEK 4,561,008 has been recognised in the income statement as financial expense.

At the year-end, the Group's share in AS Aspi's profit for 2004 and net assets amounted to EEK 14,319,213 and EEK 52,833,914 respectively; the corresponding figures for the minority interest were EEK 12,728,791 and EEK 46,965,696 respectively. The figures for AS Aspi include the figures of its subsidiaries AS Järva Teed and OÜ Hiiu Teed.

The 100-percent shareholding in OÜ EE Elekter was acquired in 2003 from AS EE Grupp. The investment cost EEK 100,000.

At the year-end, the Group's share in the subsidiary's profit for 2004 and net assets amounted to EEK 1,652,747 and EEK 1,808,943 respectively. The figures for OÜ EE Elekter comprise the figures of its subsidiary Eurocon Ukraine LLC.

The 100-percent shareholding in OÜ Eurocon was acquired in 2003 from AS EE Grupp for EEK 80,000.

At the year-end, the Group's share in OÜ Eurocon's profit for 2004 and net assets amounted to EEK 3,086,167 and EEK 3,201,321 respectively. The figures for OÜ Eurocon include the figures of its subsidiary Eurocon Ukraine LLC.

Subsidiaries' equities at 31 December 2004

	AS Linnaehitus	AS Aspi	OÜ EE Elekter	OÜ Eurocon
Share capital	5,500,000	3,400,000	100,000	80,000
Statutory capital reserve	550,000	340,000	10,000	8,000
Share premium	0	186,000	0	0
Retained earnings	9,154,235	68,825,606	233,262	374,563
Profit for the period	22,638,918	27,048,004	1,652,747	3,086,167
Unrealised exchange differences	0	0	-187,066	-347,409
Total equity	**37,843,153**	**99,799,610**	**1,808,943**	**3,201,321**
Investor's share in equity	**51,00%**	**52,94%**	**100%**	**100%**

Note 7. Shares in associates

The Parent company and the Group

	OÜ Majahaldjas
Domicile	Estonia
Core activity	Real estate management
Number of shares at 31 December 2003	**1**
Interest at 31 December 2003	31,4%
Cost at 31 December 2003	38,947
Carrying amount at 31 December 2003	**77,893**
Gains for the period under the equity method	32,007
Carrying amount at 31 December 2004	**109,900**

Associate's equity at 31 December 2004

	OÜ Majahaldjas
Share capital	100,000
Statutory capital reserve	10,000
Retained earnings	138,067
Profit for the period	101,933
Total equity	**350,000**
Investor's share in equity	**31,40%**

The share capital of OÜ Majahaldjas is made up of thirteen shares; the par value of the share belonging to AS Eesti Ehitus amounts to EEK 31,400.

Note 8. Investment property

In the financial statements of the Parent company and the Group, investment property comprises properties acquired for real estate development. The properties are accounted for using the cost model.

	Group	Parent company
Cost at 31 December 2003	9,536,031	349,330
Accumulated depreciation at 31 December 2003	3,150	0
Carrying amount at 31 December 2003	9,532,881	349,330
Acquisitions of the period	29,813,484	29,301,804
Disposals of the period	64,620	64,620
Reclassification to construction projects	1,761,728	0
Cost at 31 December 2004	37,523,167	29,586,514
Accumulated depreciation at 31 December 2004	5,850	0
Carrying amount at 31 December 2004	**37,517,317**	**29,586,514**

Investment property in the Group's balance sheet comprises land of EEK 37,433,392 and the carrying amounts of buildings of EEK 83,925. Investment properties are located in Harjumaa, Tallinn, Tartu, Järvamaa and Hiiumaa. In 2004, the Group neither incurred any major expenses from the management of investment property nor earned any rental income.

There is no reliable information on the fair values of the investment properties.

Note 9. Property, plant and equipment

The Parent company

	Land	Buildings	Plant and equipment	Other	Total
Cost					
At 31 December 2003	439,822	5,792,516	11,032,443	7,999,284	25,264,065
Acquisitions and improvements	0	0	426,000	710,279	1,136,279
Disposals	0	0	324,178	933,495	1,257,673
Cost					
At 31 December 2004	439,822	5,792,516	11,134,265	7,776,068	25,142,671
Accumulated depreciation and value adjustments					
At 31 December 2003	0	1,590,899	9,865,080	6,288,663	17,744,642
Depreciation charge for the year		205,845	280,992	746,643	1,233,480
Disposals	0	0	324,178	933,495	1,257,673
Accumulated depreciation and value adjustments					
At 31 December 2004	0	1,796,744	9,821,894	6,101,811	17,720,449
Carrying amount					
At 31 December 2003	439,822	4,201,617	1,167,363	1,710,621	7,519,423
Carrying amount					
At 31 December 2004	439,822	3,995,772	1,312,371	1,674,257	7,422,222

The Group

	Land	Buildings	Plant and equipment	Other	Construction in progress and prepayments	Total
Cost						
At 31 December 2003	860,410	8,819,608	136,345,505	21,627,927	0	167,653,450
Acquisitions and improvements	0	4,583,564	15,508,211	5,910,336	238,909	26,241,020
Including from construction in progress and prepayments	0	0	0	0	0	0
Disposals	0	0	4,633,124	2,033,641	0	6,666,765
Cost						
At 31 December 2004	860,410	13,403,172	147,220,592	25,504,622	238,909	187,227,705
Accumulated depreciation						
At 31 December 2003	0	1,665,685	59,246,199	11,652,194	0	72,564,078
Depreciation charge for the year	0	308,884	18,004,245	4,146,737	0	22,459,866
Disposals	0	0	4,501,165	1,846,793	0	6,347,958
Accumulated depreciation						
At 31 December 2004	0	1,974,569	72,749,279	13,952,138	0	88,675,986
Carrying amount						
At 31 December 2003	860,410	7,153,923	77,099,306	9,975,733	0	95,089,372
Carrying amount						
At 31 December 2004	860,410	11,428,603	74,471,313	11,552,484	238,909	98,551,719

Assets acquired with finance lease – the Group

Asset group	Plant and equipment	Other	Total
Cost at 31 December 2004	59,830,254	23,552,921	83,383,175
Carrying amount at 31 December 2004	36,765,863	18,907,783	55,673,646

Note 10. Intangible assets

The Parent company and the Group

	Goodwill	Purchased licences, etc	Total Group	Total Parent company
Cost				
At 31 December 2003	28,137,832	260,913	28,398,745	215,900
Acquisitions and improvements	0	324,464	324,464	86,800
Cost				
At 31 December 2004	28,137,832	585,377	28,723,209	302,700
Accumulated amortisation				
At 31 December 2003	9,363,283	147,298	9,510,581	119,705
Amortisation charge for the year	5,617,356	121,137	5,738,493	85,863
Accumulated amortisation				
At 31 December 2004	14,980,639	268,435	15,249,074	205,568
Carrying amount				
At 31 December 2003	18,774,549	113,615	18,888,164	96,195
Carrying amount				
At 31 December 2004	13,157,193	316,942	13,474,135	97,132

In the balance sheet, intangible assets are stated in the carrying amount.

The Parent company's intangible assets comprise software that corresponds to recognition criteria. The software is amortised on a straight-line basis within three years.

The Group's intangible assets comprise software and positive goodwill. In contrast to other intangible assets, positive goodwill is amortised within five years. Further information on positive goodwill can be found in note 6.

Note 11. Finance and operating lease

Finance lease liabilities	Group	Parent company
Payable at 31 December 2004	41,127,825	276,783
Including within 1 year	15,137,275	131,652
Including between 1 and 5 years	25,990,550	145,131
Principal payments made during the year	18,819,375	81,002
Interest payments made during the year	1,907,000	17,411
Base currency	EEK	EEK
Settlement terms	Monthly	Monthly
Average interest rate	3.6%-5.2%	3.6%-5.2%

In 2004, assets acquired with finance lease included road construction machinery and other machines and equipment. The Group's principal and interest payments totalled EEK 18,819,375 and EEK 1,907,000 respectively.

The costs and carrying amounts of assets acquired with finance lease are presented in note 9.

In the reporting year, the Parent company paid AS EE Grupp and AS Hansa Liising Eesti for the operating lease of cars EEK 2,938,946 and EEK 74,826 respectively. Operating lease payments for premises totalled EEK 825,055 and operating lease payments for lease of financial accounting software from AS EE Grupp amounted to EEK 2,049,157.

The Group's expenses for 2004 include operating lease payments of EEK 14,640,240. The payments for cars leased from AS EE Grupp and other companies totalled EEK 6,535,523 and EEK 547,643 respectively. The payments for premises and financial accounting software leased from AS EE Grupp amounted to EEK 3,249,562 and EEK 4,494,024 respectively.

Note 12. Short-term loans and borrowings

	Group		Parent company	
As at 31 December	**2004**	**2003**	**2004**	**2003**
Short-term loans from credit institutions	22,502,199	20,009,351	10,000,000	20,000,000
Total	22,502,199	20,009,351	10,000,000	20,000,000

In January 2004, Hansapank was repaid EEK 10 million of the a loan taken. The settlement term of the outstanding portion was extended until 20 January 2005. After the balance sheet date, the settlement term was extended by one more year. The interest rate of the loan is 3.6 percent.

The limit of the overdraft facility from Hansapank is EEK 10 million. The initial contractual interest rate was 5.7 percent. In January 2004, the overdraft agreement was extended for a year and interest was agreed at 3.9 percent. In January 2005, the facility was agreed for another year and interest rate was set at 3.6 percent. The overdraft agreement expires on 20 January 2006.

The limit of the working capital overdraft from Ühispank is EEK 20 million and interest rate is 3.9 percent.

Note 13. Accrued expenses

	Group		Parent company	
As at 31 December	**2004**	**2003**	**2004**	**2003**
Payables to employees	24,375,940	15,300,537	11,256,040	5,366,234
Other accrued expenses	4,568,542	3,698,653	2,801,787	2,708,806
Total	28,944,482	18,999,190	14,057,827	8,075,040

Other accrued expenses include taxes calculated on employee remuneration payable for December 2004 that are due on 10 February 2005. Accrued expenses also include other short-term liabilities to employees.

Note 14. Provisions

	Group		Parent company	
As at 31 December	**2004**	**2003**	**2004**	**2003**
Due to customers for construction work	50,680,554	3,721,174	13,530,712	2,607,168
Warranty provision	2,246,522	2,540,720	1,333,226	1,997,719
Accrued differences in contract costs	48,406,014	25,282,104	33,058,159	20,257,676
Total	101,333,090	31,543,998	47,922,097	24,862,563

Due to customers for construction work and accrued differences in contract costs are related to accounting for construction contracts under the stage of completion method. Further information on construction contracts is presented in note 16.

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 depending on the expiry of the warranty period.

At the balance sheet date, the Parent company's current and non-current warranty provisions amounted to EEK 1,333,226 and EEK 1,247,983 respectively.

The Group's current and non-current year-end warranty provisions totalled EEK 2,246,522 and EEK 2,304,566 respectively.

Accrued differences in contract costs are related to construction contracts in progress at the balance sheet date and reflect the difference between estimated costs and costs incurred. The stage or percentage of completion is determined by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs and surveys of work performed, which means that some costs are estimated.

Note 15. Long-term loans and borrowings

	Group		Parent company	
As at 31 December	**2004**	**2003**	**2004**	**2003**
AS EE Grupp	8,000,000	0	8,000,000	0
Long-term loan	6,500,000	0	6,500,000	0
Finance lease liabilities	25,990,550	34,576,927	145,131	114,600
Warranty provision	2,304,565	1,199,207	1,247,983	829,150
Other long-term liabilities to suppliers	168,699	344,094	168,699	344,094
Total	42,963,814	36,120,228	16,061,813	1,287,844

The Parent company has received a long-term loan of EEK 8,000,000 from the parent of the Group AS EE Grupp. The interest rate of the loan is 3.75 percent and the loan is to be repaid by 31 May 2006. Interest expenses of the period totalled EEK 175,833; interest payable at the balance sheet date amounted to EEK 66,499.

The interest rate of the long-term investment loan of EEK 6,500,000 received from Hansapank is 4.1 percent and the loan is to be repaid by 30 November 2006.

Other long-term liabilities comprise retentions from subcontractors, i.e. progress billings not paid during the warranty period, that fall due in 2006 or later depending on the terms fixed in the contracts made with subcontractors. Retentions are not subject to interest.

Long-term finance lease liabilities are to be settled within five years. Interest rates range from 3.6 to 5.2 percent.

Further information on warranty provisions can be found in note 14.

Note 16. Construction contracts

At 31 December 2004, the cost of construction contracts in progress at the Parent company totalled EEK 1,102,365,941. The projects' estimated costs calculated by reference to the percentage of completion method amounted to EEK 668,274,447; the figure including contract costs incurred of EEK 33,058,159. Estimated contract revenues amounted to EEK 729,082,392 and the portion relating to future activity was EEK 373,884,549.

In the Parent company's income statement for 2004, the revenues and cost of sales related to contracts in progress totalled EEK 586,056,086 and EEK 544,886,102 respectively.

The cost of the Group's construction contracts in progress totalled EEK 1,900,760,494. Estimated contract costs amounted to EEK 970,092,997, progress billings totalled EEK 1,104,545,358, estimated revenues amounted to EEK 1,088,674,943 and the portion relating to future activity was EEK 812,085,551.

In the Group's income statement for 2004, the revenues and cost of sales related to contracts in progress, calculated under the stage of completion method, totalled EEK 913,926,317 and EEK 822,500,534 respectively.

Construction contracts in progress	**Group Until 31 December 2004**	**Parent company Until 31 December 2004**
Estimated contract costs	970,092,997	668,274,447
Estimated profit	118,581,946	60,807,945
Estimated revenue	1,088,674,943	729,082,392
Progress billings	1,104,545,358	720,572,771
Adjustments for	15,870,415	-8,509,621
Due from customers for construction work	34,810,139	22,040,333
Due to customers for construction work	50,680,554	13,530,712

Note 17. Contingent liabilities

At 31 December 2004, the Parent company's undistributed profits amounted to EEK 65,263,223. The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 15,663,174. Thus, the maximum amount that could be distributed as the net dividend is EEK 49,600,049.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax reported in the income statement for 2005 cannot exceed the company's distributable profits as of 31 December 2004.

Note 18. Equity

In 1989 when OÜ Eesti Ehitus was established, 200,000 roubles were contributed as share capital. In 1990, the company's share capital was increased by 8000 roubles. During the monetary reform of 1992, share capital was restated into 20,800 Estonian kroons and in 1994 it was increased using equity instruments to EEK 5,000,000. In 1998 share capital was increased by way of a bonus issue to EEK 20,000,000 and in 2000 it was increased with a monetary contribution to EEK 30,000,000. In 2000, the capital reserve was increased by EEK 1,000,000.

In 2002, private limited company OÜ Eesti Ehitus was transformed into public limited company AS Eesti Ehitus. According to the Articles of Association of AS Eesti Ehitus, the company's minimum and maximum share capital amount to EEK 30,000,000 and EEK 120,000,000 respectively.

Share capital consists of ordinary shares with a par value of EEK 10 each.

In 2004, the company distributed dividends of EEK 23,000,000.

Note 19. Revenue by activities and geographical areas

		Group			Parent company	
Activity	***Percentage***	**2004**	**2003**	***Percentage***	**2004**	**2003**
General construction	*64,1%*	1,018,094,283	677,093,103	*99,6%*	738,698,634	472,191,025
Road and pipeline construction	*31,5%*	500,984,168	364,520,552	*0,0%*	0	0
Road maintenance	*4,0%*	63,283,325	31,033,145	*0,0%*	0	0
Other services	*0,4%*	5,648,322	4,306,865	*0,4%*	2,672,206	2,158,519
Total	***100%***	**1,588,010,098**	**1,076,953,665**	***100%***	**741,370,840**	**474,349,544**
Area	***Percentage***	**2004**	**2003**	***Percentage***	**2004**	**2003**
Estonia	*97,0%*	1,539,813,417	1,048,243,080	*93,5%*	693,174,159	447,400,286
Ukraine	*3,0%*	48,196,681	28,710,585	*6,5%*	48,196,681	26,949,258
Total	***100%***	**1,588,010,098**	**1,076,953,665**	***100%***	**741,370,840**	**474,349,544**

Note 20. Collateral and pledged assets

Loans and other obligations are secured with commercial pledge agreements:

1. The movables of AS Eesti Ehitus are encumbered with two commercial pledges of EEK 80 million in aggregate established for the benefit of Hansapank.
2. The movables of AS Linnaehitus are encumbered with a commercial pledge of EEK 12.5 million established for the benefit of Hansapank.
3. The movables of AS Aspi are encumbered with two commercial pledges of EEK 19.6 million in aggregate established for the benefit of Ühispank.

Note 21. Off-balance sheet liabilities

Off-balance sheet liabilities comprise bank guarantees. The Parent company's guarantees have been issued by Hansapank. At the balance sheet date, related liabilities totalled EEK 77.4 million.

The Group's year-end off-balance sheet liabilities totalled EEK 147.9 million.

The probability of the realisation of the guarantees is low. Therefore, the liabilities have not been recognised in the balance sheet.

Note 22. 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. the parent company 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 the Parent company's 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.

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

Related party	Relationship	Purchases	Sales
AS EE Grupp	Parent company of AS Eesti Ehitus	7,278,216	120,679
AS Linnaehitus	Subsidiary of AS Eesti Ehitus	57,302,156	983,596
AS Aspi	Subsidiary of AS Eesti Ehitus	22,936,644	1,251,968
Eurocon Ukraine LLC	Subsidiary of AS Eesti Ehitus	0	48,196,681
Eurocon OÜ	Subsidiary of AS Eesti Ehitus	0	403,675
OÜ Eurox Ärimaja	Subsidiary of AS EE Grupp	0	11,698,078
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	0	47,938
AS Tehnopolis Kinnisvara	Subsidiary of AS EE Grupp	0	55,365,152
OÜ Luman ja Pojad	Company related to a member of the Council of AS Eesti Ehitus	475,992	0
OÜ Majahaldjas	Associate of AS Eesti Ehitus	347,649	15,355
Total		**88,340,657**	**118,083,122**

Sales comprise sales of construction services and goods; purchases comprise purchases of construction and lease services.

According to management's assessment, the prices used in transactions with related parties did not differ significantly from market.

The Parent company's receivables from and payables to related parties at the balance sheet date:

Related party	Relationship	Receivables	Payables
AS EE Grupp	Parent of AS Eesti Ehitus	3,068	9,034,567
AS Linnaehitus	Subsidiary of AS Eesti Ehitus	50,272	17,641,932
AS Aspi	Subsidiary of AS Eesti Ehitus	172,991	5,065,677
Eurocon Ukraine LLC	Subsidiary of AS Eesti Ehitus	13,273,937	0
OÜ Eurocon	Subsidiary of AS Eesti Ehitus	574,995	0
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	432	0
AS Tehnopolis Kinnisvara	Subsidiary of AS EE Grupp	9,730,879	0
OÜ Majahaldjas	Associate of AS Eesti Ehitus	926	40,539
Total		**23,807,500**	**31,782,715**

In accordance with the purchase contract, in 2004 the Parent company made AS EE Grupp the last instalment payment for the subsidiaries (EEK 20,161,500). A long-term investment loan of EEK 8,000,000 was taken from AS EE Grupp at 3.75 percent annual interest. Interest expenses of the period totalled EEK 175,833; the amount still payable at the year-end was EEK 66,499.

OÜ Eurocon was given a short-term loan of EEK 100,000. At the balance sheet date, accrued interest receivables totalled EEK 87.

AS Eesti Ehitus is the founder of the Foundation of Nõmme Private School. The company has made a five-year sponsoring agreement with the Foundation according to which the latter undertakes to advertise and promote AS Eesti Ehitus as a sponsor at events arranged by the Foundation. According to the contract, the company pays Nõmme Private Education Foundation EEK 800,000 per year.

Payments made to members of the Board of AS Eesti Ehitus under their service contracts:

2003: EEK 2,400,000

2004: EEK 4,075,427

Payments made to five members of the Council of AS Eesti Ehitus for their work in the Council:

2003: EEK 360,000

2004: EEK 360,000

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

Related party	Relationship	Purchases	Sales
AS EE Grupp	Parent of AS Eesti Ehitus	14,874,935	145,679
AS Eurox Ärimaja	Subsidiary of AS EE Grupp		20,862,261
AS Tehnopolis Kinnisvara	Subsidiary of AS EE Grupp	0	55,365,152
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	0	47,398
OÜ Luman ja Pojad	Company related to a member of the Council of AS Eesti Ehitus	475,992	0
Total		**15,350,927**	**76,420,490**

Purchases from AS EE Grupp and OÜ Luman ja Pojad include operating lease services; sales to them comprise sales of goods and construction services.

At the balance sheet date, the Group's receivables from and payables to related parties were as follows:

Related party	Relationship	Receivables	Payables
AS EE Grupp	Parent of AS Eesti Ehitus	3,068	9,873,693
AS Tehnopolis Kinnisvara	Subsidiary of AS EE Grupp	9,730,879	0
OÜ Majahaldjas	Associate of AS Eesti Ehitus	926	40,539
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	432	0
Total		**9,735,305**	**9,914,232**

Payments made to members of the Group Board:

2003: EEK 3,713,848

2004: EEK 6,404,747

Payments made to members of the Group Council:

2003: EEK 558,000

2004: EEK 1,089,320

Note 23. Risks

The Group's financial assets comprise mostly cash, available-for-sale securities, and other receivables. Financial liabilities comprise mostly loans, finance lease liabilities and trade payables.

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. Construction activity is financed primarily with customer advances and instalment payments made under agreed financing schedules. Where necessary, loan financing is used.

The risks arising from construction activity are hedged with all risks insurance and liability insurance. The tangible assets of all Group companies are insured. Employees are covered by accident insurance. At AS Eesti Ehitus and AS Aspi, the beneficiaries of the contracts are employees. At AS Linnaehitus, the beneficiary is the company.

Auditor's report to the shareholders of AS Eesti Ehitus

We have audited the unconsolidated financial statements of AS Eesti Ehitus (the Parent Company) as of 31 December 2004. We have also audited the consolidated financial statements of AS Eesti Ehitus Group (the Group) as of 31 December 2004. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, as set out on pages F-40 to F-59 of the Offering Circular, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of the Parent Company and the consolidated financial statements of the Group based on our audits.

We conducted our audit in accordance with Estonian Guidelines on Auditing. Those guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Parent Company

In our opinion, the unconsolidated parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

The Group

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

KPMG Baltics AS

Andris Jegers
Authorised Public Accountant

Eeli Lääne
Authorised Public Accountant

The audit of the unconsolidated financial statements and consolidated financial statements for the financial year ended 31 December 2004 was completed on 15 March 2005, except for the minor financial statements presentation amendments done in 2006, as to which the date is 28 April 2006.

Statement of Management Responsibility

The Board of AS Eesti Ehitus acknowledges its responsibility for the preparation of the financial statements of AS Eesti Ehitus (the "Parent company") and the consolidated financial statements of the Parent company and its subsidiaries (the "Group"), as set out on pages F-61 to F-80 of this Offering Circular, and confirms that:

1. the policies applied in the preparation of the Parent company's financial statements and the consolidated financial statements of the Group comply with accounting principles generally accepted in Estonia (the Estonian GAAP);

2. the financial statements give a true and fair view of the financial positions of the Parent company and the Group and of the results of their operations and their cash flows;

3. all significant events that occurred before the date on which the financial statements were authorised for issue (15 March 2004) have been properly recognised and disclosed; and

4. AS Eesti Ehitus and its subsidiaries are going concerns.

Jaano Vink	Chairman of the Board	………………..	15 March 2004
Avo Ambur	Member of the Board	………………..	15 March 2004
Andri Hõbemägi	Member of the Board	………………..	15 March 2004
Toomas Jõgeva	Member of the Board	………………..	15 March 2004
Ando Voogma	Member of the Board	………………..	15 March 2004

Consolidated and Parent Company Balance Sheet

ASSETS	Note	Group		Parent company	
As at 31 December		**2003**	**2002**	**2003**	**2002**
Current assets					
Cash and cash equivalents	**2**	114,381,479	38,948,693	47,428,447	1,878,000
Trade receivables					
Accounts receivable		63,683,823	99,704,265	17,631,278	32,304,685
Allowance for doubtful receivables		-3,370	-153,162	-1,470	0
Total trade receivables		63,680,453	99,551,103	17,629,808	32,304,685
Other receivables					
Receivables from the parent, subsidiaries and other group companies	**23**	7,334,628	8,905,535	7,582,113	9,102,080
Receivables from associates		562	799,768	562	799,768
Miscellaneous receivables		935,990	19,600,953	299,135	18,796,153
Due from customers for construction work	**16**	18,938,325	33,759,500	1,665,444	32,010,524
Total other receivables	**3**	27,209,505	63,065,756	9,547,254	60,708,525
Accrued income					
Interest receivable		84,263	136,543	0	80,660
Total accrued income		84,263	136,543	0	80,660
Prepayments					
Prepaid and refundable taxes	**4**	0	4,844,575	0	3,471,545
Prepaid expenses		799,478	1,899,196	387,714	261,774
Total prepayments		799,478	6,743,771	387,714	3,733,319
Inventories					
Raw and other materials		4,188,420	3,268,397	315,453	354,832
Work in progress		14,997,745	13,090,432	4,644,156	259,209
Merchandise purchased for resale		26,542	0	26,542	0
Prepayments to suppliers		12,753,486	3,837,061	4,828,468	3,048,013
Total inventories	**5**	31,966,193	20,195,890	9,814,619	3,662,054
Total current assets		**238,121,371**	**228,641,756**	**84,807,842**	**102,367,243**
Non-current assets					
Long-term financial assets					
Shares in subsidiaries	**6**	0	0	84,939,275	73,779,871
Shares in associates	**7**	77,893	2,005,237	77,893	2,005,237
Other long-term receivables		2,613,458	11,808,567	0	0
Total long-term financial assets		2,691,351	13,813,804	85,017,168	75,785,108
Investment property	**8**	9,532,881	5,688,065	349,330	349,330
Property, plant and equipment					
Land		860,410	2,464,781	439,822	2,281,774
Buildings		8,819,608	7,183,046	5,792,516	5,018,373
Plant and equipment		136,345,505	110,943,093	11,032,443	10,729,871
Other equipment, tools and fixtures		21,627,927	17,522,270	7,999,284	7,032,762
Accumulated depreciation		-72,564,078	-56,479,310	-17,744,642	-17,273,181
Construction in progress and prepayments		0	581,207	0	396,617
Total property, plant and equipment	**9**	95,089,372	82,215,087	7,519,423	8,186,216
Intangible assets					
Licences and other intangible assets		113,615	196,961	96,195	167,320
Positive goodwill		18,774,549	24,391,905	0	0
Total intangible assets	**10**	18,888,164	24,588,866	96,195	167,320
Total non-current assets		**126,201,768**	**126,305,822**	**92,982,116**	**84,487,974**
TOTAL ASSETS		**364,323,139**	**354,947,578**	**177,789,958**	**186,855,217**

LIABILITIES AND EQUITY	**Note**	**Group**		**Parent company**	
As at 31 December		**2003**	**2002**	**2003**	**2002**
LIABILITIES					
Current liabilities					
Interest-bearing loans and borrowings					
Short-term loans	**12**	20,009,351	36,701,741	20,000,000	0
Current portion of long-term loans and borrowings	**11**	15,087,206	11,461,762	67,414	0
Total interest-bearing loans and borrowings		35,096,557	48,163,503	20,067,414	0
Customer advances for goods and services		169,685	6,579,102	0	2,061,978
Trade payables		78,391,645	86,339,264	23,792,904	51,077,476
Other payables					
Payables to the parent, subsidiaries and other group companies	**23**	21,436,857	39,410,594	22,288,243	44,713,074
Payables to associates		27,206	21,768	27,206	21,768
Miscellaneous payables		18,025	0	0	0
Total other payables		21,482,088	39,432,362	22,315,449	44,734,842
Tax liabilities	**4**	11,117,585	6,251,887	5,512,563	1,372,959
Accrued expenses					
Payables to employees		15,300,537	11,676,163	5,366,234	5,867,483
Other accrued expenses		3,698,653	4,024,686	2,708,806	2,780,425
Total accrued expenses	**13**	18,999,190	15,700,849	8,075,040	8,647,908
Provisions					
Due to customers for construction work	**16**	3,721,174	1,811,210	2,607,168	1,293,083
Warranty provisions		2,540,720	542,030	1,997,719	0
Accrued differences in contract costs		25,282,104	0	20,257,676	0
Total provisions	**14**	31,543,998	2,353,240	24,862,563	1,293,083
Total current liabilities		**196,800,748**	**204,820,207**	**104,625,933**	**109,188,246**
Non-current liabilities					
Interest-bearing loans and borrowings					
Loans and finance lease liabilities	**11**	34,576,927	25,832,243	114,600	0
Other liabilities					
Liabilities to the parent and other group companies		0	20,161,500	0	20,161,500
Miscellaneous liabilities		344,094	3,077,750	344,094	1,341,798
Total other liabilities	**15**	344,094	23,239,250	344,094	21,503,298
Other provisions	**14**	1,199,207	650,193	829,150	531,307
Total non-current liabilities		**36,120,228**	**49,721,686**	**1,287,844**	**22,034,605**
Total liabilities		**232,920,976**	**254,541,893**	**105,913,777**	**131,222,851**
Minority interest		**59,525,982**	**44,773,319**	**0**	**0**
EQUITY					
Share capital		30,000,000	30,000,000	30,000,000	30,000,000
Reserves					
Statutory capital reserve		3,000,000	3,000,000	3,000,000	3,000,000
Retained earnings		11,726,649	6,898,703	11,726,649	6,898,703
Profit for the period		27,220,491	15,733,663	27,220,491	15,733,663
Unrealised exchange differences		-70,959	0	-70,959	0
Total equity	**18**	**71,876,181**	**55,632,366**	**71,876,181**	**55,632,366**
TOTAL LIABILITIES AND EQUITY		**364,323,139**	**354,947,578**	**177,789,958**	**186,855,217**

Consolidated and Parent Company Income Statement

	Note	Group		Parent company	
		2003	2002	2003	2002
Revenue	19	1,076,953,665	984,922,726	474,349,544	536,869,725
Cost of sales		967,786,047	905,060,443	449,639,036	520,614,887
Gross profit		**109,167,618**	**79,862,283**	**24,710,508**	**16,254,838**
Administrative expenses		41,965,178	36,183,637	15,901,526	22,735,997
Other operating income		2,376,803	851,074	545,526	796,023
Other operating expenses		3,742,530	276,176	3,064,572	564,214
Operating profit		**65,836,713**	**44,253,544**	**6,289,936**	**-6,249,350**
Financial income and expenses					
Financial income and expenses on shares in subsidiaries	6	0	0	21,954,363	22,094,305
Amortisation of positive goodwill	6	-5,581,187	-3,768,969	0	0
Financial income and expenses on shares in associates	7	132,656	-102,299	132,656	-102,299
Interest expenses		-3,741,582	-2,962,458	-1,258,876	-944,503
Foreign exchange loss		-126,681	-40,502	-126,681	-40,502
Other financial income and expenses		753,560	1,728,693	229,093	976,012
Total financial income and expenses		-8,563,234	-5,145,535	20,930,555	21,983,013
Profit before tax		**57,273,479**	**39,108,009**	**27,220,491**	**15,733,663**
Income tax expense		5,204,325	0	0	0
Minority interest		-24,848,663	-23,374,346	0	0
PROFIT FOR THE PERIOD		**27,220,491**	**15,733,663**	**27,220,491**	**15,733,663**

Consolidated and Parent Company Cash Flow Statement

	Group		Parent company	
	2003	2002	2003	2002
Cash flows from operating activities				
Profit for the period	27,220,491	15,733,663	27,220,491	15,733,663
Adjustments for				
Depreciation, amortisation and value adjustments	18,895,390	14,048,220	1,265,194	1,435,859
Net gain/loss on sale of property, plant and equipment and intangibles	-1,666,225	-903,950	-146,271	-477,948
Write-down and write-off of inventories	65,260	115,931	3,446	3,100,977
Gain/loss on shares in subsidiaries	0	21,453	-21,954,363	-22,094,306
Gain/loss on shares in associates	-132,656	102,299	-132,656	102,299
Corporate income tax paid	5,204,325	0	0	0
Shares and other securities	0	0	0	34,034
Change in receivables and prepayments related to operating activities	35,635,492	9,689,622	-3,921,119	-11,354,120
Change in other receivables	35,908,530	6,853,366	51,204,246	-8,656,453
Change in prepaid taxes	4,844,575	-4,452,610	3,471,545	-1,797,162
Change in prepaid expenses	1,098,128	-1,427,223	-125,940	-94,947
Change in inventories	-11,768,712	10,597,548	-6,152,565	-87,067
Change in payables and advances related to operating activity	-14,357,036	-11,704,294	-25,932,139	26,798,166
Change in other payables	-2,611,774	-17,756,727	-6,193,389	-539,597
Change in tax liabilities	4,865,698	1,060,407	4,139,604	1,372,959
Change in other current liabilities	30,304,457	-3,945,670	38,587,579	1,603,914
Net cash from operating activities	**133,505,943**	**18,032,035**	**61,333,663**	**5,080,271**
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangibles	-7,999,541	-8,312,229	-2,556,053	-1,381,960
Acquisition of investment property	-3,847,516	0	0	0
Proceeds from sale of property, plant and equipment	10,524,757	2,692,881	169,895	2,246,271
Acquisition of subsidiaries and associates	-16,770,000	-17,388,030	-16,770,000	-15,288,030
Proceeds from sale of subsidiaries and associates	2,150,000	0	2,150,000	0
Loans given	0	-378,000	0	-378,000
Repayment of loans given	280,000	8,100,000	280,000	8,100,000
Dividends received	0	0	10,905,717	0
Net cash used in investing activities	**-15,662,300**	**-15,285,378**	**-5,820,441**	**-6,701,719**
Cash flows from financing activities				
Proceeds from loans received	26,665,873	63,701,741	22,456,522	27,000,000
Repayment of loans received	-21,456,522	-8,000,000	-21,456,522	-8,000,000
Payment of finance lease principal	-26,620,208	-13,550,959	-57,058	0
Dividends paid	-21,000,000	-20,000,000	-10,905,717	-20,000,000
Net cash used in financing activities	**-42,410,857**	**22,150,782**	**-9,962,775**	**-1,000,000**
NET CASH FLOWS	**75,432,786**	**24,897,439**	**45,550,447**	**-2,621,448**
Cash and cash equivalents at beginning of period	**38,948,693**	**14,051,254**	**1,878,000**	**4,499,448**
Increase / decrease in cash and cash equivalents	**75,432,786**	**24,897,439**	**45,550,447**	**-2,621,448**
Cash and cash equivalents at end of period	**114,381,479**	**38,948,693**	**47,428,447**	**1,878,000**

Statement of Changes in Equity

The Parent company and the Group

	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	**Total**
Balance at 31 December 2001	**30,000,000**	**3,000,000**	**0**	**26,898,703**	**59,898,703**
Profit for the period	0	0	0	15,733,663	**15,733,663**
Dividends declared	0	0	0	-20,000,000	**-20,000,000**
Balance at 31 December 2002	**30,000,000**	**3,000,000**	**0**	**22,632,366**	**55,632,366**
Profit for the period	0	0	0	27,220,491	**27,220,491**
Dividends declared	0	0	0	-10,905,717	**-10,905,717**
Exchange differences on translating foreign operations	0	0	-70,959	0	**-70,959**
Balance at 31 December 2003	**30,000,000**	**3,000,000**	**-70,959**	**38,947,140**	**71,876,181**

Notes to the financial statements

Note 1. Significant accounting policies

The annual financial statements of AS Eesti Ehitus (the "Parent company") and the consolidated financial statements of the Parent company and its subsidiaries (the "Group") for 2003 have been prepared in accordance with accounting principles generally accepted in the Republic of Estonia (the Estonian GAAP). The Estonian GAAP is based on internationally recognised accounting and reporting standards and its basic requirements are set out in the Estonian Accounting Act and the standards issued by the Estonian Accounting Standards Board.

The income statements of the Parent company and the Group have been prepared using format 2 provided in Appendix 2 to the Estonian Accounting Act. The financial statements are presented in Estonian kroons (EEK). Group companies use uniform accounting policies.

Changes in accounting policies

On 1 January 2003 the new Estonian Accounting Standard *Investment Property* entered into effect. In accordance with new requirements, a building and some registered immovable properties have been reclassified from property, plant and equipment to investment property. Comparative data on 2002 has been adjusted accordingly. The effect of the change in accounting policy is explained in notes 8 and 9.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the parent. Control exists when the parent owns directly or indirectly through subsidiaries more than half of the voting power of an entity, or when the parent has the power to govern the financial and operating policies of an entity under a contract or agreement, or when the parent has the power to appoint or remove the majority of the members of the board of directors and the highest governing body. 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. Significant influence exists when the investor holds directly or indirectly through subsidiaries over 20 percent of the voting power of the investee. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis. 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. AS Eesti Ehitus is part of AS EE Grupp group which also prepares consolidated financial statements in which all intra-group balances and unrealised gains are eliminated. Therefore, in the consolidated financial statements of AS Eesti Ehitus unrealised gains and losses from transactions with companies belonging to AS EE Grupp group but not to AS Eesti Ehitus Group have not been eliminated.

Accounting for investments in subsidiaries and associates in the separate financial statements of the Parent

In the Parent company's separate financial statements, investments in subsidiaries and associates are accounted for under the equity method whereby the investment is initially recognised at cost and adjusted thereafter for the investor's share in the subsidiary's or associate's profit or loss after the date of acquisition. The equity method is not applied when the shares in the associate or subsidiary are acquired and held for sale in the current or the next reporting period.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in current accounts, short-term deposits and financial investments. Short-term financial investments in equity and debt securities are stated in the balance sheet at fair value which is considered equal to the market value of the investment at the balance sheet date. Where fair value cannot be measured reliably, short-term financial investment are stated at amortised cost.

In the statement of cash flows, cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are reported under the direct method.

Trade receivables

Trade receivables are stated at cost less impairment losses. The recoverability of receivables is reviewed on an individual basis, considering the information available on the debtor's creditworthiness. Doubtful receivables are recognised in other operating expenses. Irrecoverable receivables are written off the balance sheet.

Inventories

Inventories are initially recognised at cost. Inventories are recognised as an expense and their carrying amount is determined using the weighted average cost formula. In the balance sheet, inventories are stated at the lower of cost and net realisable value. Expenses from the write-down and write-off of inventories are recognised in the cost of sales as incurred.

Investment property

Investment properties are properties held as the owner or under finance lease to earn rental income or for capital appreciation or both. Investment property is initially recognised at cost, which includes directly attributable transaction charges.

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 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 when their purpose changes. The reclassified items are subjected to the same accounting policies as those applied to the group of assets to which they are transferred from the date the transfer is performed.

Property, plant and equipment

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

Assets are recognised as items of property, plant and equipment if their cost exceeds EEK 10,000 and they are expected to be used during more than one period. Assets with a lower cost or a shorter useful life are expensed as of implementation and accounted for off the balance sheet.

Where an item of property, plant and equipment consists of significant differentiable parts that have different useful lives, the parts are recognised as separate assets and assigned depreciation rates that correspond to their useful lives.

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 is not depreciated. As a rule, the following depreciation rates and useful lives are applied:

Asset group	Annual depreciation rate	Useful life
Buildings and structures	3%	33 years
Machinery and tools	20%-33%	3-5 years
Plant and equipment	10%-14%	7-10 years
Non-road mobile machinery	14%-20%	5-7 years
Means of transport	14%-20%	5-7 years
Cars and minibuses	20%	5 years
Portable warming up andother onsite facilities	20%	5 years
Other fixtures and fittings	20%-33%	3-5 years

Owing to specific nature, the useful life of an item of property, plant and equipment may differ from the one of its asset group. In such a case, the item is viewed separately and assigned an appropriate depreciation period.

Depreciation rates are reassessed 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 periods.

Intangible assets

Intangible assets are recognised and accounted for using the same principles as those applied to items of property, plant and equipment.

Intangible assets are amortised using the straight-line method. As a rule, the following amortisation rates and useful lives are applied:

Asset group	**Annual amortisation rate**	**Useful life**
Licences, patents	33%	3 years
Positive goodwill	20%	5 years

Goodwill

Positive goodwill is the excess of the cost of the acquisition over the acquirer's interest in the real value of the net assets acquired. Goodwill arisen on the acquisition of subsidiaries and associates is recognised in the Parent company's separate financial statements in *Shares in subsidiaries and associates* and amortised under the straight-line method over its expected useful life which is 5 years. The amortisation of positive goodwill is offset against income and recognised in financial expenses or financial income. In the consolidated financial statements, positive goodwill is recognised as an intangible asset and amortised within 5 years.

Negative goodwill is the excess of the acquirer's interest in the fair value of net assets acquired over the cost of the acquisition. Negative goodwill is recognised as an asset with a negative value and recognised as income depending on the reasons for its origination.

Acquisitions of interests in entities under common control are recognised using the adjusted purchase method. Increases and decreases in the acquirer's equity are recognised in the acquirer's balance sheet in *Share premium.* If the balance on the *Share premium* account is not sufficient for deducting the difference arisen from the application of the adjusted purchase method, the exceeding portion is recognised as a reduction of *Retained earnings.*

Leases

A lease is 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.

Accounting by the lessee

Assets acquired with finance lease are carried as assets and liabilities at amounts equal to the fair value of the leased property. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is recognised over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Liabilities

Liabilities that fall due within more than a year of the balance sheet date are recognised as non-current liabilities. Other liabilities are treated as current items.

Provisions and contingent liabilities

Provisions are established 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 issued on the completion of construction activity. Warranty expenses are recognised as the costs of construction contracts and established short- and long-term provisions.

All existing and potential liabilities that can be measured in monetary terms are recognised in the balance sheet. Potential liabilities that cannot be measured in monetary terms are disclosed in the notes to the financial statements.

Corporate income tax

In accordance with the effective Estonian Income Tax Act, from 1 January 2000 income tax is not levied on profits earned but dividends distributed. The tax rate is 26/74 of the amount distributed as the net dividend. Because of the specific nature of the taxation concept, the term *tax base of assets and liabilities* does not have economic substance and deferred income tax liabilities and assets cannot arise.

Until 31 December 2002, when dividends had been declared retained earnings were reduced by the income tax payable on the distribution. In accordance with Estonian Accounting Standards which entered into force on 1 January 2003, the income tax payable on dividends in subsequent periods is recognised as the corporate income tax expense of the period in which the dividend is declared.

The maximum income tax liability that could arise on a dividend distribution is disclosed in note 17.

Revenue

Revenue from the sale of goods is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the revenue and expenses associated with the transaction can be measured reliably.

Revenue from the rendering of services is recognised using the percentage of completion method. Under this method, the revenue and profit arising on the provision of a service are recognised in proportion to and in the same periods as associated costs.

Interest income is recognised on the basis of the asset's effective interest rate. Dividend income is recognised when the right to receive payment is established.

Foreign currency

Transactions in foreign currencies are translated to the presentation currency using the Eesti Pank exchange rates of the date of the transaction. Assets and liabilities that are denominated in a foreign currency at the balance sheet date are restated using the Eesti Pank exchange rates ruling at that date. Foreign exchange gains and losses are reported in the income statement of the period.

In consolidation, the assets and liabilities of foreign operations are restated using the exchange rate ruling at the balance sheet date and the revenues and expenses of foreign operations are restated using the weighted average exchange rate. The translation differences are recognised in equity in *Unrealised exchange differences.*

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 (31 December 2003) and the date on which the financial statements were authorised for issue (15 March 2004) but are related to the reporting 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.

Note 2. Cash and cash equivalents

	Number of	Group		Parent company	
As at 31 December	**shares**	**2003**	**2002**	**2003**	**2002**
Cash on hand and in bank accounts		103,049,412	23,039,593	47,428,447	1,878,000
Shares in money market fund		0	15,909,100	0	0
Shares in Hansa Intressifond (cost)		*10,913,388*	0	0	0
Shares in Hansa Intressifond (fair value)	84,492	11,332,067	0	0	0
Total		**114,381,479**	**38,948,693**	**47,428,447**	**1,878,000**

Note 3. Other receivables

Information on receivables from the parent, subsidiaries, associates and other group companies is presented in note 23.

Miscellaneous receivables comprise warranty receivables that fall due in 2004.

Due from customers for construction work is related to construction contracts in progress at the balance sheet date. Further information on construction contracts is presented in note 16.

Note 4. Tax receivables and liabilities

	Group				Parent company			
As at 31 December	**2003**		**2002**		**2003**		**2002**	
Tax	**Receivable**	**Liability**	**Receivable**	**Liability**	**Receivable**	**Liability**	**Receivable**	**Liability**
Value-added tax	0	2,333,033	4,844,575	0	0	3,649,475	3,471,545	0
Personal income tax	0	3,452,839	0	2,623,923	0	716,170	0	516,257
Social tax	0	4,802,902	0	3,348,297	0	1,017,485	0	768,343
Unemployment insurance premiums	0	198,795	0	72,208	0	40,265	0	31,412
Funded pension premiums	0	110,811	0	9,744	0	30,858	0	4,946
Income tax on fringe benefits	0	115,702	0	197,715	0	58,310	0	51,998
Natural resource tax	0	103,503	0	0	0	0	0	0
Total	**0**	**11,117,585**	**4,844,575**	**6,251,887**	**0**	**5,512,563**	**3,471,545**	**1,372,956**

Note 5. Inventories

The period's inventory write-downs by the Parent totalled EEK 3,446. In the Group's balance sheet the year-end balance of raw and other materials is EEK 4,188,420; inventory write-downs by the Group totalled EEK 65,620.

Work in progress comprises the costs incurred in respect of apartment houses under construction. At the end of the reporting period, work in progress figures for the Parent company and the Group amounted to EEK 4,644,156 and EEK 14,997,745 respectively.

Prepayments to suppliers of EEK 4,828,468 (Parent company) and EEK 12,753,486 (the Group) comprise prepayments for goods and services.

Merchandise purchased for resale of EEK 26,542 has been realised in 2004.

Note 6. Shares in subsidiaries

The Parent company

	AS Linnaehitus	AS Aspi	OÜ EE Elekter	OÜ Eurocon	Total
Domicile	Estonia	Estonia	Estonia	Estonia	
Core activity	General construction	Road construction			
Number of shares at 31 December 2002	**280580**	**180000**	**0**	**0**	
Acquisitions	0	0	1	1	
Number of shares at 31 December 2003	**280580**	**180000**	**1**	**1**	
Interest at 31 December 2002	51%	52,94%	0%	0%	
Interest at 31 December 2003	51%	52,94%	100%	100%	
Cost at 31 December 2002	12,061,500	39,600,000	0	0	51,661,500
Cost at 31 December 2003	12,061,500	39,600,000	100,000	80,000	51,841,500
Carrying amount at 31 December 2002	**16,697,065**	**57,082,806**	**0**	**0**	**73,779,871**
Cost of shares acquired during the period	0	0	100,000	80,000	180,000
Gains under the equity method	11,409,866	9,920,389	243,262	382,563	21,954,363
Unrealised exchange differences	0	0	-24,835	-46,124	-70,959
Dividends declared during the period	5,611,600	5,294,117	0	0	10,905,717
Carrying amount at 31 December2003	**22,495,331**	**61,709,078**	**318,427**	**416,439**	**84,939,275**

The shares in AS Linnaehitus were acquired in 2002 from AS EE Grupp for EEK 12,061,500. At the balance sheet date, EEK 8,000,000 of the purchase price has been paid. The final instalment payment of EEK 4,061,500 will be made in 2004. According to the purchase analysis, the transaction gave rise to positive goodwill of EEK 5,281,751. The goodwill will be amortised within five years. The amortisation charge for 2003 of EEK 1,056,348 has been recognised as financial expense.

At the year-end, the Group's share in AS Linnaehitus' profit for 2003 and net assets amounted to EEK 12,464,614 and EEK 18,974,160 respectively; the corresponding figures for the minority interest were EEK 11,975,806 and EEK 18,230,076 respectively.

The shares in AS Aspi were acquired in 2002 from AS EE Grupp for EEK 39,600,000. At the balance sheet date, EEK 23,500,000 of the purchase price has been paid. The last instalment payment of EEK 16,100,000 will be made in 2004. According to the purchase analysis, the transaction gave rise to positive goodwill of EEK 22,855,058. The goodwill will be amortised within five years. The amortisation charge for 2003 of EEK 4,561,008 has been recognised in the income statement as financial expense.

At the year-end, the Group's share in AS Aspi's profit for 2003 and net assets amounted to EEK 14,481,280 and EEK 46,455,700 respectively; the corresponding figures for the minority interest were EEK 12,872,857 and EEK 41,295,906 respectively. The figures for AS Aspi include the figures of its subsidiaries AS Järva Teed and OÜ Hiiu Teed.

The 100-percent shareholding in OÜ EE Elekter was acquired on 14 May 2003 from AS EE Grupp. The investment cost EEK 100,000.

At the year-end, the Group's share in the subsidiary's profit for 2003 and net assets amounted to EEK 206,070 and EEK 318,427 respectively. The figures for OÜ EE Elekter comprise the figures of its subsidiary Eurocon Ukraine LLC.

The 100-percent shareholding in OÜ Eurocon was acquired on 14 May 2003 from AS EE Grupp for EEK 80,000.

According to the purchase analysis, the transaction gave rise to positive goodwill of EEK 1,023 which was amortised and charged to financial expenses in 2003.

At the year-end, the Group's share in OÜ Eurocon's profit for 2003 and net assets amounted to EEK 383,586 and EEK 416,439 respectively. The figures for OÜ Eurocon include the figures of its subsidiary Eurocon Ukraine LLC.

Subsidiaries' equities at 31 December 2003

	AS Linnaehitus	AS Aspi	OÜ EE Elekter	OÜ Eurocon
Share capital	5,500,000	3,400,000	100,000	80,000
Statutory capital reserve	550,000	340,000	9,179	0
Retained earnings	6,713,816	56,657,469	28,445	-523
Profit for the period	24,440,420	27,354,137	205,638	383,086
Unrealised exchange differences	0	0	-24,835	-46,124
Total equity	**37,204,236**	**87,751,606**	**318,427**	**416,439**
Investor's share in equity	**51,00%**	**52,94%**	**100%**	**100%**

Note 7. Shares in associates

The Parent company and the Group

	AS IBGM	OÜ Majahaldjas	AS EGCC	Total
Domicile	Estonia	Estonia	Estonia	
Core activity		Real estate management		
Number of shares at 31 December 2002	**250000**	**1**	**128**	
Number of shares acquired during the period	0	0	60	
Number of shares disposed of during the period	250000	0	188	
Number of shares at 31 December 2003	**0**	**1**	**0**	
Interest at 31 December 2002	50%	31,4%	35,9%	
Interest at 31 December 2003	0%	31,4%	0%	
Cost at 31 December 2002	1,715,910	38,947	288,030	2,042,887
Cost at 31 December 2003	0	38,947	0	38,947
Carrying amount at 31 December 2002	**1,715,910**	**52,717**	**236,610**	**2,005,237**
Cost of shares acquired during the period	0	0	90,000	90,000
Sales price of shares disposed of during the period	1,772,000	0	378,000	2,150,000
Sales gain on shares disposed of during the period	56,090	0	51,390	107,480
Gains for the period under the equity method	0	25,176	0	25,176
Carrying amount at 31 December 2003	**0**	**77,893**	**0**	**77,893**

In 2003, associates AS IBGM and AS EGCC were sold.

Associate's equity at 31 December 2003

	OÜ Majahaldjas
Share capital	100,000
Statutory capital reserve	10,000
Retained earnings	57,889
Profit for the period	80,178
Total equity	**248,067**
Investor's share in equity	**31,40%**

The share capital of OÜ Majahaldjas is made up of thirteen shares; the par value of the share belonging to AS Eesti Ehitus amounts to EEK 31,400.

Note 8. Investment property

These financial statements are the first financial statements of AS Eesti Ehitus prepared in accordance with Estonian Accounting Standard *Investment property.* The Parent company reclassified a registered property which complied with the criteria established for investment property from property, plant and equipment to investment property.

The Group recognised as investment property mostly properties acquired for real estate development purposes. The properties are accounted for using the cost model.

	Group	Parent company

Cost of items reclassified from property, plant and equipment	5,688,515	349,330
Accumulated depreciation at 31 December 2002	450	0
Carrying amount at 31 December 2002	5,688,065	349,330
Acquisitions	3,847,516	0
Cost at 31 December 2003	9,536,031	349,330
Accumulated depreciation at 31 December 2003	3,150	0
Carrying amount at 31 December 2003	**9,532,881**	**349,330**

In the balance sheet of the Group, investment property comprises land of EEK 439,330 and buildings of EEK 9,093,551. Investment properties are located in Tallinn, Tartu, Järvamaa and Hiiumaa. In 2003, the Group neither incurred any major expenses from the management of investment property nor earned any rental income.

There is no reliable information on the fair values of the investment properties.

Note 9. Property, plant and equipment

The Parent company

	Land	**Buildings**	**Plant and equipment**	**Other**	**Construction in progress and prepayments**	**Total**
Restated cost at 31 December 2002	2,281,774	5,018,373	10,729,871	7,032,762	396,617	25,459,397
Acquisitions and improvements	0	774,143	796,615	1,218,711	0	2,789,469
Disposals	1,841,952	0	494,043	252,189	396,617	2,984,801
Cost at 31 December 2003	439,822	5,792,516	11,032,443	7,999,284	0	25,264,065
Accumulated depreciation and value adjustments at 31 December 2002	0	1,345,416	10,155,173	5,772,592	0	17,273,181
Depreciation charge for the year		245,483	203,950	744,636		1,194,069
Disposals	0	0	494,043	228,565	0	722,608
Accumulated depreciation and value adjustments at 31 December 2003	0	1,590,899	9,865,080	6,288,663	0	17,744,642
Carrying amount at 31 December 2002	2,281,774	3,672,957	574,698	1,260,170	396,617	8,186,216
Carrying amount at 31 December 2003	439,822	4,201,617	1,167,363	1,710,621	0	7,519,423

A registered property of EEK 349,330 was reclassified to investment property. The cost of property, plant and equipment was restated as of 31 December 2002.

The Group

	Land	Buildings	Plant and equipment	Other	Construction in progress and prepayments	Total
Restated cost at 31 December 2002	2,464,781	7,183,046	110,943,093	17,522,270	581,207	138,694,397
Acquisitions and improvements	250,000	1,734,143	36,409,873	4,578,821	0	42,972,837
Including from construction in progress and prepayments	0	0	0	184,590	0	184,590
Disposals	1,854,371	97,581	11,007,461	473,164	581,207	14,013,784
Cost at 31 December 2003	860,410	8,819,608	136,345,505	21,627,927	0	167,653,450
Restated depreciation at 31 December 2002	0	1,356,242	46,424,105	8,698,963	0	56,479,310
Depreciation charge for the year	0	310,907	15,113,852	3,382,072	0	18,806,831
Disposals	0	1,464	2,291,758	428,841	0	2,722,063
Accumulated depreciation at 31 December 2003	0	1,665,685	59,246,199	11,652,194	0	72,564,078
Restated carrying amount at 31 December 2002	2,464,781	5,826,804	64,518,988	8,823,307	581,207	82,215,087
Carrying amount at 31 December 2003	860,410	7,153,923	77,099,306	9,975,733	0	95,089,372

In connection with reclassification from property, plant and equipment to investment property, at 31 December 2002 the Group's land was rested to the extent of EEK 5,598,515, the Group's buildings were restated to the extent of EEK 90,000 and depreciation of buildings was restated to the extent of EEK 450.

Assets acquired with finance lease

The Group

Asset group	Plant and equipment	Other	Total
Cost at 31 December 2003	82,622,300	2,779,040	85,401,340
Carrying amount at 31 December 2003	72,424,023	2,186,805	74,610,828

Note 10. Intangible assets

The Group

	Goodwill	Purchased licences, etc	Total
Cost at 31 December 2002	28,136,809	258,400	28,395,209
Acquisitions and improvements	1,023	2,513	3,536
Cost at 31 December 2003	28,137,832	260,913	28,398,745
Accumulated amortisation at 31 December 2002	3,744,904	61,439	3,806,343
Amortisation charge for the year	5,618,379	85,859	5,704,238
Accumulated amortisation at 31 December 2003	9,363,283	147,298	9,510,581
Carrying amount at 31 December 2002	24,391,905	196,961	24,588,866
Carrying amount at 31 December 2003	18,774,549	113,615	18,888,164

In the balance sheet, intangible assets are stated in the carrying amount.

The Parent company's intangible assets comprise software that corresponds to recognition criteria. The software is amortised on a straight-line basis within three years. During the reporting year, no new intangible assets were acquired.

The Group's intangible assets comprise software and positive goodwill. In contrast to other intangible assets, positive goodwill is amortised within five years. Further information on positive goodwill can be found in note 6.

Note 11. Finance and operating lease

Finance lease liabilities	Group	Parent company
Payable at 31 December 2003	49,664,133	182,014
Including within 1 year	15,087,206	67,414
Including between 1 and 5 years	8,202,222	114,600
Including over 5 years	26,374,705	0
Principal payments made during the year	26,620,208	27,015
Interest payments made during the year	2,640,146	5,023
Base currency	EEK	EEK
Settlement terms	Monthly	Monthly
Average interest rate	3.6%-5.5%	3.6%-5.5%

In 2003, assets acquired with finance lease included road construction machinery and other machines and equipment. The Group's expenses from principal and interest payments totalled EEK 26,620,208 and EEK 2,640,146 respectively.

The costs and carrying amounts of assets acquired with finance lease are presented in note 9.

In the reporting year, the Parent company paid AS EE Grupp and AS Hansa Liising Eesti for the operating lease of cars EEK 3,034,709 and EEK 11,780 respectively. Operating lease payments for premises totalled EEK 435,604 and operating lease payments for lease of financial accounting software from AS EE Grupp amounted to EEK 2,004,000.

The Group's expenses for 2003 include operating lease payments of EEK 6,484,770. The payments for cars leased from AS EE Grupp and other companies totalled EEK 5,312,052 and EEK 1,172,718 respectively. The payments for premises and financial accounting software leased from AS EE Grupp amounted to EEK 2,178,881 and EEK 3,504,000 respectively.

Note 12. Short-term loans and borrowings

	Group		Parent company	
As at 31 December	**2003**	**2002**	**2003**	**2002**
Short-term loans from credit institutions	20,009,351	0	20,000,000	0
Transfer of receivables with the right to recourse	0	36,701,741	0	0
Total	20,009,351	36,701,741	20,000,000	0

The Parent company has received a loan of EEK 20 million from Hansapank. The initial interest rate of the loan was 5.7 percent and the loan was repayable by 10 January 2004. Since 1 July 2003 the interest rate is 4.4 percent. Interest expenses for the reporting period totalled EEK 523,499. In January 2004, the Parent company repaid Hansapank EEK 10 million and extended the settlement term of the outstanding portion of the loan until 20 January 2005. The new interest rate is 3.9 percent.

The limit of the overdraft facility from Hansapank is EEK 10 million. The initial contractual interest rate was 5.7 percent. In January 2004, the overdraft agreement was extended for a year and interest was agreed at 3.9 percent. The overdraft agreement expires on 20 January 2005.

At the balance sheet date, EEK 9,400 of the overdraft was in use.

Note 13. Accrued expenses

	Group		Parent company	
As at 31 December	**2003**	**2002**	**2003**	**2002**
Payables to employees	15,300,537	11,676,163	5,366,234	5,867,483
Other accrued expenses	3,698,653	4,024,686	2,708,806	2,780,425
Total	18,999,190	15,700,849	8,075,040	8,647,908

Other accrued expenses include taxes calculated on employee remuneration payable for December 2003 that are due on 10 February 2004. Accrued expenses also include other short-term liabilities to employees.

Note 14. Provisions

	Group		Parent company	
As at 31 December	**2003**	**2002**	**2003**	**2002**
Due to customers for construction work	3,721,174	1,811,210	2,607,168	1,293,083
Warranty provision	2,540,720	542,030	1,997,719	0
Accrued differences in contract costs	25,282,104	0	20,257,676	0
Total	31,543,998	2,353,240	24,862,563	1,293,083

Due to customers for construction work and accrued differences in contract costs are related to accounting for construction contracts under the stage of completion method. Further information on construction contracts is presented in note 16.

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 depending on the expiry of the warranty period.

At the balance sheet date, the Parent company's current and non-current warranty provisions amounted to EEK 1,997,719 and EEK 829,150 respectively. The Parent company's warranty provisions include a provision for a claim related to a pending dispute with a subcontractor.

The Group's current and non-current year-end warranty provisions totalled EEK 2,540,720 and EEK 1,199,207 respectively.

Note 15. Non-current liabilities

	Group		Parent company	
As at 31 December	**2003**	**2002**	**2003**	**2002**
AS EE Grupp	0	20,161,500	0	20,161,500
Finance lease liabilities	34,576,927	25,832,243	114,600	0
Warranty provision	1,199,207	650,193	829,150	531,307
Other long-term liabilities to suppliers	344,094	3,077,750	344,094	1,341,798
Total	36,120,228	49,721,686	1,287,844	22,034,605

For warranty provisions see note 14.

Other long-term liabilities comprise retentions from subcontractors, i.e. progress billings not paid during the warranty period, that fall due in 2005 or later, depending on the terms fixed in the contracts made with subcontractors. Retentions are not subject to interest.

Long-term finance lease liabilities are to be settled within five years. Interest rates range from 3.6 to 5.5 percent.

Note 16. Construction contracts

At 31 December 2004, the cost of construction contracts in progress at the Parent company totalled EEK 959,128,230. The projects' estimated costs calculated by reference to the percentage of completion method amounted to EEK 471,479,133, the figure including contract costs incurred of EEK 20,257,676. Estimated contract revenues amounted to EEK 512,752,390 and the portion relating to future activity was EEK 446,375,840.

In the Parent company's income statement for 2003, the revenues and cost of sales related to contracts in progress totalled EEK 298,825,329 and EEK 276,584,378 respectively.

The cost of the Group's construction contracts in progress totalled EEK 1,398,051,719. Estimated contract costs amounted to EEK 611,594,641, progress billings totalled EEK 655,362,515, estimated revenues amounted to EEK 670,579,666 and the portion relating to future activity was EEK 727,472,053.

In the Group's income statement for 2003, the revenues and cost of sales related to contracts in progress, calculated under the stage of completion method, totalled EEK 456,652,582 and EEK 416,699,867 respectively.

Construction contracts in progress	**Group Until 31 December 2003**	**Parent company Until 31 December 2003**
Estimated contract costs	611,594,641	471,479,133
Estimated profit	58,985,025	41,273,257
Estimated revenue	670,579,666	512,752,390
Progress billings	655,362,515	513,694,114
Adjustments for	-15,217,151	941,724
Due from customers for construction work	18,938,325	1,665,444
Due to customers for construction work	3,721,174	2,607,168

Note 17. Contingent liabilities

At 31 December 2003, the Parent company's undistributed profits amounted to EEK 38,947,140. The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 10,126,256. Thus, the maximum amount that could be distributed as the net dividend is EEK 28,820,884.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax reported in the income statement for 2004 cannot exceed the company's distributable profits as of 31 December 2003.

In 2003, AS Eesti Ehitus received dividends of EEK 10,905,717 and redistributed the amount as dividends. Thus, AS Eesti Ehitus did not incur any dividend tax liability.

Note 18. Equity

In 1989 when OÜ Eesti Ehitus was established, 200,000 roubles were contributed as share capital. In 1990, the company's share capital was increased by 8000 roubles. During the monetary reform of 1992, share capital was restated into 20,800 Estonian kroons and in 1994 it was increased using equity instruments to EEK 5,000,000. In 1998 share capital was increased by way of a bonus issue to EEK 20,000,000 and in 2000 it was increased with a monetary contribution to EEK 30,000,000. In 2000, the capital reserve was increased by EEK 1,000,000.

In 2002 private limited company OÜ Eesti Ehitus was transformed into public limited company AS Eesti Ehitus. According to the Articles of Association of AS Eesti Ehitus, the company's minimum and maximum share capital amount to EEK 30,000,000 and EEK 120,000,000 respectively.

Share capital consists of ordinary shares with a par value of EEK 10 each.

In 2003, the company distributed dividends of EEK 10,905,717.

Note 19. Revenue by activities and geographical areas

	Group		Parent company	
Activity	**2003**	**2002**	**2003**	**2002**
General construction	677,093,103	629,584,621	472,191,025	535,803,979
Road and pipeline construction	364,520,552	346,824,402	0	0
Road maintenance	31,033,145	6,549,940	0	0
Other services	4,306,865	1,963,763	2,158,519	1,065,746
Total	**1,076,953,665**	**984,922,726**	**474,349,544**	**536,869,725**
Area	**2003**	**2002**	**2003**	**2002**
Estonia	1,048,243,080	966,122,089	447,400,286	518,069,088
Ukraine	28,710,585	18,800,637	26,949,258	18,800,637
Total	**1,076,953,665**	**984,922,726**	**474,349,544**	**536,869,725**

Note 20. Collateral and pledged assets

Loans and other obligations are secured with commercial pledge agreements:

The movables of AS Eesti Ehitus are encumbered with two commercial pledges of EEK 80 million in aggregate established for the benefit of Hansapank.

The movables of AS Linnaehitus are encumbered with a commercial pledge established for the benefit of Hansapank.

The movables of AS Aspi are encumbered with two commercial pledges of EEK 15.3 million in aggregate established for the benefit of Ühispank.

Note 21. Off-balance sheet liabilities

Off-balance sheet liabilities comprise bank guarantees. The Parent company's guarantees have been issued by Hansapank. At the balance sheet date, related liabilities totalled EEK 60.8 million.

The Group's year-end off-balance sheet liabilities totalled EEK 100.4 million.

The probability of the realisation of the guarantees is low. Therefore, the liabilities have not been recognised in the balance sheet.

Note 22. Subsidiaries

Group control

The Parent company is a wholly-owned subsidiary of AS EE Grupp, which is also the parent of the Group.

Subsidiaries of AS Eesti Ehitus

Name	Domicile	Interest	Interest	Share capital	Equity
		2003	2002	As at 31 December 2003	
AS Linnaehitus	Estonia	51%	51%	5,500,000	37,204,236
AS Aspi	Estonia	52,94%	52,94%	3,400,000	87,751,606
AS Järva Teed	Estonia	52,94%	52,94%	2,000,000	6,098,885
OÜ Hiiu Teed	Estonia	52,94%	52,94%	100,000	3,305,231
OÜ EE Elekter	Estonia	100%	0%	100,000	318,427
OÜ Eurocon	Estonia	100%	0%	80,000	416,439
Eurocon Ukraine LLC	Ukraine	100%	0%	43,040	576,137

Note 23. 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. the parent company 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 the Parent company's 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.

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

Related party	Relationship	Purchases	Sales
AS EE Grupp	Parent company of AS Eesti Ehitus	6,390,155	160,772
AS Linnaehitus	Subsidiary of AS Eesti Ehitus	0	930,967
AS Aspi	Subsidiary of AS Eesti Ehitus	18,301,084	1,160,945
Eurocon Ukraine LLC	Subsidiary of AS Eesti Ehitus	0	4,030,521
OÜ Hiiu Teed	Subsidiary of AS Eesti Ehitus	1,491,836	0
OÜ Eurox Ärimaja	Subsidiary of AS EE Grupp	0	20,862,261
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	2,707	40,749
OÜ Luman ja Pojad	Company related to a member of the Council of AS Eesti Ehitus	277,662	0
Mait Schmidt	Member of the Council of AS Eesti Ehitus	0	636,757
OÜ Majahaldjas	Associate of AS Eesti Ehitus	349,293	17,022
Total		**26,812,737**	**27,839,994**

Sales comprise mostly sales of construction services and goods; purchases comprise purchases of construction and lease services.

According to management's assessment, the prices used in transactions with related parties did not differ significantly from market.

The Parent company's receivables from and payables to related parties at the balance sheet date:

Related party	Relationship	Receivables	Payables
AS EE Grupp	Parent company of AS Eesti Ehitus	4,801	20,867,655
AS Aspi	Subsidiary of AS Eesti Ehitus	71,990	1,420,588
Eurocon Ukraine LLC	Subsidiary of AS Eesti Ehitus	193,852	0
OÜ Eurox Ärimaja	Subsidiary of AS EE Grupp	7,310,844	0
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	626	0
OÜ Majahaldjas	Associate of AS Eesti Ehitus	562	27,206
Mait Schmidt	Member of the Council of AS Eesti Ehitus	145,804	0
Total		**7,728,479**	**22,315,449**

In 2003, AS EE Grupp was repaid the outstanding balance of a short-term loan (EEK 19,000,000). Related interest expenses amounted to EEK 378,223. In accordance with the purchase contract, in 2003 the Parent company paid AS EE Grupp EEK 16,500,000 for the acquisition of subsidiaries. The last instalment payment of EEK 20,161,500 will be made in 2004.

AS Eesti Ehitus is the founder of the Foundation of Nõmme Private School. The company has made a five-year sponsoring agreement with the Foundation according to which the latter undertakes to advertise and promote AS Eesti Ehitus as a sponsor at events arranged by the Foundation. According to the contract, the company pays Nõmme Private Education Foundation EEK 800,000 per year.

Payments made to members of the Board of AS Eesti Ehitus under their service contracts:

2002: EEK 632,933

2003: EEK 2,400,000

Payments made to five members of the Council of AS Eesti Ehitus for their work in the Council:

2002: EEK 90,000

2003: EEK 360,000

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

Related party	Relationship	Purchases	Sales
AS EE Grupp	Parent company of AS Eesti Ehitus	12,132,336	184,343
OÜ Eurox Ärimaja	Subsidiary of AS EE Grupp	0	20,862,261
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	2,707	40,748
OÜ Luman ja Pojad	Company related to a member of the Council of AS Eesti Ehitus	277,662	0
Mait Schmidt	Member of the Council of AS Eesti Ehitus	0	636,757
Total		**12,412,705**	**21,724,109**

Purchases from AS EE Grupp include mostly operating lease services (payments for premises, cars and software); sales to OÜ Eurox Ärimaja and Mait Schmidt comprise sales of construction services.

At the balance sheet date, the Group's receivables from and payables to related parties were as follows:

Related party	Relationship	Receivables	Payables
AS EE Grupp	Parent company of AS Eesti Ehitus	23,158	21,436,857
OÜ Eurox Ärimaja	Subsidiary of AS EE Grupp	7,310,844	0
OÜ Lohusalu Sadam	Subsidiary of AS EE Grupp	626	0
Mait Schmidt	Member of the Council of AS Eesti Ehitus	145,804	0
Total		**7,480,432**	**21,436,857**

Payments made to members of the Group Board:

2002: EEK 632,933

2003: EEK 3,713,848

Payments made to members of the Group Council:

2002: EEK 90,000

2003: EEK 558,000

Note 24. Risks

The Group's financial assets comprise mostly cash, available-for-sale securities, and other receivables. Financial liabilities comprise mostly loans, finance lease liabilities and trade payables.

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. Construction activity is financed primarily with customer advances and instalment payments made under agreed financing schedules. Where necessary, loan financing is used.

The risks arising from construction activity are hedged with all risks insurance and liability insurance. The tangible assets of all Group companies are insured. Employees are covered by accident insurance. At AS Eesti Ehitus and AS Aspi, the beneficiaries of the contracts are employees. At AS Linnaehitus, the beneficiary is the company.

Auditor's report to the shareholders of AS Eesti Ehitus

We have audited the unconsolidated financial statements of AS Eesti Ehitus (the Parent Company) as of 31 December 2003. We have also audited the consolidated financial statements of AS Eesti Ehitus Group (the Group) as of 31 December 2003. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, as set out on pages F-61 to F-80 of the Offering Circular, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of the Parent Company and the consolidated financial statements of the Group based on our audits.

We conducted our audit in accordance with Estonian Guidelines on Auditing. Those guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Parent Company

In our opinion, the unconsolidated parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

The Group

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with the Estonian Accounting Act.

KPMG Baltics AS

Andris Jegers
Authorised Public Accountant

The audit of the unconsolidated financial statements and consolidated financial statements for the financial year ended 31 December 2003 was completed on 15 March 2004, except for the minor financial statements presentation amendments done in 2006, as to which the date is 28 April 2006.

ANNEX A: SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ESTONIAN GAAP AND IFRS

The Underlying Principles of the Estonian Financial Reporting Framework

The Estonian Accounting Act establishes local accounting standards (known as Accounting Standards Board Guidelines or ASBG) for statutory purposes. These standards are developed by the Estonian Accounting Standards Board (EASB). The Accounting Law along with ASBG constitute the generally accepted accounting principles of Estonia (the Estonian GAAP).

From 1 January 2003 the Accounting Law permits, as an equal alternative to the Estonian GAAP, all entities domiciled in Estonia to apply International Financial Reporting Standards (formerly known as International Accounting Standards) in both consolidated and stand-alone financial statements for statutory purposes. However, application of IFRS is mandatory for various financial institutions, insurance and listed entities from 2005.

The co-existence of two equally applicable set of accounting standards (except where IFRS is mandatory) is possible due to fundamental changes made by EASB in 2002. It then took the course to harmonise the local accounting principles with IFRS by developing a completely new set of accounting standards (ASBG). The ASBG are in accordance with the IFRS principles and paragraphs are cross-referenced to specific IFRS standards.

The objective of the changes was to enable small and medium sized entities to prepare financial statements that are based on the IFRS principles, but include a smaller amount of disclosures and in some of the more complicated areas (e.g. financial instruments) allow simplified accounting practices. In limited cases, the accounting principles set out in the Estonian GAAP differ from IFRS.

The harmonisation of the Estonian GAAP with IFRS is an ongoing process due to the continuous revision of the existing and issuance of new IFRS standards. The latest revisions to existing and new IFRS that became effective as of 1 January 2005 have been used to revise the Estonian GAAP accordingly.

To date, the Estonian Accounting Standards Board has approved a total of 17 Accounting Standards Board Guidelines that are based on IFRS. Where an accounting principle is not specified in the scope of an ASBG but is described in the IFRS, it is recommended that the principles of IFRS be used in the preparation of the financial statements.

The Main Differences in the Estonian GAAP Compared to IFRS[1]

The differences between the Estonian GAAP and IFRS are mainly due to practical reasons so that a reasonable cost-benefit relationship, considering the size and complexity of the entities in Estonia, could be reached in the preparation of financial statements that are still based on a large scale on the International Financial Reporting Standards.

The EASB has also issued some standards that have no respective counter in IFRS (e.g. accounting principles for non-profit organisations), but are regardless in accordance with the principles of IFRS.

IFRS 3 Business Combinations

The Estonian GAAP includes specific principles for accounting for business combinations involving entities or businesses under common control. The aforementioned business combinations are excluded from the scope of IFRS 3.

[1] The differences in disclosure requirements are not of principle but of form and therefore are not included in the comparative analysis. The lesser disclosure requirements in the Estonian GAAP compared to IFRS are of practical nature considering the cost of the preparation of the financial statements. However, information that is useful to the users of the financial statements must be disclosed regardless of the absence of a specific disclosure requirement in ASBG.

The underlying idea of the so called adjusted purchase method is that the difference between the cost of the acquisition and the carrying amount of the acquired net assets is to be recognised as an increase or decrease in the equity of the acquirer.

IAS 12 Income Taxes

According to applicable tax laws in Estonia, it is not the profit of the company but the dividends paid out to the shareholders that are subjected to income tax. Therefore, entities domiciled in Estonia have no deferred tax asset or liabilities. However, entities which have foreign subsidiaries have to recognise deferred tax assets or liabilities in their consolidated financial statements where appropriate. Application of IAS 12 principles is then suggested for entities that apply Estonian GAAP in their consolidated financial statements.

IAS 16 Property, Plant and Equipment

The Estonian GAAP does not permit the use of the revaluation model for subsequent measurement of all items of property, plant and equipment as an equal alternative to the cost model as it is set out in IAS 16.

The revaluation of property, plant and equipment is allowed only as a non-recurring exception if the carrying amount of an asset is unreasonably lower compared to its fair value due to unreliable information on the initial cost of the asset or acquisition in the periods of hyperinflation. The increase in the carrying amount is recognised directly in retained earnings as opposed to the revaluation surplus in equity according to IAS 16.

Under the Estonian GAAP, the exception also applies to intangible assets (regulated by IAS 38 Intangible Assets in IFRS). The period in which entities are allowed to use the revaluation exception is limited and becomes prohibited for annual periods starting after 31 December 2005.

IAS 17 Leases

According to the Estonian GAAP, in the case of a finance lease, the lessee in a sale and leaseback transaction does not recognise any income if the sales proceeds exceed the carrying amount of the asset. According to IAS 17, the excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

IAS 27 Consolidated and Separate Financial Statements

The Estonian Accounting Act lists exceptional cases when the parent company or an investor does not have to prepare consolidated financial statements. For example if at least 90 per cent of its votes represented by shares belong to a consolidating entity which is registered in Estonia or in a Member State of the European Union and has the obligation to prepare and disclose the audited financial statements of the consolidation group.

The entities that are excluded from consolidation requirements may choose to recognise in their separate financial statements investments in subsidiaries or associates using the equity method in addition to the cost method or at fair value.

IAS 27 does not allow the use of the equity method and only permits the use of the cost method or fair value method.

IAS 39 Financial Instruments: Recognition and Measurement

The financial instruments recognition and measurement principles set out in the Estonian GAAP are based on IAS 39, but the IFRS standard is much more descriptive of the recognition and measurement principles. The simplified approach in the Estonian GAAP is of practical nature since the nature of the operating activities of the majority of Estonian GAAP entities does not involve complicated financial assets or liabilities. Furthermore, the application of fair value recognition of financial instruments is with limited possibilities due to the small scale of the active stock market in Estonia.

Hedge accounting principles are not specified in the Estonian GAAP. Instead, the application of respective principles set out in IAS 39 is suggested for Estonian GAAP entities in this area.

IAS 40 Investment Property

According to the Estonian GAAP, the carrying amount increase from a transfer of owner-occupied property to investment property measured at fair value is recognised in retained earnings. According to IAS 40 the carrying amount increase is treated in the same way as a revaluation in accordance with IAS 16, i.e. recognised in the revaluation surplus in equity.

IAS 40 permits on limited occasions to classify a property interest that is held by a lessee under an operating lease to be accounted for as an investment property measured at fair value. The Estonian GAAP does not include such an option.

IAS 18 Revenue

The Estonian GAAP allows, as an alternative, treating the construction of real estate for resale purposes as the rendering of long-term construction services. Consequently, the sale of an item of real estate which is built for resale (e.g. an apartment building) may be recognised in revenue and expenses using the percentage of completion method.

According to IAS 18, revenue from sales of real estate in the ordinary course of business is generally recognised when legal title is transferred to the buyer, as normally this demonstrates the transfer of the risk and rewards of ownership of the property. Legal title usually transfers to the buyer when the real right contract for the sale of real estate is made which transfers the possession of the real estate to the buyer.

Real estate that is held for sale in the ordinary course of business, or is in the process of construction or development for such sales, is classified as inventory.

Financial statements presentation

The Estonian Accounting Act and ASBG include mandatory formats for the balance sheet and the income statement. The titles of financial statement line items may be further specified, also, additional items or subdivisions of items may be added if this improves the clarity and legibility of the financial statements. Deviation from the mandatory formats is allowed for entities where the nature of operating activities requires substantially different presentation of financial statements (e.g. financial institutions, insurance companies etc.).

The principles of presentation are in accordance with IFRS. The difference is that IFRS simply describes the minimum set of line items to be presented on the face of the financial statements and provides illustrative examples that are not within the scope of a specific standard.

The formats for the cash flow statement and statement of changes in equity that are described in the Accounting Act and ASBG are of an advisory nature.

ISSUER

AS Eesti Ehitus
Narva mnt. 24
10120 Tallinn
Estonia

GLOBAL CO-ORDINATOR, BOOKRUNNER AND FINANCIAL ADVISER

AS Suprema Securities
Tartu mnt. 2
10145 Tallinn
Estonia

RETAIL JOINT LEAD MANAGER

AS Hansapank
Liivalaia 8
15040 Tallinn
Estonia

LEGAL ADVISER TO THE ISSUER AND THE SELLING SHAREHOLDER

Raidla & Partners, Attorneys at Law
Roosikrantsi 2
10119 Tallinn
Estonia

LEGAL ADVISER TO THE MANAGER

Curtis, Mallet-Prevost, Colt & Mosle LLP
53 New Broad Street
London EC2M 1BB
United Kingdom

INDEPENDENT AUDITORS

KPMG Baltics AS
Ahtri 10A
10151 Tallinn
Estonia