



REPUBLIC OF ESTONIA
MINISTRY OF ECONOMIC AFFAIRS
AND COMMUNICATIONS



REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

OVERVIEW OF ECONOMY 2015

Tallinn 2016

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Abbreviations in text:

y-o-y – year-over-year

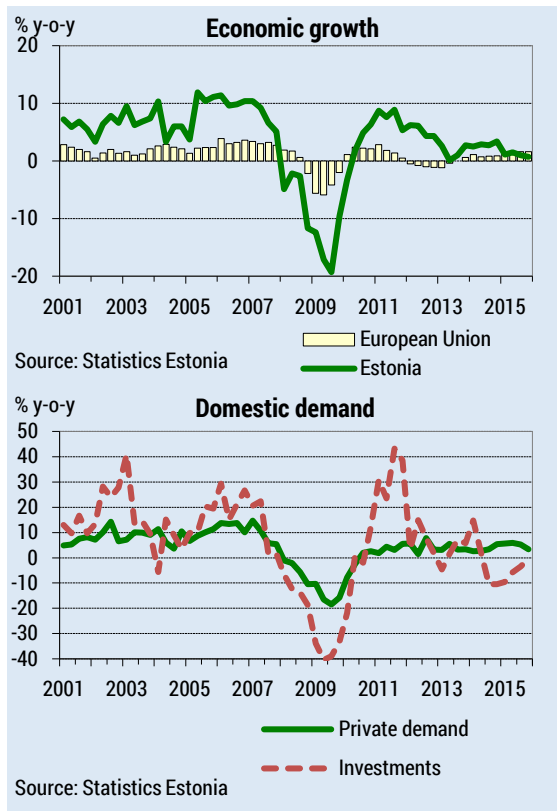
no – number

l.s. – left scale

r.s. – right scale

* – preliminary, short term statistics

Macroeconomic situation



The Estonian economy grew in 2015 by 1.1%, which was the slowest pace since 2010. Behind the growth, the slowdown was weak external demand and its negative impact on the confidence and investments of the business sector. The growth of employment and the decline of unemployment continued, prices fell, the real growth of wage income accelerated and consumption activity remained relatively high. The majority of the GDP growth came from the net product taxes increasing with the support of rapid income tax receipts. The added value grew by 0.3% thanks to domestic consumption-oriented activities, particularly in support of the retail business. An important influence belonged to agriculture, the real growth of added value of which was increased by further price reductions. Throughout the year, the growth slowed down mostly by the logistics sector and construction, giving a total of 0.8 percentage points. The logistics industry was affected by the decline in trade and transit. The decline in construction was mainly caused by reduced construction of facilities. The manufacturing industry negatively contributed to GDP growth

(-0.1 percentage points), the added value of which was affected by both the decline in production exports as well as the continuing decline in sales prices.

The development of **domestic demand** in 2015 was controversial, and as a whole, domestic demand fell by 0.7%. Also, the share of domestic demand in GDP decreased, which already for the seventh year remained clearly below the GDP (in 2015, 96.6% of GDP). There is no boom in domestic demand in Estonia, and in addition, there is weak external demand and the economic growth is limited by the modest domestic demand. The private consumption growth rate in 2015 was 4.8%, which is almost five times faster than GDP growth. However, investment decreased for the second year in a row, and the pace of decline deepened to 4.5%. In addition, a strong contribution to the decline of the domestic demand was given by the degradation of the stocks, partly offsetting the rapid growth of the stock in the previous year. Basically, the faster growth in private consumption, compared to total production or income, cannot last long, and the production and consumption growth rates must approach each other. The increase in investment should also recover along with the normalization of the EU and the global economic environment, and exceed the economic growth, as currently, the share of investment in GDP has now fallen to historically very low levels. Estonia's economy needs probably more capital supply compared to the current situation in order to achieve an increase in productivity. Also, a large number of depreciated buildings and infrastructure belongs to the state and the local governments and development needs to support the business environment are also important. Very logical would also be faster growth in housing investment compared to income, because the quality of the housing stock is on the average, low in Estonia, but the investments therein as a percentage of GDP are less than in wealthier countries. The current uncertainty and sometimes deflationary economic environment do not stimulate private sector investment, which in 2015 was a 9% decline. Government sector

investments are suppressed by fiscal rules, and by the conservative fiscal policies, which in the conditions of low private sector investment activity has not allowed for taking advantage of the free building resources. For the entire year, however, the government sector investment turned to a 5% increase. Household investments are increasing in line with the confidence of the population in the continuation and the growth of their income, and in 2015, they increased only slightly.

The year 2015 was extremely favorable for Estonian consumers for several reasons. In addition to the increase in tax-free income, the year saw a decline in the rates of income tax and unemployment insurance premiums, which significantly reduced the tax burden on labor. Family allowances increased robustly and the decline in world oil prices resulted in a substantial drop in prices of motor fuels and other energy sources that led to the downfall of the price of the total consumer basket. These largely one-off factors significantly increased the purchasing power of households in 2015 and enabled the very rapid growth in consumption in relation to GDP. Although the tax-free minimum will rise in the coming years and family allowances will increase, the increase in income of the population will be compensated in the same amount of the tax increases that occur accelerating inflation. The savings rate of the population in 2015 probably rose, as income growth was very fast for various reasons, consumer confidence declined due to anxious foreign news and some larger layoff notices. In the coming years, net income growth will probably slow down, the developments of confidence, or consumer courage, however, will depend on the success of solving of the various crises in Europe.

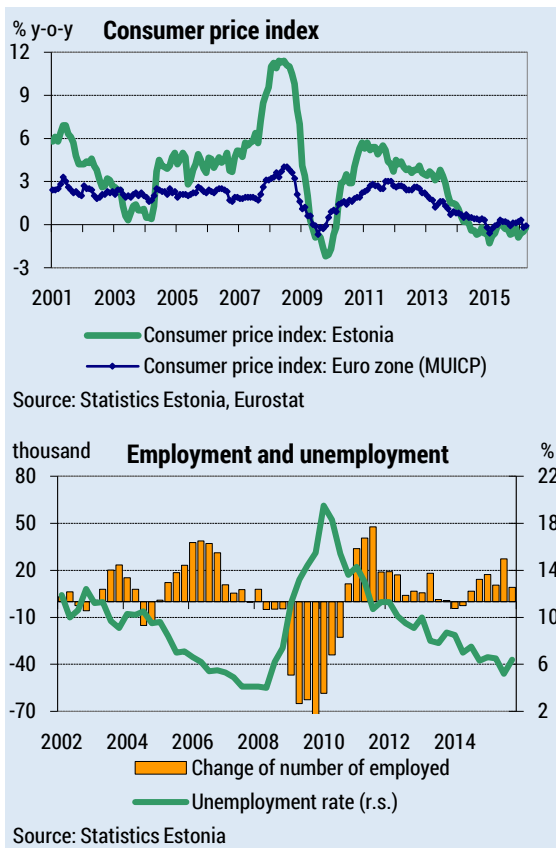
The year 2015 was characterized by weak external demand and a fall in export prices, which slowed the development of the local exporting enterprises. Although the euro area economy showed stable growth and import demand increased rapidly, the exports of Estonia were influenced by more global factors and the crash of the Russian market. **Exports** of goods and services decreased by 1.1%. A significant part of the decline in exports accounted for a decline in orders of communication equipment which is a

significant share. In addition, the biggest decline happened in food commodities, which is explained by the Russian sanctions, by the decrease in the flow of goods transported to Russia through Estonia. The export volume of fuels in 2015 increased slightly, but due to the decline in world market prices, the export turnover of fuels decreased by nearly 20%. The export of furniture, wood products, optical equipment, and their means of transport was successful. By countries, the largest decline occurred in the direction of Russia (-35%), and the export growth in other markets could not compensate. The highest increase in exports by Estonian companies took place to the Netherlands and Lithuania. The rapid growth in exports of services of the previous years stopped in 2015 due to the decline in the volume of transport services and the arrest of the growth of travel services. Imports fell by 1.8%, mainly due to the decreased importation of components and raw materials necessary for production. The imports of Estonia's trade partners did not decrease in 2015, but Estonia's exports were in decline, which means a decrease in the share of Estonian exports in foreign markets.

Due to modest investments and extraordinary dividend payments of foreign companies, the **current account** surplus increased to 1.9% of GDP in 2015. In addition to the reduction in profits made in Estonia, the primary income account was affected by the income tax paid from the extraordinary dividends of foreign investors.

Due to the effects of the outside world, the **consumer prices** have been in decline since mid-2014. Influenced by overproduction, the growth difficulties of the developing countries, as well as by favorable weather conditions, the prices of raw materials have declined rapidly. In 2015, oil cheapened to a greater degree, (nearly 50%) which by cheapening of energy products led to a 0.5% decline in consumer prices. However, the harmonized price index of

consumer prices¹ (HICP) rose by 0.1%. The low power exchange price of the Nordic countries also kept the local electricity rates in decline. Food prices in foreign markets fell by a fifth, and under this influence, the local prices of dairy, meat and oil products were in decline. Despite the continuation of the rapid growth of wages, core inflation reflecting the change in prices of the services and industrial goods in 2015 was modest (1.2%). However, in the last months of the year, core inflation began to pick up momentum as a result of a more impetuous appreciation of leisure, accommodation services and clothing, due to a weakened euro. Although in February 2016, the rises in excise duty on motor fuel and alcohol were added, the very low prices of raw materials give weight to those impacts. Therefore, prices in the first quarter were 0.4% lower than a year ago.



The **number of employees** accelerated by an annual rate of 2.6%, of which a substantial part was given by the surge in employment growth

and a decline in unemployment in the third quarter. This result exceeded expectations since the reduction in the working-age population is fast and both the labor force participation and the employment rate is already the all-time highest. Apparently, an important driver of growth in employment was the introduction of the registration of workers by the Tax and Customs Board in the summer of 2014, the impact on employment began to recede in the second half of the year. However, other sources (Tax and Customs Board, payroll survey) indicate a decrease in the number of the employed in the second half of 2015, which is more consistent with the state of the economy. The main contributors to employment growth were the timber industry and information and communication. Out of the larger areas of activity, employment dropped most in transport and warehousing, which has been hit the hardest by the decrease in the Russian direction trade volumes. Due to the slowing down of economic activity, the number of hours worked per employee in a resident unit of production decreased by 0.4%. The unemployment rate fell to an annual average to 6.2%, but the slight rise in the number of registered unemployed indicates changes in the unemployment trend at the end of the year. The vacancy rates have risen modestly in recent years, despite a significant decline in unemployment, and was almost twice below the pre-boom levels. The partly rapid decline in unemployment in the conditions of few vacancies can be explained by an increase in the flexibility of the labor market after the new Employment Contracts Act was introduced in 2009 as the employer's obligations in the redundancy of employees were cut, a reference to which is also reaching of those hired and those leaving employment to the pre-boom levels.

The growth of average wages stood at 6% in 2015 but considering the addition of increasing the number of employees, wage income in the economy grew by 6.8%. Differences in wage growth across the fields of activity increased

the different weights of the catering and accommodation services affecting foreign tourists, and of the excise goods and energy products in the basket of these indices.

¹A change in Harmonised Index of Consumer Prices (HICP) is in excess of the change of consumer price index (CPI), in particular due to

over the year. Wage growth was generally higher than average in sectors with lower wages, where labor shortages are greatest. Moreover, the increases in the low-paid wage were pressurized by the 10% increase in the minimum wage, while the number of recipients of the minimum wage remained at 4%. Wage growth was rapid also in the information and communications sector (8%) and the state budget funded education and health sectors, where the increase of the heightened rate of earnings is a government priority. In the annual total, wages in the construction sector turned to a 0.8% decline due to the declining construction volumes. The wage cost growth of 6.6% was in 2015, more than two times faster than the nominal growth of GDP, which in 2015 was only 2.5%. The share of wages in GDP, i.e., real unit labor costs, rose for the third consecutive year at the expense of the decline in the profitability. Though this situation is somewhat similar to the year of 2008, for the operators, the situation will be made more tolerable by the low level of investment, which is why the need for capital investment financing, including from profits, is lower. Also, the indicators characterizing the overall balance of the economy are in a better position as the current account is in a small surplus and the domestic demand developments do not rely on excessive growth in credit. In the conditions of the already relatively low unemployment and shrinking working-age population, due to the proximity of the Finnish labor market with its deepening labor shortages and high wage levels, upward wage pressures can be expected to continue in the future.

According to the state budget strategy forecast, the **budget deficit of the government sector** for the year 2016 will amount to 0.4% of GDP.² The deficit will be generated by the central government and the local governments that are projected to remain in deficit throughout the entire forecast period. The

nominal deficit of the central government caused by, inter alia, the decrease of resource charges or revenues for ownership, as well as additional payments to the second pension pillar, which in 2016 had a range of 0.3% of GDP. Due to the unemployment fund, social security funds will continue to be in surplus (0.1% of GDP in 2016). In 2017, the budget deficit of the government sector will increase to 0.5% of GDP and will improve steadily in the coming years, peaking in 2020 to a surplus of 0.1% of GDP.

Spring economic forecast of the Ministry of Finance

In 2016, the **tax burden** will become 34.2% of GDP, which is 0.7% higher than a year earlier. This is partly due to projected increases in the payroll tax, however, mostly due to the downward revision of the GDP level. In the case of the export-centered economic structure, a slowing of economic growth is not straightforwardly manifested in tax receipts. During the period 2017-2020, the labor taxes with tax changes will be reduced, and the consumption taxes will be increased; the tax burden will ultimately be maintained at the year 2015 level, reaching 33.4% in 2020.

The government sector **debt burden** declined by the end of 2015 to 9.7% of GDP, without the impact of the European Financial Stability Fund (EFSF), however, it fell to 7.5% of GDP. In 2016, the debt burden of the government sector will increase slightly in nominal terms, in particular with regard to lending to local governments and other central government debt growth, but as a percentage of GDP it will shrink to 9.6%. In the coming years, due to the increase in the nominal budget deficit, in 2018 the debt burden will increase to 10.6% of GDP, but then it will decrease by the end of the forecast period by the year 2020 to 9.6% of GDP.

²The government sector comprises central government (which is included in the state budget); public institutions; national

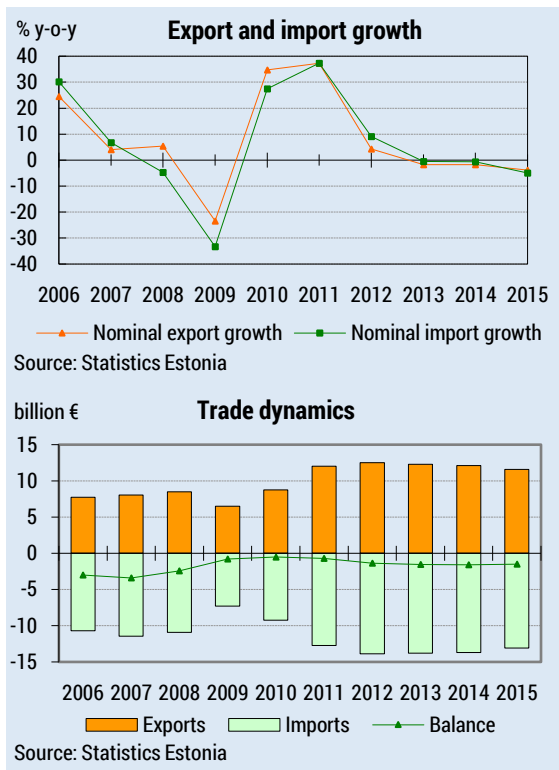
foundations (e.g., hospitals); public companies (e.g., RKAS); local authorities; the Health Insurance Fund; and the Unemployment Insurance Fund.

%	2015	2016*	2017*	2018*	2019*	2020*
Growth of real GDP	1,1	2,0	3,0	3,3	3,0	2,8
Growth of nominal GDP	2,5	4,1	5,9	6,3	6,0	5,8
GDP in current prices (bn €)	20,5	21,3	22,6	24,0	25,4	26,9
Change of consumer price index	-0,5	0,3	2,7	2,9	2,8	2,8
Employment (15–74-year-old, thousands)	640,9	635,2	634,8	633,2	631,8	631,7
Growth of employment	2,6	-0,9	-0,1	-0,3	-0,2	0,0
Unemployment rate	6,2	6,6	7,6	8,8	9,7	9,8
Average monthly wage (€)	1 065	1 117	1 170	1 234	1 305	1 376
Real growth of average monthly wage	6,5	4,5	2,0	2,5	2,9	2,6
Nominal growth of average monthly wage	6,0	4,9	4,7	5,5	5,7	5,5
Current account (% of GDP)	1,9	0,6	0,5	0,6	0,3	-0,1
Change in private consumption expenditure	4,8	3,4	2,5	2,8	3,2	3,0
Change in gross fixed capital formation	-4,5	2,4	4,4	4,7	5,0	5,0
Change of domestic demand	-0,7	3,7	3,0	3,0	3,2	3,0
Change of exports of goods and services	-1,1	1,6	3,8	4,5	4,8	4,7
Change of imports of goods and services	-1,8	3,7	3,8	4,3	5,0	5,0

Foreign trade

The year 2015 was hard for many exporting businesses. Unstable and weak economic situation in the partner countries, the decline in oil prices and its impact on trade and the downturn in euro area trade had a significant effect on the decline of trade. Exports and imports at current prices fell by 4% and 5% within a year's time. At the same time, export and import prices also fell, which actually left the trade volumes at a lower level. At the same time, the trade deficit decreased due to the accelerated decline of import volumes.

In 2015, there was no recovery in the world economy and trade development was slightly slower than expected. In 2015, the total trade turnover decreased by 4%, reaching 24.7 billion euros. Over the past three years, trade volumes were declining. The volume of exports was 11.6 billion euros, and the volume of imports was 13.1 billion euros. In 2015, the trade deficit was 1.5 billion euros.



Larger negative balances of trade were with chemical products (-0.53 billion), means of transport (-0.52 billion), machinery and equipment (-0.38 billion), mineral products (-

0.33 billion), plastic products (-0.33 billion euros) and prepared foodstuffs (-0.3 billion euros). Trading with a higher surplus took place with wood and wood products (0.8 billion euros), and with furniture, pillows, blankets and wooden buildings (0.7 billion euros). The shares of export and import in trade compared to the previous year did not change, remaining at the same level of 47% and 53%. Out of major trading partners, Estonia remained to have a positive trade balance with Sweden (0.1 billion euros). Larger trade deficits came from Germany and Poland.

The changes in trade are closely linked to the dynamics of price indices. As with trade in goods, export and import price indices were also in decline within the three years. During the year 2015, price indices did not show positive developments in any month, which lowered the annual total for both export and import prices equally by 4%. On the one hand, the fall in prices occurred due to weak demand in foreign markets, on the other hand, due to the decline in commodity prices.

The decrease in import prices was faster than that of the export prices. This helped to save the costs for businesses. During the year 2015, a higher decrease occurred in the export prices of petroleum products, chemicals, and electricity.

In 2016, external demand is expected to remain virtually unchanged. However, the Munich IFO survey results showed that there is hope for the increase in the import demand of the partner countries. In March 2016, in the forecast of the Estonian Institute of Economic Research the foreign trade development expectations were positive, albeit relatively weak, and only slightly different from the expectations of the previous December.

Export

In 2015, exports had a negative development in particular, due to modest external demand. The reason for this was the deterioration of the economic situation of the major trading partners, which led to a decline in demand for imports.

In the first half of 2015, exports showed growth in some months, but since July, exports turned into a decline. The biggest growth of exports took place in March, and the biggest drop was in October. Annual exports declined by nearly 4%, which was 2.1 percentage points higher than a year ago.

The export decline was primarily due to the decrease in exports of major commodity groups. In 2015, the commodity group with the largest export volume was machinery and equipment, representing 21% of Estonia's total exports. The export of this group, however, declined by 6%. Looking in more detail, the exports of mechanical machinery fell by 5% and the exports of electronic equipment fell by 6%. In terms of mechanical machinery, the reason was a decline in re-exports, which accounted for nearly a third of total group exports. Despite the fact that the export of machinery increased for many export markets, exports to Russia suffered a significant drop (-40%), which affected the parameters of the whole group. For machinery, the largest drop happened in the export of bulldozers and machine tools. However, the export of electronic equipment fell in most markets. The products with the greater proportion in the group were mobile devices, the decline of which greatly influenced the entire chapter. In 2015, exports of mobile devices showed the lowest levels in five years. The shrinking demand in Sweden, Russia and Latvia had a large impact on the downturn of exports. A significant part of this commodity group accounted for insulated electric wiring, panels, remote controls and others.

In the second place, by their proportion of total exports, was shared by agricultural and food products, and wood and wood products, which both accounted for 10%. The export of agricultural and food products was 6% lower than a year ago. Looking at the groups separately, the decline in the export of animal products and prepared foodstuffs and beverages was 14% and 12%, respectively. The biggest drop in terms of animal products was in the exports of dairy and fishery products. The main export markets, such as Lithuania, Latvia, Germany and the Netherlands showed a decline. Out of prepared foodstuffs, the decline was the biggest in the exports of beverages

and alcohol. This was primarily due to decreased demand from Russia and Lithuania.

The export of wood and timber products had, however, a positive trend, increasing by 4% within a year. The largest share of the exports of wood products accounted for construction elements and lumber. Despite the fact that the exports to other key partners, such as Sweden, Finland and Germany were in decline, the group showed growth by a high in demand in Denmark, Great Britain, Latvia and the Netherlands.

A third of the total share of exports was shared by mineral products, and a variety of industrial products, which accounted for 9% equally. In 2015, exports of mineral products were 18% lower than a year ago. The commodity group has been strongly linked to re-export. Therefore the export downturn was particularly affected by the change in the world's oil prices.

In terms of miscellaneous industrial products, all subgroups showed growth. The biggest growth was showed by exports of prefabricated buildings, mattresses and furniture.

Significant was the decrease in the export of metal and metal products, chemicals, textiles, rubber and plastic products and paper and paper products. Metal and metal exports declined by 4%. This was due to the decrease in exports to Latvia, Russia, and Turkey by 8%, 35%, and 39% respectively. Chemical products drove the exports into decline in particular due to the weakness in external demand from Russia and Latvia. The decline in exports of textile products amounted to 7%. This drop in exports was due to the decline of the export volumes of silk, wool and staple fibers, one of the main reasons of which was the weakness of the external demand of Finland, Russia, and Latvia.

Vehicle exports showed 6% growth. Despite the fact that exports to Russia fell by almost half, entrepreneurs could increase export volumes to other markets, such as France, Lithuania, Germany and the Netherlands. It helped to turn exports into growth.

Overall, among the major commodity groups, only three groups showed growth, while others showed a decline. It has a significant impact on

the total exports, which in 2015 had continued to decline.

In 2015, the share of the European Union increased up to 75% in the total exports of Estonia, which was 3 percentage points higher than a year earlier. The export of Estonian businesses to the European Union's internal market was 8.7 billion euros, remaining virtually unchanged compared with the previous year. Of the more important export markets, exports to Lithuania, Germany, and Finland grew. At the same time, exports grew rapidly to the developed markets such as the Netherlands and Denmark, respectively, 15% and 5%.

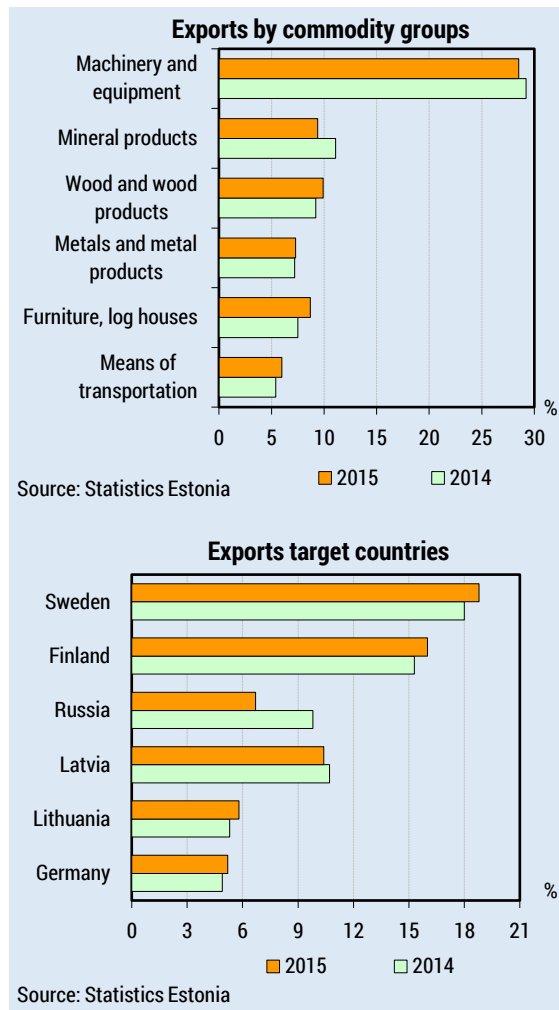
Exports to the CIS countries has been declining for three consecutive years. When in 2014, exports fell by 17%, in 2015 they dropped by 33%. Behind it was the fall in exports to almost all CIS countries, except Azerbaijan and Tajikistan. The shrinking of exports to Russia, which accounted for 84% of total exports to the CIS countries had a significant impact on the decline. The decline took place also in the exports to the Ukrainian and Belarusian markets. This was due to the unstable political and economic situation in the CIS countries.

The position of operators also decreased in the markets of NAFTA countries. In 2014, it showed strong growth, but in 2015 it turned into a 21% decline. Significantly, decreased exports to the United States and Mexico, respectively 20% and 48%. This was due to the shrinking of the exports of mineral products, machinery, and equipment. Export volumes to Canada remained virtually unchanged, showing a growth of one percent. To a large extent, the growth was supported by mineral products.

In 2015, no changes took place in the order of the first five Estonia export markets. However, changes took place in the proportion of the countries in export. Sweden remained the largest export partner for the fifth year, increasing its position by one percentage point to 19%. In 2015, exports remained at the previous year's level in Sweden. Mechanical appliances and electrical equipment accounted for the largest share (about 56%) of the total exports to Sweden. However, major export commodity groups included in a variety

of industrial products, wood and wood products. In the year 2015, the arrester of the export growth was the decline of the volumes of significant export goods. The growth of other, smaller commodity groups, however, helped to keep exports at the same level.

Despite the fact that the Finnish economy did not do particularly well in 2015, it remained in second place, increasing its share by one percentage point. Exports to Finland grew by 1% compared to the previous year.



Export growth was driven in particular by some of the most important commodity groups - metals and metal products, machinery and equipment, mineral products and miscellaneous manufactured articles. These four groups accounted for almost 60% of total exports. However, an important inhibitor of growth was shrinkage in exports of wood and wood products.

In 2015, Latvia fell to third place, losing one percentage point. This was due to the decline

in exports by 7% compared to the previous year. Important commodity groups were mineral products, machinery and equipment and means of transport, which accounted for 50% of total exports. The decline of their export was the most important reason for the decline.

Russia lost three percentage points in the proportion of exports from Estonia, remaining in 4th place in the sequence of target markets. In 2015, Russia accounted for 7% of total exports. Due to Russia's weak and unstable economic situation, exports declined by 35%. All commodity groups were in decline, excluding mineral products, and plastic products. In 2015, important export groups were machinery and equipment (35% of total exports), chemical products (17%) and prepared foodstuffs and beverages (13%).

According to forecasts, in 2016 external demand remained weaker. Since Estonia's foreign trade is dependent on the economic situation of its main trading partners, which recently has not been stable, a sharp increase in the trade cannot be expected. However, the Estonian Institute of Economic Research estimates that in the first half of the year 2016, a recovery in foreign trade can be expected. Experts' expectations were divided as follows: 35% were expecting an increase in the export volume, 55% projected the export volumes remaining at the same level, and the remainder were expecting a decrease in the export volume.

Import

In 2015, imports were in decline during all quarters. During the year, the decline accelerated. If in the first quarter, imports fell by 2.3%, in the fourth quarter, the figure was already 6.3%. The decline in export demand from foreign markets also affects imports, and the annual imports were 5% lower than a year ago.

In 2015, of the imports of most major commodity groups, only the import of the means of transport, miscellaneous manufactured articles and paper products were in a slight growth. The drop in imports was mainly due to mineral products, the decline of which fell by 17% in a year. One reason for this was the decline in the global

demand for mineral fuels and the lowering of prices. The import of machinery and equipment decreased by 5% compared to the previous year. 64% of this commodity group accounted for electrical equipment, the imports of which decreased by 8%. At the same time, the import of mechanical equipment grew by 1%. Most of the group was made up of mobile devices, the imports of which decreased by 8%. Also, import volumes of one of the largest import commodity groups - agricultural products and foodstuffs - decreased by 6% compared with the previous year. Behind this was the decline of the import of meat, fish and dairy products.

The import of metals and metal products in 2015 was in a small decline (-6%). Within a year, the import of untreated steel and steel products decreased.

In 2015, the EU share of Estonia's imports was unchanged, accounting for 83% of total imports. However, the import of goods from the EU Member States fell by 5% during the year. As a result, the trade deficit with the European Union was 2.1 billion euros.

Although the volume of imports of the CIS countries fell by 13%, their share remained at 7%. Import volumes from most CIS countries fell. Imports from Russia, which accounts for 86% of total imports, fell by 11% with a year, exerting the greatest impact on the indicator. This was caused in particular by mineral products and metals and metal products.

Imports increased significantly from NAFTA countries, which showed an 18% increase. It was supported by the import from the United States, which grew by 17%, and from Mexico, which increased by almost three times. Imports from Canada had a small decline (-7%).

The main import goods from NAFTA countries were machinery and equipment, precious metals and jewelry (coins) and medical and measurement apparatuses, which together accounted for 67% of total imports.

In 2015, major changes took place in the sequence of Estonia's import partners. The first and the second place did not change. The share of Finland, Estonia's biggest import partner, fell to 14%. Imports from Finland were 10% lower than a year ago. Behind this was the decline of the main import commodity groups.

Imports of mineral products fell by 34%, and the imports of metals and metal products by 8%. However, the import of machinery and equipment means of transport, and medical and measuring apparatuses showed a slight increase.

In 2015, according to the volume of imports, Germany remained in the ranking of countries in their traditional second place, despite the fact that its imports fell by 8%. The commodity groups with a higher share were still machinery and equipment, means of transport, chemical products, and plastic products. The import of these commodity groups was declining, except the import of means of transport, which grew by 10% with a year.

Lithuania has substantially improved its position and came in third place, with 9%. Imports from Lithuania increased by 7%, of which was the growth of imports of the major commodity groups, such as machinery and equipment, mineral products, prepared foodstuffs and chemical products.

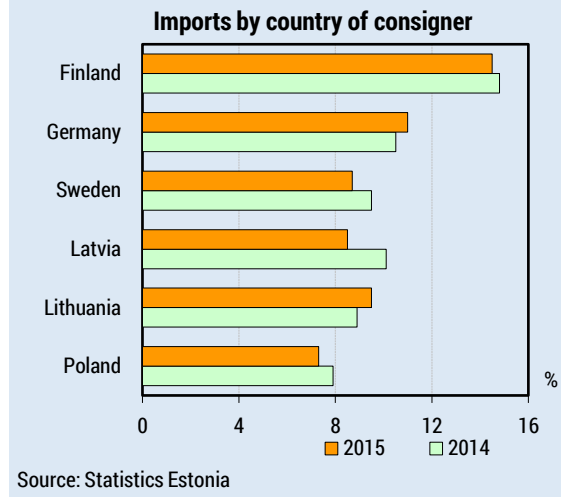
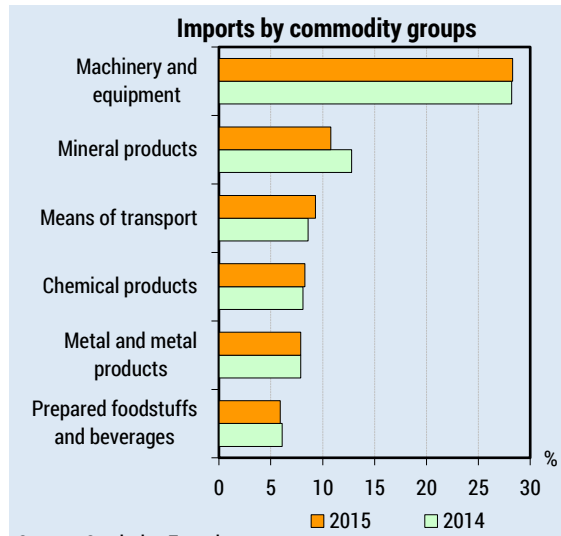
Latvia remained in fourth place, accounting for 9% of total imports. Its imports of goods in 2015 was by 2% lower than a year ago. This was due, in particular, to the decrease in the import of finished food products and means of transport. Equally significant, was a twofold increase in imports of mineral products, which was driven by the growth in the import of natural gas, electricity and fuel oil.

When in 2014, Sweden was ranked third, then in 2015 it lost its position. The imports of Sweden fell by 7% in the year, which put it in fifth place in the ranking of import partners, accounting for 8% of total imports. Significantly, the import of machinery and equipment fell, the majority of which was accounted for by mobile devices.

Other important import partners, such as Poland, Russia, the Netherlands and the United Kingdom showed a decrease in the volume of

imports. However, the import from China grew by 7%. This was due to the increase in the import of machinery and equipment, which accounted for 61% of total imports from China.

According to forecasts, the increase in imports can be expected at the low level, similarly to exports. The Estonian Institute of Economic Research estimates that imports may grow faster than exports. Experts' expectations were divided as follows: 40% were expecting an increase in the volume of imports, 5% predicted a drop and the remaining left the expectations at the same level.



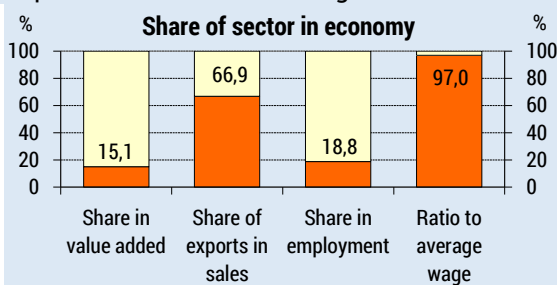
Manufacturing industry

In the Estonian manufacturing industry operates over 6,000 enterprises, most of them are small and medium in size. The number of enterprises with at least 100 employees is over 200, but they employ half of the workforce in the industrial sector. Larger enterprises include manufacturers of cellular equipment, Ericsson Eesti AS, manufacturer of electrical equipment ABB AS, manufacturer of wiring systems PKC Eesti AS, shipbuilding and metal processing BLRT Grupp AS, woodworking company Stora Enso Eesti AS, manufacturer of automobile safety systems (seat belts) AS Norma, and producer of meat products AS HKScan Estonia.

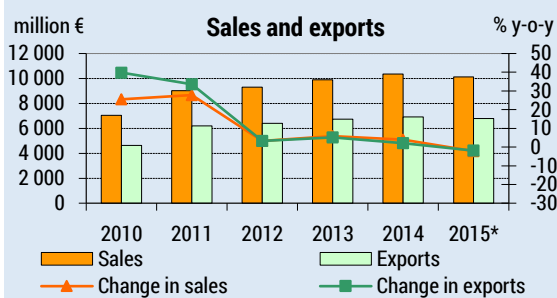
The share of the industrial sector in the Estonian economy on the basis of the value added is almost as high as the EU average (around 15%). The share of the employees in the manufacturing industry is, however, one of the highest among the countries of the European Union (almost one fifth), indicating that elsewhere generally more value can be created with the same number of employees. In recent years, the difference between the share of value added and employment has declined.

The manufacturing industry as a whole is the biggest employer in Estonia, with almost one in five employed people working in this field. However, over the past decade, the number of employees and its share in the total economy has declined, and the increase in productivity has led to an increase in production. More jobs have been set up in the metal industry and electrical equipment manufacturing; production volume has grown most in the electronics industry. Larger industries by the number of employees are the timber industry, metal industries, and food production. The economic crisis led to a loss of jobs, but the manufacturing industry was one of the first where the situation improved again, and additional jobs were created. Exports played an important role in the recovery. The sector is heavily dependent on foreign markets, to which almost 70% of production is sold. The main export markets are Finland and Sweden, from where the majority (over 60%) of foreign investments have come from the Estonian manufacturing industry.

According to the forecast, the number of employees in the manufacturing industry will not change significantly in the coming years, but the most labor-intensive sectors are expected to continue to fall in employment. Jobs are expected to be added to the sectors creating higher added value (electronics). The basis for competitiveness remains the growing of productivity, which requires continued investment in machinery and equipment as well as in people, and the development of products and improvement of the work organization.



Source: Statistics Estonia



Source: Statistics Estonia

The year 2015 began on a relatively positive note for the manufacturing industry, but later the situation changed and over the entire year, the production volume remained at the year 2014 level. However, developments were different in each particular industry.

In the EU, the production volume in the manufacturing industry increased in 2015 by nearly 2%. The industrial sector of Ireland had the fastest growth (production grew by a fifth), as to the neighboring countries, production in Lithuania, Poland, Latvia and Sweden increased faster than the average of the European Union. Finnish industry was still in decline.

The production volume of the Estonian manufacturing industry was a half percent lower than that of 2014. Industry figures were

negatively affected in particular by the chemical industry and the electronics industry. However, the timber industry continued to show strong growth.

In 2015, producer prices were similar to most other European Union countries - in slight decline, and export and import prices fell as well. Over the entire year, producer prices of the manufacturing industry decreased on average by 1.9%. A greater decline was characterized the chemical industry, food production, and timber industries. Prices rose, however, in the paper industry and mechanical engineering.

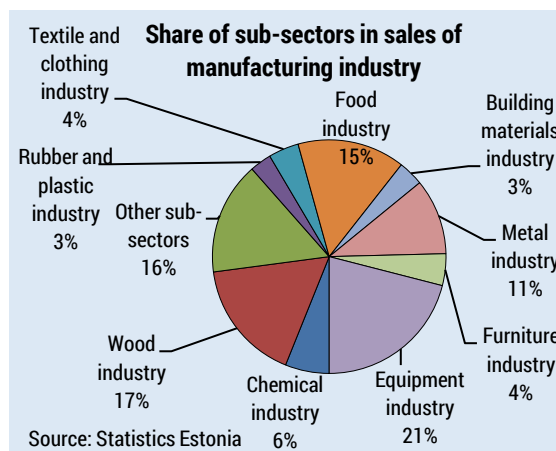
Due to the fall in prices, the sale of process manufacturing decreased by a few percent. The decrease in both export and domestic sales was of a similar magnitude. Sales fell in more than half of the industries.

Despite the standstill in production volumes, the number of employees in enterprises increased (4%). The decrease in demand in the chemical industry, electronics industry and manufacturing of means of transport also resulted in a reduction in the number of workers in those industries, but this was offset by growth in the number of employed in the timber industry, the metal industry, and in several other industries.

In the manufacturing industry, wage developments were similar to the changes in Estonia's average wages. Compared to the year 2014, the wages increased by nearly 6%. Due to the growth in the number of employed, the labor costs increased more, while total business costs rose by just a few percent. As sales revenue developments were even more modest, corporate profits diminished (by about one-fifth), the added value remained virtually unchanged. All in all, this resulted in a slight deterioration in the productivity figures.

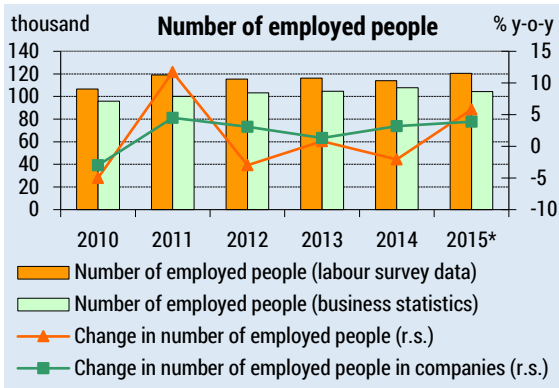
Short-term statistics suggests that in 2015, companies invested the same amount as a year earlier. Capital formation of tangible fixed assets decreased in the production of building materials (the year before the investments were extremely high), in the paper industry and the chemical industry. On the other hand, investment activity grew strongly in the timber industry and the metal industry. Two-thirds of the investments were placed in machinery and

equipment. The capital placements increased the most as compared to the previous year, however, only in the construction and reconstruction of buildings; investments in means of transport declined.

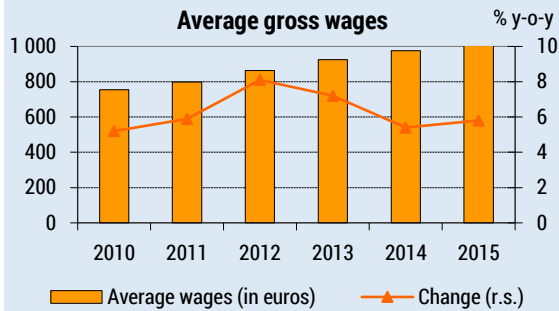


Enterprises of the manufacturing industry surveyed by the Estonian Institute of Economic Research estimated the situation in 2015 as slightly lower than a year earlier. The share of those pointing to insufficient demand increased, the level of production capacity utilization decreased slightly. In early 2016, however, estimates were somewhat more optimistic than a year ago at the same time. The orders portfolio increased. Forward-looking indicators were slightly better than a year ago; progress was seen particularly in exports. In the first months of 2016, production data of the manufacturing industry as a whole did not show a significant change compared to the previous year, but by the branches, the picture was different.

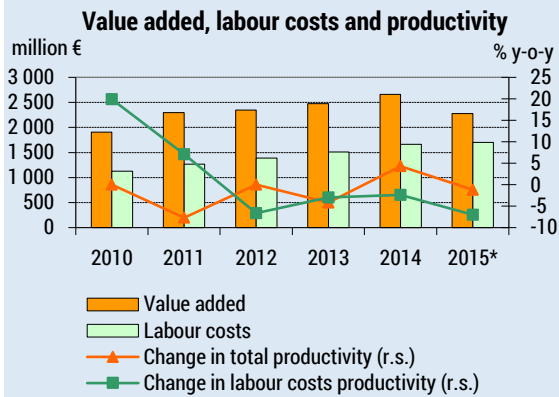
In the European Union, in the first months of 2016 the value of the index of economic confidence exceeded the long-term average, the situation was good, for example, in Germany, in Sweden, in Latvia, and in Lithuania. However, in Finland estimates were still lower than average. Also, the Russian economic situation is not good. For the entire year, modest growth can be expected in the Estonian manufacturing industry, but the developments are not even throughout the different industries.



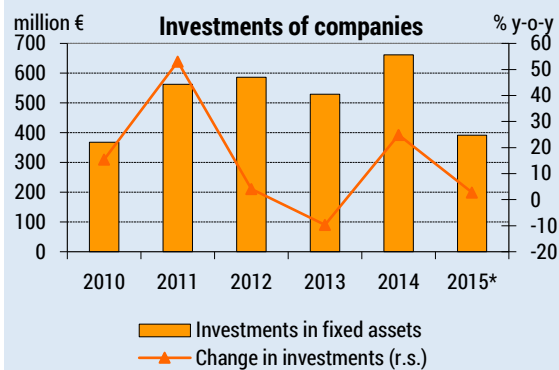
Source: Statistics Estonia



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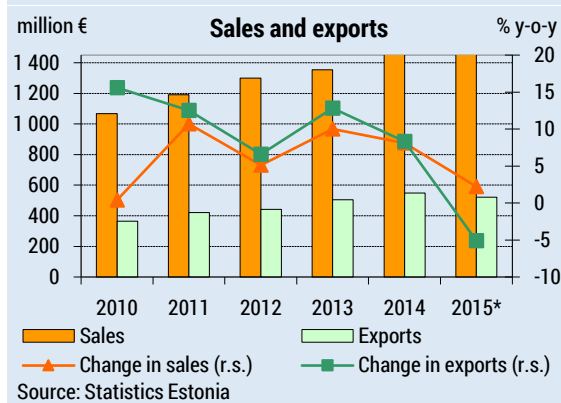
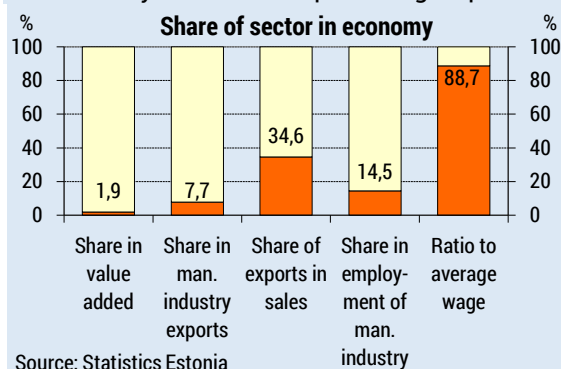
Source: Statistics Estonia

Manufacture of food products and beverages

In terms of the production volume, the food industry is one of Estonia's biggest industries and is the main activity for approximately 500 companies. Along with the increase of competitiveness, the proportion of exports in the sector has reached more than one-third of the turnover. In total, nearly 15,000 people find application in the production of foodstuffs and beverages.

Food and beverage producing companies are located all over Estonia. There are food producing companies among the larger companies in all regions of Estonia. The biggest company in the industry is the meat processing company AS HKScan Estonia in Lääne-Viru County, which in 2015 merged with AS Tallegg that is engaged in manufacturing of poultry. Another important meat industry is Atria Group, which is located in south-eastern Estonia. Major industrial bakeries are AS Eesti Pagar and AS Leibur. The major food industry enterprises include beverage manufacturers Saku Brewery in Harju County and AS A. Le Coq in Tartu County and dairies Valio Eesti AS and TERE AS. The largest fish processors are AS Spratfil and AS Paljassaare Kalatööstus located in Harju County and OÜ Vettel located in Saare County. The largest confectionery manufacturer is AS KALEV.

Competition in the food and beverage industry is quite intense and in addition to domestic manufacturers, Estonia is an important target market for a number of other producers in the Baltic countries. However, after sanctions imposed by Russia, the situation in foreign markets has become significantly tighter. In subsequent years, investments in product development must continue, in order to expand the target market geography and the range of products, and to reduce the risks arising from the volatility of individual product groups or markets.



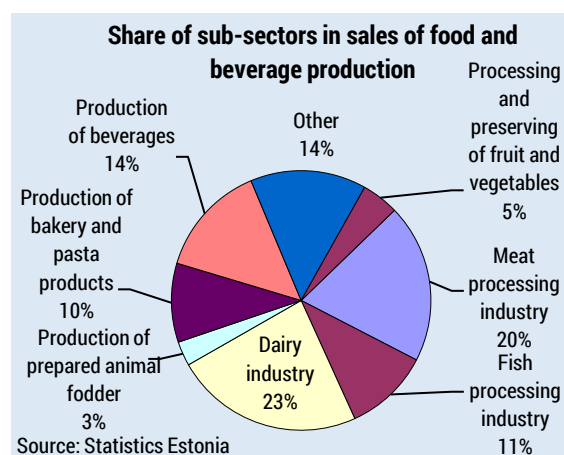
The year 2015 turned out to be quite difficult for the food and beverage production. The restrictions on imports of food products imposed by Russia in the previous year and the resulting new market situation reached the farmers in its full capacity in 2015. The milk, meat, and fish sectors are most affected by Russia's ban on imports. In addition to Russia's restrictions, the industry was also affected by a number of other factors. The swine farming sector received an additional blow from the African swine fever virus which set export restrictions on the sector, and created additional problems in the realization of production.

The food industry is composed of two major sectors: food production and beverage production. The year 2015 proved to be difficult for both sectors, which was mainly due to reduced demand in export markets.

The depreciation of main commodities affected mostly the dairy industry where the fall of the purchase price of milk that started in the second half of 2014, continued throughout the year 2015. At the same time, the price decline in the meat industry was somewhat more modest. The average annual total purchase price of beef remained similar to

2014, and the purchase price of sheep and goat meat continued to rise. The purchase price of pork fell in 2015 compared with the previous year by 12.6%, respectively. The fall of the purchase price was influenced by the restricted zones (approximately 20% of pigs) established in the summer of 2015 to stop the spread of the African swine fever virus, which complicated the marketing of products. Producer prices in beverage manufacturing grew by one percent, but producer prices in food production were in decline for the entire year. In addition to the raw materials, the decline in producer prices was influenced by other inputs, such as energy and labor costs, and ultimately producer prices in the food industry dropped by 5.3% within a year. The biggest factor was the dairy industry, where production depreciated by 11.5%.

Due to the weakness of foreign markets, the proportion of exports suffered a slight downturn but still accounted for more than one-third of sales. The downturn was strongly driven by the dairy industry, whose exports fell by nearly one-fifth. However, thanks to strong domestic consumption the sales numbers continued to increase and the annual growth were 2.2%, which was more modest than in previous years. In 2015, the export turnover of food and beverages manufactured in Estonia decreased by 5.1%, amounting to 521 million euros. The largest share of the sector's export accounts for fish products, which accounted for about one-quarter of the total exports of the sector. The biggest export partner was Finland, to where nearly a quarter of the merchandise going to foreign markets was sold. Latvia rose to second place in 2015, where exports increased by nearly 15%, and in total, nearly one-fifth of the merchandise going to foreign markets was sold. A significant decrease was recorded for the second year in the exports in the direction of Russia, which fell by nearly 70%, from 41 million euros to 12.6 million euros. In addition, exports to Lithuania and Germany decreased equally by nearly a quarter. Of the major trading partners, exports increased to Sweden and Denmark.

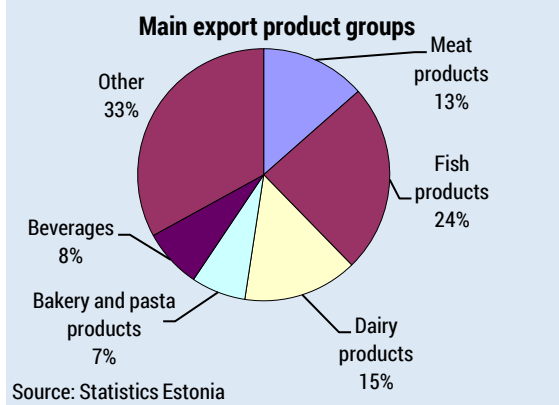


The dairy industry that has the biggest share in the food industry has hard times due to the Russian import restrictions, the continuing low world prices for milk powder and the abolishing of the production quotas governing the production in the European Union in April 2015. At the beginning of 2015, the decline of the production volumes that started in the second half of the past year continued, but in the second half of the year, production volumes began to grow steadily. Out of commodity groups, the production of milk fat products increased by 13%, and the production of cheese increased by 9%. At the same time, production of cream decreased by 11% and the production of cottage cheese decreased by 0.5%. The production of drinking milk increased by 5%. The lower monetary value and the decline in export volumes of dairy products were reflected in net sales, which fell to 335.8 million euros, or was 14.7% lower than a year earlier. As the complex market situation continues, the sector has had to cut strongly down on total costs, which in 2015 were 15.3% lower. The total profit of dairy industry fell by 3% in 2015, which gained momentum especially in the last quarter of the year, which earned 724,000 euros of losses. As a result of abolishing the quotas governing production in the EU in April 2015, production of raw milk increased by leaps and bounds, leading to overproduction and purchase prices continued to fall rapidly. If at the beginning of 2014, farmers were paid a little more than 400 euros per ton, and at the end of December, only 250 euros, then by the end of 2015, the total purchase price was only 234 euros. The decline by 28% of the average milk price in 2015 in Estonia in the context of the European Union was one of the biggest in percentage terms.

The abolition of quotas resulted in the oversupply of milk and milk products in the European Union markets, and it had an impact on Estonian exports of milk production - export turnover fell by nearly one-fifth. The decline in export volumes affected all commodity groups. Due to difficult conditions, the effectiveness of the sector decreased and the total profit of the sector compared with last year was 3% lower. Labor productivity per employee increased by 3%, remaining below the average level of Estonia. Labor expenses in the dairy industry rose more (13%) than the national average (7%), and this led to a decline in the productivity of labor costs by 6%. In 2015, the main export partners in the dairy industry were the neighboring countries. The main export market was Lithuania, to which was taken 35% of production, followed by Latvia (21%) and Finland (17%).



Source: Statistics Estonia



Source: Statistics Estonia

For the meat industry, the first half of the year 2015 was successful. Net sales increased compared to the same period last year by 1.3% and amounted to 150.1 million euros. The second half of the year proved to be more difficult, the severe restrictions imposed on the marketing and slaughter in the zone due to

African swine fever had an impact also on the meat industry's sales revenue on a wider scale and compared to 2014; net sales decreased by 1%. Calculated at constant prices, production volumes increased by 12%. Labor productivity, which rose by nearly 8% per employee, continued to rise. Gross margins increased despite a 10% increase in labor costs, and a 2% decrease in net sales compared to last year. Also, the number of employees in the sector increased as well as the hours worked by them. The ability of the meat industry to grow profits in a situation of the fall in sales revenue is indicative of the trend of the industry to make its activities more efficient in a difficult economic situation. Exports grew by 12% in the meat industry from 62 million to 70 million euros. The main foreign trade partner in meat and meat exports in 2015 was Latvia, to where 44% of the production was taken. This was followed by Finland (21%) and Lithuania (18%). Mainly finished products were taken to Latvia (sausages and similar products), mainly fresh, chilled or frozen meat was taken to Finland. Offal's and beef exports grew the most - by 77% and 40%, respectively.

The growth of the beverage industry turned to a decline in 2015, and sales fell by 10% in annual comparison. The decline was driven mainly by foreign markets to which one-fifth less production was sold compared to the previous year. Sales in the domestic market decreased by 6%. At the same time, the production volume calculated in constant prices decreased by as much as 10%. The decline in production volumes was higher in the first two-quarters (-17.8% and -13.9% respectively), in the second half of the year, a decline in volumes was seen but on a smaller scale. The unevenness of the production volumes in the production of beverages is caused mainly by national excise policies. Before the rise in excise taxes, there was a high demand by resellers to grow stocks and, therefore, warehouses were filled to overflowing, and therefore in the coming months, production volumes were falling. The unevenness of production volume in 2015 reflects the rise of excise taxes of the previous year, which in the first half of the year, production volumes of the sector were modest and in the second half of the year production

increased. The total exports in the beverage industry were 37.3 million euros, and the biggest target market continued to be Latvia, however, sales there have dropped by almost 20%. Another target was the Finnish market, where sales fell by 7%. The decrease in the export also changed the structure of goods. The export turnover of malt beer produced in Estonia decreased by nearly half compared to the previous year, and when previously the beer exports gave about half of export turnover, then in 2015 it shrank to one-third. Approximately the same amount was the export of hard liquor, and the share of cider in the beverage industry export turnover rose one-quarter. Efficiency indicators in the beverages industry underwent a recession; earnings fell by almost one third, and labor productivity fell by 11%.

For bakery and pasta manufacturers, the year 2015 turned out to be moderately successful. If the exports in the food industry as a whole fell, then the bakery industry was able to increase exports by 3%. Even though exports showed a slight increase in numbers, the total sales decreased by 5%, which was primarily influenced by the decision of the large manufacturer Fazer to stop production in Estonia. Regardless of lower export growth in 2015, the industrial bakery is clearly export-oriented - almost a third of production was exported. The number of the employed in the sector rose by 11% and labor costs increased by 16%. Costs rose faster than sales revenue, which led to a decrease in the added value by 9% and labor productivity per employee in 2015 decreased by 18%.

The sales in the fishing industry in 2015 increased by more than 3%. Sales growth came from export markets; exports grew by 8.5%. The domestic sales of the fishing industry fell by 11%. Total sales in foreign markets represent more than three-quarters of sales in this sector, and this percentage has been increasing in recent years. This trend is somewhat expected since the total fish caught in Estonia is more than four times more than is consumed domestically. In 2015, discussions began on the creation of a fish components factory in Paldiski in order to increase the added value of exports. The factory would be able to turn the fish that is not fit for food into animal feed. Today fish of poorer quality is

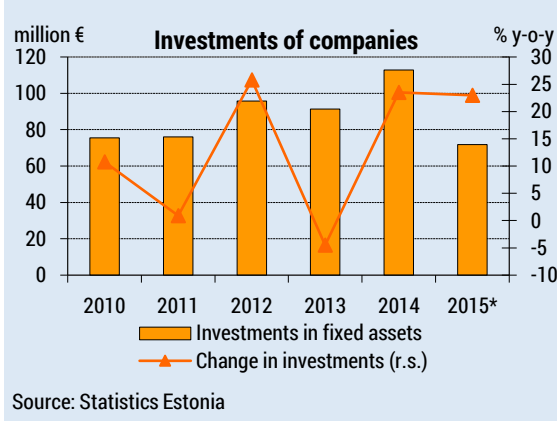
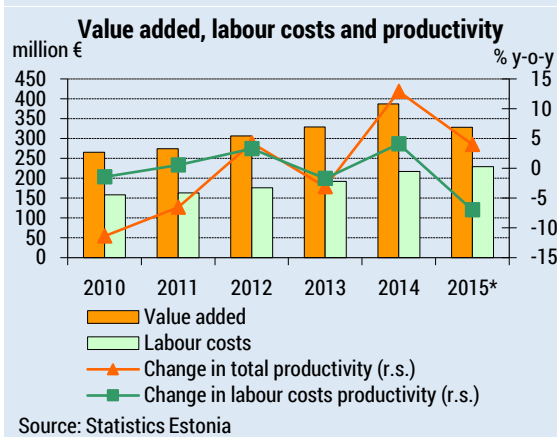
transported to be reprocessed in a fish meal plant in Denmark. The largest export partners of the fishing industry are Finland, to where exports were 19% of the fishing industry, Germany 12%, Sweden 10% and 9% in Ukraine. Compared to the previous year exports, the biggest increases were in Latvia (40%) and to Sweden (20%). As expected, the fish product exports declined mostly to Russia (72%).

Employment increased in food and beverage production in 2015 by 5%. Employment increased in all sub-sectors, except for fruit and vegetable processing and production of finished animal feed, in which took place 6% and 11% decreases respectively. Average wage growth in the food industry was slightly slower than the average of Estonia, and the wages were still lower than the average. The average wage was pulled down by food manufacturers. In the manufacturing of beverages, the wages are 1.3 times higher than the Estonian average.

The investment confidence in the food and beverage industry is improving, it is explained by a favorable investment climate and low-interest rates. On the basis of preliminary data, food and beverage manufacturers invested in fixed assets in 2015, nearly a quarter more than the year before. The growth came from investments of food producers of tangible fixed assets, which increased by almost a third compared to the previous year. Beverage manufacturers invested 4% less in the fixed assets than the year before. More than half of the investments were made in machinery and equipment. The largest investors were manufacturers of dairy products, meat, and beverages, who made a total of more than half of the total investments in the sector. In percentage terms, investments in the fishing industry increased the most (54%).

The confidence indicator survey of industrial enterprises conducted by the Estonian Institute of Economic Research at the end of 2015, which brings together the business production forecasts, estimates that the overall demand and stocks of finished products were negative. The index of the enterprises dealing with the manufacturing of food and beverages has risen slightly than the previous year, which means that at the end of 2015, industrialists regarded the outlook for

the food and beverage industry more positively than in the previous year. The rise in the index was due to beverage producers, who contrasted favorably to the rest of the entrepreneurs - confidence was higher, as an increase in production volumes, as well as an increase in prices (mainly due to increases in excise duties), was expected.

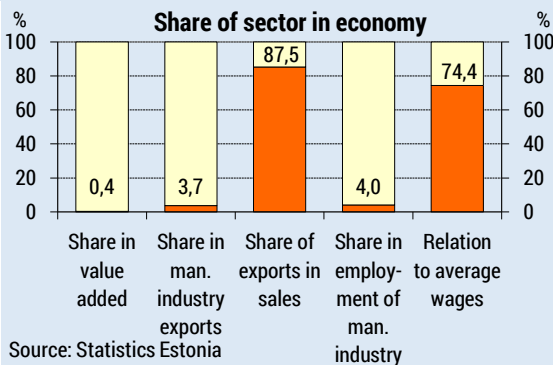


Manufacture of textiles

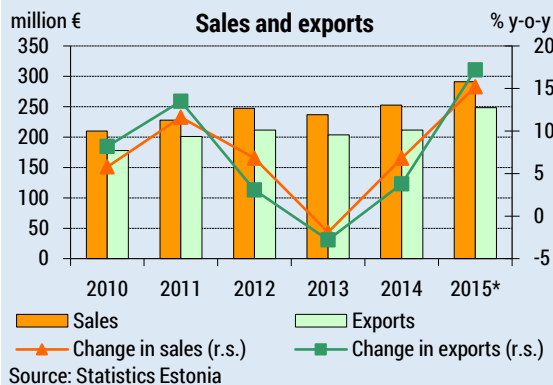
The Estonian textile industry is a mainly export-oriented industry, which includes more than 230 companies. In recent years, the sector has undergone a strong structural change - within ten years the number of employed has decreased by more than two times, but the sales revenue has increased significantly.

There are large textile companies in several places in Estonia. The largest manufacturer of finished textile products is AS Wendre in Pärnu County. Out of domestic textile producers, the biggest are AS Mivar-Viva and AS Toom Tekstiil in Viljandi County and Hilding Anders Baltic AS in Harju County, rugs and carpets are produced by AS Mistra-Autex in Harju County and OÜ Valley in Pärnu County. The largest textile finisher Qualitex AS in Pärnu County and the largest rope and netting manufacturer is Saare Frydendahl OÜ in Saare County.

An important part of the volume of production of the Estonian textile industry is given by manufacturing of blankets and pillows, which is mainly concentrated in Pärnu and Viljandi. While the sector has a significant number of companies, more than a quarter of the sales revenue of the sector is represented by one company. Further development will depend on the ongoing processes becoming more efficient, which would help to offset the increase in the cost of labor.



The production volume of the textile industry increased in 2015 at constant prices by more than one tenth. The main influencing factor was the rapid growth in sales to foreign markets, to which was sold nearly one-fifth more output compared to the previous year. Domestic market share of the sector's sales is 15%, and sales rose by a few percent.



The development of the Estonian textile industry has mainly depended on competitiveness in foreign markets. The share of exports in the textile industry's sales has been high, and in 2015 it rose to 85%. Production is heavily concentrated, and the turnover of the largest company in the sector is about three times higher than that of the next largest company.



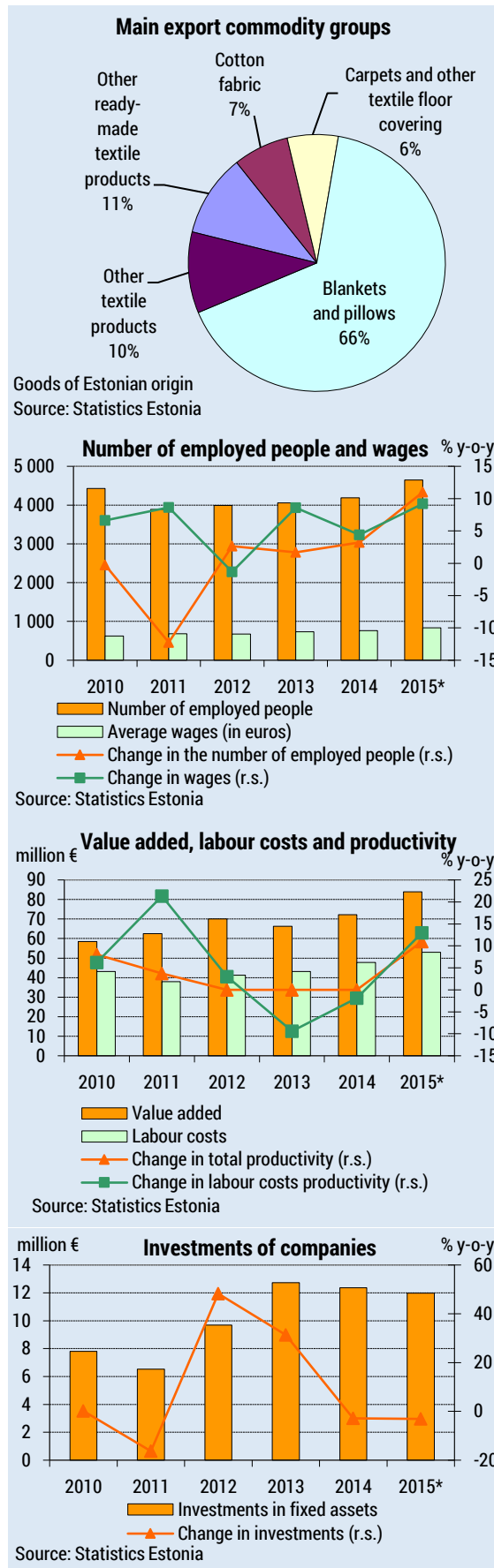
Textile industry enterprises exported in 2015 a total of 244 million euros, which was 16% more than the year before. In 2015, the previous trend changed, and the share of Northern Europe began to increase again. Sales to both Finland and Sweden rose by more than one-fifth, mainly due to strong exports of blankets and pillows. A positive factor was strong growth in the direction of Germany because it is the largest European market, where the growth potential is very large. As to commodity groups, the sales of blankets and pillows increased sales by 12%, making a substantial contribution to the total growth of the commodity group will provide almost two-

thirds of the total exports of the sector. In addition, the rapid growth took place in the exports of tufted floor coverings, which increased by a quarter, reaching 7% of the total exports of the sector.

In 2015, the number of employees in the textile industry rose by 11%. In doing so, the wage growth was nearly two times faster than the Estonian average, reaching 9.2%. Therefore, the backlog of the textile industry of the average Estonian salary decreased somewhat. Labor productivity indicators grew much faster than the average in the textile industry and, in 2015 ultimately the added value per person employed amounted to 86% of the Estonian average. Moreover, ten years ago the difference between the Estonian average labor productivity was more than double. Behind the growth of the added value was strong earnings growth of the sector enterprises, which greatly exceeded the growth in labor costs.

The volume of investments in the textile industry in 2015 decreased slightly, remaining by a few percentage points smaller than in the previous year. During the year, significantly increased investments in reconstruction and construction of buildings, and purchases of buildings increased as well. Investments in machinery and equipment remained a few percentage points smaller compared to the previous year, nonetheless providing more than half of all investments.

The estimates of the textile industry enterprises at the beginning of 2016, were somewhat more negative than in the previous year. Ratings were significantly weaker in the growth of production volumes of the enterprises in the following months, while there was a little more export orders than a year ago. 63.9% of the production capacity was applied, which was 7.4% less than a year earlier.

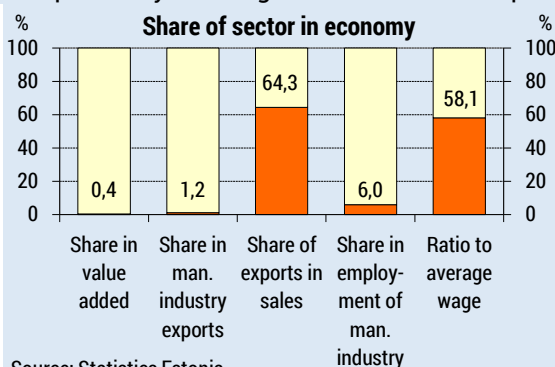


Manufacture of wearing apparel

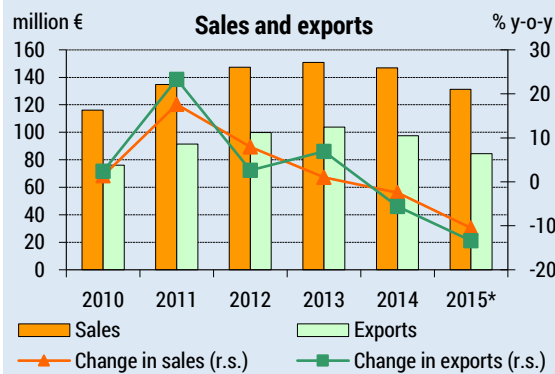
In the clothing industry operate nearly 500 companies, and the sector employs more than 6,000 people. Although the wage cost level has a significant impact on the sector, in recent years, employment has remained stable, and the number of companies has even increased. However, under the pressure of fierce competition, the sales of the sector in both domestic and foreign markets have started to fall.

Major companies in the clothing industry are workwear manufacturers OÜ PVMP-Elektika in Haapsalu and AS SVARMIL in Ida-Viru County, AS Protex Balti, AS Baltika, a manufacturer of children's clothing OÜ Lenne and underwear manufacturer Miss Mary Production OÜ in Tallinn and company AS Sangar in Tartu.

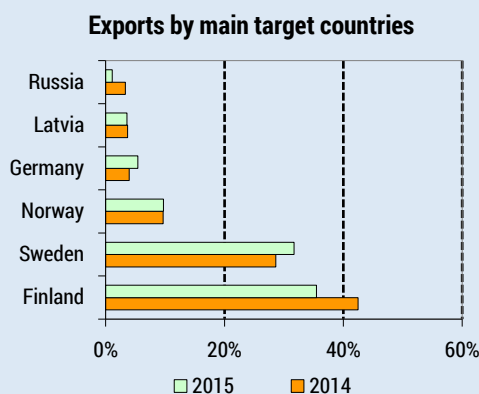
In clothing manufacturing, the basis for success in the coming years is the ability to develop domestic brands and to find new markets for them. Estonia will not be able to compete with Asian countries in outsourcing and the strong pressure on wages in recent years in this area has further reduced opportunities for the sector. However, the advantage of the Estonian manufacturers is the flexibility and proximity to a large market in the European Union, which should be used more.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

Due to the weakness of foreign markets, the year 2015 turned out to be poor for the clothing industry. Sales volumes decreased by one-tenth, and exports decreased more than 13%. Strong domestic consumption has contributed to the increase in the volume sold to the domestic market by 2.5%.

The difficult times in the clothing industry can be clearly demonstrated by the dynamics of sales, which is considerably worse compared to many other industrial sectors. In recent years, the competitiveness of the sector has been dampened by the overall rapid wage growth, which has driven the costs up and reduced corporate profits. Therefore, restructuring is expected in the coming years in the sector. Cheaper production will either end or is moving to Asia. Estonia is more likely to retain the manufacturing which can be performed in a maximum mechanized way or which requires a rapid response.

Export is quite important for the clothing industry, accounting for more than two-thirds of sales. Therefore, export volumes that have decreased in the last two consecutive years have negatively affected the results of the entire sector. In 2015, sales fell in five out of six major target markets. The decline was particularly strong in Russia's direction, where due to the weakness of the ruble and the complex political circumstances exports decreased by over 70%. Weak status characterizes the entire direction of the CIS, as exports to Ukraine also fell by nearly half. On

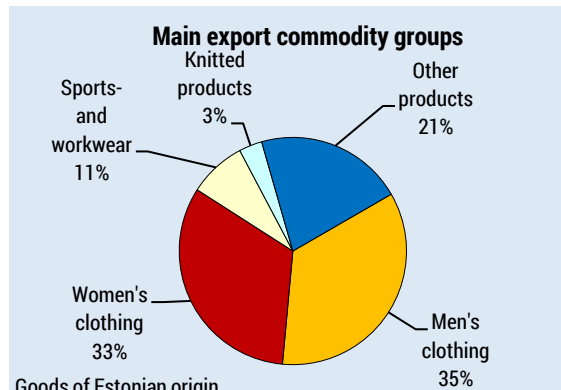
the positive side can be pointed out the 17% sales growth in the direction of Germany, as the success in the biggest market in Europe shows the potential of the sector. As for the larger neighboring markets, sales in Finland fell by slightly more than one-quarter and in Sweden by 5%.

As regards to larger commodity groups, exports of men's wear fell by one tenth and the export of women's wear by 13%. The downward trend also continued in the segment of workwear and sportswear, which in previous years had been weak and in 2015 fell further by nearly one-tenth.

In 2015 in the clothing industry, wages grew more slowly than the national average, which is why a large backlog from the average has further increased. If the difference is not going to decline, the sector will continue to have problems with the availability of labor in the future. Wage growth and the decline in sales led to pressure on corporate profits and added value per employee fell. Thereby, the added value of the clothing industry is barely half the average of the business sector, being one of the sectors with the smallest throughputs in Estonia.

Investments in fixed assets fell in the clothing industry, according to preliminary data by more than one quarter. The decline was caused by the drop in investment in machinery and equipment, which was purchased almost two times less than the year before. The only type of investments that showed growth was IT investments, which increased in the year by more than one quarter, accounting for one-tenth of the total investments.

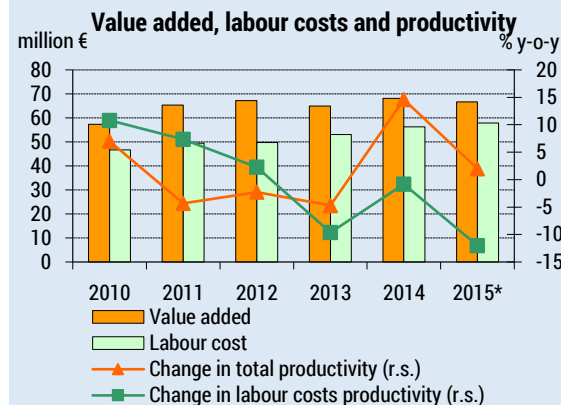
The estimates of the textile industry enterprises surveyed by the Estonian Institute of Economic Research at the beginning of 2016, were significantly more positive than in the previous year. Half of the companies surveyed had a larger output in recent months than in the previous year, and a quarter had more orders than in the previous year. Thereby, more than 80% of the production capacities were applied, which is higher than the long-term average of Estonian industrial enterprises.



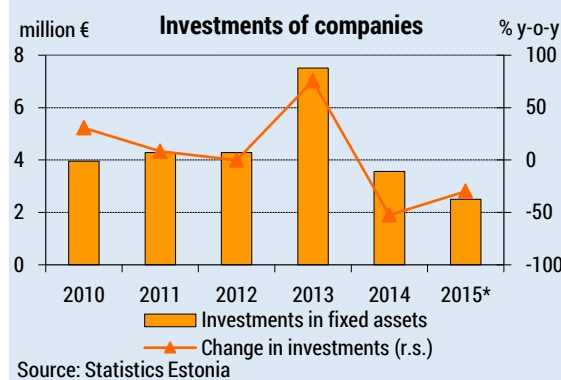
Goods of Estonian origin
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



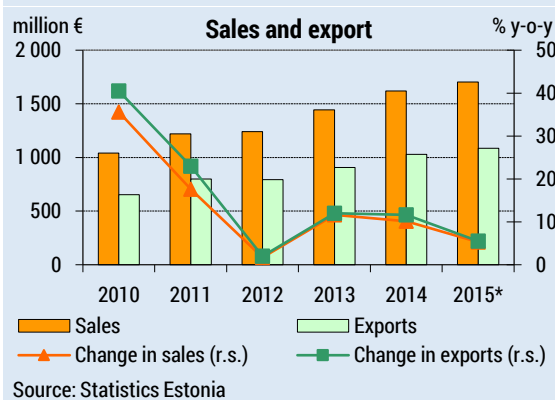
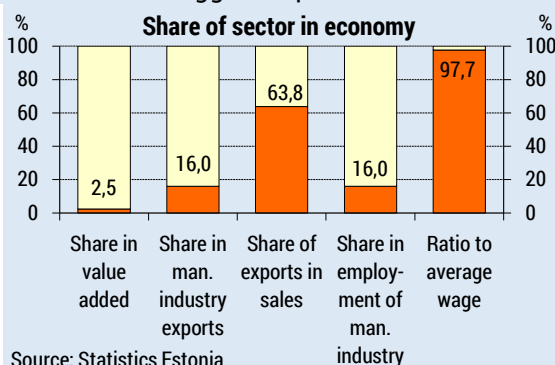
Source: Statistics Estonia

Wood processing

Wood is one of the most important natural resources alongside oil shale in Estonia, and will make a significant contribution to the balancing of the foreign trade balance. The wood industry is one of the largest industries in Estonia. Wood processing and manufacturing of wood products engages more than one thousand companies, employing more than 16,000 people. The biggest companies in the sector possess modern technologies and have a good competitiveness in both domestic and foreign markets. Also, they are important employers in rural areas, encouraging the regional development of Estonia and the economy outside the capital.

The wood industry has a wide range of products, from lumber production and processing to manufacturing of wood houses, windows, and doors. Most sector workers are employed in JELD-WEN Eesti AS manufacturing wooden doors and windows, Stora Enso AS manufacturing sawn and planed timber, and laminated beams and AS Technomar & Adrem manufacturing parquet, packaging and cable drums. The other major companies that can be mentioned are AS Viljandi Aken ja Uks engaged in producing wooden doors, windows, shutters and their frames, and UPM-Kymmene Otepää AS and Balti Spoon AS producing veneer sheet and plywood. Particleboard is manufactured by Repo Vabrikud AS, and fiberboard is manufactured by Skano Group AS. In terms of turnover could still be brought out AS Toftan producing lumber in Võru County and AS Palmako and OÜ Harmet producing garden houses.

The competitiveness of wood industry is extremely important for the Estonian economy. As the sector values the domestic resource, the added value generated by exports is largely kept in Estonia. It is positive that in recent years the wood industry has expanded its product portfolio and increased its international competitiveness. A good example is prefabricated wooden buildings, where Estonia has risen to three in the world among the biggest exporters next to the USA and China. Whereas in Europe, Estonia is the biggest exporter thereof.



In 2015, both the production and export growth rates decreased in the wood industry, but nevertheless, the growth was faster than the average of the Estonian industries. Sales grew at a similar pace both in the domestic and foreign market.

The wood industry is one of the flagships of Estonian industry. The more than one-billion-euro export volume and the higher than average added value of the business sector speak for themselves. However, the spread of nature conservation areas and the possibility reaching the upper limit of the prescribed annual cut in the long term may mean a shortage of the raw materials for the sector. Although there is always the possibility of importing raw materials, it means still higher transport costs and a decline in competitiveness. Therefore in the future, the ability of the sector to give more value to the raw material to an even greater extent will be important.

In 2015, raw materials became cheaper for the wood industry, as timber prices fell. It was also

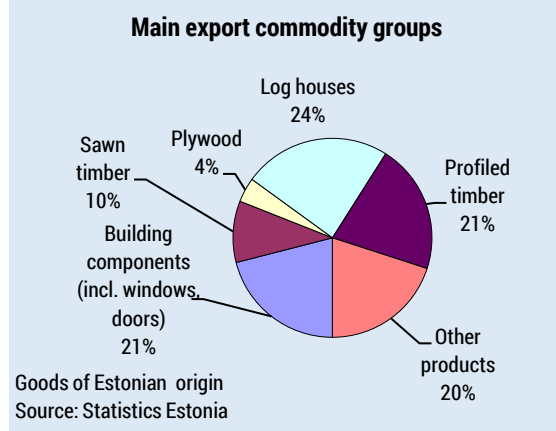
one of the reasons why in the sector, producer prices fell by almost 3%. However, the fall in prices also characterized other inputs such as fuel and electricity, which were also cheaper than the year before. According to the intermediate depot price statistics of the State Forest Management Centre, the wood species that depreciated the most was pine pulpwood and spruce pulpwood, respectively 22% and 19%. One reason for this was the weak external demand, as in paper mills located in Estonia are not able to generate enough demand for those wood species. However, aspen pulpwood, which is mostly domestically utilized, appreciated by 3%. Out of the main inputs of the wood industry, pine log depreciated by 4% and spruce log by 8%. The price of the birch log is important for the veneer industry and remained unchanged during the year. The average depreciation of all wood types amounted to 7%.

In 2015, the wage increases in the wood industry slowed down somewhat, remaining at Estonia's average level. Total sector wages increased by 5.8% compared with the previous year. The rapid growth in labor costs led to a decline in efficiency indicators associated with labor costs. Although the added value per employee rose by a few percent, the productivity of labor costs dropped by one-tenth. The profit of enterprises also decreased compared to the previous year.

For the Estonian wood industry, exports have always been important, accounting for about two-thirds of sales, amounting to 1.1 billion euros. The export geography of the sector is very broad, and in 2015 there was an export turnover with 91 different countries, as well as undefined regions. The main export partners in 2015 were Sweden, Norway, and Finland, to where more than 40% of production is shipped. An important factor is the export of wooden houses, which is an important part of the volume in the Norwegian direction. Out of the major markets, sales rose only in Sweden, increasing by 8%. 12% less compared with the previous year were sold to Norway and Finland. In the direction of Asia, exports increased by 5% to Japan, but the direction of China took a 13% decline. Rapid growth continued to Latvia, where exports grew by 6%. The CIS countries

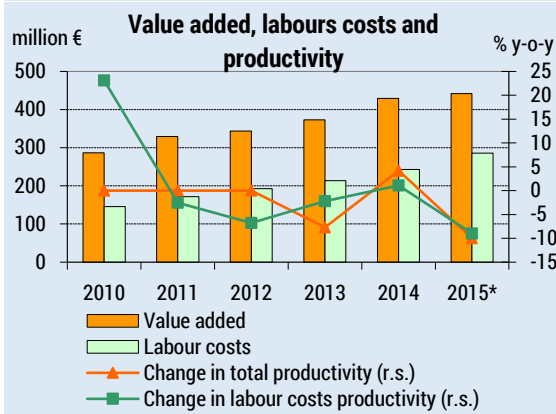
continued to be weak. Sales to Russia dropped by half, and to Ukraine by one-quarter.

As regards to the larger commodity groups, the segment of wooden houses continued its impressive growth, where exports grew by 11%, and the main target market of which continued to be Norway. Total sales of prefabricated wooden houses took place in the amount of 264 million euros, which helped Estonia to keep the title of the largest exporter in this segment in Europe. In total, houses worth 75 million euros were sold to Norway, and compared to a year earlier, it was 20% less. The number of houses sold to Sweden was more than twice higher, for a total of 57 million euros. In addition, the growing markets in this segment were Germany, France, and Britain. In the same volume with wooden houses, Estonia exports construction components (windows, doors, laminated wood, etc.) and their exports increased by 2%. The major target markets of this commodity group are the Scandinavian countries.

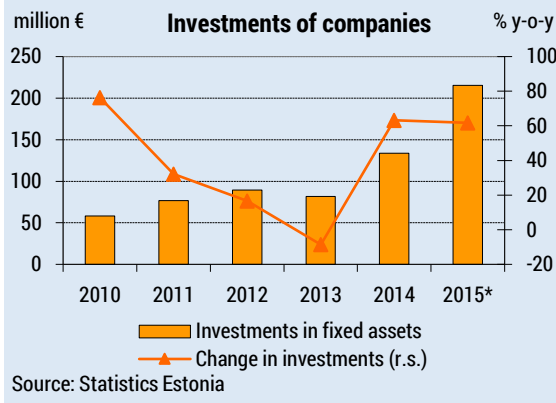




Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

According to preliminary data, in 2015 the investments in the wood industry increased by 62%. However, at the arrival of the final data in this sector, in many cases, investment volumes have been significantly adjusted, so that the final data may vary significantly from the data provided herein. According to preliminary data, the construction and renovation of buildings increased by more than one and one-half times, and the rapid increase also characterized investments made into machinery and equipment. The level of application of production capacity in the sector stood at 85%, which was the same level as the previous year, but higher than the historical average, and

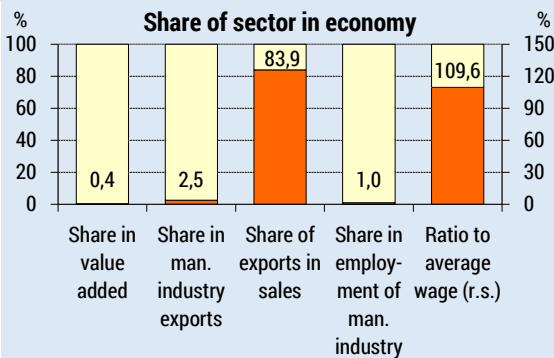
refers to a potential higher than the average level of investment in the future.

The expectations of the enterprises surveyed by the Estonian Institute of Economic Research in the spring of 2016, were slightly more positive compared with a year earlier. More than half of the companies surveyed expected increases in production the coming months and the existing orders guaranteed work for a 25% longer period than a year earlier.

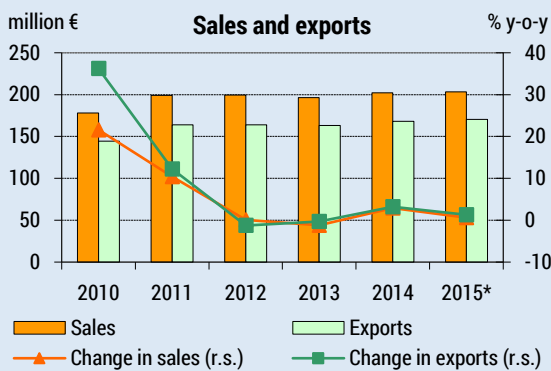
Manufacturing of pulp, paper and paper products

The paper industry has a long tradition in the Estonian economy and is a relatively consolidated industry. In Estonia, there are about 60 paper, pulp or paper products enterprises, which employ around 1400 people. The high level of automation and modern technology has made the production of pulp one of the highest-productivity sectors in Estonia.

The major players in the sector in Estonia are two companies: pulp producer AS Estonian Cell, that in 2015, made a turnover of 78 million euros, and the paper and cardboard producer Horizon Pulp and Paper Ltd with a slightly lower turnover. In total, they provide more than two-thirds of the sector's revenue. In recent years, the sector has been characterized by large investments in growing both energy efficiency as well as environmental sustainability.

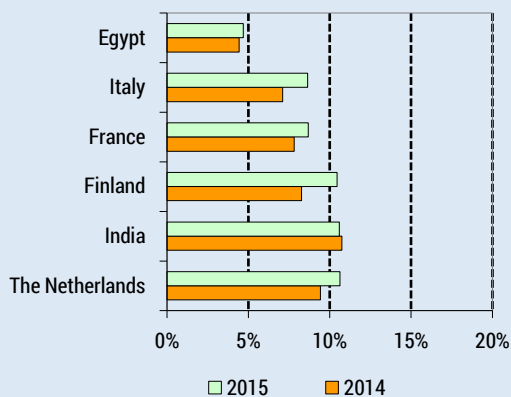


Source: Statistics Estonia



Source: Statistics Estonia

Exports by main target countries



Source: Statistics Estonia

In 2015, the paper industry continued to rise in sales volumes, increasing by 0.6%. Growth was fueled mainly by exports; the domestic market behaved somewhat weaker.

Despite the fierce competition, the year 2015 can be considered quite well for the paper industry. The annual report of Horizon was not yet available at the time of writing the review, but for the Estonian Cell, the year 2015 was successful. Production volumes are increased by 2% up to 169,000 tons. In doing so, high world prices of production helped to increase profit up to 2.8 million euros. In addition to good prices, the growth of the efficiency in which the Estonian Cell has invested a lot in recent years has contributed to the profit gains. For example, in 2015 with the launch of a new biogas plant 5 million cubic meters of purchased biogas were replaced by locally produced gas.

The main product of another large company in the sector Horizon is sack Kraft paper, which is sold all over the world. The success has been ensured for the company by specialization in wrapping paper, the demand for which has been increased by ever-growing online shopping.

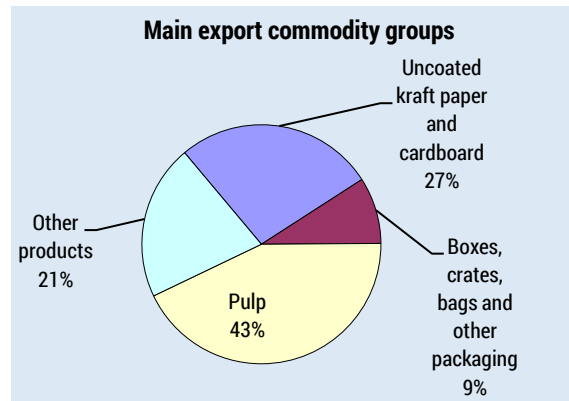
84% of the paper industry production is for export. Major export destinations are clearly based on the operations of Estonian Cell as the company's exports account for approximately 40% of the total exports of the branch. The Netherlands rose to be the biggest export market, replacing India, and it was mainly due to an increase in exports of wood pulp. Nearly a third of the paper industry exports was mostly uncoated Kraft paper and paperboard produced by Horizon Pulp and Paper, the

exports of which continued to decline, falling by 3% in a year, and the main target markets were Egypt and Italy. If the sale to Egypt and Italy remained at the level of the previous year, a greater decrease came from the direction of Poland and the Netherlands.

In 2015, wages increased in the paper industry at the rather similar pace as the Estonia's average, increasing by 5.3%. A year earlier, the paper industry had the industry's most rapid wage growth. Although the sector's largest company increased its profits, the sector's average earnings fell by 3% in the year. The proportions associated with labor costs also changed for the worse. However, overall productivity increased and labor productivity per person employed was 4% higher than the previous year, and total factor productivity grew by 5%.

Paper industry investments largely depend on the activities of the two largest companies in the sector. Therefore, the few larger investments may significantly affect the general figures. The information is also affected by the time of receipt of the data. According to preliminary figures, the investment in the sector in 2015 was less than before. This was mainly due to machinery and equipment, which received almost 90% of the total investments.

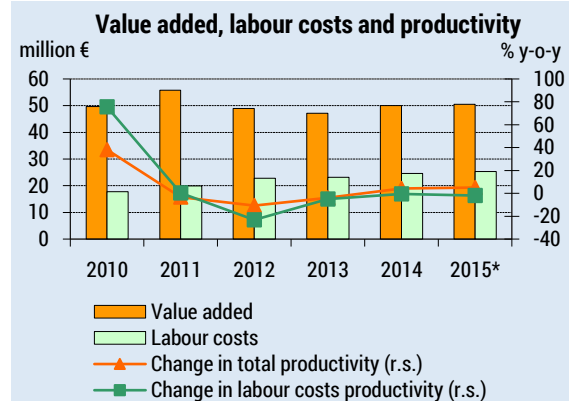
In the spring of 2016, the paper industry companies interviewed by the Estonian Institute of Economic Research had a somewhat more negative view of the future than a year earlier. There were fewer export orders, and a quarter of the companies considered their current stocks of finished products too high. Also, reduction in the workforce was considered likely.



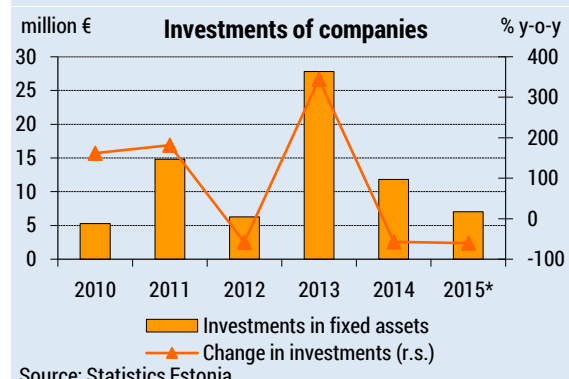
Goods of Estonian origin
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



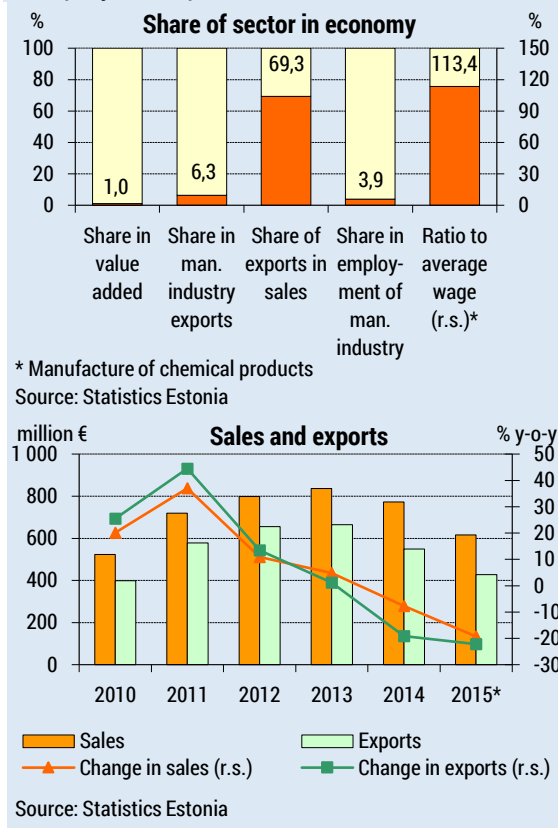
Source: Statistics Estonia

Chemical industry

A unique element of Estonia's chemical industry is the industry based on oil shale, most of the sector still account for other sub-sectors, such as construction or applied chemistry. The smallest sub-sectors (with a few hundred employees) is the pharmaceuticals industry. The chemical industry is a capital-intensive activity; output growth has not led to a significant increase in the number of jobs. Despite the growth in productivity, lagging behind the developed countries remains significant.

In Estonia operate some one hundred chemical companies. More than half of the chemical industry is located in Ida-Viru County, about a third of the workforce is in Tallinn and Harju County. The largest chemical enterprises are VKG Oil AS, Kiviõli Keemiatööstuse OÜ ja Eesti Energia Õlitööstus AS (production of shale oil), Akzo Nobel Baltics AS, AS Tikkurila and AS Eskaro (paints and varnishes), Molycorp Silmet AS (rare metals), AS Novotrade Invest (recycling of petroleum products), OÜ Krimelte and Henkel Makroflex AS (installation foam), Eastman Specialties AS (benzoic acid, sodium benzoate plasticisers), Orica Eesti OÜ (explosives), AS Takeda Pharma (pharmaceuticals) and Interchemie Werken De Adelaar Eesti AS (veterinary medicines and supplies) .

Large investments in the oil industry enable the creation of new jobs, but the area is very dependent on world oil prices, and therefore the long-term development plans have been put on hold. A significant increase in employment in the sector as a whole is not expected. The growth in production volumes will rather continue to be based on increasing productivity. The need to increase the efficiency arises from rising prices of production inputs; also increases of the environmental protection related costs also play an important role in the chemical industry.



In 2015, production decreased in all branches of the chemical industry. The oil industry suffered the most due to low oil prices.³

The chemical industry produced in 2015, more than one-tenth less than the output of the previous year. In the oil industry, the production volume fell by over 14%, almost the same amount of production also fell in the chemical industry. In the pharmaceutical industry, the situation was better, but also production decreased by a few percentage points. In the oil industry, the impact was intensified by the fall of oil prices and consequently by the fall of shale oil prices, which is why sales fell by a third. In contrast, the pharmaceutical industry was able to grow sales revenue despite lower production.

The oil industry developments differ from companies. If the total production and sales of the sector dropped, Eesti Energia increased production volumes due to the launch of a new factory, whereas also the sales revenues increased. The average selling price declined due to world market prices, but, like other

³Under this sector, in addition to the production of chemicals and chemical products (NACE 20), is handled also heating oil production

(NACE 19), manufacture of basic pharmaceutical products and pharmaceutical preparations (NACE 21).

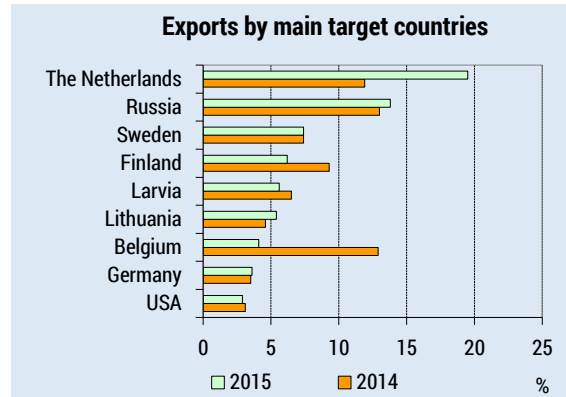
companies in the sector, future transactions are used for hedging, and so far it has helped to mitigate the fall in prices. However, in terms of the future, the situation is more complicated.

The sales of the chemical industry were impacted mainly by the developments in the foreign markets. If in the production of chemicals, the domestic market helped offset the decline a little bit, then in other branches sales in the domestic market decreased. In the chemical industry as a whole, exports declined by a quarter, sales on the domestic market declined by a tenth.

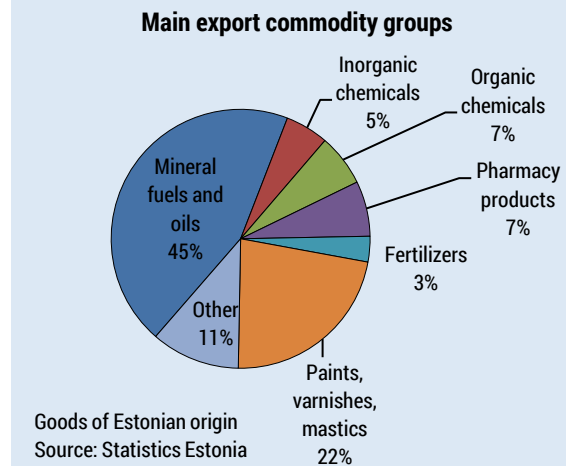
Exports were most affected by a decline in the sale of shale oil, due to the lower price of the product, the exported quantities remained stable. Also the second largest product group in export volume - construction mastics and sealing - was in decline. The largest export, however, is characterized of pharmaceutical products.

Sales decreased to almost all key target markets, with the exception of the Netherlands. A greater decline was characterized in Belgium, Finland, and Denmark. For all these countries, the developments were mainly related to the sale of shale oil.

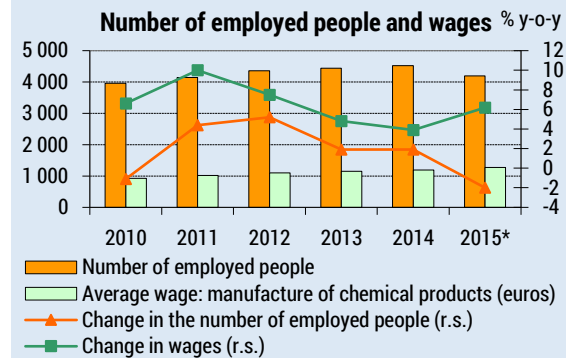
Based on preliminary statistics, the number of employed persons and the hours worked decreased only in the production of chemical products, in other branches it remained stable. By contrast, labor costs in the production of chemical products increased, but decreased in other areas. This suggests that the oil industry reacted to the decrease of production in particular with the reduction of wages. All in all, labor costs of the sector in the year did not change; the total expenditures declined by more than a tenth. Since the revenue decline was greater, then profit also declined. However, here too production of chemical products was distinctive from the others, where the cost savings exceeded the revenue decline and ultimately increased profits by about half. The poor performance of the oil industry and pharmaceutical industry in the second half of the year took them to a loss for the total year. In particular, due to the oil industry, the added value of the chemical industry declined and productivity indicators deteriorated, in other branches, the situation was better.



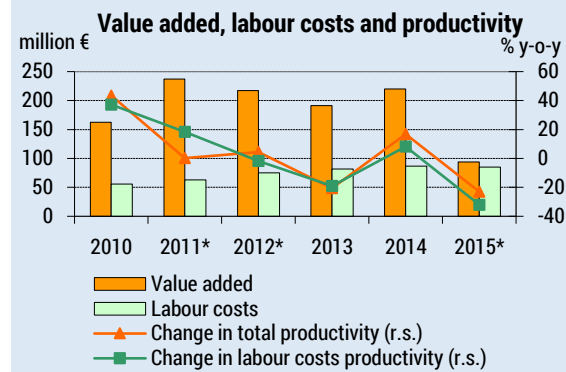
Source: Statistics Estonia



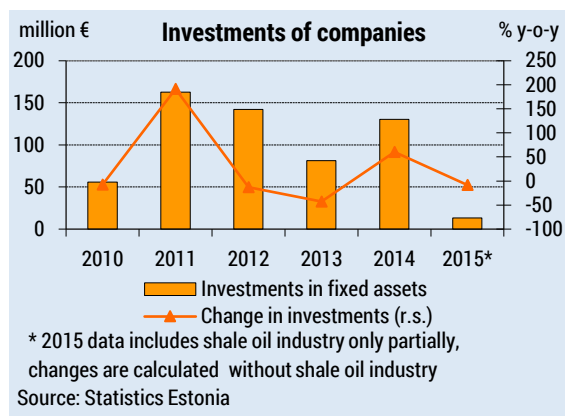
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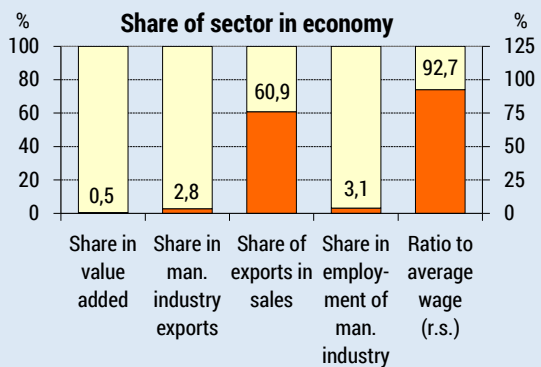
Investments in the manufacturer of chemical products decreased in 2015, by 30% according to preliminary data, while in the pharmaceutical industry they increased by three times due to the acquisition of machinery and equipment. Also, in the production of chemical products, machinery and equipment were the main object of the investment, three-quarters of the total investments were placed in them. The data of oil industry companies are lacking, but considering the high level of the year 2014, the gross fixed capital formation is likely to decrease. VKG finished the construction of a third new plant and will begin production in September.

Estimates of the economic situation by producers of chemical products in 2015 were similar to those of the prior year. However, the current situation was seen as worse than a year earlier, but the expectations for the future were better. The sector is still being pressurized by the low oil prices which affect most directly the oil producers. At the beginning of 2016, industrial statistics showed a continued decline in the oil industry, in other branches of the chemical industry, the situation was better. Although oil prices have begun to rise, it is still significantly below the level of a few years ago. A further rise in oil prices would support the Estonian oil industry and help the chemical industry as a whole to show better results than in 2015, otherwise, in a good case, the production volumes can be expected to remain at the level of a year ago.

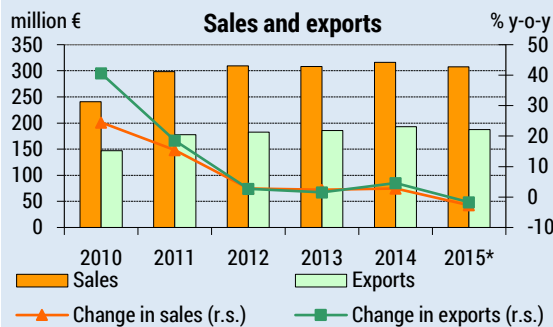
Manufacturing of rubber and plastic products

Products of the rubber and plastics industry are used in many fields - from the food industry (packaging) to the auto industry, or building materials. The Estonian rubber and plastics industry account for about 200 mostly small and medium-sized enterprises. Larger enterprises are Pipelife Eesti AS (plastic pipes), AS Estiko-Plastar (plastic film and plastic film packaging), AS Plasto (plastic windows), Promens AS, Talent Plastics Tallinn AS (plastic products for the automotive industry), Plastone OÜ (plastic products for different industries), AS Reideni plaat (insulation boards), OÜ Westaqua-Invest (water filters), AS Dagöplast (plastic film products), Greiner Packaging AS (plastic packaging), Cipax Eesti AS (plastic containers), Trelleborg Industrial Products Estonia OÜ (rubber and metal parts for automotive and machinery industry), OÜ Merinvest (rubber o-rings, membranes) and AS Balteco (plastic tubs and cast marble sinks). Larger companies are located in Tallinn and Harju County (nearly half of the workforce), Saaremaa and Tartu County (about 15% of the workforce), but quite a large number of workers are in Hiiumaa.

According to the forecast, the number of employed in rubber and plastic industry is not going to change significantly. However, production is becoming more complex, and labor-intensive activities are being replaced by machines. Mass production has already been partially moved out of Estonia, particularly flexible and smaller batched focused businesses have better prospects.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In the rubber and plastics industry, in 2015 the production slightly decreased, the economic indicators remained stable. The year 2016 began on a somewhat more positive note, but in the summary of the year significant growth cannot be expected.

The rubber and plastics industry production decreased by 5% compared to 2014. Due to a slight increase in producer prices (1.4%) the revenue decline was more modest. Both exports and domestic sales were lower than a year ago.

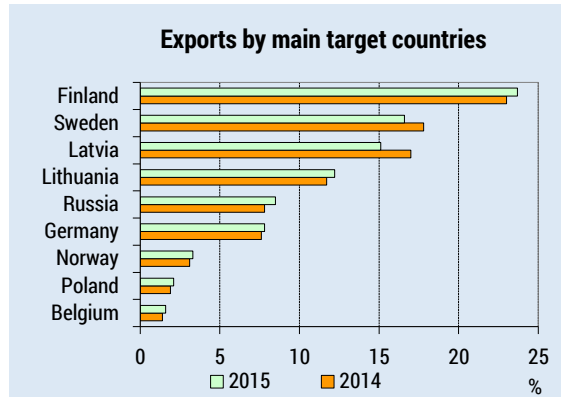
In terms of larger commodity groups, the export of plastic plates and films and furniture and vehicle fittings increased. However, the sales of pneumatic tires to foreign markets declined. The increased volumes characterized the markets of Finland (plastic boxes, etc., pneumatic tires), and Russia (plastic tubes and hoses), as to the main partners, sales decreased to Latvia (pneumatic tires) and Sweden (pipes and hoses).

The number of employees of the rubber and plastics industry rose slightly, but the number of hours worked fell. Also, wage growth was modest, limited to a couple of percents. Overall, the companies' labor costs increased by nearly 4%. In line with the sales revenue, the total cost did not increase, which is why profits remained at the previous year's level. However, the created added value increased, which mostly

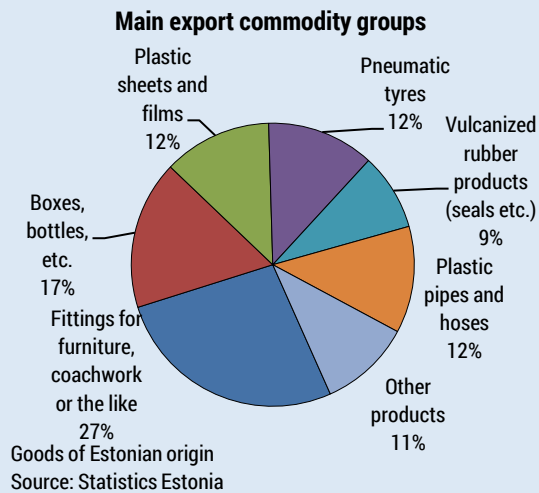
improved productivity indicators, except for labor costs.

The rubber and plastics industry companies invested in fixed assets in 2015, a tenth less than the previous year, but still must be taken into account that the final statistics covers a significantly larger volume of investments than the initial ones. The decline was particularly caused by the smaller acquisition of machinery and equipment, while the construction and reconstruction of buildings grew. The largest share, about 70% of total investments were placed in machinery and equipment.

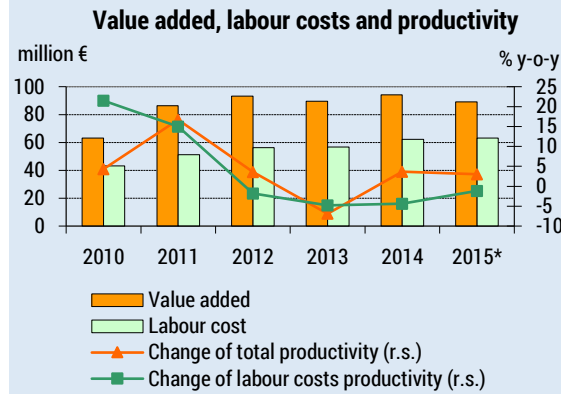
The confidence indicator of the rubber and plastics industry entrepreneurs was slightly lower in 2015 than in the previous year. Based on the survey of the Estonian Institute of Economic Research, the main problem was the continuous low demand; fewer orders were issued than usual. The year 2016 began a little better for the sector than the past on, production and the number of orders were expected to increase. Also, the production volume was slightly higher than at the beginning of 2015, but in the year as a whole, however, we can expect a rather modest growth.



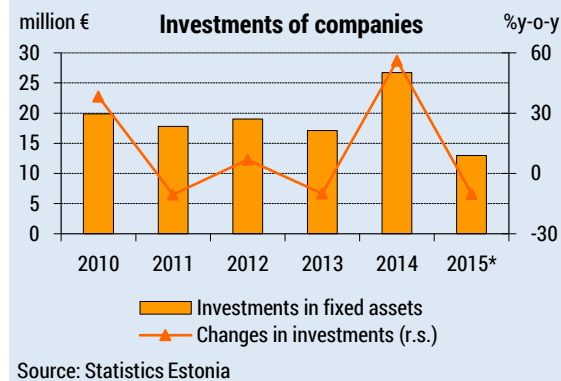
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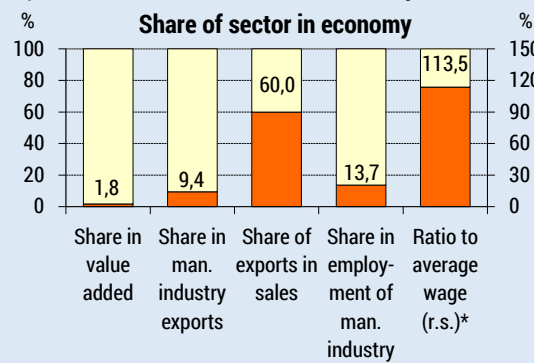


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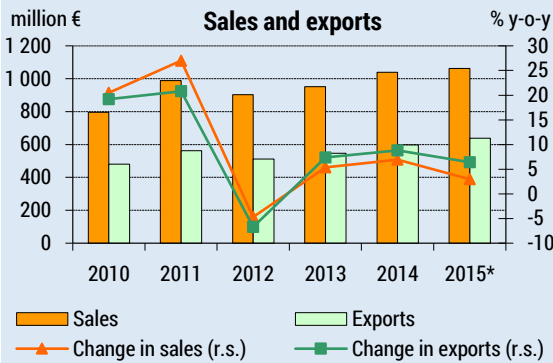
Manufacturing of metal and metal products

The metals industry is involved in several fields, such as manufacturing, and construction of machinery and equipment. The metal industry employs more than 12 out of 1000 people in Estonia, making it one of the largest industries after the timber industry and the food industry. More than one thousand companies operate in the industry. The metal industry is concentrated in Tallinn and its vicinity (60% of the workforce), and Ida-Viru County and Tartu County (one tenth of the workforce). Larger companies are AS Kohimo, Fortaco Estonia AS, OÜ Marketex Offshore Constructions, AS Remeksi Keskus, AS E-Profiil (metal structures), Ruukki Products AS, AS Saku Metall (engineering structures), AS Metaprint (manufacturing of metal packaging), AS HANZA Mechanics Tartu, AS FAVOR, AQ Lasertool OÜ, Metalliset Eesti AS (metal processing) and ETS NORD AS (ventilation equipment).

In the metal industry in the longer term can be expected the continued growth in production volumes, the main driver can be exports. However, the number of employees can rather be reduced, the increase in production should be ensured by an increase in productivity.



* Production of metal products
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

The situation in the metal industry in 2015, could be assessed as satisfactory. Production grew marginally, investments increased. A modest increase can also be predicted for the year 2016.

Metal industry output increased at constant prices by a few percent, due to a modest increase in prices sales index increased by 3%. Exports helped boost the sales, less production than a year earlier was sold to the domestic market.

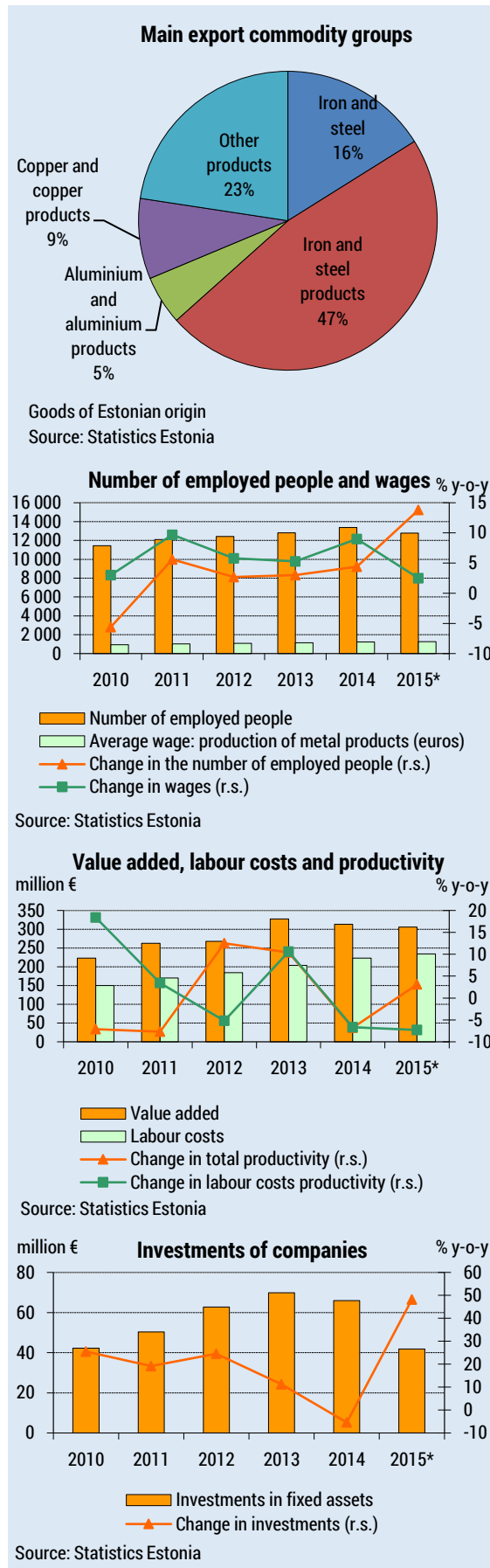
Out of metals and metal products, financially increased more the export of metal structures (including metal doors) and wire products. Export of scrap metal which affected exports to Turkey crashed heavily. As regards to major trading partners, sales increased to Finland, Sweden (metal structures) and Denmark (wire products).

One the basis of short-term statistics, the metal industry, was in 2015, one of the major creators of jobs in the manufacturing sector, but the final statistics are expected to show a more modest growth. The number of employed in enterprises increased by more than a tenth, but the total labor costs increased by a fifth. At the same time, the average salary increase was relatively modest (below 3%). Total expenditures, however, rose less, according to the increase in net sales. Corporate earnings remained slightly below that of 2014, but the added value rose. Aggregate productivity remained at the previous year's level, while the growth of added value remained well below the

increase in labor costs, and therefore the labor cost based productivity indicators declined.

According to preliminary data, the metal industry companies invested in 2015 more than the previous year. Capital investment growth characterized both branches. The growth of investments was mainly related to machinery and equipment, which accounted for two-thirds of all the investments. Heavily increased were the acquisition, construction, and reconstruction of buildings.

In line with the sector's economic indicators, the assessments of the entrepreneurs to the economic situation were similar to those of the year 2014. The interviewed representatives of the Estonian Institute of Economic Research pointed out that the main problem was a lack of demand, but rather much (almost one-fifth) also cited the labor shortage. At the beginning of 2016, the confidence indicator of the sector was slightly higher than a year ago, and an increase in the number of employees was projected. However, industry statistics do not give grounds for optimism, but it is also affected by quite a rapid growth years ago. As the year progresses, however, production performance improvements can be hoped for.

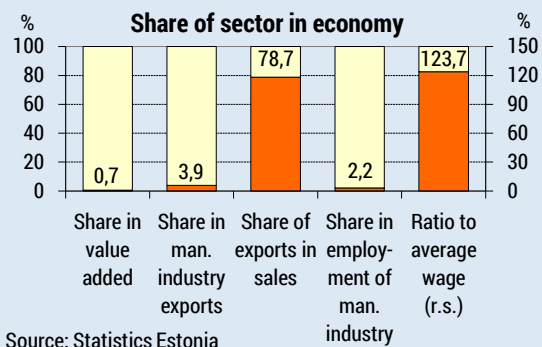


Manufacturing of machinery and equipment

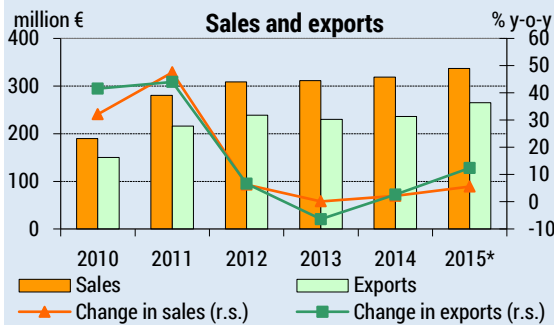
Production volumes of the engineering industry increased at a fast pace before the global economic crisis, but with the crisis, investment goods producers, including mechanical engineering were strongly affected. Today, the sector has recovered from the crisis in terms of production volume, but growth has been achieved with fewer staff. The development of the engineering industry has been affected mainly by foreign markets, most of the production is exported.

In Estonia operates around 150 small and medium-sized machinery and equipment manufacturers. The largest engineering industry companies are AS Hekotek (woodworking equipment), OÜ Palmse Mehaanikakoda (timber trailers, log lifts), AS Sami (construction lifts, forestry machinery), AS Finmec, AS Rauameister (handling and lifting equipment and parts thereof), OÜ JOT Eesti (production automation), AS PMT (different equipment for the engineering industry) and Metos AS (industrial kitchen equipment). However, the sector is dominated by smaller companies. Larger companies are located in Tallinn and Harju County, but the engineering industry is represented in almost every region of Estonia.

According to long-term forecasts, both the exports, as well as the domestic sales of the engineering industry, will increase. Due to the ability of the sector to create higher added value, in the future could be expected increases in the number of employees in this area.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In 2015, economic performance indicators of the engineering industry improved thanks to price increases, the volume of output growth was modest. In early 2016, the sector continued to move in a moderately rising trend.

The production of engineering industry grew slightly in 2015, but due to price increases, the sales volume increased by nearly 6%. Producer prices rose more than 3%. Sales growth came from exports, which increased by more than a tenth, but sales in the domestic market decreased in the same magnitude.

In terms of major export products, the sale of lifting and handling equipment in foreign markets decreased, but the exports of parts thereof increased. Compared to the previous year, sales increased quite firmly to Russia, Sweden, Finland, and Norway.

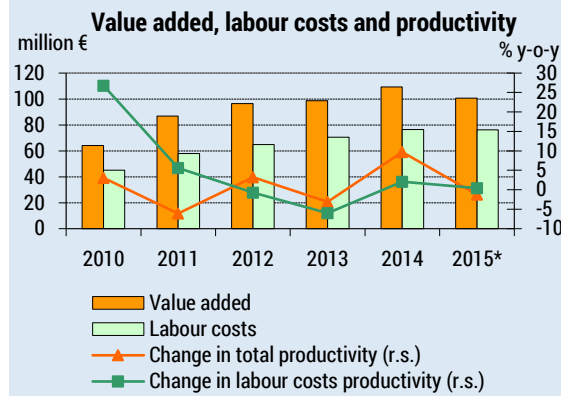
The number of people employed in the engineering industry increased by a few percent in 2015, while hours worked did not change significantly. Wage growth was almost as large as in the manufacturing industry as a whole, which led the average salary of the sector to first place among the industries. Labor cost growth was more modest than the increase in the total cost and of net sales. Total corporate profits rose by almost a tenth and the added value increased in the same magnitude. Added value based productivity indicators remained stable.

Investments in the engineering industry fell compared to the year 2014, mainly in terms of construction and reconstruction of buildings. Investments in machinery and equipment decreased slightly; their share amounted to almost three-quarters of the total investments.

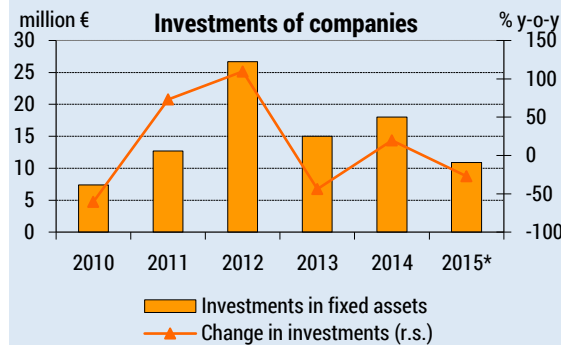
According to the data from the Estonian Institute of Economic Research in 2015, the engineering industry companies rated the economic situation a little bit higher than the year before. However, underlying indicators of the confidence indicator were different. If there were more orders than a year earlier, the insufficient demand was more emphasized, and the level of utilization of production capacity decreased slightly. Still quite an important factor limiting the growth of production was a shortage of labor. The year 2016 began better for the sector than the previous one, in the first months of the year production increased. However, the assessments of undertakings did not show improvement in the situation.



Source: Statistics Estonia



Source: Statistics Estonia



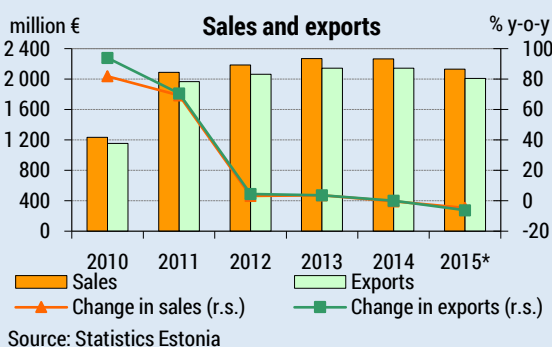
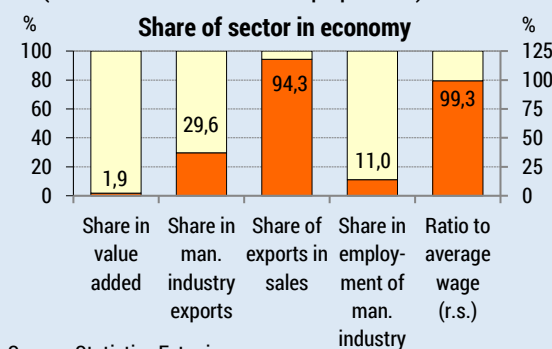
Source: Statistics Estonia

Manufacturing of electronic and electrical equipment

The sector of manufacturing electronic and electrical equipment is one of the fastest growing industries in Estonia. Behind this growth is the high added value of the products of the sector, production efficiency, and adaptation of the market globalization and of the speed of product development. Sales revenues have for the past six years increased nearly three times. In addition to the sales income, also the production volumes and the employment will also increase and the future growth potential can be assessed as high. The sector is heavily oriented to the external market, the majority (more than 90%) of net sales is accounted for by exports. Also, most of the larger companies in the sector are based on foreign capital. In 2015, in the electronics and electrical equipment manufacturing sector operated nearly 230 companies, which accounted for a small proportion of the total manufacturing industry (about 4%).

Electronic and electrical equipment production is characterized by a geographic concentration in Tallinn and its vicinity, while it greatly influences regional development. The electronics industry has been one of the biggest job creators in Saaremaa, Pärnu, Elva and Koeru.

Manufacturing of electronic and electrical equipment is divided into two sub-branches. The largest enterprises in the manufacturing of computers, electronic and optical equipment are Ericsson Eesti AS (mobile communication equipment), Enics Eesti AS (electronic components for industrial and medical devices), and Scanfil OU (telecommunications devices), and the largest computer manufacturer is Ordi AS. Unlike the general direction of the industry, computers are sold mainly on the domestic market. In the manufacturing of electrical equipment, the largest company is ABB AS, whose main activity is the production of electrical distribution equipment and power generators. Other major companies are Ensto Ensek AS (electricity distribution equipment and control apparatuses), Konesko AS (electric motors and equipment) and Draka Keila Cables AS (cables).



The year 2015 was difficult for the electronics and electrical equipment sector. The hindrance for the development of the sector was to a large extent, weak demand in foreign markets, which negatively affected the corporate sales and export volumes. A result of these problems were structural changes in the businesses, redundancies and ultimately lower production volumes, sales revenues and the number of employees. New start-up companies were not able to remedy the situation.

In 2015, the production volume of electronic and electrical equipment manufacturing sector decreased at constant prices by 2%. The change in corporate sales at current prices saw a negative trend, just like the export volume. Sales revenues of the enterprises decreased by 5%.

In 2015, 75% of the total sales of electronics and electrical sector accounted for the manufacturing of computers, electronic and optical products, and 25% for manufacturing of electrical equipment. The share of the sub-branch of manufacturing of electrical equipment increased by 2 percentage points,

but at the same time, the share of manufacturing of computers, electronic and optical equipment decreased by the same amount.

The largest part of the production of the companies in the sector goes for export. In 2015, the share of exports in the sales revenue of businesses remained at the same level as the previous year, accounting for 94.3%. The share of exports of the sector in the export of the entire manufacturing industry fell to 29.6%. 97% of the sales of computers, electronic and optical equipment and 86% of the sales of electrical appliances went to export. The share of exports compared with the previous year's figures in both industries was unchanged.

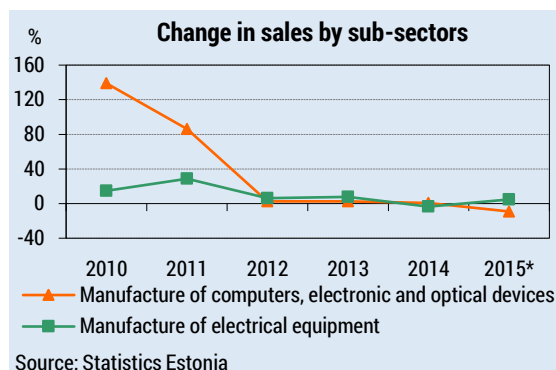
In 2015, the unstable situation in the economy of the export partners and the consequent fall in export prices had a negative impact on foreign demand and eventually on export business volumes. This caused a reduction in exports of 6% in the whole sector in an annual comparison.

Computer, electronic and optical equipment exports fell by 9% compared to the previous year. To a large extent, this was due to a high comparison base from the year before, and weaker external demand. In the exports of this sub-branch, the largest share accounted for mobile devices. Exports of other electronic equipment were also in decline. In the industry, the export volumes of the larger companies which had a greater impact on the entire exports decreased significantly.

Electrical equipment exports grew by 6%. The growth has helped to ensure a positive development in the electrical equipment export prices in most months. The main exported goods of the branch were flow distribution devices, transformers, insulated electric wires, cables and static converters.

Exports of electronic and electrical equipment to major export markets were in decline. For several years, the biggest export market for the electronics and electrical equipment was Sweden, to where 46% of total sector of exports were shipped. In 2015, however, exports of equipment to Sweden shrank by 8% compared to the previous year. A large proportion of the 84% of the exports to Sweden accounted for

mobile devices, which exports fell by 10% in a year. Mainly due to the weakness in external demand and changes in the business concept. Moreover, important export articles were still insulated electric wires and the flow distribution devices, which showed a slight increase in exports. Exports to Finland remained at the previous year's level. Out of important trading partners, exports of electronic and electrical equipment to Russia, Latvia, Great Britain, Spain, Germany and the United States declined. To a large extent, this was due to decline in exports of mobile devices, transformers and converters. Exports to Poland and Lithuania showed an increase, respectively, 31% and 51%. Growth of exports to Poland was supported by the growth in the export of transmission apparatuses and electronic integrated circuits. The export to Lithuania was supported by the increase in exports of monitors and projectors, and insulated wires.



Due to a decline in export and production volumes, structural changes took place in some companies, which led to layoffs. In this connection, the average number of staff employed decreased by 2%. Negative changes occurred in both sub-branches. In the sub-branch of manufacturing of computers, electronic and optical devices, the number of employees dropped by 3%, and in the sub-branch manufacturing, it dropped by 1%.

The average gross monthly wage in the sector increased by 4.5%. This was 1.1 percentage points less than in the previous year. In the electronic and electrical equipment manufacturing sector, the average gross monthly wage was 1,110 euros, which was 8 euros less than the average salary in Estonia (1,118 euros). The monthly wage of sub-branches grew in the range of 3-6%. In 2015

average monthly wage of manufacturing of computer, electronic and optical equipment was 1073 euros, which was 61 euros more than the previous year. The average monthly salary in the sub-branch of manufacturing of electrical equipment was 1,148 euros, an increase of 34 euros.

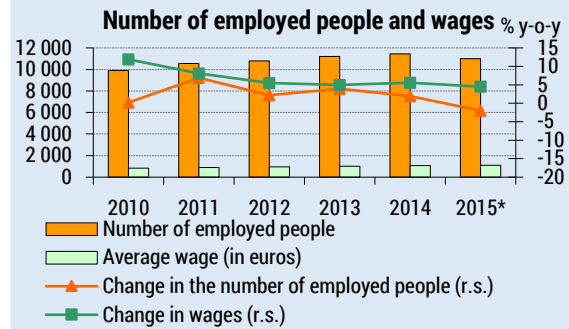
The added value based productivity indicators showed a negative trend. Total productivity of the sector fell by 15%, labor cost productivity decreased by 20% compared to the previous year. The changes in the sub-branches of computer, electronic and optical devices had an important effect on the productivity of the sector.

In 2015, companies invested considerably less in tangible assets than in the previous year. This may be related to the deterioration of the financial situation of the companies, which was the result of the reduction in sales volumes and export. The total investment in the sector fell by 19%. The decline in both the sub-branches was equally 19-20%. The majority of investments were made in machinery and equipment, the volume of which grew by 1.4%. However, major investments had been made in the past in the construction and reconstruction of buildings, the volume of which, however, fell during the year - five times. In third place according to the size of investments were means of transport, which fell by 22%. A significant increase appeared in investments for the acquisition of buildings.

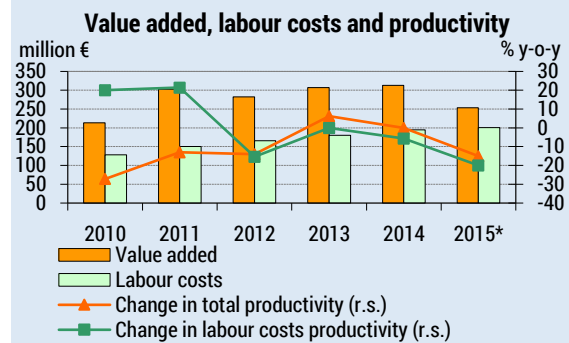
The first months of the year 2016 were difficult for the sector. Within two months, the export of the sector declined by 12%. The survey results of the Estonian Institute of Economic Research in March indicate an unstable situation. The indicators of the sub-branch of manufacturing of computers, electronic and optical equipment have large fluctuations, while indicators of manufacturing of electrical equipment are moving in a positive direction.



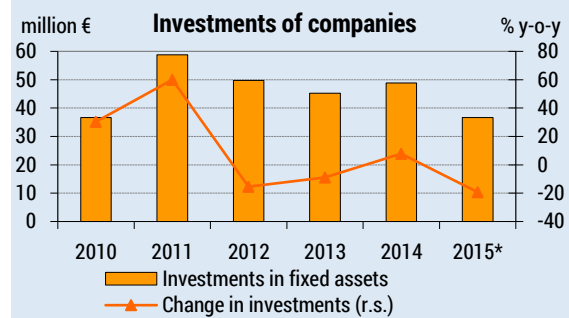
Source: Statistics Estonia



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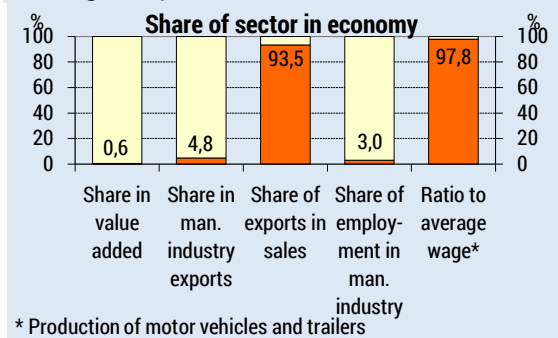
Source: Statistics Estonia

Manufacturing of means of transport

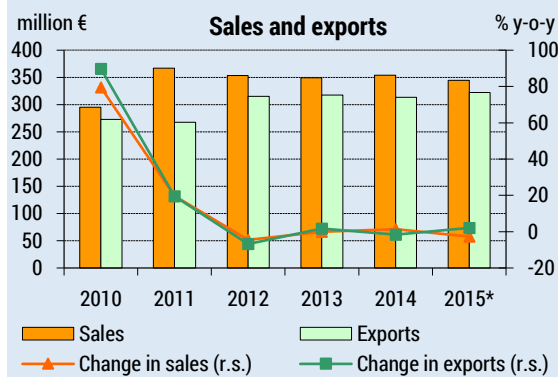
Manufacturing of means of transport depends mainly on foreign demand, the majority of sales in this sector is accounted for by exports. As a result of the economic crisis, both domestic sales and exports fell heavily, but this was followed by a quick recovery.

In Estonia, there are more than one hundred means of transport manufacturing enterprises. The largest are AS Norma (automotive safety systems, safety belts), PKC Eesti AS (wiring harnesses for the automotive industry), Stoneridge Electronics AS (electronic equipment for the automotive industry), AS Respo Haagised and AS Bestnet (trailers), AS Fors MW (timber trailers, cranes), OÜ Tarmetec (car accessories), Universal Industries OÜ (silencers), Baltic Workboats AS (aluminum boats), AS Luksusjaht (plastic yachts and motor boats). Many shipbuilding and repair companies are reflected in the machinery and equipment repair field, such as a number of subsidiaries of BLRT Grupp AS. Larger companies are concentrated mainly in Tallinn and Harju County (two-thirds of the workforce in the sector), and Tartu and Saaremaa are also quite significant.

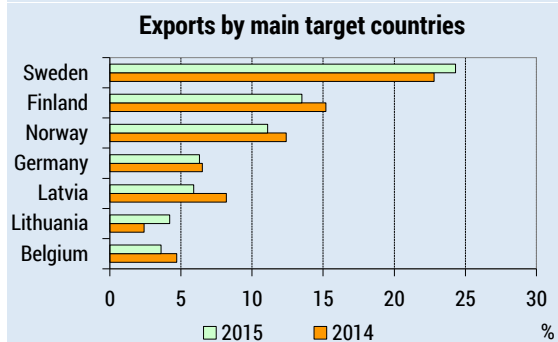
According to long-term forecasts, future sales volumes will be driven by exports, the role of the internal market is modest. Behind the growth of production volumes is an increase in productivity, as the shortage of qualified labor force and increased labor costs force the focus on higher value products.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In 2015, production increased and financial results in the production of motor vehicles and their components improved, but the reverse characterized the production of other transport equipment. The year 2016 began for these sectors in the same way.

Production of motor vehicles, parts thereof and trailers increased in 2015 by more than 5%, but the figures of the entire industry were taken down by a substantial decrease of the manufacture of other means of transport. Exports increased thanks to the motor vehicle manufacturing sector, but domestic sales fell in both sub-sectors.

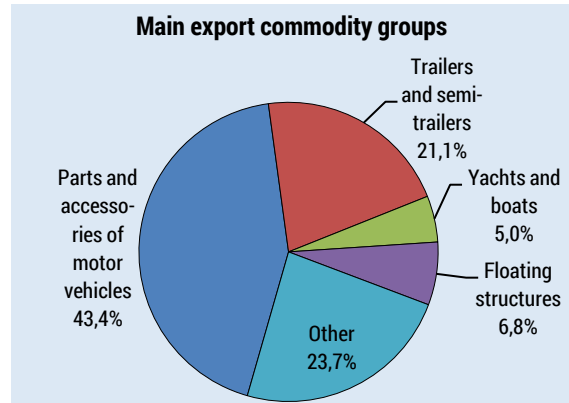
Out of commodity groups, in 2015, grew the exports of motor vehicle parts and accessories, various kinds of ships and floating structures, however, the sale of trailers, yachts, and boats fell. Higher growth in exports took place in the Lithuanian direction, but this was mainly due to the sale of motor vehicles, which is not an Estonian production. Sales declined, however, for instance to Latvia (automotive parts, but also vehicles), to Finland (trailers), to Russia (automotive parts) and to Belgium (ships).

In motor vehicle production the number of people employed fell by nearly a tenth, it increased by the same magnitude in the production of other means of transport. The indicators of the sector as a whole were affected by the larger, sub-branch referred to in the first order. Taking into account the contrary

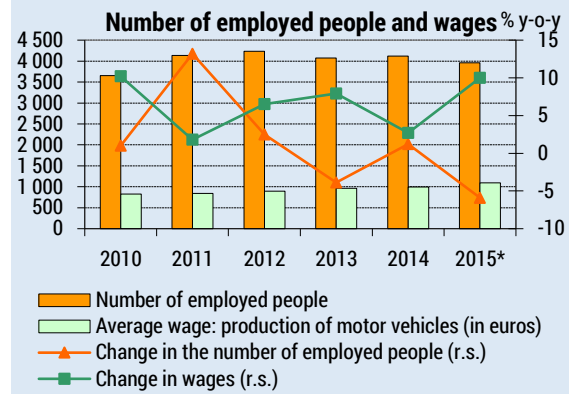
developments in production figures, the final statistics may show a somewhat different picture. Strong wage growth in motor vehicle production (10%) indicated that, despite the decrease in the number of employees, labor costs remained at the previous year's level, in the production of other means of transport, however, increased by a fifth. Unlike changes in employment, developments in economic indicators were better in motor vehicle production, as was the case with the sales revenue. In this sub-sector profits, added value and productivity increased, in the manufacture of other transport equipment they decreased. Manufacturing of means of transport as a whole showed a small step forward in terms of all of these indicators compared with the previous year.

According to preliminary statistics, companies manufacturing motor vehicles, trailers and parts invested somewhat less than in the previous year, but the final statistics can bring adjustments. Behind the drop in capital investment was a decrease in the acquisition of machinery and equipment, but still, 70% of all investments went into those. The data of investments in the manufacture of other means of transport are patchy.

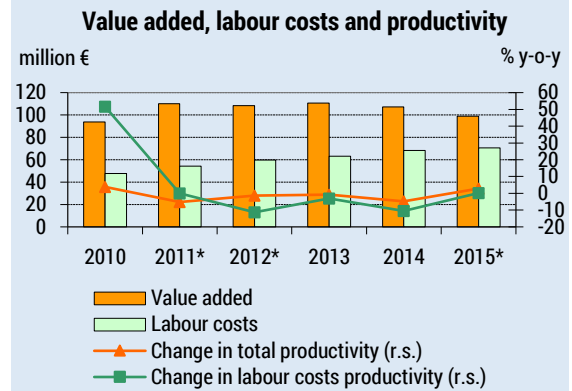
The data of the first quarter of the year 2016 suggest a slightly better situation in the manufacturing of motor vehicles, trailers, and parts. Manufacture of other means of transport remained below the previous year's level.



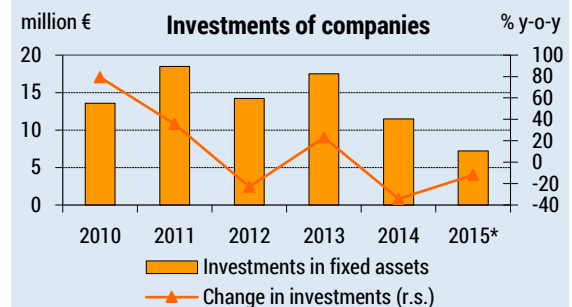
Goods of Estonian origin
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



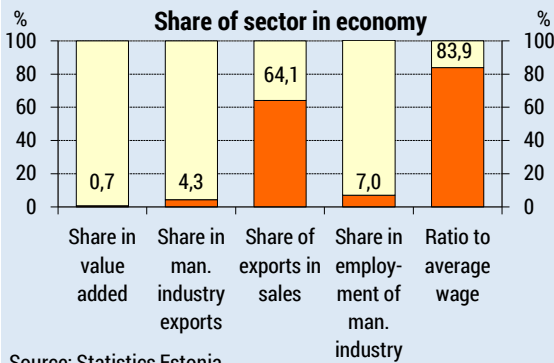
* 2015 data includes production of other transport industry only partially, changes are calculated for production of motor vehicles, parts thereof and trailers
Source: Statistics Estonia

Manufacturing of furniture

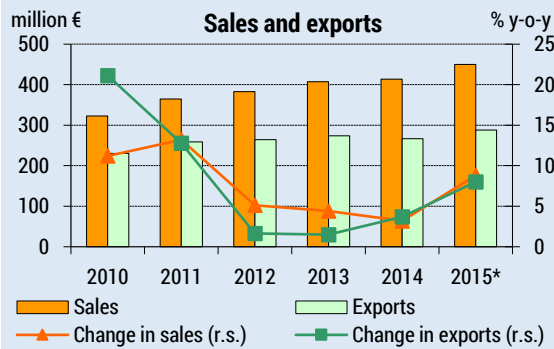
More than 600 companies which employ about 7,700 people are engaged in furniture manufacturing. The furniture industry is a sector that has a long tradition in Estonia, which is an important employer in rural areas and helps to increase the value of domestic raw materials. Over the past decade, the number of companies operating in the sector has increased by 50%, but the number of employed persons has decreased by 30%. At the same time, the number of micro-enterprises is increasing.

Major furniture industries in terms of the number of employees are located mainly in North and South-East Estonia. Major furniture manufacturers in 2014 were upholstered furniture manufacturers AS Bellus Furniture and Antsla Inno AS, office furniture manufacturer AS Standard, a manufacturer of furniture components Flexa Eesti AS, a manufacturer of wooden furniture Valga Gomab Mööbel AS and OÜ Delux manufacturing mainly bedroom fixtures.

In the last few years in the furniture industry, the number of enterprises with a large number of employees has decreased. Mass production is not profitable anymore in the Estonian conditions and, if necessary, automation is preferred. At the same time, the sector is an important output of small producers, who are implementing their best design ideas. In the coming years, the current trend is expected to continue. The number of micro-producers is increasing, and the major companies are reducing their workforce.

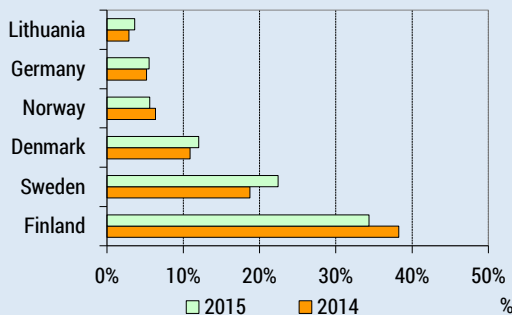


Source: Statistics Estonia



Source: Statistics Estonia

Exports by main target countries



Source: Statistics Estonia

The year 2015 was more successful for the furniture industry than for many other industrial sectors. Above-average growth took place in exports as well as in the domestic market.

For the furniture industry, the year 2015 was the year for proper growth. The local real estate market was active, and people purchased new furniture for their new homes. Nevertheless, the percentage of exports in sales has continued to drop, indicating that in the foreign markets competitiveness has not grown at the same pace.

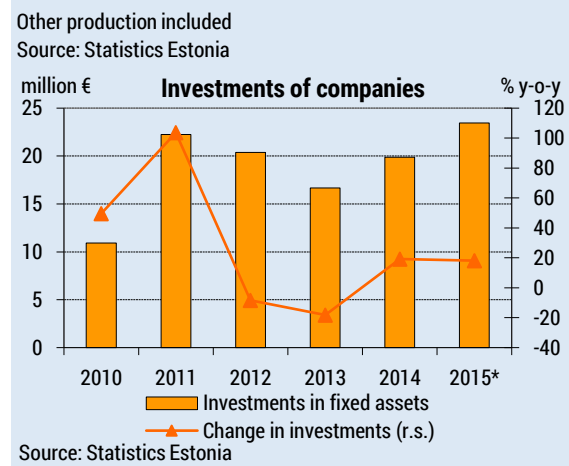
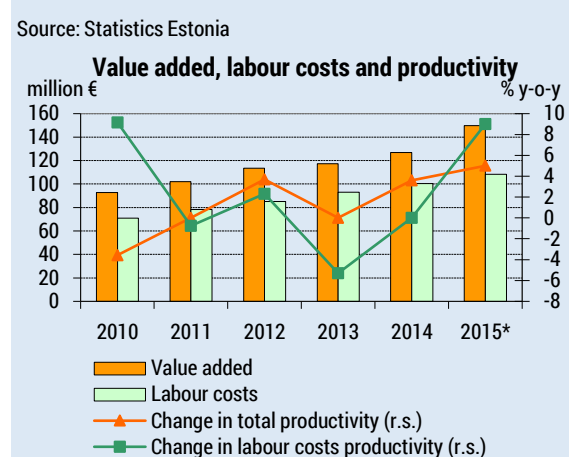
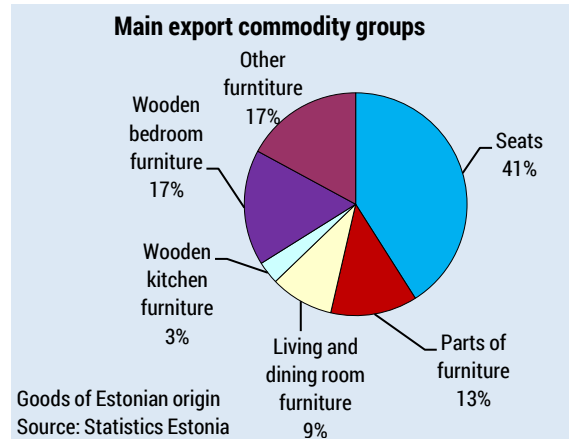
In furniture production, successful competition with foreign markets is important. Nearly two-thirds of the production is exported, but in recent years the share of exports has declined slowly. The most important markets are the Nordic countries. E.g., in 2015 Finland accounted for nearly a third of the total exports. The biggest growth was shown by Sweden, where exports were higher by a third compared to the previous year. Unlike in the past, exports of seats, which had declined in previous years, had a higher growth.

In 2015, employment in the furniture industry in recent years grew at the fastest pace. At the same time, wage growth slowed down to the Estonian average. In 2015, productivity ratios showed signs of improvement, as revenues grew considerably faster than costs. Corporate

profits doubled and the added value per employee increased by 12%. However, productivity in the furniture industry accounts for about three-quarters of the average of Estonia.

According to preliminary data, in 2015 investment in the furniture industry increased by 18%. A year earlier the investments had dropped by 19%, which is why investment in the sector can be recently considered as stabilized. Nearly three-quarters of the investments were made in machinery and equipment, and their volume increased by almost twice. The highest decline characterized mainly the area of construction and the reconstruction of buildings.

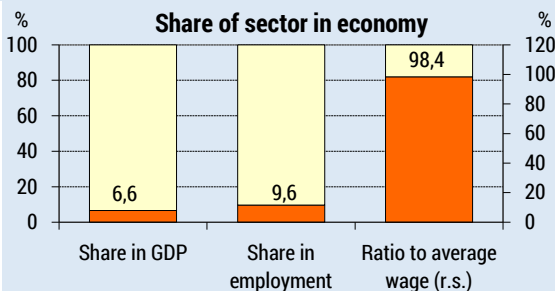
The results of the survey of the Estonian Institute of Economic Research showed that in the spring of 2016, the furniture industry enterprises were significantly more positively minded than the year before. A third of the companies believed that in the coming months, production capacity would increase. Whereas nobody estimated decline. A third of the respondents also brought out that the stocks of finished goods are too small.



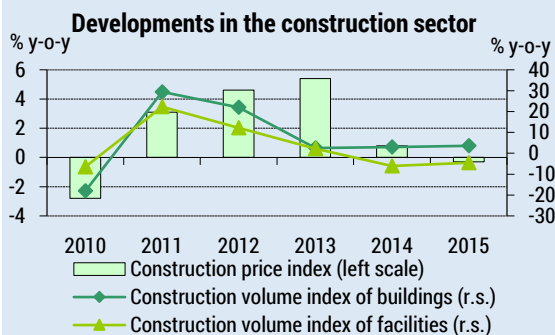
Construction sector

The Estonian construction sector has largely remained oriented on the domestic market and therefore, the developments in the construction market are closely related to general economic development. Exports in the construction sector activated in particular in recession years, while the share of exports in recent years has been steadily falling. Many companies have optimized their activities so as to respond better to the domestic market demand. The construction sector responds to the changes in the economy with inertia. The recovery of confidence and the sector take place slower than the contraction of the construction market or changes in other economic sectors. This is justified by the fact that real estate investments are voluminous. Thus, they are often pushed forward in uncertain times. If the situation in the economy as a whole is good, the volumes and prices of construction grow quickly. Thus the economic situation in the country has a direct impact on economic results of the construction industry and the areas dependent thereon, such as spatial planning, design, real estate, etc.

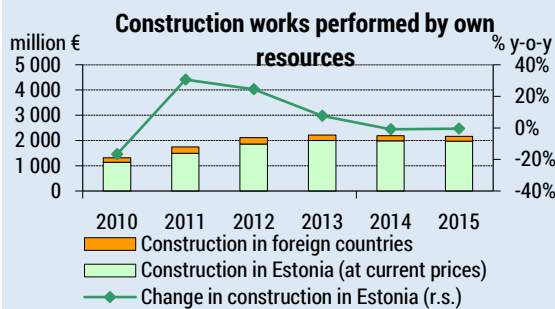
In 2015, over 9,000 construction companies operated in Estonia, of whom 90% are micro-enterprises with fewer than ten employees. Larger companies carrying out general construction works of buildings in Estonia are OÜ Astlanda Ehitus, OÜ Fund Ehitus, AS Maru Ehitus, AS YIT Ehitus and AS Ehitusfirma Rand and Tuulberg. In road construction, the greater contributions are made by AS Merko Ehitus, Nordecon AS, AS TREF, AS Teede REV 2 and Lemminkäinen Eesti AS.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In 2015, the construction market was once again primarily oriented to small domestic projects. The shrinkage of the market is characterized by all the key indicators, particularly the construction volume index of buildings and facilities and the wages and productivity, all of which were in 2015 either in decline or remained unchanged.

Until 2014, the post-boom crisis recovery was **stimulated** essentially by different state support measures, which ended or shrunk in 2013. Encouragement by the state could be seen again at the end of 2015 when structural funds of the new period opened up. The number of building permits issued for the construction of residential and non-residential buildings, in contrast, rose in comparison with the year 2014. An increase in the number of permits issued for the erection of buildings allows assuming that in 2016, the construction volume indices will turn to rise.

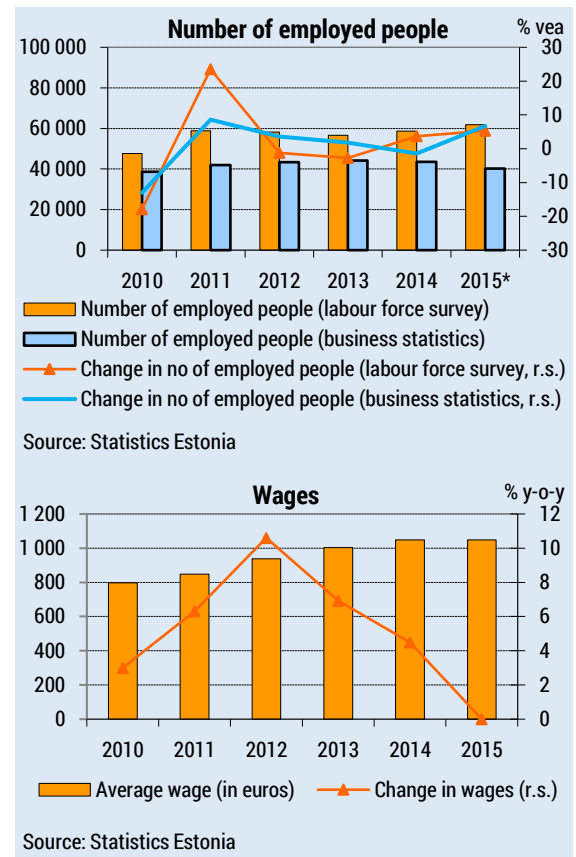
In 2015, the total number of construction works carried out in Estonia was EUR 3.11 billion, which was 3.6% lower than the year 2014 volume. In Estonia work was carried out in the value of 2.92 billion euros and the volume of work carried out in foreign countries was 0.19 billion euros. Construction work for the total of 2.15 billion euros was carried out. Compared with the year 2014, the volume of construction work carried out in Estonia decreased by 3.2%;

construction work carried out abroad decreased by 8.4%. All the figures illustrating the change are in excess of the 2014 levels by about three times, and the pace of the contraction of the market has thus increased.

In 2015, according to the short-term statistics, a total of 6835 companies operated in the construction market, which compared to the 2014 figure was bigger by more than 100 companies. This number, however, does not cover all companies. The final number of enterprises compared to the number determined on the basis of short-term statistics was considerably higher in all the previous years. The number of the employed in the construction sector rose by 5.3%. Probably one of the causes of the growth was the nationwide register of employees launched in 2014. In 2015, construction companies earned a profit of 160 million euros, so a decline of 3% took place compared to the level of the year 2014 loss. Although this was the second consecutive year of decline, it can be called stabilization of conditions. In 2014, the corresponding figure was -39.8%, and the gross margin decline, therefore, was more than 10 times higher. Total productivity on the basis of the pure added value increased by 4.4% compared to the level of the year 2014. This is an important change because in the two previous years the corresponding figure was negative, and in 2014, the decline amounted to as much as 10.6%. The labor productivity indicator continued to fall, although in comparison with 2014 when it amounted to 8.8%, the decline in 2015 was smaller at 3.3%. All in all, the added value in the construction sector rose by 3.1% in 2015.

Investment activity in the construction market slowed down in 2015 for the second year in a row. All the basic indicators went through a decline reaching several tens of a percent. One reason is that the large works financed from structural funds are about to be launched. Investment opportunities are found particularly in favorable conditions when the workflow helps to guarantee confidence and expectation of profits. Investments in tangible fixed assets in the construction sector decreased by 21% compared to the year 2014. The investments made for the acquisition of buildings decreased by 0.3%, but since the last

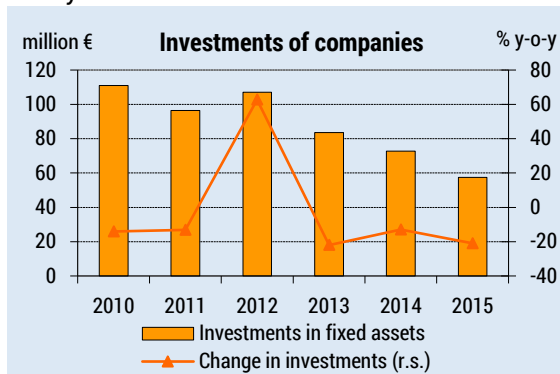
year's surge in growth was 35%, it can be called as expected. Both investments in construction and reconstruction, as well as for the acquisition of land fell equally by 54%. The level of investments made by construction companies in the means of transport dropped by 42%. The investments made for computer systems upgrades or renewals decreased by 44%. The expenses incurred only for the acquisition of machinery and equipment increased by 10% in 2015.



According to the labor force survey, in 2015, a total of 61,800 people worked in the construction sector, which means that the number of employees went from a 5.3% increase compared to the 2014 level. This is the biggest change in recent years, but the general level of the employed in the construction sector has remained stable, at a level comparable to 2010. Thus in 2015, the construction sector remained for several years in a row on the position of the third-largest economic sector in terms of the number of the employed, losing this time again to the processing industry and the wholesale and retail trade. In doing so, the average wage in Estonia rose faster than the average wage in

the construction sector. The average gross salary of the people working in the construction sector did not change in 2015, but remained at the level of 1,048 euros, while the country's average salary rose to 1,065 euros.

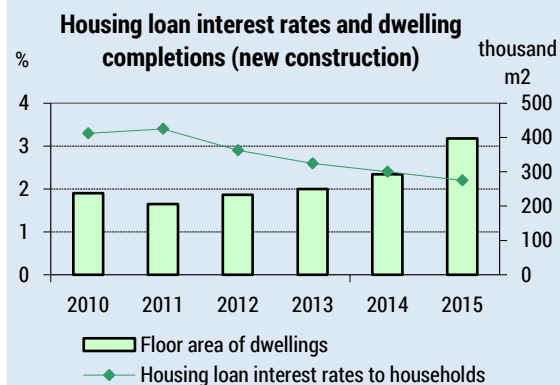
For the first time since the decline in the years 2009–2010, the construction price index again went through a decline – 0.3%. The labor costs price index remained unchanged, the construction machinery price index rose by 0.8%, while construction material prices index fell by 0.4%.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Bank of Estonia, Statistics Estonia

In 2015, authorizations for use were issued for 3969 dwellings and 1071 non-residential buildings, with a total useful floor area of 1,024,200 square meters. The number of authorizations issued for dwellings increased

by as much as 1213 authorizations and for non-residential buildings for 286 authorizations. The area received an authorization for use grew compared to the previous year, therefore, as much as 203,300 square meters. New or renovated housing was completed and put into operation with 397,400 square meters of floor space. Authorizations for use were issued for dwellings by 44% more than in 2014. This is the second consecutive year of growth, while growth in 2014 was by 11% higher. This is the largest amount of authorizations for use, which have been issued since 2008 when the construction boom was under way. Compared with the year 2008, the number of authorizations for use issued in 2015 was 75% of the level of that time, whereas the level of the year 2011 was exceeded by more than double.

The number of dwelling permits issued rose in all categories: in the accounting of one-family houses, two-family houses, row houses and apartment buildings. The largest increase took place in the number of authorizations issued for row houses and large apartment buildings (in both category 1.5 times), but even in the only category that dropped in the year 2014, one-family houses, saw a significant growth in 2015 - 1.4 times. The average size of the dwellings authorized for use which has risen steadily since 2008, underwent a decline in 2015. The second-year decline in average residential space indicates that consumers continue to prefer the cheaper and more feasible real estate. In the accounting of commissioning of dwellings, in addition to larger cities such as Tallinn and Tartu, were also significant Harju County, Tartu County, and Pärnu County. The number of dwellings commissioned by private owners increased by 34%, while in the case of the private and non-profit sectors, the increase was over 60%. The number of the municipal dwellings authorized for use fell in 2014 to one. Thus any change in percentages appears steep. In 2015, authorizations for use were issued for nine municipal buildings.

In 2015, the number of commissioned non-residential buildings underwent an increase reaching 36%. The total useful area of non-residential buildings authorized for use was 626,800 square meters and the cubic capacity

of 4.4 million cubic meters, which means that the figures rose by 19% and 16%, respectively. Regionally, the largest number of non-residential buildings taken into use continued to be in Harju County, followed by Tartu County and Pärnu County. The biggest growth happened in Hiiu County, where the change in the number of non-residential buildings taken into use in 2015 extended to 322%. These were followed by Võru County and Rapla County, where the growth rate exceeded 100%. By purpose, for the third consecutive year, the largest share belonged to agricultural and fishery business buildings, accommodation buildings, and industrial buildings.

In the case of both residential and non-residential buildings, the number of building permits issued went through a surge compared with the year 2014. In 2015, building permits were issued for the total of 3616 dwellings, with a total useful floor area of 392,000 square meters. The number of non-residential buildings obtaining building permits was 3421. The total useful area of new planned non-residential buildings was 1,232,000 square meters and the cubic capacity of 8.9 million cubic meters, which means that the figures rose by 41% and 51%, respectively. Based on the regional breakdowns, most building permits were issued for construction of non-residential buildings in Harju County (807 permits), second place was taken by Pärnu County, which underwent a 134% growth, however, the difference with Tartu County was still scanty. By fields of activity, most building permits were issued for non-residential buildings for construction of agricultural, accommodation and industrial buildings.

On the basis of the survey conducted by the Estonian Institute of Economic Research, the construction company's confidence indicator in 2015 was at a level comparable to the previous year. At the beginning of the year 2016, the confidence indicators improved and has remained stable at the same level. Obviously, the improvement is due to a growing number of orders.

Domestic trade

The trade sector is comprised of retail and wholesale businesses, including motor trade enterprises engaged in the sales of motor vehicles and their spare parts. Trade creates 12.3% of the added value and employs 84,000 people in 15,000 companies. As of the end of 2014, there were 6,886 stores in Estonia with a total of approximately 1.9 million m² of sales area. Over the past 12 years, the sales area in Estonia has nearly doubled.

Major retail companies in Estonia are COOP (it includes Maksimarket, Konsum, A&O), Maxima Eesti OÜ, Tallinna Kaubamaja AS (Selver), AS Prisma Peremarket, Rimi Eesti Food AS (Rimi, Säästumarket) and AS OG Elektra. None of the retail chains have reached a dominant position in the Estonian market.

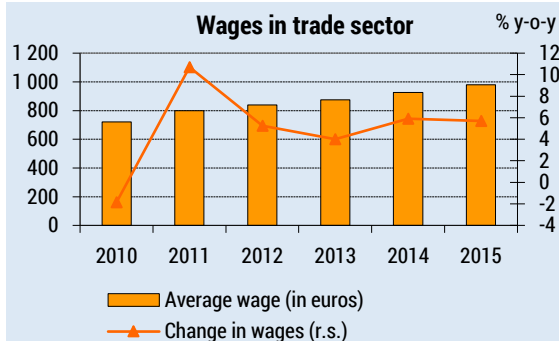
Estonia's internal trade has recently been characterized by a number of changes. Most of the larger retail chains have started to develop e-shops in their food store segments. The major shopping malls also have in recent years carried out fairly large-scale enlargements, increasing competition among themselves.



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

2015 saw the continuation of the rapid growth of the recent years in the domestic trade. The number of stores, as well as new retail space, increased. At the same time, there were enough buyers to go around. Domestic trade continued to be driven by fast growth in average wages, which gave the consumer more means for shopping.

Estonia's retail trade is increasingly concentrated in the hands of the major retail chains. In 2015, the situation remained where most of the retail sales of the unspecialized grocery stores were provided by five store chains: Selver, Maxima, COOP (formerly ETK), Rimi (including Säästumarket) and Prisma. The market share of Rimi, the largest chain of these, remains below 10% in retail trade. The chain with the largest number of stores is COOP where, as of spring of 2016 included 351 stores. The Prisma chain has eight stores, but sales accounted for approximately 80% of that of COOP. Thus, depending on the concept, an average store size of chains can vary significantly.

In the last few years has seen a significant increase of e-commerce. A survey carried out by TNS Emor in the spring of 2016 revealed that 62% of the population would buy in online stores, which was 130,000 more than in the previous year. The articles most frequently bought on the internet are women's clothes, mainly from foreign online stores. More perfumes and cosmetics are acquired from local online stores. Online shopping is most

popular among Estonians, who are under 34 years of age, and have higher incomes.

The addition of new retail space slowed slightly in 2015. During the year, 27 new commercial buildings with a total area of 42,700 m² were issued authorizations for use. Compared with the previous year, the number of authorizations for use decreased by 27%; the useful area decreased by 6.2%. The tendency continues that the commercial spaces that were issued authorizations for use are larger and larger. If in 2014 the size of the average commercial space authorized for use was 1230 m², 2015 the average size was 1581 m². More than half of the new commercial space continued to be built in Harju County. At the same time, 46,000 m² of commercial premises were reconstructed, and 299,000 m² of commercial premises were added by an extension.

No very large new developments have been currently planned for the chain stores. In the spring of 2016, one of the major projects underway is the construction of the T1 shopping center in Tallinn, which will be opened in 2017. For the center has been planned 55,000 m² of commercial space for 200 stores. Other malls and shopping chains contribute more to the development of the existing surface. Rimi is going forward with the plans to expand Säästumarkets and change them to Rimi's. Selver and Maxima have also announced plans to contribute more to the renovation of existing stores.

In 2015, the wage growth in the commercial sector was slightly lower than the average of Estonia and the gap increased. The wages in the commercial sector increased by 5.7%. According to the Labor Force Survey, the number of employed increased by 3.3% or 2700 people. Out of the sub-sectors, employment increased in retail trade and vehicle trade, in wholesale trade it declined. Based on the business statistics, the employees' hours worked grew at a faster pace compared to the employment rate, which is why it can be said that the labor shortages due to the rapid growth of wages caused by an increase in the workload of the existing staff. Looking at the productivity indicators, the year for the sector was rather modest. Gross margins decreased by 3% and hourly productivity by 1.2%. At the

same time, labor productivity per employee rose by 1.7%. The indicators were stronger in the vehicle trade, where labor productivity grew by nearly a tenth. The situation was weaker in wholesale trade, where labor productivity grew by only 1%.

The year 2015 saw an increase in the sales period of the stock of goods compared to the previous year, by a little more than three days, or 8.2%. In addition, the trade margins rose from 17.8% to 19.6%. The growth of trade margins was driven by retail trade, in the vehicle trade, the status remained almost unchanged.

According to the preliminary data, investments in the trade sector in 2015 rose by a fifth, compared to the previous period. One-third of the investments was made in machinery and equipment, and the volume of the investments grew by a little more than a third. However, expenditures made for the acquisition of buildings increased more than twice. A larger decrease took place in investments in means transport, where volumes declined by a quarter.

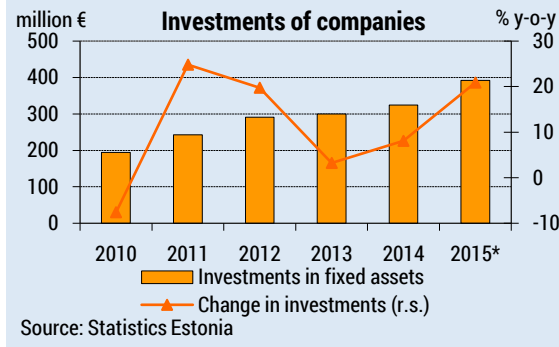
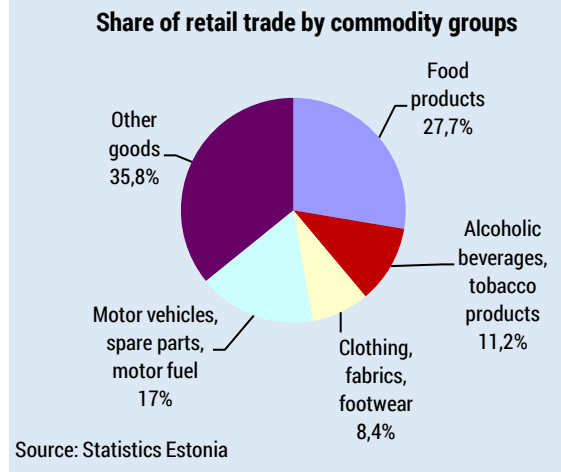
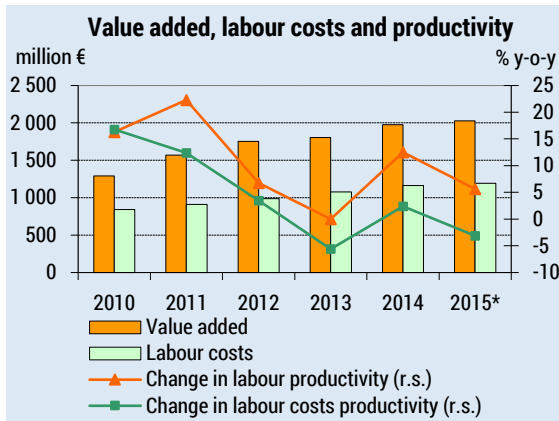
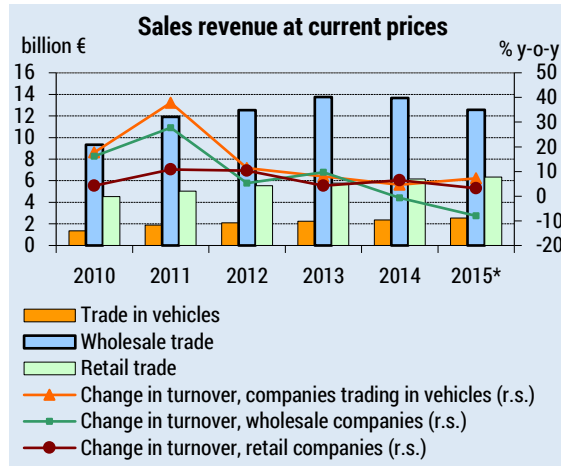
Retail business

For retail businesses the year 2015 was somewhat more successful than 2014. Total sales volume at constant prices increased by 7.8%, while in the second half of the year growth slightly accelerated. Sales revenues grew more slowly, increasing by 3.2%.

Total net sales of retail businesses in 2015 were 8.5 billion euros. Out of this, 6.1 billion was the sale of retail sales businesses, and the rest was related to vehicle trade. Growth was faster in industrial goods, where retail sales of textiles, clothing, footwear and leather goods grew by 4%. In addition rapid growth could be seen in retailing by mail or via the Internet, where volumes increased by 35%. Despite the rapid growth, retail sales by mail or via the Internet accounts for less than 2% of total retail sales volume. The biggest decrease took place in the sales revenues of businesses engaged in the sales of motor fuel, remained below the previous year's level by 13.5%. The decrease was due to the significant fall in the price of fuel prices; when calculated at constant prices, the volumes increased.

While labor productivity per person employed in retail trade grew by 2%, the 9% increase in labor costs led to a decline in productivity of labor costs by a couple of percentage points. The total profit of businesses also fell, and it was 6% lower than the previous year.

The year 2015 was another consecutive highly successful year for the retail sector. People's real wages have risen for four consecutive years, and the unemployment rate is among the lowest in the European Union. In addition, the sector is supported by a constant stream of tourists from Finland. However, the situation could change dramatically if the export markets do not recover, and the economic growth becomes negative.



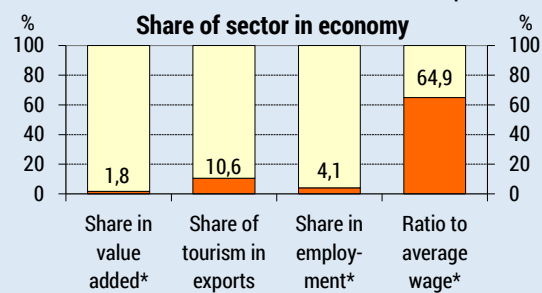
Tourism

The share of the tourism industry in the Estonian GDP and employment, considering indirect influences is nearly 7%, tourism makes a significant contribution to export earnings. The Estonian tourism industry relies largely on foreign visitors, who account for about two-thirds of all overnight stays in places of accommodation. A large number of foreign visitors (one-fifth) is formed by one-day Finnish visitors, while the number of visits from other countries has increased at a faster pace, and reduced the dependence on the Finnish market.

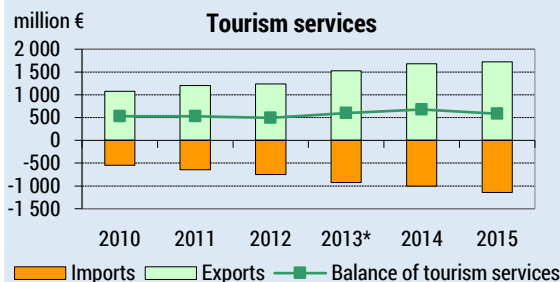
The main tourist attraction is Tallinn, where are accumulated a large part of tourism enterprises. Year-on-year interest in other regions has increased, to which has contributed adding of rehabilitation centers, accommodation, and other service facilities.

In Estonia operate more than 700 accommodation establishments (along with a number of sole proprietors and companies in case of whom, some other activity has been indicated as the main activity), the number of catering companies exceeds one and a half thousand and that of travel agents and tour operators exceeds 250. Major accommodation companies are OÜ TLG Hotell (Tallink, Pirita TOP SPA Hotell), AS Sokotel (Hotel Viru), Hotell Olümpia AS, Meriton Hotels AS and OÜ Swisshotel Estonia. Out of the catering businesses, the larger are Premier Restaurants Eesti AS (McDonald's), AS Hesburger and Baltic Restaurants Estonia AS. Major travel agents and tour operators include AS ESTRAVEL, Novatours OÜ, OÜ TEZ Tour, CWT Estonia AS and OÜ GoAdventure. Approximately 60% of the employees in the tourism sector work in Tallinn, out of other areas may be mentioned Tartu and Pärnu, but the tourism industry is represented all over Estonia.

Future growth in travel is expected, which will also support the Estonian companies. The increase in demand is expected in both domestic and foreign tourism, but the long-term growth is slower than before. In particular, thanks to the increase in the number of foreign tourists staying overnight, growth can be expected in the export revenues. Supply growth in the tourism sector means a growing need for additional labor. The growth of income will in the long term bring along increase in both the domestic tourism as well as in the number of foreign trips. Tourism policy seeks to increase the duration of travel in Estonia and to disperse the demand seasonally and geographically.



* indicators characterise the accommodation and catering companies not the whole tourism sector
Source: Statistics Estonia



* Data was updated since 2013, earlier years are not adjusted
Source: Bank of Estonia

In 2015, the Estonian tourism industry was strongly influenced by the decline in the number of tourists from Russia, which has not been fully compensated by the increase in demand from other countries or the domestic demand. However, tourism services export revenues reached another record. The outlook for 2016, however, is more positive.

According to the World Tourism Organization, the year 2015 was quite good for the tourism sector in the world as a whole and in Europe. The number of foreign tourists staying overnight increased by 5% in Europe, and a little more in North America, Central and Eastern Europe. Although the number of foreign trips of Russian tourists decreased, the growth in other markets compensated for it in many countries. Since Estonia is more affected by the Russian market (like is Finland), the Estonian developments were somewhat disappointing - the number of foreign tourists staying

overnight decreased, but the sector was supported by an increase in the number of one-day visitors and domestic tourism.

The added value of the Estonian tourism sector grew financially, but in constant prices, it remained below the previous year's results. Better results were characterized by accommodations, where the added value at constant prices grew by more than a tenth. Also, according to other economic indicators, the year was good for the accommodation sector.

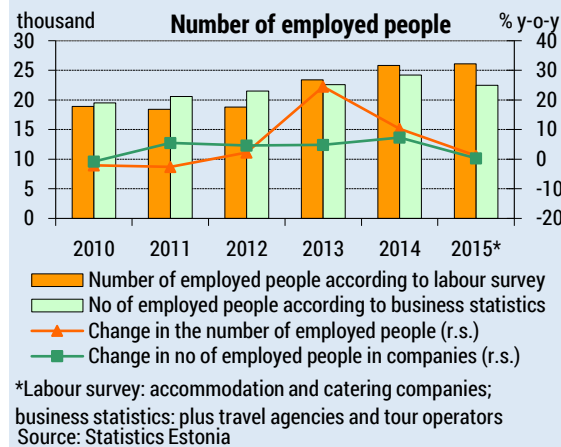
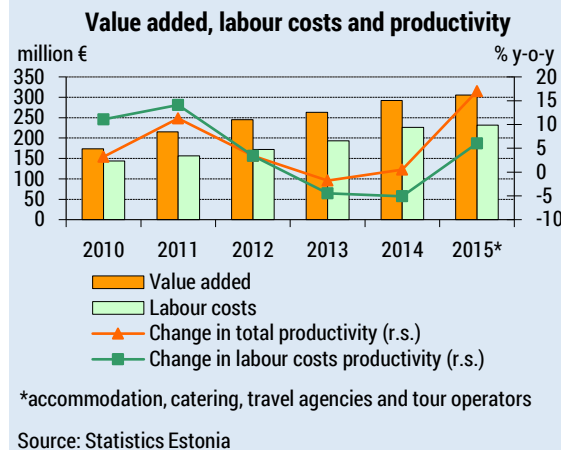
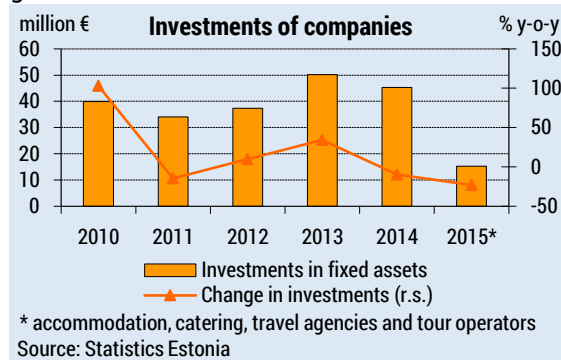
The export of tourism services in 2015 exceeded 1.7 billion euros, which is about 3% higher than a year earlier. The increase was largely due to the increase of the transport services export earnings. A significantly larger increase, however, characterized the imports of tourism services (almost 14% compared to the previous year), resulting in decreased balance surplus of tourism services. All in all, tourism brought in Estonia approximately 600 million euros more revenue than was taken out of Estonia with traveling.

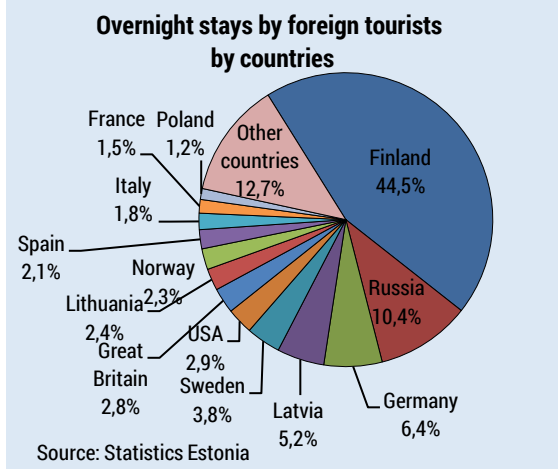
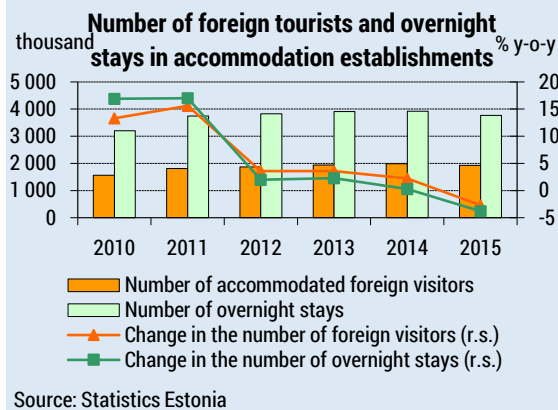
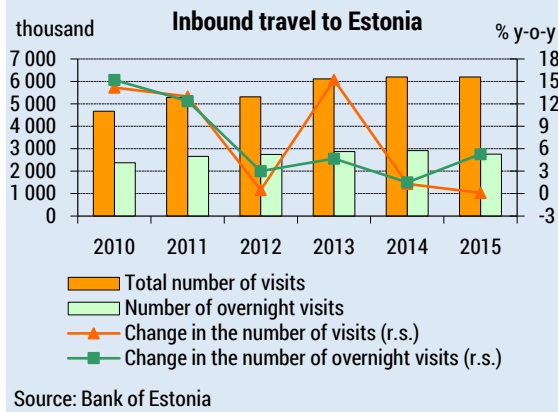
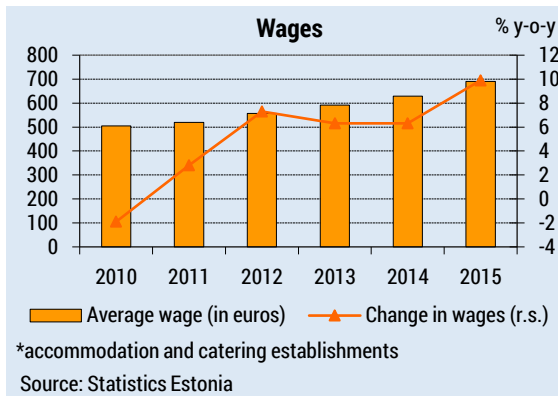
The number of the accommodated in accommodation establishments grew by 0.8% in 2015, but the number of overnight stays decreased slightly (0.5%). The result was mostly affected by the decline in demand of Russian tourists, and the increase of tourists from other countries was not able to fully compensate this loss. Most affected by this were the accommodation places in Tallinn. However, in many places in Estonia, the number of overnight stays increased (for example, Jõgeva, Järva and Viljandi County).

The accommodation capacity slightly increased, while the offer of beds fell (-1.5%). Therefore, the average occupancy rate of beds improved slightly (35%). The average cost of accommodations grew more slowly than in recent years (2.5%).

The number of employed persons in the tourism sector increased slightly in 2015. New jobs were added in the accommodation sector, while according to the short-term statistics, the number of employees in restaurants and travel companies (includes reservation information, etc.) decreased. Accommodation and catering wage increases exceeded the Estonian

average; wages increased on average by one-tenth. Also, in several other lower-paying fields, wages increased quite fast, which refers to the wage pressures due to a labor shortage, in particular, more labor-intensive areas. Overall, labor costs in the tourism businesses increased by a tenth, thereby in accommodations as much as one-fifth, in other areas (partially in catering) the decrease in the number of employed offset the effect of wage growth.





Total corporate costs increased more slowly than labor costs, but in accommodation and catering, they increased more than the

revenues. Therefore, profits declined, especially in catering. The preliminary results of travel agencies show strong growth in profitability, but given the major adjustments in the final estimates, it may not reflect the reality objectively. Therefore, the productivity indicators of the entire area showed strong growth, but looking at accommodations and catering separately, the productivity of labor costs and the total cost fell.

Both in accommodations and catering, according to preliminary data, in 2015, enterprises invested less than a year earlier, but travel companies increased capital investment in tangible assets. The total investment in the sector was most affected by the activities of catering businesses. Construction and reconstruction of buildings fell by a half, in other areas the financial change was quite small. More than half of the total investment went to the acquisition of machinery and equipment and inventory.

According to the survey of the Estonian Institute of Economic Research, tourism businesses evaluated the overall situation in the first half of the year to be poorer more than a year before. In the second half of the year, the estimates were similar to the figures of the same period of the year 2014.

In early 2016, representatives of the hotels, however, considered the market situation better than a year ago. In particular, indicators describing the current situation showed improvement, expectations for the next few months did not change significantly. The confidence of restaurants and tourism companies was almost the same as a year before. Somewhat more were those who forecast growth in the number of employees in the coming months.

The World Tourism Organization predicts by 2016 an increase in the number of foreign trips by 3.5-4.5% in the world and in Europe. In the first months of 2016, the statistics of overnight stays in Estonia showed a growth of the same magnitude, while in the case of one-day visitors, preliminary statistics suggests a decline in the demand.

Inbound tourism

The number of foreign visitors arriving in Estonia in 2015 remained at the same level as the previous year, but there were significant changes in the visitor groups. The number of foreign tourists staying overnight in Estonia fell by 5%, mainly at the expense of Russian tourists. Deterioration of the Russian economic situation and the fall in the ruble exchange rate heavily affected the purchasing power and the travel of the population. According to the mobile-based survey conducted by Bank of Estonia, the number of one-day trips of the population of Russia decreased, but this and the decline of overnight stays was helped to cover by the visitors from the United States, Germany, Latvia, the Republic of Korea and several other countries. In the case of the US and Germany and more distant countries, the number of one-day visitors is heavily dependent on the number of the flow of cruise passengers. The length of stay in Estonia was extended, and it also helped to mitigate the impact of declining numbers of tourists staying in Estonia.

Although the environmental requirements applied to marine fuel tightened in 2015 and therefore cruise tours were expected to become more expensive and the demand was expected to decline, the real developments were more promising. Fuel prices in the world market fell, and it helped to compensate for the costs arising from the stricter environmental requirements. The number of cruise passengers visiting Tallinn and Saaremaa ports increased by 3.6% to 504,000.

Foreign visitor spending in Estonia remained similar to their number essentially at the previous year's level. Tourism services export growth was mainly due to the revenues received from the maritime transport passenger services (increase 14%).

The decline in the number of foreign tourists was also reflected in the accommodation establishments of Estonia. In 2015, the number of foreign tourists accommodated fell nearly by 3%, the number of overnight stays fell even a little more. As the year progressed, the situation improved and in the fourth quarter, the number of both accommodated persons

and the number of nights increased compared to the same period in the year 2014.

Like in 2014, the accommodation sector was most affected by the decline in demand by the tourists from Russia, which was primarily due to the weak economic situation in Russia and the weakening of the ruble. There were a third less of Russian tourists in accommodation establishments than a year earlier. However, the accommodation establishments had more customers than a year ago from several other countries, for example, the USA, Latvia and Japan; also Spain stands out with the increase in the number of overnight stays. Demand for accommodation services has also been increased by the NATO military personnel residing in Estonia.

The number of overnight stays of foreign tourists decreased by more in Harju County and Ida-Viru County and Lääne-Viru County. Positive developments characterized only a few counties (Viljandi County, Jõgeva County, Järva County, Hiiu County). Also by regions, the performance was affected the most by the fall in the demand of Russian tourists, the number of overnight stays by Russian tourists fell essentially all over Estonia.

In 2016, external demand is expected to increase. Tallinn Airport expects passenger growth, even despite the construction work beginning in 2016. Similarly, the number of ship passengers is also expected to increase, although according to the data of the Port of Tallinn, somewhat fewer cruise passengers are expected to arrive than in 2015. The number of Russian tourists is no longer expected to decline, and therefore the number of foreign tourists staying in accommodation establishments could ultimately increase again in 2016.

Domestic tourism

The use of accommodation services by Estonian residents in 2015 continues its upward trend. The number of accommodated persons increased by 7% in the year, the number of overnight stays increased slightly less (6%). The increased demand for accommodation services by Estonian residents almost helped to offset the decrease in external demand. Estonian residents

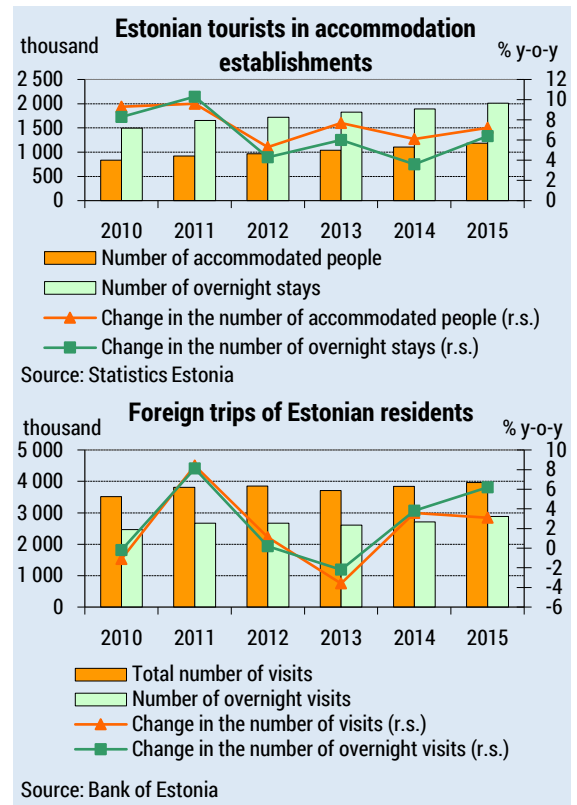
accounted for 38% of the customers of accommodation establishments, in the number of overnight stays, the share of domestic tourists was 35%.

Relatively strong growth occurred in domestic demand in Lääne-Viru and Ida-Viru counties and Valga and Viljandi counties. The number of overnight stays increased in all counties apart from Tartu County, while the number of overnight visitors increased even there compared to the year 2014.

In 2016, we can expect continued increases in domestic tourism. Private consumption and real wages are projected to grow. There are more question marks in terms of developments in the labor market, but preliminary data suggest the persistence of high employment levels. In the early months of the year, the number of overnight stays of the Estonian accommodation establishments continued to increase at quite a fast pace.

Outbound tourism

According to the data of the Bank of Estonia, the number of trips abroad taken by Estonian residents increased to nearly 4 million in 2015. Compared to the previous year, the number of trips increased by about 3%, including multi-day visits by 6%. Estonian residents traveled to Finland and Sweden less than a year before. At the same time, greatly increased travel to Belarus, numerically followed by the increment of several important tourist areas: Italy, Turkey, and Spain. By countries, the developments were predominantly positive. Fewer day trips were made to Russia, while the number of overnight trips is increased by the same volume. The passenger flows to Ukraine that suffered in 2014 due to military activities partially recovered in 2015.



The increased costs of the Estonian residents abroad increased strongly imports of tourism services. In particular, this was due to the increase in private trips, but also increased expenditures for goods and services made on business trips. Expenditures on foreign transport companies increased slightly (3%), while the increase of the import of the mode of transport with the largest share - air transport - amounted to nearly one-fifth. Much of this came at the end of the year when the national airline ceased operations.

Stable economic situations will support an increase in the number of foreign trips in 2016; the first quarter data also confirmed this. Along with the increase in income, the consumption of tourism services increases, whereas transport connections also play an important role. After the bankruptcy of Estonian Air, the activity of several airlines intensified, while in the coming years, air traffic will be affected (limited) by large-scale construction work at Tallinn Airport.

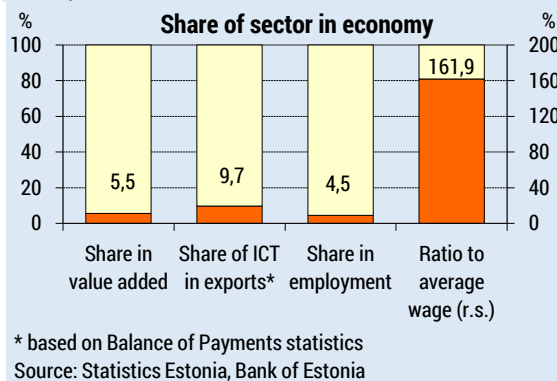
Information and communication

Information and communication activities include publishing (including software publishing), production of cinema and video movies, television programs and sound recordings, programs and broadcasting activities, including production and broadcasting of radio and television programs, telecommunications, information technology and information activities. The information and communications technology (ICT) sector includes in addition to most of the previously mentioned service areas, also wholesale sales of information and communication equipment, and repair of computers and communications equipment, as well as electrical components and circuit boards, computers and computer peripherals, communications equipment, consumer electronics, and magnetic and optical media corporations belonging to the manufacturing industry. The main developments in the sector are described below based on the information and communication sector companies. The manufacturing part of the ICT sector covers the overview of the electronics industry.

Approximately 4,000 companies operate in the information and communications sector. These are mostly micro-enterprises with less than ten employees, engaging in information technology (programming, consultancy, and related activities). More than half of the information and communications companies are engaged in programming, one-third of enterprises are engaged in the production of cinema and video films and sound recording, one-tenth in the information and publishing activities, respectively. A small part of the companies operate in the telecommunications area.

The sector employs 4.1% of the total workforce or approximately 26,300 people. Information and communications products and services are strongly linked to developments in other sectors of the economy, which makes the sector important for the entire economy. The sector is stable and developing and creates high added value, which is comparable to the average in OECD countries. Information and communication sector companies are investing heavily in human capital and maintain a high level of wages, which results in higher than the average labor productivity figures in the sector.

Major mobile service providers are Telia AS, Tele2 Eesti AS, and Elisa Eesti AS. In addition, leading companies in the field of telecommunications are landline service providers Telia AS, Starman AS and STV AS, the mediator of communications services Top Connect OÜ and satellite service provider AS Viasat. In the software industry, the most important enterprises are Skype Technologies OÜ and Playtech Estonia OÜ, which offers software products and related solutions for the world's leading gaming operators. Larger companies in publishing newspapers are Postimees AS, Eesti Ajalehed AS, and Äripäev AS. Among the major companies in the field of radio broadcasting and information activities (data processing, web-hosting) are respectively Trio LSL AS and Ekspress Hotline AS and Andmevar AS, the turnover sizes of which, are, however, significantly lower than those of the larger enterprises of the sector.



In 2015 a certain recession took place in the development of the information and communications sector. The sales revenue, the added value and the number of employees in the sector fell. However, the high investment activity of the sector shows a higher potential for the future.

In 2015, the telecommunications and programming companies earned more than half of the total sales revenues of the sector, 44%, and 31%, respectively. The same situation has been characteristic of the previous years. The sales revenue of the publishing and

information enterprises accounted for equally 9%; cinematographic films accounted for 4%, and broadcasting accounted for only 2%.

In 2015, the total revenue of the information and communications sector remained almost the same level as in the previous year. After the economic crisis, the sales revenue of the sector grew by 12% in five years. The net sales of the publishing, broadcasting, telecommunications and information enterprises grew compared to the previous year. However, net sales of cinematographic film companies and programming businesses decreased by 12% and 8%.

Similarly to the net sales, the total productivity of the information and communications sector on the basis of the added value remained at the same level with the previous year. Across the various sub-branches, the total productivity of cinematographic film companies, broadcasting, telecommunications and information enterprises increased. Programming and publishing companies showed a decline in total productivity by 4% and 38%, respectively.

The added value of the sector increased for the second consecutive year. The growth of the added value occurred in almost all the branches, except programming, where the rate had dropped by 31%.

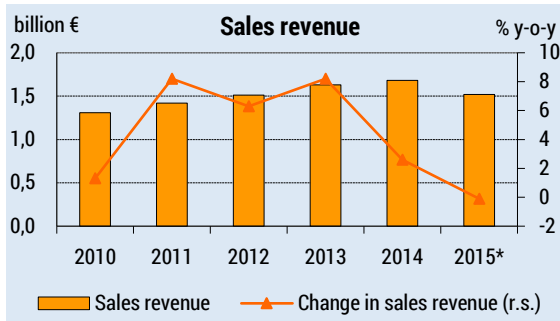
In 2015, labor costs increased by 6%, showing an increase of five years in a row. The largest growth occurred in the publishing and broadcasting businesses, where labor costs increased by 25% and 28%, respectively, compared to the previous year. The number of employees did not show steady growth, according to preliminary data, the number of employees decreased in 2015 by 1%. The larger the number of drops in the number of employees took place in the cinematographic film companies, telecommunications and programming businesses. However, the labor costs of these sub-branches increased, except for the cinematographic film companies, where labor costs declined by 36%. Large recruitment took place in the sub-branches of publishing, information activities, and broadcasting.

In 2015, the gross monthly wage of the information and communications sector grew

by 1.3%, which was 1.8 percentage points lower than the previous year. The average gross monthly wage of the sector was 1,609 euros, which was 1.6 times the average salary in Estonia. Within five years, the information and communications sector companies created nearly 3,500 new jobs, raising the monthly gross wages by 21%.

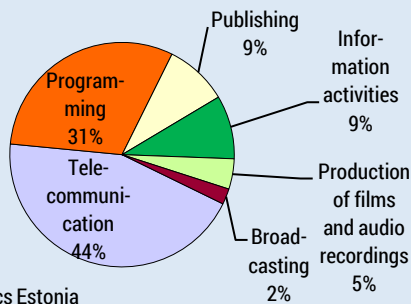
2015 saw a significant increase in corporate investment confidence in information and communication sector companies, showing a 37% increase in investments. According to the OECD data, the regulatory restrictions on competition in the telecommunications sector have steadily decreased. This contributed to the growth of competition in the information and communications sector. Since it is necessary to make increasingly larger investments in order to maintain the competitive edge, corporate investment activity is growing.

The share of all the sub-branches in the total investment in the economy in tangible fixed assets grew significantly. The most investments were made by telecommunications companies. However, the greater increase occurred in the volume of investment in cinematographic films and information activities. The biggest investments were made in machinery and equipment and acquisition of buildings. Over the last few years, a constant increase in investor confidence shows strong growth potential of the information and communication sector in the future.



Source: Statistics Estonia

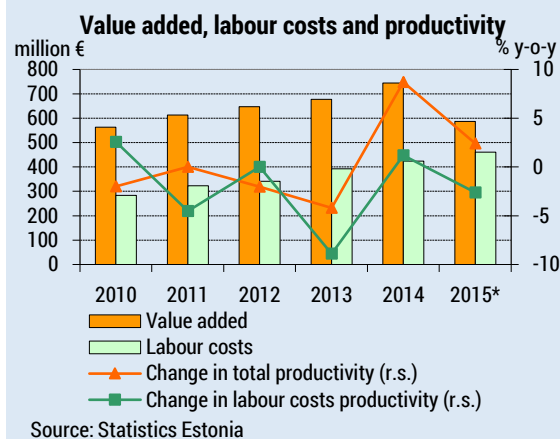
Information and communication sector based on sales revenue



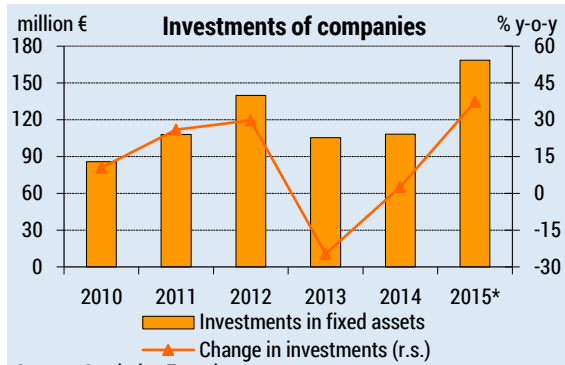
Source: Statistics Estonia



Source: Statistics Estonia

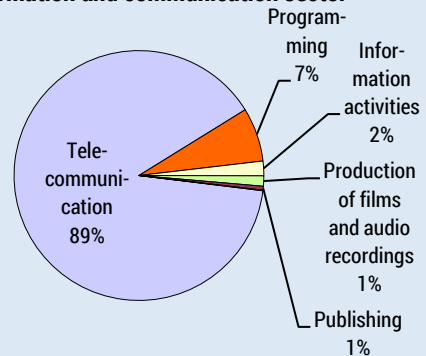


Source: Statistics Estonia

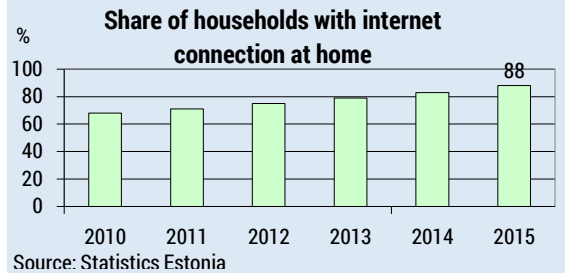


Source: Statistics Estonia

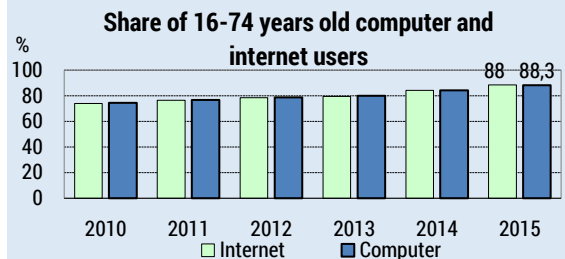
Investments in fixed assets in the information and communication sector



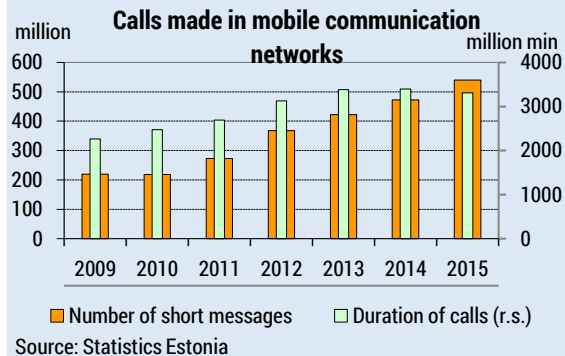
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In 2015, the use of information technological devices continued to grow. When in 2014 the share of households with Internet access at home was, 83%, then in 2015 this indicator reached 88%. In 2008, only 58% of households had Internet access. It shows that within eight years, the usage of information technology equipment increased 1.5 times.

In 2015, the share of computer and internet users of 16-74 years of age increased compared with the previous year, to 88.3% and 88.4%, respectively. An interesting fact is that the share of Internet users exceeded the figure for computer users. This can be justified by the evolution of technology and the simplification of access to the Internet, which will be achieved, e.g., through mobile Internet. Therefore, the number of Internet users that prefer to use tablets and phones has grown. Estonian residents are also very active in using Internet banking. In 2015, this service was used by 81% of 16-74-year olds, while the EU average was only 46%.

The duration of calls and the number of text messages reflects a number reflecting the development of mobile communications. In 2015, the duration of calls was 3310 million minutes, a decrease of 3% compared to the previous year. The duration of calls in 2009-2014 grew steadily, in the year 2015. However, the trend changed. People spoke less via telephone. At the same time, 540 million SMS messages were sent, which was 14% more than a year before. Based on that, the year 2015 changed the situation of the use of information technology equipment. People are more and more mobile, they use the internet by various means and prefer sending messages to long calls.

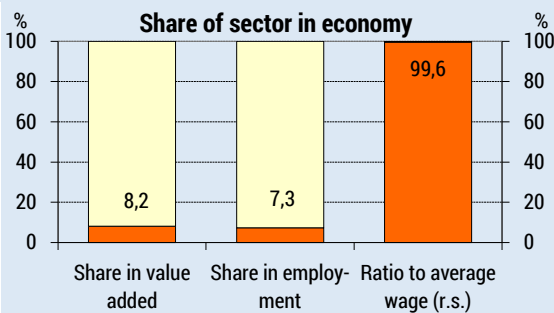
To sum up, a decrease in net sales and the decreased employment in the year 2015, showed the slowdown of the development of the sector. However, the demand for information and communication services grew continuously, making the sector one of the fastest-moving sectors. Estonian residents used more Internet, and online services, such as banking. Meanwhile, increased investments give hope to the growth and the strong potential in the sector in the future.

Transport

The Estonian transport system comprises railway, road, sea, inland waterway and air transport, urban electric transport and transport via pipelines. Transportation and warehousing employ more than 45,000 people or more than 7% of the total workforce. Transportation services make a significant contribution to export revenue collection and balance to Estonia's foreign trade balance. On the other hand, a number of the transport sector inputs (costs of vehicle purchase, maintenance, and fuel) are relatively voluminous import products and on the development of the transport sector, more attention should be paid to energy efficiency.

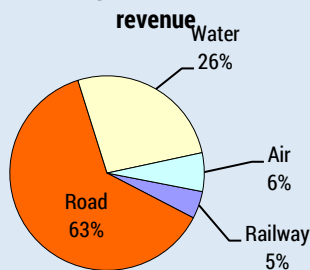
More than 4,500 companies operate in the field of transport and warehousing. In the field of passenger land transport, the largest transport volume belongs to Tallinna Linnatranspordi AS, which serves the bus, tram and trolley lines in Tallinn. National passenger transport by rail is organized by AS Eesti Liinirongid (ELRON). The leading logistics companies in freight transport are AS Schenker, DSV Transport AS and DHL Estonia AS. The largest company of the whole transport sector is AS Tallink Grupp engaged in the passenger and cargo sea transport. The most important provider of port services is the Port of Tallinn, which operates as the owner and the operator of the Port of Muuga, Old Harbour, Paldiski South Harbour, Paljassaare Harbour and Saaremaa Harbour. The largest company in the field of air transport was AS Estonian Air dealing with international carriage of passengers and goods, which ceased its operations in November 2015 due to a violation of state aid rules. The largest company in postal and courier service is AS Eesti Post (Omniva).

Employment in the transport sector fell in 2015. Further developments in employment will depend largely on the overall economic performance.

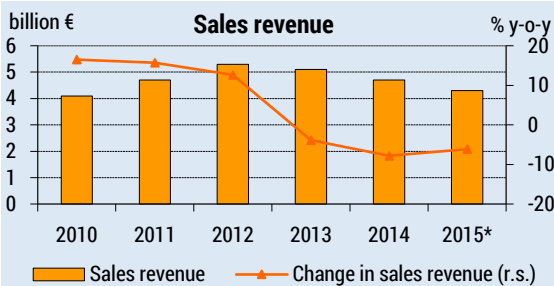


Source: Statistics Estonia

Estonian transport sector based on sales revenue



Source: Statistics Estonia



Source: Statistics Estonia

In 2015, volumes of the Estonian transport companies fell for the second year in a row. While carriage of goods in tons decreased by 13%, passenger turnover grew by 10% and the cargo turnover grew by 7%. Road transport capacity fell by 3%. The bilateral sanctions of the European Union and Russia established in the second half of the year 2014 will continue to affect the rail transport services, which again fell by nearly a quarter (23%). The total number of users of public transport remained the same since, although the number of domestic rail freight and international land transport passengers grew, the number of international train traffic passengers and the air traffic passengers decreased significantly (-43% and -13%, respectively).

In 2015, maritime transport companies carried 1.4 million tons of cargo, which was 11% less than in 2014. The maritime transport cargo turnover decreased by a fifth and reached 331 million ton-kilometers.

In 2015 nearly 35 million tons of cargo passed through the Estonian port, which was the lowest figure in the last ten years. In 2015, a fifth less cargo was shipped abroad from the Estonian ports and arrived here from foreign ports than a year earlier. Loading of ships

(loading of cargo on the ship at the port) amounted to 24.6 million tons of the cargo volume of the ports and unloading (unloading cargo from the port) amounted to 10.2 million tons. If in 2014, the growth of cargo volume of the ports was supported by the growth of the volume of unloading of the cargo arriving at Estonian ports, in 2015 the volumes of both loading and unloading dropped compared to the previous year. It was the largest drop in the last decade. 18% less cargo was loaded, and 25% less cargo was unloaded than in the year 2014. Loading of cargo has been influenced by the cargo transport by public railway, where mostly transit goods are transported.

At ports were loaded mainly liquid refined petroleum products (approximately 50% of goods loaded), nitrogen compounds and fertilizers (except natural fertilizers), and forestry and forest harvesting products and goods transported together. Mostly were also unloaded liquid refined petroleum products (more than a third of the goods unloaded), goods transported together, and mining and quarrying products.

In ten years, the loading of goods at ports has decreased by 42%. However, the unloading capacity has more than doubled. Despite the decrease in the volume of unloading in 2015, ports have in recent years, however, serviced a significant amount, i.e., 30% of the flows of goods arriving at the port by sea and 70% of the flows of goods dispatched by sea from the ports. Ten years ago, the ratio was 10% and 90%.

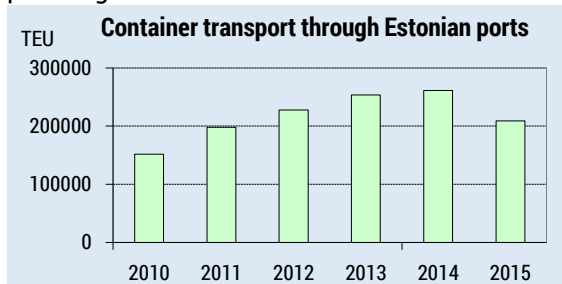
The total cargo volume of the Estonian ports decreased by 19.8% compared to 2014. Transport of vehicles via the ports increased (2.2%), only the transport of transit vehicles passing through the ports fell (-9%). In 2015, maritime transport companies carried 8.7 million passengers, which was the same amount as in 2014.

Container transport volume fell in 2015 from the record amount of 261,069 TEU to 209,118 TEU, which was 20% less than the year before. The amount of the goods carried in containers decreased to 1.743 million tons or 12%.

5.2 million passengers arrived at the ports from abroad, and 4.8 million passengers have

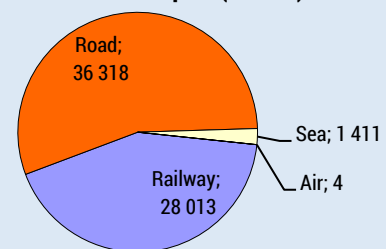
dispatched abroad. International carriages had 2.1% more passengers than in 2015. The number of cruise passengers arriving in Estonia was 492,000, an increase of 4.8% compared to the previous year.

Estonian maritime transport companies carried mainly on domestic routes 2.25 million passengers (an increase of 3.1%) and on international routes 6.4 million passengers (a decrease of 0.6%). The passenger turnover of maritime transport enterprises decreased within a year by 8%, reaching 1.1 billion passenger-kilometers in 2015.

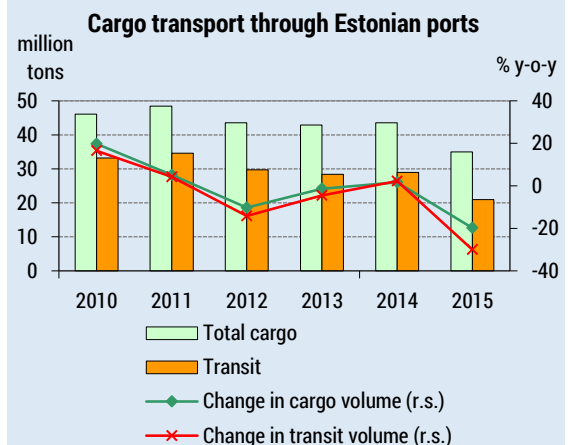


Source: Statistics Estonia

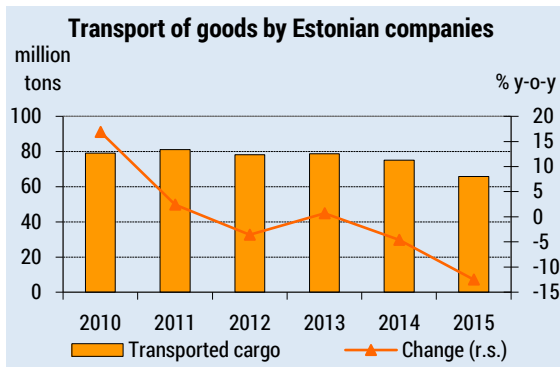
Cargo transport of Estonian companies by modes of transport (th tons)



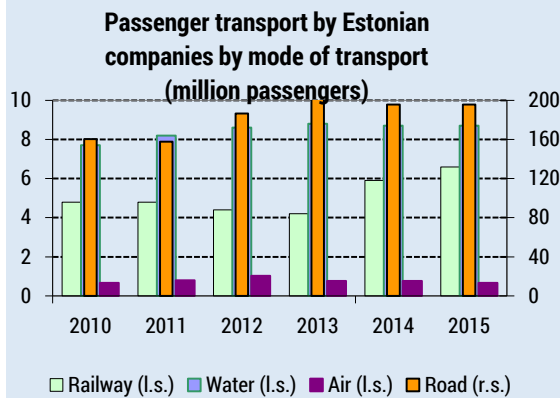
Source: Statistics Estonia



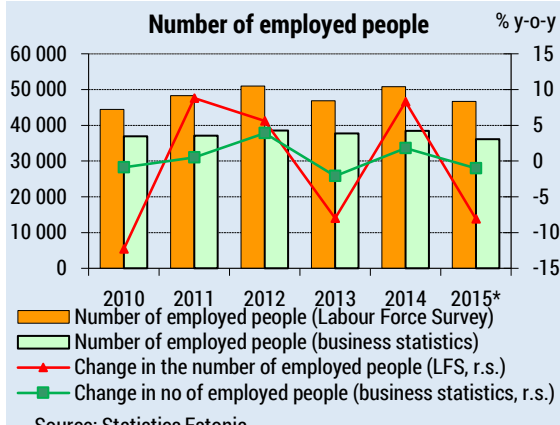
Source: Statistics Estonia



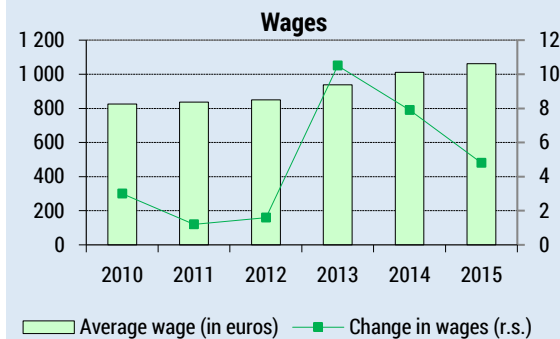
Source: Statistics Estonia



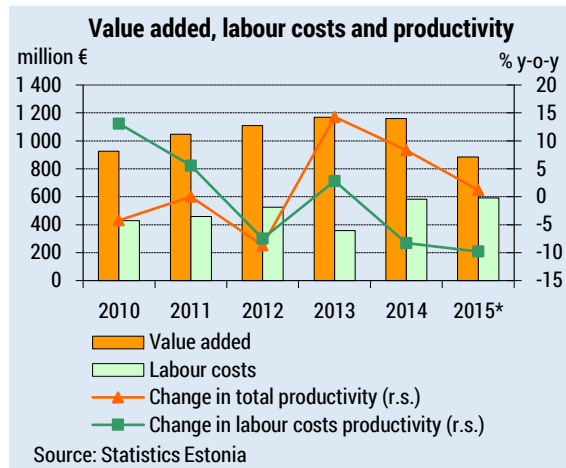
Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia



Source: Statistics Estonia

In 2015, freight transport on Estonian railways reached 28.0 million tons, which was 23% less than the year before. This is the largest decline in recent years. Cargo volume decline is primarily due to the fact that instead of combining rail transport and services of Estonian ports on the carriage of transit cargo, Russia is using more and more of Russia's own ports for sending goods abroad, and the sanctions between the European Union and Russia also play their role in this.

In domestic transport, 15 million tons and in international transport 13 million tons of goods were shipped, which was respectively 25% and 20% less than in 2014.

Out of the cargo volume, transit cargo amounted to 11.3 million tons, whereas export and import amounted to 0.4 million tons and 1.3 million tons, respectively. Transport of transit goods decreased by 20%. In domestic rail traffic was transported as in previous years, mainly oil shale, as transit goods were transported liquid refined petroleum products and nitrogen compounds and fertilizers (except natural fertilizers), the main exports was mineral products, and the main import was petroleum products.

In 2015, the carriage of goods on the public railway amounted to 15.4 million tons, which was one-fifth less than in 2014. Carriage of transit goods amounted to nearly three-quarters of the goods carried on public railways.

Railway transport freight turnover decreased by 4%, amounting to 3.1 billion ton-kilometers.

Compared to 2005, more than two times fewer goods were transported by rail and in public

railways, nearly three times fewer goods were transported in 2015. Rail freight transport volume in tons has constantly been decreasing for the last four years. The volume of loading and unloading of cargo in the Estonian ports, as well as the volume of cargo on the Estonian railways, grew last in 2011, compared to the previous year. If in the first half of 2013, there were still months where the carriage of goods by rail increased compared to the same month last year, then in 2014 and 2015 cargo volumes decreased in all months compared to the same month last year. Ports have been doing a little better and if in 2014, there were still months in which carriage of goods grew compared with the same month of the previous year, then in 2015 decrease in cargo volume took place in all the months.

In 2015, passenger transport by rail increased again, with 6.6 million passengers, which was 12% more than in 2014. Domestic rail traffic carried 6.5 million passengers (growth of 13%), and international traffic carried 55,100 passengers (a decline of 43%). During the past year the passenger turnover of railway transport enterprises, grew by 4%, amounting to 292.1 million passenger-kilometers. Most train trips were made on domestic routes, the share of trips abroad fell to only 0.84%.

Air transport companies carried 4,400 tons of cargo and mail, and cargo turnover amounted to 2.2 million ton-kilometers. 52% more tons of cargo were transported than in 2014; freight turnover increased by 27%. While the volume of postal shipments (2.1%) increased again among air cargo, the carriage of goods fell sharply by 20.7%, thus bringing the total carriage of goods through airports to a decline by 18.6% to 16,194 tons.

In 2015, 669,600 passengers used the services of the Estonian air transport enterprises, which was 13% less than in 2014. Domestic air traffic carried 19,400 passengers (a growth of 9%), and international air traffic carried 650,200 passengers (a decrease of 14%), which was mainly caused by the cessation of operation of the national airline Estonian Air. The passenger turnover of air transport enterprises grew within a year by 2%, reaching 1.5 billion passenger-kilometers in 2015.

Airports were used by a total of over 2.2 million people (an increase of 7.8%), most of which were passengers having made foreign flights. After several years of decline, the number of domestic passengers turned to rise (growth of 14%) in 2015, but their share in all air travel has remained low (1.8%).

By far the biggest air gate in Estonia continues to be Tallinn Airport, which was used in 2015 by more than 2 million passengers and through which was also transported the main part of the cargo.

Road transport enterprises carried in 2015 nearly 36.3 million tons of cargo, which was 3% less than in 2014. In domestic transport, 26.2 million tons and in international transport 10.1 million tons of goods were carried. Road transport freight turnover grew by 15% and amounted to 7.9 billion ton-kilometers.

Road transport carried the same number of passengers in 2015, as in 2014. The number of passengers totaled 195.6 million, of which 86% or about 167.5 million were passengers of urban routes (including trams and trolleybuses). The number of passengers traveling on urban routes has remained for several years at a lower level than usual in relation to the extensive reconstruction of the Tallinn tramway, which will continue in 2016 and 2017 in the Kopli direction. County lines had nearly 16.5 million passengers (a decrease of 3% compared to 2014), occasional services by bus 4.4 million passengers (12% decline), domestic long-distance lines had 4.1 million passengers (a decrease of 8%), and international routes had nearly 1.3 million passengers (an increase of 60%). Road transport passenger turnover increased in 2015 by 3.2 billion passenger-kilometers (2.6 billion passenger kilometers in 2014). Domestic traffic growth was 16%, and the growth in international bus and coach transport was 56%

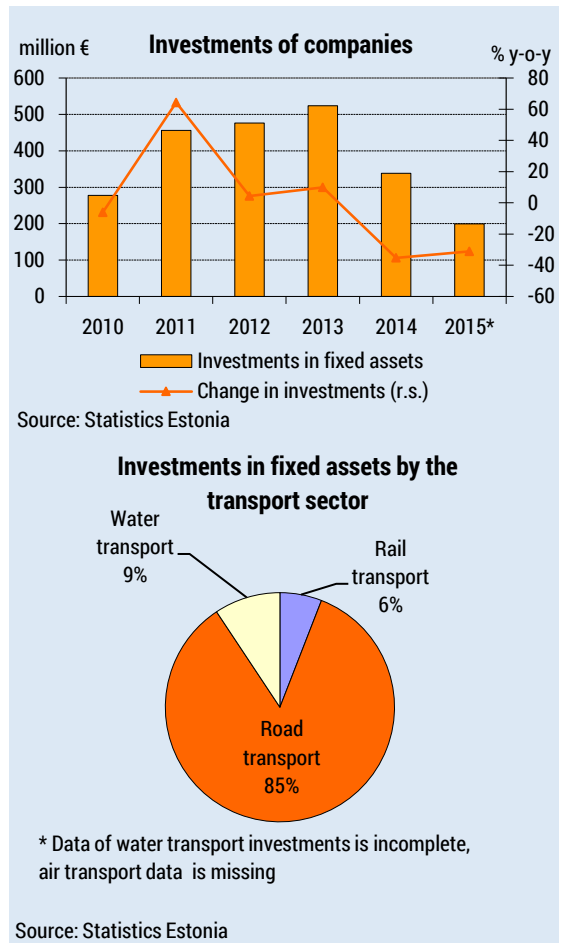
Based on the labor force survey, in 2015, employment in the transport sector (including ancillary activities in transport and storage) fell by 8%, which took the employment back to the year 2013 levels.

In 2015, the average gross wages of the transport and warehousing sector was close to

the average Estonian salary, amounting to 1,061 euros (Estonian average monthly wage was 1,065 euros). Wages grew by almost 5%.

Compared to 2014, investment in transportation and warehousing in 2015 showed a significant decline (36%). The decline was mainly caused by substantially reduced investments in ancillary transport activities.

Due to the modest economic growth and a resulting lack of demand (including export demand), no significant growth can be anticipated in the transport sector in 2016. In June 2016 the EU extended the sanctions for Russia for another year, which continues to affect the development of the transport sector significantly. Given the significant decline that occurred throughout the transport sector in 2015, the figures for 2016 and 2017 will begin to improve statistically, but will not be comparable with earlier years. The growth of domestic passenger traffic is supported by intensified train traffic, but no significant growth is likely to occur in 2016, due to the reconstruction launched in Tallinn tram transport in the Kopli direction; the servicing of air connection of the islands was temporarily interrupted and in the fall, the operator of the ship connection between major islands will change.



Annexes

Annex 1. Trade with associations of countries

Association of countries	Volume (million €)				Share (%)				Change (y-o-y)	
	Imports		Exports		Imports		Imports		Exports	Imports
	2014	2015	2014	2015	2014	2015	2014	2015	2015	2015
EU	8 713,1	8 732,3	11 435,7	10 828,1	72,1	75,1	83,0	82,8	0,2	-5,3
CIS	1 368,6	919,6	1 007,3	876,5	11,3	7,9	7,3	6,7	-32,8	-13,0
EFTA	534,5	546,4	204,0	206,1	4,4	4,7	1,5	1,6	2,2	1,0
NAFTA	623,3	491,4	168,4	198,6	5,2	4,2	1,2	1,5	-21,2	17,9
Associations in total	11 239,5	10 689,7	12 815,4	12 109,3	93,0	91,9	93,0	92,5	-4,9	-5,5
Estonia total	12 083,1	11 626,7	13 776,5	13 084,3	100	100	100	100	-3,8	-5,0

Source: Statistics Estonia

Annex 2. Export commodity groups by main target countries in 2015 (%)

Commodity group	Sweden	Finland	Russia	Latvia	Lithuania	Germany	Norway	USA	UK	Denmark	Total share
Live animals and animal products	1,0	3,3	0,2	5,1	10,8	4,4	0,6	0,5	0,4	2,1	3,3
Vegetable products	0,4	1,9	0,4	1,7	2,0	2,8	1,3	0,6	0,4	1,2	2,1
Animal and vegetable fats and oils	0,0	0,2	0,1	1,3	2,4	0,2	0,0	0,0	0,0	0,1	0,4
Prepared foodstuffs; beverages; tobacco	1,8	6,8	12,8	6,6	6,0	0,6	1,4	0,4	0,6	6,7	4,0
Mineral products	3,1	2,1	3,6	25,1	3,0	4,4	0,3	45,3	6,3	2,4	9,4
Chemical products	1,2	3,1	17,2	5,3	9,4	3,1	0,3	5,5	2,1	2,3	4,7
Plastics and articles thereof, rubber products	2,4	4,5	4,7	4,7	8,4	4,9	2,1	1,1	1,0	1,3	3,3
Leather, fur skins and articles thereof	0,1	0,6	0,8	0,3	0,5	0,1	0,0	0,0	0,0	0,0	0,3
Wood and articles of wood	8,3	7,6	0,8	7,1	3,0	15,8	17,4	4,9	28,4	37,4	9,9
Pulp and articles thereof	1,5	2,5	1,5	1,2	1,8	1,5	5,0	0,2	5,5	2,3	2,8
Textiles and textile articles	3,4	3,6	5,4	3,1	3,6	2,6	3,9	1,1	2,2	5,8	3,0
Footwear, headgear, umbrellas	0,2	0,8	0,5	0,9	0,8	0,1	0,5	0,0	0,0	0,0	0,4
Articles of stone; ceramic products and glassware	1,6	2,6	0,7	1,5	1,2	0,9	2,5	0,7	0,6	0,2	1,5
Precious stones, precious metals, jewellery	0,6	0,4	0,1	1,4	0,7	0,3	0,8	0,0	1,4	2,2	1,0
Metals and metal products	4,1	13,6	5,5	6,9	8,2	6,3	7,0	4,8	2,9	5,7	7,3
Machinery and equipment	55,8	27,5	35,5	12,6	16,9	16,6	18,4	15,2	25,0	10,9	28,5
Means of transport	3,3	3,6	3,0	11,9	16,3	6,9	7,6	1,7	2,4	1,0	6,0
Measuring and medical devices	2,0	3,6	3,9	1,2	1,2	8,8	0,2	9,9	1,1	2,2	3,1
Arms and ammunition	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other industrial goods	8,9	10,8	3,2	2,1	3,9	19,8	30,6	8,0	19,6	16,2	8,7
Works of art, antiques	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Source: Statistics Estonia

Annex 3. Import commodity groups by main countries of consignment in 2015 (%)

Commodity group	Finland	Germany	Sweden	Latvia	Lithuania	Poland	Russia	UK	China	The Netherlands	Total share
Live animals and animal products	2,3	1,7	3,2	4,9	2,7	2,1	0,3	0,6	0,1	2,0	2,3
Vegetable products	1,6	1,0	0,8	6,4	3,0	1,8	0,4	0,2	0,2	7,7	2,3
Animal and vegetable fats and oils	0,1	0,1	0,2	0,2	0,4	0,4	0,2	0,1	0,0	0,1	0,2
Prepared foodstuffs; beverages; tobacco	4,2	4,9	2,4	7,9	9,6	7,5	0,9	14,3	0,3	6,8	5,9
Mineral products	20,2	1,1	4,9	9,2	29,7	0,5	51,6	2,3	0,0	2,3	10,8
Chemical products	4,5	9,3	5,6	8,7	14,0	11,7	9,3	8,5	2,9	8,7	8,3
Plastic and articles thereof, rubber products	4,6	8,8	4,9	6,6	4,5	7,4	1,1	4,0	5,0	4,9	5,4
Leather, fur skins and articles thereof	0,9	0,3	0,3	0,4	0,4	0,3	0,1	0,5	0,8	0,3	0,5
Wood and articles of wood	4,1	0,9	1,3	6,9	1,7	1,6	16,2	0,5	0,5	0,3	3,0
Pulp and articles thereof	5,1	1,3	2,6	2,6	1,3	1,8	2,2	2,5	0,7	0,5	2,1
Textiles and textile articles	2,6	4,9	2,7	4,9	3,5	4,2	0,3	4,7	9,1	4,2	4,5
Footwear; headgear; umbrellas	0,4	1,0	0,3	1,0	0,4	0,8	0,1	0,8	1,0	1,1	0,8
Articles of stone; ceramic products and glassware	1,4	2,0	0,9	1,5	1,3	4,0	1,4	0,7	1,3	0,4	1,6
Precious stones, precious metals, jewellery	0,2	1,6	0,3	1,2	0,2	0,2	0,1	0,6	0,1	0,2	1,3
Metals and metal products	10,9	7,6	9,9	6,0	3,9	10,1	11,0	3,4	6,9	2,4	7,9
Machinery and equipment	23,3	28,3	32,0	21,4	16,0	32,7	3,1	35,1	61,2	52,0	28,3
Means of transport	5,6	18,5	23,0	6,0	2,3	8,4	0,8	14,4	2,6	2,8	9,3
Measuring and medical devices	4,7	4,5	3,4	1,4	0,5	1,0	0,2	3,0	1,0	2,1	2,7
Arms and ammunition	0,0	0,2	0,0	0,0	0,0	3,6	0,1	2,1	0,0	0,0	0,2
Other industrial goods	3,1	2,1	1,3	3,0	4,4	0,0	0,6	1,5	6,0	1,3	2,7
Works of art, antiques	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Source: Statistics Estonia

Annex 4. Accommodation by country in Estonia

	Number of people			Number of overnight stays		
	2015	Change, % y-o-y	Share, %	2015	Change, % y-o-y	Share, %
Total	3 112 143	-0,3%	100,0%	5 781 870	-0,5%	100,0%
Estonia	1 182 979	-0,4%	38,0%	2 011 663	6,4%	34,8%
Finland	907 052	-0,1%	29,1%	1 676 762	-0,7%	29,0%
Russia	186 061	-0,1%	6,0%	393 805	-35,8%	6,8%
Latvia	127 864	-1,0%	4,1%	195 649	14,9%	3,4%
Germany	116 088	-0,2%	3,7%	241 400	-0,3%	4,2%
Sweden	71 087	-0,1%	2,3%	144 504	-3,5%	2,5%
Lithuania	54 743	-1,2%	1,8%	89 860	-3,7%	1,6%
UK	48 061	-1,0%	1,5%	106 364	4,9%	1,8%
USA	44 202	-3,1%	1,4%	110 063	48,2%	1,9%
Norway	37 064	0,2%	1,2%	86 494	-0,6%	1,5%
Italy	29 521	0,2%	0,9%	68 745	8,2%	1,2%
Spain	27 665	0,4%	0,9%	79 919	32,3%	1,4%
France	24 718	0,7%	0,8%	54 744	2,3%	0,9%
Japan	22 865	-2,0%	0,7%	35 837	21,6%	0,6%
Poland	22 728	0,6%	0,7%	45 743	-15,7%	0,8%
The Netherlands	17 315	0,4%	0,6%	36 281	2,7%	0,6%
Denmark	14 202	0,3%	0,5%	27 588	11,9%	0,5%
Ukraine	12 392	-3,6%	0,4%	28 257	11,6%	0,5%
Switzerland	12 301	-0,1%	0,4%	24 286	21,6%	0,4%
China	12 027	-0,1%	0,4%	19 817	5,2%	0,3%
South-Korea	11 730	0,1%	0,4%	13 995	22,3%	0,2%
Belgium	8 390	-0,4%	0,3%	17 807	1,9%	0,3%
Austria	8 023	-0,3%	0,3%	19 061	4,3%	0,3%
Turkey	6 521	-0,7%	0,2%	15 240	6,4%	0,3%
Australia	5 846	-1,3%	0,2%	12 765	-24,6%	0,2%
Czech Republic	5 580	-0,5%	0,2%	15 855	7,3%	0,3%
Canada	4 685	-0,8%	0,2%	10 555	-17,8%	0,2%
Hungary	3 921	-0,3%	0,1%	10 474	10,7%	0,2%
Portugal	3 447	0,4%	0,1%	8 606	3,1%	0,1%
Romania	3 441	1,4%	0,1%	13 830	20,0%	0,2%
Brasilia	3 431	0,2%	0,1%	6 105	21,7%	0,1%
Ireland	3 325	-1,9%	0,1%	7 464	10,2%	0,1%
Greece	2 910	0,6%	0,1%	6 279	-3,2%	0,1%
Slovakia	2 420	0,1%	0,1%	7 705	28,9%	0,1%
Slovenia	1 964	2,5%	0,1%	5 439	21,5%	0,1%
Bulgaria	1 870	-0,3%	0,1%	4 696	-4,4%	0,1%
Croatia	1 068	5,4%	0,0%	2 978	62,0%	0,1%
Iceland	1 063	0,5%	0,0%	2 746	23,6%	0,0%
Luxembourg	976	-0,8%	0,0%	1 777	-14,9%	0,0%
South Africa	594	4,2%	0,0%	1 470	39,6%	0,0%
Malta	587	-2,2%	0,0%	1 364	4,4%	0,0%
Cyprus	415	2,0%	0,0%	1 205	-1,3%	0,0%
Albania	184	-7,1%	0,0%	387	-12,0%	0,0%
Other	58 817	0,1%	1,9%	116 286	-13,0%	2,0%

Source: Statistics Estonia

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