

OFFERING CIRCULAR

Offering of up to 5 321 481 Offer Shares

AS EKSPRESS GRUPP

(Incorporated with limited liability in the Republic of Estonia)

Offer Price Range EEK 81.35 – 97.00 per Offer Share

Up to 5 321 481 shares with a nominal value of EEK 10 each (the “Offer Shares”) of AS Ekspress Grupp (the “Company”, together with its subsidiaries, the “Group” or “Ekspress”) are being offered in a combined offering (the “Combined Offering”), which comprises (i) an offering of up to 2 873 600 existing Offer Shares by OÜ HHL Rühm (the “Selling Shareholder” or “HHL Rühm”) and (ii) an offering of up to 2 447 881 new Offer Shares by the Company. The Combined Offering is made (i) to institutional investors in and outside Estonia (the “Institutional Offering”) in reliance on certain exemptions available under the laws of each jurisdiction where the Institutional Offering is being made and (ii) to the public in Estonia (the “Retail Offering”). This Offering Circular relates only to the Retail Offering. The offer price per Offer Share (the “Offer Price”) will be determined through a book building process and shall be the same for all investors in the Combined Offering. The offer price range for the Offer Shares is EEK 81.35 – 97.00 (the “Offer Price Range”). See “Underwriting - General” for a discussion of certain factors affecting the Offer Price. The Selling Shareholder has granted the Global Coordinator an option (the “Over-Allotment Option”), exercisable within 30 days of the date of commencement of trading in the shares of the Company on the Tallinn Stock Exchange, to require the Selling Shareholder to sell up to an additional 798 222 existing shares of the Company (the “Additional Shares”) for purposes of covering possible over-allotments.

Prior to the Combined Offering, there has been no public market for the Offer Shares or the existing shares of the Company (together, the “Shares”). The Company has made an application to list the Shares on the Main List of the Tallinn Stock Exchange. Trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 5 April 2007. See “Listing”.

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

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

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

Advisor to the Company, Global Coordinator and Lead Manager:

Suprema Securities

Joint Lead Managers for the Estonian Retail Offering:

Suprema Securities

Hansapank

The date of this Offering Circular is 16 March 2007.

This Offering Circular has been prepared by the Company in connection with the Retail Offering and the listing of the Shares on the Tallinn Stock Exchange in accordance with the Estonian laws implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and in accordance with the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC. The information contained in this Offering Circular has been provided by the Company and other sources identified herein. It is prohibited to copy or distribute the Offering Circular or to reveal or use the information contained therein for any other purpose than considering an investment in the Offer Shares.

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

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

Tallinn, 16 March 2007

*AS Ekspress Grupp
Management Board*

*OÜ HHL Rühm
Management Board*

Priit Leito

Hans Luik

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PRESENTATION OF FINANCIAL INFORMATION AND DEFINITION OF TERMS

The Company prepared its annual statutory accounts in accordance with the Estonian generally accepted accounting principles (the “Estonian GAAP”) until 31 December 2005, which differ in certain significant respects from International Financial Reporting Standards as adopted by the European Union (“IFRS”). The Company changed its accounting principles into IFRS in the financial year 2006 and issued the financial information for the financial years ended 31 December 2003, 2004 and 2005 prepared under IFRS. The IFRS information presented in this Offering Circular may differ from the information presented in the Company’s statutory accounts included in the annual reports for the same financial years, which are available on the Company’s website or otherwise in the public domain and which were prepared under Estonian GAAP.

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

All references in this Offering Circular to (i) “kroon” or “EEK” refer to the currency of Estonia, (ii) “U.S. dollars”, “U.S.\$” or “USD” refer to the currency of the United States of America, (iii) “LTL” or “litas” refers to the currency of Lithuania, and (iv) “euro” or “EUR” refer to the single currency of the European Union Member States participating in the European Monetary Union.

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SUMMARY

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

Overview

The Group was originally formed around Eesti Ekspress, the first independent newspaper in Estonia after the Soviet era and it has developed and grown continuously ever since (see “Business – History”). The current publishing business of the Group and its affiliates accounts for approximately half of the Group’s revenues and includes four newspapers, 19 Lithuanian magazines and 25 Estonian magazines. Three of the newspapers published by the Group and its affiliates *SL Õhtuleht*, *Eesti Päevaleht* and *Eesti Ekspress*, are among the leading four national publications in Estonia by circulation. The magazines *Kroonika*, *Teleleht* and *Nädal* published by the Group’s affiliates are the most read Estonian weekly magazines while *Eesti Naine*, *Kodukiri* and *Pere ja Kodu* are among the top four most read monthly magazines in the country. The Group is involved in the printing business through its subsidiary Printall, which is the market leader by revenue in the Estonian printing market and provides high-quality printing services to the Group’s subsidiaries and affiliates, in addition to the significant revenues it earns from the sales of printing services to external customers. The Group is involved in book wholesale and retail business through its subsidiary Rahva Raamat, which owns the largest bookstore in the Baltic States. The Group is involved in the information services business through its subsidiary Ekspress Hotline, which operates *Ekspress Hotline* (1182), one of the oldest directory assistance numbers in Estonia, *Infoatlas* (1185), a CD and printed information directory containing information on over 30 000 businesses, and *Ekspresskataloogid* (1184) a telephone and Internet directory.

The total revenue of the Group has steadily increased during the last four years. During the year ended 31 December 2003, the Group generated sales of approximately EEK 427 million, and operating profits of approximately EEK 38 million. In 2004, the Group invested heavily into its publishing business by increasing its printing capacity and the total sales for 2004 grew to approximately EEK 512 million, and operating profits to approximately EEK 19 million. In 2005, total sales increased to approximately EEK 748 million, and operating profits to approximately EEK 76 million. Based on the preliminary unaudited financial information the total sales for the financial year ended 31 December 2006 amounted to EEK 931 million, which represents an increase of approximately 24 per cent compared to the sales of EEK 748 million for the financial year 2005.

Group Structure

AS Ekspress Grupp, a company with limited liability, incorporated in Estonia, is the operating parent company of the Group and owns all shares in its subsidiaries Eesti Ekspressi Kirjastuse AS (“Eesti Ekspress”), Rahva Raamat AS (“Rahva Raamat”), AS Printall (“Printall”) and AS Ekspress Hotline (“Ekspress Hotline”), all incorporated in Estonia. The company also owns 99.73 per cent of the shares in its subsidiary UAB “Ekspress Leidyba” (“Ekspress Leidyba”), incorporated in Lithuania, and 80 per cent of the shares in its subsidiary OÜ Ekspress Internet (“Ekspress Internet”), incorporated in Estonia. Ekspress Hotline in turn owns all shares in its subsidiaries AS Infoatlas (“Infoatlas”), Ekspresskataloogide AS (“Ekspresskataloogid”), AS Numbriinfo (“Numbriinfo”) and Kõnekeskuse AS (“Kõnekeskus”), all incorporated in Estonia.

The Company also has affiliated companies where it owns 50 per cent of the shares, including Eesti Päevalehe AS (“Eesti Päevaleht”), AS SL Õhtuleht (“SL Õhtuleht”), AS Ajakirjade Kirjastus (“Ajakirjade

Kirjastus”) and AS Express Post (“Express Post”), all incorporated in Estonia. Each of Eesti Ekspress and Eesti Päevaleht owns a 50 per cent share of OÜ Netikuulutused (“Netikuulutused”), incorporated in Estonia. Eesti Päevaleht also owns 50 per cent of AS Linnaleht (“Linnaleht”), incorporated in Estonia. Ekspress Leidyba in turn owns 40 per cent of UAB “Medipresa” (“Medipresa”), incorporated in Lithuania.

Strategy

The Group is one of the two leading media groups in Estonia. The Group’s strategic objective is to continue improving and consolidating its position in the Baltic states by capitalizing on its experience in the Estonian and Lithuanian markets. The Group intends to implement and achieve its strategic objectives by:

- Focusing on maintaining and increasing newspaper and magazine circulation.
- Expanding the Group’s presence in the other Baltic States.
- Increasing presence in online media.
- Increasing growth potential through further diversification by extending the value chain.
- Maintaining control over key support functions such as printing, wholesale and distribution.
- Continuing to realize cost efficiencies through greater economies of scale in the support operations.
- Continuing to develop independent businesses through organic development for attracting new third-party customers.

Competitive Strengths

The competitive strengths of the Group and its affiliates include:

- Leading brands and strong market position with six newspapers and twenty five magazines with a combined weekly circulation of 1.8 million copies, including the most widely read publications in Estonia and Lithuania.
- Integrated media group which controls its own supply and production chain from publishing to printing and all the way to distribution.
- Extensive reach to consumers through the strong brands in the Group and its affiliates offers advertisers access to the key market segments in Estonia and Lithuania.
- The strong financial position of the Group has been clearly demonstrated in its positive revenues, profits and cash flows.
- Experienced management and one owner actively leading the Group.
- Flexibility of the Group’s simple and efficient organizational structure, and ultimate control by one owner.

Risk Factors

Before purchasing Offer Shares, prospective investors should carefully consider the risks described in “Risk Factors” in addition to the other information contained in this Offering Circular. The risks described in “Risk Factors” are not the only risks that the Group and investors in the Offer Shares will face. Additional risks not currently known to the Group or that the Group currently believes are immaterial may also adversely affect its business, financial condition and results of operation. The trading price of the Offer

Shares could decline due to any of these risks and investors could lose all or part of their investment. For a more detailed description of the risks, see “Risk Factors”.

Management and Employees

The control and management of the Company is divided among the general meeting of shareholders (the “General Meeting of Shareholders”), the supervisory council (the “Supervisory Council”) and the management board (the “Management Board”). The current members of the Supervisory Council are Viktor Mahhov, Hans Luik, Selle Luik, Kalle Norberg and Härmo Värk. The current sole member of the Management Board is Priit Leito.

The average number of employees of the Group and its affiliates in 2006 was 1992.

Articles of Association and Share Capital

The Articles of Association of the Company are in all material aspects in accordance with the requirements of the Estonian law. The latest version of the Articles of Association was adopted by a resolution of the general meeting of shareholders on 31 August 2006.

As of the date of this Offering Circular, the Company’s registered share capital is EEK 165 232 000 divided into 16 523 200 fully paid Shares with a nominal value of EEK 10 each. Each Share entitles its holder to one vote at the General Meeting of Shareholders. The Company has only one class of shares and all existing Shares rank *pari passu* in all respects.

Shareholders and Related Party Transactions

As of the date of this Offering Circular, the Company has two shareholders. Mr. Hans Luik owns approximately 65.2 per cent of the Shares and HHL Rühm owns 34.8 per cent of the Shares. HHL Rühm is ultimately controlled by Mr. Hans Luik, who controls, directly or indirectly, all the votes represented by the shares of the Company.

The Group companies have entered into certain agreements with related parties. For the most relevant and material of the recent and on-going agreements see “Business - Related Party Transactions”.

Dividends

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

Combined Offering

The Combined Offering comprises up to 2 873 600 existing and up to 2 447 881 new Offer Shares. The Combined Offering comprises (i) the Institutional Offering to institutional investors in and outside Estonia and (ii) the Retail Offering to the public in Estonia. In addition, the Selling Shareholder has granted the Global Coordinator an option (the Over-Allotment Option) to require the Selling Shareholder to sell up to an additional 798 222 existing Shares for purposes of covering possible over-allotments.

The Offer Shares represent approximately 32.21 per cent of the Company’s share capital immediately prior to the Combined Offering and approximately 32.26 per cent of the Company’s share capital following the completion of the Combined Offering assuming that the Over-Allotment Option is exercised in full.

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

Offer Price

The Offer Price will be decided by the Company and the Selling Shareholder in consultation with the Global Coordinator after the completion of the book-building process directed to the institutional investors. The Offer Price will be in the Offer Price Range of EEK 81.35 – 97.00.

Distribution and Allocation

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

In the Retail Offering certain investors will be entitled to a preferential allocation of the Offer Shares before the general public. The remaining Offer Shares in the Retail Offering will be allocated to investors by using the proportional allocation methodology, whereas different allocation ratios may be used in regard to different investor groups. For more details see “Terms and Conditions of the Retail Offering – General Retail Tranche”.

Use of Proceeds

The aggregate net proceeds to the Company from the Combined Offering are estimated to amount to approximately EEK 201 million, after deducting the expenses of the Combined Offering, based on the mid-point of the Offer Price Range. The fees and expenses payable by the Company in connection with the Combined Offering are estimated to amount to approximately EEK 17 million (including applicable taxes), based on the mid-point of the Offer Price Range.

The Company will not receive any portion of the proceeds from the sale of the Offer Shares by the Selling Shareholder.

The Company plans to use the funds received by it from the issue of Offer Shares to fund the business development and expansion of the Group to new geographic areas, and to finance maintaining and enhancing the Group’s position in the fast-growing and new business segments, such as online media. In addition, the Company may consider using proceeds for reducing the Group’s external debt as well as for general corporate purposes.

Lock-up

The Company has agreed not to issue or sell Shares or securities convertible into Shares for 12 months subsequent to signing the Underwriting Agreement (as defined hereafter) without the prior written consent of the Global Coordinator. Shareholders of the Company have agreed not to sell or otherwise transfer Shares for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator. The shareholders are likely to request the Global Coordinator to consent to the sale of certain shares of the Company to the management and key executives of the Group and its affiliates.

Settlement

The Offer Shares allocated to the investors will be transferred to their securities accounts on or about 4 April 2007 through the “delivery versus payment” method simultaneously with the transfer of payment for such Offer Shares.

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

Listing and Trading

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

Trading in the existing Shares is expected to commence on or about 5 April 2007.

The international securities identification number (ISIN code) for the Shares is EE3100016965, the trading code in the Tallinn Stock Exchange trading system is EEG1T.

Over-allotment Option, Stabilisation

Subject to the terms and conditions of the Underwriting Agreement, the Selling Shareholder has granted the Global Coordinator an Over-Allotment Option, exercisable within 30 days from the commencement of trading in the Shares on the Tallinn Stock Exchange, to purchase up to an aggregate of 798 222 Additional Shares at the Offer Price. The Additional Shares are intended to cover possible over-allotments. If all Additional Shares are purchased, they will represent approximately 4.2 per cent of all the shares in the Company and votes that can be cast in the Company's General Meeting of Shareholders.

The Global Coordinator may effect transactions that stabilize or maintain the market price of the Offer Shares, in accordance with applicable laws, during a 30-day period starting from the commencement of trading in the Shares on the Tallinn Stock Exchange. Any such stabilization activity will be decided by the Global Coordinator at its sole discretion and there is no obligation on the Global Coordinator to do this. Such stabilization transactions may result in a market price of the Shares that is higher than would otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

Stabilization activities will be conducted in accordance with the European Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council as regards exemptions for buy-back programs and stabilization of financial instruments.

Capitalization and Indebtedness

For information on capitalization and indebtedness of the Company see "Capitalization".

Auditors and Legal Advisors

The auditor for the financial year 2007 is AS PricewaterhouseCoopers, address Pärnu mnt 15, Tallinn 10141, Estonia. The principal legal advisor to the Company is OÜ Advokaadibüroo Luiga Mody Hääl Borenius, address Pärnu mnt 15, Tallinn 10141, Estonia.

Information Available for Inspection

The annual reports of the Company for the financial years ended 31 December 2003, 2004 and 2005 and the Articles of Association of the Company are available at its head office located at Narva mnt 11E, Tallinn, Estonia, and on the Company's website (www.egrupp.ee). Any interested party may obtain a copy of these items from the Company without charge. References to the Company's website in this Offering Circular should not be deemed to incorporate the information on the Company's website by reference.

Key Dates

	19 March 2007	–	Start of the Offer Period
	29 March 2007	–	End of the Offer Period
	30 March 2007	–	Publication of the Offer Price
On or about	4 April 2007	–	Settlement and delivery of Offer Shares
On or about	5 April 2007	–	Opening of trading in the Shares on the Tallinn Stock Exchange

Summary of the Consolidated Financial Statements of the Company

The financial information included below has been extracted or calculated based on the audited consolidated financial statements for the three years ended 31 December 2005 prepared in accordance with IFRS and from the unaudited condensed consolidated interim financial information for the 6 months ended 30 June 2006 prepared in accordance with IFRS, which are included elsewhere in this Offering Circular. The balance sheet data as at 30 June 2005 was extracted from the unaudited Company's management accounts.

Profit or loss account data (EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Sales	427 572	512 381	748 026	339 209	447 513
Operating profit	45 464	38 625	76 404	35 641	56 229
Profit before income tax	41 740	24 051	45 605	23 463	51 995
Net profit for the financial period ^(*)	37 973	18 980	38 020	17 854	45 621

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

Balance sheet data (EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Cash and cash equivalents and other financial assets at fair value through profit and loss	22 860	31 956	41 993	23 025	36 670
Trade and other receivables	73 009	76 464	112 376	92 861	112 216
Inventories	13 370	36 038	47 672	42 487	46 353
Assets classified as held for sale	-	-	3 799	-	9 194
Current assets	109 239	144 457	205 841	158 374	204 432
Long-term investments ^(*)	217	8 578	9 264	17 059	9 564
Property, plant and equipment	134 303	271 344	296 908	264 740	303 726
Intangible assets	10 307	43 284	106 134	56 825	105 044
Total assets	254 067	467 663	618 147	496 998	622 766
Current liabilities	132 879	185 857	297 780	198 004	247 901
Non-current liabilities	4 700	146 039	136 019	146 617	182 388
Total liabilities	137 579	331 896	433 799	344 621	430 290
Capital and reserves attributable to equityholders of the Group	112 261	131 240	169 260	149 095	173 800
Minority interest	4 226	4 527	15 087	3 283	18 677
Total liabilities and shareholders' equity	254 067	467 663	618 147	496 998	622 766

^(*) Include non-current trade and other receivables, investment in associates, investment property.

Cash flow data (EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Cash flow from operating activities	61 901	15 303	98 889	25 088	37 491
Cash flow used in investing activities	(64 616)	(69 499)	(120 717)	(34 712)	(23 103)
Cash flow from financing activities	(45)	64 678	30 541	984	(20 568)

Ratios and indicators ^(*)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Number of shares	2 216	2 216	2 216	2 216	2 216
Earnings per share (EPS), EEK	17 136	8 565	17 157	8 057	20 587
EBITDA ¹⁾ EEK '000	67 496	60 792	102 684	48 401	71 222
EBITDA margin, % ²⁾	15.8	11.9	13.7	14.3	15.9
Operating profit margin, % ³⁾	10.6	7.5	10.2	10.5	12.6
Return on investment (ROI), % ⁴⁾	28.6	15.4	22.4	9.5	12.7
Return on assets (ROA), % ⁵⁾	14.9	4.1	6.2	3.6	7.3
Return on equity (ROE), % ⁶⁾	32.6	14.0	20.6	11.7	23.7
Equity ratio, %	45.8	29.0	29.8	30.7	30.9

^(*) See "Selected Financial Data" for the explanation of the formulas used.

RISK FACTORS

An investment in the Offer Shares involves a high degree of risk. Prospective investors in the Offer Shares should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making a decision to invest in the Offer Shares. Any of the risks highlighted below could have a material adverse effect on the Group's business, financial condition and result of operations, in which case the trading price of the Shares could decline, resulting in the loss of all or part of their investment in the Shares.

Prospective investors should note that the risks described below are not the only risks that the Group and investors in the Offer Shares will face. Additional risks not currently known to the Group or that the Group currently believes are immaterial may also have the effect set forth above.

Risks Relating to the Group's Business

Competition

Whilst the operational segments of the Group are subject to varying levels of competitive pressure, the Group and its affiliates operate in a highly competitive business environment. Participants in the newspaper and magazine publishing industry depend primarily upon the sale of advertising, paid subscriptions and single copy sales to generate revenue, whilst online media is largely dependent on advertising and to a smaller extent on subscription-based services. Competition for advertising, subscribers and readers is intense and comes primarily from electronic media (television and radio), other print media (local, regional and national newspapers, magazines, direct mail), Internet, telephone directories and other communications. In the printing industry, the Group faces intense competition from other printing houses, located both in Estonia and abroad. Competition is also relatively intense in the book wholesale and retail business, where the Group is competing against book distributors that are bigger than the Group's operations in this business segment.

The Group's ability to continue to successfully compete in the print and online media industries will depend upon a number of factors, such as high quality editorial content, sufficient distribution and subscription levels and generation of advertising revenue. The media industry is generally subject to intense price competition. Advertising on the alternative forms of media may become cheaper and technical advancement may make it increasingly easy to produce and place advertising on the alternative forms of media. Similarly, alternative forms of media may be able to target specific audiences and, accordingly, become more attractive to advertisers than traditional mass or print media.

Some of the Group's competitors are subsidiaries of major international media groups, which have greater financial resources and marketing capabilities than the Group. They may also benefit from greater operating efficiencies and economies of scale. In response to changing circumstances, the Group may have to increase its costs of producing or promoting its editorial content or reduce its advertising and/or subscription rates, which could adversely affect its financial performance.

The Group cannot assure investors that it will be able to compete successfully in the future against existing or potential competitors, and no assurances can be given that increased competition will not have an adverse effect on its business, financial condition or results of operations. If the Group fails to remain competitive, the Group could fail to increase, or maintain, its operating revenues. See "Business – Operations – Publishing – Competition", "Business – Operations – Printing – Competition", "Business – Operations – Book wholesale and retail – Competition" and "Business – Operations – Information Services – Competition".

No long term contracts with customers

In line with the industry practice, the Group and its affiliates have few long term contracts with its advertising or printing customers or distributors of the books, newspapers and magazines published by the Group and its affiliates.

A significant part of the Group's revenue is derived from advertising. Whilst more comprehensive marketing campaigns may be based on specific agreements between a publication and the advertiser, in most cases the advertisements are placed on the basis of one-off orders. Either the customers simply place advertisement orders for publication on a given date, or they make their orders through an advertising agency. As a result, the Group's advertising revenues fluctuate and no guarantees can be given that any given level of revenue can be maintained in the future.

Few of the Group's printing customers have long-term contracts with the Group, but a large portion of its printing capacity is sold for spot orders or repeat orders without further contractual framework. The Group and its affiliates have written agreements with a large proportion of the distributors of its publications, but in most cases the distributor can either reduce its purchase volumes or even terminate the agreement at short notice.

In the absence of long-term contracts, competitive pressure can have an immediate effect on the Group's revenues when the advertisers demand lower advertising rates or otherwise improved terms for their customers or distributors or printing customers demand improved terms or reduce the volume of their orders. Even though Management believes in the Group's high standards of editorial content and print quality and effective marketing strategy, price competition can lead to an unexpected and rapid adverse effect upon the Group's revenues and earnings and to a decrease in the Group's market share and/or decline in profit margins.

Decrease in circulation and pressure on cover prices

Sale of newspapers and magazines is an important source of revenue for the Group and its affiliates. Circulation and readership base are also key factors for advertisers selecting a media for their marketing campaigns. Circulation depends on the quality of the newspapers and magazines, efficiency of distribution and loyalty of readers. A variety of reasons, such as competition from other newspapers, competition from other media or from mass communication like television or radio or the Internet as well as changes in consumer lifestyles can cause an adverse effect on the circulation or readership pattern of a publication.

No guarantees can be given that the Group and its affiliates will be able to maintain the readership base of all of its publications at the current levels in the rapidly changing and highly competitive media industry. A decrease in the circulation of the Group's and its affiliates' print media publications could have an adverse effect upon the Group's revenues and earnings and lead to a decrease in the Group's and its affiliates' market share and/or decline in profit margins.

A decision by competitors to reduce the cover-prices of their newspapers or magazines may force the Group to also have to lower its cover prices. A reduction in the cover prices or loss of circulation would adversely affect the Group's business, financial condition and results of operations.

Dependence on key personnel and editorial team

Each business in the Group relies on a relatively small core management team and as a result, the Group is dependent on the performance of its key employees. The Group's performance depends to a significant extent on its ability to attract and retain highly qualified editorial, sales, marketing and managerial personnel. The Group anticipates that demand for management, editorial and other professional staff will increase.

The quality of the content and substance of the Group's and its affiliates' newspapers and magazines is dependent on the expertise of the editorial team. The Group's and its affiliates' newspapers and magazines are dependent on the network of reporters, journalists and external news service agencies to provide news and article content. Loss of the services of these key persons can adversely affect the results of operations of the Group. For example, if one or more key persons joins a competitor, the resulting competition could hurt the Group's business.

Also, future success depends on the continuing ability of the Group to identify, hire, train and retrain such personnel in the future. Any inability to attract and retain the Group's officers and key employees and the necessary professional personnel could have a material adverse effect on the Group's business, financial condition and results of operations.

Growth and its control

Over the past years the Group has grown relatively rapidly, largely through acquisitions. Management expects that it will continue to grow, both through organic expansion of its business and through further acquisitions. The Group's ability to achieve future growth may require expansion in to new geographic markets and to new operational segments in existing and new markets. In addition, the Group needs to continually improve its financial and management controls, reporting systems and procedures. This growth and expansion will place significant demands on its management resources.

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

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

Dependence on machinery and information technology

The Group's printing and delivery businesses are dependent on smooth working processes which rely on sophisticated software and information technology. The Group has largely outsourced the professional maintenance of its machinery and IT systems to outside contractors. If a breakdown or malfunction of machinery or failure in the supporting software or hardware systems seriously disrupt these working processes, the Group and its affiliates may be unable to fulfil its obligations towards its customers. As a result, the Group may not only lose profits but it also may have to pay contractual penalties or, in extreme situations, customers may terminate their contracts with the Group.

Management believes that the Group has an appropriate insurance cover for its printing business against failures in the printing process. The Group may also be able to make guarantee claims against the machinery or software suppliers or maintenance contractors. The Group has an understanding with certain other printing companies regarding mutual supply of emergency printing services, which Management hopes will enable the Group to meet at least part of its contractual obligations if the Group's print works are stopped due to a technical failure.

However, no assurances can be given that all technical risks associated with the Group's printing and delivery operations can be adequately covered by insurance or manufacturers' or maintenance guarantees. Nor may it be always possible to obtain adequate insurance coverage against some risks at commercially reasonable terms. Whilst Management believes that the Group has taken appropriate measures to reduce its exposure to technical failures, a major disruption in the Group's printing or delivery operations could have a material adverse effect on Group's operations and financial condition.

The delivery system of Express Post relies on IT software for which it has only an oral license from copyright owners of the software. Whilst Management is confident that the Group can continue using this software without interruptions, no assurances can be given that the Group would not be forced to replace

this software either by software acquired from a third party or developed by the Group, which could have a material adverse effect on Group's operations and financial condition.

Dependence on suppliers

The Group relies on a number of key suppliers to provide materials and services to the Group companies. Management believes that apart from the distribution market, there are several alternative suppliers available to the Group and, accordingly, the Group is not directly dependent on any one of its suppliers.

The single most significant material category is newsprint, magazine paper and speciality papers used by the Group's printing operations. The Group currently relies on several paper suppliers, mainly from Finland and Russia, although the Group has no long-term supply contracts with any particular paper supplier. An interruption in their paper production or delivery systems of a supplier may influence the Group's ability to meet its printing orders. Although the Group has in the past managed to obtain alternative supplies, such replacement suppliers may not be willing to supply paper under the same terms and conditions as the Group's regular suppliers. Accordingly, there is no assurance that the businesses of the Group would not be adversely affected by a loss or suspension of deliveries by its regular suppliers.

The Group's and its affiliates' revenues from single-copy sales rely largely on an efficient distribution network of newspapers and magazines. In Estonia, there is effectively only one distributor in this market segment. The Group has had an agreement with this distributor since it sold its own distribution business and there has been no major disruptions in the distribution network. However, any disruption in the distribution system can have a material adverse effect on the single-copy sales and, in consequence, on the Group's business, financial condition and results of operations. It is also possible that the only distributor on the market may in the future demand unacceptable terms for its services, which may require the Group to set up a distribution network of its own.

There cannot be any assurance that the Group could find a cost-effective replacement for a key supplier, which could result in increased cost and reduced profitability. See "Business – Operations – Publishing – Suppliers", "Business – Operations – Printing – Suppliers", "Business – Operations – Book wholesale and retail – Suppliers" and "Business – Operations – Information Services – Suppliers".

Interrelation with fixed line and mobile telephone operators

The results of the Group's Ekspress Hotline businesses depend largely on the cost of telephone calls charged by the fixed line telephone and mobile phone operators. In the event that the telephone and mobile phone operators increase their call charges, the Group may need either to increase the customer prices of its Ekspress Hotline services, or suffer a reduction in the profit margins of these services, which could result in reduced profitability of the Group.

Financing and loan agreements

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

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

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

Contractual risks

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

The Company is a holding company and is dependent upon cash flows from subsidiaries and affiliates

The Company is a holding company that conducts its operations through its subsidiaries and affiliates. The Company holds no significant assets other than the investments into the operating companies and is therefore dependent upon receipt of sufficient dividend income from these companies to meet its own obligations.

Under Estonian and Lithuanian law, a company is not allowed to pay dividends or make other distributions unless current or retained profits are available for such distribution. In relation to many of its joint ventures, the Group is contractually bound to retain the equity-asset ratio of the affiliate at the level of at least 20 per cent. A maximum amount of funds that exceed this threshold are distributed to shareholders as a dividend, whilst the shareholders are also contractually bound to contribute additional capital to eliminate any shortfall. The Company's ability to benefit from the distribution of any assets of the subsidiaries or affiliates upon liquidation of any such companies will be subject to the prior claims of such companies' creditors, including trade creditors.

The Group's financial position is dependent on the contractual and legal ability of subsidiary and affiliate companies to declare and pay dividends. A decrease in dividend income may have an adverse effect on the Group's profits or financial position.

Inability to keep pace with technical and market developments in the media and printing business

The media industry has experienced and will further experience rapid and significant technological changes that may result in the development of alternative means of editorial content generation, publication and distribution. The continued growth of the Internet presents alternative options for content distribution that compete with traditional media for advertising revenue. In response to market developments, the Group and its affiliates have developed online versions of their newspapers and magazines and the Group has acquired specialized Internet web-portals. Whilst Management intends to keep abreast with general market trends, no guarantees can be given that the Group will be able to successfully compete with existing or newly developed alternative distribution technologies, or be able to acquire, develop or integrate new technologies.

In addition, the technical developments have had a certain impact on the printing industry in recent years and such developments may also continue in the future. Development of computer printers have refocused the clients' requirements and increased their expectations regarding print quality, price and delivery time. The Group has in the past invested heavily on updating and renewing its printing technology and printing machines and expects to continue doing so in the future. The Group is currently in the process of acquiring a new magazine printing press. The Group may need to increase the capacity of its printing plant or enhance the quality of the print works or update its printing machinery in the future. The cost of the acquisition, development or implementation of new technologies can be significant and the Group's ability to fund such implementation may be limited, which could in turn have an adverse effect on the Group's business, financial condition or results of operation.

Joint ownership of businesses with competitors

The other shareholders in many of the Group's joint ventures are companies that compete with the Group in one or more business segment. Of the Company's affiliates, SL Õhtuleht, Ajakirjade Kirjastus and Express Post are owned via 50-50 per cent joint ventures with AS Eesti Meedia, a company controlled by the Norwegian media group Schibsted. Eesti Päevaleht is owned through a 50-50 per cent joint venture with Mr. Manitski, an Estonian individual, and this joint venture, in turn, owns the free-distribution tabloid Linnaleht through a 50-50 per cent joint venture with AS Eesti Meedia. The Company owns Netikuulutused through a 50-50 per cent joint venture with Eesti Päevaleht. Neither shareholder has operating control over the business in any of these joint ventures. Further, the Group's Lithuanian distribution company Medipresa is owned with two competing publishers.

Many of these 50-50 per cent ownership structures pre-date Estonia's and Lithuania's accession to the European Union and the new competition legislation subsequently enacted in these countries. Management believes that the ownership structures used by the Group and related shareholders' agreements comply with the competition rules currently in force in Estonia, Lithuania and the other jurisdictions where the Group does business as well as with those of the European Union. However, the competition rules are a rapidly developing area in the new accession states, and no assurances can be given that the competition rules will not change in these jurisdictions, or that the competition authorities will not change their interpretation and enforcement practice in the future. Accordingly, no assurances can be given that the competition authorities could not consider that the Group and the other shareholders in these ownership structures have such a combined market position that future possible acquisitions by the Group cannot be allowed. Nor can any assurances be given that the competition authorities could not decide to investigate the ownership structures used by the Group and its agreements with the other shareholders. In the event that such an action by the competition authorities results in fines, the Group being forced to divest one or more of its assets, or being prevented from consummating further acquisitions, it could have a material adverse effect on the Group's business, results of operations and financial condition.

All of the Group's 50-50 per cent joint ventures are structured so that neither shareholder has control of the joint venture company. The shareholders' agreements relating to the joint ventures with AS Eesti Meedia provide for a mechanism for solving a deadlock in the decision-making of the company. This mechanism enables either party to dissolve the joint venture either by selling its shares to the other shareholder or acquiring the shares held by the other shareholder. This mechanism has never been invoked in any of the joint ventures of the Group, but should a serious deadlock situation arise, it could have a material adverse effect on the Group's business, results of operations and financial condition.

The Company has no written or verbal shareholders' agreement in relation to its 50 per cent interest in Eesti Päevalehe AS beyond what is provided in the Articles of Association of that company. As neither shareholder has control in this company, in absence of agreement a deadlock in its decision-making could be solved only via liquidation of the company. No incidents giving rise to a concern of a deadlock have arisen in the past nine years that this joint venture has been in existence. However, should a serious deadlock situation arise, it could have a material adverse effect on the Group's business, results of operations and financial condition.

Relationship with the principal shareholder

Prior to the Combined Offering, Mr. Hans Luik owns or controls 100 per cent of the Shares. Following the completion of the Combined Offering, this shareholder will continue to own or control approximately 67.7 per cent of the Shares, assuming that the Over-Allotment Option is exercised in full and that Mr. Luik or his holding company HHL Rühm will not acquire any Offer Shares in the Combined Offering. As a result, Mr. Luik will be able to exercise significant control over all matters requiring shareholder approval, including the election of members of the Supervisory Council and approval of significant corporate transactions, which could delay or prevent a third party from acquiring control of the Company. The ability of a major shareholder to prevent or delay such transactions could cause a decline in the price of the Shares.

The Group and businesses controlled by Mr. Luik have contractual relationships relating to certain matters, including, among others, loan agreements and leases for commercial premises. While the Company believes that all these contracts reflect market terms, many of them were entered into prior to, or as part of, the preparation of the Combined Offering and were not subject to a competitive process. Accordingly, there can be no assurance that the terms of some or all of these contracts are not less favourable to the Group than the terms that the Group would have been able to obtain from an independent third party. See “Business – Related Party Transactions”.

Operations outside Estonia

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

Exposure to foreign currency fluctuations

The Group has exposure to fluctuations in currency exchange rates mainly through its printing operations. The Group pays most of its primary suppliers of paper and other materials in euros and U.S. dollars. Whilst the Group’s consolidated reporting currency is Estonian kroon, part of its revenues is in euros, Russian rubles and U.S. dollars. For the six-month period ended 30th June 2006, the Group’s RUR denominated revenues connected with euro amounted to approximately EUR 3.5 million, representing 12 per cent of the total revenues of the Group. For the same period, the Group’s RUR denominated revenues connected with U.S. dollar amounted to approximately USD 1.6 million, representing 4.4 per cent of the total revenues.

In addition, the dividends from then Group’s Lithuanian operations are paid in Lithuanian litas. As the Group expects to further develop its operations and expand outside Estonia, revenues in foreign currencies are likely to increase.

The Group has used forward contracts to hedge its U.S. dollar exposure in the past. The Group also seeks to match currency revenues with costs incurred in the same currency. Although the Group manages its currency risks by means of hedging instruments, contractual terms and matching currency items, significant exchange rate movements could have a material adverse effect on the results of operations and financial condition of the Group.

The editorial content of the Group’s and its affiliates’ newspapers and magazines can be controversial and may result in litigation

In the ordinary course of business, the Group companies and affiliates have had, and may continue to have, litigation claims filed against them in relation to the editorial content of their newspapers and magazines.

In the past, there have been few claims relating to the editorial content of the Group’s or its affiliates’ publishing titles, and the outcome of those claims have had little or no financial impact on the Group. However, there can be no assurance that the Group companies and affiliates can avoid litigation on the editorial content in the future. Any such litigation, if material, may have adverse effect on the Group’s operating results and financial position.

Similarly, the Group companies and affiliates may be liable for claims based on the content of advertising published in their newspapers or magazines. The Group companies and affiliates have trained their editors and advertising personnel to evaluate all proposed advertising in order to prevent any questionable or objectionable material from reaching print. This far, the Group companies and affiliates have successfully avoided the risk of such liabilities. However, there can be no assurance that the Group companies and

affiliates can avoid such liability also in the future. Any such liability, if material, may have adverse effect on the Group's operating results and financial position.

Risks Relating to the Group's Industry

Cyclicality

The publishing and printing businesses are cyclical in nature and subject to fluctuations caused by changes in the general economic conditions and consumer confidence. Revenues from both publishing and printing can be adversely affected if the economic development slows down or enters into recession or if the retail and housing sectors reduce their advertising expenditure for other reasons. In addition, printing business is both capital and labour intensive and, as a result, printing companies have relatively high fixed cost structures. When the economy slows down, printing revenues may decrease while many costs remain fixed, resulting in decreased earnings. No assurance can be made that the Group's business may not be materially and adversely affected if Estonia's and Lithuania's economy slows down or if the advertising expenditure in these markets reduces.

Seasonality

The Group's advertising and book sale revenues are subject to significant seasonal variations, with advertising revenues being at their highest levels in the second and fourth quarter of each year and book sales in the fourth quarter of each year. Advertising revenues and book sales are at their lowest in the third quarter. Revenues are higher in the fourth quarter because of the higher consumer spending during the run-up to Christmas and during the sales after Christmas, with the attendant peaks in advertising expenditure. The summer months usually account for the lowest level of advertising expenditures and book sales during the year. Management expects these seasonal fluctuations to continue affecting its results in the future. Accordingly, the results of operations in any period should not be considered indicative of the results to be expected for future periods.

Volatility in paper cost

The basic raw materials for the publishing and printing of newspapers and magazines are newsprint, paper, ink and printing plates. The cost of printing materials totalled EEK 153 million in 2005 (representing 23 per cent of total operating costs of the Group) of which by far the largest element was the cost of newsprint and magazine paper.

The prices for newsprint and magazine paper have historically been volatile, depending on the volume of global supply and demand. Under its customer printing contracts, the Group is normally entitled to adjust its printing fees if the cost of printing raw material, including newsprint, changes considerably. However, the Group may not be able to pass the increased printing cost on to its ultimate customers of its own publications, which account for one quarter of its printing revenues. The Group does not hedge its exposure to paper price fluctuations. Any significant increase in the cost of paper may have a negative impact on the Group's financial condition and results of operations.

Online media

The Group or its affiliates are involved in online media through three specialized Internet portals and online versions of its newspapers. The future impact of the Internet based media on print media remains uncertain, and whilst Management believes that the Group is in a good position to benefit from the further development of the online media, the continuous and rapid changes in this area pose significant risks for the Group. Due to its primary reliance on print media, the Group may find it difficult to respond fast enough to challenges from foreign or domestic competitors specializing in online media, who may have more expertise on this business and who may be in better position to predict changes in the customer preferences. If the Group fails to meet the competitive challenges from the specialised online media, this may have an adverse effect on its profits and financial position.

Risks Associated with the Combined Offering

Volatility of share prices

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

Prior to this Combined Offering, there has been no public market for the Shares. The Offer Price for the Shares will be determined through negotiations among the Global Coordinator, the Selling Shareholder and the Company. This initial Offer Price may vary from the market price of the Shares after the Combined Offering. Investors, who purchase Shares in connection with the Combined Offering, may not be able to resell those Shares at or above the Offer Price. In addition, there could be significant fluctuations in the price of the Shares, including a substantial decline, following the Combined Offering even if the Group's operating results meet expectations.

Liquidity

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

The average daily trading turnover on the Tallinn Stock Exchange from 1 January to 31 December 2006 was EUR 3 038 207. A total of 15 companies were listed on the Tallinn Stock Exchange as of 28 February 2007. As of 31 January 2007, the two largest companies in terms of market capitalization, AS Eesti Telekom and AS Tallink Grupp, represented approximately 43 per cent of the Tallinn Stock Exchange's aggregate market capitalization of approximately EUR 5 billion. Consequently, the Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the Tallinn Stock Exchange, which could increase the volatility of the price of the Shares. De-listing of any of the large companies listed on the Tallinn Stock Exchange would be likely to have a negative effect on the market capitalization and liquidity of the Tallinn Stock Exchange.

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

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

Sales or issuance of additional Shares into the public market following the Combined Offering could adversely affect the market price of the Shares. The Company and both of its current shareholders have agreed to a lock-up commitment for a period of 12 months in connection with the Combined Offering (see "Underwriting - Lock-up"). These shareholders own or control approximately 67.7 per cent of all the Shares issued and outstanding immediately following the Combined Offering assuming that the Over-Allotment Option is exercised in full and neither of the current shareholders acquires any Offer Shares in the Combined Offering.

In addition, as of the date of this Offering Circular, a significant proportion of the Shares held by Mr. Hans Luik and HHL Rühm are pledged for the benefit of AS Hansapank and AS Sampo Pank. Mr. Hans Luik and AS Hansapank have reached to an agreement that HHL Rühm shall use the proceeds from the sale of Offer Shares to repay the loans granted by AS Hansapank and AS Hansapank shall release the shares from the pledge on or about 2 April 2007. Nevertheless, approximately 20 per cent of the Shares will stay

pledged after the Combined Offering. Should the Group fail under any of the financial agreements underlying the pledge arrangements, the pledge holder has a right to realise the pledge and consequently, to sell the shares. Any such sale in the significant amount may have adverse effect on the market price of the Shares.

Future payments of dividends on the Shares

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

Continued analyst cover

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

Political, Economic and Legal Risks

Risks relating to doing business in Estonia and Lithuania

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

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

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

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

Currency exchange risks

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

Due to the accession of Estonia to the European Union on 1 May 2004 and the adoption of the euro the exact date of which is currently undetermined, the operating results and the financial position of the Group are expected to be reported in euros at some point in the future.

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

Potential tax liabilities

Estonia currently enjoys a corporate income tax regime under which income tax is deferred until profits are distributed. Estonian companies are currently subject to income tax of 22 per cent, however, the effective rate is approximately 28.20 per cent of dividends and other distributions paid (22/78 of the net amount of distributed profits), which rate is due to decrease over the next two years. In addition, an Estonian dividend withholding tax of 22 per cent, which rate is due to decrease to 20 per cent by 2009, is currently imposed on dividends paid by the Company to non-resident legal persons, holding less than 20 per cent of the shares or votes of the Company.

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

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

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

Dependence on relatively low labour costs

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

TERMS AND CONDITIONS OF THE RETAIL OFFERING

The Combined Offering

The Combined Offering comprises up to 5 321 481 existing and new Offer Shares, which are being offered in the course of the Institutional Offering to institutional investors inside and outside of Estonia and in the course of the Retail Offering to the public in Estonia, including certain preferred investors specified below. Up to 2 873 600 existing Offer Shares will be offered and sold by the Selling Shareholder and up to 2 447 881 new Offer Shares will be issued by the Company. The Selling Shareholder has granted the Global Coordinator the Over-Allotment Option, exercisable within 30 days of the date of the commencement of trading in the Shares on the Tallinn Stock Exchange, to require the Selling Shareholder to sell the Additional Shares, i.e. up to 798 222 additional existing shares of the Company, for purposes of covering possible over-allotments.

The apportionment of the Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined. The final determination of the exact size of the Institutional Offering and the Retail Offering will be made by the Company and the Selling Shareholder together in consultation with the Global Coordinator. This decision will be made in the course of the allocation process, which will take place following the end of the Offer Period (as defined below).

When deciding the size of the Institutional Offering and the Retail Offering, the Company and the Selling Shareholder will consider mainly (listed in no particular order of importance) (i) the overall demand for the Offer Shares, (ii) the demand for the Offer Shares in the Retail Offering and (iii) the variance in the size of orders in the Retail Offering and the distribution of orders of different sizes in the Retail Offering. When making their decision, the Company and the Selling Shareholder aim to find a proportion between the Institutional Offering and the Retail Offering which (i) gives the Company a wide shareholder base and (ii) can be expected to contribute to a stable and favourable development of the share price following the Combined Offering.

The Company expects to announce the Offer Price and the allocation of the Offer Shares no later than on 30 March 2007 through the Tallinn Stock Exchange and no later than on 2 April 2007 in one daily newspaper circulated throughout Estonia.

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

Right to participate in the Retail Offering

The Retail Offering is directed to all natural and legal persons resident in Estonia, except for persons who are classified as qualified investors (in Estonian: *kutselised investorid*) pursuant to the following list:

- (i) credit institutions, investment firms, fund management companies, investment funds, insurance companies and other financial institutions subject to financial supervision;
- (ii) national, regional and local government entities, central banks and international organisations;
- (iii) natural persons and small and medium-sized enterprises who have been registered as qualified investors in the respective lists maintained by the Estonian Financial Supervision Authority;
- (iv) natural persons and small and medium-sized enterprises of a Member State of the European Economic Area who have been registered as qualified investors in such Member State;
- (v) companies which are not small and medium-sized enterprises (SME); and
- (vi) financial institutions, whose sole field of activity is investing in securities.

The Global Coordinator is entitled, but not obliged to, request appropriate documentary evidence from any person who claims to be a qualified investor or denies being a qualified investor.

For the purposes of these Terms, a natural person is deemed to be 'resident in Estonia' if he/she has a valid securities account with the Estonian Central Register of Securities ("ECRS") and his/her address entered into the ECRS in connection with his/her securities account is located in Estonia. A legal person is deemed to be 'resident in Estonia' for the purposes of these Terms if it has a valid securities account with the ECRS, its address entered into the ECRS in connection with its securities account is located in Estonia and its registration code entered into the ECRS in connection with its securities account is a valid registration code recorded at the Estonian Commercial Register.

Offer Period

Investors may submit purchase orders for the Offer Shares (a "Purchase Order" and the "Purchase Orders") during the offer period, which commences at 9 a.m. (Tallinn time) on 19 March 2007 and terminates at 4 p.m. on 29 March 2007 (the "Offer Period").

Cancellation of Combined Offering

Until the receipt of the full payment for the Offer Shares the Company and the Selling Shareholder have the right to jointly cancel the Combined Offering or any part thereof, if the Underwriting Agreement (as defined below) has not been entered into on or before 30 March 2007, or the obligations of the underwriter have not become unconditional or terminate prior to settlement. Should such a cancellation become necessary, the Company shall make the announcement through the Tallinn Stock Exchange. All rights and obligations of the parties related to the partially or completely cancelled Combined Offering, as the case may be, terminate as of the moment of the public announcement.

Offer Price

After the completion of the book-building process directed at the institutional investors the Company and the Selling Shareholder, in consultation with the Global Coordinator, shall determine the Offer Price. The Offer Price will be determined on the basis of the tenders for the Offer Shares obtained from institutional investors, taking also account of the total demand in the Institutional Offering, the price sensitivity of such demand and the quality of the demand.

The Offer Price will be in the range of EEK 81.35 – 97.00 per Offer Share.

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

Submission of Purchase Orders

The Company and the Selling Shareholder will invite investors to submit Purchase Orders during the Offer Period in accordance with these Terms. An investor may submit a Purchase Order only at the upper limit of the Offer Price Range, i.e. at EEK 97.00 per Offer Share (the "Subscription Price").

Should an investor submit more than one Purchase Order, all Purchase Orders of the investor will be consolidated and considered as a single Purchase Order for the purposes of the allocation under these Terms.

In order to submit a Purchase Order, an investor must have a securities account with the ECRS. Such securities account can be opened through any custodian of the ECRS (a "Custodian"). As of the date of this Offering Circular the following financial institutions operate as qualifying Custodians: AS Hansapank, AS SEB Eesti Ühispank, Nordea Bank Finland Plc Estonian branch, AS Sampo Pank, AS Lõhmus, Haavel & Viisemann, AS Eesti Krediidipank, AS SBM Pank, Tallinna Äripanga AS and AS Parex banka (through its branch in Estonia).

An investor wishing to submit a Purchase Order should contact the Custodian operating his ECRS securities account and register a transaction instruction for the purchase of the Offer Shares in the form set out below:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's Custodian
Security:	share of AS Ekspress Grupp
ISIN code:	EE3100016965
Number of securities:	maximum number of Offer Shares which the investor wishes to acquire
Price (per share):	Subscription Price
Transaction amount:	maximum number of Offer Shares which the investor wishes to acquire multiplied by the Subscription Price
Counterparty:	AS Suprema Securities
Securities account of the counterparty:	99100869929
Custodian of the counterparty:	AS Hansapank
Value date of the transaction:	4 April 2007
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

The Purchase Order can be submitted by any means accepted by the investor's Custodian (such as through personal visit to a branch office, via letter or the Internet).

An investor may submit a Purchase Order either personally or through a representative who has been duly authorized to represent the investor in this matter.

It is the investor's responsibility to ensure that all information contained in his Purchase Order is correct, complete and readable. The Company and the Selling Shareholder shall have the right to reject any Purchase Order, which is incomplete, incorrect or unclear.

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

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

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

By submitting a Purchase Order an investor:

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

Amendment or cancellation of Purchase Orders

An investor may amend or cancel his Purchase Order any time before the expiration of the Offer Period. To do so, the investor must contact the Custodian through whom the Purchase Order in question was made, and complete all the procedures required by such Custodian for amending or cancelling a Purchase Order. All fees payable in connection with an amendment and/or cancellation of a Purchase Order will be entirely the responsibility of the investor.

Any amendment to or cancellation of the Purchase Order becomes effective at the moment when the transaction instruction of the subject investor has been amended or cancelled in the ECRS on the basis of the respective order received from the investor's Custodian.

Payment

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

Release of funds

Should the Offer Price be lower than the Subscription Price, or the Combined Offering be cancelled, or the investor's Purchase Order be rejected, or the investor be allocated less Offer Shares than applied for by him, the funds blocked on the investor's cash account or the respective part thereof shall be released by the Custodian on or about 4 April 2007.

The Company and the Selling Shareholder assume no liability for the release of the investor's funds by the Custodian or for the payment of any interest accrued on the released funds for the time when the funds were blocked.

Distribution and allocation

Only the Purchase Orders submitted in full compliance with these Terms will be permitted to participate in the allocation process. The Company and the Selling Shareholder reserve the right to reject any Purchase Order that does not comply with these Terms.

The employees and management of the Company and its Estonian subsidiaries and affiliates as well Estonian resident persons that hold one or more subscriptions for certain newspapers published by the Group or its affiliates will be entitled to a preferential allocation of Offer Shares (the "Preferential Allocation") in the Retail Offering before the general public. Moreover, the Estonian resident persons that hold one or more subscriptions for certain newspapers published by the Group or its affiliates may in certain cases be given a better allocation ratio in the general retail tranche, as compared to the other investors.

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

The allocation of the Offer Shares shall be decided by the Company and the Selling Shareholder after the expiry of the Offer Period and the determination of the Offer Price, however, not later than on 30 March 2007.

After the final settlement, an investor can obtain from his Custodian, in accordance with the terms and conditions applied by the Custodian, information about the number of Offer Shares allocated to him.

Employees

The employees of the Company and its subsidiaries and affiliated companies incorporated in Estonia (see "Company, Share Capital and Ownership Structure – Subsidiaries" and "Company, Share Capital and Ownership Structure – Affiliated Companies") (an "Employee" or "Employees") will be entitled to a Preferential Allocation.

Each Employee's Purchase Order shall be accepted in full up to 200 Shares. If an Employee has submitted a Purchase Order for no more than 200 Shares, such Employee will be allotted the number of Shares that he/she has subscribed for. If an Employee has submitted a Purchase Order for more than 200 Shares, he/she will be given a Preferential Allocation for 200 Offer Shares and the Purchase Order exceeding this Preferential Allocation will be entitled to participate in the general retail tranche alongside with investors without Preferential Allocations.

For the purposes of these Terms, an Employee means a person who, as at 9 a.m. (Tallinn time) on 19 March 2007, has a valid employment contract for an unspecified term (in Estonian: *tähtajatu tööleping*) with the Company or any of its subsidiaries or affiliated companies incorporated in Estonia.

The Company and the Selling Shareholder reserve the right, at their sole discretion, to increase or decrease the maximum Preferential Allocation available to the Employees, provided that all Employees who have submitted Purchase Orders are treated equally in relation to their Preferential Allocations.

Management

The members of the management board of the Company and its subsidiaries and affiliated companies incorporated in Estonia (see "Company, Share Capital and Ownership Structure – Subsidiaries" and

“Company, Share Capital and Ownership Structure – Affiliated Companies”) (a “Manager” or “Managers”) will be entitled to a Preferential Allocation.

Each Manager’s Purchase Order will be accepted in full up to 1 500 Shares. If a Manager has submitted a Purchase Order for no more than 1 500 Shares, such a Manager shall be allotted as many Offer Shares as he/she has subscribed for. If a Manager has submitted a Purchase Order for more than 1 500 Shares, he/she will be given a Preferential Allocation for 1 500 Offer Shares and the Purchase Order exceeding this Preferential Allocation will be entitled to participate the general retail tranche alongside with investors without Preferential Allocations.

For the purposes of these Terms, a Manager means a person who, as at 9 a.m. (Tallinn time) on 29 March 2007, is a member of the management board (i.e. with respect of whom the respective decision has been duly passed by a competent managing body) of the Company or any of its subsidiaries or affiliated companies incorporated in Estonia. If a Manager is an Employee, he/she will not be entitled to a Preferential Allocation as an Employee.

The Company and the Selling Shareholder reserve the right, at their sole discretion, to increase or decrease the maximum Preferential Allocation available to the Managers, provided that all Managers who have submitted Purchase Orders are treated equally in relation to their Preferential Allocations.

Subscribers of Eesti Päevaleht and Eesti Ekspress

Newspaper Subscribers (as defined below) will be entitled to a Preferential Allocation. Each Purchase Order received from such investor will be accepted in full up to 200 Shares per one newspaper subscription of Eesti Päevaleht and/or up to 200 Shares per one newspaper subscription of Eesti Ekspress held by the investor and in regard to which the Direct Debit Agreement (as defined below) has been concluded (the “Newspaper Subscription”). If a Newspaper Subscriber holds more than one Newspaper Subscription of Eesti Päevaleht and/or Eesti Ekspress he/she/it shall be entitled to the Preferential Allocation only in regard to one Newspaper Subscription of Eesti Päevaleht and/or one Newspaper Subscription of Eesti Ekspress.

If the investor has submitted a Purchase Order for no more than 200 Shares per each Newspaper Subscription held by him/her/it, such investor will be allotted all the Offer Shares he/she/it subscribed for. If the investor has submitted a Purchase Order for more than 200 Shares per each Newspaper Subscription held by him/her/it, such investor will be entitled to a Preferential Allocation of 200 Shares per each Newspaper Subscription held by him/her/it, and the Purchase Order exceeding this Preferential Allocation will be entitled to participate the general retail tranche alongside with investors without Preferential Allocations.

For the purposes of these Terms, a “Newspaper Subscriber” means a person resident in Estonia who has a valid Direct Debit Agreement for a subscription for Eesti Päevaleht and/or Eesti Ekspress as at 5 p.m. (Tallinn time) on 26 March 2007.

For the purposes of these Terms, a “Direct Debit Agreement” means a direct debit agreement (in Estonian: *otsekorraldusleping*) concluded by a person with any of AS Hansapank, AS SEB Eesti Ühispank, Nordea Bank Finland Plc Estonian branch, AS Sampo Pank or AS Eesti Krediidipank for purposes of debiting his/her/its current account at regular intervals in order to pay for one or more Newspaper Subscription, provided that the bank in question has notified Eesti Päevalehe AS or Eesti Ekspressi Kirjastuse AS, as the case may be, of the Direct Debit Agreement (including the personal identity code of the person subscribing for the newspaper) no later than at 5 p.m. (Tallinn time) on 26 March 2007.

If an investor has concluded the Direct Debit Agreement during the Offer Period and has, as a result thereof, been given the Preferential Allocation described herein in the full extent, he/she/it shall be obliged to keep the Newspaper Subscription and the related Direct Debit Agreement valid at least for three months as of the time of acquiring the Offer Shares (the “Minimum Subscription Term”). If such investor terminates the Direct Debit Agreement prior to the expiry of the Minimum Subscription Term, either Eesti Päevalehe AS and/or Eesti Ekspressi Kirjastuse AS, as the case may be, shall be entitled to demand a penalty from

him/her/it in the amount equal to the subscription fee of the Newspaper Subscription(s) for the remaining part of the Minimum Subscription Term.

In case a person is both a Newspaper Subscriber and either an Employee or a Manager for the purposes of these Terms, he/she will be entitled to Preferential Allocation in both categories. For example, if a person is an Employee and a Newspaper Subscriber of Eesti Päevaleht and Eesti Ekspress, he/she will be entitled to a Preferential Allocation of up to 600 Shares, of which up to 200 Shares are due to being an Employee and up to 200 Shares for each Newspaper Subscription.

The Company and the Selling Shareholder reserve the right, at their sole discretion, to increase or decrease the maximum Preferential Allocation available to the Newspaper Subscribers, provided that all Newspaper Subscribers who have submitted Purchase Orders are treated equally in relation to their Preferential Allocations.

The partial or full cancellation of the Combined Offering due to whatever reason or possible changes in the number of Offer Shares set aside for the Preferential Allocation shall not entitle a Newspaper Subscriber to cancel any Newspaper Subscriptions or make any claims against the Company, Eesti Päevalehe AS and/or Eesti Ekspressi Kirjastuse AS in connection with the Newspaper Subscriptions. However, in the event of a partial or full cancellation of the Combined Offering, the Newspaper Subscriber will not be liable to pay the penalty described above for terminating his/her/its Direct Debit Agreement prior to the expiry of the Minimum Subscription Term, nor is the penalty payable if the Company and the Selling Shareholder decide to reduce the Preferential Allocation available to the Newspaper Subscribers below 200 shares per Newspaper Subscription.

General Retail Tranche

The Offer Shares of the Retail Offering that have not been allocated to Employees, Managers and Newspaper Subscribers (the “Preferred Investors”) in the course of the Preferential Allocation (such remaining Offer Shares the “Remaining Shares”) will be divided proportionately among (i) all the subscriptions of investors other than the Preferred Investors (the “Non-Preferred Investors”) and (ii) all the subscriptions of the Preferred Investors to the extent they exceed their Preferential Allocation, whereas the allocation ratios applicable in this general retail tranche in regard to the Newspaper Subscribers and other investors may differ, as described below. Through the different allocation ratios in the general retail tranche it will be secured that the Newspaper Subscribers will be given the allocation ratio that is at least two times better than the allocation ratio given to the Non-Preferred Investors, unless the Newspaper Subscribers are allocated as many Offer Shares as they have subscribed for.

If the aggregate number of (i) the Offer Shares subscribed for by the Non-Preferred Investors and (ii) the subscriptions of the Preferred Investors exceeding their Preferential Allocation (the “Demand in the General Retail Tranche”) is less than or equal to the total number of the Remaining Shares, each investor shall be allocated as many Offer Shares as he/she/it has subscribed for.

In case the Demand in the General Retail Tranche exceeds the total number of the Remaining Shares, the number of Offer Shares allocated to an investor in this general retail tranche (i.e. in addition to possible Offer Shares allocated to an investor in the course of the Preferential Allocation) shall be found:

- in case of investors other than Newspaper Subscribers, by multiplying the number of Offer Shares subscribed for by such investor (from which the number of Offer Shares allocated to such investor in the course of the Preferential Allocation shall be deducted) with the ratio (the “Allocation Ratio”) that is found by dividing the total number of the Remaining Shares by the sum of (i) the subscriptions of the investors other than the Newspaper Subscribers exceeding their Preferential Allocation and (ii) double amount of the subscriptions of the Newspaper Subscribers exceeding their Preferential Allocation, and

- in case of Newspaper Subscribers, by multiplying the number of Offer Shares subscribed for by such investor (from which the number of Offer Shares allocated to such investor in the course of the Preferential Allocation shall be deducted) with the double Allocation Ratio.

In case the Allocation Ratio would be higher than 0.5, each Newspaper Subscriber shall be allocated as many Offer Shares as he/she/it has subscribed for. In such case the number of Offer Shares allocated to an investor other than a Newspaper Subscriber in this general retail tranche (i.e. in addition to possible Offer Shares allocated to an investor in the course of the Preferential Allocation) shall be found by multiplying the number of Offer Shares subscribed for by such investor (from which the number of Offer Shares allocated to such investor in the course of the Preferential Allocation shall be deducted) with the ratio between (i) the Remaining Shares that have not been allocated to the Newspaper Subscribers, and (ii) the Demand in the General Retail Tranche from which the subscriptions of the Newspaper Subscribers exceeding their Preferential Allocation have been deleted.

The table on the next page illustrates the application of the allocation principles specified above. The numbers shown in the table have been calculated on the following assumptions:

- the number of Offer Shares offered in the Retail Offering is 10 000;
- the total demand of Offer Shares in the Retail Offering is 24 000;
- 18 investors, including eight Preferred Investors and ten Non-Preferred Investors, participate in the Retail Offering.

Investor	Amount of Shares subscribed for by the investor (A)	Preferential Allocation ⁽¹⁾ (B)	Part of subscription participating in the general retail tranche ⁽²⁾ (C)	Allocation ratio in the general retail tranche ⁽³⁾ (D)	Number of Shares allocated to the investor in the general retail tranche ⁽⁴⁾ (E)	Total number of Shares allocated to the investor ⁽⁵⁾ (F)	Overall allocation ratio of the investor ⁽⁶⁾
10 Non-Preferred Investors (i.e. investors who are not Employees, Managers nor Newspaper Subscribers)	10 000	0	10 000	0.14155	1 410	1 410	0.14
<i>Per one Non-Preferred Investor</i>	<i>1 000</i>	<i>0</i>	<i>1 000</i>	<i>0.14155</i>	<i>141</i>	<i>141</i>	<i>0.14</i>
Newspaper Subscriber with one Newspaper Subscription	1 000	200	800	0.28311	226	426	0.43
Newspaper Subscriber with two Newspaper Subscriptions	1 000	400 (200 + 200)	600	0.28311	169	569	0.57
Employee	1 000	200	800	0.14155	113	313	0.31
Employee with one Newspaper Subscription	1 000	400 (200 + 200)	600	0.28311	169	569	0.57
Employee with two Newspaper Subscriptions	1 000	600 (200 + 200 + 200)	400	0.28311	113	713	0.71
Manager	3 000	1 500	1 500	0.14155	212	1 712	0.57
Manager with one Newspaper Subscription	3 000	1 700 (1500 + 200)	1 300	0.28311	368	2 068	0.69
Manager with two Newspaper Subscriptions	3 000	1 900 (1500 + 200 + 200)	1 100	0.28311	311	2 211	0.74

⁽¹⁾ 200 Shares for each Newspaper Subscription, 200 Shares for being an Employee and 1 500 Shares for being a Manager.

⁽²⁾ Found by deducting from the figure in column (A) the figure in column (B).

⁽³⁾ The Allocation Ratio is found by dividing the total number of the Remaining Shares (i.e. 3 100 Shares) by the sum of (a) the subscriptions of the investors other than the Newspaper Subscribers exceeding their Preferential Allocation (i.e. 12 300 Shares) and (b) double amount of the subscriptions of the Newspaper Subscribers exceeding their Preferential Allocation (i.e. 4 800 Shares). The calculation is as follows:
 $3\,100 / (12\,300 + 2 \times 4\,800) \approx 0.14155$. In case of Newspaper Subscribers the double Allocation Ratio (i.e. approximately 0.28311) is applicable.

⁽⁴⁾ Found by multiplying the figures in columns (C) and (D).

⁽⁵⁾ Found by adding the figures in columns (B) and (E). Additionally, nine Shares shall be allocated on random basis.

⁽⁶⁾ Found by dividing the figure in column (F) by the figure in column (A).

The information provided in the described table is only for the purposes of exemplifying the application of the allocation principles and in no event the investors should base their investment decisions on this information. This information is neither meant to give any indication of the possible actual allocation results.

Settlement and trading

The Offer Shares allocated to the investors shall be transferred to their securities accounts on or about 4 April 2007 through the "delivery versus payment" method simultaneously with effecting the payment for such Offer Shares.

In the event that an investor has submitted more than one Purchase Order through more than one securities account, the Offer Shares allocated to such investor will be transferred to his securities accounts proportionally. The number of Offer Shares to be transferred to each securities account may be rounded up or down to the closest full number of Offer Shares. If the settlement cannot be completed due to insufficient funds on the investor's cash account, the Purchase Order made via the securities account connected to such cash account will be rejected and the investor will lose all rights to subscribe for Offer Shares pursuant to that Purchase Order.

In order to facilitate the settlement, the Offer Shares to be transferred to investors (corresponding to the number of the new Offer Shares) will be temporarily borrowed from the Selling Shareholder and Mr. Hans Luik so that all investors in the Combined Offering will receive only existing Offer Shares.

Trading in the Shares is expected to commence on the Tallinn Stock Exchange on or about 5 April 2007.

Applicable law and dispute resolution

The Retail Offering shall be governed by the laws of Estonia. Any disputes arising in connection with the Retail Offering shall be in the jurisdiction of the Harju County Court, except when law provides for the jurisdiction of another court which cannot be by-passed by contract.

BACKGROUND TO THE COMBINED OFFERING

The purpose of the Combined Offering is to finance the Group's business development as a diversified media group and its expansion to new geographic areas and business segments. To date, the Company and the Group and its affiliates have mainly financed their business development from cash flow and debt. The purpose of the Combined Offering is to create a new source of finance to support the Group's development and broaden the Company's shareholder base.

The Combined Offering provides the prerequisites for the Company's listing. The listing is expected to enhance the Company's profile and brand recognition among current and prospective subscribers of newspapers and magazines, advertisers, cooperation partners and prospective future employees to be recruited by the Group, as well as eventually provide liquidity to the Company's shareholders.

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

LISTING

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

On or about 16 March 2007 the Listing and Surveillance Committee of the Tallinn Stock Exchange is expected to make a decision to list the Shares conditionally on the Main List of the Tallinn Stock Exchange. According to the expected decision, the following conditions must be met for the Shares to be listed:

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

Trading in the existing Shares is expected to commence on or about 5 April 2007.

USE OF PROCEEDS

The aggregate net proceeds to the Company from the Combined Offering are estimated to amount to approximately EEK 201 million, after deducting the expenses of the Combined Offering, based on the mid-point of the Offer Price Range set forth on the cover of this Offering Circular. The fees and expenses incurred in connection with the Combined Offering and payable by the Company are estimated to amount to approximately EEK 17 million (including applicable taxes), based on the mid-point of the Offer Price Range.

The first priority of the Company is to use such proceeds to finance the business development and expansion of the Group to geographic areas outside Estonia, and to maintain and enhance the Group's position in the fast-growing and new business segments, such as online media. Possible acquisitions and investments may be made in Estonia and abroad. The Company may also use proceeds to invest into its existing operations, although such use is a lower priority. Until suitable investment opportunities are found, the Company may use the proceeds for repayment of the Group's overdraft obligations.

The aggregate net proceeds to the Selling Shareholder from the sale of the Offer Shares and Additional Shares in the Combined Offering are estimated to amount to approximately EEK 328 million, based on the mid-point of the Offer Price Range set forth on the cover of this Offering Circular. The Company will not receive any portion of the proceeds from the sale of the Offer Shares by the Selling Shareholder.

DIVIDENDS AND DIVIDEND POLICY

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

The Company had not paid dividends before the year 2006. Until 2006 the profits have been reinvested in the Group. This has allowed Mr. Luik to defer income tax on profits, as Estonian companies pay income tax only from profits distributed to its shareholders.

At the General Meetings of Shareholders held on 27 February 2006, 31 March 2006, and 29 June 2006 the Company declared and subsequently paid out a dividend in the aggregate amount of approximately EEK 43.6 million, which equals some 25 per cent of the aggregate annual net income of the Company during the last five years. The table below shows dividends on Shares that the Company has declared and paid this year:

	2006	2006 (adjusted)⁽¹⁾
Amount of dividends paid out, EEK	43 598 640	43 598 640
Number of Shares	2 216	11 523 200
Dividend per Share, EEK	19 674.5	3.8

⁽¹⁾ Adjusted to reflect the share split, and bonus issue carried out in 2006.

In 2007, the Company does not plan to pay out any dividends. Commencing from 2008, for the financial year ending 31 December 2007, the Company expects to pay dividends regularly and to maintain the aggregate amount of dividends at least at the level of 25 per cent of the annual net income. However, the Company cannot assure that dividends will be paid in the future or if dividends are paid, how much they will amount to. The declaration and payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management Board to be relevant at the time. Therefore, dividends paid historically are not representative of dividends to be paid in the future.

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth the actual capitalization and indebtedness of the Company based on unaudited consolidated condensed consolidated interim financial information for the six months ended 30 June 2006 and unaudited figures as of 31 December 2006, which were used to compile the profit estimates and are based on the unaudited management accounts. The table should be interpreted in conjunction with the financial statements and profit estimates presented elsewhere in this Offering Circular.

EEK '000	31 December 2006 Based on preliminary results (Unaudited)	30 June 2006 Actual (Unaudited)
CAPITALISATION		
Share capital ⁽¹⁾	165 232	2 216
Share premium	–	21 285
Reserves	5 238	10 222
Retained earnings	94 282	140 077
Minority interest	518	18 677
Shareholder's equity	265 270	192 477
Short-term financial debt ⁽²⁾	95 026	88 618
Long-term financial debt ⁽²⁾	118 846	181 692
Total capitalization and indebtedness	479 142	462 787
NET INDEBTEDNESS		
Cash and cash equivalents	51 101	29 838
Other financial assets at fair value through profit or loss	6 484	6 832
Total liquidity	57 585	36 670
Current financial debt ⁽²⁾	95 026	85 500
Net current financial indebtedness	37 441	48 830
Long-term debt ⁽²⁾	118 846	150 618
Net financial indebtedness	156 287	199 448

⁽¹⁾ The number of shares amounted to 2 216 each at nominal value of EEK 1 000 as at 30 June 2006 and to 16 523 200 each at nominal value of EEK 10 as at 31 December 2006; the increase in the number of shares resulted from a share split and share capital increase.

⁽²⁾ The Company's financial liabilities consist of overdrafts and bank loans which are secured by share pledges, asset pledges and guarantees by the Company. For additional information please refer to the Index to Financial Statements.

INDUSTRY OVERVIEW

The following information includes extracts from information, data and statistics publicly released by officials and has been extracted from public or other sources the Group believes to be reliable. The Group accepts responsibility for extracting and reproducing accurately such information, data and statistics. As far as the Group is aware no facts have been omitted that would render such information, data and statistics misleading, but the Group accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Baltic Media Market

The Baltic States comprise the countries of Estonia, Latvia and Lithuania, which are surrounded by Finland to the north, Russia and Belarus to the east, Poland to the south and the Baltic Sea to the west. The combined population of these three countries is approximately 7.3 million, and their combined GDP amounted to EUR 38 billion in 2005. The Baltic States are considered one of the fastest growing regions in the European Union, with GDP growth ranging from 7 per cent in Lithuania to 10 per cent in Latvia in 2005.

Like elsewhere in Europe, the media market in the Baltic States derives the majority of its revenues from advertising. Advertising is the single most important revenue source for television, radio and outdoor media and accounts for some 53 per cent of the turnover in the newspaper market (source: TNS Emor and the Estonian Newspaper Association (Eesti Ajalehtede Liit). Newspapers and magazines generate revenue also through subscriptions and single copy sales, which for newspapers account for 47 per cent of the turnover. The structure is similar to that of the developed European publishing markets and similarly to the rest of Europe, the trend is towards even a higher proportion of advertising revenues.

The Baltic media market generated EUR 327 million in revenues in 2005, which was 13 per cent more than in 2004. The newspaper and magazine publishing form the largest part of the Baltic media market, both by revenues and advertising sales. In 2005 it generated EUR 224 million in revenues of which EUR 119 million came from advertising (source: TNS Emor and the Estonian Newspaper Association).

The table below shows the development of the Baltic advertising market in 2003-2005:

	Advertising expenditure					
	2003		2004		2005	
	EUR million	%	EUR million	%	EUR million	%
Television	68.6	34	86.4	37	97.0	37
Newspapers	70.5	35	79.4	34	87.1	33
Magazines	25.5	13	28.0	12	31.7	12
Radio	19.1	10	21.0	9	23.8	9
Outdoor	12.2	6	14.0	6	15.9	6
Internet	4.0	2	4.7	2	7.9	3
Other	0.6	0.3	0.7	0.3	0.5	0.2
Total	200.5	100	234.2	100	263.9	100

Source: TNS Emor

Lithuania has the largest and fastest growing national media market in the Baltic States, with EUR 105.4 million of advertising revenues generated in 2005 and an annual growth of 18 per cent during the period of 2003-2005. Latvia generated advertising revenues of EUR 85.2 million in 2005 and had an annual growth of 13 per cent during the period 2003-2005.

The Estonian media market is the smallest of the Baltic States with advertising revenues of EUR 73.3 million, and an annual growth of 12 per cent during the period 2003-2005. Based on the latest research report published by TNS Emor, Estonian media advertising market grew 18 per cent compared to previous year, to reach EUR 86.6 million. However, on a per capita basis, the Estonian media market is the

most mature and developed in the region, with an annual advertising expenditure of EUR 54 per capita, in comparison to EUR 37 in Latvia and EUR 31 in Lithuania.

The following table illustrates the overall and per capita development of the three Baltic advertising markets in 2003-2005:

	<i>Advertising expenditure</i>					
	2003		2004		2005	
	EUR million	%	EUR million	%	EUR million	%
Estonia	58.0	29	64.7	28	73.3	28
per capita	42.7		47.9		54.3	
Latvia	66.8	33	71.8	31	85.2	32
per capita	28.6		30.1		36.9	
Lithuania	75.7	38	97.7	41	105.4	40
per capita	21.9		28.4		30.8	
Total	200.5	100	234.2	100	263.9	100

Source: TNS Emor

Advertising expenditure has historically been correlated with the growth in GDP. Estonia, Latvia and Lithuania are currently among the EU member states with the highest GDP growth and foreign direct investment per capita and according to the World Bank estimates they are expected to remain such for the next 2-5 years. In recent years the growth in the GDP in the Baltic States has been fuelled by exports, which have little or no effect on domestic advertising. However, the focus is shifting towards domestic consumption and foreign investment remains strong, both of which are expected to strengthen the correlation between GDP growth and advertising expenditure.

The Baltic media markets are benefiting from an ongoing convergence of the Baltic States with the economies of the developed EU members, and the Nordic countries in particular. According to ZenithOptimedia, the advertising expenditure in the 25 members of the European Union EU Member States amounted on average to EUR 187 per capita in 2005, while the per capita average advertising expenditure in the Central and Eastern European ("CEE") countries reached EUR 110 in the same year. Estonia had the highest per capita expenditure of the Baltic States, and yet at EUR 54 it was less than half of the CEE average. According to estimates by TNS Emor, the Baltic media markets are expected to grow significantly in short to medium term, likely faster than GDP. This growth is likely to outpace the growth in GDP, assuming that the media markets are to catch up to the CEE average levels. It is expected that the growth will be fastest in Lithuania, which currently has the least developed media market in the Baltic States, and slowest in Estonia, where the market is most developed.

Estonian Media Market

Overview

The Estonian media market has experienced a similar transition from state control to a free market system as has taken place in the other ex-Communist countries. As a result, the media industry in Estonia is now almost completely in private ownership, with the state represented only in one TV channel, a radio station and a number of cultural and educational publications, all of which enjoy full editorial independence. State-owned media is subsidised from the state budget and does not compete with the private sector for advertising revenue.

Prior to 1991, all Estonian media had been under state control subject to censorship and content supervision by the government. The media sector expanded rapidly after Estonia regained its independence when the media censorship had ended. A large number of new print titles, radio stations and TV channels appeared in 1991-93. The first private radio station went on the air in 1991 and a year later the Estonian government

issued the first licenses for private TV broadcasters. At the same time, the government decided that it should not be involved in newspaper or other print format publishing. Former state enterprises were privatized and most newspapers were bought by active management. Some years later, most of these original owners sold their shares to either domestic or foreign publishers.

The Estonian government does not subsidise newspapers or magazines, apart from certain funds that are annually earmarked by the Estonian parliament for the Estonian postal authority Eesti Post for maintaining delivery service of periodicals to certain parts of the country, which otherwise could not be run without financial losses.

	2003	2004	2005
GDP (EUR million)	7 235	7 800	8 563
Population (million)	1 356	1 351	1 348
Per capita GDP (EUR)	5 336	5 774	6 353
Advertising expenditure (EUR million)	58.0	64.7	73.3
Percentage of GDP (%)	0.80	0.83	0.85
Advertising expenditure growth (%)		11.6	13.1
Advertising expenditure per capita (EUR)	42.7	47.9	54.3
Print advertising expenditure (EUR million)	32.6	36.3	41.0
Percentage of all advertising expenditure (%)	56.2	56.1	55.9
Print advertising expenditure growth (%)		11.3	12.9

Source: Statistical Office of Estonia; TNS Emor

Regulation

Estonia has a liberal media regime with little or no statutory or government regulation. Television and radio are governed by the Estonian Broadcasting Act (ringhäälinguseadus) which, among other things, regulates the allocation of television licenses to private broadcasters and sets out the scope of the public service television and radio.

There is virtually no regulation of the printed media. Apart from complying with the general copyright legislation, competition rules, Language Act (keeleseadus), Advertising Act (reklaamiseadus) and State Secrets Act (riigisaladuseseadus), there is no specific regulation of the print media, and no license, permit or registration is required for establishing a newspaper or a magazine.

Television, Radio, Outdoor and Internet Markets

Estonia has currently one public TV broadcaster, Eesti Televisioon (ETV) and two commercial TV broadcasters, TV3 and Kanal 2. In addition to these three national broadcasters, the Estonian government has issued one local TV broadcasting license, two national cable TV licenses and 77 local cable TV licenses. The cable TV operators mainly re-transmit programming from international satellite channels, although some cable operators produce their own programme content. STV and Starman are the two leading companies in the cable TV market, and their cable channels can be received throughout most of the country. Both of these companies are diversified telecommunications groups which offer Internet and fixed telephone line connections and other services in addition to cable television.

As of the end of 2005, Estonia had 32 radio broadcasters, including 5 state owned radio stations (Eesti Raadio) which cover the whole country. The 27 private radio stations operate either regionally or locally. Apart from Eesti Raadio, music and music-related programming is the mostly used programme format in the Estonian radio media.

The outdoor advertising market is dominated by two large international firms JCDecaux and ClearChannel Outdoor. The primary revenue drivers in this segment are household goods and political election campaigns.

Although this sector is developing, the lack of new attractive locations and reluctance of advertisers to pay higher fees restricts its growth potential.

The Internet advertising market has been the fastest growing media segment in Estonia over the past several years. This segment has nearly doubled since 2003 to reach EUR 2.2 million in revenues by 2005. According to the latest statistics published by the research firm TNS Emor, more than 730 000 Estonians regularly use the Internet, which equals 60 per cent of the Estonian population aged 6-74. Based on the latest results of the TNS Metrix survey performed by TNS Emor, the search engine Neti.ee leads the market in terms of number of visitors. In March – May 2006 it had on average 308 000 visitors daily, which represents 43 per cent of all Estonian Internet users. During the same period, all the online versions of Estonian newspapers together had on average 173 000 visitors per day, which represents 25 per cent of all Estonian Internet users.

The three most visited portals account for some two-thirds of the advertising revenues of the Estonian internet segment. Neti.ee is a search engine which specializes in providing links to local web-pages; Hot.ee is the most popular email and webpage hosting service in Estonia and Delfi.ee is an online news provider. Neti.ee and Hot.ee belong to Eesti Telekom, Estonia's largest telecommunications company, controlled by the Nordic concern TeliaSonera. Delfi.ee is owned by Interinfo Holding SCA, a Norwegian directory services group.

The Internet advertising is primarily used to promote financial services, leisure-related activities and Internet-based services.

Print Media Market

Key Ownership

Some 48 companies operate in the Estonian print media market, of which 41 are controlled by Estonian nationals. However, in 2005, the foreign-controlled media companies accounted for half of the aggregate advertising revenue of the Estonian print media. The Company is the leading Estonian-owned print media company, and it generated 25 per cent of all Estonian print media advertising revenues in 2005. The leading foreign-controlled print media companies are the Norwegian Schibsted's Eesti Meedia Group and Äripäeva Kirjastuse AS, which belongs to Bonnier Business Press of the Swedish Bonnier Group. These two companies accounted for 41 per cent of the aggregate advertising revenue of the Estonian print media in 2005.

Prior to 1998, foreign ownership of the Estonian print media was minimal. The Swedish Bonnier Group was the first foreign publisher to enter the Estonian media market when it acquired the business daily Äripäev in 1994. The Norwegian AB Schibsted Group entered the market in 1995 when it acquired a 33 per cent interest of the national daily newspaper Postimees. Schibsted subsequently increased its ownership in Postimees to 92.5 per cent in 1998. In the same year it renamed the company publishing Postimees into AS Eesti Meedia, which directly or through joint ventures, now owns 8 national and local newspapers and 25 magazines in Estonia.

Also in 1998, the owner of Ekspress Grupp sold a 50 per cent interest in the company to Marieberg International AB, a division of the Bonnier Group. Between 1998-2001 Eesti Meedia and Ekspress formed several 50-50 per cent joint ventures, such as SL Õhtuleht, which now is the most widely read newspaper in Estonia. Also the two companies joined their magazine publishing divisions in a similarly structured joint venture, to form Ajakirjade Kirjastus magazine group, which publishes 25 magazine titles. The two companies also created Express Post, a distribution company, to cover the publishers' delivery needs.

In 2001, the Swedish Marieberg International AB decided to concentrate on its core Scandinavian markets and sold its 50 per cent interest in Ekspress back to its original owner, Mr. Hans Luik. The Bonnier Group is currently represented in the Estonian market through its ownership of the business daily Äripäev and the pan-Baltic online news service Baltic Business News.

Newspaper Market - Overview

In total there are 54 daily and weekly newspaper titles published in Estonia. However, the leading five newspapers generated almost 60 per cent of the total newspaper advertising revenues in 2005.

The Estonian newspaper market is divided into national and local newspapers. The national Estonian-language titles have high circulation figures and a wide readership base across different demographic groups. The Russian-language national newspapers have a similar profile among the Russian-speaking audience, which accounts for some 26 per cent of the population.

The local press is even less fragmented along the demographic lines, mainly because of the limited number of titles available in each of the regions.

National newspapers tend to focus on national news, although they also report regional news, mainly because of Estonia's small geographical size and small population. For the same reasons the local press tends to report national and regional news, often sourced from the national newspapers.

In line with world market trends, newspaper circulation and readership have declined in Estonia in recent years. According to the market researcher Peeter Vihalemm and TNS Emor, the percentage of regular newspaper readers (who have read at least four of the last six issues of any newspaper) has declined from almost 100 per cent in 1991 to 70.5 per cent in 2004. While political and economic stability are the main contributors to the decline in the readership, other media, primarily the Internet, are also affecting newspaper sales. Despite the decline in readership, advertising spending has increased, having grown by 24 per cent in nominal terms since 2003 (source: TNS Emor). However, TV and the Internet are gradually gaining market share in total advertising expenditure at the expense of the print media.

Estonia remains one of the world leaders in terms of newspaper reach, despite the decline in the number of regular readers. Estonian population's choice of media is affected by similar factors as in the Nordic countries of Norway, Sweden and Finland, which traditionally have led the global statistics in newspaper reach, readership and number of copies sold per thousand of inhabitants. The limited number of local TV channels and harsh weather conditions during most part of the year make newspapers and magazines a natural choice in the Nordic countries.

According to the World Association of Newspapers, more than 90 per cent of all newspapers in Norway, Sweden and Finland are sold through subscriptions. In contrast, the subscription rate in Spain is around 10 per cent. Estonia resembles its Nordic peers closely in newspaper reach and delivery method, but is behind them in newspaper copies sold per capita. As mentioned earlier, 70.5 per cent of the Estonian population regularly read a newspaper in 2004, while according to TNS Emor, 70 per cent of the five leading national newspapers and 60 per cent of the five leading magazines were sold through subscriptions in 2005.

Estonian newspaper consumption in 2004 was 0.4 newspaper copies per capita (source: Estonian Newspaper Association). This equals half of the corresponding figure of 0.8 copies per capita in Norway, which has the most developed newspaper market in the Nordic countries (source: World Association of Newspapers). As the Estonian economy continues to converge with its Nordic neighbours, this may be seen as a prediction for future growth in the newspaper circulation in Estonia.

National Newspaper Market

There are 22 national newspapers in Estonia, seven of which are published six times a week (Monday through Friday plus a special weekend edition). The other 15 newspapers are published weekly or 2-3 times a week.

The main national newspapers in Estonia are *SL Õhtuleht*, *Postimees*, *Eesti Päevaleht*, *Eesti Ekspress*, *Maaleht* and *Äripäev*. *SL Õhtuleht* is a major daily tabloid and has the highest circulation among Estonian

newspapers. Postimees and Eesti Päevaleht are general interest daily newspapers. Maaleht is a weekly newspaper focusing on regional news. Äripäev is the only daily business newspaper in Estonia.

For more information about the newspapers published by the Group and its affiliates, see 'Business Description – Operations – Publishing - Print Media Publishing – Newspapers'.

The table below illustrates the readership levels in the fourth quarter of 2006 and national advertising market shares of the leading Estonian national titles in 2005:

Title	Owner	Readership	National readership	Advertising revenue EUR '000	National advertising market share
SL Õhtuleht	Eesti Meedia 50%; Ekspress 50%	251 000	20.6%	2 952	12.3%
Postimees	Eesti Meedia	237 000	19.4%	5 567	23.2%
Eesti Ekspress	Ekspress	142 000	11.6%	4 141	17.3%
Maaleht	24 private individuals	134 000	11.0%	671	2.8%
Eesti Päevaleht	Ekspress 50%; Vivarone OÜ 50%	131 000	10.7%	3 621	15.1%
Äripäev	Bonnier Business Press AB	81 000	6.6%	4 231	17.7%
Others		281 000	22.4%	2 780	11.6%

Source: Äripäeva Kirjastuse AS; TNS Emor

Local Newspaper Market

There are 32 daily or weekly local newspapers in Estonia. The local newspapers can be either paid or free. Local titles tend to be particularly important in less populated areas of the country, while national newspapers dominate the market in cities and other densely populated areas.

According to TNS Emor, in the Harjumaa county (where the capital city Tallinn is located), the leading local newspaper Linnaleht has only a 16.7 per cent readership rate, which makes it the fourth most widely read title in the county. In contrast, in Võrumaa, with 39 000 people, Võrumaa Teataja is read by 88.1 per cent of the population.

Advertising in the local press is driven by classified advertising and is dominated by recruitment and retail. Local newspapers owned by major media companies typically generate higher advertising revenues than the independent ones, as they can capitalize on the resources and experience of their parent groups. Pärnu Postimees, owned by Eesti Meedia, is the leading local newspaper by advertising sales, with EUR 1 million of advertising revenues in 2005.

The table below sets forth the leading local newspapers in Estonia's regions with respective readership levels in the fourth quarter of 2006 and advertising revenues in 2005:

County	Population	Leading local title	Owner(s)	Local readership	Advertising revenue EUR '000
Harjumaa	521 038	Linnaleht (Tallinn)	Eesti Päevaleht 50% Eesti Meedia 50%	174 000 (16.7%)	453
Ida-Virumaa	173 777	Gorod	Narva City Council	42 000 (32.7%)	77
Tartumaa	148 886	Linnaleht (Tartu)	Eesti Päevaleht 50% Eesti Meedia 50%	45 000 (40.5%)	269
Pärnumaa	89 343	Pärnu Postimees	Eesti Meedia	41 000 (52.0%)	1 007
Lääne-Virumaa	66 464	Kuulutaja	AveC Kirjastuse	38 000 (64.7%)	171
Viljandimaa	56 616	Sakala	Eesti Meedia 50% Pressinvest 50%	32 000 (78.1%)	575
Võrumaa	38 677	Võrumaa Teataja	Võru Teataja	30 000 (88.1%)	160
Järvamaa	38 141	Järva Teataja	Eesti Meedia 50% Pressinvest 50%	15 000 (68.3%)	167
Jõgevamaa	37 473	Voorema	2 private individuals 60% local city councils 40%	13 000 (37.2%)	114
Raplamaa	37 032	Nädaline	management 65% Kaiu LT 35%	14 000 (39.0%)	149
Valgamaa	34 867	Valgamaalane	Eesti Meedia	14 000 (50.7%)	149
Põlvamaa	31 752	Koit	Avraal	11 000 (59.9%)	not available
Läänemaa and the islands	73 444	Meie Maa	Saaremaa Raadio	22 000 (38.7%)	292

Source: Äripäeva Kirjastuse AS; TNS Emor; annual reports

Magazine Market

The Estonian magazine market can be divided into (i) mass-circulation magazines and (ii) niche magazines.

Mass circulation magazines include Estonian celebrity and lifestyle weeklies and monthlies, as well as weekly TV guides. Estonian women are the primary readers of the leading five magazines by circulation. Mass circulation magazines tend to be low-price impulse purchases and mainly have advertisements for consumer goods.

Kroonika, an Estonian celebrity magazine with large pictures on every page, has the highest circulation, with a weekly readership of 159 000. Kodukiri, a home and family magazine, has the second highest circulation, with a monthly readership of 104 000. Kodu&Aed, also a home and family magazine, has a monthly readership of 103 000. Teleleht, a weekly TV listings publication, has a readership of 99 000. Eesti Naine, Estonia's largest women's magazine has a monthly circulation of 98 000.

Niche magazines, such as car magazines, are circulated in significantly lower volumes. Image advertising is dominant in these magazines and it tends to target specific consumer segments.

The largest magazine publisher in Estonia is Ajakirjade Kirjastus, a 50/50 joint venture between Eesti Meedia and the Group. It published 23 titles in 2005, including several leading magazines, and generated EUR 5.6 million in revenues, of which EUR 3.5 million or 63 per cent came from advertising. According to management estimates, the Ajakirjade Kirjastus' market share of the Estonian magazine publishing market is close to 60 per cent.

A significant part of the Estonian magazine market is owned by non-Estonian groups. The Finnish Otava Books and Magazines Group is the largest foreign publisher in Estonia. It publishes several titles, including Kodutohter, which is the seventh largest Estonian magazine by readership. In total, the foreign-controlled magazine publishers, including Eesti Meedia's 50 per cent interest in Ajakirjade Kirjastus, generated EUR 4.75 million in advertising revenues in 2005.

The following table sets out the readership share and ownership of the top five weekly and monthly magazines in the fourth quarter of 2006:

Weekly magazines			Monthly magazines		
Title	Readership	Owner	Title	Readership	Owner
Kroonika	159 000 (15.2%)	Ekspress 50% Eesti Meedia 50%	Kodukiri	104 000 (9.9%)	Ekspress 50% Eesti Meedia 50%
Teleleht	99 000 (9.4%)	Ekspress 50% Eesti Meedia 50%	Kodu&Aed	103 000 (9.9%)	Forma Publishing Group (Sweden)
Nädal	69 000 (6.6%)	Ekspress 50% Eesti Meedia 50%	Eesti Naine	98 000 (9.3%)	Ekspress 50% Eesti Meedia 50%
Just!	47 000 (4.5%)	Olliwood	Pere ja Kodu	84 000 (8.0%)	Ekspress 50% Eesti Meedia 50%
TV Nädalja	46 000 (4.4%)	Inforing	Kodutohter	74 000 (7.1%)	Otava Books and Magazines Group

Source: TNS Emor; Äripäeva Kirjastuse AS

Book Publishing Market

The Estonian book publishing market can be divided into (i) consumer books (ii) academic and professional books and (iii) school books.

According to the Statistical Office of Estonia, a total of 3 150 book titles were published in Estonia in 2005 with a total print run of 4.4 million copies. Most of these were first edition consumer and academic books. The majority of consumer books are Estonian translations of foreign books. Overall, approximately 80 per cent of all books published in Estonia in 2005 were in the Estonian language.

Due to the small size of the market, there is a large number of small general publishers without specialization on any specific sector or literary genre. According to the Estonian National Library database, there are 600 companies involved with publishing in Estonia. All major publishers belong to the Estonian Publishers Association (Eesti Kirjastuste Liit), which has 33 members. According to the members' annual reports, they generated EUR 17.8 million in revenues in 2005.

The book publishing market is growing slowly, mainly because of its dependency on a limited number of affluent consumers who buy several books every year, while the younger population prefers the Internet and television to reading books.

The three largest Estonian book publishers are Avita, Koolibri and Varrak. Avita and Koolibri specialize in publishing school textbooks in both Estonian and Russian and Varrak is the biggest publisher of consumer books. Most book publishers are controlled by Estonian nationals and some are owned by major newspaper publishers.

There are two major book wholesalers in Estonia. Rahva Raamat is largest by revenue, with 60 per cent of the market, followed by AS Lehepunkt, which is owned by Suomalainen Kirjakauppa. Rahva Raamat mainly supplies its own retail shops and major supermarkets. AS Lehepunkt, in turn, supplies books to the street kiosks owned by its parent under the R-Kiosk brand, supermarkets and the Apollo Raamatud book shop chain. Rahva Raamat and AS Lehepunkt generated in aggregate EUR 5 million in book wholesales in 2005.

The major Estonian book retailers include book shops (both larger chains and small local book shops) and book sections of supermarkets. The smaller local shops operate mainly in distant and thinly populated regions of the country. The major chains are Rahva Raamat, with a 31 per cent market share, owned by the Group, and Apollo Raamatud, controlled by the Finnish Suomalainen Kirjakauppa. Between themselves, these two chains comprise seven book shops in the three major Estonian cities of Tallinn, Tartu and Pärnu. Rahva Raamat has two book shops in Tallinn, including the largest and oldest bookstore in Estonia, and Apollo Raamatud has shops in Tallinn, Tartu and Pärnu.

According to Management estimates, the aggregate sales of the Estonian book retail market amounted to EUR 24 million in 2005. The seven bookstores of the Rahva Raamat and Apollo Raamatud bookstore chains generated EUR 10 million in revenues in 2005.

Selling books in supermarkets is still a novelty concept for Estonian consumers, who are not generally accustomed to purchasing literature in conjunction with shopping for groceries. Major supermarkets have book sections designed to attract impulse purchasers with catchy titles and they carry a limited selection of popular literature genres.

Small local book shops are popular in the Russian-speaking parts of Estonia. Many of them specialize in Russian-language literature, which is not available in the book shops owned by chains or in the supermarkets. Small book shops also supply in less populated areas without easy access to supermarkets. These small shops are at risk of gradually disappearing when their owners are unable to finance large book orders expected by the publishers, and as a result, the choice of titles in the small shops is becoming limited.

Internet book sales currently account for a negligible share of the total book sales in Estonia. The two leading book shop chains offer books over the Internet, in addition to which there five independent Internet book sellers.

Information Services Market

The Estonian information services market comprises (i) information hotlines, (ii) telephone directories (White Pages) and classified directories (Yellow Pages), (iii) online information directories and (iv) call centres.

Information hotlines generate revenue by charging callers a fixed rate per minute in addition to which they charge the businesses a fee for being included in the listings. In the printed directory segment, revenue is derived from the sales of directory entries and advertising. Online directories are entirely based on advertising, which is their sole source of revenue, whilst access to information is free. Call centers provide either in-house or outsourced customer support and help desk functions for which they charge a monthly base fee plus fees based on the aggregate duration of calls.

According to the latest research report published by Saar Poll, printed directories are used by 75 per cent of Estonian citizens aged 15-74, followed by information hotlines (68 per cent) and online databases (57 per cent). Call centres operate predominantly in-house: only 22 per cent of all Estonian call centres provide outsourced customer support or help desk functions.

The Estonian information services market is concentrated with four companies accounting for most of the revenues. Their services comprise all four categories listed above, with the directory assistance hotlines contributing the largest share of revenues. According to Saar Poll and the annual reports of companies operating in this field, the four principal sector leaders generated 100 per cent of revenues of information

hotlines and printed directories as well as most of the advertising revenues of the online information databases in 2005. The combined revenue of these four companies amounted to EUR 9 million in the same year.

There are seven hotlines available throughout Estonia. Their services comprise traditional directory assistance, as well as answering questions for virtually any information that the operator has access to. The major revenue drivers in this business are brand recognition and call duration. The revenues of hotline operators have grown over the past several years as more people have learned about their services and regularly call with increasingly complex questions requiring longer connection time. According to Saar Poll, 94 per cent of the Estonian population aged 15-74 were aware of one or several hotline numbers in 2005, compared to 53 per cent in 2002.

Ekspress Hotline is the leading information hotline operator in Estonia in terms of revenues with a market share of around 45 per cent. It operates three different short call numbers available throughout the country. The company is owned by Ekspress and has been able to build its brand awareness through cross-promotion within its media group. According to Saar Poll, 69 per cent of hotline users regularly use the hotlines operated by Ekspress Hotline.

There are seven principal printed or CD-rom telephone directories in Estonia, three of which are classified as 'white pages', while four are 'yellow pages'. All are distributed free of charge and rely on revenues from sales of directory entries and advertising. Most of them have various supplements, which cover specific categories, such as tourist destination directories. Revenues from printed directories are highly correlated with the overall economic development, since businesses are their only paying customers. The number and size of Estonian businesses have been growing steadily since 1999, which has been reflected in the revenues of both the "white pages" and "yellow pages" directories.

There are two companies operating in the Estonian printed directories business. Interinfo Baltic OÜ, controlled by the Norwegian Interinfo Holding SCA, publishes four directories by its two subsidiaries and generated 70 per cent of revenues in this sector in 2004. AS Ekspress Hotline publishes the other three directories and its revenues accounted for the remaining 30 per cent in that year.

There are 11 online directories in Estonia, most of which are extensions of telephone hotlines or printed directories and carry the same names. According to the TNS Metrix survey performed by TNS Emor, the leading four Estonian online directories attracted 90 per cent of all online directories' users during the period January-August 2006. Two of these directories are owned by Interinfo Baltic OÜ, while the other two belong to AS Ekspress Hotline. Advertising is the only revenue source for these websites, and the advertising revenue is driven by the popularity of the underlying hotline or printed directory.

According to the Estonian Investment Agency, there were 54 call centres operating in the country as at December, 2004. Those operating in-house generated around 78 per cent of the sector's revenues, while the rest was generated by companies providing call centre outsourcing services. The call centre outsourcing market is very small, with total revenues of less than EUR 1 million in 2005. The main market participants are small local telecommunications companies, which primarily provide such services as customer service and telemarketing assignments.

Printing, Distribution and Delivery

Printing

According to the estimates by the Estonian Printing Industry Association (Eesti Trükitööstuse Liit), the Estonian printing industry generated EUR 120 million in revenues in 2005. The industry comprises 131 companies involved in the printing of newspapers, magazines, books, pamphlets, folders, business cards, etc. Of all the companies active in printing and printing-related activities, 20 had sales of over EUR 1 million in 2005.

The biggest Estonian printing companies are (i) Kroonpress, which belongs to AS Eesti Meedia and (ii) Printall, owned by Ekspress. These two companies generated EUR 17.6 million and EUR 18.1 million, respectively, in revenues, which accounted for 27 per cent of the revenues of the Estonian printing industry's revenues in 2005. In terms of printing newspapers and magazines, the combined market share of these companies was close to 100 per cent. According to the Estonian Trade Council, six Estonian companies have the capability to print newspapers. Four of them are local printworks printing small volume local titles. Kroonpress and Printall are the only printing houses with the capacity and technological ability to print high volume daily national titles and most of the magazines. The major customers for Kroonpress include Bonnier's Äripäev, SL Õhtuleht, Maaleht and the magazines Kroonika, Kodukiri, Kodukolle and Nädal. Printall's largest customers are Eesti Ekspress and Eesti Päevaleht and the magazines Eesti Naine and Anne.

Due to the limited size of the domestic market, the sector's growth is driven by export sales. The members of the Estonian Printing Industry exported around 30 per cent of their combined production volume in 2005. The major export destinations for their products are the Nordic countries and Russia.

Distribution and Delivery

The Estonian newspaper and magazine distribution market is highly concentrated. The leading company in this sector is AS Lehepunkt, a subsidiary of the Finnish Suomalainen Kirjakauppa and part of the SanomaWSOY Group. According to Management estimates, Lehepunkt controls more than 90 per cent of the newspaper and magazine wholesale market in Estonia. The remaining 10 per cent represents local publishers who distribute their low volume publications with their own resources. AS Lehepunkt distributes over 900 Estonian and foreign language titles to 1 400 retail outlets.

Newspapers and magazines are delivered to the subscribers by delivery companies, which also handle the subscriptions for the publishers. According to Statistical Office of Estonia, there are 19 delivery or courier organizations involved in postal delivery in Estonia, seven of which employ more than 50 people.

According to the latest available annual reports of the delivery companies operating in Estonia, the postal delivery sector generated EUR 70 million in revenues in 2005, of which the state-owned postal authority Eesti Post accounted for more than 65 per cent (EUR 46 million). As an offshoot of the former postal monopoly, Eesti Post has inherited a wide network of post offices, many of which remain unprofitable, but are subsidized by the government.

The leading private delivery companies are DHL and UPS, which specialize exclusively in international deliveries. Express Post, co-owned by the Group and Eesti Meedia, is the second largest domestic delivery operator after Eesti Post. It differentiates itself from its state-owned competitor by providing more expedient services, such as the morning delivery of newspapers and advertising materials directly to the subscribers.

Both the domestic and international delivery companies in Estonia are well positioned to benefit from the overall economic development and the increased advertising spending, as well as the impending adoption of the single European currency, which should increase the trade between Estonia and other EU member states.

Lithuanian Newspaper and Magazine Market

Lithuania has the largest newspaper and magazine market in the Baltic States. According to the research firm TNS Gallup, it generated EUR 43.2 million in advertising revenues in 2005, having grown by 9 per cent compared to the previous year. However, the Lithuanian newspaper and magazine sector has a smaller proportionate share of the advertising market than its counterparts in Estonia and Latvia. Newspapers and magazines represent 41 per cent of the total advertising expenditure in Lithuania (as opposed to 56 per cent in Estonia), while television is the dominant advertising medium with a 43 per cent market share.

The percentage of regular readers has increased in Lithuania in recent years. Based on the TNS Gallup's National Readership Survey results, the percentage of Lithuanian residents aged 15 to 74 who regularly read

at least one publication increased to 83.8 per cent in 2005, compared to 77.4 per cent in 2001. The same survey shows that urban population read more than their rural counterparts.

The largest newspaper and magazine publishers in Lithuania include Lietuvos Rytas and Respublika Group, which are both Lithuanian-owned. The foreign participants include the Norwegian Schibsted, the British Mecom Group, the Swedish Bonnier Group and the Ekspress.

According to the Lithuanian Statistical Department, there were a total of 325 newspaper titles published in Lithuania in 2006. The table below sets out the leading five newspapers in Lithuania with their respective owners and readership levels in the fourth quarter of 2006:

Title	Owner	Readership	Format
Vakaro Žinios	Respublika Group	539 000 (20.5%)	National daily tabloid
Lietuvos Rytas	Lietuvos Rytas	502 000 (19.1%)	National quality daily
15 minučių	Schibsted	411 000 (15.6%)	National free daily
Respublika	Respublika Group	194 000 (7.4%)	National daily tabloid
Ekspress Nedelia	Management	172 000 (6.5%)	National Russian-language weekly

Source: TNS Gallup; annual reports

The Lithuanian magazine industry published 434 titles in 2006. According to TNS Gallup, the market leaders by circulation include television weeklies and women's magazines. The most read Lithuanian magazine is TV Publika, a weekly TV listing supplement of the national daily newspaper Respublika. The second biggest magazine by readership is TV Antena, also a TV listing supplement of the national daily newspaper Lietuvos Rytas.

The largest monthly magazines are women's titles, such as Panelė, Laima and Moteris.

The following table illustrates the leading five Lithuanian magazines, with respective readership levels and owners:

Weekly magazines				Monthly magazines			
Title	Readership	Owner	Niche	Title	Readership	Owner	Niche
TV Antena	470 000 (17.9%)	Lietuvos Rytas	TV weekly	Panelė	224 000 (8.5%)	Ekspress	Women's weekly
TV Publika	458 000 (17.4%)	Respublika	TV weekly	Laima	158 000 (6.0%)	ZLG	Women's weekly
Žmonės	290 000 (11.1%)	Schibsted	Celebrity monthly	Moteris	140 000 (5.3%)	Ekspress	Women's weekly
Stilius	222 000 (8.5%)	Lietuvos Rytas	Women's weekly	Cosmopolitan (in Lithuanian)	135 000 (5.1%)	Ieva	Women's weekly
Krepšinis	179 000 (6.8%)	Lietuvos Rytas	Sports weekly	Ekstra panelė	106 000 (4.0%)	Lietuvos Rytas	Women's weekly

Source: TNS Gallup; annual reports

The two major participants in the Lithuanian newspaper and magazine wholesale market are Impress Teva, a subsidiary of the Finnish Suomalainen Kirjakauppa Oy and Medipresa, a company owned by Ekspress,

UAB Zurnalu leidybos grupe and UAB Veido periodikos leidykla. According to Medipresa's management, the aggregate sales of the Lithuanian press wholesale market were some EUR 17 million in 2005. Impress Teva mainly delivers to the Lietuvos Spauda kiosk chain owned by its parent Suomalainen Kirjakauppa Oy. Medipresa is a magazine wholesaler concentrating on distributing magazines published by Ekspress Leidyba and other shareholders.

BUSINESS

Summary

The Group is one of the leading publishing groups in Estonian market and it is also strongly present in Lithuanian magazines' market. Holding eleven subsidiaries, four joint ventures and two associated companies it operates in publishing, print services, book sales and information services segments. The Group companies and affiliates form a vertically integrated media group, which largely controls its own supply and production chain from publishing to printing to distribution.

Eesti Ekspress, Eesti Päevaleht, SL Õhtuleht, Ajakirjade Kirjastus, Linnaleht, Ekspress Internet, Netikuulutused and Ekspress Leidyba are Group subsidiaries or affiliates publishing the Group's newspapers and magazines. In total, the Group and its affiliates publish four newspapers in Estonia, 25 magazines in Estonia and 19 in Lithuania, and four specialised online portals. In print services, Printall is the market leader in Estonia by revenue, generating almost half of the Group's total revenue. Rahva Raamat and Ekspress Hotline are two of the latest significant acquisitions by the Group, both of which hold strong positions in the book sales and information services markets, respectively. In addition, the Group has holdings in Express Post and Medipresa which provide support services to its main businesses.

The Group's and its affiliates' main customers in the publishing and information services business are advertisers, subscribers and single-copy purchasers; publishers in the printing business; book shops, libraries, supermarkets and book retail clients in the book sales. The Group generates more than 97 per cent of its revenue from customers in these key businesses. The Group and its affiliates focus on providing quality services to its customers and aims to provide a wide selection of products to meet the expectations of the customers.

Based on the Group profit estimate included elsewhere in the Offering Circular the total sales for the financial year ended 31 December 2006 amounted to EEK 931 million, which represents an increase of approximately 24 per cent compared to the sales of EEK 748 million for the financial year 2005. Group's revenue has steadily risen within the last four years.

The Group, which has been formed around Eesti Ekspress, the first independent newspaper in Estonia after the Soviet era, has experienced continuous development and growth. This has been partly due to the general growth in the media market in the Baltic States, partly to the acquisitions of new businesses or publications that the Group has made in order to strengthen its market position and in order to gain new opportunities to create extra value for the shareholders. The Management believes that the current business and financial standing of the Group together with the experiences gained from the past provide the Group with a good basis for expansion and further growth.

Competitive Strengths

The Group is a leading media group in Estonia. The competitive strengths of the Group and its affiliates include:

- **Leading brands and strong market position.** The Group companies and their affiliates publish four newspapers and 25 magazines for the Estonian market with a combined weekly circulation of 1.8 million copies. The publishing titles of the Group and its affiliates include SL Õhtuleht, the most widely read Estonian newspaper and Kroonika, the most widely read magazine in Estonia (source: TNS Emor). In addition, the Group publishes 19 magazines in Lithuania, including Panelė, the most widely read monthly magazine in the country (source: TNS Emor).

The Group owns Rahva Raamat, one of the two leading Estonian book retail and wholesale chains, which owns the oldest bookshop in the country and which in 2005 opened the largest bookshop in Estonia. The Group has a strong position in the Estonian information services market through Ekspress Hotline and Management believes that virtually every adult Estonian citizen knows at least one of the three short telephone numbers for the Ekspress Hotline services. Ekspress Hotline also

publishes three of the seven major telephone directories in Estonia. These directories are also available online and these online versions are among the top five most visited online databases in the country.

The Group has a strong position in the Estonian printing market through its subsidiary Printall. Printall's current printing facility was built in 2004 and it is one of the two printing plants in Estonia capable of producing high volume national daily newspapers. In 2005, Printall was the largest printing facility in Estonia by revenue. The Group has a 50 per cent interest in Express Post, a company delivering newspapers and magazines to subscribers in Estonia and a 40 per cent interest in Medipresa, a Lithuanian magazine distributor.

- ***Integrated media group.*** The Group is a vertically integrated media group, which largely controls its own supply and production chain from publishing to printing to distribution. Having its own printing capacity enables the Group to save costs, it also increases the Group's control over the printing process and enables the Group to generate revenues from commercial printing for third parties. The different businesses can benefit from each other's reputation when targeting new customers, as well as share information, marketing and distribution resources.
- ***Extensive reach to consumers.*** The strong newspaper and magazine brands of the Group and its affiliates offer advertisers access to most key target segments of the Estonian and Lithuanian population. The Group and its affiliates reach every age and income population segment in Estonia through its newspapers and magazines and those of its affiliates, including the high-income urban population which is the primary target audience for Estonian advertisers. The Group's information hotlines and online databases also enjoy high recognition among their users, which predominantly comprise the younger segments of the population.
- ***Strong financial position.*** The Group's strong financial position is reflected in its revenues, profits and cash flows. Of the nine key companies of the Group and its affiliates, eight were profitable in 2005. Even the sole loss-making subsidiary, Ekspress Leidyba in Lithuania, has become profitable in the first six months of 2006, showing a profit of EUR 64 000 in the interim financial statements of the Group of 30 June 2006. Management is planning measures to further enhance the profitability of the Group's key operations and brands, as well as introducing new products such as new information and online services.
- ***Experienced management and active owner.*** The Group is run by one of the most experienced management teams in the Estonian media industry, supported by a majority shareholder who participates in the active daily management of Group. Management has proven its commitment to growth and innovation by expanding the Group into new products and markets. Many of the new projects, such as the information hotlines and the entry into the Lithuanian print media and distribution markets have already proven successful. More than half of the members of Management have been with the Group since its beginning in 1993 and have been involved in its transformation from a newspaper publisher into a diversified media group. Management has also successfully developed the Group's support functions, such as printing and distribution, which not only serve the needs of the Group companies, but also generate significant revenue from third parties.
- ***Flexibility.*** The Group has a simple and efficient organizational structure, and it remains controlled by one person. The simple ownership structure combined with active shareholder participation in the daily operations of the Group have made the decision-making process fast and efficient. The Group can quickly respond to changes in the market conditions, which gives it a competitive advantage over those of its competitors that belong to large international groups and must follow inflexible and time-consuming management processes.

Strategy

The Group's strategic objective is to become the leading media group in the Baltic States, and to continue developing its existing operations by organic growth and by expanding into new media formats and new markets.

The Group intends to achieve its strategic objectives by:

- ***Maintaining and increasing newspaper and magazine circulation.*** Management believes that stable circulation figures of the newspapers and magazines of the Group and its affiliates are essential in order for the Group to increase its advertising revenues. Management intends to continue focusing on editorial quality and continue promotion campaigns both in the publications of the Group and its affiliates and in media owned by third parties, in order to ensure continued interest towards its publications.
- ***Expanding in the other Baltic States.*** Management plans to increase the Group's presence in Lithuania and to enter the Latvian media market. On the basis of the statistics published by TNS Emor, Management believes that the media markets in Lithuania and Latvia are less developed than in Estonia in relation to journalistic integrity, advertising expenditure per capita and general media development. Management believes that this presents an opportunity for the Group to use its editorial and operational experience, and to participate in the expected consolidation of the media industry in Latvia and Lithuania.
- ***Increasing online presence.*** Internet-based media are the fastest growing media sector both in revenues and in new users in the Baltic States. Management plans to continue building the Group's presence in the online media. The Group's current online portfolio consists of interests in four portals and 31 other websites. Apart from four websites, all these generate revenue by selling advertising space. The websites of the Group and its affiliates comprise online versions of the newspaper and magazine titles, online telephone directories and three portals for classified advertising. Management believes that by increasing its online presence the Group and its affiliates will be able to leverage its editorial content further across different media and enable the advertisers to reach a wider segment of the population.
- ***Extending the value chain further.*** Management believes that the Group can increase its growth potential through further diversification. Management is continuously looking into expanding into new areas, such as outdoor advertising, television and radio, provided such expansion would generate synergies with the Group's existing operations. Management is also looking into opportunities in vertical expansion, such as re-entering the newspaper and magazine wholesale and retail market and expanding its other wholesale operations.
- ***Maintaining control over key support functions.*** Management considers the control of the printing, wholesale and distribution one of its key long-term strategies. The Printall printing facility gives the Group the operational flexibility to deal with unexpected print run fluctuations and to ensure the quality of printing. Owning a significant minority interest in Medipresa, a Lithuanian magazine wholesaler enables the Group to ensure the timely delivery of its magazines and to reach all key retail outlets in Lithuania. Management believes that these are both key factors in enhancing circulation. Similarly, the Group's 50 per cent interest in the delivery company Express Post is vitally important. Express Post is the only postal delivery company in Estonia that has the capacity to meet the requirements of the Group for an early morning delivery in a cost-efficient way.
- ***Continuing to realize cost efficiencies.*** Management believes that greater economies of scale in the support operations will allow it to further improve the efficiency and profitability of the Group and its affiliates. Management plans to continue investing in further printing capacity and in consequence, increase the proportionate share of third party orders in Printall's operations. This is expected to enable the Group to decrease its average printing production cost per unit, and further

diversify its customer base. Management believes that the Group's interest in Medipresa, the Lithuanian magazine and newspaper distributor, will facilitate the expansion of the Group's Lithuanian magazine operations and its eventual entry into the Lithuanian newspaper publishing market.

- ***Continuing to develop independent businesses.*** Management believes in the continued organic development of various businesses that the Group owns or in which it has an interest, and plans to continue dynamic evaluation of all businesses in its portfolio. For example, Management believes that the continued growth of the publications of Group and Eesti Meedia, will help Express Post to develop into a more efficient delivery and postal operator, which in turn will attract new third-party customers and increase the Company's dividend revenue from Express Post.

History

AS Ekspress Grupp, the holding company of the Ekspress group, was established on 27 September 1995 under the name AS Avolemb, for the purpose of consolidating several Estonian-owned media businesses under common ownership. Shortly after its incorporation, the Company acquired the nucleus of the Group's current publishing and printing businesses in the form of the weekly newspaper Eesti Ekspress, the daily tabloid Õhtuleht and a printing operation owned by AS Kroontrükk (now part of Printall). The Company was re-named AS Ekspress Grupp in July 1998.

The opening of the media market after the end of the Soviet era in the 1990's and the technological changes in the media since late 1990's have been the background for the Group's growth and development. Over the years, the Group has published several newspaper and magazine titles which have either succeeded to develop with the market or have been merged into other titles.

The origins of the Group's business go back to 1989-91, the time of the political process which ultimately led to Estonia regaining its independence from Soviet Union in August 1991. A group of Estonian businessmen decided in 1989 to establish an independent, non-political weekly newspaper Eesti Ekspress as a counter-weight to the State-controlled media. They invited Mr. Hans Luik to be the editor-in-chief of the newspaper, which published its first issue in September 1989. Some 50 000 copies of the first issue were printed, which consisted of eight tabloid-sized pages. This newspaper became the starting point of the Group's development.

In 1991, Mr. Luik formed a new investment vehicle, AS Cronoes, with a number of individual investors. Mr. Luik owned 50.1 per cent of the new company, which acquired the publishing rights to Eesti Ekspress newspaper, and a number of other businesses, such as the news agency retailer AS Lehemees (later re-named AS Plusspunkt) and the Tallinn This Week magazine. Eesti Ekspress itself expanded into magazine publishing in 1992, initially with a short-lived magazine Flirt and then with lifestyle magazine Magnet, a TV listings magazine TV Nädal, a leisure magazine Xpress for young people and a women's magazine Anne. Magnet, TV Nädal, Xpress and Anne all started as supplements to Eesti Ekspress.

In March 1993 Mr. Luik established a directory inquiries business under the name AS Ekspress Hotline, of which Mr. Luik owned 60 per cent, the remaining shares being held by Mr. Raul Kasesalu. A year later, in March 1994, Mr. Luik started a daily newspaper Eesti Sõnumid together with an Estonian businessman Mr. Robert Lepikson. In September 1995 this newspaper merged with Eesti Päevaleht, a daily newspaper which in turn had been formed by a merger of three other newspapers, Hommikuleht, Päevaleht and Rahva Hääl. A new company, Eesti Päevalehe AS, was formed to consolidate these two newspapers into one quality daily national newspaper under the name Eesti Päevaleht.

In August 1995, AS Cronoes acquired Õhtuleht, a local newspaper in Tallinn. Õhtuleht was an evening newspaper established in 1944 and had been privatized in 1994 by a sale to its employees. AS Cronoes also acquired a 40 per cent interest in AS Kroontrükk, a printing company which owned printing machinery leased to AS Printall, a former Communist Party print works which had been privatized in 1991 through a management-buy-out. AS Kroontrükk subsequently merged into Printall in 1998, which became a wholly-owned subsidiary of the Group in 2005.

When the Group was formed in October 1995, AS Cronoes transferred its businesses to the Company and was subsequently liquidated. The Group made significant changes in Õhtuleht by turning it into a tabloid newspaper and expanding its coverage from a local Tallinn newspaper into a national one. The Group established a specialized magazine operation in 1996 under the name OÜ Ajakirjade Grupp, which took over the magazines published by Eesti Ekspress, and subsequently has added a number of new magazine titles to its portfolio.

In 1997 AS Ekspress Grupp acquired Eesti Päevalehe AS together with Mr. Jaan Manitski, an émigré Estonian financier from Sweden who had been the Minister of Foreign Affairs in the first cabinet of the independent Estonia.

Eesti Päevaleht started a local free distribution magazine Linnaleht in March 1997, which initially was issued in Tallinn and is now published as an Estonian-language edition in Tallinn, Tartu and Pärnu and as a Russian-language edition in Tallinn.

In July 1998 the shareholders of the Company sold 50 per cent of their shares to Marieberg International AB, a subsidiary of the Swedish Bonnier Group. The remaining 50 per cent was held by Mr. Hans Luik.

The Group and AS Eesti Meedia, a subsidiary of the Norwegian media group Schibsted ASA, agreed in July 2000 to merge certain of their newspaper and magazine operations into three 50-50 per cent joint ventures. Two tabloid newspapers, Õhtuleht and AS Eesti Meedia's Sõnumileht, were merged into one title, SL Õhtuleht. The Company acquired 50 per cent of the shares in the distribution company Express Post previously wholly owned by AS Eesti Meedia. Similarly, Ajakirjade Grupp and AS Eesti Meedia's Eesti Ajakirjade Kirjastus merged to form a magazine company AS Ajakirjade Kirjastus, which currently publishes 17 magazine titles. The Group still owns 50 per cent of the shares in each of these joint ventures, whilst Schibsted Group holds the remaining shares.

The Group sold its Estonian retail distribution company AS Plusspunkt to the Finnish Rautakirja Oyj in November 1999. At the same time, the Group and Rautakirja Oyj established a wholesale distribution company AS Lehepunkt, in which the Group owned a 50 per cent interest. The Group sold its shares in AS Lehepunkt to Rautakirja Oyj in April 2002.

In November 2001, Mr. Hans Luik acquired Marieberg International AB's shares in the Company. At the time when large parts of the Estonian economy were being bought by foreign media groups, this acquisition was considered a significant landmark transaction, which returned a major media group into Estonian ownership.

In 2003-04 the Group constructed a new, technically advanced printing facility for AS Printall. The new KBA Compacta and KBA Continent printing presses of the new facility, which improved printing quality and widened Printall's product selection. The new facility enabled the Group to double its exports of printing services.

The Group expanded to Lithuania in March 2004 by acquiring UAB Moteris, the publisher of the lifestyle magazine Panele and the women's magazine Moteris. The name of the company was changed into UAB Ekspress Leidyba, which subsequently acquired two other companies in the home and family magazine sector, Mano Namai and UAB Tavo Vaikas. The Group now publishes 19 magazine titles in Lithuania and owns a 40 per cent interest in a Lithuanian magazine wholesale and distribution company UAB Medipresa.

The Group expanded into book wholesale and retail by acquiring the book retailer AS Rahva Raamat in September 2004 and the wholesaler OÜ Raamatuvaramu in January 2005. AS Rahva Raamat is a well-established brand in the Estonian market and traces its origins back to a bookshop opened by Mr. G. Pihlakas in Tallinn in 1912. The same bookshop still exists in its original location and is considered the oldest in Estonia. The Group opened a new bookstore in Tallinn in December 2004, which remains the biggest bookstore in the Baltic States. OÜ Raamatuvaramu had been established in 1999 and conducted

retail and wholesale of books, mainly to supermarkets, and following its acquisition by the Group, it was merged to AS Rahva Raamat in 2006.

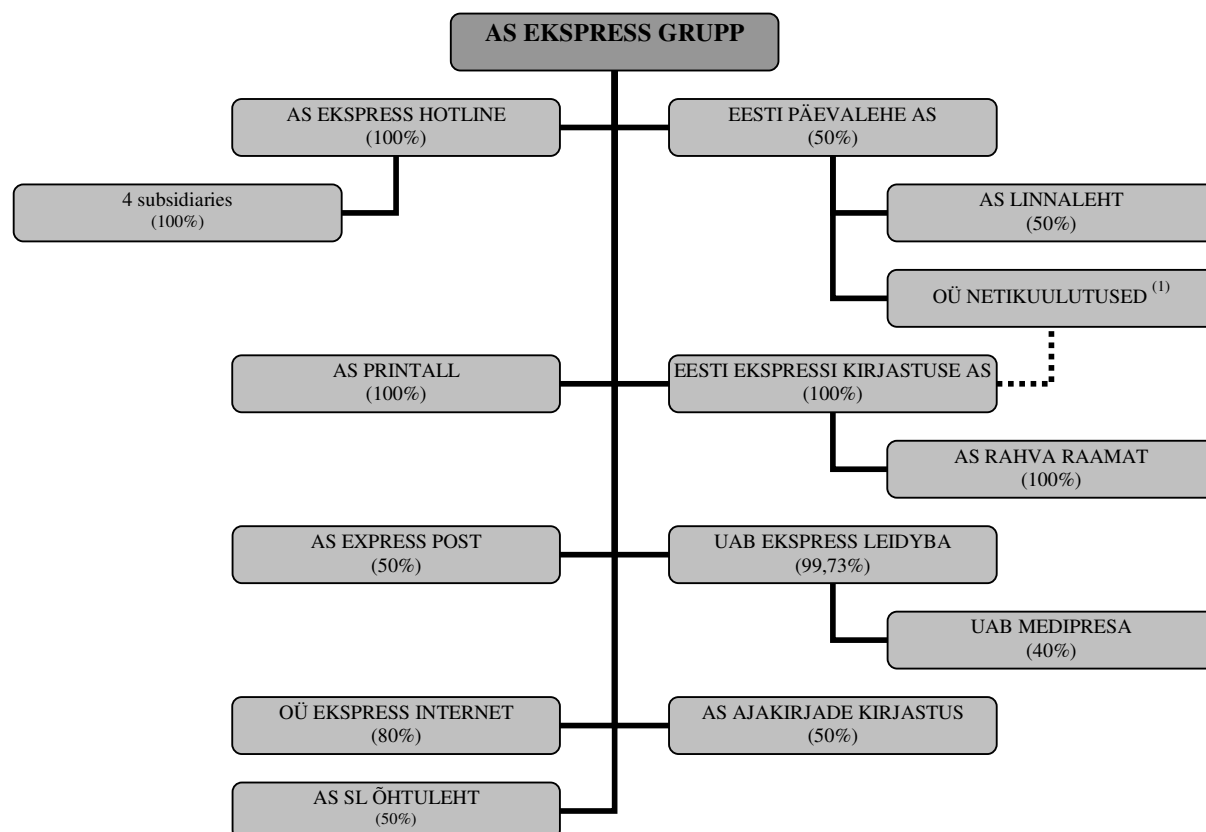
Eesti Päevaleht reorganized its local free-distribution newspaper Linnaleht from a weekly into a daily in November 2005. Eesti Linnaleht was transferred into a separate company, AS Linnaleht, and Eesti Päevalehe AS sold 50 per cent of the shares in this company to AS Eesti Meedia in April 2006.

Eesti Ekspress was the first Estonian media company to set up an online version of its newspaper in 1996. Now all the Group's newspapers appear also online. In addition, the Group has expanded into Internet business by acquiring OÜ Netikuulutused in 2005, which had developed Hypeaud, an Internet employment portal and subsequently started 4seina, a real property portal. The Group owns directly 50 per cent of OÜ Netikuulutused while the rest of this company is owned by Eesti Päevalehe AS, where the Group has a 50 per cent interest. The Group has recently acquired a third internet portal, ac24, which specializes in used cars, by acquiring an 80 per cent interest in OÜ Autocentrum (subsequently renamed to OÜ Ekspress Internet).

In December 2005, the Group acquired a 50 per cent interest in AS Ekspress Hotline, the directory inquiries and information services provider founded by Mr. Hans Luik, who subsequently also sold his shares in this company to the Group in November 2006. AS Ekspress Hotline is now a wholly-owned subsidiary of the Company.

Operations

Over the last ten years, the Group has developed into a vertically integrated media group. Today, the Group comprises eleven subsidiaries, one of which is dormant. In addition, it has interests in four joint ventures and three other affiliated companies. See "Company, Share Capital and Ownership Structure – Subsidiaries" and "Company, Share Capital and Ownership Structure - Affiliated Companies". The following chart illustrates the ownership structure with the Group's principal subsidiaries and affiliates:



⁽¹⁾ Eesti Päevaleht and Eesti Ekspress each own 50 per cent share in Netikuulutused.

The Group's businesses can be divided into four segments:

- publishing
- printing
- book sales
- information services

These four segments are also the main sources of the Group's sales. The table below sets forth the sales breakdown for the three last financial years and for the 6-month period ended 30 June 2006:

	Sales ⁽¹⁾							
	2003		2004		2005		Six months ended 30 June 2006	
	EEK million	%	EEK million	%	EEK million	%	EEK million	%
Publishing ⁽²⁾	272.0	63.6	315.6	61.6	353.6	47.3	205.5	45.9
Book sales	–	–	13.0	2.5	102.8	13.7	67.7	15.1
Print services	146.2	34.2	171.9	33.6	230.7	30.8	138.1	30.9
Information services	–	–	–	–	8.8	1.2	26.1	5.8
Other ⁽³⁾	9.3	2.2	11.9	2.3	52.2	7.0	10.1	2.3
Total	427.6	100	512.4	100	748.0	100	447.5	100

⁽¹⁾ Excludes intra-group transactions and a proportionate share of revenues of the affiliates attributable to the other shareholder(s).

⁽²⁾ Includes revenue from advertising, single copy sales, subscriptions and other revenues directly attributable for publishing but excludes revenues from supplementary services like distribution.

⁽³⁾ Includes other revenues generated by the Company, Express Post and Medipresa.

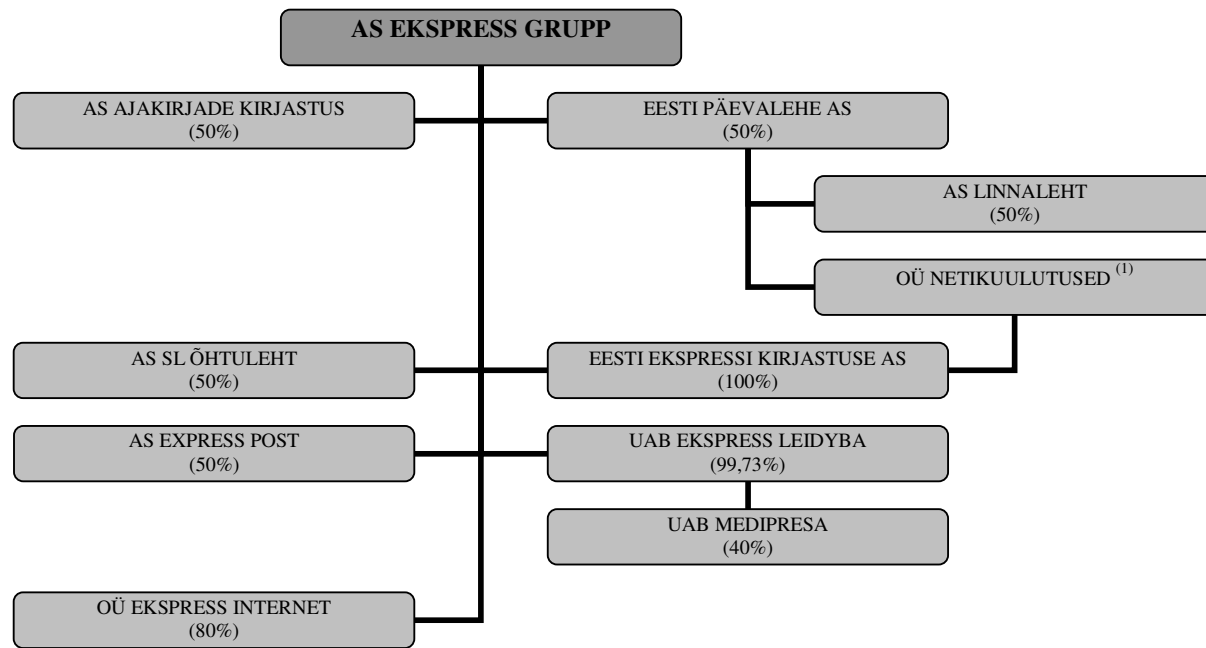
Publishing

Publishing of print media is a core business segment for the Group, accounting for 47 per cent of consolidated net sales of the Group in 2005. As of the date of this Offering Circular, the Group and its affiliates published a total of four newspapers and 44 magazines. In addition, the Group occasionally publishes books either in conjunction with its newspapers or magazines or as custom publishing.

Online media forms an increasingly important part of the Group's publishing business. Most of the newspapers and magazines of the Group and its affiliates have online versions. In addition, the Group has specialised Internet portals for car sales (www.ac24.ee), real estate (www.4seina.ee), entertainment (www.weekend.ee) and an interest in a recruitment portal.

The Group's flagship weekly newspaper Eesti Ekspress, its 19 Lithuanian magazines and three Internet portals belong to subsidiaries of the Company. The Group owns interest in all other newspapers, magazines Internet websites through affiliate companies. It owns 50 per cent of the associated companies publishing the daily newspapers Eesti Päevaleht and SL Õhtuleht and 25 Estonian magazines as well as 75 per cent of the Internet portal www.hyppeaud.ee and has a 25 per cent interest in the free-distribution local newspaper Linnaleht.

The ownership structure of the Group's and its affiliates' publishing operations is illustrated in the chart below:



⁽¹⁾ Eesti Päevaleht and Eesti Ekspress each own 50 per cent share in Netikuulutused.

As illustrated above, the Group owns 50 per cent of the shares in Eesti Päevalehe AS, the company publishing the national daily newspaper Eesti Päevaleht. The other shareholder is Mr. Jaan Manitski, and the two shareholders share the control in this company. The other Estonian affiliate companies, AS SL Õhtuleht (the publisher of the daily national newspaper SL Õhtuleht) and AS Ajakirjade Kirjastus (the publisher of 25 Estonian magazines) are owned 50-50 per cent between the Group and AS Eesti Meedia, a subsidiary of the Norwegian Schibsted Group. These affiliates are also structured so that the two shareholders share the control of the joint venture company. AS Linnaleht, the publisher of Linnaleht, is a 50-50 per cent joint venture between AS Eesti Meedia and Eesti Päevalehe AS, and it has also been structured on the basis of shared control.

When financial information is given in this Offering Circular in relation to the Group and its affiliates, such information includes the consolidated information about the Group as a whole. The financial information relating to those affiliates that are also joint ventures, is included in proportion to the Group's shareholding in each affiliate. When operational information given in this Offering Circular in relation to the Group and its affiliates, such information includes the Group and its affiliates in their entirety.

Print media publishing

The Group's sales from print media have increased considerably over the last three years, from EEK 272 million in 2003 to EEK 354 million in 2005 contributing 47 per cent to the consolidated sales of the Group in that year. Newspaper and magazine subscriptions accounted for EEK 83.5 million of these sales, single copy sales for EEK 99.9 million and advertising EEK 175 million.

Newspapers

The Group and its affiliates publish three paid newspapers and one freesheet with a combined weekly readership of 747 000 (source: TNS Emor). The freesheet Linnaleht is published in three regional editions and a Russian-language version of the Tallinn edition.

The table below outlines key particulars of all the newspapers published by the Group and its affiliates:

Title	Issue frequency	Editor-in-Chief	Readership ⁽¹⁾	Circulation ⁽²⁾
Eesti Ekspress	weekly	Priit Hõbemägi	142 000	47 200
Eesti Päevaleht	six times a week	Lea Larin	131 000	32 000
SL Õhtuleht	six times a week	Väino Koorberg	251 000	65 200
Linnaleht ⁽³⁾	Tallinn and Russian editions four times a week; Pärnu and Tartu editions weekly	Tiina Kangro	174 000	97 900

⁽¹⁾ Source: TNS Emor.

⁽²⁾ Source: Estonian Newspaper Association.

⁽³⁾ Linnaleht readership and circulation figures include the combined circulation figures for all of its four editions.

Eesti Ekspress is a weekly quality newspaper, launched in 1989. It focuses on investigative journalism, and has received several prestigious awards for it over the past 15 years. The paper has some tabloid features, such as accompanying the stories with large format colour pictures and provocative headlines.

Eesti Päevaleht is a quality daily newspaper targeting well-educated readers. It was started in 1995 as a result of a merger of four popular titles. The newspaper has both local and international news and provides in-depth analysis on its editorial pages. This newspaper's target audience are middle-aged working Estonians, primarily those in Tallinn and Northern Estonia.

SL Õhtuleht is a tabloid, established in 2000 following a merger of two popular competing titles, Õhtuleht and Sõnumileht. Prior to the merger, the two newspapers had been involved in a price war, which had increased the circulation of both titles. This allowed SL Õhtuleht to become the most popular title in Estonia in a short time. The newspaper presents its content in a sensational style and targets a very broad audience. According to Management, this newspaper has a competitive edge in the exclusivity of its news, which often does not appear in other Estonian media.

Linnaleht is a free newspaper published in four different editions. It was first published in the capital city of Tallinn. Currently it is published in the cities of Tallinn, Tartu and Pärnu. A fourth Russian-language edition has been recently launched and it is distributed in the capital city of Tallinn. The Russian-language and the Tallinn editions are distributed Tuesday through Friday, while the Tartu and Pärnu editions are published on Fridays. Advertising is the only revenue source for Linnaleht. It is available in busy city locations such as supermarkets and main streets. The newspaper's main focus is national, regional and international news presented in a concise format. Each edition has its unique content, and all four editions target a very wide population segment. Major advertisers usually place their advertisements in all four editions of the newspaper.

Magazines

The Group and its affiliates publish altogether 44 magazine titles of which 25 are published in Estonia and 19 in Lithuania. This magazine portfolio comprises weekly and monthly magazines, both for the mass-circulation and for niche audiences. The table below contains brief particulars of all the magazines published by the Group and its affiliates:

Estonian magazines

Title	Description	Issue frequency	Readership ⁽¹⁾	Number of copies printed
Anne	Women's magazine	monthly	63 000	22 600
Auto Bild Eesti	Car magazine	monthly	31 000	12 200
Autokataloog	Annual review of cars	annually	N/A	5 100
Eesti Naine	Women's magazine	monthly	98 000	28 100
Jana	Women's magazine	monthly	39 000	9 700
Kodukiri	Home and design magazine	monthly	104 000	26 900
Kroonika	Celebrity magazine	weekly	159 000	47 800
Kroonika Ristsõnad	Crosswords	monthly	N/A	11 600
Käsitöö	Handicraft magazine	twice a year	N/A	12 000
Megaristik	Crosswords	monthly	N/A	16 300
Meistriristik	Crosswords	monthly	N/A	8 200
Miniristik	Crosswords	monthly	24 000	19 100
Naised	Women's magazine	weekly	N/A	50 000
Nädal	TV magazine	weekly	69 000	28 800
Oma Maitse	Culinary magazine	monthly	22 000	12 000
Pere ja Kodu	Family magazine	monthly	84 000	27 700
Ripsik	Crosswords for children	monthly	N/A	14 000
Ristik	Crosswords	monthly	51 000	19 000
Ruum	Design and architecture magazine	monthly	N/A	7 700
Saladused	Women's magazine	16 times a year	31 000	11 000
Stiil	Women's magazine	monthly	23 000	13 000
Stiina	Girls' magazine	monthly	36 000	17 000
Tallinn This Week	Free tourist guide	6 times a year	N/A	45 000
Teleleht	TV magazine	weekly	99 000	51 800
Tervis Pluss	Health and fitness magazine	monthly	63 000	21 300

⁽¹⁾ Source: TNS Emor, EMU IV quarter 2006

Lithuanian magazines

Title	Description	Issue frequency	Readership ⁽¹⁾	Number of copies printed
AHA	Crosswords and puzzles	monthly	92 600	11 083
Juste	Girls' magazine	monthly	42 800	10 333
Luka	Girls magazine	monthly	20 100	10 900
Mano Namai	Home and design magazine	monthly	65 300	13 000
Moteris	Women's magazine	monthly	114 300	19 125
Naminukas	Children's magazine	monthly	N/A	27 583
Naminukas Plius	Crosswords and puzzles for children	quarterly	N/A	8 500
Pagunda	Crosswords	monthly	40 700	18 833
Pagunda Plius	Crosswords	monthly	N/A	17 883
Pagunda 5 min	Crosswords	monthly	12 200	8 500
Panelė	Young women's magazine	monthly	223 800	50 583
Penki	Children's magazine	monthly	N/A	17 500
Perlas	Simple crosswords	monthly	20 800	11 000
Sudoku	Sudoku puzzles	monthly	30 000	7 000
Super bumai	Crosswords	monthly	22 000	20 417
Sveika! Moteris	Health magazine	monthly	N/A	11 500
Tavo Vaikas	Magazine for parents	monthly	54 800	9 500
50 panoramu	Crosswords	monthly	40 700	10 917
Klubas ⁽²⁾	Celebrity magazine	weekly	17 100	20 000

⁽¹⁾ Source: TNS Gallup; Spaudos auditorija autumn 2006

⁽²⁾ Ekspres Leidyba acquired the Klubas magazine in January 2007, and the first issue following the change of control will be published in March 2007

Content production

Before Estonia regained its independence from the Soviet Union in August 1991 all Estonian media was controlled by the state. The Group's flagship newspaper Eesti Ekspress, was originally conceived in 1989 as a counterweight to the state controlled media and the Group has taken pride in promoting the freedom of press ever since.

Management considers editorial freedom to be the cornerstone of all the publishing business of the Group and its affiliates. Whilst Management controls that each publication of the Group and its affiliates follows its established editorial policy, it does not exercise influence over the editorial content of individual issues. The Group and its affiliates employ professional journalists who are specialists in their respective fields and are responsible for the content of the publication. Each publication has an editor-in-chief, who is legally responsible for the content of each issue, together with the author of each article. The editor-in-chief has the authority to withdraw content which he/she considers to be based on unreliable facts or to contain inappropriate, immoral or libellous information.

The entire editorial staff of the daily newspapers meet every morning to discuss and agree on the items to be covered in the issue of the following day. The choice of news and the space given for each news item depends on its overall importance and the editorial policy of the publication. For example, Eesti Päevaleht concentrates on serious, factual reporting of news of national importance. SL Õhtuleht, in turn, reports more sensational and celebrity news in a tabloid style. Every staff journalist is expected to produce at least one new topic for an article for each issue. The editor-in-chief reviews the proposed topics and ensures that all important daily news are covered. The editorial process for weekly newspapers and magazines is broadly similar, although with less time pressure.

The news and article content is derived as a combination of in-house reporting and information received from national and international news agencies. International news is mainly covered by using material derived from news agencies or by sending a journalist to report from the scene. Whilst none of the publications of the Group and its affiliates have staff journalists permanently posted abroad, direct reporting from abroad is quite commonly used, particularly in relation to sport news.

Staff journalists collect interviews and other material and then write the first draft of the article. The draft is forwarded to the departmental editor for his/her review and editing and then passed on for proofreading. The executive editor of each issue collects the articles, pictorial content and advertising and communicates it to editorial staff. The executive editor and the editorial staff jointly allocate the space between different editorial departments (which in the newspapers of the Group and its affiliates comprise news, entertainment, consumer information, opinion and sport). The executive editor is responsible of the final space distribution and filling possible gaps and supervises that all editorial material is delivered to the layout department in time. When the layout is complete, the executive editor reviews the first print from the layout department and approves the newspaper or magazine for printing. The position of the executive editor for newspapers rotates daily among the senior editorial staff.

Some publications of the Group and its affiliates employ their in-house photographers to produce their part of pictorial content of their publications. Lithuanian magazines of the Group outsource some of the pictorial content from third party photographers. In addition, photographs from domestic and international picture libraries are used to supplement the pictorial content. The photo-editor of each publication selects both in-house and external pictorial content.

Advertising

Advertising accounts for 48 per cent of the Group's publishing revenues, and the second most important source of publishing revenues after copy sales (subscriptions and single copy sales combined). Advertising markets in Estonia and Lithuania are highly competitive. The majority of the advertising space in the publications of the Group and its affiliates is sold to the customers by the client managers employed by each publishing company.

Advertising covers approximately 25-50 per cent of the content in the publications of the Group and its affiliates. Accordingly, advertising sales and customer relationship management are very important in the Group's business. Each publishing company of the Group and its affiliates has assigned a client manager for each of its major advertising customers. The client manager negotiates new advertising contracts, updates the existing contracts and takes care of the logistics between the customer, advertising agencies and layout department. The advertising contracts are usually entered into among the customer, the publishing company and the media agency. The major accounts tend to originate from advertising agencies running advertising campaigns for their customers.

The Group companies and affiliates have invested some EEK 2.5 million over the last five years into developing a specialised customer relationship management (CRM) software. This software helps to maintain record customers' accounts and enhances the advertising sales process. As different publications of the Group and its affiliates compete with each other for the advertising and subscription revenue, each publication has its own CRM database. The only exceptions are Eesti Ekspress, Eesti Päevaleht and Linnaleht, who use a common database but can only access information about their respective customers. The Estonian publications of the Group and its affiliates exchange credit information about their customers, but in all other respects the customer databases are kept strictly confidential.

Most of the Group's and its affiliates' advertising revenues, both in Estonia and Lithuania, originate from advertising agencies that offer media plans to their customers and deal in wholesale advertising. The contracts between the agencies and each publishing company of the Group and among its affiliates are for one year at a time and such contracts provide a projection for the amount of advertising space to be purchased over the 12 month period. The agencies are usually entitled to a discount on the basis of the projected advertising sales. If the agency purchases substantially less advertising than projected, the

discount rate is re-negotiated. As most contracts are three-party agreements among the customer, the media agency and the publishing company, the customer benefits of the quantity discount of its media agency.

When a media agency is involved, the publishing company normally receives customer's advertisement in a print-ready format. In addition, the Company maintains several in-house designers who can produce the layout and design for small scale or one-time advertisements.

Some advertising originates directly from the customers, without involving a client manager or a media agency. Such advertising includes classified advertising and official announcements of local or government agencies and utility companies. The proportionate importance of advertising placed directly by the customer has declined over the last five years. These types of advertising involve no sales effort and produce insignificant revenues.

The advertising department of each publishing company of the Group and its affiliates prepares sales plans generally and for each client manager on the monthly, quarterly and yearly basis. In addition to the existing customer base, the managers seek new clients by screening companies advertising in other publications and in other media.

Subscriptions

The newspapers and magazines of the Group and its affiliates are sold to the readers either through subscriptions or as single copy sales in retail outlets. Subscription accounted for 21 per cent of the Group's publishing revenues in 2005.

Estonian print media market in general follows the distribution pattern common in the Nordic countries, where the readers mostly subscribe for newspapers and magazines delivered to them at home or work. According to Management, subscriptions are generally more common in the Nordic and Baltic markets than in the other European markets. Approximately 46 per cent of the publications of the Group and its affiliates are sold through subscriptions, which gives a degree of financial stability for the Group and its affiliates.

The distribution pattern is different in Lithuania, where 90 per cent of the Group's magazines are sold as single copies and only 10 per cent through subscriptions. The Group has established a special marketing department in its Lithuanian operation to increase the subscription base of its magazines and thus improve the financial stability of the Lithuanian magazines.

In order to maintain the current high subscription level and to increase it even further, the Company has a considerable effort to make the subscription process as easy and convenient as possible and to offer the widest possible selection of payment methods and subscription periods. For some publications, special packages have been developed to meet the requirements of specific customer segments. According to management, Estonia is considered a leading country in Internet subscriptions and direct debit payments for subscriptions. Management believes that up to 70 per cent of the subscribers of the publications of the Group and its affiliates pay their subscription via direct debit.

All subscribers of the publications of the Group and its affiliates pay for their newspapers and magazines in advance, regardless of the method of payment. The customers who pay by way of direct debit are charged for one month at the time and the other subscribers pre-pay the whole subscription period at the time when the subscription is made. According to Management, the shortest prepayment period is one month whilst the longest period has been some two years. Most subscribers take a subscription for 6-12 months at the time.

The subscribers can effect their subscriptions with a publication of the Group of its affiliates by using four alternative channels:

- *Internet:* the Company's affiliate, the delivery service company Express Post handles all internet subscriptions for the Estonian publications of the Group and its affiliates and maintains a subscription database for each publication. It has developed a specific Internet-based subscription

website at www.tellimine.ee. Subscriptions made over the Internet are usually paid immediately via bank transfer or direct debit.

- *telephone call and e-mail*: subscribers can order publications of the Group or its affiliates by telephone either by calling the specific customer service number of Express Post or calling the offices of the publication directly.
- *post office*: the Estonian state postal service Eesti Post accepts subscriptions for newspapers and of the Group and its affiliates as the publisher's agent in every post office in Estonia. Eesti Post also accepts cancellations and change of address notices from subscribers. In Lithuania, the post office is the principal channel of subscriptions, and the Lithuanian state postal service Lietuvos Paštas accepts subscriptions for the Group's magazines through its post office network.
- *publisher's office*: all offices of the publications of the Group and its affiliates take subscriptions by telephone or in person. A subscription for a newspaper is activated within three days so that the first copy of the subscribed newspaper reaches its subscriber at the latest on the fourth day after the subscription was made.

Subscriptions can be cancelled by notice to the editorial office of the newspaper or magazine or via the post office. The portion of subscription fee that is attributable to on issues after cancellation is returned to the customer without termination penalties.

The publications of the Group and its affiliates market new subscriptions mainly through telemarketing and direct mailing. The delivery service company Express Post maintains a database of all subscribers of its customer publications with information on each subscriber's subscription package, cancelled subscriptions and the period for which each subscription is in force. The publisher sends a renewal invoice (either itself or via Express Post) to the subscriber three weeks before his/her subscription expires. If the subscriber pays the invoice, his/her subscription is renewed. If the renewal invoice remains unpaid a week before the subscription expires, the publisher sends the subscriber another renewal invoice. If the subscriber does not react, a sales representative calls him/her by telephone some days before the subscription expires and tries to renew the subscription.

Single-copy sales

All the Estonian publications of the Group and its affiliates are distributed for the single copy sales by AS Lehepunkt, a former subsidiary of the Company which now belongs to the Finnish media group Sanoma WSOY through its subsidiary Rautakirja Oy. According to its website, AS Lehepunkt considers itself the leading distributor of newspapers and magazines in Estonia. It delivers newspapers and magazines to approximately 1 400 sales outlets all over Estonia, including shops, news-stands, gas stations and supermarkets. Single-copy sales accounted for 25 per cent of the Group's publishing revenues in 2005.

All the Lithuanian magazines of the Group are distributed for the single copy sales by Medipresa, an affiliate of the Group specialising in magazine distribution.

The Company makes considerable effort in order to increase the single copy sales of the publications of the Group and its affiliates. The marketing effort is directed towards getting the best exposure in kiosks, gas stations and supermarkets. Management believes that the success of its marketing efforts is evidenced by the fact that SL Õhtuleht, Eesti Ekspress and Kroonika are the three leading sale publications in single copy sales in Estonia.

Each Group or affiliate company publishing newspapers or magazines in Estonia agrees its terms of sales and delivery with AS Lehepunkt independently. The contracts with AS Lehepunkt are entered for one year at a time, with automatic renewal for another year until terminated by either party. The Company with its greater negotiation power has negotiated an umbrella agreement with AS Lehepunkt regarding the general terms of supply of the publications of the Group and its affiliates, including the discount from the cover price of the publications sold by AS Lehepunkt and the commission paid for sales of books. Whilst

AS Lehepunkt is in a dominant position in the Estonian newspapers and magazine wholesale market. Management is confident of the strength of its negotiation position against AS Lehepunkt. The business of AS Lehepunkt is largely dependent on the wholesale of the newspapers and magazines published by the Group and affiliates, and Management believes it to be relatively easy to create an alternative distribution mechanism, in case AS Lehepunkt were to refuse distributing the publications of the Group and its affiliates on acceptable terms. Management believes that distributing the publications of the Group and its affiliates through AS Lehepunkt is beneficial to the Group and its affiliates. The distributor of most Estonian newspapers and magazines, AS Lehepunkt can negotiate better terms with sales outlets, especially with supermarket chains, which otherwise could use their significant purchase power to the Group's detriment.

Medipresa distributes the Lithuanian magazines itself to the retail outlets, such as kiosks, supermarkets and shops and also sells them to other distributors. Ekspress Leidyba and Medipresa have agreed the main principles of the distribution of single copies, such as the pricing, distribution channels and rules for returning unsold copies.

The editorial office of each Estonian publication periodical and AS Lehepunkt decide jointly how many copies are delivered to each retail outlet. In Lithuania, Ekspress Leidyba and Medipresa jointly decide how copies are divided between the different distribution channels and Medipresa decides how many copies are delivered to each retail outlet. The distribution quantities of some daily newspapers are reviewed on a daily basis while magazines and weekly newspapers may review their distribution monthly or even quarterly. The Group and affiliated companies try to optimise the maximum coverage of retail outlets and minimum return rates. This is important, as the publisher of each publication carries the risk of running short of copies on one hand or having excessive number of unsold copies on the other. Predicting the exact sales quantities is difficult, as the sales in retail outlets can vary due to factors like weather and unexpected events. AS Lehepunkt normally makes only one delivery to each retail sales outlet every day, so imbalances in demand and supply of daily newspapers cannot be corrected during the day.

All unsold copies are returned to the publisher. Management estimates the return rate to range between 15 per cent and 30 per cent, depending on the publication. AS Lehepunkt and Medipresa collect the unsold copies on the publisher's behalf and sell them for recycling. AS Lehepunkt and Medipresa have the obligation to keep an exact inventory count on returns, which the publisher is entitled to through stock count.

The Group and affiliated companies invoice AS Lehepunkt and Medipresa monthly for the publications delivered, less returns. The invoiced amount equals the cover price of each publication multiplied by the number of copies sold, less the distribution discount provided in the umbrella agreements between the Company and AS Lehepunkt and between Ekspress Leidyba and Medipresa.

Suppliers – printing

Printall prints significant part of the Estonian newspapers of the Group and its affiliates, including Eesti Päevaleht, Eesti Ekspress and the Russian-language Tallinn edition of Linnaleht. SL Õhtuleht, the Estonian-language Tallinn edition of Linnaleht and its weekly Pärnu and Tartu editions are printed by AS Kroonpress, a subsidiary of the Norwegian Schibsted Group. Approximately half of the magazines of Ajakirjade Kirjastus are printed by Printall and the other half by AS Kroonpress.

All the Lithuanian magazines of the Group are printed by the Lithuanian printing house UAB Spaudos Konturai in Vilnius.

Under the terms of the Estonian printing contracts of the Group and its affiliates, the printer is responsible for obtaining paper supplies. The Lithuanian printing contract between Ekspress Leidyba and UAB Spaudos Konturai provides that the publisher delivers the paper for the magazines. Ekspress Leidyba sources the magazine paper from MAP Merchants, a trading subsidiary of the Finnish M-Real Group.

Delivery

A major part of the Estonian newspapers and magazines of the Group and its affiliates are delivered by Express Post, an affiliate of the Company. Express Post was established in 1998 to provide early morning newspaper delivery service in Tartu and Tallinn. In 2001, its services were extended to Harjumaa and Pärnu. Express Post currently delivers approximately 3.2 million copies of different publications to their subscribers annually. The Company owns 50 per cent of the shares in Express Post, and the remaining 50 per cent belongs to AS Eesti Meedia.

Express Post delivers newspapers and magazines to subscribers between 5:00-7:00 am every week day from Monday through Saturday. In addition to newspapers and magazines, it also distributes advertising leaflets and similar materials. The Group and its associated companies and AS Eesti Meedia and its subsidiaries are the main customers of Express Post, although its services are available for third parties as well.

Express Post currently delivers the daily newspapers Eesti Päevaleht, Postimees, SL Õhtuleht, Äripäev, Estonia and Molodjoš Estonii, and the weekly newspapers and magazines made for the Eesti Ekspress, Nädal, Teleleht and Kroonika.

In addition to its early morning delivery service the company also provides subscription services and client database maintenance services and delivers both addressed and non-addressed advertising materials. Express Post provides customer service relating to the subscription and delivery of the publications it delivers.

According to the management of Express Post, its delivery, subscription and client database maintenance services are used by 29 publishers (including the Group and affiliated companies). Express Post has become the second biggest player besides Eesti Post in the market in four years with approximately 740 employees on payroll working on two shifts. The management of the Group estimates the subscription service to receive around 4 000 customer calls each month.

Express Post handles all the Internet subscription related matters and maintains the client database for the publications of the Group and its affiliates. It has developed a specific Internet-based subscription website www.tellimine.ee. The site allows its users to subscribe for newspapers, magazines and books published by the Group and its affiliates. All the publications of the Group and its affiliates use this service, apart from Eesti Päevaleht, which runs its own Internet subscription service and has its own subscription hotline service.

Express Post's subscriber database is shared by all the publishers who use Express Post as a distribution channel. The subscription database software Reggy has been developed especially for Express Post and it fulfils all functions required for a high quality service. This software is used by all the companies who are using the services of Express Post services in accessing their subscriber databases.

The Lithuanian magazines of the Group are delivered to the subscribers mainly by the Lithuanian state postal service Lietuvos Paštas and to a lesser extent by regional newspaper publishers. Ekspress Leidyba has an annually renewed delivery contract with Lietuvos Paštas, which sets out the conditions both for subscription services and delivery. Lietuvos Paštas operates through its regional offices around the country. The central office of Lietuvos Paštas collects the details of subscriptions from its own database and from Ekspress Leidyba's database and forwards subscription details to each regional office involved with the deliveries.

Book publishing

Book publishing is not a major business line for the Group or its affiliates. Eesti Päevaleht, Eesti Ekspress and Ajakirjade Kirjastus have their own book publishing departments. The main purpose of these publishing departments has been to support the publishing of books written by the journalists working for the Group and its affiliates. In addition, both publishing departments also offer custom publishing services to third parties.

The book publishing department of Ajakirjade Kirjastus utilises synergies with its magazines in order to create new books. For example, cooking recipes or articles published in magazine(s) throughout the year can be compiled into a book published at the end of the year.

Ajakirjade Kirjastus, and certain affiliates of the Group, provide custom publishing service of customer magazines and other materials which are fully developed and paid for by the customer. The customers of this service include companies such as EMT (Estonian Mobile Telephone), Tallinna Kaubamaja (department store), Silja Line, Hansapank, Elion, Onninen Baltics, Port of Tallinn, Tallinna Soojus and several governmental institutions.

Ekspress Leidyba in Lithuania started a book publishing department in 2006. It has since published 13 books and is in a process of publishing several others.

Online publishing

The Group and its affiliates are involved with online media publishing through the online versions of their newspapers and magazines as well as three classified advertising portals.

Online versions of newspapers and magazines

Each of the newspapers of the Group and its affiliates (with the sole exception of Linnaleht) is published online and has an additional online news service. The content of the online edition is based on the printed version and its content is in broad terms identical with that of the printed version. The content of the online news services is generated by the editorial staff of each newspaper through in-house reporting and screening of items posted by news agencies and online portals for news for immediate release. The readers of the online edition of a newspaper can usually post comments on the news onto the news service website and read comments posted by other readers.

The online versions of the newspapers published by the Group and its affiliates can be found in the following Internet addresses:

Title	Web-page	Visitors ⁽¹⁾
Eesti Ekspress	www.ekspress.ee	58 336
Eesti Päevaleht	www.epl.ee	144 594
SL Õhtuleht	www.slo.ee	150 699

⁽¹⁾ Number of unique visitors per week for week 9 in 2007. Source: TNS Emor.

Most of the magazines published by the Group and its affiliates have also an online version which contains some of the articles taken from the current print version and an archive for past issues.

The Group and its affiliates believe that the purpose of the online versions is to support the print version and, additionally, to generate advertising income from banner advertising. All online versions are free of charge for visitors, including access to online news archives, and they do not generate any subscription income.

Advertising portals

The Group is involved in classified advertising portals through its subsidiaries OÜ Netikuulutus and OÜ Ekspress Internet. Netikuulutus runs a recruitment portal www.hyppeaud.ee and Ekspress Internet operates three classified advertising portals: the auto portal www.ac24.ee, the real estate portal www.4seina.ee and the entertainment portal www.weekend.ee. OÜ Netikuulutus is a 50-50 per cent joint venture between Eesti Päevalehe AS and Eesti Ekspressi Kirjastuse AS, and accordingly the Group has a 75 per cent interest in this company. The Group owns 80 per cent share in Ekspress Internet, and the other shares belong to four individuals, who originally developed the www.ac24.ee portal. The portals

www.4seina.ee and www.weekend.ee were originally owned by Netikuulutused, which sold these portals to Ekspress Internet in January 2007.

Management believes in Internet-based classified advertising as a free-standing business line with growth potential. Internet-based classified advertising portals can generate advertising revenues from both businesses and individuals, who wish to buy or sell something. In addition, the portals generate income from banner advertising based on the visitor traffic on the sites. In this respect they are a more solid business than non-classified Internet portals, whose sole revenue originates from banner advertising.

The Group and its affiliates offer these Internet portals to their advertising customers as an additional medium alongside the printed publications and their online versions. Management believes that Internet advertising will grow in importance in the short to medium term and therefore considers it is essential to offer Internet advertising to those advertising customers who are in the process of shifting their advertising focus from print media to online media.

The Company acquired an 80 per cent interest in Ekspress Internet in August 2006. Its chief executive and IT manager have remained in the employ of the acquired company and they continue developing its classified advertising portal.

Hyppelaud

The employment exchange portal www.hyppelaud.ee ('springboard') was started in February 2003 as an Internet-based environment where employers can post employment advertisements and persons seeking work can post their CV's. The portal is targeted mainly for medium-qualified salaried employees. The portal generates revenues from selling advertisements in its 'hot offers' section, providing services to the employers and from selling banner advertising. The website is in the Estonian language only. The portal receives on average some 23 000 unique visitors per week, which makes it the third most visited employment portal in Estonia.

The persons looking for work can post their CVs in the portal's database, modify or delete their already posted CVs, maintain templates for five different cover letters to accompany the CVs, get feedback regarding their job applications and receive e-mail notifications regarding new job advertisements. Potential employers can access all CV's in the database free of charge, unless the jobseeker specifies his/her CV as private. Private CV's can be accessed only by those employers to whom the person has sent a job application.

The employers can post an unlimited number of job advertisements on the website free of charge. They can also post their advertisements in the specific 'hot offers' section by paying a fee for it, and place advertisements in Eesti Päevaleht, Linnaleht and Eesti Ekspress via the portal. The portal offers a number of paid services to the employers which are designed to facilitate the search process.

Posting CV's or job advertisements on the website is generally free of charge, apart from the 'hot offers' section. This paid section of the portal allows the employer to display its job advertisement on the opening page of the portal and the job advertisement is made visually more attractive to the readers than the free advertisements.

Any employer who has one active advertisement on the website can have access to a paid search profile which allows the employer to review either up to 20 CVs or an unlimited number of CVs in a two month period per job active advertisement. Netikuulutused offers more advanced paid services to those employers who have multiple advertisements active on the site at the same time, such as using the employer's logotype in its advertisements, allowing the employer to review submitted CVs, to send interview invitations and rejection letters through the portal, to display advertisements in the 'hot offers' section, to have printed advertisements in the free-distribution paper 'hyppelaud' and discounts from newspaper advertisements in Eesti Päevaleht, Linnaleht and Eesti Ekspress for any advertisements that are at least one-twelfth of a page.

4seina

The portal www.4seina.ee ('four walls') publishes real property advertisements of property agents and private individuals. The portal was started in June 2005 as a co-operation project between *Eesti Päevaleht* and *Eesti Ekspress*. The portal publishes advertisements for sale, purchase and letting of apartments, houses, land, commercial premises and new real estate development projects. The website has Estonian, English and Russian language versions. In addition to the portal, *Ekspress Internet* publishes a free distribution real estate paper '4Seina' in Tallinn and Harjumaa. The portal is the third most visited website of its kind with 15 000 unique visitors per week.

The portal generates revenue mainly from publishing advertisements of property agents and selling banner advertising. Individuals can also post advertisements on the site, although their proportion of the advertisements remains low. The majority of the advertisements posted on the website are paid.

Weekend

Eesti Päevaleht established the entertainment portal www.weekend.ee in June 2006. The portal offers an online environment for posting pictures, videos, stories from concerts, shows, night clubs, celebrity events, sports events etc. The website also posts advertisements on forthcoming events. The concept of *weekend.ee* is based on the active online community among the younger generation in the age bracket of 18 – 35 years. Advertising and SMS traffic are the principal sources of revenue for this portal. The advertisers can post banners on the portal or advertise in video clips published on the portal. The portal receives on average some 35 000 unique visitors per week.

Eesti Päevaleht sold this portal to Ekspress Internet in January 2007, in order to enable Eesti Päevaleht to focus more on the development of its own online version.

AC24

The car portal www.ac24.ee was started in April 2005 and acquired by the Group in August 2006. The portal carries advertisements for cars for sale and banner advertising. This portal also has the most complete database of rent car offers in Estonia. As of January 2007, the average number of advertisements posted on the site was in excess of 7 400. This portal has now been cross-linked with the online versions of the newspapers published by the Group and its affiliates, which Management expects to increase its popularity. The portal receives on average some 18 000 unique visitors per week, making it the second most visited online auto marketplace.

The portal has a modern, user-friendly and fast interface for publishing new advertisements. Both private individuals and businesses can post advertisements on the website. For business customers, the portal offers a web-hosting service and ability to export and display advertisements also on other websites. Advertisements can be also published in the paper media in magazines *Referent*, *Soov* or *Kuldne Börs*.

Investments

The Group has invested in total EEK 52 million into its publishing operations since 1 January 2003. The principal investments have been the acquisition of the Lithuanian magazine operations in 2004, including 97 per cent of the shares in UAB Moteris (subsequently renamed UAB Ekspress Leidyba) and all of the shares in UAB Pieniū Pieva and UAB Tavo Vaikas. In January 2007, the Group also acquired the trademark and publishing rights to the Lithuanian weekly magazine Klubas and Estonian monthly magazine Oma Maitse, and the related trademarks. The aggregate consideration paid for these five acquisition amounted to approximately EEK 53 million. The Group financed the investments from retained earnings.

During the last three years, the Group has also acquired a 75 per cent interest in Netikuulutused and 80 per cent interest in OÜ Ekspress Internet for the total consideration of EEK 2.3 million. For further details about the acquisition of Netikuulutused, see "Business – Material Contracts – Acquisition of shareholdings in subsidiaries and affiliates".

Competition

The Group's main competitors in the print media include the Norwegian Schibsted Group, the Swedish Bonnier Group and several locally-owned niche publishers.

There are 22 national newspapers in Estonia, seven of which are published six times a week and the other 15 are published weekly or 2-3 times a week. The main competitors of the newspapers published by the Group and its affiliates are *Postimees*, the general interest daily newspapers owned by Eesti Meedia, *Maaleht*, a weekly newspaper focusing on regional news and *Äripäev*, a daily business newspaper owned by Bonnier Group.

There are 32 paid or free *local newspapers* in Estonia. The Group's involvement in the local newspaper market is restricted to Tallinn, Pärnu and Tartu, where the principal competitor is Eesti Meedia, which owns *Pärnu Postimees* in Pärnu and publishes separate local editions of *Postimees* in Tartu and Tallinn. In addition, the municipality of Tallinn publishes a local newspaper *Pealinn*.

The Group's principal competitors in the Estonian magazine market are owned by non-Estonian groups. The Finnish Otava Books and Magazines Group is the largest foreign publisher in Estonia. It publishes several titles, including *Kodutohter*, which is the seventh largest Estonian magazine by readership. In total, the foreign-controlled magazine publishers, including Eesti Meedia's 50 per cent interest in Ajakirjade Kirjastus, generated EEK 74 million in advertising revenues in 2005.

The Group's principal competitors in the Lithuanian magazine market are both Lithuanian and foreign-owned publishing groups. Lietuvos Rytas is the largest publishing company in Lithuania and owned by its management. It publishes four newspapers and 12 magazines and distributes them through its own distribution subsidiary. The second largest publisher in Lithuania is Respublika Group, which publishes one magazine, two national and one regional newspaper. Respublika Group is also owned by its management. The Norwegian Schibsted controls the largest magazine group Zurnalu Leidybos Grupe, which publishes eight magazines.

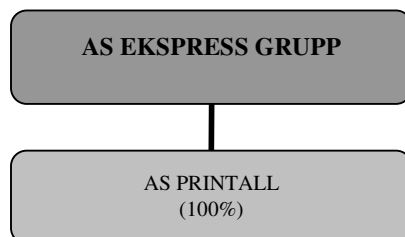
The principal competitor of the Group's affiliate Medipresa in the Lithuanian newspaper and magazine wholesale market is Impress Teva, a subsidiary of the Finnish Suomalainen Kirjakauppa Oy. According to Management, Impress Teva controls about half of the Lithuanian market, and delivers magazines to the Lietuvos Spauda kiosk chain owned by its parent Suomalainen Kirjakauppa Oy.

The Group's main competitors in the internet classified advertising portals are www.auto24.ee car portal, the real property portals www.city24.ee and www.kv.ee, and the recruitment portal www.cvkeskus.ee. The property portal www.city24.ee belongs to the Finnish media group Alma Media, whilst the other three portals are controlled by the individuals who developed the portals. According to the information available to the Management www.auto24.ee belongs to Autoportaal OÜ, www.kv.ee is owned by Moonfish Media OÜ and www.cvkeskus.ee belongs to CV Keskus AS which operates online recruiting businesses in eight countries under the 'CV Market' brand.

These four rival portals have all operated for more than six years, which is longer than those of the Group, and that has allowed them to enhance their brand recognition. However, the Group's three portals have been able to attract new users, because of the continuous growth in the numbers of Internet users and the promotion in the other media owned by the Group and its affiliates.

Printing

All of the Group's printing operations belong to AS Printall, a printing house founded in 1971 and a wholly-owned subsidiary of the Company:



Printall has more than 35 years of printing experience and nearly ten years of experience in exporting printing services. Based on the 2005 revenue Printall is the largest printing house in Estonia.

Printall prints mainly magazines and newspapers, advertising leaflets, product and service brochures, booklets, paperback books. Printing revenue currently accounts for 98 per cent of all Printall's total annual revenue. The remaining 2 per cent is derived from renting production space to third parties and selling paper and used plates for recycling.

Customers

Printall's customers can be broadly divided into i) the Group and associated companies, ii) external customers in Estonia and iii) export customers. Printall's sales divide between different customer segments as follows:

	Sales							
	2003		2004		2005		Six months ended 30 June 2006 ⁽¹⁾	
	EEK million	%	EEK million	%	EEK million	%	EEK million	%
Estonian customers								
Group and affiliates	69.7	36.3	73.9	33.6	78.9	27.9	45.6	27.3
External customers	57.3	29.9	67.3	30.6	75.2	26.6	43.3	26.0
Export customers								
External customers	55.2	28.8	69.3	31.5	118.0	41.8	72.3	43.5
Total printing services	182.2	95.0	210.6	95.7	272.1	96.4	161.2	96.8
Other sale	9.6	5.0	9.5	4.3	10.3	3.6	5.4	3.2
Total sale	191.7	100	220.1	100	282.4	100	341.8	100

⁽¹⁾ 2006 figures are not audited.

As the table above indicates, approximately 27 per cent of Printall's revenue arise from printing orders from the Group and affiliated companies. Printall provides its services to the Group and affiliated companies at the same terms it applies to its external customers. Main Group associated customers include daily newspapers Eesti Päevaleht, Linnaleht and the weekly newspaper Eesti Ekspress as well as several magazines published by Ajakirjade Kirjastus, such as Anne, AutoBild and Eesti Naine. Its external Estonian customers include daily newspapers Molodjzh Estonii, and the Russian-language edition of Postimees,

weekly newspapers MK Estonia and Den za Dnjom, as well as magazines, such as Tehnikamaailm, Kodu ja Aed and advertising leaflets for retail outlets Rimi, Novalux, Jysk and Kodumasinad.

Printall has exported printing services for almost ten years. In 2006, it performed printing services for export customers in Russia, Finland, Sweden, Norway, the Netherlands, United Kingdom and Latvia. The export sales account for approximately 46 per cent of Printall's total sales volume. Examples of export publications that Printall regularly prints include Vse Zvjozdō, Rovesnik, O'Key, Dotški-Materi, Yachting, Digital Staff, Moore, Pause, Bosch product catalogues and First Poker.

Printall has annual printing contracts with most of its customers. An annual printing contract sets out the framework for individual orders with emphasis on when materials from the customer must be received in relation to the printing deadlines. The contract also sets out a formula for determining the total price for the printing and possible supplementary services. The price formula can be re-negotiated in the event of changes in paper price or other unforeseen events. Provided that no re-negotiation is required, the contract is automatically renewed from year to year until either party terminates it.

Printall has managed to maintain a relatively stable customer base including approximately 200 customers in total. According to Management some 40 per cent of the customers generate approximately 80 per cent of Printall's total revenue.

Printing process

Printing process can be divided into three main stages: (i) pre-press, (ii) printing and (iii) after-print services.

The pre-press stage covers everything that is required to make an electronic file received from the customer ready for printing in an offset printing machine. The pre-press services include pre-flight checking of the customer file, web proofing of layout and color, pagination, rendering, preparation of printing plates and paper proofing of layout and color. Acquiring the Computer-to-Plate (CTP) technology allowed Printall to replace its former outdated pre-press scheme (files-film-plates) with a new one (files-plates), which guarantees better quality of printing products and facilitate the pre-press process.

The printing stage involves the printing of the customers' material by using printing plates prepared in the pre-press stage. The printing stage divides into the following segments, which also reflect Printall's main product lines:

- newsprinting; and
- commercial printing (web-press; sheet-feed press).

Newsprinting

The newsprinting segment comprises the printing of daily and weekly newspapers and other publications printed in a newspaper format and limited after-print services. Printall normally prints 5-15 different newspapers or supplements per night.

Printall has a KBA Continent printing machine for newsprinting, which prints up to 40 pages tabloid (A3) format newspapers from five reels. The capacity of the machine is printing 32 color pages and 8 black and white pages at a speed of 45 000 copies per hour. This machine allows using un-coated paper from 36 g/m² to 60 g/m².

The printing press firstly prints and collects the webs and then the webs are leaded together into a folding machine, which folds and stitches (on client request) the newspapers. After that the newspapers are counted and stapled by the stacking machine into standard packages, ready to be delivered to the customer or to

AS Lehepunkt for addressing and distribution. AS Lehepunkt is the distribution agent for Eesti Ekspress and Eesti Päevaleht. Linnaleht is delivered to the distribution points by the publisher.

The newsprint machine operates in two shifts, one for the afternoon and the other for the over-night printing. Each shift consists of 7-8 employees. As the printing of daily and weekly newspapers is very time sensitive, they usually need to be printed in the night shift, apart from some weekly newspapers which are less time sensitive and therefore can be printed during the afternoon hours. Starting time and length of the shifts may vary depending on printing schedules. Printing schedules are prepared with an aim to keep the agreed deadlines and to keep the shifts busy and the machine running.

Commercial printing

The commercial printing segment includes the printing of magazines, advertising materials, product catalogues and paperback books and the after-print services that are usually required for these products.

In contrast to newspapers which are printed from many reels, magazines are printed from one reel on folded sheets, which are compiled into a magazine through a binding machine. Printall prints its magazines on folded sheets that result in 16 A4 format pages or 8 pages A3 format.

Printall has two 16 pages heatset presses: KBA Compacta 215 with maximum speed 50 000 copies per hour and Solna C 300 with maximum speed 25 000 copies per hour. These presses can use coated paper from 48 g/m² to 130 g/m². As the main products are magazines with the covers, Printall uses sheet-feed press Man Roland 705 for cover printing (coated paper 80-300 g/m²). The maximum speed of this machine is 14000 copies per hour. The additional functions of the machine are one additional color and water-based varnish. Printall uses UV-varnishing device Colibri Junior for UV-varnishing the covers.

Both of the web presses are currently operating 24 hours and 7 days a week. Each shift consists of 3-5 employees. The new machinery has enabled Printall to increase the productivity in commercial printing by 2.3 times during the period from 2003 to the end of 2006.

After-print services. The printed sheets are transferred in the correct order into a binding machine, which collates them and compiles them into a magazine. After that the magazine pages are bound either via stitching or gluing (perfect binding) and stacked for delivery to the customer.

The after-print services also include also folding, compiling and finishing by hand and any other services that may be required to make the product ready for delivery to the customer.

Printall provides *transportation service* only in conjunction with printing services. The customers can choose either to have the products delivered by Printall or to collect the products from Printall's premises. As a rule, all export customers require Printall to make the transport arrangements. Printall uses sub-contractors for most of its customer deliveries.

As the wholesale distribution centre of AS Lehepunkt is located in Printall's premises, a large part of the newspapers and magazines produced for the Estonian market require no transportation to this distributor.

Suppliers

A printwork's principal raw materials are paper and ink, which in Printall's case account for more than over half of the cost of goods sold.

Paper

Paper is an essential element of the printing process. The choice of the supplier depends on the paper quality, paper assortment, availability, price and supply terms. Printall purchases its newsprint in part directly from Scandinavian and Finnish suppliers and in part from an Estonian paper importer who sources the paper from Russian suppliers. All suppliers of newsprint have very similar quality standards.

Magazine paper is more quality sensitive than newsprint. The customers publishing magazines normally select the type and quality of paper to be used. Every type of magazine paper is unique and has supplier-specific characteristics. If the chosen supplier does not offer satisfactory terms, Printall usually offers to the customer a different type of paper. Printall purchases all of its magazine paper from Scandinavian and Finnish paper producers (such as Stora Enso, M-Real, Holmen and UPM).

Printall has no written supply contracts with its paper suppliers. The quantities and prices are agreed either on a quarterly or half-yearly basis and fixed in order confirmation from paper supplier. If the price is increased or terms of supply otherwise deteriorated, the customer may either choose a substitute paper or increased cost. Normally, in accordance with the customer contracts, Printall has the right to change the prices for the product due to fluctuations in the paper price.

Management believes that the absence of fixed supply contracts does not mean a direct risk of discontinued supply in the event of paper shortage. However, Printall nevertheless holds a reserve stock of newsprint equal to approximately one-week requirements. In addition, the paper importers used hold an earmarked stock of newsprint in its premises sufficient to cover its approximately four weeks supply to Printall. Management considers five weeks supply to be sufficient to secure continued production while it finds a substitute supplier.

Magazine paper delivery takes four weeks on average. Printall holds as reserve stock of paper for two to four weeks for those magazines that are published frequently and also to cover variation in the number of pages printed in each issue of the magazine. The actual number of pages may be known less than 24 hours before printing, while ordering more paper takes three to seven weeks.

Printall has experienced difficulties in paper supply in the past, including the lock-out action in the Finnish paper mills in April-July 2005, which completely exhausted the paper supply from Finland. Nevertheless, Printall was able to find substitute products from European paper producers without any delay of product deliveries to customers.

Printing Ink

Printall tests different ink suppliers' products on its printing presses in order to find the optimal ink for each machine and to ensure that Printall's printing quality meets the customer's requirements. Printall's current selection of inks was chosen in 2004-05, in conjunction with the commissioning of the new printing facility and the new printing presses.

The main supplier of the inks for Printall is Flint Smith Group, a leading European manufacturer of printing inks. Flint Smith Group sells their products through agents, which in Printall's case is VIP Systems GmbH in Germany.

The company normally holds a reserve stock of inks to cover customer orders for two weeks. In addition, an agent holds an earmarked stock of ink in its premises in Tallinn sufficient to cover its approximately six weeks supply to Printall.

Investments

Printall has made considerable investments in its premises and machinery since 2003. In 2004, Printall invested in new premises and machines EEK 240 million. This investment has increased Printall's total revenue by 78 per cent and increased its stand-alone profits from EEK 10 million for the financial year ended 31 December 2003 to EEK 40 million for the financial year ended 31 December 2006.

Printall's current printing premises were completed in July 2004, and during the same year Printall acquired two new web-printing presses: KBA Continent for newsprint and KBA Compacta C215 for commercial printing. The new web presses started to produce in summer 2004. The sheet-feed printing press Man Roland 700 was purchased in 2005 and the AGFA CTP was bought in summer 2006.

Printall's principal machinery currently consists of KBA Continent newspaper press, KBA Compacta 215 and Solna C300 web presses for commercial printing and a Man Roland 705 sheet-fed press, two AGFA Avalon CtP pre-press lines, three saddle-stitches, a perfect binding line, two folding machines and packaging machines.

In 2006, the supervisory council of Printall approved a new investment plan for 2007 in the amount of approximately EEK 136 million. In January 2007, Printall signed a purchase agreement with Man Roland Druckmaschinen AG to buy a new commercial web-press Rotoman for approximately EEK 75 million. The new press will be delivered to Printall in August 2007 and is expected to increase Printall's total revenue once it has been installed. Printall also plans to acquire one modern perfect-binding line and saddle stitching-line, inserting-film wrapping machine for magazines as well as other equipment. These planned investments will be financed by means of financial leases.

The current facility has 10 300 m² of air conditioned production space and approximately 2 400 m² other space for technical, ventilation rooms, boiler room, administrative and staff facilities, such as offices, staff changing facilities and a staff canteen. Approximately 3 400 m² of the space has been let under long-term leases, primarily to AS Lehepunkt.

Printall's premises have been specifically built to meet the requirements of a modern printing facility. It has a logistically advantageous layout, which facilitates a smooth production flow. The production facility has been planned and built with a view to further capacity extensions. The foundations of the heatset presses are designed to hold twice the weight of the current machines. Should another printing line be needed, it can be mounted above the current production lines.

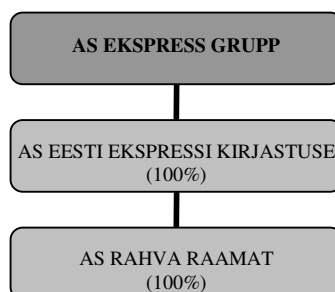
The premises also have office space, storage and packaging space for AS Lehepunkt, the main distributor of the publications of the Group and its affiliates. As Printall and AS Lehepunkt operate in the same premises, the Group and its affiliates save money and time when the publications do not need to be transported to the distributor.

Competition

Management considers the Estonian printing market relatively competitive, in particular for magazines and advertising leaflets. Printall's main competitor in Estonia is AS Kroonpress, a subsidiary of AS Eesti Meedia, in Tartu. Other competitors include smaller printing houses like Reusner, Europrint, and Unipress, which compete with Printall in printing magazines and advertising materials.

Book wholesale and retail

The Group's book wholesale and retail business belongs to Rahva Raamat, a wholly-owned subsidiary of the Company:



Rahva Raamat is the leading book retailer and wholesaler in Estonia by sales with net sales of EEK 126 million and 70 employees on payroll as of the end of 2006. Rahva Raamat is the result of a merger of the book wholesaler OÜ Raamatuvaramu with the books retailer Rahva Raamat, which became effective on 13 July 2006.

Rahva Raamat's wholesale operations are based in a 1 000 m² warehouse and logistics centre in Mustamäe, Tallinn.

Rahva Raamat owns two book retail shops in the Tallinn city centre and one in Viljandi. One of the shops in Tallinn is located in the Viru Keskus retail shopping centre and is the largest book shop in the Baltic States by floor space and average selection of books. The other shop is in the address Pärnu road 10 and is considered to be the oldest shop in Estonia. The shop in Viljandi is the latest addition Rahva Raamat's book shops and was opened on 11 October 2006. Rahva Raamat operates an Internet book shop for online sales at www.rahvaraamat.ee.

Management believes that retail sales are the driving force behind the book selling business and will remain so in the foreseeable future. Management expects to open up new book shops in Estonian major cities in order to strengthen the Group's position in this market segment. Whilst supermarkets give access to a large number of customers, they sell only a limited selection of books. A book department of a major supermarket may contain some 500 to 1 500 book titles, whilst Rahva Raamat retail shops as at the date of this Offering Circular carry at least 26 000 titles. Management believes that supermarkets will have an important role in the future sales development for Rahva Raamat.

Book wholesale

The book wholesale business accounts for approximately 60 per cent of Rahva Raamat's revenues. Its principal wholesale customers are public libraries, supermarkets and book shops around Estonia.

Most of the Estonian public libraries are maintained by the municipalities and universities and other education institutions. As of January 2007, Rahva Raamat regularly supplies books to approximately 352 libraries. These libraries vary in size and the size and frequency of their orders can vary from 10-20 books to hundreds of copies. Rahva Raamat's sales to libraries rely on the long-term supply relationships with most of its customer libraries. The books are invoiced upon delivery and as most libraries are publicly funded, these sales do not normally involve any credit risk. The sales to libraries account for 25 per cent of Rahva Raamat's wholesale revenues.

Rahva Raamat has wholesale supply agreements with three major supermarket chains: Selver, Rimi and Prisma. These agreements are usually concluded for one year at a time and renew automatically from one year to another as long as neither party terminates the agreement. Under the agreement, the supermarket places the books supplied by Rahva Raamat for sale at its premises. The risk for the books remains with Rahva Raamat until they are sold to the end customer. The supermarket is entitled to return unsold books any time, and Rahva Raamat usually sells the returned books through its own retail outlets. Rahva Raamat retains the risk for damage to its books in the supermarket but not the risk for theft, which is carried by the supermarket. Book titles sold in supermarkets tend to be gift books, children books, bestselling detective novels as well as fiction and non-fiction bestsellers which are heavily advertised by the publisher. The sales through supermarkets account for 50 per cent of Rahva Raamat's wholesale revenues.

Book shops normally order books under a long-term supply contract and are invoiced upon delivery. The main exception is the Apollo, to whom Rahva Raamat supplies books on consignment. The sales to book shops account for 20 per cent of Rahva Raamat's wholesale revenues.

Rahva Raamat owns three lorries and has outsourced the services of one further lorry. These lorries are used for delivering books to wholesale customers along with the services obtained from external courier companies. This service runs in accordance with a regular time-table and is available to all wholesale customers, although most customers arrange the transportation of major orders themselves and rely on Rahva Raamat's delivery services only for small orders.

Book Retail

Books are normally sold through retail shops and Internet sales. Rahva Raamat owns and operates two shops in Tallinn city centre, one in Viru Keskus and another at the address at Pärnu road 10. Rahva Raamat has

recently opened a new shop in Viljandi at Tallinna tänav 19/21, and the management of Rahva Raamat aims to extend its shop network further by establishing book shops in other major Estonian cities.

Book retail is a highly seasonal business and the volume of sales fluctuates throughout the year. Sales usually peak in November and December, and as much as 40 per cent of Rahva Raamat's net profit can be earned during those two months.

Management believes that retail sales have increased in Estonia in recent years. Most of the books sold in Estonia are in the Estonian language, although the Rahva Raamat book shops have relatively small foreign language sections of quality titles. Rahva Raamat book shops also sell calendars, cards, basic office supplies, selection of magazines and audio books.

Book sales are the principal source of income for Rahva Raamat. The other sources include selling advertising in stores and on poster panels but are not a significant source of revenue. The shops charge an additional commission from the publishers for displaying their books in premium locations in the shops or for creating a temporary special section for them for a limited period of time. However, the Rahva Raamat shops do not let shop space to any publisher on exclusive terms.

Book shops

Rahva Raamat's flagship book shop is in Viru Keskus in Tallinn city centre and it was opened in December 2004. This shop has the broadest selection of books available in any one shop in Estonia. Apart from books in Estonian, it offers a selection of books in English, Russian and other languages. The layout of the shop follows the contemporary style used in U.S. up-market book shops with atmosphere and facilities for comfortable browsing and reading, a children's corner, and the café 'Bestseller'.

The shop in Pärnu road 10 is believed to be the oldest book shop in Estonia and as such it has a high profile reputation and is the place to buy books in Tallinn. The shop was originally established in the same location in 1912, and whilst the owners and operators of the shop have changed several times over its 94-year history, there has always been a book shop at this address throughout these years.

Rahva Raamat has a book shop also in Viljandi, and Management believes it to be the largest and most modern local book shop.

Management believes that a book shop should not only be a space for exhibiting wares on sale but it should also offer the readers a friendly environment where the customer can consult knowledgeable sales staff and browse and read books and enjoy a light meal or coffee.

Purchase managers are in the key position for ensuring that each retail shop has the right book selection to keep its customers satisfied. Management believes that its experienced purchase managers have been a cornerstone for success and Rahva Raamat employs the best specialist purchase managers in Estonia, each of whom has considerable experience as a book purchase manager.

Rahva Raamat prepares its purchase orders manually, without an automatic ordering software, although its warehouse system allows controlling stock balances online. The purchasing managers are responsible for the stock balances and place orders for new books when necessary.

Returns from the retail customers are rare. When a return is required, the book shop usually allows the customer to select another book of similar value, and the difference is settled in cash.

Internet book shop

In addition to its retail book shops, Rahva Raamat operates an online Internet bookshop at www.rahvaraamat.ee. The sales generated by the Internet bookshop are currently small in comparison to the other retail outlets, as Rahva Raamat only completed an introductory phase of the online book shop in August 2006.

Suppliers

The principal suppliers to Rahva Raamat are Estonian and foreign book publishers and Estonian importers of foreign books. Major suppliers include the Estonian publishers AS Tänapäev, AS Varrak, OÜ Bestkaup, AS Sinisukk, AS Koolibri, Eesti Ekspress, AS TEA Kirjastus, AS ILO Kirjastus and Egmont Estonia AS. Rahva Raamat purchases its foreign books either directly from the publishers (such as Taschen Verlag GmbH in Germany) or from an Estonian importer, such as AS Allecto.

Rahva Raamat has a purchase agreement with all Estonian major publishers, under which the publisher delivers books to Rahva Raamat's warehouse on consignment terms. Rahva Raamat assumes risk and title to the books when they are removed from the warehouse. Rahva Raamat reports the balances of the consignment stock to the publisher at the end of each month and pays for the books that it has removed from the consignment stock. Under the terms of the consignment agreements, Rahva Raamat may return the unsold books at any time. The principal advantage in these consignment agreements is that they minimise Rahva Raamat's obsolete stock and working capital requirements.

The disadvantage of the consignment arrangement is its cost. Publishers are normally willing to slightly discount their prices if the wholesaler is prepared to buy the books for immediate payment, without consignment. Rahva Raamat does occasionally purchase books directly, when it believes it can sell the books without delay.

Pricing

The wholesale price for a book is calculated by adding a wholesale mark-up to the publisher's price (including cost of transport and insurance) and the retail price is calculated by adding a retail mark-up to the wholesale price. As Rahva Raamat is active in both wholesale and retail, its mark-up rates vary considerably. The wholesale mark-up rates depend largely on the size and frequency of orders. For example, supermarkets or other large-volume customers may receive a discount.

Accordingly, Rahva Raamat receives a higher margin from sales to libraries and book shops, which usually order small quantities of several titles.

Rahva Raamat's retail prices are the same in its three book shops and in the Internet book shop. The average retail mark-up is approximately 30 per cent.

As a rule, Rahva Raamat discounts its wholesale prices or when the publisher has given a special discount to Rahva Raamat. Such discounts are sometimes used for slow moving items, and are always used when Rahva Raamat purchases the books from the publisher for immediate payment without consignment.

Investments

The Group has invested in total over EEK 17 million into its book sales operations since September 2004 when it acquired all shares in Rahva Raamat. The Group acquired all the shares in OÜ Raamatuvaramu (subsequently merged into Rahva Raamat) in January 2005. The total consideration of EEK 14 million was paid for Rahva Raamat and Raamatuvaramu. For further details about these acquisitions, see "Business – Material Contracts – Acquisition of shareholdings in subsidiaries and affiliates". In addition, the Group has made investments during the last three years into opening new book shops and into refurbishing its existing shops.

In February 2007, Rahva Raamat concluded an agreement with the operator of Viru Keskus to expand its sales area by up to 1 600 m². New premises are planned to be opened in June 2007. The Group is financing the expansion from retained earnings.

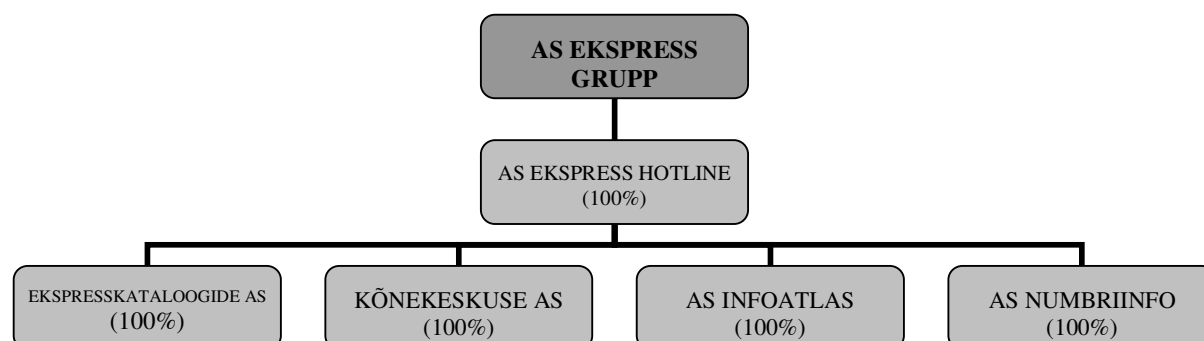
Competition

Rahva Raamat's principal competitors in the Estonian book wholesale market is AS Lehepunkt and Apollo Raamatud AS in retail. Both companies are subsidiaries of the Finnish media group Sanoma WSOY. Apollo Raamatud AS has six book shops located in Tallinn, Tartu and Pärnu. Apollo Raamatud AS is also involved in the book wholesale. AS Alecto is mainly involved in the import and wholesale of foreign books but it also has one retail book shop.

Management believes that Rahva Raamat is an established brand name in the Estonian market which gives Rahva Raamat a competitive advantage over Apollo Raamatud AS and AS Lehepunkt in relation to both wholesale and retail customers. Management believes in offering the widest possible selection of books in relatively few shops. For example, both book shops of Rahva Raamat aim to offer all commercially published books in the Estonian language that are in print. In contrast to its competitors, Rahva Raamat has a strong customer base among the largest Estonian supermarkets, which Management believes to be a growing market for book sales.

Information services

The Group's information services business belongs to AS Ekspress Hotline and its four subsidiaries (collectively "Ekspress Hotline"):



Ekspress Hotline operates under three brands: *Ekspress Hotline*, *Infoatlas* and *Ekspresskataloogid*. Each brand has its specific focus and target audience across different media. Each brand has its own sales force, but they all utilise a common customer base and call centres for service delivery.

Ekspress Hotline has been involved with the information services business since 1993. Its information services resemble directory assistance services and printed directories of telephone companies, although Ekspress Hotline has developed all its services and brands organically. Management considers information services a single business, notwithstanding whether the information is printed or provided online or over the telephone. Management also believes that the proportionate importance of online services will increase at the expense of printed catalogues in the short to medium term.

Ekspress Hotline's revenues mostly arise from charging a fee to persons who call its telephone service numbers and by selling advertising space in the printed and online catalogues. As at the date of this Offering Circular, the three brands of Ekspress Hotline have a combined customer base of approximately 15 000 businesses, who annually buy directory space, either for an advertisement or for a directory entry. Ekspress Hotline's three telephone service lines together receive on average some 3.3 million paid calls in a year.

Ekspress Hotline has recently expanded to outdoor advertising by acquiring billboards alongside some of the major roads and motorways and one billboard in close proximity to the Tartu Lõnakeskus, a major retail centre. The billboards are two-sided and designed for posters or advertisements with maximum size of 6 x 3 meters.

Ekspress Hotline also sells call centre services to third parties.

Brands

Ekspress Hotline 1182 is considered to be the oldest and best recognised directory assistance number in Estonia. This service emphasises reliability and quality of service. In addition to the telephone service, it is available online at www.1182.ee. The Internet-based directory service is gaining importance: in 2005 the online 1182 service handled some 27.6 million queries, whilst in 2003 the corresponding figure was 21.6 million.

Infoatlas is a printed catalogue in book format. It has been issued since 1995, and it is also available on CD-ROM and over the Internet at www.infoatlas.ee. Infoatlas also operates a directory assistance line 1185. Infoatlas is based on an electronic database which supplies the content to all catalogue formats. The database contains detailed information about the companies and businesses who have paid for an entry. All entries are presented in a uniform manner and Infoatlas has no advertisements. The Infoatlas database currently comprises information about more than 30 000 businesses, classified into 800 different business

sections. The online version also includes a directory of all Estonian customers of the telephone operators Elion and Elisa.

In addition its directory, Infoatlas publishes also Estonian Export Directory, Estonian Handbook and Koduatlas.

The **Ekspresskataloog** brand covers the directory assistance number 1184, then online directory assistance at www.ee.ee, as well as several printed telephone directories and related online services. The most important printed directory is Eesti Ettevõtted, which is currently in its 10th edition. The other directories include Reisi Eesti designed for domestic tourism and regional telephone directories for the 10 counties of Harjumaa, Hiiumaa, Järvamaa, Läänemaa, Virumaa, Pärnumaa, Raplamaa, Saaremaa, Tartumaa, Viljandimaa. All Ekspresskataloogi's directories are also available online, apart from regional directories, of which only Tartumaa is currently available online. Online websites for the other counties are being developed.

Customer database

Ekspress Hotline maintains a common database to deal with all the information services under different brands. The current version of the database is based on an Oracle database and it was installed in 2004. The database is running on a Sun server. The software has been developed by Ekspress Hotline's in-house information technology team, which continues to enhance and adapt it for the needs of the business and the brands.

The information database has been developed in close cooperation with the business and fulfils all features of customer relationship management (CRM). Management believes Ekspress Hotline's CRM software to be more sophisticated than the currently available versions of commercial software products designed for similar use. The software records customer contracts, attempted calls to the customer, payment history and the interface that a customer's representative may have with another businesses.

The customer database currently comprises approximately 42 000 businesses and institutions and 14 000 branch or sub-office contacts. The information database covers approximately 67 000 public telephone numbers, 26 000 fax numbers, 25 000 e-mail addresses and 15 000 Internet addresses. In addition, the database covers some 219 000 Elion customers, 234 000 EMT customers, 90 000 Tele2 customers and 108 000 customers of Elisa Eesti.

The customer database is constantly changing in order to provide the customers with as accurate information as possible. All the database information concerning companies or businesses are collected by sales managers. The information regarding individuals is purchased from telephone operators.

The Ekspress Hotline brands in part compete for the business of same customers. The common database enables all sales managers to see the contact history with the customers and to get an overview of those services that the customer has already bought. However, each brand promotes itself separately and by its sales representative without a customer-specific account manager.

Marketing and sales

Advertising is a particularly important source of revenue in all printed regional directories, as their users prefer printed media over searching online. Circulation figures are important but not crucial for the advertising customers. Management's experience has shown that even a significant reduction in circulation may not have any short-term impact on advertising revenues.

In recent years, advertising customers have started valuing online directories more than printed directories. In most cases the advertising customer pays Ekspress Hotline a fee for the online entry or advertisement plus a commission for the number of hits on customer's entry on the directory website. The commission is calculated on the basis of the hit information collected by the online search engine. In addition, some

customers pay Ekspress an extra charge for a preference in the customer searches, so that when their entry comes up in a result to a customer search, it gets listed among the five or ten first matches.

Different brands of Ekspress Hotline group companies follow different sales principles. For example, Ekspress Hotline brand has customer-specific sales managers who keep continuous contact with the customer. Ekspresskataloogide, in turn, does not have dedicated account managers and the sales director selects the specific sales managers for each customer contact.

As many individuals may be in positions of influence in more than one business, Ekspress Hotline's database tracks all business interests of its contact persons in each advertising customer.

Ekspress Hotline expanded into outdoor advertising in 2005. As of the end of August 2006 Ekspress Hotline had installed eight two-sided billboards. The minimum rental period of each billboard side is one month.

Each billboard has an Ekspress Hotline advertisement as a permanent feature and the customer's advertisements placed over it. As a result, the billboard is never unused and when it is not rented to a customer, it advertises for Ekspress Hotline.

Suppliers

Ekspress Hotline prints its directories in several printing houses. The largest directories InfoAtlas and Ekspresskataloog are printed abroad, InfoAtlas in Finland and Ekspresskataloog in the United Kingdom. The regional telephone directories are printed by local printers while directories of more substantial volume are tendered between two Estonian printing plants AS Europrint and AS Kroonpress. Ekspress Hotline treats all printing houses at equal terms in the tender process and gives no preference to Printall. Ekspress Hotline's in-house layout department is responsible for the pre-print preparation of the directories and design advertisement for them.

Ekspress Hotline uses Eesti Post and several smaller distribution companies for the distribution of its directories, selected by competitive tenders.

Call centres

Ekspress Hotline operates one call centre that covers all Estonia. Its sales teams operate from four regional service centres located in Rakvere, Tartu, Pärnu and Tallinn.

The call centre provides telephone customers directory assistance 24 hours a day, 365 days a year. The well-trained operators can search for companies and businesses by name, by its main activity field, by products, trademarks and other similar identifying factors. In addition to business information, the directory assistance covers the individual telephone numbers of the customers of the telephone operators Elion, EMT, Tele2, Elisa Eesti and Bravocom.

Customers can also request other information beyond mere directory assistance, including timetables of trains, ships, buses and flights; currency exchange rates, cinema and theatre programmes, fairs, exhibitions and entertainments; winning numbers in lottery; postal and telephone area codes. The 1182 information hotline service also provides product introductions, special offers, C2B (customer-to-business) price enquiries. This information can also be accessed via WAP/GPRS.

Call charges vary between Ekspress Hotline's different service lines: The 1182 line charges EEK 6.95 per minute for its services, the 1184 service charges EEK 10.60 per minute and the 1185 service charges EEK 5.90 per minute. All three service lines are premium service numbers, where the customer pays a charge per minute in addition to normal call charges. The fees are charged by the customer's fixed or mobile telephone operator in connection with the telephone bills and passed to Ekspress Hotline.

For each call made by the customer, the first ten seconds are taken by a recorded announcement explaining how the charges are calculated. The call charge is calculated by minutes and seconds, and the customer is

not charged for the first 10 seconds of the call (used by the announcement), but the charges will start from the 11th second regardless whether the call can be processed immediately or the caller has to wait on hold for the next available operator. If the operator fails to find the information in a reasonable time, the operator offers to call back to the customer free of charge as soon as the information is found.

All Ekspress Hotline directory service numbers offer the customers an option to connect the call to the number that the customer is looking for (provided that it is an Estonian fixed line or GSM mobile number). The call is connected free of charge but the customer will continue paying the directory service surcharge to Ekspress Hotline for as long as the connected call lasts.

Ekspress Hotline's call centre also provides directory assistance via SMS to the customer's mobile phone. The SMS can be ordered by sending a SMS or making a phone call. The SMS service is available for all GSM network customers in Estonia and it costs an additional EEK 6.95 per message for 1182 service, EEK 10.60 per message for 1184 and EEK 5.90 per message for 1185

Ekspress Hotline also provides a 'find nearest' service in co-operation with telecommunication operator Elisa. This is an SMS-based service where the customers receive information regarding the nearest restaurant, gas station hotel etc. after sending a key word request to specific SMS number. This service currently only produces marginal revenues. However, Management believes that this service could be of value when 3G networks have reached their crucial customer base and the content developers may consider using Ekspress Hotline database for this purpose.

Management monitors the statistics of incoming calls continuously. The call server provides online statistics about average waiting time and call duration. The statistics can itemised per call and by operator, and the system also records the number of missed calls.

According to Ekspress Hotline's internal quality standards, 90 per cent of incoming calls should be answered within the first chargeable 10 seconds. Management believes that this standard is reached in most cases. Management considers this situation satisfactory, as the standard has been set relatively high. Statistics indicate that on average an incoming call is answered by an operator within the first 3-4 seconds of the call.

The most widely used information hotline service is 1182 number, which on average receives approximately 250 000 minutes of calls every month.

In addition to its own directory assistance and information service, Ekspress Hotline also offers call centre services to third parties either for limited period of time or on a permanent basis. Ekspress Hotline provides the service with personnel and resources of its information hotlines and assumes no business risk for the revenues generated by the customer's service line. As individual call centres usually require the operators to have special skills or knowledge, Ekspress Hotline provides training for its operators or obtains it from an external source.

As at the date of this Offering Circular, Ekspress Hotline provides a permanent call centre service to the GSM mobile phone network operator AS Bravocom. Other short term third party call centre contracts include public polls, consumer games or information services relating to special events. The charges for the call centre services are negotiated individually for each contract. Depending on the scope and details of the service, the fees can be based on one or more parameters like fixed charges, total call time or the number of calls received.

Investments

Ekspress Hotline has not made any significant investments into fixed assets nor in intangible assets during its operational years. The Group's main investments in the information service business in the past three years have been the acquisition of 50 per cent of the shares in Ekspress Hotline in December 2005 for the total consideration of EEK 50 million, and the subsequent acquisition of the remaining 50 per cent of the shares in Ekspress Hotline in November 2006 for the total consideration of EEK 50 million. The latter

acquisition was carried through a contribution in kind, where the Company issued 5 million Shares to Mr. Hans Luik in exchange for 1 800 ordinary shares in Ekspress Hotline, representing 50 per cent of all the shares in that company. For further details about these acquisitions, see “Business – Material Contracts – Acquisition of shareholdings in subsidiaries and affiliates”.

All the premises that used for of Ekspress Hotline operations in Tallinn, Rakvere, Tartu and Pärnu are rented from OÜ Minigert, a company belonging to the Company’s principal shareholder, Mr. Hans Luik (see Business - Related party transactions).

Competition

Ekspress Hotline’s principal competitor is Telemeedia Eesti AS, the company formed from the merger of Eniro and Findexa Estonian operations in November 2005. Telemeedia Eesti AS offers substantially similar services and similar operational structure to that of Ekspress Hotline. Management believes that Ekspress Hotline and Telemeedia Eesti AS have approximately equal position in the Estonian market.

Other competitors include Eesti Info Keskus AS and a number of small-scale operators. Management believes that the combined market share of Eesti Info Keskus AS and its smaller competitors does not exceed 10 per cent of the Estonian directory and directory assistance market.

Employees

Overview

The following table details the average numbers of employees of the Company and its subsidiaries and affiliates for each of the financial years 2003, 2004 and 2005, the number of employees as of 31 December 2006 and the breakdown of employees as of the same date:

Company	Average number of employees in 2003	Average number of employees in 2004	Average number of employees in 2005	Number of employees as of 31 December 2006	Breakdown of employees as of 31 Decemeber 2006
Ekspress	4	4	5	7	–
Eesti Ekspress	106	106	106	111	editorial 49 advertising 20 other 42
Printall	206	193	176	197	production 172 other 25
Rahva Raamat ⁽¹⁾	–	26	55	69	retail 33 wholesale 17 other 19
Ekspress Hotline ⁽²⁾	–	–	161	211	sales 90 call centres and operators 57 other 64
Ekspress Internet ⁽³⁾	–	–	–	10	–
Netikuulutused ⁽⁴⁾	–	–	8	7	–
Linnaleht ⁽⁵⁾	–	–	45	48	editorial 30 advertising 9 other 9
Ajakirjade Kirjastus	159	167	171	185	editorial 118 telemarketing 27 advertising 16 other 24
Express Post	640	663	633	740	home delivery 709 customer service 22 other 9
SL Õhtuleht	108	111	110	108	editorial 68 advertising 17 other 23
Eesti Päevaleht	158	169	153	165	editorial 89 telemarketing 21 advertising 21 other 34
Ekspress Leidyba ⁽⁶⁾	–	35	56	87	editorial 60 telemarketing 10 advertising 7 other 10
Medipresa ⁽⁷⁾	–	27	37	47	warehouse 41 other 6

⁽¹⁾ The Group acquired Rahva Raamat in 2004. The figures for 2005 and 2006 include the employees of Raamatuvaramu, which the Group acquired in 2005 and which was merged with Rahva Raamat on 13 July 2006.

⁽²⁾ The Group acquired Ekspress Hotline in 2005. The figures shown for 2005 and 2006 include the employees of Ekspress Hotline's subsidiaries InfoAtlas, Ekspresskataloogid, Numbriinfo and Kõnekeskus.

⁽³⁾ The Group acquired Autocentrum (subsequently renamed Ekspress Internet) in 2006.

⁽⁴⁾ The Group acquired its interest in Netikuulutused in 2005.

⁽⁵⁾ Linnaleht was established in 2005.

⁽⁶⁾ The Group acquired Ekspress Leidyba in 2004.

⁽⁷⁾ The Group acquired Medipresa indirectly through its acquisition of Ekspress Leidyba in 2004.

Most of the employment contracts of the Group and its affiliates have been concluded for an indefinite term. Only Express Post has a significant number of temporary employees, having on average 190 temporary employees in 2005. The temporary employees of Express Post mainly carry out deliveries and replace full-time employees on holiday or sick leave.

Health and Safety

Management believes that work-related injuries are preventable and aim to promote practices that create safe work spaces that allow employees to work without injuries. All Group companies ensure, as far as reasonably practicable, the safety of their employees at work by maintaining safety equipment and safe premises, as well as by providing adequate instruction, training and supervision in the health and safety issues.

Recruitment and Training

Management believes that a qualified and motivated work force is important for the success of the Group and its affiliates and therefore invests heavily in training and development. Management believes that strong journalistic content and successful sales require recruiting competent employees who are given regular training. With a view to diverse nature of the businesses of the Group and its affiliates, the recruiting and training policy is set at the operating company level. Similarly, all Group companies and affiliates have different requirements for training and development.

Each of the Group subsidiaries and affiliates prepares a yearly training and development plan in connection with the annual budgeting process. Specifically tailored in-house training is method used in training and development. Training of journalists and editors largely is based on the Estonian Newspaper Association training program, which is carried out with journalism specialists from around the world. Management considers it very important for the employees of the Group and its affiliates to keep informed of the latest trends in print and online journalism in order to maintain the level of innovation in the publications of the Group and its affiliates. The Group companies and affiliates also subsidize the participation by its employees in international seminars and training programs organized by the World Association of Newspapers and International Marketing Association.

Labour union and collective agreements

None of the Group companies or affiliates is unionized, and as of the date of this Offering Circular they have no collective bargaining agreements in force or contemplated. The only recent experience from labour unions is from 2002, when some employees of Ekspress Hotline established a labour union. However, most of the employees did not join this labour union and currently no employees of Ekspress Hotline are members of a labour union.

Property, Plant and Equipment

Land ownership

The Group owns relatively few properties and most of the Group companies and affiliates in Estonia operate from premises rented from OÜ Minigert, a company connected to the principal shareholder of the Company.

The Group's most significant real property is the printing plant owned by Printall at Peterburi tee 64A in Tallinn, Estonia. The total area of this property is 27 074 m² of which Printall occupies 13 000 m² for its printing plant and offices. The plant was completed in 2004 and its construction was financed by a loan from SEB Eesti Ühispank, secured by a mortgage on the property in the amount of EEK 100 000 000. This loan was refinanced by AS Sampo Pank on 15 December 2006. Therefore the mortgage on the property in the same amount was transferred to AS Sampo Pank, which was registered with the Estonian Real Estate Register on 23 March 2007.

Eesti Päevaleht owns a 2234/10000 legal share of a building located at Narva mnt 13 in Tallinn, Estonia. The total floor area of the building is close to 2 500 m². Eesti Päevaleht has pledged a 702/10000 legal share of this property to Nordea Bank Finland Plc as a loan security in the amount of EEK 8 000 000. Following amendments to the Estonian Law of Property Act Implementation Act (*asjaõigusseaduse rakendamise seadus*), which entered into force on 1 March 2006, buildings no longer are transferable without the land on which they stand, and the building and the land must have been registered at the Estonian Land Registry

(*kinnistusraamat*). As of the date of this Offering Circular, the land under the building at Narva mnt 13 had not been registered at the Land Registry, and accordingly, the legal share of this building owned by Eesti Päevaleht is currently non-transferable. Eesti Päevaleht and the other co-owners of the building are in the process of registering the land at the Land Registry. The changes in law do not affect the validity of the pledge or the rights of Nordea Bank Finland Plc in relation to the security for the loan.

Leased properties

The Group and its affiliates lease various properties in Estonia and Lithuania. Those leased properties that are material for the Group and all properties leased from related parties are described below.

The offices of most of the Estonian Group companies and its affiliates are located in the office buildings at Narva mnt 11E and 13 in Tallinn, Estonia. These buildings are owned by OÜ Minigert, a company related to the Company's principal shareholder.

Eesti Ekspress rents a total of 875.8 m² of office space in the first, second and third floors of Narva mnt 11E from OÜ Minigert pursuant to a lease dated 15 January 2001 and amended on 1 October 2006, for a monthly rent of EEK 157 777 plus VAT. This lease expires on 15 January 2010. Eesti Ekspress also rents 128.5 m² of office space of the 4th floor of Narva mnt 11E, from OÜ Minigert pursuant to a lease dated 1 April 2006 for a monthly rent of EEK 16 062 plus VAT. The lease expires on 31 December 2009.

The Company rents 254.8 m² of office space on the 6th floor of Narva mnt 11E from OÜ Minigert pursuant to a lease dated 20 December 1997 for a monthly rent of EEK 60 132. The lease is for an indefinite term, and can be terminated by either party with three months prior written notice.

Express Post subleases 384.7 m² of office space at Maakri 23a in Tallinn Estonia from AS Eesti Meedia pursuant to a lease dated 12 December 2005 for a monthly rent of EEK 102 433 . This lease expires on 21 June 2013. Ajakirjade Kirjastus subleases 1 915.99 m² of office space at Maakri 23a in Tallinn, Estonia from AS Eesti Meedia pursuant to a lease dated 12 December 2005 for a monthly rent of EEK 363 531. This lease expires on 21 June 2013. Express Post has further signed an agreement with OÜ Paeko to rent 1 050 m² of office space in a building currently under construction at Peterburi tee 34, Tallinn, Estonia. The building is expected to be completed no later than 1 January 2008, at which point the premises will be available to Express Post under the lease executed with OÜ Paeko. According to the agreement already in place, the monthly rent under the lease will be EEK 125 000 per month plus VAT. The term of the lease will be eight years from the date when Express Post receives the vacant possession of the premises.

SL Öhtuleht rents 1 206.3 m² of office space at Narva mnt 13 from OÜ Minigert pursuant to a lease dated 31 January 2001 for a monthly rent of EEK 189 993 plus VAT. This lease expires on 31 January 2009.

Ekspress Hotline rents 2 418.1 m² of office space at Weizenbergi 20/20b in Tallinn, Estonia, from OÜ Minigert and Mr. Hans Luik pursuant to a lease dated 1 January 2006, for a monthly rent of EEK 241 800 plus VAT. This lease expires on 31 December 2020. Ekspress Hotline has sublet approximately 600 m² of these premises to Uptime OÜ and the Estonian branch of NV Janssen Pharmaceutica.

Ekspress Leidyba rents 615.73 m² of office space at Ozo str 10a in Vilnius, Lithuania from UAB Unimodus pursuant to a lease dated 16 May 2006, for a monthly rent of LTL 24 629 plus VAT. This lease expires on 30 June 2011.

Ekspress Hotline rents 247 m² of office space at Lutsu 14 in Tartu, Estonia from OÜ Minigert pursuant to a lease dated 31 August 2006, for a monthly rent of EEK 19 808 plus VAT. This lease expires on 1 September 2011.

Ekspress Hotline rents 181.1 m² of office space and a 15.2 m² garage at Suur-Sepa 4-1 in Pärnu, Estonia from OÜ Minigert pursuant to a lease dated 31 August 2006, for a monthly rent of EEK 9 805 plus VAT. This lease expires on 1 September 2011.

The other leased properties of the Group and its affiliates comprise mainly office space rented by Express Post, Ekspress Hotline, Ekspress Internet and Netikuulutus, and the bookstore and warehouse space rented by Rahva Raamat, and they are not material for the operations of the Group or its affiliates. The aggregate lease payments by the Group and its affiliates for these properties amount to approximately EEK 250 000 per month.

Machinery and equipment

Printall is the only Group Company with substantial fixed assets. Printall has invested in modern high capacity production equipment in order to ensure that it can meet the requirements of future growth in its business.

In 2005, Printall acquired a Man Roland 705 3B LV sheet printer, intended to complement Printall's KBA Continent and KBA Compacta web offset printing presses acquired in 2004. In 2006, Printall increased its pre-press capacity by purchasing an AGFA Avalon CTP equipment with Apogee X software, and increased its post-press capabilities by purchasing a Colibri Junior UV gloss varnishing machine. The latest machinery ordered by Printall is a web offset rotary press, which Printall ordered from MAN Roland Druckmaschinen AG in the beginning of 2007 and which is expected to be delivered in August of 2007. All this machinery has been financed through financial leasing. The Company has guaranteed Printall's leasing liabilities in respect of the KBA Continent and KBA Compacta to AS SEB Ühisliising for the maximum amount of EEK 97 000 000. The combined total outstanding capital amount of Printall's other equipment leases at the time of this Offering Circular is approximately EEK 32.2 million.

Intellectual Property

The Company and its subsidiaries and affiliates own 91 registered trade marks in Estonia and have 19 trade mark applications pending in Estonia. The Company and its subsidiaries and affiliates own 35 registered trade marks in Lithuania and have 8 pending trade mark applications pending in Lithuania. The most important trade marks of the Group and its affiliates include the names of the main publications such as "Eesti Ekspress", "Eesti Päevaleht", "SL Õhtuleht", "Kroonika", and trading names such as "Ekspress Hotline" and "Rahva Raamat".

The Group companies and affiliates have also licenses to use some additional trade marks. For example, Ajakirjade Kirjastus has an exclusive license to publish the Estonian edition of the car magazine "Auto Bild" pursuant to a trade mark licence with Axel Springer AG.

Eesti Ekspress, Eesti Päevaleht and SL Õhtuleht have concluded licence agreements with other publishers and agencies in order to be able to use and re-print copyrighted materials such as news, articles, comics and photos owned by these publishers and agencies. For example, these three newspapers have a licence from Bulls Pressjānst AB regarding the comic strips 'Mutts' ('Krantsid'), 'Ernie' and 'Hagar the Terrible' ('Hagar Hirmus') as well as rights to reprint and quote articles from the Financial Times, The Independent, Daily Mirror, Sunday Mirror, Los Angeles Times, Washington Post, Yearbook of the Economist and other publications. The newspapers have also obtained licences for the use of photographs from databases such as www.editorial.gettyimages.com and www.alloverpress.ee, and have an agreement with OÜ Scanpix Baltics regarding the photographs of foreign agencies such as Reuters, Sipa and Sigma.

The Group companies and affiliates normally own the copyright to the original articles and photos published in their publications. Under the Estonian Copyright Act, the proprietary copyrights of employees belong to the employer when the work is created pursuant to an employment contract, unless otherwise specifically agreed. Apart from a few exceptions, the Group companies and affiliates do not have agreements with their Estonian employees which grant copyrights to the authors. Under the Lithuanian Law on Copyright and Related Rights, the author's proprietary copyrights in a work created in connection with the employment are automatically transferred to the employer for a period of five years, unless otherwise agreed. Ekspress Leidyba's employment contracts provide that the employee agrees to transfer the copyright and all economic rights to any work created in connection with the employment to the employer for as long as such rights remain in place.

Environmental Issues

The Group companies are committed to environmentally responsible business in every community in which they do business. Management is committed to environmentally friendly practices, energy conservation and using environmentally friendly technology in production and distribution.

Printall is the only Group company that needs an environmental permit or license for its business. Printall holds an ambient air pollution permit issued for an indefinite term by Harjumaa environmental authority on 16 May 2006.

Management is not aware of any breaches by the Group companies of any environmental rules or regulations, and as of the date of this Offering Circular, no environmental claims are pending against any of the Group companies.

Material Contracts

Acquisition of shareholdings in subsidiaries and affiliates

The Company has directly or indirectly acquired shares in five subsidiaries and affiliates during the past two years: Ekspress Hotline, Rahva Raamat, Raamatuvaramu, Netikuulutused and Ekspress Internet.

Eesti Ekspress entered into a share purchase agreement with OÜ Martes, OÜ Aasta Raamat and OÜ Uus on 22 September 2004 for the purchase of all the shares in Rahva Raamat. Eesti Ekspress further acquired 100 per cent of the shares in Raamatuvaramu from OÜ Corvus Albus, OÜ Bukowski and OÜ Martico pursuant to a share purchase agreement dated 27 January 2005. Following the completion of these two acquisitions and the full payment of the purchase prices, Raamatuvaramu was merged into Rahva Raamat on 4 May 2006. As a result of the merger, Raamatuvaramu ceased to exist and all of its assets and liabilities were transferred to Rahva Raamat. The merger was registered in the Commercial Register on 13 July 2006.

Eesti Päevaleht and Eesti Ekspress jointly acquired 100 per cent of the shares in Netikuulutused pursuant to share purchase agreements dated 24 January 2005 and 4 April 2005 with each of OÜ One K, Digital Development OÜ and Mr. Oliver Kangro. The acquired shares were divided equally between the acquiring companies. The purchase price was paid in full.

The Company entered into a share purchase agreement on 2 December 2005 with OÜ Philip Consulting for the purchase of 50 per cent shares in Ekspress Hotline. The purchase price was paid in full. The Company entered into an agreement on 25 September 2006 with Mr. Hans Luik for the contribution in kind by Mr. Luik of his 50 per cent shareholding in Ekspress Hotline to the Company in payment for 5 000 000 shares in the Company issued to him pursuant to a resolution of the Company's General Meeting of Shareholders held on 15 September 2006. As a result of this transfer, Ekspress Hotline became a wholly owned subsidiary of the Company.

Ekspress entered into a share purchase agreement on 4 August 2006 with Mr. Priit Maanurm, Mr. Marko Johanson, Mr. Toomas Laasik and Mr. Anti Lehiste for the purchase of 80 per cent of the shares in OÜ Autocentrum (subsequently renamed to Ekspress Internet). The purchase price was paid in full.

See also "Company, Share Capital and Ownership Structure – Subsidiaries".

Loan agreements

The loan agreements of the Group companies and affiliates with banks are discussed in detail in "Management's Discussion and Analysis of the Group's Financial Condition and Results of Operation – Liquidity and Capital Resources – Bank Loans".

Litigation

Certain Group companies and affiliates are a party to some minor civil court cases and claims that have arisen in the ordinary course of business. However, none of the Group companies or affiliates have been during the 12 months preceding the date of this Offering Circular and are not currently involved in any governmental, legal or arbitration proceedings which may have or have had a material adverse effect on the Company's financial condition or profitability.

The only significant ongoing litigation involving the Group companies and its affiliates relates to Ekspress Leidyba and Express Post. On 14 December 2005, Ekspress Leidyba filed a lawsuit against UAB Ekstra žurnalas demanding the Vilnius District Court in Lithuania to annul the registration of the trademark "Ekstra panelė", which Ekspress Leidyba believes to be confusingly similar to its trademarks "PANELE" and "MAXI PANELE", and seeking damages. If Ekspress Leidyba loses this case, it may have to pay the defendant's legal cost and compensate possible damage that may have been sustained due to the lawsuit and interim protection measures. In the beginning of January 2007, the Vilnius District Court decided to refer the interpretation of certain provisions of the Lithuanian Law on Trade Marks to the Constitutional Court of Lithuania. The district court suspended the case until the decision of the Constitutional Court is received. The referral to the Constitutional Court involves the question of whether certain provisions of Law on Trade Marks are in line with the Lithuanian Constitution. Ekspress Leidyba's claim for damages is based on these provisions of Law on Trade Marks. Ekspress Leidyba requested the Vilnius District Court to continue the hearing of those claims that are not based on the said provisions of Law on Trade Marks, but the court rejected this request, Ekspress Leidyba has appealed on this rejection and this appeal is currently pending before the Lithuanian Court of Appeal. If Ekspress Leidyba's appeal succeeds, the hearing will resume at the Vilnius District Court in relation to the demand that the registration of the trademark "Ekstra panelė" be annulled and its use by UAB Ekstra žurnalas be prohibited. The total amount of damages claimed by Ekspress Leidyba in connection with this case amount to LTL 1 368 455, excluding costs and interest.

On 3 July 2006, AS Eesti Post filed a claim against Express Post in the Harju County Court demanding damages in the amount of EEK 1 068 258 for breach of contract. The claim relates to the cost of mailing of a batch of advertising that Express Post had delivered to the post office on behalf of its customer Skandinaviska Enskilda Securites OÜ. Express Post filed a response on 29 September 2006 denying the claim, and explaining that Express Post had no contract with AS Eesti Post and that Express Post had been merely providing delivery services for Skandinaviska Enskilda Securites OÜ, which in turn had a mailing contract with AS Eesti Post. The case is pending. No further filings, pleadings, or hearings have taken place since 29 September 2006. AS Eesti Post has subsequently issued two balance statements to Ekspress Post, without mentioning the amounts demanded in the court case.

Related Party Transactions

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

- Loan agreement between OÜ Minigert and the Company dated 24 November 2005 regarding a loan of EEK 16 085 000 by OÜ Minigert to the Company for a 10-year term expiring on 25 November 2015. Interest on the outstanding amount of this loan accrues at the rate of 6-months' EURIBOR plus 1.2 per cent per annum and VAT. Mr. Hans Luik is the sole shareholder of OÜ Minigert and members of its management board are Mrs. Selle Luik and Mr. Hans Luik. As of the date of this Offering Circular, this loan has been repaid in full.
- Loan agreement between OÜ Minigert and the Company dated 2 January 2006 regarding a loan of EEK 24 927 357 by OÜ Minigert to the Company for a 10-year term expiring on 4 January 2016. Interest on the outstanding amount of this loan accrues at the rate of 6-months' EURIBOR plus 1.2 per cent per annum and VAT. As of the date of this Offering Circular, this loan has been repaid in full.

- Loan agreement between OÜ Minigert and the Company dated 16 July 2006 regarding a loan of EEK 32 500 000 by OÜ Minigert to the Company for a term expiring on 31 December 2007. Interest on the outstanding amount of this loan accrues at the rate of 6-months' EURIBOR plus 1.2 per cent per annum and VAT. As of the date of this Offering Circular EEK 400 000 is still outstanding under this loan.
- Loan agreement between OÜ Hõbesilm and the Company dated 3 January 2006, regarding a loan of EEK 50 000 000 by OÜ Hõbesilm to the Company for a 10-year term expiring on 4 January 2016. OÜ Hõbesilm is a wholly owned subsidiary of OÜ Õigusbüroo Garandia, which is a wholly-owned subsidiary of OÜ Minigert. In accordance with the terms of this loan agreement, interest accrues on the outstanding amount of the loan at the rate of 6-months' EURIBOR plus 1.4 per cent per annum and VAT. Under the terms of the loan agreement, the loan is repaid by the Company in 40 equal quarterly instalments. As of the date of this Offering Circular the loan has been repaid in full.
- The Company, Eesti Ekspress, Ekspress Hotline and SL Õhtuleht all rent office premises from either OÜ Minigert or OÜ Ekspressmaja, a wholly-owned subsidiary of OÜ Lars Group owned by OÜ Minigert, the sole member of the management board of OÜ Lars Group being Mrs. Selle Luik. In addition, Ekspress Hotline rents commercial premises from Mr. Hans Luik. For more details on these transactions see "Property, Plant and Equipment - Leased Properties" above.
- Agreement for the sale (*võlaõiguslik müügileping*) between Ekspress Hotline and OÜ Minigert dated 11 August 2006, whereby Ekspress Hotline agreed to sell to OÜ Minigert the ownership to a non-residential apartment to be formed of 181.1 m² of a non-residential space and the attached legal share of 1963/14346 of the building located at Suur-Sepa 4, Pärnu, Estonia for the consideration of EEK 1 100 000. The sale will be closed (*asjaõigusleping*) within three weeks after the apartment has been recorded in the Estonian Land Registry.
- Agreement for the sale between Ekspress Hotline and OÜ Minigert dated 11 August 2006, regarding the sale by Ekspress Hotline to OÜ Minigert of a 493 m² land parcel zoned for business at Lutsu 14, Tartu, Estonia for the consideration of EEK 4 400 000. This transaction has been closed and OÜ Minigert has paid the purchase price in full, and OÜ Minigert was recorded in the Land Register as the owner of this property on 14 September 2006.
- Agreement for the sale between Ekspress Hotline and OÜ Minigert dated 11 August 2006, regarding the sale by Ekspress Hotline to OÜ Minigert of a 1 848 m² land parcel zoned for residential use at Õitse 22, Tallinn, Estonia for EEK 1 330 000. This transaction has been closed and OÜ Minigert has paid the purchase price in full, and OÜ Minigert was recorded in the Land Register as the owner of this property on 14 September 2006.
- Share Sale Agreement between the Company and OÜ Minigert dated 2 January 2006 regarding the sale by the Company of 100 per cent of the shares of AS Privess to OÜ Minigert for a consideration of EEK 730 000. This transaction has been closed, the shares have been transferred and OÜ Minigert has paid the purchase price in full.
- Share Sale Agreement between the Company and OÜ Minigert dated 9 June 2006, and amended on 22 November 2006, regarding the sale by the Company of 50 per cent of the shares of SuurSepa Arenduse AS to OÜ Minigert for a consideration of EEK 6 500 000, of which EEK 2 000 000 has been paid, EEK 2 000 000 becomes due on 1 August 2008 and EEK 2 500 000 on 1 August 2009. Interest accrues on the unpaid amount of the purchase price at the rate of six per cent per annum.
- Share Sale Agreement between the Company and OÜ Integer Management Services dated 25 April 2005 regarding the sale by the Company of 4.066 per cent of the shares of AS Bravocom Mobiil to OÜ Integer Management Services for a consideration of EEK 1 845 000 to be paid within five years as of the date of the agreement. Interest accrues on the unpaid amount of the purchase price at the rate of five per cent per annum. The purchaser's payment obligations are

secured by the pledge of the same shares. Viktor Mahhov is the sole shareholder of OÜ Integer Management Services and the sole member of its management board.

- Agreement between the Company and OÜ Miljardini dated 9 June 2006 regarding the sale by the Company of 36 per cent of the shares of AS Bravocom Mobiil to OÜ Miljardini for the consideration of EEK 7 500 000 payable at any time within three years of the date of the agreement. To the extent that OÜ Miljardini pays the whole or part of the purchase price before the third anniversary of the agreement, the purchase price will be reduced at a discount rate of five per cent per year (360 days) of the amount paid during the time between the payment date and the third anniversary of the date of the agreement. As of the date of this Offering Circular the purchase price has not been paid, but Mr. Hans Luik has given his personal guarantee for the entire purchase price owed to the Company. Under the terms of the same agreement, the Company also sold to OÜ Miljardini claims against AS Bravocom Mobiil in the aggregate nominal value of EEK 33 321 770 for the consideration of EEK 2 326 770. The consideration for the transferred claims has been paid in full. Mr. Hans Luik has the ability to exercise indirect influence over the management of OÜ Miljardini.
- Agreement between the Company and Mr. Toomas Leito, the father of Priit Leito dated 28 February 2002 regarding the provision of advertising monitoring services by Mr. Leito for EEK 3 600 per month. This agreement predates Priit Leito's election to the Management Board of the Company.
- Agreement between Printall and Leju & Ko OÜ dated 14 February 2002 regarding the printing of the newspaper "Nelli Teataja" and its additional editions. Leju & Ko OÜ is a company controlled by Mr. Toomas Leito. This agreement was entered into before Priit Leito was elected to the Management Board of the Company.
- Agreement between Printall and Elukiri OÜ dated 4 October 1999 regarding the printing of the magazine "Elukiri". Elukiri OÜ is a company controlled by Mr. Toomas Leito. This agreement was entered into before Priit Leito was elected to the Management Board of the Company.
- Agreement between Eesti Päevaleht and OÜ Synd&Katts dated 8 March 2005 regarding the provision of managerial services to Eesti Päevaleht for a fee of EEK 75 000 per month. OÜ Synd&Katts is a company controlled by Aavo Kokk. Aavo Kokk is a member of the Management Board of Eesti Päevaleht.
- Agreement between Eesti Päevaleht and Medit Vision OÜ dated 9 March 2005 regarding the provision of legal services and advertising analysis services to Eesti Päevaleht for a fee of EEK 23 950 per month. Medit Vision OÜ is a company controlled by Mihkel Reinsalu. Mihkel Reinsalu is a member of the Management Board of Eesti Päevaleht.
- Agreement between Eesti Päevaleht and P.E. Kapitali & Reaside OÜ dated 9 March 2005 regarding the provision of book-keeping, archiving and management accounting services for Linnaleht and the publishing department of Eesti Päevaleht for an aggregate fee of EEK 18 015 per month. P.E. Kapitali & Reaside OÜ is a company controlled by Peeter Eomõis. Peeter Eomõis is a member of the Management Board of Eesti Päevaleht.

The Group companies and affiliates have also executed several intra-group transactions such as loan agreements, subcontracting agreements, guarantees and other agreements. For additional information regarding related party transactions see Note 12 to the financial statements of the interim period ended 30 June 2006 and Note 37 to the financial statements for the three years ended 31 December 2005.

Management believes that all of the above agreements have been entered into at an arms length basis.

As Ekspress Hotline had reached agreements with OÜ Minigert for leasing back Lutsu 14 and Suur-Sepa 4 properties on favourable terms (for more details on these lease agreements see “Property, Plant and Equipment – Leased Properties” above), Ekspress Hotline agreed to sell to OÜ Minigert Suur-Sepa 4 and Õitse 22 properties for an aggregate price which was approximately EEK 1 170 000 lower than the price indicated by a real estate appraiser. Management believes that these transactions, if viewed together, can also be considered to have been entered into at an arms length basis.

SELECTED FINANCIAL DATA

The following tables set forth selected financial data as at the end of and for each of the three financial years ended 31 December 2003, 2004 and 2005, and as at the end of and for each of the six months ended 30 June 2005 and 2006. Results for interim periods are not necessarily indicative of results for the full financial year. The financial information as at and for the years ended 31 December 2003, 2004 and 2005 has been derived from the audited consolidated financial statements for the three years ended 31 December 2005. The financial information as at and for the six months ended 30 June 2005 and 2006 has been derived from the unaudited condensed consolidated interim financial information for the six months ended 30 June 2006 and unadjusted Company's management accounts as at 30 June 2005. The annual consolidated financial statements for the three years ended 31 December 2005 and the consolidated condensed interim financial information for the six months ended 30 June 2006 have been prepared in accordance with IFRS. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations" and the financial statements including Notes thereto included elsewhere in this Offering Circular.

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

Profit or loss account data (EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Sales	427 572	512 381	748 026	339 209	447 513
Cost of sales	311 590	384 616	572 264	256 790	324 642
Gross profit	115 981	127 765	175 762	82 419	122 871
Distribution and administration expenses	76 789	84 118	106 952	47 502	70 569
Other operating income (net)	6 272	(5 022)	7 593	724	3 927
Operating profit	45 464	38 625	76 404	35 641	56 229
Finance costs	(2 912)	(7 423)	(9 091)	(5 771)	(4 234)
Share of loss in associates	(812)	(7 152)	(21 708)	(6 408)	0
Profit before income tax and minority interests	41 740	24 051	45 605	23 463	51 995
Income tax	3 319	5 083	5 444	(5 310)	(5 355)
Minority interests	449	(12)	2 142	(298)	(1 019)
Net profit for the financial period^(*)	37 973	18 980	38 020	17 854	45 621

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

Balance sheet data ('000, EEK)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Cash and cash equivalents and other financial assets at fair value through profit and loss	22 860	31 956	41 994	23 025	36 669
Trade and other receivables	73 009	76 463	112 376	92 861	112 216
Inventories	13 370	36 038	47 672	42 487	46 353
Assets classified as held for sale	—	—	3 799	—	9 194
Current assets	109 239	144 457	205 841	158 374	204 432
Long-term investments ^(*)	217	8 578	9 264	17 059	9 564
Property, plant and equipment	134 303	271 344	296 908	264 740	303 726
Intangible assets	10 307	43 284	106 134	56 825	105 044
Total assets	254 067	467 663	618 147	496 998	622 766
Trade payables	37 102	53 522	68 727	52 708	51 476
Other short-term payables	62 173	70 455	117 840	84 019	139 931
Short-term debt	33 604	61 880	111 213	61 277	88 618
Total current liabilities	132 879	185 857	297 780	198 004	247 901
Long-term liabilities	4 647	145 995	135 909	145 995	181 692
Other long-term payables and provisions	53	43	110	622	697
Total non-current liabilities	4 700	146 039	136 019	146 617	182 388
Total liabilities	137 579	331 896	433 799	344 621	430 290
Minority interest	4 226	4 527	15 087	3 283	18 677
Share capital	2 216	2 216	2 216	2 216	2 216
Share premium	21 285	21 285	21 285	21 285	21 285
Reserves	10 222	10 222	10 222	10 222	10 222
Retained earnings (loss)	40 116	78 551	95 376	97 220	93 437
Net profit (loss) for financial period	38 422	18 967	40 161	18 152	46 640
Capital and reserves attributable to equityholders of the Group	112 261	131 240	169 260	149 095	173 800
Total liabilities and shareholders' equity	254 067	467 663	618 147	496 998	622 766

(*) Include non-current trade and other receivables, investment in associates, investment property.

Cash flow data ('000, EEK)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Cash flow from operating activities	61 901	15 303	98 889	25 088	37 491
Cash flow used in investing activities	(64 616)	(69 499)	(120 717)	(34 712)	(23 103)
Cash flow from financing activities	(45)	64 678	30 541	984	(20 568)

Ratios and indicators	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Number of shares	2 216	2 216	2 216	2 216	2 216
Earnings per share (EPS), EEK	17 136	8 565	17 157	8 057	20 587
EBITDA ¹⁾ EEK '000	67 496	60 792	102 684	48 401	71 222
EBITDA margin, % ²⁾	15.8	11.9	13.7	14.3	15.9
Operating profit margin, % ³⁾	10.6	7.5	10.2	10.5	12.6
Return on investment (ROI), % ⁴⁾	28.6	15.4	22.4	9.5	12.7
Return on assets (ROA), % ⁵⁾	14.9	4.1	6.2	3.6	7.3
Return on equity (ROE), % ⁶⁾	32.6	14.0	20.6	11.7	23.7
Equity ratio, % ⁷⁾	45.8	29.0	29.8	30.7	30.9

Recalculated per Share data based on number of Shares after the Combined Offering

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Earnings per share (EEK)	2.0	1.0	2.1	1.0	2.5
Shareholders' equity per share (EEK)	6.1	7.2	9.8	8.0	10.2
Dividend per share (EEK)	–	–	2.2	–	–
Dividend pay-out-ratio (%)	–	–	104.8	–	–
Number of shares after IPO	18 971 081	18 971 081	18 971 081	18 971 081	18 971 081

Calculation of Financial Ratios

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

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

The following discussion should be read in conjunction with the financial statements of the Company, including the notes thereto (see the Company's financial statements beginning on page F-1), and the information presented elsewhere in this Offering Circular. The financial information for the years ended 31 December 2003, 2004 and 2005 and the financial information for the six months period ended 30 June 2006 were prepared in accordance with IFRS. The analyses below are based on the financial information prepared in accordance with IFRS.

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

Overview

Set forth below is a discussion of the primary sources of revenue and operational expenses of the Group for the financial years ended 31 December 2003, 2004, 2005 and for the period of six months ended 30 June 2005 and 2006 respectively. In accordance with IFRS, the Group consolidates its subsidiaries and includes the revenues, costs and financial information of each affiliate in proportion to the Group's holding in such an affiliate. Accordingly, references to the financial information of the Group in this section include a proportion of financial information on the affiliates. For the ownership structure of the Group and its affiliates, see "Business – Operations".

Publishing and printing services are the main sources of revenue of the Group and its affiliates, contributing approximately 85 per cent of the total consolidated revenue in 2005.

The publishing segment derives revenue from advertising sales and circulation, each of which contributed approximately 23 to 25 per cent of the Group's total sales in 2005. Revenue generated from print media advertising depends mainly on the number, size of advertisements sold and rates charged, while on-line media advertising depends on the amount of advertising space sold and rates charged. Advertising rates fluctuate depending on general economic conditions and rates charged by the competitors. Circulation revenue is made up of the charges for home-delivery subscriptions and single-copy retail sales of newspapers and magazines at retail outlets, and is a function of the number of newspapers and magazines sold and the average price per copy.

Printing services make up approximately 30.8 per cent of the total consolidated revenues of the Group, totalling EEK 230.7 million in the financial year ended 31 December 2005. Printing revenue is generally a function of the number of customers, number and types of sheets printed, and print quantities.

Basis of presentation

For the purposes of this section, the Group is defined as a consolidated group as defined by IFRS. Please refer to the condensed consolidated interim financial information and the consolidated audited financial statements of the Group on pages F-5 and F-18, respectively, for further clarification.

The Group operates primarily in five business segments. The analysis of those segments is provided in the notes to the consolidated annual report for the period of 2003-2005 and in the condensed interim financial information for the half year ended 30 June 2006.

The information provided in the above mentioned reports may differ somewhat from the categorization of the business areas as described in this Offering Circular. In the audited annual and the unaudited interim financial reports of the Group, the segment "Other operations" provides information relating to online advertising, online classified advertising, subscriptions' handling and, the services provided by Express Post

(home delivery, direct mail services and wholesale services), Netikuulutused and Medipresa. For the purposes of this discussion, businesses represented in the sections entitled “Other operations” and “Periodicals” are classified under the “Publishing” business segment. This reclassification was done in order to provide a more integrated picture of the publishing activities.

Recent Developments and Outlook

The Estonian and Lithuanian media markets, supported by overall economic growth in the Baltic region, experienced solid growth in 2006. The Group benefited from the overall market growth and strengthened the market position of its business segments. The following table sets out the key financial results of the Group as at and for the year ended 31 December 2006:

(EEK, ‘000) ^(*)	Financial year	
	2005 audited	2006 unaudited
Sales	748 026	930 861
Gross profit	175 762	239 023
Distribution costs and administrative expenses	106 952	146 046
Net other operating income	7 593	6 794
Operating profit	76 404	99 771
Net profit for the year	40 161	94 142
Total assets	618 147	666 357
Total long-term assets	412 306	441 339
Cash and equivalents	36 053	51 101
Total current assets	205 841	225 017
Total shareholders’ equity	184 347	265 270
Non-current liabilities	136 019	118 929
Current liabilities	297 781	282 158

^(*) See “Financial statements - Preliminary results for the year ended 31 December 2006”.

Ratios and indicators ^(*)	Financial year	
	2005 audited	2006 unaudited
Interest-bearing liabilities, EEK ‘000	247 122	213 905
Minority interest, EEK ‘000	15 087	227
EBITDA, EEK ‘000	102 684	130 759
EBITDA margin, %	13.7	14.0
Operating profit margin, %	10.2	10.7
Return on investment (ROI), %	9.5	21.9
Return on assets (ROA), %	6.2	14.1
Return on equity (ROE), %	22.0	35.5
Equity ratio, %	27.9	39.8

^(*) See “Selected Financial Data” for the explanation of the formulas used.

The amounts of gross profit, operating profit and net profit for the year ended 31 December 2006 included in the table above constitute a profit estimate within the meaning of the Commission Regulation (EC) 2004/809 of 29 April 2004 (the “Profit Estimate”). See “Financial statements - Independent assurance report on prospective financial information”.

These preliminary results for the year ended 31 December 2006 which include the Profit Estimate have been prepared using accounting policies which are consistent with those used by the Group in preparing its audited consolidated financial statements for the year ended 31 December 2005 and the unaudited condensed consolidated financial information for the six months ended 30 June 2006, including the notes

thereto. The preliminary results and the Profit Estimate take into account the published unaudited consolidated interim report for the six months ended 30 June 2006 and the results shown by unaudited management information for the six months ended 31 December 2006.

In the financial year ended 31 December 2006, the Group's revenue increased by approximately 24 per cent the net profit increased by more than 100 per cent compared to the financial year ended 31 December 2005. The 2006 net margin reached 10.1 per cent, almost twice that achieved in 2005. The Group continued its existing operations during the second half of 2006 and first months of 2007 with no material adverse changes during that period.

In 2006, the Group continued the consolidation of its businesses to improve operations and increase efficiency. The Group's growth was mainly attributable to strategic acquisitions of new businesses and expansion of its production and sales capacity.

In July 2006, the Group merged its retail and wholesale book divisions, Rahva Raamat and Raamatuvaramu, bringing them under common management.

Online publishing is a relatively new business for the Group and the newly acquired online portals have been gradually merged into the Group. In August 2006, the Company acquired OÜ Autocentrum, an auto portal operator, which was renamed Ekspress Internet. Ekspress Internet currently operates three of the four of the Group's online portals. Most recently, in January 2007, *4seina.ee* and *Weekend.ee* were acquired from Netikuulutused and Päevaleht, respectively. According to the acquisition agreement of *Weekend.ee* by and between Ekspress Internet and Päevaleht, Päevaleht is to receive one-half of the sale proceeds if the portal is sold to a third party within one year of the acquisition. In addition, should the revenue from the portal exceed the agreed limit, Päevaleht is entitled to receive a share of the excess until the end of 2009.

The Group acquired 50 per cent of Ekspress Hotline in November 2005 and the other 50 per cent of the shares were acquired from Mr. Hans Luik in November 2006. Consequently, Ekspress Hotline was fully consolidated in December 2006. See "Business – Related party transactions" and "Business – Information services". As a part of the Group's expansion plan, Ekspress Hotline has cooperated with a third party private investor to initiate a market research project to analyze the possibilities for provision of information services in Romania. Currently, the Group has decided to establish a subsidiary in Romania, however, any further development is subject to the results of negotiations with the local suppliers and the outcome of the market research project. Should a subsidiary be formed, Ekspress Hotline will hold at least an 80 per cent share in that company. Investments associated with start up of potential operations will be financed by the Group's own funds.

In the financial year ended 31 December 2006, the Group experienced an increasing demand from its existing and new customers in the printing services segment. In order to meet the growing demand, diversify the risks and enhance the print quality, Printall purchased a new commercial web-press, in January 2007. See "Business – Material contracts".

In 2007, Management expects the Group's annual advertising market growth to follow general market trends and reach approximately 10 per cent in Estonia and around 10-12 per cent in Latvia and Lithuania. Advertising rates increased during parliamentary elections in the first quarter of 2007, and are likely to drop back to 2006 levels for the rest of the year. Management believes that advertising revenue growth will come mostly from the Group's online businesses.

In terms of circulation revenues Management expects to see moderate increase, if at all, in 2007. The structure of circulation revenues on the aggregate level is expected to shift slightly towards subscription revenues from retail revenues.

The Group will invest approximately EEK 130 million into the Printall printing facility during 2007 and early 2008. Normal operations of the printing plant might be affected by installation procedures, which may have a negative impact on the annual printing volume. Management considers this investment crucial for

further enhancing the printing operations and increasing the competitiveness and output of the printing business segment starting in 2008.

The cost base and structure of the Group should remain relatively stable in 2007 as compared to 2006. Management expects to see an increase in labour related expenses. As Express Post is the most labour extensive operation of the Group, the general distribution costs of the Group may experience the most noticeable increase in 2007.

Management is constantly looking for acquisition targets, focusing mainly in the Baltic States, and will continue to do so in 2007. Existence of such targets is dependent largely on the development of the media market and thus there is no assurance as to the success of any potential acquisitions.

Factors Affecting Results of Operations

Advertising rates and customers

Advertising sales revenue depends on the overall level of competition in the market, macroeconomic conditions, number of customers, purchased advertising space, rates charged and discounts provided. The results are also dependent on the qualification and experience of the sales personnel. See “Risk factors – Competition” and “Risk factors – Cyclicity”.

Advertising revenue of the Group is derived mostly from sales of advertising space in print media. The share of advertising sold in White and Yellow page catalogues, information hotlines and online media have experienced steady growth in recent years. As the Group has one of the most established brand names in Estonian information services market, revenue fluctuations due to macroeconomic changes are insignificant. Classified advertising revenue, including proceeds from recruitment, auto and real estate online portals, is correlated with general economic conditions and tends to decrease during economic recessions.

Finally, the Group’s advertising revenue is dependent on the skills of its sales team, which is responsible for attracting new customers and selling the Group’s products and services.

Printing expenses

Direct costs make up the largest part of total operational costs of the Group’s printing operations. In the financial year ended 31 December 2005, direct costs related to printing services made up approximately 41.8 per cent of the Group’s sales expenses, roughly 51.8 per cent of the Group’s raw materials and consumables used and 20.9 per cent of the Group’s direct salaries and social taxes. While the Group’s revenue increased approximately 74.9 per cent during the last three consecutive financial years ended 31 December 2005, labour-related expenses have not increased proportionately. The significance of raw materials and consumables has increased and the share of labour related direct expenses has decreased in the overall cost of sales.

According to the terms of printing contracts, the cost of printing is generally subject to adjustment in accordance with significant movements in the price of raw materials used in printing. As the Group does not hedge its exposure to printing cost increases, any significant increase in the raw materials will likely result in an increase in the printing costs for the Group and thus may adversely affect its results of operations.

Distribution arrangements

The majority of the newspapers and magazines published by the Group in Estonia are distributed by Express Post, an affiliate of the Group. Deliveries of the Eesti Ekspress directories and periodicals to remote areas are either made by Eesti Post, a state owned postal service provider, or other distribution companies. The Lithuanian magazines of the Group are distributed by the Lithuanian state postal service Lietuvos Paštas, or by regional newspaper publishers.

Since most of the print media in Estonia is distributed by Express Post and the state postal service in Lithuania, the Management believes that the increase in the cost of labour is the only factor which can affect the cost of such services. Consequently, the Management expects the distribution costs to continue rising as a result of an average salary rise in Estonia.

Seasonality

The Group's advertising and book sale revenues are subject to significant seasonal fluctuations, with advertising revenue being at its highest level during the second and fourth quarters and book sales being highest during the fourth quarter of the year. See "Risk factors – Seasonality".

Revenue from sales of media and advertising services is recognised as income in the period in which the advertising is published. This income recognition principle makes income from sales of information services particularly seasonal, as advertisement space in the periodicals is sold throughout the year, while publishing of directories and, consequently, recognition of income therefrom takes place during a shortened timeframe.

Foreign exchange translations

The Group is exposed to foreign exchange fluctuations mainly in its printing services business segment, as most of its payments for the paper used in the production are made in either euros or U.S. dollars. The revenue from this business segment is also frequently denominated in euros or U.S. dollars. Although the Group manages its currency risks by means of hedging instruments, contractual terms and matching currency items, significant exchange rate movements may have a material adverse effect on the results of operations and financial condition of the Group. See "Risk factors – Exposure to foreign currency fluctuations".

Results of Operations

Annual and interim consolidated financial information

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

Profit or loss account data (EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Sales	427 572	512 381	748 026	339 209	447 513
Periodicals and other publications	280 194	326 347	405 143	196 362	215 374
Printing	146 241	171 905	230 718	106 523	138 106
Book sales	0	12 965	102 760	36 019	67 733
Information services	0	0	8 780	0	26 085
Unallocated	1 137	1 164	625	306	215
Costs of sales	-73%	-75%	-77%	-76%	-73%
Gross profit	27%	25%	23%	24%	27%
Distribution costs	-6%	-5%	-5%	-5%	-4%
Administrative expenses	-12%	-11%	-9%	-9%	-11%
Other income	2%	0%	1%	1%	2%
Other expenses	0%	-1%	0%	0%	-1%
Operating profit	11%	8%	10%	11%	13%
Finance costs	-1%	-1%	-1%	-2%	-1%
Share of loss of associates	0%	-1%	-3%	-2%	0%
Profit before income tax	10%	5%	6%	7%	12%
Income tax expense	-1%	-1%	-1%	-2%	-1%
Profit for the year	9%	4%	5%	5%	10%
Attributable to:					
Equity holders of the Group	9%	4%	5%	5%	10%
Minority interest	0%	0%	0%	0%	0%

Segment analysis

Sales by segments (EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Periodicals and other operations – by type of revenue	280 194	326 347	405 143	196 362	215 374
Advertising	128 882	149 046	182 332	86 103	97 902
Single copy	51 104	63 814	99 917	48 408	36 472
Subscription	70 779	77 011	83 526	41 952	48 183
Book publishing	11 944	14 017	22 995	8 346	17 317
Other	17 485	22 460	23 665	11 553	15 500
Periodicals and other operations – by business activity	280 194	326 347	405 143	196 362	215 374
Periodicals related revenue	260 063	301 589	330 595	165 147	188 181
Book publishing	11 944	14 017	22 995	8 346	17 317
Online publishing	0	0	3 846	1 322	2 646
Distribution and sales	8 187	10 742	47 707	21 547	7 230
Printing	146 241	171 905	230 718	106 523	138 106
Paper and printing	143 827	169 089	226 918	104 508	136 186
Other	2 414	2 816	3 939	2 015	1 920
Book sales	0	12 965	102 760	36 019	67 733
Book sales	0	12 965	102 009	35 725	67 692
Other	0	0	751	294	41
Information services	0	0	8 780	0	26 085
Advertising	0	0	7 292	0	25 638
Other	0	0	1 488	0	446
Unallocated revenue	1 137	1 164	625	306	215
Total sales	427 572	512 381	748 026	339 209	447 513

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

The financials for the period of six month ended 30 June 2005 and 2006 should be read in the context of acquisition activities of the Group. During the first half of 2005 the Group acquired 100 per cent of Raamatuvaramu, 100 per cent of Tavo Vaikas and 75 per cent of Netikuulutused, respectively. From July 2005 up until end of June 2006 the Group acquired 50 per cent of Ekspress Hotline.

In May 2006 the Group sold 50 per cent its shares in joint venture Linnaleht which was consolidated up to the point of sale. Medipresa issued new shares to another shareholder in January 2006, thus decreasing the ownership of the Group from 49 per cent to 40 per cent. Medipresa was proportionally consolidated up to the point of sale of shares.

Sales

The consolidated revenue of the Group increased approximately 31.9 per cent in the first six months of 2006 as compared to the same period previous year. The total revenue for the six months of 2006 reached EEK 447.5 million which is EEK 108.3 million more than in same period previous year.

Segment analysis

The biggest contributors to growth were the book sales and information services segments. As mentioned above, the growth from those segments is associated mostly with acquisition activity, contributing to a total of 53.4 per cent of the growth in sales. The printing and publishing segments contributed to a total of

46.7 per cent of the growth in sales, with 29.2 per cent and 17.6 per cent attributed to each segment respectively.

Publishing

Publishing revenue for the six months ended 30 June 2006 totalled EEK 215.4 million, showing an annual increase of 9.7 per cent.

The advertising and circulation revenue of the Group's newspapers was 37 per cent higher in the six months ended June 2006 as compared to the same period in 2005. The increase in advertising revenue for the six months resulted mostly from acquisition of 50 per cent of Ekspress Hotline and its subsidiaries in November 2005. The advertising revenue of the Group's publishing businesses increased approximately 14.0 per cent, which includes an approximate growth of 100 per cent in classified advertising revenue as compared to the same period of six months ended 30 June 2005.

Circulation revenue decreased approximately 6.3 per cent for the six-months ended 30 June 2006 as compared to the same period for the year 2005. Subscription revenue increased by 14.9 per cent for the period, and made up about 56.9 per cent of the total circulation revenue earned in the six month ended 30 June 2006 although it did not offset the decline in single copy sales.

Analysis of the periodicals-related revenue in the first six months of 2006 shows an increase of 13.9 per cent as compared to the same period in the prior year. Periodicals make up 87.4 per cent of the revenue in the publishing segment. Book publishing revenue grew about 107.5 per cent in the first six months of 2006 reaching EEK 17.3 million. That growth was driven by Eesti Päevaleht, Linnaleht and Ajakirjade Kirjastus which became more active in book publishing. Online publishing revenue is not comparable on a year-on-year basis, as Netikuulutused revenue was not consolidated for the first six months of 2005. Revenue from this sub-segment was EEK 2.6 million in that period and made up only, about 1.2 per cent of the total publishing revenue. Distribution and sales sub-segment posted a considerable decrease due to changes in Medipresa's ownership and the Group no longer consolidating the revenue generated by Medipresa. Revenue of Express Post in that period increased 31.7 per cent, and represented approximately 3.4 per cent of the total publishing revenue.

Total publishing revenue in the six months ended June 30, 2006 consisted of approximately 45.5 per cent from advertising, 22.4 per cent from subscriptions, 16.9 per cent from single copy sales and around 8 per cent from book publishing. Revenue from other sources for the six month ended 30 June 2006 was EEK 15.5 million, or 7.2 per cent of the total publishing revenue. The fastest growth was experienced in the book publishing segment, for which revenue increased 107.5 per cent as compared to the first six months of 2005. In absolute terms, increase in advertising and subscription revenue had the largest impact on the Group's earnings. Subscriptions-related revenue increased from EEK 42.0 million in the first six months 2005 to EEK 48.2 million in the first six months 2006, a growth of 14.9 per cent. Advertising revenue grew by EEK 11.8 million in the first six months of 2006, as compared to the corresponding period previous year, reaching EEK 97.9 million. Advertising and subscriptions revenue combined contributed to approximately 94.8 per cent of the total increase in publishing revenue. Single copy sales decreased by EEK 11.9 million in the first six months of 2006, as compared to the same period of the previous year. The decline is attributable mainly to non-consolidation of revenue from Medipresa from January 2006 onwards. In the first six months of 2005, the single copy sales revenues from Medipresa were approximately EEK 16.0 million.

Printing

Total consolidated revenue from the printing business accounted for EEK 138.1 million in the first six months of 2006. Revenue from sales of paper and printing service increased 30.3 per cent or EEK 31.7 million in the first half of 2006 as compared to the corresponding period in the previous year.

Printing revenues in first six months of 2006 showed an increase of EEK 31.6 million or 29.6 per cent as compared to the same period in 2005.

Book sales

Book sales figures for the six-month periods ended 30 June 2005 and 30 June 2006 as a result of the acquisition of OÜ Raamatuvaramu in April 2005. In absolute terms, the book sales segment grew by EEK 31.7 million as compared to the first six months of 2005, and totalled EEK 67.7 million at the end of the first six months of 2006. As a percentage of total consolidated revenue, the portion of revenue earned from this segment has increased by 4.5 per cent as compared to the six month period of the previous year and constituted 15.1 per cent of the total consolidated sales.

Information services

The Group was not involved in the information services business during the first six months of 2005. The acquisition of 50 per cent of shares in Ekspress Hotline in November 2005 added revenue of EEK 26.1 million in the first six months of 2006.

Cost of goods sold

Cost of goods sold for the six months ended 30 June 2006 totalled EEK 324.6 million making up 72.5 per cent of total sales or approximately 3.2 per cent lower than that of the same period in the previous year. Furthermore, a 26.4 per cent increase in the cost of sales compared to the first six months of the previous year was lower than the sales growth of 31.9 per cent for the corresponding period. Thus the Group experienced an increase in its gross margin from 24.3 per cent in the first six months of 2005 to 27.5 per cent in the same period of 2006.

The biggest cost items, raw materials and consumables and services purchased made up an aggregate of 64.9 per cent of the cost of goods sold. In terms of cost structure, there were no major changes. As compared to the first six months of 2005, costs of raw materials, consumables and services purchased decreased 2.6 per cent as percentage of total sales.

Salaries and salary-related taxes increased by 26 per cent in the first six months of 2006, as compared to the same period for the previous year, reaching EEK 83.7 million. Sales for the same period showed an increase of 31.9 per cent, however the portion of labour-related expenses from sales decreased from 19.6 per cent in the initial six months of 2005 to 18.7 per cent in the same six months of 2006.

Depreciation and amortisation charges and other expenses were EEK 11.4 million and EEK 19.0 million respectively in the first six months of 2006 and made up 6.8 per cent of sales.

Distribution cost and administrative expenses

Generally, the Group was able to maintain the same cost structure during the first six months of 2005 as in the same period of 2006. Distribution and administration related expenses increased 1.8 per cent of sales during the period. Net of other income and other expenses resulted in an increase of 0.7 per cent of total sales. As the Group's gross profit in the initial six months of 2006 improved by 3.2 per cent and operating costs of sales increased by 1.1 per cent, the total improvement in operating profit was 2.1 per cent in the six months of 2006 compared to the same period of the previous year. Operating profit for the first six months of 2006 was EEK 56.2 million, an operating profit margin of 12.6 per cent.

Distribution costs increased by 22.6 per cent to EEK 19.8 million in the first six months of 2006. These costs made up 4.4 per cent of sales, as compared to 4.7 per cent for the corresponding six months period in the previous year. The major factor behind this increase was the growth of marketing expenses at approximately the same rate as in total distribution costs. Salaries and social tax expenses grew approximately 12.1 per cent in the first six months of 2006, as compared to 2005. As the labour related expenses made up only 22.1 per cent of the total distribution costs, the increase in labour costs did not have a significant effect.

Administrative expenses reached EEK 50.8 million in the first six months of 2006, resulting in an increase of 61.9 per cent as compared to the same period of 2005. The increase was for the most part a result of labour related expenses which increased from 38.7 per cent in the six month of 2005 to 47.0 per cent in the same period of 2006. Rental expenses also increased from EEK 3.5 million in the first six months of 2005 to EEK 6.4 million in the same period of 2006. The additional rental expense from Ekspress Hotline operations and an increase of about 5 per cent in rental prices on a year-on-year basis were the main reasons for the increase. There were no other considerable changes in other administrative expense items.

Other operating income (net)

Other operating income increased by EEK 6.4 million in the six months of 2006 as compared to the same period of 2005 and reached EEK 8.8 million. Most of the balance in the six months of 2006 was made up of other income of EEK 4.8 million from the sale of a 50 per cent of Linnaleht ownership. Additionally, about EEK 1.4 million resulted from interest received from Bravocom Mobiil. The rest of the other operating income in the amount of EEK 1.7 million was associated with Ekspress Hotline and its subsidiaries.

Interest income for the period decreased considerably from EEK 0.5 million in the six months of 2005 to EEK 0.018 million in 2006.

Other expenses during the six months of 2006 increased considerably, leading to a nominal increase of EEK 3.2 million, as compared to the six months of 2005 to reach EEK 4.9 million. Most of the balance was a result of the "other expenses" account of EEK 4.6 million, made up of EEK 1.3 million from the equity method accounting of Linnaleht and approximately EEK 2.0 million was derived from Ekspress Hotline and its subsidiaries. The loss from fixed assets sales accounted for EEK 0.3 million in the six months of 2006.

Net financial items

Net financial items for the six months 2006 showed a decline in the total balance both in absolute terms and in terms of percentage of sales as compared to the same period of the previous year. The net financial items for the six months of 2006 totalled EEK -4.2 million, out of which interest expenses contributed EEK 4.8 million and other financial income EEK 0.6 million. Interest expenses showed a decline of 17.4 per cent compared to the six months of 2005. The major reason behind the decrease was improvement in Printall loan terms, contributing approximately EEK 1.4 million, which more than offset increased interest payments from overdrafts in Ekspress.

Corporate income tax

Corporate income tax for the six month period of 2006 totalled EEK 5.4 million. The Group received EEK 17.9 million in dividends for the financial year of 2006. The tax on dividends of 23/77 resulted in a corporate income tax expense of EEK 5.4 million. The actual tax liability arises after the dividends are paid out.

Net profit

Net profit before minority interest for the six months of 2006 totalled EEK 46.6 million, showing a 157 per cent increase as compared to EEK 18.2 million during the same period in the previous year. Net margin grew from 5.2 per cent to 10.4 per cent compared to the same period in the previous year. Although while comparing the net margins between the first six months of 2006 and the corresponding period in 2005, the share of loss in associates of EEK 6.4 million in 2005 should be considered a one-off item.

The Group recognised EEK 1.0 million as a minority interest from its net profit earned in the first six months of 2006, most of which was attributable to Ekspress Hotline.

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

Sales

Most of the Estonian media companies had a successful year in 2005. There was a 13 per cent annual increase in media company revenue and in the general advertising market in the Baltic States. The Group outperformed the market, as well as most of its competitors with a 46.0 per cent increase in sales and a 22.3 per cent increase in advertising revenue.

The revenue structure of the Group changed considerably in 2005. While in 2003 and 2004 publishing activities generated approximately 65.5 per cent and 63.7 per cent of revenue, and the Group's printing business brought in 34.2 and 33.6 per cent of revenue respectively, the publishing segment decreased to 54.2 per cent in 2005. The decline was caused by acquisitions of book and information services which resulted in additional sales at the Group level, while publishing grew at a lower rate. The total consolidated revenue of the Group reached EEK 748.0 million, an increase of EEK 235.6 million.

Segment analysis

The Group experienced growth in all of its business segments in 2005. The most significant revenue increase was in the publishing and printing business segments, recording annual growth rates of 24.1 per cent and 34.2 per cent accordingly. Please see the text below for a detailed analysis of sales in different business segments. Revenue of the Group and its affiliated companies come primarily from the publishing business and the printing services. These two areas combined contributed approximately 85.0 per cent of the total consolidated revenue in 2005.

Publishing

In addition to organic growth, the publishing segment gained additional revenue from the acquisition of UAB Tavo Vaikas, OÜ Raamatuvaramu and the purchase of a 75 per cent stake in Netikuulutused in 2005. Tavo Vaikas was merged with Ekspress Leidyba later during the same year. The total revenue from publishing in 2005 amounted to EEK 405.1 million, a 24.1 per cent increase as compared to the previous reporting period.

Approximately 81.6 per cent of the Group's publishing revenue was derived from periodicals-related activities. Distribution and sales make up the second largest sub-section of publishing, which includes sales of business entities such as Express Post and Medipresa. This segment contributed approximately 11.8 per cent of the Group's total revenue in 2005. The other two areas of book publishing and online publishing, were less significant in terms of revenue, contributing 5.7 per cent and 0.9 per cent of total publishing revenue respectively.

Alternatively, publishing revenue can be classified by types advertising, single copy sales, subscriptions, book publishing and other. Most of the sales in publishing were derived from advertising activities, which accounted for 43.2 per cent of the total publishing revenue. Single copy sales contributed to 24.7 per cent of the revenue, subscriptions 20.6 per cent and book sales 5.7 per cent respectively. The remainder of sales, approximately 5.8 per cent, came from sale of other services.

The advertising portion of total publishing sales has been relatively stable over the three years, varying between 43.0 to 46.0 per cent. The growth of advertising revenue has also been stable, increasing 17.4 per cent in 2005, comparable to the growth rate experienced in the previous financial year. The total revenue from advertising in the publishing segment was EEK 175 million in 2005.

The trend in periodicals-related activities has been changing over the last three years. Growth in single copy sales has exceeded subscription growth rates significantly and thus the share of revenue generated from single copy sales has become more significant. The year-on-year increase from 2004 to 2005 of 56.6 per cent of the single copy sales revenue mostly reflected first time consolidation of Medipresa's revenue. While in 2003 the single copy sales accounted for 18.2 per cent of the publishing revenue, it grew

to 24.7 per cent two years later. The portion of total publishing sales attributable to subscription revenue decreased from 25.3 per cent in 2003 to 20.6 per cent in 2005. Cumulatively, single copy sales and subscription revenue contributed EEK 183.4 million to the revenue of the publishing segment.

Revenue in the book publishing segment grew about 64.1 per cent in 2005 as compared to the same period in the prior year, with total sales reaching EEK 23.0 million. The growth was largely a result of the commencement of publishing projects relating to a classic literature and adventure story series by Eesti Päevaleht and Ajakirjade Kirjastus.

Printing

The year ended 31 December 2005 was the first full operational year after a round of major capital investments in 2004, as a result, Printall's sales grew considerably. The company was able to increase printing revenues from export customers by approximately 70.3 per cent and from Estonian customers outside the Group by approximately 11.7 per cent. Sales to Group companies approximately EEK 78.9 million, a year-on-year growth of 6.8 per cent.

Total printing revenue increased by EEK 58.8 million in 2005 as compared to the revenue generated in the previous financial year. The growth rate of 34.2 per cent on year-on-year basis was significantly higher than in 2004 when most of the capital investments were made.

Book sales

There is no consistent basis for comparison of the book sales revenue with historic data. The financial year ended 31 December 2005 was the first full year that Rahva Raamat's revenue was consolidated into the Group's results, only the fourth quarter results were included in 2004. Furthermore, the Group acquired the book wholesaler Raamatuvaramu in April 2005, which would further skew the basis for comparison.

Book sales generated a total revenue of EEK 102.8 million in 2005, or approximately 13.7 per cent of the total revenue of the Group, and thus represents a significant share in the overall revenue structure.

Information services

In November 2005, the Group acquired 50 per cent of the shares of Ekspress Hotline, the company involved in directory assistance services and publishing of printed directories of telephone companies. Due to the date of acquisition, the Group was only able to consolidate the revenue for December 2005. Thus the sales figure of EEK 8.8 million reported for the the 2005 financial year does not reflect the actual size of the acquired business.

Cost of goods sold

The Group's gross profit margin declined by approximately 1.4 per cent, to 23.5 per cent, due to the increase in direct costs of raw materials and consumables, as compared to the result of the financial year ended 31 December 2004. Direct materials expenses as a percentage of sales increased from 29.3 per cent in 2004 to 39.5 per cent for the period ended 31 December 2005. That increase is mainly attributable to the addition of the book sales business segment to the Group. The book sale business does not have considerable administrative expenses, the vast majority of expenses is classified as direct expenses, which has an effect on the gross margin. The "services purchased" account, which consists mostly of printing services, showed an increase of 34.3 per cent on a year-on-year basis and constituted 11.6 per cent of the total sales for 2005. Raw materials and services expense items made up 51.1 per cent of total consolidated sales as opposed to 41.8 per cent in 2004. In absolute terms, salaries and social taxes increased by 13.1 per cent in 2005 as compared to 2004, but as a percentage of sales decreased approximately 5.6 per cent, to 18.9 per cent. Total gross profit for the year ended 31 December 2005 was EEK 175.8 million, approximately 37.6 per cent higher than in the same period of the previous year.

Distribution cost and administrative expenses

Although gross margins decreased in the year ended 31 December 2005 as compared to the year ended 31 December 2004, the Group was able to improve the operating profit result. The operating margin in 2005 reached 10.2 per cent of the consolidated sales, a 2.7 per cent improvement on a year-on-year basis. Distribution costs declined as a percentage of sales, making up 4.9 per cent of consolidated sales, as opposed to 5.5 per cent in the 2004 financial year. As marketing is a key item of distribution expenses, making up approximately 77 per cent of the total distribution expense, the decrease in marketing costs as a percentage of sales of 0.3 per cent were enough to offset a 12.0 per cent nominal increase in labour related costs.

Administrative expenses are the most significant expense item with respect to the Group's indirect expenses. Total administrative expenses grew by 25.9 per cent in 2005 to EEK 70.6 million, from EEK 56.1 million in the 2004 financial year as a result of a 30.8 per cent increase year-on-year in labour related expenses and an increase in services purchased and repairs and maintenance expenses. The overall increase in administrative expenses was less than the increase in revenues. As a result, the portion of sales attributable to administrative expenses declined from 11.0 per cent in 2004 to 9.4 per cent in the financial year ended 31 December 2005, contributing 1.6 per cent to operating margin improvement.

Other operating income and expenses

Other income grew from EEK 1.3 million in 2004 to EEK 11.2 million in 2005. Most of the increase is attributable to negative goodwill associated with the gain recognised from the buyout of minority shareholders and the fines and penalties received. The increase in negative goodwill accounted for EEK 1.8 million and fines and penalties accounted for EEK 6.0 million. These penalties can be considered as a one-off items as around EEK 2.5 million was received from the supplier of printing machines due to a late delivery and approximately EEK 3.0 million was received as a penalty from the buyer of a used printing machine who defaulted on the sale and purchase contract. The Group was also able to increase interest income earned from 50% of the loans received from joint ventures by EEK 1.8 million to a total of EEK 2.9 million.

Other expenses decreased by EEK 2.8 million to EEK 3.6 million in 2005 as a result of the decline in losses from sale and write-offs of fixed assets associated with sale of Printall's printing equipment in 2004. The Group also recognised currency exchange losses of EEK 880 in the financial year ended 31 December 2005 which resulted from certain Printall paper-supply contracts.

The Group recognised an operating profit of EEK 76.4 million in the 2005 financial year, an increase of approximately 97.8 per cent as compared to the 2004 financial year.

Finance cost

Interest expenses paid by the Group increased by 33.8 per cent, from EEK 7.1 million in 2004 to EEK 9.6 million in 2005. The increase was mainly attributable to the change in the financing structure and a greater share of overdrafts used. While as at 31 December 2004, the overdraft balance was EEK 28.3 million, the year end balance in 2005 was EEK 84.5 million.

The Group does not have any considerable currency exchange gains/losses recorded under the finance costs balance. In 2005, the total currency exchange loss recognised under finance costs was EEK 0.03 million.

Share of loss in associates

The share of loss in associates totalled EEK 16.5 million in the 2005 financial year. The loss was significantly higher than the previous financial years and was a result of the recognition of impairment on loans granted to AS Bravocom Mobiil, a company of which the Group held a share until June of 2006. See "Business – Related Party Transactions".

Corporate income tax

The Group received dividends from joint ventures in the amount of EEK 16.8 million in 2005. The tax rate of 23/77 (29.87 per cent) that was applied resulted in an income tax expense of EEK 5.0 million because Ajakirjade Kirjastus paid dividends in December 2004, and the tax associated with the dividends was not declared and paid until January 2005. In 2005, approximately EEK 0.4 million worth of income tax was recognised from the dividends received in 2004.

Net profit

The Group had net profits before minority interest of EEK 40.1 million in 2005, an increase of EEK 21.2 million compared to the previous financial year. The net margin improved by 1.7 per cent in 2005 on a year-on-year basis.

The portion of profits from minority interest for financial year ended 31 December 2005 was EEK 2.1 million, a large part of which comes from the share of profits attributable to Express Hotline and Printall minority holders, in the amounts of EEK 1.5 million and EEK 0.6 million respectively.

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

The Group main activities in Estonia exhibited stabilisation in 2004 which enabled the Company to concentrate on potential acquisitions in the Baltic region. The Group acquired UAB Moteris in March of 2004 and UAB Pienu Pieva in October of that same year. As a result of these acquisitions, the Group acquired a 50 per cent share ownership in the magazine wholesale company UAB Medipresa as a result of the acquisitions. The Group also acquired a book retailer Rahva Raamat in September 2004 and completed an EEK 240 million investment into new equipment and machinery at Printall.

Sales

Consolidated revenue of the Group increased in 2004 by 19.8 per cent, EEK 84.8 million on a year-on-year basis, reaching EEK 512.4 million. The Group had no information services related revenue in 2004 and the book sales revenue consisted of three months of consolidated results of Rahva Raamat in 2004.

Segment analysis

The increase in revenue resulted from growth in the publishing and printing of 16.5 per cent and 17.5 per cent respectively. Book publishing contributed 2.4 per cent to the revenue increase. The revenue structure of the Group remained unchanged as compared to the 2003 financial year, with the publishing segment contributing 63.7 and 65.5 per cent and the printing segment contributing 33.6 and 33.0 per cent.

Publishing

As discussed above, revenue from the publishing business segment was influenced by two acquisitions in Lithuania in 2004. The total revenue from the publishing segment in 2004 was EEK 326.3 million, a 16.5 per cent increase as compared to the previous reporting period.

Analysis of sub-segments of publishing revenue indicates that the vast majority of sales, approximately 92.4 per cent, was from periodicals-related activities. The other sub-segments of book publishing and distributions generated revenues of EEK 24.8 million or 7.6 per cent of total publishing segment revenue.

The largest source of revenue during 2004 was advertising, which increased by EEK 20.2 million, or 15.6 per cent in 2004 as compared to 2003. Single copy and subscription sales contributed to a combined total of 43.2 per cent of publishing sales. Single copy sales increased by 24.9 per cent as compared to 2003 and was the second largest contributor to sales growth in the amount of EEK 12.7 million. Subscriptions-related revenue increased only 8.8 per cent on a year-on-year basis totalling EEK 77.0 million in 2004. Book

publishing and other revenue contributed 4.3 per cent and 6.9 per cent respectively and thus did not represent a significant share of the segment's total revenue.

Due to higher growth rates, the importance of single copy sales increased in 2004 as compared to 2003, otherwise the mix of revenue from the publishing sub-segments was similar in 2004 to that in 2003.

Printing

Printall's sales grew by EEK 25.7 million during 2004 to EEK 171.9 million, 17.5 per cent higher than in 2003. Because the new printing presses commenced operations in May and July, the total annual production capacity and revenue potential was not reflected in the sales results of 2004.

In general terms, the sales structure of Printall remained stable in 2004 as compared to 2003 despite a slight shift towards export clients. The share of total printing revenue attributable to export clients increase from approximately 28.8 per cent in 2003 to 31.5 per cent in 2004. Also, the share of sales to Group companies fell by approximately 2.8 per cent, to roughly 33.6 per cent of Printall's revenue in 2004.

Book sales

The Group acquired 50 per cent of Rahva Raamat shares in October 2004. Thus only fourth quarter results were incorporated into the Group's revenues.

Book sales business segment generated a total of EEK 13.0 million worth of revenue in 2004.

Cost of goods sold

Cost of goods sold for the period ended 31 December 2004 totalled EEK 384.6 million, an increase of 23.4 per cent as compared to the period ended 31 December 2003. The structure of direct cost segments as a percentage of revenue showed no major changes. Cost of raw materials and services purchased increased 1.7 per cent and 3.1 per cent as a percentage of overall sales. The other expenses account was the only segment exhibited a considerable decrease as percentage of sales of approximately 2.2 per cent. Personnel expenses grew in line with sales growth, at approximately 20.1 per cent in 2004 as compared to the same period previous year.

Gross profit for the year ended 31 December 2004 totalled EEK 127.7 million, an increase of EEK 11.8 million.

Distribution cost and administrative expenses

In 2004, distribution costs remained relatively stable with 11.2 per cent increase as compared to the costs in 2003.

Administrative costs made up the majority of the operating expenses. Total administrative expenditures increased by 8.7 per cent in 2004 as compared to the 2003, thus decreasing the operating profit margin by 0.6 per cent. Salaries and social tax expenses, showed a year-on-year increase of approximately 6.3 per cent, but a decline of 0.6 per cent as a percentage of sales. Also, depreciation and amortisation expense declined on a year-on-year basis and in terms of percentage of sales, resulting in a decrease of 0.5 per cent.

Other operating income and expenses (net)

Other income decreased in 2004 by EEK 5.3 million from the total of EEK 6.6 million in 2003. The decrease was mostly attributable to negative goodwill associated with the purchase of minority shareholdings in Printall. Income from buyouts accounted for EEK 3.5 million in 2003 and EEK 0.2 million in 2004. Furthermore, the Group had no other income items in 2004, while in 2003 the Group had other income of EEK 1.3 million.

In 2004, the Group sold a considerable part of Printall's replaced equipment and incurred a loss of EEK 5.9 million from the sale of fixed assets. This was the only major item under other expense that had a negative effect, approximately 1.2 per cent, on the operating margin.

The loss attributable to the sale of printing related fixed assets had a considerable negative effect on the operating margin largely responsible for decreasing the operating margin from 10.6 per cent in 2003 to 7.8 per cent in 2004.

Finance cost

Finance costs showed an increase of EEK 4.5 million, mostly attributable to the increase in interest expense. While in 2003 the Group incurred interest costs of EEK 3.2 million, the interest expense in the financial year 2004 totalled EEK 7.1 million. The change resulted primarily from an increase in loan balances which grew from EEK 38.2 million in the beginning of 2004 to EEK 207.8 million as at 31 December 2004.

Share of loss in associates

The Group incurred losses related to associates of EEK 7.2 million in 2004. The portion of loss under equity method accounting accounted for EEK 3.7 million and impairment recognised on loans granted to AS Bravocom Mobiil account for EEK 3.5 million.

Corporate income tax

In 2004, the Group received EEK 14.5 million in the form of dividends from joint ventures. The applied tax rate of 24/76 (34.58 per cent) resulted in EEK 4.6 million in the income tax expense. Ajakirjade Kirjastus paid dividends in December 2003 and the tax associated with the dividends was declared and paid in January 2004. Thus, in 2004 approximately EEK 0.5 million worth of income tax was recognised from the dividends received in 2003.

Net profit

Net profit before minority interest for the financial year ended 31 December 2004 was EEK 19.0 million, a decrease of EEK 19.5 million. The decrease was mostly caused by one-off expense items. The biggest of these expense items was the EEK 5.9 million loss from sales of fixed assets and an impairment loss of associated company loans and the loss recognised under equity method of EEK 7.2 million. Also the other financial expenses of EEK 1.4 million associated with contract fees paid by Printall and Ekspress and income tax increases of EEK 1.8 million, contributed to the decrease in the Group's net margin in 2004.

Minority interest of negative EEK 12.0 thousand was associated with minority owners in Ekspress Leidyba.

Liquidity and Capital Resources

The following table outlines the Group's equity and balances of interest-bearing obligations as at 31 December 2003, 2004 and 2005 and 30 June 2005 and 2006.

(EEK, '000)	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
Equity	116 487	135 768	184 347	152 377	192 476
Interest-bearing liabilities	38 251	207 875	247 122	207 272	270 310

Source: the Company

Interest-bearing liabilities and operating cash flows have been the main sources of financing over the past three years.

Operating cash flows

The cash flow of the Group is calculated using the indirect method of accounting. Accordingly, cash flow from operating activities is arrived at by adjusting operating profit for depreciation and amortisation charges, proceeds from sale of operating assets, changes in working capital and interest and income tax expenses. Cash flow results for the period ended 30 June 2006 are based on unaudited figures.

Cash flows from operations were EEK 61.9 million for the year ended 31 December 2003, EEK 15.3 million for the year ended 31 December 2004 and EEK 98.9 million for the year ended 31 December 2005. The 75.3 per cent decline in cash flows from operations during the year ended 31 December 2004 was mainly due to a 11.2 per cent increase in the distribution costs, which negatively affected the operating profit, and a 14-fold increase in inventory purchases. The Group's operating cash flow of EEK 98.9 million in the year ended 31 December 2005 an increase of EEK 83.6 million resulted from the operating profit of EEK 76.4 million being adjusted by a depreciation and amortisation charge of EEK 26.3 million, proceeds from sale of operating assets of EEK 2.7 million, a positive change in working capital of EEK 8.5 million and of EEK 15.0 million of interest and income tax expenses.

Equity

During the financial year ended 31 December 2006, the Management agreed on a share split at a ratio of 1:100, which increased the number of total shares from 2 216 to 221 600, reducing the nominal share value from EEK 1 000 to EEK 10. Later in the year, the Group concluded one share capital increase out of retained earnings and the share premium at a ratio of 1:51. As a result, the Group's share capital increased from approximately EEK 2.2 million to EEK 115.2 million and the total share number increased from 221 600 to 11 523 200. In the same year the Group issued 5 000 000 additional shares at a nominal value of EEK 10 to finance the acquisition of the remaining 50 per cent of Ekspress Hotline, as a result of which, the total number of the Group's shares was increased to 16 523 200 with a nominal value of EEK 165 232 000.

Working capital

Management believes that, considering the current state of the Group's assets and financial resources, the Group's working capital is sufficient to meet all the liabilities arising as a result of the ongoing operations in the next 12 months after the date of this Offering Circular.

Capital expenditure

Printall is the only Group company with a substantial asset base. The other three key segments of the Group are involved in publishing, book retail and wholesale and information services, and are much less capital-intensive.

The capital expenditure of Printall represents over 80 per cent of total capital purchases by the Group. Printall's share of the Group's capital expenditure was 94.0 per cent in the financial year ended 31 December 2003, 96.4 per cent in the financial year ended 31 December 2004 and 80.8 per cent in the financial year ended 31 December 2005.

Over the period from 1 January 2003 to 31 December 2005, the gross amount of capital expenditure by Printall equalled EEK 261.0 million. The investments were mainly made in the new printing facility that became fully operational in 2005.

(EEK, '000)	Year ended 31 December			Six months ended 30 June	
	(audited)			(unaudited)	
	2003	2004	2005	2005	2006
Material fixed assets acquisitions	65 131	184 937	26 533	3 771	26 614

Borrowings

(EEK, '000)	Year ended 31 December			Six months ended 30 June	
	(audited)			(unaudited)	
	2003	2004	2005	2005	2006
Bank loans outstanding	33 081	109 649	148 418	115 625	131 141
Other interest bearing liabilities	14 750	14 750	14 750	14 750	14 750
Financial leasing liabilities	5 170	98 226	98 705	91 647	104 977
Total	53 001	222 625	261 873	222 022	250 869
total short term liabilities	48 354	76 630	125 964	76 028	100 250
total long term liabilities	4 647	145 995	135 909	145 995	150 619

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

	Within one year	1-5 years	over 5 years	Total
	(EEK)	(EEK)	(EEK)	(EEK)
Bank loans	8 117	55 786	–	63 903

The Group has three primary sources of loan financing to fund its operations. Bank loans (including overdraft agreements) and capital lease arrangements on aggregate made up approximately 93.0 to 94.0 per cent of the total loan financing during the period from January 2004 to June 2006 of which bank loans were 49.3 to 56.7 per cent and financial leases were 37.7 to 44.1 per cent. In 2003, loan balances from unaffiliated parties were not significant and thus the mix of loan sources differed significantly from that in later periods. In 2003, other interest bearing liabilities consisted of 50% of the loans received from joint ventures to Printall and represented 27.8 per cent of the total interest bearing balances. The balances from 50% of the loans received from joint ventures have remained at EEK 14.8 million throughout the periods starting in January 2003 and ending in June 2006 and thus are not reflected in the analyses provided below.

The total interest bearing obligations balance for the Group as at 31 December 2003 was EEK 53.0 million. For the periods ended 31 December 2004, 31 December 2005 and 30 June 2006, the total interest bearing obligations balances recorded were EEK 222.6 million, EEK 261.9 million and EEK 250.9 million, respectively.

Interim period ended 30 June 2006

In the first six months of 2006 the Group decreased its interest bearing liabilities by EEK 11.0 million or 4.4 per cent as compared to the balance outstanding at 31 December 2005. Bank loans decreased by 11.6 per cent or EEK 17.3 million, out of which approximately EEK 13.2 million was repayment of overdrafts and EEK 4.0 million was a result of decreases in other loan balances.

Financial year ended 31 December 2005

Because the Group had completed its investment program of approximately EEK 240 million, primarily into Printall by the end of 2004, in financial year 2005 the Group concentrated on acquisitions. The Group concluded a total of four acquisitions in 2005 with acquisition costs of EEK 63.5 million. Investments into property, plant and equipment totalled EEK 26.5 million, a majority of which or EEK 19.7 million were investments in Printall's plant and equipment.

The total balance of interest bearing obligations of the Group as at 31 December 2005 was EEK 247.1 million, representing an increase of approximately EEK 39.2 million or 18.8 per cent compared to the situation a year earlier. The balance of overdrafts as at 31 December 2005 increased by EEK 56.2 million over the amount as at 31 December 2004. The Group's bank loans balance, excluding overdrafts, decreased by EEK 16.9 million.

The Group concluded an additional overdraft agreement in 2005 with SEB Eesti Ühispank with a credit limit of EEK 45 million. The agreement was entered into jointly by the Company, Printall, Eesti Ekspress and Rahva Raamat to finance operational cash flow fluctuations.

Financial year ended 31 December 2004

The financial year ended 31 December 2004 was a year of significant investments for the Group in buildings, equipment and business combinations. The Group invested a total of EEK 184.9 million during the period, EEK 177.5 million of which was invested at Printall. Out of the total investment into Printall, approximately EEK 60.5 million was invested into buildings, EEK 112.6 million into premises and equipment, EEK 0.5 million into other equipment and EEK 4.4 million into prepayments for fixed assets.

In addition to investments into property, plant and equipment, the Group spent approximately EEK 46.7 million on acquisitions in the financial year ended 31 December 2004. The Group acquired 97 per cent share in UAB Moteris, 100 per cent share in Pienu Pieva and 100 per cent share in Rahva Raamat.

As approximately EEK 12.5 million of the investments in property, plant and equipment accounted for in 2003 were payable in 2004, the total financing need of the Group from Printall investments for 2004 totalled approximately EEK 190.6 million.

The Group's bank loan balances increased by EEK 76.6 million to EEK 109.6 million as at 31 December 2004, out of that increase up to EEK 4.5 million was represented by bank overdraft agreements. In 2004, the Group refinanced its outstanding overdraft balance with Hansapank and concluded an overdraft agreement with Sampo Pank with a credit limit of EEK 49.0 million.

The major contributor to loan balance increase, excluding overdraft agreements, was a loan contract concluded between Printall and SEB Eesti Ühispank in the total amount of EEK 68.8 million to finance Printall investments.

Approximately 65.6 per cent of the interest bearing obligations of the Group as at 31 December 2004 were long-term in nature.

Financial year ended 31 December 2003

As at 31 December 2003, the total balance of interest bearing obligations was EEK 53.0 million, comprised of EEK 33.0 million in bank loans, EEK 5.2 million of financial lease obligations and EEK 14.8 million in related party loans. The Group made approximately EEK 65.1 million worth of fixed asset acquisitions and improvements during financial year ended 31 December 2003. Of that number, EEK 61.2 million was invested in Printall, including EEK 8.6 million in land, EEK 1.8 million in equipment, EEK 4.0 million in other equipment and approximately EEK 50.8 million in buildings and equipment purchases.

The overdraft loan balance of EEK 23.9 million from Hansapank made up 45.0 per cent of the total interest bearing obligations as at 31 December 2003 and was used to cover cash flow fluctuation with the financial year. Long term loan obligations (excluding overdraft agreements) had an outstanding balance of EEK 9.1 million as at 31 December 2003, out of which EEK 7.7 million was from Hansapank and EEK 1.4 million was from Sampo Pank. The bank loans were taken to finance Printall's land acquisitions and prepayments for construction of new plant and purchase of printing equipment. About 91.2 per cent of the interest bearing obligations of the Group as at 31 December 2003 were short-term in nature, primarily overdraft balances.

Financial leasing liabilities

For the financial year ended 31 December 2003 financial lease obligations of the Group totalled EEK 5.2 million, associated primarily with Printall equipment purchases in 2002.

The majority of Printall equipment purchases in 2004, totalling EEK 112.6 million, were financed through financial leases. The total balance of lease commitments as at 31 December 2004 was EEK 98.2 million, representing an increase of EEK 93.0 million from the balance at the end of 2003.

Financial lease liabilities increased by 0.5 per cent in financial year 2005 as compared to the balance as at 31 December 2004.

In first six months of 2006 the total financial lease liabilities increased approximately EEK 6.3 million as compared to balance at 31 December 2005, as a result of Printall's entering into two lease agreements for EEK 9.7 million and EEK 5.8 million with SEB Eesti Ühispank for purchases of printing equipment.

Off-Balance Sheet Arrangements

As at 31 December 2005, the Group had off-balance sheet commitments related mainly to overdraft agreements, loan guarantees and operating lease agreements.

As at 31 December 2006, the Group had outstanding overdraft commitments from Sampo Pank in an amount of EEK 49.0 million and from SEB Eesti Ühispank with credit limit of EEK 45.0 million. Those commitments were also valid as at 30 June 2006.

The Company has acted as a guarantor of the loans for the Group companies and for the loans of related parties. As at the date of this Offering Circular, the Group has outstanding guarantee commitment to Ühisliisingu AS in maximum amount of EEK 97.0 million.

Ekspress has also guaranteed two Printall loans of EEK 15.5 million to Ajakirjade Kirjastus and EEK 14.0 million to SL Õhtuleht. As the lenders are affiliates of the Group, only 50 per cent of the obligations are recorded in the consolidated balance sheets of the Group.

The total operating lease commitments as at 31 December 2005 were EEK 19.2 million, out of which the short-term portion comprised EEK 7.4 million. The Group makes operating lease payments for facilities and motor vehicles. Operating lease payments for the rooms have risen total of 13.4 per cent during the last three financial years ended 31 December 2005 while the payments for motor vehicles has remained relatively stable around EEK 2.0 million.

Critical Accounting Policies

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

Sales of goods – wholesale

Sales of goods is recognised when a group entity has delivered the products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Books, newspapers and magazines are often sold with a right to return. Accumulated experience is used to estimate and provide for such returns at the time of sale as a deduction from the sales. Revenue from classified directories mainly comprising advertising revenue, is recognised in the income statement upon completion of delivery to the users of the directories.

Sales of goods – retail

Sales of goods are recognised when a group entity sells a product to the customer. Retail sales in bookstores are usually in cash or by credit card. The customer payments for the subscription of books, newspapers and

magazines are apportioned according to the subscription period and recognised in income as the publication is issued. Customer prepayments for publications issued in future period are recorded as deferred income.

Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue from sales and intermediation of media and advertising services is recognised as income at the same period when the advertising is published. Revenue from production of media and advertising services is recognised in income according to the percentage-of-completion method. The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The revenue from quarterly, semi-annual and annual advertising packages sold is recognised in income linearly over the package duration. When progress billings up to the year-end exceed costs incurred plus recognised profits, the balance is shown as due to customers on service contracts, under other deferred income. Where costs incurred and recognised profits exceed progress billings up to the year-end, the balance is shown as due from customers on construction contracts, under accrued income.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Corporate income tax

According to current legislation, the profits of Estonian companies are not taxed, therefore deferred income tax claims or liabilities do not exist. Instead of profits, Estonia taxes dividends paid out from undistributed profits at a rate of 23/77 (until 31 December 2005, a tax rate of 24/76 was in force; until 31 December 2004, a tax rate of 26/74) on the net dividend paid out. As at 1 January 2007, the dividends paid out from undistributed profits are taxed at a rate of 22/78. The corporate tax resulting from the payment of dividends is recognized as an income tax expense in the same period as the dividends are declared regardless of for which period the dividends are declared or when they are actually paid out.

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

Income tax of the companies registered in Lithuania

Lithuanian tax laws provide that profit before taxes is adjusted for permanent and temporary differences. The Lithuanian corporate tax rate was 15 per cent in 2004 and 2005. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value in the consolidated financial statements. However, deferred income tax is not accounted for to the extent it arises from the initial recognition of an asset or liability in a transaction, except

when such a transaction is not a merger or other business combination which, at the time of the transaction, does not affect accounting, taxable profit or taxable loss. Deferred income tax is calculated with those tax rates and in accordance with those tax laws that had been enacted or substantially enacted by the end of the financial year, and the same rules normally apply also to the capital gain realised when an asset subject to deferred income tax is sold or disposed of or the deferred income tax liability otherwise becomes payable or is settled.

Assets subject to deferred income tax are recognised to the extent that it is probable that they will generate future taxable profits against which the temporary differences can be utilised. Income tax is deferred on temporary differences arising from investments in subsidiaries and associates, except in situations where the timing of the reversal of the temporary difference is in the Group's control and it is not probable that the temporary difference will be reversed in the foreseeable future.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The preparation of the annual financial statements involves estimates made by the Management Board of the parent Company about circumstances that influence the Group's and the parent Company's assets and liabilities as of the balance sheet date, and about income received and expenses incurred during the financial year. These estimates are based upon up-to-date information about the state of the Group and take into consideration the Group's plans and risks as they stand at the date of the financial statements' preparation.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include allocating purchase price in business combinations (Note 15), valuation of inventory (Note 12), valuation of goodwill (Note 15), determination of useful lives of property, plant and equipment (Note 19), valuation of provisions, contingent liabilities and contingent assets (Note 35).

- **Business combinations.** The management has carried out the valuations and prepared purchase price allocation analysis in order to estimate the fair values in purchase price allocation considerations.

The trademarks obtained in acquisitions of subsidiaries Express Hotline, Rahva Raamat, UAB Ekspress Leidyba, Pieniu Pieva and Tavo Vaikas have met the criteria for recognition as a separately identifiable asset acquired in a business combination given that these are registered trademarks in Estonia and Lithuania respectively and are in continuous commercial use. As the trademarks are actively used and promoted by AS Ekspress Grupp and the creation of such trademarks would require resources, a cost approach was selected to provide the most accurate measure of value. Thus, the cost approach method was used for valuation of the trademarks. A remaining useful life of 20 years has been assigned to the trademarks.

- **Valuation of Inventory.** Upon valuation of inventories, the management will rely on its best knowledge taking into consideration historical experience, general background information and assumptions and preconditions of the future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered, upon valuation of raw materials and materials, their potential of usage in producing the finished goods and generating income is considered; upon valuation of work in progress, their stage of completion that can reliably be measured is considered.

The recognition of publishing revenue includes the estimation to anticipated return rates. The anticipated return rates are based on management estimate and historical data of return. If the rate of return increases by 5 per cent, the revenue would decrease by EEK 800 thousand.

- **Valuation of Goodwill.** Goodwill is the excess of the cost of the acquisition over the fair value of the acquired net assets, reflecting the part of cost that was paid for the acquisition of such assets than cannot be separately identified and recognised. Goodwill as an intangible asset with an indefinite useful life is not amortised but it is tested for impairment at least once a year. The management has performed an impairment test for goodwill resulting from the following corporate acquisitions: Ekspress Leidyba, Netikuulutus, Raamatuvaramu, Ajakirjade Kirjastus, Ekspress Hotline.

Future expected cash flows based on the budgeted sales volumes in the Lithuanian and Estonian market respectively have been taken into consideration in finding the recoverable amount of the investments. The future expected cash flows have been discounted using the expected rate of return. If the recoverable amount of the investment is lower than its carrying amount, an impairment loss is recorded to write down the investment to its recoverable amount. The recoverable values were found to be in excess of the carrying value. Thus, the related goodwill was not impaired.

If the cash flow is decreased for 10 per cent or discount rate is increased for 2 per cent, the result of goodwill based on discounted cash flows would not lead to impairment.

Estimates and judgements used in business combination evaluations are continually evaluated. If the actual results differ from the estimates, the respective adjustments will be made subsequently.

- **Property, plant and equipment.** Depreciation of property, plant and equipment is based on the historical acquisition value (purchase cost), with appropriate adjustment for impairment and taking into account the estimated useful life of various classes of assets. The Management has determined the estimated useful lives of the property, plant and equipment, taking into account the business conditions and volumes, historical experience in given fields and future projections. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

According to the estimates the useful lives for buildings is 20-30 years, depending on their structure and purpose. The useful life for manufacturing plant and equipment is 8-12 years, depending on the nature of specific assets and their purposes. The useful life of other machinery and equipment is 5-10 years depending on their usage. The useful life of other fixed assets and IT equipment is 3-5 years, depending on the nature of each asset and its purpose. There have been no changes in depreciation rates during 2003–2005.

If the useful lives increase by 10 per cent the decrease of the annual depreciation charge would be EEK 320 thousand, EEK 1 280 thousand and EEK 480 thousand for 'Buildings', 'Plant and equipment' and 'Other equipment' respectively. The total decrease of depreciation charge in case of increase in useful lives of 10 per cent would be EEK 2 080 thousand.

- **Valuation of provisions, contingent liabilities and contingent assets.** In estimating the probability of realisation of contingent assets and liabilities the management is considering the historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation. There are no material provisions within the Group.
- As of 31 December 2004 the 49 per cent of ownership in UAB Medipresa is according to the management judgement considered to give joint control over the Company. The details are described in Note 16.

- The Group has receivables and loans given to related parties. According to the management judgement these receivables and loans are not impaired and should not be provided for. Further explanation of related parties' transactions is provided in Note 37.

Financial Risk Management

Currency Fluctuation Impact

The Group has no significant concentrations of foreign exchange risk. The Group does not hedge its foreign currency risk arising from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group pays most of primary suppliers of paper and other materials in euros, whilst domestic suppliers and workforce are being paid in Estonian kroons and Lithuanian litas. Group companies have minimized foreign currency net open balances.

Interest Rate Risk

Interest rates related to the loans and borrowings of the Group are mainly fixed and in some cases related to Euribor or Libor. The Group has not engaged in any interest rate hedging. Interest risk arises from floating rate borrowings. Changes in floating interest rates and changes in average market interest rates affect the Group's interest expenses. Management estimates that the Group does not have any major interest rate risks.

MANAGEMENT

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

Supervisory Council

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

- approval of the Company's overall strategy and business plans, supervision of their execution;
- approval of the annual budget and investment plan prepared by the Management Board;
- review of the annual report prepared by the Management Board;
- approval of transactions between the Company and members of its Management Board and decisions regarding taking action against members of the Management Board, and appointing a representative for the Company in such action or transaction;
- approval of transactions outside the ordinary course of business of the Company.

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

- acquisition and disposal of shares in other companies;
- establishing and winding-up of subsidiaries;
- acquisition, transfer or winding-up of businesses;
- establishing and closing of branches abroad;
- investments with a value in excess of EEK 1 000 000 either in one investment or as a series of related investments;
- taking loans or other debt obligations in excess of EEK 1 000 000 either in one loan or as a series of related loans;
- giving loans or granting security for debt in excess of EEK 1 000 000, apart from intra-group loans and securing debt obligations of group companies;
- acquisition, transfer or encumbrance of the Company's assets with a value in excess of EEK 1 000 000 and agreements which may later result in obligation for such an acquisition, transfer or encumbrance.

According to the Company's Articles of Association, the Supervisory Council comprises three to seven members elected by the General Meeting of Shareholders for a term of five years. The Supervisory Council elects one of its members to act as the chairman, who is responsible for organizing the activities of the Supervisory Council.

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

Name	Year of birth	Member since	Position	Current term expires
Viktor Mahhov	1967	13 January 2006	Chairman	13 January 2011
Hans Luik	1961	1 June 2004	Member	1 June 2009
Selle Luik	1972	1 June 2004	Member	1 June 2009
Kalle Norberg	1966	1 June 2004	Member	1 June 2009
Härmo Värk	1963	15 September 2006	Member	15 September 2011

Viktor Mahhov. Mr. Viktor Mahhov, born 1967, is the chairman of the Supervisory Council of the Company. He joined the Company in 1999 and served as its CFO from 1999 to 2002 and as the CEO from 2002 to 2005. Before joining the company he was the CFO of AS Võru Juust. From 1999 to 2003 he also served as the Adjunct Professor of Finance at Concordia International University in Estonia. He is currently also a member of the supervisory council of SuurSepa Arenduse AS, AS EnterNet Providers, AS Privess, AS Bravocom Mobiil, and a member of the management board of OÜ Integer Management Services, OÜ Pluss Minut and a non-profit organization Concordia Akadeemiline Ühisus. Mr. Mahhov was a member of the management board of Kaarli pst 11 Korteriühistu until 2002, and AS Laferme until 2007, and a member of the supervisory council of OÜ Ajakirjanduse Tellimiskeskus until 2002. Mr. Mahhov graduated in 1992 from the University of St. Petersburg, Russia with a Master's degree in economics.

Hans Luik. Mr. Hans Luik, born 1961, has been a member of the Supervisory Council of the Company since 1995. He is currently also a member of the supervisory council of AS Julianuse Inkasso Agentuur, AS Laferme, AS Bravocom Mobiil, Ammende Villa AS, SuurSepa Arenduse AS, AS Julianus Grupp and a member of the Management Board of HHL Rühm OÜ and OÜ Minigert. Mr. Luik was a member of the management board of OÜ Moraales until 2002, the Estonian Business Association (*Eesti Suurettevõtjate Assotsiatsioon*) until 2003, OÜ OIRT until 2004, OÜ Starforte until 2005 and a member of the supervisory council of OÜ Õhtuleht until 2001, OÜ Gloss Invest until 2001, AS Plusspunkt until 2001, Eesti Ekspressi Investeeringute AS until 2002, OÜ Ajakirjade Grupp until 2002, OÜ AGE Com until 2002, RER Valduse AS until 2003, AS Kroontrükk until 2003, AS Trio LSL until 2003, AS Kiirliin until 2004, Raudtee Erastamise Rahva AS until 2004, Väärtpaperiparisnike AS until 2005. Mr. Luik graduated in 1984 from Tartu University where he specialized in journalism and social sciences.

Selle Luik. Mrs. Selle Luik, born 1972, has been a member of the Supervisory Council of the Company since 2004. She is also a member of the supervisory council of AS Julianuse Inkasso Agentuur and a member of the management board of AS Laferme, OÜ Ekspressmaja, OÜ Lars Group, OÜ Eesti Jonnipunnid, OÜ Minigert, OÜ Hõbesilm, OÜ Õigusbüroo Garandia. Mrs. Luik was a member of the management board of OÜ Soiree until 2001, OÜ Urban Invest until 2004, and Toom-Rüütli 12 Korteriühistu until 2004, OÜ Starforte until 2005. She graduated in 1996 from Tartu University where she specialised in journalism. She is married to Mr. Hans Luik.

Kalle Norberg. Mr. Kalle Norberg, born 1966, has been a member of the Supervisory Council of the Company since 2004. Before that, he was the founding partner of Luxembourg Financial Services Group (2004) and the senior partner and head of private banking at AS Suprema Securities (2000-2004). Mr. Norberg is also a member of the supervisory council of AS Bravocom Mobiil, Inglise Kolledži Sihtasutus, a member of the management board of Knor Invest OÜ, OÜ Calito, OÜ Circle, OÜ SPP Invest, OÜ SSF Invest, and the legal representative of the Estonian branch of LFS Family Offices S.A. Mr. Norberg was a member of the management board of Frestal Haldus OÜ until 2002, and First Telecom Trading OÜ until 2003, and a member of the supervisory council of TREVEK Kinnisvarahalduse AS until 2002, AS Corporent until 2002, Suprema Securities AS until 2002, OÜ In Bro & Partners Kindlustusmaakler until 2005, and Ühinenud Autokeskused AS until 2006. Mr. Norberg has been a member of the Listing and Surveillance Committee of OMX Tallinn Stock Exchange since 1995. He graduated in 1993 from Tartu University where he specialised in econometrics, and in 1997 he received an MBA degree from Helsinki School of Economics in Finland.

Härmo Värk. Mr. Härmo Värk, born 1963, has been a member of the Supervisory Council of the Company since 2006. He was the Managing Director of AS Sampo Pank from 2000 until 2005 when he became the Director of Sampo Baltic Banking responsible for pan-Baltic projects and large customer relations. Mr. Värk is also a member of the management board of Satnam Estonia OÜ, Satnam Europe OÜ, OÜ Domina Service, OÜ Weckett, OÜ Chelsea Invest, MTÜ Audi Klubi, and a member of the supervisory council of UAB Sampo Bankas. He is an active member of the Estonian Employers' Confederation (*Eesti Tööandjate Keskliit*). He was a member of the management board of AS Sampo Pank until 2006, Estonian Banking Association (*Eesti Pangaliit*) until 2006, the Estonian Tennis Association (*Eesti Tennise Liit*) until 2003, Frestal Haldus OÜ until 2002 and a member of the supervisory council of AS Sampo Liising until 2006, Sampo Kinnisvarahalduse AS until 2006, Sampo Baltic Asset Management AS until 2006, AS Sampo Pank until 2006, and TREVEK Kinnisvarahalduse AS until 2002. He graduated in 1986 from Tartu University in Estonia, where he studied economics, and in 1995 from the executive MBA course of Helsinki School of Economics in Finland.

Management Board

The Management Board manages the Company's daily business operations. See "Estonian Securities Market – Corporate Governance" for further information on the duties of the Management Board. According to the Company's Articles of Association, the Management Board consists of one to five members elected by the Supervisory Council for a term of three years. If the Management Board has more than two members, the members of the Management Board elect one of its members to serve as the chairman.

As of the date of this Offering Circular, the sole member of the Management Board is Priit Leito, whose term of office commenced on 3 January 2006 and will expire on 3 January 2009. Mr. Priit Leito, born 1975, is the chief executive of the Company. He has been working for the Company since 2005. From 2000 to 2005 he served as the managing director of SL Õhtuleht. Before then he was the managing director of AS Sõnumileht. Mr. Leito has also been a member of the Management Board of AS Sõnumileht until 2005 and the member of the supervisory council of the Estonian Newspaper Association. Mr. Leito graduated in 1997 from Tartu University, *cum laude*, specializing in economics.

Although the Corporate Governance Recommendations adopted by the Estonian Financial Supervision Authority (for more details see "Estonian Securities Market – Estonian Company Law – Corporate Governance") require the Management Board of a listed company to have more than one member, the Supervisory Council of the Company does not intend to increase the number of members of the Management Board. The Supervisory Council believes that, as the Company is a holding company and management resources are primarily needed in the subsidiaries and affiliates, a one-person Management Board suffices for the requirements of the Company's day-to-day management. Accordingly, the Supervisory Council is of the opinion that the current composition of the Management Board fully satisfies the needs of the Company and that there is no need to extend the Management Board.

The Corporate Governance Recommendations also call for the disclosure of the remuneration of each member of the Management Board on the Company's website including the details about his/her base salary, performance related bonuses, severance packages, other financial benefits and bonuses. The Supervisory Council of the Company believes that publishing such personal information would seriously damage the privacy of the members of the Management Board, and has therefore decided that the Company will not publish such information in the manner contemplated in the Corporate Governance Recommendations. However, as the Management Board has only one member, details of his salary and other benefits are published in the annual reports of the Company as required by law.

In all other respects the Company complies with the Corporate Governance Recommendations.

Other Key Executives

Name	Year of birth	Position
Viljar Ots	1969	Chairman of the management board of Eesti Ekspress
Aavo Kokk	1964	Chairman of the management board of Eesti Päevaleht
Kristjan Mauer	1975	Chairman of the management board of SL Õhtuleht
Eve Maremäe	1955	Chairman of the management board of Linnaleht
Ain Lausmaa	1974	Chairman of the management board of Ajakirjade Kirjastus
Andrus Takkin	1963	Chairman of the management board of Printall
Sven Suurraid	1968	Chairman of the management board of Express Post
Vahur Kukk	1969	Chairman of the management board of Ekspress Hotline
Gertti Kogermann	1975	Chairman of the management board of Rahva Raamat
Mindaugas Norvaišis	1974	Director of Ekspress Leidyba

Viljar Ots. Mr. Viljar Ots, born 1969, is the chairman of the Management Board of Eesti Ekspress. He joined Eesti Ekspress in 1998. He has also been the chairman of the supervisory council of Rahva Raamat since 2004, and a member of the supervisory council of Netikuulutused since 2005. He is a member of the management board of OÜ Veks Invest. Mr. Ots was a member of the management board of OÜ Enter Estonia until 2003. Mr. Ots graduated in 2004 from Audentese Business School.

Aavo Kokk. Mr. Aavo Kokk, born in 1964, is the chairman of the management board of Eesti Päevaleht. He joined Eesti Päevaleht in 2002. Prior to that, he served as the editor in chief of Eesti Ekspress from 1997 to 2002. Before then, from 1993 to 1997 he was a member of the executive board, Vice Chairman and Chief Economist at the Estonian Savings Bank. Mr. Kokk is also a member of the supervisory council of AS Audentes, AS Helmes, and member of the management board of OÜ Synd&Katts. Mr. Kokk was a member of the management board of OÜ Balti Juhtimiskonverents until 2003 and a member of the supervisory council of OÜ Stude Invest until 2002, Trigon Funds AS until 2004, and AS Eesti Konjunkturiinstituut until 2004. Mr. Kokk graduated in 1990 from Tartu University where he specialised in journalism, and also studied in the University of Stockholm in Sweden.

Kristjan Mauer. Mr. Kristjan Mauer, born 1975, is the chairman of the management board of SL Õhtuleht. He joined SL Õhtuleht in 2001 and served as its marketing director until he was appointed to his current position in 2005. Prior to that, he was the development and marketing manager at BAKT Kaubanduse AS from 1998 to 2000. Mr. Mauer graduated in 2003 from the Estonian Business School specialising in marketing management.

Eve Maremäe. Ms. Eve Maremäe, born 1955, is the chairman of the management board of Linnaleht. She joined Linnaleht in 2005. Prior to that, she was a Project Leader and Manager for Eesti Päevaleht. Ms. Maremäe graduated in 1978 from the Estonian Academy of Theatre and Music.

Ain Lausmaa. Mr. Ain Lausmaa, born 1974, has been the chairman of the management board of Ajakirjade Kirjastus since 2000. Mr. Lausmaa is also a member of the management board of OÜ Lavigo. He graduated in 2000 from the Tallinn University of Technology, where he specialised in business management.

Andrus Takkin. Mr. Andrus Takkin, born in 1963, is the chairman of the management board of Printall. He joined Printall in 2000. Prior to that, he was the managing director and member of the Board of Max Schön Eesti OÜ. Mr. Takkin was a member of the management board of AS Privess until 2005. Mr. Takkin graduated in 1989 from the Tallinn University of Technology where he specialised in fine mechanics.

Sven Suurraid. Mr. Sven Suurraid, born in 1968, is the chairman of the management board of Express Post. He joined Express Post in 2003. Prior to that he was an assistant divisional director and a regional director at AS Hansapank from 2000 to 2002. Mr. Suurraid is a member of the management board of a non-profit organization Kangru Küla Selts. Mr. Suurraid was a member of the management board of OÜ Monex until 2002. He graduated in 2000 from the Estonian Business School, where he specialised in international business.

Vahur Kukk. Mr. Vahur Kukk, born 1969, is the chairman of the management board of Ekspress Hotline. He joined Ekspress Hotline in 1999 and served as its development director until he was appointed to his current position in 2006. Prior to joining Ekspress Hotline, Mr. Kukk was the sales director at OÜ Plusspunkt. Mr. Kukk is also a member of the management board of a non-profit organization Tornivaatleja.

Gertti Kogermann. Mr. Gertti Kogermann, born 1975, is the chairman of the management board of Rahva Raamat. He has been on the management board of Rahva Raamat since 2004. From 2000 to 2002 he worked as the sales director, and from 2002 to 2006 as the distribution director at Eesti Ekspress. He graduated in 2003 from Akadeemia Nord University, where he specialized in law

Mindaugas Norvaišis. Mr. Mindaugas Norvaišis, born 1974, is the director of Ekspress Leidyba. He joined Ekspress Leidyba in 2004. Prior to that he was the head of sales and marketing at Observer Lietuva from 2000 to 2004. He graduated in 1998 from the International Business School at Vilnius University in Lithuania in 1998.

The business address for all of the above persons is: c/o AS Ekspress Grupp, Narva mnt 11E, 10151 Tallinn, Estonia.

Remuneration

The following table sets forth the aggregate gross amounts of salaries and other remuneration paid by the Group to the members of its Supervisory Council, Management Board and other key executives for the financial year ended 31 December 2006:

	Salary (EEK)	Bonuses (EEK)	Total remuneration (EEK)
Supervisory Council	0	0	0
Management Board	816 000	1 452 836	2 268 836
Other key executives	4 579 848	2 143 706	6 723 554

Mr. Priit Leito has a three-year service contract with the Company expiring on 21 November 2008. The contract entitles Mr. Leito to a monthly fee of EEK 68 000 and an incentive bonus of 4.5 per cent of the amount by which the profits of the Company have increased compared to the preceding financial year, provided that the specified financial indicators relating to Ekspress Leidyba have also improved. The contract provides for a 28 days' paid vacation, training costs, use of company car, as well as allowances for petrol and mobile phone. Mr. Leito is entitled to compensation equal to four months' salary upon termination of his contract, except when he has terminated it himself or the Company has terminated it for cause. The Company is entitled to terminate the contract with immediate effect for causes specified in the contract. The contract includes a confidentiality clause with an indefinite term, and a non-compete covenant for as long as the contract remains in force, and that covenant can be extended for one year after termination provided that the Company in that case continues paying Mr. Leito 10 per cent of his monthly salary for as long as the covenant remains in force.

Mr. Viktor Mahhov has an employment agreement with the Company dated on 25 November 2005 and concluded for an indefinite term. Mr. Mahhov is employed as a consultant to the Management Board and his responsibilities include participating in the supervisory council of Ajakirjade Kirjastus, Express Post and Printall, organizing the management of Ekspress Hotline, and consulting and advising the Company's

Management Board. The agreement entitles Mahhov to a monthly salary of EEK 63 500. The agreement provides for 28 days' paid vacation, training costs, use of company car, as well as allowances for petrol and mobile phone. The agreement also includes confidentiality and non-compete clauses for the duration of the agreement. The agreement contains no provision regarding compensation upon termination and can be terminated by either party based on the different notice periods established by the Employment Contracts Act (*töölepingu seadus*).

Pension Benefits

The company does not have pension plans, arrangements, or executive schemes.

Loan Agreements

As of the date of this Offering Circular there are no outstanding loans, guarantees or other collaterals issued or provided by the Group companies to the Company's members of the Supervisory Council or the Management Board or other key executives.

Employment Agreements

The Group and its affiliates have entered into employment agreements or service contracts with all members of the senior management. The agreements of the senior management contain customary terms and conditions regarding salary, benefits, and termination. Under the terms of their employment agreements or service contracts, most members of the senior management are paid a base salary and provided benefits including a company car, car fuel, and use of a mobile phone. Some of these agreements provide for a compensation upon termination equal to no more than six months' salary. Most of the agreements also include confidentiality and non-compete clauses.

Incentive Schemes

Apart from their rights as shareholders, no member of the Supervisory Council or the Management Board has any options to purchase or sell Shares, or rights to subscribe for New Shares or shares in any other company within the Group.

Share Ownership and Participation in the Combined Offering

Mr. Hans Luik is the only member of the Management who owns shares in the Company. As of the date of this Offering Circular, Mr. Hans Luik holds directly and indirectly 100 per cent of the shares of the Company. See also "Company, Share Capital and Ownership Structure - Shareholders of the Company".

The existing shareholders of the Company and the members of its management, supervisory or administrative bodies may participate in the Combined Offering subject to the conditions of the Combined Offering as set forth in this Offering Circular. The Company is not aware whether or not such persons intend to participate in the Combined Offering. To the extent that the Company is informed, none of such persons intend to subscribe for more than five per cent of the Offer Shares.

Additionally, the current shareholders are considering selling certain shares of the Company to the management and key executives of the Group and its affiliates. As of the date of this Offering Circular, no agreement has been reached regarding such sale.

Transactions with Ekspress, Legal Issues

No member of the Supervisory Council or the Management Board has had any interest in transactions effected by the Company or its subsidiaries, which are unusual in their nature or which contain unusual terms or conditions, during the financial years ended 31 December 2004 and 2005 or the current financial year. Mr. Hans Luik and/or Mrs. Selle Luik may have potential conflicts of interests between their duties to the Company as members of the Supervisory Council and their private interests and duties to other

companies in connection with certain transactions between the Group and its affiliates and other companies under the control of and/or represented by Mr. Hans Luik and/or Mrs. Selle Luik. For more details see “Business – Related Party Transactions”. The Company is not aware of any other potential conflicts of interest between the duties of the above mentioned persons to the Company and their private interests or other duties.

The Company is not aware of any convictions in relation to fraudulent offences or any official public incrimination and/or sanctions with respect to the members of its Supervisory Council or Management Board or other key executives, except for the misdemeanour conviction of 13 December 2005 against Ajakirjade Kirjastus and Ain Lausmaa as the member of the management board of that company, for the violation of the trade mark “*Köögikalender*” on 9 October 2002. Ajakirjade Kirjastus had challenged AS Maaleht’s trade mark registration of the term “*köögikalender*” (‘kitchen calendar’), because the term is in widespread and common use, but lost its case. As a result, AS Maaleht prosecuted Ajakirjade Kirjastus and Ain Lausmaa for violation of its trademark.

As part of internal Group restructuring AS Plusspunkt was liquidated in 2000 and AS Kroontrükk in 2002. The liquidation of OÜ Öhtuleht has been started in 2001 and is still ongoing. Mr. Hans Luik was a member of the supervisory council in all three entities prior to their liquidation.

On 22 December 2004, Tallinn City Court initiated bankruptcy proceedings against OÜ Starforte. Hans Luik and Selle Luik were members of the management board until 6 January 2005. On 6 January 2005, the court appointed Veli Kraavi as the bankruptcy trustee. OÜ Starforte became insolvent when its principal business, the recycling of plastic bottles, could no longer be sustained following termination of an essential contract by a third-party. This case is ongoing but no claims against the management board members have been filed nor are expected.

On 18 June 2003, Tallinn City Court initiated bankruptcy proceedings against OÜ Urban Invest. On 17 December 2003, the court appointed Liina Nõmmik as the bankruptcy trustee. On 8 March 2004, the court terminated the proceedings and closed the case because there were insufficient funds to carry out the bankruptcy procedure. Selle Luik was a member of the management board until 8 March 2004. The principal business of OÜ Urban Invest was acquiring a certain real estate unit from the municipality and commercializing such real estate. It became insolvent when the condition of the building on the said real estate deteriorated and the municipal authorities decided not to privatize the said property. No claims for mismanagement or fraud were filed against the management board members.

On 11 October 2000, Tallinn City Court initiated bankruptcy proceedings against OÜ Stude Invest. On 23 October 2000, the court appointed Rein Kallaste as the bankruptcy trustee. On 6 March 2002, the court terminated the proceedings and closed the case because there were insufficient funds to carry out the bankruptcy procedure. On 4 April 2002, the company was removed from the commercial register based on the petition of the trustee. Aavo Kokk was a member of the supervisory council until 4 April 2002. No claims for mismanagement or fraud were filed against the supervisory council members.

The Company is not aware that any member of the Supervisory Council or the Management Board has been disqualified by any court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

COMPANY, SHARE CAPITAL AND OWNERSHIP STRUCTURE

General Information on the Company

Name, place of registration, legal form

The legal (business) name of the Company is Aktsiaselts Ekspress Grupp. The Company is a public limited company (*aktsiaselts*) incorporated pursuant to the laws of the Republic of Estonia. The Company is registered with the Estonian Commercial Register (*Äriregister*) under registration code 10004677.

The Company was originally registered with the Enterprise Register on 27 September 1995 under the name of AS Avolemb. Following the abolition of the Enterprise Register, the Company was registered with the Commercial Register on 13 December 1995 under the name of AS Meediakorp. The Company was re-named Aktsiaselts Ekspress Grupp on 29 July 1998 and has operated under this name since that time.

The Company has been established for an indefinite term.

Registered office

The Company's registered office is in Tallinn, Estonia at the address Narva mnt 11E, 10151 Tallinn, Estonia, telephone (+372) 669 8081.

Fields of activities

Pursuant to Article 1.3 of the Company's Articles of Association, the Company's fields of activities are (i) investment activities; and (ii) publishing and organisation thereof.

Financial year

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

Subsidiaries

The Company is the operating parent company of the Group.

The Company owns all shares of its subsidiary Eesti Ekspressi Kirjastuse Aktsiaselts ("Eesti Ekspress"), incorporated in Estonia with its registered office at Narva mnt 11E, 10151 Tallinn, Estonia. The share capital of Eesti Ekspress is EEK 2 000 000 divided into 2 000 shares of nominal value EEK 1 000 each. The main field of activity of Eesti Ekspress is publishing the Eesti Ekspress weekly newspaper.

Eesti Ekspress in turn owns all the shares of its subsidiary Rahva Raamat Aktsiaselts ("Rahva Raamat"), incorporated in Estonia with its registered office at Viru väljak 4/6, 10111 Tallinn, Estonia. The share capital of Rahva Raamat is EEK 400 000 divided into 40 000 shares of nominal value EEK 10 each. The main field of activity of Rahva Raamat is retail and wholesale of books and writing materials. On 13 July 2006 another subsidiary of the Company Osäühing Raamatuvaramu was merged with Rahva Raamat, as a result of which Osäühing Raamatuvaramu ceased to exist and all of its assets and liabilities were transferred to Rahva Raamat.

The Company owns all shares of its subsidiary Aktsiaselts Printall ("Printall"), incorporated in Estonia with its registered office at Peterburi tee 64a, 11415 Tallinn, Estonia. The share capital of Printall is EEK 68 244 600 divided into 682 446 shares of nominal value EEK 100 each. The main field of activity of Printall is providing printing services.

The Company owns all shares of its subsidiary Aktsiaselts Ekspress Hotline ("Ekspress Hotline"), incorporated in Estonia with its registered office at Weizenbergi 20, 10150 Tallinn, Estonia. The share capital of Ekspress Hotline is EEK 3 600 000 divided into 3 600 shares of nominal value EEK 1 000 each.

The main field of activity of Ekspress Hotline is providing information by phone and publishing phone directories.

Ekspress Hotline in turn owns all shares in its subsidiaries Aktsiaselts Infoatlas (“Infoatlas”) (share capital EEK 400 000 divided into 40 000 shares of nominal value EEK 10 each), Ekspresskataloogide Aktsiaselts (“Ekspresskataloogid”) (share capital EEK 404 000 divided into 4 040 shares of nominal value EEK 100 each), Aktsiaselts Numbriinfo (“Numbriinfo”) (share capital EEK 400 000 divided into 4 000 shares of nominal value EEK 100 each) and Kõnekeskuse Aktsiaselts (“Kõnekeskus”) (share capital EEK 1 000 000 divided into 1 000 shares of nominal value EEK 1 000 each). All these four companies are incorporated in Estonia and have their registered office at Weizenbergi 20, 10150 Tallinn, Estonia. The principal business of Infoatlas and Ekspresskataloogid is phone directories, Numbriinfo is mainly focused on information line services, and Kõnekeskus is involved in call center services.

The Company owns an 80 per cent share in its subsidiary OÜ Ekspress Internet, incorporated in Estonia with its registered office at Aardla 118-36, 50415 Tartu, Estonia. The rest of the shares in Ekspress Internet are held by Priit Maanurm, Marko Johanson, Toomas Laasik and Anti Lehist, each of whom own 5 per cent of the shares of this company. The share capital of Ekspress Internet is EEK 40 000 divided into 5 shares of different nominal values ranging from EEK 2 000 to EEK 32 000. As of 1 July 2008, the Company shall have an option to purchase the remaining shares of Ekspress Internet from the other shareholders for the price determined as a percentage of the net operating revenues of Ekspress Internet during the 12 months prior to the exercise of the option. The main field of activity of Ekspress Internet is operating an internet portal for motor vehicle advertisements at www.ac24.ee (also available at www.autocentrum.ee).

The Company owns 99.73 per cent of the shares in its subsidiary UAB “Ekspress Leidyba” (“Ekspress Leidyba”), which is incorporated in Lithuania with its registered office at P. Smulgevičiaus str. 21, Vilnius, Lithuania. The rest of the shares in Ekspress Leidyba are held by Mr. Regimantas Gedgaudas (395 shares representing 0.16 per cent of the share capital), Mr. Arvydas Makaravičius (199 shares representing 0.08 per cent of the share capital), Mr. Rimantas Butkevičius (67 shares representing 0.03 per cent of the share capital) and Mr. Romualdas Grigalevičius (1 share representing 0.0004 per cent of the share capital). The share capital of Ekspress Leidyba is LTL 2 465 760, divided into 246 576 shares of nominal value LTL 10 each. The main field of activity of Ekspress Leidyba is publishing journals and newspapers.

The Company owns 100 per cent of shares in its subsidiary OÜ Zinzin, which is incorporated in Estonia with its registered office at Narva mnt 11e, 10151 Tallinn, Estonia. The share capital of OÜ Zinzin is EEK 40 000. At present time OÜ Zinzin does not have any activities.

On 13 September 2005 UAB “Pienių pieva” and on 11 November 2005 UAB “Tavo vaikas”, both subsidiaries of Ekspress Leidyba, were merged into Ekspress Leidyba, as a result of which these two companies ceased to exist and all of their assets and liabilities were transferred to Ekspress Leidyba.

Ekspress Leidyba is also the founder and the sole stakeholder of VšĮ Žurnalo “Panele” fondas (Magazine Panele’s Foundation), an incorporated non-profit public legal person with limited liability. Lithuanian businesses can use foundations like this to channel part of their profits tax-efficiently to charity. The aim of Magazine Panele’s Foundation is to support disabled or disadvantaged young people to manage and encourage positive life values among them.

Affiliated Companies

The Company owns 50 per cent of the shares in Eesti Päevalehe Aktsiaselts (“Eesti Päevaleht”), incorporated in Estonia with its registered office at Narva mnt 13, 10151 Tallinn, Estonia. The remaining 50 per cent of the shares in Eesti Päevaleht are held by OÜ Vivarone, the sole shareholder of which, according to the data obtained from the Estonian Commercial Register, is Mr. Jaan Manitski. The share capital of Eesti Päevaleht is EEK 5 714 280 divided into 95 238 shares of nominal value EEK 60 each. The principal business of the company is to publish the daily newspaper Eesti Päevaleht.

Each of Eesti Ekspress and Eesti Päevaleht owns 50 per cent of the shares in Osäühing Netikuulutused (“Netikuulutused”), incorporated in Estonia with its registered office at Narva mnt 13, 10151 Tallinn, Estonia. The share capital of Netikuulutused is EEK 40 000 divided into 2 shares of nominal value EEK 20 000 each. The main field of activity of Netikuulutused is the administration of databases, advertising, and issuing newspapers.

Eesti Päevaleht owns 50 per cent of the shares in Aktsiaselts Linnaleht (“Linnaleht”), incorporated in Estonia with its registered office at Narva mnt 13, 10151 Tallinn, Estonia. The remaining 50 per cent of the shares in Linnaleht are held by AS Eesti Meedia. The share capital of Linnaleht is EEK 400 000 divided into 4 000 shares of nominal value EEK 100 each. The principal business of this company is to publish Linnaleht, a daily free-distribution newspaper, in three local editions for Tallinn, Tartu and Pärnu.

The Company owns 50 per cent of the shares in Aktsiaselts SL Õhtuleht (“SL Õhtuleht”), incorporated in Estonia with its registered office at Narva mnt 13, 10151 Tallinn, Estonia. The remaining 50 per cent of the shares in SL Õhtuleht are held by AS Eesti Meedia. The share capital of SL Õhtuleht is EEK 3 000 000 divided into 30 000 shares of nominal value EEK 100 each. The principal business of this company is to publish SL Õhtuleht, a daily tabloid newspaper.

The Company owns 50 per cent of the shares in AS Express Post (“Express Post”), incorporated in Estonia with its registered office at Maakri 23A, 10145 Tallinn, Estonia. The remaining 50 per cent of the shares in Express Post are held by AS Eesti Meedia. The share capital of Express Post is EEK 1 120 000 divided into 112 shares of nominal value EEK 10 000 each. The main field of activity of Express Post is the administering of subscriptions and the delivery of newspapers and magazines.

The Company owns 50 per cent of the shares in Aktsiaselts Ajakirjade Kirjastus (“Ajakirjade Kirjastus”), incorporated in Estonia with its registered office at Maakri 23a, 10145 Tallinn, Estonia. The remaining 50 per cent of the shares in Ajakirjade Kirjastus are held by AS Eesti Meedia. The share capital of Ajakirjade Kirjastus is EEK 3 000 000 divided into 30 000 shares of nominal value EEK 100 each. The main field of activity of Ajakirjade Kirjastus is publishing.

Ekspress Leidyba owns 40 per cent of the shares in UAB “Medipresa” (“Medipresa”), incorporated in Lithuania with its registered office at P. Smulgevičiaus str. 21, Vilnius, Lithuania. The rest of the shares in Medipresa are held by UAB “Žurnalų leidybos grupė” (400 shares representing 40 per cent of the share capital of Medipresa) and UAB “VEIDO” PERIODIKOS LEIDYKLA (200 shares representing 20 per cent of the share capital of Medipresa). The share capital of this company is LTL 100 000 divided into 1 000 shares of nominal value LTL 100 each. The main field of activity of Medipresa is wholesale of magazines.

The Company and AS Eesti Meedia have entered into a shareholders’ agreement regarding SL Õhtuleht, Express Post and Ajakirjade Kirjastus, which regulates, among other things, the exercise of shared control over these companies. Under this agreement, each shareholder is entitled to nominate half of the members of the Supervisory Council of each joint venture company. Each shareholder is entitled to nominate Chairman of the Supervisory Council in alternate years, but the Chairman has no casting vote. The shareholders’ agreement also provides for a procedure for the removal of the member(s) of the Management Board. The agreement provides a mechanism for a deadlock situation in the decision making of each joint venture, whereby either shareholder must either offer to acquire the shares of the other shareholder or, alternatively, agree to sell its shares to the other shareholder. The agreement also grants the shareholders the right to acquire the shares held by the other shareholder in the event that the other shareholder suffers change of control.

Eesti Päevaleht and AS Eesti Meedia have entered into a shareholders’ agreement regarding Linnaleht, which regulates, among other things, the exercise of shared control over this company. Under this agreement, each shareholder is entitled to nominate half of the members of the Supervisory Council of the joint venture company. The agreement provides a mechanism for a deadlock situation in the decision making of the joint venture, whereby either shareholder must either offer to acquire the shares of the other shareholder or, alternatively, agree to sell its shares to the other shareholder.

No written or oral agreement has been concluded between the Company and OÜ Vivarone with regard to exercising shared control over Eesti Päevaleht. In practice, the two shareholders of Eesti Päevaleht have strived to adopt all material management decisions unanimously over the nine years that this joint venture has been in existence and have elected an equal number of members representing each shareholder to the Supervisory Council of Eesti Päevaleht.

The Company is not aware of any other restrictions regarding use of its voting rights in any of its affiliates or subsidiaries.

Information on Share Capital and Shares

As of 31 December 2005, the Company's registered share capital was EEK 2 216 000 divided into 2 216 fully paid Shares with a nominal (par) value of EEK 1 000 each.

As of the date of this Offering Circular, the Company's registered share capital is EEK 165 232 000 divided into 16 523 200 fully paid Shares with a nominal value of EEK 10 each. See "Changes in the Share Capital".

After the completion of the Combined Offering, the share capital of the Company will be EEK 189 710 810 divided into 18 971 081 Shares with a nominal (par) value of EEK 10 each.

The existing Offer Shares have been issued, and the new Offer Shares will be issued, under the laws of the Republic of Estonia. All existing Offer Shares are fully paid up. All existing Offer Shares and, once the increase of share capital relating to the issue of new Offer Shares is registered with the Estonian Commercial Register, the new Offer Shares will rank *pari passu* in all respects with all the remaining existing Shares.

The Shares are registered in book-entry form in the Estonian Central Register of Securities (as maintained by AS Eesti Väärtpaberikeskus, address Tartu mnt 2, Tallinn, 10145) under the identification number (ISIN code) EE3100016965.

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

Changes in the Share Capital

Since the registration of the Company in the Commercial Register on 13 December 1995, the amount of the share capital and the number of shares of the Company have changed as follows:

	Change in share capital (EEK)	New share capital (EEK)	Change in number of Shares	New number of Shares	Share nominal value (EEK)	Registered in Commercial Register
Registration of the Company in Commercial Register		2 000 000		2 000	1 000	13 December 1995
Share capital increase (new issue)	+ 215 000	2 215 000	+215	2 215	1 000	3 March 1998
Share capital increase (new issue)	+1 000	2 216 000	+1	2 216	1 000	5 August 1998
Share split and share capital increase (bonus issue)	+113 016 000	115 232 000	+11 520 984	11 523 200	10	12 September 2006
Share capital increase (new issue)	+50 000 000	165 232 000	+5 000 000	16 523 200	10	29 November 2006

On 31 August 2006 the General Meeting of Shareholders of the Company resolved to split the 2 216 existing shares of the Company into 221 600 shares (i.e. each existing share was split into 100 shares) and to increase the share capital of the Company from EEK 2 216 000 to EEK 115 232 000 by issuing 11 301 600 new Shares with the nominal value of EEK 10 each. The new shares were issued to the existing shareholders of the Company as a bonus issue of converting retained earnings into share capital. As a result of this bonus issue, each existing shareholder of the Company received 5 100 additional shares for each share owned by them prior to the bonus issue and the share split. The share split and the increase of the share capital were registered in the Commercial Register on 12 September 2006.

On 15 September 2006 the General Meeting of Shareholders of the Company resolved to increase the share capital of the Company from EEK 115 232 000 to EEK 165 232 000 by issuing 5 000 000 new Shares with the nominal value of EEK 10 each. The new Shares were issued to Mr. Hans Luik. The subscription price of the Shares was their nominal value, i.e. EEK 10 per each Share (for the Offer Price Range under this Combined Offering see “Terms and Conditions of the Retail Offering – Offer Price”). The Shares were paid for with a non-monetary contribution, the object of which was the 50 per cent shareholding in Ekspress Hotline. The increase of the share capital was registered in the Commercial Register on 29 November 2006.

Following the described share capital increases, the share capital of the Company is EEK 165 232 000, divided into 16 523 200 Shares with the nominal value of EEK 10 each.

Issue of New Offer Shares and Dilution

In connection with the Combined Offering, the Company will issue 2 447 881 new Offer Shares. The General Meeting of Shareholders is expected to approve the issue of new Offer Shares on or about 29 March 2007. The notice calling this General Meeting of Shareholders has been published on 19 March 2007 through the Tallinn Stock Exchange. The Management Board will propose that the General Meeting of Shareholders should waive the pre-emptive right of shareholders to subscribe for the new Offer Shares in order to conduct the Combined Offering and thereby extend the shareholder base of the Company. The decisions of the General Meeting of Shareholders will be published through the Tallinn Stock Exchange no later than on 2 April 2007.

The Offer Shares represent approximately 32.21 per cent of the Company's share capital immediately prior to the Combined Offering and approximately 32.26 per cent of the Company's share capital following the completion of the Combined Offering assuming that the Over-Allotment Option is exercised in full.

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

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

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

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

Shareholders of the Company

According to the shareholder register of the Company as maintained in the ECRS, the Company had two shareholders, Mr. Hans Luik and OÜ HHL Rühm, as at the date of this Offering Circular.

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

Name	Number of Shares	%
Hans Luik	10 766 800	65.2
OÜ HHL Rühm	5 756 400	34.8
Total	16 523 200	100

Neither shareholder has any different voting rights compared to the other shareholder.

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

Controlling Shareholder

As of the date of this Offering Circular, Hans Luik, a member of the Company's Supervisory Council, controls, directly or indirectly all the votes that can be cast in the General Meeting of Shareholders of the Company.

Mr. Luik directly owns 10 766 800 Shares, entitling him to 65.2 per cent of the votes that can be cast in the General Meeting of Shareholders. The remaining 5 756 400 Shares, entitling to 34.8 per cent of the votes that can be cast in the General Meeting of Shareholders, are held by HHL Rühm Osäühing, a limited company registered in the Estonian Commercial Register under registration code 10743222. The registered office of HHL Rühm is Narva mnt 11E, 10151 Tallinn, Estonia. HHL Rühm is controlled by Hans Luik, the sole member of its Management Board, who owns the sole share of HHL Rühm representing 100 per cent of the share capital of HHL Rühm.

For the description of transactions entered into between the Group companies and other companies in which Mr. Luik has directly or indirectly the majority shareholding, see "Business – Related Party Transactions".

In the Combined Offering HHL Rühm is offering up to 2 873 600 Offer Shares for sale. In addition, HHL Rühm has granted the Global Coordinator an option to require HHL Rühm to sell up to 798 222 Additional Shares for purposes of covering possible over-allotments (the Over-Allotment Option).

It is expected that immediately after the Combined Offering Mr. Hans Luik will still control (directly and through HHL Rühm) approximately 67.7 per cent of the votes that can be cast in the General Meeting of Shareholders, provided that he will not acquire any Offer Shares in the Combined Offering and assuming that the Over-Allotment Option is exercised in full and HHL Rühm sells all the Additional Shares covered by the Over-Allotment Option.

Shareholders' Agreements

No shareholders' agreements exist between shareholders in relation to their holdings of shares in the Company.

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

Shareholder Rights

General meetings of shareholders

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

In accordance with the Commercial Code, an annual general meeting of shareholders must be held within six months after the end of a financial year, at the latest. The management board can convene an extraordinary general meeting of shareholders whenever it deems it appropriate. In addition, the management board must convene an extraordinary general meeting when it is required by the Commercial Code (for example, if the company's equity capital falls below the minimum level required by law) and when the supervisory council, the auditor or shareholders representing at least one-tenth of the share capital of the company so request. If the management board fails to convene an extraordinary general meeting within one month after the receipt of such a request, the shareholders, the supervisory council or the auditor are entitled to convene an extraordinary general meeting themselves.

Notices to convene an annual general meeting of shareholders must be given no later than three weeks prior to the meeting, and notices to convene extraordinary general meetings of shareholders must be given no later than one week before the meeting. Notices to convene a general meeting of shareholders must be sent to shareholders by registered mail to their registered addresses (being the address of the shareholder entered in the shareholders' register of the company as maintained in the ECRS). If the company is aware or should be aware that the address of a shareholder is different from the one entered in the share register, the notice must be sent also to such address. Notices may be sent by normal mail or fax provided that the letter or fax is accompanied by a notice requesting the recipient to immediately confirm the receipt to the management board. However, if the company has more than 50 shareholders, notices need not be sent to shareholders, but may be published in at least one national daily newspaper in Estonia.

The supervisory council of the company normally sets the agenda for the general meeting of shareholders. If, however, the shareholders or the auditor call a general meeting of shareholders, they also set the agenda for it. The management board or one or more shareholders whose shares represent at least one-tenth of the share capital of the company is entitled to request items be included on the agenda for a general meeting of shareholders. If, upon convening a general meeting of shareholders, the requirements of law or the articles of association have been breached, no decision may be adopted at the meeting unless all shareholders participate or are represented at the meeting.

In order to have the right to attend and vote at a general meeting of shareholders, a shareholder must be registered in the shareholders' register on the cut-off date ten days before the meeting. Voting rights may not be exercised by a shareholder whose shares are registered in the name of a nominee unless the nominee account holder has given a power of attorney to the shareholder.

A general meeting of shareholders is capable of passing resolutions when more than half of the votes represented by shares held by shareholders are present at the meeting. If the meeting has no quorum, the management board must call a new general meeting of shareholders to take place within three weeks but no earlier than seven days after the original meeting, and such further meeting shall be subject to no quorum requirements.

Voting rights

The Company has one class of shares with a nominal value of EEK 10 each. Each share entitles the holder to one vote. A shareholder may attend and vote at a general meeting of shareholders in person or by proxy. At a general meeting of shareholders, resolutions generally require the approval of a majority of the votes represented at the meeting. However, certain resolutions, such as amending the Articles of Association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger, division,

reorganisation or liquidation of the company, require a majority of two-thirds of the votes represented at the general meeting of shareholders. Any issuance of new shares disapplying the existing shareholders' pre-emptive subscription rights requires a majority of at least three quarters of the votes represented at the meeting. Creating a new class of shares requires an amendment of the articles of association with a two-thirds majority of votes represented at the meeting. According to Estonian law, the rights attaching to any class of shares may be amended only by a decision of the general meeting of shareholders which supported by a qualified majority of four-fifths of all votes attaching to the shares of the Company and nine-tenths of all the shareholders who own shares affected by the amendment

Dividends and other distributions

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

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

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

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

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

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

Pre-emptive subscription rights

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

Right to acquire own shares

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

- (i) the acquisition occurs within one year after the adoption of a resolution of the general meeting which specifies the conditions and term for the acquisition and the price to be paid for the shares;
- (ii) the sum of the nominal value of the shares held by the company does not exceed one-tenth of its share capital; and
- (iii) the shares are paid for from assets excluding the share capital, reserve capital and premium.

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

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

Disclosure of shareholdings

Pursuant to the Estonian Commercial Code, the management board is required to submit to the Estonian Commercial Register, together with the approved annual report, a proposal for profit distribution and an auditors' report, a list of shareholders holding more than 10 per cent of the votes as of the date of the approval of the annual report by the general meeting of shareholders. See "Estonian Securities Market - Estonian Company Law - The Estonian Central Registry of Securities and registration of shares" for a description of other instances when information concerning the shareholders is accessible to the public.

Taxation of dividends

See "Estonian Taxation".

ESTONIAN SECURITIES MARKET

Estonian Company law

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

Introduction

Estonian law recognizes two basic forms of limited liability companies; (i) a private limited company (*osajühing*, abbreviation *OÜ*) and (ii) a public limited company (*aktsiaselts*, abbreviation *AS*). Shareholders in either form are generally not personally liable for the obligations of the companies. The two company forms mainly differ in their requirements for capital and management structures. Public limited companies have greater capital requirements and can issue more classes of shares than private limited companies, and are required to register their shares with the Estonian Central Registry of Securities (*Eesti väärtpaberite keskreister*) (“ECRS”). ECRS maintains the share registers of companies and records all the share transactions.

Under Estonian law, essential details about commercial undertakings must be entered in the Commercial Register, and a company acquires legal capacity when it has been entered in the Register. Accordingly, a company organized under Estonian law must be registered with the Commercial Register. Commercial Registers are kept by the courts of first instance and they are attached to the Real Estate Registers. The registers are kept in Estonian and all documents in other languages must be submitted with a verified translation.

The minimum share capital required for incorporating a public limited company is EEK 400 000. A public limited company’s share capital must be fully paid-up when it is registered in the Commercial Register. Shares must be paid up in cash, unless the company’s Articles of Association allow payment by means of a non-monetary contribution. The value of non-monetary contributions must be confirmed by the company’s auditor. The shares of public limited companies must have a nominal value of EEK 10 each or a full multiple thereof. Shares are freely transferable, but the company’s Articles of Association may grant the shareholders a right of first refusal. Dividends must be distributed to shareholders pro rata, based upon the nominal value of the shares held by each shareholder. Public limited companies may also issue non-voting shares, which grant the preferential right to receive dividends and to participate in the distribution of the remaining assets of the company upon dissolution (preferred shares). The sum of the nominal values of preferred shares shall not be greater than one-third of the share capital.

Corporate Governance

The management board, supervisory council and general meeting of shareholders are responsible for the corporate governance and management of public limited liability. The general meeting of shareholders is the highest authority in a public limited company and makes the most important decisions in the company, such as amending the articles of association, increasing and reducing share capital, approving the annual report and distributing profit. See “Company, Share Capital and Ownership Structure - General meetings of shareholders” for further information on the responsibilities and procedures relating to the general meeting of shareholders.

A public limited company incorporated in Estonia must have a two-tier management structure, with a supervisory council and a management board. The management board is an executive body responsible for the day-to-day management of the company, and it represents the company towards third parties, such as entering into contracts on its behalf. Unless a shorter term is specified in the articles of association, the management board is elected for a term of three years. Members of the management board have fiduciary duty of loyalty and due diligence, and must preserve the business secrets of the company. Members of the management board may not serve as members of a managing body of another company in the same field of

business without the consent of the supervisory council, unless the companies belong to the same group of companies. The management board must follow the instructions of the supervisory council, provided that they do not breach the law. At least half of the management board members in a public limited company must be residents of Member States of the European Economic Area (“EEA”) or Switzerland. Members of the management board may not simultaneously serve as members of the supervisory council of the same company.

Whilst most Estonian listed companies have a management board comprising several members, the law also allows a management board comprising only of one person, who acts as the chief executive officer of the company.

The supervisory council is responsible for overseeing the work of the management board, devising business plans and generally organizing the management of the company. The supervisory council must have at least three members. The general meeting of shareholders elects and appoints the supervisory council for a period of five years, unless a shorter period is prescribed in the articles of association. The supervisory council reports to the general meeting of shareholders. There is no residency or nationality requirements for the members of the supervisory council. A member of the supervisory council may not simultaneously serve as a member of the management board of the same company, or any of its subsidiaries.

Members of the management board and supervisory council have a number of general obligations towards the company, including a fiduciary duty of loyalty, acting with due diligence, performing their duties with sufficient skill and in a manner commensurate with their knowledge and abilities, and acting to maximize the benefit of the company and prevent losses in the company. The Rules of the Tallinn Stock Exchange (“TSE”) provide that if any shareholder holds more than 30 per cent of the votes represented by shares in a company listed at TSE, the supervisory council of such company must have at least two members who are not connected with such shareholder.

Members of the supervisory council and management board must inform the company about any conflicts of interest and other material facts related to the performance of their duties. Members of the supervisory council and management board are subject to a strict confidentiality obligation for any information that they may learn in connection with the discharge of their duties. This confidentiality applies to the company’s business and trade secrets and any other information that the company has a legitimate interest to keep confidential. To the extent necessary to protect the company’s interests, the confidentiality obligation continues even after the member of the management board or supervisory council no longer is in that position. Exceptions to the confidentiality obligation arise where the company authorizes the disclosure, or where it is required by law. Unauthorized disclosure of business secrets may result in criminal sanctions.

Pursuant to the Estonian Commercial Code, a public limited company is required to engage an auditor who is appointed by the general meeting of shareholders. The general meeting of shareholders shall also determine the principles of remuneration of the company’s auditors. The auditors may be appointed for a specified term or for a single audit. A public limited company is required to have its annual report audited. After the end of the financial year, the management board prepares the annual accounts and activity reports and presents them to the auditor for his review. The management board presents the annual report (comprising the annual accounts and management report) and the auditor’s report and a proposal regarding distribution of profit to the general meeting shareholders for approval. No later than six months after the end of the financial year, the approved annual report, the auditor’s report and the proposal regarding distribution of profit (if any) must be filed with the Commercial Register.

Minority shareholders in a public limited company have the right to require an extraordinary audit, but they are not entitled to investigate the company’s books or records. Every shareholder has the right to receive information in regard to the activities of the company from the management board at the general meeting of shareholders. However, the management board may refuse to disclose information if such disclosure might seriously harm the interests of the company.

The protection of minority shareholders includes, among other things, the right of shareholders with shares representing at least one-tenth of the share capital to (i) demand the convening of an extraordinary meeting

of the shareholders, (ii) submit an application to the court demanding a dismissal of a member of the supervisory council, (iii) request an extraordinary audit (which would have to be approved by the simple majority of votes at a duly convened general meeting of shareholders), (iv) require certain issues to be included in the agenda of the general meeting of shareholders, (v) demand a meeting of the supervisory council, and (vi) prevent modifications to the rights of certain types of shares.

The Commercial Code provides that a shareholder whose shares, together with the shares of its parent undertaking and its subsidiaries, represent at least 90 per cent of the share capital of a public limited company, can make an offer to acquire the shares held by the minority shareholders for a fair monetary compensation. Such an offer will be presented to the general meeting of shareholders, and if at least 95 per cent of all the votes attaching to the company's shares vote in favour, it will be binding on all shareholders.

The Rules of the TSE impose a number of additional restrictions and limitations on the supervisory council and management board of a company listed on the TSE. Most of these restrictions apply to a company from the moment when it submits its application for listing of its shares on the TSE.

The Estonian Financial Supervision Authority (*Finantsinspektsioon*) ("EFSA") has adopted the Corporate Governance Recommendations ("Recommendations"), which entered into force on 1 January 2006. As of that date, all companies whose shares are admitted for trading at the TSE are required to either comply with the Recommendations or explain the reasons for their non-compliance ('comply or explain'). The Recommendations regulate, among other matters, the convening of and procedure in the general meetings of shareholders, the requirements for the composition, duties and activities of the management board and supervisory council, conflict of interest guidelines, requirements for the disclosure of information and financial reporting.

The Recommendations impose stricter requirements on the composition of the supervisory council than the Rules of the TSE, and require that at least half of the members of the supervisory council must be independent.

The Tallinn Stock Exchange and the Estonian Securities Market

The TSE and the Estonian Central Securities Depository (*AS Eesti Väärtpaberikeskus*) ("ECSD") are the two leading securities market infrastructure operators in Estonia. Set out below is a brief overview of the information concerning the Estonian regulated securities market and certain provisions of Estonian law and current securities market regulations in effect on the date of this Offering Circular. The summary is based on Estonian laws and securities market regulations and publicly available information on OMX AB group, the principal shareholder of the company operating the TSE.

Tallinn Stock Exchange

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

The TSE is a self-regulated organization, issuing and enforcing its own rules and regulations consistent with standard exchange operating procedures, but is licensed and supervised by the EFSA. The TSE Rules are established by AS Tallinna Börs, the operator of the TSE, in order to ensure the regular and lawful operation of the stock exchange. The operator may unilaterally amend the TSE Rules, though the EFSA must approve such amendments. The rules and regulations of the TSE regulate the listing of securities and trading in them on the TSE and the performance of the obligations arising from securities transactions performed on the TSE. The TSE Rules are established by the Management Board of the TSE. The Rules are binding on the

members of the TSE and the issuers whose securities are listed or admitted to trading on the separate Free Market, also regulated by the TSE.

The activities of, and trading on, the TSE are subject to two tiers of regulation. Laws and government regulations comprise the basic regulatory framework, which is then supplemented by the TSE Rules. The principal laws governing the activities of, and trading on, the TSE are the Estonian Securities Market Act and the Estonian Central Registry of Securities Act.

Estonian Central Registry of Securities and Registration of Shares

The ECRS is a public register established, among other matters, for the registration and maintenance of shares, debt obligations and other securities stipulated in the Estonian Central Registry of Securities Act, and transactions executed with such securities (including pledges). The ECRS is operated by the ECSD. The ECSD is organized as a public limited company, and all of its shares are fully owned by the TSE's operator AS Tallinna Börs. The ECSD's primary functions include clearing and settling securities transactions, maintaining records of share ownership and pledges, and providing securities-related services to issuers and investors. The ECSD is the responsible body for the only securities settlement system (SSS) in Estonia, which settles stock exchanges and over-the-counter trades. Eesti Pank acts as a settlement bank of the netted cash position of the participants in the SSS.

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

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

A securities account can be opened in the ECRS by any Estonian or foreign person. The opening of the account takes place through an account administrator (custodian). Account administrators are institutions that qualify under Estonian law as professional participants in the securities market, such as banks, investment firms, credit institutions and other persons specified by law. Foreign companies that hold an activity license of a professional securities market participant and are registered in a Member State of the EU, or with which the Republic of Estonia has a legal agreement may also qualify as account administrators.

Professional participants in the Estonian securities market and foreign legal entities meeting certain criteria are entitled to open a nominee account in the ECRS. A notation is made and maintained in the ECRS indicating the nominee status of the relevant account. Shares held in the nominee account are deemed to be the client's shares, and not the shares of the account owner, and thus cannot be brought into the bankruptcy estate of the owner of the nominee account. In the exercise of voting rights and other rights arising from a share, the owner of a nominee account must follow the instructions of the client. At the request of the client, the owner of a nominee account must grant authorization in the required format to the client so that the client can represent the owner of the nominee account in the exercise of rights arising from the shares.

Listing on the Tallinn Stock Exchange

There are two different lists available for trading of the shares on the TSE: (i) the main list and (ii) the investor list. In addition to securities listed on the TSE, securities admitted to the Free Market of the TSE can be traded through the exchange's trading system.

The principal differences between admission to the main list and the investor list are the minimum required length of operating history of an issuer (three and two years, respectively), and the minimum required market value of the issuer's shares (EUR 4 million and EUR 1 million, respectively). Currently, the shares of 15 companies are listed for trading on the TSE, of which 12 companies are listed on the main list.

An application has been made to list the Shares on the main list. In order to list shares on the main list of the TSE, among other requirements, a sufficient number of such shares must be held by the public. As a general rule, this condition is fulfilled if at least 25 per cent of the share capital represented by the shares to be listed is held by the public, or taking into consideration the number of shares and their distribution among the public, the market would also operate properly at a lower percentage of shares held by the public, or such level of distribution is expected to be achieved shortly after listing. The TSE Rules set out certain specific criteria as to determining whether shares are held by the public.

Trading on the Tallinn Stock Exchange

The trading system of the TSE is open for trading to its members. Trading on the TSE takes place on each business day from 10:00 a.m. to 2:00 p.m. (Estonian time). From 2:05 p.m. to 2:30 p.m. the TSE carries out after-market trading. The TSE uses the Nordic-Baltic trading system SAXESS, which in addition to Estonia is used by exchanges in Sweden, Finland, Denmark, Norway, Iceland, Latvia and Lithuania. The official trading currency of the Tallinn Stock Exchange trading system is the euro. Investors of the TSE instruments can place transaction orders and pay for transactions also in Estonian kroons without extra charge; stock exchange members use the official Bank of Estonia central rate (EUR 1 = EEK 15.6466) for the calculations needed to fulfil customer's orders.

Transactions can be concluded on the TSE either through automatic matching or through negotiated deals. In the case of automatic matching, the buy and sell orders are matched by the trading system automatically according to price and time priorities. Automatically matched transactions are settled on the third day after the transaction (T+3), unless agreed otherwise. Negotiated trades can be concluded during the TSE trading period at a price between the best bid and offer prices quoted at the time of concluding the transaction. Negotiated deals concluded after the TSE's trading period must be concluded at a price at or between the best bid and offer prices quoted during trading on that day. Negotiated deals are negotiated between stock exchange members outside the system and brokers must enter the deal in the trading system as soon as possible, and in any event not later than five minutes after its conclusion. Negotiated deals may have a settlement day between T+1 (inclusive) and T+6 (inclusive) if agreed between the relevant stock exchange members.

The operator of the TSE is required to ensure constant access on its website to information on the securities traded on the market, including the acquisition and transfer prices of the securities, recent prices, price changes, the highest and lowest prices and the volume and number of transactions. According to the Estonian Securities Market Act such information must be accurate, clear, precise and complete. The TSE operates an electronic trading system that provides real-time stock quotes, distributes issuer announcements and displays information regarding executed transactions, statistics and other such data. The operator of the TSE must record at least the following regarding transactions concluded on the exchange: (i) the time at which the transaction is concluded; (ii) information regarding the market participant who concluded the transaction; (iii) the securities which served as the object of the transaction; and (iv) their number, nominal value and price. In accordance with the TSE Rules, the operator of the TSE has the right to request additional information regarding a transaction for the purposes of recording the transaction.

The Listing and Surveillance Committee of the TSE has the right, for the purpose of ensuring sufficient liquidity of a security, to demand that the issuer concludes a market-making agreement with a member of the TSE with respect to the securities to be listed. Market makers have the obligation with respect to a specific security to display the buy and sell prices in the order book throughout the trading period.

Supervision of the Tallinn Stock Exchange

Activities of the TSE are supervised by the EFSA, which is a body carrying out the supervision of all Estonian financial institutions including banks, insurance companies, investment and pension funds and the securities market. Compliance with the TSE Rules by its members is monitored by the Listing and Surveillance Committee of the TSE. The operator of the TSE exercises supervision over the exchange with respect to the prices of securities traded on the exchange and the conduct and execution of transactions for the purpose of detecting and reducing transactions conducted on the basis of inside information, market manipulation and other violations of the law. The operator of the TSE also supervises the disclosure of adequate information to the investors, protection of the interests of the investors as well as their fair and equal treatment. The operator of the TSE can apply contractual penalties, full or partial suspensions of up to 30 days, suspension of the listing of or trading with the security of up to 30 days, termination of membership of the exchange, or permanent termination of the listing or trading with the security. The operator is under an obligation to notify the EFSA immediately of any violation of law. The EFSA also has specific supervisory obligations for monitoring transactions concluded on the exchange.

Disclosure of Transactions and Ownership

A person who has acquired, either directly or indirectly, individually or together with persons operating in concert, a qualifying holding in a public limited company, and thus acquires or increases the number of votes owned thereby to more than one-tenth, one-fifth, one-third or two-thirds of all votes represented by the shares of the public limited company, must immediately, but not later than within four business days, notify the public limited company and the securities market supervisory agency of the state where the public limited company is founded or registered, disclosing the number of votes owned by such person. The same notification requirements also apply in case the holding falls below the prescribed levels. The EFSA has the right to make exemptions from such notification requirements in certain circumstances. In the case of a company whose shares are listed on the TSE, the disclosure obligations described above also apply in the case of the acquisition or reduction of a holding of five per cent. The issuer is also required to ensure that shareholders holding more than five per cent of the shares of the issuer disclose, through the issuer, all the significant provisions of all the agreements made with other shareholders or third parties which are aimed at restricting the free transferability of the shares or which may have a significant effect on the price of the shares.

In order to ensure that disclosure obligations established by law are also fulfilled in respect of shareholdings held by nominee accounts, the operator of a nominee account is required to enter into written agreements with the clients on whose behalf the operator holds securities. These agreements must, among other things, require the client to notify the issuer and/or the competent supervisory body (the exact person to whom the notification must be submitted may vary depending on a particular transaction) if a holding in a company exceeds the threshold established by law or to obtain the permission of the competent supervisory body for the holding to exceed the threshold established by law (such permission is required, for example, in the case of the acquisition of a holding above a certain level in financial institutions, or in the case of an acquisition subject to concentration control by competition authorities). The TSE Rules also regulate the disclosure of the issuer's dealings in its own shares.

Market Abuse

The Estonian Securities Market Act prohibits market abuse, which (within the meaning of the said Act) is misuse of inside information and market manipulation. The Act also requires all persons providing investment services as a permanent activity to immediately notify the EFSA of a reasonable suspicion of market abuse.

Restrictions established for the misuse of inside information apply to all financial instruments admitted for trading on the market of Estonia or in a Member State of the EEA, but also to instruments not admitted for trading, but the value of which depends on a financial instrument that are admitted to trading in Estonia or in an EEA Member State. Inside information is precise information which has not been made public, relating directly or indirectly to the financial instrument or its issuer and which, if it were made public, would

probably have a significant effect on the price of the financial instrument or a derivative linked to the financial instrument. The law establishes additional conditions under which information may qualify as inside information.

An insider is a person who possesses inside information by virtue of being a partner or member of the management or supervisory bodies of the issuer, or by virtue of his shareholding in the issuer, or by virtue of having access to the information through the exercise of his employment, profession or duties, or by virtue of his criminal activities. Third parties who possess inside information are also treated as insiders if they knew or should have known that the information is inside information. The TSE Rules stipulate that, among other persons, persons who hold or control at least 10 per cent of shares in an issuer, the subsidiaries of the issuer and certain officials of such shareholders and subsidiaries and persons associated with them are deemed to be insiders for the purpose of the TSE Rules.

Misuse of inside information comprises, among other actions, the trading on the basis of inside information, unauthorized disclosure of inside information, and the making of recommendations on the basis of inside information for the acquisition or disposal of financial instruments to which that information relates. Misuse of inside information is a criminal offence, and may result in fines or imprisonment. The Securities Market Act also provides under set circumstances the right to demand from the issuer of the financial instrument traded on the Estonian market compensation of damages arising from the failure to disclose the information directly.

Issuers of publicly-traded securities and other individuals or entities that have regular access to inside information are required to establish internal rules and procedures to monitor access to inside information and prevent the disclosure of such information.

The Estonian Securities Market Act contains a non-exhaustive list of actions including price fixing, dissemination of rumours and false news and other methods that are deemed to constitute market manipulation. Under the Estonian Securities Market Act, market manipulation may be punishable by a fine. Credit institutions, investment firms and others providing investment recommendations must disclose any conflicts of interest they may have when providing investment advice. On 15 March 2007, amendments to the Penal Code took effect, creating a new criminal offense based on market manipulation of market prices of financial instruments in regulated markets or regulated trading systems. The amendment prohibits shareholders of the issuer and individuals related to the issuer through employment or their work duties from carrying out transactions or distributing information that is misleading or could be misleading. The penalty for such activities ranges from a pecuniary penalty up to three years in prison.

The TSE Rules also restrict transactions involving an issuer's securities by certain officials of the issuer and by persons connected with such officials, to avoid profiting from short-term price fluctuations of the issuer's securities and during restricted periods (in particular, after the end of a financial period but when the financial results of the issuer have not yet been made public). The Listing and Supervisory Committee of the TSE has the right to make exemptions from the requirement to abstain from trading during a restricted period if the Committee is of the opinion that the transaction will not be executed on the basis of confidential information.

Mandatory Takeover Bid

A person who has gained dominant influence over the target issuer, either directly or together with other persons acting in concert, is required within twenty days as of gaining that dominant influence to make a takeover bid for all the remaining shares of the target issuer with a minimum duration of twenty-eight days. Exemptions from the obligation to make the mandatory takeover bid may be granted by the EFSA in case of certain specific circumstances provided by law.

For the purposes of the mandatory takeover bid, a "dominant influence" is a situation where a person: (i) holds the majority of votes represented by the issuer's shares or holds the majority of the votes as a general partner or limited partner; or (ii) person who is the general or limited partner of the company and has the right to appoint or remove the majority of the members of the supervisory council or management

board of the company; or (iii) person being a shareholder or general or limited partner of the company controls alone the majority of the votes pursuant to an agreement with other partners or shareholders. The Securities Market Act requires that the offeror must obtain approval for the takeover bid from the Supervision Authority, and that the purchase price in a takeover bid must be fair and in proportion to the rights and obligations deriving from the shares being acquired.

TAXATION

The following summary is based on the tax laws of Estonia as in effect on the date of this Offering Circular, and is subject to changes in such laws, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any jurisdiction other than Estonia. Investors are advised to consult their own professional tax advisors as to the Estonian or other tax consequences of the Combined Offering and the purchase, ownership and disposition of Offer Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to the tax consequences applicable to their particular circumstances.

Corporate Income Tax

Pursuant to the Estonian Income Tax Act (*tulumaksuseadus*), the accrued profits of a resident legal entity such as the Company are not subject to corporate income tax at the time of earning the profit regardless of whether reinvested or merely retained. Instead, the resident corporate taxpayers are subject to distribution tax on distributed profits which also includes hidden profit distributions. In particular, income tax is charged on the following:

- fringe benefits to employees and the management;
- gifts, donations and entertainment costs;
- dividends and other profit distributions;
- expenses and other payments not related to the taxpayers business.

In 2007, the corporate income tax rate is 22 per cent of the gross amount distributed, although technically the tax amount is calculated on the amount of the profit distribution which constitutes the rate of 22/78 of the net amount distributed. The rate of the distribution tax is planned to be reduced to 21/79 for 2008 and 20/80 for 2009 (21 per cent and 20 per cent of the gross distribution amount respectively). The amount of income tax due is required to be declared and paid to the bank account of the Tax and Customs Board by the 10th day following the month in which the payment was made.

Departing from the general rule described above, pursuant to the Income Tax Act some profit distributions are exempted from the distribution tax. An Estonian resident company holding at least 15 per cent of the share capital or the votes in the company that is distributing profits has to pay no income tax upon re-distributing the part of the profit income tax that has already been paid by the distributing company, regardless of whether the taxation had occurred in Estonia or abroad.

Income Tax Treatment of Dividends

In addition to the corporate income tax upon profit distributions, there is no additional withholding tax on dividend payments to resident companies, resident and non-resident individuals.

By default, in addition to the corporate income tax upon profit distributions, Estonian dividend withholding tax at the rate of 22 per cent is currently imposed on dividends paid by a resident legal person to non-resident legal persons. According to an exemption, no withholding tax is levied upon dividend payments in case the non-resident legal person is holding at least 15 per cent of the share capital or the votes in the company that is distributing profits. However, the exemption does not apply when the shareholder is situated in a low tax rate territory for the purposes of Estonian tax laws.

Some non-resident legal entities might enjoy more favourable tax treatment under international treaties (conventions between Estonia and other states with respect to taxes on income and on capital). Such treaties sometimes provide a lower threshold for qualifying companies to benefit from a more favourable income tax rate.

Capital Gains

Income tax is not charged on capital gains received by non-residents (whether individuals or legal persons) from the sale or exchange of shares of Estonian companies except for in cases where at least 10 per cent of the shares of a real estate company are sold or exchanged. Pursuant to the Income Tax Act, income tax is charged if a non-resident transfers the holding of a company, a contractual investment fund or other pool of assets, of which real property (immovables) situated in Estonia constitute at the moment of transfer or have constituted at any moment within 2 years prior to transfer directly or indirectly more than 50 per cent. The calculation of the percentage of the real property referred to above is to be based on the balance sheet of the company. Currently the Company is not a real estate company for that purpose.

In accordance with the income tax system currently applicable in Estonia, the earnings of an Estonian legal entity are not taxed upon receipt, but only after distribution of the profits. Therefore, income tax is not charged on capital gains received by an Estonian legal person from the sale or exchange of Shares.

Income tax is charged on gains received by Estonian resident individuals from the sale or exchange of Shares.

If the income tax on capital gains as described in previous paragraphs is to be charged, the taxable amount is deemed to be the difference between the acquisition costs and the sale price or exchange value of the Shares.

Currently the capital gains are subject to income tax at the rate of 22 per cent and the capital gains are required to be declared by 31 March of the year following the sale or exchange of the Shares.

Any payments made by the Company to its shareholders as a result of any redemption of its Shares or any purchase of its own Shares or proceeds of the liquidation of the Company are treated as capital gains for tax purposes and will be taxed accordingly.

Pursuant to tax regulations currently in force, the income tax rate will be reduced to 21 per cent by 2008 and 20 per cent by 2009 of the gross amount of capital gains.

Possible Changes in Corporate Taxation in Estonia

As described above, Estonia currently has an income tax regime under which income tax is not charged on earned profits of legal persons but is instead charged on distributed profits. The tax rate is 22/78 of the net amount of the distributed profits, resulting in 22 per cent effective rate of the gross amount of distributed profits. Income tax rates are to be reduced to 20 per cent (20/80 of the net profit) by 2009. In addition to the distribution tax, dividend payments from Estonian resident legal persons to non-resident legal persons with a shareholding of less than 15 per cent are subject to an additional withholding tax of 22 per cent (also to be reduced to 20 per cent by 2009).

The distribution tax pertaining to distributions to parent companies in the European Union Member States and the withholding tax referred to above have been found to be in breach of the Council Directive of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (the EC parent-subsidiary directive, 90/435/EEC). At Estonia's accession to the European Union on 1 May 2004, Estonia was granted a transitional period to harmonize its income tax regime with the EC parent-subsidiary directive by the end of the year 2008. It is necessary to adjust Estonia's tax regime only partly, but due to fiscal reasons Estonia might be interested in re-introducing the traditional corporate income tax regime that imposes income tax on earned profits and not on distributed profits. The possible adjustments in the current income tax system have been subject to political discussions but currently it is not yet possible to assess whether or to what extent such adjustments of the corporate income tax regime may be implemented.

Stamp Duty and Other Transfer Taxes

Currently there are no stamp duties or transfer taxes payable upon the transfer of Shares, except for the service fees of the custodians and/or the ECRS which maintains the stock register.

UNDERWRITING

General

The Company and the Selling Shareholder are expected to sign an underwriting agreement (the “Underwriting Agreement”) with the Global Coordinator, AS Suprema Securities on or about 29 March 2007.

According to the Underwriting Agreement, the Company will agree to issue and the Selling Shareholder will agree to sell the Offer Shares and, subject to the terms and conditions of the Underwriting Agreement, the Global Coordinator will agree to purchase or procure purchasers for and in case of new Shares issued by the Company, subscribe or obtain subscribers for Offer Shares at a price equal to the Offer Price.

According to the Underwriting Agreement, the Company and the Selling Shareholder will pay to the Global Coordinator an underwriting commission equal to 3.0 per cent of the Offer Price per Offer Share. Therefore, in connection with the Combined Offering, the Global Coordinator will receive total commissions of approximately EEK 14 million. The calculation is based on the mid-point Offer Price of EEK 89.18 each assuming that the number of Offer Shares is not changed and the Over-Allotment Option is exercised in full. The Company and the Selling Shareholder have agreed in the Underwriting Agreement to indemnify the Global Coordinator against certain liabilities, including liabilities under the Estonian Securities Market Act. In addition, the Company has agreed to reimburse the Global Coordinator for certain expenses.

The obligations of the Global Coordinator under the Underwriting Agreement are subject to certain conditions precedent, including compliance by the Selling Shareholder and the Company with the representations and warranties set forth in the Underwriting Agreement and the non-occurrence of certain adverse changes as described in the Underwriting Agreement. The Global Coordinator may terminate the Underwriting Agreement at any time before the Offer Shares have been issued and paid, if in its opinion, there shall have been a change in national or international financial, political, economic or market conditions or currency exchange rates or exchange controls, as would in its reasonable view, be likely to prejudice materially the success of the Combined Offering and distribution of, or dealings in, the Offer Shares in the secondary market.

The Offer Price will be determined by negotiation between the Company, the Selling Shareholder and the Global Coordinator. Prior to the Combined Offering, there has been no public market for the Shares. Factors relevant to the determination of the Offer Price include results of operations, the current financial condition of the Group, future prospects, markets, the economic conditions in and future prospects for the industry in which the Group competes, its management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly-traded companies considered comparable to the Company.

The Global Coordinator will enter into a separate agreement with AS Hansapank regarding the rights and duties of AS Hansapank as the Retail Joint Lead Manager.

Over-Allotment, Over-Allotment Option and Stabilization

In connection with the Combined Offering, the Global Coordinator may purchase and sell Shares in the open market. These transactions may include, among others, over-allotment which involves sales of Shares in excess of the principal amount of Offer Shares being offered in the Combined Offering.

Subject to the terms and conditions of the Underwriting Agreement, the Selling Shareholder has granted the Global Coordinator an Over-Allotment Option, exercisable within 30 days from the commencement of trading in the Shares on the Tallinn Stock Exchange, to purchase up to an aggregate of 798 222 Additional Shares at the Offer Price. The Additional Shares are intended to cover possible over-allotments. If all

Additional Shares are purchased, they will represent approximately 4.2 per cent of all the shares in the Company and votes that can be cast in the Company's General Meeting of Shareholders.

The Global Coordinator may effect transactions that stabilize or maintain the market price of the Offer Shares, in accordance with applicable laws, during a 30-day period starting from the commencement of trading in the Shares on the Tallinn Stock Exchange. Any such stabilization activity will be decided by the Global Coordinator at its sole discretion and there is no obligation on the Global Coordinator to do this. Such stabilization transactions may result in a market price of the Shares that is higher than would otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

In connection with settlement and stabilization, the Global Coordinator, has entered into a share lending arrangement with Hans Luik and HHL Rühm as part of the underwriting agreement. In accordance with the share lending provisions of the underwriting agreement, the Global Coordinator may borrow a number of Shares equal to the number of Additional Shares subject to the Over-Allotment Option that will allow it to settle over-allotments made, if any, in connection with the Combined Offering. In addition, the Global Coordinator will borrow from Hans Luik and HHL Rühm a number of Shares corresponding to the number of new Shares issued in connection with the Combined Offering in order to facilitate settlement. To the extent the Global Coordinator borrows Shares under these provisions, it will be required to return an equivalent number of Shares or rights representing such number of Shares to HHL Rühm and Mr. Hans Luik in accordance with the provisions of the underwriting agreement.

In addition, the Company and the Global Coordinator intend to enter into a market making agreement in connection with the listing of the Shares on the TSE.

Lock-up

The Company has agreed not to issue or sell shares of the Company or securities convertible into shares of the Company for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator.

Each current shareholder of the Company has agreed not to sell or otherwise transfer shares of the Company without the prior written consent of the Global Coordinator for 12 months subsequent to signing the Underwriting Agreement. The shareholders are likely to request the Global Coordinator to consent to the sale of certain shares of the Company to the management and key executives of the Group and its affiliates.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by the Global Coordinator or the Company that would permit a public offering of the Offer Shares, or the possession or distribution of any documents relating to the Combined Offering, or any amendment or supplement thereto, in any country or jurisdiction where specific action for that purpose is required. The Global Coordinator will comply with all applicable laws and regulations in each jurisdiction concerning acquiring, offering or selling of Offer Shares or possession or distribution of any offering documents or any amendment or supplement thereto.

Each purchaser of Offer Shares will be deemed to have acknowledged, by its purchase of Offer Shares, that the Company, the Global Coordinator, their respective affiliates, and other persons will rely upon the truth and accuracy of the acknowledgements, representations and agreements set forth below.

Buyers of Offer Shares sold by the Global Coordinator may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

No action has been taken in any jurisdiction by the Company or the Global Coordinator that would permit a public offering of the Offer Shares offered hereby. No offer or sale of Offer Shares may be made in any jurisdiction except under circumstances that will result in compliance with the applicable laws of such

jurisdiction. Persons receiving a copy of this Offering Circular are required by the Company and the Global Coordinator to inform themselves about and to observe any restrictions as to the offering of Offer Shares and the distribution of this Offering Circular.

United States

The Offer Shares have not been and will not be registered under the United States Securities Act or with any securities regulatory authority of any State of the United States and may not be offered or sold within the United States or to or for the account of U.S. persons.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the relevant implementation date), an offer of the Offer Shares described in this Offering Circular may not be made to the public in that relevant Member State prior to the publication of a prospectus in relation to the Offer Shares that has been approved by the competent authority in that relevant Member State or, where appropriate, approved in another relevant Member State and notified to the competent authority in that relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant Member State at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43 000 000 and (3) an annual net revenues of more than EUR 50 000 000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of the Offer Shares located within a relevant Member State (other than Estonia) will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive. For purposes of this provision, the expression an “offer to the public” in any relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the expression may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant Member State.

The sellers of the Offer Shares have not authorized and do not authorize the making of any offer of the Offer Shares through any financial intermediary on their behalf, other than offers made by the Global Coordinator with a view to the final placement of the Offer Shares as contemplated in this Offering Circular. Accordingly, no purchaser of the Offer Shares, other than the Global Coordinator, is authorized to make any further offer of the Offer Shares on behalf of the sellers or the Global Coordinator.

United Kingdom

The Global Coordinator has represented and agreed that:

- (i) it has not offered or sold, and will not offer or sell, prior to the expiry of a period of six months from the date of the Combined Offering, and will not offer or sell any Shares to persons in the United Kingdom except when the offer is made to or directed at qualified investors only (as defined in the FSMA) or the offer is made to or directed at fewer than 100 persons, other than qualified investors,

per EEA State and will not constitute an offer to the public in the United Kingdom within the definition of the Financial Services and Markets Act 2000 (FSMA) (as amended);

- (ii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares, in, from or otherwise involving or capable of having an effect in the United Kingdom; and
- (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the offering of the Offer Shares in circumstances in which section 21(1) of the FSMA does not or would not otherwise apply to the Company.

This document is directed only at persons who are (i) outside United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2) of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as “relevant persons”). This document must not be acted on or relied by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged only with relevant persons.

LEGAL MATTERS

In respect of Estonian law, certain legal matters will be passed upon for the Company by Luiga Mody Hääl Borenius, Attorneys at law, Kawe Plaza, Pärnu mnt 15, Tallinn 10141, Estonia.

In respect of English law, certain legal matters will be passed upon for the Global Coordinator by Curtis, Mallet-Prevost, Colt & Mosle LLP, 53 New Broad Street, London EC2M 1BB, United Kingdom.

INDEPENDENT AUDITORS

Pursuant to the Estonian Commercial Code, the General Meeting of Shareholders decides the number of auditors and elects the auditors. In the General Meeting of Shareholders held on 29 January 2007, AS PricewaterhouseCoopers, Pärnu mnt 15, Tallinn, Estonia, was elected the auditor of the Company for the financial year ending 31 December 2006. During the previous three years the auditor of the Company was OÜ Audiitorbüroo Toomas Villems, Roosikrantsi 2, Tallinn, Estonia. The previous and present auditors of the Company are members of the Estonian Auditing Board.

The consolidated financial statement of Ekspress for the three years ended 31 December 2005 appearing in this Offering Circular have been audited by PricewaterhouseCoopers. The financial information of Ekspress for the interim period ended 30 June 2006 appearing in this Offering Circular has not been audited.

Certain financial information presented in this Offering Circular has been obtained directly from the audited financial statements of the Company, while certain other financial information presented herein has been recomputed by Management from amounts contained in the audited financial statements. This financial information is presented in the following sections: Summary, Selected Financial Information, Management's Discussion and Analysis of the Group's Financial Condition and Results of Operations, Business and Management. All other financial information contained in this Offering Circular, including certain information in the aforementioned sections and all information concerning the financial year ended 31 December 2006, has been derived by the Management from the Company's unaudited records.

AS PricewaterhouseCoopers issued a report on the operating profit and net profit estimates for the year ended 31 December 2006 (the "Report on Profit Estimate") set out on pages 100 and F-1 of this Offering Circular.

AS PricewaterhouseCoopers have given and not withdrawn their written consent for the inclusion in this Offering Circular of the Report on Profit Estimate, in the form and context in which it appears and have authorised the part of the document which comprises their report for the purposes of item 23.1 of Annex I and item 10.3 of Annex III of the Commission Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

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Preliminary results for the year ended 31 December 2006

Introduction

The following table sets out the key financial results for the Group as at and for the year ended 31 December 2006:

(EEK, '000)	Financial year	
	2005 audited	2006 unaudited
Sales	748 026	930 861
Gross profit	175 762	239 023
Distribution costs and administrative expenses	106 952	146 046
Net other operating income	7 593	6 794
Operating profit	76 404	99 771
Net profit for the year	40 161	94 142
Total assets	618 147	666 357
Total long-term assets	412 306	441 339
Cash and equivalents	36 053	51 101
Total current assets	205 841	225 017
Total shareholders' equity	184 347	265 270
Non-current liabilities	136 019	118 929
Current liabilities	297 781	282 158

The gross profit, operating profit and net profit amounts for the year ended 31 December 2006 included in the table above constitute a profit estimate within the meaning of the Commission Regulation (EC) 2004/809 of 29 April 2004 (the "Profit Estimate"). See "Financial statements - Independent assurance report on prospective financial information".

Basis of preparation

These preliminary results for the year ended 31 December 2006 which include the Profit Estimate have been prepared using accounting policies which are consistent with those used by the Group in preparing its audited consolidated financial statements for the year ended 31 December 2005 and the unaudited condensed consolidated financial information for the six months ended 30 June 2006, including the notes thereto.

The preliminary results and the Profit Estimate take into account the published unaudited consolidated interim report for the six months ended 30 June 2006 and the results shown by unaudited management information for the six months ended 31 December 2006.

Management has made an assumption that the amount of EEK 13.8 million which is due from a related party is collectible. The auditors have qualified their audit opinion on the consolidated financial statements for the three years ended 31 December 2005 and their review report on the condensed consolidated interim financial information for the six months ended 30 June 2006 with respect to the collectibility of this amount.

Independent assurance report on prospective financial information

To the Management Board
of AS Ekspress Grupp
Narva mnt 11e
Tallinn, 10154
Estonia

We report on the operating profit and net profit estimate for the year ended 31 December 2006 (the **“Profit Estimate”**) set out on pages 100 and F-1 of AS Ekspress Grupp prospectus dated 16 March 2007 (the **“Prospectus”**). This report is required by item 13.2 of Annex 1 of the Commission Regulation (EC) 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (the **“EU Prospectus Regulation”**) and is given for the purposes of this regulation and for no other purpose.

It is the responsibility of the Management Board of AS Ekspress Grupp (the “Management Board”) to prepare the Profit Estimate, in accordance with the requirements of items 13.1 and 13.3 of Annex I of the EU Prospectus Regulation and guidance issued by The Committee of European Securities Regulators. It is our responsibility to provide the opinion required by item 13.2 of Annex I of the EU Prospectus Regulation as to the proper compilation of the Profit Estimate and to report that opinion to you. We do not accept any responsibility for any financial information previously reported on and used in the compilation of the Profit Estimate beyond that owed to those to whom any reports on that financial information were addressed by us at the dates of their issue.

The Profit Estimate has been prepared on the basis of the unaudited interim financial results for the six months ended 30 June 2006 and the unaudited management accounts for the six months ended 31 December 2006. The Profit Estimate is required to be presented on a basis consistent with the accounting policies of AS Ekspress Grupp.

We performed our work in accordance with the International Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. Our work included an evaluation of the procedures undertaken by the Management Board in compiling the Profit Estimate and considering whether the basis of accounting used for the Profit Estimate is consistent with the accounting policies of AS Ekspress Grupp. We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Estimate has been properly compiled on the basis stated. However the Profit Estimate has not been audited. The actual results reported, therefore, may be affected by revisions required to accounting estimates due to changes in circumstances, the impact of unforeseen events and the correction of errors in the financial results. Consequently we can express no opinion as to whether the actual results achieved will correspond to those shown in the Profit Estimate and whether the difference may be material.

We believe that our work provides a reasonable basis for our opinion.

In our opinion:

- a) the Profit Estimate has been properly compiled on the basis stated therein; and
- b) the basis of accounting used for the Profit Estimate is consistent with the accounting policies of AS Ekspress Grupp.

For the purpose of item 1.2 of Annex I and item 1.2 of Annex III to the EU Prospectus Regulation, we are responsible for this report as part of the prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the

facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I and item 1.2 of Annex III of the EU Prospectus Regulation.

Urmas Kaarlep
PricewaterhouseCoopers AS

Heidi Seeland
Authorised Auditor

Tallinn, 16 March 2007

**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR
AS EKSPRESS GRUPP
FOR THE HALF YEAR ENDED 30 JUNE 2006 WITH COMPARATIVE INFORMATION FOR
THE INTERIM PERIOD ENDED 30 JUNE 2005
(prepared in accordance with IFRS)**

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Management Board's confirmation of the Condensed Consolidated Interim Financial Information

The Management Board confirms the correctness and completeness of the condensed consolidated interim financial information of AS Ekspress Grupp for the half year ending 30 June 2006 as presented on pages F-5 to F-15.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. all Group companies are going concerns.

Member of Management Board
Priit Leito
1 March 2007

Condensed consolidated interim balance sheet

th.EEK	30.06.2006	31.12.2005	Notes
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	29 838	36 053	
Other financial assets at fair value through profit or loss	6 832	5 940	
Trade and other receivables	112 216	112 376	
Inventories	46 353	47 672	
Total	195 239	202 042	
Assets classified as held for sale	9 194	3 799	4
TOTAL CURRENT ASSETS	204 432	205 841	
NON-CURRENT ASSETS			
Trade and other receivables	9 532	7 981	
Investments in associates	32	32	
Investment property	0	1 251	
Property, plant and equipment	303 726	296 908	6
Intangible assets	105 044	106 134	6
TOTAL NON-CURRENT ASSETS	418 334	412 306	
TOTAL ASSETS	622 766	618 147	
SHAREHOLDERS EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Borrowings	88 618	111 213	7
Trade and other payables	159 284	186 568	
TOTAL CURRENT LIABILITIES	247 901	297 781	
NON-CURRENT LIABILITIES			
Borrowings	181 692	135 909	7
Other long term liabilities	697	110	
TOTAL NON-CURRENT LIABILITIES	182 388	136 019	
TOTAL LIABILITIES	430 290	433 800	
EQUITY			
Capital and reserves attributable to equity holders of the Group			
Share capital	2 216	2 216	
Share premium	21 285	21 285	
Reserves	10 222	10 222	
Retained earnings	140 077	135 537	
Capital and reserves attributable to equity holders of the Group	173 800	169 260	
Minority interest	18 677	15 087	
TOTAL EQUITY	192 476	184 347	
TOTAL EQUITY AND LIABILITIES	622 766	618 147	

The notes presented on pages F-9 to F-15 form an integral part of the condensed interim financial information.

Condensed consolidated interim income statement

th.EEK	6 months 2006	6 months 2005	Notes
Sales	447 513	339 209	
Costs of sales	324 642	256 790	
Gross profit	122 871	82 419	
Distribution costs	19 751	16 107	
Administrative expenses	50 818	31 395	
Other income	8 789	2 394	
Other expenses	4 862	1 670	
Operating profit	56 229	35 641	
Finance costs	(4 234)	(5 771)	
Share of loss of associates	0	(6 408)	
Profit before income tax	51 995	23 463	
Income tax expense	(5 355)	(5 310)	
PROFIT FOR THE HALF YEAR	46 640	18 152	
Attributable to:			
Equity holders of the Group	45 621	17 854	
Minority interest	1 019	298	
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (thousand EEK/ per share)	21	8	12

The notes presented on pages F-9 to F-15 form an integral part of the condensed interim financial information.

Condensed consolidated interim statement of changes in equity

th.EEK	Attributable to equity holders of the Group					Minority interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total		
Balance at 1 January 2005	2 216	21 285	10 222	97 518	131 240	4 527	135 768
Minority interest arising on business combinations	0	0	0	0	0	(1 543)	(1 543)
Total changes	0	0	0	0	0	(1 543)	(1 543)
Profit for the half year	0	0	0	17 854	17 854	298	18 152
Balance at 30 June 2005	2 216	21 285	10 222	115 372	149 095	3 283	152 377
Balance at 1 January 2006	2 216	21 285	10 222	135 537	169 260	15 087	184 347
Minority interest arising on business combinations	0	0	0	0	0	2 571	2 571
Dividends	0	0	0	(41 081)	(41 081)	0	(41 081)
Total changes	0	0	0	(41 081)	(41 081)	2 571	(38 510)
Profit for the half year	0	0	0	45 621	45 621	1 019	46 640
Balance at 30 June 2006	2 216	21 285	10 222	140 077	173 800	18 677	192 476

The notes presented on pages F-9 to F-15 form an integral part of the condensed interim financial information.

Condensed consolidated interim cash flow statement

	Half year ended 30 June	
th.EEK	2006	2005
Cash flows from operating activities		
Operating profit for the period	56 229	35 641
Adjustments for:		
Depreciation, amortisation and impairment of property, plant and equipment and intangibles	14 993	12 760
Profit (loss) on sale of property, plant and equipment	205	(15)
Changes in working capital:		
Trade and other receivables	(4 204)	(7 889)
Inventories	1 319	(6 450)
Trade and other payables	(22 802)	1 805
Cash generated from operations	45 740	35 852
Income tax paid	(3 150)	(5 310)
Interest paid	(5 100)	(5 453)
Net cash generated from operating activities	37 491	25 088
Cash flows from investing activities		
Investments in financial assets at fair value through profit or loss	(400)	(10 336)
Proceeds from financial assets at fair value through profit or loss	4 587	45
Interest received	784	148
Purchase of property, plant and equipment	(27 781)	(10 722)
Proceeds from sale of property, plant and equipment	150	674
Loans granted	(515)	(14 647)
Loan repayments received	73	127
Net cash used in investing activities	(23 103)	(34 712)
Cash flows from financing activities		
Finance lease payments made	(9 147)	(6 579)
Change in overdraft used	12 885	10 243
Proceeds from borrowings	76 352	600
Repayments of borrowings	(57 060)	(3 280)
Dividend paid	(43 599)	0
Net cash generated from financing activities	(20 568)	984
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6 181)	(8 640)
Cash and cash equivalents at the beginning of the period	36 053	27 375
Exchange gains/(losses) on cash and cash equivalents	(34)	(14)
Cash and cash equivalents at the end of the period	29 838	18 721

The notes presented on pages F-9 to F-15 form an integral part of the condensed interim financial information.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Note 1. General information

The main fields of activities of AS Ekspress Grupp and its subsidiaries include publishing newspapers and magazines, book sales, printing services and information services in phone directories, information hotlines and online. AS Ekspress Grupp (registration number 10004677, address: Narva mnt.11E, 10151 Tallinn) is a holding Group registered in Estonia. There are 12 subsidiaries, 6 joint ventures and 4 associated companies, belonging to the consolidation group as at 30 June 2006. These condensed consolidated interim financial information was approved for issue by the Management Board on 22 September 2006.

The presentation currency is the Estonian kroon. The financial statements are presented in Estonian kroons (EEK), rounded to the nearest thousand.

These condensed consolidated interim financial information of AS Ekspress Grupp for half year ending 30 June 2006 reflect the results of the following Group companies:

Name	Status	Share-holding 30.06.2006	Share-holding 31.12.2005	Main field of activities	Location
AS Ekspress Grupp	Parent company			Holding company	Estonia
Eesti Ekspressi Kirjastuse AS	Subsidiary	100%	100%	Newspaper publishing	Estonia
AS Printall	Subsidiary	100%	100%	Printing services	Estonia
UAB Ekspress Leidyba	Subsidiary	97%	97%	Magazine publishing	Lithuania
Rahva Raamat AS	Subsidiary	100%	100%	Books retail sale	Estonia
OÜ Raamatuvaramu	Subsidiary	100%	100%	Books wholesale	Estonia
OÜ Netikuulutused	Subsidiary	75%	75%	Online classified ads	Estonia
AS Ekspress Hotline	Subsidiary	50%	50%	Information services	Estonia
Ekspresskataloogide AS	Subsidiary	50%	50%	Phone directories	Estonia
AS Infoatlas	Subsidiary	50%	50%	Phone directories	Estonia
AS Numbriinfo	Subsidiary	50%	50%	Information hotline	Estonia
Kõnekeskuse AS	Subsidiary	50%	50%	Call centre services	Estonia
Eesti Päevalehe AS	Joint venture	50%	50%	Newspaper publishing	Estonia
AS SL Õhtuleht	Joint venture	50%	50%	Newspaper publishing	Estonia
AS Ekspress Post	Joint venture	50%	50%	Periodicals' home delivery	Estonia
AS Ajakirjade Kirjastus	Joint venture	50%	50%	Magazine publishing	Estonia
AS Linnaleht	Associate	25%	50%	Newspaper publishing	Estonia
UAB Medipresa	Associate	40%	49%	Periodicals' wholesale distribution	Lithuania
EVI Consult OÜ	Associate	32%	32%	Business consulting	Estonia
Ühendatud Portaaliid OÜ	Associate	25%	25%	Software development	Estonia

Dormant companies

OÜ Õhtuleht	Subsidiary	97%	97%	Newspaper publishing	Estonia
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Note 2. Basis of preparation

This condensed interim financial information for the half-year ended 30 June 2006 has been prepared in accordance with IAS 34, "Interim financial reporting". The interim condensed financial report should be read in conjunction with the annual financial statements of the year ended 31 December 2005.

There is no significant influence of seasonality or cyclicalities of interim operations.

Note 3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006. The management is in the opinion that the amendments to and revisions of the following standards do not have a significant impact on the financial statements of the Group:

IAS 19 (amendment) – Employee Benefits

IAS 21 (amendment) – The Effects of Changes in Foreign Exchange Rates

IAS 39 (amendment) – Cash Flow Hedge Accounting of Forecast Intra group Transactions

IAS 39 (amendment) – Fair Value Option

IAS 39 (amendment) and IFRS 4 – Financial Guarantee Contracts

IFRS 6 – Exploration for and Evaluation of Mineral Resources

IFRIC 4 – Determining whether an Arrangement contains a Lease

IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Rehabilitation Funds

IFRIC 6 – Liabilities arising from Participating a Specific Market – Waste Electric and Electronic Equipment

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted. Management do not expect the following interpretations to be relevant for the Group:

IFRIC 7 – Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Environments, effective for annual periods beginning on or after 1 March 2006.

IFRIC 8 – Share-based Compensations as defined in IFRS 2, effective for annual periods beginning on or after 1 May 2006.

IFRIC 9 – Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 June 2006.

IFRIC 11 – IFRS 2 – Group Treasury Share Transactions, effective 1 March 2007.

IFRIC 12 – Service Concession Arrangements, effective 1 January 2009.

Regarding IFRS 7 – Financial instruments: Disclosures, effective for annual periods beginning on or after 1 January 2007. IAS 1 – Amendments to capital disclosures, effective for annual periods beginning on or after 1 January 2007. The Group has not yet finalised the assessment of the impact of IFRS 7 and the amendment IAS 1 and considers the adoption of this revision.

Regarding IFRS 8 – Operating Segments, effective January 2009 - The Group is assessing the impact of IFRS 8.

Note 4. Non-current assets held for sale

Non-current assets held for sale as of 30 June 2006 are represented by:

- 1) a subsidiary AS EnterNet Providers in the net asset value EEK 2 088 thousand, which was sold in the 2nd half of 2006. The company's assets and liabilities were fully consolidated in 2005, the company was dormant and there were no income or expenses during period 2005. The asset belonged to Other operations business segment.
- 2) land at cost of EEK 1 251 thousand, which was sold in the 2nd half of 2006. The asset belonged to Information services business segment.
- 3) two real-estates at total book value of EEK 5 855 thousand, which was sold in the 2nd half of 2006. The assets belonged to Information services business segment.

Non-current assets for sale as of 31 December 2005 are represented by:

- 1) outdated printing equipment in the amount of EEK 1 799 thousand, which was sold in 1st half of 2006. The asset belonged to printing business segment.
- 2) a financial investment into a property development company Suursepa Arenduse AS in the acquisition cost of EEK 2 000, was sold in the 1st half of 2006 for EEK 2 million. The asset belonged to Other operations business segment.

Note 5. Joint ventures and associated companies

In May 2006 the Group sold 50 per cent of its share in joint venture AS Linnaleht to Eesti Meedia AS for the price of EEK 8 million. The joint venture was proportionally consolidated up to the sale of 50 per cent of Group's share and the remaining share in net assets was accounted for using the equity method as of 30 June 2006. The Group's share of assets of the company at the time of sale were EEK 2 million and the respective liabilities were stated at EEK 3.5 million, resulting in Group's share of profit on the partial sale of joint venture in amount of EEK 4.8 million. The gain was recorded as financial income. As the equity of company is negative as of 30 June 2006, the investment recorded at balance sheet is nil.

In January 2006 UAB Medipresa issued new shares to another shareholder, UAB Žurnalu Leidyba Grupe, as a result of which the share of Group in UAB Medipresa decreased from 49 per cent to 40 per cent and the company became an associate. The joint venture was proportionally consolidated up to the sale of 18 per cent of Group's share and the remaining share in net assets was accounted for using the equity method as of 30 June 2006. The Group's share of assets of the company at the time of sale was EEK 5.5 million and the respective liabilities were stated at EEK 6.2 million. As the equity of company is negative as of 30 June 2006, the investment recorded at balance sheet is nil. The effect of the disposal on the income statement was immaterial.

In June 2006 associate AS Bravocom Mobiil and loan receivables from associate were sold to a related party OÜ Miljardini for EEK 7.5 million, the effect of the disposal on the income statement was immaterial.

Note 6. Property, plant and equipment and intangible assets

	Six months ended 30 June 2006			
	Property, plant and equipment		Intangible assets	
	2006	2005	2006	2005
Opening net book amount as at 1 January	296 908	271 344	106 134	43 284
Acquisitions and improvements	26 614	3 771	1 167	6 241
Sales of fixed assets (at book value)	(100)	(88)	(6)	0
Write-offs (at book value)	(251)	0	0	0
Reclassification (Note 4)	(5 837)	0	0	0
Acquired on business combination / (sold on disposal) (Note 5)	(725)	710	(142)	0
Depreciation, amortisation and impairment	(12 883)	(10 997)	(2 110)	(1 762)
Closing net book amount as at 30 June	303 726	264 740	105 044	47 762

Note 7. Bank loans and borrowings

	Amount total	up to 1 year	1 to 5 year	over 5 year	Interest rate
Balance at 31.12.2005					
Bank overdraft	84 515	84 515	0	0	3,70%
Long-term bank loans	63 903	8 117	55 786	0	4,20%
Finance lease	98 704	18 581	79 875	248	4,20%
Total	247 123	111 213	135 661	248	
Balance at 30.06.2006					
Bank overdraft	71 331	71 331	0	0	3,40%
Long-term bank loans	59 811	4 043	55 767	0	1,2%+6 month EURIBOR
Finance lease	104 977	10 126	80 123	14 728	
Total	236 118	85 500	135 891	14 728	

In March 2006 the Group (AS Printall) has received finance lease from SEB Eesti Ühispank, agreement no L06102873 in the amount of EEK 9 660 thousand (interest rate EURIBOR +2 per cent). The amount due in 2006 is EEK 407 thousand.

In June 2006 Group (AS Printall) has received finance lease from SEB Eesti Ühispank, agreement no L06105700 and agreement no L06106121 in the amount of EEK 5 758 thousand (interest rate EURIBOR + 2 per cent). The amount due in 2006 is EEK 267 thousand.

Both lease agreements relate to printing equipment.

As of 31 December 2005 the long-term loan was classified as short-term loan in the amount of EEK 7 017 thousand.

In December the acquisition of 50 per cent of Ekspress Hotline added a long-term loan in the amount of EEK 1 100 thousand.

As of 31 December 2005 the long-term finance lease was classified as short-term loan in the amount of EEK 18 582 thousand.

Note 8. Dividends

A dividend that relates to 2003-2005 and that amounts to EEK 43 599 thousand was paid in June 2006 (no dividends were paid in six months ending 30 June 2005).

Note 9. Segment reporting

The Group presents the following major segments as the primary segments in the consolidated financial statements:

- a) printing services;
- b) periodicals;
- c) book sales;
- d) information services;
- e) other operations;
- f) unallocated.

The secondary segment is the geographical segment by the location of facilities and other assets.

30.06.2006 th.EEK	Printing services	Perio- dicals	Book sales	Infor- mation services	Other operations	Unallo- cated	Elimina- tions	Group total
Sales to external customers	138 106	205 498	67 733	26 085	9 876	215	0	447 513
Inter-segment sales	28 464	3 162	9 926	29	4 566	455	(46 602)	0
Total gross segment sales	166 570	208 660	77 659	26 114	14 443	670	(46 602)	447 513
Operating profit/segment result	25 500	30 270	2 027	1 941	452	(3 449)	(512)	56 229

30.06.2005 th.EEK	Printing services	Perio- dicals	Book sales	Infor- mation services	Other operations	Unallo- cated	Elimina- tions	Group total
Sales to external customers	106 523	173 493	36 019	0	22 869	306	0	339 209
Inter-segment sales	25 654	6 086	571	0	4 127	675	(37 113)	0
Total gross segment sales	132 176	179 579	36 590	0	26 996	981	(37 113)	339 209
Operating profit/segment result	14 898	22 047	(246)	0	825	(1 768)	(115)	35 641

Geographical Segment by the Location of facilities and other assets – Secondary Segment

The company is active in Estonia and Lithuania. As the markets do not generate significantly different risks and returns and they exhibit similar long-term financial performance, these two segments are combined. The share of Group's revenues in Lithuania is less than 5 per cent. There are no material inter-segment transactions or unallocated assets.

Note 10. Earnings per share

Basic earnings per share have been calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares outstanding during the period.

In view of the fact that the Group has not dilutive instruments at the periods 30 June 2006 and 30 June 2005 **diluted earnings per share** equal basic earnings per share.

	Half year ended 30 June	
th.EEK	2006	2005
Basic and diluted earnings per share for profit attributable to the equity holders of the group	20 527	8 057

Note 11. Post-balance-sheet events

In July 2006 subsidiaries AS Rahva Raamat and OÜ Raamatuvaramu were merged.

In August 2006 AS Ekspress Grupp bought 80 per cent of the share capital of OÜ Autocentrum for 1100 th. EEK, no material goodwill arose.

Upon the resolution of the shareholders, the nominal value of the company's share was reduced from EEK 1 000 to EEK 10 (1:100). Furthermore, in December 2006 the share capital of AS Ekspress Grupp was increased by EEK 163 026 thousand, of which EEK 91 731 thousand was a bonus issue from retained earnings, EEK 21 285 thousand was a bonus issue of the share premium and EEK 50 000 thousand was non-monetary contribution of AS Ekspress Hotline shares. Consequently, AS Ekspress Grupp raised its ownership to 100% of AS Ekspress Hotline shares.

In September 2006 a subsidiary AS EnterNet Providers was sold for EEK 2 088 thousand.

In August 2006 the Group sold three real-estate properties classified as non-current assets held for sale as of 30 June 2006 (Note 4) at the total book value of EEK 7 051 thousand as of 31 December 2005. There were no expenses or income related to these assets in 2006.

Note 12. Related party transactions

Transactions with related parties are transactions with parent company, shareholders, associates, unconsolidated subsidiaries, key management, management board, supervisory board, their close relatives and the companies in which they hold majority interest.

The ultimate controlling individual of AS Ekspress Grupp is Mr. Hans Luik.

The Group has purchased from (goods for sale, manufacturing materials, fixed assets) and sold its goods and services to (lease of capital assets, management services, other services) to the following related parties:

th.EEK	Six months ending 30 June	
	2006	2005
Sale of non-current assets	2 021	0
members of executive boards and companies related to them	21	0
members of supervisory boards and companies related to them	2 000	0
associated companies	0	0
Sale of goods	2 324	1 999
members of executive boards and companies related to them	7	13
members of supervisory boards and companies related to them	17	28
associated companies	2 300	1 958
Sale total	4 345	1 999

Purchases

th.EEK	Six months ending 30 June	
	2006	2005
Purchase of services	2 910	1 927
members of executive boards and companies related to them	1 130	960
members of supervisory boards and companies related to them	1 154	919
associated companies	626	48
Purchase total	2 910	1 927

Receivables

th.EEK	Six months ending 30 June	
	2006	2005
Short-term receivables	4 649	78
members of executive boards and companies related to them	0	3
members of supervisory boards and companies related to them	2 057	31
associated companies	2 591	44
Long-term receivables	8 229	8 485
members of executive boards and companies related to them	0	1 800
members of supervisory boards and companies related to them	8 229	0
associated companies	0	6 685
Receivables total	12 878	8 563

Liabilities

th.EEK	Six months ending 30 June	
	2006	2005
Short-term liabilities	32 390	158
members of executive boards and companies related to them	91	90
members of supervisory boards and companies related to them	32 298	68
associated companies	0	0
Long-term liabilities	98	98
members of supervisory boards and companies related to them	98	98
Liabilities total	32 488	256

AS Ekspress Grupp has borrowed from the following related parties in 2006:

- 1) EEK 24 927 thousand from OÜ Minigert at interest rate of 1.2 per cent + 6 month EURIBOR; from the given loan EEK 25 463 thousand has been returned in 2006; from the 2005 loan balance EEK 6 575 thousand has been paid back, the balance as of 31 December 2005 was EEK 9 915 thousand.
- 2) EEK 50 000 thousand from OÜ Hõbesilm at interest rate of 1.2 per cent + 6 month EURIBOR; from the given loan EEK 27 255 thousand has been returned in 2006.

Associate Bravocom Mobiil was sold to related party (see Note 5).

The Management Board of the Parent company consists of one member and the Supervisory Council of four members. No changes of the member of the Management Board are foreseen. The members of the Supervisory Board did not receive any reimbursements during six months ending 30 June 2006.

Key management and supervisory board remuneration

	Six months ending 30 June	
	2006	2005
Salaries and other short-term employee benefits	5 152	3 898
Key management termination benefits	1 968	2 805

Report on Review of Interim Financial Information

(Translation of the Estonian original)

To the shareholders of AS Ekspress Grupp

Introduction

We have reviewed the accompanying consolidated condensed balance sheet of AS Ekspress Grupp as of 30 June 2006 and the related consolidated condensed statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The financial statements as at 30 June 2006 include receivables from related parties of 14 300 thousand kroons (as at 31 December 2005 of 4 900 thousand kroons). We were unable to satisfy ourselves to the sufficiency of collaterals of these receivables. There were no practical audit procedures that we could perform to satisfy ourselves as to the recoverability of the above mentioned receivables. Had we been able to complete our review of recoverability of the receivables, matters might have come to our attention indicating that adjustments might be necessary to the consolidated condensed interim financial information.

Qualified Conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information is not prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Urmas Kaarlep
AS PricewaterhouseCoopers

Heidi Seeland
Authorised Auditor

15 March 2007

**CONSOLIDATED AUDITED FINANCIAL STATEMENTS
FOR AS EKSPRESS GRUPP FOR THE THREE YEARS ENDED 31 DECEMBER 2005**

(prepared in accordance with IFRS)

FINANCIAL STATEMENTS

Management Board's confirmation of the Financial Statements

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Ekspress Grupp for the years 2003-2005 as presented on pages F-18 to F-60.

The Management Board confirms that:

1. the accounting policies and presentation of information is in compliance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
3. all Group companies are going concerns.

Member of Management Board
Priit Leito
8 March 2007

Consolidated balance sheet

th.EEK	31.12.2005	31.12.2004	31.12.2003	Notes
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	36 053	27 375	17 148	6
Other financial assets at fair value through profit or loss	5 940	4 581	5 712	7
Trade and other receivables	112 376	76 464	73 009	8
Inventories	47 672	36 038	13 370	12
Total	202 042	144 457	109 239	
Assets classified as held for sale	3 799	0	0	13
TOTAL CURRENT ASSETS	205 841	144 457	109 239	
NON-CURRENT ASSETS				
Trade and other receivables	7 981	6 467	4	14,17
Available-for-sale financial assets	0	2 000	0	13
Investments in associates	32	111	213	17
Investment property	1 251	0	0	18
Property, plant and equipment	296 908	271 344	134 303	19
Intangible assets	106 134	43 284	10 307	20
TOTAL NON-CURRENT ASSETS	412 306	323 206	144 828	
TOTAL ASSETS	618 147	467 663	254 067	
SHAREHOLDERS EQUITY AND LIABILITIES				
CURRENT LIABILITIES				
Borrowings	111 213	61 880	33 604	22
Trade and other payables	186 568	123 977	99 275	21
TOTAL CURRENT LIABILITIES	297 781	185 857	132 880	
NON-CURRENT LIABILITIES				
Borrowings	135 909	145 995	4 647	22
Other long term liabilities	110	43	53	
TOTAL NON-CURRENT LIABILITIES	136 019	146 039	4 700	
TOTAL LIABILITIES	433 800	331 896	137 580	
EQUITY				
Capital and reserves attributable to equity holders of the Group				
Share capital	2 216	2 216	2 216	
Share premium	21 285	21 285	21 285	
Reserves	10 222	10 222	10 222	
Retained earnings	135 537	97 518	78 538	
Capital and reserves attributable to equity holders of the Group	169 260	131 240	112 261	33
Minority interest	15 087	4 527	4 226	
TOTAL EQUITY	184 347	135 768	116 487	
TOTAL EQUITY AND LIABILITIES	618 147	467 663	254 067	

The notes presented on pages F-23 to F-60 form an integral part of the consolidated financial statements.

Consolidated income statement

th.EEK	2005	2004	2003	Notes
Sales	748 026	512 381	427 572	26
Costs of sales	572 264	384 616	311 590	27
Gross profit	175 762	127 765	115 981	
Distribution costs	36 306	27 990	25 166	28
Administrative expenses	70 646	56 128	51 623	29
Other income	11 203	1 338	6 614	30
Other expenses	3 610	6 360	342	30
Operating profit	76 404	38 625	45 464	
Finance costs	(9 091)	(7 423)	(2 912)	31
Share of loss of associates	(21 708)	(7 152)	(812)	17
Profit before income tax	45 605	24 051	41 740	
Income tax expense	(5 444)	(5 083)	(3 319)	10
PROFIT FOR THE YEAR	40 161	18 967	38 422	
Attributable to:				
Equity holders of the Group	38 020	18 980	37 973	
Minority interest	2 141	(12)	449	
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (EEK per share)	17 157	8 565	17 136	33

The notes presented on pages F-23 to F-60 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

th.EEK	Attributable to equity holders of the Group					Minority interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total		
Balance at 1 January 2003	2 216	21 285	10 000	40 786	74 287	8 374	82 661
Transfers to statutory reserve capital	0	0	222	(222)	0	0	0
Minority interest arising on business combinations	0	0	0	0	0	(4 596)	(4 596)
Total changes	0	0	222	(222)	0	(4 596)	(4 596)
Profit for the year	0	0	0	37 973	37 973	449	38 422
Balance at 31 December 2003	2 216	21 285	10 222	78 538	112 261	4 226	116 487
Balance at 1 January 2004	2 216	21 285	10 222	78 538	112 261	4 226	116 487
Minority interest arising on business combinations	0	0	0	0	0	314	314
Total changes	0	0	0	0	0	314	314
Profit for the year	0	0	0	18 980	18 980	(12)	18 967
Balance at 31 December 2004	2 216	21 285	10 222	97 518	131 240	4 527	135 768
Balance at 1 January 2005	2 216	21 285	10 222	97 518	131 240	4 527	135 768
Minority interest arising on business combinations	0	0	0	0	0	8 418	8 418
Total changes	0	0	0	0	0	8 418	8 418
Profit for the year	0	0	0	38 020	38 020	2 142	40 161
Balance at 31 December 2005	2 216	21 285	10 222	135 537	169 260	15 087	184 347

Further information on share capital and reserves can be found in Note 33.

The Notes presented on pages F-23 to F-60 form an integral part of the consolidated financial statements.

Consolidated cash flow statement

th.EEK	2005	2004	2003	Notes
Cash flows from operating activities				
Operating profit for the period	76 404	39 961	45 464	
Adjustments for:				
Depreciation, amortisation and impairment of property, plant and equipment and intangibles	26 280	22 167	22 032	32
Profit (loss) on sale of property, plant and equipment	2 730	5 925	(92)	30
Changes in working capital:				
Trade and other receivables	(74 950)	(3 514)	(10 354)	
Inventories	(12 362)	(22 668)	(1 683)	
Trade and other payables	95 797	(15 121)	11 561	
Cash generated from operations	113 899	26 750	66 929	
Income tax paid	(5 444)	(4 466)	(3 319)	
Interest paid	(9 566)	(6 981)	(1 709)	
Net cash generated from operating activities	98 889	15 303	61 901	
Cash flows from investing activities				
Investments in financial assets at fair value through profit or loss	0	(5 548)	(915)	
Proceeds from financial assets at fair value through profit or loss	45	0	0	
Interest received	3 064	958	1 369	
Purchase of available-for-sale financial assets	0	(2 000)	0	13
Purchase of investment property	(1 251)	0	0	18
Purchase of property, plant and equipment	(101 833)	(92 249)	(66 509)	19; 20
Proceeds from sale of property, plant and equipment	1 050	26 298	546	19; 20
Loans granted	(29 267)	(18 320)	(12 860)	
Loan repayments received	7 474	21 362	13 753	
Net cash used in investing activities	(120 717)	(69 499)	(64 616)	
Cash flows from financing activities				
Finance lease payments made	(29)	(11 660)	(12 421)	
Change in overdraft used	56 164	4 471	23 868	22
Proceeds from borrowings	17 887	90 280	6 500	
Repayments of borrowings	(43 481)	(18 414)	(17 992)	
Net cash generated from financing activities	30 541	64 678	(45)	
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	8 713	10 482	(2 760)	
Cash and cash equivalents at the beginning of the period	27 375	17 148	19 878	6
Exchange gains/(losses) on cash and cash equivalents	(34)	(256)	30	
Cash and cash equivalents at the end of the period	36 053	27 375	17 148	6

The notes presented on pages F-23 to F-60 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General information

The main fields of activities of AS Ekspress Grupp and its subsidiaries include publishing newspapers and magazines, book sales, printing services and information services in phone directories, information hotlines and online.

AS Ekspress Grupp (registration number 10004677, address: Narva mnt 11E, 10151 Tallinn) is a holding Group registered in Estonia. There are 12 subsidiaries, 6 joint ventures and 3 associated companies, belonging to the consolidation group as at 31 December 2005.

These consolidated financial statements have been approved for issue by the Management Board on 1 March 2007.

The consolidated statements of AS Ekspress Grupp for 2003-2005 reflect the results of the following Group companies:

Name	Status	Share- holding 31.12.2003	Share- holding 31.12.2004	Share- holding 31.12.2005	Main field of activities	Location
AS Ekspress Grupp	Parent Company				Holding Company	Estonia
Eesti Ekspressi Kirjastuse AS	Subsidiary	100%	100%	100%	Newspaper publishing	Estonia
AS Printall	Subsidiary	95%	95%	100%	Printing services	Estonia
UAB Ekspress Leidyba	Subsidiary	0%	97%	99,7%	Magazine publishing	Lithuania
Rahva Raamat AS	Subsidiary	0%	100%	100%	Books retail sale	Estonia
OÜ Raamatuvaramu	Subsidiary	0%	0%	100%	Books wholesale	Estonia
OÜ Netikuulutused	Subsidiary	0%	0%	75%	Online classified ads	Estonia
AS Ekspress Hotline	Subsidiary	0%	0%	50%	Information services	Estonia
Ekspresskataloogide AS	Subsidiary	0%	0%	50%	Phone directories	Estonia
AS Infoatlas	Subsidiary	0%	0%	50%	Phone directories	Estonia
AS Numbrinfo	Subsidiary	0%	0%	50%	Information hotline	Estonia
Kõnekeskuse AS	Subsidiary	0%	0%	50%	Call centre services	Estonia
Eesti Päevalehe AS	Joint venture	50%	50%	50%	Newspaper publishing	Estonia
AS SL Õhtuleht	Joint venture	50%	50%	50%	Newspaper publishing	Estonia
AS Express Post	Joint venture	50%	50%	50%	Periodicals' home delivery	Estonia
AS Ajakirjade Kirjastus	Joint venture	50%	50%	50%	Newspaper publishing	Estonia

Name	Status	Share- holding 31.12.2003	Share- holding 31.12.2004	Share- holding 31.12.2005	Main field of activities	Location
AS Linnaleht	Joint venture	0%	0%	50%	Magazine publishing	Estonia
UAB Medipresa	Joint venture	0%	49%	49%	Periodicals' wholesale distribution	Lithuania
AS Bravocom Mobiil	Associate	32%	40%	32%	Mobile phone operator	Estonia
EVI Consult OÜ	Associate	32%	32%	32%	Business consulting	Estonia
Ühendatud Portaaliid OÜ	Associate	0%	0%	25%	Software development	Estonia
AS Privess	Subsidiary	100%	100%	100%	Investing	Estonia

Dormant companies
(as of 31.12.2005)

AS EnterNet Providers	Subsidiary	100%	100%	100%	Internet portal	Estonia
OÜ Õhtuleht	Subsidiary	97%	97%	97%	Newspaper publishing	Estonia

In 2005 UAB Moteris was renamed to UAB Ekspress Leidyba and AS Vertelson Mobiil to AS Bravocom Mobiil.

Note 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of AS Ekspress Grupp have been prepared for the first time in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The transition date to IFRS is 1 January 2003. Transfer to IFRS was covered by IFRS 1 "First-time Adoption of IFRS", because these are issued as the Group's first IFRS financial statements for the years ended 31 December 2003, 31 December 2004 and 31 December 2005. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (31 December 2005).

AS Ekspress Grupp's consolidated financial statements were prepared in accordance with the generally accepted accounting principles of the Republic of Estonia (Estonian GAAP) until 31 December 2002. Estonian GAAP effective at that date differed in some areas from IFRS effective at the time of preparing these statements. In preparing the Group's 2003-2005 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the GAAP financial statements to comply with IFRS. The comparative figures in respect of 2002 presented in certain disclosures were restated to reflect these adjustments, except as described in the accounting policies. In accordance with the requirements of standards, additional disclosures are presented in the notes to the financial statements. In conjunction with the transfer to IFRS, the presentation of the balance sheet and the income statement has been amended, providing a better overview of the income received and its assets and liabilities.

Reconciliations and descriptions of the effect of the transition from Estonian GAAP to IFRS on the Group's equity and its net income and cash flows are provided in Note 4.

The policies set out below have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention, as modified by the financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The functional currency of AS Ekspress Grupp is Estonian kroon (EEK). The financial statements are presented in thousand of Estonian kroons (EEK), unless indicated otherwise.

Standards, interpretations and amendments to published standards that are not yet effective

By the time of preparing these financial statements, new International Financial Reporting Standards and their interpretations have been published which will become mandatory for the Group from 1 January 2006 or later and which the Group has not adopted early. The following IAS amendments affect the Group:

- IAS 1 (Amendment) – Presentation of Financial Statements: Capital Disclosures which is effective from 1 January 2007 or later. The standard requires additional disclosures in the financial statements.
- IFRS 7 Financial Instruments: Disclosures and supplementary annex IAS 1, Presentation of Financial Statements, which is effective from 1 January 2007. IFRS 7 introduces new requirements for the notes in order to improve the presentation of information in the financial statements. This requires presentation of qualitative and quantitative information on the risks arising from financial instruments, containing specific minimum requirements for credit risk, liquidity risk and market risk (incl. sensitivity analysis of market risk). This replaces standard IAS 30, Disclosures in the Financial Statements and Other Financial Institutions and IAS 32 Financial Instruments: Disclosure and Presentation. This standard is effective for all companies preparing their financial statements in accordance with International Financial Reporting Standards. The revision to IAS 1 presents additional requirements for the Group's capital and capital management. The management considers the adoption of this revision.
- Regarding IFRS 8 – Operating Segments, effective January 2009 - The Group is assessing the impact of IFRS 8.

The management is in the opinion that the amendments to and revisions of the following standards do not have a significant impact on the financial statements of the Group:

- IAS 19 (amendment) – Employee Benefits
- IAS 21 (amendment) – The Effects of Changes in Foreign Exchange Rates
- IAS 39 (revision) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (revision) – Fair Value Option
- IAS 39 and IFRS 4 (revision) – Financial Guarantee Contracts
- IFRS 6 – Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining whether an Arrangement contains a Lease

- IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Rehabilitation Funds
- IFRIC 6 – Liabilities arising from Participating a Specific Market – Waste Electric and Electronic Equipment
- IFRIC 7 – Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Environments
- IFRIC 8 – Share-based Compensations as defined in IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment (effective 1 November 2006)
- IFRIC 11 – IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007)
- IFRIC 12 – Service Concession Arrangements (effective 1 January 2009).

Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates

Associates are all entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and short-term deposits. Bank overdrafts and shares of liquid funds are not classified as cash and cash equivalents. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Shares of liquid funds are classified as financial assets at fair value through profit or loss.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Estonian kroons, which is the functional and presentation currency of AS Ekspress Grupp.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated to Estonian kroons at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated to Estonian kroons at average exchange rates;
- (c) all resulting exchange differences are recognised as a separate component of equity.

The Group has group entities in Lithuania and Estonia. Since the Estonian kroon and Lithuanian litas are both pegged to the Euro, the translation to Group's presentation currency does not give rise to currency translation differences.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method for inventories used in periodicals and book sales segments and weighted average cost method for inventories used in printing segment. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets at fair value through profit or loss are initially recognised at cost at the settlement date, which is the fair value of the consideration received from or paid for the financial investment (does not include transaction costs). After initial recognition, financial assets in this category are measured at fair value. Changes in fair values of these assets are recognised consistently, either as a profit or loss in the income statement of the accounting period.

In case of listed securities, the bid price is considered as the fair value of investments. To find the fair value of investments not actively traded in the market, alternative methods such as the price of recent transactions (under market conditions), specific purchase offers made, the discounted cash flow method or option valuation models are used.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are initially recognised

at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Investment property

Investment property is land or a building (or part of a building) which the Group holds for earning rental income or for capital appreciation. Land and buildings used by the Group for its own activities are treated as items of property, plant and equipment. Investment property is carried in the balance sheet at its historical cost less any accumulated depreciation and any impairment losses. The historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The fair value of investment properties is disclosed in the notes to the financial statements. Land is not depreciated and the straight-line method is used for calculating depreciation of buildings (useful lives of 20–30 years). Earned rental income is recorded in profit or loss within other income.

Property, plant and equipment

Assets with expected useful life of more than one year are capitalised as property, plant and equipment, if it is probable that future economic benefits associated with the asset will flow to the enterprise.

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items (including the custom duties and other non refundable taxes). Cost includes direct and indirect costs related to acquisition of property, plant and equipment necessary to bring them to their present state and condition, as well as estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item. The cost of self-constructed assets includes the cost of materials and direct labour.

If the fixed asset object consists of components, which have significantly different useful lives, the components will be recorded as independent fixed asset objects, with separate depreciation rates assigned according to their useful life. Groups of fixed assets with similar estimated useful lives will be recorded as aggregates.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the assets are presented at their estimated recoverable value. Recoverable value is equivalent to the higher of a particular asset's fair value less costs to sell, or value in use. The anticipated future discounted cash flows are used as the basis for determining value in use (see also part of accounting policies "Impairment of non-financial assets"). Impairment losses in fixed assets are expressed as an increase in accumulated depreciation and are recognised as an expense in the income statement. A recovery in value in use is recognised as a reversal of impairment loss.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation rates are set separately to each asset depending on its estimated useful life. Depreciation of an asset is started when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from the active use unless the asset is

fully depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Depreciation is calculated linearly based on the following assumed useful lives:

Buildings	20-30 years
Plant and equipment:	
Machinery	8-12 years
Other equipment:	
– Vehicles	5-10 years
– Furniture, fittings and equipment	3-5 years

Freehold land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary/associate/joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in "intangible assets", goodwill on acquisitions of associates is included in "investments in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Trademarks and licences

Trademarks and licenses are shown at historical cost. Trademarks and licences which have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

The estimated useful lives of assets with a definite useful live:

- Trademarks and licences 20 years

Other intangible assets

Other intangible assets (including computer software) are stated at historical cost less accumulated amortisation and impairment losses.

The estimated useful lives of other intangible assets:

- Other intangible assets 3-5 years

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses and other borrowings) are initially recognised at the fair value of the consideration receivable for financial liabilities which also includes all transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost. The amortised cost of the short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. The amortised cost of long-term liabilities is calculated using the effective interest rate method.

Financial liabilities are classified as current when they are due within twelve months after the balance sheet or if the Group does not have an unconditional right to defer the payment for later than 12 months after the balance sheet date. Borrowings whose due date is within 12 months after the balance sheet date but which are refinanced as non-current after the balance sheet date but before the financial statements are authorised for issue are recognised as current. Borrowings that the lender has the right recall at the balance sheet date due to violation of contractual terms are also classified as current. Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use Other borrowing costs are expensed.

Provisions

Liabilities that have arisen during the financial year or prior periods, which have a legal or contractual basis, which are expected to result in the outflow of resources, and which can be reliably measured, but for which the actual payment amount and payment date has not been definitely determined, are recorded as provisions on the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for settling the obligation or transfer it to the third party. The provision expense is included in the income statement of the period. Provisions are not recognised for future operating losses.

Contingent liabilities

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

Payables to employees

Payables to employees include the obligation arising from bonus policy which is approved with the order of the Management Board. Payables to employees include also vacation payroll accrual calculated in accordance with employment contracts and the local laws in force as at the balance sheet date. The liability related to the payment of vacation payroll accrual together with social security and unemployment insurance payments is included within current liabilities in the balance sheet and as personnel costs in the income statement. Employment termination compensation accruals are not recognised in case the member of the Management Board leaves on his/her own initiative or in case the member of the Management Board is called back by the Supervisory Board with material cause. If the member of the Management Board is called back without material cause, the compensation of four monthly salaries is to be paid and the accrual is recognised as the event occurs.

Leases

Leases of plant, property and equipment under which the Group assumes substantially all risks and rewards incidental to ownership are classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded in income statement on accrual basis of accounting, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs. Finance assets are depreciated in accordance with the depreciation policy described above, with the depreciation period being the estimated useful life of the asset.

Rentals payable under operating leases are charged to expense on straight-line basis over the term of the relevant lease, irrespective from disbursements for relevant payables. Assets leased under operating lease are not recorded on the balance sheet.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

Sales of goods - wholesale

Sales of goods is recognised when a group entity has delivered the products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. Books, newspapers and magazines are often sold with a right to return. Accumulated experience is used to estimate and provide for such returns at the time of sale as a deduction from the sales.

Revenue from classified directories mainly comprising advertising revenue, is recognised in the income statement upon completion of delivery to the users of the directories.

Sales of goods - retail

Sales of goods are recognised when a group entity sells a product to the customer. Retail sales in bookstores are usually in cash or by credit card. The customer payments for the subscription of books, newspapers and magazines are apportioned according to the subscription period and recognised in income as the publication is issued. Customer prepayments for publications issued in future period are recorded as deferred income.

Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue from sales and intermediation of media and advertising services is recognised as income at the same period when the advertising is published. Revenue from production of media and advertising services is recognised in income according to the percentage-of-completion method. The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The revenue from quarterly, semi-annual and annual advertising packages sold is recognised in income linearly over the package duration.

When progress billings up to the year-end exceed costs incurred plus recognised profits, the balance is shown as due to customers on service contracts, under other deferred income. Where costs incurred and recognised profits exceed progress billings up to the year-end, the balance is shown as due from customers on construction contracts, under accrued income.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Statutory reserve

The statutory reserve in equity is a mandatory reserve, created in accordance with Estonian Commercial Code and it can only be used for covering losses or conversion to the share capital. At each year at least 1/20 of net profit should be recognised as statutory reserve until the statutory reserve comprises 1/10 of share capital. The distribution to shareholders from the statutory reserve is not permitted.

Earnings per share

Basic earning per share is calculated by dividing the profit of the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year. Diluted earning per share is calculated based on profit or loss attributable to the ordinary equity holders of the parent company, and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As the Group has not issued any potential ordinary shares, the diluted earnings per share equals to the basic earnings per share.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

If the dividends are declared after the balance sheet date, those dividends are not recognised as a liability at the balance sheet date.

Subsequent events

Significant events that occurred during the preparation of the annual accounts and are related to transactions that took place during the financial year, and confirm the conditions that existed at the date of the financial statement, are considered in the valuation of assets and liabilities.

Significant events that occurred during the preparation of the annual accounts and are not considered in the valuation of assets and liabilities, but significantly influence the results of the next financial year, are disclosed in the notes to the annual accounts.

Segment reporting

Groups of assets and operating areas are reported as separate segments, whose risks and rewards are significantly different from those of other segments. In the business segment it predominantly depends on the operating activity and on the type of product or service; with regard to geographical segments on the economic environment in the region in which the segment operates. The report provides information about the Group's segments, and this information is organised by both business segments (the primary format for segment reporting) and geographic segments (the secondary format for segment reporting). The majority of the Group's revenues are generated in Estonia.

The Group presents the following major segments as the primary segments in the consolidated financial statements:

- a) printing services;
- b) periodicals publishing and advertising;
- c) book sales;
- d) information services;
- e) other operations;
- f) unallocated.

The secondary segment is the geographical segment by the location of the group's production and service facilities and other assets.

Segment expense is expense resulting from the operating activities and is directly attributable to the segment. Segment gross profit is segment revenue less segment expense. Segment gross profit is determined before any adjustments for minority interest. Segment assets are those operating assets that are operatively employed and that are directly attributable to the segment. Segment liabilities are those directly attributable to the segment. Capital expenditure represents total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment, and intangible assets).

Unallocated assets and liabilities and such assets and liabilities whose allocation to segments is not possible or reasonable due to the structure of the company's business (for example, corporate income tax, interest receivables and liabilities, dividend receivables and liabilities) are recorded as the joint assets and liabilities of the Group. The segment's assets and liabilities do not include unallocated financial assets and financial liabilities and the segment's income and expenses do not include income and expenses arising from the above-mentioned assets and liabilities

Corporate income tax

According to current legislation, the profits of Estonian companies are not taxed, whereby deferred income tax claims or liabilities do not exist. In Estonia instead of profits, dividends paid from undistributed profits are taxed at a rate of 23/77 (until 31 December 2005, a tax rate of 24/76 was in force; until 31 December 2004, a tax rate of 26/74), on the net dividend paid out. The corporate tax resulting from the payment of dividends is recognized as an income tax expense in the same period as the dividends are declared regardless of for which period the dividends are declared or when they are actually paid out.

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

Income tax of the companies registered in Lithuania

In Lithuania the profit before taxes is adjusted for the permanent and temporary differences as determined in the respective tax laws. In Lithuania the tax rate was 15 per cent in 2004 and 2005. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax, it is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The preparation of the annual financial statements involves estimates made by the Management Board of the parent Company about circumstances that influence the Group's and the parent Company's assets and liabilities as of the balance sheet date, and about income received and expenses incurred during the financial year. These estimates are based upon up-to-date information about the state of the Group and take into consideration the Group's plans and risks as they stand at the date of the financial statements' preparation.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include allocating purchase price in business combinations (Note 15), valuation of inventory (Note 12), valuation of goodwill (Note 15), determination of useful lives of property, plant and equipment (Note 19), valuation of provisions, contingent liabilities and contingent assets (Note 35).

a) Business combinations

The management has carried out the valuations and prepared purchase price allocation analysis in order to estimate the fair values in purchase price allocation considerations.

The trademarks obtained in acquisitions of subsidiaries Express Hotline, Rahva Raamat, UAB Ekspress Leidyba, Pieniu Pieva and Tavo Vaikas have met the criteria for recognition as a separately identifiable asset acquired in a business combination given that these are registered trademarks in Estonia and Lithuania respectively and are in continuous commercial use. As the trademarks are actively used and promoted by AS Ekspress Grupp and the creation of such trademarks would require resources, a cost approach was selected to provide the most accurate measure of value. Thus, the cost approach method was used for valuation of the trademarks. A remaining useful life of 20 years has been assigned to the trademarks.

b) Valuation of Inventory

Upon valuation of inventories, the management will rely on its best knowledge taking into consideration historical experience, general background information and assumptions and preconditions of the future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered, upon valuation of raw materials and materials, their potential of usage in producing the finished goods and generating income is considered; upon valuation of work in progress, their stage of completion that can reliably be measured is considered.

The recognition of publishing revenue includes the estimation to anticipated return rates. The anticipated return rates are based on management estimate and historical data of return. If the rate of return increases by 5 per cent, the revenue would decrease by EEK 800 thousand.

c) Valuation of Goodwill

Goodwill is the excess of the cost of the acquisition over the fair value of the acquired net assets, reflecting the part of cost that was paid for the acquisition of such assets than cannot be separately identified and recognised. Goodwill as an intangible asset with an indefinite useful life is not amortised but it is tested for impairment at least once a year. The management has performed an impairment test for goodwill resulting from the following corporate acquisitions: UAB Ekspress Leidyba, OÜ Netikuulutused, OÜ Raamatuvaramu, Ajakirjade Kirjastuse AS, AS Ekspress Hotline.

Future expected cash flows based on the budgeted sales volumes in the Lithuanian and Estonian market respectively have been taken into consideration in finding the recoverable amount of the investments. The future expected cash flows have been discounted using the expected rate of return. If the recoverable amount of the investment is lower than its carrying amount, an impairment loss is recorded to write down the investment to its recoverable amount. The recoverable values were found to be in excess of the carrying value. Thus, the related goodwill was not impaired.

If the cash flow is decreased for 10 per cent or discount rate is increased for 2 per cent, the result of goodwill based on discounted cash flows would not lead to impairment.

Estimates and judgements used in business combination evaluations are continually evaluated. If the actual results differ from the estimates, the respective adjustments will be made subsequently.

d) Property, plant and equipment

Depreciation of property, plant and equipment is based on the historical acquisition value (purchase cost), with appropriate adjustment for impairment and taking into account the estimated useful life of various classes of assets. The Management has determined the estimated useful lives of the property, plant and equipment, taking into account the business conditions and volumes, historical experience in given fields and future projections. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

According to the estimates the useful lives for buildings is 20-30 years, depending on their structure and purpose. The useful life for manufacturing plant and equipment is 8-12 years, depending on the nature of specific assets and their purposes. The useful life of other machinery and equipment is 5-10 years depending on their usage. The useful life of other fixed assets and IT equipment is 3-5 years, depending on the nature of each asset and its purpose. There have been no changes in depreciation rates during 2003–2005.

If the useful lives increase by 10 per cent the decrease of the annual depreciation charge would be EEK 320 thousand, EEK 1 280 thousand and EEK 480 thousand for 'Buildings', 'Plant and equipment' and 'Other equipment' respectively. The total decrease of depreciation charge in case of increase in useful lives of 10 per cent would be EEK 2 080 thousand.

e) Valuation of provisions, contingent liabilities and contingent assets

In estimating the probability of realisation of contingent assets and liabilities the management is considering the historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation. There are no material provisions within the Group.

f) As of 31 December 2004 the 49 per cent of ownership in UAB Medipresa is according to the management judgement considered to give joint control over the Company. The details are described in Note 16.

g) The Group has receivables and loans given to related parties. According to the management judgement these receivables and loans are not impaired and should not be provided for. Further explanation of related parties' transactions is provided in Note 37.

Note 4. Transition to IFRS

Application of IFRS 1

The transition date to IFRS is 1 January 2003 and the adoption date is 1 January 2003. Transfer to IFRS was covered by IFRS 1 "First-time Adoption of IFRS", because these financial statements are issued as the Group's first IFRS financial statements for the years ended 31 December 2003, 31 December 2004 and 31 December 2005.

The Group has made use of one of the allowed exemptions available under IFRS 1:

Fair value as deemed cost exemption – the Group has elected to measure certain items of property, plant and equipment at fair value as at 1 January 2003. The application of this exemption is detailed below under Reconciliation of equity at 1 January 2003.

IFRS 1 also sets out four mandatory exceptions, which the Group has followed.

- a) derecognition of financial assets and liabilities – the Group has not retrospectively recognised financial assets or financial liabilities in the balance sheet that had been derecognised before the transfer date;
- b) *hedge accounting* – the Group does not use *hedge accounting*;
- c) exception regarding estimates – in the IFRS financial statements, the Group has used the same estimates as the ones used to prepare the financial statements in accordance with the generally accepted accounting principles of the Republic of Estonia as at 1 January 2002 and 31 December 2002;

d) assets held for sale and discontinued operations - the Group applies IFRS 5 from 1 January 2005.

Reconciliations between IFRS and Estonian GAAP

Reconciliation of equity at 1 January 2003

th.EEK	2003 Estonian GAAP	Effect of transition to IFRSs	2003 IFRS
CURRENT ASSETS			
Cash and cash equivalents	17 148	0	17 148
Other financial assets at fair value through profit or loss	5 712	0	5 712
Trade and other receivables	73 009	0	73 009
Inventories	13 370	0	13 370
Assets classified as held for sale	0	0	0
TOTAL CURRENT ASSETS	109 239	0	109 239
NON-CURRENT ASSETS			
Trade and other receivables	4	0	4
Investments in associated	213	0	213
Investment property	0	0	0
Property, plant and equipment	131 695	2 608	134 303
Intangible assets	(263)	10 570	10 307
TOTAL NON-CURRENT ASSETS	131 649	13 179	144 828
TOTAL ASSETS	240 888	13 179	254 067
CURRENT LIABILITIES			
Borrowings	33 604	0	33 604
Trade and other payables	99 275	0	99 275
TOTAL CURRENT LIABILITIES	132 880	0	132 880
NON-CURRENT LIABILITIES			
Borrowings	4 647	0	4 647
Other long term liabilities	53	0	53
TOTAL NON-CURRENT LIABILITIES	4 700	0	4 700
TOTAL LIABILITIES	137 580	0	137 580
EQUITY			
Capital and reserves attributable to equity holders of the Group			
Share capital	2 216	0	2 216
Share premium	21 285	0	21 285
Reserves	10 222	0	10 222
Retained earnings	65 360	13 179	78 538
Capital and reserves attributable to equity holders of the Group	99 082	13 179	112 261
Minority interest	4 226	0	4 226
TOTAL EQUITY AND LIABILITIES	240 888	13 179	254 067

Explanations of the effect of the transition to IFRS

In the consolidated balance sheet, book value of previously recognised 'negative goodwill' which had accumulated until 1 January 2003 of EEK 10 570 thousand has been eliminated. The adjustment has been recognised through retained earning.

The change in the property, plant and equipment in the amount of EEK 2 608 thousand is due to the building revaluation to fair value. The fair value is used as its deemed cost on the transition date. The adjustment has been recognised through retained earnings.

The accounting principles under Estonian GAAP and IFRS do not differ as of 31 December 2005. The difference of net profit under two accounting frameworks arose mainly due to adjustment of trademarks' depreciation, accruals and inventories write-off.

Note 5. Financial risk management

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, and interest rate risk.

Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The Group does not have significant exposure to credit risk to any individual customer or counter party. In order to lower credit risks, the payment discipline of customers is constantly being monitored; credit policy is set for ensuring that sales of products are made to customers with an appropriate credit history and advance payment policy is used for higher risk categories. The Group does not have essential risks regarding to clients and partners. Therefore the management estimates that the Group does not have any major credit risks.

Interest rate risk

The interest rates related to the loans and borrowings of the Group are mainly fixed and in some cases related to Euribor or Libor. The Group has not applied any hedge instrument. Interest risk arises from floating rate borrowings. Changes in floating interest rates and changes in average market interest rates affect the Group's interest expenses. The Company's management estimates that the Group does not have any major interest risks.

Foreign exchange risk

The Group has no significant concentrations of foreign exchange risk. The Group does not use any hedging of the foreign currency risk arising from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group pays most of primary suppliers of paper and other materials in Euros, whilst domestic suppliers and workforce are being paid in Estonian kroons and Lithuanian litas. Group companies have minimized foreign currency net open balances.

Note 6. Cash and cash equivalents

th.EEK	31.12.2005	31.12.2004	31.12.2003
Cash on hand	800	316	103
Money in bank account	35 253	27 059	17 046
Cash and cash equivalents in the statement of cash flows	36 053	27 375	17 148

Note 7. Other financial assets at fair value through profit or loss

Financial asset	31.12.2005	31.12.2004	31.12.2003
Listed shares	1	1	2
Listed bonds	150	150	0
Money market funds	5 788	4 430	5 710
Total	5 940	4 581	5 712
	2005	2004	2003
Hansa Money Market Fund interest rate	1,5-2,0%	0,15-0,20%	0,15-0,20%
SEB Ühispana Money Market Fund interest rate	1,7-2,5%	1,7-2,5%	1,7-2,5%
Interest income	163	200	235

The shares in money market funds and listed bonds are accounted for in fair value.

See Note 14 for the long term part of the listed bonds.

Note 8. Receivables and prepayments

th.EEK	31.12.2005	31.12.2004	31.12.2003
Trade receivables (Note 9)	70 126	49 752	30 352
Prepaid taxes (Note 10)	2 197	953	3 711
Other receivables (Note 11)	33 997	22 883	36 459
Prepayments	6 056	2 875	2 486
Receivables and prepayments total	112 376	76 464	73 009

Note 9. Trade receivables

th.EEK	31.12.2005	31.12.2004	31.12.2003
Trade receivables	74 788	53 264	33 689
Allowance for impairment of receivables	(4 662)	(3 512)	(3 337)
Accounts receivables total	70 126	49 752	30 352

	31.12.2005	31.12.2004	31.12.2003
Allowance for impairment of receivables at the beginning of the period	(3 512)	(3 337)	(2 326)
Proceeds from impaired receivables during the period	2 396	2 779	2 483
Impairment of receivables recognised during the period	(4 456)	(3 615)	(4 854)
Receivables written off balance sheet during the period	911	661	1 360
Allowance for impairment at the end of the period	(4 662)	(3 512)	(3 337)

Impairment losses recognised during the period are reported in income statement as “Other expenses”.

Note 10. Taxes

th.EEK	31.12.2005		31.12.2004		31.12.2003	
	Prepayment	Liability	Prepayment	Liability	Prepayment	Liability
Corporate income tax	186	1 094	18	926	20	290
Personal income tax	5	3 690	10	2 842	5	2 851
Social tax	0	7 571	0	5 158	6	4 930
Unemployment insurance tax	1	226	1	176	1	117
Pension insurance tax	0	220	0	134	0	87
Value-added tax	2 005	2 632	925	2 075	3 678	1 360
Taxes total (Note 8)	2 197	15 434	953	11 311	3 711	9 636

Corporate income tax

th.EEK	2005	2004	2003
Dividend income from joint ventures	16 802	14 468	9 446
Dividends attracting income tax	16 802	14 468	9 446
Income tax 23/77 (29.87%) (in 2004 24/76 (34.58%); in 2003 26/74 (35.14%))	(5 019)	(4 569)	(3 319)
Current tax expense	(5 444)	(5 083)	(3 319)
Effective income tax rate	29.87%	31.58%	35.14%

Note 11. Other short-term receivables

th.EEK	31.12.2005	31.12.2004	31.12.2003
Receivables from associated companies	46	230	216
Trade receivables	46	230	216
Receivables from joint ventures	6 253	4 935	3 357
Trade receivables	6 253	4 935	2 313
Other receivables	0	0	1 044
Other short-term debts	27 698	17 718	32 887
Loans granted	18 967	15 379	29 992
Accrued interest receivable	68	2	805
Other receivables	8 663	2 337	2 089
Total other short-term receivables	33 997	22 883	36 459

- Ajakirjade Kirjastus (Lender) Loan Agreement with Kroonpress in the amount of EEK 15.5 million is secured by Surety Agreement concluded between Ajakirjade Kirjastus and Eesti Meedia under which the latter guarantees the obligations of Kroonpress under the loan agreement.
- SL Õhtuleht (Lender) Loan Agreement with Kroonpress in the amount of EEK 16 m is secured by Surety Agreement concluded between Ajakirjade Kirjastus and Eesti Meedia under which the latter guarantees the obligations of Kroonpress under the loan agreement.

Receivables from the Group companies see Note 37.

Note 12. Inventories

th.EEK	31.12.2005	31.12.2004	31.12.2003
Raw materials	25 100	19 853	10 739
Work in progress	2 114	1 561	1 300
Finished goods	2 141	1 310	1 043
Goods for resale	18 317	13 313	287
Inventories total	47 672	36 038	13 370
Impairment of inventories	31.12.2005	31.12.2004	31.12.2003
Finished goods	873	1 311	226
Goods for resale	1	17	60
Impairment recognised in income statement	875	1 328	285

Inventories at the custody of third parties	2 806	1 048	1 010
Inventories of third parties held at the custody of the Group	81 714	6 965	0

Note 13. Non-current assets held for sale

Fixed assets for sale as of 31 December 2005 are represented by outdated printing equipment in the amount of EEK 1 799 thousand, which was sold in 2006.

Financial investment into a property development company Suursepa Arenduse AS in the acquisition cost of EEK 2 000 thousand, was sold in the 1st half of 2006 for EEK 2 000 thousand (Note 34). As of 31 December 2004 the investment was classified as “Available-for-sale financial assets” at fair value of EEK 2 000 thousand. The investment was acquired in 2004 at EEK 2 000 thousand. No gains in equity were recorded on available-for-sale assets in 2003-2005.

There were no non-current assets held for sale as of 31 December 2003 and 31 December 2004. There were no income or expenses in connection with these assets during period 2003-2005.

Note 14. Non-current trade and other receivables

	31.12.2005	31.12.2004	31.12.2003
Loans to associated companies (Note 37)	4 855	4 964	0
Financial assets at fair value through profit or loss (Note 7)	150	301	0
Loans granted	2 975	1 202	4
Total non-current trade and other receivables	7 981	6 467	4

	2005	2004	2003
Loans to associated companies (gross amount)	28 313	8 459	0
Allowance for impairment (Note 17)	(23 458)	(3 495)	0
Loans to associated companies (net amount)	4 855	4 964	0

All loans will be returned not later than five years and are at market interest rates (5-6 per cent per annum).

Note 15. Business combinations

Company Name	Ownership %		
	31.12.2005	31.12.2004	31.12.2003
AS Printall	100	95	95
UAB Ekspress Leidyba	99.7	97	0
UAB Pienų Pieva	0	97	0
AS Rahva Raamat	100	100	0
OÜ Raamatuvaramu	100	0	0
OÜ Netikuulutused	75	0	0
AS Ekspress Hotline	50	0	0
Ekspresskataloogide AS	50	0	0
AS Infoatlas	50	0	0
AS Numbriinfo	50	0	0
Kõnekeskuse AS	50	0	0

50 per cent of ownership in Ekspress Hotline and its subsidiaries (Ekspresskataloogide AS, AS Infoatlas, AS Numbriinfo and Kõnekeskuse AS) are considered to give control over the company because all the three members of the Supervisory Board of the company are representatives of Ekspress Grupp – Priit Leito is the Member of the Executive Board of Ekspress Grupp whilst Hans Luik and Viktor Mahhov are the members of the Supervisory Board of Ekspress Grupp.

Acquisition of subsidiaries

Over the years 2003-2005 AS Ekspress Grupp acquired shares in the following **subsidiaries**:

In 2003 the Group increased its stake in subsidiary **AS Printall** by acquiring 6.17 per cent from minority shareholders, consideration paid was EEK 1 052 thousand and total 'excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost' (previously known as 'negative goodwill') recognised in Other income was EEK 3 552 thousand. In 2004 the Group acquired 0.27 per cent of AS Printall from minority shareholders for EEK 46 thousand, resulting in 'excess of

acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost' of EEK 202 thousand. In 2005 the Group acquired the remaining 4.67 per cent of AS Printall from minority shareholders for EEK 3 595 thousand, resulting in 'excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost' of EEK 2 014 thousand.

In March 2004 AS Ekspress Grupp acquired in Lithuania a magazine publisher **UAB Moteris** 97 per cent share (renamed to UAB Ekspress Leidyba); acquisition cost of UAB Moteris amounted to EEK 33 101 thousand. In October 2004 UAB Moteris acquired another Lithuanian publisher UAB Pienų Pieva at the acquisition cost of EEK 8 497 thousand. The acquired company UAB Moteris' portion of the Group's sales is EEK 22 960 thousand and the net loss was EEK -1 279 thousand in the period 1 March to 31 December 2004. If the acquisition had occurred on 1 January 2004, the effect on the sales would have been EEK 27 460 thousand and the net loss EEK -2 058 thousand. The calculations are based on the Group's accounting principles.

In 2004 the Group acquired 100 per cent of **UAB Pienų Pieva** at the cost of EEK 8 497 thousand and the acquired net assets' fair value of EEK 6 974 thousand; goodwill generated in the transaction amounted to EEK 1 523 thousand. The acquired company UAB Pienų Pieva portion of the Group's sales is EEK 5 438 thousand and the net profit was EEK 743 thousand in the period 1 October to 31 December 2004. If the acquisition had occurred on 1 January 2004, the effect on the sales would have been EEK 12 347 thousand and the net profit nil. The calculations are based on the Group's accounting principles.

In October 2004 the Group acquired 100 per cent of **AS Rahva Raamat** at acquisition cost of EEK 5 101 thousand. The acquired company AS Rahva Raamat portion of the Group's sales is EEK 12 970 thousand and the net profit was EEK 165 thousand in the period 1 October to 31 December 2004. If the acquisition had occurred on 1 January 2004, the effect on the sales would have been EEK 41 291 thousand and the net loss EEK -580 thousand. The calculations are based on the Group's accounting principles.

In April 2005 the Group acquired 100 per cent of **OÜ Raamatuvaramu** at EEK 9 100 thousand. The acquired company OÜ Raamatuvaramu portion of the Group's sales is EEK 40 624 thousand and the net profit was EEK 439 thousand in the period 1 April to 31 December 2005. If the acquisition had occurred on 1 January 2005, the effect on the sales would have been EEK 58 278 thousand and the net profit EEK 145 thousand. The calculations are based on the Group's accounting principles.

In April 2005 the Group acquired **UAB Tavo Vaikas** at EEK 3 127 thousand. In 2005 UAB Ekspress Leidyba, UAB Tavo Vaikas and UAB Pienų Pieva were merged. In October 2005 AS Ekspress Grupp increased the share capital of UAB Ekspress Leidyba by EEK 9 730 thousand. As of 31 December 2005, AS Ekspress Grupp owned 99.7 per cent of UAB Ekspress Leidyba share capital.

The Group together with Eesti Päevalehe AS (a joint venture of the Group) acquired **OÜ Netikuulutused** in equal parts at an acquisition cost of EEK 1 236 thousand. Therefore, 75 per cent of OÜ Netikuulutused belongs to the consolidation group of AS Ekspress Grupp. **OÜ Netikuulutused** is operating online job search portal Hyppelaud and real estate portal 4Seina.

In November 2005 AS Ekspress Grupp acquired 50 per cent of **AS Ekspress Hotline** at EEK 50 000 thousand AS Ekspress Hotline owns 4 subsidiaries: AS Ekspresskataloogid, AS Infoatlas, AS Numbriinfo and Kõnekeskuse AS. The acquired company AS Ekspress Hotline portion of the Group's sales is EEK 8 783 thousand and the net profit was EEK 2 991 thousand in the period 1 December to 31 December 2005. If the acquisition had occurred on 1 January 2005, the effect on the sales would have been EEK 30 851 thousand and the net profit EEK 3 132 thousand. The calculations are based on the Group's accounting principles.

The results of the subsidiaries have been adjusted as if the depreciation of the acquired assets and other adjustments had been recognized according to the fair value of the assets and if they had been applied according these principles starting on 1 January 2003.

Purchase price allocations of new subsidiaries acquired:

Subsidiary	UAB Moteris		AS Rahva Raamat		UAB Pienu Pieva	
	28.02.2004		31.10.2004		31.10.2004	
	fair value	book value	fair value	book value	fair value	book value
Cash and cash equivalents	1 887	1 887	425	425	330	330
Receivables and prepayments	6 597	6 576	1 931	1 931	1 495	1 495
Inventories	1 149	1 586	9 843	9 843	239	239
Property, plant and equipment	4 673	4 685	484	484	393	393
Trademarks	10 432	0	2 615	0	5 991	
Liabilities	(3 243)	(3 011)	(10 197)	(10 197)	(1 473)	(1 150)
Net assets	21 495	11 722	5 101	2 486	6 974	1 306
Acquired ownership shares	97.4%		100.0%		100.0%	
Net assets acquired	20,935		5 101		6 974	
Minority	2.6% / 560		0.0%		0.0%	
Goodwill	12 166		0		1 523	
Purchase consideration settled in cash	(33 101)		(5 101)		(8 497)	
Acquired cash and cash equivalents	1 887		425		330	
Unpaid part of current period	0		500		0	
Cash outflow on acquisition	(31 214)		(4 176)		(8 167)	0

Subsidiary	UAB Tavo Vaikas		OÜ Raamatu- varamu	AS Ekspress Hotline		OÜ Netikuulutused	
	30.04.2005		30.04.2005	30.11.2005		31.01.2005	31.03.2005
	fair value	book value	fair/book value	fair value	book value	fair/book value	fair/book value
Cash and cash equivalents	109	109	1 334	2 989	2 989	0	293
Receivables and prepayments	1 104	1 104	5 066	14 657	20 977	0	129
Inventories	93	93	990	30	30	0	0
Investment property	0	0	0	5 798	5 798	0	0
Property, plant and equipment	191	191	519	19 030	19 030	40	110
Trademarks	1 405	0	0	12 758	0	0	0
Liabilities	(1 174)	(1 174)	(6 691)	(28 736)	(28 736)	(6)	(392)
Net asset value of the acquisition	1 728		1 219	26 526		34	140
Acquired ownership shares	100.0%		100.0%	50.0%		46.9%	28.1%
Acquired net assets	1 728		1 219	13 263		16	39
				50.0%			
Minority	0.0%		0.0%	/13 263		53.1%	25.0%
Goodwill	401		7 881	36 737		734	447
Purchase consideration settled in cash	(2 130)		(9 100)	(50 000)		(750)	(486)
Acquired cash and cash equivalents	109		1 334	2 989		0	0
Cash outflow on acquisition	(2 021)		(7 766)	(47 011)		(750)	(486)

The goodwill is attributable to the high profitability of the acquired businesses, economies compared to opportunity costs and the significant synergies expected to arise after the Group's acquisition. As the mentioned values are not identifiable assets and not possible to sell separately of the acquired business units' other assets, they are recorded as goodwill.

The carrying value of goodwill was tested for impairment as of 31 December 2005. The impairment test calculations were based on value in use method discounting the future cash flows. For each of the acquisitions the corresponding cash generating unit's business projections were prepared for 5 years.

Sales amounts, variable and fixed costs were forecasted taking into account the historic performance of the operations and strategic developments in the foreseeable future. The calculation was performed on the basis of real growth, excluding inflationary effect. The management's opinion on growth rates was the following:

- growth of sales: 5-15 per cent;
- growth in variable costs: 3-10 per cent
- growth in fixed costs: 1-2 per cent

The faster growth rates of sales and variable costs were applied to Lithuanian operations (UAB Ekspress Leidyba) with rapidly growing product portfolio and faster-than average growth of advertising markets. The resulting growth rate for the free cash flow over the five-year period was 13-56 per cent per annum.

As no significant growth is foreseen in the amount of fixed assets in use, the investments and depreciation amounts were assumed to remain mutually balanced.

The present value of resulting five-year cash flows and terminal value were calculated using weighted average rate of return as the discount factor, where the expected return on equity was taken 20 per cent, return on debt 5 per cent and the share of equity financing 35 per cent. The long-term growth rate for the terminal value perpetuity is assumed to be on the level of moderate economic growth, 4 per cent per annum.

As a result of the impairment tests conducted, no decrease in recoverable value of assets was found.

The value of trade marks was calculated using replacement value method. It was estimated based on the annual gross profit of the related cash generating unit multiplied by two. It was assumed, based on historic experience, that two years' gross profit would have been the necessary marketing cost to replace, at similar recognition rates, the trade marks with new ones.

Excess of fair value of net assets acquired over cost generated in the acquisition transactions of Printall shares was a result of negotiations between the selling small shareholders and AS Ekspress Grupp, the buyer. It reflected the present value of expected dividend cash flow to shareholders and lack of control over the activities of the company. Excess of fair value of net assets acquired over cost is presented in income statement as other income.

Note 16. Joint ventures

Company Name	Ownership %		
	31.12.2005	31.12.2004	31.12.2003
Eesti Päevalehe AS	50	50	50
AS SL Õhtuleht	50	50	50
AS Ekspress Post	50	50	50
AS Ajakirjade Kirjastus	50	50	50
AS Linnaleht	50	0	0
UAB Medipresa	50	49	0

AS of 31 December 2004 49 per cent of ownership in UAB Medipresa is considered to give joint control over the company because 50 per cent of the company is controlled by UAB Ekspress Leidyba, the Ekspress Grupp subsidiary. As of 31 December 2004 the 3 per cent minority shareholders do not exercise any operational control in Ekspress Leidyba.

Joint ventures condensed financials (representing the share consolidated i.e. 50 per cent)

	Ajakirjade Kirjastuse AS	AS SL Õhtuleht	Eesti Päevalehe AS	AS Express Post	UAB Medipresa	AS Linnaleht	Total
At 31 December 2003							
Assets total	33 049	22 916	13 492	12 644	0	0	82 101
Liabilities total	(15 275)	(9 924)	(14 597)	(11 834)	0	0	(51 630)
Revenue total	77 588	53 739	47 879	16 476	0	0	195 682
Net income /(loss)	10 606	7 437	(2 397)	492	0	0	16 138
At 31 December 2004							
Assets total	34 664	25 888	16 327	16 863	4 182	0	97 925
Liabilities total	(16 307)	(10 029)	(14 325)	(14 431)	(4 829)	0	(59 921)
Revenue total	79 987	57 843	54 283	18 650	11 798	0	222 563
Net income /(loss)	8 842	9 078	76	1 622	(626)	0	18 991
At 31 December 2005							
Assets total	35 890	28 065	21 335	22 252	2 782	1 984	112 308
Liabilities total	(18 498)	(10 749)	(16 753)	(18 039)	(2 212)	(2 106)	(68 357)
Revenue total	86 443	61 944	66 860	20 261	35 813	1 980	273 301
Net income /(loss)	9 375	9 641	2 568	1 781	33	(314)	23 084

Information on the Group's share of the contingent liabilities related to joint ventures are presented in Note 35.

Note 17. Associated companies

	31.12.2005	31.12.2004	31.12.2003
Shares of associated companies at balance sheet	32	111	213
<u>Share of loss of associates recognised in income statement</u>	2005	2004	2003
Profit from the sale of shares of associates	1 751	0	0
Share of loss in associates under equity method	0	(3 657)	(812)
Impairment recognised on loans granted to associate companies (Note 14)	(23 458)	(3 495)	0
Total share of loss of associates	(21 708)	(7 152)	(812)
Company Name	Ownership %		
	31.12.2005	31.12.2004	31.12.2003
AS Bravocom Mobiil	32	40	32
OÜ Evi Consult	32	32	32
Ühendatud Portaalid OÜ	25	25	25

Associated companies condensed financials

th.EEK	AS Bravocom Mobiil	OÜ EVI Consult	Ühendatud Portaalid OÜ	Total
at 31 December 2003				
Assets total	6 856	40	0	6 896
Liabilities total	(6 324)	0	0	(6 324)
Revenue total	0	0	0	0
Net income/loss	(2 084)	0	0	(2 084)
at 31 December 2004				
Assets total	16 753	36	0	16 788
Liabilities total	(25 489)	0	0	(25 489)
Revenue total	1 457	0	0	1 457
Net income/loss	(18 104)	(4)	0	(18 108)
at 31 December 2005				
Assets total	23 357	70	0	23 428
Liabilities total	(75 731)	(18)	0	(75 749)

th.EEK	AS Bravocom Mobiil	OÜ EVI Consult	Ühendatud Portaalid OÜ	Total
Revenue total	26 786	29	0	26 815
Net income/loss	(43 801)	17	0	(43 784)

Note 18. Investment property

	31.12.2005
Land at book value	1 251
Fair value	1 330

The Group acquired land in November 2005 through a business combination (see Note 15), it stands as a collateral for a bank loan (see Note 22). The fair value was estimated by reference to the expert opinion of certified property valuers. Discounted cash flows and comparative pricing methods were used by the expert. In August 2006, as a post-balance sheet transaction, the named investment property has been sold at a price of EEK 1 330 thousand (see Note 34).

Note 19. Property, plant and equipment

	Land	Buildings	Plant and equipment	Other equipment	Pre- payments	Fixed assets total
At 31 December 2002						
Acquisition cost	0	7 300	125 710	36 570	192	169 772
Accumulated depreciation	0	0	(56 903)	(23 285)	0	(80 188)
Book value	0	7 300	68 807	13 285	192	89 584
Acquisitions and improvements	8 572	0	1 780	3 963	50 815	65 131
Sales of fixed assets (at book value)	0	0		(281)	0	(281)
Write-offs (at book value)	0	0	0	(58)	0	(58)
Depreciation, amortisation and impairment	0	(365)	(14 084)	(5 623)	0	(20 072)
At 31 December 2003						
Acquisition cost	8 572	7 300	123 151	38 446	51 007	228 476
Accumulated depreciation	0	(365)	(66 647)	(27 161)	0	(94 173)
Book value	8 572	6 935	56 504	11 285	51 007	134 303
Acquisitions and improvements	23	60 518	112 590	7 383	4 424	184 937
Sales of fixed assets (at book value)	0	0	(29 141)	(4 610)	0	(33 751)
Write-offs (at book value)	0	0	(49)	(75)	(3)	(127)
Reclassification	0	24 701	26 130	0	(50 831)	0
Acquired on business combination	0	3 218	983	1 708	0	5 909
Depreciation, amortisation and impairment	0	(1 871)	(13 527)	(4 530)	0	(19 928)
At 31 December 2004						
Acquisition cost	8 594	95 875	195 683	37 497	4 597	342 247
Accumulated depreciation	0	(2 374)	(42 193)	(26 336)	0	(70 903)
Book value	8 594	93 501	153 491	11 161	4 597	271 344
Acquisitions and improvements	0	920	19 747	5 829	37	26 533
Sales of fixed assets (at book value)	0	0	0	(644)	0	(644)
Write-offs (at book value)	0	0	0	(134)	0	(134)
Reclassification	0	110	4 266	48	(4 597)	(173)
Acquired on business combination	38	21 099	35	1 616	0	22 787
Depreciation, amortisation and impairment	0	(3 508)	(14 185)	(5 112)	0	(22 805)
At 31 December 2005						
Acquisition cost	8 632	122 252	220 191	44 376	37	395 489
Accumulated depreciation	0	(10 130)	(56 837)	(31 613)	0	(98 581)
Book value	8 632	112 122	163 354	12 763	37	296 908

Interest capitalised during the construction is in total EEK 304 thousand for 2003 and EEK 1 738 thousand for 2004.

Information on pledged property, plant and equipment is presented in Note 22.

Note 20. Intangible assets

	Goodwill	Trademarks	Computer software	Prepayments	Intangible fixed assets total
At 31 December 2002					
Acquisition cost	7 128	0	7 524	615	15 267
Accumulated depreciation	0	0	(4 591)	0	(4 591)
Book value	7 128	0	2 933	615	10 676
Acquisitions and improvements	0	0	1 677	0	1 677
Sales of fixed assets (at book value)	0	0	0	(85)	(85)
Depreciation, amortisation and impairment	0	0	(1 961)	0	(1 961)
At 31 December 2003					
Acquisition cost	7 128	0	8 664	530	16 322
Accumulated depreciation	0	0	(6 014)	0	(6 014)
Book value	7 128	0	2 649	530	10 307
Acquisitions and improvements	0	0	2 783	141	2 924
Sales of fixed assets (at book value)	0	0	0	(505)	(505)
Write-offs (at book value)	0	0	(70)	(1)	(70)
Acquired on business combination	13 689	19 037	141	0	32 867
Depreciation, amortisation and impairment	0	(391)	(1 848)	0	(2 239)
At 31 December 2004					
Acquisition cost	20 817	19 037	11 154	165	51 174
Accumulated depreciation	0	(391)	(7 498)	0	(7 890)
Book value	20 817	18 646	3 656	165	43 284
Acquisitions and improvements	0	2 220	3 775	122	6 117
Sales of fixed assets (at book value)	0	0	(22)	(170)	(192)
Write-offs (at book value)	0	(45)	0	0	(45)
Reclassification	0	0	75	(75)	0
Acquired on business combination	46 201	14 243	0	0	60 444
Depreciation, amortisation and impairment	(0)	(1 122)	(2 353)	0	(3 475)
At 31 December 2005					
Acquisition cost	67 018	35 456	13 851	43	116 368
Accumulated depreciation	0	(1 513)	(8 720)	0	(10 234)
Book value	67 018	33 942	5 131	43	106 134

Note 21. Trade and other payables

th.EEK	31.12.2005	31.12.2004	31.12.2003
Trade payables	68 727	53 522	37 102
Payroll accrued liabilities	21 037	13 299	11 364
Taxes payable (Note 10)	15 434	11 311	9 636
Deferred income	42 635	27 189	25 266
Payables to associates	10	0	0
Payables to joint ventures	15 508	15 047	14 978
Trade payables	758	297	228
Loans received	14 750	14 750	14 750
Accrued interest expenses	1 963	796	4
Loans received from related party (Note 37)	9 915	0	0
Other accrued liabilities	11 339	2 813	925
Trade and other payables total	186 568	123 977	99 275

Deferred income includes the amounts received from clients for subscriptions of periodicals, that will be recognised as income in future periods according to the periodicals published

Long-term part of deferred income, in the amount of EEK 110 thousand as of 31 December 2005, EEK 43 thousand in 2004 and EEK 53 thousand in 2003, include the amounts received for the long-term part of subscriptions of periodicals. The long-term liabilities are not discounted, as the effect of discounting would be immaterial.

- Rahva Raamat (Borrower) Framework Loan Agreement with Eesti Päevaleht in the amount of maximum limit EEK 5 000 thousand is secured by Surety Agreement concluded by and between AS Ekspress Grupp and Eesti Päevaleht on 24 January 2005 under which AS Ekspress Grupp guarantees the obligations of AS Rahva Raamat.
- Printall (Borrower) Loan Agreement with Ajakirjade Kirjastus in the amount of EEK 15 500 thousand (50 per cent EEK 7 750 thousand) is secured by Surety Agreement concluded between Ajakirjade Kirjastus and AS Ekspress Grupp under which AS Ekspress Grupp guarantees the obligations of Printall under the loan agreement.
- Printall (Borrower) Loan Agreement with SL Õhtuleht in the amount of EEK 14 000 thousand (50 per cent EEK 7 000 thousand) is secured by Surety Agreement concluded between Ajakirjade Kirjastus and AS Ekspress Grupp under which AS Ekspress Grupp guarantees the obligations of Printall under the loan agreement.

Loan received from related party is from OÜ Minigert in the amount of EEK 9 915 thousand, interest 6-months EURIBOR + 1.2 per cent per annum (see Note 37). For pledge see Note 22.

All loans will be returned not later than five years.

Note 22. Bank loans and borrowings

th.EEK	Amount total	up to 1 year	1 to 5 year	over 5 year	Interest rate
Balance at 31.12.2003					
Bank overdraft	23 868	23 868	0	0	
Hansapank	23 868	23 868	0	0	4.50%
Short-term loans	135	135	0	0	
Hansapank	135	135	0	0	5.80%
Long-term bank loans	9 078	7 837	1 242	0	
Hansapank	7 693	6 452	1 242	0	5.71%
Sampo Pank	1 385	1 385	0	0	6.30%
Finance lease	5 170	1 764	3 406	0	average 4.6%
Total	38 252	33 604	4 647	0	
Balance at 31.12.2004					
Bank overdraft	28 350	28 350	0	0	
Sampo Pank	28 350	28 350	0	0	4.25%
Short-term loans	10 375	10 375	0	0	
Hansapank	375	375	0	0	4.50%
SEB Eesti Ühispank	10 000	10 000	0	0	4.00%
Long-term bank loans	70 924	8 121	62 803	0	
Ühispank	67 758	7 460	60 299	0	Euribor + 2%
Vilniaus Banka	3 166	661	2 504	0	Libor +2.5%
Finance lease	98 226	15 034	83 192	0	average 4.5%
Total	207 875	61 880	145 995	0	
Balance at 31.12.2005					
Bank overdraft	84 514	84 514	0	0	
Sampo Pank	45 149	45 149	0	0	3.60%

th.EEK	Amount total	up to 1 year	1 to 5 year	over 5 year	Interest rate
Ühispank	39 067	39 067	0	0	3.20%
Hansapank	299	299	0	0	4.20%
Long-term bank loans	63 903	8 117	55 786	0	
Ühispank	60 299	7 460	52 839	0	Euribor + 2%
Vilniaus Banka	2 504	657	1 847	0	Libor +2.5%
Sampo Pank	1 100		1 100		Euribor +2.5%
Finance lease	98 705	18 582	79 876	247	average 4.2%
Total	247 122	111 213	135 662	247	

The effective interest rates are very close to the nominal interest rates.

- AS Ekspress Grupp (Borrower) Overdraft Agreement No. AL-140604EG in the amount of EEK 49 million (credit limit), with Sampo Pank is secured by:
 - 1) pledge encumbering 754 shares of AS Ekspress Grupp pursuant to the Share Pledge Agreement No. PL-140604EG; (book value 31 December 2005 EEK 58 297 thousand; book value 31 December 2004 EEK 44 655 thousand) and
 - 2) surety granted by Hans Luik pursuant to Surety Agreement No. KÄ-140604EG.
- AS Ekspress Grupp and the Companies, Printall, Eesti Ekspress, Rahva Raamat (Borrower) Overdraft Agreement No. 2005006073 in the amount of EEK 45 million (credit limit), with AS SEB Eesti Ühispank secured by:
 - 1) the debtors have joint and several liability.
- AS Ekspress Grupp and the Companies, Printall, Eesti Ekspress, Rahva Raamat (Borrower) Overdraft Agreement No. 2005006073 in the amount of EEK 2 million (credit limit), with AS Hansapank secured by:
 - 1) unsecured. As of 31 December 2003 the liabilities were secured by surety granted by Hans Luik pursuant to Surety Agreement No. 03-084097-KN and pledge encumbering 1 108 shares of AS Ekspress Grupp.
- Printall (Borrower) Loan Agreement No. 1320007410410 with SEB Eesti Ühispank in the amount of EUR 4.41 million is secured by
 - 1) Commercial pledge encumbering the assets of Printall (book value 31 December 2005 EEK 280 150 thousand, 31 December 2004 EEK 240 196 thousand)
 - 2) Mortgage encumbering the real estate located at Peterburi tee 64A, Tallinn. (book value 31 December 2005 EEK 82 034 thousand, 31 December 2004 EEK 83 923 thousand).
- Ekspress Hotline (Borrower) Loan Agreement No KL-230704EK in the amount of EUR 70.3 thousand, with Sampo Pank is secured by 1st priority mortgage encumbering the real estate located at Õitse 22, Tallinn (book value 2005 EEK 1 352 thousand).
- Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

In March 2004 the Company came out with a privately placed bond issue in the amount of EEK 15 million. The coupon rate of the bonds was 8 per cent per annum, maturity date March 2007. As the loan market conditions changed, the Company redeemed the bonds in September 2004.

The exposure of the Group's borrowings to interest rate changes by the period of change

	Interest rate	2005	2004	2003
Finance lease				
6 months or less	6 months Euribor + 1.2%	98 705	98 260	5 170
Long-term bank loans				
6 months or less	6 months Euribor + 2%	63 903	70 924	0

Note 23. Finance lease

th.EEK	Plant and machinery	Other equipment	Total
Balance at 31.12.2003			
Acquisition cost	11 855	561	12 416
Accumulated depreciation	(2 406)	(278)	(2 684)
Net book amount	9 449	283	9 732
Balance at 31.12.2004			
Acquisition cost	140 821	0	140 821
Accumulated depreciation	(6 071)	0	(6 071)
Net book amount	134 750	0	134 750
Balance at 31.12.2005			
Acquisition cost	159 492	0	159 492
Accumulated depreciation	(16 280)	0	(16 280)
Net book amount	143 212	0	143 212

Finance lease liability

th.EEK	2005	2004	2003
At 31 December	98 754	98 310	5 170
Principal payments during the financial year	14 657	11 530	12 091
Interest expenses during the financial year	3 213	2 308	845
Average annual interest rate	4.20%	4.50%	4.60%

	2005	2004	2003
Finance lease liabilities – minimum lease payments:			
No later than 1 year	0	0	755
Later than 1 year and no later than 5 years	87 891	105 195	4 648
Later than 5 years	20 198	5 737	0
Total	108 089	110 932	5 403
Future finance charges on finance leases	(9 384)	(12 706)	(233)
Present value of finance lease liabilities	98 705	98 226	5 170
The present value of finance lease liabilities is as follows:			
No later than 1 year	0	0	720
Later than 1 year and no later than 5 years	81 064	98 226	4 450
Later than 5 years	17 641	0	0
Total	98 705	98 226	5 170

The information about finance lease liabilities is presented in Note 22.

Note 24. Operating lease

th.EEK	2005	2004	2003
Total	8 403	7 646	7 778
Facilities	6 312	5 784	5 564
Motor vehicles	2 091	1 862	2 214
Future minimum lease payments under non-cancellable operating leases:			
Total	19 172	21 373	20 565
Less than one year	7 426	6 993	6 223
Between one and five years	11 746	14 380	14 342

Note 25. Segment reporting

Business Segment by Area of Operations – Primary Segment

In 2003-2005, the company operated in the following areas, generating significantly different risks and returns compared to each other and each activity is material enough to form a separate segment:

Printing services: rendering printing and related services. This segment is represented by Group company AS Printall.

Periodicals: publishing newspapers, magazines, custom publications and books in Estonia and Lithuania, publishing advertising in the publications. This segment is represented by the Group companies Eesti Ekspressi Kirjastuse AS, AS Ajakirjade Kirjastus, AS SL Õhtuleht, Eesti Päevalehe AS, UAB Ekspress Leidyba, AS Linnaleht.

Book sales revenue: retail and wholesale of books. This segment is represented by Group companies AS Rahva Raamat and OÜ Raamatuvaramu.

Information services: information hotline services, publishing phone directories, advertising services, call centre services. This segment is represented by Group companies AS Ekspress Hotline, AS Numbriinfo, AS Ekspresskataloogid, AS Infoatlas and AS Kõnekeskus.

Other areas of operations: online advertising, advertising in freesheets, online classified advertising, subscriptions' handling and home delivery, direct mail services. This segment is represented by Group companies AS Express Post, OÜ Netikuulutused.

Other activities are less strategic and less material as compared to the main parent activities and these activities do not form a separate segment.

	Printing services	Periodicals	Book sales	Information services	Other operations	Unallocated	Eliminations	Group total
2005								
th.EEK								
Sales to external customers	230 718	353 590	102 760	8 780	51 553	625	0	748 026
Inter-segment sales	51 722	15 079	5 824	4	8 481	1 649	(82 758)	0
Total gross segment sales	282 439	368 670	108 584	8 784	60 034	2 274	(82 758)	748 026
Cost of sales	239 012	252 396	104 402	3 591	51 405	932	(79 474)	572 264
Gross profit	43 427	116 274	4 182	5 192	8 629	1 341	(3 284)	175 762
Depreciation, amortisation and impairment of PPE and intangible assets (Note 19, 20)	17 186	6 280	1 501	141	756	416	0	26 280
Operating profit /segment result	35 298	39 007	1 663	2 995	1 028	(3 588)	0	76 404

	Printing services	Periodicals	Book sales	Information services	Other operations	Unallocated	Eliminations	Group total
2005 th.EEK								
Financial cost net								(9 091)
Share of loss of associates (Note 17)					(21 708)			(21 708)
Profit before income tax								45 605
Income tax expense								(5 444)
Profit for the year								40 161
Attributable to:								
Equity holders of the Group								38 020
Minority interest								2 142
Segment assets	308 414	141 775	34 673	91 042	29 062	13 150	0	618 115
Investment in associates						32	0	32
Total assets	308 414	141 775	34 673	91 042	29 062	13 181	0	618 115
Segment liabilities	199 675	68 467	25 938	25 067	17 107	97 545	0	433 800
Consolidated liabilities total	199 675	68 467	25 938	25 067	17 107	97 545	0	433 800
Capital expenditure	21 448	10 114	9 151	68 548	3 145	1 203	0	115 882

	Printing services	Periodicals	Book sales	Information services	Other operations	Unallocated	Eliminations	Group total
2004 th.EEK								
Sales to external customers	171 905	315 606	12 965	0	10 742	1 164	0	512 381
Inter-segment sales	48 234	1 909	6	0	7 908	1 167	(59 224)	0
Total gross segment sales	220 139	317 515	12 971	0	18 650	2 330	(59 224)	512 381
Cost of sales	192 524	222 599	12 316	0	12 144	977	(55 943)	384 616
Gross profit	27 614	94 916	655	0	6 507	1 354	(3 281)	127 765
Depreciation, amortisation and impairment of PPE and intangible assets (Note 19, 20)	12 497	4 857	123	0	3 819	870	0	22 167
Operating profit	6 310	34 694	173	0	1 497	(4 048)	0	38 625
Financial cost net								(7 423)
Share of loss of associates (Note 17)					(7 152)			(7 152)
Profit before income tax								24 051
Income tax expense								(5 083)
Profit for the year								18 967
Attributable to:								
Equity holders of the Group								18 980
Minority interest								(12)
Segment assets	285 156	128 067	23 270	0	20 185	10 874	0	467 552
Investment in associates						111		111
Total assets	285 156	128 067	23 270	0	20 185	10 985	0	467 663
Segment liabilities	202 462	59 969	17 644	0	12 933	38 887	0	331 896
Consolidated liabilities total	202 462	59 969	17 644	0	12 933	38 887	0	331 896
Capital expenditure	178 404	40 939	6 299	0	793	203	0	226 638

	Printing services	Periodicals	Book sales	Information services	Other operations	Unallocated	Eliminations	Group total
2003 th.EEK								
Sales to external customers	146 241	272 007	0	0	8 187	1 137	0	427 572
Inter-segment sales	45 546	1 131	0	0	8 290	1 591	(56 557)	0
Total gross segment sales	191 787	273 138	0	0	16 476	2 728	(56 557)	427 572
Cost of sales	168 532	183 912	0	0	11 276	1 436	(53 565)	311 590
Gross profit	23 254	89 226	0	0	5 201	1 292	(2 992)	115 981

	Printing services	Periodicals	Book sales	Information services	Other operations	Unallocated	Eliminations	Group total
2003								
Depreciation, amortisation and impairment of PPE and intangible assets (Note 19, 20)	15 845	4 107	0	0	676	1 405	0	22 032
Operating profit	11 345	32 262	0	0	390	1 468	0	45 464
Financial cost net								(2 912)
Share of loss of associates (Note 17)					(812)			(812)
Profit before income tax								41 740
Income tax expense								(3 319)
Profit for the year								38 422
Attributable to:								
Equity holders of the Group								37 973
Minority interest								449
Segment assets	142 869	71 775			13 016	26 194		253 854
Investment in associates						213		213
Total assets	142 869	71 775	0	0	13 016	26 407	0	254 067
Segment liabilities	50 717	49 388			7 134	30 341		137 580
Consolidated liabilities total	50 717	49 388	0	0	7 134	30 341	0	137 580
Capital expenditure	61 213	4 605	0	0	540	450	0	66 807

Capital expenditure comprises additions to property, plant and equipment (Note 19) and intangible assets (Note 20), including additions resulting from acquisitions through business combinations (Note 15).

Allocated income and expenses are directly related to the segment – revenue from sales to customers, cost of sales, depreciation, amortisation and impairment related to the activity. Unallocated operating income and expenses are the general administrative expenses of the Group, such as the central management expenses, etc.

The assets of the segment mainly consist of inventories and fixtures employed by the segment, also other necessary working capital (e.g. cash). The liabilities of the segments are related to the borrowings and deferred income from subscribers, also for rental agreements, payroll and taxes. Payables for the inventories are mostly to the Group and joint venture companies and have thus been partly or fully eliminated in consolidation.

The unallocated assets of the Group are the office equipment used for general administration, other equipment and current assets related to general activities. All assets related to production activity are located in Estonia.

The unallocated liabilities of the Group are holding of Group companies.

According to the parent company management's estimate, the inter-segment transactions have been carried out at arm's length and the conditions applied do not differ materially as compared to the transactions with third parties.

Geographical Segment by the Location of facilities and other assets – Secondary Segment

The company is active in Estonia and Lithuania. As the markets do not generate significantly different risks and returns and they exhibit similar long-term financial performance, these two segments are combined. The share of Group's revenues in Lithuania is less than 5 per cent. There are no material inter-segment transactions or unallocated assets.

Note 26. Net sales

th.EEK	2005	2004	2003
Sale by activities			
Advertising revenue	182 332	149 046	128 882
<i>including barter</i>	<i>6 806</i>	<i>7 002</i>	<i>8 345</i>
Single-copy sales revenue, net	99 917	63 814	51 104
Subscriptions' revenue	83 526	77 011	70 779
Book sales revenue	125 004	26 982	11 944
Printing services' and paper sales	226 918	169 089	143 827
Other revenues	30 330	26 439	21 036
Revenue total	748 026	512 381	427 572
Revenues from sale by geographical regions			
Estonia	573 181	417 606	369 218
Russia	51 567	50 725	37 354
Lithuania	55 318	23 773	217
Scandinavia and Finland	56 850	15 694	16 452
Latvia	4 286	4 435	4 226
Other Europe	6 740	147	104
Canada	85	0	0
Total	748 026	512 381	427 572

Note 27. Cost of sales

th.EEK	2005	2004	2003
Raw materials and consumables used	295 476	150 008	118 112
Services purchased	86 458	64 364	40 682
Salaries and social taxes	141 731	125 306	104 300
Depreciation, amortisation and impairment	20 694	17 852	16 309
Other expenses	27 904	27 086	32 188
Total	572 264	384 616	311 590

Note 28. Distribution costs

	2005	2004	2003
Marketing	27 837	20 415	18 601
Salaries and social taxes	8 402	7 500	6 497
Depreciation, amortisation and impairment	67	75	68
Total	36 306	27 990	25 166

Note 29. Administrative expenses

th.EEK	2005	2004	2003
Raw materials and consumables used	2 842	1 966	2 122
Repairs and maintenance	7 574	6 200	7 058
Communication expenses	3 291	3 110	2 917
Rental expenses	7 538	7 472	6 279
Services purchased	15 829	12 442	8 121
Salaries and social taxes	28 053	20 697	19 470
Depreciation, amortisation and impairment	5 519	4 240	5 656
Total overheads	70 646	56 128	51 623

Note 30. Other income and expenses

Other income	2005	2004	2003
Profit from sale and write-offs of PPE	0	0	92
Excess of fair value of net assets acquired over cost	2 015	201	3 544
Fines and penalties received	6 061	11	0
Interest income	2 911	1 126	1 720
Other income	217	0	1 258
Total	11 203	1 338	6 614
Other expenses	2005	2004	2003
Losses from sale and write-offs of PPE	(2 730)	(5 925)	0
Currency exchange losses	(880)	(7)	(7)
Penalties paid	0	0	(335)
Other expenses	0	(428)	0
Total	(3 610)	(6 360)	(342)

Note 31. Finance costs

	2005	2004	2003
Interest expenses	(9 566)	(7 147)	(3 241)
Currency exchange gains/losses	(34)	(256)	30
Other financial income/expenses	509	(20)	299
Financial income/expenses total	(9 091)	(7 423)	(2 912)

Note 32. Expenses by nature

th.EEK	2005	2004	2003
Depreciation, amortisation and impairment	26 280	22 167	22 032
Employee benefit expense	178 187	153 503	130 266
Raw materials and consumables used	298 318	150 951	118 772
Rental expenses	7 538	7 472	6 279
Services purchased	102 288	66 850	38 582
Marketing	27 837	20 415	18 601
Repairs and maintenance	7 574	6 200	7 058
Communication expenses	3 291	3 110	2 917
Other expenses	27 904	38 066	43 871
Total cost of sales, distribution and administrative expenses	679 216	468 734	388 379
Number of employees	1700	1 500	1 700

Note 33. Equity

As of 31 December 2005 the share capital of AS Ekspress Grupp constitutes EEK 2 216 thousand. The share capital is divided into 2 216 shares with EEK 1 000 face value (fully paid).

Authorised share capital according to the Articles of Association 8 864 shares.

In 2003, 2004 and 2005 there has been no transactions related to the share capital.

Reserves

Reserves include:

- Statutory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering cumulated losses, if the latter cannot be covered with other unrestricted equity, and for increasing share capital.
- Other reserves- additional payments in cash from share holders
- Share premium – the positive difference between the issue price and nominal value of issued shares (issue premium)

EEK 222 thousand from 2002 net profit were transferred to the legal reserve in January 2003.

th.EEK	31.12.2005	31.12.2004	31.12.2003	31.12.2002
Statutory legal reserves	222	222	222	0
Other reserves	10 000	10 000	10 000	10 000

Earnings per share

Basic earnings per share have been calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares outstanding during the period.

th.EEK	2005	2004	2003
Profit attributable to equity holders of the Company	38 020	18 980	37 973
The average number of ordinary shares	2 216	2 216	2 216
Basic and diluted earnings per share	17 157	8 565	17 136

In view of the fact that the Group has not dilutive instruments at the end of 2005, 2004 and 2003 years, diluted earnings per share equals basic earnings per share.

Note 34. Post-balance-sheet events

In June 2006 AS Ekspress Grupp sold financial investment into a property development company Suursepa Arenduse AS for EEK 2 000 thousand (Note 13).

In July 2006 subsidiaries AS Rahva Raamat and OÜ Raamatuvaramu were merged.

In August 2006 AS Ekspress Grupp bought 80 per cent of the share capital of OÜ Autocentrum for EEK 1 100 thousand, no material goodwill arose.

In January 2006 AS Ekspress Grupp sold subsidiary AS Privess for EEK 730 thousand. In September 2006 a subsidiary AS EnterNet Providers was sold for EEK 2 088 thousand.

Based on the results for 2003-2005, shareholders were distributed a dividend of EEK 43 599 thousand EEK 20 thousand per share. The dividends were paid out on June 2006.

Upon the resolution of the shareholders, the nominal value of the Company's share was reduced from EEK 1 000 to EEK 10 (1:100). Furthermore, in December 2006 the share capital of AS Ekspress Grupp was increased by EEK 163 026 thousand, of which EEK 91 731 thousand was a bonus issue from retained earnings, EEK 21 285 thousand was a bonus issue of the share premium and EEK 50 000 thousand was non-monetary contribution of AS Ekspress Hotline shares. Consequently, AS Ekspress Grupp raised its ownership to 100 per cent of AS Ekspress Hotline shares.

After the balance sheet date the Group decided to sell its investment property (Note 18) and property, plant and equipment (Note 19) at the total book value of EEK 7 051 thousand as of 31 December 2005. The sale

took place in the 2nd half of 2006. There were no expenses or income and with these assets, except for the depreciation of property, plant and equipment in the yearly amount of EEK 353 thousand.

Note 35. Contingent liabilities

In August 2005 AS Express Post, on behalf of OÜ Skandinaviska Enskilda Securities, delivered a certain quantity of letters to AS Eesti Post to be mailed to Finland. The service was invoiced by Eesti Post to AS Express Post. As AS Express Post was acting on behalf of another company, the invoice was requested to be sent to OÜ Skandinaviska Enskilda Securities. The latter, though refused to pay for the service. In March 2006 AS Eesti Post presented a claim to AS Express Post in the amount of EEK 1 068 258, demanding the payment from AS Express Post. AS Express Post does not recognize the claim and has presented its arguments in written form to AS Eesti Post. AS Eesti Post has filed a lawsuit against AS Express Post to court. The management considers it unlikely that the Group would be obliged to carry any significant costs related to the abovementioned claim; therefore no provisions are recorded.

AS Printall is claiming through court from OY TS Products their debt in the amounts of EUR 24 065 and EUR 40 684. OY TS Products has in their turn claimed against Printall EUR 40 000. The governing court is Helsinki. The first level court did not satisfy any claims, Printall has appealed the decision. The outcome is difficult to predict, however as the cases are related the management considers it unlikely that the Group would be obliged to carry any significant costs related to the abovementioned claim, thus no provisions are recorded.

Contingent liabilities related to Tax Inspection:

Tax authorities have the right to review the Group's tax records for up to 6 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits in any of the Group companies during 2004-2005. The management believes that there are no any circumstances which may lead the tax authorities to impose significant additional taxes on the Group companies.

Note 36. Fair value of financial assets and liabilities

As at 31 December 2005, 31 December 2004 and 31 December 2003, the carrying amounts of financial assets and liabilities do not significantly differ from their fair values.

Note 37. Related party transactions

Transactions with related parties are transactions with parent company, shareholders, associates, unconsolidated subsidiaries, key management, management board, supervisory board, their close relatives and the companies in which they hold majority interest.

The ultimate controlling individual of AS Ekspress Grupp is Hans Luik.

The Group has purchased from (goods for sale, manufacturing materials, fixed assets) and sold its goods and services to (lease of capital assets, management services, other services) to the following related parties:

	Group		
	2005	2004	2003
Sale of goods			
members of executive boards and companies related to them	19	21	0
members of supervisory boards and companies related to them	183	244	262
associated companies	2 008	546	216
Sale total	2 210	811	477

Purchases			
	Group		
	2005	2004	2003
Purchase of goods	31 197	2 136	216
associated companies	31 197	2 136	216
Purchase of fixed assets	15	0	0
associated companies	15	0	
Purchase of services	4 077	3 553	1 236
members of executive boards and companies related to them	2 155	1 722	225
members of supervisory boards and companies related to them	1 885	1 831	1 011
associated companies	37	0	
Purchase total	35 288	5 690	1 452

Receivables			
	Group		
	31.12.2005	31.12.2004	31.12.2003
Short-term receivables	2 119	438	14 795
members of executive boards and companies related to them	0	4	0
members of supervisory boards and companies related to them	2 073	204	14 580
associated companies	46	230	216
Long-term receivables	7 780	4 964	0
members of executive boards and companies related to them	0	0	0
members of supervisory boards and companies related to them	2 925	0	0
associated companies	4 855	4 964	0
Receivables total	9 899	5 402	14 795

Liabilities			
	Group		
	31.12.2005	31.12.2004	31.12.2003
Short-term receivables	7 596	4 645	289
members of executive boards and companies related to them	67	63	0
members of supervisory boards and companies related to them	1 540	74	289
associated companies	5 990	4 508	0
Long-term liabilities	8 641	114	0
members of supervisory boards and companies related to them	8 641	114	0
Liabilities total	16 238	4 759	289

In 2005 the Group has granted a loan in amount of EEK 21 150 thousand (in 2004 = EEK 8 350 thousand) to AS Bravocom Mobiil (associate). Interest revenue from the loans amounts to EEK 2 200 thousand (in 2004 = EEK 109 thousand; in 2003 = 0). Impairment in amount of EEK 23 458 thousand in 2005 (EEK 3 495 thousand in 2004; EEK 0 in 2003).

In 2005, AS Ekspress Grupp has received loan from OÜ Minigert in the amount of EEK 16 085 thousand, interest rate 1.2 per cent + 6 months EURIBOR); in 2005, EEK 6 170 thousand has been returned from the loan. Loan balance at 31 December 2005 is EEK 9 915 thousand (the amount due in 2006 EEK 1 392 thousand) see Note 21.

The Management Board of the Parent company consists of one member and the Supervisory Board of four members. No changes of the member of the Management Board are foreseen. The members of the Supervisory Board did not receive any reimbursements in 2005.

Key management and supervisory board remuneration

	2005	2004	2003
Salaries and other short-term employee benefits	7 962	7 040	6 796
Key management termination benefits	1 664	1 800	1 618

Independent Auditor's Report

(Translation of the Estonian original)

To the Shareholders of AS Ekspress Grupp

We have audited the accompanying consolidated financial statements of AS Ekspress Grupp (the Parent Company) and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2003, 31 December 2004 and 31 December 2005, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years' then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these 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 financial statements based on our audit. Except as discussed below, 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.

Basis for Qualified Opinion

We did not observe the counting of the physical inventory stated at 13 370 thousand kroons, 36 038 thousand kroons and 48 026 thousand kroons as of 31 December 2003, 31 December 2004 and 31 December 2005 respectively, since these dates was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory balance at these dates by other audit procedures.

The financial statements of the year ended 31 December 2005 include a loan receivable from related party of 4 900 thousand kroons. We were unable to satisfy ourselves to the sufficiency of collaterals of these loans. There were no practical audit procedures that we could perform to satisfy ourselves as to the recoverability of the above mentioned receivable.

The financial statements of the year ended 31 December 2005 include consolidated assets of a subsidiary AS Privess of 730 thousand kroons. We were unable to satisfy ourselves to the completeness of information available to us relating to the subsidiary. There were no practical audit procedures that we could perform to satisfy ourselves as to the proper presentation of subsidiary in the consolidated financial statements.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2003, 31 December 2004 and 31 December 2005, and of its financial performance and its cash flows for the years' then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Heidi Seeland
Authorised Auditor

15 March 2007

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