

AS Merko Ehitus

Group

Annual report

Beginning of financial year: 01.01.2003

End of financial year: 31.12.2003

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Attachments:

1. Auditor's report
2. Proposal for profit distribution
3. List of significant shareholders

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ACTIVITY REPORT

General

Merko Ehitus Group's main branches of business are construction and related activities in Estonia, Latvia and Lithuania. AS Merko Ehitus Group consists of the following principal companies: SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (100%), OÜ Gustaf Tallinn (100%), AS Merko Tartu (66%), AS Normanni Linnagrupp (50%), AS Telegrupp (45%) and AS Tartu Maja Betoontooted (25%).

The following structural changes were carried out in Merko Ehitus Group in 2003:

- AS Gustaf founded a subsidiary OÜ Gustaf Tallinn, which was subsequently acquired by AS Merko Ehitus;
- participation in OÜ MATEK, a subsidiary producing pre-fabricated houses, was sold;
- participation in the associated company Viru Väljaku Arenduse OÜ was sold;
- 50% of the 100% participation in OÜ Unigate was sold as a result of which the previous subsidiary turned into an associated company;
- 100% participation of OÜ Woody was acquired as well as 50% participations of OÜ Constancia and OÜ Pire Projekt;
- SIA MERKS founded a subsidiary Merks Investicijas for real estate operations in Latvia and acquired four subsidiaries of 100% participation: SIA Ziemeļzeme, SIA Elniko, SIA MR Multifuncionalais Centrs and SIA SK Viesturdarzs;
- UAB Merko Statyba founded a subsidiary UAB Upes Centras for real estate development activities.

Business activities

2003 was a successful year for Merko Ehitus. Group's turnover increased by 62% to 2 708 million kroons as against 2002. Turnover increase was mainly due to large-scale construction projects commenced in 2002 (Mustakivi shopping centre and Viru Keskus shopping centre, Riga head office of Hansapank) and new extensive construction contracts concluded in 2003 (Muuga Harbour coal terminal and the new main building of Estonian Art Museum). 98% of the turnover of Merko Ehitus Group was accounted for by construction activities, and 2% by other activities.

Construction activities of the Group were divided as follows:

	2003	2002
Non-residential buildings	68%	70%
incl. office buildings	14%	14%
industrial buildings	7%	6%
other non-residential buildings	47%	50%
Residential buildings	7%	9%
Civil engineering	21%	14%
Road construction	4%	7%

Of aggregate building activity of the Group 77% was accounted for by new buildings, and 23% by renovation and reconstruction.

In 2003 the most notable construction projects were Centrum shopping centre in the suburb of Lasnamägi, Viru Keskus shopping centre, Muuga Harbour coal terminal, Riga head office of Hansapank and the construction works of Estonian Art Museum.

The share of exports and sales outside Estonia increased from 22% in 2002 to 26% in 2003.

Turnover of Merko Ehitus Group was divided as follows (in thousand kroons):

	2003	2002
Estonia	1 981 207	1 307 070
Latvia	263 435	101 474
Lithuania	434 352	230 674
Others	28 670	30 379
Total	2 707 663	1 669 597

Group's net profit increased by 87% to 184.5 million as against 98.9 million kroons in 2002. Profit was earned from general business activities with the exception of a nonrecurring profit of 9.5 earned from disposing an office and production building complex in Saue and 1.3 million from the disposal of participations in associate companies and subsidiaries.

The activities of the Group in achieving the set goals is based on sustainable business strategy founded on the principles of conservative risk policy, high liquidity and equity of the Group. In choosing business partners and projects reasonable risk and reliability are preferred instead of considerable but obscure income.

Temporarily free financial assets are deposited as short-term deposits in the highest credit rated banks and in low risk liquid funds. In order to guarantee timely fulfillment of obligations AS Merko Ehitus has concluded current account credit agreements with banks thus possessing a total credit limit of circa 90 million kroons.

Group's construction contracts are mainly concluded in the local currencies of the country of location, and open foreign currency positions are generally avoided in daily business operations. Financing investments made in Latvian lats form Group's greatest foreign currency risk.

Operational risks arising from construction activities and possible losses are covered by insurances and guarantees. Elimination of possible construction defects appearing in the constructions is covered by construction warranties.

The ratios and calculation methods characterizing the operating activities of the Group were as follows:

	2003	2002
Net profit margin	6,8%	5,9%
Operating profit margin	7,5%	5,9%
Return on equity (per year)	48,3%	36,7%
Return on assets (per year)	19,9%	16,2%
Equity-to-assets ratio	40%	43%
Current ratio	1,5	1,5

Net profit margin : Net profit / Sales

Operating profit margin : Operating profit / Sales

Return on equity : Net profit / Average equity during the period

Return on assets : Net profit / Average assets during the period

Equity-to-assets ratio : Owners equity / Total assets

Current ratio : Current assets / Current liabilities

In 2003 the average number of full-time staff in the parent company AS Merko Ehitus was 252, having increased by 48 employees as compared to 2002. The gross salary paid to full-time personnel was 56.1 million kroons, which increased by 10.5% as compared to 2002. The average number of full-time employees in the Group was 609 with gross salaries amounting to 106.2 million kroons. The average gross salary in the Group increased by 13.3% as compared to 2002.

Share and shareholders

Closing price for Merko Ehitus share in Tallinn Stock Exchange was 187,92 kroons as of December 31 2003, having risen 128.6% as compared to 2002. Net earnings per share were 20.84 kroons in 2003, and according to the dividend policy of the company a proposition to pay 20% of the net profit of the fiscal year of 2003 to shareholders as dividends will be made in the annual general meeting of the shareholders.

Structure of shareholders of Merko Ehitus at the end of 2003 was as follows:

Shareholders	Shares	Participation
Merko Group	6 371 343	72,0%
Nordea Bank, clients	1 290 714	14,6%
SEB, clients	399 125	4,5%
Clearstream Banking, clients	121 162	1,4%
LLC Haak	89 175	1,0%
HEX Back Offices and Custody Services OY	88 970	1,0%
Other shareholders	489 511	5,5%
Total	8 850 000	100,0%

Board of Directors and Board

The Board of Merko Ehitus comprises of three members since April 2003. All of the board members have a full-time position with AS Merko Ehitus, and their gross salaries amounted to 3 058 thou kroons in 2003. The Board of Directors of AS Merko Ehitus comprises of three members, and their gross salaries amounted to 2 122 thou kroons in 2003. At the moment all members of the Board and Board of Directors have a full-time position with AS Merko Ehitus under respective contracts of service.

Outlook for 2004

In addition to the continuously positive market situation in the infrastructural and environmental construction sector there is room for considerable growth in the residential building sector the potential of which was not fully utilized in 2003. Extraordinarily low interest rates together with the continuous growth of income led to an unexpectedly high rise in the residential building market in all three Baltic States. We expect this positive tendency to continue also in 2004 thus acting as a motivator for further business activities in this sector. In addition to the residential building market also the road construction sector is developing quickly being currently a sector in which AS Merko Ehitus is active only in Estonia, but which possesses full capacity for large-scale activities in all three Baltic States.

In strategic direction AS Merko Ehitus will continue expansion of operations in Latvia and Lithuania where the company wishes to become one of the largest construction companies operating through its subsidiaries SIA Merks and UAB Merko Statyba. In the following years we estimate the share of Latvia and Lithuania in the Group's turnover to increase of the current nearly 30% up to circa 50%.

ANNUAL FINANCIAL STATEMENT

CONFIRM TO THE ANNUAL FINANCIAL STATEMENT

The Board of Merko Ehitus declares its liability for the correctness of consolidated financial statements of the Group presented on pages 6 to 44 and confirms in its best knowledge, that:

- The accounting principles used in preparing the annual financial statement are in compliance with International Financial Reporting Standards;
- The annual financial statement presents a true and fair view of the financial position and financial results of the parent and its subsidiaries;
- All the circumstances known until the preparation of annual financial statement have been duly taken in consideration and presented in the annual financial statement;
- AS Merko Ehitus and its subsidiaries are going concerns.



Tõnu Toomik
Chairman of the Board



Alar Lagus
Member of the Board



Veljo Viitmann
Member of the Board

March 5 2004 Tallinn, Estonia.

INCOME STATEMENT

in thousand kroons

	Note	Group		Parent company	
		2003	2002	2003	2002
Sales	1	2 707 663	1 669 597	1 696 873	1 029 640
Cost of sales	2	(2 429 125)	(1 499 283)	(1 476 012)	(911 153)
Gross profit		278 538	170 314	220 861	118 487
Marketing expenses	3	(15 832)	(14 118)	(11 018)	(8 222)
Administrative expenses	4	(73 347)	(49 821)	(38 561)	(25 239)
Other operating income	5	15 326	2 156	12 255	4 980
Other operating expenses	6	(2 137)	(10 015)	(1 751)	(8 505)
Operating profit		202 548	98 516	181 786	81 501
Financial income (expenses)	7	(9 795)	1 516	4 382	2 177
Income (expenses) from subsidiaries	19	542	-	(3 386)	14 297
incl. income (expenses) from capital share		-	-	(3 928)	14 297
Income (expenses) from associate companies	20	4 446	2 739	5 130	2 752
incl. income (expenses) from capital share		3 650	2 539	4 335	2 552
Profit before taxes		197 741	102 771	187 912	100 727
Income tax	8	(10 901)	(3 209)	(3 439)	(1 864)
Minority interest		(2 367)	(699)	-	-
Net profit for fiscal year		184 473	98 863	184 473	98 863
Net profit per share (basic and diluted, in kroons)	9	20,84	11,17		

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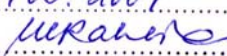
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INCOME STATEMENT

in thousand euros

	Group		Parent company	
	2003	2002	2003	2002
Sales	173 051	106 706	108 450	65 806
Cost of sales	(155 249)	(95 821)	(94 334)	(58 233)
Gross profit	17 802	10 885	14 116	7 573
Marketing expenses	(1 012)	(902)	(705)	(526)
Administrative expenses	(4 688)	(3 184)	(2 464)	(1 613)
Other operating income	980	138	783	318
Other operating expenses	(137)	(640)	(112)	(544)
Operating profit	12 945	6 296	11 618	5 208
Financial income (expenses)	(626)	97	280	139
Income (expenses) from subsidiaries	35	-	(216)	914
incl. income (expenses) from capital share	-	-	(251)	914
Income (expenses) from associate companies	284	175	328	176
incl. income (expenses) from capital share	223	162	277	163
Profit before taxes	12 638	6 568	12 010	6 437
Income tax	(697)	(205)	(220)	(119)
Minority interest	(151)	(45)	-	-
Net profit for fiscal year	11 790	6 318	11 790	6 318
Net profit per share (basic and diluted, in euros)	1,33	0,71		

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BALANCE SHEET

in thousand kroons

	Note	Group		Parent company	
		31.12.2003	31.12.2002	31.12.2003	31.12.2002
ASSETS					
Cash and cash equivalents	11	240 152	96 310	211 116	22 672
Marketable securities	12	36 096	53 018	8 065	8 871
Accounts receivable	13	408 296	164 714	339 802	118 986
Miscellaneous receivables	14	27 385	25 339	74 361	63 469
Accrued income	15	673	1 403	376	1 119
Prepaid expenses	17	21 180	14 433	7 164	1 977
incl. income tax		1 746	647	13	-
Inventories	18	255 263	224 340	151 678	165 542
Total current assets		989 045	579 557	792 562	382 636
Shares in subsidiaries	19	-	-	83 453	69 267
Shares in associate companies	20	25 040	21 338	21 944	17 550
Deferred income tax liability		4 124	3 761	-	-
Other long-term financial investments	21	3 325	21 142	2 159	28 699
Real estate investments	22	52 869	35 308	28 183	34 211
Tangible assets	23	73 051	50 390	8 936	6 969
Intangible assets	24	(1 592)	(5 283)	-	-
Total non-current assets		156 817	126 656	144 675	156 696
TOTAL ASSETS		1 145 862	706 213	937 237	539 332
LIABILITIES					
Debt obligations	26	12 447	12 805	-	5 200
Customer prepayments	29	17 881	42 820	13 853	21 573
Merchandise credit		267 597	178 151	168 459	90 829
Miscellaneous liabilities	35	24 199	4 712	19 118	13 719
Tax liabilities	30	21 352	16 351	12 431	7 981
incl. income tax		5 124	4 303	236	146
Accrued expenses	31	21 095	19 976	15 635	13 386
Current provisions	32	286 728	108 285	238 055	78 052
Total current liabilities		651 299	383 100	467 551	230 740
Long-term payables	26	16 399	2 604	-	-
Other long-term payables	27	9 532	14 900	5 863	7 775
Total non-current liabilities		25 931	17 504	5 863	7 775
TOTAL LIABILITIES		677 230	400 604	473 414	238 515
Minority interest		4 809	4 792	-	-
OWNERS' EQUITY					
Share capital	33	88 500	88 500	88 500	88 500
Share premium		2 950	2 950	2 950	2 950
Mandatory legal reserve		8 850	8 850	8 850	8 850
Undistributed profit		180 430	101 480	180 430	101 480
Net profit for fiscal year		184 473	98 863	184 473	98 863
Exchange rate differences		(1 380)	174	(1 380)	174
TOTAL OWNERS' EQUITY		463 823	300 817	463 823	300 817
TOTAL LIABILITIES AND OWNERS' EQUITY		1 145 862	706 213	937 237	539 332

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BALANCE SHEET

in thousand euros

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
ASSETS				
Cash and cash equivalents	15 348	6 155	13 493	1 449
Marketable securities	2 307	3 388	515	567
Accounts receivable	26 095	10 528	21 717	7 605
Miscellaneous receivables	1 750	1 619	4 753	4 056
Accrued income	43	90	24	72
Prepaid expenses	1 354	922	458	126
incl. income tax	112	41	1	-
Inventories	16 314	14 338	9 694	10 580
Total current assets	63 211	37 040	50 654	24 455
Shares in subsidiaries	-	-	5 334	4 427
Shares in associate companies	1 600	1 364	1 402	1 122
Deferred income tax liability	264	240	-	-
Other long-term financial investments	213	1 351	138	1 834
Real estate investments	3 379	2 257	1 801	2 187
Tangible assets	4 669	3 221	571	445
Intangible assets	(102)	(338)	-	-
Total non-current assets	10 023	8 095	9 246	10 015
TOTAL ASSETS	73 234	45 135	59 900	34 470
LIABILITIES				
Debt obligations	796	818	-	332
Customer prepayments	1 143	2 737	885	1 379
Merchandise credit	17 103	11 386	10 766	5 805
Miscellaneous liabilities	1 547	301	1 222	877
Tax liabilities	1 365	1 045	794	510
incl. income tax	327	275	15	9
Accrued expenses	1 348	1 277	999	856
Current provisions	18 324	6 921	15 215	4 988
Total current liabilities	41 626	24 485	29 881	14 747
Long-term payables	1 048	166	-	-
Other long-term payables	609	952	375	497
Total non-current liabilities	1 657	1 118	375	497
TOTAL LIABILITIES	43 283	25 603	30 256	15 244
Minority interest	307	306	-	-
OWNERS' EQUITY				
Share capital	5 656	5 656	5 656	5 656
Share premium	189	189	189	189
Mandatory legal reserve	566	566	566	566
Undistributed profit	11 531	6 486	11 531	6 486
Net profit for fiscal year	11 790	6 318	11 790	6 318
Exchange rate differences	(88)	11	(88)	11
TOTAL OWNERS' EQUITY	29 644	19 226	29 644	19 226
TOTAL LIABILITIES AND OWNERS' EQUITY	73 234	45 135	59 900	34 470

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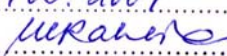
STATEMENT OF CHANGES IN EQUITY

in thousand kroons

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Undistrib- ted profit	Total
Closing balance 31.12.2001	88 500	2 950	8 205	1 218	137 525	238 398
Exchange rate differences	-	-	-	(1 044)	-	(1 044)
Change in reserve capital	-	-	645	-	(645)	-
Dividends	-	-	-	-	(35 400)	(35 400)
Net profit for fiscal year	-	-	-	-	98 863	98 863
Closing balance 31.12.2002	88 500	2 950	8 850	174	200 343	300 817
Exchange rate differences	-	-	-	(1 554)	-	(1 554)
Dividends	-	-	-	-	(19 913)	(19 913)
Net profit for fiscal year	-	-	-	-	184 473	184 473
Closing balance 31.12.2003	88 500	2 950	8 850	(1 380)	364 903	463 823

in thousand euros

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Undistrib- ted profit	Total
Closing balance 31.12.2001	5 656	189	524	78	8 789	15 236
Exchange rate differences	-	-	-	(67)	-	(67)
Change in reserve capital	-	-	41	-	(41)	-
Dividends	-	-	-	-	(2 262)	(2 262)
Net profit for fiscal year	-	-	-	-	6 318	6 318
Closing balance 31.12.2002	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(99)	-	(99)
Dividends	-	-	-	-	(1 273)	(1 273)
Net profit for fiscal year	-	-	-	-	11 790	11 790
Closing balance 31.12.2003	5 656	189	566	(88)	23 321	29 644

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CASH FLOW STATEMENT

	Note	Group		in thousand kroons Parent company	
		31.12.2003	31.12.2002	31.12.2003	31.12.2002
Operating activities					
Operating profit		202 548	98 516	181 786	81 501
Adjustments:					
Depreciation	1;22-24	12 958	11 079	3 460	3 688
Profit (loss) on disposal and liquidation of real estate investments		(9 450)	2 410	(9 450)	2 410
Profit (loss) on disposal or liquidation of fixed assets		(2 997)	(994)	(2 329)	(117)
Adjustments of revenues from construction contracts according to the percentage of completion method		190 345	(41 605)	167 440	(59 273)
Reserve changes		8 183	2 334	6 503	2 210
Change in receivables and prepayments concerning operating activities		(249 409)	26 112	(215 493)	(8 416)
Change in inventories		(55 685)	(73 348)	4 685	(56 768)
Change in liabilities and prepayments concerning operating activities		60 295	99 061	75 782	46 831
Interests and other financial expenses paid		(1 588)	(842)	(494)	(488)
Company income tax paid		(7 947)	(4 075)	(3 452)	(1 851)
Net cash from operating activities		147 253	118 648	208 438	9 727
Investing activities					
Acquisition of subsidiaries	19	4 939	-	(30 845)	(40)
Disposal of subsidiaries		2 210	-	3 220	-
Mergence of subsidiaries	19	(2 747)	-	-	-
Acquisition of associate companies		(44)	(6 434)	(44)	(6 407)
Disposal of associate companies		804	200	800	200
Acquisition of other financial investments		-	(46 789)	-	-
Disposal of other financial investments		2 552	3 147	1 131	144
Acquisition of real estate investments		(23 632)	(13 972)	(44)	(13 972)
Disposal of real estate investments		14 431	11 618	14 431	11 618
Acquisition of tangible assets		(14 748)	(8 860)	(5 906)	(4 328)
Disposal of tangible assets		8 194	2 154	3 365	158
Acquisition of intangible assets		(197)	-	-	-
Loans granted		(22 023)	(14 589)	(67 545)	(54 682)
Granted loan payment received		46 806	21 463	73 578	51 349
Interests received		5 440	3 796	5 184	3 520
Dividends received		-	1 617	7 778	32 064
Net cash used in investing activities		21 985	(46 649)	5 103	19 624
Financing activities					
Loans drawn		9 063	12 042	-	10 600
Repayments of loans		(2 661)	(10 340)	(1 200)	(10 341)
Repayments of finance lease liabilities	26	(11 937)	(7 314)	(4 000)	(3 624)
Dividends paid		(21 074)	(36 247)	(19 913)	(35 400)
Net cash used in financing activities		(26 609)	(41 859)	(25 113)	(38 765)
Total cash flow		142 629	30 140	188 428	(9 414)
Cash and cash equivalents at the beginning of the period		96 310	67 224	22 672	33 453
Change in cash and cash equivalents		142 629	30 140	188 428	(9 414)
Effects of exchange rate differences		1 213	(1 054)	16	(1 367)
Cash and cash equival. at the end of the per.		240 152	96 310	211 116	22 672

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CASH FLOW STATEMENT

	Group		in thousand euros Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Operating activities				
Operating profit	12 945	6 296	11 618	5 208
Adjustments:				
Depreciation	828	708	221	236
Profit (loss) on disposal and liquidation of real estate investments	(604)	154	(604)	154
Profit (loss) on disposal or liquidation of fixed assets	(192)	(64)	(149)	(7)
Adjustments of revenues from construction contracts according to the percentage of completion method	12 165	(2 659)	10 701	(3 788)
Reserve changes	523	149	416	141
Change in receivables and prepayments concerning operating activities	(15 940)	1 669	(13 771)	(538)
Change in inventories	(3 559)	(4 688)	299	(3 628)
Change in liabilities and prepayments concerning operating activities	3 854	6 331	4 844	2 993
Interests and other financial expenses paid	(101)	(54)	(32)	(31)
Company income tax paid	(508)	(260)	(221)	(118)
Net cash from operating activities	9 411	7 582	13 322	622
Investing activities				
Acquisition of subsidiaries	316	-	(1 971)	(3)
Disposal of subsidiaries	141	-	206	-
Mergence of subsidiaries	(176)	-	-	-
Acquisition of associate companies	(3)	(411)	(3)	(409)
Disposal of associate companies	51	13	51	13
Acquisition of other financial investments	-	(2 991)	-	-
Disposal of other financial investments	163	201	72	9
Acquisition of real estate investments	(1 510)	(893)	(3)	(893)
Disposal of real estate investments	922	743	922	743
Acquisition of tangible assets	(943)	(566)	(377)	(277)
Disposal of tangible assets	524	138	215	10
Acquisition of intangible assets	(13)	-	-	-
Loans granted	(1 407)	(932)	(4 317)	(3 495)
Granted loan payments received	2 992	1 371	4 702	3 282
Interests received	348	243	332	225
Dividends received	-	103	497	2 049
Net cash used in investing activities	1 405	(2 981)	326	1 254
Financing activities				
Loans drawn	579	770	-	677
Repayments of loans	(170)	(661)	(77)	(661)
Repayments of finance lease liabilities	(763)	(467)	(255)	(232)
Dividends paid	(1 347)	(2 317)	(1 273)	(2 262)
Net cash used in financing activities	(1 701)	(2 675)	(1 605)	(2 478)
Total cash flow	9 115	1 926	12 043	(602)
Cash and cash equivalents at the beginning of the period	6 155	4 296	1 449	2 138
Change in cash and cash equivalents	9 115	1 926	12 043	(602)
Effects of exchange rate differences	78	(67)	1	(87)
Cash and cash equival. at the end of the per.	15 348	6 155	13 493	1 449

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ACCOUNTING POLICIES

General

Financial statements of Merko Ehitus Group and the parent company AS Merko Ehitus have been prepared in accordance with International Financial Reporting Standards (IFRS).

Financial assets are presented in their true value in the balance sheet excluding receivables, which are presented in their adjusted acquisition price and investments in associated companies (the parent company's financial statements include also investments in subsidiaries), which are accounted by the equity method of accounting. Liabilities are presented in their adjusted acquisition price. Transactions of all assets are presented according to their date of operation.

Several financial key figures are based on the Board's estimates including such key figures as estimating the profit earning capacity of projects according to the percentage of completion method, the beneficial service life of fixed assets, the depreciation values of receivables and inventories and the provisions made to the warranty reserve. Board's estimates are concluded according to their best knowledge, but the actual results may differ from the estimates. The effects of accounting estimations are presented in the respective profit and loss statement.

Assets and liabilities have been divided into long- and short-term assets and liabilities. Assets likely to be realized during the following fiscal period are presented under short-term liabilities. Liabilities, which are due within a period of twelve months from the balance sheet date, are presented as short-term liabilities. Other assets and liabilities are presented as long-term liabilities.

In the profit and loss statement expenses are grouped as per function (under Scheme 2 of Estonian Accounting Law).

Financial statements are presented in thousands Estonian kroons and in thousands euros, notes are presented in thousands Estonian kroons.

Changes in portraying the information

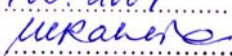
In comparison with the previous year the following changes have been made in presenting the information:

- o cash flow statement has been prepared starting with the operating income whereas in the previous the statement was based on profit before taxes;
- o in addition to the long term financing investments and loans made, also proceeds and repayments of short-term financing investments and made loans are presented under the investing activities section of the cash flow statement;
- o under the balance sheet line items *Miscellaneous receivables* and *Miscellaneous liabilities* all balances between the companies belonging to the consolidated Group of AS Merko Ehitus are portrayed, including balances of the parent company and other subsidiaries (so-called affiliated companies). In the previous fiscal year the balances of affiliated companies were portrayed under other balance sheet line items according their respective contents. A similar adjustment has been made in the long-term receivables and liabilities.

The reference information of the previous fiscal year presented in the financial statement is in accordance with the new presentation.

Consolidations

Subsidiaries i.e. companies in which AS Merko Ehitus has either directly or indirectly the majority vote, are consolidated line by line in the Group's annual financial statement. Control is presumed to exist when more than a one half of the subsidiary's voting power is controlled by the parent company, or the parent company is otherwise able to govern the financial and operational policies of another company. Activities of the

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subsidiaries are portrayed in the Group's annual financial statement starting from the acquisition of the company and ending with the disposal of the participation.

Parent companies and its subsidiaries are presented as joined financial units in the financial statements. In the consolidation process receivables and liabilities, income and expenses as well as unrealized profit and loss arising from inter-company operations have been eliminated. Minority interests in the equity are presented separately.

Companies of the Group apply similar accounting principles.

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

Investments in subsidiaries are presented in the parent company's financial statements by the means of the equity method of accounting. According to the equity method the amount of investment has been adjusted by the parent company's interest in the respective subsidiary's profit (loss), and the incurred unrealized profits and losses eliminated by internal operations.

Mergers

Mergers between independent parties are portrayed on the basis of acquirement method of accounting. The difference between acquired participation and the real value of the acquired net assets is presented as goodwill. Income and expenses of the acquired company are presented in the Group's profit and loss statement, and the goodwill is presented in the Group's balance sheet as from the acquisition date.

Associate companies

Associate companies are enterprises in which the Group has considerable influence if not control over the operational and financial activities of the company in concern. Considerable influence is presumed when the parent company owns 20 percent or more 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 unrealized profits and losses eliminated by internal operations.

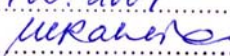
Foreign currencies

Operations effected in foreign currency are reported on the basis of the official exchange rates applicable on the date of transaction by the Central Bank of Estonia. The assets and liabilities posted in foreign currency have been converted as of 31.12.2003 into Estonian kroons according to the closing date exchange rate of the Central Bank of Estonia.

In consolidating the subsidiaries operating abroad the amounts in the respective foreign currencies presented in the financial statements have been converted into Estonian kroons wherein assets and liabilities have been converted as to the closing date exchange rate of the Central Bank of Estonia on December 31, 2003. Income and expenses have been converted according to the average exchange rate of the Central Bank of Estonia for the year, and other changes in equity have been converted according to the exchange rate applicable on the date of transaction. Exchange rate differences are presented under the equity.

Investments

Marketable securities and other securities (excluding investments in the shares of subsidiaries and associate companies) are valued in the balance sheet in their fair value, if it is possible to determine this with reasonable reliability. Securities, which are not being actively traded, and whose true value cannot be

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estimated by other means, are valued in the balance sheet in their adjusted acquisition price. Fluctuations of the value of investments are reported in the income statement.

Accounts receivable

Accounts receivable are presented in their adjusted acquisition price in the balance sheet. The adjusted acquisition price of short-term receivables equals the nominal value of the receivables. Long-term receivables in their adjusted acquisition price equal the net present value of the receivables. The difference between the nominal value and the net present value of long-term receivables is portrayed as interest yield gained from the accruing receivables.

Receivables are reported on the basis of amounts likely to be received. Furthermore, the receivables of each customer are assessed separately in view of the available information on solvency of the customer. Bad receivables have been written off the balance sheet.

Inventories

Inventories are either valued at their acquisition price, which consists of purchase costs, production costs, transport and other costs, which are composed of direct and indirect outlays on production without which the inventories would not be in their present condition and location. The production costs of inventories include both direct production expenses as well as a proportional share of the general production costs.

The acquisition price of separate inventory items is based on the real acquisition expenses of the item in concern. If the items are not clearly distinguishable from each other, the weighted average acquisition price method is applied.

Inventories have been valued in the balance sheet either at acquisition cost, or at net realizable value whichever is lower. The net realizable value is the selling price of which the expected expenses related to the transaction are reduced.

Real estate investments

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

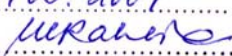
Buildings entered in the bookkeeping as real estate investments are depreciated with the straight-line method during the period of 12.5 years. Land is not depreciated.

Tangible assets

Tangible assets are material assets which are used in production and for providing services, or for administrative purposes for a period of time longer than one year, and whose value exceeds 5000 kroons for buildings, facilities and vehicles, machinery and equipment, and 8000 kroons for tools and production implements. Acquisition price consists of the purchase price of the item, and other expenses directly related to the acquisition without which the item would not be in its present working condition and location.

Assets whose value falls below the above-mentioned limit, are considered of negligible value, and are posted to expenses when acquired. Assets of negligible value are accounted off-balance-sheet.

Intangible assets are stated at their acquisition cost, less accumulated depreciation. The expenses of improvement are compounded to the value of tangible assets. Depreciation is calculated by the straight-line method, which is based on the useful life of the assets as follows:

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

Land is not depreciated.

Tangible assets are valued below the covered value should the item's covered value be lower than the residual value stated in the balance sheet. The covered value is either the net realization price, or the utility value of the item whichever is higher.

Goodwill

Goodwill is the difference between real value of net assets of the acquired subsidiary or associate company and their purchase price on the day of acquisition. Goodwill is reported in the Group's consolidated balance sheet under intangible assets. Goodwill is depreciated during its estimated useful life. Positive goodwill is depreciated by the straight-line method of accounting during the period of five years.

Negative goodwill acquired in the acquisition of subsidiaries, and is reported in the Group's consolidated balance sheet as a negative asset. Negative goodwill is depreciated into income primarily as a counterbalance to the loss of the investment estimated in the purchase plan; the rest of the negative goodwill is portrayed as an income during the remaining useful life of the depreciated intangible asset in concern. The amount of the negative goodwill that exceeds the estimated loss and the real value of the acquired non-monetary assets are portrayed as an income at the moment of acquisition.

On the basis of the above depreciation principles the negative goodwill acquired due to the acquisition of Tallinna Teede AS is amortized in equal amounts during a period of five years.

Other intangible assets

Other intangible assets (development costs, patents, licenses, trade marks) are stated in the balance sheet when they are identifiable, their acquisition costs can be reliably verified and when they will generate future economic benefit. The acquisition price of intangible assets consists of the purchase price and costs directly related to acquisition. Other intangible assets are presented in the balance sheet at acquisition price, less the accumulated depreciation. Amortization is depreciated by the straight-line method of accounting during the expected useful life not exceeding a period of five years.

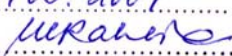
Finance and operating lease

Reported as finance lease are lease agreements in which the lessee assumes all the principal risks and rewards identical to ownership. All other lease agreements are portrayed as operating lease.

Finance leases are reported in the balance sheet by recording an asset and a liability equal to the real value or to the net present value of the minimum lease payments should the latter be lower. Tangible assets acquired by the means of a finance lease agreement are depreciated either during the lease period, or during the useful life period depending on which one is the shorter.

Repayments of principal reduce the finance lease liability, whilst the finance charge component of the lease is charged directly to the income in the profit and loss statement.

Operating lease cost is recorded in the profit and loss statement as period costs on an accrual basis during the lease period.

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Income tax

According to the Estonian Income Tax Law that took effect 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 natural persons and non-residents in 2002) is 26/74 of the payment of net dividends. The income tax liability accrued by the payout of dividends is portrayed as a liability and expense when announcing the payable dividends.

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

Provisions

Plausible liabilities due to operational activities or legal liabilities arising from operations conducted before 31.12.2003 are portrayed as provisions. Provisions or increase of existing provisions are presented as expenses in the profit and loss statement of the respective fiscal year.

Group's construction companies provide the buildings with a guarantee for the period of two years as stated by Estonian construction laws. The actual guarantee expenses of the previous years serve as the basis for calculating the provisions.

Revenue

Revenue is portrayed according to the real value of the acquired or acquirable payment. Revenue from the sales of goods, incl. real estate, is reported as to the date when risks and rewards related to the ownership, are transferred, payment can be considered plausible and the expenses and gains arising from the transaction can be reliably estimated. Revenue from the sales of services is reported according to the stage of completion of the service provided.

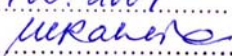
Interest and dividend income is reported when the payment is plausible, and the amount of profit can be reliably estimated.

Construction contracts

Income and expenses of construction contract works 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 sheet date, and the projected cost of the contract. Costs of contract consist of direct expenses and overheads of the construction contract.

If the income against the expenses of a construction contract is lower than the invoices submitted to the principals in the accounting period, the difference is posted in the balance sheet as a liability, or, conversely, as an asset if the income received is higher than the invoices submitted to the principals in the said period.

Losses not likely to be reimbursed by the principal are reported as expenses promptly as they come to notice.

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Cash and cash equivalents

Cash and cash equivalents in the cash flow statement are cash in hand, funds on bank account, easily liquidated securities such as, for example; money market instruments and fixed term deposits of up to three months.

Potential liabilities

Potential liabilities are liabilities, which are less likely to realize than remain unrealized, or liabilities the amount of which cannot be reliably determined. Potential liabilities are not included in the balance sheet but are stated in the separate notes to the annual financial accounts.

Subsequent events

Annual financial accounts portray the significant circumstances affecting the estimation of assets and liabilities which came to notice between balance sheet date and the date of the annual financial statement, and are related to transactions performed during the fiscal year in concern, or during the pervious fiscal years. Significant events that occurred during the preparation of annual accounts, and which are not related to the transactions of the fiscal year, or to those of the previous fiscal years, are disclosed in the notes to the annual financial accounts.

Related party transactions

The related parties of the Group are:

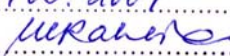
- o the parent company AS Merko Group;
- o shareholders of AS Merko Group thus possessing considerable influence over the company;
- o other shareholders possessing considerable influence over the company
- o other subsidiaries of AS Merko Group i.e. so-called affiliated companies (other subsidiaries);
- o subsidiaries;
- o other controlled companies;
- o associate companies;
- o next of kin of natural persons possessing considerable influence in the company;
- o key management personnel and their next of kin;
- o companies controlled by the above-mentioned natural persons;
- o companies sharing the same key management personnel with AS Merko Ehitus.

Considerable influence over the operational and financial matters of the company is presumed when a person has over 20% of the voting right.

Segments

A business segment is a distinguishable component of the Group that is engaged in providing a group of related services or products, and which is subject to risks and returns that are different from those of other segments. The Group consists of three different business segments: building construction, road construction and production of precast concrete elements none of which is of sufficient importance to be portrayed separately. Expenses arising from the main branch of activity of the respective segment, which can be reliably and objectively allocated to the business segment in concern is portrayed as expenses belonging to the said business segment. Such Group's expenses, assets and liabilities which cannot be linked to a certain business segment, or when such linking cannot be considered relevant, are not allocated between the different business segments. The business segments were considered as primary segments in preparing the annual financial statements.

Geographical segment is a distinguishable component of the Group, whose business activities are carried out in another business environment where the risks and returns are different from those of other geographical

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segments. Estonia, Latvia and Lithuania were considered as separate geographical segments in preparing the annual financial statements. Geographical segments were considered as secondary segments in preparing the annual financial statements.

The main market for operation of the parent company AS Merko Ehitus is Estonia. All the Group's business segments are represented in Estonia. The main business segment in Latvia and Lithuania is building construction. Sales revenue is portrayed on the basis of the country in which the customer is located, and the assets are reported on the basis of their geographical location.

Risks

Interest rate risk

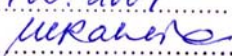
Interest rate risk arises from liabilities with floating interest rates. Bank loans tied to EURIBOR, fluctuations of EURIBOR and changes of the average market interest rates affect the payable interest of the Group.

Foreign currency risk

Group's operations are carried out in Estonian kroons, Latvian lats and Lithuanian lits. Lithuanian lit was pegged to euro in 2002. Risks relating to the income and expenses are linked to the exchange rate changes of Latvian lat.

Credit risk

Credit risk is defined as the risk of counterparts unable to meet their commitments. In order to lower credit risks payments due from customers are closely monitored and financing of construction activities is partly performed in the form of advance payments by customers. Liquid assets are mainly deposited in Hansapank and Eesti Ühispank. According to the management the Group possesses no significant credit risks.

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NOTES

Note 1 Business- and geographical segments

in thousand kroons

Business segments

2003	Building construc- tion	Road- construc- tion	Production of structures for small houses	Produc- tion of precast concrete elements	Others	Group
Sales	2 561 073	116 631	29 959	-	-	2 707 663
Operating profit of the business segment	187 948	13 527	1 073	-	-	202 548
Financial items						(4 807)
incl. profit (loss) from associate comp.	553	(617)	-	4 333	177	4 446
Profit before taxes						197 741
Income tax						(10 901)
Net profit for the Group						186 840
Minority interest						(2 367)
Net profit						184 473
Segment assets	1 031 105	73 750	-	-	-	1 104 855
Associate companies	1 144	3 096	-	10 899	9 901	25 040
Unallocated assets						15 967
Consolidated total assets						1 145 862
Segment liabilities	613 472	13 560	-	-	-	627 032
Unallocated liabilities						50 198
Consolidated total liabilities						677 230
Acquisition of real estate investm.	23 632	-	-	-	-	23 632
Acquisition of tangible and intangible assets	11 260	32 091	290	-	-	43 641
Depreciation	4 817	7 763	378	-	-	12 958
2002	Building construc- tion	Road- construc- tion	Production of structures for small houses	Produc- tion of precast concrete elements	Others	Group
Sales	1 519 408	112 154	38 035	-	-	1 669 597
Operating profit of the business segment	90 715	7 951	(150)	-	-	98 516
Financial items						4 255
incl. profit (loss) from associate comp.	(635)	65	-	2 738	571	2 739
Profit before taxes						102 771
Income tax						(3 209)

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21(45)

Net profit for the Group						99 562
Minority interest						(699)
Net profit						98 863
Segment assets	587 780	48 680	12 237	-	-	648 697
Associate companies	1 334	3 713	-	6 566	9 725	21 338
Unallocated assets						36 178
Consolidated total assets						706 213
Segment liabilities	(361 657)	(5 609)	(7 334)	-	-	(374 600)
Unallocated liabilities						(26 004)
Consolidated total liabilities						(400 604)
Acquisition of real estate investm.	18 416	-	-	-	-	18 416
Acquisition of tangible and intangible assets	9 746	4 469	388	-	-	14 603
Depreciation	4 976	5 474	629	-	-	11 079

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

Geographical segments

Sales	Group		Parent company	
	2003	2002	2003	2002
Estonia	1 981 207	1 307 070	1 696 873	1 019 341
Latvia	263 435	101 474	-	6 947
Lithuania	434 352	230 674	-	3 352
Germany	5 089	12 122	-	-
Norway	7 795	9 598	-	-
Sweden	12 007	4 156	-	-
Austria	-	1 013	-	-
Ireland	1 784	1 879	-	-
Denmark	1 179	460	-	-
Iceland	815	480	-	-
Belgium	-	671	-	-
Total	2 707 663	1 669 597	1 696 873	1 029 640

	Total assets		Acquisition of real estate investments		Acquisition of fixed assets	
	31.12.2003	31.12.2002	2003	2002	2003	2002
Estonia	925 850	521 768	23 632	18 416	41 269	10 330
Latvia	117 708	92 698	-	-	2 246	1 773
Lithuania	102 304	91 747	-	-	126	2 500
Total	1 145 862	706 213	23 632	18 416	43 641	14 603

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Note 2 Cost of sales

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Materials	268 316	147 117	160 997	69 272
Construction services	1 838 337	1 035 081	1 154 951	736 118
Labour costs	107 920	102 732	55 554	41 489
Depreciation	10 695	9 670	2 393	2 977
Designing	43 042	43 803	24 697	22 825
Construction machinery and transportation	42 151	28 935	20 103	10 688
Other expenses	118 664	131 945	57 317	27 784
Total cost of sales	2 429 125	1 499 283	1 476 012	911 153

Note 3 Marketing expenses

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Labour costs	6 324	5 747	4 942	4 166
Depreciation	117	63	117	63
Advertising, sponsoring	5 262	4 401	2 863	1 698
Transportation	918	872	916	872
Building tenders	884	1 492	321	434
Other expenses	2 327	1 543	1 859	989
Total marketing expenses	15 832	14 118	11 018	8 222

Note 4 Administrative expenses

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Labour costs	44 653	28 078	24 768	14 319
Depreciation	2 146	1 345	950	648
Computer hard- and software, IT services	4 703	5 158	2 078	3 050
Banking facilities	605	1 017	305	578
Transportation	4 704	3 954	2 800	2 816
Office expenses, communication services	10 007	5 146	5 302	2 156
Other expenses	6 529	5 123	2 358	1 672
Total administrative expenses	73 347	49 821	38 561	25 239

Note 5 Other operating income

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Profit on disposal of fixed assets	3 012	1 014	2 345	137
Profit on disposal of real estate investments	9 450	-	9 450	-

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Gain on penalties and interest on arrears	2 234	-	370	-
Foreign exchange gain	77	-	-	-
Other income	553	1 142	90	4 843
Total other operating income	15 326	2 156	12 255	4 980

Note 6 Other operating expenses

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Local taxes	-	220	-	16
Penalties, interest on arrears	-	3 328	-	4 070
Loss for fixed assets depreciation	15	20	15	20
Loss on selling of real estate investments	-	2 409	-	2 409
Foreign exchange loss	-	21	40	66
Gifts, donations	1 349	561	1 230	526
Other expenses	773	3 456	466	1 398
Total other operating expenses	2 137	10 015	1 751	8 505

Note 7 Financial income and -expenses

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Financial income from other long-term investments	1 084	1 674	1 084	28
Interest expense	(2 503)	(805)	(1 068)	(480)
Interest income	4 286	4 025	4 041	4 016
Foreign exchange profit or loss	(2 692)	(3 738)	16	(1 384)
Profit or loss on disposal of bill notes	257	(10)	257	(10)
Profit or loss on overvalue of bill notes (Note 12)	(10 217)	(2)	62	(1)
Other financial income and -expenses	(10)	372	(10)	8
Total financial income and -expenses	(9 795)	1 516	4 382	2 177

Note 8 Income tax

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Profit before taxes	197 741	102 771	187 912	100 727
Income tax on dividends	6 539	2 431	3 439	1 846
Company income tax	4 725	4 690	-	18
Deferred income tax	(363)	(3 912)	-	-
Total income tax	10 901	3 209	3 439	1 864

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

Legal entities belonging to the Group that are residents of Latvia compute the taxable income and income tax according to laws of the Republic of Latvia. In Latvia a company's profit is liable to 19 per cent income tax in 2003 (in 2002 profit was liable to 22 per cent income tax).

Legal entities belonging to the Group that are residents of Lithuania compute the taxable income and income tax according to laws of the Republic of Lithuania. In Lithuania a company's profit is liable to 15 per cent income tax in 2003.

Note 9 Net profit (loss) per share

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

	2003	2002
Net profit (loss) attributable to shareholders (<i>in thousand kroons</i>)	184 473	98 863
Weighted average number of ordinary shares (<i>thou. items</i>)	8 850	8 850
Basic net profit (loss) per share (<i>in kroons</i>)	20,84	11,17

In 2002 and 2003 there were no potential ordinary shares wherefore the diluted net profit (loss) per share equals the basic net profit per share.

Note 10 Dividends per share

Dividends to be paid are reported after General Meeting has confirmed the proposal on distribution of profit. According to the proposal of distribution of profit dividends to be paid out in 2004 total 37 170 thousand kroons i.e. 4.20 kroons per share, creating an income tax liability of up to 26/74 of the paid amount i.e. 13 059.7 thousand kroons. In 2003 dividends paid were 19 912.5 thousand kroons i.e. 2.25 kroons per share and the income tax paid on dividends was 3 438.9 thousand kroons.

Note 11 Cash and cash equivalents

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Cash in hand	100	138	2	1
Bank accounts	28 579	71 588	2 271	3 041
Amonunts in transit	1	-	-	-
Short-term deposits	22 786	744	21 741	730
Shares in Estonian money-market funds	188 686	23 840	187 102	18 900
Total cash and cash equivalents	240 152	96 310	211 116	22 672

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Note 12 Marketable securities

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Listed shares in Tallinn Stock Exchange	-	368	-	367
Listed shares in Riga Stock Exchange	-	239	-	239
Other shares listed in Estonian CSD	-	200	-	200
Other shares in Estonian enterprises*	36 096	52 211	8 065	8 065
Total marketable securities	36 096	53 018	8 065	8 871

* Shares held-for-trading in their fair value. Fair value evaluations are presented in Note 7.

Note 13 Accounts receivable

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Accounts receivable	408 704	165 138	339 802	118 986
Allowance for doubtful receivables	(408)	(424)	-	-
Total accounts receivable	408 296	164 714	339 802	118 986

Note 14 Miscellaneous receivables

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Receivables from the parent company and subsidiaries				
loans to subsidiaries	-	-	63 015	39 758
other short-term receivables	-	-	270	6 634
Total receivables from parent company and subsidiaries	-	-	63 285	46 392
Receivables from associated companies				
loans to associated companies (Note 36)	5 909	-	2 909	-
other short-term receivables	5 113	972	229	972
Total receivables from associated companies	11 022	972	3 138	972
Receivables from other companies of the Group				
short-term loans	4 265	5 589	-	5 435
other short-term receivables	545	883	2	882
Total receivables from other companies of the Group	4 810	6 472	2	6 317
Other short-term receivables				
short-term loans (Notes 16 and 36)	10 065	14 213	6 937	9 660
other short-term receivables	1 488	3 682	999	128

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Total other short-term receivables	11 553	17 895	7 936	9 788
Total miscellaneous receivables	27 385	25 339	74 361	63 469

Note 15 Accrued income
in thousand kroons

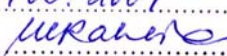
	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Interests	388	1 116	376	1 087
Dividends	233	255	-	-
Other accrued income	52	32	-	32
Total accrued income	673	1 403	376	1 119

Note 16 Loans to non-related parties
in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Loans to non-related legal entities				
Balance of loan at the beginning of the year	16 893	25 726	15 250	26 467
Extended	12 074	13 261	12 074	23 301
Received	(23 176)	(22 094)	(21 533)	(34 518)
Balance of loan at the end of the year	5 791	16 893	5 791	15 250
incl. long-term part	300	9 759	300	8 399
Average interest rate 5.3 %				
Loans to non-related natural persons				
Balance of loan at the beginning of the year	1 547	1 553	1 545	1 545
Extended	-	-	-	-
Received	(1 547)	(6)	(1 545)	-
Balance of loan at the end of the year	-	1 547	-	1 545
incl. short-term part	-	1 547	-	1 545
Average interest rate 5.5 %				
Total loans to non-related parties	5 791	18 440	5 791	16 795
incl. short-term part (Note 14)	5 491	8 681	5 491	8 396
incl. long-term part (expiration of 2 to 5 years) (Note 21)	300	9 759	300	8 399

Note 17 Prepaid expenses
in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Prepaid taxes and reversion				
VAT	10 890	10 628	-	66
company income tax	1 746	647	13	-

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personal income tax	6	-	-	-
Total prepaid taxes and reversion	12 642	11 275	13	66
Other prepaid expenses				
prepaid insurance premiums	5 188	2 380	4 661	1 453
prepaid rent	28	126	6	17
others	3 322	652	2 484	441
Total other prepaid expenses	8 538	3 158	7 151	1 911
Total prepaid expenses	21 180	14 433	7 164	1 977

Note 18 Inventories

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Raw materials	839	2 735	-	-
Work in progress	38 309	41 119	37 605	40 660
Finished goods	-	1 314	-	-
Merchandise purchased for resale	105 900	66 426	56 400	50 230
Advanced payments to suppliers for materials	138	374	-	-
Prepayments for real estate	13 565	15 181	3 687	15 181
Advanced payments to suppliers for building works	24 503	12 229	8 611	4 918
Due from customers (Note 34)	72 009	84 962	45 375	54 553
Total inventories	255 263	224 340	151 678	165 542

Note 19 Shares in subsidiaries

in thousand kroons

Name of subsidiary	Ownership interest and voting power %		Location	Field of activity
	31.12.2003	31.12.2002		
Subsidiaries of AS Merko Ehitus				
AS Gustaf	100	100	Pärnu	construction
OÜ Matek	-	71,6	Tallinn	production of structures for small houses
AS Merko Tartu	66	66	Tartu	construction
AS Merko Inseneriehitus	100	100	Saue	construction
OÜ Merko Ehitustööd	100	100	Saue	construction
OÜ Merko Kaevandused *	100	100	Tallinn	construction
Eesti Ehitusekspordi OÜ	100	100	Saue	construction
Tallinna Teede AS	100	100	Tallinn	roadconstruction
SIA Merks	100	100	Latvia, Riga	construction
UAB Merko Statyba	100	100	Lithuania, Vilnius	construction
ZAO Merkostroi	-	100	Russia, St-Peterburg	construction
OÜ Merko Elamu	100	100	Saue	real estate
OÜ Merko Maja	100	100	Saue	real estate
OÜ Merko Kinnisvara	100	100	Saue	real estate
OÜ Unigate	-	100	Tallinn	real estate

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OÜ Woody	100	-	Tallinn	real estate
OÜ Gustaf Tallinn	100	-	Tallinn	construction

* OÜ Merko Ehitusteenused changed its name into OÜ Merko Kaevandused in 2003.

AS Merko Ehitus acquired a participation in the non-going company Woody OÜ in 2003.

AS Gustaf founded a subsidiary OÜ Gustaf Tallinn and AS Merko Ehitus acquired a participation in this subsidiary.

Subsidiary Tallinna Teede AS merged with Viskomi Ehitus AS, and assets, liabilities and cash flows resulting from the merger are portrayed separately in the respective notes.

AS Merko Ehitus sold 50% participation of OÜ Unigate and OÜ Unigate is presented in the annual financial statements as an associate company.

AS Merko Ehitus sold its participation in OÜ Matek as a result of which single-family house construction production was ended. Income and profit of this segment are portrayed in Note 1 and assets, liabilities and cash flow related to the transaction are presented in a separate notes.

Investment in ZAO Merkostroi was liquidated.

Subsidiaries of AS Gustaf

SIA Rigus	100	100	Latvia, Riga	construction
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Subsidiaries of Tallinna Teede AS

OÜ Talbit	87,5	87,5	Tallinn	holding
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Subsidiaries of SIA Merks

KS MBC	80	80	Latvia, Riga	construction
SIA Merks Investijas	100	-	Latvia, Riga	real estate
SIA Ziemeļzeme	100	-	Latvia, Riga	real estate
SIA Elniko	100	-	Latvia, Riga	real estate
SIA SK Viesturdarzs	100	-	Latvia, Riga	real estate
SIA MR Multifunkcionalais Centrs	100	-	Latvia, Riga	real estate

SIA Merks founded a subsidiary SIA Merks Investijas and acquired two previously noncurrent subsidiaries, SIA Ziemeļzeme and SIA Elniko, in their nominal value, as well as two previously current subsidiaries SIA SK Viesturdarzs and SIA MR Multifunkcionālais Centrs. Assets, liabilities and cash flows related to the acquisitions are portrayed separately in the respective notes.

Subsidiaries of UAB

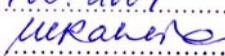
Merko Statyba

UAB Upes Centras	100	-	Lithuania, Vilnius	real estate
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UAB Merko Statyba founded a subsidiary UAB Upes Centras.

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

Name of subsidiary	Investment 31.12. 2002	Changes in 2003			Investment 31.12. 2003	Share of the invested company's equity
		acqui- sition and liquidatin	income (expense) from subsidiaries	dividends		
Subsidiaries of AS Merko Ehitus						
AS Gustaf	4 132	-	86	-	(6)	4 212

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OÜ Matek	2 613	(3 900)	1 287	-	-	-	-
AS Merko Tartu	6 384	-	4 173	(1 980)	-	8 577	8 577
AS Merko Inseneriehitus	1 525	-	(3)	-	-	1 522	1 522
OÜ Merko Ehitustööd	41	-	-	-	-	41	41
OÜ Merko Kaevandused	40	900	(170)	-	-	770	770
Eesti Ehitusekspordi OÜ	33	-	(2)	-	-	31	31
Tallinna Teede AS	31 790	-	10 936	(5 798)	-	36 928	40 991
SIA Merks	11 866	-	10 727	-	(1 548)	21 045	21 045
UAB Merko Statyba	10 639	29 483	(31 870)	-	-	8 252	8 252
ZAO Merkostroi	46	-	(46)	-	-	-	-
OÜ Merko Elamu	40	-	-	-	-	40	40
OÜ Merko Maja	40	-	-	-	-	40	40
OÜ Merko Kinnisvara	40	-	-	-	-	40	40
OÜ Unigate	38	(39)	1	-	-	-	-
OÜ Woody	-	40	-	-	-	40	40
OÜ Gustaf Tallinn	-	420	1 495	-	-	1 915	1 915
Total	69 267	26 904	(3 386)	(7 778)	(1 554)	83 453	87 516

The difference between the balance sheet value of the investment in Tallinna Teede AS and the Group's share of the equity of the invested company arises from the undepreciated share of goodwill formed due to acquisition.

Subsidiaries of AS Gustaf

SIA Rigus	34	-	-	-	(6)	28	28
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**Subsidiaries of
Tallinna Teede AS**

OÜ Talbit	3 279	-	(549)	(22)	-	2 708	2 708
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Subsidiaries of SIA Merks

KS MBC	20	-	-	-	(1)	19	19
SIA Merks Investijas	-	48	(2)	-	-	46	46
SIA Ziemeļzeme	-	48	(47)	-	(1)	-	-
SIA Elniko	-	48	(18)	-	(1)	29	29
SIA SK Viesturdarzs	-	4 886	-	-	-	4 886	(30)
SIA MR Multifunkcionalais Centrs	-	607	1 460	-	(3)	2 064	2 629
Total	20	5 637	1 393	-	(6)	7 044	2 693

Differences between the balance sheet value and the Group's share of the equity of the invested company:
SIA SK Viesturdarzs – appreciation of acquired assets up to their fair value;
SIA MR Multifunkcionalais Centrs – the undepreciated share of goodwill formed due to acquisition.

**Subsidiaries of UAB
Merko Statyba**

UAB Upes Centras	-	45	-	-	-	45	45
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Merger of Tallinna Teede AS and Viskomi Ehitus AS

On February 14 2003 Tallinna Teede AS acquired 100% of the shares of Viskomi Ehitus AS, and the two companies merged into a single corporate body. The merger was performed between independent parties and has been portrayed by the means of the purchase method of accounting.

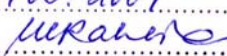
Tallinna Teede AS paid 12.2 million kroons for the shares of Viskomi Ehitus AS of which 7.32 million kroons was paid in 2003. As to 31.12.2003 4.88 million kroons are yet due of which 2.44 million kroons are portrayed under *Other short-term loans* (Note 35) and 2.44 million kroons under *Other long-term loans* (Note 27).

Due to the merger the following assets and liabilities are stated in the balance sheet:

Cash and cash equivalents	4 573
Receivables	1 180
Tangible assets (Note 23)	3 918
Current liabilities	(607)
Non-current liabilities	(27)
Fair value of the acquired net assets	9 037
Goodwill	3 163
Acquisition cost	12 200
Paid at acquisition in 2003	(7 320)
Viskomi Ehitus AS cash and cash equivalents as per acquisition	4 573
Cash flow due to merger	(2 747)

Acquisition of subsidiaries within the Group

	OÜ Woody	SIA Ziemel- zeme	SIA Elniko	SIA SK Viesturdarzs	SIA MR Multifunk- cionalais Centrs	Total
Cash and cash equivalents	40	49	30	599	4 898	5 616
Receivables	-	-	-	100	2 549	2 649
Inventories	-	-	-	7 983	14 215	22 198
Current liabilities	-	-	-	(3 552)	(20 413)	(23 965)
Fair value of the acquired net assets	40	49	30	5 130	1 249	6 498
Goodwill	-	-	18	-	(612)	(594)
Acquisition cost	40	49	48	5 130	637	5 904
Paid at acquisition in 2003	(40)	-	-	-	(637)	(677)
Cash and cash equivalents of subsidiaries at the moment of acquisition	40	49	30	599	4 898	5 616
Group's cash flow	-	49	30	599	4 261	4 939

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Disposal of subsidiaries

	OÜ Matek	OÜ Unigate	Kokku
Current assets	11 014	16 192	27 206
Financial investments	122	-	122
Tangible assets (Note 23)	2 693	-	2 693
Current liabilities	(8 918)	(5 438)	(14 356)
Non-current liabilities	(221)	(10 716)	(10 937)
Minority interest	(1 331)	(19)	(1 350)
Sales price	3 900	20	3 920
Profit from disposal	541	1	542
Received cash 2003	3 200	20	3 220
Cash and cash equivalents in sold subsidiaries	1 004	6	1 010
Cash flow from turnover	2 196	14	2 210

Note 20 Shares in associate companies

in thousand kroons

Name of associate company	Ownership interest and voting power %		Location	Field of activity
	31.12.2003	31.12.2002		
Associate companies of AS Merko Ehitus				
Normanni Linnagrupi AS	50	50	Tallinn	construction
AS Insenerivõrgud	50	50	Tallinn	construction
AS Tartu Maja Betoontooted	25	25	Tartu	production of concrete
Viru Väljaku Arenduse OÜ	-	40	Tallinn	real estate
AS Telegrupp	45	45	Tallinn	telecommunication
OÜ Pire Projekt	50	-	Tallinn	real estate
OÜ Constancia	50	-	Tallinn	real estate
OÜ Unigate	50	-	Tallinn	real estate

In 2003 AS Merko Ehitus acquired a participation in two associate companies: OÜ Pire Projekt and OÜ Constancia, and sold a participation in Viru Väljaku Arenduse OÜ.

In the financial statements of 2002 OÜ Unigate was portrayed as a subsidiary, but in 2003 AS Merko Ehitus sold 50% of the participation in the company, and OÜ Unigate is presented as an associate company in the financial statements of 2003.

Associate companies of SIA Merks

PS Merks-Terbe Lat	50	50	Latvia, Riga	construction
PS VIA-Merks	-	50	Latvia, Riga	construction

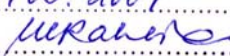
Investment in PS VIA-Merks was liquidated.

Associate companies of OÜ Talbit

AS Bituumen	24,8	24,8	Tallinn	holding
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Associate companies of AS Merko Tartu

OÜ Kortermaja	50	50	Tartu	real estate
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Name of associate company	Investment 31.12. 2002	Changes in 2003			Investment 31.12. 2003	Share of the invested company's equity
		acquisitio n and liquidation	income (expense) from associate companies	exchange rate differen- ces		
Associate companies of AS Merko Ehitus						
Normanni Linnagrupi AS	393	-	(5)	-	388	388
AS Insenerivõrgud	866	-	(130)	-	736	736
AS Tartu Maja						
Betoontooted	6 566	-	4 333	-	10 899	10 899
Viru Väljaku Arenduse OÜ	-	(800)	800	-	-	-
AS Telegrupp	9 725	-	176	-	9 901	6 935
OÜ Pire Projekt	-	25	(5)	-	20	20
OÜ Constancia	-	20	(20)	-	-	(131)
OÜ Unigate	-	19	(19)	-	-	(216)
Total	17 550	(736)	5 130	-	21 944	18 631
Associate companies of SIA Merks						
PS Merks-Terbe Lat	62	-	(58)	(4)	-	-
PS VIA-Merks	6	(4)	(2)	-	-	-
Total	68	(4)	(60)	(4)	-	-
OÜ Talbit associate company						
AS Bituumen	3 713	-	(617)	-	3 096	3 096
AS Merko Tartu associate company						
OÜ Kortermaja	7	-	(7)	-	-	58

Differences between the values presented in the balance sheet and the share of the Group in the equity of the investment:

AS Telegrupp – the undepreciated part of goodwill gained as a result of acquisition;

OÜ Kortermaja – the unrealized profit of inter-company transaction.

Investments in associate companies OÜ Unigate and OÜ Constancia are valued down to zero due to the negative equity of the companies. The undepreciated part of the goodwill gained as the result of acquiring OÜ Constancia totaling 151 thou kroons (including 3 thou kroons originating from the year 2003) has not been stated.

Note 21 Other long-term financial investments

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Long-term loans made to subsidiaries	-	-	-	10 716
Long-term loans made to associate companies	-	7 757	-	7 757
Other shares and debt securities	1 800	1 800	1 800	1 800

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Long-term loans made to non-related legal entities (Note 16)	300	9 759	300	8 399
Long-term loans made to related parties (Note 36)	1 166	-	-	-
Other long-term receivables	59	1 826	59	27
Total other long-term financial investments	3 325	21 142	2 159	28 699

Note 22 Real estate investments

in thousand kroons

Real estate investments of the Group	Land	Buildings	Pre-payments	Total
Acquisition cost 31.12.2002	15 249	13 544	11 655	40 448
Accumulated depreciation 31.12.2002	-	(5 140)	-	(5 140)
Net book amount 31.12.2002	15 249	8 404	11 655	35 308
Net book amount 31.12.2002	15 249	8 404	11 655	35 308
Acquisition	11 163	-	12 469	23 632
Disposal	(231)	(4 748)	-	(4 979)
Re-grouping	-	-	(536)	(536)
Depreciation	-	(556)	-	(556)
Net book amount 31.12.2003	26 181	3 100	23 588	52 869
Acquisition cost 31.12.2003	26 181	3 496	23 588	53 265
Accumulated depreciation 31.12.2003	-	(396)	-	(396)
Net book amount 31.12.2003	26 181	3 100	23 588	52 869

Real estate investments of the parent company	Land	Buildings	Pre-payments	Total
Acquisition cost 31.12.2002	14 152	13 544	11 655	39 351
Accumulated depreciation 31.12.2002	-	(5 140)	-	(5 140)
Net book amount 31.12.2002	14 152	8 404	11 655	34 211
Net book amount 31.12.2002	14 152	8 404	11 655	34 211
Acquisition	11 163	-	(11 119)	44
Disposal	(232)	(4 748)	-	(4 980)
Re-grouping	-	-	(536)	(536)
Depreciation	-	(556)	-	(556)
Net book amount 31.12.2003	25 083	3 100	-	28 183
Acquisition cost 31.12.2003	25 083	3 496	-	28 579
Accumulated depreciation 31.12.2003	-	(396)	-	(396)
Net book amount 31.12.2003	25 083	3 100	-	28 183

The acquisition price of real estate investments does not differ significantly from the fair value.

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Note 23 Tangible assets
in thousand kroons

Group's tangible assets	Land	Buildings	Construction right	Machinery and equipment	Other inventory	Construction in progress	Pre-payments	Total
Acquisition cost 31.12.2002	3 508	9 508	458	66 854	20 682	171	-	101 181
Accumulated depreciation 31.12.2002	-	(4 333)	(49)	(35 342)	(11 067)	-	-	(50 791)
Net book amount 31.12.2002	3 508	5 175	409	31 512	9 615	171	-	50 390
Net book amount 31.12.2002	3 508	5 175	409	31 512	9 615	171	-	50 390
Exchange rate differences	(233)	(35)	-	-	(225)	-	-	(493)
Acquisition	849	340	-	31 772	6 195	1 406	145	40 707
Mergence	-	-	-	3 795	123	-	-	3 918
Disposal	(1 935)	(454)	-	(2 986)	(206)	-	-	(5 581)
Disposal of subsidiary	-	(521)	-	(703)	(1 469)	-	-	(2 693)
Re-grouping	-	786	-	(181)	877	(1 482)	-	-
Write-offs	-	-	-	(28)	(10)	-	-	(38)
Depreciation	-	(306)	(9)	(9 189)	(3 655)	-	-	(13 159)
Net book amount 31.12.2003	2 189	4 985	400	53 992	11 245	95	145	73 051
Acquisition cost 31.12.2003	2 189	7 720	458	84 038	25 180	95	145	119 825
Accumulated depreciation 31.12.2003	-	(2 735)	(58)	(30 046)	(13 935)	-	-	(46 774)
Net book amount 31.12.2003	2 189	4 985	400	53 992	11 245	95	145	73 051

Parent company's tangible assets	Land	Buildings	Construction right	Machinery and equipment	Other inventory	Pre-payments	Total
Acquisition cost 31.12.2002	549	2 399	458	6 999	8 372	-	18 777
Accumulated depreciation 31.12.2002	-	(1 919)	(49)	(4 887)	(4 953)	-	(11 808)
Net book amount 31.12.2002	549	480	409	2 112	3 419	-	6 969
Net book amount 31.12.2002	549	480	409	2 112	3 419	-	6 969
Acquisition	-	-	-	2 070	3 691	145	5 906
Disposal	(549)	(454)	-	(5)	(12)	-	(1 020)
Write-offs	-	-	-	(5)	(10)	-	(15)
Depreciation	-	(26)	(9)	(1 209)	(1 660)	-	(2 904)
Net book amount 31.12.2003	-	-	400	2 963	5 428	145	8 936

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Acquisition cost 31.12.2003	-	-	458	8 044	11 749	145	20 396
Accumulated depreciation 31.12.2003	-	-	(58)	(5 081)	(6 321)	-	(11 460)
Net book amount 31.12.2003	-	-	400	2 963	5 428	145	8 936

Information on rented fixed assets is portrayed in Note 23.

Note 24 Intangible assets

in thousand kroons

Group's intangible assets	Goodwill	Licences purchased	Total
Acquisition cost 31.12.2002	(6 773)	347	(6 426)
Accumulated depreciation 31.12.2002	1 355	(212)	1 143
Net book amount 31.12.2002	(5 418)	135	(5 283)
Net book amount 31.12.2002	(5 418)	135	(5 283)
Incomes	2 629	305	2 934
Depreciation	866	(109)	757
Net book amount 31.12.2003	(1 923)	331	(1 592)
Acquisition cost 31.12.2003	(4 144)	652	(3 492)
Accumulated depreciation 31.12.2003	2 221	(321)	1 900
Net book amount 31.12.2003	(1 923)	331	(1 592)

Note 25 Rented assets

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Assets held under financial lease contracts				
Merchandise purchased for resale (real property)				
Acquisition cost	-	7 624	-	7 624
Machinery and equipment				
Acquisition cost	28 933	13 140	-	-
Accumulated depreciation	(1 580)	(3 185)	-	-
incl. depreciation for the year	(1 333)	(975)	-	-
Net book amount	27 353	9 955	-	-
Assets held under operational lease contracts				
Machinery and equipment				
Payments for the year	5 347	4 429	3 797	3 432
Payments for subsequent periods	15 570	13 834	9 719	11 676

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36(45)

incl. payments during the following year	4 880	4 813	2 431	3 918
payments in years 2 to 5	10 690	9 021	7 288	7 758
Total	20 917	18 263	13 516	15 108

Note 26 Debt obligations

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
Liabilities for financial lease (Note 25)				
Opening balance at the beginning of the year	7 321	2 961	4 000	-
Raised	24 399	11 674	-	7 624
Repaid	(11 937)	(7 314)	(4 000)	(3 624)
Closing balance at the end of the year	19 783	7 321	-	4 000
incl. short-term part	3 384	4 717	-	4 000
long-term part expires during the 2 nd year	16 399	2 604	-	-
Interest expense for the fiscal year	1 050	451	202	199
Average interest rate 5%				
Base currency EEK				
Bank loans				
Opening balance at the beginning of the year	1 450	8	-	-
Raised	9 063	1 450	-	-
Repaid	(1 450)	(8)	-	-
Closing balance at the end of the year	9 063	1 450	-	-
incl. short-term part	9 063	1 450	-	-
Average interest rate 4.2 %				
Base currency EUR				
Other loans				
Opening balance at the beginning of the year	6 638	1 776	1 200	941
Raised	-	9 038	-	3 600
Repaid	(6 638)	(4 176)	(1 200)	(3 341)
Closing balance at the end of the year	-	6 638	-	1 200
incl. short-term part	-	6 638	-	1 200
Total liabilities	28 846	15 409	-	5 200
incl. short-term part	12 447	12 805	-	5 200
long-term part expires during the 2 nd year	16 399	2 604	-	-

Loan securities and pledged assets are reported in Note 28.

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Note 27 Other long-term payables

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Accounts payable to suppliers	7 092	14 900	5 863	6 733
Payables to subsidiaries	-	-	-	1 042
Other long-term loans	2 440	-	-	-
Total other long-term payables	9 532	14 900	5 863	7 775

Note 28 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 Hansapank:

Floating charge agreement on chattels for the aggregate value of 140 million kroons (recorded in the Register of Floating Charges in the first, second and fifth orders of priority). The said pledge secures the fulfilment of obligations stemming from the contracts of guarantee and current account credit agreements.

Between AS Merko Ehitus and Eesti Ühispank:

Floating charge agreement on chattels for the aggregate value of 60 million kroons (recorded in the Register of Floating Charges in the third, fourth and sixth orders of priority). The said pledge secures the fulfilment of obligations stemming from the contracts of guarantee and current account credit agreements.

Between Tallinna Teede AS, Hansapank and Eesti Ühispank:

Floating charge agreement on chattels for the aggregate value of 25 million kroons (recorded in the Register of Floating Charges in the first order of priority), whereas Hansapank possesses a relative share off 14/25 and Eesti Ühispank a relative share of 11/25 of the floating charge in concern.

Between Tallinna Teede AS and Hansapank:

A floating charge agreement on chattels of aggregate value of 2 million kroons (Recorded in the Register of Floating Charges in the second order of priority). These pledges secure the fulfillment of obligations stemming from promissory notes.

Between AS Gustaf and Hansapank:

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

Between AS Merko Tartu and Eesti Ühispank:

Floating charge agreement on chattels for the aggregate value of 4,5 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 the contracts of guarantee.

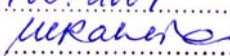
Between SIA Merks and Hansabanka:

Floating charge agreement on chattels for the aggregate value of 1,2 million Latvian lats to secure the contracts of guarantee.

Note 29 Customer prepayments

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Customer prepayments	19 622	45 512	15 288	23 304

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VAT on customer prepayments	(1 741)	(2 692)	(1 435)	(1 731)
Total customer prepayments	17 881	42 820	13 853	21 573

Note 30 Tax liabilities
in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
VAT	7 039	3 533	6 394	2 991
Company income tax	5 124	4 303	236	146
Personal income tax	2 499	2 300	1 546	820
Social security tax	6 235	6 033	4 065	3 906
Land tax	185	21	5	21
Unemployment insurance premium	183	154	122	90
Mandatory funded pension payments	87	7	63	7
Total tax liabilities	21 352	16 351	12 431	7 981

Note 31 Accrued expenses
in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Accrued payments to employees	20 100	18 044	15 535	13 179
Dividend debts	3	889	-	-
Interest debts	299	6	-	-
Other accrued expenses	693	1 037	100	207
Total accrued expenses	21 095	19 976	15 635	13 386

Note 32 Current provisions
in thousand kroons

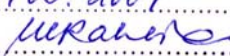
	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Provisions to construction warranty liability	5 191	3 368	2 676	935
Due to customers (Note 34)	281 537	104 917	235 379	77 117
Total current provisions	286 728	108 285	238 055	78 052

Note 33 Share capital

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

In 2002 and 2003 there were no changes in share capital.

In 2003 19 912.5 thousand kroons were declared and paid out to shareholders. (In 2002 35 400 thousand kroons were declared and paid out).

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Note 34 Construction contract works in progress

in thousand kroons

	Group		Parent company	
	2003	2002	2003	2002
The aggregate amount of costs incurred and recognized profits (less recognized loss) to date	1 882 588	527 477	1 316 504	293 208
Progress billing	(2 092 116)	(547 432)	(1 506 508)	(315 772)
Total adjustment of income	(209 528)	(19 955)	(190 004)	(22 564)
Due from customers	72 009	84 962	45 375	54 553
Due to customers	(281 537)	(104 917)	(235 379)	(77 117)
Total adjustment of income	(209 528)	(19 955)	(190 004)	(22 564)

Amounts due from customers have been reported for all construction contract works in progress where the income in respect of expenditures on contract is higher than the interim invoices submitted to customers. Amounts due from customers are reported in the balance sheet on the line *Due from customers* (Note 18).

Amounts due to customers have been reported for all construction contract works in progress where the income in respect of expenditures on contract is 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 32).

Note 35 Miscellaneous liabilities

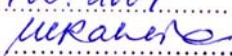
in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Payables to subsidiaries				
loans from subsidiaries	-	-	902	902
payables for goods and services	-	-	6 979	8 181
Total payables to parent company and subsidiaries	-	-	7 881	9 083
Payables to other companies of the Group				
loans from other companies of the Group	4 932	-	-	-
other payables to other companies of the Group	5 679	859	89	859
Total payables to other companies of the Group	10 611	859	89	859
Payables to associate companies for goods and services	11 148	3 853	11 148	3 777
Other short-term loans	2 440	-	-	-
Total miscellaneous liabilities	24 199	4 712	19 118	13 719

Note 36 Related party transactions

in thousand kroons

The parent company of AS Merko Ehitus is AS Merko Grupp, who owned 72% of the shares of AS Merko Ehitus as of December 31 2003.

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In addition to the parent company, other related parties include subsidiaries and associate companies, natural persons possessing over 20% of the voting right and their next of kin, key management personnel and their next of kin, and the companies controlled by the above mentioned natural persons.

Goods and services

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

	2003		2002	
	Purchases	Sales	Purchases	Sales
Managing personnel	-	425	-	3 045
Associate companies	32 213	15 663	15 548	420
Other companies of the Group	12 176	48 992	28 105	3 519
Total	44 389	65 080	43 653	6 984

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

Loans

	Group	
	2003	2002
Loans to associate companies		
Opening balance at the beginning of the year	7 757	6 844
Extended	3 909	2 030
Received	(5 757)	(1 117)
Closing balance at the end of the year	5 909	7 757
incl. short-term part	-	-
incl. long-term part 2 to 5 years	-	7 757
Average interest rate 4.7 %		

Loans made to other companies of the Group

Opening balance at the beginning of the year	5 589	7 775
Extended	5 526	1 285
Received	(6 850)	(3 471)
Closing balance at the end of the year	4 265	5 589
incl. short-term part	4 265	5 589
Average interest rate 5%		

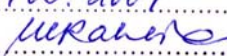
Loans made to other related companies

Opening balance at the beginning of the year	5 532	7 437
Extended	1 348	201
Received	(1 140)	(2 106)
Closing balance at the end of the year	5 740	5 532
incl. short-term part	4 574	5 532
Average interest rate 0%		

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Balance with related parties

	Group	
	31.12.2003	31.12.2002
Accounts receivable		
Receivables from goods and services		
Managing personnel	-	2 014
Miscellaneous receivables		
Prepayments for goods and services		
Associate companies	-	751
Receivables from goods and services		
Associate companies	4 931	221
Other companies of the Group	545	761
Interest income		
Associate companies	182	-
Other companies of the Group	-	122
Short-term loans		
associate companies	5 909	-
other companies of the Group	4 265	5 589
other related companies	5 740	5 532
Deferred assets		
Dividends		
Associate companies	233	255
Long-term receivables		
Long-term loans		
Associate companies	-	7 757
other related companies	1 166	-
Miscellaneous liabilities		
Liabilities for goods and services		
Associate companies	11 148	3 853
Other companies of the Group	5 679	859
Short-term loans		
Other companies of the Group	4 932	-
Other short term liabilities		
Managing personnel	1 220	-
Deferred liabilities		
Interest liabilities		
Managing personnel	150	-
Long-term liabilities		
Other long-term liabilities		
Managing personnel	1 220	-

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Salaries of the Members of Board of Directors, the Board and executives

In 2003 members of Board of Directors, Board and executive staff were paid 7 093.4 thousand kroons in salaries (in 2002 the sum was 4 653.6 thousand kroons).

Note 37 Potential liabilities

in thousand kroons

	Group		Parent company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Customer guarantee during construction period	96 359	110 876	91 005	84 429
Tender guarantee	4 023	10 555	3 250	9 770
Guarantee for warranty period	54 789	48 573	26 473	35 173
Advance payment guarantee	8 059	13 735	8 059	13 735
Sureties	34 201	67 372	34 201	39 617
Payment guarantee	3 699	-	2 249	-
Total potential liabilities	201 130	251 111	165 237	182 724

According to the proposal of profit distribution, the amount of income tax payable on the paid out dividends is 13 059.7 thousand kroons.

Note 38 Risks

Credit risk

Credit risk is defined as the risk of counterparts 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 deposited in Hansapank and Eesti Ühispank. According to management, the Group possesses no significant credit risks.

Interest rate risk

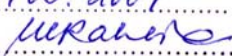
According to management, the Group possesses no significant interest rate risks.

Fair value

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

Note 39 Significant subsequent events

Subsidiary Tallinna Teede AS sold a business unit operating with project management and related road construction supervisory control activities to Tallinna Teede Projektijuhtimise AS. This business unit transaction may reduce turnover and profit in the Group's road construction segment in 2004.

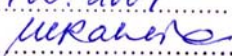
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Note 40 Number of shares owned by the members of the Board of Directors, the Board and their next of kin

	Shares	Participation
Member of the Board of Directors		
Teet Roopalu	1 500	0,02%
Management Board member		
Tõnu Toomik	9 000	0,10%

Note 41 List of shareholders whose interest exceeds 5%

	Shares	Participation
AS Merko Grupp	6 371 343	71,99
Nordea Bank Finland Plc Clients Account Trading	1 290 714	14,58

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**SIGNATURES OF THE MEMBERS OF THE BOARD AND THE BOARD OF DIRECTORS FOR
ANNUAL REPORT 2003**

Annual report for the fiscal year 2003 has been confirmed on behalf of the General Meeting on April 7, 2004.



Tõnu Toomik
Chairman of the Board



Alar Lagus
Member of the Board



Veljo Viitmann
Member of the Board



Toomas Annus
Chairman of Board of Directors



Ott Kikkas
Member of Board of Directors



Teet Roopalu
Member of Board of Directors

April 7, 2004



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10621 Tallinn
tel 667 1703
fax 667 1704
info@auditea.ee

**Auditors` report
to the shareholders of AS Merko Ehitus**

We have audited the annual report of AS Merko Ehitus and AS Merko Ehitus Group for the financial year ended 31 December 2003 as set out on pages 6 to 44. The annual report is the responsibility of the management of the AS Merko Ehitus. Our responsibility is to express an opinion on these accounts based on our audit.

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

In our opinion, the annual report gives a true and fair view of AS Merko Ehitus and Group`s financial positions at 31 December 2003 and of the results of their operations and their cash flows for the year then ended in accordance with the International Financial Reporting Standards.

March 15 2004 Tallinn

Audit EA

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

Malle Rannik
Authorised Public Accountant

PROPOSAL FOR PROFIT DISTRIBUTION

in kroons

Retained earnings brought forward	180 430 395
Net profit for 2003	184 472 685
Total retained earnings as of 31.12.2003	364 903 080

The Board makes a proposal for allocating the net profit as follows:

Dividends	37 170 000 (4,20 kroons per share)
The remaining net profit after profit allocation	327 733 080



Tõnu Toomik
Chairman of the Board



Alar Lagus
Member of the Board



Veljo Viitmann
Member of the Board

March 15 2004 Tallinn