

Corporate governance report 2007

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 EEH1T. 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:

<u>Title of announcement</u>	<u>Language</u>	<u>Time of release</u>
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 LITHUANIA	Et	3 July 2007 9:05
	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.