

Ministry of Economic Affairs and Communications • Ministry of Finance

**ECONOMIC SURVEY OF ESTONIA
2006**

Tallinn 2007

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Abbreviations in the text:

y-o-y – year over year

r.s. – right scale

EEK – Estonian kroon (1 EUR = 15.6466 EEK)

* – preliminary data

Macroeconomic situation

economic growth amounted to 8.5% and 6.4%, respectively.

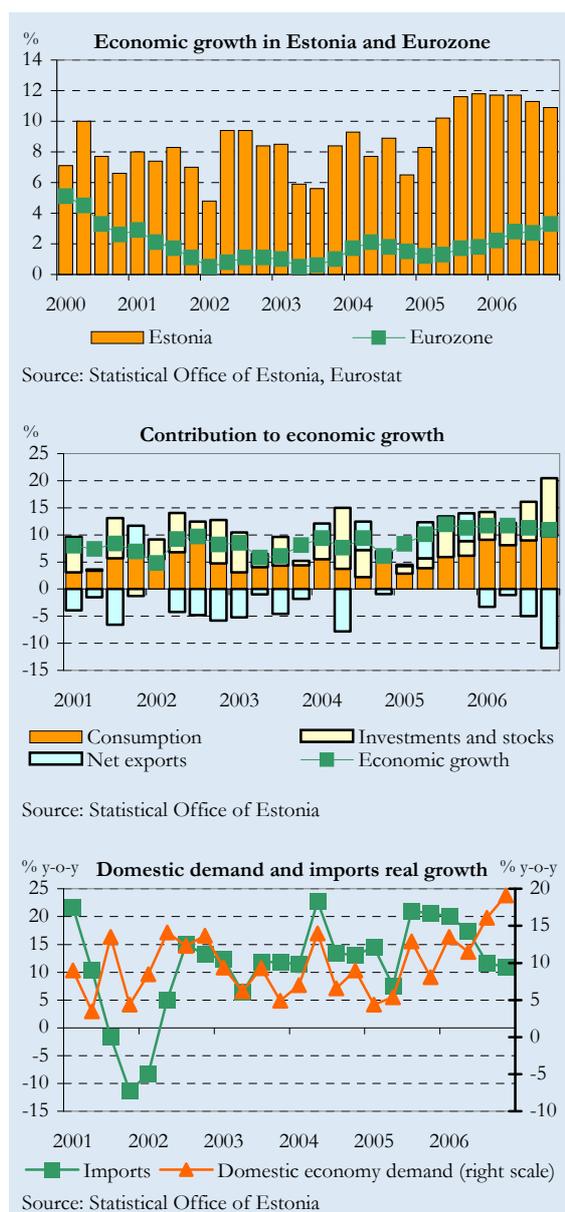
Real growth of **private consumption expenditure** accelerated remarkably in 2006 and amounted to 15.8%, surpassing considerably economic growth. The reasons for the rapid growth were much the same as in 2005 – positive developments surpassing all expectations regarding the average salary, the number of employed persons and the decreased direct tax burden. The consumers have even more certainty about the future than in 2005, thanks to the favourable situation of employees in the labour market. This, in its turn, encourages them to take loans and to consume. No change is expected regarding this development in the near future.

The developments in 2006 were characterised, as before, by active **investments**; the growth rate of capital investments reached 19.7%. Investment activity was the highest among enterprises. The increasing demand in the domestic and foreign markets and profitable real estate investments had boosted the investments made by enterprises. Although the increased support by the European Union structural funds has significantly augmented the investments of the government sector, the overall share of the government investments is still small and does not contribute much to the growth of total investments. The continued strong demand for new living space keeps household investments at a high level.

In 2006, **exports** contributed twice less to the economic growth than in 2005, regardless of the high foreign demand. The growth in goods and services **imports** exceeded the growth of exports. The growth of imports remained high due to the strong domestic demand.

The high imbalance of foreign trade escalated notably in 2006. The current account deficit grew from 10.5% of the GDP in 2005 to 14.8% in 2006. The build-up of the deficit compared to the previous year was mostly due to an increase in the balance deficit of goods. The increasing balance deficit of goods was triggered by the strong growth in goods imports which took place due to a surge in domestic demand; in the second half-year the lowered export pace of some important export articles also had its effect. The deficit of income balance dropped in 2006, mainly caused by a fast increase in income earned by Estonian residents abroad. Reinvested income amounted to 97.4% of the income balance in 2006.

Domestic savings advanced remarkably in 2004–2005, reaching 24.8% of the GDP in 2005. It was the highest during the last six years. In 2006, there was no growth in saving activity. The diminished generation of savings of the private sector was caused both by the significant acceleration of



In 2006, Estonia's economic growth accelerated to 11.4%, surpassing the growth of 2005 (10.5%). This growth was significantly driven by an increase in domestic demand which grew to 16%, based on the rapid growth of both private consumption and investments. The contribution of goods and services export to economic growth lowered twice compared to the previous year, to 9.1%. Goods and services import grew faster than export, as a result of which net export contributed again negatively to economic growth.

In 2006, the growth pace of **domestic demand** was higher than the average economic growth (15.1%); its share in the GDP rose compared to 2005 and reached 107.4%. The increased domestic demand was supported by growing private consumption and investments, the contribution of which to the

consumption growth and the increased investments by enterprises on loans. The boost in state budget revenues compared to expenditure and the increased capital costs due to the involvement of EU structural funding resulted in a considerable growth of savings in the government sector.

By sectors, added value increased at an advanced pace in the manufacturing industry and service sector. Manufacturing industry contributed the most to the economic growth in 2006; its growth accelerated to 12.8% due to the expanded domestic demand and increased exports.

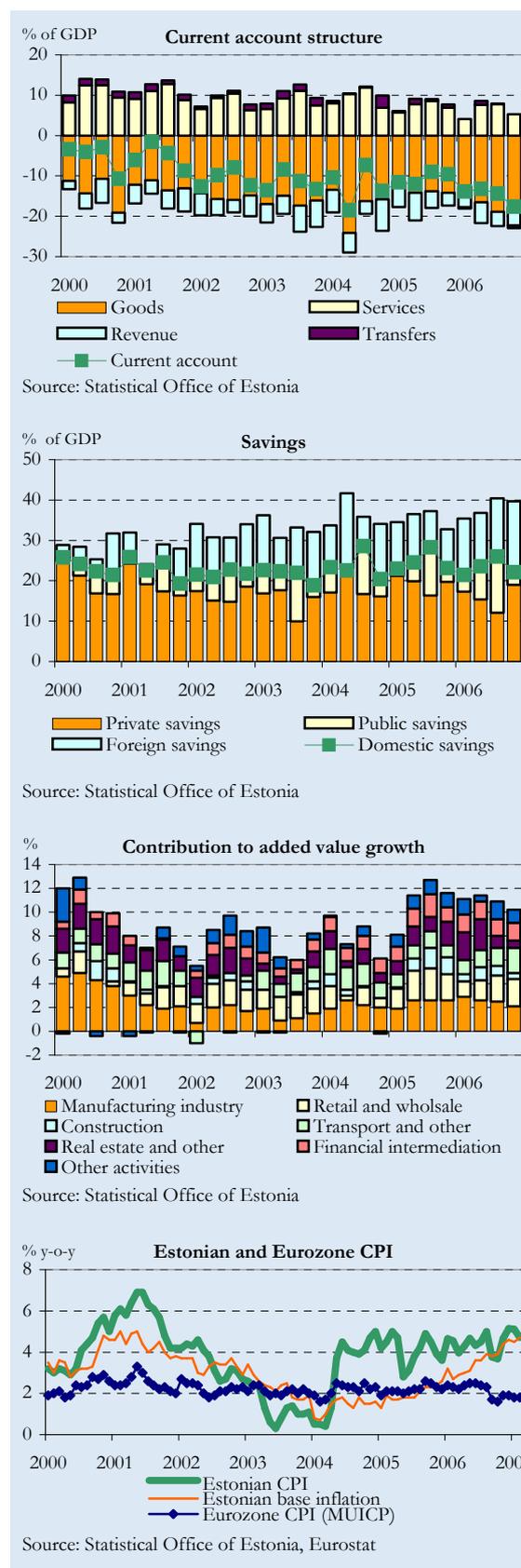
Domestic trade, property, rental and business activity, transport, storage and communications, and financial intermediation had the highest influence on the growth of added value in the service sector. The 12.6% increase in domestic trade was driven by higher sales numbers and productivity growth in the retail and wholesale trade. The main booster of the 9.7% growth rate in the property, rental and business activity was the continued rapid growth of real estate business. The 10.9% growth rate in transport, storage and communications was triggered by expanded cargo volumes and fast development of the storage business. Active loan and leasing activities contributed to the 22.8% growth in financial intermediation.

The construction sector also played an important role, although the real growth of its added value decelerated to 13.3% due to the accelerating increase in prices. The growth rate of hotels and restaurants slowed considerably (to 11.7%), mainly due to the slower growth of sale of services.

The growth of value added of the major areas in the government sector (public administration, national defence, and social insurance, health care and social welfare) accelerated to 4.1% in 2006 but its impact on the overall economic growth was still marginal. The added value of the primary sector was the same as in 2005, caused, in addition to a decline in output, by an increased intermediate consumption.

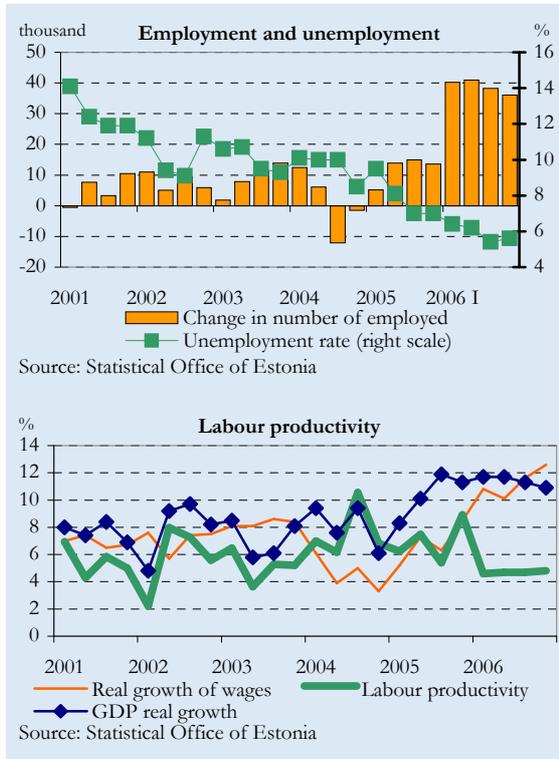
Inflation accelerated from 4.1% in 2005 to 4.4% in 2006. External factors such as a rise in energy prices and an increase in food prices due to difficult weather conditions in summer, in conjunction with domestic demand factors, have not allowed the inflation rate to slow down. The rapid upsurge in the prices of food and household components (mainly rent) was compensated for by a slower increase in motor fuel prices in the second half-year and the diminishing administrative impact due to the postponement of an increase in excise taxes. The real estate boom has generated a considerable increase in rental prices and there are still no signs of any slowdown of inflation. In the background of the rapid growth speed of income, vigorously augmenting loans and optimistic future expectations of the consumers, the price increase of goods and services is simplified, manifesting itself in a significantly faster base inflation. The growing pressure of salaries as an

important factor influencing price formation also has an additional impact on the prices.



The number of the **employed** (persons aged 15–74) rose by 6.4% (607,000 persons) in 2006 compared to 2% (11,900 persons) in 2005. It means that the

number of the employed in 2006 was by 39,000 higher than in 2005. This growth was driven by high business activity in the domestic market and export sector – primarily in trade, construction and manufacturing industry. The widened opportunities to find employment in the EU and the good performance of the Labour Market Board (active labour market measures) also had their impact.



The **unemployment rate** dropped to 7.9% in 2005 and even more, to 5.9% in 2006. In 2005 the total number of the unemployed amounted to ca 52,000 but the number dropped by 12,000 in 2006 and reached 40,500. The unemployment rate fell mainly due to the inclusion in the labour market of elderly (aged 55–64) non-Estonian unemployed persons and persons seeking work for more than a year. Moreover, a large number of persons of retirement age and discouraged persons who previously had lost hope to find a job, became active in the labour market. In 2006, the number of inactive persons decreased by 6.9% (by almost 27,000) compared to the year before.

In 2005 **gross wages** rose by 10.8% and the real wage by 6.4%, followed by a boost in the growth of average wages in 2006 – 16.2% and 11.3%, respectively. The wage growth was the most noticeable in trade, agriculture, construction and manufacturing industry.

After Estonia's accession to the European Union a large part of our qualified labour force moved to work in foreign countries, making it difficult for local companies to find employees. Therefore, employers try to retain the existing staff with a significant salary growth. Under the conditions of open labour markets it is inevitable that salaries will become even; therefore it is expected that salaries will continue their rapid growth this year. Thus, it is important for enterprises to pay attention to improving the efficiency of work organisation and introducing up-to-date technologies. Employees have become more demanding and informed and, in addition to salary, working conditions and other factors attributed to the working environment have become more and more important in job selection.

The average growth of the real wage in all economy surpassed the growth in labour productivity (the added value generated per employed) almost twice. Labour productivity growth decelerated to 4.7% in 2006 (it was 8.3% in 2005), while the growth in the real wage quickened to almost 11%.

The budget surplus of the government sector amounted to 7.7 billion Estonian kroons or 3.8% of the GDP in 2006. Compared to the previous years the budget surplus of the government sector grew considerably in absolute numbers and as a percentage of the GDP. For the first time all government sector levels – central government (2.9% of GDP), social insurance funds (0.6% of GDP) and local governments (0.3% of GDP) – showed a budget surplus.

The surplus was generated partly due to higher revenues than expected, attributable to the rapid economic growth, but mainly due to lower expenditure compared to the budgetary plans. In 2006, revenues accrued to the budget of the government sector increased by 23.1% compared to 2005; the growth in expenditure amounted to 18.4%.

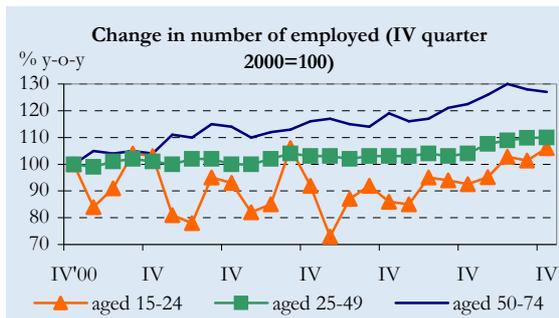
The tax revenue accrued in 2006 amounted to more than 63 billion kroons; the **tax burden** was 31.1% of the GDP. Indirect taxes had the highest share (13.6% of GDP), followed by social insurance payments (10.2% of GDP) and direct taxes (7.2% of GDP).

The **debt burden** of the government sector was 4.1% of the GDP as of the end of 2006, being the lowest in the EU. Of the total debt of 8.3 billion kroons 3.7 billion kroons are the debt of the central government and 4.6 billion kroons of local governments.

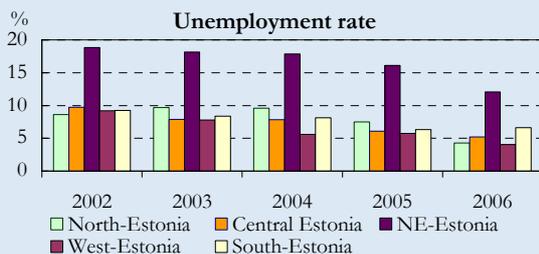
Economic forecast of the Ministry of Finance 2007–2011

	2005	2006	2007*	2008*	2009*	2010*	2011*
GDP real growth (%)	10.2	11.2	7.4	5.2	6.1	6.7	7.0
GDP in constant prices (bn EEK)	142.0	157.9	169.6	178.4	189.3	202.0	216.1
Consumer price index (%)	4.1	4.4	6.5	8.5	5.5	3.6	3.5
Employment (thousand persons)	607.4	646.3	654.1	656.7	656.7	656.7	656.7
Employment growth (%)	2.0	6.4	1.2	0.4	0.0	0.0	0.0
Unemployment rate (%)	7.9	5.9	5.2	5.3	5.3	5.3	5.3
Labour productivity growth (by number of employed, %)	8.0	4.5	6.1	4.7	6.1	6.7	7.0
Real growth of average wage (%)	6.4	11.6	13.5	6.7	7.5	7.0	6.3
Average wage (EEK)	8 073	9 407	11 371	13 164	14 930	16 550	18 208
Current account (% of GDP)	-10.0	-15.5	-15.6	-11.7	-10.2	-9.7	-9.3
Budget balance of government sector	2.3	3.8	1.9	1.9	1.8	2.0	1.9
Tax burden	30.9	31.0	32.0	32.3	32.5	32.1	31.6
Government sector debt	4.4	4.0	2.7	2.3	2.0	1.8	1.6

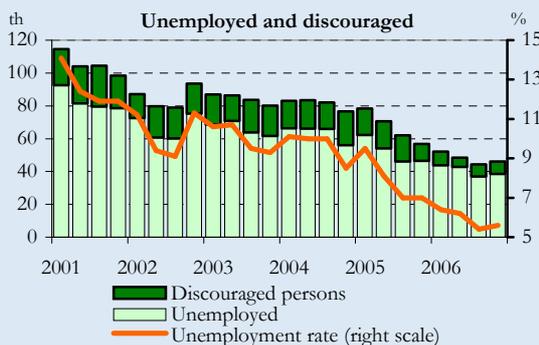
Labour market



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

In 2006 the developments in the labour market were characterised by a dramatic increase in labour demand, as a result of which the number of unemployed people dropped by a fifth and a large number of inactive persons returned to the labour market. Compared to 2005, the number of employed grew by ca 40,000 persons (6.4%). The number of unemployed fell by 12,000 and the number of inactive persons by 27,000. The overall decrease in the unemployment rate was 5.9% in 2006.

The highest labour demand in 2006 was demonstrated by the construction, trade, transport and storage sector. In construction workforce grew from 52,000 persons at the beginning of the year to 73,000 persons at the end of the year, making a tenth of all the employed people.

The high demand for labour made it possible for persons of employment age who had already lost hope to find a job, e.g. non-Estonians and discouraged persons, to return to the labour market. The unemployment rate among non-Estonian dropped from 13% in 2005 to 10% in 2006. The

number of discouraged persons diminished twice in the course of 2006, to 7,200 persons.

The competitiveness of non-Estonians, discouraged persons, long-term unemployed and other risk groups was considerably boosted by the activities of the Labour Market Board in various areas of Estonia where numerable projects of the EU Social Fund also played an important role.

Labour is scarce in several sectors. However, there are still tens of thousands of unemployed and inactive persons who are of employment age and could participate in the labour market if they had the necessary skills and qualifications. By regions, the employment rate is lower than the average in NE-Estonia where the percentage of unemployment is still high although it dropped from 16% to 12% during the year. West-Estonia is also characterised by a low employment rate. Its unemployment rate is only 4% but the percentage of inactive people of employment age (aged 15–74) is higher than the average. Free workforce can also still be found in South-Estonia.

It is problematic that the number of inactive persons due to illness or injury increased during the last two years. While in 2004 fairly 43,000 persons and in 2005 43,000 persons could not participate in the labour market due to illness or injury, in 2006 the number of such persons exceeded 50,000. About 80% of them belonged to the age group from 16 years to the retirement age. To make it possible to find additional workforce, attention should also be paid to the quality of labour in terms of their health and to the minimising of risk factors in the working environment in order to raise the productivity of labour. International studies show that the working environment situation in Estonia is worse than in many other European countries¹.

In relation to the continuing rapid economic development it is expected that labour demand will remain high in 2007 and will even grow to some extent. Therefore, even more attention should be paid to the development of cooperation among businesses, educational institutions and the Labour Market Board, in order to find the necessary workforce in the local market. Making joint applications for projects financed by the EU Social Fund and joint implementation of these projects during the new EU funding period 2007–2013 is a good opportunity to achieve this aim.

In 2006, **growth of wages** was influenced by the accelerated economic activities, mainly attributable to the increasingly active real estate and construction sectors as a result of inflow of loan money. At the

¹ Sotsiaalministeeriumi vahendusel *Tööelu baromeeter 2005 ja Euroopa töötajimuste uuringud 2005*

same time the growth of wages was driven by the activeness of sectors oriented to the domestic market, triggered by high consumption demand.

The growth of average gross wage quickened to the total of 17.5% by the end of 2006, reaching 10,212 kroons in Q4. In spite of the relatively rapid growth of prices the real growth of gross wage (wage minus inflation) accelerated to 12.6%, and the real growth of net wage to 13.7%. The 2006 average gross wage amounted to 9,351 kroons, real growth of gross wage to 11.3% and real growth of net wage to 12.3%.

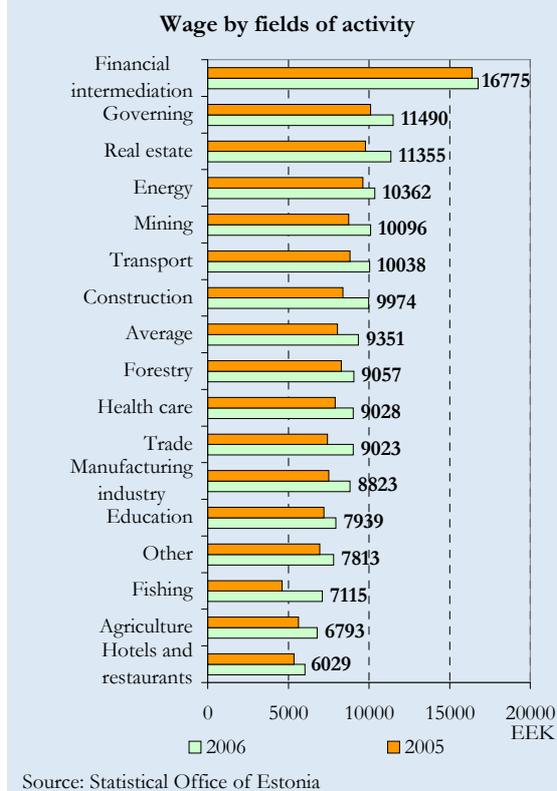
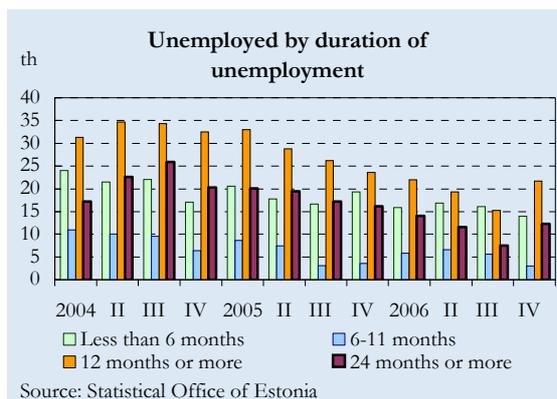
Parallel to the rapid increase in the number of employed persons the **growth of labour productivity** slowed down to 4.7% in 2006, which is two times slower than the growth of real wage. Moreover, regardless of the speedy growth of wages and employment, rULC (real Unit Labour Cost) remained at the same level as in 2005. It means that GDP grew rapidly together with labour costs and therefore, no direct pressure from expenditure growth can be seen in the economy in general.

Among sectors, construction, trade and manufacturing industry had a continuing strong influence on the growth of gross wage; in these sectors wages grew by 20% on the average. These sectors employ 44% of all employees. The speedy growth of the construction sectors affected, in its turn, the building materials, metal and wood industry where the price rise and growth in income made it possible to raise salaries in order to retain qualified labour. The same scenario took place in trade where the higher revenue and prices, attributed to the high consumption demand, reflected in the rapid growth of salaries.

Domestic labour demand demonstrated a real boost in 2006; also, after Estonia's accession to the European Union the labour markets of several member states opened up. Therefore, some of the Estonian workforce has found employment in Finland, UK, Ireland, Sweden, Norway and other countries. By rough estimations about 20,000 persons from Estonia work abroad, making 3% of all the employed persons in Estonia. As a result of the lowered unemployment rate and opening of foreign labour markets the position of workers to bargain about wages improved considerably – employees have demanded and are demanding higher salaries.

Under the conditions of open labour markets it is inevitable that salaries will become even; therefore it is expected that salaries will continue their rapid growth this year. Thus, it is important for enterprises to pay attention to improving the efficiency of work organisation and introducing up-to-date technologies. Employees have become more demanding and informed and, in addition to salary, working conditions and other factors attributed to the working

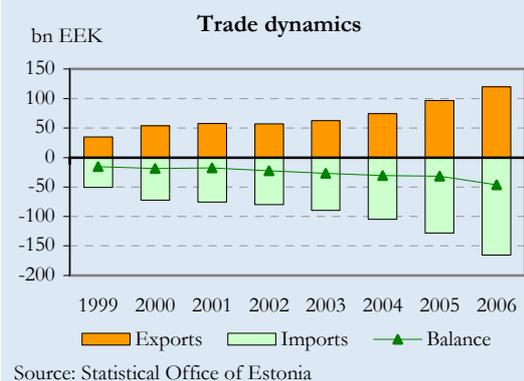
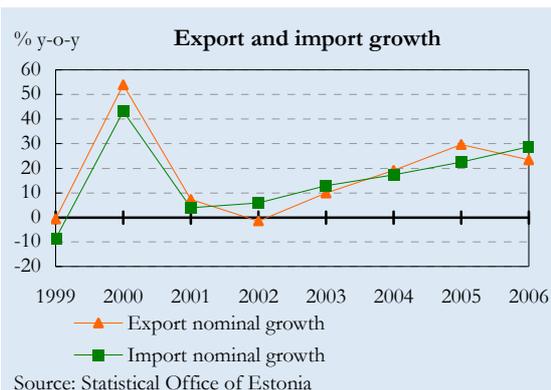
environment have become more and more important in job selection.



Foreign trade

In 2006, the growth rate of exports slowed down to some extent due to a certain decrease in the competitiveness of Estonian products in foreign markets. At the same time, due to the strong domestic demand, the growth rate of imports accelerated, exceeding that of exports. As a result of these developments deficit of trade increased by almost a half compared to 2005.

The global economic climate improved noticeably in 2006. It was supported by favourable developments in the USA, Asia, East-Europe and CIS countries. The European Union restored its economy at a quicker pace. The main trade partners of Estonia also did well: Finland, Sweden, Russia, Latvia and Lithuania. The advantageous economic climate in foreign markets helped to considerably increase Estonian export volumes. Active investments continued in 2006, supported by the impetuous inflow of foreign direct investments and continuously good loan conditions. Private consumption grew, triggered by the rapid growth of income. All the above developments considerably increased the growth rate of imports.



In 2006, foreign trade turnover amounted to 284.8 billion kroons, being larger by a quarter than the year before. The turnover grew by about the same amount in 2005. Exports was 119.5 billion and imports 165.3 billion kroons. The share of exports in total trade turnover reached 42% and that of imports 58%. Whereas imports grew faster than exports, the

share of exports dropped by one percentage point compared to 2005.

The faster growth of imports compared to exports resulted in an increase in trade deficit that reached 45.8 billion kroons, the figure is higher by about a half compared to 2005. About 50% of the trade deficit is attributable to trade in machinery and equipment (-12.6 bn kroons) and means of transport (-11.9 bn kroons). While the first did not show any increase in negative trade balance, the negative balance of the latter grew by three fourths during the year. As before, Estonia had a surplus trade balance in the trade of wood and wood products, furniture and log houses and animal products.

The opinions of experts of the Estonian Institute of Economic Research still differ as regards developments in trade balance. However, they all agreed in March 2007 that the negative balance will show some growth. As long as foreign capital flows in actively and private consumption is in full swing no significant improvement in the trade deficit is to be expected. The trade deficit could be reduced by higher added value of export goods; however, no considerable changes are expected in this regard in the near future.

Exports

Estonian exporters had a successful year in 2006. Compared to 2005, exports grew by 23.5%. In the first half-year the growth of exports reached one third but the pace slowed down in the second half-year and the growth was only half of that of the first half-year. In the first part of the year exports was considerably boosted by trade in mineral fuels, processing of which was started in Estonia in the last quarter of 2005. As a result, the comparison base of the first half-year in 2006 was much lower than in the second half-year. Exports of fuels normalised in Q4, resulting in an overall decrease in export growth. In the second half-year the decrease in export growth was also influenced by a cutback in the exports of machinery and equipment compared to 2005.

In 2006 exports grew in most commodity groups, only the export of textile and textile products lowered during the year. Machinery and equipment still ranked the first among commodity groups but their exports did not show the vigorous growth seen in 2005. Their exports increased only by 8% in 2006 (34% in 2005). In 2005 demand for mobile communication equipment augmented considerably in the global market, as a result of which export volumes of radio, television and communication equipment reached a very high level. In 2006 external demand for communication equipment diminished significantly. Positive developments continued in the manufacture of electrical appliances and apparatuses where exports still demonstrated strong growth.

The export of mineral products had the highest export growth in 2006 (2.6 times). The volume of fuel exports increased notably by reselling of motor fuels after they were processed in Estonia. The rise of global oil prices also had a partial impact on the export growth of mineral products.

The export growth of wood and wood products has been rather unstable in recent years. Their exports did practically not increase in 2006. Considering the heavy rise in the price of raw materials the export volume even stayed below the level of 2005. Wood businesses are of the opinion that growth was curtailed by lack of labour and raw materials and the growing competition in export markets. Sawn timber constituted about a quarter of wood exports, construction details amounted to about one fifth and firewood and round timber both about one tenth of the export volume.

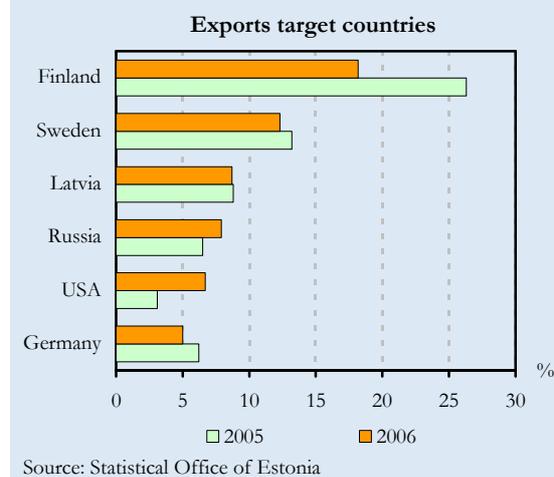
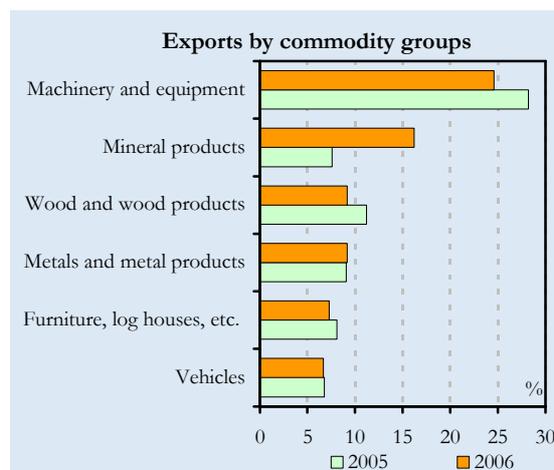
Exports of metals and metal products has shown a rapid development during the past four years. Their exports grew by a quarter in 2006. Rapid growth was, however, not only attributable to an increase in output but was also influenced by a price rise of metals in the global market and the resulting higher prices of metal products. Steel, crushed scrap metal and ferrous metal waste and metal structures ranked the highest in the exports of this commodity group.

Among other industrial goods furniture, pillows and blankets and log houses had the highest export volumes. Furniture exports grew again a little in 2006, like the year before. Furniture manufacturers have positive expectations about the future; the number of exports orders has increased. Pillow and blanket producers also had a good year. Exports grew vigorously because demand for these products went up. The stable growth in log house exports continued in 2006. Manufacturers of log houses have found firm niches in export markets.

In 2006, the share of the European Union in Estonia's total exports amounted to 65%, falling by 13 percentage points compared to 2005. Exports to the EU internal market increased by 3%. The remarkably slower growth in export volumes was caused by the diminished exports to Finland which made up 28% (2005 – 34%) of the total exports to the EU countries. At the same time there was an upward surge in exports to NAFTA countries (2.3 times), mainly due to the re-exports of fuels processed in Estonia to the United States. Exports to the CIS countries showed the same fast growth as before (50%), raising its share in total exports to 11%. While in 2005 the boost in exports was mainly supported by Russia, in 2006 exports to the Ukraine grew by almost 40% and exports to Byelorussia by 2.7 times.

Similar to 2005, Finland, Sweden, Latvia and Russia ranked the highest among Estonia's export markets in 2006. Germany dropped by one place, ranking now the sixth and letting the United States pass. Exports

to Germany has remained on the almost same level for the past four years.



Finland's share in Estonia's total exports dropped to 18% in 2006, being lower by 8 percentage points than in 2005. Exports to Finland dwindled by 14% during the year, mainly due to a decrease in exports of machinery and equipment by more than a quarter. While in 2005 export growth to Finland was mostly accelerated by mobile communication equipment, in 2006 their lower demand in the European markets was one of the causes why exports to Finland dropped. Most of the mobile communication equipment produced in Estonia were now redirected to China. Machinery and equipment still constituted almost half of the total exports to Finland, like before. Among other important commodity groups the exports of textile and textile products showed a decrease (-20%). However, the exports of wood and wood products and other industrial goods (furniture, pillows and blankets) had a slight increase.

Exports to Sweden has grown in recent years by about 10–20% and the same trend continued in 2006 (growth 16%). No significant changes took place in the structure of exports. Machinery and equipment constituted 40% of total exports and wood and wood products and textile and textile products both gave about 10%. The exports of machinery and equipment

augmented by one fifth while the exports of the other goods mentioned above dropped slightly.

In 2006, exports to Latvia did not grow as fast as in the previous two years; however, a 22% growth is also good. The exports of vehicles continued its rapid growth, exceeding the growth of the previous year by a half. Passenger cars were the main article. However, the exports of machinery and equipment slowed down considerably (to 24%) which was one of the reasons for the slower growth rate of total exports. Exports of other important goods – metal and metal products and chemical products – still increased slowly.

Similar to 2005, exports to Russia increased by a half in 2006. Most commodity groups showed rapid growth. The exports of metals and metal products, chemical products, foodstuffs and beverages rose by 2.3 times, 1.9 times and 1.7 times, respectively. As a result of these developments Russia's share in Estonia's exports rose to 8%; still, it is only half of its share in 1995, before double customs duties were imposed on Estonian goods exported to Russia.

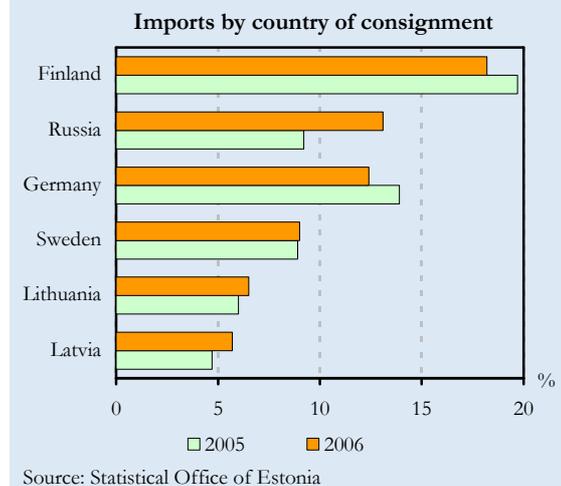
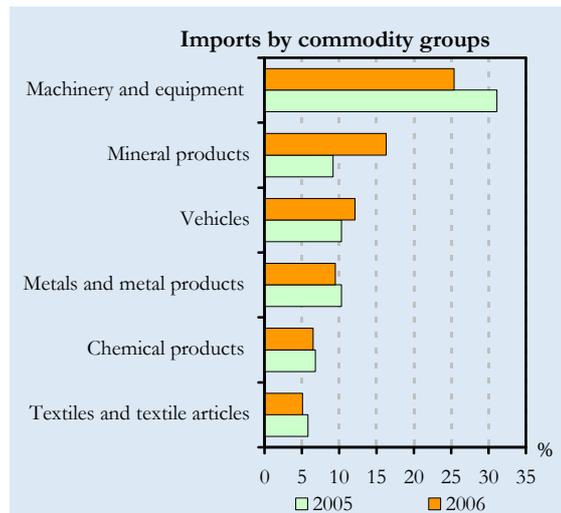
It is estimated that exports growth will decelerate in 2007. The trade results of the last months of 2006 and Q1 of 2007 have already proved it. On the one hand, the growth rate has slowed down due to the stabilisation of trade in mineral fuels. On the other hand, exports growth is curtailed by problems related to international competitiveness of the most labour-intensive sectors in Estonia. The estimations of the Estonian Institute of Economic Research in March 2007 showed that exports should continue to grow regardless of the considerably higher comparison base.

Imports

Growth of imports rose to 28.8% in 2006 and surpassed the growth of exports by 5 percentage points. The accelerated growth rate of imports was triggered by the continuously increasing domestic demand. Mineral products and means of transport were the main commodity groups to contribute to the growth of imports.

Compared to 2005, imports rose in all commodity groups. Similar to exports, the import growth rate of machinery and equipment slowed down notably because the decreased foreign demand for mobile communication equipment assembled in Estonia significantly lowered the imports of the parts.

The imports of mineral products grew the fastest in 2006 (by 2.3 times). It was due to the large imported volumes of fuels for processing. Some impact to the growth came from the global rise of oil prices. The imports of vehicles also increased vigorously in 2006 (by 50%). The fast growth of income among the population has considerably increased the demand for passenger cars. A lot of the imported cars are taken through Estonia to other countries.



The rapid development of metal and metal products has brought about increased volumes of imported raw materials and intermediate products, however, the import growth in this commodity group is partly attributable to the price rise of metals in the global market. The strenuous growth of chemical products imports was also backed by the imports of raw materials.

In 2006, the share of the European Union in Estonia's total imports dropped by a couple of percentage points, to 74%. The volume of imports from the EU countries rose by a quarter. Imports from the CIS countries had an upsurge (1.8 times), raising its share in Estonia's total imports to 16%. It was mostly caused by the rapid growth of imports from Russia. Imports from NAFTA countries had a slight growth.

As before, Finland was Estonia's largest import partner in 2006 but its share fell by a couple of percentage points and reached, similar to exports, 18%. Imports from Finland grew by 19% in 2006, the growth rate was twice as high as in the previous year. The strong growth was supported the most by vehicles and metals and metal products. Imports of many smaller commodity groups also increased

rapidly, e.g. animal products, wood and wood products and building materials.

In 2006, Russia rose to rank second among Estonia's import partners, pushing Germany down to the third place. Imports from Russia increased by 1.8 times compared to 2005. It was mainly triggered by mineral fuels that constituted $\frac{2}{3}$ of all the import volume. Most of the fuels processed in Estonia are imported from Russia. The imports of wood and metals did not increase in 2006.

Import growth from Germany slowed down to 15% in 2006, being more than half slower than a year ago. It was mostly due to a significant decrease in the imports of the most important commodity group, machinery and equipment. At the same time, the import growth of vehicles increased (by almost 40%). Although passenger cars had the largest share among the means of transport, the imports of trucks and special cars grew especially fast. The above

commodity groups constituted a little more than half of the imports from Germany.

Imports from Sweden had vigorous growth again (30%) after several years. It was backed by the rapid import growth of means of transport, metals and metal products and mineral products. Manufacture of the Estlink sea cable in Sweden considerably increased the growth.

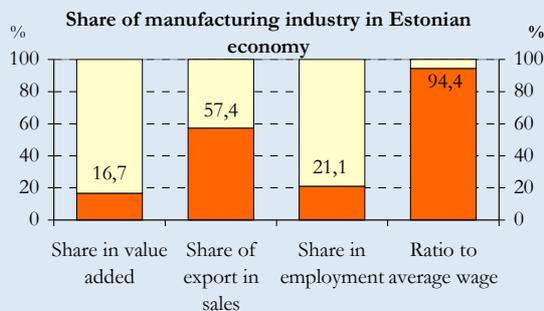
In 2007, the growth rate of imports will slow down due to the slower growth rate of domestic demand and export growth. However, companies will continue to modernise their technology backed by favourable loan conditions and the inflow of finances from the EU Structural Funds, this, in its turn, will give a boost to the imports of capital goods. The feeling of certainty will remain high, as a result of which private consumption is expected to grow. Due to these developments, the growth rate of imports will probably surpass that of exports also in 2007.

Manufacturing industry

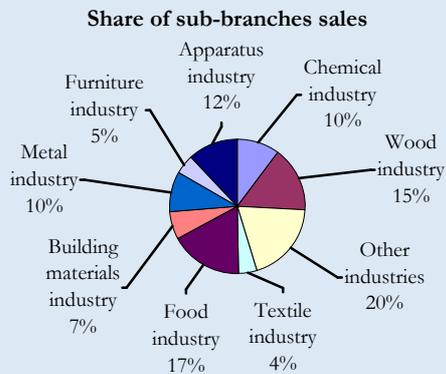
Manufacturing industry sales have grown by more than three times during the last ten years. The most rapidly developing subsectors have been manufacture of electrical appliances and optical instruments, rubber and plastic products industry, metal industry and wood industry. However, a third of the sales growth was given by food industry; chemical and light industry each gave a share of 10%. Export share in the sale of industrial goods has increased all the time; in 2006 60% of the output was sold in foreign markets. The main target markets were Finland and Sweden, countries which have invested the most in the Estonian manufacturing industry.

The continuous modernisation of equipment in manufacturing industry has made it possible to significantly raise productivity, as a result of which the number of employees has not grown much. In Finland's manufacturing industry ten times more added value was created per employee in 2000 than in Estonia. In 2005, the productivity gap between Finland and Estonia was still sixfold, therefore it is important to continue investments to boost productivity.

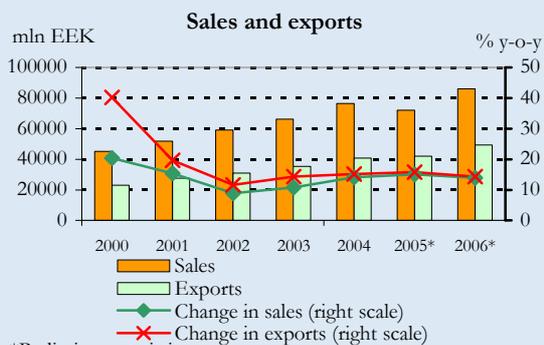
In 2006 more than 5,000 enterprises belonging to manufacturing industry by their principal activity operated in Estonia. About 300 of them have more than 100 employees but three quarters of the operators employ fewer than 20 persons. As of the end of 2006, by the number of employees, the largest manufacturing industry enterprises were AS Elcoteq Tallinn in Tallinn and AS Kreenholmi Valduse in Narva. Other companies employing a rather high number of labour force was the shipbuilding and metal processing group AS BLRT Grupp, wearing apparel company AS Baltika, safety belts manufacturer AS Norma, furniture manufacturer AS Tarmeko and Rakvere Lihakombinaat (meat processing).



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



*Preliminary statistics

Source: Statistical Office of Estonia

Sales of the manufacturing industry grew fast in 2006, similar to the previous year. Most branches experienced positive developments. Output growth was supported both by domestic demand and thriving exports.

Output volume at constant prices increased by 8% in 2006 and sales of industrial goods by 14%. Sales in the domestic and export markets showed almost the same growth rate.

Consumer price index grew by 5.4% in 2006 (3.6% in 2005). On the one hand, faster price increase was triggered by strong demand and labour cost growth, and on the other hand, it was caused by the price rise of raw materials in several industries (building materials, wood, metal, bakeries and pastry companies).

Initial data show that the output of industrial goods grew faster in Estonia than in the EU-27 on the average. The new member states – Poland, Slovakia, Hungary and the Czech Republic – showed a more vigorous growth. In all these countries output increased by more than one tenth in 2006. Austria, Finland and Germany were the most successful among the old member states. In the EU production volume increased the most in the radio, television and communication equipment sector and in the manufacture of other means of transport, the growth being one tenth or more. Light industry and publishing showed a standstill.

By sales volume growth, the year was successful for the following Estonian manufacturing industry sectors: manufacture of electrical appliances and apparatuses, rubber and plastic products, building materials, metal and paper. Annual growth exceeded 20% in these branches and they were all successful in export markets. Sales figures stayed on the level of the previous year or dropped in the manufacture of other means of transport, medical and optical

equipment, leather industry and textile industry. In 2006 important changes took place in the labour market where the number of employed rose by 40,000 persons and the unemployment rate fell to 6%. However, employment grew mostly in the service sector (construction, commerce, transport).

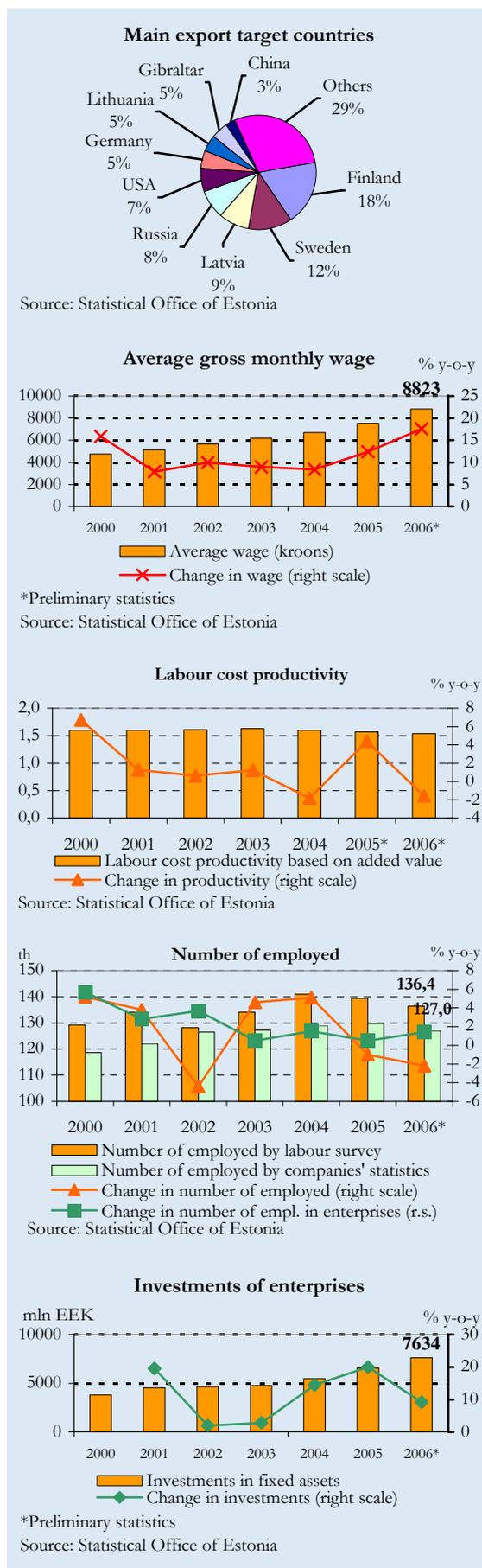
By the statistics of enterprises the number of employed persons in the manufacturing industry grew by a couple of percentage points; labour surveys, however, indicate that it fell by the same amount. The statistics of enterprises shows that changes were the biggest in wood and metal industries and manufacture of electrical appliances and apparatuses where the number of employed grew by a thousand or more workers. Employment diminished the most in textile, wearing apparel and furniture industries.

The average gross wage in Estonia grew by 16% in 2006; in the manufacturing industry its growth was even faster, reaching 18%. However, in contrast to Estonia in general, productivity growth in the manufacturing industry was higher than the growth of real wage, similar to 2005. Wages increased by more than one tenth in all branches of the manufacturing industry, except publishing (their average wage is already the highest).

The total costs of enterprises in the manufacturing industry increased at the same rate as the growth of net sales, as a result of which the share of total profit in net sales did not considerably change compared to the previous year (reaching 8.4%). The total profit of manufacturing industry rose by a billion kroons in 2006.

In 2006, manufacturing industry invested almost 8 billion kroons in fixed assets, constituting about 7% of the industry's net sales. Half of the investment volume is attributable to food, wood and building materials industries. Most of the investments were made to purchase new machinery and equipment and to reconstruct. Compared to 2005 investments grew by a tenth. Among branches, the growth was the fastest in metal industry, manufacture of other means of transport and manufacture of rubber and plastic products.

A survey conducted by the Estonian Institute of Economic Research among company managers showed that companies' expectations for the first half of 2007 were generally the same as a year ago. Enterprises hoped for an increase in orders and production volumes for the coming three months. In contrast to the beginning of 2006, all branches showed expectations that sales prices would grow. Due to the impact of the increased prices of many production inputs (raw materials, labour) it may be predicted that the producer price index will increase faster than before. The most positive expectations about future developments of the industry were expressed by companies operating in the manufacture of electrical appliances and apparatuses, furniture and chemical industry.



Food and beverages industry

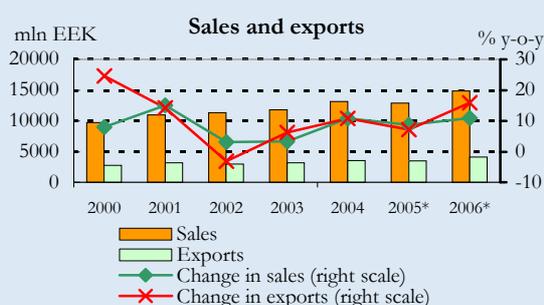
The food industry is the biggest industry in Estonia by production volume; food production is the principal activity for almost 450 companies. Its production is mainly sold in the domestic market, export share in sales is less than one third. During the last five years, the output of food industry has increased by one third. Still, due to the increased efficiency, as indicated by companies themselves, the number of employed in this sector has dropped to 17,300 people.

Food industry enterprises are geographically located quite evenly over Estonia. Among the large companies in all regions of Estonia there are also food producers. Meat processing enterprise AS Rakvere Lihakombinaat in Lääne-Viru County is the largest enterprise in food industry, followed by meat processing companies AS Saaremaa Liha- ja Püimatööstus and AS Valga Lihätööstus which are somewhat smaller. AS Leibur, AS Pere Leib and AS ETK Leib are the major bakeries. The major food industry enterprises also comprise the breweries AS Saku Õlletehas in Harju County and AS A. Le Coq in Tartu County, and dairy firms AS Tere and AS Põlva Piim. AS Maseko operating in Harju and Pärnu Counties is the largest fish processing company.

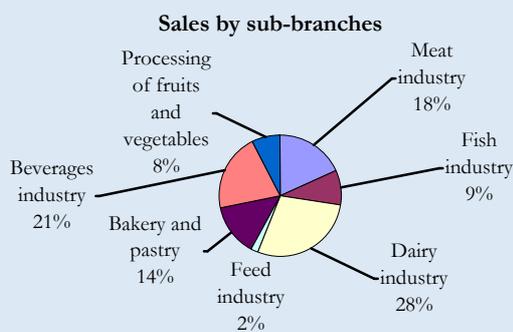
There is tight competition in the Estonian food market. Most companies direct its resources in gaining or reinforcing a domestic market share. The entry of large retail chains and foreign competitors (e.g. Lithuanian producers) in the Estonian market makes the situation for Estonian food producers even more difficult because it intensifies price pressure and brings additional foreign supply to the market. It is probable that the more strenuous situation in the food market will force smaller producers to leave the market and thus, no significant growth in employment is projected for this sector. Moreover, since the market is saturated, no fast growth in output can be predicted, and although exports is gaining momentum, it will not have a significant influence on the total production volume.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Food industry output showed continuous steady growth in 2006, output increased mainly on account of the growth of domestic sales and accelerated exports. All sub-branches of the food industry were thriving. The number of employees rose slightly and productivity indicators also revved up.

The growth rate of sales in the food industry has been close to 10% in the last three years, as an industry directed to the domestic market the development of the sector greatly depends on the growth of purchase power of the Estonian inhabitants and their purchase preferences. In 2006, the sales of food industry increased by 11% compared to 2005, the growth of exports was even faster. Production increased by 6% compared to the previous year (at constant prices).

Producer prices rose by 4.2%, equalling the growth rate of 2005. In 2005 the price rise was influenced by the increased milk purchase price (especially during the first half-year), but in the last months of 2006 the heightened price of raw materials considerably augmented the prices of the production of bakeries and pastry companies.

By sub-branches, production grew at an even pace; the sales of all the major sub-branches increased by about 10% in 2006. As before, food industry showed its dedication to product development, sales promotion and improving the efficiency of production. Rivalry among domestic producers is fierce, but enterprises also need to compete, more than ever, with imported products. Strong domestic demand supported the development of this sector during the whole year. Fishing industry and beverages industry contributed the most to export growth.

Although only about 30% of the food production is exported, it is still an important export group for Estonia (its share being slightly less than 10% of total export). Milk and dairy products and fish products make up almost $\frac{2}{3}$ of food industry's exports. In 2006 Estonia exported notably more food products than before to Latvia, Russia, Lithuania and Ukraine. Exports to Germany and the Netherlands diminished.

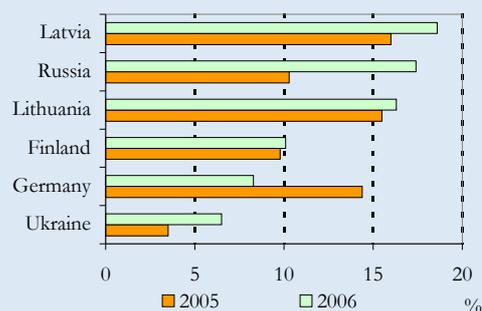
Dairy sector is the largest food industry sector but its development was inhibited already in 2005 by the heightened raw milk prices the year before. In 2006 the sales volumes of dairy industry increased, supported by higher domestic sales, sales in foreign markets did not show any considerable growth. Export share in dairy industry amounts to about 30%, the principal target markets are Germany, Latvia, Russia and Finland.

The sales of meat industry increased mainly thanks to the increased demand in the domestic market, similar to the previous year; however, exports also showed some growth (about 15% of meat production is exported). Thriving economy and increase in population's income considerably boosted the consumption of more expensive meat products (ham, barbecue products); moreover, enterprises made great efforts to bring new products to the market. The meat sector exported the most to other Baltic countries.

Beverages industry showed rapid growth for the second successive year of 2006, although the growth rate somewhat abated by the end of the year. The largest beverages companies in Estonia have intensively invested in product development and marketing, as a result of which, in addition to an increase in the consumption of beverages, the market has been expanded through the introduction of new products, primarily weak alcoholic drinks and soft drinks. Production and sales of strong alcohol also increased slightly, backed by the introduction of tax stamps and the resulting decrease in the share of illegal alcohol. In exports, the trends of selling water (including mineral and sparkling water) and beer to Latvia and Lithuania continued, accompanied in 2006 by the bottling of US-origin strong alcohol and selling it to Russia. The share of beverages exports in the total sales of beverages is about one fifth.

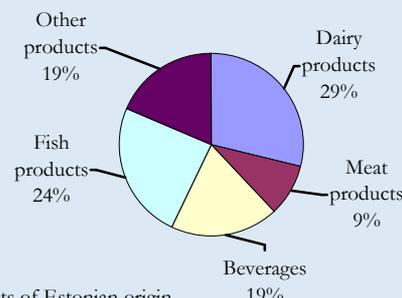
Bakeries and pastry companies increased sales both in the domestic and foreign markets, although they were notably affected by the heightened labour costs and, in the second-half year, an increase in the prices of raw materials. In order to avoid losses, a part of the costs had to be included in the price of final production. Most of the production is still sold in the domestic market (ca $\frac{4}{5}$) and, according to a survey of the Estonian Institute of Economic Research, 90% of the Estonian population prefers domestic bakery products. At the same time, exports to the neighbouring countries Latvia and Lithuania, although not yet high, is rapidly growing.

Exports by main target countries



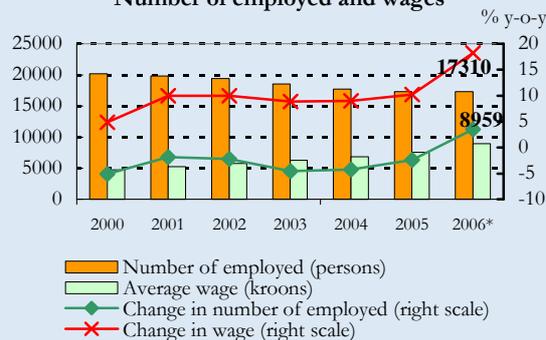
Source: Statistical Office of Estonia

Main export commodity groups



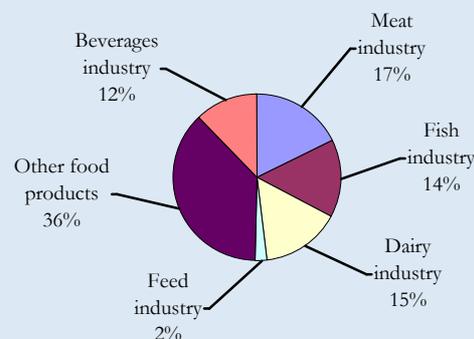
Products of Estonian origin
Source: Statistical Office of Estonia

Number of employed and wages



Source: Statistical Office of Estonia

Share of sub-branches in employment



Source: Statistical Office of Estonia

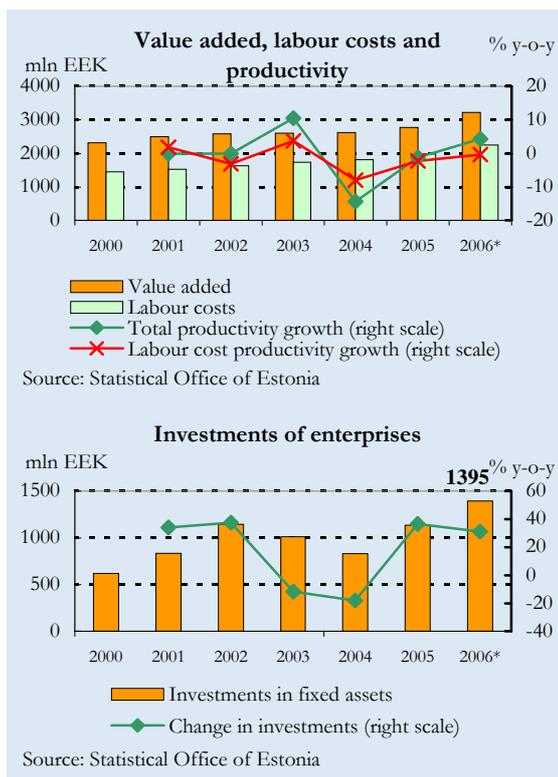
Fishing industry has had difficult times in recent years – shortage of raw materials and difficulties in export markets (mainly for preserve producers). In 2006,

however, sales went up again, thanks to a regain in exports. Three quarters of the production are sold in foreign markets, the share being the highest in food industry. The fluctuation in fishing industry exports has so far been caused by the unstable Ukraine market which, together with the Russian market, was the main export market for the Estonian fishing industry. However, for fish fillet West-European countries are the main market. Competition in the global fish and preserves markets has increased considerably.

Employment rate in food industry is slowly declining, although the number of employees grew a little in 2006 by preliminary data. Employment is growing in meat and other branches of foodstuffs production, while fishing industry is reducing its workforce. The average gross wage in food industry was close to the average wage in Estonia and was by almost one fifth higher than last year. Most companies have increased the prices of end products due to the growing production costs (including labour costs).

Food industry enterprises have annually invested about a billion kroons in fixed assets for the past three or four years. Thus, the technology used is rather modern. Food industry invested about 1.4 billion kroons in 2006, one third more than in 2005. Most investments were made in machinery and equipment but, compared to the previous year, investments in buildings and facilities increased the most.

Companies questioned by the Estonian Institute for Market Research forecast that production volumes will continue to grow during the first half of 2007. They felt positive about the fact that their competitiveness in the Estonian market improved all through 2006 (it also improved in the EU market but to a lesser extent). However, price pressure is high in the sector and 40-50% of the respondent companies predicted sales price growth in the near future.

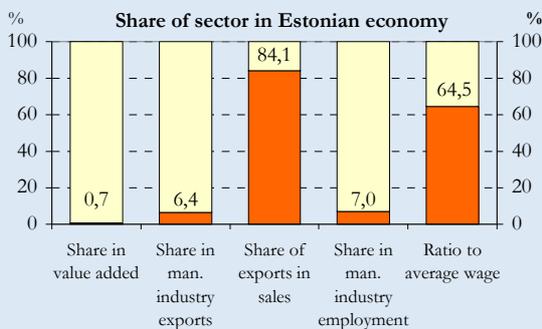


Textile industry

The Estonian textile industry is an industry focused on export markets comprising over 200 enterprises. The textile industry has overcome the shocks caused by the external environment after Estonia regained its independence. The industry has increased its sales by a little more than one tenth over the past five years. The share of exports in the sales amounted to 84% in 2006. The number of employees in this branch has dropped by one fifth in the last five years and is now 9,000 people.

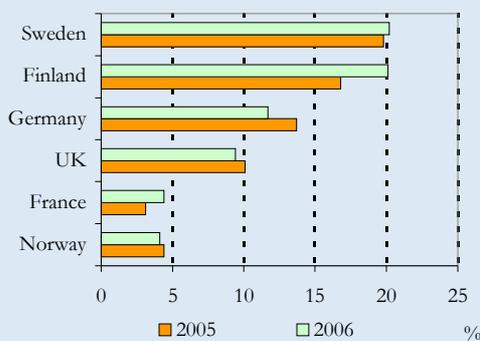
There are large textile companies in several regions in Estonia. The major companies making home textiles AS Wendre and AS Toom Tekstiil are located in Pärnu and Viljandi counties, technical textile producers OÜ Pärnu Linavabrik and AS Mistra-Autex are located in Pärnu and Harju counties, Polar Tekstiil OÜ is situated in Lääne county and Kreenholmi Valduse AS and some others are in Ida-Viru county.

A moderate growth in sales is forecast for the textile industry in the future. Productivity is increasing all the time thanks to the introduction of more efficient production technologies. The moderate sales and productivity growth do not allow us to project a fast employment growth and in long-term even a decline is expected. The textile industry has been affected by simplified access of Asian textile products to the European Union market introduced at the beginning of 2005 but most companies have been able to adjust. Since 1 July 2006 textile imports from China and several other countries is again limited by a quota system.



Source: Statistical Office of Estonia

Exports by main target countries



Source: Statistical Office of Estonia

Sales and exports



Source: Statistical Office of Estonia

In 2006, textile industry's sales stayed at about the level of 2005. The number of employees continued to fall, resulting in increased efficiency.

Textile industry's sales figures were about the same as in 2005 and output volume at constant prices did not change either. The overall sales figures were considerably influenced by a downward trend in the turnover of Kreenholm, the largest company in the sector, making it difficult to adequately assess the development of the whole sector.

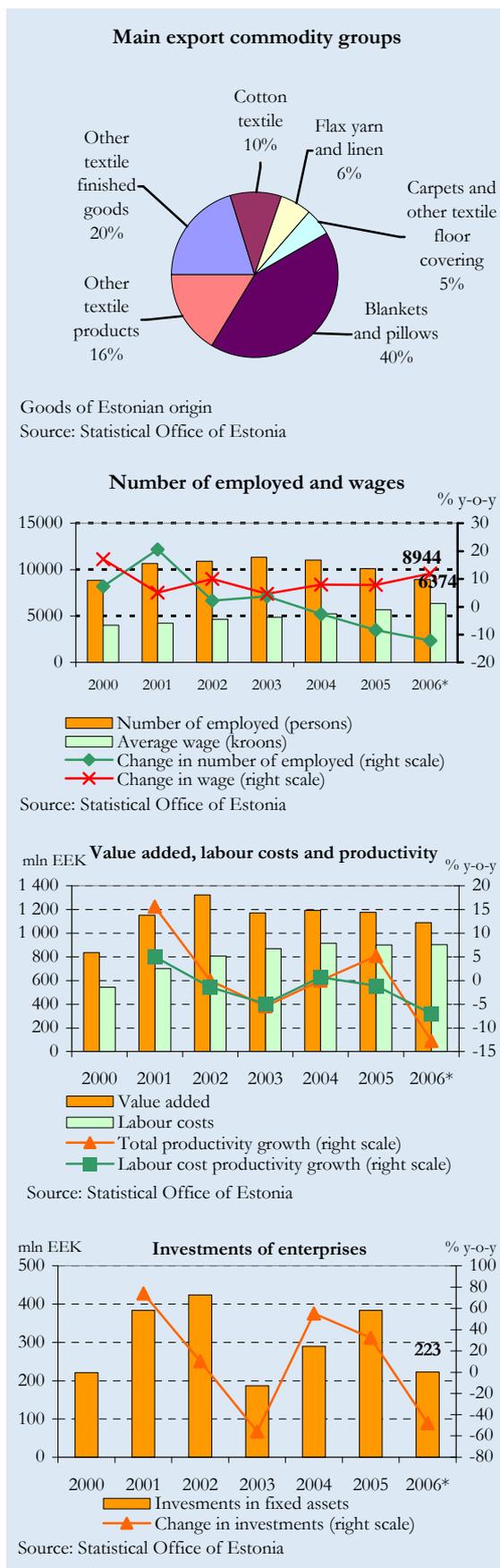
Export share in the industry's sales is high – in 2006 84% of the output was sold in export markets. In manufacturing industry only the electronics sector has a higher share of export than textile industry. Hence, the development of this industry is mainly influenced by its competitiveness in export markets.

Textile industry exported most of its output to Sweden and Finland. In 2006, textile and textile products exports to the latter country grew the most in volume among target countries, primarily due to the addition of export of mattresses. As regards the most important markets, exports to Germany, the United States and Poland decreased. The main export articles were blankets and pillows whose exports increased to a considerable extent in markets which so far had not been the prime markets – UK, France, the Netherlands and Austria.

In recent years the number of employees in the textile industry has been continuously dropping. The underlying factors are the gradual decrease in Kreenholm's workforce and the winding up of Baltex 2000 and Polytex.ee in 2005 and 2006, respectively. In 2006, employment rate in the textile industry was by one tenth smaller than in 2005. The average gross monthly wage increased by 12% in 2006, amounting to, however, only 65% of the average Estonian gross wage. It is adverse that the sector's total costs increased somewhat faster in 2006 than the net sales, resulting in declined profitability.

Investments in fixed assets dropped by about two times in 2006. In the two previous years investments had continually grown. More than half of the investments were made in machinery and equipment. Investments were downsized due to the cutback in costs related to the construction and reconstruction of buildings and facilities.

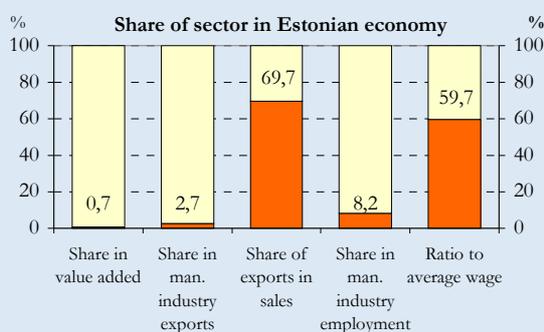
At the beginning of 2007, textile industry enterprises forecast positive developments for the coming year. The companies responding to the Estonian Institute of Market Research estimated that they had more than an average number of orders. They also expected an increase in output and sales prices, as well as a certain increase in workforce. Shortages of labour and low demand were pointed out as the main obstacles to production growth.



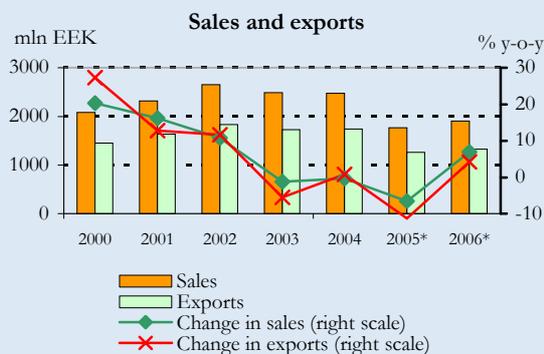
Clothing industry

In recent years, clothing production volumes have grown at a much slower pace than those of the manufacturing industry. In 2006 the sales volumes were even lower than in 2001. Many companies use more contracting from Asia and the geographically closer East-European countries, resulting in smaller output figures in Estonia. Exports share in the sales of this sector has been traditionally high; enterprises exported 70% of their output in 2006. During the last five years the number of employees in the sector has decreased by more than three thousand. The largest clothing producers are Baltika and PTA Grupp in Tallinn and Sangar and Ilves-Extra in Tartu.

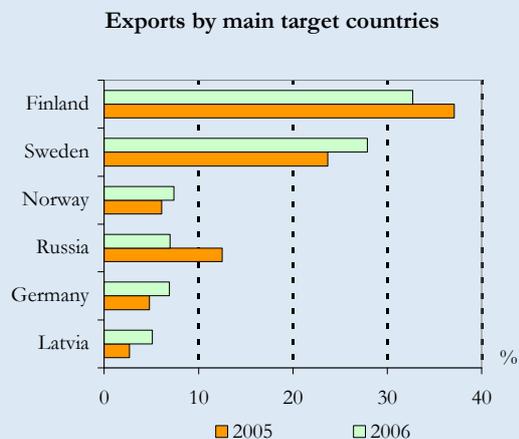
The ending of the WTO Agreement on Textiles and Clothing (ATC) on the 1st of January 2005 resulted in the removal of import quotas for WTO members. The result was an increased inflow of garments from Asian countries to Europe. Asian garments are cheaper than Estonian due to low production costs and economies of scale but are of good quality. Estonian producers lack recognizable brand names, thus we are forced into price competition with Asian producers. The ending of the ATC has made it difficult to sell Estonian clothing in foreign markets. In the long-term, these Estonian manufacturers who compete with Asian mass production, need to find market niches for their products, as it will not be possible to achieve the price advantage that Asian companies have. Moreover, long-term price competition is not reasonable in economic development terms. Estonian firms' competitive advantage is their flexibility and a geographical location closer to the target markets.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Clothing industry was rather effective in 2006, production and sales both went up. Employment in the sector continued to fall and production efficiency proceeded its upward trend.

The sales of clothing industry increased by 7% in 2006; output at constant prices grew by 4%. Sales grew faster in the domestic market. Export growth rate was slower but, due to its greater importance had a stronger impact on sales volumes. Investments in production improvement and finding market niches have enabled companies to endure competition.

The largest enterprises in the sector (Baltika and PTA Grupp) have considerably invested in restructuring and creating their own retail chains. In the case of smaller companies it is noticeable that they have decreased the share of cheap contract work.

Similar to other light industry branches, wearing apparel is mainly oriented to export markets, domestic market's share is less than 30%. However, developments related to exports were rather modest in 2006. Finland and Sweden are still the main export partners, exports to these two countries constituted 60% of the total exports of the sector. Thus, exports is rather highly concentrated on two principal target markets. Among export markets of lesser importance, developments were positive in the German, Latvian, Lithuanian and Ukrainian markets.

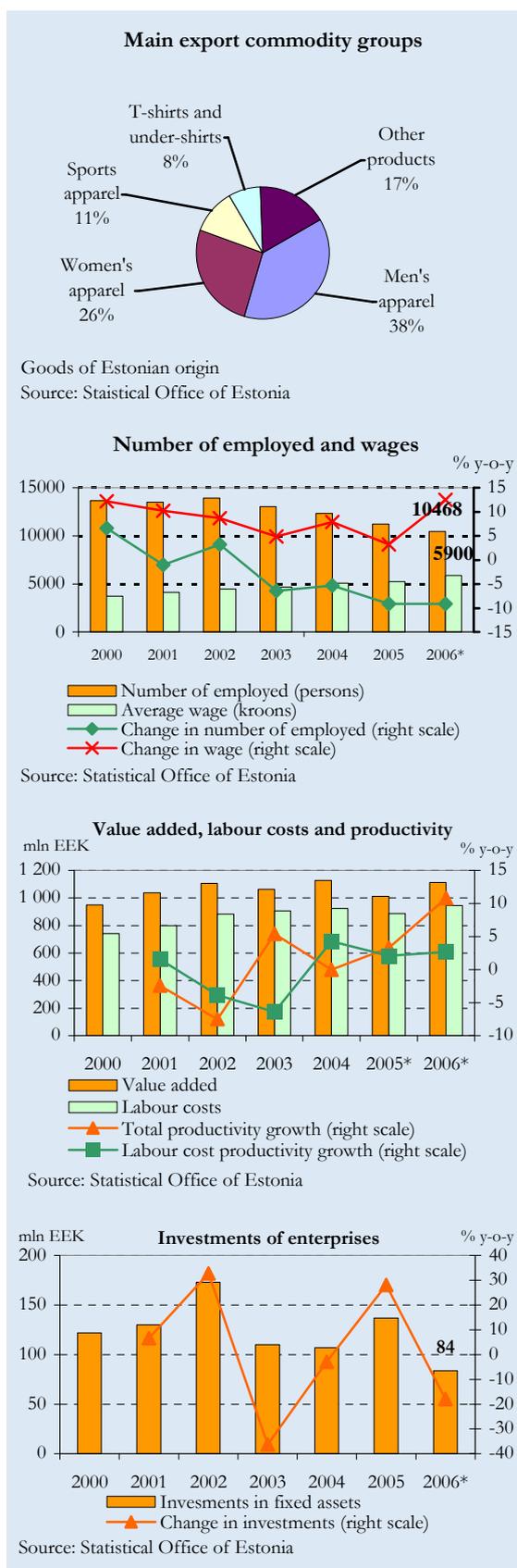
The main export articles were: women's and girls' costumes, men's and boys' shirts and sports and working clothes. However, all these articles witnessed a cutback in exports in 2006. Export sales thrived the most as regards bras, suspender belts and corsets (mainly to Germany).

By enterprise statistics, clothing industry's contribution to the manufacturing industry's employment has dropped to much lower than 10% in recent years. The downward trend continued in 2006 – employment in the clothing industry fell by 9%. Compared to the previous years salaries increased

rather fast (12%) but stayed under the growth rate of the average salary in Estonia.

Clothing industry's investment to sales ratio was 3% in 2006, being one of the lowest figures among all industries. Investments fell by about one fifth compared to 2005, mainly on account of machinery and equipment and reconstruction. Expenses made on purchase of buildings increased.

The companies responding to the Estonian Institute for Market Research had rather optimistic hopes for the near future at the beginning of 2007, although slightly more modest than at the beginning of 2006. It was expected that output and sales figures would show some growth. 80% of the respondent enterprises mentioned lack of labour as a growth-inhibiting factor; however, the overall low salary level in the sector does not allow them to expect rapid improvements in this respect.



Wood industry

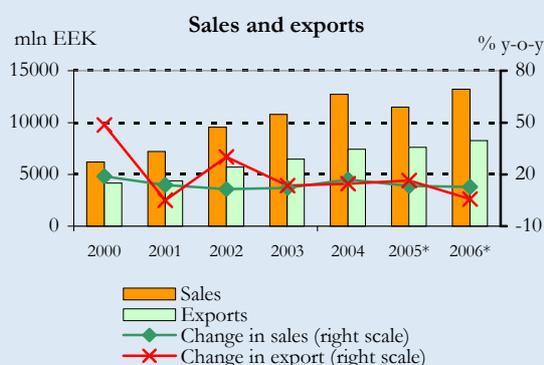
Side by side with food industry, wood industry is one of the largest industries in Estonia. About 1000 enterprises engage in wood processing and manufacture of wood products, the total employment in the sector being about 19,000 people. In 2000-2006 the output volumes grew by more than 1.5 times and the share of exports in total sales is two thirds. The number of employed by the sector has grown by one quarter which shows an increase in production efficiency. The Estonian wood industry is closely related to the Scandinavian wood sector through ownership relations.

The assortment of the wood industry's products is comprehensive, ranging from sawn timber production and processing to manufacture of log homes, windows and doors. The largest number of employees is employed by the veneer factory AS Balti Spoon, veneer products manufacturer AS Technomar & Adrem and laminboard factory AS Repo Vabrikud. The largest veneer manufacturer is UPM Kymmene Otepää. Sawmills have the highest turnovers (but their employment is several times smaller than that of the above companies, due to their technology-intensive character). The largest sawmills by output are AS Imavere Saeveski and AS Paikuse Saeveski (both belong to the Scandinavian wood and paper company Stora Enso) and AS Toftan.

The wood industry is evenly spread all over (mainland) Estonia. The largest wood industry enterprises are located in Pärnu, Järva, Harju, Tartu and Viljandi Counties, employing one tenth or even more of the industry's workforce.

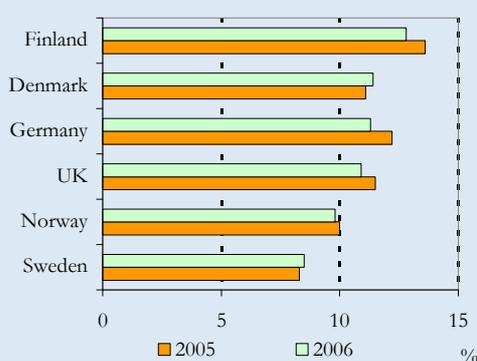


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Exports by main target countries



Source: Statistical Office of Estonia

The year 2006 was somewhat contradictory for the wood industry. Annual sales increased both in the domestic and foreign markets and the number of employees rose; however, during the second half-year problems related to the accessibility of raw materials became especially acute.

In 2006, the sales of the wood industry grew by 13% compared to the previous year and the output volumes at constant prices increased by 6%. Domestic sales demonstrated remarkable growth, while export growth was slower. The growth in production volumes decelerated considerably in the second half-year compared to a year before, due to the shortage and higher price of raw materials. It did not have a major effect on the annual result.

In the past couple of years the felling volume in Estonian forests has dropped to about 5-6 million cubic meters per year (in some years earlier, the felling volume even exceeded 10 million cubic meters). Felling volumes have mainly decreased in private forests because their owners are rather passive in forest management. Private forest owners have mentioned two main reasons for this: unfavourable tax conditions and complicated administrative procedures (most private owners lack any experience in forest management). In state forests the felling volume has been more or less stable. As a result of the continuous decrease in the annual felling volume, increment significantly exceeded the felling volume in 2006, causing increased dependence on raw material imported from Russia. Russia, on its part, is about to apply export duties in order to limit export of raw wood.

Shortage of raw materials in wood industry has also affected its producer price index. In 2006, producer prices were on the average 6% higher than in 2005, in the first months of 2007 prices already showed a 15–20% acceleration of growth. The prices for imported wood and local raw materials have both increased. It is expected that the price rise will continue in 2007, driven by the decision of Russia to

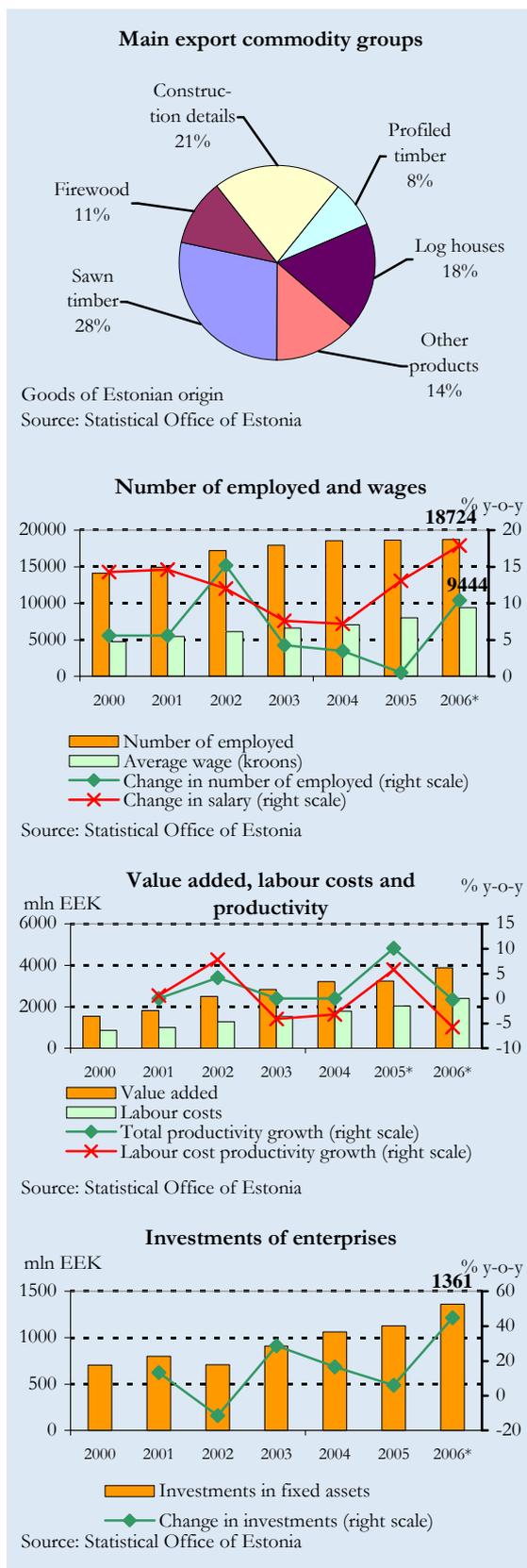
raise the exports duties for wood, as well as by the unfavourable conditions for felling in Estonia last winter.

Almost two thirds of wood products are sold in export markets. The main Estonian exports articles are sawn timber, log houses and construction details. Positive developments took place as regards the exports of glued timber, log houses and firewood, export volumes dropped for processed wood, wood packages and pallets. Compared to the previous year in absolute volumes, exports to Japan (glued timber), Latvia (firewood, glued timber), Denmark (doors) and Sweden (planed softwood) had the largest upsurge. Exports dropped to the USA and France, in both cases due to a decrease in exports of planed softwood.

Employment in the wood sector increased by one tenth in 2006, according to the statistics of enterprises, the number of employees reaching almost 19,000. Most of the increment is attributable to small enterprises employing fewer than 50 people. Average wage grew by 18%, being higher than the growth rate of average wage in Estonia. As a result, labour costs increased faster than total costs; the growth rate of net sales, however, was about the same as the growth of total costs.

Wood industry increased its investments in fixed assets by about a half in 2006. In three previous years investments had also continuously grown. Machinery and equipment formed the largest part of investments (almost a half), equalled by investments in purchase and reconstruction of buildings and facilities. There was a growth in almost all types of fixed assets.

Expectations of companies, surveyed by the Estonian Institute for Market Research at the beginning of 2007, were quite similar to those a year ago. There were two differences: the relatively small amount of export orders at that moment and great hopes for an increase in sales prices. However, companies expected their export orders to grow in the next three months and production volumes to increase. Still, developments in this sector in 2007 will depend much on the availability of raw materials.



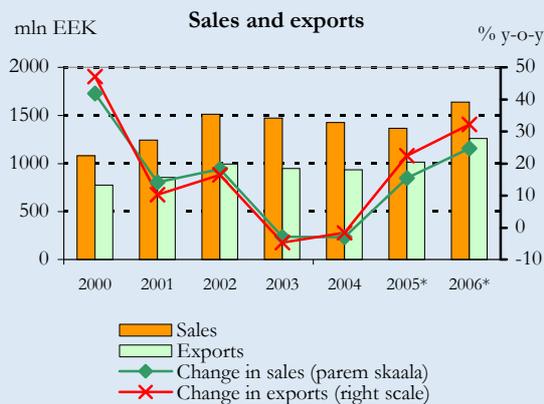
Paper industry

Paper industry is an industry with long traditions, established in Estonia already in the 17th century. Currently there are about 50 paper, pulp or paper products enterprises in Estonia, with a workforce of 1,800 people. In the years 2000-2006 the output of the paper industry grew by one third; more than 70% of the output is exported. Sales have grown thanks to export but the demand in the domestic market for paper products is also growing. Compared to the rest of Europe, the consumption of paper per person in Estonia is quite low (by more than two times), enabling us to forecast a certain growth in the domestic demand for paper products.

Paper industry is a heavily concentrated industry in Estonia – the two larger companies employ more than half of the workforce and give over half of the total turnover. Horizon Tselluloosi ja Paberi AS in Kehra is the main pulp and paper company in Estonia, Smead Eesti AS in Kohila is the largest manufacturer of paper products. Estonian Cell as pulp factory in Kunda, launched in 2006, added to Estonia's export volume in this sector. Räpina Paberivabrik is a smaller manufacturer producing paper and cardboard from waste paper. Most of the companies make paper products from imported paper.

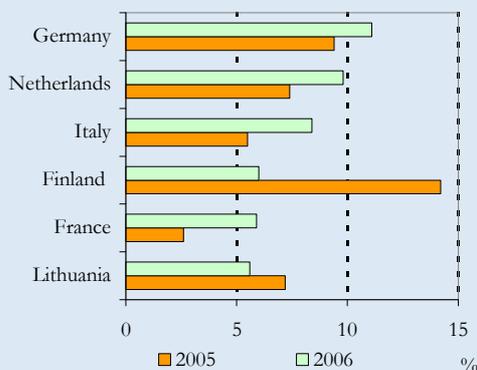


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Exports by main target countries



Source: Statistical Office of Estonia

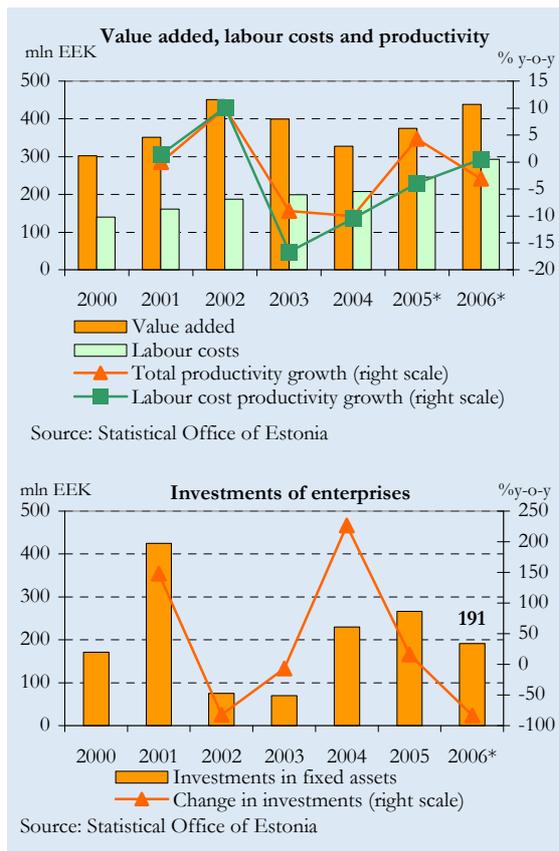
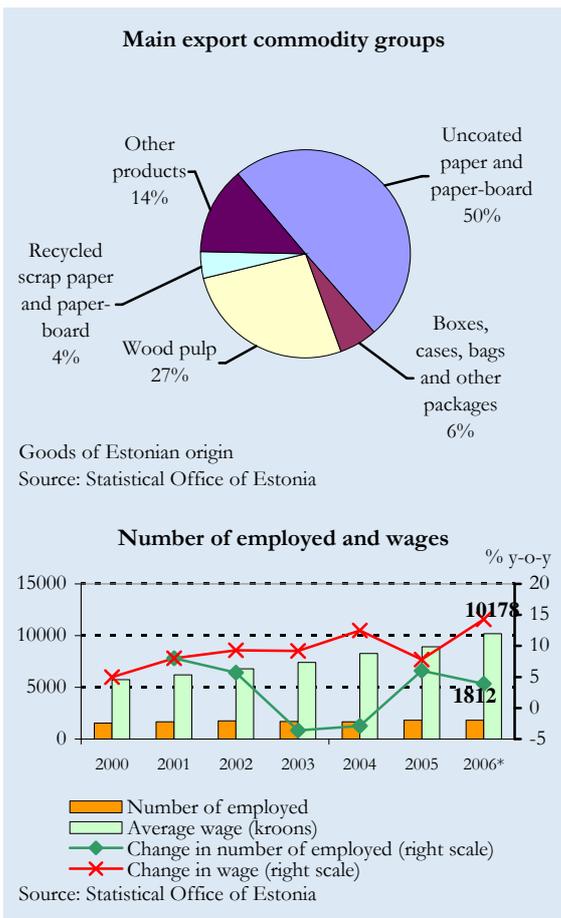
In 2006, the sales volumes of paper industry escalated considerably and exports was thriving. The number of employees increased slightly; productivity also showed an increase.

Sales of the industry grew by a quarter compared to the previous year. The launching of an asp pulp factory in Kunda was definitely one of the driving factors, resulting in a higher sales volume but also affecting the other factors listed below. Other major companies of the branch were also relatively successful. Output volume at constant prices rose by 23%.

Exports was the main driving factor to support sales growth which showed positive developments in 2006. Exports of the industry was distributed rather evenly among the major target markets, the three most important partners were Germany, the Netherlands and Italy. Compared to 2005, the share of exports to Finland diminished, being the most important change in the export pattern and caused by a decrease in the exports of brown paper and paper packages. As before, brown paper and paperboard made up most of the exported output, paper pulp rose to rank second. These two commodity groups gave three fourths of the total exports of paper industry.

In 2006, the number of employees, as recorded by the enterprises, grew by 4% compared to 2005 and amounted to over 1,800 people. Production costs increased at the same pace as turnover, thus, profitability did not change. Labour costs increased at a slower rate than total costs, pointing to a somewhat higher growth rate of other inputs and costs.

Investments in fixed assets went down by several times compared to 2005 because the comparison base was extremely high due to the investments made in Kunda asp pulp factory. The major part of investments were made in machinery and equipment; all other investments had a very small share. Investments in machinery increased by a half compared to 2005.

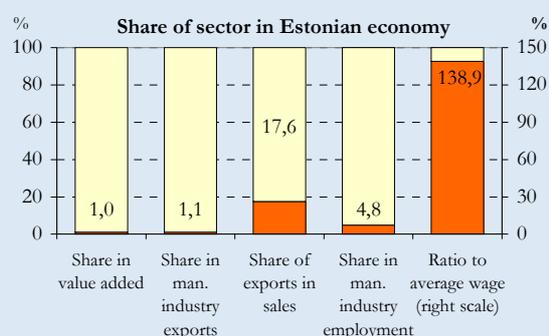


Publishing and printing

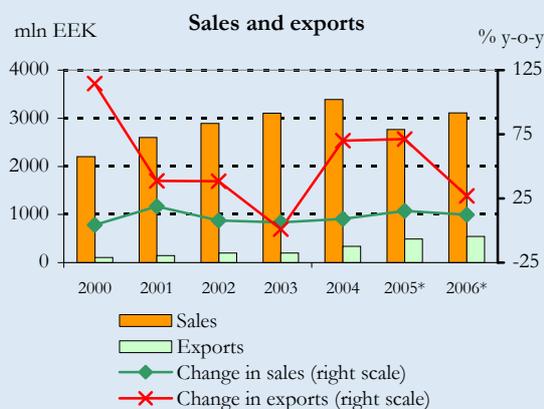
The development of publishing and printing has been rapid in recent years, in 2006 the production volume of the industry exceeded the volume of 2001 by about $\frac{4}{5}$. Publishing is the principal activity for over 450 companies, the largest of which are located mainly in Tallinn and Tartu. The industry has two main sub-branches: publishing and printing. The sector employs almost 6,100 people; about 60% of them are in publishing and about 40% in printing.

The production is mainly targeted to the domestic market; export share is less than one fifth. Domestic market is, however, rather limited, and it forces the companies search opportunities in export markets. Export share in sales has grown from 6% in 2001 to 18% in 2006. The production volume will continue to grow and employment is expected to stabilise at the present level. Extensive investments give an additional impetus to the development of the sector.

The largest companies publish newspapers, magazines and periodicals, e.g. AS Äripäeva Kirjastus, Eesti Päevalehe AS, AS Ajakirjade Kirjastus and AS Postimees. AS Eniro Eesti and AS Infopluss Eesti publishes telephone directories. The largest printing enterprises are AS Printall and AS Kroonpress, focused mainly on printing periodicals. The largest companies engaged in book printing are OÜ Tallinna Raamatutrükikoda and OÜ Greif. Printing of advertising matter is also an important part of the printing industry.

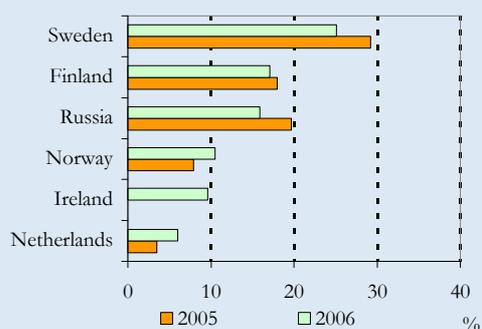


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Exports by main target countries



Source: Statistical Office of Estonia

Publishing had a rather successful year in 2006. Sales growth was achieved due to the growing domestic market and exports also developed fast. The number of employees did not change much.

Sales of the industry increased by 12% compared to the previous year, on account of both the domestic and export markets. Production volume exceeded the level of 2005 by 8%.

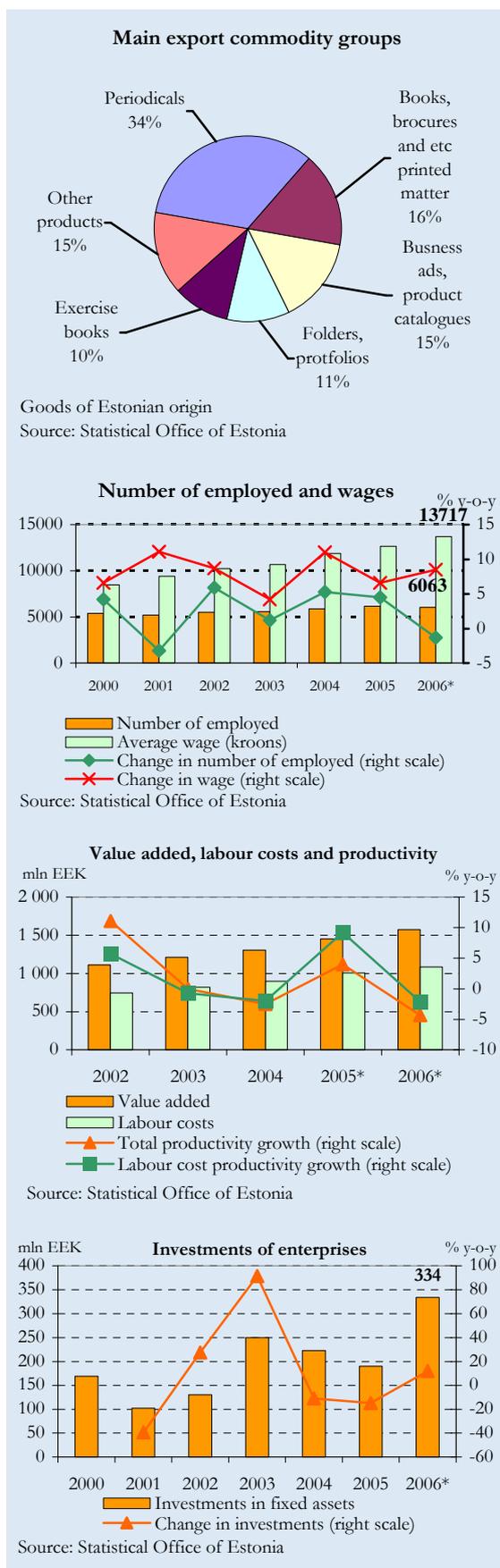
Strong domestic demand was the main driving force for the growth of production and sales volumes, resulting from the favourable economic development and the accompanying growth in the sales of periodicals, advertising matter and directories. In 2006, the circulation number of daily newspapers published in Estonia was higher by one tenth and the turnover (including advertising revenue) increased by one fifth compared to 2005. The increase was mainly due to national daily newspapers and free dailies.

Export share was still under one fifth in 2006 but showed vigorous growth. Companies pay more and more attention to finding export opportunities, driven by the limited size of the domestic market. The main target markets are the Nordic countries and Russia, accounting for 2/3 of export. Exports to Ireland (exercise books), Norway (periodicals, business advertising, product directories) and the Netherlands (books, brochures, newsletters) had the greatest upsurge. Exports to the UK dropped because the exports of exercise books was redirected to Ireland.

The number of employees in the sector did not undergo a significant change during the year, being almost 6,100 people. Salaries increased relatively fast (9%) but the growth rate was the same as the year before. Although labour costs grew at a slower rate than turnover, total costs increased slightly faster than revenues. Therefore, the total profit of the industry was about the same as in 2005.

Investments in fixed assets augmented by one tenth compared to 2005. Printing, a sub-branch of publishing, is capital-intensive, its competitive advantage compared to the neighbouring countries

being based on the use of more up-to-date technology. $\frac{2}{3}$ of the investments of the publishing sector were made to purchase machinery and equipment. Compared to other branches of manufacturing industry, publishing invested more in computers and IT systems.

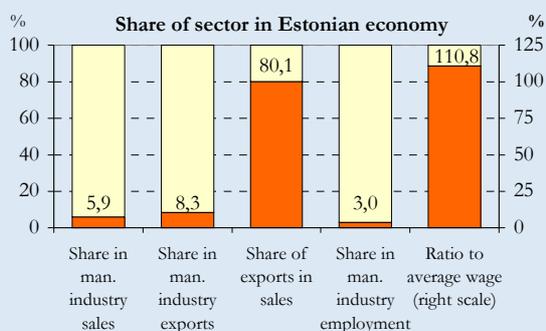


Chemical industry

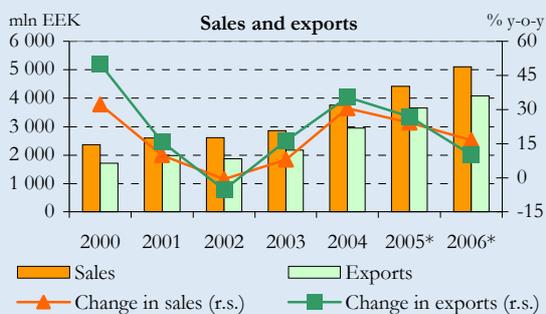
The Estonian chemical industry has been tightly linked to the oil shale industry. However, other chemical industry branches show increasing developments. Due to the restructuring of production, the employment has continuously dropped in this sector. In 1997 there were more than 8,000 people working in the industry but by 2006 their number had fallen by more than twice. Sales and output volumes have increased; the output volumes have grown thanks to the increased productivity. But although the productivity has grown, it is still significantly lower than that in the developed countries. In 2006, the value added per employee in Estonia amounted to about 450,000 kroons, but in Finland it was 1.6 million kroons per employee (in 2005).

More than half of the Estonian chemical industry is located in Ida-Viru County, one third of the workforce is in Tallinn and Harju County. The largest chemical industry companies are VKG Oil AS (shale oils) and VKG Resins AS (adhesive resins) – both affiliates of Viru Keemia Grupp, Kiviõli Keemiatööstuse OÜ (shale oils), ES Sadolin and AS Tikkurila-Vivacolor (paints), AS Silmet (rare metals), Henkel Makroflex AS and OÜ Krimelte (foams, sealants), Velsicol Eesti AS (benzoic acid, sodium benzoate), Orica Eesti OÜ (explosives), AS Nitrofert (mineral fertilisers, ammonia and carbamide), AS Nycomed Sefa and Tallinna Farmaatsiatehase AS (pharmaceuticals).

The sector has low productivity, therefore labour productivity has to be increased. That may bring about a lower demand for labour. The need to raise efficiency derives from the more expensive production inputs but in the chemical industry also the increased costs related to environmental protection play an important role. On the other hand, the growth in oil prices has increased interest in alternative fuels, including shale oil, which may bring about more employment in the sector.

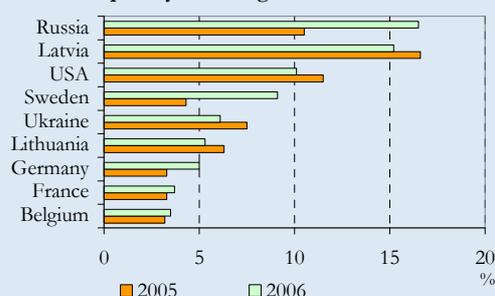


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Export by main target countries



Source: Statistical Office of Estonia

Production growth of the chemical industry² slowed down in 2006 but the overall developments in the sector may be considered to be positive. Instead of increasing the workforce heavy investments in fixed assets have been made.

The production growth of the chemical industry was lower than in the past couple of years but developments were nevertheless positive. The output volumes of enterprises grew by more than 5% and sales growth was more than double this figure. In financial terms the turnover increased even more because sales prices had a significant upturn. Producer prices rose by almost 8% in 2006, due to higher oil prices and other inputs. Export prices advanced by about the same amount while the price increase of imported chemicals and chemical products was more modest (except oil products).

Developments in this industry are primarily determined by the success of companies in foreign markets. Exports constitute the major part of sales; in 2006 the industry increased its exports by one tenth. Sales in the domestic market increased even more, thanks to heavy construction activities. The slower rate of export growth in recent years is also due to the fact that enterprises have invested in export markets and their foreign production plants cover the local demand.

Export sales of shale oil, the principal export article of the chemical industry, went up by 40% in 2006.

² This sector embraces, besides production of chemicals and chemical products (EMTAK 24), the production of coke, purified oil and oil shale products and atomic fuel (EMTAK 23). Output and sales figures reflect only the production of chemicals and chemical products.

The accelerated growth was due to the increased prices of oil products and, as a result, that of shale oil; the sales volume, on the other hand, increased only by some percent.

Export volumes increased significantly also in other main commodity groups, such as carbamide, mastics, paints and varnishes and compounds of rare earth metals. Compared to 2005, the export of painter's putty and to a smaller extent of benzoic acid dropped.

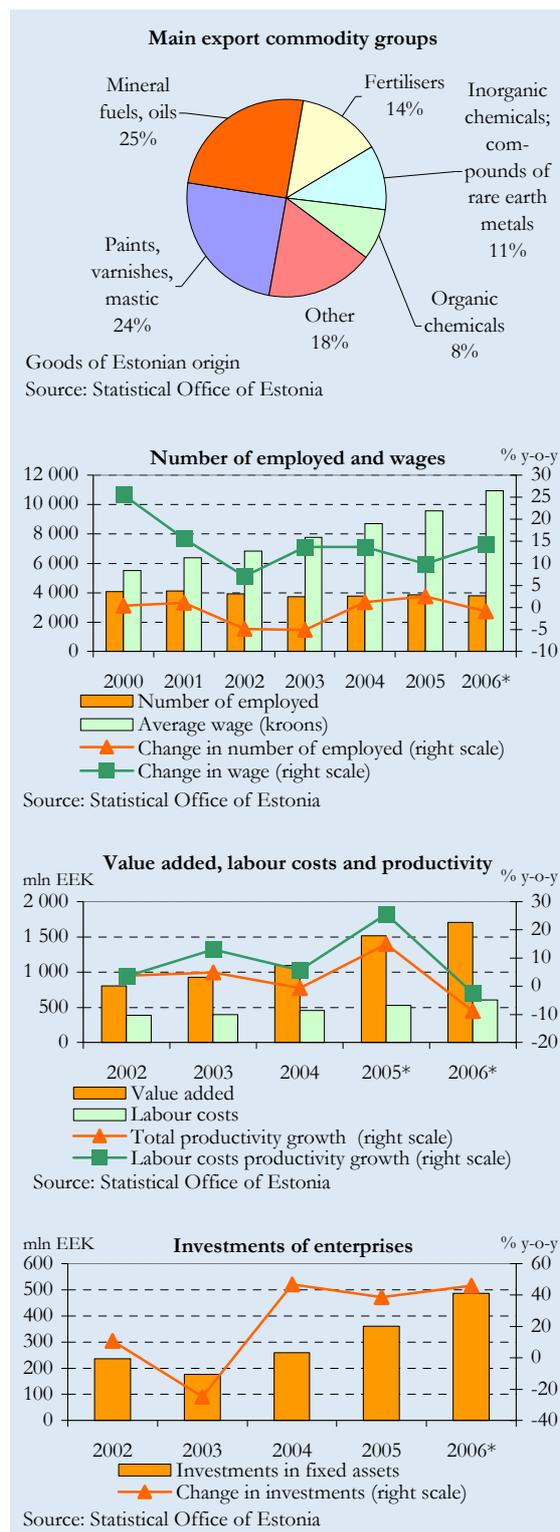
Exports increased by two times or even more to Russia (sales of mastics, paints and varnishes grew the most), Sweden and Germany (shale oil). In general, positive developments were also seen with regard to other export markets; the only ones showing a decline were Finland and Denmark.

Similar to previous years the industry had achieved growth without increasing its workforce. In 2006, the number of employees was the same as in 2005. Investments made by companies had helped to advance productivity and, as a result, the improved productivity made it possible to cope with the existing number of employees. It means that wage growth (14% in 2006) did not add much to total costs. Chemical industry is rather capital-intensive by character, therefore, the importance of labour is twice less than in other industries (ca 10% of total costs). Thus, an increase in labour costs does not affect the sector much.

The revenue and costs of enterprises grew at about the same speed; profit was higher by one tenth compared to 2005. Profit to sales ratio was quite high (14%). Costs increased due to the expanded production volume and the considerably higher price of many production inputs (oil and oil products). As the number of employees did not grow and labour costs increase did not amount to the increase in revenues, the main productivity indicators based on turnover showed an improvement. The value added based productivity indicators were slightly under the 2005 level.

Similar to previous years, chemical industry's investments in fixed assets demonstrated an increase in 2006, growing by 50% compared to 2005. This heavy growth was based on the increased investment activity of enterprises producing oil shale products; in the production of chemicals and chemical products investments did not quite reach the 2005 level. Investments related to purchase, construction and reconstruction of buildings increased, surpassing investments in machinery and equipment which so far had been the main investment target. Investments in machinery and equipment diminished by a quarter compared to 2005 but the figure is still higher than in the years preceding 2005.

Enterprises responding to the Estonian Institute for Market Research nurtured positive hopes about their business situation at the beginning of 2007. Expectations as regards output volume were higher



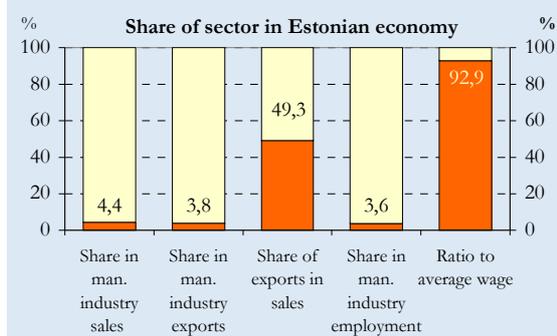
than the year before and they also wanted to expand labour force. At the beginning of the year most companies considered it possible that sales prices would increase in the near future. They did not consider their production capacities to be sufficient; however, their utilisation rate is not high either (ca 60%). Contrary to other industries, shortage of labour is not a big problem. Instead, insufficient demand is mentioned as the main factor inhibiting production growth.

Rubber and plastic industry

The rubber and plastic industry has developed vigorously in recent years. Sales in the domestic market have gone up but most of the sales growth is due to the expanded exports which have grown by several times. New enterprises have emerged and more jobs have been created in the sector.

The largest enterprises in the rubber and plastic industry are Nolato Tallinn Polymer AS (components of mobile phones), AS Glaskek (plastic windows), AS Estiko-Plastar (film and plastic bags), Pipelife Eesti AS (plastic pipes), AS Polyform (videotape cases, packages for food industry), OÜ Jumboplast and Greiner Packaging AS (plastic packages), OÜ Jumbostrap (large bags), AS Baltplast (wall-covering materials, polyethylene grassmats) and AS Balteco (baths). The largest enterprises are located in Tallinn and Harju County (almost half of the workforce), Ida-Viru and Tartu Counties (more than one-tenth of the workforce), and Hiiu and Saare Counties also employ quite a lot of labour.

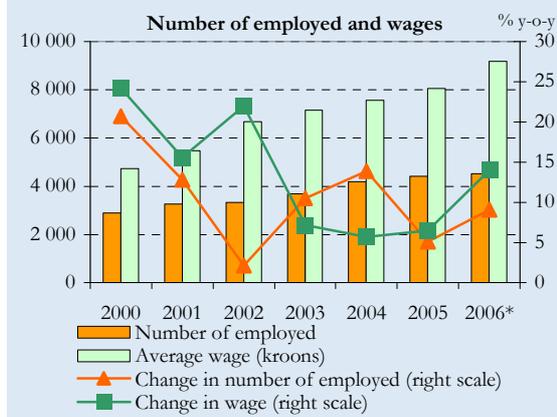
It is expected that positive developments in the rubber and plastic industry will continue in the next years. Sales are expected to increase both in the foreign and domestic markets (thanks to the expanded assortment of products, the development of the construction sector and other industries supporting this sector, and a wider use of packages in the food industry). A rise in employment and labour productivity may also be forecast.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Rubber and plastic products industry had rapid developments in 2006. Increased production volumes have brought about a continuous increase in labour.

After a standstill of a couple of years the industry again showed rapid growth in 2006. Production and sales volumes exceeded those of 2005 by one third. The sector's speedy growth was equally backed by the increase in domestic sales and exports.

Sales of the main export articles in foreign markets advanced quickly in 2006. Increased sales of school and office supplies, film, furniture and car accessories and various plastic packages contributed the most to export growth. Exports of plastic pipes and hoses dropped.

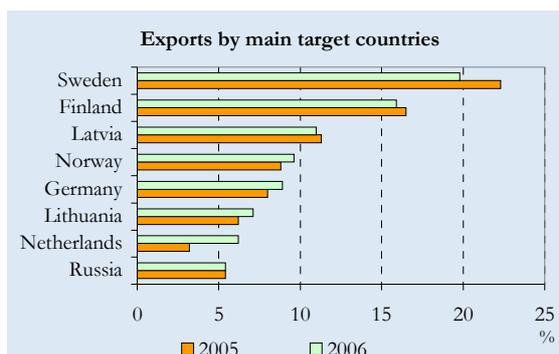
Exports to all foreign markets showed an increase. The growth was the smallest as regards Sweden, the main export market, mainly due to smaller sales of plastic bottles; in all other export markets there was a more than 10% growth in sales. Exports to the Netherlands increased the most, thanks to a surge in the sales of office and school supplies.

Investments of the rubber and plastic products industry showed considerable augmentation in 2006, mainly on account of construction and purchase of buildings and facilities. As well investments in machinery and equipment increased by one tenth. Investments made in the purchase, construction and renovation of buildings and facilities were three times higher than the previous year. Investment activity growth was especially noticeable with regard to smaller companies.

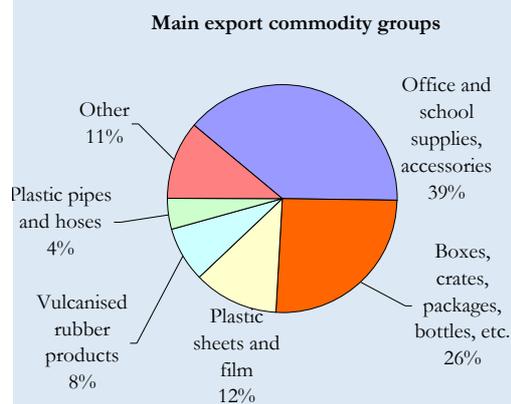
The sector's employment has grown steadily and the same trend continued in 2006. The number of employed increased by one tenth in 2006. Labour costs increased due to an increase in wages but their growth did not exceed the growth of total costs. The increase in oil prices has made production inputs more expensive and imported rubber and plastic products are also more expensive. However, developments as regards producer prices and export prices were more modest. Revenues grew a little more

than costs and the total profit was slightly higher than in 2005. Value added per employee rose a little but cost-based productivity indicators were the same or lower than in 2005.

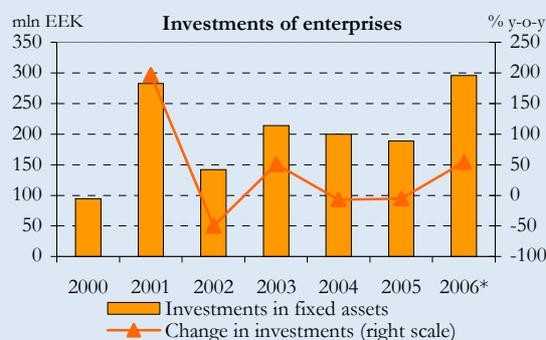
It is expected that the output of the rubber and plastic products sector will continue its growth in 2007, although the rates will be lower than in 2006. By the survey conducted by the Estonian Institute for Market Research at the beginning of 2007 companies' assessments of the market situation and forecasts for the near future were about the same as a year ago. There are plans to create new jobs. At the same time, mass production is moving towards Asia and the same tendency is noticeable in the Estonian plastic industry. The development of the sector is primarily based on enterprises focusing on smaller batches, their competitive advantage being flexibility and speed in response to changes instead of the price.



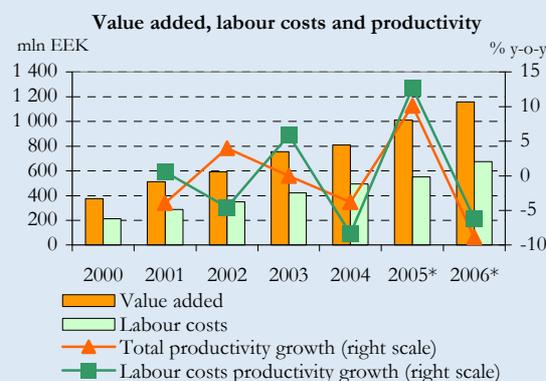
Goods of Estonian origin
Source: Statistical Office of Estonia



Goods of Estonian origin
Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



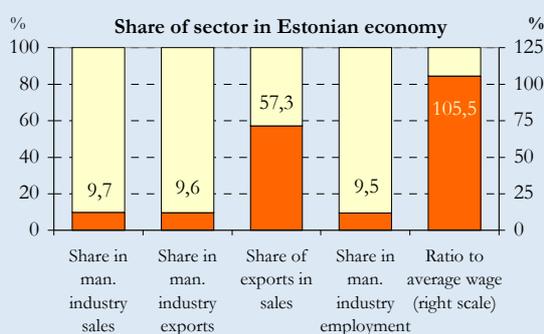
Source: Statistical Office of Estonia

Metal and metal products industry

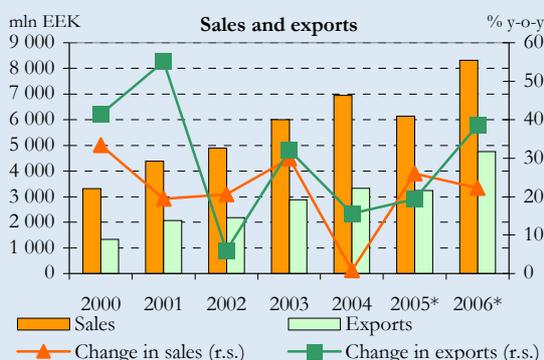
The metal industry has developed extremely fast during our re-independence period. Output of the industry has grown tenfold in ten years, thanks to exports but also the increased domestic demand (in machinery and equipment and construction sectors). Expanded sales figures and production facilities have brought about a higher need for labour. The industry employs more than 10,000 people (by a labour survey encompassing people doing metal work in other sectors, the number is 15,000), being one of the largest sectors in this respect.

The metal industry is concentrated in Tallinn and its vicinity (more than half of the workforce) and Ida-Viru County (almost a quarter of the workforce). The largest enterprises engage in manufacture of metal structures (AS Kohimo, AS Viljandi Metall, AS Balti ES), building structures (Ruukki Products AS, AS Saku Metall), manufacture of products needed by power plants and servicing power plants (Alstom Estonia AS, AS Energoremont), metalworking (AS Balti ES, AS Tarkon) and production of galvanised steel (Galvex Estonia OÜ). The largest manufacturer of metal is AS Demidov Industries (aluminium alloys).

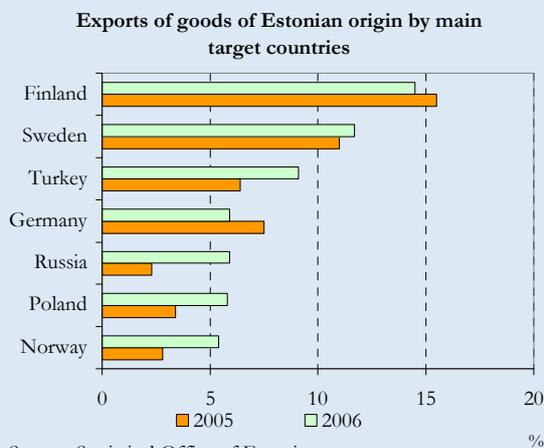
The sector has positive outlooks for the next years. Both domestic demand and exports are on the growing trend according to forecasts. Due to labour productivity growth, the rise in employment will not be equal to the sales growth but it is estimated that the sector will create additionally ca 4,000 jobs in 2004–2012.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

The output of the metal industry increased fast in 2006, mainly due to an increase in exports. Investments grew considerably and the industry continued to create new jobs.

The metal industry was successful in 2006. Output grew by more than 15%, sales even faster. The fast development was mainly driven by a considerable increase in exports, in the domestic market the developments were more modest, in spite of the continuous construction activity increase.

The increase in global metal prices brought about an increase in producer prices. In 2006, producer prices in the metal industry went up by 6%. Prices increased especially rapidly in the second half-year and it is expected that this will influence the industry in 2007.

The exports of metal industry exceeded the level of 2005 by more than one third. Sales increased in respect of all major export articles but a lion's share of the growth is attributable to flat-rolled products and scrap metal. Flat-rolled products raised export volumes to several countries (Russia, Poland) while exports of the same products to the UK dropped. Extensive changes took place in the sales pattern of scrap metal, affecting the ranking of target countries. Exports of scrap metal increased remarkably to Turkey and China and decreased to the Republic of Korea. Exports of metal structures to Norway has also grown.

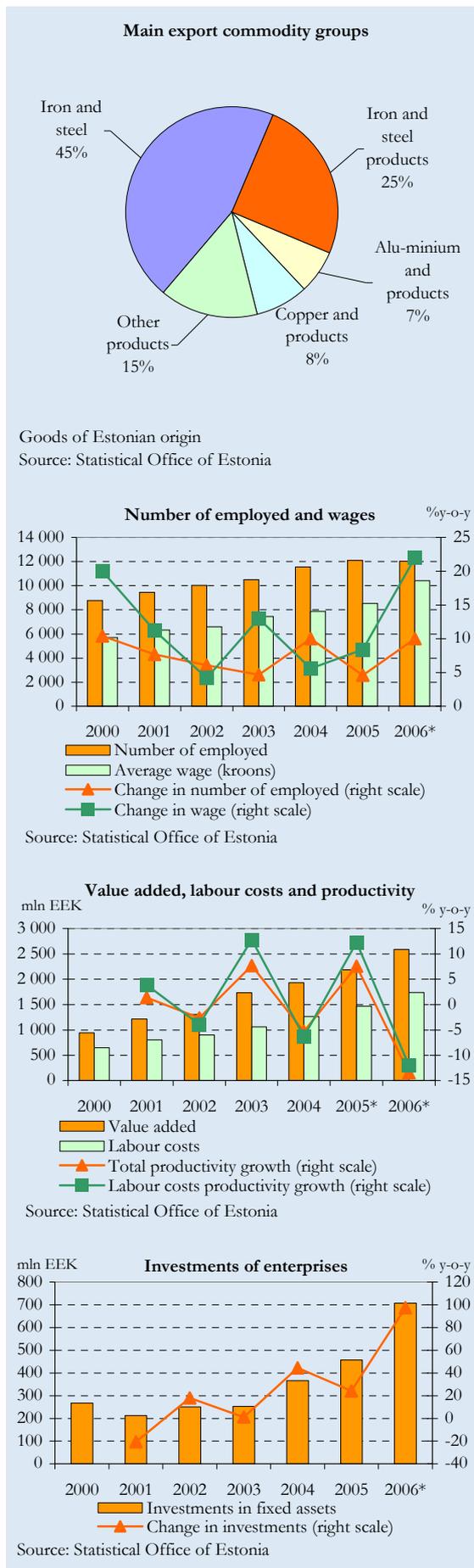
Employment in the sector continued to grow in 2006. The number of people employed increased by one tenth compared to the previous year. Salaries grew by more than one fifth. The same salary rise was characteristic of other branches engaged in metalwork, like machine building, manufacture of vehicles and shipbuilding.

Although the rapid increase in wages and employment have increased companies' production costs and the cost of other production inputs has also risen, the companies have been able to transfer most of the cost rise to the consumers. The total profit of the sector was, however, slightly lower than in 2005

and productivity indicators were also below those of the previous year.

The favourable business and financing conditions, as well as the pressure for mechanisation of production due to higher labour costs brought about an upsurge in investments. Investments in fixed assets escalated almost twice during the year, in both larger and smaller companies. Investments in machinery and equipment also increased by almost two times. Investments in buildings and facilities contributed to the investment growth even more.

Metal industry companies were quite optimistic about their sector's future developments. At the beginning of 2007, every third respondent to the survey conducted by the Estonian Institute for Market Research mentioned that there were no obstacles to the growth of output. However, shortage of labour is becoming a more serious problem than before and will be even more acute in the middle of the year when output figures are higher. Companies have taken measures to improve the situation – primarily through investments. This, in its turn, means that requirements as regards the workers' knowledge and skills will increase. Companies have enough orders and they try to increase the number of employees. The higher prices of metals and other production inputs means that the prices of final products will also increase.

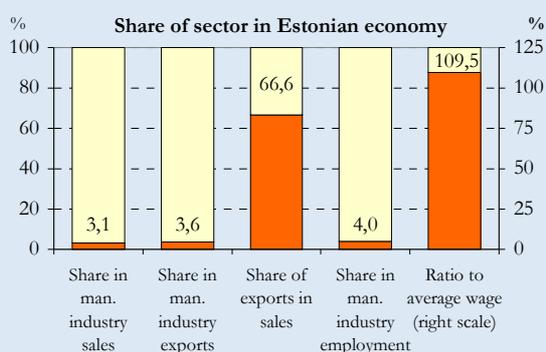


Manufacture of machinery and equipment

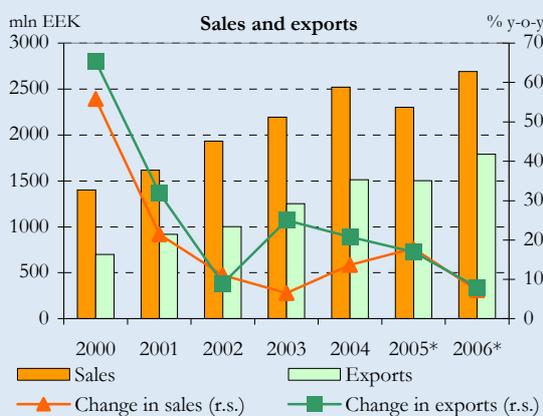
The output of the machine engineering sector has continuously grown in recent years but, due to the higher production efficiency, the demand for labour has dropped. The development of machine engineering has been promoted mainly by foreign markets; most of the production is exported.

The largest companies are AS Hekotek (wood processing equipment), AS Tallinna Masinatehas (Tallinn Machine Building Plant) (industrial air coolers), AS Mäetehnika (buckets, equipment for tractors), AS Fors MW (timber trailers, log lifts), and AS Finmec (parts of lifts). However, smaller enterprises are dominating in the sector. The workforce of the industry is distributed quite evenly across Estonia; the largest enterprises are concentrated around the largest cities, Tallinn and Tartu, and in the Ida-Viru County industrial region.

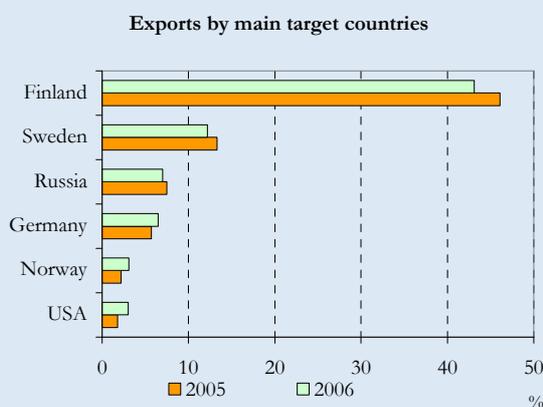
By forecasts, thanks to the growth of exports and sales in the domestic market, the value added generated in this sector will be about two times more in 2012 than in 2003 (at constant prices). Productivity will grow about the same and thus, the number of people employed by the sector will remain at the same level. The need to raise productivity quickly is related to the lagging compared to the productivity level of the sector in developed countries and the increased production costs.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

The machinery and equipment sector showed smaller growth in 2006 than in recent years. Employment figures did not change.

The output of the machinery and equipment sector was only slightly higher than in 2005 and sales growth amounted to 7%, mainly backed by export growth.

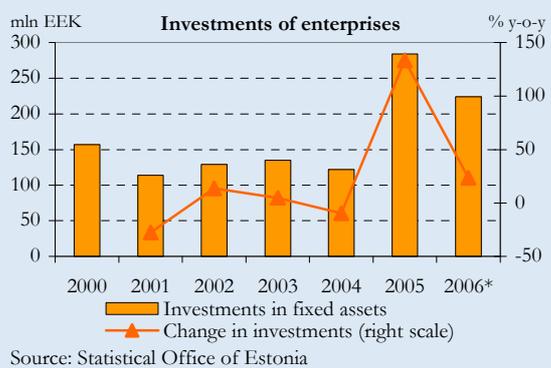
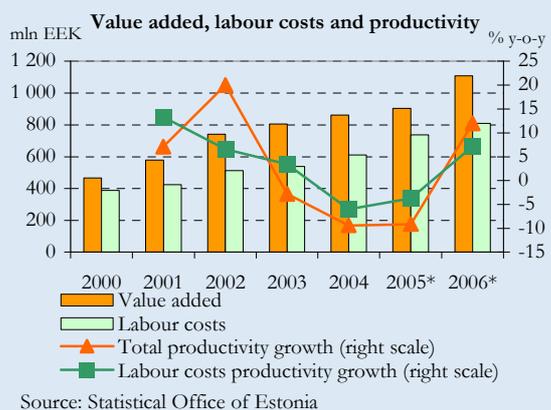
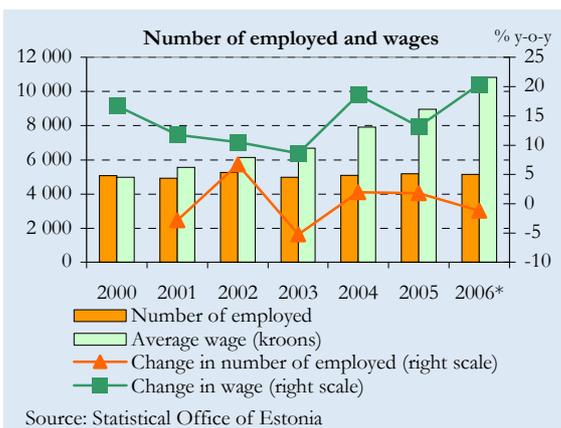
Exports increased in most major commodity groups. Lifting and transportation mechanisms and their parts contributed the most. Developments as regards the most important target countries were positive, growth was the highest as regards Germany (parts of lifting equipment, heating pumps), Norway (several commodity groups) and the USA (special equipment).

The number of employed in the sector has been stable in recent years and 2006 brought no changes. The tense situation in the labour market has brought about a rapid increase in wages which grew by one fifth on the average during the year.

Total costs of enterprises grew less than labour costs and cost increase was slower than revenue increase. Thus, profit increased and most productivity indicators were better than in 2005.

Similar to many other sectors, investments in purchase, construction and renovation of buildings and facilities grew significantly (almost doubled compared to 2005). The higher investment figures are also explainable by the increased real estate prices and more expensive construction works. Investments in machinery and equipment dropped by one fifth.

Companies assessed the situation of the sector to be good at the beginning of 2007; they forecast a continuing upward trend of production. There were more orders than usually. A third of the companies responding to the Estonian Institute for Market Research noted that there were no restrictions for a further growth in production; the rest pointed out shortage of labour as an inhibiting factor. Although output is increasing, the companies have no intention to hire more employees.



Manufacture of electrical appliances and optical instruments

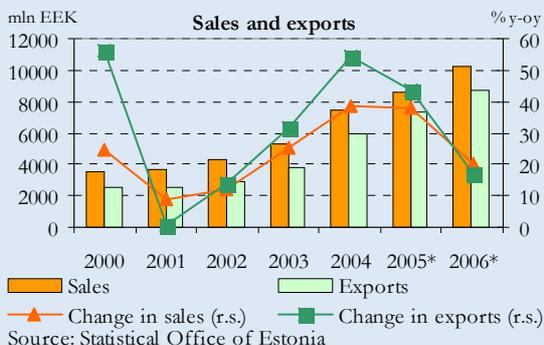
The manufacture of electrical appliances and optical instruments has developed very fast in recent years. Compared to 2000, the sales have grown by about three times in 2006. Employment has increased by more than one third. The sector has strong orientation on export markets because most of the larger enterprises are based on foreign capital. Almost 300 companies engage in the manufacture of electrical appliances and optical instruments, five larger companies give one third of the total turnover of the industry

The manufacture of electrical appliances and optical instruments is divided into four sub-branches. AS Ordi and AS ML Arvutid, engaging in assembly and sale of computers, are the largest enterprises in the office equipment and computer branch. Contrary to the industry's main trend, the production of office equipment and computers focuses mainly on the domestic market; however, lately the share of exports has grown in this branch. In the manufacture of electrical appliances and apparatuses, ABB AS is the leading enterprise, its principal activity being manufacture of power distribution equipment and apparatuses. Other larger enterprises are AS Konesko which is dealing with manufacture of electric motors and parts and AS Draka Keila Cables, a related company to AS Harju Elekter Group based on Estonian capital, that produces various types of cables. The larger enterprises producing television and communication equipment are AS Elcoteq Tallinn (communication equipment and components) and AS Stoneridge Electronics that makes electrical systems for motor vehicles. In the branch of medical equipment, optical instruments and precision instruments, OÜ JOT Eesti is the largest enterprise producing miscellaneous automatic equipment.

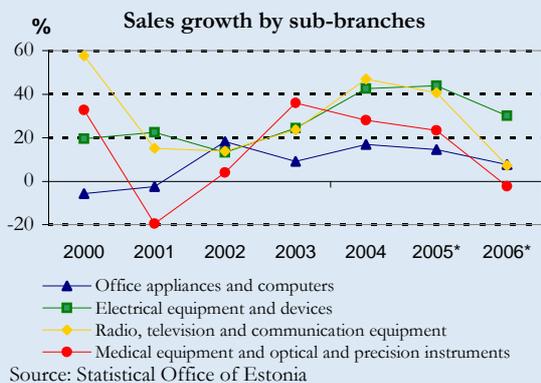
The industry has had relatively fast growth until now and the current forecast is also positive. Several companies plan to expand their production and increase the number of employees.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

The development of manufacture of electrical appliances and optical instruments was not as fast in 2006 as in the two previous years. However, the growth rate of sales was quite high, backed by export growth. The increased production volumes have not considerably expanded the number of employed.

In 2006, manufacture of electrical appliances and optical instruments did not grow as fast as in the previous two years after Estonia acceded to the EU. The growth of output at constant prices and growth of sales at current prices were half lower than in 2005 – 16% and 20%, respectively. At the same time, manufacture of electrical appliances and optical instruments was, as before, one of the fastest developing industries in Estonia. Since most of the output is exported (85%), the developments of the sector stemmed mainly from the success of companies in foreign markets.

The continuation of the rapid development of this industry in 2006 was mainly due to the strong growth of the manufacture of electrical appliances and apparatuses, as a result of which the share of the branch rose to almost half of this industry. Sales in this branch grew by 30% and exports even almost by 40% in 2006. Sales growth was supported by the favourable economic climate in foreign markets and the resulting increase in demand for electric appliances. The good financial results in 2006 of the two largest enterprises of the branch, ABB AS ja AS Konesko, also proved this development. Both companies increased their turnover by about 40% in 2006.

Manufacture of radio, television and communication equipment had a major slowdown in 2006. The sales and exports of this branch which is mainly targeted to export markets, only grew by 7% during the year.

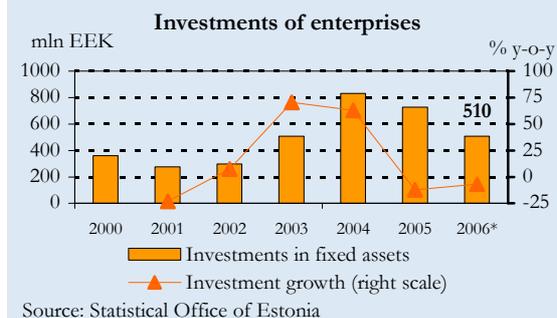
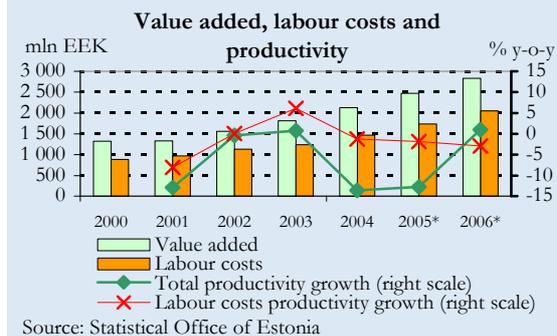
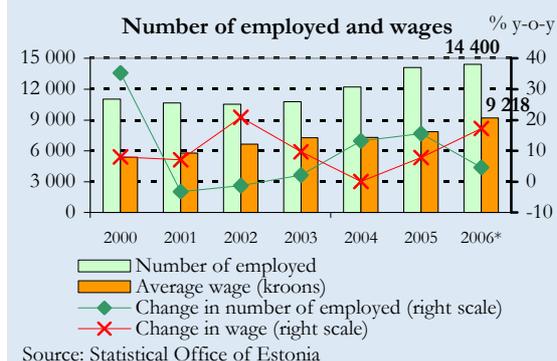
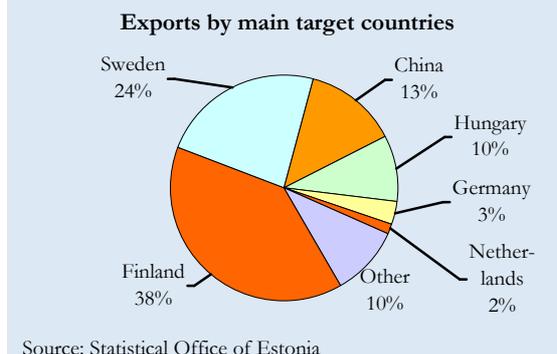
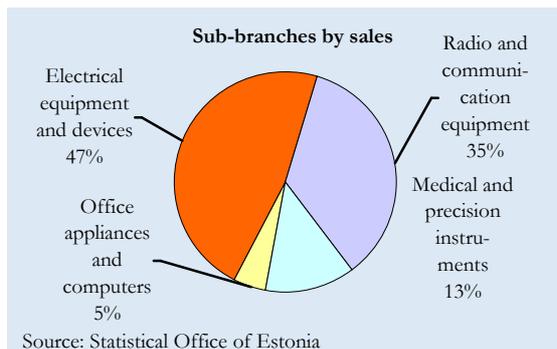
However, telecommunications sector was one of the fastest growing industries in 2005 and therefore gave a very high benchmark for 2006. The development of this branch is still strongly influenced by the well-being of the largest company of the branch, Elcoteq Tallinna AS, and of its parent company Elcoteq Network, whose production and sales were considerably lower than expected in 2006. It may be explained by less demand in the European and American markets. Still, smaller companies of the branch were quite successful. Due to the growing number of orders, AS Enics Eesti, Incap Electronics Estonia and AS Efore all expanded their production in 2006.

The sales growth of medical equipment, optical instruments and precision instruments showed rapid growth in 2003–2005. The branch did not do so well any more in 2006, both sales and exports were slightly lower than in 2005. The number of export orders dropped and thus, the share of exports in sales fell to 84% (94% in 2005).

Most of the output of the branch of office equipment and computers is sold in the domestic market; however, in recent years the share of exports in the sales has slightly grown (to 5%). In 2006, sales growth in this branch decelerated by a half and amounted to only 8%. Computer companies have largely shifted to the manufacture of laptop computers which are much more expensive than desktop computers. The manufacture of computers is being moved more and more to cost-effective China, and the future of Estonian IT companies lies mainly in the provision of services.

In 2005, main export markets for electrical appliances and optical instruments were still Finland and Sweden but the importance of Finland dropped considerably (from about 60% to 40%). A relocation of the exports of mobile communication equipment towards Asian target markets took place, due to the decreased demand in Europe, as a result of which China rose to rank third among Estonian export markets for these products. Exports to the other main target countries dropped. Hungary and Germany fell by one place but their share in exports did not change. As regards the main export markets, exports of electrical appliances and optical instruments increased to only Sweden and the Netherlands compared to 2005.

The growth of employment rate decelerated considerably in 2006, reaching only 5%. During the two previous years, after Estonia acceded to the EU, the sector had rapidly increased its workforce because many Nordic companies brought their production over to Estonia, resulting in a significant growth of employment in the sector. Among branches, the number of employed still showed rapid growth in the manufacture of electrical appliances and apparatuses (growth 17%). Due to the growing demand several companies expanded their production capacities and this, in its turn, brought about additional need for labour. In the other largest branch, manufacture of



communication equipment, employment rate dropped by 4% in 2006.

Wages increased substantially in this industry in 2006, reaching the growth of the average wage in Estonia. Wages grew by 17% during the year, exceeding the growth of labour productivity by almost a half. The growing shortage of labour has put continuous pressure on the wages.

The productivity figures of the industry improved in 2006. Total productivity based on added value again showed growth (+1%) after several years because added value increased faster than total expenditure. However, labour costs productivity based on added value showed a small decline, like before, due to the lowered profitability and rapid increase in labour costs.

In 2006, the volume of investments in the electrical appliances and optical instruments industry was by 7% lower than a year ago, mainly due to a decrease by one fifth in investments to purchase machinery and equipment (share 60%). Investments in buildings and facilities increased by almost 30%, making about one third of total investments. Among branches, more than half of the investments were made in the branch of electrical appliances and apparatuses where total investments grew by one fifth. In the branch of radio, television and communication equipment investments amounted to one third less than a year before. In the manufacture of communication equipment there had been an especially high growth in the first year after Estonia's accession to the EU and the investment activity rate was still lively in 2005.

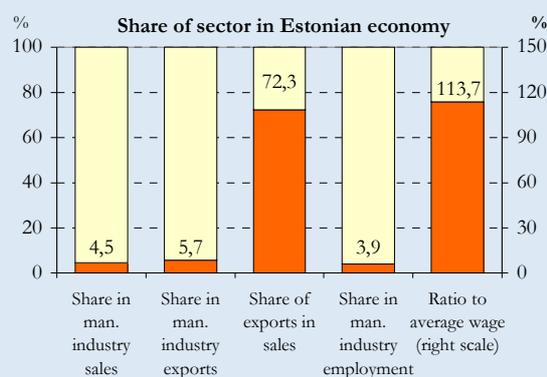
The companies of the sector expect favourable developments in 2007. In the first months of 2007 the companies of the electrical appliances and apparatuses branch and the radio, television and communication branch responding to the Estonian Institute for Economic Research predicted a growth in production and labour force for the first half-year of 2007. In the branch of electrical appliances and apparatuses, companies were much more certain about their future in March 2007 than at the end of 2006. In the branch of radio, television and communication equipment certainty about the future was not as strong as in December 2006 or a year ago.

Manufacture of transport equipment

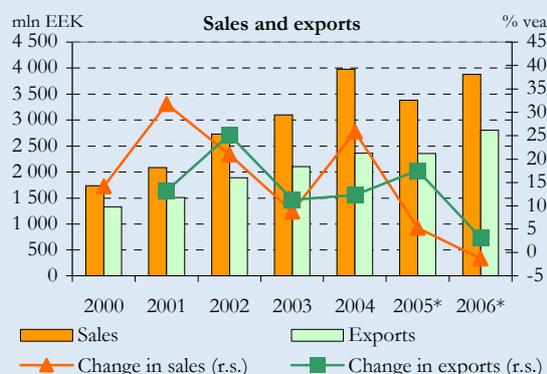
The manufacture of transport equipment depends mainly on the sales to foreign markets. Exports make two thirds of the sales in this sector. The increased exports and domestic market sales have expanded the output and promoted the recruitment of new employees. The sector's productivity has still some room for improvement; the productivity is 3-4 times lower than the productivity of this sector in Finland.

The largest enterprises are AS Norma (safety belts), Loksa Laevatehas AS (shipbuilding); affiliates of Balti Laevaremonditehas (shipbuilding and repair) – OÜ Tallinna Laevatehas, OÜ BLRT Rekato, OÜ Tehnomet and AS Baltic Premator; OÜ Tarmetec (car accessories), AS Ühinenud Depood (repair of railway rolling stock), AS UVZ&AVR (building of railway rolling stock), Universal Industries OÜ (exhaust systems). The largest companies are concentrated in Tallinn and Harju County (three-fourths of the sector's workforce), but are also located in Tartu, Ida-Viru and Saare Counties.

It is predicted that exports will expand the sales even more but domestic sales will also grow. The growth rate of productivity is not fast and thus the need for additional labour will increase. However, it is difficult to find qualified workforce and the industry competes with other sectors.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Developments in the manufacture of transport equipment were more modest than in other industries. The growth of output volumes of motor vehicles and their parts was low and manufacture of other transport equipment showed a decline.

In the manufacture of transport equipment³ output dropped compared to 2006. Manufacture of motor vehicles, trailers and their parts grew by some percent but there was a decline in other branches (shipbuilding, railway rolling stock). Exports was somewhat higher than last year.

Exports was expanded the most thanks to the exports of parts of motor vehicles (safety belts, car body parts, exhaust systems) and trailers. Estonian shipyards received several orders resulting in increased exports as regards ships. Sales of motor vehicles (although Estonia is marked as the country of origin, in most cases imported products are resold) and railway containers dropped.

Exports to Russia (exhaust systems, safety belts), Finland (trailers) and Germany (parts of vehicles, trailers) increased the most. Exports to Sweden, the biggest export market, remained the same.

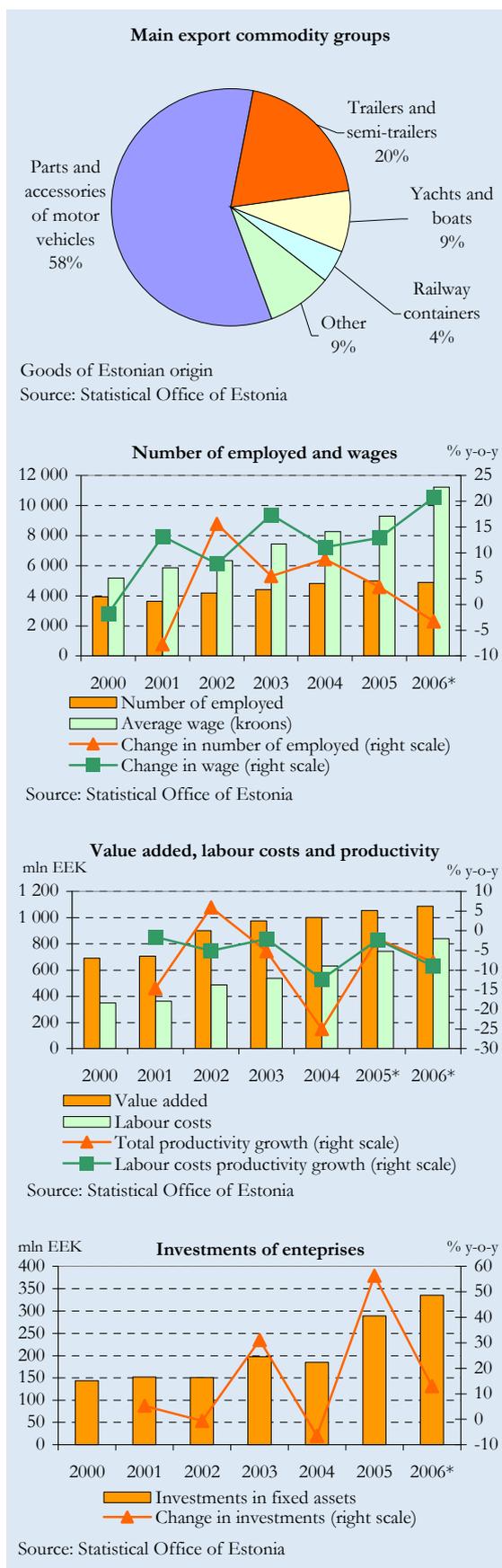
The number of employed fell by some percent in the manufacture of transport equipment. Similar to the general wage increase the sector also increased its wages; the rise amounted to 20% in 2006. Increased costs resulted in profit decline.

The transport equipment industry invested slightly more than a year ago in fixed assets. Investments in manufacture of motor vehicles and their parts diminished compared to recent years. Investments in manufacture of other transport equipment, on the other hand, showed record figures. There was also a boost in investments in buildings and equipment,

³ Manufacture of transport equipment is manufacture of motor vehicles, trailers and semitrailers (EMTAK 34) and other transport equipment, such as ships and railway rolling stock (EMTAK 35).

while fewer investments were made in machinery and equipment.

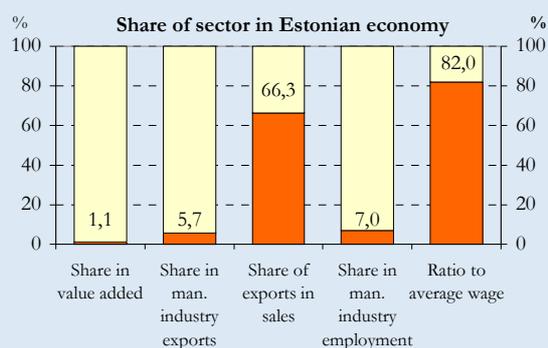
Preliminary data indicate that 2007 will bring more positive developments for this sector than 2006. Growth can primarily be based only on increased productivity because the shortage of qualified labour and increased labour costs force the companies to concentrate on more expensive products.



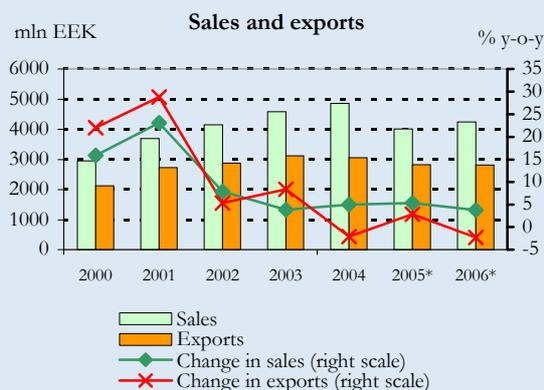
Furniture industry

In Estonia, almost 400 enterprises engage in furniture manufacture. In the years 2001-2006, production volumes at constant prices grew by about a fifth; more than two thirds of the output is exported. Output has grown thanks to the exports but in recent years the domestic demand has grown as well. In export markets competition with furniture manufacturers from China, Poland and other countries has considerably grown. After an increase in the number of employees, the workforce has been slowly diminishing and now, by the data given by enterprises themselves, they employ about 9,000 people. Enterprises are actively modernising their technologies and equipment and thus, as a result of more efficient technology, a decline in employment is expected.

The largest companies in the furniture sector by their number of employees are located in Harju County and in SE-Estonia. AS Tarmeko (pinewood furniture, soft furniture) and Flexa Eesti AS (children's furniture) are the industry's largest companies. The other larger furniture manufacturers are OÜ Twinset (soft furniture), Valga GOMAB Mööbel AS (solid food furniture) and AS Standard (office furniture). AS Jalax is the largest manufacturer of metal furniture.

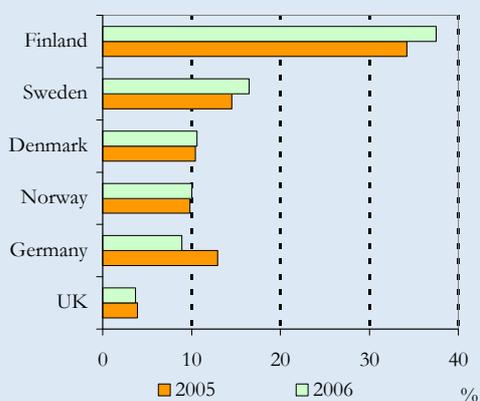


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Exports by main target countries



Source: Statistical Office of Estonia

Furniture industry showed modest developments in 2006. Domestic market backed the sales growth but exports remained on the level of 2005. Employment rate continued to drop.

In 2006, sales of the furniture industry increased by 4% compared to 2005, output was the same. Sales in the domestic market were supported by fast economic growth, the resulting increase in income and active housing construction. The industry had a 3% producer price index growth.

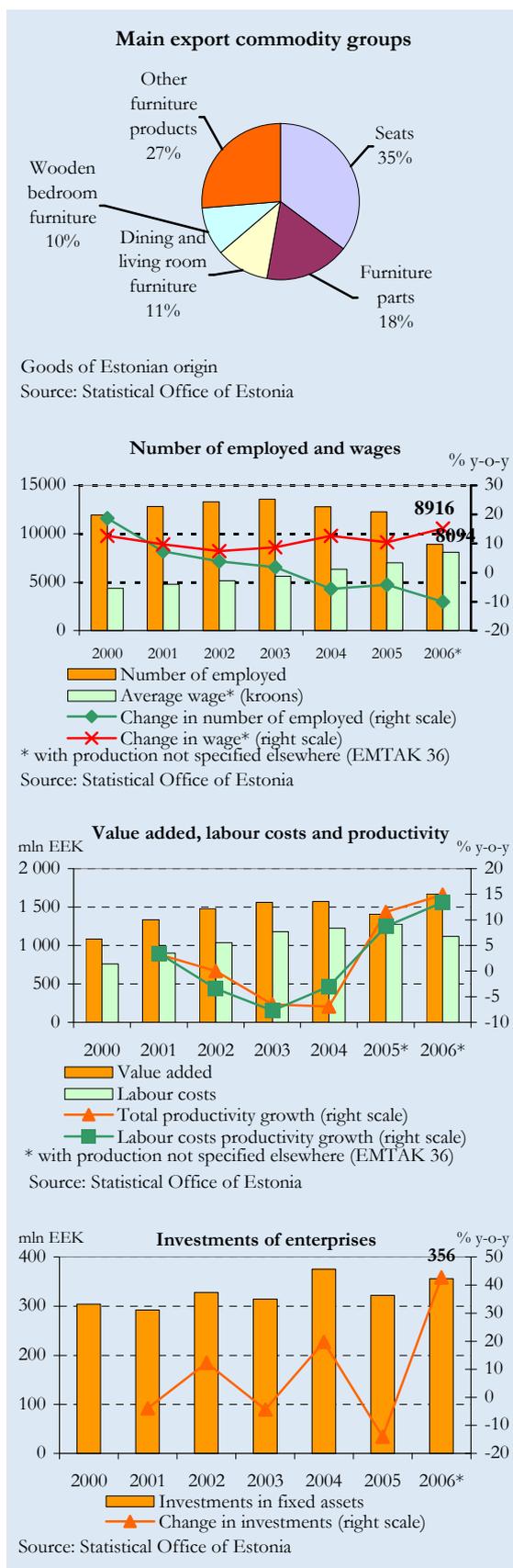
Exports has an important role in the development of furniture industry. In 2006, its share in sales amounted to about $\frac{2}{3}$. However, although sales in the domestic market have considerably grown, exports has remained the same. Companies in the sector have partly been influenced by the increased competition from Asia and other new EU member states (Poland, Romania), due to which manufacture of simpler products has moved away from Estonia. In foreign markets furniture sales were rather modest in 2006.

Most of the furniture produced in Estonia is exported to the Nordic countries, in addition Germany and the UK are important export markets. In 2006 exports thrived to the Nordic countries – primarily to Finland and Sweden. Sales volume to Russia almost doubled (for the second successive year), however, Russia's share in total exports was slightly below 2%. Exports to Germany plummeted. The main export articles were, like before, bolstered seats with wooden frame, furniture details and dining room and living room furniture.

The furniture sector's employment rate continued to drop in 2006, mainly on account of larger enterprises with more than 100 employees. The employment rate fell by about 1,000 persons (10%). It may partly be attributable to modernisation of technology and more efficient production. A major cut in the number of employees made it possible for companies to inhibit the growth of expenditure, as a result of which annual net turnover increased faster than total expenditure. Although the gross wage of the industry grew at a rather fast rate (15% y-o-y), labour costs growth was kept under control due to decreasing the workforce.

Investments in fixed assets grew by more than 40% in 2006, mainly due to the low comparison base of 2005. 90% of all investments were made in purchase of machinery and equipment, construction and reconstruction of buildings and purchase of land. Compared to 2005, investments increased mainly on account of land purchase.

By the survey of the Estonian Institute of Economic Research, most of the companies in this sector were optimistic in the second part of 2006 about short-term output growth; they also expected an increase in sales prices for the next three months. The production capacity in the industry was used to up to 83% at the beginning of 2007 and companies noted that their stock reserves and production capacities were too small.

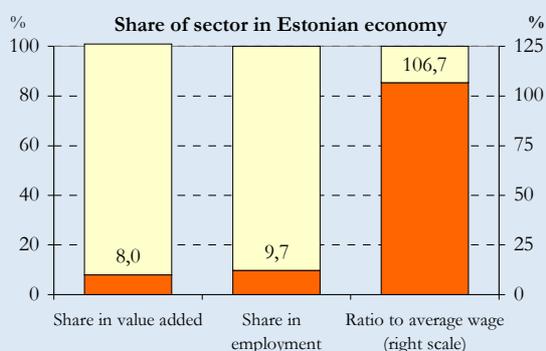


Construction

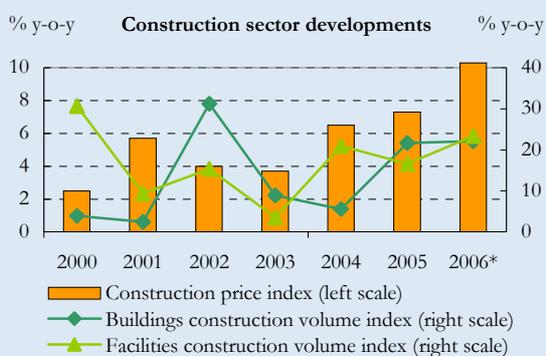
The Estonian construction sector focuses to a great extent on the domestic market and, therefore, its development is mostly influenced by the overall economic development of Estonia. The construction market is quite sensitive to changes in the economic situation. In good times, construction volumes grow faster, and in bad times, they may even diminish. This has also happened in Estonia. The 1999 recession had a substantial effect on the construction market (mainly due to a decline in the construction of office buildings). Recent years have witnessed a rise in construction volumes of housing and facilities. In the period 1997-2005, productivity (value added per employee) of the construction sector rose together with the overall expansion of the sector but there is still room for efficiency improvement.

The larger general construction companies are Skanska EMV, Merko Ehitus, AS YIT Ehitus and Koger ja Partnerid. In road building, AS Aspi, Teede REV-2 and Talter are the main contributors.

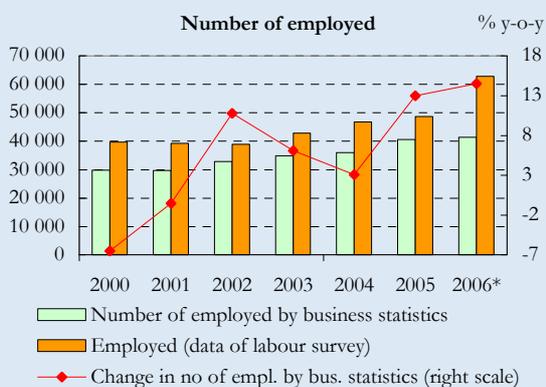
Forecasts show that the construction market will grow more rapidly than the economy on the average in the next years. The development is backed by additional investments in the infrastructure and the quickly increasing demand for housing. The high growth arises mainly from the increased productivity and, thus, employment numbers will rise only modestly. It is projected that the number of employees will drop to the level of earlier years when the construction market stabilises.



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Similar to previous years, the construction sector developed fast in 2006, although the end of the year showed some signs of stabilisation. Sales and investments grew, the certainty of construction companies and construction volumes increased, but the shortage of labour persisted and labour costs continued to go up. In addition to the rapid economic growth and increased domestic demand, the stabilisation of the loan market, due to the rising of interest rates and stricter loan conditions, influenced the construction sector. Selling periods became longer and land prices increased.

Although the sector slowed down as regards construction volumes, the financial figures showed an increase, similar to 2005. The sector performed works for 47.5 billion kroons in 2006 which is 30% more than the previous year. Estonian construction companies built for 31.4 billion kroons, including buildings for 21.0 billion and facilities for 10.4 billion kroons. 19.8 billion kroons were spent on reconstruction and repair works in 2006, amounting to 17.9% more than in 2005. The extensive reconstruction and repair works were performed due to the high depreciation rate of housing and other buildings, the reason being their oldness, and the need to improve living and other conditions and quality of buildings.

Construction activities took place mainly in Estonia and the construction volume abroad dropped by 9% compared to 2005. Similar to 2005, Estonian construction companies mainly built in the neighbouring countries – Latvia, Lithuania and Russia.

Construction companies built for their own purpose for 77 million kroons which is 28.7% more than a year ago. Construction companies invested the most in purchase of machinery and transport equipment – by 5.9% and 135% more than in 2005. Regardless of the stabilisation of construction activities in some sectors, the net sales of construction companies increased by 30.5% compared to 2005.

Costs related to the construction grew in 2006, similar to 2005. Construction price index increased by 10.3%, being the highest rise in recent years. It is expected that prices will continue to grow. Prices rose in respect of all components of construction activities; the highest increase took place in labour costs (18.7%) which is twice as much as in 2005. Construction companies estimate that shortage of labour is the main obstacle to a further growth of the sector, in spite of the fact that the number of people employed by the sector grew by 15% (by 5,200 persons) in 2006. Labour force survey showed, however, that the growth was 14,000 persons. The situation resulting from shortage of labour made it possible for wages to grow in the sector. The gross wages became competitive to those offered in mining, energy and transportation industries. The prices of construction machinery have increased by 10.4% and those of building materials by 6.1%, due to the increased fuel prices and shortage of materials.

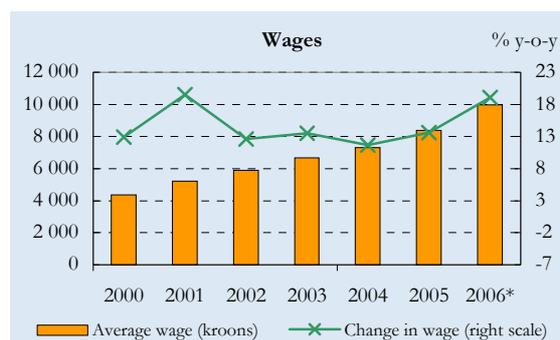
2006 was a successful and profitable year for the producers of building materials, thanks to the continuously strong demand in the market. Several new plants and storage units for materials were opened in order to reach the necessary production volumes driven by the high demand. There was a price rise in all commodity groups and prices surged upwards in respect of building blocks, bricks and cement. Sales of building materials grew by 25.8%, amounting to 5.6 billion kroons.

2006 also demonstrated a growth in construction volumes, both for buildings and facilities, by 20.4% and 26.4%, respectively. The growth was mainly driven by construction of facilities, different from previous years, which took place primarily as a result of implementation of projects funded by EU Structural Funds and the completion of works that had been started in earlier years. By the data of the Estonian Register of Buildings, 184 facilities were given into use in 2006 and the register issued 386 building permits for construction of facilities. This should secure a further growth in the construction volume of facilities. The largest number of permits was issued for reconstruction of roads and water pipes.

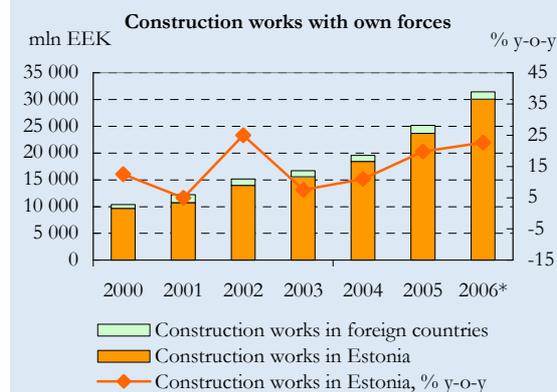
Construction of buildings continued to be in full swing in 2006. Residential space, transport, industrial, commercial and catering buildings were still the main types of buildings, related to the continuously high demand for quality residential and service space.

In 2006, 1,570 non-residential buildings were given into use, their total area being 896,600 m². The total number of non-residential buildings in 2006 exceeded that of 2005 by 303. Both the volume and area of the non-residential buildings increased compared to 2005, by 13.8% and 19.1%, respectively. The highest number of non-residential buildings was completed in Ida-Viru, Viljandi and Tartu Counties. In Tallinn commercial and industrial space was built mainly in

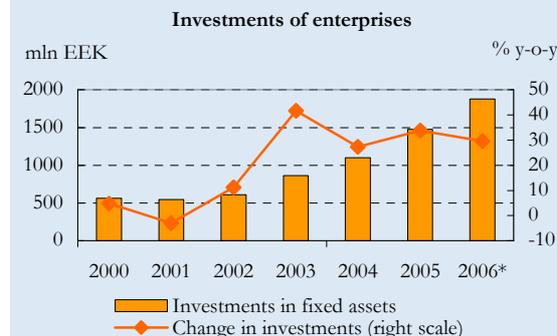
outskirts, due to the lack of free land and expensive parking in the centre.



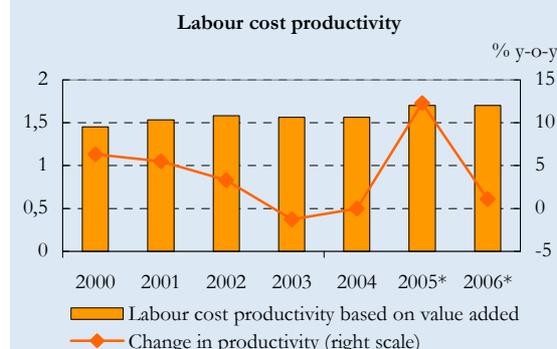
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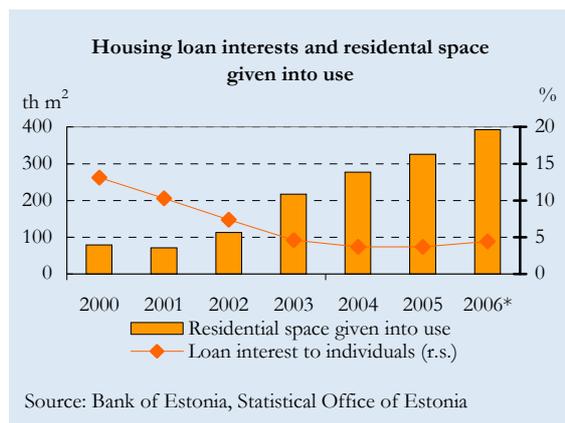
Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



In 2006 permits were issued for the construction of 2,592 non-residential buildings, the total volume being 7.4 million m³ and useful space 1,177,479 m². By plans, in the next years the highest construction volumes will be seen as regards industrial, commercial and catering buildings, but also agricultural, fishing, hunting and forest management buildings. Regardless of the fact that the situation in the residential construction market changed considerably as a result of the rise in interest rate and stricter loan conditions by banks, the continuous growth in real estate prices and the resulting decrease in the demand, 5,068 permits for use were issued to new residential units (392,000 m²), which is by 29% more than in 2005. The highest number of permits was issued to units located in apartment houses. Apartments accommodating 2-3 rooms, with the total area up to 74 m² were the most popular. Contrary to the building of apartment houses the construction of private houses showed a downward trend, similar to 2005, and there was a 4% decrease in the issue of permits for use. However, a new trend emerged in 2006 – construction of two-family and row houses, due to the increased prices of land and economy of building costs. As regards areas, the number of completed residential houses was still the highest in Harju County, including Tallinn, and in Pärnu and Tartu and their surrounding municipalities.

In spite of the growing construction prices and volumes and the stabilisation of the real estate market there is still shortage of quality housing. The reason is that even the rapidly developing construction market is incapable of meeting the recuperation need of the existing residential space. Thus, 12,863 construction permits were issued in 2006; when completed, the new residential area should amount to 1,311,000m². The number of permits issued in 2006 exceeded that of 2005 by 40.6%.

A market survey showed that construction companies had a positive overall situation in 2006 and positive expectations for the near future – the number of orders was sufficient, workload is increasing, and there are no forecasts for an increase in price growth. However, companies are of the opinion that increasing shortage of labour and the growing labour costs, longer delivery times of building materials and decreasing demand are the factors that do not allow continuing the present fast growth. The certainty indicator of construction companies was higher in 2006 than in 2005.

Domestic trade

The commercial sector comprises retail and wholesale businesses (also enterprises engaging in sale of motor vehicles and their parts and enterprises selling motor fuel). Commerce is an important industry, giving 15% of the total value added. About 90,000 people, i.e. 14% of all the employed, work in the commercial sector. In the past five years, the retail market has witnessed an upsurge, many new large outlets and shopping centres have been built (Viru and Ülemiste shopping centres, the new department store in Tartu, Tartu Lõunakeskus, Järve shopping centre, expansion of the Kristiine shopping centre, Mustamäe shopping centre, Mustakivi shopping centre Centrum, etc.). Foreign chains such as Maxima (former T-Market), Prisma, Rimi Eesti Food AS (including the Säästumarket chain), have undergone rapid growth. Chains based on the Estonian capital also develop vigorously (ETK, Selver, Comarket, OG Elektra, etc.). Chains are moving also outside Tallinn. The market share of the largest retail chains has grown year by year, enabling them to save on marketing and logistics and to be more efficient.

It is predicted that the wholesale and retail trade sector will continue its growth in the coming years. The value added of the sector grows all the time. The expansion of retail chains will raise the number of workforce in the bigger outlets, but at the same time small companies are driven out of the market. Moreover, although the number of personnel in the retail sector may increase, in long-term the workforce and the number of enterprises in the wholesale sector will diminish.



2006 was a successful year for the commercial sector. Retail companies (without enterprises selling motor fuel) increased their sales by 20%. The turnover growth rate of retail companies exceeded that of 2005 by 8 percentage points. The net sales of enterprises selling motor fuel increased by 32% at current prices⁴. The increase in turnover was backed by the higher growth rate of real income of the population, as well as favourable loan and lease conditions and optimism of the consumers.

The growing economy has had a positive impact on the commercial sector. The diminished unemployment rate and increased salaries have uplifted the certainty of people and their consumption decisions have become more daring. The certainty of the consumers was very high in 2006 and outlets increased both the number of purchases and the amounts paid for purchases in 2006. The population has become wealthier, people buy more, presume and prefer a high quality sales environment and better service. An average consumer dares to borrow more than in the previous years in order to meet the needs. The number of credit cards and consumer credits showed vigorous growth.

The number of new commercial and catering buildings taken in use in 2006 was lower than in previous years (-38%) but the existing commercial area was expanded. The additional area amounted to about 40 th m² (30% more than in 2005) Consumption grew rapidly in 2006, resulting in high demand for commercial space. This is especially true for large shopping centres which are visited by a higher number of buyers and which have higher turnover. More and more people prefer to make their purchases in large shopping centres. However, large centres have not been able to accommodate all the prospective tenants, and smaller companies found it harder to get a place because the shopping centres made their choice on the bases of larger and well-known brands.

The number of personnel increased in the commercial sector, by economic indicators provided by companies themselves, by 1.4%⁵. Workforce grew mainly in large companies employing more than 50 persons (by almost 13%). The number of employed fell by 6% in companies employing 1–20 persons; the number of companies grew by 2.2%. Labour force survey showed that the number of employed persons increased by 10%. The total employment for all Estonia increased by 6.4%. The survey also included Estonians who have worked abroad less than for a year; certainty range (standard error) is quite high in commerce, ca 10,000 people.

The growing shortage of labour has become a serious problem for the commercial sector. Retail companies are facing a situation where they cannot employ service staff with sufficient qualification and language skills to communicate with the customers at a satisfactory level. Therefore they employ people whose skills and personal characteristics do not meet the requirements. Retail outlets report a 10-20%

⁴ Also sale of cars sold by leasing; retail sales of cars does not include leasing.

⁵ Enterprise statistics does not include self-employed persons.

shortage of staff currently. Companies organise training courses in order to have workforce.

The sector is forced to raise salaries due to the lack of labour. The nominal wage increased by 21.6% (7.0% in 2005), exceeding the average Estonian nominal wage growth by 5.4 percentage points. The sector's salaries have also been affected by the increasingly accelerating commercial activities supported by the strong domestic trade, as well as the rapid expansion of retail chains.

Investments in wholesale and retail trade sector grew significantly (1.5 times), reaching 5.2 billion kroons. Investments in purchase and reconstruction of buildings and facilities grew the fastest (1.7 times), demonstrating the positive expectations of companies about the future. Investments in machinery, equipment and inventory increased by 31%. Investments grew more in the retail sector (1.7 times).

Profit margins grew by 1 percentage point in 2006 compared to 2005 (to 20%). The value added of the commercial sector increased by 12.6% in 2006 due to the rapid growth of the retail sector, being by 1.2 percentage points higher than the Estonian average. All commercial activities showed a profit in 2006.

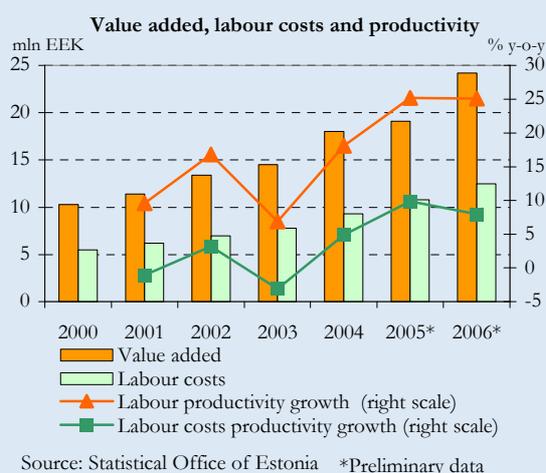
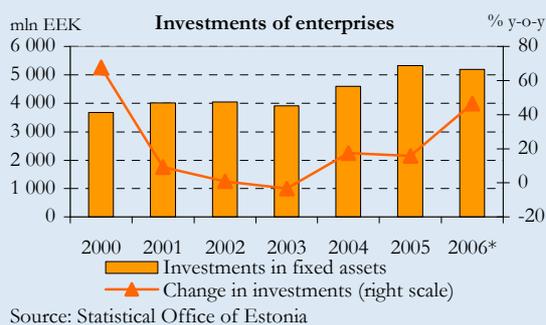
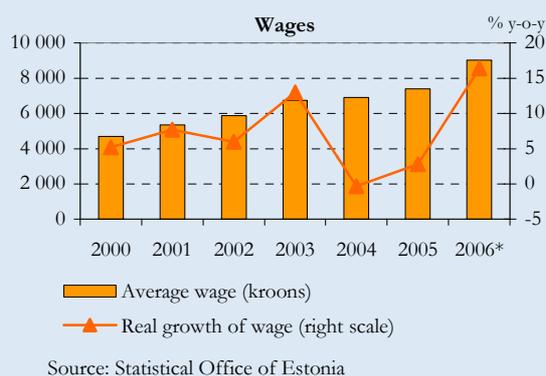
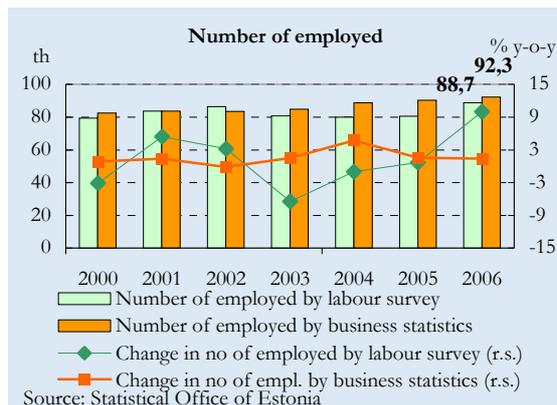
Revenues grew fast, resulting in rapid growth of productivity based on net sales – 15%. Productivity based on value added and data of a labour survey (including self-employed persons) increased by 2.5% compared to the previous year. By the data of the companies labour productivity based on value added increased by a quarter.

It is expected that the commercial sector will continue to grow in 2007. The development of Estonian economy supports commerce and the trend should continue, although at a somewhat slower pace. It is not foreseen that the salary increase will halt. Companies are optimistic, new outlets are opened continuously and the existing space is expanded. Smaller outlets may face more difficult times in the future because the retail market expands vigorously. Outlets and chains become larger and smaller shops find themselves in a difficult competition situation and cannot fight the price pressure. The number of small outlets is decreasing.

The survey made by the Estonian Institute for Market Research showed that both the consumers and companies had a positive outlook. The confidence indicator reached 14 in December 2006, being by 2 points higher than at the same time a year ago. The confidence level of consumers continued to rise at the beginning of 2007.

Retail trade

Retail trade as a sector has currently profitable years. The situation will continue until the economy continues its rapid development. In 2006, retail sales amounted to 54 billion kroons of which 45 billion kroons were attributable to retail companies, growing



by 20% compared to 2005. Retail sales, including sales of cars, increased by 19%⁶. The retail sales of enterprises engaging in sale of motor vehicles,

⁶ It does not include sale of cars by lease.

excluding sale of cars by lease, grew by 17% at constant prices. The growth of net sales of enterprises engaging in sale of motor vehicles, reflecting both retail sales and lease, was 32% compared to 2005.

Five larger commercial chains are currently market leaders – ETK, Rimi, Selver, Maxima and Prisma. By preliminary data, these five chains accounted for 80% of the 22 billion worth of turnover of unspecialised food stores last year.

Selver chain has expanded considerably in recent years, especially outside Tallinn, as a result of which it gained the market leader position in South-Estonia in 2006. The chain will establish new supermarkets and hypermarkets in Estonia and Latvia, making it possible to grow.

Tallinna Kaubamaja Group made two long-term expansion decisions at the end of 2006 – Selver's entry to the Latvian market and initiating sales of cars of Tallinna Kaubamaja in Estonia, Latvia and Lithuania. Thus, Tallinna Kaubamaja will become an international business by expanding into the other Baltic states.

Maxima chain, the former T-Market, also showed rapid development. Their turnover almost doubled in 2006. The chain gained new clients thanks to its favourable prices; the average sum of purchases grew as well. Within a short time period, Maxima has risen to rank second after Säästumarket among the local low budget chains. At the end of 2006 32 cheap Lithuanian Maxima outlets operated in Estonia. Rimi started to adjust its hypermarkets to its concept at the beginning of 2006 and will continue this activity in 2007 in addition to Tallinn in Pärnu and Tartu. ETK will thoroughly renovate all its stores within a couple of years, making all of them look similar.

Retail sales grew the fastest in large enterprises and in those that had joined chains; additional turnover came from the opening of new stores. The net sales of companies employing over 100 persons increased by 22% and that of businesses with less than 10 employees by 7%. Labour costs grew in companies employing over 100 persons by 36% and in companies with 0–9 persons by 10%. However, the number of employees in companies with 0–9 people decreased by 2%. All size groups of enterprises had a profit. Profit in the retail sector grew by 1.6 times compared to the previous year. The total profit and net sales ratio was 4.4%, while the sales margin was 28%, exceeding the margin of 2005 by one percentage point. Profit increased the most in businesses employing more than 100 (2.2 times) and those employing 20–99 persons (1.8 times). Profit dropped in companies with 0–9 persons (7%). The total profit of the retail sector equalled 2.4 billion kroons. Of this, 31% was given by outlets selling furnishings, home appliances, hardware and building materials, 18% by other stores specialised in industrial

goods and 18% by unspecialised food stores, and 17% by textile, wearing apparel and footwear stores.

By the statistics of retail enterprises, regardless of the surging labour costs related to the rapid growth in the number of employed people and salaries, the share of labour costs in the generated added value did not grow.

The number of workforce in retail trade grew by 4% by the statistics of enterprises. The increment amounted to 20% in companies with 50–99 employees and to 12% in those employing over 100 persons. Businesses with 0–9 employees diminished their staff by 10%. 44% of the retail workforce work in companies employing over 100 persons. As a result of the expansion of large companies, the market share of retail companies with more than 100 employees increased by 0.9 percentage points in 2006, reaching 56.7%.

The average number of companies in retail trade was 3,600 in 2006, being by 1.3% less than a year ago. The number of enterprises with fewer than 20 employees diminished by 66 (by 1.9%) in 2006; their labour force, however, dropped much more (by 7%). Small businesses are forced to close down due to the tight competition in the retail market and takeover of small shops by larger ones.

In 2006 there was a very high demand for commercial space which exceeded the supply. The most valuable commercial space was in well operating and attractive shopping centres. As a result of the expansion of large chains smaller shops will find it increasingly difficult to cope because the low-budget chains Säästumarket and Maxima have successfully entered their niche (residential districts).

Investments of previous years in commerce had been extensive and contributed significantly to the development of the sector. The number of retail outlets of chains and sales showed a continuous increase. Investments in retail trade grew by 1.7 times compared to 2005. 51% of total investments were made in the construction and reconstruction of buildings and facilities, 24% in purchase of machinery, equipment and inventory and 19% in purchase of land. Investments grew the most in enterprises employing 20–49 persons (3.1 times) and in those employing more than 100 persons (1.7 times). Almost 60% of the retail trade's investments were made by companies employing over 100 persons which shows that the investment activity of large companies continues. Investments in purchase of land by large companies grew the fastest (3.1 times), accounting for 27% of their total investments. It exceeded the figure of 2005 by 12 percentage points.

Outlets of industrial goods showed the fastest growth of sales in 2006 (31%). In all commodity groups, consumers preferred higher quality and therefore somewhat more expensive products than in previous

years. The purchases reflected the higher income of the population and decreased unemployment. When the income increases, people have an opportunity, in addition to buying basic commodities, to spend more on other goods.

2006 demonstrated that purchases were made especially actively in outlets selling furnishings, home appliances, hardware and building materials. The sales of this group of outlets grew by 54% within a year. The growth was mainly due to the continuing construction boom and purchases of real estate. The active real estate market contributed to the sales of building materials and home electronics. Sales increased in respect of LCD and plasma TV sets, cameras, video cameras, etc. When moving into a new house or apartment, people need new furnishings and also replace some of their old home appliances. Due to the continuing construction boom, building materials and furniture stores should have a positive outlook also for 2007.

The market situation is good also for stores selling textiles, wearing apparel and footwear. Their sales grew by 41% in 2006. With a higher income, people bought more trendy and high quality goods. Sales were also boosted by the opening of new fashion departments in large shopping centres. The sales forecast for 2007 of the wearing apparel and footwear stores is optimistic.

Other specialised industrial goods stores also had sales growth which was half faster than in 2005. The sales of laptop computers and other IT products showed record figures.

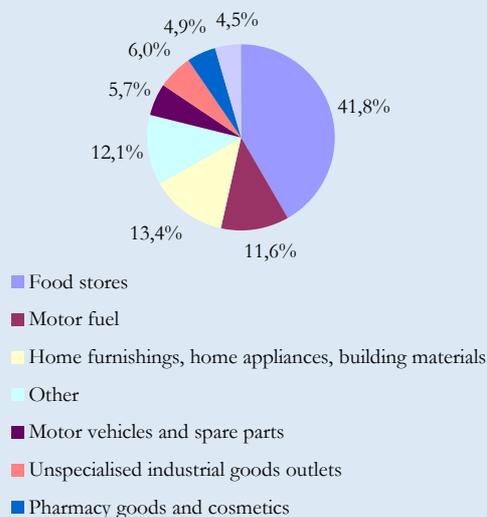
The economic success of 2006 also reached the car market. Both the dealers of new cars and importers of used cars had record sales growth. The number of registered motorcycles increased by 1.7 times. There is more interest in luxury cars and it is noticeable that families are thinking of buying a second car into the family. The sales of new cars grew faster than that of used cars; car dealers believe that the higher living standard and optimistic future expectations are some of the reasons. The net sales of companies engaging in sale of motor vehicles increased by 32% in 2006 of which the net sales of motor vehicles and their spare parts constituted 39% and that of retail sellers of motor fuel 27%. The rapid growth of motor fuel sales continued due to the fast increase in the number of cars. The majority of car dealers forecast a growth also for 2007.

Car selling companies invested 670 million kroons in 2006, by 23% more than in 2005. The largest investments were made in car selling centres – 498 million kroons (growth 35%). The volume of investments made by motor fuel sellers dropped by 9%, partly due to the high comparison base of 2005.

Fuel companies had to lower their sales margin by one percentage point due to the tight competition;

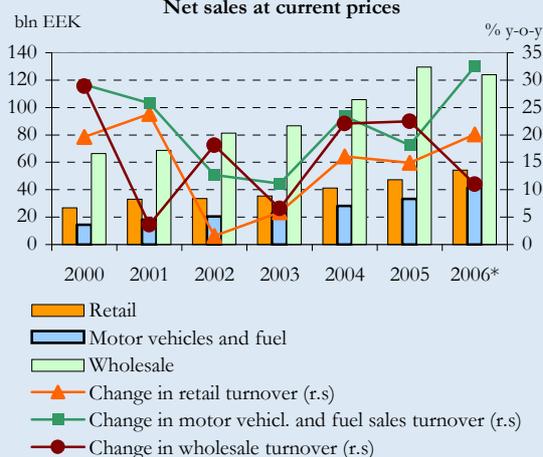
however, as a result of the increased sales, the profit grew by 1.7 times compared to the previous year.

Retail sale by sub-branches in 2006



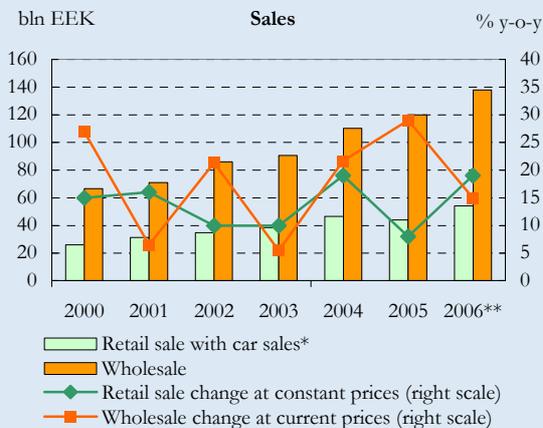
Source: Statistical Office of Estonia

Net sales at current prices



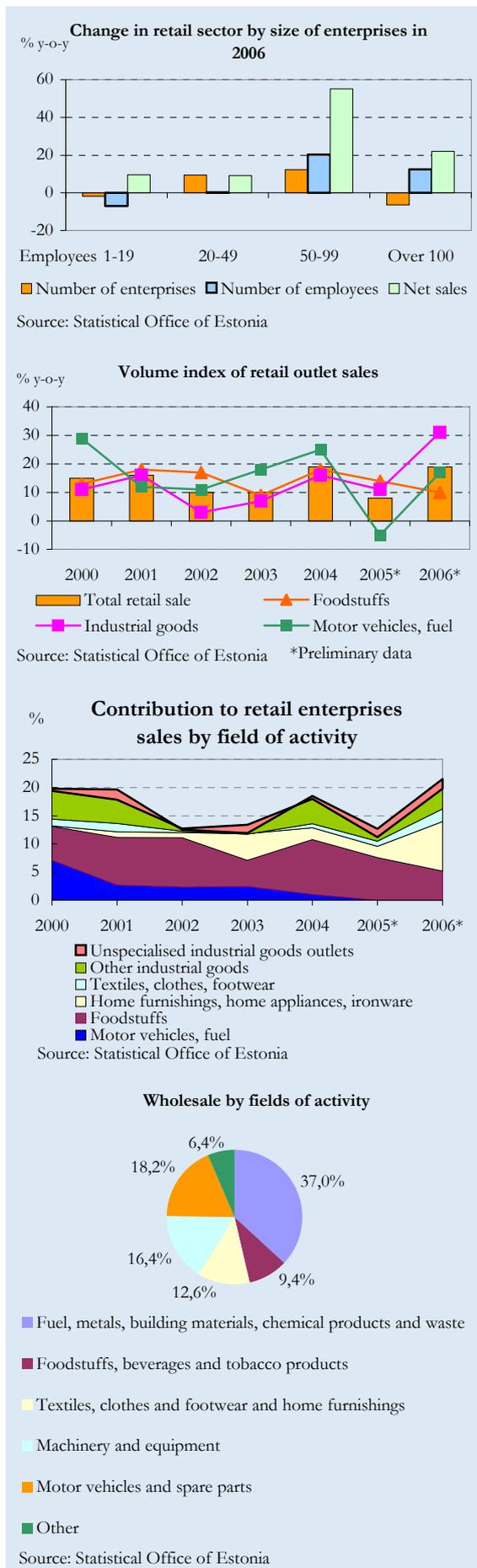
Source: Statistical Office of Estonia

Sales



* Car sales without leasing ** Preliminary data

Source: Statistical Office of Estonia



The sales growth of food stores stabilised at 10%. The share of food stores sales in the retail sector dropped by 4 percentage points and was 51%. Large commercial chains were still more successful than the average. Consumption patterns show a trend towards preference of more expensive products. Also, consumers tend to prefer small packages. At the same time the number of food and basic commodities outlets is dropping. Their number is only half compared to 2000.

As a whole, the year 2006 was very successful for the commercial sector; all commercial areas earned a profit and generated high value added. Commercial enterprises have positive expectations about 2007 and plan major expansions in the near future – Tallinna Kaubamaja, Rocca al Mare, Kristiine, Magistrali Keskus, etc. The completion of Foorumi Ärikeskus in the heart of Tallinn was a major event; it added 5,000 m² of commercial space. Maxima Eesti will open supermarkets Maxima XX in 2007 and will begin to produce delicatessen. Rimi also has plans to expand in the coming years. ETK is reorganising its network of outlets. The increasing salaries support consumption. As a result of the expansion of large commercial chains there may be changes in the structure of retail trade – the number of small shops will fall and the share of large stores will increase.

Wholesale

The growth rate of wholesale companies’ sales was slightly slower in 2006 than in the previous two years. Wholesale grew by 15% compared to 2005 (at current prices). Wholesale companies and enterprises engaging in sale of motor vehicles and motor fuel had 137.9 billion kroons worth of wholesale business in 2006; of this, enterprises engaging in sale of motor vehicles accounted to 28.6 billion kroons (growth 39%). The sales of wholesale companies grew by 10%. Wholesale of machinery and equipment and fuel, metals, building materials, chemical products and waste amounted to 71% of the sales growth increment.

Wholesale companies had a profitable and efficient year in 2006. The growth rate of profit was 2.5 times faster than that of net sales (growth 28%). Profit increased in all size groups of enterprises. Labour productivity based on value added and on net sales grew by 23% and 15%, respectively; of this, in enterprises with over 100 employees by 4.9%. The highest growth of labour productivity was in enterprises with 10–19 persons – 1.6 times. The number of employees in this group of stores dropped by 10%. In general, net sales increased by 1 percentage point faster than expenditure.

Investments of the wholesale sector grew by more than one third compared to 2005, amounting to 2.3 billion kroons. Investments in companies with 50-99 employees increased by 2.5 times. Almost one third of all investments were made in companies with 1-9 employees and one tenth in enterprises employing over 100 persons. 47% of all investments were made

to purchase, construct and reconstruct buildings and facilities and 26% to purchase machinery, equipment and inventory.

Wholesale of goods increased the most in respect of machinery and equipment (39%) and fuel, metals, building materials, chemical products and waste (15%). Wholesale of motor vehicles and their parts grew by 39%. Car sales was supported by the subsistence of favourable loan conditions. Motor fuels wholesale rose by 41%.

Wholesale of food, beverages and tobacco products grew by only one percentage point. Compared to 2005 the profit of food wholesale companies was by 9% lower, partly due to the high comparison base. The number of employees dropped by 6% in this sector. The economic development of wholesale food enterprises is negatively affected by the rapid development of large retail chains. Retail chains have obtained a solid basis for negotiations with suppliers and demand favourable prices from them.

Food products made up only 9% of the total wholesale market in 2006. Since 2000, the decrease has been 13 percentage points.

The wholesale business of companies working for a commission or by a contract dropped by a half, related to the very high comparison base of the last two years.

Sales in the wholesale business will grow also in 2007, in relation to the overall economic growth. As smaller wholesale companies find it difficult to survive, mergers and takeovers of small enterprises by larger ones may take place.

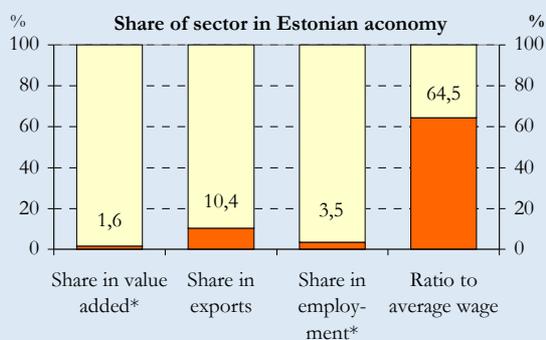
Tourism

The tourism industry's share in the Estonian GDP and employment is about 8%, considering also indirect impacts; tourism contributes considerably to export revenues. Estonian tourism industry is based to a large extent on inbound tourism but domestic tourism has also gathered momentum in recent years. The majority of foreign visitors are one-day visitors from Finland. However, the dependence on the Finnish market has diminished gradually. The consistent increase in overnight stays is also a positive trend.

The main tourism magnet is Tallinn that concentrates most of tourism enterprises. But gradually the interest towards other areas has grown as well, supported by the emerging of health resorts, accommodation and other service facilities.

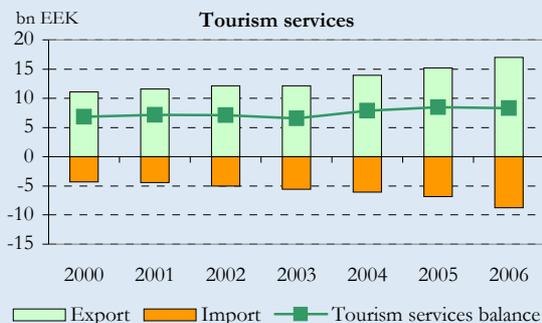
The larger accommodation establishments are Reval Hotel Group, AS Sokotel (Hotel Viru), Astlanda Hotelli AS (Radisson SAS Hotel), Scandic Hotels Eesti AS, Meriton Hotels AS. The largest catering business is McDonalds Eesti AS and Fazer Eesti AS (Amica) which, in addition to bakery operations, engages in the catering business. More than 60% of the workforce employed in the hotel and restaurant sector work in Tallinn; among other regions Tartu and Pärnu can be mentioned.

The tourism industry is forecast to grow rapidly also in the next years. Although the number of one-day visitors will fall, export revenues will still grow thanks to more people staying overnight. As a result of the increased income of the Estonian population, a growth is expected both in domestic tourism and outbound tourism.

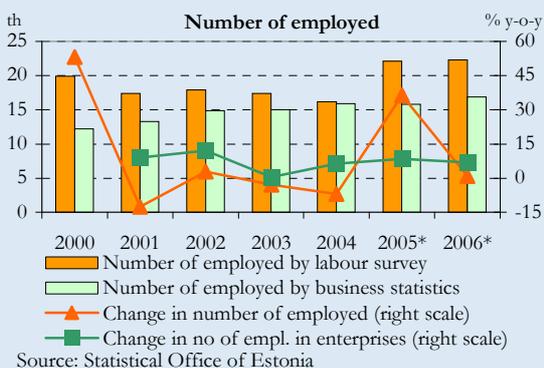


* Accommodation and catering sector, not the whole tourism sector

Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

In 2006, the Estonian tourism sector was characterised by a rapid upsurge of domestic demand. The number of inbound tourists remained at the level of the previous year; however, the economic results of tourist businesses were good.

In 2006, tourism sector developed in the rhythm of the overall economic development in Estonia. The added value created in hotels and restaurants grew by 11.7%. Inside the sector important structural changes took place. So far, the development of the Estonian tourism sector had been mostly influenced by inbound tourism but in 2006 the sector's development was mainly backed by domestic tourism.

Two thirds of the visitors of Estonian accommodation establishments are foreigners. Thanks to the continuous increase in the number of visitors from abroad the Estonian tourism sector has undergone brisk development in recent years. In 2006 the number of tourists from Finland, the main Estonian tourism partner, dropped, as a result of which the number of overnight stays of foreigners practically equalled that of 2005. However, Estonian inhabitants used paid accommodation services considerably more, making it possible for the tourism sector to develop at the same pace as in previous years.

The number of people staying at accommodation establishments grew by one tenth. The supply side of accommodation services grew even faster – establishment of new accommodation facilities continued fast. The number of beds increased by 4,000 (15%). One third of the new beds emerged in Tallinn; however, accommodation facilities have improved in almost every region of Estonia.

The number of tourists staying overnight at health rehabilitation centres grew faster than the general accommodation market, by 16%. The number of overnight stays increased by one tenth but the average duration of overnight stays became shorter

(3.3 nights per guest in 2006, 3.5 nights per guest in 2005). The increasing demand among the Estonian inhabitants also had an impact on health rehabilitation centres. New health resorts have come to the market but growth in demand has surpassed growth in supply.

Mainly thanks to the fact that Estonians used accommodation services more than previously, the number of overnight stays in South-Estonian and NE-Estonian accommodation establishments increased by almost a quarter. The number of overnight stays in West-Estonia was modest because the number of tourists from other countries dropped; also, the creation of new accommodation establishments in this region was slower than in other areas.

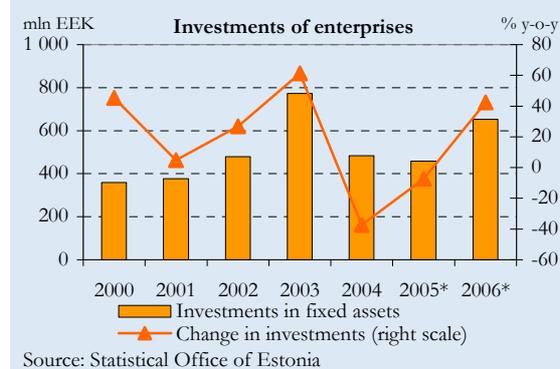
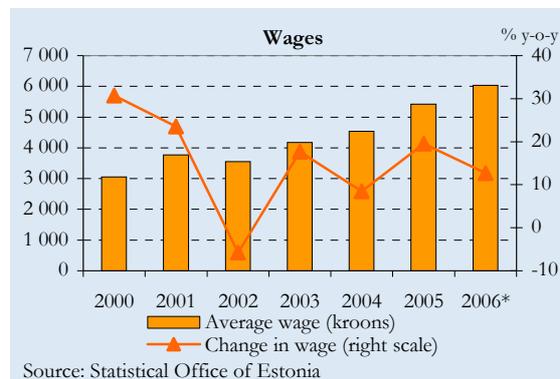
As the number of new accommodation establishments was higher than the growth in demand, the indicators showing the use of rooms and beds deteriorated a little, staying just at the average level of recent years (46% for rooms and 38% for beds). The same indicators were higher for health rehabilitation centres and have even improved regardless of the emerging of new centres. It was positive that demand spread more equally during the year. The highest growth in demand took place at the beginning and end of the year which is normally the lowest tourism season. These developments took place primarily due to the increasing demand of Estonian tourists for accommodation services.

Enterprises invested more than 40% more in fixed assets than in 2005. The investments of accommodation establishments stayed at the level of 2005 (ca 350 million kroons) but those of catering establishments rose by more than two and a half times. By a rule enforced in 2007 smoking in catering establishments is allowed only in a special smoking room or outside inner premises, demanding additional investments from enterprises. Several large hotels will be completed in 2007, increasing considerably accommodation possibilities in Tallinn. Some bigger projects are undergoing also in other parts of Estonia.

The development of the tourism sector brought about an additional need for labour. By the statistics of enterprises the number of employees at hotels and restaurants increased by more than a thousand persons (7%). Most of the new jobs were created at restaurants; in hotels, the number of employees did not significantly grow. By the results of a labour survey the number of employees exceeded that of 2005 only slightly.

Although shortage of labour has become a more topical issue in the service sector and the need for labour has grown due to the establishment of new enterprises, it has not been accompanied by a significant salary rise. Average wage in hotels and restaurants grew less than the average Estonian wage in 2006. One of the reasons is that there was a major

growth in salaries a year ago. The salary level in hotels and restaurants compared to the average Estonian salary is similar to the corresponding ratio in other EU member states.



Due to the favourable market situation, revenues of hotels, restaurants and travel agencies grew slightly more than expenditure. Turnover increased mainly thanks to an increase in the number of clients, while the role of price rise was modest. The average price of an overnight stay in accommodation establishments grew by 1.5%. However, changes were not the same in different regions and accommodation establishments and in some cases the increase in prices exceeded 10%. Some catering establishments had even a higher increase in prices. The component of eating out and using accommodation services, included in the consumer price index, rose by 4.4% in 2006.

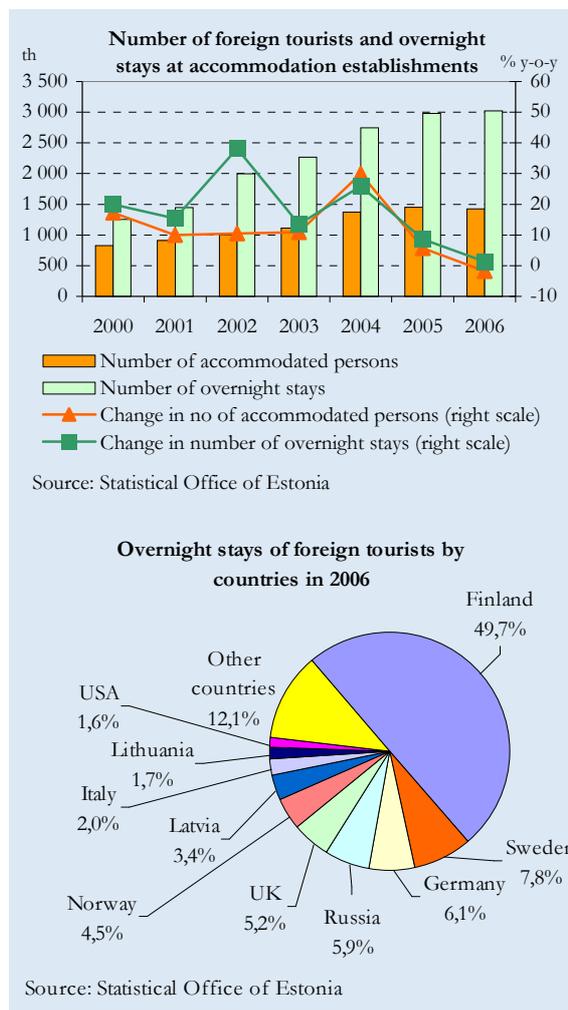
The profits and cost-effectiveness of enterprises increased, most of all in restaurants. Productivity indicators improved as well.

The tourism companies responding to the Estonian Institute for Market Research found the situation at the beginning of 2007 similar to the situation a year ago; restaurants were of the opinion that the market situation had improved. Expectations about future demand were positive. There are more companies than before who would like to increase the prices.

Inbound tourism

Inbound tourism had a boost in 2004 due to Estonia's accession to the European Union; afterwards the growth decelerated and stopped

altogether in 2006. However, it has not had a significant negative effect on the Estonian tourism industry.



The exports of tourism services grew by 12%. Purchases made by foreign visitors in Estonia increased by 7% (to 12.8 billion kroons); export revenue from transportation services grew the most (by 30%), mainly in air and sea transport. The increase in the export revenues of sea transport was mainly due to the acquisition of Silja Line by Tallink, not due to an increase in the flow of inbound tourism. The impact of this transaction on the growth of export revenues is reflected also in the figures for the first half-year of 2007.

In earlier years the number of foreign tourists staying overnight in Estonian accommodation establishments increased continuously. This trend did not continue in 2006. More than 1.4 million foreigners stayed overnight in Estonian accommodation establishments in 2006 which is slightly less than in 2005. The number of holiday makers increased but that of business travellers fell. Developments in the Estonian accommodation sectors have been influenced the most by the flows of Finnish tourists. Their decreased number is the reason why the number of foreign tourists accommodated did not increase in 2006.

However, overnight stays by foreign tourists exceeded the relevant figure in 2005 by 1.3%. The duration of stay at accommodation establishments has grown (the average stay being 2.1 nights), positive developments were noticeable for many countries. The increase is also partly attributable to another factor, a change in the pattern of foreign tourists – the share of tourists from countries whose tourists stay at an accommodation establishment for a longer time, has increased.

The overnight stays of Finnish tourists dropped by 5% in 2006. The downward trend for Finnish tourists started in May 2005 when a year had passed from Estonia's accession to the EU. After Estonia acceded to the EU, the interest of Finns towards Estonia, as well as that of the people in other countries, increased.

However, the results of a survey made by the Finnish Statistical Office show that Finns made more trips in 2006 with overnight stays into Estonia than the previous year. The number of trips with overnight stays on ships fell. Since Finns have purchased a lot of real estate in Estonia, they use their own free accommodation instead of staying at Estonian accommodation establishments, which has also contributed to the decrease in the number of overnight stays in Estonian accommodation establishments. It may be forecast that the number of one-day visitors from Finland will continue to fall because the number of ships servicing the Helsinki-Tallinn route and traveller flows have dropped.

In addition to Finland, the developments were not positive in respect of some other important tourism partners. The number of tourists from Germany fell by more than one tenth and the number of Swedish and UK tourists did not change. On the other hand, there was significant growth as regards inbound tourism from other countries which so far had played a minor role in the Estonian tourism industry, helping to compensate for the loss of tourists from the major tourist partners. The number of overnight stays of tourists from Latvia, Russia, Norway and many other countries increased by more than a quarter. As regards Russia, simplified visa procedure is certainly one of the supporting factors, although the number of Russian tourists has also increased in other countries, for example Latvia and the Nordic countries.

The demand of foreign tourists for accommodation in West-Estonia decreased in 2006, mainly due to the smaller number of Finnish tourists. As West-Estonia has been one of the favourite tourist attractions besides Tallinn, it may be assumed that real estate has been purchased in this region and it now being used for accommodation.

Developments were positive in respect of foreign tourists staying at health rehabilitation centres. Their number increased by 11% in 2006. A larger number of shorter trips than before were made, as a result of

which the growth in overnight stays rose only by 4%. Demand grew the most among the main target groups – Finnish, Swedish, Norwegian, Russian and Latvian visitors. More and more people from far away countries come to Estonian health rehabilitation centres.

The overall picture for foreign tourists using the services of travel agencies was similar to the developments of accommodation establishments. The number of tourists with overnight stays from Finland, Germany, Sweden and the UK dropped considerably. Also, for many other countries the number of tourists using the services of travel agencies fell behind that of 2005; significant growth in demand only took place as regards Norwegian tourists (+40%). The clients of travel agencies are mostly one-day visitors. Their number was smaller than in the previous year but the decline was more modest than for tourists staying overnight (5%). The majority of one-day tourists are Finns and their number dropped as well. Also, the number of tourists from Sweden and Germany decreased. An important growth (ca 40%) took place in the number of one-day tourists from the United States, related to an increase in cruise ship visits.

The number of traditional cruise passengers increased by 19% in 2006; together with short-distance cruise passengers the rise was 6%. Almost 300 cruise ships with more than 300,000 passengers visited Estonian ports. A port in Saaremaa was opened in 2006, and seven ships brought in 5,000 passengers. The Port of Tallinn is expecting that the number of cruise passengers in 2007 will stay at the level of 2006.

The continuous increase in the supply of tourism services and the work done to promote tourism opportunities in Estonia create preconditions to increase inbound tourism in the next years. Opening of new air routes also contributes to travelling. However, it should not be forgotten that Estonian competitors are active in promoting their countries.

Domestic tourism

The number of trips made by Estonians in Estonia has continuously increased in recent years. Due to the increased living standard and income increasingly more paid accommodation services have been used. But a large number of trips are made to visit relatives and friends and in this case people use the opportunity to stay overnight at their place.

The number of domestic tourists staying overnight at Estonian accommodation establishments had a major boost in 2006, more than by one third. In previous years the majority of clients at accommodation establishments were Finns, however, in 2006 Estonians rose to rank first (37% of clients in 2006, 30% in 2005). Health rehabilitation centres have also gained popularity. In 2006, the number of people using their accommodation services and the number of overnight stays grew by almost one quarter. The

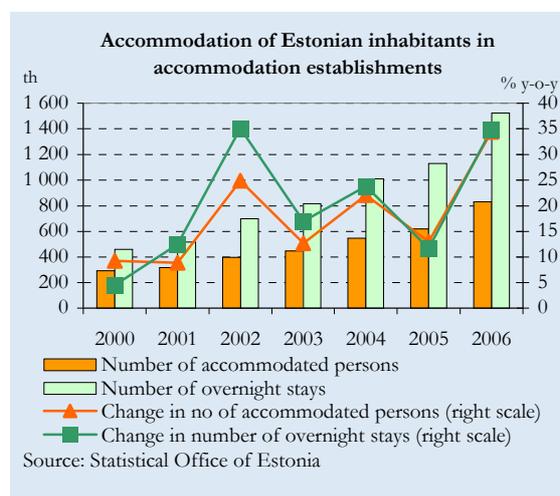
use of accommodation establishments for business trips and holidays increased the most.

Demand grew considerably all through the year. The growth in the number of overnight stays by Estonians somewhat helped to alleviate the seasonal fluctuation in accommodation demand.

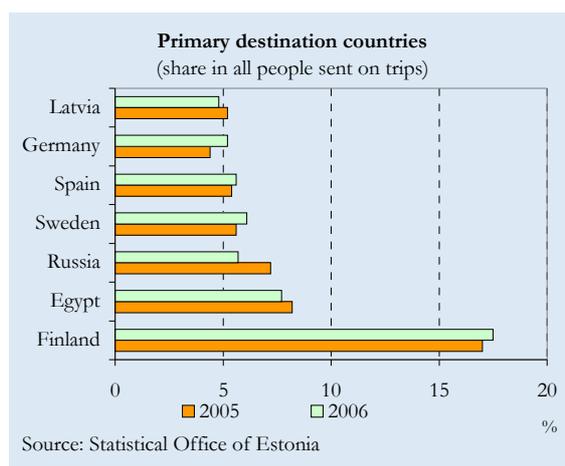
The number of domestic tourists grew almost all over Estonia. Accommodation establishments in North- and South-Estonia gained the largest increase in visitors. The number of overnight stays declined only in Järva and Jõgeva counties where, by statistical data, the number of offered rooms and beds also fell.

Although there was an upsurge in the use of paid accommodation services by Estonians, the use of travel agencies to organise domestic trips decreased by one fifth. The services of travel agencies are generally used little in the case of domestic travel because people mainly organise their trips themselves.

By Saar Poll's survey concerning domestic trips in summer the number of trips somewhat increased compared to the previous year but the number of people travelling has stayed the same in recent years. $\frac{2}{3}$ of the respondents made at least a 3-hour leisure trip in summer and 55% of the Estonian inhabitants went on a trip with an overnight stay. Compared to 2005 the number of one-day trips for cultural or entertainment events dropped. Inhabitants going on trips with overnight stays made on the average three trips per summer, the number of one-day trips per traveller was less than three. Young people and those with higher income are the most active travellers.



The most popular overnight stay destinations are, like before, Tallinn, Pärnu and Saaremaa, for non-Estonians also Ida-Virumaa. The main objective of the trip is to visit relatives and friends (more than half of the respondents); the other important objectives were beach holidays and various family or personal events (birthday parties, weddings, reunions). The majority of people use the opportunity to stay the night at relatives or friends and the share of paid overnight stays of all overnight stays was 20%.



In general, the respondents were of a relatively good opinion about domestic tourism. People are satisfied with sightseeing and leisure opportunities, regarding them to be sufficient. Lower points were given to the price-quality ratio of accommodation and catering.

It is predicted that domestic tourism in Estonia will continue to grow but the developments in 2007 will probably be more modest than in 2006.

Outbound tourism

The number of trips abroad has increased all the time and 2006 was not exceptional. The increased living standard has been favourable to travelling; there are also increasingly more business trips abroad. The spread of e-services and low budget airlines and their overall influence on the price level of all airlines have also contributed to making trips abroad.

The costs of Estonian people while travelling abroad grew by 30% in 2006, exceeding 7 billion kroons. In addition, foreign transportation companies earned 1.4 billion kroons as import of transport services.

Most trips to foreign countries are made independently, travel agencies organise about one quarter of the trips. About 480,000 trips abroad were made in 2006 through travel agencies, being by 5% more than in 2005. At the same time the average stay per trip decreased and the tourists sent to foreign countries by travel agencies spent less time there than before (by one tenth). More short trips were made to countries close to Estonia. The duration of trips decreased both in regard to longer and shorter trips.

As previously, the largest number of trips were made to Finland. The number of people sent to Finland by travel agencies grew by 8%. Trips to Finland which are short in itself (on the average 2-3 days) became even shorter, and because of that the number or man-days spent in Finland dropped by one fifth.

By the data of travel agencies, the most popular destination by the time spent on spot was Egypt. The number of trips to Egypt was slightly below the level of 2005. A higher number of trips but shorter in duration were made to Spain. In 2005 Egypt pushed Finland from the top of the list of destinations, and in 2006, overnight stays in Spain also exceeded those in Finland.

Among the main destinations trips to Turkey and Russia by using the services of travel agencies fell considerably. Positive developments took place as regards Italy, Greece and Thailand.

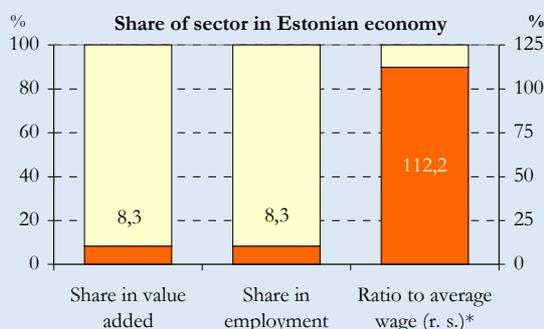
Future outbound tourism will be supported by the same factors that have influenced it so far – increased living standard and easier planning of itinerary. In addition to a growing number of trips it is expected that a geographical expansion as regards the destinations will take place.

Transport

The Estonian transport system comprises railway, road, sea, inland water and air transport, electric public transport in cities and transport via pipelines. The transport sector employs almost 50,000 people (ca 8% of all the employed). Transport, including transit, contributes considerably to export revenues and balances the Estonian foreign trade balance.

In passenger road transport Tallinna Autobussikoondise AS is the dominating enterprise, operating bus routes in Tallinn. Electric transport is represented by two companies - Elektriraudtee AS and Tallinna Trammija Trollibussikoondise AS. In railway transport, AS Eesti Raudtee (Estonian Railways) is the largest company. The railway transport market is open in Estonia and several operators, such as Spacecom, Trendgate, Edelaraudtee and Elektriraudtee, are active in passenger and cargo transport. In cargo transport, AS Schenker, DFDS Transport AS and SP Transit Eesti AS are the leading logistics companies. The most important Estonian company in the water transport branch is AS Tallink Grupp, a shipping company operating passenger transportation and carriage of goods which, after the acquisition of Silja Line's stocks, became the largest shipping company of the Baltic Sea. AS Estonian Air, a company engaging in international passenger and cargo carriage, is the biggest enterprise in air transport.

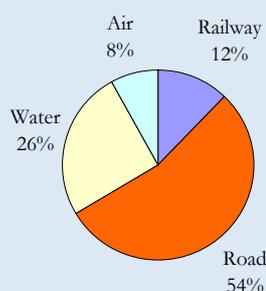
The employment figures of the sector have been stable in recent years, the biggest growth took place in 2006. No sharp changes in the employment trend are expected for the near future.



*By enterprise statistics

Source: Statistical Office of Estonia

Transport in Estonia by net sales in 2006



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

The rapid economic growth in 2006 brought higher net sales and revenues from the provision of services for the Estonian transport companies. 2006 was marked by two important events: Tallink acquired Silja Line and the Estonian Government bought back Estonian Railways.

Government control over the railway infrastructure gives more certainty and security for many transit partners in the east and west.

Cargo flows on roads have increased rapidly. For example, the number of trucks crossing the border in Narva has grown by more than 40% per year. The cargo volumes crossing our eastern border have grown by ca 10 times in 2000-2006. In addition to the extra burden for roads, it has also increased pressure to border crossing points which currently are not able to meet the capacity need. Road transport border crossing points with Russia pose serious problems. As the problem is a general one and queues of lorries at the border crossing points with Russia in other countries are even longer than in Estonia, the number of lorries from third countries in transit through Estonia to Russia escalated remarkably after Estonia's accession to the EU. In 2003, the share of foreign carriers at Estonian-Russian border crossing points amounted to 38%, in 2005 already to 72% and in 2006 even more. 64% of the total volume is covered by Latvian, Polish, Lithuanian and Russian lorries. Unfortunately, negotiations with Russia concerning the establishment of a new border crossing infrastructure in the Narva area have currently been suspended due to economic-political reasons.

The long queues of trucks waiting at the border are a considerable obstacle to the smooth movement of the increasing cargo flows. In Narva, the border crossing bridge is the main problem – the expansion possibilities of the border crossing point are restricted due to the city environment.

An Estonian-Russian joint transport committee was established in 2006 to discuss issues related to border

crossing and the reopening of regular passenger train and air connection between Tallinn and St. Petersburg, as well as the launching of a ship route between Tartu and Starozhinets. The creation of good-neighbourly relations with the primary transit donor Russia is also important for the development of trade between Asia and the European Union because the land route between these two economic regions goes through Russia.

The net sales of transport companies rose by a quarter in 2006. It was backed by an increase in the cargo volume and in the price of services, the latter mainly due to the increased fuel price. Sales grew the most rapidly for companies engaging in road and water transport and in enterprises providing supporting transport activities. Rail and air transport companies showed a more modest development. In water transport the acquisition of Silja Line by Tallink had its impact, raising the turnover of the sector by almost a half in the second half-year.

The number of people employed by the transport sector grew, according to labour force survey, by 15% in 2006, and exceeded 50,000 people. Enterprise statistics does not confirm such high figures, although the number of the employed increased, especially in road transport and in companies engaging in supporting transport activities.

Cargo volumes amounted to 92.6 million tons in 2006, dropping by 3.8% mainly due to the diminished transport of oil shale. On the other hand, the volume of sea cargo increased especially rapidly (by 31.4%), while road transport grew by 10.9% and public rail transport by 0.3%. Total cargo transport turnover increased by 5.5% due to the expansion of international road transport (its volume increased by 21.6% in 2006); in road transport the growth amounted to 15.9% and in sea transport to 6.8%. Cargo volumes decreased in rail and air transport.

Passenger transport (214 million passengers) grew by 2.2% or by 4.5 million passengers in 2006, mainly on account of urban public transport, bus transport and electric transport. It is positive that the number of train passengers increased by 2.8% and that of sea passengers by 5.7%, although on account of international shipping lines where the number of passengers even grew by 14.8%. 22 million people used the services of county transport routes, 765 thousand people used municipality routes and 6.2 million people used national transport services.

Passenger volumes in international shipping lines grew rapidly (19.1%); the total passenger turnover grew by 6.3% and reached 5.1 billion passenger kilometres. In urban public transport, the average length of a ride is 4-5 km, on international bus routes 585 km and on air routes 782 km.

Transit volumes grew at a moderate pace in 2006 – transit through ports increased by 5.7% and amounted to 38.8 million tons. Oil is still the dominating transit article; however, significant

changes in the structure of cargo can be noticed. Although the volume of oil products grew by 3.2% (27 million tons), the volume of crude oil (0.3 million tons) dropped by 8 times. The volume of coal almost doubled, transport of transport vehicles increased by 6.6 times, transport of timber by 7.1 times, transport of grain by almost three times, etc. Transportation of fertilisers is still high – more than 2 million tons but it dropped by 12% in 2006. It is positive that the volume of container goods transport grew by 32% in 2006. In recent years attempts have been made to diversify the structure of transit goods and expand transit geography and it seems that the first fruits can be seen – oil and fertilisers are gradually giving way to more environmentally friendly goods that give more value added. In 2007 projects have been launched to develop north-south and west-east transit, which will improve our transit performance even more and will raise the competitiveness of the Estonian transit corridor in the international market.



Another positive tendency showing a change in transit direction is that the volume of transit cargo originating from the east and transported from Estonian ports grew by 3.3%, but the volume of transit cargo coming from the west increased by 113.8% (more than two times). This change is backed by the growing consumption in Russia and other CIS countries.

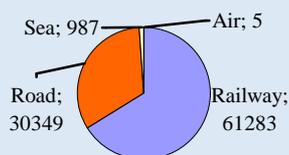
Transit is of utmost importance for the Estonian transport sector and its share continues to grow. Transit forms 78% of the turnover of ports, 60% of rail transport, including over 90% on public railways. The trends in rail transit are similar to those in ports, i.e. the most voluminous transit takes place in the transport chain railway-ports-sea. The share of oil in the total cargo volume is diminishing, the share of other goods is growing.

153 thousand (TEU⁷) containers passed Estonian ports in 2006 but only 15 thousand were transported by rail. Their number at ports grew by 19% and on the railway by 46%. It is expected that container transport will have a bright future in Estonia. Contacts with various Chinese ports and regions, Kazakhstan, Ukraine, Sweden, Belgium and other countries are more and more frequent, in order to establish a processing base for transit container goods

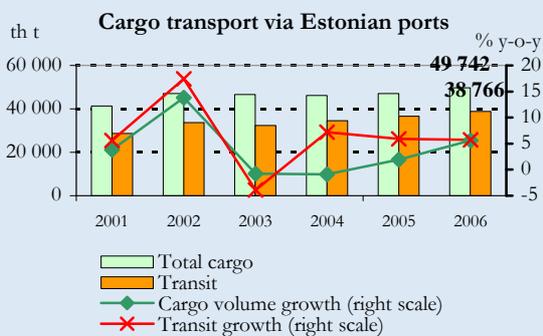
⁷ TEU – twenty-foot equivalent unit for sea containers.

in Estonia for which we have favourable conditions in terms of developed logistics services, transport infrastructure and economic climate supporting transit trade. The extremely rapidly growing production and consumption in SE-Asia brings about an increase in transcontinental transport and the Estonian transit corridor strives to be one of the links, besides other countries, in the chain.

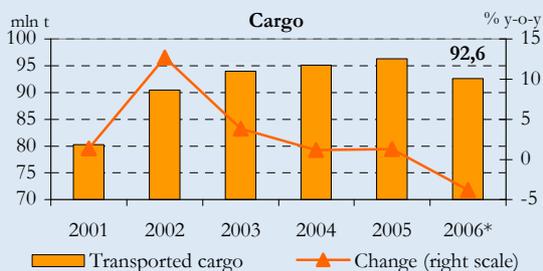
Cargo transport by mode of transport in 2006 (th tons)



Source: Statistical Office of Estonia

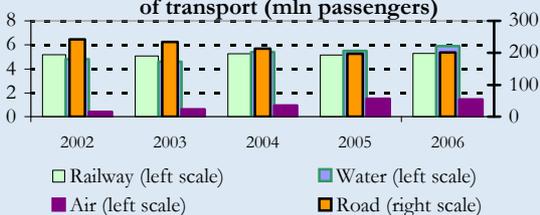


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Passenger transport in Estonia by mode of transport (mln passengers)



Source: Statistical Office of Estonia

Air transport has become affordable for the wider public and the interest of airlines and passengers of other countries towards Estonia has grown. Also, people now value time much more than before. Due to the smallness of the Estonian territory the number of domestic passengers only forms 1.7% of all air passengers and the corresponding passenger turnover only 0.6% of all turnover. Domestic cargo transport

by air is also marginal. The overall number of air passengers dropped slightly (by 3.4%) but passenger turnover increased because there was preference for longer flights. The total cargo transportation by Estonian aircraft fell but the transportation of post grew by 30% which points to the tendency that foreign airlines are becoming more active in the transportation market.

The total volume of cargo transported by Estonian transport companies in 2006 was 92.6 million tons. One third of it is attributable to road haulage and two thirds to railway. The share of international cargo transport in the total cargo transport volume is 53%, pointing to a growth (49% in 2005). In road transport, the share of international carriage is 22%, in public railway 92% and in sea and air transport practically 100%. All transport modes are increasing the share of international transport. The number of passengers using sea transport grew by 315 thousand people in 2006 (by 5.7%) – the total number of passengers amounted to 5.8 million. The volume of cargo moving through ports went up by 5.6% (the total volume was 50 million tons). The share of export goods fell by 3.3% and that of imported goods increased by 20.5%.

Estonian cargo vessels carried 987 thousand tons of cargo in 2006; compared to 2001 the figure had diminished by 34%. It is only 1/50 of the total volume of cargo going through ports which proves that Estonia has practically no cargo fleet. Estonian Shipping Company that once owned 80 vessels, is just a memory, and the few ships belonging to Estonian owners are operating under the flags of foreign countries because it is more advantageous for the owners.

In 2006, 5.3 million passengers used the services of passenger trains, which is 145 thousand people more than the previous year. 142 thousand passengers used the only international rail passenger route Tallinn-Moscow, the figure being 4,000 more than in 2005. The bulk of the passengers use the electric railway services and Edelaraudtee diesel train services inside the country. Both companies have tried to promote passenger transport by railway and have already had some success.

Cargo transport by rail amounted to 61 million tons in 2006, including 45 million tons on public railway. Of the latter, 41.6 million tons were transported as international carriage. The volume of international carriage by the public railway company (Eesti Raudtee) grew by 1.7% in 2006. The volume of transit goods amounted to 36.5 million tons, including 22.7 million tons of oil products, 7.6 million tons of coal, and 2 million tons of fertilisers. Inside Estonia mainly oil shale is transported – 13.9 million tons in 2006. The volume of the transported oil products amounted to 2.4 million tons and that of building materials to 1.7 million tons. The domestic volume of other cargo – fertilisers, metals and timber – does not exceed 300-400 thousand tons as a rule.

Road haulage companies transported 30 million tons of cargo in 2006, exceeding the figure of 2005 by 10.9%. International transport constituted 22% or 6.5 million tons of this volume, growing by 21.6% during the year.

Freight turnover increased in all types of transport except railway (-2.1%, including public railway – 2.0%) and air transport (-24.5%). Road haulage had an especially rapid growth in freight turnover (15.9%, including 16.4% in international transport). However, taking into account the large number of road transport companies and the fact that only sample surveys are made in this sector, the observations may not reflect the reality exactly. As the average distance for road haulage is already 292 km and is increasing, it is evident that a large part of the business is international.

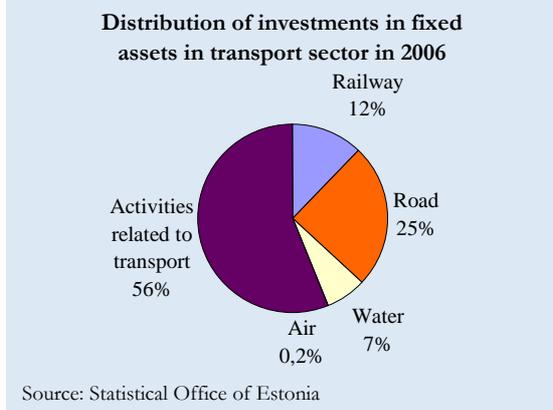
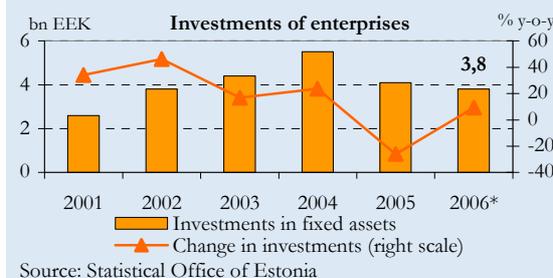
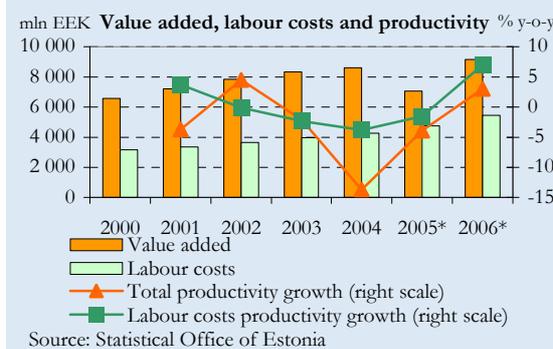
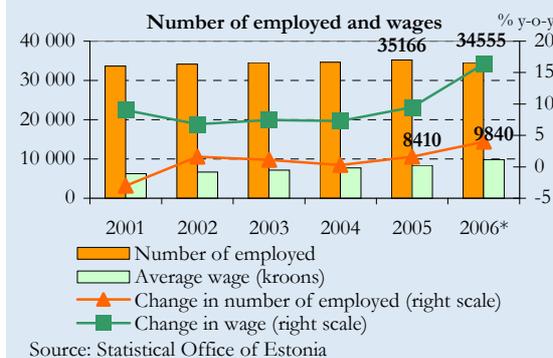
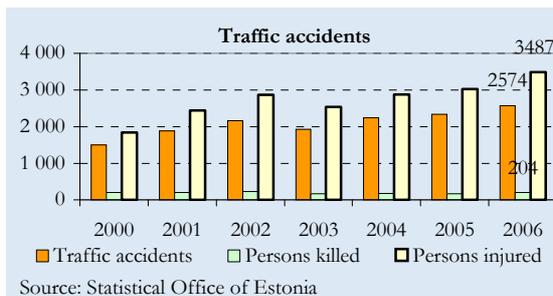
The generally positive developments of the transport sector are overshadowed by the deteriorating traffic culture in streets and roads. The reasons are the increasing number of cars and insufficient traffic control. Road safety deteriorated sharply in 2006 when the number of traffic accidents and casualties increased.

In 2006, transport companies invested by one tenth more in fixed assets than a year before. Investments in transport vehicles increased by almost a half and investments in land purchase increased several times. Investments grew in road and water transport companies, in other sectors the volume of investments fell behind that of 2005.

Revenues of companies grew slightly faster than expenditure and profit increased by almost a half. Labour and cost productivity were better than the previous year. However, the whole sector did not share these developments. Similar to the rapid growth of turnover, road haulage companies had better indicators of profit and productivity than in 2005. In the air transport sector revenue remained on the same level but costs grew at the same pace as in other types of transport, resulting in a loss.

By enterprise statistics the average gross wage grew by 16% in 2006, reaching 9,840 kroons and being by 12.2% higher than the Estonian average gross wage.

In the next years, in relation to the economic growth and expansion of transit transport, cargo volumes are expected to grow and economic indicators to improve in the transport and logistics sector. International passenger transport will grow as well, also in rail transport – a passenger train transport route Tallinn-St. Petersburg was reopened in 2007. In relation to the development in Tallink and Tallinn Airport passenger flows should grow in sea and air transport. The number of people employed by the sector will be the same or grow slightly.



Transport policy

Ensuring access for people and enterprises to sites needed for their everyday activities is the primary objective of a transport system. A well organised transport system is an essential component of the living and business environment meeting today's needs, raising the attractiveness of the living environment and promoting the development of local businesses which, in its turn, helps to increase the competitiveness of Estonian economy. On the other hand, effective operation of economy is possible not only through the rapid development of the transport sector as a separate economic sector, but through streamlining of transport costs at all levels, including prevention of unnecessary transport needs.

The Estonian transport policy and strategic objectives are described in the **“Transport Development Plan 2006-2013”** completed in 2006 and approved by the Government on 2 November 2006 (it was approved by the Parliament at the beginning of 2007). A separate document, Public Transport Development Plan 2006-2010, was attached to the Transport Development Plan.

The mission of the Estonian transport policy is as follows: a transport system must ensure mobility of persons and goods, being at the same time efficient, safe and environmentally friendly. In the light of this mission it is important to have an integrated approach to the development of a transport network, as well as properly defined priorities and emphasises. The main development trends of the transport policy are the development of sustainable transport (including public transport) in order to ensure access through transport corridors, as well as regional transport connections and logistics of transport, including promotion of multimodal solutions.

Focus is on the development of various transport modes, based on the strengths of each mode and creating a better synergy between them. At that, it is important to take into account the social-economic aspect. While considering the need for mobility of people and goods it is necessary to take into account the need to effectively use the infrastructure, public transport, light vehicles and resources. It is important to ensure sustainable development, including prevention of traffic accidents and environmental damage, reducing regional differences, increasing the competitiveness of transport companies. Environmental aspects are the first priority concerning the future of the Estonian transport policy.

Transport infrastructure

By 1 January 2006 there were more than 56,850 km of roads in Estonia of which 16,470 km of roads were in state ownership. The road network is very dense in Estonia (1.25 km/km²) – in the EU15 it is 0.84. However, the quality and technical and traffic safety standard of the roads do often not meet the needs of today's economy and expectations of the users. The average age of road covering is over 20 years and is increasing. (Winter) road maintenance on secondary roads which are also used by public transport, is also a serious problem. In recent years the quality of covering has remarkably been improved on the main roads. On basic and secondary roads and on municipal roads and streets the rate of decomposition still exceeds the volume of repair.

Traffic load has significantly grown: it increased by 7.4% on the main roads and by 5.4% on basic roads. Main roads take 48% of the mileage, although they only form 9.7% of the state roads. In urban areas urban sprawl creates problems, having increased the traffic flows in some areas several times. In addition, higher income and improved credit opportunities have boosted the number of registered cars which has grown by almost a quarter in the past four years (since 2002). All this adds to the acuteness of problems in the transport sector, exhaustion of the capacity of traffic hubs and ramps (including those providing access to ports) and increasing costs for society.

The level of traffic management and control is not sufficient to ensure safe traffic. The number of

casualties through traffic accidents is still high (although decreasing) and the number of traffic accidents and their damage to society is constantly growing. In 2006, 201 persons lost their lives in traffic accidents which, considering the population, is 30% more than the EU average and about twice more than in Sweden. The number of accidents has grown by 50% compared to 2000. The low percentage of environmentally friendly vehicles, especially buses, in the rolling stock is also one of the problems, which among other factors has an impact on air quality (especially in cities) and thus directly on public health.

At the beginning of 2006, the total length of Estonian railways amounted to 1,696 km, of which 968 km were public railways. Estonia is among the countries with the lowest rail network density in Europe and we do not have rail connection with Central Europe. Electric railway exists only in the vicinity of Tallinn in the eastern and western directions and its length constitutes 13.6% of public railways. Railway infrastructure and its operation were privatised in Estonia but since the end of 2006, most of the infrastructure is again in state ownership. Scarcity of investments in railway infrastructure in public interests is a problem, affecting the capacity and the operation of passenger trains (due to the quality of infrastructure the speed of trains has not increased as much as necessary). Another problem related to the low amount of investments is the shortage of passenger train rolling stock, needed to replace the old cars by new ones. Passenger train delays due to

maintenance works of the infrastructure and traffic control are also a serious problem. Estonia has no passenger train connection with other EU countries.

Estonia has a high risk of pollution caused by rail accidents. The majority of oil products and other hazardous goods are transported through densely populated areas, including through Tallinn, Tartu and Narva. Noise and vibration, especially in recent months due to the increased freight traffic, have become an ever increasing problem for urban areas, but also in areas in the vicinity of cities. Mainly due to the cutting of costs, the number of controlled railway crossings has been reduced by 58% in 1995-2006 and the number of accidents on the crossings has continuously grown.

Estonia has 930 nautical miles of seaways equipped with navigation marks. All of them require hydrographical survey and reconstruction in 2007, in order to improve traffic safety and meet the needs of modern maritime traffic in accordance with international declarations. However, the existing means and their capacity (vessels and equipment) do not meet the actual needs in terms of survey and maintenance and cannot ensure sustainable development in this field. In cold winters the problem of icebreakers has so far been solved by renting icebreakers from the neighbouring countries but this solution is not the best and the cheapest in long-term and will not ensure sufficiently smooth operation of maritime transport.

Most of the international maritime freight and passenger transport is operated through the ports belonging to AS Tallinna Sadam (Tallinna Vanasadam, Paljassaare, Paldiski Lõunasadam and Saaremaa). The Port of Tallinn ranks third in terms of cargo turnover in the Baltic Sea. Several private ports (Sillamäe, Pärnu and Paldiski Põhjasadam) also demonstrate a growing potential. However, while the ports servicing international shipping lines have developed well, the ports servicing local connections between islands need expansion and reconstruction, in order to ensure faster and safer transport of ships, passengers and cargo. The most important ports for local traffic are in the ownership of AS Saarte Liinid. In the interest of co-operation and cohesion of countries (regions) is it also important to develop the small ports on the western and eastern coast. Yacht ports play an important role in tourism.

The airports of Tallinn, Tartu, Kuressaare, Kärdla and Pärnu and the City Hall helicopter field are open for international air traffic. Tallinn Airport is clearly too small considering international air traffic trends and needs further reconstruction and expansion. The airport has practically no public transport connection with the city centre. For domestic air traffic Kärdla Airport on the Island of Hiiumaa and Kuressaare Airport on the Island of Saaremaa are important but connection has to be ensured also with small islands. Considering the increasing air traffic volumes, including the growing number of international flights

to and from Estonia, it is important to constantly apply air safety and security measures to ensure compliance with international requirements and to take into account the environmental aspects.

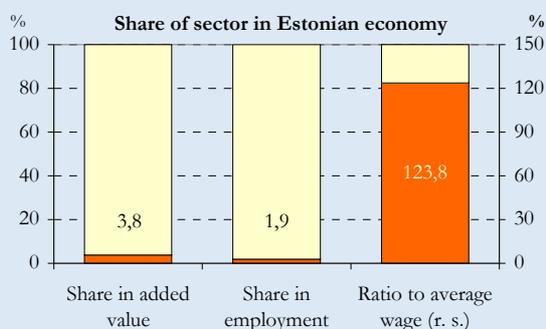
The environmental burden of transport is high, especially as regards the impact on ambient air quality. Public transport has the ability to alleviate the negative environmental impact caused by traffic growth and to inhibit the increasing traffic burden on roads. Unfortunately, as the population's income increases, more and more cars are bought and the popularity of public transport has dropped. In 2006, ca 214 million trips were made by public transport (about 1/2 of this in Tallinn). Of all trips, ca 2/3 were made by bus, almost 30% by electric transport (trams and trolleybuses in Tallinn) and only 2% by train (incl. 1% by electric railway). In cities the share of public transport amounts to 30-40% of the total number of trips. The larger cities in Estonia participate in international research (Tallinn in the framework of the PILOT project and Tartu ja Pärnu in the framework of the BusTrip project) under which they develop a sustainable transport plan for their cities.

Communications

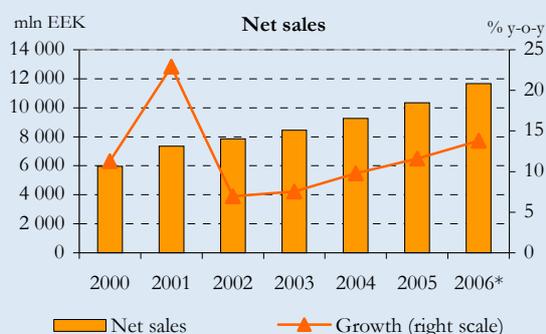
In recent years, the communications sector has shown especially rapid development in respect of mobile and data communication. The sector is characterised, on the one hand, by very tight competition among businesses and the decreasing communication prices, and on the other hand, extensive attention to the development of new technical solutions. The latter has brought about an increase in the number of users and a positive response to new services.

The larger enterprises in the Estonian communications sector are the telecommunications operator Eesti Telekom Grupp AS, with its affiliated companies mobile operator EMT and the fixed network services provider Elion, and Tele 2 Eesti AS and Elisa Eesti AS. In addition, AS Starman is one of the largest telecommunication companies providing cable television and data communication solutions. The largest mail operator is AS Eesti Post (a state-owned company) which is the only provider of universal service. DHL Estonia AS is the largest courier service provider.

The sector's number of employees showed a declining trend in recent years due to the development of digital technology but went up again in 2005 and 2006, backed by the telecommunications field. A stabilisation in the number of employees is forecasted for the sector. As communication means are used more and more, it can be predicted that the growing sales trend will continue its rise in the future. The communications sector has undergone a remarkable qualitative development that will continue under the tight competition situation. It also means that the qualification of the people employed in the sector will increase.

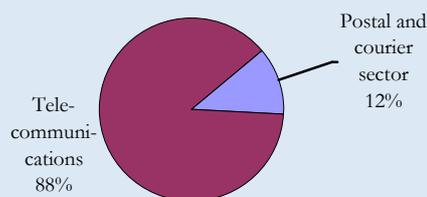


Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

Communications sector by distribution of net sales



Source: Statistical Office of Estonia

The postal and telecommunications sector continued its positive developments in 2006. The development was mostly marked by the bringing of new data communication services to the market and the development of digital television. The total sales growth of enterprises was the fastest of the past three years.

The growth rate of sales amounted to almost 15% in 2006 (Estonian average was 20%), accelerating for the fourth year in succession. The majority of the turnover was generated by the telecommunications sector whose increasing sales can be attributed to the successful overall economic growth. It has resulted in an increase in people's income and a corresponding growth in their spending on communication services. On the other hand, both postal and telecommunications companies have made investments to bring new attractive services to the market which have had a positive response from the consumers.

The net sales of the postal market have grown from year to year. The sector's turnover amounted to 1.4 billion kroons in 2006 and the growth was almost one tenth more than in 2005. There are four main market segments: universal postal service, courier service, direct mail service and other services. Universal postal service had the highest share (ca 50%) and was followed by the courier service (36%). In the universal service the share of letters is decreasing and that of direct mail increasing. However, the universal postal service is giving some of its market share to the courier service which is characterised by strong competition. Both domestic and international service providers are represented.

The turnover of the telecommunications sector reached over 10 billion kroons in 2006; its growth rate was almost 15%. In the market of electronic communications the share of the fixed telephone services continued to fall, being replaced by increased number of users of mobile communication services

and electronic communication services. In the mobile communication market both the number of clients and the activity of using services per client increased. The so-called integral packages including provision of a fixed telephone line, internet connection and cable television were very well accepted by the population.

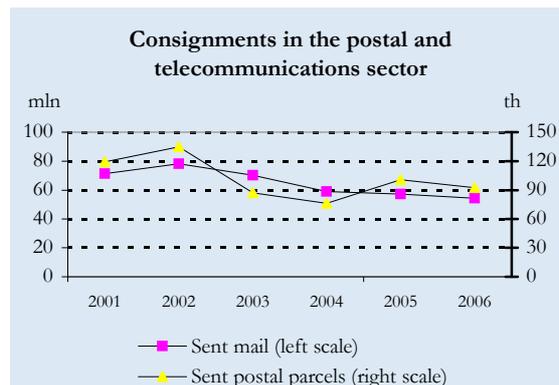
The data communication services market was characterised by the expanded opportunities to have a fixed connection. 46% of Estonian households had internet connection at home and 4/5 of them had broadband connection. With this, Estonia ranks 12th among the EU25. 97% of companies used fixed connection. Internet availability in rural areas should considerably be improved by the use of wireless data communication technologies using LAN (such as WiMAX). The improved technical quality of communication networks has also boosted the development of mobile data communication, offering possibilities to combine products that so far existed isolated.

The mobile penetration rate in Estonia rose to 123% at the end of 2006. The corresponding indicator of the EU25 was 103.2% in October 2006, being the highest in Luxemburg (171%, includes usage of people coming to work to Luxemburg from the neighbouring countries), Italy (134%) and Lithuania (133%). In Estonia, however, the market has practically been distributed by the operators and the prices of calls have continuously dropped due to the fierce competition. Instead of increasing the number of clients businesses contribute more to developing the quality of services (e.g. various 3G services).

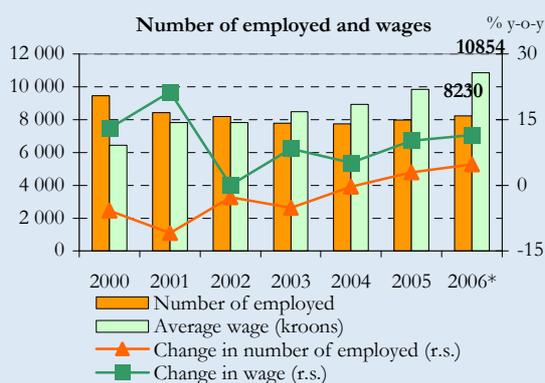
Digital television made a major leap upwards during the year. Digital television became available for the wider public in the first half of 2006. By the end of the year almost 60 thousand households had digital television. Digital TV is provided by AS Elion and AS Starman. In the coming years digital television should spread all over Estonia, accompanied by additional services and a rapid increase in the number of users.

The sector's workforce grew by 5% in 2006 compared to the previous year, almost equally in the two main branches. The postal sector employed 5.1 thousand and the telecommunications sector 3.2 thousand people. The latter can be considered to be one of the most know-how- and capital-intensive sectors in Estonia, demonstrated by its much higher productivity compared to other industries. Because of that, its gross salary is almost twice as high than the Estonian average. The gross salary of the postal sector was slightly lower than the Estonian average but is growing at the same rate as the average of other sectors. In the telecommunications sector the salary grew somewhat slower.

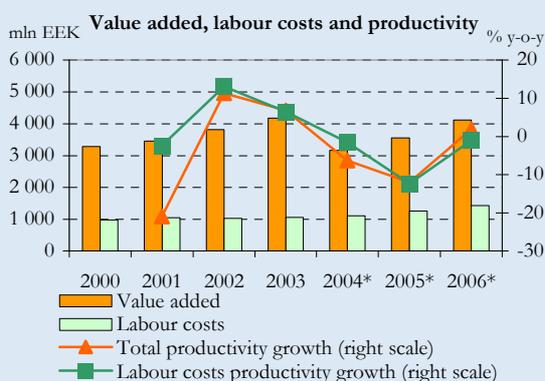
By profitability, the telecommunications sector has been one of the most attractive in Estonia; share of



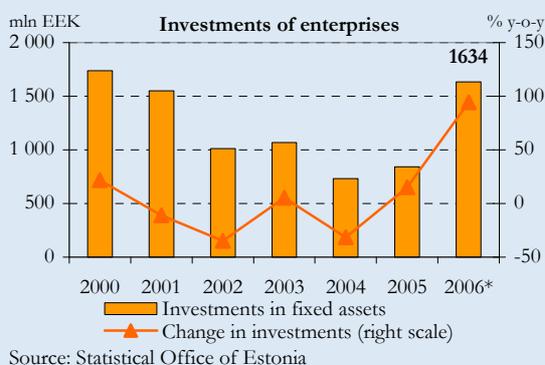
Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia



Source: Statistical Office of Estonia

total profit in net sales has been a quarter on the average. It was the same in 2006. Revenues grew faster than total expenditure in the

telecommunications sector but slower in the postal sector.

As a rule, the telecommunications sector makes more than 95% of the industry's investments in fixed assets. In 2006, its investments surpassed those of 2005 by almost two times. 2/3 of the investments were made in machinery and equipment, followed by computers and IT systems. These investments contributed the most to the growth compared to 2005. The postal sector also invested the most in machinery and equipment, contributing more to its growth compared to the previous year.

It is expected that the technical quality of the communications sector will increase in the next years but also that competition will continue to be very tight. Better internet availability (especially in rural areas) may be forecast, as well as an increase in the provision of new data communication solutions. The share of electronic communications should continue to grow.

Annexes

Annex 1. Trade with associations of countries

Association of countries	Volume (mln kr)				Share (%)				Change (y-o-y)	
	Exports		Imports		Exports		Imports		Exports	Imports
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
EU	75 131	77 329	97 718	122 451	77,7	64,7	75 131	77 329	97 718	122 451
CIS	8 381	12 568	14 934	26 518	8,7	10,5	8 381	12 568	14 934	26 518
EFTA	3 361	3 841	1 727	1 812	3,5	3,2	3 361	3 841	1 727	1 812
NAFTA	3 733	8 745	2 048	2 118	3,9	7,3	3 733	8 745	2 048	2 118
Total	90 605	102 482	116 426	152 900	93,7	85,7	90 605	102 482	116 426	152 900
Total Estonia	96 747	119 520	128 365	165 298	100,0	100,0	96 747	119 520	128 365	165 298

Source: Statistical Office of Estonia

Annex 2. Exports by commodity groups by main target countries in 2006

Commodity group (%)	Finland	Sweden	Latvia	Russia	USA	Germany	Lithuania	Gibraltar	China	Norway	Total share
Live animals and animal products	12,5	2,5	13,9	19,3	0,6	12,0	6,2	0,0	0,2	0,2	67,5
Vegetable products	16,5	6,2	9,8	14,7	0,2	4,2	10,4	0,0	6,4	0,8	69,2
Animal or vegetable fats and oils	7,5	5,9	32,4	0,6	0,0	5,8	42,7	0,0	0,0	0,0	94,9
Prepared foodstuffs; beverages; tobacco	10,9	2,1	19,3	31,3	0,4	1,8	20,4	0,0	0,0	0,9	87,1
Mineral products	3,3	2,6	3,6	1,1	32,0	1,6	1,4	28,5	0,0	0,1	74,2
Chemical products	4,4	6,0	19,1	22,0	7,9	3,9	7,6	0,1	0,1	0,6	71,6
Plastics and articles thereof, rubber and articles thereof	14,3	15,9	16,2	10,9	0,4	5,3	11,3	0,0	0,9	4,8	80,1
Leather, fur and articles thereof	23,1	2,5	9,2	5,3	1,8	1,2	1,5	0,0	0,0	0,9	45,3
Wood and wood products	17,6	13,1	3,1	1,2	2,5	8,8	1,6	0,0	0,8	5,0	53,8
Pulp of wood and articles thereof	9,9	10,9	5,5	16,6	0,2	5,7	4,9	0,0	1,4	3,1	58,2
Textile and textile articles	27,0	22,8	9,2	8,4	1,1	6,3	4,6	0,0	0,1	4,6	84,2
Footwear; headgear; umbrellas	36,5	13,3	21,4	3,9	0,2	0,9	10,7	0,0	0,0	4,4	91,3
Articles of stone; ceramic products and glass	18,3	4,8	22,5	12,6	0,3	8,8	9,1	0,0	0,0	2,8	79,3
Precious stones, precious metals, jewelry	26,8	10,6	9,6	12,5	0,4	16,7	4,7	0,0	0,0	0,9	82,3
Metals and articles of metal	14,0	9,7	8,7	10,4	2,1	5,0	4,2	0,0	2,9	3,7	60,7
Machinery and equipment	33,9	20,1	4,4	6,6	1,1	2,9	2,3	0,0	9,1	0,8	81,2
Vehicles	7,8	16,5	30,9	12,6	0,0	4,7	16,6	0,0	0,0	2,0	91,0
Measuring instruments and medical apparatuses	23,7	12,3	4,3	8,9	6,7	16,3	1,6	0,0	2,0	1,6	77,4
Arms and ammunition	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,9	0,9
Miscellaneous manufactured articles	23,7	13,4	3,4	2,0	3,3	11,5	0,9	0,0	0,0	12,0	70,2
Works of art, antiques	1,2	2,2	0,1	3,3	1,7	0,0	0,0	0,0	0,0	5,0	13,6

Source: Statistical Office of Estonia

Annex 3. Imports by commodity groups by countries in 2006

Commodity group	Finland	Russia	Germany	Sweden	Lithuania	Latvia	Poland	Nether-s	Italy	Denmark	Total share
Live animals and animal products	19,4	5,9	5,2	5,8	8,6	5,8	6,4	3,4	0,5	19,2	80,2
Vegetable products	16,2	2,4	8,3	5,0	8,9	9,0	5,0	19,6	3,4	3,9	81,6
Animal or vegetable fats and oils	9,0	0,8	26,3	2,0	8,1	8,0	8,7	12,1	1,2	5,9	82,0
Prepared foodstuffs; beverages; tobacco	17,7	2,2	8,8	4,0	12,6	11,7	9,6	4,4	2,3	3,5	76,8
Mineral products	2,1	53,6	1,8	4,2	19,5	4,0	0,7	0,1	0,2	0,6	86,7
Chemical products	12,5	10,4	15,7	5,8	5,7	8,4	7,9	6,3	1,2	4,5	78,4
Plastics and articles thereof, rubber and articles thereof	17,5	1,1	17,6	12,3	7,0	7,6	7,7	4,8	2,8	2,3	80,7
Leather, fur and articles thereof	31,0	3,6	7,3	8,4	3,8	3,9	1,9	2,2	13,5	6,1	81,7
Wood and wood products	8,8	54,3	4,0	3,2	3,2	12,0	2,7	0,8	0,3	1,3	90,4
Pulp of wood and articles thereof	29,8	6,9	7,5	17,5	3,4	9,7	6,1	1,9	2,8	0,7	86,2
Textile and textile articles	16,3	0,8	11,1	8,6	2,7	13,0	3,0	3,4	6,3	3,6	69,0
Footwear; headgear; umbrellas	15,7	1,1	17,3	7,3	1,0	5,7	1,7	13,1	10,9	1,6	75,2
Articles of stone; ceramic products and glass	25,1	5,1	12,1	6,5	7,4	7,7	8,0	1,2	4,6	2,8	80,5
Precious stones, precious metals, jewelry	7,8	1,7	7,1	1,6	1,3	3,6	4,9	1,3	12,6	0,4	42,2
Metals and articles of metal	25,3	9,2	9,0	12,3	2,6	6,1	4,0	1,7	1,9	1,9	74,0
Machinery and equipment	21,2	0,9	16,2	11,6	3,0	2,5	2,5	4,1	3,3	2,2	67,4
Vehicles	31,0	2,1	23,2	9,4	1,4	5,0	3,7	3,3	2,2	1,4	82,8
Measuring instruments and medical apparatuses	20,5	0,5	20,9	9,6	2,2	2,5	0,8	6,8	1,9	2,6	68,3
Arms and ammunition	8,1	0,6	31,8	21,8	0,2	0,7	0,1	0,0	2,4	0,2	65,9
Miscellaneous manufactured articles	24,0	2,9	7,4	5,2	3,9	5,9	8,5	6,9	7,6	2,8	75,0
Works of art, antiques	0,9	1,7	0,4	28,7	0,0	0,9	0,0	0,3	0,0	1,2	34,2

Source: Statistical Office of Estonia

Annex 4. Sale of goods and services

	2006 mln kr	Change in sales (% y-o-y)		Share (%)	
		At constant prices	At current prices	2005	2006
Total retail sale	59 903	16	20	100	100
Incl. retail sale in retail trade enterprises (incl. in enterprises engaged in sale, maintenance and repair of motor vehicles and motorcycles and sale of motor fuel)	54 200	19	23	88,4	90,5
Retail sale in wholesale enterprises	5 703	-4	-1	11,6	9,5
Total wholesale	146 130	15	15	100	100
Incl. wholesale in wholesale enterprises (incl. in enterprises engaged in sale, maintenance and repair of motor vehicles and motorcycles and sale of motor fuel)	137 894		15	94,0	94,4
Wholesale in retail enterprises	8 236		7	6,0	5,6
Total catering services	4057	13	19	100	100
Incl. in catering establishments	3 253	14	19	79,7	80,2
in accommodation establishments	804	10	16	20,3	19,8
Accommodation services	1483	10	6	100	100
Maintenance and repair of motor vehicles	2511	18	30	100	100

Source: Statistical Office of Estonia

Annex 5. Structure of trade turnover and change in sales

	2006 mln kr	Change in sales (% y-o-y)		Share (%)	
		At constant prices	At current prices	2005	2006
Retail sale of goods by retail companies (incl. in enterprises engaged in sale of motor vehicles and their parts and sale of motor fuel)	54 200	19	23	100,0	100,0
Foodstuffs	19 924	8	13	40,1	36,8
Foodstuffs	14 675	9	14	29,2	27,1
Alcohol and tobacco products	5 249	7	10	10,9	9,7
Industrial goods	34 276	27	30	59,9	63,2
Wearing apparel, footwear, fabrics	5 095	29	32	8,8	9,4
Motor vehicles, motor fuel	8 517	16	21	16,0	15,7
Other goods	20 664	32	34	35,1	38,1

Source: Statistical Office of Estonia

Annex 6. Number and investments of retail companies*

	2005	2006	Change (%)	
			+, -	%
Total number of enterprises**	5 000	5 095	+95	1,9
Enterprises with fewer than 50 employees	4 864	4 955	+91	1,9
Enterprises with over 50 employees	136	140	+4	2,9
Investments, million kroons	1 851,4	2 856,5	+1 005,1	54,3

*Including enterprises engaged in sale and maintenance of motor vehicles and sale of motor fuel

**annual average

Source: Statistical Office of Estonia

Annex 7. Retail sale of goods by fields of activity of enterprises

	2005	2006	Change, % y-o-y		Share (%)	
	mln kr	mln kr	At constant prices	At current prices	2005	2006
TOTAL*	44 063	54 200	19	23	100	100
Retail sale of enterprises engaged in sale, maintenance and repair of motor vehicles and sale of motor fuel*	7 885	9 585	17	22	17,9	17,7
Sale, maintenance and repair of motor vehicles and their parts*	2 744	3 305	22	20	6,2	6,1
Retail sale of motor fuel	5 141	6 280	14	22	11,7	11,6
Retail sale in retail companies	36 178	44 615	20	23	82,1	82,3
Retail sale in food stores	19 751	22 640	10	14	44,8	41,8
Retail sale in unspecialised industrial goods outlets	2 609	3 270	23	25	5,9	6,0
Retail sale of pharmacy and cosmetic products	2 318	2 689	14	16	5,3	4,9
Retail sale of textiles, clothes and footwear	1 682	2 430	41	44	3,8	4,5
Retail sale of home furnishings, home appliances, ironware, building materials	4 605	7 260	54	58	10,5	13,4
Other retail sale	5 213	6 326	19	21	11,8	11,7

* Sale without car leasing

Source: Statistical Office of Estonia

Annex 8. Net sales and revenues of vehicle selling companies

	2005	2006	Change,	Share (%)	
	mln kr	mln kr	% y-o-y	2005	2006
			At		
			current		
			prices		
TOTAL number of enterprises engaged in sale, maintenance and repair of motor vehicles and sale of motor fuel*	31 270	41 427	32	100	100
Sale, repair and maintenance of motor vehicles and their parts *	23 405	31 405	34	74,8	75,8
Sale of motor vehicles and their parts *	21 498	29 956	39	68,7	72,3
Maintenance and repair of motor vehicles	1 907	1 449	-24	6,1	3,5
Retail sale of motor fuel	7 865	10 022	27	25,2	24,2

* *With leasing*

Source: Statistical Office of Estonia

Annex 9. Accommodation of tourists at Estonian accommodation establishments

	Number of accommodated people			Number of overnight stays		
	2006	Change y-o-y, %	Share, %	2006	Change y-o-y, %	Share, %
Total	2 259 087	9,0%	100,0%	4 543 330	10,5%	100,0%
Estonia	831 504	34,3%	36,8%	1 522 963	34,9%	33,5%
Finland	749 132	-6,3%	33,2%	1 501 481	-5,1%	33,0%
Sweden	105 939	-2,1%	4,7%	236 998	0,8%	5,2%
Germany	90 073	-17,6%	4,0%	185 550	-14,1%	4,1%
Russia	67 201	25,8%	3,0%	176 862	27,7%	3,9%
Latvia	65 559	27,2%	2,9%	101 300	35,3%	2,2%
UK	61 393	-2,4%	2,7%	155 667	-2,2%	3,4%
Norway	48 863	18,4%	2,2%	134 741	27,8%	3,0%
Lithuania	29 889	21,0%	1,3%	52 202	27,6%	1,1%
Italy	26 753	0,2%	1,2%	61 348	3,0%	1,4%
USA	19 856	1,8%	0,9%	49 460	11,5%	1,1%
France	16 510	-2,4%	0,7%	35 817	5,4%	0,8%
Denmark	16 206	5,2%	0,7%	34 358	5,9%	0,8%
Spain	15 148	-2,5%	0,7%	29 362	2,5%	0,6%
Poland	14 240	0,3%	0,6%	31 802	20,2%	0,7%
Netherlands	13 688	7,7%	0,6%	29 145	11,7%	0,6%
Austria	9 559	2,0%	0,4%	22 128	-1,8%	0,5%
Japan	8 093	0,3%	0,4%	15 516	1,1%	0,3%
Belgium	5 886	19,1%	0,3%	13 303	29,5%	0,3%
Switzerland	5 202	-1,1%	0,2%	11 058	3,4%	0,2%
Czech Republic	4 696	-6,9%	0,2%	9 065	10,8%	0,2%
Ireland	4 179	-13,7%	0,2%	11 400	-5,4%	0,3%
Australia	4 002	26,1%	0,2%	9 200	37,2%	0,2%
Hungary	3 322	-4,1%	0,1%	8 842	9,7%	0,2%
Ukraine	3 192	71,5%	0,1%	7 482	66,6%	0,2%
Canada	2 931	-9,9%	0,1%	7 563	-9,4%	0,2%
Portugal	2 697	-22,7%	0,1%	5 637	-16,4%	0,1%
Slovenia	2 206	70,0%	0,1%	3 520	31,1%	0,1%
Iceland	1 742	-21,1%	0,1%	4 965	-16,6%	0,1%
Greece	1 731	2,1%	0,1%	4 347	-6,9%	0,1%
China	1 152	43,3%	0,1%	4 524	205,7%	0,1%
Bulgaria	913	32,7%	0,0%	3 365	81,8%	0,1%
Slovakia	830	-33,9%	0,0%	2 320	-28,2%	0,1%
Republic of Korea	746	107,2%	0,0%	1 615	178,4%	0,0%
Romania	708	-11,5%	0,0%	2 380	23,6%	0,1%
Luxembourg	584	4,1%	0,0%	1 478	16,5%	0,0%
Turkey	579	21,9%	0,0%	1 911	74,0%	0,0%
Croatia	573	37,7%	0,0%	1 670	45,0%	0,0%
Brazil	435	-3,3%	0,0%	910	-6,5%	0,0%
Cyprus	251	12,6%	0,0%	668	-14,6%	0,0%
Republic of South-Africa	158	-52,7%	0,0%	417	-64,0%	0,0%
Malta	127	-24,9%	0,0%	317	-35,7%	0,0%
Albania	92	-34,8%	0,0%	238	-36,4%	0,0%
Other countries	20 547	19,6%	0,9%	48 435	34,0%	1,1%
Total	2 259 087	9,0%	100,0%	4 543 330	10,5%	100,0%

Source: Statistical Office of Estonia

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