

**AS MERKO EHITUS  
GROUP**

**Annual Report  
1997**

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# Annual Report 1997

## **Preface and signing of Annual Report**

The Board has prepared the activity report and financial report 1997

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

Annual Report 1997 was approved by General Meeting of shareholders on 18<sup>th</sup> April 1998

Tõnu Toomik	Ott Kikkas	Ülo Metsaots	Veljo Viitmann
Chairman of Board	Member of Board	Member of Board	Member of Board

Toomas Annus	Raul Ojala	Peeter Lepik
Chairman of Council	Member of Council	Member of Council

## Activity Report

1997 was successful for AS MERKO EHITUS, development was rapid and turnover and earnings estimates were fulfilled.

Sales and net profit increased significantly in 1997.

The consolidated net sales was 526.5 million EEK in 1997, compared to 180.8 million EEK in 1996, an increase of 191%.

The consolidated net profit was 26.0 million EEK, an increase of 161% from 9.9 million EEK in 1996.

Total revenue 546.5 million EEK consists net sales of 526.5 million EEK, changes in stock of unfinished products 11.0 million EEK and other revenues 9.0 million EEK.

97% in total revenues comes from construction activities and 3% from services offered and income from trade activities.

Structure of construction activities of AS MERKO EHITUS in 1997:

office buildings	53%
residential buildings	4%
service and retail buildings	40%
industrial buildings	3%

Construction of new buildings constituted 62% of total volume of construction activities of AS MERKO EHITUS. The share of renovation and reconstruction was 38%.

The export gave 3% of total revenues.

Financial ratios of AS MERKO EHITUS in 1997:

profit margin	5%
EBIT margin	7%
return on shareholders equity	35%
return on assets	20%
equity ratio	60%
solvency ratio	2.0

To acquire additional capital 737500 shares of Common Stock were issued during initial public offering from June 2 to June 16 1997. The initial public offering price was 100 EEK. The Common Stock of AS MERKO EHITUS was listed on the main list of Tallinn Stock Exchange on July 22, 1997.

Closing price in Tallinn Stock Exchange was 70 EEK on December 31, 1997. Earnings per share were 8.80 EEK in 1997.

Structure of shareholders at the end of 1997:

AS Merko Grupp Ltd.	73.3%
Clients of Skandinaviska Enskilda Banken Ltd.	6.3%
Clients of Merita Bank Ltd.	3.6%
Other	16.8%

Total proceeds of the initial public offering were 69.3 million EEK. The proceeds were invested to the development of AS MERKO EHITUS, mainly to establishing subsidiary companies and to real estate development. AS Merko Kinnisvara was established to provide real estate development and management services.

Other investments in 1997:

to land plots and buildings: 20 916 000 EEK;

to machinery and equipment: 8 287 000 EEK.

In 1997 AS MERKO EHITUS was reorganised as a group. In addition to subsidiary AS Eesti Ehituseksporti (project manager) ownership was acquired in the following subsidiaries:

AS Gustaf (construction) (ownership 100%), acquisition cost 2 400 000 EEK

AS K&P Ehitus (construction) (ownership 60%), acquisition cost 1500000 EEK.

Fully owned subsidiary AS Merko Kinnisvara Ltd. with share capital of 10 000 000 EEK was established (real estate).

In 1997 AS MERKO EHITUS acquired equity interests in the following companies:

AS Normanni Linnagrupp (ownership 50%), acquisition cost 500 000 EEK

SIA Merks in Latvian Republic (ownership 50%), acquisition cost 909 000 EEK

AS Stic Elekter (ownership 34%), acquisition cost 316 000 EEK.

The main objectives of AS MERKO EHITUS are to secure leading position in general construction market to increase market share in engineering technical segment. More attention will be paid to projects financed from state budget and by international co-operation and assistance programs. The company is planning to increase its market share in the Latvian and Lithuanian construction markets and in the St. Petersburg's region.

The estimated consolidated net profit of AS MERKO EHITUS is 35 million EEK and net sales 700 million EEK for 1998. The estimations are based on construction contracts signed by parent company in total amount of 508 million EEK by February 5, 1998.

In the Council of AS MERKO EHITUS are 3 members and in the Board 4 members. The members of Board did not receive compensation as members of management. The members of the Board working full-time in AS Merko Ehitus were paid gross salary of 774 thousand EEK in 1997. The members of the Council did not receive compensation as members of management. Two members of the Council working full-time in AS Merko Ehitus were paid gross salary of 395 thousand EEK in 1997. The gross salary of executive director was 215 thousand EEK. Average number of employees working full-time in parent company was 167, they were paid total of 19 million EEK in 1997.

Average number of employees working under employment contract was 51 and their total payroll was 4.3 million EEK. Average number of employees in the Group was 272 and their total payroll was 25 million EEK in 1997.

AS MERKO EHITUS is targeted on providing customers with continuously improving quality, shorter construction terms and more flexible co-operation.

# INCOME STATEMENT

Consolidated, audited

SCHEME 1

	GROUP		PARENT COMPANY	
	1997.a.	1996.a.	1997.a.	1996.a.
Net sales ( note 1 )	526 494 881	180 818 801	424 465 080	180 795 801
Change in work-in-progress inventories ( note 2 )	10 997 502	1 053 054	10 344 789	1 053 054
Other revenue ( note 3 )	8 962 498	27 198 849	7 943 730	27 198 849
<b>TOTAL REVENUE</b>	<b>546 454 881</b>	<b>209 070 704</b>	<b>442 753 599</b>	<b>209 047 704</b>
Commodities, materials and sub-contractor services ( note 4 )	403 433 387	134 360 219	328 681 760	134 360 219
Other operating expenses ( note 5 )	61 795 841	31 989 072	45 449 657	31 986 465
Personnel expenses	39 102 340	18 244 465	31 052 450	18 244 465
Inc. wages and salaries	29 394 903	14 048 562	23 344 770	14 048 562
social taxes	9 707 437	4 195 903	7 707 680	4 195 903
Depreciation of fixed assets and reduction of value ( note 23 )	3 384 933	5 591 544	2 451 522	5 591 544
Other expenses ( note 6 )	1 124 575	1 645 784	874 296	1 645 784
<b>TOTAL EXPENSES</b>	<b>508 841 076</b>	<b>191 831 084</b>	<b>408 509 685</b>	<b>191 828 477</b>
<b>OPERATING PROFIT</b>	<b>37 613 805</b>	<b>17 239 620</b>	<b>34 243 914</b>	<b>17 219 227</b>
Financial income from stocks of subsidiary companies ( note 8 )	333 106		2 960 559	15 134
Financial income from stocks of associated companies (note20 )	52 922		52 922	
Financial income from other noncurrent financial investments		232 821		232 821
Foreign exchange gain	21 435	67 336	20 457	67 336
Other interest and financial income ( note 9 )	3 139 258	2 035 036	2 780 521	2 034 978
<b>TOTAL FINANCIAL INCOME</b>	<b>3 546 721</b>	<b>2 335 193</b>	<b>5 814 459</b>	<b>2 350 269</b>
Financial expenses related to subsidiary companies			126 888	
Financial expenses related to associated companies (note 20)	442 895		442 895	
Interest expenses	400 306	2 497 459	352 817	2 497 459
Foreign exchange loss	76	94 775	76	94 775
Other financial expenses ( note 10 )	5 328 504	372 830	5 317 636	372 830
<b>TOTAL FINANCIAL EXPENSES</b>	<b>6 171 781</b>	<b>2 965 064</b>	<b>6 240 312</b>	<b>2 965 064</b>
<b>PROFIT FROM NORMAL OPERATIONS</b>	<b>34 988 745</b>	<b>16 609 749</b>	<b>33 818 061</b>	<b>16 604 432</b>
Extraordinary expenses	29 859		29 859	
Profit before taxes	34 958 886	16 609 749	33 788 202	16 604 432
Income tax	7 573 321	6 661 117	6 638 562	6 655 800
Deferred income tax ( note 11 )	1 312 283		1 175 019	
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>26 073 282</b>	<b>9 948 632</b>	<b>25 974 621</b>	<b>9 948 632</b>
Including minority share ( note 12 )	98 661			
<b>NET PROFIT OF AFFILIATED GROUP</b>	<b>25 974 621</b>	<b>9 948 632</b>	<b>25 974 621</b>	<b>9 948 632</b>

# INCOME STATEMENT UP TO OPERATING PROFIT

Consolidated

SCHEME 2

Net sales	526 494 881	180 818 801	424 465 080	180 795 801
Cost of sales	478 348 992	175 090 501	384 785 150	175 090 501
<b>GROSS PROFIT</b>	<b>48 145 889</b>	<b>5 728 300</b>	<b>39 679 930</b>	<b>5 705 300</b>
Marketing expenses	2 233 293	1 763 535	2 130 736	1 763 426
Administration and general expenses ( note 7 )	16 401 514	12 358 210	10 582 714	12 355 712
Other income ( note 3 )	8 962 498	27 198 849	7 943 730	27 198 849
Other expenses ( note 6 )	859 775	1 565 784	666 296	1 565 784
<b>OPERATING PROFIT</b>	<b>37 613 805</b>	<b>17 239 620</b>	<b>34 243 914</b>	<b>17 219 227</b>

# BALANCE SHEET

Consolidated, audited

	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
Cash and bank accounts (note 13)	28 389 404	10 560 858	26 823 719	10 537 614
Marketable securities (note 14)	42 376 875	41 605	35 076 875	41 605
Accounts receivables (note 15)	43 163 911	22 097 473	40 596 969	22 097 473
Notes receivable		-54 641		-54 641
<i>Total accounts receivables</i>	43 163 911	22 042 832	40 596 969	22 042 832
Receivables from subsidiary companies			628 348	1 047 262
Receivables from associated companies (note 16)	7 321 863		7 321 863	
Other receivables (note 17)	9 534 704	8 515 645	9 472 755	8 515 645
<i>Total other receivables</i>	16 856 567	8 515 645	17 422 966	9 562 907
Interest receivable	1 966 301	454 789	1 965 006	454 789
Dividends receivable			200 000	
<i>Total accrued income</i>	1 966 301	454 789	2 165 006	454 789
Prepaid/refundable taxes receivables	350 741	246 178		246 127
Other prepaid expenses (note 18)	1 068 762	323 485	601 577	323 485
<i>Total prepaid expenses</i>	1 419 503	569 663	601 577	569 612
Raw and other materials (note 19)	106 471			
Work-in-progress (note 2)	13 002 138	1 053 054	11 397 843	1 053 054
Purchased goods for sale		1 013 101		1 013 101
Prepayments to suppliers (note 19)	13 062 598	5 503 774	12 975 187	5 503 774
<i>Total stock</i>	26 171 207	7 569 929	24 373 030	7 569 929
<b>TOTAL CURRENT ASSETS</b>	<b>160 343 768</b>	<b>49 755 321</b>	<b>147 060 142</b>	<b>50 779 288</b>
Stocks of subsidiary companies			16 937 222	403 551
Stocks of associated companies (note 20)	1 335 316		1 335 316	
Other shares and securities (note 21)	3 410 500	3 914 552	2 450 500	3 914 552
Other long-term receivables (note 22)	1 935 535	12 249	1 935 535	12 249
<i>Total long-term financial assets</i>	6 681 351	3 926 801	22 658 573	4 330 352
Land and buildings	17 486 706	9 065 228	13 985 952	7 631 034
Land lease	9 581 432		9 581 432	
Machinery and equipment	9 006 571	4 431 038	5 351 898	4 431 038
Other equipment and fixtures	3 380 774	1 886 358	3 310 185	1 886 358
Accumulated depreciation	-8 301 777	-5 527 250	-6 929 598	-5 527 250
Prepayments for tangible assets	78 831	2 040 265	78 831	2 040 265
<i>Total tangible fixed assets (note 23)</i>	31 232 537	11 895 639	25 378 700	10 461 445
Goodwill (note 23)	1 421 828			
<b>TOTAL FIXED ASSETS</b>	<b>39 335 716</b>	<b>15 822 440</b>	<b>48 037 273</b>	<b>14 791 797</b>
<b>TOTAL ASSETS</b>	<b>199 679 484</b>	<b>65 577 761</b>	<b>195 097 415</b>	<b>65 571 085</b>

Current period long-term dept repayment	289 895			
<i>Total dept obligations</i>	289 895			
Customer prepayments ( note 24 )	31 427 352	12 457 382	31 427 352	12 457 382
Accounts payable ( note 25 )	29 209 294	17 195 886	26 576 283	17 195 777
Payables to affiliated enterprises			1 986 514	
Tax liabilities ( note 26 )	9 885 846	5 463 657	8 140 627	5 458 340
Salary-related accrued expenses	5 046 159	2 699 481	4 374 189	2 699 481
Other accrued expenses	237 226	124 066	237 216	122 816
<i>Total accrued expenses</i>	5 283 385	2 823 547	4 611 405	2 822 297
Provisions ( note 27 )	2 564 676	1 086 314	2 523 038	1 086 314
Other prepaid revenue		38 400		38 400
<b>TOTAL CURRENT LIABILITIES</b>	<b>78 660 448</b>	<b>39 065 186</b>	<b>75 265 219</b>	<b>39 058 510</b>
Non-convertible long-term dept	158 870			
<i>Total long term liabilities</i>	158 870			
Other provisions ( note 28 )	224 788			
<b>TOTAL LONG TERM LIABILITIES</b>	<b>383 658</b>			
Stock capital	29 500 000	8 030 000	29 500 000	8 030 000
Capital surplus	61 950 000		61 950 000	
Obligatory reserve capital	2 212 500	803 000	2 212 500	803 000
Retained earnings	195 075	7 730 943	195 075	7 730 943
Net profit for the financial year	25 974 621	9 948 632	25 974 621	9 948 632
<b>TOTAL EQUITY CAPITAL ( note 29 )</b>	<b>119 832 196</b>	<b>26 512 575</b>	<b>119 832 196</b>	<b>26 512 575</b>
<b>MINORITY SHARE ( note 30 )</b>	<b>803 182</b>			
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>199 679 484</b>	<b>65 577 761</b>	<b>195 097 415</b>	<b>65 571 085</b>

# STATEMENT OF CASH FLOW

Consolidated, audited

	GROUP		PARENT COMPANY	
	1997.a.	1996.a.	1997.a.	1996.a.
The years operations				
Net profit	25 974 621	9 948 632	25 974 621	9 948 632
Profit of minority share	-82 690			
Depreciation of fixed assets	3 384 933	5 591 544	2 451 522	5 591 544
Gains from the sale of fixed assets	-4 490 085	-26 809 330	-4 087 904	-26 809 330
Losses from the sale and disposal of fixed assets	145 011	10 652	114 192	10 652
Income from capital sharing			-2 443 698	-15 134
Losses from capital sharing	389 973			
Gains from the sale of investment	-333 106	-197 071		-197 071
Losses from write-down of investments	10 000			
Dividends from subsidiary companies			200 000	
Changes in current assets (except cash and bank accounts)	-88 927 576	-1 309 994	-79 994 749	-1 709 943
Changes in current liabilities	32 134 112	-112 000 667	36 206 709	-113 043 022
Cash flow from the years operations	-31 794 807	-124 766 234	-21 579 307	-126 223 672
Investment activities				
Investment in investment	-2 708 271		-15 736 289	-3 394 296
Sale of investment	1 904 052		1 575 052	467 315
Long-term lending	-1 935 535		-1 935 535	
Repayment of long-term dept	41 648		12 249	53 000
Investment in fixed assets	-23 150 982		-22 775 682	-5 112 848
Sale of fixed assets	7 943 107		9 380 617	130 091 070
Self-constructed physical assets under construction		14 573		14 573
Net investments	-17 905 981	120 684 620	-29 479 588	122 118 814
Financing activities				
New issues of shares	69 325 000		69 325 000	
Dividend paid	-1 980 000		-1 980 000	
Long-term dept repayment	-40 454	-294 144		-294 144
Deferred income tax	224 788			
Cash flow in financing activities	67 529 334	-294 144	67 345 000	-294 144
Net cash flows*	17 828 546	-4 375 758	16 286 105	-4 399 002
* Cash and bank accounts 31.12.97	28 389 404	10 560 858	26 823 719	10 537 614
31.12.96	10 560 858	14 936 616	10 537 614	14 936 616
Cash flow	17 828 546	-4 375 758	16 286 105	-4 399 002

Note: The Group cash flow statement has been affected by subsidiary companies purchased in 1997, since purchased moment.



# Accounting principles

Consolidated financial statements of AS MERKO EHITUS are prepared in accordance with laws of Estonian Republic, principles and practices of The Estonian Accounting Board and generally accepted accounting principles. Statements are consolidated according to International Accounting Standards.

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

In consolidated statements AS MERKO EHITUS and its subsidiaries, are treated as consolidated business entity. In consolidation cost of subsidiaries assets in gross carrying amount have been taken into account.

In consolidation receivables, liabilities, internal sales, profit and loss in result of business transactions inside the Group are eliminated.

Consolidated statements are affected by following subsidiaries

(thousand EEK)

Subsidiary company	Year of acquisition	Ownership %	Acquisition cost	Net Sales 1997	Equity capital 31.12.97					
					Share capital	Capital surplus	Reserve capital	Retained earnings	1997 profit	Total
AS Merko Kinnisvara Saue, Tule 21 Real estate	1997	100	10000	-	10000	-	-	-	211	10211
Eesti Ehitus-ekspordi AS Saue, Tule 21 Project manager	1995	100	400	51489	400	-	3	-	260	663
AS Gustaf Pärnu, Ringi 10 Construction	1997	100	2400	42555	1 000	13	100	454	2014	3581
AS K&P Ehitus Tartu, Tähe 106 Construction	1997	60	1500	22615	625	1125	10	1	247	2008

and 100 % subsidiary company of AS Gustaf, AS Gustaf Vilnius in Lithuania.

Investments to associated companies are valued using equity method.

## Notes

(thousand EEK)

### Note 1 Net sales

98.3 % of net sales comes from construction activities, 1.7% from sales of other services and goods. Construction turnover was 517 776 thousand EEK, (of which export accounted for 16 548 thousand EEK, and domestic turnover 501 228 thousand EEK.)

	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
Construction	517 776	163 318	417 629	163 318
incl. residential buildings	19 799	12 257	8 108	12 257
service and retail buildings	208 742	60 456	179 825	60 456
industrial buildings	13 437	9 803	-	9 803
office buildings	275 798	80 801	229 696	80 801
Sales of other services and goods	8 719	17 500	6 836	17 477
<b>Total</b>	<b>526 495</b>	<b>180 819</b>	<b>424 465</b>	<b>180 796</b>

**Note 2**      **Work-in-progress**  
Work-in-progress amount is shown in building costs.

		<b>GROUP</b>	<b>PARENT COMPANY</b>	
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 3</b>	<b>Other revenue</b>			
	Income from sale of fixed assets	4 490	26 817	4 088
	Gains from fine and interests on arrears	2 194	266	2 006
	Income of notes receivable	1 492	-	1 492
	Insurance benefits	344	-	320
	Other revenue	442	116	38
	<b>Total</b>	<b>8 962</b>	<b>27 199</b>	<b>7 944</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>	
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 4</b>	<b>Commodities, materials and sub-contractor services</b>			
	Material	82 671	44 169	48 549
	Sub-contractor services	316 484	86 960	275 989
	Energy	2 595	2 203	2 595
	Irrelevant fixed assets	1 683	1 028	1 549
	<b>Total</b>	<b>403 433</b>	<b>134 360</b>	<b>328 682</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>	
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 5</b>	<b>Various operation costs and expenses</b>			
	Construction ,except sub-contractor services	16 406	9 627	12 151
	Design and planning	10 887	3 679	10 887
	Lease	9 091	4 281	8 053
	Insurance	1 172	561	1 011
	Transportation	4 975	2 573	2 910
	Computer network and communication	3 464	5 954	3 464
	Taxes and stamp taxes	1 122	225	1 122
	Reserve of construction guarantee	795	122	753
	Other services	13 884	4 967	5 099
	<b>Total</b>	<b>61 796</b>	<b>31 989</b>	<b>45 450</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>	
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 6</b>	<b>Other business costs and expenses</b>			
	Municipal taxes	298	320	297
	Sponsorship	265	80	208
	Losses from writing-off and selling of fixed assets	148	20	114
	Other business costs and expenses	414	1 226	255
	<b>Total</b>	<b>1 125</b>	<b>1 646</b>	<b>874</b>

Sponsorship is showed in scheme 2 as advertising cost in marketing costs

**GROUP      PARENT COMPANY**

		<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 7</b>	<b>Administration and general expenses</b>				
	Labour costs	6 371	2 753	4 041	2 753
	Transportation	2 164	838	1 237	838
	Rental depreciation, maintenance, heating of office	3 140	1 316	2 052	1 316
	Postal, communication, small office inventory, representative expenses	1 715	679	934	679
	Computer network, audit, other communication expenses	967	5 793	780	5 793
	Other expenses	2 044	979	1 539	977
	<b>Total</b>	<b>16 401</b>	<b>12 358</b>	<b>10 583</b>	<b>12 356</b>

**Note 8 Financial income from stocks of subsidiary companies**

In the consolidated statements the investments to share capital of subsidiary companies and financial income and financial expenses from shares of subsidiary companies are eliminated, except 333 thousand EEK financial income received by AS Gustaf from selling AS Gustaf-Riga to AS MERKO EHITUS. AS Gustaf-Riga (new business name SIA MERKS) is now associated company of AS MERKO EHITUS (50%).

		<b>1997</b>	<b>GROUP 1996</b>	<b>PARENT COMPANY 1997</b>	<b>1996</b>
<b>Note 9</b>	<b>Other interest and financial income</b>				
	Income on short-term securities	88	-	88	-
	Interest on securities of interest bearing fund	1 235	117	899	117
	Interest on loans	595	1 844	595	1 844
	Interest on deposits	1 171	50	1 171	50
	Interest on bank accounts	50	24	28	24
	<b>Total</b>	<b>3 139</b>	<b>2 035</b>	<b>2 781</b>	<b>2 035</b>

		<b>1997</b>	<b>GROUP 1996</b>	<b>PARENT COMPANY 1997</b>	<b>1996</b>
<b>Note 10</b>	<b>Other financial expenses</b>				
	Discount of short-term securities	5 208	-	5 208	-
	Other financial expenses	121	373	110	373
	<b>Total</b>	<b>5 329</b>	<b>373</b>	<b>5 318</b>	<b>373</b>

**Note 11 Deferred income tax**

Deferred income tax 1312 thousand EEK came from differences between accounting depreciation of fixed assets and depreciation for income tax purposes.

**Note 12 Minority share**

Minority share 99 thousand EEK in the consolidated Income Statement shows minority share of profit of the shareholders outside the Group who own 40% of voting shares of AS K&P Ehitus.

**Note 13 Cash and bank accounts**

26 000 thousand EEK of total 28 389 thousand EEK of cash and bank accounts () is bank deposit.

		<b>1997</b>	<b>GROUP 1996</b>	<b>PARENT COMPANY 1997</b>	<b>1996</b>
<b>Note 14</b>	<b>Shares and other securities (short term</b>				

**investments)**

Securities of interest bearing funds	31 985	42	24 685	42
Securities listed in Tallinn Stock Exchange	6 759	-	6 759	-
Securities listed in Riga Stock Exchange	772	-	772	-
Other securities registered in the Estonian Central Depository for Securities	881	-	881	-
Other securities	50	-	50	-
Other (Latvian Privatization Voucher)	1 930	-	1 930	-
<b>Total</b>	<b>42 377</b>	<b>42</b>	<b>35 077</b>	<b>42</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>		
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>	
<b>Note 15</b>	<b>Accounts receivable</b>				
	Accounts receivable in construction	42 002	18 675	39 594	18 675
	Accounts receivable others	1 162	3 368	1 003	3 368
	<b>Total</b>	<b>43 164</b>	<b>22 043</b>	<b>40 597</b>	<b>22 043</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>		
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>	
<b>Note 16</b>	<b>Receivables from associated companies</b>				
	Construction	3 304	-	3 304	-
	Short-term loan	4 016	-	4 016	-
	Other services	2	-	2	-
	<b>Total</b>	<b>7 322</b>	<b>-</b>	<b>7 322</b>	<b>-</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>		
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>	
<b>Note 17</b>	<b>Other current receivables</b>				
	Short-term loans	9 369	8 322	9 359	8 322
	Other short-term receivables	166	194	114	194
	<b>Total</b>	<b>9 535</b>	<b>8 516</b>	<b>9 473</b>	<b>8 516</b>

		<b>GROUP</b>	<b>PARENT COMPANY</b>		
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>	
<b>Note 18</b>	<b>Prepaid costs and expenses of future period</b>				
	Insurance	494	279	424	279
	Operating lease	152	-	5	-
	Media	40	8	21	8
	Semi-annual cost of land lease	152	-	152	-
	Innovation cost of rented rooms	134	-	-	-
	Other prepaid costs	97	36	-	36
	<b>Total</b>	<b>1 069</b>	<b>323</b>	<b>602</b>	<b>323</b>

**Note 19** **Stock**  
In pricing of raw and other materials is used the FIFO method.

		<b>GROUP</b>	<b>PARENT COMPANY</b>		
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>	
	Prepayments to suppliers	13 063	5 504	12 975	5 504
	incl. construction companies according to	9 853	2 855	9 765	2 855

sub-contracts				
other services and goods	3 210	2 649	3 210	2 649

**Note 20**      **Stocks of associated companies**  
31.12.1996 AS MERKO EHITUS didn't own associated companies

	Acquisition cost	Change of investment in equity	Investments at the end of the year	Ownership %	Equity capital			
					Share capital	Retained earnings from prior period	Profit at 1997	Total equity capital
Normanni Linna- grupi AS; Tallinn, Liivalaia 33, Project manager	500	-	500	50	1 000	-15	15	1 000
AS Stik-Elekter; Järvamaa, Roosna-Alliku, Electrical works	316	53	369	34	400	-	163	563
SIA MERKS; Läti Vabariik, Riia, Republicas Laukums 2-1407, Project manager	909	-443	466	50	1 460	-50	-477	933
<b>Total</b>	<b>1 725</b>	<b>-390</b>	<b>1 335</b>					

**Note 21**      **Other stocks, shares and securities**

	At the beginning of the year	Purchase	Sale	At the end of the year
<b>Parent company</b>				
AS Betola (Real estate)	2 335	-	-	2 335
E-Investeeringugrupi AS	1 169	-	1 169	-
Eesti Ühispank	386	-	386	-
Tallinna Kaubamaja	9	-	9	-
AS Viljandi Aken ja Uks	15	-	-	15
Eesti Ukraina Investeeringugrupi AS	-	50	-	50
AS Eesti Ettevõtjate Ärikeskus	-	50	-	50
<b>Total of Parent company</b>	<b>3 914</b>	<b>100</b>	<b>1 564</b>	<b>2 450</b>
AS Sunset Holding (entertainment)	-	960	-	960
<b>Total</b>	<b>3 914</b>	<b>1 060</b>	<b>1 564</b>	<b>3 410</b>

**GROUP PARENT COMPANY**

		<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 22</b>	<b>Other long-term receivables</b>				
	Long term loan	1 935	12 249	1 935	12 249
	<b>Total</b>	<b>1 935</b>	<b>12 249</b>	<b>1 935</b>	<b>12 249</b>

**Note 23 Tangible and intangible assets**

**Group**

	Land lease	Land	Buildings	Machinery equipment	Other inventory	Goodwill	Accrued depreciation	Prepayments	Total
Gross carrying amount 01.01.1997	-	2 491	6 574	4 431	1 887	-	-5 527	2 040	<b>11 896</b>
Acquisition	9 581	10 576	759	6 603	1 684	1 675	-1 108	-1 961	<b>27 809</b>
Selling	-	-2 913	-	-1 599	-102	-	1 107	-	<b>-3 507</b>
Write-off	-	-	-	-428	-88	-	358	-	<b>-158</b>
Depreciation	64	-	597	1 879	592	-253	-3 132	-	<b>-3 385</b>
Gross carrying amount 31.12.1997	9 581	10 154	7 333	9 007	3 381	1 422	-8 302	79	<b>32 655</b>

**Parent company**

	Land lease	Land	Buildings	Machinery equipment	Other inventory	Accrued depreciation	Prepayments	Total
Gross carrying amount 01.01.1997	-	1 057	6 574	4 431	1 886	-5 527	2 040	<b>10 461</b>
Acquisition	9 581	10 533	759	2 365	1 556	-	-1 961	<b>22 833</b>
Selling	-	-4 937	-	-1 150	-102	838	-	<b>-5 351</b>
Write-off	-	-	-	-294	-30	212	-	<b>-112</b>
Depreciation	64	-	597	1 214	577	-2 452	-	<b>-2 452</b>
Gross carrying amount 31.12.1997	9 581	6 653	7 333	5 352	3 310	-6 929	79	<b>25 379</b>

Tangible assets are depreciated by straight-line method. Minimal rates of depreciation and acquisition were variable in the Group. Though tangible assets of parent company give majority of fixed assets of the Group, the rates of depreciation in the parent company are shown: land lease 2%, buildings 8 %, machinery, equipment and other inventory 25%. Tangible assets are classified as assets with useful life over one year and gross carrying amount over 5000 EEK for inventory, and 8000 EEK for other fixed assets.

Goodwill (1675 thousand EEK) was accrued from acquisition of subsidiary companies AS Gustaf and AS K&P Ehitus over net value. Goodwill must be depreciated by straight-line method within a period of five years.

Capital lease. Subsidiary companies have acquired transportation vehicles in gross carrying amount of 1076 thousand EEK. Of the total redemption sum 449 thousand EEK 290 thousand EEK must be paid in 1998.

		<b>1997</b>	<b>GROUP 1996</b>	<b>PARENT COMPANY 1997</b>	<b>1996</b>
<b>Note 24</b>	<b>Prepayments by purchasers for goods and services</b>				
	Other prepayments	32 654	13 326	32 654	13 326
	Muud ettemaksed	3 525	710	3 525	710

Ettemaksu käibemaks	-4 752	-1 579	-4 752	-1 579
<b>Kokku</b>	<b>31 427</b>	<b>12 457</b>	<b>31 427</b>	<b>12 457</b>

		<b>GROUP</b>		<b>PARENT COMPANY</b>	
		<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 25</b>	<b>Accounts payable to suppliers</b>				
	Construction services	22 138	13 267	21 667	13 267
	Material	4 233	2 001	2 826	2 001
	Rental service	904	703	818	703
	Transportation	681	594	206	594
	Energy expenses	414	52	401	52
	Other services	839	579	658	579
	<b>Total</b>	<b>29 209</b>	<b>17 196</b>	<b>26 576</b>	<b>17 196</b>

		<b>GROUP</b>		<b>PARENT COMPANY</b>	
		<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 26</b>	<b>Tax liabilities</b>				
	VAT	2 345	-	1 947	-
	Corporate income tax	6 499	5 053	5 580	5 047
	Personal income tax	260	-	-	-
	Social taxes	782	44	614	411
	<b>Total</b>	<b>9 886</b>	<b>5 464</b>	<b>8 141</b>	<b>5 458</b>

		<b>GROUP</b>		<b>PARENT COMPANY</b>	
		<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 27</b>	<b>Current appropriations</b>				
	Guarantee responsibility based on contracts	1 390	1 086	1 348	1 086
	Deferred income tax	1 175	-	1 175	-
	<b>Total</b>	<b>2 565</b>	<b>1 086</b>	<b>2 523</b>	<b>1 086</b>

		<b>GROUP</b>		<b>PARENT COMPANY</b>	
		<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
<b>Note 28</b>	<b>Other long term appropriations</b>				
	Deferred income tax	225	-	-	-
	<b>Total</b>	<b>225</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 29 Statement of changes in equity capital**

	Share capital	Capital surplus	Reserve capital	Retained earnings
Balance sheet 31.12.1996.	8 030	-	803	17 680
Change of reserve capital	-	-	1 410	-1 410
Issue of new shares	7 375	61 950	-	-
Issue from profit to share capital	14 095	-	-	-14 095
Dividend	-	-	-	-1 980
Balance sheet 31.12. 1997.	29 500	61 950	2 213	195

**Note 30 Minority share**

Minority share in consolidated balance sheet (803 thousand EEK) shows minority share of equity capital of shareholders outside the Group who own 40% of voting shares of AS K&P Ehitus..

**Note 31 Security for loans and mortgage assets**

On 31.12.1997 the following agreements between AS MERKO EHITUS and Hansapank were in force:

1. Contract of floating charge No. 95-1539-KM for movable assets of 25 million EEK and notarized pledge to property in Saue, Tule 21 for 7 million EEK. Overdraw agreement 95-1539-3 at term 30.09.1998 is guaranteed by pledged assets; limit of overdraw agreement is 10 million EEK.
2. Contract of pledge No.97-5801-ÕP 26.06.1997 – 02.01.1998 for 20 million EEK. Time deposit of 20 million EEK, contract No. 12953 26.06.1997. Pledged assets guarantee contracts of guarantee between Hansapank and AS MERKO EHITUS.

On 31.12.1997 the following contracts between As K&P Ehitus and Eesti Ühispank were in force:

1. Contract of registered pledge No 11-4/38-1 09.10.1997 for Mitsubishi Lancer and for Ford Transit for 150 thousand EEK
  2. Contract of floating charge 08.10.1997 for movable assets for 100 thousand EEK
- Guarantee given by Eesti Ühispank to AS K&P Ehitus is covered by contracts of pledge.

**Note 32 Contingent liabilities**

Guarantees for customers during construction period	
AS Merko Ehitus Ltd.	13525
AS Gustaf Ltd.	416
Guarantees for customers during guarantee period	
AS Merko Ehitus Ltd.	1 046
AS K&P Ehitus Ltd.	144
Tender security	
AS Merko Ehitus Ltd.	2 395
Payment guarantee for suppliers	
AS Merko Ehitus Ltd.	303
Bails	
AS Merko Ehitus Ltd.	908
AS Gustaf Ltd.	1 400

**Note 33 Earnings per share**

Earnings per share on 31st December 1997 were 8.80 EEK.

**Note 34 Transactions with related parties**

There were no transactions with related parties in 1997.

**Note 35 Risks**

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

Financing costs for construction are covered by prepayments of customers and by using financing schedule for current payments.



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

A guarantee reserve has been established for covering costs of repair occurring during the guarantee period.

The foreign exchange risks are eliminated by connecting contract price to the Deutsche Mark (DEM).

<b>Note 36</b>	<b>Shares owned by the members of the Council, Board and related partners</b>		
	<b>Members of the Council</b>	<b>Shares</b>	<b>Participation</b>
	Raul Ojala	159	0,01%
	<b>Members of the Board</b>		
	Tõnu Toomik	3000	0,10%
	Ülo Metsaots	7000	0,24%
	<b>Related partners of the Board</b>		
	Imbi Metsaots	179	0,01%

<b>Note 37</b>	<b>List of shareholders with more than 5% of share capital</b>		
		<b>Shares</b>	<b>Participation</b>
	AS Merko Grupp	2 163 111	73,3%
	Clients of Skandinaviska Enskilda Banken	185 750	6,3%

# Auditor's report to the shareholders of AS MERKO EHITUS

We have audited the annual financial statements of AS MERKO EHITUS and the consolidated financial statements of the group for the year ended 31 December 1997. The company's management is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements.

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

## **Parent Company**

In our opinion the financial statements, prepared in accordance with International Accounting Standards, give a true and fair view of the financial position of AS MERKO EHITUS at 31 December 1997 and results of its operations for the year then ended.

## **Group**

In our opinion the financial statements, prepared in accordance with International Accounting Standards, give a true and fair view of the financial position of the group at 31 December 1997 and results of group's operations for the year then ended.

16 February 1998, Tallinn

Audit EA

Malle Rannik  
Authorised Public Accountant

## Proposal of the board for distribution of profits

The audited consolidated net profit of Merko Ehitus was 25 974 621 EEK in 1997.

The Board proposes to allot net profit as shown below:  
to allot into mandatory legal reserve 737 500 EEK;  
to pay as dividends 5 162 500 EEK, i.e.- 1.75 EEK per each present share;  
the rest of the net profit will be carried forward.

The Board proposes to have a bonus issue, by using capital surplus, to increase the share capital from 29 500 000 EEK to 88 500 000 EEK, by issuing two new shares with nominal value 10 EEK per every one existing share, totaling 5 900 000 new shares.

Net income in 1997	25 974 621
Retained earnings	195 075
<b>Total to be distributed</b>	<b>26 169 696</b>
Reserve capital	737 500
To be paid as dividends	5 162 500
<b>Balance of undistributed profit</b>	<b>20 269 696</b>
Capital surplus	61 950 000
Bonus issue	59 000 000
<b>Balance of capital surplus</b>	<b>2 950 000</b>