

AS Merko Ehitus

Group

Annual Report 2001

Beginning of financial year 1.1.2001

End of financial year 31.12.2001

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ACTIVITY REPORT

For Merko Ehitus the past year of 2001 was successful. Among Estonian construction companies Merko Ehitus had by far the biggest turnover both in Estonia in general and in total turnover.

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

Estonia	945 777
Latvia	187 812
Lithuania	170 053
Others	54 948
Total	1 358 590

Business activities

The Group's sales decreased by 4.6% to 1358 million kroons in 2001 as against 2000 when the sales accounted for 1420 million kroons. The Group's net profit increased by 32.6% to 88.3 million kroons as against 2000 when the achieved net profit was 66.6 million kroons. Construction sales accounted for 95.5% and other sales for 4.5% of the net sales of Merko Ehitus Group.

Per type of construction, the building activities of Merko Ehitus in 2001 distributed as follows:

Non-residential buildings	82%
incl. office buildings	22%
industrial buildings	10%
other non-residential buildings	50%
Residential buildings	12%
Civil engineering	6%

The most significant change that took place among the different segments was the fast growth of residential building construction, which grew from 3% up to 12% of the Group's turnover during the period of one year. Among the largest building objects were the residential buildings in Tuvi Street and family houses in Teelahkme.

Of aggregate building activity of the Group 67% was accounted for by new buildings and 33% by renovating and reconstructing works.

The share of exports and sales outside Estonia rose from 28% in 2000 to 30% in 2001.

The ratios characterising the operating activities of the Group in 2001 were:

Net profit margin	6.5%
Net operating profit	6.0%
Return on owner's equity	44%
Return on assets	17.9%

In 2001 the average number of full-time staff in the parent company AS Merko Ehitus was 169, with gross salaries amounting to 23.7 million kroons. The average gross salary in the parent company AS Merko Ehitus increased by 12.4% as compared to 2000. The average number of full-time staff of the Group was 355, with gross salaries amounting to 45 million kroons. The average gross salary in Merko Ehitus Group increased by 10.2% as compared to 2000.

The most significant structural change was the acquisition of 100% participation in Tallinna Teede AS in December 2001.

In order to guarantee more successful operating in Latvia Merko Ehitus opened there a new agency.

Tangible investments of Merko Ehitus Group into machinery, equipment and inventory amounted to 5 928 thousand kroons in 2001. The investments were used for creating and improving jobs.

Financial position

The enterprise is highly liquid and well capitalised. The ratios characterising the financial position in 2001 were:

Equity ratio, percent	47%
Current ratio	1.6
Receivables turnover	7.3

Share and shareholders

Closing price for Merko Ehitus share in Tallinn Stock Exchange was 43.4 kroons as of December 31 2001. Net earnings per share in 2001 were 9.98 kroons.

Structure of shareholders of Merko Ehitus in the end of 2001 was as follows:

Shareholders	Shares	Participation
Merko Group	6 551 343	74.0%
Nordea Bank, clients	873 000	9.9%
SEB, clients	254 200	2.9%
Sampo Pank, clients	181 773	2.1%
Clearstream Banking, clients	166 717	1.9%
OÜ Haak	137 000	1.5%
HEX Back Offices and Custody Services OY	126 000	1.4%
Other shareholders	559 967	6.3%
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 1 185 thou kroons in 2001. 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 613 thou kroons in 2001. Gross salary of the senior executive amounted to 332 kroons in 2001.

Outlook for 2002

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. In another strategic direction Merko Ehitus continues its activities in the fields of residential building construction and real estate development.

ANNUAL FINANCIAL STATEMENTS 2001

CONFIRM TO THE ANNUAL FINANCIAL STATEMENTS

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

15 March 2002

INCOME STATEMENT

In thousand kroons

	Note	Group		Parent company	
		2001	2000	2001	2000
Sales	1	1 358 590	1 420 469	859 135	960 645
Cost of sales	2	1 231 688	1 319 713	767 212	896 445
Gross profit		126 902	100 756	91 923	64 200
Marketing expenses	3	11 989	9 875	6 436	4 568
Administrative expenses	4	36 795	27 428	18 962	13 869
Other operating income	5	7 649	7 868	3 894	6 043
Other operating expenses	6	3 766	5 407	2 372	1 396
Operating profit		82 001	65 914	68 047	50 410
Financial income	7	12 444	9 784	22 221	21 139
incl. capital share income		3 975	1 001	13 683	13 359
Financial expenses	8	3 444	6 156	1 954	4 954
incl. capital share expenses		1 342	1 057	1 353	1 057
Profit (-loss) from ordinary activities		91 001	69 542	88 314	66 595
Profit (-loss) before taxes		91 001	69 542	88 314	66 595
Income tax	9	433	1 783	2	-
Net profit (-loss) for the financial year		90 568	67 759	88 312	66 595
Minority interest		2 256	1 164	-	-
Net profit (-loss) for the group		88 312	66 595	88 312	66 595
Net profit (-loss) per share (basic and diluted, in kroons)	10	9.98	7.52		

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INCOME STATEMENT

In thousand euros

	Group		Parent company	
	2001	2000	2001	2000
Sales	86 830	90 784	54 909	61 396
Cost of sales	78 719	84 345	49 034	57 293
Gross profit	8 110	6 439	5 875	4 103
Marketing expenses	766	631	411	292
Administrative expenses	2 352	1 753	1 212	886
Other operating income	489	503	249	386
Other operating expenses	241	346	152	89
Operating profit	5 241	4 213	4 349	3 222
Financial income	795	625	1 420	1 351
Incl. capital share income	254	64	875	854
Financial expenses	220	393	125	317
Incl. capital share expenses	86	68	86	68
Profit (-loss) from ordinary activities	5 816	4 445	5 644	4 256
Profit (-loss) before taxes	5 816	4 445	5 644	4 256
Income tax	28	114	0	-
Net profit (-loss) for the financial year	5 788	4 331	5 644	4 256
Minority interest	144	74	-	-
Net profit (-loss) for the group	5 644	4 256	5 644	4 256
Net profit (-loss) per share (basic and diluted, in euros)	0.63	0.48		

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BALANCE SHEET 31.12.

In thousand kroons

	Note	Group		Parent company	
		2001	2000	2001	2000
ASSETS					
Cash and cash equivalents	12	60 814	42 294	33 453	29 019
Marketable securities	13	18 516	95 042	9 026	87 602
Accounts receivable	14	186 808	202 821	109 496	101 591
Other current receivables	15	51 788	23 187	84 049	38 261
Accrued income	16	993	548	924	485
Prepaid expenses	18	8 384	3 327	528	451
Inventories	19	88 324	50 565	47 842	28 604
Total current assets		415 627	417 784	285 318	286 013
Long-term investments	20	21 977	12 123	100 914	47 139
Property, plant and equipment	21	80 807	46 732	36 193	35 821
Intangible assets	22	-6 677	778	-	-
Total non-current assets		96 107	59 633	137 107	82 960
TOTAL ASSETS		511 734	477 417	422 425	368 973
LIABILITIES AND OWNER'S EQUITY					
Borrowings	24	4 541	8 891	941	7 792
Customer prepayments	26	9 865	31 313	8 070	28 182
Accounts payable		122 504	150 957	60 891	63 529
Other liabilities	32	1 493	1 337	10 671	3 307
Tax liabilities	27	11 842	11 846	6 783	6 411
incl. income tax		181	1 071	2	-
Accrued liabilities	28	11 116	7 626	5 368	3 949
Current provisions	29	98 464	97 920	83 956	92 336
Other pre-paid revenue		-	57	-	-
Total current liabilities		259 825	309 947	176 680	205 506
Non-convertible borrowings	24	204	-	-	-
Accounts payable		7 478	-	7 347	-
Total non-current liabilities		7 682	-	7 347	-
TOTAL LIABILITIES		267 507	309 947	184 027	205 506
Minority interests		5 829	4 003	-	-
OWNER'S EQUITY					
Share capital	30	88 500	88 500	88 500	88 500
Share premium		2 950	2 950	2 950	2 950
Mandatory legal reserve		8 205	4 875	8 205	4 875
Undistributed profit		49 213	6	49 213	6
Net profit (-loss) for the financial year		88 312	66 595	88 312	66 595
Exchange rate differences		1 218	541	1 218	541
TOTAL OWNER'S EQUITY		238 398	163 467	238 398	163 467
TOTAL LIABILITIES AND OWNER'S EQUITY		511 734	477 417	422 425	368 973

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BALANCE SHEET 31.12.

In thousand euros

	Group		Parent company	
	2001	2000	2001	2000
ASSETS				
Cash and cash equivalents	3 887	2 703	2 138	1 855
Marketable securities	1 183	6 074	577	5 599
Accounts receivable	11 939	12 963	6 998	6 493
Other current receivables	3 310	1 482	5 372	2 445
Accrued income	63	35	59	31
Prepaid expenses	536	213	34	29
Inventories	5 645	3 232	3 058	1 828
Total current assets	26 563	26 701	18 235	18 280
Long-term investments	1 405	775	6 450	3 013
Property plant equipment	5 164	2 987	2 313	2 289
Intangible assets	-427	50	-	-
Total non-current assets	6 142	3 811	8 763	5 302
TOTAL ASSETS	32 706	30 512	26 998	23 582
LIABILITIES AND OWNER'S EQUITY				
Borrowings	290	568	60	498
Customer prepayments	630	2 001	516	1 801
Accounts payable	7 829	9 648	3 892	4 060
Other liabilities	95	85	682	211
Tax liabilities	757	757	434	410
incl. income tax	12	68	0	-
Accrued liabilities	710	487	343	252
Current provisions	6 293	6 258	5 366	5 901
Other pre-paid revenue	-	4	-	-
Total current liabilities	16 606	19 809	11 292	13 134
Non-convertible borrowings	13	-	-	-
Accounts payable	478	-	470	-
Total non-current liabilities	491	-	470	-
TOTAL LIABILITIES	17 097	19 809	11 761	13 134
Minority interests	373	256	-	-
OWNER'S EQUITY				
Share capital	5 656	5 656	5 656	5 656
Share premium	189	189	189	189
Mandatory legal reserve	524	312	524	312
Undistributed profit	3 145	0	3 145	0
Net profit (-loss) for the financial year	5 644	4 256	5 644	4 256
Exchange rate differences	78	35	78	35
TOTAL OWNER'S EQUITY	15 236	10 447	15 236	10 447
TOTAL LIABILITIES AND OWNER'S EQUITY	32 706	30 512	26 998	23 582

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STATEMENT OF CHANGES IN EQUITY

In thousand kroons

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Undistributed profit	Total
Closing balance 31.12.1999	88 500	2 950	4 875	1 818	7 971	106 114
Exchange rate differences	-	-	-	-1 277	-	-1 277
Dividends	-	-	-	-	-7 965	-7 965
Net profit (-loss) for the financial year	-	-	-	-	66 595	66 595
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
Income tax on dividends	-	-	-	-	-783	-783
Net profit (-loss) for the financial year	-	-	-	-	88 312	88 312
Closing balance 31.12.2001	88 500	2 950	8 205	1 218	137 525	238 398

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STATEMENT OF CHANGES IN EQUITY

In thousand euros

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Undistributed profit	Total
Closing balance 31.12.1999	5 656	189	312	116	509	6 782
Exchange rate differences	-	-	-	-82	-	-82
Dividends	-	-	-	-	-509	-509
Net profit (-loss) for the financial year	-	-	-	-	4 256	4 256
Closing balance 31.12.2000	5 656	189	312	35	4 257	10 447
Exchange rate differences	-	-	-	43	-	43
Change in reserve capital	-	-	213	-	-213	-
Dividends	-	-	-	-	-848	-848
Income tax on dividends	-	-	-	-	-50	-50
Net profit (-loss) for the financial year	-	-	-	-	5 644	5 644
Closing balance 31.12.2001	5 656	189	524	78	8 789	15 236

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CASH FLOW STATEMENT

In thousand kroons

	Group		Parent company	
	2001	2000	2001	2000
Operating activities				
Profit from ordinary activities	91 001	69 542	88 314	66 595
Depreciation	7 823	7 833	4 379	5 366
Other adjustments*	-15 114	59 611	-13 213	36 223
Operating profit before working capital changes	83 710	136 986	79 480	108 184
Working capital changes				
Marketable shares	77 103	-67 146	78 601	-59 947
Receivables	-195	-134 203	-53 765	-56 352
Accrued income	-81	939	-281	939
Prepaid expenses	-4 262	2 368	-77	4 036
Inventories	-23 451	-5 346	-29 082	-3 081
Customer prepayments	-68 217	-10 573	-20 113	15 230
Accounts payable	4 225	87 752	-645	27 960
Other liabilities	6 908	11 452	7 363	-6 946
Tax liabilities	855	5 520	370	2 671
Accrued liabilities	585	802	6	-746
Other pre-paid revenue	-57	57	-	-
Cash generated from operations	77 123	28 608	61 857	31 948
Interests				
Interests received	5 283	3 474	6 743	3 214
Interests paid	-113	-646	-14	-548
Dividends				
Dividends received	8	229	3 193	223
Company income tax				
Income tax paid for the previous fiscal year	-801	136	-	-
Pre-paid income tax	-1 025	-253	-	-
Net cash from operating activities	80 475	31 548	71 779	34 837
Investing activities				
Acquisition of subsidiary	-31 152	-	-42 600	-120
Acquisition of associates	-	-34	-	-20
Disposal of associates	-894	5 875	-	5 875
Acquisition of other long-term investments	-	-1 800	-	-1 800
Disposal of other long-term investments	-	21	-	21
Long-term loans made	-	-3 832	-5 291	-3 305
Long-term loan payments made	-6 790	2 503	3 900	2 348
Purchase of property, plant and equipment	4 299	-7 389	-12 522	-1 539
Sale of property, plant and equipment	-16 919	2 273	8 380	199
Net cash used in investing activities	8 883	-2 383	-48 133	1 659
	-42 573			
Financing activities				
Proceeds from borrowings	-	6 796	-	4 766
Repayments of borrowings	-7 108	-11 735	-6 851	-10 540
Repayments of finance lease liabilities	-	-78	-	-
Dividends paid	-13 824	-7 965	-13 275	-7 965
Net cash used in financing activities	-20 932	-12 982	-20 126	-13 739
Total cash flow	16 970	16 183	3 520	22 757
Net increase/decrease in cash and cash equivalents	16 970	16 183	3 520	22 757
Cash and cash equivalents at the beginning of the period	42 294	25 239	29 019	5 353
Effects of exchange rate differences	1 550	872	914	909
Cash and cash equivalents at the end of the period	60 814	42 294	33 453	29 019

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* Other adjustments	Group		Parent company	
	2001	2000	2001	2000
Adjustments of revenues from construction contracts according to the percentage of completion method	-8 856	62 172	7 228	52 984
Warranty reserve changes	974	1 406	-563	286
Holiday pay reserve changes	1 879	826	1 413	171
Profit or loss from disposals or liquidation of property, plant and equipment	-520	1	-453	-17
Profit or loss from long term investments	-2 632	-860	-12 330	-13 245
Value adjustments of marketable securities	-25	-199	-25	-199
Foreign exchange profit or loss	217	-704	-914	-908
Interest income	-5 473	-3 736	-6 792	-3 391
Interest expense	113	716	14	547
Dividend income	-8	-11	-8	-5
Income tax paid on dividends	-783	-	-783	-
Total other adjustments	-15 114	59 611	-13 213	36 223

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CASH FLOW STATEMENT

In thousand euros

	Group		Parent company	
	2001	2000	2001	2000
Operating activities				
Profit from ordinary activities	5 816	4 445	5 644	4 256
Depreciation	500	501	280	343
Other adjustments*	-966	3 810	-844	2 315
Operating profit before working capital changes	5 350	8 755	5 080	6 914
Working capital changes				
Marketable shares	4 928	-4 291	5 024	-3 831
Receivables	-12	-8 577	-3 436	-3 602
Accrued income	-5	60	-18	60
Prepaid expenses	-272	151	-5	258
Inventories	-1 499	-342	-1 859	-197
Customer prepayments	-4 360	-676	-1 285	973
Accounts payable	270	5 608	-41	1 787
Other liabilities	442	732	471	-444
Tax liabilities	55	353	24	171
Accrued liabilities	37	51	0	-48
Other pre-paid revenue	-4	4	-	-
Cash generated from operations	4 929	1 828	3 953	2 042
Interests				
Interests received	338	222	431	205
Interests paid	-7	-41	-1	-35
Dividends				
Dividends received	1	15	204	14
Company income tax				
Income tax paid for the previous fiscal year	-51	9	-	-
Pre-paid income tax	-66	-16	-	-
Net cash from operating activities	5 143	2 016	4 588	2 226
Investing activities				
Acquisition of subsidiary	-	-	-2 723	-8
Acquisition of associate	0	-2	-	-1
Disposal of associates	-	375	-	375
Acquisition of other long-term investments	-	-115	-	-115
Disposal of other long-term investments	-	1	-	1
Long-term loans made	0	-245	-338	-211
Long-term loan payments made	-434	160	249	150
Purchase of property, plant and equipment	275	-472	-800	-98
Sale of property, plant and equipment	-1 081	145	536	13
Net cash used in investing activities	568	-152	-3 076	106
Financing activities				
Proceeds from borrowings	-	434	-	305
Repayments of borrowings	-454	-750	-438	-674
Repayments of finance lease liabilities	-	-5	-	-
Dividends paid	-884	-509	-848	-509
Net cash used in financing activities	-1 338	-830	-1 286	-878
Total cash flow	1 085	1 034	225	1 454
Net increase/decrease in cash and cash equivalents	1 085	1 034	225	1 454
Cash and cash equivalents at the beginning of the period	2 703	1 613	1 855	342
Effects of exchange rate differences	99	56	58	58
Cash and cash equivalents at the end of the period	3 887	2 703	2 138	1 855

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* Other adjustments	Group		Parent company	
	2001	2000	2001	2000
Adjustments of revenues from construction contracts according to the percentage of completion method	-566	3 974	462	3 386
Warranty reserve changes	62	90	-36	18
Holiday pay reserve changes	120	53	90	11
Profit or loss from disposals or liquidation of property, plant and equipment	-33	0	-29	-1
Profit or loss from long term investments	-168	-55	-788	-847
Value adjustments of marketable securities	-2	-13	-2	-13
Foreign exchange profit or loss	14	-45	-58	-58
Interest income	-350	-239	-434	-217
Interest expense	7	46	1	35
Dividend income	-1	-1	-1	0
Income tax paid on dividends	-50	-	-50	-
Total other adjustments	-966	3 810	-844	2 315

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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 thousand Estonian kroons and in thousand euros, notes are presented in thousand 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 20.

Investments in associates

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 20.

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 of 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. 200 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 of associate company and their purchase price on the day of acquisition. Goodwill is reported in the balance sheet

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as intangible asset and it is depreciated by straight-line method in the period of five years. Negative goodwill is depreciated on the basis of the remaining life span of the acquired depreciate capital assets.

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.

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 timber structures 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.

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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.

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.

Construction contract works in progress are presented in the balance sheet according to the Standard of "Accounting for long-term construction contracts" of the Estonian Accounting Board.

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.

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Notes

In thousand kroons

**Note 1
Segment information**

Business segments

2001	Construction	Production of structures for small houses	Road construction	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					9 000
incl. profit from associate companies	792			1 840	2 632
Profit before tax					91 001
Income tax					433
Net profit (-loss) for the Group					90 569
Minority interest					2 256
Net profit					88 312
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					511 734
Segment liabilities	239 929	6 568	9 168	-	255 665
Unallocated liabilities					11 842
Consolidated total liabilities					267 507
Acquisition of property, plant and equipment and intangible assets	9 731	543	32 349	-	42 624
Depreciation	7 167	656	-	-	7 823

2000	Construction	Production of structures for small houses	Production of concrete elements	Group
Sales	1 362 552	57 917	-	1 420 469
Operating profit of the business segment	64 290	1 624	-	65 914
Financial items				3 628
incl. profit from associate companies	-1 064	-	1 001	-63
Profit before taxes				69 542
Income tax				1 783
Net profit (-loss) for the Group				67 759
Minority interest				1 164
Net profit				66 595
Segment assets	453 005	12 229	-	465 234
Associate companies	3 315	-	1 988	5 303

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Unallocated assets				6 880
Consolidated total assets				<u>477 417</u>
Segment liabilities	301 229	7 310	-	308 539
Unallocated liabilities				1 408
Consolidated total liabilities				<u>309 947</u>
Acquisition of property, plant and equipment and intangible assets	6 843	559	-	7 402
Depreciation	7 307	526	-	7 833

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	
	2001	2000	2001	2000
Estonia	945 777	1 016 315	838 099	940 989
Latvia	187 812	129 612	13 238	9 765
Lithuania	170 053	226 471	7 798	9 891
Russia	-	3 025	-	-
Germany	15 490	22 769	-	-
Norway	7 962	8 196	-	-
Denmark	676	14	-	-
Sweden	29 468	11 793	-	-
Others	1 352	2 274	-	-
Total	<u>1 358 590</u>	<u>1 420 469</u>	<u>859 135</u>	<u>960 645</u>

	Total assets		Acquisition of tangible fixed assets	
	2001	2000	2001	2000
Estonia	411 896	352 418	37 999	3 291
Latvia	51 542	29 368	3 038	2 645
Lithuania	48 296	95 631	1 586	1 466
Total	<u>511 734</u>	<u>477 417</u>	<u>42 623</u>	<u>7 402</u>

Note 2

Cost of sales

	Group		Parent company	
	2001	2000	2001	2000
Materials	148 653	146 059	51 847	63 609
Construction services	904 278	1 042 688	595 556	752 992
Labour costs	40 898	39 669	22 310	24 688

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Depreciation	5 331	5 757	3 441	4 419
Projecting	24 828	14 086	18 365	12 320
Construction machinery and transportation	23 518	25 280	14 428	14 939
Other expenses	84 182	46 174	61 265	23 478
Total costs of sales	1 231 688	1 319 713	767 212	896 445

Note 3

Marketing expenses

	Group		Parent company	
	2001	2000	2001	2000
Labour costs	4 645	3 878	2 279	1 717
Depreciation	57	25	56	24
Advertising, sponsoring	3 739	3 156	1 935	1 506
Transportation	1 002	696	717	514
Building tenders and ISO-related expenses	669	173	254	63
Other expenses	1 877	1 947	1 195	744
Total marketing expenses	11 989	9 875	6 436	4 568

Note 4

Administrative expenses

	Group		Parent company	
	2001	2000	2001	2000
Labour costs	16 914	12 855	9 484	6 923
Depreciation	2 435	2 051	882	923
Computer hard- and software, IT services	2 607	1 749	1 663	890
Banking facilities	592	616	178	211
Transportation	3 635	3 017	2 544	1 919
Office expenses, communication services	5 325	4 740	2 148	2 231
Other expenses	5 287	2 400	2 063	772
Total administrative expenses	36 765	27 428	18 962	13 869

Note 5

Other operating income

	Group		Parent company	
	2001	2000	2001	2000
Gain from selling of tangible assets	596	172	512	116
Gain on penalties and interest on arrears	5 285	4 181	2 460	3 982
Foreign exchange gain	1 079	1 916	914	1 129
Other income	689	1 599	8	816
Total other operating income	7 649	7 868	3 894	6 043

Note 6

Other operating expenses

	Group		Parent company	
	2001	2000	2001	2000
Local taxes	358	528	32	127
Penalties, interest on arrears	1 070	532	540	596
Loss from selling of tangible assets	320	254	59	98
Foreign exchange loss	306	3 467	69	410

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Other expenses	1 712	626	1 672	165
Total operating expenses	3 766	5 407	2 372	1 396

Note 7

Financial income

	Group		Parent company	
	2001	2000	2001	2000
Financial income from subsidiaries	-	-	11 785	12 358
Financial income from associate companies	3 975	1 001	1 898	1 001
Financial income from other long-term investments	-	1 050	-	1 050
Gain from conversion differences for the year	1 888	3 816	638	2 986
Other interest and financial income				
profit from the sale of short-term securities	1 036	124	1 036	59
dividends received	8	11	8	5
interest income	5 446	3 493	6 792	3 391
surplus from revaluation of marketable securities	31	289	31	289
other financial income	60	-	33	-
Total interest and financial income	6 581	3 917	7 900	3 744
Total financial income	12 444	9 784	22 221	21 139

Note 8

Financial expenses

	Group		Parent company	
	2001	2000	2001	2000
Financial expenses from subsidiaries	-	-	11	-
Financial expenses from associate companies	1 342	1 064	1 342	1 064
Loss from conversion differences for the year	1 982	3 829	570	2 796
Value adjustments to financial assets	-	100	-	100
Other financial expenses				
discount of short-term securities	10	90	10	90
interest expenses	103	716	14	547
other financial expenses	7	357	7	357
Total other financial expenses	120	1 163	31	994
Total financial expenses	3 444	6 156	1 954	4 954

Note 9

Income tax

	Group		Parent company	
	2001	2000	2001	2000
Profit before tax	91 001	69 542	88 314	66 595
Income tax payable	734	1 341	2	-
Deferred income tax	-301	442	-	-
Income tax	433	1 783	2	-

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.

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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 the Republic of Latvia, the corporate income is liable to 25% income tax. Agency of AS Meko 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. The corporate profit is liable to 29% income tax in the Republic of Lithuania.

Note 10
Earnings (-loss) per share

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

	2001	2000
Net profit (-loss) attributable to shareholders	88 312	66 595
Weighted average number of ordinary shares	8 850	8 850
Basic net earnings (-loss) per share (kroons)	9.98	7.52

In 2000 and 2001 there were no potential ordinary shares wherefore the diluted net earnings (-loss) per share equals the basic net earnings per share.

Note 11
Dividends per share

Dividends to be paid are reported after General Meeting has confirmed the proposal on distribution of profit. According to the proposal on distribution of profit payable in dividends in 2002 totals 35 400 thou kroons (in 2001 13.275 thou kroons), i.e. 4.00 kroons per share (in 2001 1.50 kroons per share).

Note 12
Cash and cash equivalents

	Group		Parent company	
	2001	2000	2001	2000
Cash in hand	172	298	1	4
Bank accounts	23 328	14 736	2 834	1 755
Short-term deposits	37 314	27 260	30 618	27 260
Total cash and cash equivalents	60 814	42 294	33 453	29 019

Note 13
Marketable investments

	Group		Parent company	
	2001	2000	2001	2000
Money-market fund shares	9 410	85 951	-	78 601
Listed shares on Tallinn Stock Exchange	315	300	315	300
Listed shares on Riga Stock Exchange	447	437	447	437
Other shares registered in Estonian CSD	200	200	200	200
Other shares in Estonian enterprises	8 144	8 154	8 064	8 064
Total marketable investments	18 516	95 042	9 026	87 602

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Note 14

Accounts receivable

	Group		Parent company	
	2001	2000	2001	2000
Accounts receivable	186 861	203 327	109 534	101 591
Allowance for doubtful receivables	-53	-506	-38	-
Total accounts receivable	186 808	202 821	109 496	101 591

Note 15

Other current receivables

	Group		Parent company	
	2001	2000	2001	2000
Receivables from parent company and subsidiaries				
loans to subsidiaries (Note 32)	-	-	36 720	10 290
other receivables	1 735	1 735	5 649	12 782
Total receivables from parent company and subsidiaries	1 735	1 735	42 369	23 072
Receivables from associated companies				
loans to associate companies (Note 32)	6 744	2 692	6 744	2 692
Other receivables	197	337	197	337
Total receivables from associated companies	6 941	3 029	6 941	3 029
Other short-term receivables				
short-term loans (Note 17)	35 660	15 645	30 592	11 654
other short-term receivables	7 452	2 778	4 147	506
Total other short-term receivables	43 112	18 423	34 739	12 160
Total miscellaneous receivables	51 788	23 187	84 049	38 261

Note 16

Deferred income

	Group		Parent company	
	2001	2000	2001	2000
Interests	738	542	669	479
Other deferred income	255	6	255	6
Total deferred income	993	548	924	485

Note 17

Loans to non-related parties

	Group		Parent company	
	2001	2000	2001	2000
Loans to non-related legal entities				
Balance of loan in the beginning of the year	20 501	14 775	15 590	13 965
Extended	43 575	21 162	38 553	7 027
Received	23 138	15 436	19 965	5 402
Balance of loan in the end of the year	40 938	20 501	34 178	15 590
incl. long-term part	6 831	5 020	5 131	4 086
Average interest rate 8%				

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Loans to non-related natural persons

Balance of loan in the beginning of the year	164	193	150	150
Extended	1 545	-	1 545	-
Received	156	29	150	-
Balance of loan in the end of the year	1 553	164	1 545	150
incl. short-term part	1 553	164	1 545	150
Average interest rate 8%				
Total	42 491	20 665	35 723	15 740
incl. short-term part (Note15)	35 660	15 645	30 592	11 654
incl. long-term part (expiration of 2 to 5 years) (Note 20)	6 831	5 020	5 131	4 086

Note 18

Prepaid expenses

	Group		Parent company	
	2001	2000	2001	2000
Prepaid taxes and reversion				
VAT	6 699	2 137	-	-
company income tax	123	409	-	21
land tax	28		-	
Total prepaid taxes and reversion	6 850	2 546	-	21
Other prepaid expenses				
prepaid insurance premiums	601	411	417	354
prepaid rent	155	204	-	-
others	778	166	111	76
Total other prepaid expenses	1 534	781	528	430
Total prepaid expenses	8 384	3 327	528	451

Note 19

Inventories

	Group		Parent company	
	2001	2000	2001	2000
Raw materials	4 041	2 516	985	-
Work in progress	9 092	598	8 878	-
Finished products	855	1 781	-	-
Merchandise purchased for resale	32 667	8 112	32 575	3 285
Advanced payments to suppliers for materials	567	578	-	-
Construction-in-progress	5 821	10 464	4 159	9 030
Due from customers (Note 31)	35 281	26 516	1 245	16 289
Total inventories	88 324	50 565	47 842	28 604

Note 20

Long-term investments

	Group		Parent company	
	2001	2000	2001	2000
Shares in subsidiaries	-	-	88 038	35 963
Shares in associate companies	12 489	5 303	5 845	5 289
Other shares and debt securities	1 800	1 800	1 800	1 800
Miscellaneous long-term receivables	7 588	5 020	5 131	4 087
Long-term receivables from associate companies	100	-	100	-
Total long-term investments	21 977	12 123	100 914	47 139

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Name of subsidiary	Ownership interest and voting power %		Location	Business segment
	2001	2000		
AS Merko Ehitus subsidiaries				
AS Gustaf	100	100	Pärnu	Construction
OÜ Matek	71.6	65	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	-	Tallinn	Road construction
SIA Merks	100	100	Latvia, Riga	Construction
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
ZAO Merkostroi	100	100	Russia, St.Petersburg	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
AS Gustaf subsidiary				
SIA Rigus	100	100	Latvia, Riga	Construction
Tallinna Teede AS subsidiary				
OÜ Talbit	87.5	-	Tallinn	Holding
SIA Merks subsidiaries				
SIA Aivari M	100	100	Latvia, Riga	Construction
SIA Zeltini M	100	100	Latvia, Riga	Construction
SIA Rēki M	100	100	Latvia, Riga	Construction

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

Name of subsidiary	Investment 31.12.2000	Changes in 2001			Investment 31.12.2001
		Acquisition and sale	Income – expense from subsidiaries	Dividend payments	
AS Merko Ehitus subsidiaries					
AS Gustaf	9 035	-	5 885	-2 000	12 922
OÜ Matek	3 112	209	2 658	-	5 979
AS Merko Tartu	4 400	-	2 486	-1 065	5 821
AS Merko Insenerehitus	1 491	-	26	-	1 517
OÜ Merko Ehitustööd	161	-	-4	-120	37
OÜ Merko Ehitusteenused	40	-	-	-	40
Eesti Ehitusekspordi OÜ	41	-	-7	-	34
Tallinna Teede AS	-	42 600	-	-	42 600
SIA Merks	12 313	-	363	-	13 074
UAB Merko Statyba	5 204	-	367	-	5 848
ZAO Merkostroi	46	-	-	-	46

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OÜ Merko Elamu	40	-	-	-	-	40
OÜ Merko Maja	40	-	-	-	-	40
OÜ Merko Kinnisvara	40	-	-	-	-	40
Total	35 963	42 809	11 774	-3 185	677	88 038
AS Gustaf subsidiary						
SIA Rigus	39	-	-	-	2	41
AS Tallinna Teede subsidiary						
OÜ Talbit	-	3 232	-	-	-	3 232
SIA Merks subsidiaries						
SIA Aivari M	54	-	-	-	2	56
SIA Zeltini M	54	-	-	-	2	56
SIA Rēki M	55	-	-	-	2	57
Total	163	-	-	-	6	169
Group total	36 165	46 041	11 774	-3 185	685	91 480

31 December 2001 AS Merko Ehitus acquired 100% of the shares of road construction company Tallinna Teede AS. The sum paid for the shares was 42.600 thou kroons. As a result of this acquisition the following assets and liabilities are portrayed in the consolidated balance sheet:

Cash and cash equivalents	11 448
Receivables	12 571
Inventories	816
Associate company shares	3 648
Property, plant and equipment	32 349
Short-term liabilities	-10 793
Long-term liabilities	-204
Minority interest	-462
Fair value of the acquired net assets:	<u>49 373</u>
Goodwill (Note 22)	<u>-6 773</u>
Paid for subsidiary	42 600
Subsidiary's cash and cash equivalents at the moment of acquisition	11 448
Outflow of cash in relation to acquisition of subsidiary	<u>31 152</u>

Shares in associate companies

Name of associate company	Ownership interest and voting power %		Location	Business segment
	2001	2000		
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	

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Viru Väljaku Arenduse OÜ	50	50	Tallinn	Real estate
SIA Merks associate companies				
PS Merks-Terbe Lat	50	50	Latvia, Riga	Construction
SIA Kipsalas Saules Akmens	50	-	Lavia, Riga	Real estate
OÜ Talbit associate company				
AS Bituumen	24.8	-	Tallinn	Holding

Name of associate company	Investment 31.12.2000	Changes in 2001		Investment 31.12.2001
		Acquisition and sale	Income-expense from associate company	
AS Merko Ehitus associate companies				
Normanni Linnagrupi AS	384	-	58	442
AS Insenerivõrgud	2 897	-	-1 322	1 575
AS Tartu Maja Betoontooted	1 988	-	1 840	3 828
Viru Väljaku Arenduse OÜ	20	-	-20	0
Total	5 289	-	556	5 845
SIA Merks associate company				
PS Merks-Terbe Lat	14	2 077	7	2 098
SIA Kipsalas Saules Akmens	-	898	-	898
Total	14	2 975	7	2 996
OÜ Talbiti associate company				
AS Bituumen	-	3 648	-	3 648
Group total	5 303	6 623	563	12 489

Other shares and debt securities	Group		Parent company	
	2001	2000	2001	2000
In the beginning of the year	1 800	115	1 800	115
Acquisition	-	1 800	-	1 800
Sale	-	15	-	15
Discount	-	100	-	100
In the end of the year	1 800	1 800	1 800	1 800

Miscellaneous long-term receivables	Group		Parent company	
	2001	2000	2001	2000
Long-term loans to associate companies	100	-	100	-
Long-term loans to non-related legal entities (Note 17)	6 831	5 020	5 131	4 087

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28(38)

Other long-term receivables	757	-	-	-
Total miscellaneous long-term receivables	<u>7 688</u>	<u>5 020</u>	<u>5 232</u>	<u>4 087</u>

Note 21
Property, plant and equipment

Property, plant and equipment in Group	Land	Buildings	Building title	Machinery and equipment	Other inventory	Construct ion in progress	Advances	Total
Acquisition cost 31.12.2000	2 608	39 132	1 603	13 841	9 119	-	2 867	69 170
Accumulated depreciation 31.12.2000	-	8 674	107	8 408	5 249	-	-	22 438
Net book amount 31.12.2000	<u>2 608</u>	<u>30 458</u>	<u>1 496</u>	<u>5 433</u>	<u>3 870</u>	<u>-</u>	<u>2 867</u>	<u>46 732</u>
Net book amount 31.12.2000	2 608	30 458	1 496	5 433	3 870	-	2 867	46 732
Exchange rate differences	57	-	-	58	60	-	-	175
Acquisition	3 068	118	-	2 898	3 030	12	7 788	16 914
Acquisition of subsidiary	-	4 408	-	25 456	2 324	161	-	32 349
Disposal	35	6 768	1 059	238	178	-	-	8 278
Write-off for the year	-	-	-	41	36	-	-	77
Depreciation	-	2 451	19	2 437	2 101	-	-	7 008
Net book amount 31.12.2001	<u>5 698</u>	<u>25 765</u>	<u>418</u>	<u>31 129</u>	<u>6 969</u>	<u>173</u>	<u>10 655</u>	<u>80 807</u>
Acquisition cost 31.12.2001	5 698	37 323	458	64 064	16 106	173	10 655	134 477
Accumulated depreciation 31.12.2001	-	11 557	40	32 936	9 137	-	-	53 670
Net book amount 31.12.2001	<u>5 698</u>	<u>25 765</u>	<u>418</u>	<u>31 129</u>	<u>6 969</u>	<u>173</u>	<u>10 655</u>	<u>80 807</u>

Property, plant and equipment in parent company	Land	Buildings	Building title	Machinery and equipment	Other inventory	Advances	Total
Acquisition cost 31.12.2000	1 067	38 480	1 603	6 451	4 927	120	52 648
Accumulated depreciation 31.12.2000	-	8 486	107	4 402	3 832	-	16 827
Net book amount 31.12.2000	<u>1 067</u>	<u>29 994</u>	<u>1 496</u>	<u>2 049</u>	<u>1 095</u>	<u>120</u>	<u>35 821</u>

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Net book amount							
31.12.2000	1 067	29 994	1 496	2 049	1 095	120	35 821
Acquisition	313	-	-	1 115	714	10 535	12 677
Disposal	35	6 768	1 059	6	-	-	7 868
Write-offs for the year	-	-	-	41	18	-	59
Depreciation	-	2 392	19	1 182	786	-	4 379
Net book amount							
31.12.2001	1 345	20 834	418	1 935	1 005	10 655	36 192
Acquisition cost							
31.12.2001	1 345	30 293	458	6 825	5 487	10 655	55 063
Accumulated depreciation							
31.12.2001	-	9 459	40	4 890	4 482	-	18 871
Net book amount							
31.12.2001	1 345	20 834	418	1 935	1 005	10 655	36 192

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

Note 22 Intangible assets

Intangible assets in Group	Goodwill	Licences purchased	Total
Acquisition cost 31.12.2000	2 296	57	2 353
Accumulated amortization 31.12.2000	1 549	26	1 575
Net book amount 31.12.2000	747	31	778
Net book amount 31.12.2000	747	31	778
Company acquisitions	-6 773	134	-6 639
Amortization for the year	747	68	815
Net book amount 31.12.2001	-6 773	96	-6 677
Acquisition cost 31.12.2001	-6 773	191	-6 582
Accumulated amortization 31.12.2001	-	94	94
Net book amount 31.12.2001	- 6 773	97	- 6 676

Note 23 Assets leased

	Group	Parent company		
	2001	2000	2001	2000

Assets held under financial lease contracts

Machinery and equipment

Acquisition cost	27 478	130	-	-
Accumulated depreciation	14 536	87	-	-
Incl. depreciation for the year	32	32	-	-
Net book amount	12 942	43	-	-
Financial lease liability (Note 24)	2 961	-	-	-
Interest expense for the year	-	5	-	-

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Assets held under operational lease contracts	Group		Parent company	
	2001	2000	2001	2000
Machinery and equipment				
Payments for the year	4 639	2 396	3 901	1 764
Payments for subsequent periods	10 882	8 741	9 494	7 696
incl. payments during the following year	4 654	4 039	3 836	3 610
Payments during years 2 to 5	6 228	4 702	5 658	4 086
Total	15 521	11 137	13 395	9 460

Note 24

Liabilities

	Group		Parent company	
	2001	2000	2001	2000
Liabilities for financial lease (Note 23)				
Opening balance in the beginning of the year	-	74	-	-
Raised	2 961	-	-	-
Repaid	-	74	-	-
Closing balance in the end of the year	2 961	-	-	-
incl. short-term part	2 757	-	-	-
Long-term part expires during the 2nd year	204	-	-	-

Average interest rate 9%

Bank loans

Opening balance in the beginning of the year	159	2 035	-	-
Raised	-	-	-	-
Repaid	151	1 876	-	-
Closing balance in the end of the year	8	159	-	-
incl. short term part	8	159	-	-

Other loans

Opening balance in the beginning of the year	8 732	12 887	7 792	10 557
Raised	-	5 706	-	4 766
Repaid	6 956	9 861	6 851	7 531
Closing balance in the end of the year	1 776	8 732	941	7 792
incl. short-term part	1 776	8 732	941	7 792
Total liabilities	4 745	8 891	941	7 792
incl. short-term part	4 541	8 891	941	7 792
Long-term part expires during the 2nd year	204	-	-	-

Loan securities and pledged assets are reported in Note 25.

Note 25

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:

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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 No. 9308 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 250 000 DEM and the contracts of guarantee.

Between AS Gustaf and Hansabank:

Floating charge agreement on chattels for the aggregate value of 3 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 1.5 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 Hansabank:

Floating charge agreement on chattels for the aggregate value of 30 thou LVL to secure the contracts of guarantee.

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

Note 26

Customer prepayments

	Group		Parent company	
	2001	2000	2001	2000
Customer prepayments	10 687	36 638	8 674	33 025
VAT on customer prepayments	-822	-5 325	-604	-4 843
Total customer prepayments	9 865	31 313	8 070	28 182

Note 27

Tax liabilities

	Group		Parent company	
	2001	2000	2001	2000
VAT	4 917	7 828	3 021	4 740
Company income tax	1 929	1 076	1 785	-
Personal income tax	1 439	751	510	444
Social security tax	3 524	2 187	1 467	1 227
Land tax	33	4	-	-
Total tax liabilities	11 842	11 846	6 783	6 411

Note 28

Accrued liabilities

	Group		Parent company	
	2001	2000	2001	2000
Accrued payments to employees	10 165	7 254	5 305	3 634

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Accrued interest	10	-	-	-
Other accrued liabilities	941	372	63	315
Total accrued liabilities	11 116	7 626	5 368	3 949

Note 29

Current provisions

	Group		Parent company	
	2001	2000	2001	2000
Provisions to construction warranty liability	3 737	2 709	874	1 438
Due to customers (Note 31)	94 572	94 773	83 082	90 898
Other current provisions	155	438	-	-
Total current provisions	98 464	97 920	83 956	92 336

Note 30

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 2000 and 2001 there were no changes in share capital.

In 2001 dividends of 13 275 thou kroons were declared and paid out. (In 2000 dividends of 7.965 thou kroons were declared and paid out).

Note 31

Construction contract work in progress

	Group		Parent company	
	2001	2000	2001	2000
The aggregate amount of costs incurred and recognized profits (les recognized loss) to date	396 583	642 118	297 574	508 136
Progress billing	455 874	710 375	379 411	582 745
Total adjustment of income	-59 291	-68 257	-81 837	-74 609
Due from customers	35 281	26 516	1 245	16 289
Due to customers	94 572	94 773	83 082	90 898
Total adjustment of income	-59 291	-68 257	-81 837	-74 609

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

Amounts due to customers have been reported for all construction contract work in progress where the income in respect of expenditures on contract are smaller than the interim invoices submitted to customers. Amounts due to customers are reported in the balance sheet on the line *Due to customers* (note 29).

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Note 32
Related party transactions

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

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

Other liabilities	Group		Parent company	
	2001	2000	2001	2000
Current liabilities				
Liabilities to parent company or subsidiaries	-	-	9 178	1 970
incl. loan liabilities	-	-	902	902
other liabilities	-	-	8 276	1 005
Liabilities to associate companies	1 493	1 337	1 493	1 337
Total current liabilities	1 493	1 337	10 671	3 307

Loans

<u>Loans to subsidiaries and associate companies</u>	Group		Parent company	
	2001	2000	2001	2000
Opening balance in the beginning of the year	2 692	1 117	12 982	4 534
Extended	4 152	1 575	34 646	13 440
Received	-	-	4 064	4 992
Closing balance in the end of the year	6 844	2 692	43 564	12 982
incl. short-term part (Note 15)	6 744	2 692	43 464	12 982
long-term part 2 to 5 years	100	-	100	-

Average interest rate 10%

<u>Loans from subsidiaries and associate companies</u>	Parent company	
	2001	2000
Opening balance in the beginning of the year	902	20 586
Raised	-	-
Received	-	19 684
Closing balance in the end of the year	902	902
incl. short-term part	902	902

Average interest rate 0%

Salaries and wages of the Members of the Board and executives

In 2001 Member of the Board and executive staff were paid 2. 139 4 thou kroons in salaries (in 2000 the sum was 1. 996 5 thou kroons).

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Note 33

Potential liabilities

	Group		Parent company	
	2001	2000	2001	2000
Customer guarantee during construction	61 591	43 151	58 098	42 506
Tender guarantee	17 431	2 865	17 381	2 859
Guarantee for warranty period	36 543	16 599	25 888	14 903
Guarantee for advance	4 054	34 328	3 554	32 440
Sureties	27 395	22 706	27 395	22 706
Letters of credit	788	32	788	32
Total potential liabilities	147 802	119 681	133 104	115 446

Note 34

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 35

Number of shares owned by Members 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 36

Shareholders of participation in excess of 5%

	Shares	Participation
AS Merko Grupp	6 551 343	74.03

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Audit EA, Tallinn



Korrespondentliige

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fax 646 1512
auditea@online.ee

AUDITOR´S REPORT

TO THE SHAREHOLDERS OF AS MERKO EHITUS

We have audited the annual accounts of AS Merko Ehitus including income statement, balance sheet, statement of changes in shareholders equity, cash flow statement and notes, and the related consolidated accounts of AS Merko Ehitus Group for the financial year ended 31 December 2001. These accounts are the responsibility of the management of the company. Our responsibility is to express an opinion on these accounts based on our audit.

We conducted our audit in accordance with generally accepted auditing principles. Those principles require that we plan and perform the audit to obtain reasonable assurance about whether the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used in the preparation of the accounts, as well as evaluating the overall presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the annual accounts and consolidated accounts, prepared in accordance with the International Accounting Standards, give a true and fair view of the results of AS Merko Ehitus and AS Merko Ehitus Group´s operations for 2001 and of their financial position as of 31 December 2001.

15 March 2002, 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 2001	88 312 055	
Retained earnings brought forward	49 212 851	
Retained earnings balance at 31.12.2001	137 524 906	
To mandatory legal reserve	645 229	
Dividends	35 400 000	(4.00 per share)
Retained earnings carried forward	101 479 677	

**SIGNATURES OF THE MEMBERS OF THE BOARD AND THE BOARD OF DIRECTORS FOR
ANNUAL REPORT 2001**

Annual report for the financial year 2001 has been confirmed on behalf of the General Meeting on
10th April 2002.



Tõnu Toomik
Chairman of Board



Ott Kikkas
Member of Board



Ülo Metsaots
Member of Board



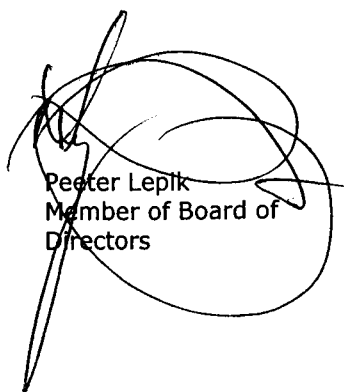
Veljo Viitmann
Member of board



Toomas Annus
Chairman of Board of
Directors



Raul Ojala
Member of Board of
Directors



Peeter Lepik
Member of Board of
Directors

10th April 2002