

AS MERKO EHITUS

GROUP

Annual Report 1999

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Annual report 1999

PREFACE TO THE ANNUAL REPORT AND SIGNATURES

Annual Report 1999 consists of the Report of the Directors of Merko Ehitus Group and the parent company, the Annual Accounts, the Proposal on Distribution of Profit and the Auditor's Report.

Tõnu Toomik
Chairman of Board

Ott Kikkas
Member of Board

Ülo Metsaots
Member of Board

Veljo Viitmann
Member of Board

16 March 2000

Toomas Annus
Chairman of Council

Raul Ojala
Member of Council

Peeter Lepik
Member of Council

12 April 2000

Annual Report 1999 has been confirmed by the General Meeting on 12 April 2000.

REPORT OF THE DIRECTORS

1999 was a year of ongoing development for Merko Ehitus. Completed were several large projects, for instance the main office of Eesti Ühispank and Kristiine Trading Center. Merko Ehitus also pioneered some larger infrastructure and environmental facilities. The Group continued the expansion of its operations in the neighboring markets of Lithuania and Latvia. Worked out and implemented was the quality system, which was then successfully certified.

Business activity

The Group's sales decreased by 13 percent to 734 million kroons, as compared to 843 million kroons in 1998. The decrease of sales was accounted for by the weak sales trends in the building market in Estonia, being 11.9 billion kroons in 1999 as against 14 billion kroons in 1998, according to short-cut statistics. The Group's net profit was 16.5 million kroons, excluding the one-off financial expense of 56.2 million kroons, incurred by the spin-off of E.L.L. Kinnisvara.

Income from construction accounted for 91.8 % of operating income of Merko Ehitus Group, the earnings from other services provided and goods sold accounting for 8,2 % of operating income.

As per type of construction, the building activity of Merko Ehitus in 1999 distributed as follows:

non-residential buildings	89%
whereof: office buildings	25%
industrial buildings	4%
service buildings etc.	60%
residential buildings	5%
engineering facilities	6%

Of aggregate building activity of the Group, 68% was accounted for by new buildings and 32% by renovation and reconstruction works.

Exports constituted 11% of the Group's sales in 1999.

The ratios characterizing the operating activity of the Group in 1999 were:

net profit margin	2.2%*
net operating profit	3.2%
return on owners' equity	12.6%*
return on assets	5.0%*

* Excluding the one-off financial expense due to spin-off of E.L.L. Kinnisvara, amounting to 56.2 million kroons.

The average number of full-time staff in parent company AS Merko Ehitus was 189, with gross salaries averaging 20.1 million kroons. The average number of full-time staff of the Group was 348, with gross salaries averaging 32.9 million kroons.

In 1999, the following changes were effected, as regards the subsidiaries and associate companies:

1. Regarding the subsidiaries:

- 1.1. In accordance with the resolution of the special general meeting of shareholders of AS Merko Ehitus on 05.07.1999, spun off of the Group was E.L.L. Kinnisvara AS, by way of selling off the whole participation (which used to be 100%), at the total cost of 21,287 thou kroons. All shareholders of Merko Ehitus were treated equitably in the process, all of them given the right to obtain shares in E.L.L. Kinnisvara. The purpose of the spin-off of E.L.L. Kinnisvara was to separate real estate development from construction. The spin-off of E.L.L. Kinnisvara incurred to the Group a one-off financial expense of 56.2 million kroons.
- 1.2. The Group sold 8.05% of participation in OÜ Matek (which used to be 73%, constituting now 64.95%), at the total cost of 266 thou kroons.
- 1.3. The Group incorporated OÜ Merko Ehitustööd (100%), of share capital 40 thou kroons, OÜ Merko Ehitusteenused (100%) of share capital 40 thou kroons, and Eesti Ehituseksporti OÜ, of share capital 40 thou kroons.

2. Regarding the associate companies:

- 2.1. The Group sold participation in AS Stik-Elekter (used to be 34%) and in ESS Kinnisvaraholduse AS (used to be 30%).
- 2.2. The Group increased participation in AS Insenerivõrgud (used to be 49%, constituting now 50%).

- 2.3. Eesti Ehitusekspordi AS was merged with its 100% subsidiary AS Tartu Maja Betoontooted, the originator-mergee being Eesti Ehitusekspordi AS. The emerging enterprise was named AS Tartu Maja Betoontooted.

Currently, Merko Ehitus is focused on construction. Being involved in main contracts and project management, the Group's needs for investments are confined mainly to creating new jobs and development.

Tangible investments of Merko Ehitus Group in 1999 were as follows:

land and buildings acquired – 23,772 thou kroons

machinery, equipment and other inventory acquired – 2,042 thou kroons

Financial position

Thanks to the profitability of the company in past periods, and due to a successful share issue in 1997, the need for leverage of Merko Ehitus has been kept at minimum. The enterprise has been liquid and well capitalized. The ratios characterizing the financial position in 1999 were:

equity ratio, percent	38.8%
current ratio	1.3
receivables turnover	8.4

Financing of construction is effected, as a general rule, under a financial schedule, appended to the building contract, usually covering the project-related outgoing cash flows. The financing shortage is covered by overdraft facility.

For purposes of currency risk management the building contracts are usually linked to Euro.

Share and shareholders

Closing price of share of Merko Ehitus at Tallinn Stock Exchange, as of 31.12.1999 was 17.3 kroons. Net earnings per share in 1999 were 1.86 kroons. Basing on this ratio, the Board of AS Merko Ehitus proposed the shareholders receive a dividend of 40 sents per share in 1999, amounting to the dividend rate 21.5%. After the one-off financial expense 56.2 million kroons, incurred by the spin-off of E.L.L. Kinnisvara, the net loss on share was 4.49 kroons.

Structure of shareholders of Merko Ehitus at the end of 1999 was as follows:

Merko Group	74.0%
Merita Bank, clients	11.1%
Skandinaviska Enskilda Banken, clients	4.2%
Zimmer Management	2.0%
Hansapank	1.4%
Optiva Pank	1.1%
Hansa Investment Fund	1.0%
Other shareholders	5.2%

Council and Board

Council of the company is composed of 3 members, the Board of 4 members. Members of Board do not receive any remuneration for their services. Members of Board have full-time positions with AS Merko Ehitus, their gross salaries in 1999 averaging 994 thou kroons. Members of Council do not receive any remuneration for their services. Two members of Council have full-time positions with AS Merko Ehitus, their gross salaries averaging 509 thou kroons in 1999. Gross salary of a senior executive amounted to 280 thou kroons.

Outlooks in 2000

In this year, we plan to retain the market share in our traditional sector of putting up buildings. We also plan to increase the volume of infrastructure and environmental facilities. As a strategic direction, Merko Ehitus will continue expansion of operations in Latvia and Lithuania, hopefully winning, in the nearest years already, a considerable market share through our subsidiaries SIA Merks and UAB Merko Statyba.

The Group's anticipated net profit in 2000, as prognosticated by the Board of Merko Ehitus, will be 38 million kroons, the sales being 980 million kroons, whereof in Estonia 780 million kroons, in Latvia 150 million kroons and in Lithuania 50 million kroons. The prognosis is based on the volume of building contracts made for 2000, amounting to 870 million kroons, at the time (i.e. 09.03.2000) the prognosis was disclosed.

We plan to maintain, also in the future our flexible relationship selling strategy, providing to the customers the services they need.

in thousands kroons

INCOME STATEMENT

	Note	Group		Parent company	
		1999	1998	1999	1998
Sales	1	733 657	843 156	583 950	783 192
Cost of sales	2	669 652	768 200	545 487	742 863
Gross profit		64 005	74 956	38 463	40 329
Marketing expenses	3	10 576	7 504	4 075	4 234
Administrative expenses	4	28 498	29 559	16 416	16 569
Other operating income	5	5 790	12 568	2 621	6 355
Other operating expenses	6	7 405	3 020	6 606	2 599
Operating profit		23 316	47 441	13 987	23 282
Financial income	7	8 205	6 605	16 842	27 927
Financial expenses	8	71 254	13 274	70 863	12 431
Profit (- loss) from ordinary activities		-39 733	40 772	-40 034	38 778
Extraordinary expenses		-	19	-	-
Profit (loss-) before taxes		-39 733	40 753	-40 034	38 778
Income tax	9	-170	2 361	-288	295
Net profit (- loss) for the financial year		-39 563	38 392	-39 746	38 483
Minority interest		183	-91	-	-
Net profit (- loss) for the group		-39 746	38 483	-39 746	38 483
Net profit (- loss) per share (basic and diluted, in kroons)	10	-4,49	4,35		

BALANCE SHEET

	Note	Group		Parent company	
		1999	1998	1999	1998
ASSETS					
Cash and cash equivalents	12	25 239	14 199	5 353	764
Marketable securities	13	27 699	14 945	27 457	14 812
Accounts receivable	14	87 610	139 113	71 095	126 323
Other current receivables	15	40 654	35 402	25 003	35 585
Accrued income	16	1 630	2 128	1 605	5 074
Prepaid expenses	18	12 894	16 646	10 442	14 669
incl. income tax		1 659	4 118	1 412	4 102
Inventories	19	8 545	24 963	3 280	3 275
Total current assets		204 271	247 396	144 235	200 502
Long-term investments	20	15 350	26 281	48 235	126 386
Property, plant and equipment	21	52 321	103 823	39 830	29 541
Intangible assets	22	1 215	1 673	-	-
Total non-current assets		68 886	131 777	88 065	155 927
TOTAL ASSETS		273 157	379 173	232 300	356 429
LIABILITIES AND OWNERS' EQUITY					
Borrowings	24	8 142	34 354	3 706	23 626
Customer prepayments	26	43 109	29 961	12 952	26 784
Accounts payable to suppliers		52 526	59 786	35 570	45 225
Other liabilities	32	446	6 189	29 470	54 049
Tax liabilities	27	5 318	3 238	3 740	800
incl. income tax		49	1 478	-	-
Accrued liabilities	28	17 014	8 933	4 523	5 209
Provisions for construction warranty liability		1 310	2 585	1 152	1 806
Due to customers for contract work	30	29 485	41 562	28 222	36 519
Total current liabilities		157 350	186 608	119 335	194 018
Long-term borrowings	24	6 854	34 669	6 851	8 000
Miscellaneous liabilities	32	-	42	-	-
Deferred income tax		-	2 315	-	1 254
Total non-current liabilities		6 854	37 026	6 851	9 254
TOTAL LIABILITIES		164 204	223 634	126 186	203 272
Minority interests		2 839	2 382	-	-
OWNERS' EQUITY					
Share capital	29	88 500	88 500	88 500	88 500
Share premium		2 950	2 950	2 950	2 950
Mandatory legal reserve		4 875	2 950	4 875	2 950
Retained earnings		47 717	20 270	47 717	20 270
Net profit (- loss) for the financial year		-39 746	38 483	-39 746	38 483
Exchange rate differences		1 818	4	1 818	4
TOTAL OWNERS' EQUITY		106 114	153 157	106 114	153 157
TOTAL LIABILITIES AND OWNERS' EQUITY		273 157	379 173	232 300	356 429

in thousands kroons

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.97	29 500	61 950	2 212	-	26 170	119 832
Exchange rate differences	-	-	-	4	-	4
Net profit (- loss) for the financial year	-	-	-	-	38 483	38 483
Dividends	-	-	-	-	-5 162	-5 162
Bonus issue	59 000	-59 000	-	-	-	-
Change in reserve capital	-	-	738	-	-738	-
Closing balance 31.12.98	88 500	2 950	2 950	4	58 753	153 157
Exchange rate differences	-	-	-	1 814	-	1 814
Balance of pre-paid income tax from dividends	-	-	-	-	-1 589	-1 589
Net profit (- loss) for the financial year	-	-	-	-	-39 746	-39 746
Dividends	-	-	-	-	-7 522	-7 522
Change in reserve capital	-	-	1 925	-	-1 925	-
Closing balance 31.12.99	88 500	2 950	4 875	1 818	7 971	106 114

in thousands kroons

CASH FLOW STATEMENT

	Group		Parent company	
	1999	1998	1999	1998
Operating activities				
Profit from ordinary activities	-39 733	40 772	-40 033	38 778
Depreciation	6 249	6 728	4 089	3 350
Other adjustments *	42 333	26 755	51 632	7 106
Operating profit before working capital changes	8 849	74 255	15 688	49 234
Working capital changes				
Marketable securities	-16 531	28 372	-12 465	21 150
Receivables	78 901	-98 176	67 127	-96 044
Accrued income	833	-712	833	-712
Prepaid expenses	1 069	-11 522	1 536	-9 965
Inventories	-1 707	-11 342	-4	21 098
Customer prepayments	15 828	-3 852	-13 832	-4 643
Accounts payable to suppliers	-6 784	30 596	-9 468	18 648
Other liabilities	-59 593	-910	-24 549	52 032
Tax liabilities	3 022	-1 848	2 939	-1 761
Accrued liabilities	8 923	491	-350	109
Other pre-paid revenue	-	-1 104	-	-
Cash generated from operations	32 810	4 248	27 455	49 146
Interests				
Interests received	4 086	4 635	4 676	4 145
Interests paid	-2 086	-1 389	-1 903	-309
Dividends				
Dividends received	45	109	3 045	309
Income tax				
1998 income tax paid	2 817	-6 270	4 102	-5 583
1999 income tax paid in advance	-4 313	-4 494	-3 967	-4 315
Cash flow before extraordinary items	33 359	-3 161	33 408	43 393
Extraordinary expense	-	-19	-	-
Net cash from operating activities	33 359	-3 180	33 408	43 393
Investing activities				
Acquisition of subsidiary	-	2 655	-120	-64 820
Disposal of subsidiary	18 842	1 766	19 817	1 800
Acquisition of associates	-2 820	-12 762	-2 820	-12 712
Disposal of associate company	3 824	-	3 824	-
Acquisition of other long-term investments	-	-7 973	-	-46
Disposal of other long-term investments	411	1 824	-	-
Long-term loans made	-313	-9 247	-168	-7 290
Loan payments received	595	5 199	-	5 126
Purchase of property, plant and equipment	-25 304	-65 017	-24 222	-22 511
Disposal of property, plant and equipment	8 315	18 017	4 251	4 522
Net cash used in investing activities	3 550	-65 538	562	-95 931
Financing activities				
Proceeds from borrowings	8 444	59 859	3 706	31 628
Repayments of borrowings	-26 841	-	-24 777	-
Repayments of finance lease liabilities	-154	-179	-	-
Dividends paid	-7 522	-5 162	-7 522	-5 162
Net cash used in financing activities	-26 074	54 518	-28 594	26 466
Total cash flow	10 835	-14 200	5 376	-26 072
Net increase/decrease in cash and cash equivalents	10 835	-14 200	5 376	-26 072
Cash and cash equivalents at the beginning of the period	14 199	28 390	764	26 824
Effects of exchange rate differences	205	9	-787	12
Cash and cash equivalents at the end of the period	25 239	14 199	5 353	764

* Other adjustments	Group		Parent company	
	1999	1998	1999	1998
Adjustments of revenues from construction contracts according to the percentage of completion method	-23 305	29 369	-7 661	29 287
Warranty reserve changes	-1 274	1 195	-654	458
Vacation reserve changes	-410	1 105	-149	302
Profit or loss from disposals or liquidation of property, plant and equipment	3 034	-4 070	5 592	-21
Profit or loss from long-term investments	66 337	1 822	56 678	-19 169
Value adjustments of marketable securities	-180	-	-180	-
Foreign exchange profit or loss	628	1	787	-12
Interest income	-4 384	-4 046	-4 425	-4 154
Interest expense	1 886	1 488	1 689	524
Dividend income	-45	-109	-45	-109
Long-term receivable classified as subsidiary	46	-	-	-
Total other adjustments	42 333	26 755	51 632	7 106

ACCOUNTING POLICIES

1. General

Financial statements of Merko Ehitus Group and parent company Merko Ehitus have been prepared in accordance with International Accounting Standard (IAS) and legal acts regulating accountancy in Estonia.

In the Income Statement the expenses are reported as per functions (under Scheme 2 of Estonian Accounting Law). In Annual Report 1998 the income statements were presented both by functions of expenses and their nature (under Scheme 1).

Financial statements are presented in thousands Estonian kroons.

Merko Ehitus is listed in Tallinn Stock Exchange.

2. Consolidation

Subsidiaries, i.e. companies wherein the parent company Merko Ehitus has directly or indirectly the majority vote, are consolidated. In consolidated statements the parent company and its subsidiaries are treated as operating units. For consolidation, the financial statements of the parent company and subsidiaries are combined on line-by-line basis. Eliminated have been receivables and liabilities, intra-company turnovers, profits and losses sustained as a result of intra-Group operations. The minority interest is reported separately.

Where necessary, the accounting policies of subsidiaries have been changed to make them compatible with the Group's policies.

The list of subsidiaries is presented in Note 20. Information related to the sale of the subsidiary E.L.L. Kinnisvara AS is disclosed in Note 31.

3. Investments in associates

Associate companies are enterprises wherein the Group has between 20 and 50 % of the voting rights. Investments in associate companies are accounted for by the equity method of accounting. The amount of investment has been adjusted, under the equity method, by the Group's interest in the profit (loss) of the associate company, with unrealized profits and losses incurred by internal operations eliminated.

The list of associate companies is presented in Note 20.

4. Accounting for investments in subsidiaries in a parent's separate financial statements

In a parent's separate financial statements, investments in subsidiaries are accounted for using the equity method.

5. Foreign currencies

Income statements and cash flow statements of foreign subsidiaries and associate companies are translated into Estonian kroons according to the average exchange rate of Bank of Estonia for the year. The balance sheet items and the items of the report on changes in equity are translated into Estonian kroons according to the closing date exchange rate of Bank of Estonia.

Operations effected in foreign currency are reported, basing on exchange rates applicable on the date of the operation. The assets and liabilities posted in foreign currency have been translated, as of 31.12.1999, into Estonian kroons according to the closing date exchange rate of Bank of Estonia.

6. Goodwill

Goodwill is the difference between the real value of net assets of the acquired subsidiary or associate company, and their purchase price, when they were acquired. Goodwill is reported in the

balance sheet as an intangible asset, and it is depreciated by straight line method in the period of 5 years.

Negative goodwill, created by acquisition of a subsidiary or an associate company, is posted to income in the annual accounts for the year the company was acquired.

7. Investments

Marketable securities (except the shares listed in the stock exchange of an IOSCO member state) are valued in the balance sheet either at acquisition value or market price, whichever is lower. Shares listed in stock exchange of an IOSCO member state are reported in market price. Fluctuations of values of securities are reported in income statement.

Shares and interests acquired for permanent holding, providing to the Group less than 20% vote are reported at their acquisition cost. Discounted are those investments whose value has permanently decreased. The loss of value is reported in income statement.

8. Property, plant and equipment

Property, plant and equipment are tangible assets whose useful life is longer than one year and whose value is in over 5000 kroons for buildings, facilities, vehicles, machinery and equipment, and over 8000 kroons for tools and production implements. Assets whose value falls below the above limit are considered assets of negligible value and are posted to expenses, when acquired. The assets of negligible value are accounted off-balance-sheet.

Property, plant and equipment are stated at historical cost, less accumulated depreciation. The expenses on improvement are compounded to the value of tangible assets. The depreciation is calculated by straight line method, basing on useful life of the assets, over which they can be depreciated, as follows:

buildings 12.5 years;
machinery and equipment 4 years;
other inventories 4 years.

Land is not depreciated.

9. Finance and operating lease

Reported as finance lease are lease agreements which the lessee cannot unilaterally terminate, unless the conditions stipulated in the lease agreement are met or the period of lease expires, without making the accrued payments, as well as the lease agreements, under which the ownership to the property leased passes over to the lessee, during the period of lease or upon expiration of the respective agreement. All other lease agreements are reported as operating leases.

10. Accounts receivable

Accounts receivable are reported basing on amounts likely to be received. Furthermore, the receivables of each customer have been assessed separately, in view of the available information on solvency of the customer. The bad receivables have been stricken off the balance sheet.

11. Inventories

Raw materials and consumables have been valued either at acquisition cost or net realizable value, whichever is lower. When calculating cost of inventories, the FIFO method is used in the construction segment and the weighted average price method is used in the timber structures segment.

Work in progress and finished products are reported in cost of production, composed of direct and indirect outlays on production, without which the inventories would not be in the present condition and quantity.

12. Provision for construction warranty

Provision for guarantee liability of construction contracts is calculated on construction volumes performed by the group. When calculating the provisions, the actual guarantee expenses of the previous periods serve as the basis.

13. Income tax

Reported in Annual Report 1998 as long-term provision was the deferred tax liability, accruing due to differences in depreciation of tangible fixed assets by accountancy and by tax assessment. Because the Income Tax Act has been changed, as from 2000, no new provisions for 1999 have been established. The liability for deferred income tax accrued in previous periods is reported in income for 1999. Merko Ehitus has not followed the resolution of the Estonian Accounting Board "Effect of Income Tax Act on Accounting and Accounts". Conversely, it acted on the basis of International Accounting Standard, under which the effect of the change in law is to be reported in the period when the change was made.

The retained profit of previous periods has been decreased by the amount of surplus income tax on dividends.

14. Revenue

Revenue from the sale of goods is reported as of the date of transfer of ownership to the buyer. Revenue from the sale of services are reported subject to the stage of completion of the service provided. Interest income is reported on accrual basis, in the period it accrued. Dividend income is reported as of the date of the accrual of the recourse.

15. Construction contracts

Income and expenses of construction contract work in progress have been brought into conformity by the method of completion percentage. The stage of completion has been established, basing on the ratio of expenses made on the contract by the balance's closing date, and the projected cost of the contract. Cost of contract is composed of direct expenses and overheads of the construction contract. With contracts, where the income against expenses is higher than the interim invoices submitted to the principals in the accounting period, the difference is reported in the income statement as an increase in earnings, and posted as assets in balance sheet; conversely – if the income against expenses is lower than the interim invoices submitted to the principals in the accounting period, the difference is reported in the income statement as a decrease in earnings, and posted as liability in balance sheet. Losses not likely to be reimbursed by the principal are reported as expenses promptly as they come to notice.

16. Cash and cash equivalents

Cash and cash equivalents in cash flow statement are cash in hand, funds in bank accounts and the fixed term deposits of up to 3 months maturity.

NOTES

Note 1

Segment information

Business segments

1999	Building	Timber structures	Other	Group
Sales	685 013	40 244	8 400	733 657
Operating profit of the business segment	14 825	199	8 292	23 316
Financial items				-63 049
incl. profit from associate companies	1 379	-	117	1 496
Profit before tax				-39 733
Income tax				-170

Net profit (- loss) for the financial year				-39 563
Minority interest				183
Net profit (- loss) for the group				<u>-39 746</u>

Segment assets	245 641	12 167	-	257 808
Associate companies	10 220	-	987	11 207
Unallocated assets				4 142
Consolidated total assets				<u>273 157</u>

Segment liabilities	151 972	8 307	10	160 289
Unallocated liabilities				3 915
Consolidated total liabilities				<u>164 204</u>

Acquisition of property, plant and equipment and intangible assets	25 414	400	-	25 814
Depreciation	5 790	459	-	6 249

1998	Building	Timber structures	Real estate development	Other	Group
Sales	796 275	23 648	19 348	6 885	843 156
Operating profit of segment	37 147	-13	3 480	6 827	47 441
Financial items					<u>-6 669</u>
incl. profit from associate companies	-3 105	-	22	90	-2 993
Profit before tax					40 753
Income tax					2 361
Profit from ordinary activities					40 772
Extraordinary expenses					19
Minority interest					-91
Net profit					<u>34 483</u>
Segment assets	207 512	7 702	130 791	6 887	352 892
Associate companies	9 974	-	988	-	10 962
Unallocated assets					15 319
Consolidated total assets					<u>379 173</u>
Segment liabilities	174 079	3 943	38 463	45	216 500
Unallocated liabilities					7 134
Consolidated total liabilities					<u>223 634</u>
Acquisition of property, plant and equipment and intangible assets	24 416	3 601	65 341	-	93 358
Depreciation	5 177	665	886	-	6 728

Other segments are manufacturing of concrete products, electrical works and funding of projects and consultations. Neither of the above is important enough to be reported as a separate business segment.

Unallocated are those expenses, assets and liabilities which can not or should not be linked to a concrete business segment.

Geographical segments

The main market for operation of the parent company is Estonia. Main business segments in Estonia are building and production of timber structures. The main segments in Latvia and Lithuania are building.

Sales revenue is based on the country in which the customer is located; the assets are reported basing on the geographic location of the assets.

Sale	Group		Parent company	
	1999	1998	1999	1998
Estonia	649 637	804 998	577 230	778 104
Latvia	43 502	5 180	6 187	170
Lithuania	10 503	8 928	533	4 097
Russia	4 268	821	-	821
Germany	7 490	16 312	-	-
Norway	13 688	4 784	-	-
Denmark	3 157	2 133	-	-
Others	1 412	-	-	-
Total	733 657	843 156	583 950	783 192

	Total assets		Acquisition of tangible fixed assets	
	1999	1998	1999	1998
Estonia	206 066	361 917	25 182	87 728
Latvia	47 192	8 399	589	5 588
Lithuania	3 386	1 970	43	34
Others	16 513	6 887	-	-
Total	273 157	379 173	25 814	93 350

Note 2

Cost of sales

	Group		Parent company	
	1999	1998	1999	1998
Materials	84 867	74 659	41 866	54 712
Building services	493 160	588 742	430 599	596 290
Wages and salaries	29 616	50 216	26 762	34 707
Depreciation	4 614	5 434	3 146	2 209
Projecting	9 958	17 998	8 697	17 527
Building machinery and transportation	16 888	16 680	16 176	15 196
Other expenses	30 549	14 471	18 241	22 222
Total cost of sales	669 652	768 200	545 487	742 863

Note 3

Marketing expenses

	Group		Parent company	
	1999	1998	1999	1998
Wages and salaries	1 942	2 106	935	1 140
Depreciation	19	166	19	166
Advertising, sponsorship	2 032	1 026	1 123	808
Transportation	3 051	1 309	220	158
Building tenders and ISO-related expense	682	650	673	649
Agent's fees	1 211	533	-	-
Other expenses	1 639	1 714	1 105	1 313
Total marketing expenses	10 576	7 504	4 075	4 234

Note 4**Administrative expenses**

	Group		Parent company	
	1999	1998	1999	1998
Wages and salaries	12 547	10 951	7 398	5 958
Depreciation	1 616	1 128	918	975
Computer hard- and software, IT services	2 257	1 834	1 579	1 442
Banking facilities	1 067	811	793	484
Transportation	2 684	3 156	1 669	2 415
Office expenses, communication services	4 706	4 066	2 186	2 491
Other expenses	3 621	7 613	1 873	2 804
Total administrative expenses	28 498	29 559	16 416	16 569

Note 5**Other operating income**

	Group		Parent company	
	1999	1998	1999	1998
Gain from sale of tangible assets	2 861	5 596	231	797
Gain on penalties and interest on arrears	1 895	4 538	1 874	4 340
Income from bad notes receivable	50	1	-	-
Insurance benefits	452	907	337	907
Accrued income for previous period	27	-	-	-
Other income	505	1 526	179	311
Total other operating income	5 790	12 568	2 621	6 355

Note 6**Other operating expenses**

	Group		Parent company	
	1999	1998	1999	1998
Local taxes	73	655	61	127
Penalties, interest on arrears	395	1 370	327	1 352
Loss from selling of tangible assets	5 775	900	5 723	841
Accrued expenses for previous period	366	68	234	68
Other expenses	796	27	261	211
Total operating expenses	7 405	3 020	6 606	2 599

Note 7**Financial income**

	Group		Parent company	
	1999	1998	1999	1998
Financial income from subsidiaries	12	504	9 530	22 505
Financial income from associate companies	1 637	844	1 637	1 002
Financial income from other long-term investment	-	864	-	-
Gain on translation differences for the year	1 277	112	441	19
Other interest and financial income				
profit from the sale of short-term securities	470	138	375	138
dividends received	45	133	45	109
interest income	4 362	4 010	4 425	4 154
surplus from revaluation of marketable securities	339	-	339	-
other financial income	63	-	50	-
Total interest and financial income	5 279	4 281	5 234	4 401
Total financial income	8 205	6 605	16 842	27 927

Note 8**Financial expenses**

	Group		Parent company	
	1999	1998	1999	1998
Financial expenses from subsidiaries	67 577	197	67 704	523
Financial expenses from associate companies	141	3 837	141	3 815
Loss from translation differences for the year	1 498	144	1 193	52
Other financial expenses				
loss from sale of short-term securities	3	3 679	-	3 611
discount of marketable securities	53	3 880	47	3 880
interest expenses	1 693	1 510	1 689	524
other financial expenses	289	27	89	26
Total other financial expenses	2 038	9 096	1 825	8 041
Total financial expenses	71 254	13 274	70 863	12 431

Note 9**Income tax**

Differences between the theoretical income tax (income tax on profit before taxation 26%, under tax rate effective in Estonia) and the tax expense:

Income tax	Group		Parent company	
	1999	1998	1999	1998
Profit before tax	-39 733	40 753	-40 034	38 778
Theoretical income tax (26%)	-10 330	10 596	-10 409	10 082
Effect of differences of tax rates in foreign countries	-2 177	-1 780	-	-
Effect of equity method	2 958	-758	467	-4 677
Expenses not deductible for tax purposes	18 020	781	17 739	475
Income not subject to tax	7 168	6 605	6 831	5 585
Loss as per tax return	11	127	-	-
Deferred income tax	-1484	-	-1 254	-
Income tax	-170	2 361	-288	295
Income tax payable	1 314	1 338	966	216
Deferred income tax	-1 484	1 023	-1 254	79
Income tax	-170	2 361	-288	295

SIA Merks computes the taxable income and income tax according to laws of Republic of Latvia. In Republic of Latvia, the corporate income is liable to 25% income tax.

UAB Merko Statyba computes the taxable income and income tax according to laws of Republic of Lithuania. In Republic of Lithuania the corporate profit is liable to 29% income tax.

Note 10**Earnings (loss) per share**

Basic earnings (loss) per share are the consolidated net income (loss) of the shareholder, divided by the average weighted number of ordinary shares, excluding own shares.

	1999	1998
Net profit (loss) attributable to shareholders	-39 746	38 483
Weighted average number of ordinary shares	8 850	8 850

Basic net earnings (loss) per share (in kroons) -4,49 4,35

In 1998 and 1999, there were no potential ordinary shares, wherefore the diluted net earnings (loss) per share equals the basic net earnings per share.

Note 11

Dividends per share

Dividends to be paid are reported after the proposal on distribution of profit has been confirmed by General Meeting. According to the proposal on distribution of profit, payable as dividend in 1999 are the total of 3,540 thou kroons (in 1998, 7,522.5 thou kroons), i.e. 0.40 kroon per share (in 1998, 0.85 kroon per share).

Note 12

Cash and cash equivalents

	Group		Parent company	
	1999	1998	1999	1998
Cash in hand	512	278	-	-
Bank accounts	8 170	11 017	3 759	764
Short-term deposits	16 557	2 904	1 594	-
Total cash and cash equivalents	25 239	14 199	5 353	764

Note 13

Marketable investments

	Group		Parent company	
	1999	1998	1999	1998
Money-market fund shares	26 400	14 000	26 400	14 000
Listed shares in Tallinn Stock Exchange	346	300	139	221
Listed shares in Riga Stock Exchange	628	421	628	421
Other shares registered in the Estonian Central Depository for Securities	240	174	240	120
Other shares in Estonian enterprises	85	50	50	50
Total short term investments	27 699	14 945	27 457	14 812

Note 14

Accounts receivable

	Group		Parent company	
	1999	1998	1999	1998
Accounts receivable	87 734	139 143	71 095	126 353
Allowance for doubtful receivables	-124	-30	-	-30
Total accounts receivable	87 610	139 113	71 095	126 323

Note 15

Other current receivables

	Group		Parent company	
	1999	1998	1999	1998
Receivables from parent company and subsidiaries				
loans to subsidiaries (Note 32)	-	-	3 417	4 001
other receivables	1 735	-	2 621	1 848

Total receivables from parent company and subsidiaries	1 735	-	6 038	5 849
Receivables from associated companies				
loans to associated companies (Note 32)	1 117	1 117	1 117	1 117
other receivables	105	121	106	121
Total receivables from associated companies	1 222	1 238	1 223	1 238
Other short-term receivables				
receivables for construction in progress (Note 30)	23 421	12 194	6 596	7 232
short-term loans (Note 17)	10 941	19 459	10 649	18 846
other short-term receivables	3 335	2 511	498	2 420
Total other short-term receivables	37 697	34 164	17 743	28 498
Total miscellaneous receivables	40 654	35 402	25 003	35 585

Note 16

Deferred income	Group		Parent company	
	1999	1998	1999	1998
Interest	467	350	442	296
Dividends	218	-	218	3 000
Other deferred income	945	1 778	945	1 778
Total deferred income	1 630	2 128	1 605	5 074

Note 17

Loans to related parties	Group		Parent company	
	1999	1998	1999	1998
Loans to related legal entities in Estonia				
Balance of loan at year's beginning	24 293	11 295	22 905	11 295
Extended	16 466	33 436	16 264	31 807
Received	25 984	20 438	25 204	20 197
Balance of loan at year-end	14 775	24 293	13 965	22 905
incl. short-term part	10 748	19 384	10 499	18 806
incl. long-term part	4 027	4 909	3 466	4 099

Average interest rate 7.1 %

Loans to natural persons

Balance of loan at year's beginning	75	1	40	-
Extended	212	112	150	40
Received	54	38	-	-
Allowance for doubtful loan	40	-	40	-
Balance of loan at year-end	193	75	150	40
incl. short-term part	193	75	150	40

Average interest rate 8 %

Total:	14 968	24 368	14 115	22 945
incl. short-term part (Note 15)	10 941	19 459	10 649	18 846
incl. long-term part (maturity 2...5 yrs) (Note 20)	4 027	4 909	3 466	4 099

Note 18**Prepaid expenses**

	Group		Parent company	
	1999	1998	1999	1998
Prepaid taxes and reversion				
VAT	928	1 370	-	184
income tax	1 659	4 118	1 412	4 102
Total prepaid taxes and reversion	2 587	5 488	1 412	4 286
Other prepaid expenses				
prepaid insurance premiums	891	848	653	722
prepaid rent	122	107	-	-
prepayments for construction service	6 014	8 099	5 956	7 984
others	3 280	2 104	2 421	1 677
Total other prepaid expenses	10 307	11 158	9 030	10 383
Total prepaid expenses	12 894	16 646	10 442	14 669

Note 19**Inventories**

	Group		Parent company	
	1999	1998	1999	1998
Raw materials and consumables	2 535	2 078	-	-
Work in progress	-	14 186	-	-
Finished products	1 133	100	-	-
Merchandise purchased for resale	3 327	8 229	3 280	3 275
Advance payments to suppliers for materials	1 550	370	-	-
Total inventories	8 545	24 963	3 280	3 275

Note 20**Long-term investments**

	Group		Parent company	
	1999	1998	1999	1998
Shares in subsidiaries	-	-	33 446	111 192
Shares in associate companies	11 207	10 962	11 207	10 934
Other shares and debt securities	115	1 565	115	115
Miscellaneous long-term receivables	4 027	13 754	3 466	4 145
Total long-term investments	15 350	26 281	48 235	126 386

Name of subsidiary	Ownership interest and voting power %		Location	Business segment
	1999	1998		
AS Merko Ehitus subsidiaries				
E.L.L. Kinnisvara AS *	-	100	Tallinn	real estate development
AS Gustaf	100	100	Pärnu	construction
OÜ Matek	65	73	Tallinn	timber structures
AS Merko Tartu	66	66	Tartu	construction
AS Merko Insenerihitus	100	100	Saue	construction
OÜ Merko Ehitustööd	100	100	Saue	construction
OÜ Merko Ehitusteenused	100	100	Saue	construction
Eesti Ehitusekspordi OÜ	100	100	Saue	construction
Merko Project Finance & Consulting Ltd	100	100	Channel Islands, Jersey	construction related consultations
SIA Merks	100	100	Republic of Latvia, Riga	construction

UAB Merko Statyba	100	100	Republic of Lithuania, Vilnius	construction
ZAO Merkostroi **	100	-	Russia, St. Petersburg	construction
AS Gustaf subsidiaries				
SIA Rigus	100	100	Republic of Latvia, Riga	construction
AS Tiimerk ***	100	100	Saue	construction
E.L.L. Kinnisvara AS subsidiaries *				
SIA E.L.L. Real Estate	-	100	Republic of Latvia, Riga	real estate development

* Participation in E.L.L. Kinnisvara AS was sold in 1999 (Note 31).

** Contribution to share capital of ZAO Merkostroi was made in 1998, however it had not been registered by 31.12.1998.

*** AS Tiimerk was not consolidated in 1999, because the company is in liquidation.

Shares of subsidiaries, recorded in the report of the parent company:

Name of subsidiary	Investment 31.12.1998	Changes in 1999			Investment 31.12.1999
		acquisition and sale	income- expense from subsidiaries	exchange rate differences	
AS Merko Ehitus subsidiaries					
E.L.L. Kinnisvara AS	88 842	-21 287	-67 556	1	-
AS Gustaf	5 333	-	-136	8	5 205
OÜ Matek	2 262	-266	66	-	2 062
AS Merko Tartu	2 660	-	452	-	3 112
AS Merko Insenerehitus	1 463	-	-2	-	1 461
OÜ Merko Ehitustööd	-	40	-10	-	30
OÜ Merko	-	-	-	-	-
Ehitusteenused	-	40	-	-	40
Eesti Ehitusekspordi OÜ	-	40	-	-	40
Merko Project Finance & Consulting Ltd	6 829	-	8 334	1 350	16 513
SIA Merks	3 352	-	653	379	4 384
UAB Merko Statyba	451	-	26	76	553
ZAO Merkostroi	-	46	-	-	46
Total	111 192	-21 387	-58 173	1 814	33 446

Shares in associate companies

Name of the associate company	Ownership interest and voting power %		Location	Business segment
	1999	1998		
AS Merko Ehitus associate companies				
Vesimer Investeeringute AS	50	50	Tallinn	construction
Normanni Linnagrupi AS	50	50	Tallinn	construction
AS Insenerivõrgud	50	49	Tallinn	construction
AS Stik-Elekter *	-	34	Roosna-Alliku	electrical works
ESS Kinnisvaraholduse AS *	-	30	Tallinn	real estate

Eesti Ehitusekspordi AS **	-	25	Saue	management construction
AS Tartu Maja Betoontooted **	25	-	Tartu	concrete products

**E.L.L. Kinnisvara AS
associate companies ***

OÜ Hansa Hotell	-	50	Tallinn	hotel business
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**Eesti Ehitusekspordi AS
subsidiaries ****

AS Tartu Maja Betoontooted	-	25	Tartu	concrete products
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* Participation in AS Stik-Elekter, E.L.L. Kinnisvara AS and ESS Kinnisvaraholduse AS was sold in 1999.

** AS Tartu Maja Betoontooted merged with Eesti Ehitusekspordi AS, the name of the new company being AS Tartu Maja Betoontooted.

Name of the associate company	Investment 31.12.1998	Changes in 1999			Investment 31.12.1999
		acquisition and sale	income- expense from associate company	dividends	
AS Merko Ehitus associate companies					
Vesimer Investeeringute AS	5 576	-	529	-218	5 887
Normanni Linnagrupi AS	507	-	-1	-	506
AS Insenerivõrgud	3 321	-485	991	-	3 827
AS Stik-Elekter	570	-429	-141	-	-
ESS Kinnisvaraholduse AS	-	-90	90	-	-
Eesti Ehitusekspordi AS	960	-960	-	-	-
AS Tartu Maja Betoontooted	-	960	27	-	987
Total	10 934	-1 004	1 495	-218	11 207
E.L.L. Kinnisvara AS associate company					
OÜ Hansa Hotell	28	-28	-	-	-
Group Total	10 962	-1 032	1 495	-218	11 207

Other shares and debt securities	Group		Parent company	
	1999	1998	1999	1998
At the beginning of year	1 565	3 410	115	2 451
Sale	1 450	960	-	2 335
Discount	-	885	-	-
At the end of year	115	1 565	115	115

Miscellaneous long-term receivables	Group		Parent company	
	1999	1998	1999	1998
Long-term loans to non-related legal entities (Note 17)	4 027	4 909	3 466	4 099
Other long-term receivables	-	8 845	-	46
Total long-term receivables	4 027	13 754	3 466	4 145

Note 21
Property, plant and equipment

Property, plant and equipment in Group	Land	Buildings	Building title	Machinery and equipment	Other inventory	Construc- tion in progress	Advances	Total
Acquisition cost								
31.12.1998	15 911	71 889	7 761	14 098	6 437	809	39	116 944
Accumulated depreciation								
31.12.1998	-	5 086	214	5 454	2 367	-	-	13 121
Net book amount								
31.12.1998	15 911	66 803	7 547	8 644	4 070	809	39	103 823
Net book amount								
31.12.1998	15 911	66 803	7 547	8 644	4 070	809	39	103 823
Exchange rate differences	723	-	-	33	98	-	-	854
Acquisition	736	22 926	-	997	1 045	110	-	25 814
Disposals	235	9 487	-	677	167	-	-	10 566
Disposal of subsidiaries	9 352	44 986	5 987	-	273	809	39	61 530
Write-off for the year	-	-	-	152	63	-	-	215
Depreciation	-	1 733	32	2 762	1 416	-	-	5 943
Net book amount								
31.12.1999	7 783	33 523	1 528	6 083	3 294	110	-	52 321
Acquisition cost								
31.12.1999	7 783	39 121	1 603	12 988	6 854	110	-	68 459
Accumulated depreciation								
31.12.1999	-	5 598	75	6 905	3 560	-	-	16 138
Net book amount								
31.12.1999	7 783	33 523	1 528	6 083	3 294	110	-	52 321
Property, plant and equipment in parent company			Land	Buildings	Building title	Machinery and equipment	Other inventory	Total
Acquisition cost 31.12.1998			820	25 472	1 603	6 716	4 598	39 209
Accumulated depreciation 31.12.1998			-	4 264	43	3 260	2 101	9 668
Net book amount 31.12.1998			820	21 208	1 560	3 456	2 497	29 541
Net book amount 31.12.1998			820	21 208	1 560	3 456	2 497	29 541
Acquisition			483	22 960	-	483	296	24 222

Disposals	236	9 487	-	19	-	9 742
Write-off for the year	-	-	-	90	11	101
Depreciation	-	1 673	32	1 386	999	4 090
Net book amount 31.12.1999	1 067	33 008	1 528	2 444	1 783	39 830
Acquisition cost 31.12.1999	1 067	38 480	1 603	6 225	4 821	52 197
Accumulated depreciation 31.12.1999	-	5 472	75	3 781	3 038	12 367
Net book amount 31.12.1999	1 067	33 008	1 528	2 444	1 783	39 830

Property, plant and equipment held under financial lease contracts are recorded in Note 23.

Note 22 Intangible assets

Intangible assets in Group	Goodwill	Development expenditures	Licenses purchased	Total
Closing balance 31.12.1998	2 213	8	-	2 221
Accumulated amortization 31.12.1998	548	-	-	548
Net book amount 31.12.1998	1 665	8	-	1 673
Net book amount 31.12.1998	1 665	8	-	1 673
Company acquisitions	-	-	10	10
Amortization for the year	459	8	1	468
Net book amount 31.12.1999	1 206	-	9	1 215
Opening balance 31.12.1999	2 213	8	10	2 231
Accumulated amortization 31.12.1999	1 007	8	1	1 016
Net book amount 31.12.1999	1 206	-	9	1 215

Note 23 Assets leased

Assets held under finance lease contracts:	Group		Parent company	
	1999	1998	1999	1998
Machinery and equipment				
Acquisition cost	872	872	-	-
Accumulated depreciation	537	408	-	-
incl. depreciation for the year	129	180	-	-
Net book amount	335	464	-	-
Liabilities for finance lease (Note 24)	74	215	-	-
Interest expense for the year	14	34	-	-

Assets held under operational lease contracts:	Group		Parent company	
	1999	1998	1999	1998
Machinery and equipment				
Payments for the year	2 682	2 960	2 067	2 412
Payments for subsequent periods	5 288	5 158	4 688	4 169
incl. payments in the next year	1 709	2 289	1 425	1 757
payments in years 2...5	3 579	2 869	3 263	2 412
Total	7 970	8 118	6 755	6 581

Note 24

Liabilities	Group		Parent company	
	1999	1998	1999	1998
Liabilities for finance lease (Note 23)				
Opening balance at the beginning of year	215	449	-	-
Raised	-	301	-	-
Repaid	141	535	-	-
Closing balance at the end of year	74	215	-	-
incl. the short-term part	74	90	-	-
long-term part (between 2 and 5 years)	-	125	-	-

Average interest rate 15 %

Bank loans

Opening balance at the beginning of year	63 707	313	23 626	-
Raised	10 213	63 421	8 178	26 341
Repaid	71 885	3 028	31 804	2 715
Closing balance at the end of year	2 035	60 706	-	23 626
incl. short-term part	2 035	34 162	-	-
long-term part (between 2 and 5 years)	-	26 544	-	-

Other loans

Opening balance at the beginning of year	8 102	-	8 000	-
Raised	12 571	8 102	10 241	8 000
Repaid	7 786	-	7 684	-
Closing balance at the end of year	12 887	8 102	10 557	8 000
incl. short-term part	6 033	102	3 706	-
long-term part (between 2 and 5 years)	6 854	8 000	6 851	8 000
Total loans	14 996	69 023	10 557	31 626
incl. short-term part	8 142	34 354	3 706	23 626
long-term part (between 2 and 5 years)	6 854	34 669	6 851	8 000

Loan securities and pledged assets are reported in Note 25.

Note 25

Loan securities and pledged assets

To secure the loans taken and liabilities incurred the following contracts and agreements have been entered into:

Between AS Merko Ehitus and Hansapank:

Floating charge agreement on chattels, for the aggregate value of 80 million kroons (recorded in Register of Floating Charges in the first and second orders of priority) and the notarial lien on buildings located at Saue, for the aggregate sum of 7 million kroons. The said mortgages secure the fulfillment of obligations stemming from Overdraft Facility Agreement 99-002043KT, on credit line of 10.0 million kroons, and the contracts of guarantee.

Between AS Merko Ehitus and Eesti Ühispank:

Floating charge agreement on chattels, for the aggregate value of 30 million kroons (recorded in Register of Floating Charges in the third and fourth orders of priority). The said pledge secures the fulfillment of obligations stemming from Overdraft Facility Agreement no.: 1310163979920, on credit line of 10.0 million kroons, to Eesti Ühispank.

Between OÜ Matek and Merita Bank Plc:

Notarized floating charge agreement no.: 9308 on chattels, for the aggregate value of 5 million kroons. The said pledge secures the fulfillment of obligations stemming from Overdraft Facility Agreement on credit line of 250 000 DEM and the contracts of guarantee.

Between AS Gustaf and Hansapank:

Floating charge agreement on chattels, for the aggregate value of 2 million kroons, to secure the contract of guarantee.

Between AS Merko Tartu and Eesti Ühispank:

Floating charge agreement on chattels, for the aggregate value of 1.5 million kroons (recorded in Register of Floating Charges in the first order of priority). The said pledge secures the fulfillment of obligations stemming from contracts of guarantee.

To secure the liabilities assumed, mortgages in the total amount of 5 million kroons have been charged on properties acquired in the county of Läänemaa.

Note 26

Customer prepayments

	Group		Parent company	
	1999	1998	1999	1998
Customer prepayments	45 347	34 838	15 140	31 571
VAT on customer prepayments	-2 238	-4 877	-2 188	-4 787
Total customer prepayments	43 109	29 961	12 952	26 784

Note 27

Tax liabilities

	Group		Parent company	
	1999	1998	1999	1998
VAT	3 476	114	2 470	-
Income tax	49	1 478	-	-
Personal income tax	142	359	-	-
Social security tax	1 651	1 278	1 270	800
Total tax liabilities	5 318	3 238	3 740	800

Note 28

Accrued liabilities

	Group		Parent company	
	1999	1998	1999	1998
Accrued payments to employees	5 572	7 337	4 130	4 958
Accrued interest	9	302	-	186
Other accrued liabilities	11 433	1 294	393	65

Total accrued liabilities	17 014	8 933	4 523	5 209
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Note 29

Share capital

Share capital of 88 500 thou kroons is divided into 8 850 thou registered shares of nominal value 10 kroons each. Under the Articles of Association, the maximum number of shares is 18 000 thou shares.

In 1999 there were no changes in share capital. In 1998 the share capital was increased by equity financing, on account of share premium, by 59 000 thou kroons, by means of issue of two new shares for each existent share, total of 5 900 thou new shares, of nominal value 10 kroons.

In 1999, declared and paid out were dividends of 7,522.5 thou kroons. (In 1998, declared and paid out were dividends of 5,162.5 thou kroons.)

Note 30

Construction contract work in progress

	Group		Parent company	
	1999	1998	1999	1998
The aggregate amount of costs incurred and recognized profits (less recognized loss) to date	199 089	442 567	171 688	395 529
Progress billings	205 153	471 936	193 314	424 816
Total adjustment of income	-6 064	-29 369	-21 626	-29 287
Due from customers	23 421	12 194	6 596	7 232
Due to customers	29 485	41 562	28 222	36 519
Total	-6 064	-29 369	-21 626	-29 287

Amounts due from customers have been reported for all construction contract work in progress where the income in respect of expenditures on contract is larger than the progress bills submitted to customers. Amounts due from customers are reported in the balance sheet on the line *Other current receivables* (Note 15).

Amounts due to customers have been reported for all construction contract work in progress where the income in respect of expenditures on contract are smaller than the interim invoices submitted to customers. Amounts due to customers are reported in the balance sheet on the line *Due to customers for contract work*.

Note 31

Disposal of E.L.L. Kinnisvara AS

In 1999 Group sold 100% participation in E.L.L. Kinnisvara AS. The transaction has been reported as of 30. 06. 1999.

Financial results of E.L.L. Kinnisvara AS:

	6 months to 30.06.1999	12 months to 31.12.1998
Sales	5 504	19 348
Operating expenses	8 085	15 869

Operating profit (loss)	-2 581	3 479
Financial expenses	2 497	774
Profit (loss) before tax	-5 078	2 705
Income tax	-	830
Net profit (loss)	<u>-5 078</u>	<u>1 875</u>

Selling price	21 286
Carrying amount of sold investment	77 524
Sales loss (-)	<u>-56 238</u>

Assets and liabilities of subsidiary sold:

	30.06.1999	31.12.1998
Cash and cash equivalents	9 617	861
Other current assets	39 529	63 506
Long-term investment	28 537	9 808
Property, plant and equipment	74 138	67 336
Current liabilities	21 437	12 056
Long-term liabilities	33 375	27 375
Net assets	<u>97 009</u>	<u>102 080</u>

Unrealized profits, losses	-19 485
Sales loss	-56 238
Cash received from sale	19 551
Receivable from sale	-1 735
Cash flow from sale of subsidiary	<u>19 551</u>

Note 32
Related party transactions

Related parties are shareholders (ultimate parent company of the Group is AS Merko Grupp), subsidiaries and associate companies, natural persons, possessing over 20% of the vote, and their next of kin, key management personnel and their next of kin, and the companies controlled by the above natural persons.

Reported herein have also been current and long-term liabilities of parent company, subsidiaries and associate companies on the balance sheet date. Current payables of parent company, subsidiaries and associate companies have been reported on the line of the balance sheet *Other current receivables* Note 15. Presented separately have been the receivables and liabilities arising from intra-Group loan transactions.

	Disposals of goods and services		Purchase of goods and services	
	1999	1998	1999	1998
AS Merko Grupp	16 555	-	191	303

In sale and purchase of goods and services between related persons, the prices close to market value have been applied.

Liabilities	Group		Parent company	
	1999	1998	1999	1998
Current liabilities				
Liabilities to parent company or subsidiaries	48	1 518	29 073	49 378
incl. loan liabilities	-	1 447	20 586	28 050
other liabilities	48	71	8 487	21 328
Liabilities to associate companies	398	4 671	397	4 671
incl. other liabilities	398	4 671	397	4 671
Total current liabilities	446	6 189	29 470	54 049
Long-term liabilities				
Liabilities to parent company	-	42	-	-
incl. other liabilities	-	42	-	-
Total long-term liabilities	-	42	-	-

Loans

<u>Loans to subsidiaries and associate companies</u>	Group		Parent company	
	1999	1998	1999	1998
At the beginning of year	1 117	-	5 118	4 016
Extended	-	1 117	1 167	16 522
Received	-	-	1 751	15 420
At the end of year	1 117	1 117	4 534	5 118
incl. the short-term part (Note 15)	1 117	1 117	4 534	5 118

Average interest rate 9 %

<u>Loans from subsidiaries and associate companies</u>	Parent company	
	1999	1998
At the beginning of year	26 601	-
Extended	22 847	26 601
Received	28 862	-
At the end of year	20 586	26 601
incl. the short-term part	20 586	26 601

Average interest rate 0 %

<u>Loans from the parent company AS Merko Grupp</u>	Group		Parent company	
	1999	1998	1999	1998
At the beginning of year	1 447	-	1 447	-
Extended	15 640	1 723	15 640	1 723
Received	17 087	276	17 087	276
At the end of year	-	1 447	-	1 447
incl. the short-term part	-	1 447	-	1 447

Average interest rate 12 %

Salaries and wages to Members of Board of Directors and executives

Members of Board of Directors and executive staff were paid remuneration of 1,960 thou kroons in 1999 (in 1998 1,747 thou kroons).

Note 33**Potential liabilities**

	Group		Parent company	
	1999	1998	1999	1998
Customer guarantee during construction	51 251	13 676	50 637	12 728
Tender guarantee	2 253	14 175	1 720	14 175
Guarantee of warranty period	15 696	6 639	14 746	6 639
Guarantee for advance	12 793	14 919	12 793	14 919
Sureties	11 776	37 242	11 776	36 860
Total	93 769	86 651	91 672	85 321

Note 34**Risks****Credit risk**

Credit risk is defined as the risk of a counterpart being unable to meet his commitments. Merko Ehitus only concludes financial agreements with counterparts approved in advance with a high credit rating, and management decides on the limits and maturity for each such counterpart. Liquid assets are only invested in securities with high liquidity and low risk. To lower credit risks, due payments by customers are closely monitored. Funding of construction is effected mainly through advance payments made by customers. Liquid assets are kept in Estonian banks of high rating. On opinion of the Management, the Group has no material credit risks.

Interest-rate risk

Interest-rate risk is defined as the risk that changes in interest rates may have a negative effect on the Group's earnings. The total risk for the Group's financial instruments is limited by a stipulated maximum fixed-interest period. The risk connected with borrowing is assessed thoroughly from case to case. On opinion of the Management, the Group has no material interest-rate risks.

Fair value

Carrying amount of monetary assets and liabilities does not materially differ from their market value.

Note 35**Number of shares in ownership of Members of Board of Directors and Members of Council, and their next of kin**

	Shares	Participation
Members of Council		
Raul Ojala	477	0,01%
Members of Board of Directors		
Tõnu Toomik	9 000	0,10%
Ott Kikkas	17 000	0,19%

Note 36**Shareholders of participation in excess of 5%**

	Shares	Participation
AS Merko Grupp	6 551 343	74,03

DECISION ON DISTRIBUTION OF PROFIT

The Annual General Meeting of AS Merko Ehitus decided on 12 April 2000 that profit be distributed as hereunder:

Net loss for 1999	-39 745 618	
Retained earnings brought forward	47 716 228	
Retained earnings balance at 31.12.1999	7 970 610	
Dividends	7 965 000*	(90 cents per share)
Retained earnings carried forward	5 610	

* On the pages 5 (Report of the Directors) and 18 (Note 11) of the Annual Report 1999, presented to the Annual General Meeting of Shareholders for approval, a preliminary proposal on distribution of profit is reported, according to which the total of EEK 3 540 000 (three million five hundred forty thousand) are payable as dividends in 1999, i.e. EEK 0.40 per share. Taking into consideration the high equity ratio and current ratio of the company, the Council decided to change in the proposal on distribution of profit the amount of dividends paid out to shareholders, whereby the dividends paid out to the shareholders would amount for EEK 7 965 000 (seven million nine hundred sixty five thousand), i.e. EEK 0.90 per share.

**AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AS MERKO EHITUS**

We have audited the financial statements of AS Merko Ehitus and the consolidated financial statements of AS Merko Ehitus Group for the financial year ended 31. December 1999. These financial statements are the responsibility of the management of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in the preparation of the financial statements, as well as evaluating the overall presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements and consolidated financial statements, prepared in accordance with the International Accounting Standards and Accounting Law of Republic of Estonia, give a true and fair view of the results of AS Merko Ehitus and AS Merko Ehitus Group's operations for 1999 and of their financial position as of 31 December 1999.

20 March 2000, Tallinn

Audit EA

Malle Rannik
Authorized Public Accountant