

AS MERKO EHITUS GROUP

**Annual Report
1998**

Register of Companies No:10068022

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INTRODUCTION TO ANNUAL REPORT AND SIGNATURES

The Board has prepared the activity report and financial report 1998

Approved Annual Report consists of activity report, financial report, profit distribution report and auditors report of AS MERKO EHITUS Group and Parent Company.

Annual Report 1998 was approved by General Meeting of shareholders on 17th April 1999

Tõnu Toomik
Chairman of Board

Ott Kikkas
Member of Board

Ülo Metsaots
Member of Board

Veljo Viitmann
Member of Board

Toomas Annus
Chairman of Council

Raul Ojala
Member of Council

Peeter Lepik
Member of Council

ACTIVITIES REPORT

The progress of AS MERKO EHITUS in 1998 was quick and the targets were met. In comparison with the previous year there was a significant increase in net sales and net profit.

In 1998 the consolidated total revenue from normal operations of the Group amounted to 914,6 million EEK, breaking down into net sales of 843,2 million EEK, change in work-in-progress of 2,0 million EEK, capitalized self-constructed assets of 56,8 million EEK and other revenue of 12,6 million EEK. Consolidated net profit of the Group was 38,5 million EEK. In 1997 the consolidated net sales amounted to 526,5 million EEK and net profit to 26,0 million EEK.

95% of total revenues of AS MERKO EHITUS resulted from construction activities and 5% from services supplied and trade.

Makeup of construction activities of AS MERKO EHITUS in 1998 was the following:

office buildings	46%
residential buildings	2%
service and retail trade buildings	41%
industrial buildings	9%
civil engineering	2%

Construction of new buildings constituted 90,5%, renovation and reconstruction 9,5% of the total volume of construction activities of AS MERKO EHITUS.

The export accounted for 4% of net sales of AS MERKO EHITUS in 1998.

Financial ratios illustrating the business activities of AS MERKO EHITUS in 1998 were the following:

Net profit margin	5%
Operating profit margin	5%
Return on equity capital	28%
Return on assets	13%
Equity capital ratio	40%
Current ratio	1,4

According to the decision taken on the general meeting of stockholders on April 18th 1998, company performed a bonus issue through which the equity capital of the company was increased by 59 million EEK on account of capital surplus by issuing per each existing share two new shares. The closing price of the share at Tallinn Stock Exchange on December 31, 1998 was EEK 10,2. In 1998 net earnings per share were EEK 4,35.

Makeup of shareholders at the end of the year was the following:

Merko Grupp	74,0%
Eesti Forekspank	4,4%
Skandinaviska Enskilda Banken, clients	3,6%
Merita Bank, clients	3,3%
Swedbank	2,5%
Hüvitusfond	2,1%
Others	10,1%

Tangible investments made by AS MERKO EHITUS were:

ground lease, land and buildings	80 950 thousand EEK;
plant & equipment, other inventory	11 631 thousand EEK

In 1998 AS MERKO EHITUS was expanded as a Group. The participation in the following subsidiary companies were acquired:

OÜ Matek (ownership 73%) with acquisition cost of 2 190 000 EEK

AS Merko Tartu (ownership 66%) with acquisition cost of 2 700 000 EEK

UAB Merko Statyba in Lithuania (ownership 100%) with acquisition cost of 700 000 EEK

SIA Merks in Latvia (the participation was enlarged from 50% to 100%) with acquisition cost of 1 100 000 EEK;

and the following participations were sold:

AS K&P Ehitus (ownership of 60% before, acquisition cost 1 500 000 EEK)

75% of the participation in Eesti Ehitusekspordi AS (ownership of 100% before, acquisition cost 400 000 krooni)

In 1998 were founded AS Merko Insenerihitus (ownership 100%) with equity capital of 1 500 000 EEK and Merko Project Finance & Consulting Ltd. (ownership 100%) with equity capital of 2218 EEK.

The participation in the following associated companies were acquired:

Vesimer Investeeringute AS (ownership 50%) with acquisition cost of 5 875 thousand EEK
AS Insenerivõrgud (ownership 49%) with acquisition cost of 6747 thousand EEK
ESS Kinnisvarahoolduse AS (ownership 30%) with acquisition cost of 90 thousand EEK

AS MERKO EHITUS is targeting at a substantial enlargement of its market share in the civil engineering segment. More attention will be given to the efforts to increase its share in Latvian and Lithuanian construction markets. Construction activities are developed in a close relation with the real estate development, it is planned to accelerate the progress of E.L.L. Kinnisvara AS.

The Council (Corporate Board) of AS MERKO EHITUS includes 3 members and the Board 4 members. Members of Board do not receive remuneration for their work as members of the management team. Members of Board are in full-time employ with AS Merko Ehitus; in 1998 their earnings before taxes from AS Merko Ehitus were 921 thousand EEK. Nor do the Members of Council receive remuneration for their supervisory work. Two of them are in full-time employ with AS Merko Ehitus, drawing the pretax salary of 476 thousand EEK. The pretax salary of CEO amounted to 258 thousand EEK. The average number of employees on payroll in the parent company AS MERKO EHITUS was 242; their pretax salary in 1998 was 29,5 million EEK. The average number of personnel working for the parent company on contractual basis was 31, their aggregate pretax pay amounting to 1,7 million EEK. The average number of employees on payroll in the Group was 438, their total pretax earnings amounting to 45,9 million EEK.

INCOME STATEMENT SCHEME 1

Consolidated in EEK	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Net sales (note 1)	843 156 205	526 494 881	783 191 936	424 465 080
Change in work-in-progress and finished (note 2)	2 046 663	10 997 502	-11 397 843	10 344 789
Capitalized self-constructed assets	56 818 658	0	9 951 999	0
Other revenue (note 3)	12 567 644	8 962 498	6 354 474	7 943 730
TOTAL REVENUE	914 589 170	546 454 881	788 100 566	442 753 599
Materials, consumables and supplies (note 4)	693 749 537	403 433 387	624 555 851	328 681 760
Other operating expenses (note 5)	97 367 367	61 795 841	92 423 277	45 449 657
Personnel expenses	63 273 338	39 102 340	41 805 460	31 052 450
incl. wages and salaries	47 563 799	29 394 903	31 432 677	23 344 770
social security and other cost	15 709 539	9 707 437	10 372 783	7 707 680
Depreciation	9 474 861	3 384 933	3 349 615	2 451 522
incl. depreciation of non-current assets, amortization and value adjustments	6 728 333	3 384 933	3 349 615	2 451 522
value adjustments of current assets	2 746 528	0	0	0
Other expenses (note 6)	3 282 947	1 124 575	2 683 930	874 296
TOTAL EXPENSES	867 148 050	508 841 076	764 818 133	408 509 685
OPERATING PROFIT	47 441 120	37 613 805	23 282 433	34 243 914
Financial income from stocks of subsidiary enterprises	503 665	333 106	22 504 950	2 960 559
Financial income from stocks of associated enterprises	844 648	52 922	1 002 612	52 922
Income from other noncurrent financial investments	864 000	0	0	0
Foreign exchange gain	111 733	21 435	18 626	20 457
Other interest and similar income (note 9)	4 281 023	3 139 258	4 400 977	2 780 521
TOTAL FINANCIAL INCOME	6 605 069	3 546 721	27 927 165	5 814 459
Financial expenses related to subsidiary enterprises	197 390	0	522 660	126 888
Financial expenses related to associated enterprises	3 837 327	442 895	3 815 398	442 895
Interest expense	1 509 758	400 306	523 768	352 817
Foreign exchange loss	143 627	76	52 312	76
Other financial expenses	7 585 903	5 328 504	7 517 233	5 317 636
TOTAL FINANCIAL EXPENSES	13 274 005	6 171 781	12 431 371	6 240 312
PROFIT FROM NORMAL OPERATIONS	40 772 184	34 988 745	38 778 227	33 818 061
Extraordinary expenses	18 730	29 859	0	29 859
Profit before taxes	40 753 454	34 958 886	38 778 227	33 788 202
Income tax	1 338 114	7 573 321	216 495	6 638 562
Deferred income tax	1 023 241	1 312 283	78 714	1 175 019
NET PROFIT FOR THE FINANCIAL YEAR	38 392 099	26 073 282	38 483 018	25 974 621
incl. minority interest (note 36)	-90 919	98 661	0	0
NET PROFIT	38 483 018	25 974 621	38 483 018	25 974 621

INCOME STATEMENT SCHEME 2 (up to the operating profit)

Net Sales (note 1)	843 156 205	526 494 881	783 191 936	424 465 080
Cost of goods sold	768 199 382	478 348 992	742 862 839	384 785 150
GROSS PROFIT	74 956 823	48 145 889	40 329 097	39 679 930
Marketing expenses	7 504 092	2 233 293	4 233 667	2 130 736
Administration and general expenses (note 7)	29 559 129	16 401 514	16 568 541	10 582 714
Other income (note 3)	12 567 644	8 962 498	6 354 474	7 943 730
Other expenses (note 6)	3 020 126	859 775	2 598 930	666 296
OPERATING PROFIT	47 441 120	37 613 805	23 282 433	34 243 914

BALANCE SHEET

Consolidated in EEK	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Cash and bank (note 10)	14 199 433	28 389 404	764 312	26 823 719
Marketable securities (note 11)	14 945 151	42 376 875	14 811 951	35 076 875
Accounts receivable	139 142 854	43 163 911	126 353 077	40 596 969
Allowance for doubtful receivables	-29 689	0	-29 689	0
<i>Total accounts receivable (note 12)</i>	139 113 165	43 163 911	126 323 388	40 596 969
Receivables from subsidiary and parent enterprises (note 13)			5 849 224	628 348
Receivables from associated enterprises (note 14)	1 237 981	7 321 863	1 237 981	7 321 863
Other short-term receivables (note 15)	34 164 176	9 534 704	28 497 636	9 472 755
<i>Total other receivables</i>	35 402 157	16 856 567	35 584 841	17 422 966
Interest receivable	349 680	1 966 301	296 097	1 965 006
Dividends receivable	0	0	3 000 000	200 000
Other accrued income	1 778 249	0	1 778 249	0
<i>Total accrued income</i>	2 127 929	1 966 301	5 074 346	2 165 006
Prepaid taxes	5 488 479	350 741	4 285 606	0
Other prepaid expenses	11 157 847	1 068 762	10 382 446	601 577
<i>Total prepaid expenses (note 16)</i>	16 646 326	1 419 503	14 668 052	601 577
Raw materials	2 078 255	106 471	0	0
Work-in-progress	14 185 660	13 002 138	0	11 397 843
Finished goods	99 804	0	0	0
Merchandise purchased for resale	8 228 736	0	3 275 118	0
Prepayments to suppliers	369 869	13 062 598	0	12 975 187
<i>Total inventories (note 17)</i>	24 962 324	26 171 207	3 275 118	24 373 030
TOTAL CURRENT ASSETS	247 396 485	160 343 768	200 502 008	147 060 142
Shares of subsidiary enterprises (note 18)	0	0	111 191 677	16 937 222
Shares of associated enterprises (note 19)	10 962 205	1 335 316	10 934 134	1 335 316
Other shares and securities (note 20)	1 565 000	3 410 500	115 000	2 450 500
Miscellaneous long-term receivables (note 21)	13 753 619	1 935 535	4 145 329	1 935 535
<i>Total long-term financial assets</i>	26 280 824	6 681 351	126 386 140	22 658 573
Land and buildings	87 799 226	17 486 706	26 291 886	13 985 952
Land lease	7 761 718	9 581 432	1 603 041	9 581 432
Plant and equipment	14 098 207	9 006 571	6 716 205	5 351 898
Other equipment and fixtures	6 436 717	3 380 774	4 598 070	3 310 185
Accumulated depreciation	-13 121 040	-8 301 777	-9 668 384	-6 929 598
Self-constructed physical assets under construction	809 384	0	0	0
Prepayments for noncurrent physical assets	38 922	78 831	0	78 831
<i>Total noncurrent physical assets (note 22)</i>	103 823 134	31 232 537	29 540 818	25 378 700
Development costs	7 599	0	0	0
Goodwill	1 665 065	1 421 828	0	0
<i>Total intangible assets (note 23)</i>	1 672 664	1 421 828	0	0
TOTAL NONCURRENT ASSETS	131 776 622	39 335 716	155 926 958	48 037 273
TOTAL ASSETS	379 173 107	199 679 484	356 428 966	195 097 415

Consolidated in EEK	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Debentures (except bank loans)	191 410	289 895	0	0
Current portion of long-term debt repayment	3 456 000	0	0	0
Short-term loans from financial institutions	30 707 171	0	23 625 740	0
<i>Total debt obligations</i> (note 24)	34 354 581	289 895	23 625 740	0
Customer prepayments (note 26)	29 961 358	31 427 352	26 784 087	31 427 352
Accounts payable to suppliers (note 27)	59 785 809	29 209 294	45 224 522	26 576 283
Payables to subsidiary or parent enterprises (note 28)	1 517 600	0	49 378 252	1 986 514
Payables to associated enterprises (note 29)	4 671 346	0	4 671 346	0
<i>Total other payables</i>	6 188 946	0	54 049 598	1 986 514
Tax liabilities (note 30)	3 237 659	9 885 846	800 457	8 140 627
Payables to employees	7 336 963	5 046 159	4 958 117	4 374 189
Interests payable	301 983	0	186 089	0
Other accrued expenses	1 293 559	237 226	65 126	237 216
<i>Total accrued expenses</i>	8 932 505	5 283 385	5 209 332	4 611 405
Short-term provisions (note 31)	2 584 634	2 564 676	1 805 840	2 523 038
Other pre-paid revenue (note 32)	41 562 490	0	36 518 693	0
TOTAL CURRENT LIABILITIES	186 607 982	78 660 448	194 018 269	75 265 219
Non-convertible debt	8 125 182	158 870	8 000 000	0
Long-term loans from financial institutions	26 544 000	0	0	0
<i>Total long-term liabilities</i> (note 33)	34 669 182	158 870	8 000 000	0
Payables to subsidiary and parent companies	41 895	0	0	0
Other noncurrent provisions (note 34)	2 314 965	224 788	1 253 733	0
TOTAL NONCURRENT LIABILITIES	37 026 042	383 658	9 253 733	0
Share capital	88 500 000	29 500 000	88 500 000	29 500 000
Paid-in capital over par	2 950 000	61 950 000	2 950 000	61 950 000
Mandatory legal reserve	2 950 000	2 212 500	2 950 000	2 212 500
Retained earnings	20 269 696	195 075	20 269 696	195 075
Net profit for the financial year	38 483 018	25 974 621	38 483 018	25 974 621
Rate fluctuations	4 250	0	4 250	0
TOTAL OWNERS' EQUITY (note 35)	153 156 964	119 832 196	153 156 964	119 832 196
MINORITY INTERESTS (note 36)	2 382 119	803 182	0	0
TOTAL LIABILITIES AND OWNERS' EQUITY	379 173 107	199 679 484	356 428 966	195 097 415

STATEMENT OF CASH FLOWS

Consolidated in EEK	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES				
PROFIT FROM NORMAL OPERATIONS	40 772 184	34 988 745	38 778 227	33 818 061
Depreciation	6 728 333	3 384 933	3 349 615	2 451 522
Other adjustments (note)	26 755 219	-6 368 873	7 105 472	-8 077 590
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	74 255 736	32 004 805	49 233 314	28 191 993
WORKING CAPITAL CHANGES				
Short-term financial investments	28 372 224	-42 335 270	21 150 424	-35 035 270
Receivables	-98 176 078	-26 631 137	-96 044 732	-26 414 196
Accrued income	-712 033	-1 066 216	-712 033	-1 066 216
Prepaid expenses	-11 521 656	-512 087	-9 964 886	-31 965
Inventories	-11 341 941	-17 802 820	21 097 912	-16 803 101
Customer prepayments	-3 852 267	18 241 716	-4 643 265	18 969 970
Accounts payable to suppliers	30 596 209	6 561 074	18 648 239	9 380 506
Other payables	-910 239	0	52 032 444	1 986 514
Tax liabilities	-1 847 544	2 465 856	-1 760 492	2 150 363
Accrued expenses	491 160	1 681 853	109 274	1 315 059
Other pre-paid revenue	-1 103 742	-38 400	0	-38 400
CASH GENERATED FROM OPERATIONS	4 249 829	-27 430 626	49 146 199	-17 394 743
INTERESTS				
Interests received	4 634 717	2 657 371	4 145 202	2 310 970
Interests paid	-1 388 891	-400 306	-309 257	-352 817
DIVIDENDS				
Dividends received	109 145	0	309 145	0
INCOME TAXES PAID				
1997 income tax paid	-6 270 464	-5 069 808	-5 582 562	-5 047 827
1998 income tax paid in advance	-4 494 000	-1 210 011	-4 315 200	-1 058 811
CASH FLOW BEFORE EXTRAORDINARY ITEMS	-3 159 664	-31 453 380	43 393 527	-21 543 228
Extraordinary expense	-18 730	-29 859	0	-29 859
NET CASH FROM OPERATING ACTIVITIES	-3 178 394	-31 483 239	43 393 527	-21 573 087
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Acquisition of subsidiary	2 655 340	-882 982	-64 820 178	-13 900 000
Disposal of subsidiary	1 765 860	340 000	1 800 000	0
Acquisition of associates	-12 762 202	-1 725 289	-12 712 202	-1 725 289
Acquisition of portfolio investments	-7 972 892	-100 000	-45 900	-100 000
Disposal of portfolio investments	1 824 000	1 564 052	0	1 564 052
Long-term loans made to other parties	-9 246 817	-1 935 535	-7 290 295	-1 935 535
Cash receipt from loan repayments	5 198 796	41 648	5 126 401	12 249
Purchase of property, plant and equipment	-65 016 816	-23 150 982	-22 510 425	-22 775 682
Proceeds from sale of property, plant and equipment	18 016 896	7 943 107	4 522 323	9 380 617
NET CASH USED IN INVESTMENT ACTIVITIES	-65 537 835	-17 905 981	-95 930 276	-29 479 588
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of share capital	0	69 325 000	0	69 325 000
Proceeds from borrowings	59 858 844	0	31 627 958	0
Repayments of borrowings	0	-40 454	0	0
Payments of finance lease liabilities	-179 210	-77 800	0	0
Dividends paid	-5 162 497	-1 980 000	-5 162 497	-1 980 000
NET CASH FROM FINANCING ACTIVITIES	54 517 137	67 226 746	26 465 461	67 345 000
TOTAL CASH FLOW	-14 199 092	17 837 526	-26 071 288	16 292 325

NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-14 199 092	17 837 526	-26 071 288	16 292 325
Cash and cash equivalents at the beginning of the period	28 398 525	10 551 878	26 835 600	10 531 394
Cash and cash equivalents at the end of the period	14 199 433	28 389 404	764 312	26 823 719

OTHER ADJUSTMENTS in EEK	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Adjustments of revenues from construction contracts according to the percentage-of-completion method	29 368 910	0	29 286 840	0
Garanty reserve changes	1 194 977	303 343	457 821	261 705
Vacation reserve changes	1 105 275	391 997	302 561	474 049
Profit or loss from sales or liquidation of fixed assets	-4 070 408	-4 345 074	-20 770	-3 973 712
Profit or loss from long-term financial investments	1 822 404	66 867	-19 169 504	-2 443 698
Foreign exchange profit or loss	1 188	8 980	-11 881	6 220
Interest income	-4 045 839	-3 101 465	-4 154 218	-2 754 971
Interest expense	1 487 857	400 306	523 768	352 817
Dividend income	-109 145	0	-109 145	0
Other adjustments	0	-93 827	0	0
TOTAL OTHER ADJUSTMENTS	26 755 219	-6 368 873	7 105 472	-8 077 590

ACCOUNTING PRINCIPLES

Financial statements of AS MERKO EHITUS parent company and affiliated group are prepared in accordance with the laws of Republic of Estonia and principles set forth in the International Accounting Standards.

AS MERKO EHITUS is using Income Statement scheme 1 to show income, expenses and profit. To show marketing expenses and general administration costs breakdown the Income Statement scheme 2 is used.

Consolidation

In consolidated statements AS MERKO EHITUS and its subsidiaries are treated as an affiliated business entity. In consolidation cost of subsidiaries' assets in gross carrying amount have been taken into account. In consolidation receivables, liabilities, internal sales, profit and loss in result of business transactions inside the Group are eliminated.

Accounting principles of affiliated and associated companies

Investments in affiliated and associated companies are calculated with equity method.

Securities

Securities, stocks and shares are shown in the balance sheet either in acquisition cost or in market price (the closing price in the Tallinn Stock Exchange or Riga Stock Exchange on December 31, 1998) whichever is lower.

Merchandise and inventories

Merchandise and inventories are appraised according to the acquisition cost or net realizable value whichever is lower. Costs are calculated by FIFO method.

Revenues from building contracts are calculated with the percentage-of-completion method according to the International Accounting Standards. The revenues occurred during the accounting period are appraised according to the rate of costs made up to the day of balance sheet to the estimated total costs and on the basis of total revenues of the contract. In case the expenses and the corresponding revenues are higher than the invoices submitted to the employer during the accounting period, the difference will be calculated in the income statement as the increase in the revenues and will be shown in the balance sheet in assets under other receivables and vice versa, if the expenses and the corresponding revenues are lower than the invoices submitted to the employer during the accounting period, the difference will be calculated in the income statement as the decrease in the revenues and will be shown in the balance sheet in liabilities under other unearned income.

Noncurrent physical assets

On the balance sheet under the noncurrent physical assets are shown assets with working life longer than a year and acquisition cost 5000 EEK and over for other equipment and acquisition cost 8000 EEK and over for other noncurrent physical assets. Noncurrent physical assets are taken into an account with the acquisition cost, depreciation is calculated by straight-line method.

NOTES

(in thousand EEK)

Note 1

Net sales	Net sales		incl. other enterprises of the Group		Affiliated net sales	
	1998	1997	1998	1997	1998	1997
AS Merko Ehitus	783 192	424 465	62 436	4 751	720 756	419 714
E.L.L. Kinnisvara AS	19 348	0	14 975	0	4 373	0
AS Merko Insenerehitus	1 550	0	581	0	969	0
AS Gustaf	94 918	42 555	22 999	8 225	71 919	34 330
SIA Rigus	2 518	0	2 286	0	232	0
AS Tiimerk (from 01.10.98)	1 968	0	1 512	0	456	0
AS Merko Tartu (from 01.07.98)	52 061	0	44 076	0	7 985	0
OÜ Matek (from 13.05.98)	23 648	0	88	0	23 560	0
Merko Project Finance & Consulting Ltd.	6 885	0	0	0	6 885	0
SIA Merks (from 01.07.98)	3 617	0	35	0	3 582	0
UAB Merko Statyba (from 01.10.98)	4 737	0	2 298	0	2 439	0
AS K&P Ehitus	0	22 615	0	1 653	0	20 962
Eesti Ehitusekspordi AS	0	51 489	0	0	0	51 489
TOTAL	994 442	541 124	151 286	14 629	843 156	526 495

The participation of AS Merko Ehitus in subsidiaries AS K&P Ehitus and Eesti Ehitusekspordi AS has been sold in 1998.

Net sales according to the field of activity	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction services	799 481	517 776	776 807	417 629
incl. residential buildings	15 276	19 799	19 476	8 108
service and retail buildings	325 968	208 742	299 165	179 825
industrial buildings	69 934	13 437	60 953	0
office buildings	369 925	275 798	379 743	229 696
civil engineering	18 378	0	17 470	0
Sales of wooden constructions	21 116	0	0	0
Rent of real estate	8 023	1 898	1 870	1 898
Sales of other services and goods	14 536	6 821	4 515	4 938
TOTAL	843 156	526 495	783 192	424 465

Net sales according to the geographic division	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Estonia	809 782	509 947	778 104	409 541
Latvia	5 180	1 624	170	0
Lithuania	8 928	14 924	4 097	14 924
Russia	821	0	821	0
Germany	16 312	0	0	0
Denmark	2 133	0	0	0
TOTAL	843 156	526 495	783 192	424 465

Note 2

Capitalized self-constructed assets

Expenses on self-constructed assets are included (in the scheme 1) in the expenses.

Note 3

Other revenue	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Income from sale of fixed assets	5 596	4 490	797	4 088
Gains from fine and interests on arrears	4 538	2 194	4 340	2 006
Income of notes receivable	1	1 492	0	1 492
Insurance benefits	907	344	907	320
Other revenue	1 526	442	310	38
TOTAL	12 568	8 962	6 354	7 944

Note 4

Commodities, materials and sub-contractor services	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Material	99 970	82 671	54 712	48 549
Sub-contractor services	588 742	316 484	565 294	275 989
Energy	2 297	2 595	1 818	2 595
Irrelevant fixed assets	2 741	1 683	2 732	1 549
TOTAL	693 750	403 433	624 556	328 682

Note 5

Various operation costs and expenses	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction ,except sub-contractor services	19 737	16 406	30 996	12 151
Design and planning	18 882	10 887	18 196	10 887
Lease	16 416	9 091	12 967	8 053
Insurance	4 085	1 172	3 746	1 011
Transportation	10 532	4 975	7 872	2 910
Computer network and communication	4 925	3 464	4 437	3 464
Taxes and stamp taxes	1 534	1 122	1 160	1 122
Reserve of construction guarantee	2 128	795	1 164	753
Other services	19 128	13 884	11 885	5 099
TOTAL	97 367	61 796	92 423	45 450

Note 6

Other business costs and expenses	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Municipal taxes	655	298	127	297
Sponsorship	263	265	85	208
Losses from writing-off and selling of fixed assets	900	148	841	114
Other business costs and expenses	1 465	414	1 631	255
TOTAL	3 283	1 125	2 684	874

In income statement scheme 2 sponsorship is showed as advertising cost in marketing costs

Note 7

Administration and general expenses	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Labor costs	10 951	6 371	5 958	4 041
Transportation	3 156	2 164	2 415	1 237
Depreciation, rental costs, maintenance, heating costs, etc.	3 525	3 140	1 971	2 052
Postal-, communication-, small office inventory- and representative expenses	2 894	1 715	1 495	934
Computer network-, audit- and other communication expenses	1 834	967	1 442	780
Other expenses	7 199	2 044	3 287	1 539
TOTAL	29 559	16 401	16 568	10 583

Note 8

Other interest and financial income	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Profit from the sale of short-term securities	138	88	138	88
Dividends from short-term securities	133	0	109	0
Interest on short-term securities	1 387	0	1 380	0
Interest on securities of interest bearing funds	1 684	1 235	1 384	899
Interest on loans	540	595	1 065	595
Interest on deposits	377	1 171	322	1 171
Interest on bank accounts	22	50	3	28
TOTAL	4 281	3 139	4 401	2 781

Note 9

Other financial expenses	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Discount of short-term securities	3 880	5 208	3 880	5 208
Loss from the sale of short-term securities	3 679	0	3 611	0
Other financial expenses	27	121	26	110
TOTAL	7 586	5 329	7 517	5 318

Note 10

Cash and bank accounts	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Cash	278	12	0	12
Bank account	11 017	2 377	764	812
Short term deposits	2 904	26 000	0	26 000
TOTAL	14 199	28 389	764	26 824

Note 11

Shares and other securities (short term investments)	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Securities of interest bearing funds	14 000	31 985	14 000	24 685
Securities listed in Tallinn Stock Exchange	300	6 759	221	6 759
Securities listed in Riga Stock Exchange	421	772	421	772
Other securities registered in the Estonian Central Depository for Securities	174	881	120	881
Other Estonian securities	50	50	50	50
Other (Latvian Privatization Voucher)	0	1 930	0	1 930
TOTAL	14 945	42 377	14 812	35 077

Note 12

Accounts receivable	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Accounts receivable from construction services	135 520	42 002	125 507	39 594
Accounts receivable from other sales	3 623	1 162	846	1 003
Allowance for doubtful receivables	-30	0	-30	0
TOTAL	139 113	43 164	126 323	40 597

Note 13

Receivables from subsidiary companies	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction	0	0	822	425
Short-term loans and interests	0	0	4 618	0
Other services	0	0	409	203
TOTAL	0	0	5 849	628

Note 14

Receivables from associated companies	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction	14	3 304	14	3 304
Short-term loans and interests	1 117	4 016	1 117	4 016
Other services	107	2	107	2
TOTAL	1 238	7 322	1 238	7 322

Note 15

Muud lühiajalised nõuded	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Short-term loans	19 459	9 369	18 846	9 359
Other short-term receivables	14 705	166	9 652	114
TOTAL	34 164	9 535	28 498	9 473

According to the International Accounting Standards (IAS 11 p 43) other short-term receivables consist 12 193 thousand EEK of receivables from the clients of all unfinished projects if the expenses and profit from the project were bigger than the invoices submitted to the client.

Note 16

Prepaid costs and expenses of future periods	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Prepaid taxes	5 488	351	4 286	0
incl. VAT	1 370	0	184	0
corporate income tax	4 118	351	4 102	0
Other prepaid costs	3 059	1 069	2 399	601
incl. insurance	848	494	722	423
operating lease	107	152	0	5
media	40	40	40	21
semi-annual cost of land lease	96	152	36	152
innovation cost of rented rooms	0	134	0	0
other prepaid costs	1 968	97	1 601	0
Prepaid expenses of construction services	8 099	0	7 984	0
TOTAL	16 646	1 420	14 669	601

Under prepaid expenses of construction services are shown prepayments for construction services of clients according to the contracts. In 1997 these figures were shown under the stock (for 9 853 thousand EEK in the Group and for 9 765 thousand EEK in the Parent Company).

Note 17

Stock	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Raw materials	2 078	106	0	0
Work-in-progress	14 186	13 002	0	11 398
Finished goods	100	0	0	0
Merchandise purchased for resale	8 229	0	3 275	0
Prepayments to suppliers	370	13 062	0	12 975
incl. for construction services according to sub-contracts	0	9 852	0	9 765
for other services and goods	370	3 210	0	3 210
TOTAL	24 963	26 170	3 275	24 373

Stock is shown in acquisition cost.

Since 1998 prepayments for construction services according to the contracts are shown under the prepaid costs and expenses of future periods.

Note 18

Stocks of subsidiary companies	Acquisition cost	Change of investment in equity	Dividends	Rate fluctuations	Investmen at the end of the year	Participation (%)
STOCKS OF SUBSIDIARY COMPANIES OF AS MERKO EHITUS						
E.L.L. Kinnisvara AS; Tallinn	78 575	10 268	0	-1	88 842	100
AS Gustaf; Pärnu	2 400	6 135	-3 200	-2	5 333	100
AS Merko Insenerihitus; Saue	1 500	-37	0	0	1 463	100
OÜ Matek; Tallinn	2 190	72	0	0	2 262	73
AS Merko Tartu; Tartu	2 700	-40	0	0	2 660	66
Merko Project Finance & Consulting Ltd; Channel Islands, Jersey	2	6 827	0	0	6 829	100
UAB Merko Statyba; Lithuania, Vilnius	700	-248	0	-1	451	100

SIA Merks; Latvia, Riga	2 009	1 335	0	8	3 352	100
TOTAL	90 076	24 312	-3 200	4	111 192	
STOCKS OF SUBSIDIARY COMPANIES OF AS GUSTAF						
SIA Rigus; Latvia, Riga	49	15	0	-2	62	100
AS Tiimerk; Saue	372	-70	0	0	302	100
TOTAL	421	-55	0	-2	364	
STOCKS OF SUBSIDIARY COMPANIES OF E.L.L. KINNISVARA AS						
SIA E.L.L. Real Estate; Latvia, Riga	48	00	0	-1	47	100

Note 19

Stocks of associated companies	Acquisition cost	Change of investment in equity	Investment at the end of the year	Participation (%)
STOCKS OF ASSOCIATED COMPANIES OF AS MERKO EHITUS				
AS Stik-Elekter; Roosna-Alliku	316	254	570	34
Normanni Linnagrupi AS; Tallinn	500	7	507	50
Vesimer Investeeringute AS; Tallinn	5 875	-299	5 576	50
Eesti Ehitusekspordi AS, Saue	400	560	960	25
AS Insenerivõrgud; Tallinn	6 747	-3 426	3 321	49
ESS Kinnisvarahoolduse AS; Tallinn	90	-90	0	30
TOTAL	13 928	-2 994	10 934	
STOCKS OF ASSOCIATED COMPANIES OF E.L.L. KINNISVARA AS				
OÜ Hansa Hotell; Tallinn	50	-22	28	50
STOCKS OF ASSOCIATED COMPANIES OF EESTI EHITUSEKSPORDI AS				
AS Tartu Maja Betoontooted; Tartu	15 000	4 372	19 372	100

Note 20

Other stocks, shares and securities	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
AS Betola	1 450	2 335	0	2 335
AS Viljandi Aken ja Uks	15	15	15	15
Eesti Ukraina Investeerimisgrupi AS	50	50	50	50
AS Eesti Ettevõtjate Ärikeskus	50	50	50	50
AS Sunset Holding	0	960	0	0
TOTAL	1 565	3 410	115	2 450

Note 21

Miscellaneous long-term receivables	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Long-term loans	5 265	1 936	4 099	1 936
Other long-term receivables	8 489	0	46	0
TOTAL	13 754	1 936	4 145	1 936

Other long-term receivables consist 7 893 thousand EEK of prepayment for long-term financial investment.

Note 22

Non-current physical assets	Land	Buildings	Land-lease	Plant and equipment	Other equipment	Construction in progress	Prepayments	Total
GROUP								
Gross carrying amount 31.12.1997	10 154	7 333	9 581	9 007	3 381	0	79	39 535
Accumulated depreciation 31.12.1997	0	3 499	64	3 544	1 195	0	0	8 302

Acquisition	10 546	70 259	145	8 268	3 363	809	-40	93 350
Depreciation until the acquisition of subsidiary	0	11	0	513	259	0	0	783
Selling	-4 789	-5 703	-1 965	-2 437	-11	0	0	-14 905
Write-off	0	0	0	-740	-296	0	0	-1 036
Accumulated depreciation of sold or written-off physical assets	0	0	-34	-1 269	-346	0	0	-1 649
Depreciation in the accounting period	0	1 576	184	2 666	1 259	0	0	5 685
Gross carrying amount 31.12.1998	15 911	71 889	7 761	14 098	6 437	809	39	116 944
Accumulated depreciation 31.12.1998	0	5 086	214	5 454	2 367	0	0	13 121

Non-current physical assets	Land	Build-ings	Land-lease	Plant and equip-ment	Other Equip-ment	Prepay-ments	Total
PARENT COMPANY							
Gross carrying amount 31.12.1997	6 653	7 333	9 581	5 352	3 310	79	32 308
Accumulated depreciation 31.12.1997	0	3 498	64	2 216	1 151	0	6 929
Acquisition	866	18 139	49	2 022	1 513	-79	22 510
Selling	-1 727	0	-1 965	-213	0	0	-3 905
Write-off	0	0	0	-445	-225	0	-670
Noncash deposit of share capital	-4 972	0	-6 062	0	0	0	-11 034
Accumulated depreciation of sold or written-off physical assets	0	0	-155	-362	-94	0	-611
Depreciation in the accounting period	0	766	134	1 406	1 044	0	3 350
Gross carrying amount 31.12.1998	820	25 472	1 603	6 716	4 598	0	39 209
Accumulated depreciation 31.12.1998	0	4 264	43	3 260	2 101	0	9 668

The following rates of depreciation are used in the Group: land lease 2%, buildings 8%, machinery, equipment and other inventory 25%. The rates of depreciation for the new buildings acquired from the beginning of 1998 is 4% per year.

As of 31.12.1998 the sum of capital lease of capital assets in the Group is 872 thousand EEK. The parent company AS Merko Ehitus does not have any assets acquired by capital lease.

Note 23

Intangible assets

The sum of goodwill (1665 thousand EEK) shown in the consolidated balance sheet under the intangible assets results from the acquisition of subsidiary companies AS Gustaf and SIA Merks. Goodwill must be depreciated by straight-line method within a period of five years.

Note 24**Current liabilities**

Under the unsecured debt in the balance sheet are shown the payments of purchase due during the 1999 for the assets acquired by capital lease. The rented assets are listed in the note 25.

Under the current portion of long-term debt repayment is shown the current portion of the debt listed in the note 33. The guaranties for loans and pledged assets are listed in note 38.

Note 25

Capital lease	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Outstanding portion at the beginning of the accounting period	449	0	0	0
Acquisition during the accounting period	301	567	0	0
Payments due during the accounting period	535	118	0	0
Outstanding portion at the end of the accounting period	215	449	0	0
Payments due during the next accounting period	141	290	0	0
Payments due during the period after next accounting period	74	159	0	0

Note 26

Customer (employer) advances for goods and services	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Advance payments for construction services	31 895	32 654	31 384	32 654
Other advance payments	2 943	3 525	187	3 525
VAT from advance payments	-4 877	-4 752	-4 787	-4 752
TOTAL	29 961	31 427	26 784	31 427

Note 27

Accounts payable to suppliers	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction services	47 742	22 138	37 303	21 667
Materials	5 978	4 233	3 926	2 826
Renting services	358	904	215	818
Transport expenses	833	681	783	206
Energy expenses	540	414	405	401
Other services	4 335	839	2 593	658
TOTAL	59 786	29 209	45 225	26 576

Note 28

Payables to subsidiary or parent companies	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction services	0	0	10 397	1 979
Short-term loans and interests	1 476	0	28 081	0
Other services	42	0	10 900	8
TOTAL	1 518	0	49 378	1 987

The debt to the parent and subsidiary companies shown in the affiliated balance sheet of the Group consists of the debt of AS Merko Ehitus to the parent company AS Merko Group.

Note 29

Payables to affiliated companies	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Construction services	589	0	589	0
Materials	566	0	566	0
Other services	3 516	0	3 516	0
TOTAL	4 671	0	4 671	0

Note 30

Tax liabilities	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
VAT	114	2 345	0	1 947
Corporate income tax	1 478	6 499	0	5 580
Personal income tax	359	260	0	0
Social security tax	1 287	782	800	614

TOTAL	3 238	9 886	800	8 141
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Note 31

Short term provisions	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Guarantee responsibility based on contracts	2 585	1 390	1 806	1 348
Deferred income tax	0	1 175	0	1 175
TOTAL	2 585	2 565	1 806	2 523

The deferred income tax of AS Merko Ehitus is re-estimated and moved under the long term provisions (see note 34).

Note 32

Other pre-paid revenue

According to the International Accounting Standards (IAS 11 p 43) this account shows the revenues from the clients of all the unfinished projects for the works made in accordance to the contract, if the invoices submitted to the employer during the accounting period were bigger than the corresponding expenses and revenues from this project during the same accounting period.

Note 33

Noncurrent liabilities	GROUP		PARENT COMPANY	
	1998	1997	1998	1997
Nonconvertible debt	8 125	159	8 000	0
incl. long-term loan	8 000	0	8 000	0
long-term portion of the capital lease	74	159	0	0
other long-term debt	51	0	0	0
Bank loans	26 544	0	0	0
TOTAL	34 669	159	8 000	0

The bank loan is the long-term loan of 30 million EEK of E.L.L. Kinnisvara AS from Hansapank. 3 456 thousand EEK will be due during the next accounting period. The guarantees for loans and pledged assets are listed in note 38.

Note 34

Other long-term provisions

Under the other long-term provisions is shown the deferred corporate income tax which results from the use of different rates of depreciation in accounting and taxation. In taxation, for the depreciation of the assets of the I group is used 8% and for the assets of the II group 40%.

The corporate income tax liability of AS Merko Ehitus as of 31.12.1997 in the sum of 1 175 thousand EEK was shown under the short-term provisions.

Note 35

The statement of changes in the owners' equity	Share capital	Paid-in capital over par	Reserve	Retained Earnings	Net profit for the financial year	Differences in exchange rate
As of 31.12.1997	29 500	61 950	2 212	195	25 975	0
Bonus issue	59 000	-59 000	0	0	0	0
Change of reserve capital	0	0	738	0	-738	0
Dividend	0	0	0	0	-5 162	0
Changes	0	0	0	20 075	-20 075	4
Net profit for 1998	0	0	0	0	38 483	0
As of 31.12.1998	88 500	2 950	2 950	20 270	38 483	4

In 1998 the share capital was enlarged by 59 million EEK through bonus issue on account of the paid-in capital over bar. Per each existing share two new shares were issued with the nominal value of EEK 10, amounting to 5,9 million new shares.

Note 36

Minority interests

Minority share in consolidated income statement shows minority share of shareholders outside the Group of the net profit of the subsidiary enterprises of the Group.

Minority share in consolidated balance sheet shows the portion of equity capital of subsidiary enterprises of the Group which belongs to the shareholders outside the Group.

Note 37

Unfinished contracts

At the day of the balance sheet the parent company AS Merko Ehitus has unfinished contracts in total amount of 590 851 thousand EEK. The total amount of expenses made for these projects was 343 715 thousand EEK. The total sum of invoices submitted to the employer for the works made in accordance to the contract was 395 575 thousand EEK and the revenue corresponding to these expenses according to the budget was 376 364 thousand EEK.

Note 38

Guaranties for loans and pledged assets

To guarantee the loans and other liabilities the following contracts have been closed:

Between AS Merko Ehitus and Hansapank :

1. Contract of commercial pledge for 80 million EEK (registered in the registry of commercial pledge at first and second rankings) and notarized pledge to property in Saue, Tule 21 for 7 million EEK. The contract guarantees the overdraft agreement 95-1539-3 at term 30.03.1999 (limit of overdraft agreement is 10 million EEK), the liabilities resulting from the loan agreements 98-06368-1 and 98-07360-1 and concluded contracts of bank guarantees.
2. Contract of pledge No.98-06255-ÕP 16.07.1998 – 30.05.1999 for 480 thousand EEK. The contract is guaranteed by a portion of time deposit (no. of ratification 37444) in the sum of 480 thousand EEK. The pledge guarantees the contract of guarantee (98-06255-7) between Hansapank and AS MERKO EHITUS.

Between AS Merko Ehitus and Eesti Ühispank:

Contract of commercial pledge for 30 million EEK (registered in the registry of commercial pledge at third and fourth ranking). The pledge guarantees the liabilities resulting from the overdraft agreement no. 98286 and loan agreement no. 98308.

Between OÜ Matek and Merita Bank Plc:

Contract of commercial pledge (no.9308) for 5 million EEK. The pledge guarantees the liabilities resulting from the overdraft agreement and concluded contracts of bank guarantees.

Between E.L.L. Kinnisvara AS and Hansapank:

1. Notarized collateral to the liability with real right contract: mortgage of the first ranking to the real estate at Mustamäe tee 24 to guarantee the loan agreement no. 98-04952-1 of 30 million EEK.

Between E.L.L. Kinnisvara AS and Eesti Ühispank:

Notarized mortgage to the real estate at Vilmsi 44/Poska 4 to guarantee the loan agreement between E.L.L. Kinnisvara AS and Eesti Ühispank.

Between AS Gustaf and Hansapank:

Contract of floating charge for movable assets of 2 million EEK to guarantee the liabilities resulting from the bank guarantees.

Note 39

Contingent liabilities	Other party	Total amount
Guarantees to customers during construction period		
AS Merko Ehitus	Hansapank	12 728
AS Gustaf	Hansapank	948
Guarantees to customers during guarantee period		
AS Merko Ehitus	Hansapank	6 639
Tender securities		
AS Merko Ehitus	Hansapank	9 075
AS Merko Ehitus	Eesti Ühispank	5 100
Prepayment guarantees		
AS Merko Ehitus	Hansapank	14 919
Bails		
AS Merko Ehitus	Hansapank	34 860
AS Merko Ehitus	Merita Pank	2 000
AS Gustaf	Hansapank	132
AS Gustaf	Eesti Ühispank	250
Open documentary credits		

AS Merko Ehitus	Hansapank	6 526
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Note 40

Earnings per share

Earnings per share are calculated as a rate of net profit to the number of shares.

In connection with the bonus issue in 1998 and resulting from the need to make the data comparable, the basis for calculating the earnings per share for 1997 is taken 8 850 000 shares with nominal value of 10 EEK.

Earnings per share in 1998 was 4,35 EEK

Earnings per share in 1997 was 2,93 EEK

Note 41

Transactions with related parties

There were no transactions with related parties in 1998.

Note 42

Risks

Free liquid assets are floated to shares of money-market fund and to Estonian short-term commercial papers.

Financing costs of constructions are covered by prepayments from customers and by payments according to the financing schedules.

Risks of construction damages for the construction and guarantee period are covered by construction risk insurance.

A guarantee reserve has been established for covering costs of repair occurring during the guarantee period (2 years after the building has been transferred).

Foreign exchange risks are eliminated by pegging the contract price to the Deutsche Mark (DEM).

Note 43

Shares owned by the members of the Council, Board and related partners	Shares	Participation
MEMBERS OF THE COUNCIL		
Raul Ojala	477	0,01%
MEMBERS OF THE BOARD		
Tõnu Toomik	9 000	0,10%

Note 44

List of shareholders with more than 5% of share capital	Shares	Participation
AS Merko Grupp	6 551 343	74,03

AUDITOR'S REPORT TO THE SHAREHOLDERS OF AS MERKO EHITUS

We have audited the annual financial statements of AS Merko Ehitus and the consolidated financial statements of the Group for the year ended 31 December 1998. The management of the company is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements.

We conducted our audit in accordance with generally accepted auditing principles. Those principles require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a trial basis, of evidence relevant to the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by management, as well as evaluating the overall presentation of financial statement. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements, prepared in accordance with International Accounting Standards and the Accounting Law of Republic of Estonia, give a true and fair view of the financial position of both AS Merko Ehitus and AS Merko Ehitus Group at 31 December 1998 and the results of their operations in 1998 accounting year.

March 18, 1999

Audit EA

Malle Rannik
Authorised Public Accountant

PROFIT DISTRIBUTION PROPOSAL

The 1998 audited net profit of AS Merko Ehitus amounted to 38 483 thousand EEK.

The Management Board proposes to distribute the profit as follows:

- appropriation to mandatory legal reserve 1 925 thousand EEK
- for dividend payments 7 522,5 thousand EEK, i.e. 85 cents per share
- the rest of the net profit will be carried forward

PROFIT DISTRIBUTION PROPOSAL	in EEK
Retained earnings	38 483 018
1998 net profit	20 269 696
TOTAL FOR DISTRIBUTION	58 752 714
To mandatory legal reserve	1 925 000
For dividend payments	7 522 500
End balance of retained earnings account	49 305 214