

# AS MERKO EHITUS

GROUP

## **Annual Report 2000**

Commercial Register code 10068022

21 Tule St, Saue  
76501 Harjumaa, ESTONIA

Tel. +372 6 105 105  
Fax. +372 6 105 106  
e-mail merko@merko.ee

Auditor AS Audit EA

14 Liivalaia St  
10118 Tallinn

Tel. +372 6 461 078

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## Annual report 2000

### PREFACE TO THE ANNUAL REPORT AND SIGNATURES

Annual Report 2000 consists of the Report of the Directors of Merko Ehitus Group and the parent company, the Annual Accounts, the Auditor's Report and the Proposal on Distribution of Profit. The Board of Merko Ehitus confirms that the data presented in this Annual Report are correct, complete and present a true view of the business activities and financial position of the parent company AS Merko Ehitus as well as of the other enterprises of the group.

Tõnu Toomik  
Chairman of Board

Ott Kikkas  
Member of Board

Ülo Metsaots  
Member of Board

Veljo Viitmann  
Member of Board

7 March 2001

## REPORT OF THE DIRECTORS

For Merko Ehitus, the past year of 2000 witnessed a rapid growth, in terms both of financial outcome of the Group and volumes of its civil engineering projects, and its southerly expansion, to capture the markets of Latvia and Lithuania. Merko Ehitus Group was the first among Estonian construction companies, whose sales overshoot the threshold of the magic figure one billion kroons. Of aggregate construction works performed by the Group, Latvian and Lithuanian markets accounted for over 25%. Worth special mention among larger projects completed in the past year are the Sikupilli Trade Centre and Radisson SAS Hotel in Estonia, reconstruction of hotel Grand Palace Hotel Riga and building of plant for the brewery Cõsu Alus in Latvia, reconstruction of the main Office and regional offices of Lietuvos Telekomas in Lithuania. The share of infrastructure and environmental facilities reached 14% of the total construction sales of the Group. Among them, completed were the following projects: landfill in Väätsa, Jõhvi-Ahtme water supply system, and water treatment plants in Kuressaare, Valga and Pärnu. The company carried on with development of its quality system.

### Business activity

The Group's sales increased by 93 percent to 1420 million kroons, as against 1999 (when it was 734 million kroons). Although the volume of Estonian construction market rose (according to the Statistical Office of Estonia, by 21% in current prices, as against 1999), the increase in net sales was mainly due to the enlargement of market share in Estonia, however even more so in Latvia and Lithuania. The Group's net profit was 66.6 million kroons, meaning the rise four times, as compared to the respective figure of 16.5 million kroons in 1999.

Construction sales accounted for 95.4 % and other sales for 4,6 % of net sales of Merko Ehitus Group.

Per type of construction, the building activity of Merko Ehitus in 2000 distributed as follows:

Non-residential buildings	83%
Whereof: Office buildings	21%
Industrial buildings	6%
Other non-residential buildings	56%
Residential buildings	3%
Civil engineering	14%

Of aggregate building activity of the Group, 60% was accounted for by new buildings and 40% by renovation and reconstruction works.

The share of exports and sales outside Estonia rose from 11% in 1999 to 28% in 2000.

The ratios characterising the operating activity of the Group in 2000 were:

net profit margin	4.7%
net operating profit	4.6%
return on owners' equity	49.4%
return on assets	17.7%

In 2000, the average number of full-time staff at the parent company AS Merko Ehitus was 194, with gross salaries amounting to 24.2 million kroons. The average gross salary in the parent company AS Merko Ehitus increased by 17%, as compared to 1999. The average number of full-time staff of the group was 357, with gross salaries amounting to 41,1 million kroons. The average gross salary in Merko Ehitus Group increased by 22%, as compared to 1999.

There was a structural change in the Group in 2000. Namely, the Group disposed of 50% interest in its associated company AS Vesimer Investeeringud.

Tangible investments of Merko Ehitus Group into machinery, equipment and inventory amounted to 4,371 thou kroons. The investments were used to create and enhance jobs.

### Financial position

The enterprise is highly liquid and well capitalised. The ratios characterising the financial position in 2000 were:

equity ratio, percent	34%
current ratio	1.3
receivables turnover	7.0

### **Share and shareholders**

Closing price of share of Merko Ehitus at Tallinn Stock Exchange, as of 31.12.2000 was 38 kroons. Net earnings per share in 2000 were 7.52 kroons. The Board of AS Merko Ehitus is proposing to pay the shareholders a dividend of 1.50 kroons per share for the year 2000, which makes the dividend pay-out rate 20%.

Structure of shareholders of Merko Ehitus at the end of 2000 was as follows:

Merko Group	74.0%
Merita Bank, clients	11.3%
Skandinaviska Enskilda Banken, clients	3.0%
Optiva Pank	1.6%
Hagen Ltd.	1.6%
Hansa Investment Fund	1.2%
Hansapank	1.0%
Other shareholders	6.3%

### **Council and Board**

Council of the company comprises 3 members, the Board – 4 members. Members of the Board do not receive remuneration for their work, but all of them have full-time positions with AS Merko Ehitus, with gross salaries averaging 988 thou kroons in 2000. Neither do Members of the Council receive remuneration for their contribution. Two members of the Council have full-time positions with AS Merko Ehitus, their gross salaries averaging 509 thou kroons in 2000. Gross salary of the senior executive amounted to 276 thou kroons in 2000.

### **Outlooks for 2001**

In this year, we will not relinquish the market share captured in non-residential building sector and will increase the market share in residential building and civil engineering sectors. As a strategic direction, Merko Ehitus will continue expansion of operations in Latvia and Lithuania. It entertains the ambition to become one of the largest construction companies there, operating through its subsidiaries SIA Merks and UAB Merko Statyba. For another strategic direction, Merko Ehitus has started to build residential houses, under a real estate development scheme.

in thousands kroons

## INCOME STATEMENT

	Note	Group		Parent company	
		2000	1999	2000	1999
Sales	1	1 420 469	733 657	960 645	583 950
Cost of sales	2	1 319 713	669 652	896 445	545 487
<b>Gross profit</b>		100 756	64 005	64 200	38 463
Marketing expenses	3	9 875	10 576	4 568	4 075
Administrative expenses	4	27 428	28 498	13 869	16 416
Other operating income	5	7 868	5 790	6 043	2 621
Other operating expenses	6	5 407	7 405	1 396	6 606
<b>Operating profit</b>		65 914	23 316	50 410	13 987
Financial income	7	9 784	8 205	21 139	16 842
Financial expenses	8	6 156	71 254	4 954	70 863
Profit (- loss) from ordinary activities		69 542	-39 733	66 595	-40 034
Profit (loss-) before taxes		69 542	-39 733	66 595	-40 034
Income tax	9	1 783	-170	-	-288
<b>Net profit (- loss) for the financial year</b>		67 759	-39 563	66 595	-39 746
Minority interest		1 164	183	-	-
<b>Net profit (- loss) for the group</b>		66 595	-39 746	66 595	-39 746
Net profit (- loss) per share ( basic and diluted, in kroons)	10	7,52	-4,49		

**BALANCE SHEET, 31.12**

	Note	Group		Parent company	
		2000	1999	2000	1999
<b>ASSETS</b>					
Cash and cash equivalents	12	42 294	25 239	29 019	5 353
Marketable securities	13	95 042	27 699	87 602	27 457
Accounts receivable	14	202 821	87 610	101 591	71 095
Other current receivables	15	23 187	17 233	38 261	18 407
Accrued income	16	548	1 630	485	1 605
Prepaid expenses	18	3 327	6 880	451	4 487
incl. income tax		-	1 659	-	1 412
Inventories	19	50 565	37 980	28 604	15 831
<b>Total current assets</b>		<b>417 784</b>	<b>204 271</b>	<b>286 013</b>	<b>144 235</b>
Long-term investments	20	12 123	15 350	47 139	48 235
Property, plant and equipment	21	46 732	52 321	35 821	39 830
Intangible assets	22	778	1 215	-	-
<b>Total non-current assets</b>		<b>59 633</b>	<b>68 886</b>	<b>82 960</b>	<b>88 065</b>
<b>TOTAL ASSETS</b>		<b>477 417</b>	<b>273 157</b>	<b>368 973</b>	<b>232 300</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Borrowings	24	8 891	8 142	7 792	3 706
Customer prepayments	26	31 313	43 109	28 182	12 952
Accounts payable to suppliers		150 957	52 526	63 529	35 570
Other liabilities	32	1 337	446	3 307	29 470
Tax liabilities	27	11 846	5 318	6 411	3 740
incl. income tax		1 071	49	-	-
Accrued liabilities	28	7 626	17 014	3 949	4 523
Current provisions	29	97 920	30 795	92 336	29 374
Other pre-paid revenue		57	-	-	-
<b>Total current liabilities</b>		<b>309 947</b>	<b>157 350</b>	<b>205 506</b>	<b>119 335</b>
Non-current liabilities	24	-	6 854	-	6 851
<b>TOTAL LIABILITIES</b>		<b>309 947</b>	<b>164 204</b>	<b>205 506</b>	<b>126 186</b>
Minority interests		4 003	2 839	-	-
<b>OWNERS' EQUITY</b>					
Share capital	30	88 500	88 500	88 500	88 500
Share premium		2 950	2 950	2 950	2 950
Mandatory legal reserve		4 875	4 875	4 875	4 875
Retained earnings		6	47 717	6	47 717
Net profit (- loss) for the financial year		66 595	-39 746	66 595	-39 746
Exchange rate differences		541	1 818	541	1 818
<b>TOTAL OWNERS' EQUITY</b>		<b>163 467</b>	<b>106 114</b>	<b>163 467</b>	<b>106 114</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>477 417</b>	<b>273 157</b>	<b>368 973</b>	<b>232 300</b>

**STATEMENT OF CHANGES IN EQUITY**

	<b>Share capital</b>	<b>Share premium</b>	<b>Reserve</b>	<b>Reserve for exchange rate differences</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Closing balance 31.12.1998</b>	<b>88 500</b>	<b>2 950</b>	<b>2 950</b>	<b>4</b>	<b>58 753</b>	<b>153 157</b>
Exchange rate differences	-	-	-	1 814	-	1 814
Balance of prepaid income tax on 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	-
<b>Closing balance 31.12.1999</b>	<b>88 500</b>	<b>2 950</b>	<b>4 875</b>	<b>1 818</b>	<b>7 971</b>	<b>106 114</b>
Exchange rate differences	-	-	-	-1 277	-	-1 277
Net profit (- loss) for the financial year	-	-	-	-	66 595	66 595
Dividends	-	-	-	-	-7 965	-7 965
<b>Closing balance 31.12.00</b>	<b>88 500</b>	<b>2 950</b>	<b>4 875</b>	<b>541</b>	<b>66 601</b>	<b>163 467</b>



in thousands kroons

## CASH FLOW STATEMENT

	Group		Parent company	
	2000	1999	2000	1999
<b>Operating activities</b>				
<b>Profit from ordinary activities</b>	<b>69 542</b>	<b>-39 733</b>	<b>66 595</b>	<b>-40 033</b>
Depreciation	7 833	6 249	5 366	4 089
Other adjustments *	59 611	42 333	36 223	51 632
<b>Operating profit before working capital changes</b>	<b>136 986</b>	<b>8 849</b>	<b>108 184</b>	<b>15 688</b>
<b>Working capital changes</b>				
Marketable securities	-67 146	-16 531	-59 947	-12 465
Receivables	-134 203	78 901	-56 352	67 127
Accrued income	939	833	939	833
Prepaid expenses	2 368	1 069	4 036	1 536
Inventories	-5 346	-1 707	-3 081	-4
Customer prepayments	-10 573	15 828	15 230	-13 832
Accounts payable to suppliers	87 752	-6 784	27 960	-9 468
Other liabilities	11 452	-59 593	-6 946	-24 549
Tax liabilities	5 520	3 022	2 671	2 939
Accrued liabilities	802	8 923	-746	-350
Other pre-paid revenue	57	-	-	-
<b>Cash generated from operations</b>	<b>28 608</b>	<b>32 810</b>	<b>31 948</b>	<b>27 455</b>
<b>Interests</b>				
Interests received	3 474	4 086	3 214	4 676
Interests paid	-646	-2 086	-548	-1 903
<b>Dividends</b>				
Dividends received	229	45	223	3 045
<b>Company income tax</b>				
Income tax paid for the previous fiscal year	136	2 817	-	4 102
Pre-paid income tax	-253	-4 313	-	-3 967
<b>Net cash from operating activities</b>	<b>31 548</b>	<b>33 359</b>	<b>34 837</b>	<b>33 408</b>
<b>Investing activities</b>				
Acquisition of subsidiary	-	-	-120	-120
Disposal of subsidiary	-	18 842	-	19 817
Acquisition of associates	-34	-2 820	-20	-2 820
Disposal of associates	5 875	3 824	5 875	3 824
Acquisition of other long-term investments	-1 800	-	-1 800	-
Disposal of other long-term investments	21	411	21	-
Long-term loans made	-3 832	-313	-3 305	-168
Long-term loan payments received	2 503	595	2 348	-
Purchase of property, plant and equipment	-7 389	-25 304	-1 539	-24 222
Sale of property, plant and equipment	2 273	8 315	199	4 251
<b>Net cash used in investing activities</b>	<b>-2 383</b>	<b>3 550</b>	<b>1 659</b>	<b>562</b>
<b>Financing activities</b>				
Proceeds from borrowings	6 796	8 444	4 766	3 706
Repayments of borrowings	-11 735	-26 841	-10 540	-24 777
Repayments of finance lease liabilities	-78	-154	-	-
Dividends paid	-7 965	-7 522	-7 965	-7 522
<b>Net cash used in financing activities</b>	<b>-12 982</b>	<b>-26 074</b>	<b>-13 739</b>	<b>-28 594</b>
<b>Total cash flow</b>	<b>16 183</b>	<b>10 835</b>	<b>22 757</b>	<b>5 376</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>16 183</b>	<b>10 835</b>	<b>22 757</b>	<b>5 376</b>
Cash and cash equivalents at the beginning of the period	25 239	14 199	5 353	764
Effects of exchange rate differences	872	205	909	-787
Cash and cash equivalents at the end of the period	42 294	25 239	29 019	5 353

* Other adjustments	Group		Parent company	
	2000	1999	2000	1999
Adjustments of revenues from construction contracts according to the percentage of completion method	62 172	-23 305	52 984	-7 661
Warranty reserve changes	1 406	-1 274	286	-654
Vacation reserve changes	826	-410	171	-149
Profit or loss from disposals or liquidation of property, plant and equipment	1	3 034	-17	5 592
Profit or loss from long-term investments	-860	66 337	-13 245	56 678
Value adjustments of marketable securities	-199	-180	-199	-180
Foreign exchange profit or loss	-704	628	-908	787
Interest income	-3 736	-4 384	-3 391	-4 425
Interest expense	716	1 886	547	1 689
Dividend income	-11	-45	-5	-45
Long-term receivable classified as subsidiary	-	46	-	-
<b>Total other adjustments</b>	<b>59 611</b>	<b>42 333</b>	<b>36 223</b>	<b>51 632</b>

## **ACCOUNTING POLICIES**

### **General**

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

Transactions are recorded according to the historical cost convention at the time of occurrence in their actual value. Financial statements have been prepared on accrual basis.

In the Income Statement the expenses are reported as per functions (under Scheme 2 of Estonian Accounting Law).

Financial statements are presented in thousands Estonian kroons.

### **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. In consolidation the value of the assets and liabilities of subsidiaries have been taken into account based on the acquisition cost of the subsidiary. 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.

### **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.

### **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.

### **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 31.12.2000, into Estonian kroons according to the closing date exchange rate of Bank of Estonia.

### **Goodwill**

Goodwill is the difference between the real value of net assets of the acquired subsidiary or associate company, and their purchase price at the date of acquisition. 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.

### **Investments**

Marketable securities (except the shares listed on the stock exchange of an IOSCO member state) are valued in the balance sheet either at historical cost or market price, whichever is lower. Shares listed on 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 historical cost. Discounted are those investments whose value has permanently decreased. The loss of value is reported in income statement.

### **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.

### **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 leased property 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.

### **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 written off the balance sheet.

### **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.

### **Provision for construction warranty**

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

### **Income tax**

According to the Estonian income tax law which took effect on 1 January 2000 the corporate income of legal entities is not liable to income tax. Income tax is imposed on fringe benefits, gifts, charitable contributions, reception costs, dividends and other non-enterprise expenses incurred. Thus there is no more differences in the closing balances of the assets in tax accounting and in balance sheet, which caused the deferred income tax liability.

The tax rate on dividends paid out to resident natural persons and to non-residents is 26/74 of the payment of net dividends. Potential income tax liability, accrued by the payout of dividends is not reported in the balance sheet because its amount can not be reliably estimated. The amount of potential income tax liability depends on how the shares are divided between resident natural persons, resident legal entities and non-residents at the moment the list of shareholders entitled to dividends is fixed.

### **Revenue**

Revenue from the sales of goods is reported as of the date of transfer of ownership to the buyer. Revenue from services is reported according to the stage of completion of the services 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. Dividend income from the subsidiary and associated companies is accounted for by the equity method of accounting.

### **Construction contracts**

Income and expenses of construction contract work in progress have been brought into conformity by the percentage of completion method. 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 consists 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.

Construction contract work in progress are presented in the balance sheet according to the Standard of "Accounting for long-term construction contracts" of the Estonian Accounting Board, which came into effect in year 2000. In order to ensure the comparability, the figures of construction contract work in progress of 2000 are presented on the same balance sheet rows. The following corrections have been made:

- the figure shown on the row "Due from customers" was under the "Other current receivables" in the 1999 balance sheet;
- the figure shown on the row "Due to customers" was under the "Due to customers for contract work" in the 1999 balance sheet;
- the figure shown on the row "Construction-in-progress" was under the "Other prepaid expenses" in the 1999 balance sheet.

### **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**

<b>2000</b>	<b>Building</b>	<b>Production of structures for small houses</b>	<b>Production of concrete</b>	<b>Group</b>
Sales	1 362 552	57 917	-	1 420 469
Operating profit of the business segment	64 290	1 624	-	65 914
Financial items				3 628
incl. profit from associate companies	-1 064	-	1 001	-63
Profit before tax				69 542
Income tax				1 683
Net profit (- loss) for the group				67 859
Minority interest				1 164
Net profit (- loss) for the financial year				66 695
Segment assets	453 005	12 229	-	465 234
Associate companies	3 315	-	1 988	5 303
Unallocated assets				6 808
Consolidated total assets				477 417
Segment liabilities	301 229	7 310	-	308 539
Unallocated liabilities				1 311
Consolidated total liabilities				309 850
Acquisition of property, plant and equipment and intangible assets	6 843	559	-	7 402
Depreciation	7 307	526	-	7 833
<b>1999</b>	<b>Building</b>	<b>Production of structures for small houses</b>	<b>Production of concrete</b>	<b>Group</b>
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				-39 746
Segment assets	245 641	12 167	-	257 808
Associate companies	10 220	-	987	11 207
Unallocated assets				4 142
Consolidated total assets				273 157
Segment liabilities	151 972	8 307	10	160 289
Unallocated liabilities				3 915
Consolidated total liabilities				164 204
Acquisition of property, plant and equipment and intangible assets	25 414	400	-	25 814
Depreciation	5 790	459	-	6 249

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 structures for small houses. 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	
	2000	1999	2000	1999
Estonia	1 016 315	649 637	940 989	577 230
Latvia	129 612	43 502	9 765	6 187
Lithuania	226 471	10 503	9 891	533
Russia	3 025	4 268	-	-
Germany	22 769	7 490	-	-
Norway	8 196	13 688	-	-
Denmark	14	3 157	-	-
Sweden	11 793	-	-	-
Others	2 274	1 412	-	-
<b>Total</b>	<b>1 420 469</b>	<b>733 657</b>	<b>960 645</b>	<b>583 950</b>

	Total assets		Acquisition of tangible fixed assets	
	2000	1999	2000	1999
Estonia	352 418	206 066	3 291	25 182
Latvia	29 368	47 192	2 645	589
Lithuania	95 631	3 386	1 466	43
Others	-	16 513	-	-
<b>Total</b>	<b>477 417</b>	<b>273 157</b>	<b>7 402</b>	<b>25 814</b>

### Note 2

#### Cost of sales

Cost of sales	Group		Parent company	
	2000	1999	2000	1999
Materials	146 059	84 867	63 609	41 866
Building services	1 042 688	493 160	752 992	430 599
Wages and salaries	39 669	29 616	24 688	26 762
Depreciation	5 757	4 614	4 419	3 146
Projecting	14 086	9 958	12 320	8 697
Building machinery and transportation	25 280	16 888	14 939	16 176
Other expenses	46 174	30 549	23 478	18 241
<b>Total cost of sales</b>	<b>1 319 713</b>	<b>669 652</b>	<b>896 445</b>	<b>545 487</b>

**Note 3****Marketing expenses**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Wages and salaries	3 878	2 313	1 717	1 151
Depreciation	25	19	24	19
Advertising, sponsorship	3 156	2 032	1 506	1 123
Transportation	696	3 051	514	220
Building tenders and ISO-related expense	173	682	63	673
Other expenses	1 947	2 479	744	889
<b>Total marketing expenses</b>	<b>9 875</b>	<b>10 576</b>	<b>4 568</b>	<b>4 075</b>

**Note 4****Administrative expenses**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Wages and salaries	12 855	12 547	6 923	7 398
Depreciation	2 051	1 616	923	918
Computer hard- and software, IT services	1 749	2 257	890	1 579
Banking facilities	616	1 067	211	793
Transportation	3 017	2 684	1 919	1 669
Office expenses, communication services	4 740	4 706	2 231	2 186
Other expenses	2 400	3 621	772	1 873
<b>Total administrative expenses</b>	<b>27 428</b>	<b>28 498</b>	<b>13 869</b>	<b>16 416</b>

**Note 5****Other operating income**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Gain from sale of tangible assets	172	2 861	116	231
Gain on penalties and interest on arrears	4 181	1 895	3 982	1 874
Foreign exchange gain	1 916	358	1 129	124
Other income	1 599	676	816	392
<b>Total other operating income</b>	<b>7 868</b>	<b>5 790</b>	<b>6 043</b>	<b>2 621</b>

**Note 6****Other operating expenses**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Local taxes	528	73	127	61
Penalties, interest on arrears	532	395	596	327
Loss from selling of tangible assets	254	5 775	98	5 723
Foreign exchange loss	3 467	227	410	159
Other expenses	626	935	165	336
<b>Total operating expenses</b>	<b>5 407</b>	<b>7 405</b>	<b>1 396</b>	<b>6 606</b>

**Note 7****Financial income**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Financial income from subsidiaries	-	12	12 458	9 530
Financial income from associate companies	1 001	1 637	1 001	1 637
Financial income from other long-term investment	1 050	-	1 050	-
Gain on translation differences for the year	3 816	1 277	2 986	441



Other interest and financial income				
profit from the sale of short-term securities	124	470	59	375
dividends received	11	45	5	45
interest income	3 493	4 362	3 391	4 425
surplus from revaluation of marketable securities	289	339	289	339
other financial income	-	63	-	50
Total interest and financial income	3 917	5 279	3 744	5 234
<b>Total financial income</b>	<b>9 784</b>	<b>8 205</b>	<b>21 239</b>	<b>16 842</b>

#### Note 8

##### Financial expenses

	Group		Parent company	
	2000	1999	2000	1999
Financial expenses from subsidiaries	-	67 577	-	67 704
Financial expenses from associate companies	1 064	141	1 064	141
Loss from translation differences for the year	3 829	1 498	2 796	1 193
Value adjustments to financial assets	100	-	100	-
Other financial expenses				
loss from sale of short-term securities	-	3	-	-
discount of marketable securities	90	53	90	47
interest expenses	716	1 693	547	1 689
other financial expenses	357	289	357	89
Total other financial expenses	1 163	2 038	994	1 825
<b>Total financial expenses</b>	<b>6 156</b>	<b>71 254</b>	<b>4 954</b>	<b>70 863</b>

#### Note 9

##### Income tax

	Group		Parent company	
	2000	1999	2000	1999
Profit before tax	69 542	-39 733	66 595	-40 034
Income tax payable	1 341	1 314	-	966
Deferred income tax	442	-1 484	-	-1 254
<b>Income tax</b>	<b>1 783</b>	<b>-170</b>	<b>-</b>	<b>-288</b>

According to the income tax law which took effect on 1 January 2000 the corporate income of legal entities which are the residents of Estonia is not liable to income tax.

Legal entities belonging to the Group which are the residents of Latvia compute 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.

Legal entities belonging to the Group which are the residents of Lithuania compute 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 is the consolidated net income (loss) of the shareholder, divided by the average weighted number of ordinary shares, excluding own shares.

	2000	1999
Net profit (loss) attributable to shareholders	66 595	-39 746
Weighted average number of ordinary shares	8 850	8 850
<b>Basic net earnings (loss) per share</b> (in kroons)	7,52	-4,49

In 1999 and 2000, 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 2001 are the total of 13,275 thou kroons (in 2000, 7,965 thou kroons), i.e. 1.50 kroons per share (in 2000, 0.90 kroons per share).

#### Note 12

##### Cash and cash equivalents

	Group		Parent company	
	2000	1999	2000	1999
Cash in hand	298	512	4	-
Bank accounts	14 736	8 170	1 755	3 759
Short-term deposits	27 260	16 557	27 260	1 594
<b>Total cash and cash equivalents</b>	<u>42 294</u>	<u>25 239</u>	<u>29 019</u>	<u>5 353</u>

#### Note 13

##### Marketable investments

	Group		Parent company	
	2000	1999	2000	1999
Money-market fund shares	85 951	26 400	78 601	26 400
Listed shares on Tallinn Stock Exchange	300	346	300	139
Listed shares on Riga Stock Exchange	437	628	437	628
Other shares registered in the Estonian Central Depository for Securities	200	240	200	240
Other shares in Estonian enterprises	8 154	85	8 064	50
<b>Total short term investments</b>	<u>95 042</u>	<u>27 699</u>	<u>87 602</u>	<u>27 457</u>

#### Note 14

##### Accounts receivable

	Group		Parent company	
	2000	1999	2000	1999
Accounts receivable	203 327	87 734	101 591	71 095
Allowance for doubtful receivables	-506	-124	-	-
<b>Total accounts receivable</b>	<u>202 821</u>	<u>87 610</u>	<u>101 591</u>	<u>71 095</u>

#### Note 15

##### Other current receivables

	Group		Parent company	
	2000	1999	2000	1999
Receivables from parent company and subsidiaries				
loans to subsidiaries (Note 32)	-	-	10 290	3 417
other receivables	1 735	1 735	12 782	2 621

Total receivables from parent company and subsidiaries	1 735	1 735	23 072	6 038
Receivables from associated companies				
loans to associated companies (Note 32)	2 692	1 117	2 692	1 117
other receivables	337	105	337	105
Total receivables from associated companies	3 029	1 222	3 029	1 222
Other short-term receivables				
short-term loans (Note 17)	15 645	10 941	11 654	10 649
other short-term receivables	2 778	3 335	506	498
Total other short-term receivables	18 423	14 276	12 160	11 147
<b>Total miscellaneous receivables</b>	<b>23 187</b>	<b>17 233</b>	<b>38 261</b>	<b>18 407</b>

#### Note 16

##### Deferred income

	Group		Parent company	
	2000	1999	2000	1999
Interest	542	467	479	442
Dividends	-	218	-	218
Other deferred income	6	945	6	945
<b>Total deferred income</b>	<b>548</b>	<b>1 630</b>	<b>485</b>	<b>1 605</b>

#### Note 17

##### Loans to non-related parties

	Group		Parent company	
	2000	1999	2000	1999
<b>Loans to non-related legal entities</b>				
Balance of loan at year's beginning	14 775	24 293	13 965	22 905
Extended	21 162	16 466	7 027	16 264
Received	15 436	25 984	5 402	25 204
Balance of loan at year-end	<u>20 501</u>	<u>14 775</u>	<u>15 590</u>	<u>13 965</u>
incl. short-term part	15 481	10 748	11 354	10 499
incl. long-term part	5 020	4 027	4 086	3 466

Average interest rate 9 %

##### Loans to non-related natural persons

Balance of loan at year's beginning	193	75	150	40
Extended	-	212	-	150
Received	29	54	-	-
Allowance for doubtful loan	-	40	-	40
Balance of loan at year-end	<u>164</u>	<u>193</u>	<u>150</u>	<u>150</u>
incl. short-term part	164	193	150	150

Average interest rate 8 %

<b>Total:</b>	<u>20 665</u>	<u>14 968</u>	<u>15 740</u>	<u>14 115</u>
incl. short-term part (Note 15)	15 645	10 941	11 654	10 649
incl. long-term part (maturity 2...5 yrs) (Note 20)	5 020	4 027	4 086	3 466

**Note 18****Prepaid expenses**

	Group		Parent company	
	2000	1999	2000	1999
Prepaid taxes and reversion				
VAT	2 137	928	-	-
company income tax	409	1 659	21	1 412
Total prepaid taxes and reversion	2 546	2 587	21	1 412
Other prepaid expenses				
prepaid insurance premiums	411	891	354	653
prepaid rent	204	122	-	-
Others	182	3 280	76	2 422
Total other prepaid expenses	797	4 293	430	3 075
<b>Total prepaid expenses</b>	<b>3 327</b>	<b>6 880</b>	<b>451</b>	<b>4 487</b>

**Note 19****Inventories**

	Group		Parent company	
	2000	1999	2000	1999
Raw materials	2 516	2 535	-	-
Work in progress	598	-	-	-
Finished products	1 781	1 133	-	-
Merchandise purchased for resale	8 112	3 327	3 285	3 280
Advance payments to suppliers for materials	578	1 550	-	-
Construction-in-progress	10 464	6 014	9 030	5 955
Due from customers (note 31)	26 516	23 421	16 289	6 596
<b>Total inventories</b>	<b>50 565</b>	<b>37 980</b>	<b>28 604</b>	<b>15 831</b>

**Note 20****Long-term investments**

	Group		Parent company	
	2000	1999	2000	1999
Shares in subsidiaries	-	-	35 963	33 446
Shares in associate companies	5 303	11 207	5 289	11 207
Other shares and debt securities	1 800	115	1 800	115
Miscellaneous long-term receivables	5 020	4 027	4 087	3 466
<b>Total long-term investments</b>	<b>12 123</b>	<b>15 350</b>	<b>47 139</b>	<b>48 235</b>

Name of subsidiary	Ownership interest and voting power %		Location	Business segment
	2000	1999		
<b>AS Merko Ehitus subsidiaries</b>				
AS Gustaf	100	100	Pärnu	construction
OÜ Matek	65	65	Tallinn	production of structures for small houses
AS Merko Tartu	66	66	Tartu	construction
AS Merko Inseneriehitus	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	Great-Britain	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	100	Russia, St. Petersburg	construction
OÜ Merko Elamu	100	-		real estate
OÜ Merko Maja	100	-		real estate
OÜ Merko Kinnisvara	100	-		real estate
<b>AS Gustaf subsidiaries</b>				
SIA Rigus	100	100	Republic of Latvia, Riga	construction
<b>SIA Merks tütarettevõtted</b>				
SIA Aivari M	100	-	Republic of Latvia, Riga	construction
SIA Zeltini M	100	-	Republic of Latvia, Riga	construction
SIA Rçki M	100	-	Republic of Latvia, Riga	Construction

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

Name of subsidiary	Investment 31.12.1999	Changes in 2000			Investment 31.12.2000
		acquisition and sale	income- expense from subsidiaries	exchange rate differences	
<b>AS Merko Ehitus subsidiaries</b>					
AS Gustaf	5 205	-	3 829	1	9 035
OÜ Matek	2 062	-	1 050	-	3 112
AS Merko Tartu	3 112	-	1 288	-	4 400
AS Merko Inseneriehitus	1 461	-	30	-	1 491
OÜ Merko Ehitustööd	30	-	131	-	161
OÜ Merko Ehitusteenused	40	-	-	-	40
Eesti Ehituseksporti OÜ	40	-	1	-	41
Merko Project Finance & Consulting Ltd	16 513	-15 163	-	-1 350	-
SIA Merks	4 384	6 479	1 378	72	12 313
UAB Merko Statyba	553	-	4 651	-	5 204
ZAO Merkostroi	46	-	-	-	46
OÜ Merko Elamu	-	40	-	-	40
OÜ Merko Maja	-	40	-	-	40
OÜ Merko Kinnisvara	-	40	-	-	40
<b>Total</b>	<b>33 446</b>	<b>-8 564</b>	<b>12 358</b>	<b>-1 277</b>	<b>35 963</b>
<b>AS Gustaf subsidiaries</b>					
SIA Rigus	38	-	-	1	39
<b>SIA Merks subsidiaries</b>					
SIA Aivari M	-	54	-	-	54
SIA Zeltini M	-	54	-	-	54
SIA Rçki M	-	55	-	-	54
<b>Total</b>	<b>-</b>	<b>163</b>	<b>-</b>	<b>-</b>	<b>163</b>
<b>Group Total</b>	<b>33 484</b>	<b>-8 401</b>	<b>12 358</b>	<b>-1 276</b>	<b>36 165</b>

## Shares in associate companies

Name of the associate company	Ownership interest and voting power %		Location	Business segment
	2000	1999		
<b>AS Merko Ehitus associate companies</b>				
Vesimer Investeeringute AS*	-	50	Tallinn	Construction
Normanni Linnagrupi AS	50	50	Tallinn	Construction
AS Insenerivõrgud	50	50	Tallinn	Construction
AS Tartu Maja				
Betoontooted	25	25	Tartu	Concrete products
Viru Väljaku Arenduse OÜ	50	-	Tallinn	real estate
<b>SIA Merks associate companies</b>				
PS Merks-Terbe Lat	50	-	Republic of Latvia, Riga	Construction

\* Participation in Vesimer Investeeringute AS was sold in 2000.

Name of the associate company	Investment 31.12.1999	Changes in 2000		Investment 31.12.2000
		acquisition and sale	income-expense from associate company	
<b>AS Merko Ehitus associate companies</b>				
Vesimer Investeeringute AS	5 887	-5 875	-12	-
Normanni Linnagrupi AS	506	-	-122	384
AS Insenerivõrgud	3 827	-	-930	2 897
AS Tartu Maja Betoontooted	987	-	1 001	1 988
Viru Väljaku Arenduse OÜ	-	20	-	20
<b>Total</b>	<b>11 207</b>	<b>-5 855</b>	<b>-63</b>	<b>5 289</b>
<b>SIA Merks associate companies</b>				
PS Merks-Terbe Lat	-	14	-	14
<b>Group Total</b>	<b>11 207</b>	<b>-5 841</b>	<b>-63</b>	<b>5 303</b>

Other shares and debt securities	Group		Parent company	
	2000	1999	2000	1999
At the beginning of year	115	1 565	115	115
Acquisition	1 800	-	1 800	-
Sale	15	1 450	15	-
Discount	100	-	100	-
<b>At the end of year</b>	<b>1 800</b>	<b>115</b>	<b>1 800</b>	<b>115</b>
<b>Miscellaneous long-term receivables</b>				
	Group		Parent company	
	2000	1999	2000	1999
Long-term loans to non-related legal entities (Note 17)	5 020	4 027	4 087	3 466
<b>Total long-term receivables</b>	<b>5 020</b>	<b>4 027</b>	<b>4 087</b>	<b>3 466</b>

**Note 21**  
**Property, plant and equipment**

<b>Property, plant and equipment in Group</b>	<b>Land</b>	<b>Buildings</b>	<b>Building title</b>	<b>Machinery and equipment</b>	<b>Other inventory</b>	<b>Construction in progress</b>	<b>Advances</b>	<b>Total</b>
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
<b>Net book amount</b>								
<b>31.12.1999</b>	<b>7 783</b>	<b>33 523</b>	<b>1 528</b>	<b>6 083</b>	<b>3 294</b>	<b>110</b>	<b>-</b>	<b>52 321</b>
Net book amount								
31.12.1999	7 783	33 523	1 528	6 083	3 294	110	-	52 321
Exchange rate differences	319	-	-	17	53	-	-	389
Acquisition	110	-	-	1 960	2 411	-	2 867	7 348
Disposals	2 015	-	-	63	29	-	-	2 107
Non-current assets classified as current assets	3 589	-	-	-	-	-	-	3 589
Write-off for the year	-	-	-	34	34	110	-	178
Depreciation	-	3 076	32	2 530	1 825	-	-	7 463
<b>Net book amount</b>								
<b>31.12.2000</b>	<b>2 608</b>	<b>30 458</b>	<b>1 496</b>	<b>5 433</b>	<b>3 870</b>	<b>-</b>	<b>2 867</b>	<b>46 732</b>
Acquisition cost								
31.12.2000	2 608	39 132	1 603	13 841	9 119	-	2 867	69 170
Accumulated depreciation								
31.12.2000	-	8 674	107	8 408	5 249	-	-	22 438
<b>Net book amount</b>								
<b>31.12.2000</b>	<b>2 608</b>	<b>30 458</b>	<b>1 496</b>	<b>5 433</b>	<b>3 870</b>	<b>-</b>	<b>2 867</b>	<b>46 732</b>
<b>Property, plant and equipment in parent company</b>	<b>Land</b>	<b>Buildings</b>	<b>Building title</b>	<b>Machinery and equipment</b>	<b>Other inventory</b>	<b>Advances</b>	<b>Total</b>	
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	
<b>Net book amount</b>								
<b>31.12.1999</b>	<b>1 067</b>	<b>33 008</b>	<b>1 528</b>	<b>2 444</b>	<b>1 783</b>	<b>-</b>	<b>39 830</b>	
Net book amount								
31.12.1999	1 067	33 008	1 528	2 444	1 783	-	39 830	
Acquisition	-	-	-	1 132	287	120	1 539	
Disposals	-	-	-	102	23	-	125	
Write-off for the year	-	-	-	34	23	-	57	

Depreciation	-	3 014	32	1 391	929	-	5 366
<b>Net book amount</b>							
<b>31.12.2000</b>	1 067	29 994	1 496	2 049	1 095	120	35 821
Acquisition cost							
31.12.2000	1 067	38 480	1 603	6 451	4 927	120	52 648
Accumulated depreciation							
31.12.2000	-	8 486	107	4 402	3 832	-	16 827
<b>Net book amount</b>							
<b>31.12.2000</b>	1 067	29 994	1 496	2 049	1 095	120	35 821

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

## Note 22 Intangible assets

<b>Intangible assets in Group</b>	<b>Goodwill</b>	<b>Development expenditures</b>	<b>Licenses purchased</b>	<b>Total</b>
Acquisition cost 31.12.1999	2 296	8	10	2 314
Accumulated amortization 31.12.1999	1 090	8	1	1 099
<b>Net book amount 31.12.1999</b>	1 206	-	9	1 215
Net book amount 31.12.1999	1 206	-	9	1 215
Company acquisitions	-	-	57	57
Amortization for the year	459	-	35	494
<b>Net book amount 31.12.2000</b>	747	-	31	778
Acquisition cost 31.12.2000	2 296	-	57	2 353
Accumulated amortization 31.12.2000	1 549	-	26	1 575
<b>Net book amount 31.12.2000</b>	747	-	31	778

## Note 23 Assets leased

<b>Assets held under finance lease contracts:</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
<b>Machinery and equipment</b>				
Acquisition cost	130	872	-	-
Accumulated depreciation	87	537	-	-
incl. Depreciation for the year	32	129	-	-
Net book amount	43	335	-	-
Liabilities for finance lease (Note 24)	-	74	-	-
Interest expense for the year	5	14	-	-
<b>Assets held under operational lease contracts:</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
<b>Machinery and equipment</b>				
Payments for the year	2 396	2 682	1 764	2 067
Payments for subsequent periods	8 741	5 288	7 696	4 688
incl. Payments in the next year	4 039	1 709	3 610	1 425
Payments in years 2...5	4 702	3 579	4 086	3 263
<b>Total</b>	11 137	7 970	9 460	6 755



## Note 24

Liabilities	Group		Parent company	
	2000	1999	2000	1999
<b>Liabilities for finance lease</b> (Note 23)				
Opening balance at the beginning of year	74	215	-	-
Raised	-	-	-	-
Repaid	74	141	-	-
Closing balance at the end of year	-	74	-	-
incl. the short-term part	-	74	-	-
Average interest rate 15 %				
<b>Bank loans</b>				
Opening balance at the beginning of year	2 035	63 707	-	23 626
Raised	-	10 213	-	8 178
Repaid	1 876	71 885	-	31 804
Closing balance at the end of year	159	2 035	-	-
incl. short-term part	159	2 035	-	-
<b>Other loans</b>				
Opening balance at the beginning of year	12 887	8 102	10 557	8 000
Raised	5 706	12 571	4 766	10 241
Repaid	9 861	7 786	7 531	7 684
Closing balance at the end of year	8 732	12 887	7 792	10 557
incl. short-term part	8 732	6 033	7 792	3 706
long-term part (between 2 and 5 years)	-	6 854	-	6 851
<b>Total loans</b>	<b>8 891</b>	<b>14 996</b>	<b>7 792</b>	<b>10 557</b>
incl. short-term part	8 891	8 142	7 792	3 706
long-term part (between 2 and 5 years)	-	6 854	-	6 851

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 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 the contracts of guarantee.

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 3 million kroons, to secure the contracts 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.

Between SIA Merks and Hansapanka:

Floating charge agreement on chattels, for the aggregate value of 30 thou LVL, to secure the 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

<b>Customer prepayments</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Customer prepayments	36 638	45 347	33 025	15 140
VAT on customer prepayments	-5 325	-2 238	-4 843	-2 188
<b>Total customer prepayments</b>	<b>31 313</b>	<b>43 109</b>	<b>28 182</b>	<b>12 952</b>

#### Note 27

<b>Tax liabilities</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
VAT	7 828	3 476	4 740	2 470
Company income tax	1 076	49	-	-
Personal income tax	751	142	444	-
Social security tax	2 187	1 651	1 227	1 270
Land tax	4	-	-	-
<b>Total tax liabilities</b>	<b>11 846</b>	<b>5 318</b>	<b>6 411</b>	<b>3 740</b>

#### Note 28

<b>Accrued liabilities</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Accrued payments to employees	7 254	5 572	3 634	4 130
Accrued interest	-	9	-	-
Other accrued liabilities	372	11 433	315	393
<b>Total accrued liabilities</b>	<b>7 626</b>	<b>17 014</b>	<b>3 949</b>	<b>4 523</b>

#### Note 29

<b>Current provisions</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Provisions for construction warranty liability	2 709	1 310	1 438	1 152
Due to customers (Note 31)	94 773	29 485	90 898	28 222
Other current provisions	437	-	-	-
<b>Total current provisions</b>	<b>97 919</b>	<b>30 795</b>	<b>92 336</b>	<b>29 374</b>

**Note 30**  
**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 and 2000 there were no changes in share capital.

In 2000, dividends of 7,965 thou kroons were declared and paid out. (In 1999, dividends of 7,522.5 thou kroons were declared and paid out.)

**Note 31**

**Construction contract work in progress**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
The aggregate amount of costs incurred and recognized profits (less recognized loss) to date	642 118	199 089	508 136	171 688
Progress billings	710 375	205 153	582 745	193 314
<b>Total adjustment of income</b>	<u>-68 257</u>	<u>-6 064</u>	<u>-74 609</u>	<u>-21 626</u>
Due from customers	26 516	23 421	16 289	6 596
Due to customers	94 773	29 485	90 898	28 222
<b>Total adjustment of income</b>	<u>-68 257</u>	<u>-6 064</u>	<u>-74 609</u>	<u>-21 626</u>

Amounts due from customers have been reported for all construction contract work in progress where the income in respect of expenditures on contract is higher than the interim invoices submitted to customers. Amounts due from customers are reported in the balance sheet on the line *Due from customers* (Note 19).

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* (Note 29).

**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 voting right, 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.

**Other liabilities**

	<b>Group</b>		<b>Parent company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
<b>Current liabilities</b>				
Liabilities to parent company or subsidiaries	-	48	1 970	29 073
incl. loan liabilities	-	-	902	20 586
other liabilities	-	48	1 005	8 487
Liabilities to associate companies	1 337	398	1 337	397
<b>Total current liabilities</b>	<u>1 337</u>	<u>446</u>	<u>3 307</u>	<u>29 470</u>

## Loans

### Loans to subsidiaries and associate companies

	Group		Parent company	
	2000	1999	2000	1999
At the beginning of year	1 117	1 117	4 534	5 118
Extended	1 575	-	13 440	1 167
Received	-	-	4 992	1 751
At the end of year	2 692	1 117	12 982	4 534
incl. the short-term part (Note 15)	2 692	1 117	12 982	4 534

Average interest rate 10 %

### Loans from subsidiaries and associate companies

	Parent company	
	2000	1999
At the beginning of year	20 586	26 601
Extended	-	22 847
Received	19 684	28 862
At the end of year	902	20 586
incl. the short-term part	902	20 586

Average interest rate 0 %

## Salaries and wages to Members of the Board of Directors and executives

Members of the Board of Directors and executive staff were paid salaries of 1,996.5 thou kroons in 2000 (in 1999 1,960 thou kroons).

## Note 33

### Potential liabilities

	Group		Parent company	
	2000	1999	2000	1999
Customer guarantee during construction	43 151	51 251	42 506	50 637
Tender guarantee	2 865	2 253	2 859	1 720
Guarantee of warranty period	16 599	15 696	14 903	14 746
Guarantee for advance	34 328	12 793	32 440	12 793
Sureties	22 706	11 776	22 706	11 776
Letters of credit	32	-	32	-
<b>Total potential liabilities</b>	<b>119 681</b>	<b>93 769</b>	<b>115 446</b>	<b>91 672</b>

## Note 34

### Risks

#### Credit risk

Credit risk is defined as the risk of a counterparts being unable to meet their commitments. To lower credit risks, payments due from customers are closely monitored. Funding of construction is effected partially through advance payments made by customers. Liquid assets are mainly kept in Hansapank, Eesti Ühispank and Merita Bank (Nordea Bank). On opinion of the Management, the Group has no material credit risks.

#### Interest-rate risk

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 the Board of Directors and Members of the Council, and their next of kin**

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

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

	<b>Shares</b>	<b>Participation</b>
AS Merko Grupp	6 551 343	74,03

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

We have audited the annual accounts of AS Merko Ehitus including income statement, balance sheet, statement of changes in shareholders equity, cash flow statement and notes, and the related consolidated accounts of AS Merko Ehitus Group for the financial year ended 31 December 2000. These accounts are the responsibility of the management of the company. Our responsibility is to express an opinion on these accounts 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 accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used in the preparation of the accounts, as well as evaluating the overall presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the annual accounts and consolidated accounts, prepared in accordance with the International Accounting Standards, give a true and fair view of the results of AS Merko Ehitus and AS Merko Ehitus Group's operations for 2000 and of their financial position as of 31 December 2000.

14 March 2001, Tallinn

Audit EA



Malle Rannik  
Authorized Public Accountant

## PROPOSAL ON PROFIT DISTRIBUTION

The Board of Directors of AS Merko Ehitus proposes to distribute the profit as follows:

Net profit for 2000	66,595,416	
Retained earnings brought forward	5,610	
Retained earnings balance at 31.12.2000	66,601,026	
To mandatory legal reserve	3,329,771	
Dividends	13,275,000	(1.50 kroons per share)
Retained earnings carried forward	49,996,255	