

AS Merko Ehitus

Group

Annual Report

Beginning of financial year : 01.01.2002

End of financial year : 31.12.2002

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ACTIVITY REPORT

For Merko Ehitus the past year of 2002 was successful. Among Estonian construction companies Merko Ehitus had by far the biggest turnover.

Geographical segments of Merko Ehitus group were divided as follows (thousand kroons):

Estonia	1 307 070
Latvia	101 474
Lithuania	230 674
Others	30 379
Total	1 669 597

Business activities

The group's net sales were 1670 million kroons in 2002, increasing 23% compared to 2001, when net sales amounted to 1359 million kroons. The group's net profit increased by 13% to 98,9 million kroons as against 2001 when the achieved net profit was 87,5 million kroons.

Construction sales accounted for 97% and other sales for 3% of the net sales of Merko Ehitus group.

Per type of construction, the building activities of Merko Ehitus group in 2002 distributed as follows:

Non-residential buildings	70%
incl. office buildings	14%
industrial buildings	6%
other non-residential buildings	50%
Residential buildings	9%
Civil engineering	14%
Road construction	7%

The most significant change that took place among the different segments was the fast growth of civil engineering, which grew from 6% up to 14% of the group's turnover during the period of one year. Among the largest building objects were extension of Kristiine Shopping Centre, Haabersti Citymarket and Norde Centrum. Due to the acquisition of Tallinna Teede AS on December 31 2001, road construction became a new construction activities segment of the group.

Of aggregate building activity of the group 66% was accounted for by new buildings and 34% by renovating and reconstructing works.

The share of exports and sales outside Estonia decreased from 30% in 2001 to 22% in 2002.

The ratios characterising the operating activities of the group were:

	2002	2001
Net profit margin	5,9%	6,4%
Net operating profit	5,9%	6,0%
Return on owner's equity	36,7%	43,6%
Return on assets	16,2%	17,7%

In 2002 the average number of full-time staff in the parent company AS Merko Ehitus was 204, with gross salaries amounting to 41.1 million kroons. The average gross salary in the parent company AS Merko Ehitus increased by 43.7% as compared to 2001. The average number of full-time staff of the group was 549, with gross salaries amounting to 84.5 million kroons. The average gross salary in Merko Ehitus group increased by 21.4% as compared to 2001.

The following structural changes were carried out in Merko Ehitus group in 2002: 45% participation in AS Telegrupp was acquired, 10% was sold of the 50 % participation of Viru Väljaku Arenduse OÜ in 2002 and the remaining 40% was sold after balance's closing date. Another notable investment performed after balance's closing date was the 100% acquisition of AS Viskomi Ehitus, whose main branch of business is road construction.

Tangible investments of Merko Ehitus group into machinery, equipment and inventory amounted to 14 381 thou kroons in 2002. Investments were used for creating and improving jobs.

According to the group's dividend policy 20 % of the net profit is to be paid in dividends.

Financial position

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

	2002	2001
Equity ratio, percent	43%	47%
Current ratio	1,5	1,6
Receivables turnover	10.1	7.3

Share and shareholders

Closing price for Merko Ehitus share in Tallinn Stock Exchange was 82.93 kroons as of December 31 2002. Net earnings per share in 2002 were 11.17 kroons.

Structure of shareholders of Merko Ehitus in the end of 2002 was as follows:

Shareholders	Shares	Participation
Merko Group	6 371 343	72,0%
Nordea Bank, clients	1 249 245	14,1%
SEB, clients	338 325	3,8%
Clearstream Banking, clients	168 612	1,9%
OÜ Haak	137 000	1,5%
Baltic Growth Fund	92 500	1,1%
HEX Back Offices and Custody Services OY	85 000	1,0%
Other shareholders	414 975	4,7%
Total	8 850 000	100,0%

Board of Directors and Board

Board of Directors of the company comprises of 3 members and the Board of 4 members. Members of the Board do not receive remuneration for their work, but all of them have a full-time position with AS Merko Ehitus and their gross salaries amounted to 1 398 thou kroons in 2002. Neither do members of the Board of Directors receive remuneration for their contribution. Two of the members of the Board of Directors have full-time positions with AS Merko Ehitus, and their gross salaries amounted to 1 334 thou kroons in 2002. Gross salary of the senior executive amounted to 539 thou kroons in 2002.

Outlook for 2003

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. In strategic direction Merko Ehitus will continue expansion of operations in Latvia and Lithuania. Merko Ehitus wishes to become one of the largest construction companies in these two countries operating through its subsidiaries SIA Merks and UAB Merko Statyba. Road construction was included in the business activities of the company as a new strategic direction.

ANNUAL FINANCIAL STATEMENT

CONFIRM TO THE ANNUAL FINANCIAL STATEMENT

The Board of Merko Ehitus confirms that the data presented in this Annual Financial Statements 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

5 March 2003

INCOME STATEMENT

in thousands kroons

	Note	Group		Parent company	
		2002	2001	2002	2001
Sales	1	1 669 597	1 358 590	1 029 640	859 135
Cost of sales	2	(1 499 283)	(1 231 688)	(911 153)	(767 212)
Gross profit		170 314	126 902	118 487	91 923
Marketing expenses	3	(14 118)	(11 988)	(8 222)	(6 436)
Administrative expenses	4	(49 821)	(36 795)	(25 239)	(18 962)
Other operating income	5	2 156	6 959	4 980	3 766
Other operating expenses	6	(10 015)	(3 077)	(8 505)	(2 245)
Operating profit		98 516	82 001	81 501	68 046
Financial income	7	1 516	6 367	2 177	7 938
Income from subsidiaries	19	-	-	14 297	11 774
Income from associates	19	2 739	2 633	2 752	556
Profit (-loss) before taxes		102 771	91 001	100 727	88 314
Income tax	8	(3 209)	(1 216)	(1 864)	(785)
Net profit (-loss) for the financial year		<u>99 562</u>	<u>89 785</u>	<u>98 863</u>	<u>87 529</u>
Minority interest		(699)	(2 256)	-	-
Net profit (-loss) for the group		<u>98 863</u>	<u>87 529</u>	<u>98 863</u>	<u>87 529</u>
Net profit (-loss) per share (basic and diluted, in kroons)	9	11,17	9,89		

INCOME STATEMENT

in thousands euros

	Group		Parent company	
	2002	2001	2002	2001
Sales	106 706	86 830	65 806	54 909
Cost of sales	(95 821)	(78 719)	(58 233)	(49 034)
Gross profit	10 885	8 110	7 573	5 875
Marketing expenses	(902)	(766)	(525)	(411)
Administrative expenses	(3 184)	(2 352)	(1 613)	(1 212)
Other operating income	138	445	318	241
Other operating expenses	(640)	(197)	(544)	(143)
Operating profit	6 296	5 241	5 209	4 349
Financial income	97	407	139	507
Income from subsidiaries	-	-	914	752
Income from associates	175	168	176	36
Profit (-loss) before taxes	6 568	5 816	6 438	5 644
Income tax	(205)	(78)	(119)	(50)
Net profit (-loss) for the financial year	<u>6 363</u>	<u>5 738</u>	<u>6 318</u>	<u>5 594</u>
Minority interest	(45)	(144)	-	-
Net profit (-loss) for the group	<u>6 318</u>	<u>5 594</u>	<u>6 318</u>	<u>5 594</u>
Net profit (-loss) per share (basic and diluted, in kroons)	0,71	0,63		

BALANCE SHEET 31.12.

in thousand kroons

	Note	Group		Parent company	
		2002	2001	2002	2001
ASSETS					
Cash and cash equivalents	11	96 310	67 224	22 672	33 453
Marketable securities	12	53 018	12 106	8 871	9 026
Accounts receivable	13	165 568	186 808	119 840	109 496
Other current receivables	14	28 472	51 788	62 587	84 049
Accrued income	15	1 177	993	1 147	924
Prepaid expenses	17	14 433	8 384	1 977	528
Inventories	18	224 340	88 324	165 542	47 842
Total current assets		583 318	415 627	382 636	285 318
Long-term investments	19	42 480	21 977	115 516	100 914
Real-estate investments	20	35 308	32 750	34 211	31 653
Property, plant and equipment	21	50 390	48 056	6 969	4 540
Intangible assets	22	(5 283)	(6 676)	-	-
Total non-current assets		122 895	96 107	156 696	137 107
TOTAL ASSETS		706 213	511 734	539 332	422 425
LIABILITIES AND OWNER'S EQUITY					
Borrowings	24	12 804	4 541	5 200	941
Customer prepayments	27	42 820	9 865	21 573	8 070
Accounts payable		179 011	122 504	91 688	60 891
Other liabilities	33	3 853	1 493	12 860	10 671
Tax liabilities	28	16 344	11 842	7 974	6 783
Accrued liabilities	29	19 983	11 116	13 393	5 368
Current provisions	30	108 285	98 464	78 052	83 956
Total current liabilities		383 100	259 825	230 740	176 680
Non-convertible borrowings	24	2 604	204	-	-
Other long-term payables	25	14 900	7 478	7 775	7 347
Total non-current liabilities		17 504	7 682	7 775	7 347
TOTAL LIABILITIES		400 604	267 507	238 515	184 027
Minority interests		4 792	5 829	-	-
OWNER'S EQUITY					
Share capital	31	88 500	88 500	88 500	88 500
Share premium		2 950	2 950	2 950	2 950
Mandatory legal reserve		8 850	8 205	8 850	8 205
Undistributed profit		101 480	49 996	101 480	49 996
Net profit (-loss) for the financial year		98 863	87 529	98 863	87 529
Exchange rate differences		174	1 218	174	1 218
TOTAL OWNER'S EQUITY		300 817	238 398	300 817	238 398
TOTAL LIABILITIES AND OWNER'S EQUITY		706 213	511 734	539 332	422 425

BALANCE SHEET 31.12.

in thousand euros

	Group		Parent company	
	2002	2001	2002	2001
ASSETS				
Cash and cash equivalents	6 155	4 296	1 449	2 138
Marketable securities	3 388	774	567	577
Accounts receivable	10 582	11 939	7 659	6 998
Other current receivables	1 820	3 310	4 000	5 372
Accrued income	75	63	73	59
Prepaid expenses	922	536	126	34
Inventories	14 338	5 645	10 580	3 058
Total current assets	37 281	26 563	24 455	18 235
Long-term investments	2 715	1 405	7 383	6 450
Real-estate investments	2 257	2 093	2 186	2 023
Property, plant and equipment	3 220	3 071	445	290
Intangible assets	(338)	(427)	-	-
Total non-current assets	7 854	6 142	10 015	8 763
TOTAL ASSETS	45 135	32 706	34 470	26 998
LIABILITIES AND OWNER'S EQUITY				
Borrowings	818	290	332	60
Customer prepayments	2 737	630	1 379	516
Accounts payable	11 441	7 829	5 860	3 892
Other liabilities	246	95	822	682
Tax liabilities	1 045	757	510	434
Accrued liabilities	1 277	710	856	343
Current provisions	6 921	6 293	4 988	5 366
Total current liabilities	24 484	16 606	14 747	11 292
Non-convertible borrowings	166	13	-	-
Other long-term payables	952	478	497	470
Total non-current liabilities	1 119	491	497	470
TOTAL LIABILITIES	25 603	17 097	15 244	11 761
Minority interests	306	373	-	-
OWNER'S EQUITY				
Share capital	5 656	5 656	5 656	5 656
Share premium	189	189	189	189
Mandatory legal reserve	566	524	566	524
Undistributed profit	6 486	3 195	6 486	3 195
Net profit (-loss) for the financial year	6 318	5 594	6 318	5 594
Exchange rate differences	11	78	11	78
TOTAL OWNER'S EQUITY	19 226	15 236	19 226	15 236
TOTAL LIABILITIES AND OWNER'S EQUITY	45 135	32 706	34 470	26 998

STATEMENT OF CHANGES IN EQUITY

in thousand kroons

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Undistributed profit	Total
Closing balance 31.12.2000	88 500	2 950	4 875	541	66 601	163 467
Exchange rate differences	-	-	-	677	-	677
Change in reserve capital	-	-	3 330	-	(3 330)	-
Dividends	-	-	-	-	(13 275)	(13 275)
Net profit (-loss) for the financial year	-	-	-	-	87 529	87 529
Closing balance 31.12.2001	88 500	2 950	8 205	1 218	137 525	238 398
Exchange rate differences	-	-	-	(1 044)	-	(1 044)
Change in reserve capital	-	-	645	-	(645)	-
Dividends	-	-	-	-	(35 400)	(35 400)
Net profit (-loss) for the financial year	-	-	-	-	98 863	98 863
Closing balance 31.12.2002	88 500	2 950	8 850	174	200 343	300 817

in thousand euros

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Undistributed profit	Total
Closing balance 31.12.2000	5 656	189	311	35	4 256	10 447
Exchange rate differences	-	-	-	43	-	43
Change in reserve capital	-	-	213	-	(213)	-
Dividends	-	-	-	-	(848)	(848)
Net profit (-loss) for the financial year	-	-	-	-	5 594	5 594
Closing balance 31.12.2001	5 656	189	524	78	8 789	15 236
Exchange rate differences	-	-	-	(67)	-	(67)
Change in reserve capital	-	-	41	-	(41)	-
Dividends	-	-	-	-	(2 262)	(2 262)
Net profit (-loss) for the financial year	-	-	-	-	6 318	6 318
Closing balance 31.12.2002	5 656	189	566	11	12 804	19 226

CASH FLOW STATEMENT

in thousand kroons

	Group		Parent company	
	2002	2001	2002	2001
Operating activities				
Profit from ordinary activities	102 771	91 001	100 727	88 314
Depreciation	11 079	7 822	3 688	4 379
Other adjustments*	(39 859)	(14 331)	(73 933)	(12 430)
Change in receivables and prepayments concerning operating activities	9 099	78 974	4 501	24 478
Change in inventories	(73 348)	(23 451)	(56 768)	(29 082)
Change in liabilities and prepayments concerning operating activities	98 198	(55 700)	46 831	(13 019)
Interests paid	(1 056)	(113)	(480)	(14)
Company income tax paid	(4 075)	(2 609)	(1 851)	(783)
Net cash from operating activities	102 809	81 593	22 715	61 843
Investing activities				
Acquisition of subsidiary	-	(31 152)	(40)	(42 600)
Acquisition of associates	(6 434)	(894)	(6 407)	-
Disposal of associates	200	-	200	-
Long-term loans made	(25 567)	(6 790)	(22 264)	(5 291)
Received long-term loans	7 182	4 299	6 168	3 900
Acquisition of real-estate investments	(13 971)	-	(13 972)	-
Disposal of real-estate investments	11 618	-	11 618	-
Purchase of property, plant and equipment	(10 633)	(16 919)	(4 328)	(12 522)
Disposal of property, plant and equipment	2 154	8 883	158	8 380
Interests received	3 796	5 283	3 520	6 743
Dividends received	1 617	8	32 064	3 193
Net cash used in investing activities	(30 038)	(37 282)	6 717	(38 197)
Financing activities				
Proceeds from borrowings	12 042	-	10 600	-
Repayments of borrowings	(10 340)	(7 107)	(10 340)	(6 851)
Repayments of finance lease liabilities	(7 314)	-	(3 624)	-
Dividends paid	(36 247)	(13 824)	(35 400)	(13 275)
Net cash used in financing activities	(41 859)	(20 931)	(38 764)	(20 126)
Total cash flow	30 912	23 380	(9 332)	3 520
Net increase/decrease in cash and cash equivalents	30 912	23 380	(9 332)	3 520
Cash and cash equivalents at the beginning of the period	67 224	42 294	33 453	29 019
Effects of exchange rate differences	(1 826)	1 550	(1 449)	914
Cash and cash equivalents at the end of the period	96 310	67 224	22 672	33 453
* Other adjustments				
Adjustments of revenues from construction contracts according to the percentage of completion method	(41 605)	(8 856)	(59 273)	7 228
Warranty reserve changes	(125)	974	61	(563)
Holiday pay reserve changes	2 650	1 879	2 149	1 413
Profit or loss from disposal of real-estate investments	2 410	-	2 410	-
Profit or loss from disposal or liquidation of property, plant and equipment	(994)	(520)	(117)	(453)
Profit or loss from long term financial investments	(2 767)	(2 632)	(17 076)	(12 330)
Value adjustments of marketable securities	-	(25)	-	(25)
Foreign exchange profit or loss	3 792	217	1 449	(914)
Interest income	(4 025)	(5 473)	(4 016)	(6 792)
Interest expense	805	113	480	14
Dividend income	-	(8)	-	(8)
Total other adjustments	(39 859)	(14 331)	(73 933)	(12 430)

CASH FLOW STATEMENT

in thousand euros

	Group		Parent company	
	2002	2001	2002	2001
Operating activities				
Profit from ordinary activities	6 568	5 816	6 438	5 644
Depreciation	708	500	236	280
Other adjustments*	(2 547)	(916)	(4 725)	(794)
Change in receivables and prepayments concerning operating activities	582	5 047	288	1 564
Change in inventories	(4 688)	(1 499)	(3 628)	(1 859)
Change in liabilities and prepayments concerning operating activities	6 276	(3 560)	2 993	(832)
Interests paid	(67)	(7)	(31)	(1)
Company income tax paid	(260)	(167)	(118)	(50)
Net cash from operating activities	6 571	5 215	1 452	3 952
Investing activities				
Acquisition of subsidiary	-	(1 991)	(3)	(2 723)
Acquisition of associates	(411)	(57)	(409)	-
Disposal of associates	13	-	13	-
Long-term loans made	(1 634)	(434)	(1 423)	(338)
Received long-term loans	459	275	394	249
Acquisition of real-estate investments	(893)	-	(893)	-
Disposal of real-estate investments	743	-	743	-
Purchase of property, plant and equipment	(680)	(1 081)	(277)	(800)
Disposal of property, plant and equipment	138	568	10	536
Interests received	243	338	225	431
Dividends received	103	1	2 049	204
Net cash used in investing activities	(1 920)	(2 383)	429	(2 441)
Financing activities				
Proceeds from borrowings	770	-	677	-
Repayments of borrowings	(661)	(454)	(661)	(438)
Repayments of finance lease liabilities	(467)	-	(232)	-
Dividends paid	(2 317)	(884)	(2 262)	(848)
Net cash used in financing activities	(2 675)	(1 338)	(2 477)	(1 286)
Total cash flow	1 976	1 494	(596)	225
Net increase/decrease in cash and cash equivalents	1 976	1 494	(596)	225
Cash and cash equivalents at the beginning of the period	4 296	2 703	2 138	1 855
Effects of exchange rate differences	(117)	99	(93)	58
Cash and cash equivalents at the end of the period	6 155	4 296	1 449	2 138
* Other adjustments				
Adjustments of revenues from construction contracts according to the percentage of completion method	(2 659)	(566)	(3 788)	462
Warranty reserve changes	(8)	62	4	(36)
Holiday pay reserve changes	169	120	137	90
Profit or loss from disposal of real-estate investments	154	-	154	-
Profit or loss from disposal or liquidation of property, plant and equipment	(64)	(33)	(7)	(29)
Profit or loss from long term financial investments	(177)	(168)	(1 091)	(788)
Value adjustments of marketable securities	-	(2)	-	(2)
Foreign exchange profit or loss	242	14	93	(58)
Interest income	(257)	(350)	(257)	(434)
Interest expense	51	7	31	1
Dividend income	-	(1)	-	(1)
Total other adjustments	(2 547)	(916)	(4 725)	(794)

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 and in thousands euros, notes 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 joint operating units. In consolidation the value of the assets and liabilities of subsidiaries are taken into account on the basis of the acquisition cost of the subsidiary. Receivables and liabilities, intra-company turnovers, profits and losses resulting from intra-group operations have been eliminated. 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 19.

Associate companies

Associate companies are enterprises wherein the group has between 20 and 50 percent of the voting rights. Investments in associate companies are accounted 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 and the incurred unrealised profits and losses eliminated by internal operations.

The list of associate companies is presented in Note 19.

Accounting for investments in subsidiaries in a parent's separate financial statement

In a parent company's separate financial statements, investments in subsidiaries are accounted by the means of the equity method.

Foreign currencies

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

Operations effected in foreign currency are reported on the basis of exchange rates applicable on the date of the operation. The assets and liabilities posted in foreign currency have been converted as of 31.12.2002 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 on the day of acquisition. Goodwill is reported in the balance sheet as intangible asset and it is depreciated by straight-line method in the period of five years.

The negative goodwill acquired due to the acquisition of Tallinna Teede AS will be depreciated by straight-line method in the period of five years.

Investments

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

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

Real estate investments

Real estate investments cover real estate objects which have been acquired either for their rent income or for their increase in value or for both purposes but which will not be used for producing products or services or administrative purposes and will not be sold in the course of general business activities. Real estate investments were estimated using the acquisition price method i.e. the acquisition price of which the accumulated depreciations and possible discounts have been reduced.

Property, plant and equipment

Property, plant and equipment are tangible assets whose useful life is longer than one year and whose value exceed 5000 kroons for buildings, facilities, vehicles, machinery and equipment and over 8000 kroons for tools and production implements. Assets whose value falls below the abovementioned 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 acquisition cost, less accumulated depreciation. The expenses on improvement are compounded to the value of tangible assets. The depreciation is calculated by straight-line method, which is based 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 without making the accrued payments unless the conditions stipulated in the lease agreement are met or the period of lease expires, and lease agreements under which the ownership to the leased property passes over to the lessee either 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 on the basis of 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. 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. The FIFO method is used for calculating the cost of inventories in the construction segment and the weighted average price method is used in the production of structures for small houses segment.

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

Provisions for construction warranty

Provisions for guarantee liability of construction contracts are calculated on construction volumes performed by the group's own forces. The actual guarantee expenses of the previous periods serve as the basis for calculating the provisions.

Income tax

According to the Estonian income tax law that 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 will be no differences in the closing balances of the assets in tax accounting and in balance sheet, which used to cause a 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 cannot be estimated reliably. The amount of potential income tax liability depends on how the shares are divided between resident natural persons, resident legal entities and non-residents.

The income tax and deferred income tax liability of subsidiaries in Latvia and Lithuania and income tax on dividends of Estonian companies are portrayed in the consolidated income statement.

Revenue

Revenue from the sales of goods is reported as to 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 on the basis of the ratio of expenses made on the contract by the balance's closing date and the projected cost of the contract. Costs of contract consist of direct expenses and overheads of the construction contracts. 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 the balance sheet. Conversely, if the income against expenses is lower than the interim invoices submitted to the principals in accounting period, the difference is reported in the income statement as a decrease in earnings and posted as a liability in the balance sheet. Losses not likely to be reimbursed by the principal are reported as expenses promptly as they come to notice.

Cash and cash equivalents

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

Changes in portraying the information:

In comparison with the previous fiscal year the following changes have been made in portraying the information in this year's annual report:

- income tax paid on dividends is portrayed under expenses in the income statement; in the previous fiscal year this sum was reduced from the undistributed profit;
- in this fiscal year's income statement financial income and expenses and other business income and expenses accounts have been squared;
- real estate investments are portrayed as a separate subdivision in this balance sheet whereas in the previous fiscal year they were portrayed under fixed assets;

- liquid fund units have been transferred from the line "Shares and other securities" in the balance sheet under the line "Cash and cash equivalents".

In this annual report the reference data of the previous fiscal year has been adapted to the new way of information portrayal.

Notes

in thousand kroons

**Note 1
Segment information**

Business segments

2002	Construc- tion	Production of structures for small houses	Road construc- tion	Production of concrete elements	Other	Group
Sales	1 519 408	38 035	112 154	-	-	1 669 597
Operating profit of the business segment	90 715	(150)	7 951	-	-	98 516
Financial items incl. profit from associate companies	(635)	-	65	2 738	571	4 255 2 739
Profit before tax						102 771
Income tax						(3 209)
Net profit (-loss) for the group						99 562
Minority interest						(699)
Net profit						98 863
Segment assets	587 780	12 237	48 680	-	-	648 697
Associate companies	1 334	-	3 713	6 566	9 725	21 338
Unallocated assets						36 178
Consolidated total assets						706 213
Segment liabilities	(361 657)	(7 334)	(5 609)	-	-	(374 600)
Unallocated liabilities						(26 004)
Consolidated total liabilities						(400 604)
Acquisition of real estate investments	18 416	-	-	-	-	18 416
Acquisition of property, plant and equipment and intangible assets	9 746	388	4 469	-	-	14 603
Depreciation	4 976	629	5 474	-	-	11 079
2001	Construction	Production of structures for small houses	Road construc- tion	Production of concrete elements		Group
Sales	1 297 128	61 462	-	-	-	1 358 590
Operating profit of the business segment	78 514	3 487	-	-	-	82 001
Financial items incl. profit from associate companies	792	-	-	-	1 840	9 000 2 632
Profit before tax						91 001
Income tax						(1 216)
Net profit (-loss) for the group						89 785
Minority interest						(2 256)
Net profit						87 529

Segment assets	410 579	15 268	57 061	-	482 908
Associate companies	5 013	-	3 648	3 828	12 489
Unallocated assets					16 337
Consolidated total assets					<u>511 734</u>
Segment liabilities	(239 929)	(6 568)	(9 168)	-	(255 665)
Unallocated liabilities					(11 842)
Consolidated total liabilities					<u>(267 507)</u>
Acquisition of real estate investments	10 655	-	-	-	10 655
Acquisition of property, plant and equipment and intangible assets	5 716	543	32 349	-	38 608
Depreciation	7 167	656	-	-	7 823

Unallocated are those expenses, assets and liabilities that cannot or should not be linked to a certain business segment.

Geographical segments

The main market for operation of the parent company is Estonia. Main business segments in Estonia are construction and production of structures for small houses. The main business segments in Latvia and Lithuania are construction activities.

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

Sale	Group		Parent company	
	2002	2001	2002	2001
Estonia	1 307 070	945 777	1 019 341	838 099
Latvia	101 474	187 812	6 947	13 238
Lithuania	230 674	170 053	3 352	7 798
Germany	12 122	15 490	-	-
Norway	9 598	7 962	-	-
Sweden	4 156	29 468	-	-
Austria	1 013	-	-	-
Ireland	1 879	178	-	-
Denmark	460	676	-	-
Others	1 151	1 174	-	-
Total	<u>1 669 597</u>	<u>1 358 590</u>	<u>1 029 640</u>	<u>859 135</u>

	Total assets		Acquisition of real estate investments		Acquisition of tangible fixed assets	
	2002	2001	2002	2001	2002	2001
Estonia	521 768	411 896	18 416	10 655	10 330	33 984
Latvia	92 698	51 542	-	-	1 773	3 038
Lithuania	91 747	48 296	-	-	2 500	1 586
Total	<u>706 213</u>	<u>511 734</u>	<u>18 416</u>	<u>10 655</u>	<u>14 603</u>	<u>38 608</u>

Note 2

Cost of sales

	Group		Parent company	
	2002	2001	2002	2001
Materials	147 117	148 653	69 272	51 847
Construction services	1 035 081	904 278	736 118	595 556
Labour costs	102 732	40 898	41 489	22 310
Depreciation	9 670	5 331	2 977	3 441
Designing	43 803	24 828	22 825	18 365
Construction machinery and transportation	28 935	23 518	10 688	14 428
Other expenses	131 945	84 182	27 784	61 265
Total costs of sales	1 499 283	1 231 688	911 153	767 212

Note 3

Marketing expenses

	Group		Parent company	
	2002	2001	2002	2001
Labour costs	5 747	4 645	4 166	2 279
Depreciation	63	57	63	56
Advertising, sponsoring	4 401	3 739	1 698	1 935
Transportation	872	1 002	872	717
Building tenders	1 492	669	434	254
Other expenses	1 543	1 876	989	1 195
Total marketing expenses	14 118	11 988	8 222	6 436

Note 4

Administrative expenses

	Group		Parent company	
	2002	2001	2002	2001
Labour costs	28 078	16 914	14 319	9 484
Depreciation	1 345	2 435	648	882
Computer hard- and software, IT services	5 158	2 607	3 050	1 663
Banking facilities	1 017	592	578	178
Transportation	3 954	3 635	2 816	2 544
Office expenses, communication services	5 146	5 325	2 156	2 148
Other expenses	5 123	5 287	1 672	2 063
Total administrative expenses	49 821	36 795	25 239	18 962

Note 5

Other operating income

	Group		Parent company	
	2002	2001	2002	2001
Gain from selling of tangible assets	1 014	520	137	453
Gain on penalties and interest on arrears	-	4 844	-	2 460
Foreign exchange gain	-	889	-	845
Other income	1 142	706	4 843	8
Total other operating income	2 156	6 959	4 980	3 766

Note 6

Other operating expenses

	Group		Parent company	
	2002	2001	2002	2001
Local taxes	220	358	16	32
Penalties, interest on arrears	3 328	629	4 070	540
Loss from selling of tangible assets	20	-	20	-
Loss from selling of real estate investments	2 409	-	2 409	-
Foreign exchange loss	21	117	66	-
Other expenses	4 017	1 973	1 924	1 673
Total operating expenses	10 015	3 077	8 505	2 245

Note 7

Financial income and -expense

	Group		Parent company	
	2002	2001	2002	2001
Financial income from other long-term investments	1 674	-	28	-
Interest expense	(805)	(113)	(480)	(14)
Interest income	4 025	5 473	4 016	6 792
Dividends received	-	8	-	8
Foreign exchange profit or loss	(3 738)	(94)	(1 384)	69
Profit or loss from disposal of bill notes	(10)	1 036	(10)	1 036
Profit or loss from overvalue of bill notes	(2)	21	(1)	21
Other financial income and -expense	372	36	8	26
Total financial income and -expense	1 516	6 367	2 177	7 938

Note 8

Income tax

	Group		Parent company	
	2002	2001	2002	2001
Profit before tax	102 771	91 001	100 727	88 314
Income tax on dividends	2 431	783	1 846	783
Company income tax	4 690	734	18	2
Deferred income tax	(3 912)	(301)	-	-
Total income tax	3 209	1 216	1 864	785

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

Legal entities belonging to the group that are residents of Latvia compute the taxable income and income tax according to laws of the Republic of Latvia. In Latvia a company's profit is liable to 22 per cent income tax in 2002 (in 2001 profit was liable to 25 per cent income tax). Agency of AS Merko Ehitus located in the Republic of Latvia is liable to pay the income taxes according to Latvian laws.

Legal entities belonging to the group that are residents of Lithuania compute the taxable income and income tax according to laws of the Republic of Lithuania. In Latvia a company's profit is liable to 15 per cent income tax in 2002 (in 2001 profit was liable to 29 per cent income tax).

Note 9

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.

	2002	2001
Net profit (-loss) attributable to shareholders	98 863	87 529
Weighted average number of ordinary shares	8 850	8 850
Basic net earnings (-loss) per share (kroons)	<u>11,17</u>	<u>9,89</u>

In 2001 and 2002 there were no potential ordinary shares wherefore the diluted net earnings (-loss) per share equals the basic net earnings per share.

Note 10
Dividends per share

Dividends to be paid are reported after General Meeting has confirmed the proposal on distribution of profit. According to the proposal on distribution of profit payable in dividends in 2003 totals 19 912,5 thou kroons (in 2002 35 400 thou kroons) i.e. 2,25 kroons per share (in 2002 4 kroons per share).

Note 11
Cash and cash equivalents

	Group		Parent company	
	2002	2001	2002	2001
Cash in hand	138	172	1	1
Bank accounts	71 588	23 328	3 041	2 834
Short-term deposits	744	37 314	730	30 618
Shares in Estonian money-market funds	23 840	6 410	18 900	-
Total cash and cash equivalents	<u>96 310</u>	<u>67 224</u>	<u>22 672</u>	<u>33 453</u>

Note 12
Marketable investments

	Group		Parent company	
	2002	2001	2002	2001
Listed shares on Tallinn Stock Exchange	368	315	368	315
Listed shares on Riga Stock Exchange	239	447	239	447
Other shares registered in Estonian CSD	200	200	200	200
Other shares in Estonian enterprises	52 211	11 144	8 064	8 064
Total marketable investments	<u>53 018</u>	<u>12 106</u>	<u>8 871</u>	<u>9 026</u>

Note 13
Accounts receivable

	Group		Parent company	
	2002	2001	2002	2001
Accounts receivable	165 992	186 861	119 840	109 534
Allowance for doubtful receivables	(424)	(53)	-	(38)
Total accounts receivable	<u>165 568</u>	<u>186 808</u>	<u>119 840</u>	<u>109 496</u>

Note 14
Miscellaneous receivables

	Group		Parent company	
	2002	2001	2002	2001
Receivables from parent company and subsidiaries	-	-	39 758	36 720
loans to subsidiaries	-	-	-	-

other receivables	-	1 735	6 634	5 649
Total receivables from parent company and subsidiaries	-	1 735	46 392	42 369
Receivables from associated companies				
loans to associate companies (Note 34)	-	6 744	-	6 744
other receivables	1 227	197	972	197
Total receivables from associated companies	1 227	6 941	972	6 941
Other short-term receivables				
short-term loans (Note 16)	19 802	35 660	15 095	30 592
other short-term receivables	7 443	7 452	128	4 147
Total other short-term receivables	27 245	43 112	15 223	34 739
Total miscellaneous receivables	28 472	51 788	62 587	84 049

Note 15

Deferred income

	Group		Parent company	
	2002	2001	2002	2001
Interests	1 145	738	1 115	669
Other deferred income	32	255	32	255
Total deferred income	1 177	993	1 147	924

Note 16

Loans to non-related parties

	Group		Parent company	
	2002	2001	2002	2001
Loans to non-related legal entities				
Balance of loan in the beginning of the year	40 938	20 501	34 178	15 590
Extended	25 974	43 575	24 787	38 553
Received	(38 898)	(23 138)	(37 016)	(19 965)
Balance of loan in the end of the year	<u>28 014</u>	<u>40 938</u>	<u>21 949</u>	<u>34 178</u>
incl. long-term part	9 759	6 831	8 399	5 131
Average interest rate 8%				
Loans to non-related natural persons				
Balance of loan in the beginning of the year	1 553	164	1 545	150
Extended	-	1 545	-	1 545
Received	(6)	(156)	-	(150)
Balance of loan in the end of the year	<u>1 547</u>	<u>1 553</u>	<u>1 545</u>	<u>1 545</u>
incl. short-term part	1 547	1 553	1 545	1 545
Average interest rate 8%				
Total	29 561	42 491	23 494	35 723
incl. short-term part (Note 14)	19 802	35 660	15 095	30 592
incl. long-term part (expiration of 2 to 5 years) (Note 19)	9 759	6 831	8 399	5 131

Note 17

Prepaid expenses

	Group		Parent company	
	2002	2001	2002	2001
Prepaid taxes and reversion				
VAT	10 628	6 699	66	-
company income tax	647	123	-	-
land tax	-	28	-	-
Total prepaid taxes and reversion	11 275	6 850	66	-
Other prepaid expenses				
prepaid insurance premiums	2 380	601	1 453	417
prepaid rent	126	155	17	-
others	652	778	441	111
Total other prepaid expenses	3 158	1 534	1 911	528
Total prepaid expenses	14 433	8 384	1 977	528

Note 18

Inventories

	Group		Parent company	
	2002	2001	2002	2001
Raw materials	2 735	4 041	-	985
Work in progress	41 119	9 092	40 660	8 878
Finished products	1 314	855	-	-
Merchandise purchased for resale	66 426	32 667	50 230	32 575
Advanced payments to suppliers for materials	374	567	-	-
Prepayments for real estate	15 181	-	15 181	-
Construction-in-progress	12 229	5 821	4 918	4 159
Due from customers (Note 32)	84 962	35 281	54 553	1 245
Total inventories	224 340	88 324	165 542	47 842

Note 19

Long-term investments

	Group		Parent company	
	2002	2001	2002	2001
Shares in subsidiaries	-	-	69 267	88 038
Long-term loans made to subsidiaries	-	-	10 716	-
Shares in associate companies	21 338	12 489	17 550	5 845
Long-term loans made to associates	7 757	100	7 757	100
Other shares and debt securities	1 800	1 800	1 800	1 800
Miscellaneous long-term receivables	11 585	7 588	8 426	5 131
Total long-term investments	42 480	21 977	115 516	100 914

Name of subsidiary

**Ownership interest
and voting power %**

Location

Business segment

**AS Merko Ehitus
subsidiaries**

	2002	2001		
AS Gustaf	100	100	Pärnu	Construction
OÜ Matek	71,6	71,6	Tallinn	Production of structures for small houses
AS Merko Tartu	66	66	Tartu	Construction
AS Merko Insenerehitus	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
Tallinna Teede AS	100	100	Tallinn	Road construction

SIA Merks	100	100	Latvia, Riga	Construction
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
ZAO Merkostroi	100	100	Russia, St-Peterburg	Construction
OÜ Merko Elamu	100	100	Saue	Real estate
OÜ Merko Maja	100	100	Saue	Real estate
OÜ Merko Kinnisvara	100	100	Saue	Real estate
OÜ Unigate	100	-	Tallinn	Real estate

AS Gustaf subsidiary

SIA Rigus	100	100	Latvia, Riga	Construction
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Tallinna Teede AS subsidiary

OÜ Talbit	87,5	87,5	Tallinn	Holding
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SIA Merks subsidiaries

SIA Aivari M	-	100	Latvia, Riga	Construction
SIA Zeltini M	-	100	Latvia, Riga	Construction
SIA Rçki M	-	100	Latvia, Riga	Construction
KS MBC	80	-	Latvia, Riga	Construction

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

Name of subsidiary	Investment 31.12.2001	Changes in 2002			Investment 31.12.2002	
		acquisition and liquidation	income – expense from subsidiaries	dividend payments exchange rate differences		
AS Merko Ehitus subsidiaries						
AS Gustaf	12 922	-	(783)	(8 000)	(7)	4 132
OÜ Matek	5 979	-	(358)	(3 008)	-	2 613
AS Merko Tartu	5 821	-	1 619	(1 056)	-	6 384
AS Merko Insenerehitus	1 517	-	8	-	-	1 525
OÜ Merko Ehitustööd	37	-	4	-	-	41
OÜ Merko Ehitusteenused	40	-	-	-	-	40
Eesti Ehituseksporti OÜ	34	-	(1)	-	-	33
Tallinna Teede AS	42 600	-	9 190	(20 000)	-	31 790
SIA Merks	13 074	-	(20)	-	(1 188)	11 866
UAB Merko Statyba	5 848	-	4 640	-	151	10 639
ZAO Merkostroi	46	-	-	-	-	46
OÜ Merko Elamu	40	-	-	-	-	40
OÜ Merko Maja	40	-	-	-	-	40
OÜ Merko Kinnisvara	40	-	-	-	-	40
OÜ Unigate	-	40	(2)	-	-	38
Total	88 038	40	14 297	(32 064)	(1 044)	69 267
AS Gustaf subsidiary						
SIA Rigus	41	-	-	-	(7)	34
AS Tallinna Teede subsidiary						
OÜ Talbit	3 232	-	47	-	-	3 279
SIA Merks subsidiaries						
SIA Aivari M	56	(56) *	-	-	-	-
SIA Zeltini M	56	(56) *	-	-	-	-
SIA Rçki M	57	(57) *	-	-	-	-
KS MBC	-	21	-	-	(1)	20
Total	169	(148)	-	-	(1)	20

* Long term investment has been classified as a short term investment.

Shares in associate companies

Name of associate company	Ownership interest and voting power %		Location	Business segment
	2002	2001		
AS Merko Ehitus associate companies				
Normanni Linnagrupi AS	50	50	Tallinn	Construction
AS Insenerivõrgud	50	50	Tallinn	Construction
AS Tartu Maja				Production of concrete elements
Betoontooted	25	25	Tartu	
Viru Väljaku Arenduse OÜ	40	50	Tallinn	Real estate
AS Telegrupp	45	-	Tallinn	Telecommunication
SIA Merks associate companies				
PS Merks-Terbe Lat	50	50	Latvia, Riga	Construction
SIA Kipsalas Saules Akmens	-	50	Latvia, Riga	Real estate
PS VIA-Merks	50	-	Latvia, Riga	Construction
OÜ Talbit associate company				
AS Bituumen	24,8	24,8	Tallinn	Holding
AS Merko Tartu associate company				
OÜ Kortermaja	50	-	Tartu	Construction

Name of associate company	Investment 31.12.2001	Changes in 2002			Investment 31.12.2002
		acquisition and liquidation	income – expense from subsidiaries	dividend payments	
AS Merko Ehitus associate companies					
Normanni Linnagrupi AS	442	-	(49)	-	393
AS Insenerivõrgud	1 575	-	(709)	-	866
AS Tartu Maja					
Betoontooted	3 828	-	2 738	-	6 566
Viru Väljaku Arenduse OÜ	0	(200)	200	-	0
AS Telegrupp	-	9 153	572	-	9 725
Total	5 845	8 953	2 752	-	17 550
SIA Merks associate companies					
PS Merks-Terbe Lat	2 098	-	(65)	(1 887)	62
SIA Kipsalas Saules Akmens	898	(898) *	-	-	-
PS VIA-Merks	-	7	-	(1)	6
Total	2 996	(891)	(65)	(1 887)	68
OÜ Talbit associate company					
AS Bituumen	3 648	-	65	-	3 713

**AS Merko Tartu
associate company**

OÜ Kortermaja	-	20	(13)	-	-	7
Total	12 489	8 082	2 739	(1 887)	(85)	21 338

* Long term investment has been classified as a short term investment.

July 4 2002 AS Merko Ehitus acquired 45 % participation in AS Telegrupp, a company whose main branch of business includes selling and servicing of telecommunication equipment. The price paid for the shares is 9 153 thou Estonian kroons.

The share of Merko Ehitus in the assets and liabilities of the investment object on the acquisition date:

Cash and cash equivalents	366
Receivables	3 724
Inventories	1 756
Long-term receivables	41
Property, plant and equipment	647
Intangible assets	20
Short-term liabilities	(1 534)
Long-term liabilities	(105)
Fair value of the acquired net assets:	<u>4 915</u>
Goodwill	4 238
Acquisition cost	<u>9 153</u>
Paid in relation to acquisition of associate	6 407
Debt for shares of associate	2 746
Acquisition cost	<u>9 153</u>

Acquired goodwill is depreciated in the period of five years.

Miscellaneous long-term receivables	Group		Parent company	
	2002	2001	2002	2001
Long-term loans to non-related legal entities (Note 16)	9 759	6 831	8 399	5 131
Other long-term receivables	1 826	757	27	-
Total miscellaneous long-term receivables	<u>11 585</u>	<u>7 588</u>	<u>8 426</u>	<u>5 131</u>

Note 20

Real-estate investments

Real-estate investments in the group	Land	Buildings	Pre-payments	Total
Acquisition cost 31.12.2001	1 894	27 304	10 655	39 853
Accumulated depreciation 31.12.2001	-	(7 103)	-	(7 103)
Net book amount 31.12.2001	<u>1 894</u>	<u>20 201</u>	<u>10 655</u>	<u>32 750</u>
Net book amount 31.12.2001	1 894	20 201	10 655	32 750
Acquisition	13 920	3 496	1 000	18 416
Disposal	(565)	(13 463)	-	(14 028)
Depreciation	-	(1 830)	-	(1 830)
Net book amount 31.12.2002	<u>15 249</u>	<u>8 404</u>	<u>11 655</u>	<u>35 308</u>

Acquisition cost 31.12.2002	15 249	13 544	11 655	40 448
Accumulated depreciation 31.12.2002	-	(5 140)	-	(5 140)
Net book amount 31.12.2002	15 249	8 404	11 655	35 308

Real estate investments in parent company	Land	Buildings	Pre-payments	Total
Acquisition cost 31.12.2001	797	27 304	10 655	38 756
Accumulated depreciation 31.12.2001	-	(7 103)	-	(7 103)
Net book amount 31.12.2001	797	20 201	10 655	31 653
Net book amount 31.12.2001	797	20 201	10 655	31 653
Acquisition	13 920	3 496	1 000	18 416
Disposal	(565)	(13 463)	-	(14 028)
Depreciation	-	(1 830)	-	(1 830)
Net book amount 31.12.2002	14 152	8 404	11 655	34 211
Acquisition cost 31.12.2002	14 152	13 544	11 655	39 351
Accumulated depreciation 31.12.2002	-	(5 140)	-	(5 140)
Net book amount 31.12.2002	14 152	8 404	11 655	34 211

Note 21
Property, plant and equipment

Property, plant and equipment in group	Land	Buildings	Building title	Machinery and equipment	Other inventory	Construction in progress	Total
Acquisition cost 31.12.2001	3 804	10 019	458	64 064	16 106	173	94 624
Accumulated depreciation 31.12.2001	-	(4 455)	(40)	(32 936)	(9 137)	-	(46 568)
Net book amount 31.12.2001	3 804	5 564	418	31 128	6 969	173	48 056
Net book amount 31.12.2001	3 804	5 564	418	31 128	6 969	173	48 056
Exchange rate differences	(296)	-	-	(29)	(68)	-	(393)
Acquisition	-	67	-	8 746	5 635	(2)	14 446
Disposal	-	-	-	(1 050)	(152)	-	(1 202)
Write-off for the year	-	-	-	(33)	-	-	(33)
Depreciation	-	(456)	(9)	(7 250)	(2 769)	-	(10 484)
Net book amount 31.12.2002	3 508	5 175	409	31 512	9 615	171	50 390
Acquisition cost 31.12.2002	3 508	9 508	458	66 854	20 682	171	101 181
Accumulated depreciation 31.12.2002	-	(4 333)	(49)	(35 342)	(11 067)	-	(50 791)
Net book amount 31.12.2002	3 508	5 175	409	31 512	9 615	171	50 390

Property, plant and equipment in parent company	Land	Buildings	Building title	Machinery and equipment	Other inventory	Total
Acquisition cost 31.12.2001	549	2 989	458	6 825	5 487	16 308
Accumulated depreciation 31.12.2001	-	(2 356)	(40)	(4 890)	(4 482)	(11 768)
Net book amount 31.12.2001	549	633	418	1 935	1 005	4 540
Net book amount 31.12.2001	549	633	418	1 935	1 005	4 540
Acquisition	-	-	-	1 252	3 076	4 328
Disposal	-	-	-	(22)	-	(22)
Write-offs for the year	-	-	-	(20)	-	(20)
Depreciation	-	(153)	(9)	(1 033)	(662)	(1 857)
Net book amount 31.12.2002	549	480	409	2 112	3 419	6 969
Acquisition cost 31.12.2002	549	2 399	458	6 999	8 372	18 777
Accumulated depreciation 31.12.2002	-	(1 919)	(49)	(4 887)	(4 953)	(11 808)
Net book amount 31.12.2002	549	480	409	2 112	3 419	6 969

Information on rented fixed assets is portrayed in Note 23

Note 22

Intangible assets

Intangible assets in group	Goodwill	Licences purchased	Total
Acquisition cost 31.12.2001	(6 773)	190	(6 583)
Accumulated depreciation 31.12.2001	-	(93)	93
Net book amount 31.12.2001	(6 773)	97	(6 676)
Net book amount 31.12.2001	(6 773)	97	(6 676)
Incomes	-	157	157
Depreciation	1 355	(119)	1 236
Net book amount 31.12.2002	(5 418)	135	(5 283)
Acquisition cost 31.12.2002	(6 773)	347	(6 426)
Accumulated depreciation 31.12.2002	1 355	(212)	1 143
Net book amount 31.12.2002	(5 418)	135	(5 283)

Note 23

Assets leased

	Group	Parent company
	2002	2001

Assets held under financial lease contracts

Merchandise purchased for resale (real property)

Acquisition cost	7 624	-	7 624	-
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Machinery and equipment

Acquisition cost	13 140	27 478	-	-
Accumulated depreciation	(3 185)	(14 536)	-	-

incl. depreciation for the year	(975)	(32)	-	-
Net book amount	9 955	12 942	-	-

Assets held under operational lease contracts	Group		Parent company	
	2002	2001	2002	2001

Machinery and equipment

Payments for the year	4 429	4 639	3 432	3 901
Payments for subsequent periods	13 834	10 882	11 676	9 494
incl. payments during the following year	4 813	4 654	3 918	3 836
payments during years 2 to 5	9 021	6 228	7 758	5 658
Total	18 263	15 521	15 108	13 395

Note 24

Liabilities

	Group		Parent company	
	2002	2001	2002	2001

Liabilities for financial lease (Note 23)

Opening balance in the beginning of the year	2 961	-	-	-
Raised	11 674	2 961	7 624	-
Repaid	(7 314)	-	(3 624)	-
Closing balance in the end of the year	7 321	2 961	4 000	-
incl. short-term part	4 717	2 757	4 000	-
long-term part expires during the 2nd year	2 604	204	-	-

Interest expense for the financial year	451	-	199	-
Average interest rate 9%				

Bank loans

Opening balance in the beginning of the year	8	159	-	-
Raised	1 450	-	-	-
Repaid	(8)	(151)	-	-
Closing balance in the end of the year	1 450	8	-	-
incl. short term part	1 450	8	-	-

Other loans

Opening balance in the beginning of the year	1 776	8 732	941	7 792
Raised	9 038	-	3 600	-
Repaid	(4 176)	(6 956)	(3 341)	(6 851)
Closing balance in the end of the year	6 638	1 776	1 200	941
incl. short-term part	6 638	1 776	1 200	941

Total liabilities	15 409	4 745	5 200	941
incl. short-term part	12 805	4 541	5 200	941
long-term part expires during the 2nd year	2 604	204	-	-

Loan securities and pledged assets are reported in Note 26.

Note 25

Other long-term liabilities

	Group		Parent company	
	2002	2001	2002	2001
Accounts payable to suppliers	14 900	7 478	6 733	7 347
Payables to subsidiaries	-	-	1 042	-
Total other long-term liabilities	14 900	7 478	7 775	7 347

Note 26

Loan securities and pledged assets

The following contracts and agreements have been entered into in order to secure the loans taken and liabilities incurred:

Between AS Merko Ehitus and Hansabank:

Floating charge agreement on chattels for the aggregate value of 80 million kroons (recorded in the Register of Floating Charges in the first and second orders of priority) and the notarial lien on buildings located in Saue for the aggregate sum of 7 million kroons. The said mortgages secure the fulfilment 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 the Register of Floating Charges in the third and fourth orders of priority). The said pledge secures the fulfilment of obligations stemming from the contracts of guarantee.

Between OÜ Matek and Nordea Bank Plc:

Notarised floating charge agreement on chattels for the aggregate value of 5 million kroons. The said pledge secures the fulfilment of obligations stemming from Overdraft Facility Agreement on credit line of 178 925 EUR and the contracts of guarantee.

Between AS Gustaf and Hansabank:

Floating charge agreement on chattels for the aggregate value of 6 million kroons to secure to contracts of guarantee.

Between AS Merko Tartu and Eesti Ühispank:

Floating charge agreement on chattels for the aggregate value of 2.5 million kroons (recorded in the Register of Floating Charges in the first order of priority). The said pledge secures the fulfilment of obligations stemming from contracts of guarantee.

Between SIA Merks and Hansabanka:

Floating charge agreement on chattels for the aggregate value of 1200 thou LVL to secure the contracts of guarantee.

Note 27

Customer prepayments

	Group		Parent company	
	2002	2001	2002	2001
Customer prepayments	45 512	10 687	23 304	8 674
VAT on customer prepayments	(2 692)	(822)	(1 731)	(604)
Total customer prepayments	42 820	9 865	21 573	8 070

Note 28

Tax liabilities

	Group		Parent company	
	2002	2001	2002	2001
VAT	3 533	4 917	2 991	3 021
Company income tax	4 303	1 929	146	1 785
Personal income tax	2 300	1 439	820	510
Social security tax	6 033	3 524	3 906	1 467
Unemployment insurance premium	154	-	90	-
Land tax	21	33	21	-
Total tax liabilities	16 344	11 842	7 974	6 783

Note 29

Accrued liabilities

	Group		Parent company	
	2002	2001	2002	2001
Accrued payments to employees	18 051	10 165	13 186	5 305
Dividend debts	889	-	-	-
Accrued interest	6	10	-	-
Other accrued liabilities	1 037	941	207	63
Total accrued liabilities	19 983	11 116	13 393	5 368

Note 30

Current provisions

	Group		Parent company	
	2002	2001	2002	2001
Provisions to construction warranty liability	3 368	3 737	935	874
Due to customers (Note 32)	104 917	94 572	77 117	83 082
Other current provisions	-	155	-	-
Total current provisions	108 285	98 464	78 052	83 956

Note 31

Share capital

Share capital of 88 500 thou kroons is divided into 8 850 thou registered shares of nominal value of 10 kroons each. Under the Articles of Association the maximum number of shares is 18 00 thou shares.

In 2001 and 2002 there were no changes in share capital.

In 2002 35 400 thou kroons were declared and paid out to shareholders. (In 2001 13 275 thou kroons were declared and paid out).

Note 32

Construction contract work in progress

	Group		Parent company	
	2002	2001	2002	2001
The aggregate amount of costs incurred and recognized profits (les recognized loss) to date	527 477	396 583	293 208	297 574
Progress billing	(547 432)	(455 874)	(315 772)	(379 411)

Total adjustment of income	<u>(19 955)</u>	<u>(59 291)</u>	<u>(22 564)</u>	<u>(81 837)</u>
Due from customers	84 962	35 281	54 553	1 245
Due to customers	(104 917)	(94 572)	(77 117)	(83 082)
Total adjustment of income	<u>(19 955)</u>	<u>(59 291)</u>	<u>(22 564)</u>	<u>(81 837)</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 18).

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 30).

Note 33

Other liabilities

	Group		Parent company	
	2002	2001	2002	2001
Liabilities to subsidiaries				
loans from subsidiaries	-	-	902	902
liabilities for goods and services	-	-	8 181	8 276
Total liabilities to parent company and subsidiaries	-	-	9 083	9 178
Liabilities to associates for goods and services	3 853	1 493	3 777	1 493
Total other liabilities	<u>3 853</u>	<u>1 493</u>	<u>12 860</u>	<u>10 671</u>

Note 34

Related party transactions

The parent company of Merko Ehitus is AS Merko Grupp. AS Merko Grupp owned 72% of the shares of Merko Ehitus as of December 31 2002 (December 31 2001 the equivalent was 74%). In addition to the parent company, other related parties include 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 mentioned natural persons.

Goods and services

AS Merko Ehitus group has bought and sold products and services to the following related parties:

	2002		2001	
	Purchases	Sales	Purchases	Sales
Management	-	3 045	-	-
Associate companies	15 548	420	32 420	2 570
Other companies of the group*	28 105	3 519	57 449	1 790
Total	<u>43 653</u>	<u>6 984</u>	<u>89 869</u>	<u>4 360</u>

* Other AS Merko Grupp subsidiaries belong to this group.

According to the key management personnel of the company the value of the deals made with the above mentioned persons do not essentially differ from the market prices of the items in concern.

Loans

	2002	Group	2001
<u>Loans to associate companies</u>			
Opening balance in the beginning of the year	6 844		2 692
Extended	2 030		4 152
Received	(1 117)		-
	7 757		6 844
Closing balance in the end of the year			
incl. short-term part	-		6 744
long-term part 2 to 5 years	7 757		100
Average interest rate 0%			

Loans to other companies of the group

Opening balance in the beginning of the year	7 775		6 666
Extended	1 285		1 300
Received	(3 471)		(191)
	5 589		7 775
Closing balance in the end of the year			
incl. short-term part	5 589		7 775
Average interest rate 8%			

Balance with related parties

	2002	Group	2001
<u>Accounts receivable</u>			
Receivables for goods and services			
Management	2 014		-
Other companies of the group	705		267
<u>Accrued income</u>			
Interests			
Other companies of the group	122		103
<u>Other current receivables</u>			
Receivables from subsidiary and parent companies			
Parent company	-		1 735
Prepayments for goods and services			
Associate companies	751		-
Receivables for goods and services			
Associate companies	221		197
Dividend payable			
Associate companies	255		-
Short-term loans			
Associate companies	-		6 744

Other companies of the group	5 589	7 775
Long-term loans		
Associate companies	7 757	100
<u>Accounts payable</u>		
Debts for goods and services		
Other companies of the group	702	9 939
<u>Other liabilities</u>		
Debts for goods and services		
Associate companies	3 853	1 493

Salaries and wages of the Member of the Directors, Board and executives

In 2002 Members of the Directors, Board and executive staff were paid 4 653,6 thou kroons in salaries (in 2001. the sum was 2 139,4 thou kroons)

Note 35

Potential liabilities

	Group		Parent company	
	2002	2001	2002	2001
Customer guarantee during construction	110 876	61 591	84 429	58 098
Tender guarantee	10 555	17 431	9 770	17 381
Guarantee for warranty period	48 573	36 543	35 173	25 888
Guarantee for advance	13 735	4 054	13 735	3 554
Sureties	67 372	27 395	39 617	27 395
Letters of credit	-	788	-	788
Total potential liabilities	251 111	147 802	182 724	133 104

Note 36

Risks

Credit risk

Credit risk is defined as the risk of counterparts becoming unable to meet their commitments. In order 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 Hansabank, Eesti Ühispank and Nordea Bank. According to Management the group possesses no significant material risks.

Interest rate risk

According to Management, the group possess no significant interest rate risks.

Fair value

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

Note 37

Number of shares owned by Member of the Board and the Board of Directors and their next of kin

	Shares	Participation
Members of the Board of Directors		
Raul Ojala	477	0,01%
Members of the Board		
Tõnu Toomik	9 000	0,10%
Ott Kikkas	1 000	0,01%

Note 38

Shareholders of participation in excess of 5%

	Shares	Participation
AS Merko Grupp	6 371 343	71,99



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AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AS MERKO EHITUS

We have audited the annual accounts of AS Merko Ehitus and AS Merko Ehitus group for the year ended 31 December 2002. The annual accounts include the consolidated and parent company income statements, balance sheets, cash flow statements, statements of changes in shareholders equity and notes. 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, prepared in accordance with international accounting standards, give a true and fair view of the financial positions of the AS Merko Ehitus and AS Merko Ehitus group as at 31 December 2002 and of the results of their operations for the year then ended.

14th March 2003 Tallinn

Audit EA

A handwritten signature in blue ink that reads 'Malle Rannik'.

Malle Rannik
Authorized Public Accountant

PROPOSAL FOR PROFIT DISTRIBUTION

The Board of AS Merko Ehitus makes the following proposal to the shareholders annual General Meeting for distributing the profit as follows:

Net profit for 2002	98 863 218	
Retained earnings brought forward	101 479 677	
Retained earnings balance at 31.12.2002	200 342 895	
Dividends	19 912 500	(2,25 per share)
Retained earnings carried forward	180 430 395	

**SIGNATURES OF THE MEMBERS OF THE BOARD AND THE BOARD OF DIRECTORS FOR
ANNUAL REPORT 2002**

Annual report for the financial year 2002 has been confirmed on behalf of the General Meeting on
8th April 2003.



Tõnu Toomik
Chairman of Board



Ott Kikkas
Member of Board



Ülo Metsaots
Member of Board



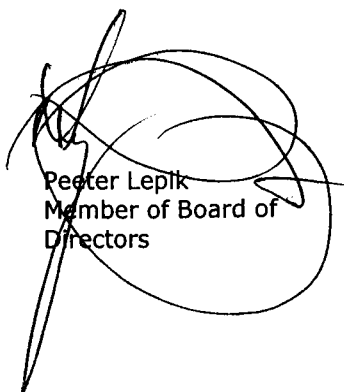
Veljo Viitmann
Member of board



Toomas Annus
Chairman of Board of
Directors



Raul Ojala
Member of Board of
Directors



Peeter Lepik
Member of Board of
Directors

8th April 2003