



ANNUAL REPORT 2007

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Core activities	Construction (EMTAK 411; 412) Civil engineering (EMTAK 421; 422; 429) Other construction work involving special trades (EMTAK 431; 433; 439) Architectural and engineering activities (EMTAK 7112)
Beginning of financial year	1 January 2007
End of financial year	31 December 2007
Council	Toomas Luman, Alar Kroodo, Ain Tromp, Mait Schmidt, Tiina Mõis, Meelis Milder
Board	Jaano Vink, Avo Ambur, Erkki Suurorg, Sulev Luiga, Priit Pluutus
Auditor	KPMG Baltics AS

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Management's discussion and analysis

Our mission

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

We seek to add value to the company by motivating our employees and providing them with clear development opportunities and a contemporary work environment.

Our vision

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

Shared values

Quality

We are professionals – we apply appropriate and effective construction techniques and technologies and observe generally accepted quality standards. We provide our customers with integrated cost efficient solutions. We are environmentally aware and operate sustainably. We value our employees by providing them with a modern work environment which encourages creativity and a motivation system which fosters initiative.

Reliability

We always keep our promises and honour our agreements. We act openly and transparently. We consistently support and promote the best construction practices. We do not take risks at the expense of our customers.

Innovation

We are innovative and creative engineers. We take maximum advantage of the benefits offered by information technology. We inspire our employees to grow through continuous training and balanced career opportunities.

Council chairman's letter

The past four years' profitable growth continued through 2007: Eesti Ehitus Group increased revenue by a solid 50 per cent and succeeded in improving all profitability indicators from the gross margin to the net margin. The strong results were achieved, first and foremost, thanks to the unremitting dedication of our people, prior periods' strategic investments in steering the core activity and expanding our operations, and a favourable operating environment.

The focus of the company has not changed. Eesti Ehitus is still a construction group whose core business is general contracting and project management in the field of residential and non-residential construction and civil engineering. We use our own people in specialised areas only, for example on road and pipeline construction and concrete works. Our growth has been guided by the overall corporate strategy – in the reporting period we established a general contracting and project management company UAB Eurocon LT in Lithuania and acquired a 52 per cent stake in AS Eston Ehitus – the largest construction company in South-West Estonia. In addition, the period was the first full year in which the Group's performance was enhanced by the contribution of OÜ Kaurits, the leading Estonian lessor of earthworks and road construction equipment whose subsidiary SIA Abagars now represents the Group on the Latvian environmental engineering market. The Group's risk-taking in the real estate market remains selective and limited.

In 2008, we are going to concentrate on maintaining optimal productivity. If previously the Group's revenue per employee (taking into account the significant impact of a rise in construction prices) followed a moderately rising trend and surpassed the market's average, the past year brought a slight decline. As a listed company, we have to generate an attractive rate of return but at the same time we have to invest in the productivity of our people since this is the only way for improving our competitiveness in the markets where we operate. Accordingly, efficient growth will be our keynote in the forthcoming years.

Toomas Luman

Chairman of the Council



Group chief executive's message

The year 2007 was definitely interesting. Although economic growth decelerated and the property market slumped, the year was not overwhelmingly testing for builders who had dispersed their risks. On the contrary, the labour deficit which had been strangling the construction sector for years was considerably alleviated and, in general, the twelve months turned out relatively well. This applies also to Eesti Ehitus – the group thrived. A detailed analysis of our performance is presented on the next pages of this report.

As regards the main developments, their true impact should become visible in a few years' time. In the last quarter we acquired the majority shareholding in AS Eston Ehitus, the leading construction company in South-West Estonia, thereby consolidating our positions in regions less covered by us in the domestic market. The first months of 2008 have proven that the acquisition was well designed and the Group has acquired a healthy and sustainable component which will contribute significantly to our future development. SIA Abagars, which became part of the Group in January 2007, has extended our reach to Latvia. Again, we have every reason to be satisfied because the company's area of activity – infrastructure construction – has strong prospects and excellent opportunities. In June 2007, we launched operations in Lithuania under the name UAB Eurocon LT. Initially, the Lithuanian entity will focus on the construction of buildings through general contracting and construction management.

The above steps have completed the first round of strategic decisions which we adopted three years ago. The company is not planning to penetrate any new markets in the next few years. However, we will do our best to achieve the designed growth of the new subsidiaries and to enhance employee skills and the Group's service quality in all the markets where we operate. I firmly believe that if we act with reason, developments in the Estonian, Latvian, Lithuanian, and Ukrainian economies will offer sufficient opportunities for growth in various segments of the construction market.

In 2008, all our directors, including the board of the Group and the boards of the subsidiaries, will focus on refining and tightening the alignment and cooperation of Group entities. We believe that this is an area with a lot of untapped potential which could be harnessed to reinforce our competitiveness and ability to face more challenging market conditions. This assumes relentless improvement of our information technology solutions and related competencies as well as operating efficiency, professionalism and employee motivation – the factors which will underlie the Group's performance in a situation where competition is heightening, the economic environment is normalising and rules will be increasingly dictated by the customer, not the contractor.

I am confident that the decisions we have made will ensure that the Group maintains a strong market position and will respond successfully to any forthcoming changes. We will do our best to bring the shareholders news of value adding performance also in 2008.

Jaano Vink
Chairman of the Board



Review of operations

Profitability and cash flow

In 2007, the Group's profitability indicators improved consistently. The period's gross margin was 13 per cent (2006: 12 per cent) and although personnel expenses grew more rapidly than revenue, other expenses increased at a slower pace. Compared with a year ago, the ratio of administrative expenses to revenue remained more or less stable at slightly below 5 per cent (2006: 5 per cent). The period's operating margin was 8 per cent (2006: 8 per cent). The rise in the value of investment property increased operating profit by 5.3 million kroons (0.3 million euros).

Consolidated net profit for 2007 amounted to an exceptional 290 million kroons or 18.5 million euros (2006: 190 million kroons or 12 million euros), including profit attributable to equity holders of the parent of 267 million kroons or approximately 17 million euros (2006: 177 million kroons or 11 million euros).

Cash and cash equivalents grew by 80 million kroons or 5 million euros. In 2006, net cash flow was negative to the extent of 36 million kroons or approximately 2 million euros. The Group's cash position has improved, above all, on account of a strong net operating cash flow of 147 million kroons or approximately 9 million euros (2006: 55 million kroons or over 3 million euros).

Key financial figures and ratios

Figure / ratio	2007	2006	2005	2004
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (in kroons)	8.70	5.75	2.82	1.80
Revenue growth	49.9%	49.5%	5.4%	47.5%
Average number of employees	1103	871	722	610
Revenue per employee (in thousands of kroons)	3,402	2,875	2,319	2,603
Personnel expenses to revenue, %	12.3%	11.0%	10.9%	9.2%
Administrative expenses to revenue, %	4.7%	5.0%	4.3%	3.4%
EBITDA (in thousands of kroons)	370,574	234,368	143,850	119,424
EBITDA margin, %	9.9%	9.4%	8.6%	7.5%
Gross margin, %	13.3%	12.2%	10.5%	9.6%
Operating margin, %	8.2%	8.2%	7.0%	6.1%
Operating margin excluding gains on sales of assets, %	8.0%	7.0%	6.2%	6.0%
Net margin, %	7.7%	7.6%	5.6%	5.0%
Return on invested capital, %	32.7%	33.7%	31.1%	40.4%
Return on assets, %	17.1%	17.4%	15.8%	21.2%
Return on equity, %	44.7%	56.1%	59.9%	59.8%
Equity ratio, %	36.9%	34.9%	20.2%	32.5%
Gearing, %	13.5%	14.6%	26.3%	-13.8%
Current ratio	1.30	1.33	1.08	1.28
Order backlog (in thousands of kroons)	2,526,652	2,453,419	1,232,349	812,086

<p><i>Revenue per employee = revenue / average number of employees</i></p> <p><i>Personnel expenses to revenue = personnel expenses / revenue</i></p> <p><i>Administrative expenses to revenue = administrative expenses / revenue</i></p> <p><i>EBITDA = earnings before interest, taxes, depreciation and amortisation</i></p> <p><i>EBITDA margin = EBITDA / revenue</i></p> <p><i>Gross margin = gross profit / revenue</i></p> <p><i>Operating margin = operating profit / revenue</i></p> <p><i>Operating margin excluding gains on sales of assets = (operating profit - gains on sale of property, plant and equipment - gains on sale of real estate) / revenue</i></p> <p><i>Net margin = net profit for the period / revenue</i></p>	<p><i>Return on invested capital = (profit before tax + interest expense) / the period's average (interest-bearing liabilities + equity)</i></p> <p><i>Return on assets = operating profit / the period's average total assets</i></p> <p><i>Return on equity = net profit for the period / the period's average total equity</i></p> <p><i>Equity ratio = total equity / total equity and liabilities</i></p> <p><i>Gearing = (interest-bearing liabilities - cash and cash equivalents) / (interest bearing liabilities + equity)</i></p> <p><i>Current ratio = total current assets / total current liabilities</i></p>
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Investment

In 2007, the Group's non-current assets grew as follows:

In thousands of kroons	2007	2006
Long-term investments	57,024	22,087
Investment property	109,785	-30,640
Property, plant and equipment	-1,826	88,803
Intangible assets	108,187	33,191

Major movements:

- Long-term investments increased significantly because a number of investments in subsidiaries were reclassified as investments in associates due to a decrease in ownership interest.
- In 2007, investment properties were measured at their fair values while in 2006 a number of investment properties were sold.
- In the category of property, plant and equipment, the Group purchased mainly road construction equipment. The total carrying amount of property, plant and equipment declined because the threshold for recognising purchases as items of property, plant and equipment was raised to 30 thousand kroons.
- Intangible assets increased on account of positive goodwill on the acquisition of subsidiaries and research and development activities – exploration of sand deposits.

Market review

In 2007, Eesti Ehitus expanded both in the domestic and international markets. The Group acquired the leading West Estonian construction company AS Eston Ehitus and registered a subsidiary in Lithuania. In addition, at the beginning of the year the Group acquired SIA Abagars, an infrastructure construction company operating in Latvia.

Revenue distribution by geographical segments

	2007	2006
Estonia	87.9%	91.4%
Ukraine	11.6%	8.6%
Lithuania	0.5%	0%

Consolidation of positions in South-West and North-West Estonia

In the reporting period, the Group continued implementing its strategy for the domestic market by acquiring a 52 per cent interest in the construction company AS Eston Ehitus for 187 million kroons. If previously AS Eesti Ehitus was better represented in North, South and East Estonia, then after the acquisition of the 15-year-old AS Eston Ehitus the Group gained equally strong positions in South-West and North-West Estonia. AS Eston Ehitus employs approximately 60 people and specializes in general contracting. However, the company is also involved in restoration, concrete works and property development. The entity's revenue for 2007 surpassed 290 million kroons. In addition, the Group remained active in the infrastructure segment.

In 2008, the Group intends to sustain growth in the infrastructure segment. This should be facilitated by the opportunities arising from the support provided by the EU structural funds which will increase substantially in the next couple of years. To achieve the established targets, the Group will have to strengthen the team through training and the recruitment of additional bridge and road designers.

Development of the Group in Ukraine

For the Group's Ukrainian subsidiary Eurocon Ukraine LLC, the past year was both successful and challenging. The company completed several large construction projects, which now serve as excellent references for the competencies and quality delivered by the Group, and launched two major development projects – one in Kiev and the other one in Lvov. A lot of work was done to develop the organisation and increase its capabilities, prepare for structural changes and attract and train new employees.

The highlight of the period was the delivery of the O'KEY Hypermarket in Kiev. With its 40,000 square metres, O'KEY is the company's ever-largest project whose performance required the involvement of additional managerial competencies from Estonia. In addition, after two years of hard work the company completed the construction and renovation of the four-star hotel Leopold in Lvov. The O'KEY contract generated revenue of 385 million kroons and the hotel in Lvov 62 million kroons.

The Group's main business objectives for 2008 are to increase revenue, improve profitability and consolidate the organisation. This assumes consistent development of the core competencies, such as project management and general contracting. Development projects will be transferred to a separate subsidiary, which will render the management of construction and development operations more transparent and effective.

Establishment of a subsidiary in Lithuania

On 1 June, AS Eesti Ehitus established a subsidiary, UAB Eurocon LT, in Lithuania and most of the year was dedicated to penetrating the market and launching operations. The company's objective is to offer general contracting and construction management. The supply of such services is still relatively limited in Lithuania.

The efforts made in the second half of the year resulted in a contract for the construction of an apartment house in Vilnius. The cost of the contract is 117 million kroons and the house has to be delivered in spring 2009.

In 2008, UAB Eurocon LT will focus on reinforcing its team, diversifying the service portfolio with project management, achieving an optimal construction capacity and sustaining moderate growth. The main targets will be public sector contracts and non-residential construction projects which in 2007 accounted for 40 per cent and 35 per cent of contracts performed in the Lithuanian construction market respectively. Demand in the above segments should remain high, providing opportunities for the growth and development of UAB Eurocon LT.

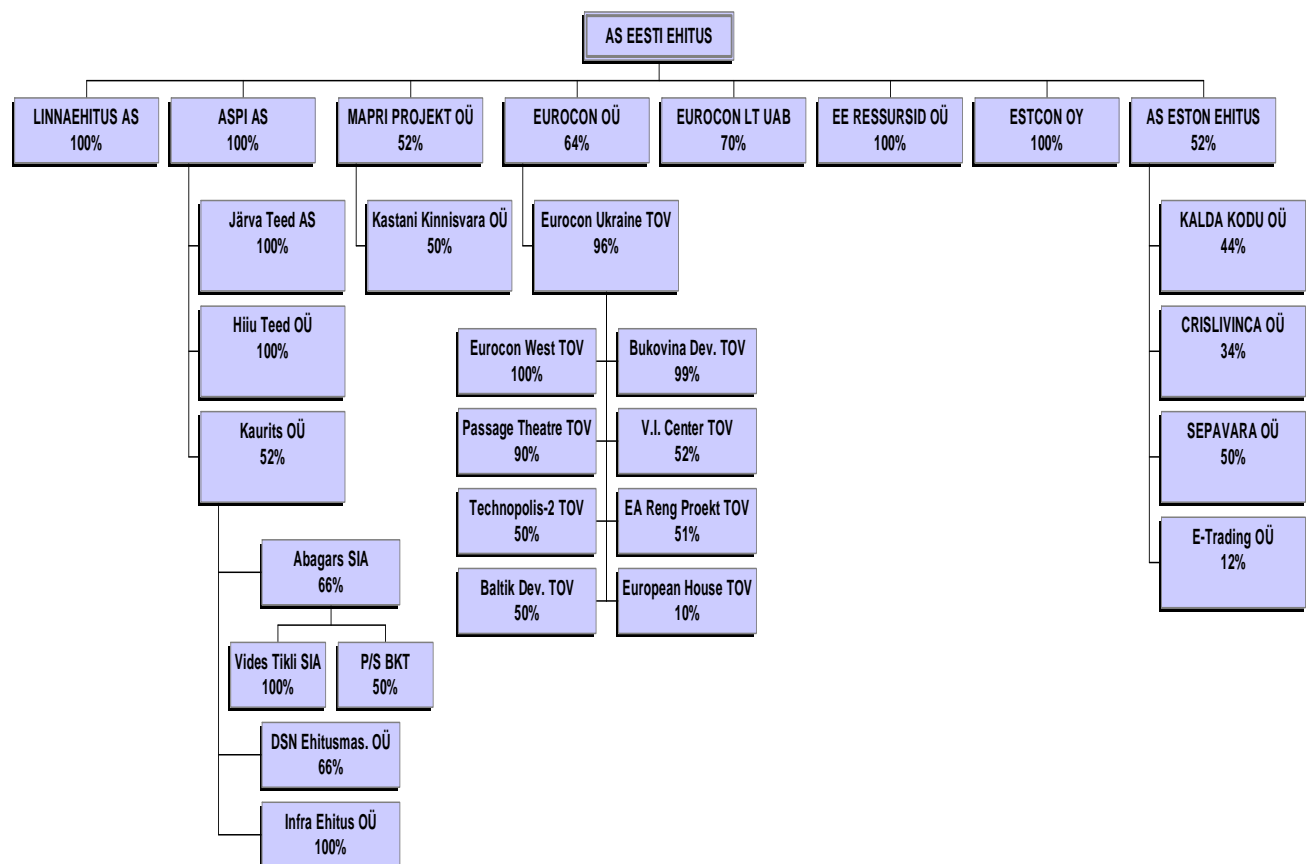
Acquisition of an infrastructure construction company in Latvia

AS Eesti Ehitus entered the Latvian market at the beginning of 2007 and is represented in the infrastructure segment through SIA Abagars, a subsidiary of OÜ Kaurits. In terms of revenue, the company, which has been operating since 2005, is among the first five builders of water and wastewater systems and providers of earthworks services and the first five lessors of related equipment.

One of the period's main accomplishments for SIA Abagars was the award of a general contract for the renovation of the main drinking water network of the city of Riga. The contract signed with the Latvian Ministry of the Environment foresees renovation of a 13-kilometre section of the pipeline within one and a half years and costs 203 million kroons. In addition, in 2007 SIA Abagars entered the road construction segment.

The primary goal for 2008 is to improve the company's market position in Latvia by increasing revenue and improving operating efficiency. We see opportunities for growth in various environmental and pipeline construction and rehabilitation projects and sharing of competencies with the Group's other subsidiaries. Moreover, until 2013 the company can benefit from an increase in the number and volume of projects funded by the European Union.

The structure of AS Eesti Ehitus Group at 31 December 2007



Business review

Eesti Ehitus Group is involved in general contracting and project management in the construction of buildings and structures. In addition, the Group is engaged in road construction and maintenance, environmental engineering, the assembly of reinforced concrete elements and the performance of cast-on-site concrete works, and property development. In 2007, consolidated revenue grew by an exceptional 50 per cent to 3,752 million kroons (240 million euros). Similarly to the prior financial year, the Residential and non-residential segment contributed 53 per cent (49 per cent growth) and the Civil engineering segment 47 per cent (growth 58 per cent) of total revenue. The Group's tries to maintain the two segments in balance as this helps disperse risks and provides a more solid foundation under stressed circumstances. In line with the corporate strategy, the proportion of property development is consistently maintained at around 20 per cent of revenue.

Revenue by segments

Business segments	2007	2006	2005	2004
Civil engineering	47%	46%	45%	53%
Residential and non-residential	53%	54%	55%	47%

Commercial buildings remains the Residential and non-residential segment's largest sub-segment, mainly on account of strong demand in the domestic market. Compared with 2006, the highest growth rate was posted by the Public buildings sub-segment, also thanks to increasing demand in the domestic market.

Revenue distribution in the Residential and non-residential segment

	2007	2006	2005	2004
Residential buildings	12%	17%	11%	10%
Public buildings	16%	18%	35%	44%
Commercial buildings	61%	41%	37%	24%
Industrial and warehouse facilities	11%	24%	17%	22%

In the Civil engineering segment, the largest sub-segment was Road construction and maintenance, which contributed 730 million kroons (47 million euros) or 19 per cent of total construction contract revenue. A year ago, the contribution of Road construction and maintenance was 584 million kroons (37 million euros) or 25 per cent.

Port construction contributed 580 million kroons (37 million euros) or 15 per cent of construction contract revenue against 157 million kroons (10 million euros) or 14 per cent in 2006.

Revenue distribution in the Civil engineering segment

	2007	2006	2005*	2004*
Road construction and maintenance	41%	58%	56%	44%
Port construction	33%	14%	-	-
Environmental engineering	13%	27%	-	-
Other engineering	13%	0%	44%	56%

* In 2004 and 2005 the Civil engineering segment was not divided into as many sub-segments.

At 31 December 2007, the Group's order backlog was 2,527 million kroons (161 million euros) against 2,453 million kroons (158 million euros) a year ago.

Civil engineering

The year 2007 was highly successful for the Civil engineering segment. In Estonia, the Group maintained its leading position in port construction. Major projects comprised Phase II in the construction of Sillamäe Port and renovation of Berth No 1 at Vanasadam, the Old City Harbour of Tallinn. In the area of bridge and viaduct construction, OÜ Mapri Projekt began building three viaducts on the Vaida-Aruvalla section of the Tallinn-Tartu highway. The projects can be used as excellent references in tendering for large road construction contracts both in Estonia and abroad. In addition, the Group continued work on the rehabilitation of Tallinn Airport airside area, one of its most important contracts.

General contracting

In the area of general contracting, the year was set apart by a notable increase in the size of projects. The Group's portfolio of work performed was supplemented with a number of large buildings: a commercial building of 20,000 square metres at Mustamäe tee 16 in Tallinn, the Fama shopping centre of 12,000 square metres in Narva, and a 14-floor office block at Liivalaia 45/47 in Tallinn. The latter was unusual also because of its three underground parking floors – during the sixteen years since Estonia regained its independence no general construction project had required penetration to such depth.

Environmental engineering

In the past financial year, the Group was involved in the closure of major waste disposal sites such as the ash plateaus of Narva power plants and the rehabilitation of radioactive waste storage facilities at Sillamäe. In addition, the construction of water and wastewater networks grew substantially both in Estonia and

Latvia. One of the largest projects launched in 2007 was the rehabilitation of the main drinking water network in Riga.

Restoration

In 2007, we completed the highly demanding renovation of Hotel Leopold in the old city of Lvov, proving our ability to achieve excellent results under strict heritage conservation requirements. The experience gained on the Leopold project will be applied on the construction of the Passage Teatralnyi shopping centre in the centre of Lvov.

Road construction

The period's largest road construction project was the construction of the Vaida-Aruvalla section of the Tallinn-Tartu highway which will continue in 2008. Seasonal fluctuations in the volume of road construction operations are mitigated by two large road maintenance contracts. In 2007, the Group won the tenders for the repair and maintenance of national roads in Järva and Hiiu counties until 2015.

Concrete works

The reporting year was truly successful for OÜ Mapri Projekt who gained the leading position in the concrete works segment in Estonia and supplemented its service portfolio with the construction of concrete floors. In 2007, the latter service was provided in cooperation with other Group entities

The largest projects of 2007

Project	Group entity	Customer
Asphalting of 188,000 square metres on 18.3 kilometres of the Tartu-Jõgeva-Aravete highway	AS Aspi	Tartu Road Administration
Filling of Sillamäe Port – 1.7 million cubic metres	AS Aspi	AS Sillamäe Sadam
Shopping centre Vaala Keskus in Rakvere – 10,670 square metres	AS Linnaehitus	Rakvere Ärikeskus OÜ
Hotel Dorpat in Tartu - 8300 square metres	AS Linnaehitus	Emajõe Ärikeskus AS
Vaida-Aruvalla viaducts of 160 metres and 90 metres and a 2.4 kilometre noise barrier	OÜ Mapri Projekt	AS ASPI
O'KEY Hypermarket in Kiev – 40,000 square metres	Eurocon Ukraine LLC	Dniprovskaja Pristan LLC
Vodka Factory Hortitsa in Zaporozhye – 15,300 square metres	Eurocon Ukraine LLC	Image Holding LLC
Reconstruction of 230 metres of Berth No 1 at Vanasadam, the Old City Harbour in Tallinn	AS Eesti Ehitus	AS Tallinna Sadam

People

The value of Eesti Ehitus depends on the professionalism, motivation and loyalty of its employees. Accordingly, management is committed to creating a contemporary work environment that fosters professional growth and development both in terms of career opportunities and the nature of the work.

Employees and personnel expenses

In 2007 the Group employed, on average, 1103 people, including 500 qualified engineers. The proportion of engineers and other technical personnel (ETP) has increased rapidly in connection with the growth of the Group and the volume of the projects. We expect the trend to continue, among other things, due to the Group's expansion in Lithuania and Ukraine.

Our team is dynamic and energetic. The average age of board members is 41 and that of engineers and technical personnel 36. The average length of employment is six to seven years and men and women account for 87 per cent and 13 per cent of the staff respectively.

Average number of the Group's employees:

Period	ETP	Workers	Total average
2007	425	678	1103
2006	329	542	871
2005	261	461	722
2004	217	393	610

The Group's personnel expenses for 2007 totalled 461 million kroons (29 million euros), a 68 per cent increase on 2006 while the average number of staff grew by 26 per cent. The rise in personnel expenses was triggered by the acquisition of subsidiaries and tough competition in the labour market.

In 2007, the Group developed a tailor-made model for monitoring and measuring employee efficiency and contribution. The model will be applied annually in order to identify and resolve any shortcomings.

Staff training

The Group offers its people diverse training opportunities, especially as regards teamwork enhancement and further professional training. In 2007, our people attended 10,000 hours of training courses – approximately 10 hours per person.

Our people are interested in gathering personal references. This inspires project managers and teams to undertake increasingly larger and more complicated projects and to seek more innovative and economical solutions. We value teamwork and intra-Group knowledge sharing and recognise the contribution of our experienced staff. People who reach their retirement age but are willing to continue sharing their expertise are offered individual solutions for contributing to the development of the company.

Attraction of new specialists

The Group finds new specialists from Tallinn University of Technology, Tallinn College of Engineering and Estonian University of Life Sciences. Systematic recruitment of young engineers began in 2003 when the lack of qualified engineers and other technical personnel was acute. In order to enhance its attractiveness as an employer, AS Eesti Ehitus has developed a scholarship programme which allows students working for the Group to dedicate themselves to their studies during term time and to acquire work experience on construction sites during non-term time.

The Group offers diverse and flexible options for combining studies with industry training: a scholarship, remunerated professional training, part-time employment during the period of study, full-time employment in the summer and remunerated study leave. In 2007, the Group employed approximately 50 students. In addition, 25 students used the opportunity of gaining professional training in the summer.

Our efforts are yielding results. The fact that we find time and are willing to contribute to the development of young engineers has made the Group attractive for school leavers and university graduates: the number of students and graduates wishing to perform their industry training or seeking part- or full-time employment with the Group has multiplied.

Promotion of a healthy lifestyle

The Group provides its people with various benefits but the focus is on promoting a healthy lifestyle. We support different sports activities including team sports and have created a special sports account which is designed for more individual needs. In 2007, we established Eesti Ehitus Sports Club with a view to enhancing people's interest in sports and monitoring their state of health through a year-round training programme. The members of the sports club participate in public sports events such as skiing and cycling competitions.

In 2008, the Group will launch an HIV and AIDS awareness programme for its employees. The programme will be conducted in association with qualified specialists under the auspices of the coalition *Companies against HIV*.

Social responsibility and contribution

Every year the Group supports a number of charitable projects and organisations. In 2007, we supported various initiatives with a total of 3 million kroons (192 thousand euros).

One of the more significant steps was the establishment of the coalition *Companies against HIV* in partnership with the Healthy Estonia Foundation and other responsible companies such as Hansapank, Statoil, TNS Emor and Hill & Knowlton. The purpose of the coalition is to improve dissemination of information about HIV and limiting the spread of the epidemic by the involvement of private sector funds. By the joining the coalition, Eesti Ehitus undertakes to disseminate information about HIV within the Group

and to support the performance of public notification programmes. Staff training will begin in the second half of 2008. AS Eesti Ehitus has joined the coalition for three years.

Through OÜ Mapri Projekt the Group supports the St Michael's Society of the Old Town Educational College which helps children from problem families. In 2007, AS Aspi supported Keila SOS Children's Village and Eurocon Ukraine LLC supported Vidrozhennya ARS, an organisation engaged in the rehabilitation of disabled people in Kiev, and the Crimean Estonian Culture Society, which helped students of Estonian descent to visit the national Song Festival in Tallinn.

In addition, Group companies are active sponsors of sports organisations such as the Junior Team of the Estonian Ski Association (Eesti Ehitus), Tartu Ski Club (Linnaehitus) and the Estonian Skating Union (Aspi). AS Eston Ehitus supports the best Estonian discus thrower Gerd Kanter.

In the area of education and culture, we support Tallinn City Theatre (Tallinna Linnateater), Tallinn University of Technology and Nõmme Private School to name but a few.

Share and shareholders

ISIN code	EE3100039496
Short name of the security	EEH1T
Nominal value	10.00 kroons
Total number of securities	30,756,728
Number of listed securities	30,756,728
Listing date	18 May 2006

The following chart reflects movements in the Eesti Ehitus' share price (in kroons) and traded volume in 2007:



Summarised trading history:

	2007	2006
Traded volume	7,284,775	5,023,787
Turnover, in millions of kroons	845.09	563.6
Market capitalisation, in millions of kroons	2,358.07	2,543.34

At 31 December 2007, the ten largest shareholders were:

Shareholder	Number of shares	Ownership interest
AS NORDECON	18,807,464	61.15%
NORDEA BANK FINLAND PLC	1,172,514	3.81%
AIN TROMP	678,960	2.21%
SEB PANK AS KAUPLEMINE	657,444	2.14%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	619,967	2.02%
ING LUXEMBOURG S.A.	553,949	1.80%
ASM INVESTMENTS OÜ	519,600	1.69%
JP MORGAN CHASE BANK/ DEKABANK DEUTSCHE GIROZENTRALE	500,000	1.63%
STATE STREET MUNICH CARE OF SSB BOSTON/ DWS POLSKA		
FUNDUSZ INWESTYCYJNY OTWARTY TOP 50 MALYCH I SREDNICH		
SPOLEK PLUS	461,060	1.50%
MARTIN SÖÖT	457,848	1.49%

Risks

Business risks

With a view to managing and mitigating their business risks in Estonia, AS Eesti Ehitus, AS Aspi, AS Linnaehitus, OÜ Mapri Projekt and AS Eston Ehitus have implemented the internationally recognised quality management standard ISO 9001:2000. In addition, AS Eesti Ehitus and AS Aspi have implemented the environment management system ISO 14001. Altogether, Group entities employ eleven specialists who monitor quality and work safety on a daily basis. The Group's Ukrainian entities apply the parent company's risk management policies to the extent practicable in their business environment.

To manage daily construction risks, Group companies purchase Contractors' All Risks insurance. Depending on the nature of the project, both general frame agreements and specially tailored project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee issued for the benefit of AS Eesti Ehitus. To remedy builder-caused deficiencies which may be detected during the warranty period, all Group companies create warranty provisions. At the year-end the provisions totalled 16.8 million kroons (2006: 6.4 million kroons).

Credit risk

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

Liquidity risk

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

Interest rate risk

The loans taken from banks operating in Estonia and Ukraine have fixed interest rates. Finance lease contracts have floating interest rates and are linked to EURIBOR.

Currency risk

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

Economic environment and outlook for the future

Based on the information published by Eurostat and the Ukrainian central bank, the actual and forecast figures for economic growth in the countries where the Group operates are as follows:

	2009 Forecast	2008 Forecast	2007 Preliminary	2006	2005	2004
Estonia	6.2%	6.4%	7.1%	11.2%	10.2%	8.3%
Latvia	6.2%	7.2%	10.2%	11.9%	10.6%	8.7%
Lithuania	6.3%	7.5%	8.8%	7.7%	7.9%	7.3%
Ukraine	N/A	N/A	7.3%	7.3%	2.7%	12.1%

The past years' rapid economic growth and the accompanying upsurge in the demand for construction services has had a positive impact on the Group's performance – our operating volumes have increased, financial position has strengthened and market positions have improved. The construction sector has benefited from the boom in housing development and the increase in investments made in infrastructure and environment-related projects following the Baltic countries' accession to the European Union.

We believe that in the construction sector the forecast deceleration in economic growth will trigger the following trends:

- The construction sector will become more dependent on public procurement tenders and the number and pricing of infrastructure, environment and other projects launched with the support of EU funds.
- The importance of infrastructure projects will increase and, accordingly, critical success factors will include specialised engineering expertise and the availability of specialised resources.
- Housing development and construction volumes will shrink and the number of related companies will decrease (consolidation). The consolidation process will heighten competition and exert downward pressure on profit margins.
- The past few years' labour deficit in the construction sector will decline and, consequently, personnel expenses will normalise.
- Real estate developers' ability to service existing loans and take new ones will weaken due to a decrease in their creditworthiness. For construction companies, this may mean an increase in doubtful and irrecoverable receivables.

The Group has prepared itself for changes in the economic environment by dispersing its risks between activities (for a number of years, the proportion of residential construction has not exceeded 10-15 per cent) and markets (the importance of the Estonian market will decline as the importance of other markets increases).

Corporate governance report

The Corporate Governance Recommendations (CGR) promulgated by the OMX Tallinn Stock Exchange took effect on 1 January 2006. AS Eesti Ehitus has observed the CGR since the flotation of its shares on the OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of AS Eesti Ehitus in 2007 and its compliance with the requirements of CGR. In 2007, AS Eesti Ehitus observed the CGR except where indicated otherwise in this report.

AS Eesti Ehitus is a limited company domiciled in the Republic of Estonia. The address of the company's registered office is Akadeemia tee 15b, 12618 Tallinn and the company's registration number is 10099962. In 2007, the share capital of AS Eesti Ehitus changed as follows:

	Number of ordinary shares outstanding	Share capital at par value
At 1 January 2007	15,378,364	153,783,640 kroons
Bonus issue performed on 7 June 2007	+ 15,378,364	+ 153,783,640 kroons
At 31 December 2007	30,756,728	307,567,280 kroons

Share capital consists of ordinary registered shares of one type whose par value is 10 kroons. Each share carries one vote at meetings of the company and entitles the holder to a proportionate share of dividends as declared from time to time.

The shares of AS Eesti Ehitus are listed in the main equity list of the OMX Tallinn Stock Exchange (Baltic Main List) under the ticker symbol EEHIT. The share register is maintained by the Estonian Central Register of Securities in electronic format. AS Eesti Ehitus has approximately 1300 shareholders and the number changes continuously. The majority shareholder is AS Nordecon with an approximately 61 per cent interest. The members of the boards and councils of AS Eesti Ehitus and its subsidiaries hold an additional 8 per cent of the shares.

General meeting

Exercise of shareholder rights

The general meeting of the shareholders is the highest governing body of AS Eesti Ehitus. General meetings are annual and extraordinary. The powers of the general meeting are set out in the Commercial Code of the Republic of Estonia and the Articles of Association of AS Eesti Ehitus. The general meeting has the power to approve the annual report, decide the allocation of profits, amend the Articles of Association, appoint the auditors, and elect the members of the council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation.

The annual general meeting of 2007 was held on 14 May. The general meeting adopted the following resolutions:

- To approve the annual report of AS Eesti Ehitus for 2006 and the council's written report on the annual report.
- To allocate the profit of AS Eesti Ehitus as follows. The company's net profit for 2006 amounts to 175,003,028 kroons (11,184,732 euros) and the retained earnings of prior periods amount to 3,087,242 kroons (197,311 euros). To distribute a dividend of 46,135,092 kroons (2,948,570 euros) or 3 kroons (0.19 euros) per share from the net profit for 2006. To transfer 4,057,991 kroons (259,353 euros) to the capital reserve. To retain the rest of the net profit for 2006 and the profits of prior periods. After allocations, the company's retained earnings amount to 127,897,187 kroons (8,174,120 euros). Dividends will be distributed to shareholders who have been entered in the company's share register as at 28 May 2007 at 23 hours 59 minutes. Dividends will be distributed on 11 June 2007 at the latest.
- To appoint KPMG Baltics AS as the auditor of the company's consolidated financial statements for 2007 and to remunerate the auditor in accordance with the audit services agreement signed with the auditor.
- To increase the share capital of AS Eesti Ehitus for the consolidation of the company's funds in accordance with Section 350 of the Commercial Code using equity and without making additional

contributions (through a bonus issue) by 153,783,640 kroons (9,828,566 euros) by issuing 15,378,364 new ordinary registered shares with a par value of 10 kroons (0.64 euros) each. As a result of the bonus issue, the share capital of AS Eesti Ehitus will increase from 153,783,640 kroons (9,828,566 euros) to 307,567,280 kroons (19,657,132 euros) and the company's new share capital will be 307,567,280 kroons (19,657,132 euros). The bonus issue will be performed on the basis of the annual report of AS Eesti Ehitus for 2006 (as at 31 December 2006), which has been approved by the shareholders together with the adoption of a profit allocation proposal prior to the adoption of this resolution, using share premium of 108,465,062 kroons (6,932,181 euros) and retained earnings of 45,318,578 kroons (2,896,385 euros). As a result of the bonus issue, each shareholder's stake in the company will increase in proportion to the par value of shares held and all shareholders who have been entered in the share register of AS Eesti Ehitus as at 29 May 2007 at 23 hours 59 minutes will acquire one new share per each share already held. The shares issued during the bonus issue entitle the holder to dividends as declared for financial years beginning on 1 January 2007 or later. The new shares will be transferred to the shareholders' securities accounts after the increase in share capital has been entered in the Commercial Register.

In 2007, no extraordinary general meetings were called.

All shares issued by AS Eesti Ehitus are registered ordinary shares. A shareholder may not demand issuance of a share certificate for a registered ordinary share. A shareholder may not demand that a registered share be exchanged for a bearer share. The shares are freely transferable and may be pledged. The board of AS Eesti Ehitus is not aware of any shareholder agreements that restrict transfer of the shares. Upon the death of a shareholder, the share transfers to the shareholder's heir. In terms of AS Eesti Ehitus, a share is considered transferred when the acquirer has been entered in the share register.

No takeover bids corresponding to the definition provided in Chapter 19 of the Securities Market Act of the Republic of Estonia have been made for the shares in AS Eesti Ehitus.

Calling of a general meeting and disclosure of information

Notice of a general meeting is given by the board of AS Eesti Ehitus. A notice of an annual general meeting is published in a national daily newspaper at least three weeks in advance and a notice of an extraordinary general meeting is published in a national daily newspaper at least one week in advance. The notice includes information on where the annual report has been or will be made available to the shareholders. The annual report is made available at least two weeks before the general meeting.

The notice of the annual general meeting of 2007 (took place on 14 May 2007) was published in newspapers and via the information system of the OMX Tallinn Stock Exchange on 18 April 2007. The annual report of AS Eesti Ehitus and the council's written report on the company's annual report were made available from 25 April 2007 on the company's website at <http://www.eestiehitus.ee/> and on workdays from 9 a.m. to 5 p.m. in the company's registered office at Akadeemia tee 15b, Tallinn. Questions regarding agenda items could be submitted by e-mail to eestiehitus@eestiehitus.ee. Questions, answers, resolutions adopted and statements made at the general meeting were disclosed on the company's corporate website.

Consequently, the general meeting of 2007 was called in compliance with the requirements of CGR.

Conduct of a general meeting

In most cases, the general meeting has a quorum when more than 50 per cent of the votes represented by shares are present. Generally, a resolution is adopted when more than half of the votes represented are in favour. In compliance with the Commercial Code and the Articles of Association, for the adoptions of some resolutions such as the amendment of the Articles of Association; increase or reduction of share capital; the merger, transformation, separation and dissolution of the company; and removal of the members of the council before their term of office ends, at least two thirds of the votes represented at the meeting have to be in favour.

In 2007, the annual general meeting was attended by 69.06 per cent of the votes represented by shares. Accordingly, the meeting had a quorum for the adoption of resolutions.

The annual general meeting of 2007 was conducted in compliance with CGR.

Board

Responsibilities of the board

The board is a governing body of AS Eesti Ehitus that represents and manages the company in its daily operations. The Articles of Association allow the chairman of the board to represent the company alone. Any other member of the board who does not have additional authorisation may represent the company only together with another member of the board. The board is responsible for ensuring that AS Eesti Ehitus achieves its objectives. Creation of a favourable environment for the attainment of objectives assumes, among other things, analysing operating and financial risks and organising the company's internal control and reporting. The board has to observe the lawful instructions of the council of AS Eesti Ehitus.

Members of the board are not authorised to issue or repurchase shares without the permission of the general meeting or the council.

In 2007, the board and council of AS Eesti Ehitus exchanged information in accordance with effective requirements. The board informed the council of the company's business operations and financial position on a regular basis.

Membership and remuneration of the board

The council appoints and removes members of the board and appoints the chairman of the board. In accordance with the Articles of Association, the board has one to five (1-5) members who are elected for a term of three (3) years. Members of the board may not be concurrently members of the council. In 2007, the board had the following members:

	Position	Beginning of service	End of service
Jaano Vink	Chairman of the Board	1 August 2002	1 August 2008
Avo Ambur	Member of the Board, Technical Director	2 December 2002	30 September 2007
	Member of the Board, Development Director	1 October 2007	1 August 2008
Andri Hõbemägi	Member of the Board, Finance Director	28 November 2002	9 July 2007
Sulev Luiga	Member of the Board, Finance Director	9 July 2007	8 July 2010
Priit Pluutus	Member of the Board, Technical Director	1 October 2007	30 September 2010
Erkki Suurorg	Member of the Board, Construction Director	1 December 2005	30 November 2008

The responsibilities of members of the board are set out in their service agreements. A member of the board is paid a monthly service fee which is fixed in the service agreement. The service fee includes a 10 per cent fee for maintaining the confidentiality of business secrets and adhering to the prohibition on competition. In conformity with the service agreement and subject to a decision by the council, a member of the board may receive the following additional monetary remuneration:

- Additional remuneration for a strong result of operations (0.65 per cent of the result)
- Additional remuneration for surpassing the agreed result of operations (1.3 per cent of the excess amount)
- Non-recurring additional remuneration
- Benefits for adhering to the prohibition on competition after the expiry of the service agreement (twelve-fold average monthly service fee)
- Benefits for the termination of the service agreement (six-fold average monthly service fee)

In 2007, the remuneration and benefits of the members of the board of AS Eesti Ehitus totalled 14,601 thousand kroons (933 thousand euros). The corresponding figure for 2006 was 9,254 thousand kroons (591 thousand euros).

Conflict of interests

Members of the board may not compete with AS Eesti Ehitus without the prior consent of the company's council. Until the date this annual report is authorised for issue, the council has not been notified of any significant transactions which ought to be treated as a competing activity or other conflict of interests.

Consequently, in 2007 the board acted in compliance with CGR.

Council

Responsibilities of the council

The council deals with the strategic planning of the activities and the strategic management of AS Eesti Ehitus and oversees the activities of the board. The council adopts its resolutions in meetings. Meetings of the council have the sole authority to:

- Approve the strategy
- Approve a three-year development plan
- Approve the budgets
- Appoint members of the board and the chairman of the board and remove members of the board
- Approve the management structure
- Approve internal accounting regulations
- Approve the internal control statute and internal audit plans
- Review quarterly operating results
- Review the annual report and approve it for presentation to the general meeting
- Perform transactions and settle legal disputes on behalf of the company with members of the board

The board requires the council's consent for transactions which are outside the scope of the company's ordinary business such as:

- Acquisition and disposal of interests in other companies
- Acquisition, divestment or dissolution of a company
- Opening and closing of foreign branches and representations
- Transfer and encumbrance of immovable properties and registered movables (except cars)
- Non-current asset transfers not fixed in the annual budget
- Making of investment not fixed in the annual budget
- Assumption, granting and guaranteeing of loans and other obligations outside the scope of ordinary business
- Establishment and dissolution of a subsidiary

The council is accountable to the general meeting. The council adopts resolutions in a meeting by simple majority. A meeting has a quorum when over half of the members are present. The council meets according to need but not less frequently than once within three (3) months. In 2007 the council of AS Eesti Ehitus held seven meetings.

Membership and remuneration of the council

According to the Articles of Association, the council must have three to seven (3-7) members. The exact number is decided by the general meeting. Members of the council are elected for a term of five (5) years. Members of the council elect a chairman from among themselves. In 2007, the council had the following members:

	Position	Beginning of service	End of service
Toomas Luman	Chairman of the Council, representative of AS Nordecon	9 January 2006	9 January 2011
Alar Kroodo	Vice-Chairman of the Council, representative of minority shareholders	9 January 2006	9 January 2011
Meelis Milder	Member of the Council, independent	9 January 2006	9 January 2011
Tiina Mõis	Member of the Council, independent	9 January 2006	9 January 2011
Mait Schmidt	Member of the Council, representative of AS Nordecon	9 January 2006	9 January 2011
Ain Tromp	Member of the Council, representative of minority shareholders	9 January 2006	9 January 2011

On 1 April 2006, the general meeting of the shareholders of AS Eesti Ehitus adopted a resolution on the remuneration of the council. A council member's service fee is 10,000 kroons per month. The vice chairman's service fee is 20,000 kroons per month and the chairman's service fee is 30,000 kroons per month. Council members are not entitled to any additional remuneration or termination benefits.

In 2007, the remuneration of the members of the council of AS Eesti Ehitus totalled 1,080 thousand kroons (69 thousand euros). The corresponding figure for 2006 was 1,050 thousand kroons (67 thousand euros).

Conflict of interests

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between AS Eesti Ehitus and the member of the council or a similar conflict of interests involving a party related to the member of the council. A member of the council may not compete with AS Eesti Ehitus without the consent of the general meeting. Until the date this annual report is authorised for issue, members of the council have not issued any statements regarding a conflict of interests.

Consequently, in 2007 the council acted in compliance with CGR.

Disclosure of information

As regards disclosure of information and notification, AS Eesti Ehitus treats all shareholders equally. Via its own website on www.eestiehitus.ee and the information system of the OMX Tallinn Stock Exchange, AS Eesti Ehitus provides the following information in Estonian and in English:

- Corporate information
- Information about the company's share and share trading history
- Articles of Association
- Annual and interim reports
- Current membership of the council
- Current membership of the board
- Information about the external auditor

The company does not disclose its financial calendar (CGR, article 5.2.).

In 2007, no press conferences were held. Meetings with investors were arranged on an ad hoc basis as and when requested by the investors. Through the information system of the OMX Tallinn Stock Exchange, the company released the following announcements:

Title of announcement	Language	Time of release
Acquisition of shareholding in OÜ Kaurits completed	English (En)	4 January 2007 14:30
	Estonian (Et)	4 January 2007 14:30
Conclusion of a construction contract	En	26 January 2007 14:30
	Et	26 January 2007 14:30
Preliminary unaudited financial results for 2006	Et	9 February 2007 9:02
	En	9 February 2007 9:03
Sale of shareholding in V.I. Center LLC	Et	16 February 2007 11:54
	En	16 February 2007 11:55
Cancellation of construction contract	Et, En	22 February 2007 13:31
Comment to press articles related to Luther residential block	Et, En	27 February 2007 16:55
Conclusion of a construction contract	Et, En	28 February 2007 16:04
Conclusion of a construction contract	Et, En	2 March 2007 14:58
Conclusion of a construction contract	Et, En	5 March 2007 16:23
Conclusion of a construction contract	Et, En	19 March 2007 16:18
Conclusion of a construction contract	Et, En	27 March 2007 16:48
Conclusion of a loan agreement	Et, En	30 March 2007 16:18
Annual general meeting of shareholders	Et, En	18 April 2007 15:00
Financial results 3 months 2007	Et, En	3 May 2007 16:31
Conclusion of a construction contract	Et, En	8 May 2007 16:29
Final agreement with OÜ Grove Invest	Et, En	10 May 2007 15:45
Decisions of the annual general meeting of shareholders Resolutions of the general meeting	Et, En	14 May 2007 12:09
Change in significant holding	Et, En	23 May 2007 17:28
Board change in AS Eesti Ehitus	Et, En	15 June 2007 16:51
Conclusion of a construction contract	Et, En	29 June 2007 8:54
Conclusion of a construction contract	Et, En	29 June 2007 8:55
ESTABLISHMENT OF A SUBSIDIARY OF AS EESTI EHITUS IN	Et	3 July 2007 9:05

LITHUANIA	En	3 July 2007 9:52
Announcements released by AS Eesti Ehitus	Et, En	12 July 2007 14:38
Conclusion of a construction contract	Et, En	30 July 2007 10:22
Financial results 6 months 2007	Et, En	6 August 2007 17:28
A subsidiary of AS Eesti Ehitus has acquired a 66% stake in limited company DSN Ehitusmasinad OÜ	Et, En	7 August 2007 10:22
CORRECTION: AS Eesti Ehitus Consolidated interim financial statements Second quarter and first six months of 2007 (unaudited)	Et, En	8 August 2007 9:15
Conclusion of a construction contract	Et, En	15 August 2007 13:42
Conclusion of a construction contract	Et, En	24 August 2007 16:13
Changes in the management board of AS Linnaehitus	Et, En	31 August 2007 16:13
Increase in the share capital of AS Linnaehitus	Et, En	3 September 2007 11:16
Priit Pluutus is a new management board member of AS Eesti Ehitus	Et, En	14 September 2007 16:26
Conclusion of a construction contract	Et, En	1 October 2007 12:33
Upgrade for the announcement 2007-06-29 Conclusion of a construction contract	Et, En	15 October 2007 10:43
AS Eesti Ehitus concluded an agreement for acquisition of 52 per cent of the shares in Aktsiaselts Eston Ehitus	Et, En	19 October 2007 15:46
CONSOLIDATED INTERIM FINANCIAL STATEMENTS THIRD QUARTER AND FIRST NINE MONTHS OF 2007 (UNAUDITED)	Et, En	6 November 2007 9:43
The Competition Board granted the permission to AS Eesti Ehitus for acquisition of 52 per cent of the shares in Aktsiaselts Eston Ehitus	Et, En	8 November 2007 9:47
AS Aspi, a subsidiary of AS Eesti Ehitus , acquires a national road maintenance contract in Järva County	Et, En	15 November 2007 14:54
Conclusion of a construction contract	Et, En	19 November 2007 9:09
CORRECTION: Conclusion of a construction contract	Et, En	19 November 2007 10:12
Performance of a significant contractual provision	Et, En	23 November 2007 14:12
Conclusion of a construction contract	Et, En	29 November 2007 9:24
AS Aspi, a subsidiary of AS Eesti Ehitus, acquires a national road maintenance contract in Hiiu County	Et, En	6 December 2007 13:32

Consequently, in 2007 AS Eesti Ehitus disclosed information in compliance with CGR except for the provisions of article 5.2 which were complied with in part.

Financial reporting and auditing

Financial reporting

Preparation of financial reports and statements is the responsibility of the board of AS Eesti Ehitus. The consolidated financial statements of AS Eesti Ehitus are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union further to the IAS Regulation (EC 1606/2002). The financial statements are prepared and submitted for approval in conformity with the Estonian Accounting Act, the Rules of OMX Tallinn Stock Exchange, and the Estonian Commercial Code.

The company is required to issue quarterly interim financial reports and the annual report as soon as the report has been approved for issue by the council.

In 2007 and until the date this annual report is authorised for issue, the following financial information and financial statements have been released:

Preliminary unaudited financial results for 2006	9 February 2007
Audited annual report for the year ended 31 December 2006	25 April 2007
Financial results 3 months 2007 (unaudited)	3 May 2007
Financial results 6 months 2007 (unaudited)	6 August 2007
Correction: Consolidated interim financial statements Second quarter and first six months of 2007 (unaudited)	8 August 2007
Consolidated interim financial statements Third quarter and first nine months of 2007 (unaudited)	6 November 2007
Consolidated interim financial statements Fourth quarter and twelve months of 2007 (unaudited)	6 February 2008

Auditing

The external auditor(s) of AS Eesti Ehitus is (are) appointed by the general meeting. Prior to the meeting, the board arranges a tender with a view to signing an audit services agreement for three (3) years. One of the purposes of the tender is to agree the best audit fee for the company under comparable audit terms and conditions. The tender for 2005-2007 was won by AS KPMG Baltics, who was appointed the auditor by the general meeting. In 2008, AS Eesti Ehitus will arrange a new tender for the period 2008-2010.

Consequently, AS Eesti Ehitus has complied with the financial reporting and auditing requirements of CGR.

Dividend policy

In the past few years, AS Eesti Ehitus has consistently increased the amount of dividends distributed to shareholders (rounded to millions):

For 2004	28 million kroons
For 2005	30 million kroons
For 2006	46 million kroons
Board's proposal for 2007:	92 million kroons

To date, the amount of a dividend distribution has been determined by reference to:

- The dividend expectations of the majority shareholder
- The overall rate of return on the (Estonian) securities market
- The optimal ratio and volume of debt and equity capital which ensures the Group's profitable growth and sustainable development

The board confirms that the directors' report *Management discussion and analysis* presents fairly the development, performance and financial position of AS Eesti Ehitus as the company and the Group and provides an overview of the main risks and uncertainties.

Jaano Vink	Chairman of the Board		29 February 2008
Avo Ambur	Member of the Board, Development Director		29 February 2008
Sulev Luiga	Member of the Board, Finance Director		29 February 2008
Priit Pluutus	Member of the Board, Technical Director		29 February 2008
Erkki Suurorg	Member of the Board, Construction Director		29 February 2008

Statement of management's responsibility for the consolidated financial statements

The board of AS Eesti Ehitus acknowledges its responsibility for the preparation of the Group's consolidated financial statements for 2007 and confirms that:

- The policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union.
- The consolidated financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its results of operations, and its cash flows.
- All significant events that occurred before the date on which the consolidated financial statements were authorised for issue (29 February 2008) have been properly recognised and disclosed.
- AS Eesti Ehitus and its subsidiaries are going concerns.

Jaano Vink	Chairman of the Board		29 February 2008
Avo Ambur	Member of the Board, Development Director		29 February 2008
Sulev Luiga	Member of the Board, Finance Director		29 February 2008
Priit Pluutus	Member of the Board, Technical Director		29 February 2008
Erkki Suurorg	Member of the Board, Construction Director		29 February 2008

Consolidated financial statements

Consolidated balance sheet

As at 31 December

In thousands of Estonian kroons	Note	2007	2006
			Restated *
ASSETS			
Current assets			
Cash and cash equivalents	7	236,112	155,980
Short-term investments	12	0	2,140
Trade receivables	8	511,819	380,841
Other receivables and prepayments	8	264,551	129,663
Deferred tax assets	9	1,905	1,015
Inventories	10	393,529	272,184
Non-current assets held for sale	11	43,362	0
Total current assets		1,451,278	941,823
Non-current assets			
Long-term investments	12	111,686	54,144
Investment property	13	133,984	24,199
Property, plant and equipment	14	221,748	223,674
Intangible assets	15	273,223	165,036
Total non-current assets		740,641	467,053
TOTAL ASSETS		2,191,918	1,408,876
LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	16, 17	135,856	70,029
Trade payables		335,754	183,983
Other payables and advances received	18	574,722	404,819
Other tax liabilities	18	53,777	42,699
Income tax liability	18	994	223
Provisions	19	12,458	4,511
Total current liabilities		1,113,561	706,264
Non-current liabilities			
Interest-bearing loans and borrowings	16, 17	263,723	196,017
Other liabilities		714	490
Provisions	19	4,328	1,885
Total non-current liabilities		268,765	198,392
TOTAL LIABILITIES		1,382,325	904,656
EQUITY			
Minority interest		90,095	39,291
Share capital	20	307,567	153,784
Share premium	20	0	108,465
Statutory capital reserve		11,766	4,158
Translation reserve		2,354	2,196
Retained earnings	21	397,810	196,326
Total equity attributable to equity holders of the parent		719,497	464,929
TOTAL EQUITY		809,592	504,220
TOTAL LIABILITIES AND EQUITY		2,191,918	1,408,876

* For further information, please refer to note 13.

Consolidated income statement

In thousands of Estonian kroons	Note	2007	2006 Restated *
Revenue	22, 23	3,752,028	2,503,844
Cost of sales	25	3,252,051	2,197,319
Gross profit		499,977	306,525
Administrative expenses	26	176,273	125,739
Other operating income	27	16,411	28,859
Other operating expenses	27	32,651	5,108
Operating profit		307,464	204,537
Financial income	28	31,486	18,393
Financial expenses	28	30,028	19,046
Net financial items		1,458	-653
Share of profit of equity accounted investees		856	0
Share of loss of equity accounted investees		4,031	980
Net share of profit and loss of equity accounted investees	12	-3,175	-980
Profit before income tax		305,747	202,904
Income tax expense	29	15,976	12,831
Profit for the period		289,771	190,073
Attributable to:			
Equity holders of the parent		267,482	177,003
Minority interest		22,289	13,070
Basic earnings per share (in kroons)	21	8.70	5.75
Diluted earnings per share (in kroons)	21	8.70	5.75

* For further information, please refer to note 13.

Consolidated statement of cash flows

In thousands of Estonian kroons	2007	2006
Cash flows from operating activities		
Cash receipts from customers	4,424,893	2,838,730
Cash paid to suppliers	-3,822,225	-2,503,579
Cash paid to and for employees	-438,363	-265,811
Income taxes paid	-18,423	-14,372
Net cash from operating activities	147,286	54,968
Cash flows from investing activities		
Acquisition of property, plant and equipment	-24,589	-20,094
Acquisition of intangible assets	15 -4,418	-10,529
Proceeds from sale of property, plant and equipment and intangible assets	17,539	11,042
Acquisition of properties for development	0	-3,364
Proceeds from sale of properties acquired for development	0	53,211
Acquisition of subsidiaries	6 -9,225	-57,243
Cash and cash equivalents of subsidiaries acquired	6 25,661	0
Proceeds from sale of subsidiaries	6 872	3,655
Acquisition of associates	6 -10,000	-8,088
Proceeds from sale of associates	6 10,417	18,578
Loans granted	-58,843	-33,785
Repayment of loans granted	56,439	5,959
Interest received	12,295	3,446
Acquisition of other investments	-5,406	0
Net cash from / used in investing activities	10,742	-37,212
Cash flows from financing activities		
Proceeds from issue of share capital	0	122,973
Proceeds from loans received	196,635	53,858
Repayment of loans received	-134,995	-157,870
Dividends paid	-52,135	-32,160
Payment of finance lease liabilities	17 -64,729	-27,357
Interest paid	-22,672	-12,937
Net cash used in financing activities	-77,896	-53,493
Net cash flow	80,132	-35,737
Cash and cash equivalents at beginning of period	155,980	192,490
Effect of exchange rate fluctuations	-98	-773
Increase / decrease in cash and cash equivalents	80,132	-35,737
Cash and cash equivalents at end of period	236,112	155,980

Consolidated statement of changes in equity

In thousands of Estonian kroons	Equity attributable to equity holders of the parent						Minority interest	Total
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
Balance at 31 December 2005*	34,819	8,192	4,158	795	145,223	193,187	12,257	205,444
Foreign exchange differences	0	0	0	1,401	0	1,401	1,347	2,748
Profit for the period*	0	0	0	0	177,003	177,003	13,070	190,073
Total recognised income and expense for the period	0	0	0	1,401	177,003	178,404	14,417	192,821
Dividends declared	0	0	0	0	-30,000	-30,000	-2160	-32,160
Issue of share capital	118,965	100,273	0	0	-96,265	122,973	0	122,973
Increase / decrease of minority interests	0	0	0	0	365	365	14,777	15,142
Balance at 31 December 2006	153,784	108,465	4,158	2,196	196,326	464,929	39,291	504,220
Balance at 31 December 2006	153,784	108,465	4,158	2,196	196,326	464,929	39,291	504,220
Foreign exchange differences	0	0	0	158	0	158	1,476	1,634
Profit for the period	0	0	0	0	267,482	267,482	22,289	289,771
Total recognised income and expense for the period	0	0	0	158	267,482	267,640	23,765	291,405
Dividends declared	0	0	0	0	-46,135	-46,135	-6,000	-52,135
Issue of share capital	153,783	-108,465	0	0	-45,318	0	0	0
Transfer to capital reserve	0	0	7,608	0	-7,608	0	0	0
Increase / decrease of minority interests	0	0	0	0	33,063	33,063	33,039	66,102
Balance at 31 December 2007	307,567	0	11,766	2,354	397,810	719,497	90,095	809,592

* The opening balance of retained earnings for 2006 has been increased by 16,236 thousand kroons and the profit for 2006 has been increased by 2,000 thousand kroons in connection with the recognition of gains on the revaluation of investment property (for further information, please refer to note 13).

NOTE 1. The reporting entity

AS Eesti Ehitus (the “parent company”) is a company registered in the Republic of Estonia. The shares of AS Eesti Ehitus have been listed on Tallinn Stock Exchange since 18 May 2006. The company’s majority shareholder is AS Nordecon who holds 61.15 per cent of the shares.

The consolidated financial statements of the parent company as at and for the year ended 31 December 2007 comprise the parent company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates and jointly controlled entities. The Group’s primary activities are residential and commercial construction, civil engineering and road construction and maintenance. In addition to Estonia, the Group operates in Latvia, Lithuania and Ukraine.

In accordance with the Commercial Code of the Republic of Estonia, the ultimate approval of the annual report including the consolidated financial statements which has been prepared by the board of directors and approved by the council rests with the general meeting of the shareholders.

These consolidated financial statements were authorised for issue by the board of directors on 29 February 2008.

NOTE 2. Statement of compliance and basis of preparation

The consolidated financial statements of AS Eesti Ehitus as at and for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union further to the IAS Regulation (EC 1606/2002).

These financial statements have been prepared and submitted for approval in conformity with the provisions of the Estonian Accounting Act and the Estonian Commercial Code.

The functional currency of group entities is the currency of the primary economic environment in which they operate: for Estonian entities - the Estonian kroon (EEK), for Latvian entities - the Latvian lats (LVL), for Lithuanian entities - the Lithuanian litas (LTL) and for Ukrainian entities - the Ukrainian grivna (UAH). The consolidated financial statements are presented in Estonian kroons. All financial information is presented in thousands of currency units, rounded to the nearest thousand unless indicated otherwise.

The consolidated annual financial statements have been prepared on the historical cost basis except where indicated otherwise in *Significant accounting policies*. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

Foreign currency transactions

Transactions in foreign currencies are translated at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement in the period in which they arise.

Foreign operations

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

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

The exchange rates of the euro against the Estonian kroon and the functional currencies of the Group's foreign operations:

	Estonian kroon (EEK)	Latvian lats (LVL)	Lithuanian litas (LTL)	Ukrainian grivna (UAH)
1 euro (EUR)	15.6466	0.7028	3.4528	Not pegged

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities based on the probability of their realisation, and the recognition of income and expenses.

Although management's estimates and underlying assumptions are reviewed on an ongoing basis and they are based on prior experience and the best available information on probable future events, actual results may differ from these estimates.

Critical judgements that have the most significant effect on the information presented in the financial statements concern the following accounting areas:

Recognition of construction contract revenue by reference to the stage of completion method (note 24)

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the balance sheet date. The Group estimates the stage of completion of its construction contracts using precise and systematic cost accounting, forecasting, and revenue and expense recognition procedures. The estimated outcome of each construction contract is subject to ongoing control. The Group analyses any deviations from the budget and revises its estimate of the outcome whenever necessary.

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.

A 10 per cent change in the estimated stage of completion of all construction contracts active at the balance sheet date could change revenue by approximately 120,000 thousand kroons and operating profit by approximately 18,000 thousand kroons.

Classification of investment properties (note 13)

Properties are classified both on initial recognition and subsequent reclassification on the basis of management's intentions regarding their further use. Investment properties comprise properties held to earn operating lease rentals or for capital appreciation and properties held over an extensive term for a currently undetermined future use.

The fair value of investment properties is determined based on the expert opinions of independent qualified real estate appraisers.

Provisions and contingent liabilities (notes 19 and 31)

Provisions are recognised in the balance sheet based on management's best estimates of the timing and amount of the expenditure required to settle a present obligation at the balance sheet date. A provision is used only for expenditures for which the provision was originally recognised.

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 by reference to an expert opinion based on the weighting of all possible outcomes against their associated probabilities on the completion of construction activity. Warranty expenses are recognised as the costs of construction contracts and they are established short- and long-term provisions.

Determination of the useful lives of property, plant and equipment (note 14)

Management estimates the useful life of an item of property, plant and equipment by reference to the expected usage of the asset (its expected capacity or output), historical experience with similar items, and future plans. According to management's assessment, the useful life of buildings and structures is 33 years and the useful life of items of plant and equipment is three to ten years depending on their construction and purpose of use. The average useful life of vehicles is five to seven years and the useful life of other equipment and fixtures is three to five years. The useful lives of used items are estimated taking into account their technical or commercial obsolescence and physical wear and tear.

Testing goodwill for impairment

The Group determines whether the carrying amount of goodwill arisen on the acquisition of subsidiaries and jointly controlled entities may have declined below its recoverable amount at least annually. This is done by comparing the carrying amount of the cash-generating unit to which the goodwill has been allocated with the fair value (less costs to sell) or value in use of the unit. Value in use is identified by estimating the future net cash flow to be derived from the cash-generating unit and by applying an appropriate discount rate so as to determine the present value of that future cash flow. At 31 December 2007, the carrying amount of goodwill equalled 262,316 thousand kroons (31 December 2006: 155,681 thousand kroons). Further information on the methods and outcomes of impairment tests on goodwill is presented note 15.

NOTE 3. Changes in accounting policies and presentation practice

Change in the measurement of investment property

Since 2007, investment properties have been measured at their fair values. Fair value was determined for all investment properties by qualified independent real estate appraisers. The change in measurement policy increased the carrying amount of investment property by 23,587 thousand kroons as follows:

- Pre-2006 gain: 16,236 thousand kroons
- Gain for 2006: 2,000 thousand kroons
- Gain for 2007: 5,351 thousand kroons

New International Financial Reporting Standards and Interpretations originated by the International Financial Reporting Interpretations Committee

To date, a number of new and revised standards and interpretations have been published, which were not yet effective for the year ended 31 December 2007 and have not been applied in preparing these consolidated financial statements. The following is management's assessment of the impact the new standards and interpretations may have on the Group's financial statements in the period of their initial application.

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised IFRS 2 is not relevant to the Group's operations as the Group does not have any share-based compensation plans.
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). Management has not completed its analysis and can therefore not assess the impact of the revised standard on the Group's financial statements with sufficient accuracy.
- IFRS 8 *Operating Segments* (effective from 1 January 2009). According to management's assessment, the new standard will change the presentation of operating segments and will render the disclosures about the Group's operating segments more informative.

- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The revised standards permits presenting either one statement of comprehensive income, which includes the content of the income statement and the statement of recognised income and expenses, or two separate statements (an income statement and a statement of comprehensive income). The Group's management is currently evaluating whether to present a single statement of comprehensive income or two separate statements.
- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009). Under the revised standard, borrowing costs which are directly attributable to assets whose preparation for use or sale requires significant time will be capitalised. Management has not completed its analysis and can therefore not assess the impact of the revised standard on the Group's financial statements with sufficient accuracy.
- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). Application of the revised will reduce interest expense but management cannot yet assess the impact with sufficient accuracy.
- IFRIC 11 *IFRS 2 – Company and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payment arrangements.
- IFRIC 12 *Service Concession Arrangements* (effective from 1 January 2008). IFRIC 12 is not relevant to the Group's operations as none of the Group entities has entered into any service concession arrangements.
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). Management has not completed its analysis and can therefore not assess the impact of the revised standard on the Group's financial statements with sufficient accuracy.

NOTE 4. Significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of AS Eesti Ehitus and its subsidiaries as at and for the year ended 31 December 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the consolidated financial statements, using consistent accounting policies. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Subsidiaries

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

Business combinations

Business combinations between independent parties are accounted for by applying the purchase method whereby the cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised is accounted for as goodwill. The acquiree's income and

expenses are included in the Group's income statement and the goodwill acquired from the business combination is recognised in the Group's balance sheet from the date of acquisition.

Positive goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. Positive goodwill is allocated to a cash-generating unit or a group of cash-generating units and it is not amortised. Instead, it is tested for impairment at each balance sheet date. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Negative goodwill is immediately recognised in income.

Associates and joint ventures

Associates are entities in which the investor has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the investor holds directly or indirectly through subsidiaries over 20 per cent of the voting power of the investee.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Investments in associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date the significant influence or joint control commences to the date the significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of future losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Jointly controlled operations

In accordance with IAS 31 *Interests in Joint Ventures*, jointly controlled operations are joint ventures which involve the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represents its own obligations. In respect of its interests in jointly controlled operations, a venturer recognises in its financial statements the assets that it controls and the liabilities that it incurs, and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated in consolidation

In preparing the consolidated financial statements, all intra-Group transactions, balances and unrealised gains and losses are eliminated.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term highly liquid investments that are readily convertible to known amounts of cash within up to three months and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, demand deposits, term deposits with a maturity of up to three months and units in money market funds.

The consolidated statement of cash flows is prepared using the direct method.

Financial assets

A financial asset is recognised initially at its cost which equal to the fair value of the consideration given for the asset at the time of its acquisition. The cost of a financial asset includes any transaction costs that are directly attributable to its acquisition such as agents' and advisors' fees, non-recoverable taxes and similar expenditures. Exceptions include financial assets at fair value through profit or loss – the transaction costs incurred on the acquisition of those instruments are recognised as an expense in the income statement.

Regular way purchases and sales of financial assets are recognised using trade date accounting. The trade date is the date on which an entity commits itself to purchase or sell an asset (e.g. the date on which the contract is signed). A purchase or sale is considered a regular way purchase or sale if the terms of the contract require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

After initial recognition, financial assets are classified into categories (see below). At the end of each reporting year, financial assets are reviewed to determine whether they are carried in the right category and, when necessary, appropriate adjustments are made. Financial assets which cannot be reclassified under international financial reporting standards are not reclassified. Subsequent to initial recognition, financial assets are measured as follows:

- financial assets at fair value through profit or loss – at their fair values
- held-to-maturity investments – at their amortised cost
- loans and receivables – at their amortised cost
- available-for-sale financial assets – at their fair values or at cost if the assets are equity instruments whose fair value cannot be measured reliably

Financial assets carried at fair value

A financial asset carried at fair value is re-measured to fair value at each balance sheet date without any deduction for transaction costs which may be incurred on their sale or other disposal. The fair value of a listed security is based on its quoted bid price at the close of business on the balance sheet date and the official exchange rate of Eesti Pank (Bank of Estonia) at that date. The fair value of an unlisted security is established by using available information and valuation techniques which may include reference to the current fair value of another instrument which is substantially the same and / or discounted cash flow analysis.

Gains and losses on changes in the fair values of such financial assets are generally recognised in the income statement in financial income and in financial expenses respectively. Exceptions include gains and losses on available-for-sale financial assets which are recognised directly in equity in the fair value reserve. When a financial asset is derecognised or becomes impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. When an asset becomes impaired, the amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Gains and losses from the disposal of financial assets measured at fair value and any interest and dividends on such assets are recognised in the income statement in financial income and financial expenses as appropriate.

Receivables and held-to-maturity investments

Subsequent to initial recognition, receivables other than those which the Group intends to sell and held-to-maturity investments are measured at their amortised cost using the effective interest rate method. The amortised cost is determined for the entire expected life of the instrument, taking into account all premiums and discounts as well as any direct transaction costs.

If there is objective evidence that a receivable or a held-to-maturity investment carried at amortised cost is impaired, i.e. that the carrying amount of the instrument exceeds its recoverable amount, the instrument is written down by the difference between its carrying amount and recoverable amount. The recoverable amount of such an instrument is the present value of its estimated future cash flows discounted at the instrument's original effective interest rate. Impairment losses on financial assets related to operating activity are recognised in operating expenses and impairment losses on financial assets related to investing activities are recognised in financial expenses.

Financial assets that are individually significant are assessed for impairment individually. If a receivable is 180 or more days overdue, it is considered impaired and expensed in full. If impairment of an asset becomes obvious sooner, the asset is written down earlier.

When a receivable for which an impairment loss has been recognised is recovered or an event occurs, which reverses the impairment, the reversal is recognised in the income statement by reducing the expense in which the impairment loss was originally recognised.

Interest income on receivables and held-to-maturity investments is recognised in the income statement in financial income.

Financial assets carried at cost

A financial asset carried at cost is written down to its recoverable amount when the latter has declined below the asset's carrying amount. The recoverable amount of a financial asset carried at cost is the present value of its estimated future cash flows discounted at the average rate of return prevailing in the market of similar financial assets. Impairment losses on financial assets carried at cost are recognised in the income statement in financial expenses. Such impairment losses are not reversed.

A financial asset is derecognised when the Group's rights to the cash flows from the financial asset expire, or when it assumes the obligation to remit any cash flows it collects without material delay to a third party to whom substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group does not have any held-to-maturity investments or derivative financial instruments.

Inventories

Finished goods and work in progress are initially recognised at their cost of conversion. The cost of conversion of inventories comprises all direct and indirect production costs incurred in bringing the inventories to their present location and condition. Other inventories are initially recognised at cost. The cost of inventories comprises all direct and indirect costs incurred in bringing the inventories to the location and condition necessary for them to be capable of being sold.

The costs incurred in connection with real estate development are recognised as inventories. Depending on the stage of completion of the project, the costs are recognised either as work in progress or finished goods. Building materials acquired for construction contracts are recognised in the balance sheet in raw and other materials.

As a rule, the cost of inventories is assigned using the weighted average cost formula. Exceptions include registered immovable properties and apartments treated as movable properties whose cost is calculated and assigned using specific identification of their individual costs.

In the balance sheet, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Impairment losses on inventories, i.e. inventory write-downs to net realisable value are recognised in the income statement in the cost of sales.

Construction work in progress

The revenues and costs of a construction contract are matched and recognised by reference to the stage of completion (percentage of completion) of the contract activity at the balance sheet date. The stage of completion of a contract is determined as the proportion that contract costs incurred for work performed

until the balance sheet date bear to the estimated total contract costs. Construction contract costs comprise costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Any expected construction contract loss is recognised as an expense immediately.

If progress billings exceed the revenue recognised in the income statement by reference to the stage of completion method, the difference is recognised in the balance sheet in deferred income. If the revenue recognised in the income statement by reference to the stage of completion method exceeds progress billings, the difference is recognised in the balance sheet in other receivables.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred.

Investment property

Investment property is property (land and buildings) held to earn rentals or for capital appreciation or both rather than for use in the operating activities of a group entity. In addition, investment property includes properties held for an extensive term for a currently undetermined use. Land and buildings acquired for residential construction purposes are recognised as inventories. Properties that are being constructed or developed for future use as investment property (commercial buildings under construction) are recognised as items of property, plant and equipment until their construction or development is complete.

Investment property is recognised initially at its cost. Directly attributable transaction costs, such as notaries' fees, stamp duties, professional fees for advisory services, and other essential transaction costs incurred to perform the transaction are included in the initial measurement. After initial recognition, investment property is measured at fair value at each balance sheet date. The fair value of investment property is based on market conditions at the balance sheet date.

The fair value of investment property is determined by reference to the expert opinions of qualified appraisers. In the case of significant properties, parallel appraisals may be commissioned from independent real estate appraisers. Fair value is determined using the following methods:

- Discounted cash flow analysis In order to calculate the value of a property's discounted cash flows, the appraiser has to forecast the property's future rental income (including rental per 1 square metre and the occupancy rate) and operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of properties that generate stable rental income.
- Sales comparison method Under this method, the market value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties. This method is used to determine the value of properties which do not generate rental income but are held for development or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and detailed plan.
- A contract under the law of obligations The fair value of properties which at the balance sheet date have been sold by a contract under the law of obligations but whose real right contract has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. This method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment by the balance sheet date or the real right contract is concluded after the balance sheet date but before the date management authorises the financial statements for issue).

Gains and losses from changes in value are recognised in the income statement in other operating income and other operating expenses respectively.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from it. Gains and losses arising from the retirement or disposal of investment property are recognised in the income statement in other operating income and other operating expenses respectively in the period of the retirement or disposal.

When there is a change in use, investment property is reclassified. The property is accounted for, from the date of transfer, in accordance with the policies applicable to the group of assets to which the property was transferred. If a property which used to be accounted for as investment property is transferred to inventories or property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of reclassification.

If a property is transferred from property, plant and equipment to investment property, any positive difference at that date between the property's fair value and carrying amount is recognised in the revaluation reserve while any negative difference is recognised in the income statement as depreciation expense. Exceptions include assets under construction. When the latter are transferred to investment property, any difference (both positive and negative) between their fair value and carrying amount is recognised in the income statement in other operating income or other operating expenses, as appropriate. When a property is transferred from inventories to investment property, any difference (both positive and negative) at that date between its fair value and carrying amount is recognised in the income statement in other operating income or other operating expenses, as appropriate.

Property, plant and equipment

Assets are classified as items of property, plant and equipment when their cost amounts to at least 30,000 kroons and estimated useful life extends beyond one year. An asset whose cost is less than 30,000 kroons but estimated useful life exceeds one year is classified as an asset of immaterial value and carried in inventories until it is implemented. After implementation an asset of immaterial value is expensed in full. Expensed assets of immaterial value are accounted for off the balance sheet.

From 2008 the threshold for recognising purchases as items of property, plant and equipment is 30,000 kroons. In connection with the change in accounting policy, at the balance sheet date, items of property, plant and equipment whose cost was less than 30,000 kroons were written off the balance sheet. Such items are accounted for off the balance sheet. For further information on the impact of the change in accounting policy, please refer to note 14.

Items of property, plant and equipment are initially recognised at cost. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to its acquisition. After recognition, items of property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

If an item of property, plant and equipment consists of significant parts which have different useful lives, the parts are accounted for as separate items of property, plant and equipment and are assigned depreciation rates which correspond to their useful lives.

Subsequent costs related to an item of property, plant and equipment, such as the costs of replacing part of it, are recognised in the carrying amount of the item if it is probable that future economic benefits associated with the costs will flow to the Group and the costs can be measured reliably. The carrying amount of the parts which are replaced is derecognised. All other costs related to property, plant and equipment are recognised as an expense as incurred.

Items of property, plant and equipment are depreciated using the straight-line method. Each item is assigned a depreciation rate which corresponds to its useful life. The following useful lives are applied:

Buildings and structures	33 years
Plant and equipment	3-10 years
Vehicles	5-7 years
Other equipment, fixtures and fittings	3-5 years

Items of property, plant and equipment are depreciated until their residual value exceeds their carrying amount. The residual value of an asset is the amount that the Group would currently obtain from disposal of the asset, if the asset were already of the age and in the condition expected at the end of its useful life.

The depreciation methods, depreciation rates and residual values of property, plant and equipment are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are recognised prospectively.

The Group assesses whether the carrying amount of an item of property, plant and equipment may be impaired when there is any indication that the recoverable amount of the item has decreased below its carrying amount. Further information on assessing impairment is presented below (see policy *Impairment of assets*).

The carrying amount of an item of property, plant and equipment is derecognised when the item is disposed of or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment is included in other operating income or other operating expenses in the income statement of the period in which the item is derecognised.

When it is highly probable that an item of property, plant and equipment will be sold within the next twelve months, the item is classified as held for sale. **Non-current assets held for sale** are presented in the balance sheet separately from current and non-current assets and their depreciation is terminated. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Goodwill

Goodwill acquired in a business combination is initially measured at its cost. Goodwill is the positive difference between the cost of the business combination and the Group's interest in the fair value of the net assets acquired in the subsidiary or joint venture at the date of acquisition. Net assets acquired represent the difference between the fair value of the identifiable liabilities and contingent liabilities acquired and the fair value of the identifiable assets acquired.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated is not larger than a primary segment for segment reporting purposes.

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that the carrying amount of goodwill may be impaired. Impairment is determined by estimating the recoverable amount of the cash-generating unit to which goodwill has been allocated. If the recoverable amount of the cash generating unit is less than the carrying amount of the cash generating unit including goodwill, goodwill is written down. Impairment losses on goodwill are recognised in administrative expenses in the income statement

Research and development expenditures

Research expenditures include expenditures incurred in original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Research expenditures are related to the creation of a scientific or technical basis for the development of new products or services and they are recognised as an expense as incurred. Exceptions include research expenditures incurred in connection with the exploration of mineral resources which are recognised as intangible assets at cost. Subsequent to initial recognition, such items are measured using the cost method.

Development expenditures include expenditures incurred in the application of research findings to plan or design or test for the production of new products, processes, systems or services. Development expenditure

is capitalised and recognised as an intangible asset if the expenditure can be measured reliably, the Group has technical and financial resources and a positive intention to complete the development of the asset, the Group can use or sell the asset and the probable future economic benefits generated by the asset can be measured.

Capitalised development expenditures are carried at cost less any accumulated amortisation and any accumulated impairment losses. Development expenditure is expensed on a straight-line basis over its estimated useful life which does not exceed five years.

Subsequent expenditure related to such an asset is capitalised only if it increases future economic benefits flowing from the asset.

Other intangible assets

An acquired intangible asset is measured initially at cost. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are classified into assets with a finite useful life and assets with an indefinite useful life. Assets with a finite useful life are amortised over their estimated useful lives using the straight-line method.

Licences, patents	3-5 years
Trademarks	5 years
Development expenditure	up to 5 years

Amortisation expense is recognised in the income statement where it is classified based on the category of the asset. The amortisation periods and methods of intangible assets with finite useful lives are reviewed at each financial year-end. If the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset changes, the amortisation period and method are adjusted accordingly. The changes are accounted for as changes in accounting estimates and recognised prospectively.

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset that is not being amortised is reviewed at each financial year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If the indefinite useful life has become finite, amortisation of the asset will commence and the change in estimates is recognised prospectively.

Intangible assets with indefinite useful lives are tested for impairment individually or as part of a cash-generating unit. Intangible assets with finite useful lives are tested for impairment whenever there is any indication that their carrying amount may be impaired. When the carrying amount of an intangible asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised similarly to amortisation expenses in the income statement where they are classified according to the category of the asset. Further information on the assessment of impairment is described in the policy *Impairment of assets*.

Impairment of assets

At each reporting date the Group assesses whether there is any indication that an asset may be impaired (an asset is impaired when its carrying amount exceeds its recoverable amount). The Group estimates the recoverable amounts of its assets whenever necessary or at least once a year (if so required by IFRSs). If the carrying amount of an asset exceeds its recoverable amount, the asset or the cash-generating unit to which the asset belongs is written down to its recoverable amount. The recoverable amount of an asset or its cash-generating unit is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset or cash-generating unit (value in use). Value in use is calculated by estimating the future cash flows expected to be derived from the asset and applying an appropriate pre-tax discount rate to those cash flows. The discount rate has to reflect current market conditions and the risks specific to the asset. Where necessary, the fair value of an asset is determined with the assistance of independent experts. Impairment losses on assets including impairment losses on cash-generating units are recognised in the income statement in depreciation and amortisation expense.

The Group assesses at least at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If such an indication exists, the impairment loss recognised in prior periods is reversed. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the income statement as a reduction of the expense in which the original impairment loss was recognised. As an exception, impairment losses for goodwill are not reversed.

Financial liabilities

Unless indicated otherwise in these accounting policies, all financial liabilities (trade and other payables, loans, accrued expenses, debt securities issued and other short- and long-term borrowings) are recognised initially at cost. The cost of a financial liability includes any transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition, financial liabilities are measured at amortised cost (except for financial liabilities acquired for resale which are measured at their fair value).

As a rule, the amortised cost of a current financial liability is effectively the same as its nominal value. Therefore, current financial liabilities are carried at the amount payable. Non-current financial liabilities are initially recognised at the fair value of the consideration received for them (less any transaction charges). Subsequent to initial recognition, non-current financial liabilities are measured at amortised cost using the effective interest rate method. Interest expense on financial liabilities is recognised on an accrual basis in financial expenses.

A financial liability is classified as current when it is due to be settled within twelve months after the balance sheet date or when the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Loan liabilities which are to be settled within twelve months after the balance sheet date but which are refinanced on a long-term basis between the balance sheet date and the date on which the financial statements are authorised for issue, are reported as current liabilities. Loan liabilities are classified as current if the creditor may recall the loan at the balance sheet date due to breach of the loan agreement.

Provisions and contingent liabilities

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Promises, guarantees and other commitments which may transform into an obligation subject to the occurrence of certain future events (which have not yet occurred) are disclosed in the notes to the financial statements as contingent liabilities.

Contingent liabilities include present obligations that arise from past events which according to management's estimates will not require settlement and / or which cannot be measured reliably.

Short-term employee benefits

Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The liability arises, first and foremost, as a result of the termination of an employment relationship. Therefore, the Group recognises termination benefits only when it is demonstrably committed to terminate the employment of an employee or a group of employees before the normal retirement date, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Where termination benefits fall due more than twelve months after the balance sheet date, they are discounted to their present value.

Obligations under profit-sharing and bonus plans result from employee service and not from a transaction with the entity's owners. Therefore, profit-sharing and bonus plans are recognised not as a distribution of profit but as an expense. Such current liabilities are not discounted.

Profit-sharing and bonus payments to be made under profit-sharing and bonus plans are calculated and recognised as an expense and a liability based on formulas approved by the board. The Group recognises the expected cost of profit-sharing and bonus payments only when the Group has a present legal or constructive obligation to make such payments and a reliable estimate can be made of the amount of the obligation.

Leases

A lease that transfers substantially all the risks and rewards incidental to ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

The Group recognises finance leases concluded for the acquisition of assets at the commencement of the lease term as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Assets acquired with finance lease are depreciated over the shorter of their lease term and useful life. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

The Group recognises assets leased out under a finance lease in its balance sheet and presents them as receivables at an amount equal to the net investment in the lease.

Finance income is allocated over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

In the case of operating leases, the leased assets are carried in the balance sheet of the lessor. Operating lease payments received and made are recognised in income and expense on a straight-line basis.

Statutory capital reserve

In accordance with the Commercial Code, the statutory capital reserve has to amount to at least 10 per cent of the parent company's share capital. Accordingly, every year the parent company transfers at least 5 per cent of its net profit to the statutory capital reserve until the prescribed level is attained. The statutory capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity. In addition, the capital reserve may be used for increasing share capital by means of a bonus issue. The Group's capital reserve comprises the subsidiaries' capital reserves.

Earnings per share

Basic earnings per share are calculated by dividing the net profit for the reporting year by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by dividing net profit for the reporting year by the weighted average number of ordinary shares outstanding during the period, both adjusted for the effects of all dilutive potential equity instruments. A period's weighted average number of ordinary shares is calculated by taking into account the effect of any bonus issues.

Income tax

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current income tax (tax payable) is recognised as a current asset or liability and deferred tax is recognised as a non-current asset or liability. When it is highly probable that deferred tax will realise in the next financial year, it is classified as a current asset or liability.

Parent company and subsidiaries and joint ventures registered in Estonia

Under the Estonian Income Tax Act, income tax is not levied on profits earned but dividends distributed. Until 31 December 2007 the tax rate for (net) dividend distributions was 22/78. From 1 January 2008 the tax rate is 21/79. According to the Income Tax Act, the tax rate decreases at the rate of 1 percentage point per year until it reaches 20/80 which will be applicable to dividends distributed after 1 January 2009. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared (when the distribution obligation arises).

Owing to the specific nature of the taxation concept, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities. The contingent income tax liability which arises on the distribution of retained earnings as dividends is not recognised in the balance sheet. The maximum income tax liability which would arise if all of the unrestricted equity were distributed as dividends is disclosed in note 31.

Latvian, Lithuanian and Ukrainian subsidiaries and joint ventures

In Latvia, Lithuania and Ukraine corporate profits are subject to income tax. In Latvia and Lithuania the tax rate is 15 per cent and in Ukraine 25 per cent. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

In the case of foreign subsidiaries, deferred tax assets and liabilities are calculated on all the temporary differences at the balance sheet date between the tax bases and carrying amounts of assets and liabilities. A deferred tax asset is recognised in the balance sheet only when it is probable that in the foreseeable future the entity will incur an income tax liability of a similar amount which can be offset against the deferred tax asset.

Segment reporting

Segment reporting is based on the organisational units for which information is reported for the Group's internal financial reporting purposes (management accounting and budgeting). The primary segment reporting format is business segments. A business segment is a component of the Group that is engaged in providing a product or service that is different from those of other segments and which functions as an independent profit centre.

The Group's business segments include:

Residential and non-residential

- Residential buildings
- Public buildings
- Commercial buildings
- Industrial and warehouse facilities

Civil engineering

- Road construction
- Road maintenance
- Environmental engineering
- Hydraulic engineering
- Construction of outdoor networks
- Other civil engineering works

Segment revenue is revenue that is directly attributable to a segment and a relevant portion of Group revenue that can be allocated on a reasonable basis to the segment, whether from sales to external customers or from transactions with other segments of the Group. Revenues arising from transactions between companies operating within the same segment are eliminated.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of expenses that can be allocated to the segment on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include financing and investment expenses, the Group's general administrative expenses or other expenses that arise at the Group level. Expenses incurred at Group level may be allocated to a segment only if they relate to the segment's operating activities and they can be directly attributed to the segment on a reasonable basis. Expenses arising from transactions between companies operating within the same segment are eliminated. Segment result is segment revenue less segment expense.

Unrealised gains and losses arising within the Group from inter-segment transactions are not allocated to any segment but are presented in inter-segment eliminations. Unrealised gains and losses arising from transactions between the parent company and a segment are included in the segment's operating profit if there is a reasonable basis for such an allocation.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets include, for example, current assets, investment properties, property, plant and equipment and intangible assets which are used in a segment's operating activities. If an item of depreciation or amortisation expense is included in segment expense, the underlying asset is included in segment assets. Segment assets do not include assets used for general Group purposes or which cannot be directly attributed to a segment. Segment assets include assets shared by two or more segments if a reasonable basis for allocation exists.

Segment liabilities are liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities include, for example, trade and other payables, accrued expenses, customer advances, warranty provisions and other liabilities related to products and services. Segment liabilities do not include loans, finance lease liabilities, debt securities or other liabilities arising from financing activities. Neither do segment liabilities include income tax liabilities.

The Group's unallocable revenue and expenses and assets and liabilities include revenue and expenses and assets and liabilities which are not directly related to any segment and therefore can not be allocated to them.

The Group's secondary segment reporting format is geographical segments. As at 31 December 2007, geographical segments included Estonia, Ukraine and Lithuania.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised only to the extent that it is probable that economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenue from 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 method as soon as the outcome of the contract can be estimated reliably. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work and claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being reliably measured. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed bear to the estimated total contract costs and surveys of work performed. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenue from the sale of real estate development projects (detached houses, apartments, office premises, etc which have been built on plots belonging to Group entities) is recognised similarly to revenue from the sale of goods, i.e. when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date.

Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and the amount of the revenue can be measured reliably.

Revenue from the sale of real estate

Revenue from the sale of real estate is recognised when all significant risks and rewards related to the asset have been transferred to the buyer and the Group is not obligated to perform significant additional work. As a rule, a sale is deemed to have taken place when the real right contract has been signed. Amounts received from customers before the conclusion of the contract are recognised as advances.

Financial income

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

Investments in subsidiaries, associates and joint ventures in the parent company's unconsolidated financial statements whose disclosure is required by the Estonian Accounting Act

The parent company's unconsolidated primary financial statements are presented as supplementary information in accordance with the Estonian Accounting Act and they do not constitute the parent company's separate financial statements as defined in IAS 27.

In the parent company's unconsolidated financial statements, investments in subsidiaries, associates and joint ventures are accounted for using the cost method. Under the cost method, an investment is initially recognised at cost, i.e. at the fair value of the consideration paid for it upon acquisition. After initial recognition, investments in subsidiaries, associates and joint ventures are carried at cost less any impairment recognised.

When there is any indication that an investment may be impaired or at least at each financial year-end, the parent company tests the investments for impairment by estimating their recoverable amounts (see policy *Impairment of assets*). Impairment losses are recognised in the income statement in financial expenses.

Dividends distributed by subsidiaries, associates and joint ventures are recognised in financial income when the right to receive payment is established. Dividends distributed from this portion of a subsidiary's, associate's or joint venture's equity which accumulated before the date of acquisition are not recognised as income. Instead, they are accounted for as a reduction of the investment.

NOTE 5. Financial risk management

Use of financial instruments exposes the Group to the following risks:

- Credit risk
- Liquidity risk
- Market risk

The Group's risk management process is based on the premise that success depends on ongoing monitoring, accurate measurement and effective mitigation of the risks faced by the Group. The main objective of risk management is to prevent any damage or loss that could jeopardise the Group's equity and continuous operation. The success of financial risk management is represented by changes in liquidity, interest rate, exchange rate, credit quality and fair value positions compared with the maximum possible ones. The Group establishes risk hedging policies and implements controls and activities which are aimed at identifying, measuring and monitoring risks and dispersing risks across time, activities and geographical areas. Risk hedging policies and activities are implemented by the boards of Group entities. The boards are overseen by the councils. A council meets at least four times a year. The councils of subsidiaries are generally composed of members of the parent company's board of directors and, if there are minority shareholders, representatives of the latter.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss for the Group or a subsidiary, associate or jointly controlled entity will cause a financial loss for the parent company by failing to discharge its obligations. The Group's credit risk arises principally from receivables from customers, investments and warranties and guarantees issued.

Credit risk management involves both preventive activities (analysis of the creditworthiness of counterparties) and the limitation of the concentration and accumulation of risks. Group entities perform transactions only with those counterparties which have been considered creditworthy by the management. Transaction parties have to settle immediately. In order to obtain credit, customers and counterparties have to put up additional collateral. The maximum credit exposure is represented by the carrying amounts of cash and cash equivalents, warranties and guarantees issued and financial assets, which are disclosed in note 30.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk arises principally from liabilities to banks, leasing companies and suppliers. Free funds are held in highly liquid interest-bearing money market instruments issued by banks. The Group's liquidity is affected, first and foremost, by the following factors:

- the capability of Group entities to generate independent net operating cash inflow and the dependence of the capability on the season (the solvency of customers and / or counterparties)
- the volume and pace of acquiring new investments
- the pace of expansion in new markets

Short-term liquidity management is based, first and foremost, on Group entities' approved annual budgets and investment plans. The main tools for short-term liquidity management are the group accounts which pool the funds of Group entities and help mitigate seasonal fluctuations in Group entities' liquidity. Other short-term financing needs are satisfied by overdraft facilities acquired from banks.

Long-term liquidity management is primarily influenced by investment decisions. In making investment decisions, the Group tries to avoid the emergence of open positions (i.e. where the payback period of an investment exceeds the duration of financing obtained).

For further information on the Group's liquidity, please refer to note 30.

Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings. Changes in foreign exchange rates, interest rates and cost of capital affect the Group's income and the value of its financial instruments.

Currency risk is the risk that the Group will incur a loss due to unfavourable changes in the exchange rates of other currencies against the Estonian kroon. The central bank has pegged the Estonian kroon to the euro at a fixed exchange rate of 1 euro = 15.6466 kroons. In view of the fact that in other markets where the Group operates (except for Ukraine) the exchange rate of the local currency against the euro is also fixed, approximately 10-15 per cent of the Group's operations involve a currency risk. Information on the Group's currency positions is presented in note 30.

Interest rate risk is the risk that a change in interest rates and / or interest settlement periods will have a significant impact on the Group's result of operations. Receivables and liabilities with fixed and floating interest rates are disclosed in note 30.

Fair value

The Group's principal financial assets and financial liabilities are recognised in the balance sheet. The Group is not aware of any significant off-balance sheet financial assets or liabilities. Due to accounting and reporting policies applied, the carrying amounts of financial assets and financial liabilities do not differ significantly from their fair values.

For disclosure purposes, fair values were determined as follows:

- Financial assets – financial assets at fair value through profit or loss comprise unlisted equity instruments whose fair value at the balance sheet date was estimated by reference to their existing sales contracts.
- Other receivables and prepayments – the fair value of other receivables and prepayments (except for items related to active construction contracts) was determined as the present value of their future cash flows discounted at the market interest rate at the balance sheet date. Non-current fixed-interest

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financial assets were discounted by comparing the average market interest rate with their fixed interest rate at the balance sheet date.

- Financial liabilities – the fair value of financial liabilities was determined based on the present value of future principal and interest payments. According to management’s assessment, the carrying amounts of short-term financial liabilities do not differ significantly from their fair values because the items are current. Non-current fixed-interest financial liabilities were discounted by comparing the average market interest rate with their fixed interest rate at the balance sheet date.

For a comparison of the fair values and carrying amounts of financial instruments, please refer to note 30.

Capital management

The board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The board pursues a conservative capital management policy by maintaining gearing at below 20 per cent.

In thousands of kroons	2007	2006
Total loans and borrowings	399,580	266,046
Cash and cash equivalents	-236,112	-155,980
Net loans and borrowings	163,468	110,066
Total equity	809,306	504,220
Net invested capital	972,774	614,286
Gearing ratio	17%	18%

At the balance sheet date, the Group had a loan agreement with Hansapank under which the Group is required to maintain the equity ratio (equity to equity and liabilities) at 25 per cent or above (2007 actual: 36.8 per cent; 2006 actual: 34.9 per cent). In January, the Group entered into a loan agreement with Sampo Pank under which the equity ratio has to be at least 30 per cent.

NOTE 6. Changes in the structure of the Group

Scope of consolidation

	Estonia	Lithuania	Latvia	Ukraine	Finland	Total
Parent company and subsidiaries						
At 1 January 2007	9	-	-	4	1	14
Addition	1	1	-	-	-	2
Disposal	-	-	-	2	-	2
At 31 December 2007	10	1	-	2	1	14
Associates						
At 1 January 2007	1	-	1	2	-	4
Addition	4	-	-	3	-	7
Disposal	-	-	-	-	-	-
At 31 December 2007	5	-	1	5	-	11
Joint ventures						
At 1 January 2007	1	-	-	-	-	1
Addition	1	-	-	-	-	1
At 31 December 2007	2	-	-	-	-	2

At 31 December 2007, Eesti Ehitus Group comprised 14 entities, which were consolidated line-by-line, 10 of them in Estonia. The Group’s structure is presented on page 8 of *Management’s discussion and analysis*.

Changes in the Group’s interests in subsidiaries

In June 2007, the Group established a wholly-owned subsidiary UAB Eurocon LT in Lithuania. The Group’s contribution in the subsidiary’s share capital amounted to 906 thousand kroons. In September 2007, 30 per cent of the investment was sold to UAB Eurox LT, a non-Group company domiciled in Lithuania. At the balance sheet date, the Group’s investment in the subsidiary amounted to 634 thousand kroons.

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In December 2007, the Group decided to dispose of 61 per cent of its interest TOV Passage Theatre, which had been acquired for resale. At the reporting date, the sales transaction had not been performed but the Group had entered into a preliminary agreement under which the sale should take place in April 2008 at the latest. At the balance sheet date, the investment in TOV Passage Theatre was accounted for as an investment in an associate and the portion that Group intends to sell was classified as a non-current asset held for sale (note 11).

The Group's interests in associates

In thousands of Estonian kroons

As at 31 December

Company	Domicile	Group's interest		Core activity
		2007	2006	
TOV Technopolis-2	Ukraine	31%	31%	Real estate development
TOV V.I.Center	Ukraine	32%	41%	Real estate development
TOV Eurobeton	Ukraine	0%	31%	Real estate development
TOV EA Reng	Ukraine	31%	31%	Design
TOV Baltik Development	Ukraine	31%	0%	Real estate development
TOV Passage Theatre	Ukraine	18%	55%	Real estate development
OÜ Kastani Kinnisvara	Estonia	26%	26%	Real estate development
SIA Abagars				Construction of environmental structures and outdoor networks
OÜ DSN Ehitusmasinad	Latvia	34%	0%	Sales and maintenance of construction equipment
OÜ Sepavara	Estonia	34%	0%	Real estate development
OÜ Kalda Kodu	Estonia	27%	0%	Real estate development
OÜ Crislivinca	Estonia	23%	0%	Real estate development
OÜ Crislivinca	Estonia	18%	0%	Real estate development

In February, the Group sold an 11 per cent interest in TOV V.I. Center to a non-Group company for 8,449 thousand kroons. Transaction gain amounted to 6,309 thousand kroons. Considering minority interests in OÜ Eurocon and TOV Eurocon Ukraine, after the transaction AS Eesti Ehitus' stake in TOV V.I. Center equals 32 per cent.

In April, a new development company, TOV Baltik Development, was established in Ukraine in association with a Dutch company. Taking into account minority interests in OÜ Eurocon and TOV Eurocon Ukraine, AS Eesti Ehitus' interest in the established entity is 30.7 per cent. The cost of the investment amounted to 58 thousand kroons.

In July, the Group divested of its shareholding in the Ukrainian associate TOV Eurobeton for 1,968 thousand kroons. Transaction gain amounted to 1,945 thousand kroons. Accounting for the associate under the equity method ceased from the month of divestment.

In August, OÜ Kaurits (a 52 per cent subsidiary of AS Aspi which a wholly owned subsidiary of AS Eesti Ehitus) acquired a 66 per cent majority shareholding in OÜ DSN Ehitusmasinad for 10,000 kroons. By the balance sheet date, the purchase price had been paid.

Investments in OÜ Crislivinca, OÜ Sepavara and OÜ Kalda Kodu were acquired in connection with the acquisition of a 52 per cent interest in AS Eston Ehitus.

Business combinations

On 19 October 2007, AS Eesti Ehitus signed a contract for the purchase of 5,203 shares (52 per cent of the share capital) in AS Eston Ehitus. The shares, which were purchased from several individuals and a company, were paid for on 11 January 2008.

Subsidiary's net assets at the date of acquisition

In thousands of Estonian kroons	Note	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (52%)
Cash and cash equivalents		25,661	25,661	13,344
Receivables and prepayments		53,605	53,605	27,875
Inventories		23,567	31,967	16,623
Non-current assets		45,421	121,349	63,101
Current liabilities		-62,971	-62,971	-32,745
Non-current liabilities		-14,611	-14,611	-7,598
Net identifiable assets and liabilities		70,672	155,000	80,600
Goodwill	15			106,635
Cost				187,235
Cash paid at 31 December 2007				0

On the purchase price allocation, the carrying values of immovable properties and investment properties were restated to their fair values.

The results of AS Eston Ehitus have been consolidated since November 2007. The revenue and profit contributed by the company in 2007 amount to 75,208 thousand kroons and 5,014 thousand kroons respectively. If the acquisition had occurred at the beginning of 2007, consolidated revenue and consolidated profit would have been 215,577 thousand kroons and 7,363 thousand kroons larger respectively.

The amount recognised in the consolidated statement of cash flows as *Acquisition of subsidiaries* comprises the following payments:

In thousands of Estonian kroons	Paid in 2007	Year of acquisition
Mapri Projekt OÜ	1,025	2005
Kaurits OÜ	8,200	2006
Total	9,225	

The establishment of Eurocon LT UAB was an intra-Group transaction and is therefore not reported in the statement of cash flows.

Acquisitions of 2006

In thousands of Estonian kroons	Interest acquired	Fair value of acquiree's net assets	Net assets acquired	Cost of interest acquired	Goodwill
Kaurits OÜ	52%	31,808	16,540	41,000	24,460

Net assets of the associate OÜ DSN Ehitusmasinad at the date of acquisition

In thousands of Estonian kroons	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (66%)
Cash and cash equivalents	569	569	376
Receivables and prepayments	5,205	5,205	3,435
Property, plant and equipment	1,243	1,243	820
Current liabilities	-3,405	-3,405	-2,247
Non-current liabilities	-254	-254	-168
Net identifiable assets and liabilities	3,358	3,358	2,216
Goodwill			7,784
Cost			10,000
Cash paid			-10,000

Participation in joint ventures

In 2007, the Group participated in two joint ventures.

Under one partnership contract, the Group was involved in the rehabilitation of Tallinn Airport airside area (Partnership contract I). The project is under the joint control of three parties. The Group's share in the profit of the contract is one third. Each party is responsible for the delivery and risks of the contract to the extent of its share in the venture. The penalty for a deliberate breach of contract is 100 thousand euros.

In addition, the Group participated in the construction of the Vaida-Aruvalla road section under another partnership contract (Partnership contract II). The project is under the joint control of four parties. The Group's share in the profit of the contract is one fourth. Each party is responsible for the delivery and risks of the contract to the extent of its share in the venture.

Venture partners have not established a company for the performance of the contracts. Therefore, each venturer recognises in its financial statements the assets it controls, the liabilities it incurs, the expenses it incurs and the share of income that it earns, and the consolidated financial statements are not adjusted or subjected to any other consolidation procedures.

In thousands of Estonian kroons	2007		2006
	Partnership contract I	Partnership contract II	Partnership contract I
Income	84,334	86,271	5,877
Including the reporting period	78,457	86,271	5,877
Expenses	75,528	75,353	5,636
Including the reporting period	69,892	75,353	5,636
Receivables	29,322	59,986	5,598
Including from venture partners	29,322	37,093	5,598
Payables	26,722	58,683	4,264
Including to venture partners	0	43,167	4,264

NOTE 7. Cash and cash equivalents

As at 31 December

In thousands of Estonian kroons	2007	2006
Current accounts	44,725	33,284
Short-term deposits	191,387	122,696
Total cash and cash equivalents	236,112	155,980

At the balance sheet date, the interest rates of overnight deposits were as follows: at Hansapank 5.45 per cent, at Sampo Pank almost 5 per cent, and at SEB Ühispank 4.9 per cent.

The Group's exposure to the interest rate risk and a sensitivity analysis of the Group's financial assets and financial liabilities are disclosed in note 30.

NOTE 8. Receivables and prepayments

Trade receivables

As at 31 December

In thousands of Estonian kroons	Note	2007	2006
Trade receivables		529,593	382,733
Allowance for impairment		-17,774	-1,892
Total trade receivables		511,819	380,841

Impairment losses on receivables are recognised in other operating expenses. For further information, please refer to note 30.

Other receivables and prepayments

As at 31 December

In thousands of Estonian kroons	Note	2007	2006
Receivables from the parent and other companies of Nordecon Group		53,379	10,202
Receivables from associates		27,281	3,530
Loans to associates		7,741	21,012
Prepayments to suppliers		12,029	10,714
Retentions receivable		42,872	16,412
Due from customers for contract work		106,379	57,907
Prepaid VAT		10,038	7,880
Prepaid corporate income tax		2,170	0
Miscellaneous prepayments		2,528	1,898
Accrued income		134	108
Total other receivables and prepayments		264,551	129,663

Receivables from associates and the parent and other companies of Nordecon Group comprise unsettled invoices and loans granted. Further information on the items is presented in note 34.

Retentions receivable comprise amounts of progress billings withheld by customers in accordance with the terms of construction contracts.

Due from customers for contract work is related to the accounting for construction contracts. The amount represents the excess of contract revenue recognised by reference to the stage of completion of contract activity over progress billings.

Miscellaneous prepayments comprise prepaid insurance premiums and accrued income comprises interest receivable.

The Group's exposure to credit and currency risks and an overview of the impairment of receivables (except for items related to construction contracts) are disclosed in note 30.

NOTE 9. Deferred tax assets

As at 31 December

In thousands of Estonian kroons	2007	2006
Opening balance	1,015	0
Effect of adjustment of stage of completion	890	1,015
Total deferred tax assets	1,905	1,015

In 2007, deferred tax assets increased in connection with the recognition of Ukrainian tax losses which can be carried forward. In 2008, the Group should earn income on the sale of investments against which the tax losses can be utilised.

NOTE 10. Inventories

As at 31 December

In thousands of Estonian kroons	2007	2006
Raw and other materials	34,906	29,342
Work in progress	201,098	111,625
Property held for resale	125,201	124,355
Prepayments to materials suppliers	32,324	6,862
Total inventories	393,529	272,184

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Raw and other materials comprise materials acquired for construction projects and road maintenance. No inventories were written down in the reporting or prior period.

Work in progress comprises the costs related to construction contracts active at the balance sheet date.

Work in progress:

As at 31 December

In thousands of Estonian kroons	2007	2006
Costs related to apartment houses	194,602	79,317
Other construction projects	6,496	32,308
Total	201,098	111,625

At the balance sheet date, properties held for resale totalled 125,201 thousand kroons (2006: 124,355 thousand kroons). In 2007, the Group sold a property of 40,000 thousand kroons and acquired properties of 16,842 thousand kroons. The acquisition of the subsidiary AS Eston Ehitus increased properties held for resale by 24,004 thousand kroons.

NOTE 11. Non-current assets held for sale

As at 31 December

In thousands of Estonian kroons	2007	2006
Investment property	198	0
European House	5,706	0
TOV Passage Theatre	37,458	0
Total non-current assets held for sale	43,362	0

At 31 December 2007, non-current assets held for sale comprised an investment property of 198 thousand kroons (measured at amortised cost), a 10 per cent interest in the company European House of 5,706 thousand kroons and a 61.3 per cent stake of the investment in TOV Passage Theatre. The Group intends to sell the assets in 2008.

NOTE 12. Short- and long-term investments

Short-term investments

As at 31 December

In thousands of Estonian kroons	2007	2006
Other shares	0	2,140
Total short-term investments	0	2,140

On 13 February 2007, the Group sold shares of 2,140 thousand kroons for 8,449 thousand kroons. Transaction gain amounted to 6,309 thousand kroons and was recognised in financial income.

Long-term investments

As at 31 December

In thousands of Estonian kroons	2007	2006
Investments in associates	45,170	21,193
Long-term loans to associates	54,551	17,458
Miscellaneous long-term receivables	6,353	9,381
Long-term trade receivables	5,198	5,812
Other investments	414	300
Total long-term investments	111,686	54,144

Long-term loans to associates comprise outstanding loan balances together with accrued interest. For further information, please refer to note 34.

Miscellaneous long-term receivables comprise the outstanding balance of the loan granted to European House together with accrued interest.

Long-term trade receivables include an item of 5,198,000 kroons due from Kose Rural Municipality for the renovation of the stadium of Kose Secondary School (2006: the line included also another receivable of 614 thousand kroons). According to the payment schedule, the amount will be fully settled in 2009.

Other investments include a 12.2 per cent shareholding in AS E-Trading. The Group intends to sell the 10 per cent interest in European House, which was recorded in *Other investments* in 2006, and therefore the item has been transferred to non-current assets held for sale where it is carried at its amortised cost of 5,706 thousand kroons (in 2007 the entity's share capital was increased with additional contributions by 5,406 thousand kroons).

Investments in associates and financial information on associates

In thousands of Estonian kroons	31 December 2007			2007		31 December 2007
Associate	Assets	Liabilities	Equity	Revenue	Profit / loss	Carrying amount of investment in the consolidated accounts
TOV Technopolis-2	9,075	13,833	-4,758	0	-138	6,612
TOV V.I.Center	30,973	32,758	-1,785	0	-2,347	10,598
TOV EA Reng	3,950	2,954	996	13,648	1,284	304
TOV Baltik Development	23,224	25,067	-1,843	0	-1,964	21
TOV Passage Theatre	118,511	22,316	96,195	0	-1,375	9,892
OÜ Kastani Kinnisvara	34,580	37,535	-2,955	23,832	-2,331	0
SIA Abagars	104,156	101,892	2,264	101,168	-8,842	0
OÜ DSN Ehitusmasinad	22,476	16,807	5,669	55,094	3,166	10,545
OÜ Sepavara	5,888	5,800	88	0	-12	44
OÜ Kalda Kodu	51,303	51,241	62	0	-12	27
OÜ Crislivinca	100,555	83,986	16,569	277	20	7,127
Total	504,691	394,189	110,502	194,017	-12,551	45,170

The Group's share of profit or loss of associates

In thousands of Estonian kroons

2007

2006

Associate	Profit / loss under the equity method	Recognised/recorded in		Profit / loss under the equity method	Recognised/recorded in	
		consolidated income statement	off the balance sheet		consolidated income statement	off the balance sheet
OÜ Majahaldjas	0	0	0	6	6	0
TOV Technopolis-2	-42	-42	0	-655	-655	0
TOV V.I.Center	-751	-751	0	-59	-59	0
TOV Eurobeton	0	0	0	-607	-46	-561
TOV EA Reng	304	304	0	-231	-202	-29
TOV Baltik Development	-603	-37	-566	0	0	0
OÜ Kastani Kinnisvara	-880	0	-880	-320	-24	-296
SIA Abagars	-3,436	-3,190	-246	0	0	0
OÜ DSN Ehitusmasinad	545	545	0	0	0	0
OÜ Sepavara	-6	-6	0	0	0	0
OÜ Kalda Kodu	-5	-5	0	0	0	0
OÜ Crislivinca	7	7	0	0	0	0
Total	-4,867	-3,175	-1,692	-1,866	-980	-886

In the case of OÜ Kastani Kinnisvara, the off-balance sheet figure includes a proportionate share of unrealised intra-Group profit of 274 thousand kroons arisen from a construction contract between OÜ Mapri Projekt and OÜ Kastani Kinnisvara (2006: 147 thousand kroons).

NOTE 13. Investment property

In thousands of Estonian kroons	2007	2006
Investment property at 1 January		
Fair value	24,199	52,839
Acquisitions through business combinations	104,559	0
Transfers to non-current assets held for sale	-198	0
Transfers to inventories	-1,913	0
Transfers from property, plant and equipment	168	0
Additions	1,818	3,362
Disposals	0	-34,002
Revaluation to fair value	5,351	2,000
Investment property at 31 December		
Fair value	133,984	24,199

In 2007, all investment properties were restated to fair value by reference to valuation reports issued by qualified independent real estate appraisers. Gains arisen on the revaluation, which was performed for the first time, were recognised on an accrual basis and the Group adjusted:

- Pre-2006 profits (retained earnings) to the extent of 16,236 thousand kroons
- Profit for 2006 to the extent of 2,000 thousand kroons and

revaluation gains for 2007 amounted to 5,351 thousand kroons.

In 2007, rental income on investment properties amounted to 630 thousand kroons and operating expenses totalled 226 thousand kroons, yielding a net rental income of 404 thousand kroons. In 2006, rental income on investment properties totalled 122 thousand kroons; no major operating expenses were incurred.

NOTE 14. Property, plant and equipment

In thousands of Estonian kroons	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction and prepayments	Total
Cost					
At 1 January 2006	15,341	155,424	29,796	33,237	233,798
Acquisitions through business combinations	0	70,532	182	0	70,714
Additions	3,272	33,139	14,488	1,517	52,416
Disposals	-5,217	-2,631	-1,918	0	-9,766
Transfers	181	0	0	-181	0
Effect of movements in exchange rates	0	-261	-104	0	-365
At 31 December 2006	13,577	256,203	42,444	34,573	346,797
2007					
Acquisitions through business combinations	14	306	1,125	1,594	3,039
Additions	2,536	86,647	19,675	466	109,324
Disposals	-168	-37,483	-17,912	-34,542	-90,105
Effect of movements in exchange rates	0	-393	-322	0	-715
At 31 December 2007	15,959	337,320	47,471	2,091	400,402
Depreciation					
At 1 January 2006	2,417	78,663	17,847	0	98,927
Depreciation charge for the year	289	23,956	5,788	0	30,033
Disposals	-1,710	-2,154	-1,904	0	-5,768
Effect of movements in exchange rates	0	-44	-25	0	-69
At 31 December 2006	996	100,421	21,706	0	123,123
2007					
Depreciation charge for the year	400	50,815	9,450	0	60,665
Disposals	0	-25,230	-11,813	0	-37,043
Effect of movements in exchange rates	0	-99	-54	0	-153
At 31 December 2007	1,396	157,939	20,532	0	179,867

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Carrying amount					
At 1 January 2006	12,924	76,761	11,949	33,237	134,871
At 31 December 2006	12,581	155,782	20,738	34,573	223,674
At 31 December 2007	14,563	179,373	25,721	2,091	221,748

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

In thousands of Estonian kroons	Plant and equipment	Other items of PP&E	Total
Cost at 31 December 2007	239,991	10,230	250,221
Carrying amount at 31 December 2007	159,253	6,059	165,312

In thousands of Estonian kroons	Plant and equipment	Other items of PP&E	Total
Cost at 31 December 2006	91,271	29,142	120,413
Carrying amount at 31 December 2006	44,080	11,684	55,764

In 2007, the Group entered into new finance lease contracts of 85,969 thousand kroons (2006: 32,322 thousand kroons). The amount is not included in the acquisitions of property, plant and equipment reported in the statement of cash flows. Finance lease payments of the period totalled 64,729 thousand kroons (2006: 27,357 thousand kroons). For further information, please refer to note 17.

As the threshold for recognising purchases as items of property, plant and equipment was increased to 30 thousand kroons, the Group wrote off previously capitalised items which did not meet the new requirement (items were written off at their carrying amounts). The impact on the consolidated income statement for 2007 was 6,511 thousand kroons. The expense was recognised in other operating expenses.

NOTE 15. Intangible assets

In thousands of Estonian kroons	Positive goodwill	Software licences	Trademarks	Research and development costs	Total
Cost					
At 1 January 2006	131,221	1,139	0	0	132,360
Acquisitions through business combinations	24,460	0	0	0	24,460
Additions	0	529	10,000	0	10,529
Effect of movements in exchange rates	0	-1	0	0	-1
At 31 December 2006	155,681	1,667	10,000	0	167,348
2007					
Acquisitions through business combinations	106,635	92	0	0	106,727
Additions	0	702	0	3,716	4,418
Disposals	0	-1,101	0	0	-1,101
At 31 December 2007	262,316	1,360	10,000	3,716	277,392
Amortisation					
At 1 January 2006	0	515	0	0	515
Amortisation charge for the year	0	297	1,500	0	1,797
At 31 December 2006	0	812	1,500	0	2,312
2007					
Amortisation charge for the year	0	452	2000	0	2,452
Disposals	0	-595	0	0	-595
At 31 December 2007	0	669	3,500	0	4,169
Carrying amount					
At 1 January 2006	131,221	624	0	0	131,845
At 31 December 2006	155,681	855	8,500	0	165,036
At 31 December 2007	262,316	691	6,500	3,716	273,223

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Research and development costs are related to the exploration of sand deposits with the view to extracting sand from the seabed, an activity which should yield economic benefits for the Group. Exploration will continue in 2009. The planned volume of the costs is 929 thousand kroons.

Positive goodwill has been allocated to subsidiaries which are the lowest level at which positive goodwill is measured and monitored for management accounting purposes. The value in use of the subsidiaries was tested using discounted cash flow analysis. The tests indicated that goodwill was not impaired and therefore no items of goodwill were written down.

Positive goodwill has been allocated to the following subsidiaries (carrying amount):

In thousands of Estonian kroons	Ownership interest	31 December 2007	31 December 2006
AS Linnaehitus	100%	85,255	85,255
AS Aspi	100%	43,135	43,135
OÜ Mapri Projekt	52%	2,831	2,831
AS Kaurits	52%	24,460	24,460
AS Eston Ehitus	52%	106,635	0
Total		262,316	155,681

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

1. a forecast period of 3 years plus the terminal year
2. a discount rate of 10.5 per cent, which is based on the actual debt/equity ratio for 2007 where the cost of debt is 5.5 per cent and the cost of equity is 13.7 per cent
3. revenue will grow in the forecast period at the rate of 15 per cent per year and at the rate of 3 per cent per year in the terminal year
4. the gross margin will be the past three years' average
5. administrative expenses will be the past three years' average and from 2009 the growth in administrative expenses will outpace revenue growth at the rate of 2 per cent per year
6. working capital investment will be the past three years' average, i.e. 0.2 sents per each kroon of growth in revenue
7. capital expenditures will be the past three years' average, thereafter the ratio to revenue will be at the level of 2007

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

1. a forecast period of 3 years plus the terminal year
2. a discount rate of 11.5 per cent, which is based on the actual debt/equity ratio for 2007 where the cost of debt is 5.5 per cent and the cost of equity is 14.3 per cent
3. revenue will grow in the forecast period as follows: in 2008 by 1 per cent, in 2009 by 3 per cent, in 2010 by 3 per cent and in the terminal year by 3 per cent
4. the gross margin will be the past three years' average
5. administrative expenses will be the past three years' average and from 2009 the growth in administrative expenses will outpace revenue growth at the rate of 2 per cent per year;
6. working capital investment will be the past three years' average, i.e. 0.3 sents per each kroon of growth in revenue;
7. capital expenditures will be the past three years' average, thereafter the ratio to revenue will be at the level of 2007

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

1. a forecast period of 3 years plus the terminal year
2. a discount rate of 12.9 per cent, which is based on the actual debt/equity ratio for 2007 where the cost of debt is 5.5 per cent and the cost of equity is 13.7 per cent
3. revenue will grow in the forecast period as follows: in 2008 by 1 per cent, in 2009 by 5 per cent, in 2010 by 5 per cent and in the terminal year by 3 per cent
4. the gross margin will be the past three years' average
5. administrative expenses will be the past three years' average and from 2009 the growth in administrative expenses will outpace revenue growth at the rate of 2 per cent per year;

6. working capital investment will be the past three years' average, i.e. 0.05 sents per each kroon of growth in revenue;
7. capital expenditures will be the past three years' average, thereafter the ratio to revenue will be at the level of 2007

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

1. a forecast period of 3 years plus the terminal year
2. a discount rate of 8.9 per cent, which is based on the actual debt/equity ratio for 2007 where the cost of debt is 5.5 per cent and the cost of equity is 15 per cent
3. revenue will grow in the forecast period at the rate of 3 per cent per year and by 3 per cent in the terminal year
4. the gross margin will be the past two years' average
5. administrative expenses will be the level of the past two years' average ratio of administrative expenses to revenue
6. working capital investment will be the past two years' average
7. capital expenditures will be the past two years' average, thereafter the ratio to revenue will be at the level of 2007

AS Eston Ehitus was acquired in the last quarter of 2007 from independent parties.

NOTE 16. Interest-bearing loans and borrowings

Short-term loans and borrowings

As at 31 December

In thousands of Estonian kroons	Note	2007	2006
Overdraft facilities		2,964	0
Current portion of long-term loans and borrowings including		84,489	56,035
Bank loans		42,963	18,638
Finance lease liabilities	17	41,526	37,397
Short-term bank loans		29,596	13,994
Other short-term loans		18,807	0
Total short-term loans and borrowings		135,856	70,029

At 31 December 2007, the total limit of the overdraft facilities was 8,000 thousand kroons (2006: 20,000 thousand kroons).

Long-term loans and borrowings

As at 31 December

In thousands of Estonian kroons	Note	2007	2006
Total long-term loans and borrowings		348,213	252,052
Including current portion		84,489	56,035
Including non-current portion including		263,724	196,017
Bank loans		179,860	129,266
Finance lease liabilities	17	83,864	66,751

Overview of loans

As at 31 December 2007

In thousands of Estonian kroons	Base currency	Interest rate	Limit	Up to 1 year	1-2 years	3-5 years	Total non-current portion	Total loans
Investment loan	EUR	4.1%	141,700	19,401	20,220	65,841	86,060	105,461
Investment loan	EUR	3.3%	17,000	5,230	0	0	0	5,230
Investment loan	EUR	5.22%	19,162	19,162	0	0	0	19,162
Investment loan	EUR	5.38%	140,000	0	85,000	0	0	85,000
Investment loan	EUR	0.7%+ 6m EURIBOR	13,200	4,400	6,600	2,200	8,800	13,200
Investment loan	UAH	16.5%	12,450	9,707	0	0	0	9,707
Investment loan	EUR	12.0%	4,659	4,659	0	0	0	4,659
Working capital loan	EEK	6.05%	50,000	0	0	0	0	0
Working capital loan	EEK	4.55%	3,000	0	0	0	0	0
Working capital loan	EEK	5.25%	10,000	10,000	0	0	0	10,000
Working capital loan	EUR	5.0%	9,959	9,959	0	0	0	9,959
Working capital loan	EUR	5.0%	8,848	8,848	0	0	0	8,848
Overdraft	EEK	5.25%	5,000	2,964	0	0	0	2,964
Overdraft	EEK	3.9%	3,000	0	0	0	0	0
Total loans				94,330	111,820	68,041	179,860	274,191
Finance lease liabilities				41,526			83,864	125,390
Total loans and borrowings				135,856			263,724	399,580

As at 31 December 2006

In thousands of Estonian kroons	Base currency	Interest rate	Limit	Up to 1 year	1-2 years	Over 3 years	Total non-current portion	Total loans
Investment loan	EUR	4.1%	141,700	18,638	19,401	86,060	86,060	124,100
Investment loan	EUR	3.3%	17,000	5,230	0	0	0	5,230
Investment loan	EUR	4.18%	19,162	19,162	0	0	0	19,162
Investment loan	UAH	18.0%	10,508	4,671	0	4,642	0	9,313
Working capital loan	USD	6.0%	4,093	4,093	0	0	0	4,093
Working capital loan	EEK	3.4%	30,000	0	0	0	0	0
Overdraft	EEK	4.0%	20,000	0	0	0	0	0
Total loans				32,632	38,563	90,703	129,266	161,898
Finance lease liabilities				37,397			66,751	104,148
Total loans and borrowings				70,029			196,017	266,046

NOTE 17. Finance and operating leases

Finance leases

In thousands of Estonian kroons	2007	2006
Finance lease liability at beginning of year	104,148	37,480
Addition	14	85,969
Principal payments made during the year		64,729
Finance lease liability at end of year	125,390	104,148
Payable in less than 1 year	16	41,526
Payable between 1 and 5 years	16	83,864
Cost of assets acquired with finance lease at end of year	250,221	120,413
Carrying amount of assets acquired with finance lease at end of year	14	165,312
Interest rate in Estonia	3.6%-7.5%	3.0%-8.0%
Interest rate in Ukraine	12%	10.0%-12.0%
Interest expense of the period	6,879	1,943
Settlement term	Monthly	Monthly
Base currency	EUR	121,917
Base currency	UAH	3,472

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Based on effective contracts, future minimum non-cancellable finance lease rentals are payable as follows:

In thousands of Estonian kroons	2007		2006	
	Minimum lease rentals	Present value of minimum lease rentals	Minimum lease rentals	Present value of minimum lease rentals
Payable in				
Less than 1 year	47,256	41,527	39,641	37,397
Between 1 and 5 years	92,283	83,863	71,423	66,751
Lessor's gross investment in the lease	139,539	125,390	111,064	104,148
Future interest expense	-14,149		-6,916	
Total	125,390	125,390	104,148	104,148

Operating lease expenses

In thousands of Estonian kroons	2007	2006
Lease of cars	15,075	12,617
Lease of construction equipment	31,104	16,390
Lease of premises	8,430	4,403
Lease of software	5,699	5,943
Total operating lease rentals paid	60,309	39,353

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

2008	at least 28,138 thousand kroons
2009	at least 23,296 thousand kroons
2010	at least 22,839 thousand kroons

Operating lease contracts may be cancelled without any penalty payments, provided notice is given in accordance with the terms and conditions of the contract.

NOTE 18. Other tax liabilities and other payables and advances received

As at 31 December	Note	2007	2006
In Estonian kroons			
Other tax liabilities			
Value added tax		12,976	11,492
Personal income tax		14,435	11,294
Social tax		24,483	18,377
Miscellaneous tax liabilities		1,883	1,536
Total other tax liabilities		53,777	42,699
Other payables and advances received			
Miscellaneous payables		187,512	9,722
Accrued expenses related to contract work		158,254	76,470
Payables to employees		97,535	73,258
Due to customers for contract work (progress payments received in excess of contract work completed)	24	88,987	175,370
Advances for goods and services		24,969	25,575
Payables to the parent and other companies of Nordecon Group		8,584	42,192
Payables to associates	34	7,058	33
Interest payable		1,823	2,199
Total other payables and advances received		574,722	404,819

Miscellaneous payables comprise an amount payable for the acquisition of the 52 per cent interest in AS Eston Ehitus, which was settled on 11 January 2008 (2006: an amount of 8,200 thousand kroons payable for the investment in OÜ Kaurits and other items of 1,522 thousand kroons).

Due to customers for contract work is related to the accounting for construction contracts (note 24) and comprises the difference between progress billings and contract revenue recognised by reference to the stage of completion of contract activity.

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

Further information on payables to the parent and other companies of Nordecon Group is presented in note 34.

Interest liabilities are settled as they fall due under the loan agreements.

NOTE 19. Provisions

Warranties provisions

As at 31 December

In Estonian kroons	2007	2006
Current warranties provisions	12,458	4,511
Non-current warranties provisions	4,328	1,885
Total warranties provisions	16,786	6,396

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 based on the expiry of the warranty period.

Movements in warranties provisions

In thousands of Estonian kroons	2007	2006
Opening balance of warranties provisions	6,396,	4,701
Acquired through business combinations	1,623	0
Provisions used during the year	3,708	2,236
Provisions created during the year	12,475	3,931
Closing balance of warranties provisions	16,786	6,396

NOTE 20. Equity

Shares and share premium

Number of shares in thousands	2007	2006
At 1 January	15,378	3,481
Issued for cash	0	1,451
Bonus issue	15,379	10,446
At 31 December	30,757	15,378

According to the Articles of Association, the minimum and maximum authorized share capital of AS Eesti Ehitus amount to 120,000 thousand kroons and 480,000 thousand kroons respectively. Share capital consists of ordinary shares with a par value of ten kroons each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general meeting of the company.

In 2006, share capital was increased with a bonus issue of 10,446 thousand shares and an additional issue of 1,451 thousand shares to 153,784 thousand kroons.

On 7 June 2007, outstanding share capital was increased by 153,783 thousand kroons through a bonus issue of 15,378 thousand new ordinary registered shares with a par value of ten kroons each. The bonus issue was performed using share premium of 108,465 thousand kroons and retained earnings of 45,318 thousand kroons. Each shareholder's stake in the company's share capital increased in proportion to the par value of

shares already held. All new shares entitle the holder to dividends declared for periods beginning on or after 1 January 2007.

At 31 December 2007, share capital stood at 307,567 thousand kroons.

Dividends

Dividends distributed to shareholders:

In 2006: 8.61 kroons per share 30,000 thousand kroons (3,481,894 shares)
In 2007: 3.00 kroons per share 46,135 thousand kroons (15,378,364 shares)

The amount of dividends reported in the statement of cash flows differs from the amount paid to the parent company's shareholders by the portion of dividends paid to the subsidiaries' minority shareholders.

The board has made the following dividend distribution proposal:

In 2008: 3.00 kroons per share 92,270 thousand kroons (30,756,728 shares)

The income tax payable on dividends is recognised in the income statement in the period in which the dividend is declared.

NOTE 21. 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 equity instruments.

The weighted average number of shares has been found considering the effect of the bonus issues. For comparability, the weighted average number of shares is the number of shares after the bonus issues, i.e. 30,756,728 shares.

	Unit	2007	2006
Profit for the period	Thousands of kroons	267,482	177,003
Weighted average number of shares	Thousands of shares	30,757	30,757
Basic earnings per share		8.70	5.75
Diluted earnings per share		8.70	5.75

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

NOTE 22. Segment reporting – business segments

The Group's primary segment reporting format is business segments. In 2007, the Group implemented reporting by geographical segments. Inter-segment pricing is determined, in all material respects, on an arm's length basis.

Business segments

In thousands of Estonian kroons	Residential and non- residential		Civil engineering		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Construction contract revenue	1,952,260	1,354,374	1,772,693	1,132,559	0	0	3,724,953	2,486,933
Other revenue	14,497	9,576	12,578	7,335	0	0	27,075	16,911
Total revenue from external customers	1,966,757	1,363,950	1,785,271	1,139,894	0	0	3,752,028	2,503,844
Inter-segment revenue	160,133	92,648	84,315	20,427	-244,448	-113,075	0	0
Total revenue	2,126,890	1,456,598	1,869,586	1,160,321	-244,448	-113,075	3,752,028	2,503,844
Segment result	232,961	201,306	267,016	105,219	0	0	499,977	306,525
Unallocated expenses	0	0	0	0	0	0	-192,513	-101,988
Operating profit	0	0	0	0	0	0	307,464	204,537
Net financial items	0	0	0	0	0	0	1,458	-653
Share of profit / loss of equity accounted investees	-4,031	-1,580	856	0	0	0	-3,175	-980
Income tax expense	0	0	0	0	0	0	-15,976	-12,831
Profit for the period							289,771	190,073
Segment assets	1,183,240	785,831	963,508	583,616	0	0	2,146,748	1,387,683
Investments in associates	34,625	18,003	10,545	3,190	0	0	45,170	21,193
Total assets							2,191,918	1,408,876
Segment liabilities	409,767	312,055	556,192	320,159	0	0	965,959	632,214
Warranty liabilities	11,755	5,301	5,031	1,095	0	0	16,786	6,396
Unallocated liabilities	0	0	0	0	0	0	399,580	266,046
Total liabilities							1,382,325	904,656
Cash flows from operating activities	70,953	-14,835	76,333	69,803	0	0	147,286	54,968
Cash flows from investing activities	12,054	24,198	-1,312	-61,410	0	0	10,742	-37,212
Cash flows from financing activities	27,901	-75,277	-105,797	21,784	0	0	-77,896	-53,493
Net cash flows	110,908	-65,914	-30,776	30,177	0	0	80,132	-35,737
Capital expenditure	130,133	68,161	92,154	140,123	0	0	222,287	208,284
Depreciation and amortisation expense	9,293	5,955	53,818	25,876	0	0	63,111	31,831

NOTE 23. Segment reporting – geographical segments

In thousands of Estonian kroons	2007	2006
Revenue		
Estonia	3,303,651	2,291,718
Ukraine	435,001	216,051
Lithuania	18,255	0
Eliminations	-4,879	-3,925
Total revenue	3,752,028	2,503,844
Assets based on geographical location		
Estonia	2,043,752	1,334,555
Ukraine	240,626	154,381
Lithuania	11,024	0
Eliminations	-103,484	-80,060
Total assets	2,191,918	1,408,876

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In thousands of Estonian kroons

Capital expenditures in 2007	Estonia	Ukraine	Lithuania	Total
Property, plant and equipment	101,434	7,768	122	109,324
Intangible assets	111,134	11	0	111,145
Investment property	1,818	0	0	1,818
Total capital expenditures in 2007	214,386	7,779	122	222,287

In thousands of Estonian kroons

Capital expenditures in 2006	Estonia	Ukraine	Lithuania	Total
Property, plant and equipment	155,422	3,769	0	159,191
Intangible assets	45,718	11	0	45,729
Investment property	3,364	0	0	3,364
Total capital expenditures in 2006	204,504	3,780	0	208,284

NOTE 24. Construction contracts

The Group's active construction contracts

As at 31 December

In thousands of Estonian kroons

Active construction contracts from date of commencement	2007	2006
Costs under stage of completion method	4,303,876	2,119,751
Estimated profit	481,456	225,890
Revenue under stage of completion method	4,303,876	2,345,641
Progress billings	4,286,484	2,463,104
Adjustments	-17,392	117,463
Including due from customers (note 8)	106,379	57,907
Including due to customers (note 18)	88,987	175,370

At the balance sheet date, retentions under construction contracts totalled 42,872 thousand kroons (2006: 16,412 thousand kroons).

In thousands of Estonian kroons

	2007	2006
Construction contract revenue for the year (note 22)	3,724,953	2,486,933

Contract revenue and costs are calculated based on revenue and cost budgets which have been adjusted using the stage of completion (percentage of completion) method. The stage of completion of a contract is determined by reference to surveys of work performed.

NOTE 25. Cost of sales

In thousands of Estonian kroons

	2007	2006
Cost of materials, goods and services used	2,831,824	1,963,486
Personnel expenses	341,037	189,959
Other expenses	19,467	14,486
Depreciation and amortisation expense	59,723	29,388
Total cost of sales	3,252,051	2,197,319

NOTE 26. Administrative expenses

In thousands of Estonian kroons

	2007	2006
Personnel expenses	120,382	84,338
Cost of materials, goods and services used	44,783	33,241
Other expenses	7,720	5,717
Depreciation and amortisation expense	3,388	2,443
Total administrative expenses	176,273	125,739

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NOTE 27. Other operating income and expenses

Other operating income

In thousands of Estonian kroons	2007	2006
Gains on sale of property, plant and equipment and intangible assets	8,250	7,071
Gains on sale and revaluation of real estate	5,476	21,205
Foreign exchange gains	142	69
Other income	2,543	514
Total other operating income	16,411	28,859

Other operating expenses

In thousands of Estonian kroons	2007	2006
Write-off of property, plant and equipment	7,827	23
Sponsoring and membership fees	2,395	2,578
Foreign exchange losses	1,461	368
Losses from doubtful and irrecoverable receivables	17,422	1,892
Other expenses	3,546	247
Total other operating expenses	32,651	5,108

NOTE 28. Financial income and expenses

Financial income

In thousands of Estonian kroons	2007	2006
Gain on sale of shares in subsidiaries	8,832	917
Gain on sale of shares in associates	8,292	10,557
Interest income on loans to associates	2,670	2,092
Financial income on other loans	375	484
Financial income on short-term deposits	6,338	4,343
Foreign exchange gains	689	0
Other financial income	4,290	0
Total financial income	31,486	18,393

Financial expenses

In thousands of Estonian kroons	2007	2006
Interest expense	17,697	13,377
Other financial expenses	1,180	263
Foreign exchange losses	11,151	5,406
Total financial expenses	30,028	19,046

NOTE 29. Income tax expense

In thousands of Estonian kroons	2007	2006
Profit before tax	305 747	202 904
Income tax using the Estonian tax rate	0	0
Income tax paid on dividends	16,397	10,801
Effect of tax rates in foreign jurisdictions	-421	2,030
Total income tax expense	15,976	12,831

NOTE 30. Financial instruments and financial risk management

Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

In thousands of Estonian kroons	Note	Carrying amount	
		2007	2006
Cash and cash equivalents		236,112	155,980
Trade receivables		511,819	380,841
Receivables from the parent and other Nordecon Group companies	8	53,379	10,201
Receivables from associates	8	27,281	5,784
Loans to associates	8, 12	62,893	36,216
Retentions receivable	8	42,872	16,412
Other loans and receivables	12	11,551	15,194
Total		945,907	620,628

Maximum exposure to credit risk from short-term trade receivables, receivables from related parties and retentions at the reporting date by geographical region:

In thousands of Estonian kroons	Carrying amount	
	2007	2006
Estonia	608,910	404,822
Ukraine	20,717	6,163
Lithuania	5,724	0
Total	635,351	410,985

The aging of trade receivables at the reporting date:

	31 December 2007		31 December 2006	
	Gross receivable	Impairment	Gross receivable	Impairment
Not past due	381,982	0	298,268	0
Past due 0-30 days	84,497	0	77,607	0
Past due 31-180 days	29,217	2,060	2,598	0
Past due over 180 days	16,123	15,241	2,368	1,892
Total	511,819	17,301	382,733	1,892

Impairment allowances for items past due 180 days do not include an allowance for an item of 882 thousand kroons because the customer settled the amount on 1 February 2008.

Movements in the impairment allowance for trade receivables were as follows:

In thousands of Estonian kroons	2007	2006
Balance at 1 January	-1,892	0
Recovery of doubtful receivables	588	0
Impairment loss recognised	-17,301	-1,892
Items considered irrecoverable	831	0
Balance at 31 December	-17,774	-1,892

The largest portion of the impairment loss for 2007 is made up of receivables of 16,612 thousand kroons due from two customers who are having liquidity problems. After the balance sheet date, the Group has brought action against the customers for the collection of the principal and interest on arrears (note 31).

In 2007, the weighted average settlement delay in the Group was six days (2006: 0 days). The figure for 2007 was primarily influenced by the behaviour of the above customers.

Financial liabilities by maturities

Payments to be made for the satisfaction of contractual financial liabilities as at the reporting date:

In thousands of Estonian kroons

31 December 2007

Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years
Bank loans	252,420	274,206	77,481	122,998	73,727
Finance lease liabilities	125,390	138,141	47,174	53,735	37,231
Other loans	18,807	19,277	19,277	0	0
Trade payables	692,805	692,805	692,091	714	0
Overdraft	2,963	2,963	2,963	0	0
Total	1,092,984	1,127,392	838,986	177,447	110,959

In thousands of Estonian kroons

31 December 2006

Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years
Bank loans	161,899	177,736	35,430	47,893	70,990
Finance lease liabilities	104,147	114,403	42,141	39,342	32,920
Trade payables	354,309	354,309	353,819	490	0
Total	620,355	646,448	431,390	87,725	103,910

Currency risk

At the reporting date, the Group's currency positions for receivables and payables were as follows:

In thousands	2007					2006				
	EEK	EUR	USD	LTL	UAH	EEK	EUR	USD	LTL	UAH
Cash and cash equivalents	233,750	80	69	18	170	155,053	0	0	0	285
Other short-term receivables	596,059	121	0	2,386	48,124	566,190	0	0	0	14,235
Total	829,809	201	69	2,404	48,294	721,243	0	0	0	14,520
Current liabilities	764,728	3,019	0	2,351	28,894	493,876	1,525	0	0	3,662
	65,081	-2,818	69	53	19,400	227,367	-1,525	0	0	12,727

Interest rate risk

At the balance sheet date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

In thousands of Estonian kroons	Carrying amount	
	2007	2006
Fixed rate instruments		
Financial assets	69,224	19,962
Financial liabilities	163,036	201,325
Net position	-93,812	-181,363
Floating rate instruments		
Financial assets	236,112	155,980
Financial liabilities	236,544	64,721
Net position	-432	91,259

At 31 December 2007, a change of 100 basis points in the fixed interest rates would have increased or reduced profit before tax by 1,600 thousand kroons (2006: 2,210 thousand kroons).

Fair values

At the reporting date, the fair values and carrying amounts of the Group's financial instruments were as follows:

In thousands of Estonian kroons	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	236,112	236,112	155,980	155,980
Short-term investments	0	0	2,140	2,140
Trade receivables	511,819	511,819	380,841	380,841
Receivables from related parties	80,059	80,059	17,286	17,286
Retentions receivable	42,872	42,872	16,411	16,411
Loans to associates	62,893	61,846	17,458	18,349

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Other loans	6,331	6,331	9,381	8,485
Bank loans	-252,420	-244,424	-161,898	-158,779
Finance lease liabilities	-125,390	-125,363	-104,148	-103,745
Other loans	-18,807	-18,807	0	0
Trade payables	-336,468	-336,468	-184,473	-184,473
Payables to related parties	-15,642	-15,642	-42,225	-42,225
Other liabilities	-341,409	-341,409	0	0
Overdraft	-2,963	-2,963	0	0
Unrecognised gain / loss		-6,976		-3,517

Management has determined that the carrying amounts of the Group's financial current assets and liabilities do not differ significantly from their fair values because they are expected to be settled in the short term. The carrying values of floating rate interest bearing instruments are also deemed to approximate fair value as these instruments re-price to market interest rates at least annually.

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

	2007	2006
	Average market interest rate	
Loans in Estonia	6.4%	7.0%
Loans in Ukraine	13.7%	15.1%
Finance leases	5%-8%	5%-8%

NOTE 31. Contingent assets and liabilities

Income tax on dividends

As at 31 December

In thousands of Estonian kroons	2007	2006
Retained earnings	397,810	196,326
Contingent income tax liability	83,540	43,192
The amount that could be distributed as the net dividend	314,270	153,134

The maximum income tax liability has been calculated on the assumption that the dividend distribution and the arising income tax expense may not exceed the distributable profits as of 31 December.

Pending litigation

Action brought against Group entities:

1. At the end of 2005, a contract partner brought an action of 620 thousand kroons against AS Eesti Ehitus. According to the claimant, the volume of work performed exceeded the volume agreed in the subcontract and part of the additional work was not paid for. AS Eesti Ehitus is of the opinion that the work has been paid for and the action is baseless. At the beginning of 2006, AS Eesti Ehitus filed its objections to the action. The hearing of the matter was set to 15 February 2008. The parties reached an out-of-court settlement on 26 February 2008. The terms of the settlement are confidential.

2. AS Eesti Ehitus is defending an action brought for compensation of damages of 657 thousand kroons. On 12 February 2008, AS Eesti Ehitus filed its response with the court. The dispute is in its preliminary stage where a lot depends on evidentiary matters. Therefore, the outcome of the action cannot be estimated reliably.

Actions brought by the Group:

1. On 31 January 2008, AS Eesti Ehitus brought an action against OÜ Grove Invest for settlement of the original liability and accrued interest of 5,070 thousand kroons. The claim arises from a contract for services concluded between AS Eesti Ehitus and OÜ Grove Invest. AS Eesti Ehitus has performed and delivered the work but OÜ Grove Invest has not paid for all the work performed. In an agreement reached on 9 May 2007, OÜ Grove Invest was granted additional time for settlement of the liability but the liability was not settled. On 6 February 2008, the property was encumbered with a first-ranking judicial mortgage of 10,070 thousand kroons for securing the action.

2. On 31 January 2008, AS Eesti Ehitus brought an action against OÜ Baltic Panel Group for settlement of the original liability and interest on arrears of 12,382 thousand kroons. The claim arises from a contract for services concluded between AS Eesti Ehitus and OÜ Baltic Panel Group. AS Eesti Ehitus has performed and delivered the work but OÜ Baltic Panel Group has not paid for all the work performed. In an agreement reached on 9 May 2007, OÜ Baltic Panel Group was granted additional time for settlement of the liability but the liability was not settled. On 1 February 2008, the court accepted the action. On 14 February 2008, the property was encumbered with a fourth-ranking mortgage of 16,264 thousand kroons for securing the action.

NOTE 32. Assets pledged as collateral

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

- The movable property of AS Aspi has been encumbered with a commercial pledge of 39,700 thousand kroons, established for the benefit of AS SEB Eesti Ühispank.
- The movable property of AS Linnaehitus has been encumbered with a commercial pledge of 12,500 thousand kroons established for the benefit of AS Hansapank
- A loan taken by AS Linnaehitus from AS SEB Eesti Ühispank is secured with a mortgage of one half of a legal share in an immovable property located in Tartu. The carrying amount of the property is 25,800 thousand kroons.
- A loan taken by AS Linnaehitus from AS Sampo Pank is secured with an immovable property located in Tartu. The carrying amount of the property is 141,000 thousand kroons.
- The movable property of OÜ Mapri Projekt has been encumbered with three commercial pledges of 12,000 thousand kroons in aggregate established for the benefit of AS SEB Eesti Ühispank.
- The movable property of AS Eesti Ehitus has been encumbered with two commercial pledges of 330,000 thousand kroons in aggregate established for the benefit of AS Hansapank.

NOTE 33. Off-balance sheet liabilities

Off-balance sheet liabilities include bank guarantees and surety agreements. At the balance sheet date, the Group's off-balance sheet liabilities totalled 360,755 thousand kroons (2006: 326,136 thousand kroons). The realisation probability of the guarantees is low. Therefore, they have not been recognised as liabilities in the balance sheet.

Bank guarantees issued to the Group at the balance sheet date:

- AS SEB Eesti Ühispank has issued guarantees of 147,588 thousand kroons.
- AS Hansapank has issued guarantees of 207,982 thousand kroons.

Surety agreements:

- AS Aspi stands surety to guarantees of 22,000 thousand kroons (total limit) issued to the subsidiaries AS Järva Teed and OÜ Hiiu Teed by AS SEB Eesti Ühispank and guarantees and an overdraft facility of 112, 121 thousand kroons provided to the associate SIA Abagars by AS Hansabanka.

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- AS Eston Ehitus stands surety for a loan of 650,000 euros (repayable in 2008) taken by the associate Crislivinca OÜ from Nordea Bank and a loan of 615,000 euros (repayable in 2008) taken by the associate Kalda Kodu OÜ from Nordea Bank.
- The Group stand surety for satisfaction of liabilities of 5,185 thousand kroons to AS Hansa Liising.

NOTE 34. Transactions with related parties

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

- AS Nordecon (the parent of AS Eesti Ehitus) and its shareholders
- The subsidiaries and associates of AS Eesti Ehitus
- Other companies of Nordecon Group
- Members of the company's board and council and individual shareholders whose interest is significant, except where the above cannot exert significant influence on the company's business decisions. Related parties also include close family members of and companies related to the above.

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

In thousands of Estonian kroons	2007		2006	
Volume of transactions performed	Purchases	Sales	Purchases	Sales
AS Nordecon	21,880	400	19,180	506
Subsidiaries of AS Nordecon	2,805	322,156	880	135,852
Associates	31	82,569	2	15,859
Companies related to a member of the council of AS Eesti Ehitus	1,677	17,123	2,007	10,046
Total	26,393	422,248	22,069	162,263

In thousands of Estonian kroons	2007		2006	
Substance of transactions performed	Purchases	Sales	Purchases	Sales
Construction contracts	0	415,837	0	156,436
Purchase and sale of goods	0	630	880	506
Lease and other services	26,393	5,781	21,189	5,321
Total	26,393	422,248	22,069	162,263

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

In thousands of Estonian kroons	31.12.2007		31.12.2006	
	Receivable	Payable	Receivable	Payable
AS Nordecon	35	2,341	4	2,167
Subsidiaries of AS Nordecon	48,848	6,243	10,197	40,025
Companies related to a member of the council of AS Eesti Ehitus	-180	0	9,216	0
Member of the board of TOV Eurocon Ukraine	0	0	820	0
Associates	26,681	7,058	5,784	33
Associates (loans and accrued interest)	62,893	0	36,216	0
Total	138,277	15,642	62,237	42,225

Receivables from associates of 26,681 thousand kroons (2006: 5,784 thousand kroons) are mainly related to construction work.

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KPMG, Tallinn

Overview of loans to associates:

In thousands of Estonian kroons	Interest rate	2007		2006	
		Loan liability	Incl. accrued interest	Loan liability	Incl. accrued interest
Abagars SIA	6%	5,102	102	0	0
Kastani Kinnisvara OÜ	10%	10,300	600	4,845	345
Crislivinca OÜ	6%	2,639	21	0	0
Sepavara OÜ	6%	894	44	0	0
Kalda Kodu OÜ	6%	4,486	442	0	0
Eurobeton TOV	9.8%	0	0	18,413	590
Technopolis-2 TOV	9.8%	6,854	737	12,958	993
Passage Theatre TOV	6%	3,923	12	0	0
Baltic Development TOV	9.8%	12,338	370	0	0
V.I.Centre TOV	6%	16,357	148	0	0
Total		62,893	2,476	36,216	1,928

In 2007, the remuneration of the members of the board of AS Eesti Ehitus Group totalled 14,659 thousand kroons (2006: 9,254 thousand kroons). Members of the board are entitled to termination benefits equal to their past six to twelve months' average service fee, depending on the reason for termination. Any such payments are entirely at the discretion of the council.

In 2007, the remuneration of the members of the council of AS Eesti Ehitus Group totalled 1,080 thousand kroons (2006: 1,050 thousand kroons).

NOTE 35. Events after the balance sheet date

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 2007) and the date on which the financial statements were authorised for issue (29 February 2008) but are related to the year ended 31 December 2007 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 the following:

- On 9 January 2008, AS Eesti Ehitus borrowed 11,966 thousand euros from Sampo Pank under a long-term loan agreement in order to finance the acquisition of the shares in AS Eston Ehitus. The loan is secured with a pledge of the shares acquired in AS Eston Ehitus.
- On 12 February 2008, AS Eesti Ehitus acquired a 2.5 per cent shareholding in OÜ Eurocon for 7,443 thousand kroons, taking its ownership interest in OÜ Eurocon to 66.5 per cent.

On 18 February 2008, OÜ Eurocon established a wholly-owned subsidiary – Instar Property OÜ. AS Eesti Ehitus holds 66.5 per cent of the shares in OÜ Eurocon. At the date of establishment, the share capital of Instar Property OÜ was 40,000 kroons. Instar Property OÜ is going to operate as a holding company for the Group's direct and indirect interests in development projects performed in Ukraine. The interests will be transferred to the new entity through a streamlining and restructuring process aimed at differentiating the Group's business lines in the Ukrainian market (construction by general contracting and real estate development), improving transparency, and simplifying the adoption of management decisions.

NOTE 36. Parent company's unconsolidated financial statements

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

In the parent company's income statement, revenue has been presented in conformity with EMTAK - the Estonian Classification of Economic Activities established pursuant to Subsection 4 (6) of the Commercial Code of the Republic of Estonia.

Balance sheet (unconsolidated)

As at 31 December

In thousands of Estonian kroons	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	129,543	68,366
Trade receivables	141,711	167,305
Other receivables and prepayments	82,579	189,975
Inventories	12,118	53,889
Non-current assets held for sale	198	0
Total current assets	366,149	479,535
Non-current assets		
Investments in subsidiaries	431,774	211,104
Investments in associates	0	0
Long-term receivables	103,656	7,533
Investment property	4,984	198
Property, plant and equipment	5,572	6,667
Intangible assets	6,557	8,741
Total non-current assets	552,543	234,243
TOTAL ASSETS	918,692	713,778
LIABILITIES		
Current liabilities		
Interest-bearing loans and borrowings	25,157	24,194
Trade payables	107,266	58,487
Tax liabilities	15,079	6,311
Other payables and advances received	349,321	259,404
Provisions	505	1,144
Total current liabilities	497,328	349,540
Non-current liabilities		
Interest-bearing loans and borrowings	86,766	105,835
Other liabilities	714	489
Provisions	2,554	917
Total non-current liabilities	90,034	107,241
TOTAL LIABILITIES	587,362	456,781
EQUITY		
Share capital	307,567	153,784
Share premium	0	108,465
Statutory capital reserve	7,058	3,000
Retained earnings	16,705	-8,252
Total equity	331,330	256,997
TOTAL LIABILITIES AND EQUITY	918,692	713,778

Income statement (unconsolidated)

In thousands of Estonian kroons	2007	2006
Revenue		
4120 Construction of residential and non-residential buildings	661,659	486,672
4213 Construction of bridges and tunnels	18,757	63,351
4291 Hydraulic engineering	443,694	92,702
4299 Other civil engineering works	81,908	13,418
Total construction revenue	1,206,018	656,143
Other revenue	21,657	14,926
Total revenue	1,227,675	671,069
Cost of sales	1,069,686	613,300
Gross profit	157,989	57,769
Administrative expenses	49,090	33,127
Other operating income	3,255	26,317
Other operating expenses	19,556	2,007
Operating profit	92,598	48,952
Financial income	38,413	39,099
Financial expenses	5,075	6,700
Net financial items	33,338	32,399
Profit / loss recognised under the equity method	0	6
Profit before income tax	125,936	81,357
Income tax expense	5,468	197
Profit for the period	120,468	81,160

Statement of cash flows (unconsolidated)

In thousands of Estonian kroons	2007	2006
Cash flows from operating activities		
Cash receipts from customers	1,370,001	789,818
Cash paid to suppliers	-1,192,844	-719,469
Cash paid to and for employees	-87,615	-58,264
Income taxes paid	-5,468	-197
Net cash from operating activities	84,074	11,888
Cash flows from investing activities		
Acquisition of property, plant and equipment	-995	-1,905
Acquisition of intangible assets	0	-10,152
Proceeds from sale of property, plant and equipment and intangible assets	134	10,348
Acquisition of properties for development	0	53,211
Acquisition of subsidiaries	-1,116	-24,443
Proceeds from sale of subsidiaries	627	600
Loans granted	-38,389	-118,700
Repayment of loans granted	50,300	0
Dividends received	26,748	29,340
Interest received	10,428	6,438
Other settlements made	0	-1,050
Net cash from / used in investing activities	47,737	-56,313
Cash flows from financing activities		
Proceeds from issue of share capital	0	122,973
Proceeds from loans received	0	9,996
Repayment of loans received	-18,638	-72,382
Dividends paid	-46,135	-30,000
Payment of finance lease liabilities	-486	-365
Interest paid	-5,375	-8,173
Net cash used in / from financing activities	-70,634	22,049
Net cash flow	61,177	-22,376
Cash and cash equivalents at beginning of period	68,366	90,742
Increase / decrease in cash and cash equivalents	61,177	-22,376
Cash and cash equivalents at end of period	129,543	68,366

Statement of changes in equity (unconsolidated)

In thousands of Estonian kroons	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2005	34,819	8,192	3,000	36,853	82,864
Dividends declared	0	0	0	-30,000	-30,000
Bonus issue	104,457	-8,192	0	-96,265	0
Issue of share capital	14,508	108,465	0	0	122,973
Profit for 2006	0	0	0	81,160	81,160
Balance at 31 December 2006	153,784	108,465	3,000	-8,252	256,997
Carrying amount of interests under control and significant influence					-211,104
Interests under control and significant influence under the equity method					294,072
Adjusted unconsolidated equity at 31 December 2006					339,965
Balance at 31 December 2006	153,784	108,465	3,000	-8,252	256,997
Dividends declared	0	0	0	-46,135	-46,135
Transfer to capital reserve	0		4,058	-4,058	0
Bonus issue	45,318	0	0	-45,318	0
Issue of share capital	108,465	-108,465	0	0	0
Profit for 2007	0	0	0	120,468	120,468
Balance at 31 December 2007	307,567	0	7,058	16,705	331,330
Carrying amount of interests under control and significant influence					-431,774
Interests under control and significant influence under the equity method					504,979
Adjusted unconsolidated equity at 31 December 2007					404,535

Signatures

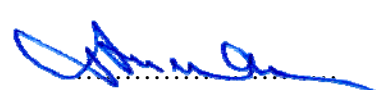
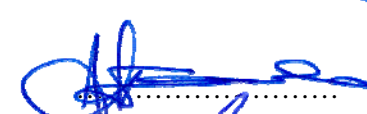


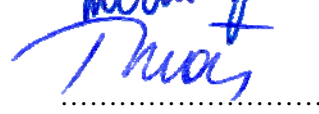
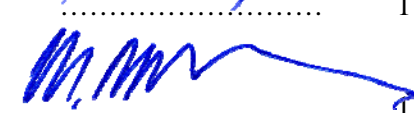
The board of AS Eesti Ehitus has prepared management's discussion and analysis, the consolidated financial statements and the profit allocation proposal for 2007.

Board of directors

Jaano Vink	Chairman of the Board		29 February 2008
Avo Ambur	Member of the Board, Development Director		29 February 2008
Sulev Luiga	Member of the Board, Finance Director		29 February 2008
Priit Pluutus	Member of the Board, Technical Director		29 February 2008
Erkki Suurorg	Member of the Board, Construction Director		29 February 2008

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

Council

Toomas Luman	Chairman of the Council		11 April 2008
Alar Kroodo	Vice-Chairman of the Council		11 April 2008
Ain Tromp	Member of the Council		11 April 2008
Mait Schmidt	Member of the Council		11 April 2008
Tiina Mõis	Member of the Council		11 April 2008
Meelis Milder	Member of the Council		11 April 2008



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Eesti Ehitus

We have audited the accompanying consolidated financial statements of AS Eesti Ehitus, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 71.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Eesti Ehitus as of 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 29 February 2008

KPMG Baltics AS


Andris Jegers
Authorized Public Accountant


Eeli Lääne
Authorized Public Accountant

Profit allocation proposal

Distributable profits of AS Eesti Ehitus:

In thousands of Estonian kroons	
Retained earnings of prior periods	130,328
Net profit for 2007	267,482
Total distributable profits at 31 December 2007	397,810

The board proposes that the general meeting of AS Eesti Ehitus allocate the profits as follows:

In thousands of Estonian kroons	
Dividend distribution (net dividend)	92,270
Transfer to capital reserve	13,374
Retained earnings after allocations	292,166

Jaano Vink	Chairman of the Board		29 February 2008
Avo Ambur	Member of the Board, Development Director		29 February 2008
Sulev Luiga	Member of the Board, Finance Director		29 February 2008
Priit Pluutus	Member of the Board, Technical Director		29 February 2008
Erkki Suurorg	Member of the Board, Construction Director		29 February 2008

List of shareholders whose interest exceeds 10 per cent

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

1. AS Nordecon

Registry number:	10359185
Address:	Liivalaia 13/15, Tallinn
Type of share:	ordinary share
Number of shares:	18,807,464
Par value of a share:	10 kroons
Time of acquisition and subscription of the shares:	2002, 2005, 2006