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ANNUAL REPORT

Beginning of financial year: 01.01.2004

End of financial year: 31.12.2004

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Primary activity: General contracting in construction sector

Auditor: PKF Estonia OÜ

Attachments: 1. Auditor's report
2. Proposal for profit distribution

ACTIVITY REPORT

GENERAL

Merko Ehitus Group's main branches of business are construction and related activities in Estonia, Latvia and Lithuania. The Group consists of 32 subsidiaries and 11 associated companies of which the most important are: SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (100%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), Normanni Linnagrupi AS (50%), AS Telegrupp (45%) and AS Tartu Maja Betoontooted (25%).

CONSTRUCTION MARKET IN THE BALTIC STATES

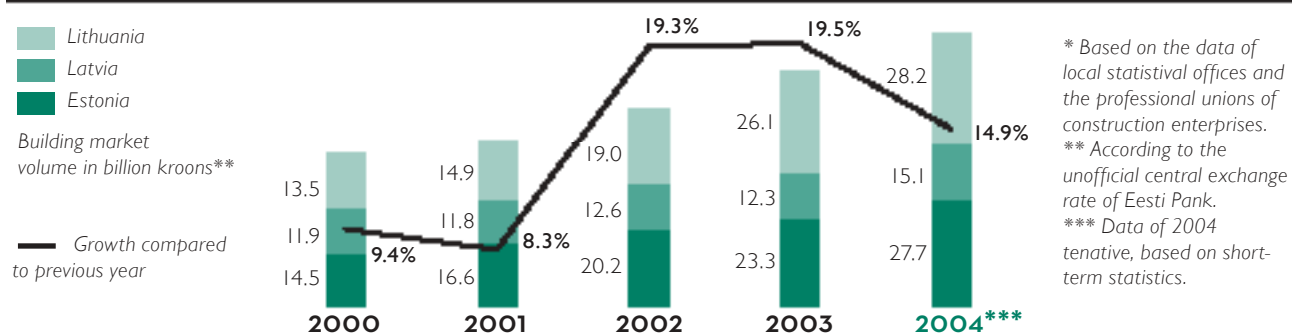
In 2004, construction works worth 71 billion kroons were carried out in the Baltic States, which is nearly 10 billion kroons more as compared to 2003. Similarly with the previous years, this increase in volume of construction works was mainly due to strong domestic demand, favorable loan terms and improving general economic environment.

According to the Statistical Office of Estonia Estonian construction companies carried out construction works worth 28.6 billion kroons in Estonia and abroad, which in current prices constitutes an 18 per cent increase as compared to the previous year. In Estonia, construction works worth 27.7 billion kroons were carried out, which accumulates for an increase of 18.8 per cent.

Stable growth has been characteristic for Latvian building market during the last couple of years, and the increase in current prices in 2004 constituted 21.2 per cent as compared to 2003. 67.7 per cent of the construction works were carried out in greater cities and their immediate surroundings (e.g. Riga, Ventspils and Liepaja). Similarly with the previous years, construction of public buildings continued, too. In 2004, construction works of Hansabanka's new head office were completed in Riga, the National Theatre was reconstructed, new customs and sanitary border inspection checkpoint were built, the main road Via Baltica running through all three Baltic States was partly reconstructed in the district of Riga and construction works of new residential buildings reached new heights in Riga.

Similarly with Estonia and Latvia, also Lithuania's construction market continued to grow following the prevailing trend of the last couple of years. In 2003, construction works worth 26.5 billion kroons were carried out where as in 2004 the same figure was 28.6 billion kroons. Volume of construction works increased by 7.8 per cent in current prices during 2004. This led to rising turnover figures for the leading local construction companies, which, however; remained far behind in comparison with the leading construction companies in the Baltic construction market. A larger part of the construction activities (69%) is concentrated in the greater cities (Vilnius, Klaipeda, Kaunas) and their surroundings similarly with the ongoing trend in Estonia and Latvia.

BUILDING MARKET VOLUMES OF THE BALTIC STATES*

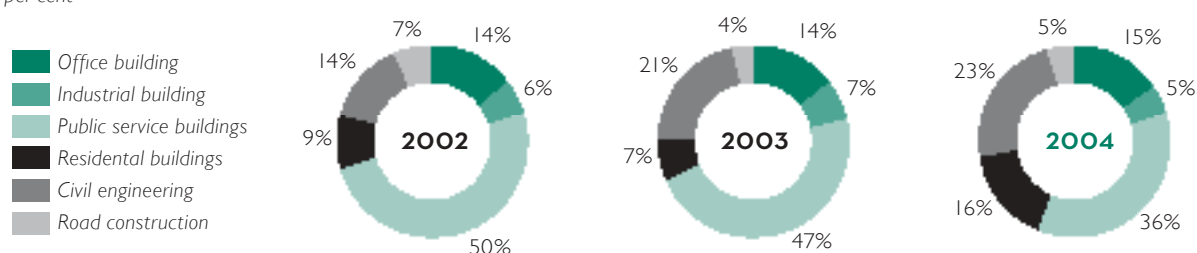


BUSINESS ACTIVITIES

The year 2004 was successful for Merko Ehitus. Group's turnover increased by 14.9 per cent to 3,110 million as against in 2003. 98% of the turnover was accounted for by the construction activities and 2% by other activities.

CONSTRUCTION ACTIVITIES OF THE GROUP WERE DIVIDED AS FOLLOWS:

per cent



Of aggregate building activity of the Group 82% was accounted for by new buildings, and 18% by renovation and reconstruction. In 2004, the most notable construction projects were the combined Viru shopping and business center and a residential building complex in central Tallinn, the coal terminal in Muuga harbor, the head office of Hansabanka in Riga, a hotel and spa complex in Pärnu, Estonian Art Museum and Hotel Tallink in Tallinn.

THE LARGEST PROJECTS COMPLETED IN 2004

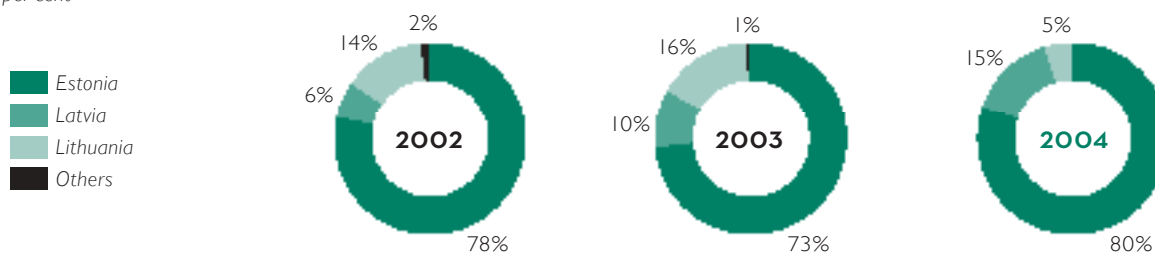
Viru keskus (Viru Centre)	new buiding project	Viru Väljak 4/6, Tallinn	80,330 m ²	Merko Ehitus
Head office of Hansabanka in Riga	new buiding project	Balasta dambis 1a, Riga	37,800 m ²	Merks
Blocks of flats 2 pcs		Vabaõhumuuseumi tee 5, Tallinn		
Blocks of flats 4 pcs	new buiding project	Sarapuu alley, Tabasalu, Harku parish, Harjumaa	29,922 m ²	Merko Ehitus
Blocks of flats 2 pcs/Seniors' centres		Männiku tee 96, 98A, Tallinn		
Hotel-aqua park	new buiding project	Side 14, Pärnu	22,642 m ²	Merko Ehitus
Hotel Novotel and shopping center	new buiding project	Gedimino 16, Vilnius	19,706 m ²	Merko Statyba
Hotel Tallink	reconstruction	Laikmaa 15, Tallinn	18,227 m ²	Merko Ehitus
Rimi shopping center	new buiding project	Rigas 9, Daugavpils	10,300 m ²	Merks
B-Block of Tallinn Department Store	reconstruction	Gonsiori 2, Tallinn	8,255 m ²	Gustaf
Peugeot' car center	new buiding project	Sõpruse pst 151, Tallinn	7,504 m ²	Merko Tartu
Viaduct at the Port of Muuga	new buiding project	Põhjaranna-Veose tee, Muuga, Maardu town, Harjumaa	300 m	Merko Ehitus
Extension of the 6 th berth at the Paldiski South Port	new buiding project	Paldiski South Port, Harjumaa	200.5 m	Merko Ehitus

Merko Ehitus considers the Baltic states its home market and here also 99 per cent of Group's profit was earned. The year 2004 was extraordinary also in other aspects since Merko Ehitus together with its partners won a tender worth 13 million euros for reconstructing a factory building in the province of Vyborg in Russia. This is a pilot project and its successful completion will largely determine Group's future operations in the east. Since Merko's consortium partner carries out the construction works in Russia, the said project does not play a significant role in the turnover of the fiscal period of 2004/2005.

The share of the turnover of export of goods and services provided abroad in Group's sales decreased from 20 per cent as against 27 per cent in the previous year. The decline in export was mainly due from the disposal of subsidiary OÜ Matek in July 2003, which produced prefabricated houses, and the modest sales turnover of UAB Merko Statyba in 2004.

TURNOVER OF MERKO EHITUS GROUP WAS DIVIDED AS FOLLOWS:

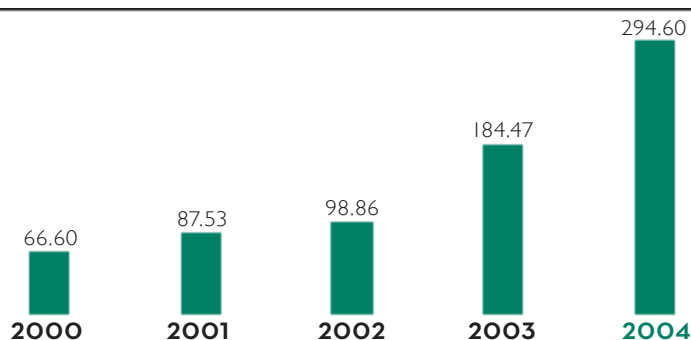
per cent



Group's net profit in 2004 was 294.6 million kroons as against 184.5 million kroons in 2003 constituting an increase of 60 per cent. Profit was earned from ordinary business activities with the exception of 11.7 million kroons, which was gained from the disposal of a project management unit of Tallinna Teede AS in the first quarter of the fiscal year, and 8.7 million kroons gained in the fourth quarter from the disposal of surplus real estate, which had become irrelevant to the Group from the point of view of reaching the set strategic aims. Residential building projects developed by the Group and subsidiaries' improved profitability played a major role in increasing the net profit of 2004.

NET PROFIT OF MERKO EHITUS GROUP

in million kroons



The estimated cash flow gained from economic activities was -98.7 million kroons of which cash flow from operating activities was +101.8 million kroons. The cash flow from business activities was mainly affected by business profit of +317.1 million kroons, change in inventories of -179.9 million kroons, change in receivables and liabilities concerning operating activities of +144.7 million kroons and adjustments of revenues from construction contracts according to the percentage of completion method totalling -173.5 million kroons. In 2004, the Group invested 155.4 million kroons of which 79.0 million kroons were invested in tangible assets, 57.8 million kroons in loans to subsidiaries and respective cooperation projects, 17.0 million kroons in real estate investments and 7.6 million kroons in subsidiaries and associated companies. Investments were financed by own funds. Company's cash flow from financing activities was -45.0 million kroons, of which the received and/or raised loans accounted for -6.4 million kroons and paid out dividends -38.8 million kroons.

In 2004, SIA Merks commenced the construction works of a multifunctional leisure center (Riga Arena) in Riga. This is a demanding development project, and the successful completion of this project depends largely on the multifaceted development of the Arena and its surroundings. This is one of the most challenging projects of 2005. Riga Arena is SIA Merks's investment project and thus the completed construction works are not depicted in the Company's turnover.

THE RATIOS AND CALCULATION METHODS CHARACTERIZING THE OPERATING ACTIVITIES OF THE GROUP

	2002	2003	2004
Net profit margin	5.9%	6.8%	9.5%
Operating profit margin	5.9%	7.5%	10.2%
Return on equity (per year)	36.7%	48.3%	49.9%
Return on assets (per year)	16.2%	19.9%	24.6%
Equity-to-assets ratio	42.6%	40.4%	57.8%
Current ratio	1.5	1.5	2.0
The share of general expenses in turnover	3.8%	3.3%	3.4%
The share of labor costs in turnover	7.1%	5.7%	6.3%

Net profit margin: $\text{Net profit} / \text{Sales}$

Operating profit margin: $\text{Operating profit} / \text{Sales}$

Return on equity: $\text{Net profit} / \text{Average equity during the period}$

Return on assets: $\text{Net profit} / \text{Average assets during the period}$

Equity-to-assets ratio: $\text{Owners equity} / \text{Total assets}$

Current ratio: $\text{Current assets} / \text{Current liabilities}$

The share of general expenses in turnover: $\text{General expenses} / \text{Sales}$

The share of labor costs in turnover: $\text{Labor costs} / \text{Sales}$

OPERATIONAL RISKS

In order to decentralize operational risks arising from construction activities, the Group has concluded insurance contracts and each subcontractor provides a bank guarantee thus ensuring the fulfillment of their contractual liabilities. Elimination of possible construction defects appearing in the constructions is covered by construction warranties. In 2004, provisions to these construction warranties totaled 4.0 million kroons and payments from these funds constituted a total of 3.4 million kroons. As of December 31 2004, the funds in construction warranties totaled 5.8 million kroons.

Situation mapping and risk prevention form an integral part of operational risk management. ISO 9001/14001 management systems are in use in the four biggest companies of the Group, and OHSAS 18001 Health and Safety Management System is applied the parent company. The Group employs 20 full-time quality specialists and their task is to guarantee successful functioning of the quality, occupational safety and management systems.

In May 2004, all three Baltic States joined the EU. The EU membership opened up a vast number of opportunities to the new members, but also brought along new risks. The possible fluctuations of the balance between the demand and supply of qualified employees due to the free movement of work force, and the price convergence of goods and services caused by the membership cannot be ignored when estimating the risks of long-term projects of over twelve months. The Group has started multinational cooperation in the scope of which the necessary know-how or work are imported from the neighboring countries. Hansabanka's new head office in Riga, construction works of Riga Arena as well as the construction works of WWI office premises in Estonia serve as examples of this kind of successful cooperation.

Credit risk forms an inescapable part of business. In order to lower credit risks, payments due from customers are closely monitored, customers' financial status is carefully analyzed and sureties provided by third parties are introduced when deemed necessary. As to advance payments to suppliers, the beneficiary is expected to provide a bank guarantee. In 2004, customers' payment behavior generally improved: payment period of accounts receivable was reduced from 55 days to 30 days, and the total amount of delinquencies of thirty days and more was reduced from 36.5 million kroons to 16.1 million kroons. However, the sum of bad debts rose from 0.5 million kroons to 1.2 million kroons, but this was mainly caused by vexatious interpretation of construction contracts on behalf of customers rather than any credit risk as such.

Company's temporarily free financial assets are deposited as short-term deposits in the highest credit rated banks (Moody's A3/P-2 and higher). In order to guarantee high liquidity and better management of cash flows, the Group has concluded current account credit agreements and possesses a total credit limit of 87 million kroons.

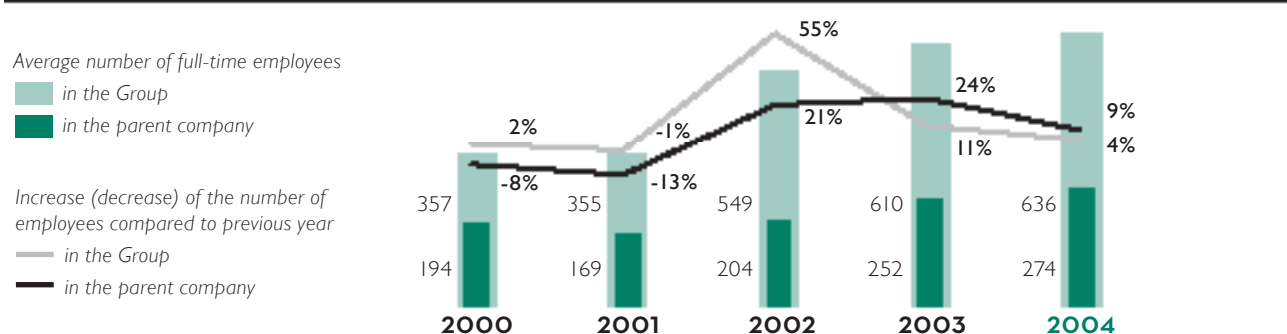
As of December 31, 2004 Group's interest bearing liabilities amounted to 22.2 million kroons, which forms 1.8 per cent of the total balance sheet of the Group. As a result of the small share of interest bearing liabilities, Group's key management personnel considers the immediate risk caused by possible interest rise less important to the operations of the Group. However, there are large-scale investments waiting in 2005 (Riga Arena), which increase the importance of interest risk in Group's risk matrix.

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. The most important international contracts are concluded in euros. Since January 1st, 2005 Latvian lat is pegged to euro, and thus the foreign currency risks related to Latvian lat and Estonian kroon are eliminated.

COMPANY AND EMPLOYEES

In 2004, the average number of full-time employees in the parent company AS Merko Ehitus was 274 having increased by 22 employees as compared to 2003. The gross salaries paid to full-time personnel amounted to 78.2 million kroons with a yearly increase of 28.3%, including a 5.5 per cent increase in basic salaries, and an 87.8 per cent increase in bonuses. The average number of full-time employees in the Group's service was 636 and their gross salaries amounted to 136.4 million kroons. The average salary increased by 23.2 percent as compared to 2003.

CHANGES IN THE NUMBER OF EMPLOYEES OF THE GROUP AND THE PARENT COMPANY



Competent, motivated and cooperation oriented staff is the key factor in modern company's success. AS Merko Ehitus values professionalism highly and invests in its employees. In 2004, the Group invested 1.7 million kroons in further training and supplementary education of its employees.

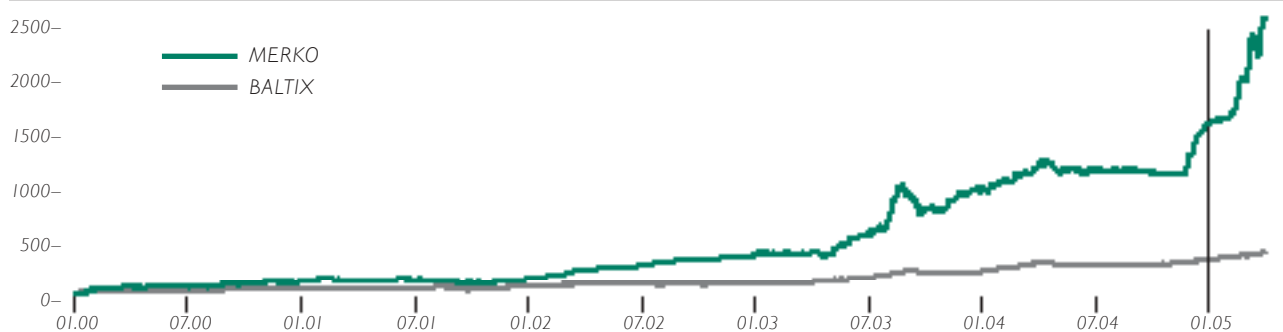
The Board of AS Merko Ehitus comprises of four members since May 2004. All members of the Board have a fulltime position with AS Merko Ehitus, and in 2004 their gross salaries amounted to 4.7 million kroons including 2.2 million kroons in basic salaries and 2.5 million kroons in bonuses. The Board of Directors of AS Merko Ehitus comprises of three members, and their gross salaries in 2004 amounted to 4.0 million kroons including 1.7 million kroons in basic salaries and 2.3 kroons in bonuses. Currently, all members of the Board and the Board of Directors are employed by the Company under respective contracts of service. In case of premature recalling of members of the Board of Directors and the Board, or if members are not elected for their posts for the following fiscal period, such members are entitled to a remuneration for their services, which equals to the basic salary of the member for the period of twelve months preceding the dismissal.

SHARE AND SHAREHOLDERS

Shares of Merko Ehituse AS are listed on the main list of Tallinn Stock Exchange, and the closing price for the share in Tallinn Stock Exchange was 304.17 kroons as of December 31, 2004 having risen 61.9 per cent within a year.

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND THE STOCK EXCHANGE INDEX BALTIX

(compared to the base period 01.01.2000)



Net earnings per share were 33.29 kroons in 2004, and according to the dividend policy of the company a proposition to pay 20% of the net profit of the fiscal year of 2004 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 2004

Shareholders	Shares	Participation %
Merko Group	6,371,343	72.0
ING Luxembourg S.A., clients	700,000	7.9
SEB, clients	509,180	5.8
Nordea Pank, clients	461,724	5.2
Clearstream Banking Luxembourg S.A., clients	108,835	1.2
Other shareholders	698,918	7.9
Total	8,850,000	100.0

OUTLOOK FOR 2005

The local economic environment is the main factor affecting the construction sector. We believe the economic growth of 5 to 6 per cent will continue in the coming years, too, and the construction market will equally benefit from this. Merko Ehitus will continue to emphasize the same factors i.e. be the number one partner and the best choice for high profile clients in the Baltic States.

In 2005, we expect the activities of the public sector and the structural funds of the EU to brighten up, which should also liven up the environmental construction sector. In addition to general and engineering construction, a significant growth potential is seen in the residential building construction, which we clearly underestimated in 2004. Record-breakingly low interest rates and continuing growth of income led to an unexpectedly high rise in the residential building markets in all three Baltic States. We believe this positive trend will continue also in 2005 thus acting as a motivator for further business activities in this sector.

In strategic direction AS Merko Ehitus will continue expanding operations in Latvia and Lithuania where the Company wishes to become one of the largest construction companies via its subsidiaries SIA Merks and UAB Merko Statyba. We have a positive view on the development of Latvia and Lithuania and expect the share of the Latvian and Lithuanian based companies of the Group's turnover to increase from the current 20 per cent up to 50 per cent with the companies simultaneously maintaining their profit earning capacity.

ANNUAL FINANCIAL STATEMENT

BOARD'S DECLARATION

The Board of Merko Ehitus declares its liability for the correctness of consolidated financial statements of the Group and confirms in its best knowledge, that:

- the accounting principles applied in preparing the annual financial statement are in compliance with the 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

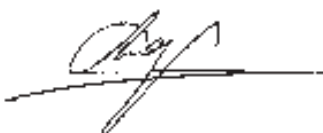
Chairman of the Board



March 18, 2005

Alar Lagus

Member of the Board



March 18, 2005

Veljo Viitmann

Member of the Board



March 18, 2005

Jaan Mäe

Member of the Board



March 18, 2005

INCOME STATEMENT

<i>in thousand kroons</i>					
	Note	Group		Parent company	
		2004	2003	2004	2003
Sales	1	3,110,399	2,707,663	2,110,292	1,696,873
Sales costs	2	(2,695,989)	(2,429,125)	(1,819,097)	(1,476,012)
Gross profit		414,410	278,538	291,195	220,861
Marketing expenses	3	(18,138)	(15,832)	(13,136)	(11,018)
Administrative expenses	4	(89,089)	(73,362)	(47,503)	(38,576)
Other operating income	5	13,607	15,326	176	12,255
Other operating expenses	6	(3,677)	(2,122)	(2,056)	(1,736)
Operating profit		317,113	202,548	228,676	181,786
Financial income (expenses)	7	(18,585)	(9,795)	2,814	4,382
Income (expenses) from subsidiaries	16	(299)	542	63,863	(3,386)
incl. income (expenses) from capital share		-	-	64,162	(3,928)
Income (expenses) from associate companies	17	9,950	4,446	2,835	5,130
incl. income (expenses) from capital share		9,950	3,650	2,835	4,335
Profit before taxes		308,179	197,741	298,188	187,912
Income tax	8	(9,997)	(10,901)	(3,588)	(3,439)
Net profit for fiscal year		298,182	186,840	294,600	184,473
incl. net profit attributable to parent company		294,600	184,473		
net profit attributable to minority shareholders		3,582	2,367		
Net profit per share for parent company's shareholders shares (basic and diluted, in Estonian kroons)	9	33.29	20.84		

INCOME STATEMENT

<i>in thousand euros</i>	Group		Parent company	
	2004	2003	2004	2003
Sales	198,791	173,051	134,872	108,450
Sales costs	(172,305)	(155,249)	(116,261)	(94,334)
Gross profit	26,486	17,802	18,611	14,116
Marketing expenses	(1,159)	(1,012)	(840)	(705)
Administrative expenses	(5,694)	(4,689)	(3,036)	(2,465)
Other operating income	869	980	11	783
Other operating expenses	(235)	(136)	(131)	(111)
Operating profit	20,267	12,945	14,615	11,618
Financial income (expenses)	(1,188)	(626)	180	280
Income (expenses) from subsidiaries	(19)	35	4,082	(216)
incl. income (expenses) from capital share	-	-	4,101	(251)
Income (expenses) from associate companies	636	284	181	328
incl. income (expenses) from capital share	636	223	181	277
Profit before taxes	19,696	12,638	19,058	12,010
Income tax	(639)	(697)	(230)	(220)
Net profit for fiscal year	19,057	11,941	18,828	11,790
incl. net profit attributable to parent company	18,828	11,790		
net profit attributable to minority shareholders	229	151		
Net profit per share for parent company's shareholders shares <i>(basic and diluted, in Estonian kroons)</i>	2.13	1.33		

BALANCE SHEET

<i>in thousand kroons</i>		Group		Parent company	
	Note	31.12.2004	31.12.2003	31.12.2004	31.12.2003
ASSETS					
Current assets					
Cash	11	141,812	240,152	101,143	211,116
Short-term financial investments	12	11,775	36,096	-	8,065
Receivables and prepayments	13	496,943	552,438	602,774	475,676
Prepaid income tax		2,222	1,746	18	13
Inventories	15	351,332	158,613	76,908	97,692
Total current assets		1,004,084	989,045	780,843	792,562
Non-currents assets					
Shares in subsidiaries	16	-	-	162,924	83,453
Shares in associate companies	17	35,446	25,040	25,486	21,944
Other long-term financial investments	18	15,868	3,325	43,029	2,159
Deferred income tax assets	19	4,124	4,124	-	-
Real estate investments	20	61,389	52,869	27,903	28,183
Tangible assets	21	131,765	73,051	7,587	8,936
Intangible assets	22	1,110	(1,592)	504	-
Total non-current assets		249,702	156,817	267,433	144,675
Total assets		1,253,786	1,145,862	1,048,276	937,237
LIABILITIES					
Current liabilities					
Raised loans	24	12,578	17,379	902	902
Liabilities and prepayments	25	486,857	623,605	320,603	463,737
Income tax liability		1,313	5,124	217	236
Current provisions	26	5,784	5,191	3,235	2,676
Total current liabilities		506,532	651,299	324,957	467,551
Non-current liabilities					
Raised long-term loans	24	14,046	16,399	-	-
Other long-term payables	27	8,038	9,532	5,349	5,863
Total non-current liabilities		22,084	25,931	5,349	5,863
Total liabilities		528,616	677,230	330,306	473,414
OWNERS' EQUITY					
Minority interest		7 200	4 809	-	-
Equity attributable to parent company's shareholders					
Share capital	29	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
Other reserves		(4,663)	(1,380)	(4,663)	(1,380)
Undistributed profit		622,333	364,903	622,333	364,903
Total equity attributable to parent company's shareholders		717,970	463,823	717,970	463,823
Total owners' equity		725,170	468,632	717,970	463,823
		1,253,786	1,145,862	1,048,276	937,237

BALANCE SHEET

in thousand euros

Group
31.12.2004 31.12.2003 Parent company
31.12.2004 31.12.2003

ASSETS

Current assets

Cash	9,063	15,348	6,464	13,493
Short-term financial investments	753	2,307	-	515
Receivables and prepayments	31,761	35,307	38,525	30,401
Prepaid income tax	142	112	1	1
Inventories	22,454	10,137	4,915	6,244
Total current assets	64,173	63,211	49,905	50,654

Non-currents assets

Shares in subsidiaries	-	-	10,413	5,334
Shares in associate companies	2,265	1,600	1,629	1,402
Other long-term financial investments	1,014	213	2,750	138
Deferred income tax assets	264	264	-	-
Real estate investments	3,924	3,379	1,783	1,801
Tangible assets	8,421	4,669	485	571
Intangible assets	71	(102)	32	-
Total non-current assets	15,959	10,023	17,092	9,246

Total assets

80,132 73,234 66,997 59,900

LIABILITIES

Current liabilities

Raised loans	804	1,110	58	58
Liabilities and prepayments	31,116	39,857	20,489	29,637
Income tax liability	84	327	14	15
Current provisions	369	332	207	171
Total current liabilities	32,373	41,626	20,768	29,881

Non-current liabilities

Raised long-term loans	898	1,048	-	-
Other long-term payables	514	609	342	375
Total non-current liabilities	1,412	1,657	342	375

Total liabilities

33,785 43,283 21,110 30,256

OWNERS' EQUITY

Minority interest	460	307	-	-
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Equity attributable to parent company's shareholders

Share capital	5,656	5,656	5,656	5,656
Share premium	189	189	189	189
Mandatory legal reserve	566	566	566	566
Other reserves	(298)	(88)	(298)	(88)
Undistributed profit	39,774	23,321	39,774	23,321
Total equity attributable to parent company's shareholders	45,887	29,644	45,887	29,644

Total owners' equity

46,347 29,951 45,887 29,644

Total liabilities and owners' equity

80,132 73,234 66,997 59,900

STATEMENT OF CHANGES IN EQUITY

<i>in thousand kroons</i>	Note	Profit attributable to parent company's shareholders						Minority interest	Total
		Share capital	Share premium	Mandatory reserve	Other reserves	Retained earnings	Total		
Closing balance 31.12.2002		88,500	2,950	8,850	174	200,343	300,817	4,792	305,609
Exchange rate differences		-	-	-	(1,554)	-	(1,554)	-	(1,554)
Net profit for fiscal year	9	-	-	-	-	184,473	184,473	2,367	186,840
Dividends	29	-	-	-	-	(19,913)	(19,913)	(1,019)	(20,932)
Business combinations		-	-	-	-	-	-	(1,331)	(1,331)
Closing balance 31.12.2003		88,500	2,950	8,850	(1,380)	364,903	463,823	4,809	468,632
Exchange rate differences	16	-	-	-	(3,283)	-	(3,283)	-	(3,283)
Net profit for fiscal year	9	-	-	-	-	294,600	294,600	3,582	298,182
Dividends	29	-	-	-	-	(37,170)	(37,170)	(1,600)	(38,770)
Business combinations		-	-	-	-	-	-	409	409
Closing balance 31.12.2004		88,500	2,950	8,850	(4,663)	622,333	717,970	7,200	725,170

STATEMENT OF CHANGES IN EQUITY

<i>in thousand euros</i>	Profit attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Mandatory reserve	Other reserves	Retained earnings	Total		
Closing balance 31.12.2002	5,656	189	566	11	12,804	19,226	306	19,532
Exchange rate differences	-	-	-	(99)	-	(99)	-	(99)
Net profit for fiscal year	-	-	-	-	11,790	11,790	151	11,941
Dividends	-	-	-	-	(1,273)	(1,273)	(65)	(1,338)
Business combinations	-	-	-	-	-	-	(85)	(85)
Closing balance 31.12.2003	5,656	189	566	(88)	23,321	29,644	307	29,951
Exchange rate differences	-	-	-	(210)	-	(210)	-	(210)
Net profit for fiscal year	-	-	-	-	18,828	18,828	229	19,057
Dividends	-	-	-	-	(2,375)	(2,375)	(102)	(2,477)
Business combinations	-	-	-	-	-	-	26	26
Closing balance 31.12.2004	5,656	189	566	(298)	39,774	45,887	460	46,347

CASH FLOW STATEMENT

in thousand kroons

Note

Group
31.12.2004 31.12.2003 Parent company
31.12.2004 31.12.2003

NET CASH FROM OPERATING ACTIVITIES

Operating profit		317,113	202,548	228,676	181,786
Adjustments:					
depreciation and amortisation	1; 20-22	15,038	12,973	4,314	3,475
(profit) loss from disposals of real estate investments	5	-	(9,450)	-	(9,450)
(profit) loss from disposals of fixed assets	5	(545)	(3,012)	(10)	(2,344)
(profit) loss from disposal of a unit	5	(11,651)	-	-	-
adjustments of revenues from construction contracts according to the percentage of completion method	30	(173,460)	190,345	(151,427)	167,440
changes in provisions		7,650	8,183	6,045	6,503
Change in receivables and prepayments concerning operating activities		157,969	(249,409)	159,757	(215,493)
Change in inventories		(179,977)	(55,685)	20,785	4,685
Change in liabilities and prepayments concerning operating activities		(13,306)	60,295	(37,921)	75,782
Interests and other financial expenses paid		(1,692)	(1,588)	(184)	(494)
Paid company income tax		(15,359)	(7,947)	(2,992)	(3,452)
Total net cash from operating activities		101,780	147,253	227,043	208,438

NET CASH SPENT IN INVESTING ACTIVITIES

Acquisition of subsidiaries		(3,510)	4,939	(4,489)	(30,845)
Disposal of subsidiaries		700	2,210	700	3,220
Mergence of subsidiaries		(2,440)	(2,747)	-	-
Acquisition of associate companies		(2,393)	(44)	(2,393)	(44)
Disposal of associate companies		-	804	-	800
Disposal of other financial investments		141	2,552	-	1,131
Acquisition of real estate investments		(17,018)	(23,632)	-	(44)
Disposal of real estate investments		-	14,431	-	14,431
Acquisition of tangible assets		(79,996)	(14,748)	(2,725)	(5,906)
Disposal of tangible assets		985	8,194	50	3,365
Acquisition of intangible assets		(1,699)	(197)	(504)	-
Disposal of units		(776)	-	-	-
Granted loans		(74,928)	(22,023)	(338,070)	(67,545)
Received loan payments		17,088	46,806	21,430	73,578
Received interests		6,751	5,440	5,934	5,184
Received dividends		1,679	-	20,222	7,778
Total net cash spent in investing activities		(155,416)	21,985	(299,845)	5,103

NET CASH SPENT IN FINANCING ACTIVITIES

Loans drawn		6,077	9,063	-	-
Repayments of loans		(9,063)	(2,661)	-	(1,200)
Repayments of finance lease liabilities	24	(3,373)	(11,937)	-	(4,000)
Share issue		105	-	-	-
Paid dividends		(38,770)	(21,074)	(37,170)	(19,913)
Total net cash spent in financing activities		(45,024)	(26,609)	(37,170)	(25,113)

Change in cash and cash equivalents		(98,660)	142,629	(109,972)	188,428
Cash and cash equivalents at the beginning of the period		240,152	96,310	211,116	22,672
Effects of exchange rate differences		320	1,213	(1)	16
Cash and cash equivalents at the end of the period	11	141,812	240,152	101,143	211,116

Substantial non-monetary transactions: conversion of a loan of 25,306 thousand kroons into the share capital of SIA Merks.

CASH FLOW STATEMENT

in thousand euros

Group
31.12.2004 31.12.2003 Parent company
31.12.2004 31.12.2003

NET CASH FROM OPERATING ACTIVITIES

Operating profit	20,267	12,945	14,615	11,618
Adjustments:				
depreciation and amortisation	961	829	276	222
(profit) loss from disposals of real estate investments	-	(604)	-	(604)
(profit) loss from disposals of fixed assets	(35)	(193)	(1)	(150)
(profit) loss from disposal of a unit	(745)	-	-	-
adjustments of revenues from construction contracts according to the percentage of completion method	(11,086)	12,165	(9,678)	10,701
changes in provisions	489	523	386	416
Change in receivables and prepayments concerning operating activities	10,096	(15,940)	10,210	(13,772)
Change in inventories	(11,503)	(3,559)	1,329	300
Change in liabilities and prepayments concerning operating activities	(849)	3,854	(2,423)	4,843
Interests and other financial expenses paid	(108)	(101)	(12)	(31)
Paid company income tax	(982)	(508)	(191)	(221)
Total net cash from operating activities	6,505	9,411	14,511	13,322

NET CASH SPENT IN INVESTING ACTIVITIES

Acquisition of subsidiaries	(224)	316	(287)	(1,971)
Disposal of subsidiaries	45	141	45	206
Mergence of subsidiaries	(156)	(175)	-	-
Acquisition of associate companies	(153)	(3)	(153)	(3)
Disposal of associate companies	-	51	-	51
Disposal of other financial investments	9	163	-	72
Acquisition of real estate investments	(1,088)	(1,510)	-	(3)
Disposal of real estate investments	-	922	-	922
Acquisition of tangible assets	(5,113)	(943)	(174)	(377)
Disposal of tangible assets	63	524	3	215
Acquisition of intangible assets	(109)	(13)	(32)	-
Disposal of units	(49)	-	-	-
Granted loans	(4,789)	(1,408)	(21,607)	(4,317)
Received loan payments	1,092	2,992	1,370	4,703
Received interests	431	348	379	331
Received dividends	107	-	1,292	497
Total net cash spent in investing activities	(9,933)	1,405	(19,164)	326

NET CASH SPENT IN FINANCING ACTIVITIES

Loans drawn	388	579	-	-
Repayments of loans	(579)	(170)	-	(77)
Repayments of finance lease liabilities	(216)	(763)	-	(255)
Share issue	7	-	-	-
Paid dividends	(2,478)	(1,347)	(2,376)	(1,273)
Total net cash spent in financing activities	(2,878)	(1,701)	(2,376)	(1,605)

Change in cash and cash equivalents	(6,306)	9,115	(7,029)	12,043
Cash and cash equivalents at the beginning of the period	15,348	6,155	13,493	1,449
Effects of exchange rate differences	21	78	0	1
Cash and cash equivalents at the end of the period	9,063	15,348	6,464	13,493

ACCOUNTING POLICIES

GENERAL

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

Annual report has been compiled according to the acquisition price principle with the exception of cases portrayed in the following accounting policies.

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 (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 evaluations 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 the Estonian Accounting Law).

The annual report is presented in Estonian kroons. Financial statements and notes are presented in thousands of Estonian kroons. According to the rules of Tallinn Stock Exchange, financial statements are presented also in thousands of euros. As Estonian kroon is pegged to euro (EUR 1 = EEK 15,6466), there are no differences in conversing the different currencies of the two annual reports.

CHANGES IN PORTRAYING THE INFORMATION

The following standards have been applied prematurely in compiling the annual report:

IAS 1 (amended in 2003) Presentation of Financial Statements

IAS 8 (amended in 2003) Accounting policies, Changes in Accounting Estimates and Errors

IAS 16 (amended in 2003) Property, Plant and Equipment

IAS 24 (amended in 2003) Related Party Disclosures

IFRS 3 (introduced in 2004) Business Combinations

IAS 36 (amended in 2004) Impairment of Assets

IAS 38 (amended in 2004) Intangible Assets

Premature application of these standards did not bring forward any significant changes in the accounting principles applied so far, nor did it have any notable effect on Group's or parent company's profit.

Amendments of IAS 1, IAS 8, IAS 16 and IAS 24 did affect the manner of portraying information in the annual report.

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 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 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.

Group's companies apply uniform accounting principles on similar transactions carried out in similar circumstances.

ACCOUNTING OF INVESTMENTS IN SUBSIDIARIES IN PARENT COMPANY'S FINANCIAL STATEMENTS

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 the 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 of 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 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 currencies 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 31.12.2004 into Estonian kroons according to the closing date exchange rate of the Central Bank of Estonia. Exchange rate differences are presented under the profit and loss statement.

In consolidating the subsidiaries operating abroad the amounts in 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 as of December 31, 2004, income and expenses have been converted according to the average exchange rate of the Central Bank of Estonia of 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.

FINANCIAL 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 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 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 their acquisition cost, or at their 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 less the accumulated depreciations and possible discounts.

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

TANGIBLE ASSETS

Tangible assets consist of assets, which are used for production and providing services or for administrative purposes for a period of time longer than one year; and whose value exceeds 10,000 kroons. The 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.

Tangible assets are stated at their acquisition cost, less accumulated depreciation. The improvement expenses 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:

- buildings 10 to 33.3 years;
- machinery and equipment 3 to 5 years;
- other inventories 2.5 to 5 years;
- construction rights 50 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 the real value of net assets of the acquired subsidiary or associate company and their purchase price on the day of acquisition. Goodwill is reported in the 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 with a depreciation amount of 20 per cent per year.

Negative goodwill acquired in the acquisition of subsidiaries 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 is portrayed as income at the moment of acquisition.

Since March 31 2004 the positive goodwill acquired due to mergers is not depreciated but, instead, its covered value is re-estimated as of December 31; negative goodwill is posted to income when acquired.

Goodwill acquired due to mergers carried out before March 31 2004: value of positive goodwill is tested as of December 31 starting from January 1 2005; the opening balance of undistributed profit is adjusted by the amount of negative goodwill.

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 the 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

Such lease agreements in which the lessee assumes the principal risks and rewards identical to ownership are reported as finance lease. 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 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 are recorded in the profit and loss statement as period costs on an accrual basis during the lease period.

INCOME TAX

According to Estonia's current Income Tax Law 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.

In 2004, the tax rate on dividends in Estonia is 26/74 of the payment of net dividends. Since the beginning of 2005 the equivalent tax rate is 24/76 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 the deferred income tax liability or revenue of subsidiaries in Latvia and Lithuania and income tax on dividends of Estonian companies is portrayed in the consolidated income statement.

Deferred income tax is calculated on all substantial temporary differences occurring between the tax calculation and the assets and liabilities in financial accounting. Income tax assets are depicted in the balance sheet, should it be likely to materialize in future.

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 for 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 payments. 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 CONTRACT WORKS IN PROGRESS

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.

CASH AND CASH FLOWS

Excessively liquid assets and assets with little risk of changing, such as cash in hand, funds on bank accounts, easily liquidated securities, for example; money market instruments and deposits of up to three months, are depicted as cash and cash equivalents in the cash flow statement.

The cash flow statement has been prepared according to the indirect depreciation method.

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 the 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 previous 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:

- the parent company AS Merko Group;
- shareholders of AS Merko Group thus possessing considerable influence over the company;
- other shareholders possessing considerable influence over the company
- other subsidiaries of AS Merko Group i.e. so-called affiliated companies (other subsidiaries);
- subsidiaries;
- other controlled companies;
- associate companies;
- the next of kin of natural persons possessing considerable influence in the company;
- the key management personnel and their next of kin;
- companies controlled by the above-mentioned natural persons;
- 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 possesses over 20 per cent of the voting right.

SEGMENTS

A business segment is a distinguishable component of the Group that is engaged in providing a number of related services or products, and which is subject to risks and returns that are different from those of other segments. Construction activities are depicted as a separate business segment, which is distinguished from the road construction and communications network construction as well as from the production of pre-cast concrete. 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, are 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.

A 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 segments. Group's main geographical segments are Estonia, Latvia and Lithuania. Geographical segments were considered 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 construction. Sales revenues are 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.

NOTES

Note 1 BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

in thousand kroons

2004

	Building construction	Road construction	Production of precast concrete elements	Construction of networks	Group	
Sales	2,949,038	161,361	-	-	3,110,399	
Operating profit of the business segment	294,862	22,251	-	-	317,113	
Financial items					(8,934)	
incl. profit (loss) from associate companies (note 17)	6,107	531	5,243	(1,931)	9,950	
Profit before taxes					308,179	
Income tax					(9,997)	
Net profit for the Group					298,182	
incl. profit attributable to parent company					294,600	
profit attributable to minority shareholders					3,582	
Segment assets	1,093,446	87,043	-	-	1,180,489	
Associate companies	20,284	3,627	5,243	6,292	35,446	
Unallocated assets					37,851	
Consolidated total assets					1,253,786	
Segment liabilities	475,445	15,119	-	-	490,564	
Unallocated liabilities					38,052	
Consolidated total liabilities					528,616	
Acquisition of real estate investments	6,468	-	-	-	6,468	
Acquisition of tangible and intangible assets	63,579	15,673	-	-	79,252	
Depreciation and amortisation (notes 20 to 22)	6,069	8,969	-	-	15,038	
2003						
	Building construction	Road construction	Production of structures for small houses	Production of precast concrete elements	Construction of networks	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 companies (note 17)	553	(617)	-	4,333	177	4,446
Profit before taxes						197,741
Income tax						(10,901)
Net profit for the Group						186,840
incl. profit attributable to parent company						184,473
profit attributable to minority shareholders						2,367
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 investments	23,632	-	-	-	-	23,632
Acquisition of tangible and intangible assets	11,260	32,091	290	-	-	43,641
Depreciation and amortisation	4,832	7,763	378	-	-	12,973

Such expenses, assets and liabilities are unallocated, which can not or should not be linked to a certain business segment. In 2003, AS Merko Ehitus sold its participation in OÜ Matek as a result of which the business segment of single-family house construction production ended.

GEOGRAPHICAL SEGMENTS

Sales	Group		Parent company	
	2004	2003	2004	2003
Estonia	2,489,027	1,981,207	2,110,292	1,696,873
Latvia	460,510	263,435	-	-
Lithuania	160,862	434,352	-	-
Germany	-	5,089	-	-
Norway	-	7,795	-	-
Sweden	-	12,007	-	-
Ireland	-	1,784	-	-
Denmark	-	1,179	-	-
Iceland	-	815	-	-
Total	3,110,399	2,707,663	2,110,292	1,696,873

	Total assets		Acquisition of real estate investments		Acquisition of fixed assets	
	31.12.2004	31.12.2003	2004	2003	2004	2003
Estonia	849,690	925,850	6,468	23,632	21,119	41,269
Latvia	277,108	117,708	-	-	57,861	2,246
Lithuania	126,988	102,304	-	-	272	126
Total	1,253,786	1,145,862	6,468	23,632	79,252	43,641

Note 2 SALES COSTS

	Group		Parent company	
	2004	2003	2004	2003
Materials	438,699	268,316	232,993	160,997
Construction services	1,931,422	1,838,337	1,391,244	1,154,951
Labour costs	135,464	107,920	79,324	55,554
Depreciation and amortisation	12,292	10,695	2,906	2,393
Designing	45,799	43,042	27,280	24,697
Construction machinery and transportation	58,515	42,151	32,563	20,103
Other expenses	73,798	118,664	52,787	57,317
Total sales costs	2,695,989	2,429,125	1,819,097	1,476,012

Note 3 MARKETING EXPENSES

	Group		Parent company	
	2004	2003	2004	2003
Labour costs	7,255	6,324	6,825	4,942
Depreciation and amortisation	168	117	164	117
Advertising, sponsoring	4,514	5,262	2,348	2,863
Transportation	1,060	918	858	916
Building tenders	1,576	884	109	321
Other expenses	3,565	2,327	2,832	1,859
Total marketing expenses	18,138	15,832	13,136	11,018

Note 4 ADMINISTRATIVE EXPENSES

in thousand kroons	Group		Parent company	
	2004	2003	2004	2003
Labour costs	54,373	44,653	31,633	24,768
Depreciation and amortisation	2,577	2,161	1,244	965
Computer hard and software, IT services	5,446	4,703	3,457	2,078
Banking facilities	417	605	149	305
Transportation	4,489	4,704	2,300	2,800
Office expenses, communication services	10,965	10,007	5,508	5,302
Other expenses	10,822	6,529	3,212	2,358
Total administrative expenses	89,089	73,362	47,503	38,576

Note 5 OTHER OPERATING INCOME

in thousand kroons	Group		Parent company	
	2004	2003	2004	2003
Profit on disposal of fixed assets	545	3,012	10	2,344
Profit on disposal of real estate investments	-	9,450	-	9,450
Gain on penalties and interest on arrears	657	2,234	164	370
Foreign exchange gain	-	77	-	-
Profit on disposal of units*	11,651	-	-	-
Other income	754	553	2	91
Total other operating income	13,607	15,326	176	12,255

* In 2004, Tallinna Teede AS, a subsidiary of AS Merko Ehitus, sold a business unit operating with project management and related road maintenance and construction supervision to Teede Projektjuhtimise AS.

Note 6 OTHER OPERATING EXPENSES

in thousand kroons	Group		Parent company	
	2004	2003	2004	2003
Penalties, interest on arrears	1,213	-	995	-
Foreign exchange loss	673	-	36	40
Gifts, donations	872	1,349	757	1,230
Other expenses	919	773	268	466
Total other operating expenses	3,677	2,122	2,056	1,736

Note 7 FINANCIAL INCOME AND EXPENSES

in thousand kroons	Group		Parent company	
	2004	2003	2004	2003
Financial income from other long-term financial investments	(1,478)	1,084	(1,478)	1,084
Interest expense	(3,395)	(2,503)	(1,993)	(1,068)
Interest income	7,876	4,286	6,075	4,041
Foreign exchange profit or loss	(5,254)	(2,692)	169	16
Profit or loss on disposal of bill notes	(14,557)	257	-	257
Profit or loss on overvalue of bill notes (note 12)	(1,149)	(10,217)	-	62
Other financial income and expenses	(628)	(10)	41	(10)
Total financial income and expenses	(18,585)	(9,795)	2,814	4,382

Note 8 INCOME TAX

in thousand kroons

	Group		Parent company	
	2004	2003	2004	2003
Profit before taxes	308,179	197,741	298,188	187,912
Income tax on dividends	6,672	6,539	3,588	3,439
Company income tax	3,325	4,725	-	-
Deferred income tax (note 19)	-	(363)	-	-
Total income tax	9,997	10,901	3,588	3,439

According to Estonia's current Income Tax Law Estonian legal entities are not liable for income tax on acquired profit but, instead, on distributed profit. In 2004, the tax rate on dividends was 26/74 of the payment of net dividends.

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 2004, company's profit was liable to income tax of 15 per cent in Latvia (in 2003 profit was liable to income tax of 19 per cent).

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. Company's profit is liable to 15 per cent income tax in Lithuania.

Note 9 NET PROFIT (LOSS) PER SHARE

Basic net profit (-loss) per parent company's share is acquired by dividing the consolidated net profit (-loss) of the shareholders with the average weighted number of ordinary shares excluding own shares.

	2004	2003
Net profit (loss) attributable to shareholders (in thousand kroons)	294,600	184,473
Weighted average number of ordinary shares (thousand items)	8,850	8,850
Basic net profit (loss) per share (in kroons)	33.29	20.84

In 2003 and 2004 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 Board's proposal on distribution of profit. According to the proposal of distribution of profit dividends to be paid out in 2005 total 57,525 thousand kroons i.e. 6.50 kroons per share, creating an income tax liability of up to 26/74 of the paid amount i.e. 18,165.8 thousand kroons.

In 2004, 37,170 thousand kroons i.e. 4.20 kroons per share were paid in dividends, and the respective paid income tax was 3,588.1 thousand kroons.

Note 11 CASH AND CASH EQUIVALENTS

in thousand kroons

	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Cash in hand	137	100	1	2
Bank deposits	36,763	28,579	5,951	2,271
Amounts in transit	-	1	-	-
Short-term deposits	95,206	22,786	95,191	21,741
Shares in Estonian money-market funds	9,706	188,686	-	187,102
Total cash and cash equivalents	141,812	240,152	101,143	211,116

As of December 31 2004 the overnight deposit interest of short-term deposits was 2% and the weighted average interest of fixed-period deposits was 2.41%. The average profit for the last twelve months depicted in the fund-units of Estonian money-market funds was 2.04%.

Note 12 SHORT-TERM FINANCIAL INVESTMENTS

in thousand kroons

	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Shares of other companies	11,775	36,096	-	8,065
Total short-term financial investments	11,775	36,096	-	8,065

Shares held-for-trading are reported in their fair value. The fair value evaluations are presented in note 7. As of December 31 2004, shares belonging to subsidiary SIA Merks totalling 11,775 thousand kroons are depicted in the Group's consolidated financial statements.

Note 13 ACCOUNTS RECEIVABLE AND PREPAYMENTS

in thousand kroons

	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Accounts receivable				
Trade receivables	257,992	414,178	183,558	339,961
Bad debts	(1,158)	(408)	(25)	-
Total accounts receivable	256,834	413,770	183,533	339,961
Prepaid taxes, excluding company income tax				
VAT	15,637	10,890	259	-
Personal income tax	-	6	-	-
Total prepaid taxes, excluding company income tax	15,637	10,896	259	-
Due from customers (note 30)	117,180	72,009	85,646	45,375
Other short-term receivables				
Short-term loans (note 14)	72,637	20,239	321,461	72,860
Interest income	2,004	570	1,040	587
Receivable dividends	224	233	-	-
Other short-term receivables	3,252	1,543	400	1,000
Total other short-term receivables	78,117	22,585	322,901	74,447
Prepaid services				
Advance payments for building works services	25,992	24,641	8,596	8,742
Prepaid insurance premiums	1,727	5,188	976	4,661
Other prepaid expenses	1,456	3,349	863	2,490
Total prepaid services	29,175	33,178	10,435	15,893
Total accounts receivable and prepayments	496,943	552,438	602,774	475,676

Note 14 LOANS

in thousand kroons

	Group		Parent company	
	2004	2003	2004	2003
Loans to subsidiaries				
Opening balance at the beginning of the year	-	-	63,014	39,758
Extended	-	-	268,539	77,987
Received	-	-	(29,837)	(54,731)
Re-grouping*	-	-	1,446	-
Closing balance at the end of the year	-	-	303,162	63,014
incl. short-term part (note 13)	-	-	260,133	63,014
long-term part 2 to 3 years (note 18)	-	-	43,029	-

Interest rate for long-term loans is Euribor 12 months + 0.5%.

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
Loans to associate companies				
Opening balance at the beginning of the year	5,909	7,757	2,909	10,716
Granted	45,047	3,909	44,521	909
Received	(1,801)	(5,757)	(1,275)	(8,716)
Closing balance at the end of the year	49,155	5,909	46,155	2,909
incl. short-term part (note 13)	49,155	5,909	46,155	2,909
<i>Average interest rate 4.5%.</i>				
Loans to companies subject to joint control				
Opening balance at the beginning of the year	4,265	5,589	-	-
Granted	21,726	5,526	20,000	-
Received	(20,000)	(6,850)	(20,000)	-
Closing balance at the end of the year	5,991	4,265	-	-
incl. short-term part (note 13)	5,991	4,265	-	-
<i>Average interest rate 4.0%.</i>				
Loans to other related parties				
Opening balance at the beginning of the year	5,740	5,532	1,446	1,264
Granted	-	1,348	-	182
Received	-	(1,140)	-	-
Re-grouping*	(5,360)	-	(1,446)	-
Closing balance at the end of the year	380	5,740	-	1,446
incl. short-term part (note 13)	-	4,574	-	1,446
long-term part 2 to 5 years (note 18)	380	1,166	-	-
<i>Average interest rate 0%.</i>				
Loans to non-related legal entities				
Opening balance at the beginning of the year	5,791	16,893	5,791	15,250
Granted	45,149	12,074	42,569	12,074
Received	(33,186)	(23,176)	(33,187)	(21,533)
Closing balance at the end of the year	17,754	5,791	15,173	5,791
incl. short-term part (note 13)	17,491**	5,491	15,173**	5,491
long-term part 2 to 5 years (note 18)	263	300	-	300
<i>Average interest rate 4.0%.</i>				
Loans to non-related natural persons				
Opening balance at the beginning of the year	-	1,547	-	1,545
Granted	-	-	-	-
Received	-	(1,547)	-	(1,545)
Closing balance at the end of the year	-	-	-	-
<i>Average interest rate 5.0%.</i>				
Total loans	73,280	21,705	364,490	73,160
incl. short-term part (note 13)	72,637	20,239	321,461	72,860
long-term part 2 to 5 years (note 18)	643	1,466	43,029	300

* In 2004, loans to legal entities previously depicted under short-term investments are reported under loans to subsidiaries since these companies were grouped together and depicted under long-term financial investments.

** Incl. a working capital of 8,630 thousand kroons for a cooperation project in Russia.

Note 15 INVENTORIES

in thousand kroons

	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Raw materials	1,506	839	-	-
Work in progress	29,738	38,309	25,483	37,605
Finished goods	1,209	-	1,209	-
Goods purchased for resale				
Real estate purchased for sale	279,884	82,737	50,204	56,386
Other goods purchased for sale	12	23,163	12	14
Total goods purchased for resale	279,896	105,900	50,216	56,400
Prepayments for inventories				
Prepayments for real estate	35,841	13,565	-	3,687
Prepayments for other inventories	3,142	-	-	-
Total prepayments for inventories	38,983	13,565	-	3,687
Total inventories	351,332	158,613	76,908	97,692

Note 16 SHARES IN SUBSIDIARIES

in thousand kroons

	Participation and voting power %		Location	Field of activity
	31.12.2004	31.12.2003		
Subsidiaries of AS Merko Ehitus				
AS Gustaf	100	100	Pärnu	construction
AS Merko Tartu	66	66	Tartu	construction
AS Merko Insenerehitus	100	100	Tallinn	construction
OÜ Merko Ehitustööd	100	100	Tallinn	construction
OÜ Merko Kaevandused	100	100	Tallinn	construction
Eesti Ehitusekspordi OÜ	100	100	Tallinn	construction
Tallinna Teede AS	100	100	Tallinn	road construction
SIA Merks	100	100	Latvia, Riga	construction
UAB Merko Statyba	100	100	Lithuania, Vilnius	construction
OÜ Merko Elamu	100	100	Tallinn	real estate
OÜ Merko Maja	100	100	Tallinn	real estate
OÜ Merko Kinnisvara	100	100	Saue	real estate
OÜ Woody	100	100	Tallinn	real estate
OÜ Gustaf Tallinn	80	100	Tallinn	construction
OÜ Rannamõisa Kinnisvara	100	-	Tallinn	real estate
OÜ Maavõlur	100	-	Tallinn	real estate
OÜ Teistest Ees	100	-	Tallinn	real estate
OÜ Maryplus	100	-	Tallinn	real estate
OÜ Metsailu	100	-	Tallinn	real estate

In 2004, AS Merko Ehitus acquired a non-operating company Maryplus and established private limited companies Maavõlur, Teistest Ees and Metsailu for real estate development activities.

AS Merko Ehitus increased the share capital of Gustaf Tallinn OÜ. A minor shareholder acquired the freshly issued 20 per cent share of the company.

OÜ Rannamõisa Kinnisvara is depicted under long-term financial investments instead of the previous grouping under short-term financial investments. OÜ Rannamõisa Kinnisvara was acquired in 2000 for resale purposes.

Subsidiary of AS Gustaf

SIA Rigus	-	100	Latvia, Riga	construction
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Investment in SIA Rigus was liquidated.

Subsidiary 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 Investicijas	100	100	Latvia, Riga	real estate
SIA Ziemeļzeme	100	100	Latvia, Riga	real estate
SIA ELNIKO	100	100	Latvia, Riga	real estate
SIA SK Viesturdarzs	100	100	Latvia, Riga	real estate
SIA MR Multifunkcionalais Centrs	100	100	Latvia, Riga	real estate
SIA Ropaļu Priedes	70	-	Latvia, Riga	real estate

SIA Merks established a subsidiary SIA Ropaļu Priedes and owns a 70 per cent share of the share capital of the company.

Subsidiaries of SIA Merks Investicijas

SIA Reki M	100	-	Latvia, Riga	real estate
SIA Aivari M	100	-	Latvia, Riga	real estate
SIA Industriālais Parks	100	-	Latvia, Riga	real estate

The subsidiaries of SIA Merks Investicijas are now grouped under long-term financial investments instead of short-term financial investments.

Subsidiary of UAB Merko Statyba

UAB Upes Centras	100	100	Lithuania, Vilnius	real estate
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SHARES OF SUBSIDIARIES RECORDED IN THE REPORT OF THE PARENT COMPANY:

	Investment 31.12. 2003	Changes in 2004				Investment 31.12. 2004	Share of the invested company's equity
		Acquisition and liquidation	Income (expense) from subsidiaries	Dividends	Exchange rate differences		
Subsidiaries of AS Merko Ehitus							
AS Gustaf	4,212	-	2,749	-	3	6,964	6,964
AS Merko Tartu	8,577	-	5,207	(3,107)	-	10,677	10,677
AS Merko Insenerehitus	1,522	-	(6)	-	-	1,516	1,516
OÜ Merko Ehitustööd	41	-	(3)	-	-	38	38
OÜ Merko Kaevandused	770	1,000	(1,223)	-	-	547	547
Eesti Ehitusekspordi OÜ	31	-	75	-	-	106	106
Tallinna Teede AS	36,928	-	22,021	(4,070)	-	54,879	57,588
SIA Merks	21,045	28,645	29,449	(11,798)	(3,286)	64,055	64,055
UAB Merko Statyba	8,252	-	(7,013)	-	-	1,239	1,239
OÜ Merko Elamu	40	-	-	-	-	40	40
OÜ Merko Maja	40	-	-	-	-	40	40
OÜ Merko Kinnisvara	40	-	-	-	-	40	40
OÜ Woody	40	-	9,091	-	-	9,131	9,131
OÜ Gustaf Tallinn	1,915	-	3,042	-	-	4,957	4,957
OÜ Rannamõisa Kinnisvara	-	8,064	(374)	-	-	7,690	7,690
OÜ Maavõlur	-	43	(3)	-	-	40	40
OÜ Teistest Ees	-	43	859	-	-	902	902
OÜ Maryplus	-	28	(5)	-	-	23	23
OÜ Metsailu	-	43	(3)	-	-	40	40
Total	83,453	37,866	63,863	(18,975)	(3,283)	162,924	165,633

3,339 thousand kroons (LVL 140 thousand) was paid for the shares of the subsidiary SIA Merks in an issue of shares worth 1,200 thousand lats (LVL) in order to raise the share capital of the company, and loans to subsidiaries totalling 25,306 thousand kroons (LVL 1,060 thousand) are depicted as a non-monetary payment.

Acquisition of OÜ Rannamõisa Kinnisvara totalling 8,064 thousand kroons arises from re-grouping of subsidiaries under long-term financial investments instead of short-term financial investments.

The difference of 2,709 thousand kroons between the balance sheet value of Tallinna Teede AS and Group's share of the equity of the invested company arises from the undepreciated share of goodwill formed due to acquisition.

Note 17 SHARES IN ASSOCIATE COMPANIES

in thousand kroons	Participation and voting power %		Location	Field of activity
	31.12.2004	31.12.2003		
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
AS Telegrupp	45	45	Tallinn	telecommunication
OÜ Pire Projekt	50	50	Tallinn	real estate
OÜ Constancia	50	50	Tallinn	real estate
OÜ Unigate	50	50	Tallinn	real estate
OÜ Tornimäe Apartments	50	-	Tallinn	real estate

In 2004 AS Merko Ehitus acquired a participation in associate company OÜ Tornimäe Apartments.

Associate company of SIA Merks

PS Merks-Terbe Lat	50	50	Latvia, Riga	construction
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Associate company of OÜ Talbit

AS Bituumen	24.2	24.2	Tallinn	holding
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Associate company of AS Merko Tartu

OÜ Kortermaja	50	50	Tartu	real estate
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Investment 31.12. 2003	Changes in 2004				Investment 31.12. 2004	Share of the invested company's equity
	Acquisition and liquidation	Income (expense) from associates	Dividends	Exchange rate differences		

Associate companies of AS Merko Ehitus

Normanni Linnagrupi AS	388	-	1	-	-	389	389
AS Insenerivõrgud	736	-	(113)	-	-	623	623
AS Tartu Maja Betoontooted	10,899	-	5,243	-	-	16,142	16,142
AS Telegrupp	9,901	-	(1,930)	(1,679)	-	6,292	6,292
OÜ Pire Projekt	20	-	829	-	-	849	849
OÜ Constancia	-	-	760	-	-	760	760
OÜ Unigate	-	2,000	(1,588)	-	-	412	412
OÜ Maryplus*	-	366	(366)	-	-	-	-
OÜ Tornimäe Apartments	-	20	(1)	-	-	19	19
Total	21,944	2,386	2,835	(1,679)	-	25,486	25,486

Associate company of SIA Merks

PS Merks-Terbe Lat	-	-	5,351	-	(251)	5,100	5,100
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Associate company of OÜ Talbit

AS Bituumen	3,096	-	531	-	-	3,627	3,627
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ASi Merko Tartu sidusettevõte

OÜ Kortermaja	-	-	1,233	-	-	1,233	1,381
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Associate companies in total	25,040	2,386	9,950	(1,679)	(251)	35,446	35,594
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The difference of 148 thousand kroons between the balance sheet value of the investment of OÜ Kortermaja and Group's share of the equity of the invested company arises from the unrealized profit of the transaction.

* In 2004, OÜ Maryplus was acquired as an associated company with a 50 per cent participation. In the same year the rest of the company was acquired and the company is portrayed as a subsidiary.

Note 18 OTHER LONG-TERM FINANCIAL INVESTMENTS

<i>in thousand kroons</i>	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Other shares	-	1,800	-	1,800
Long-term loans (note 14)	643	1,466	43,029	300
Long-term receivable from the buyer of subsidiary's business unit	9,717	-	-	-
Long-term receivables from building service customers	5,508	59	-	59
Total other long-term financial investments	15,868	3,325	43,029	2,159

The value of the B shares of Rocca al Mare Suurhall, which was depreciated in 2004 due to company's negative cash flow and substantial decrease of net assets, is depicted on the line "Other shares".

The long-term receivable from the buyer of subsidiary's business unit has been discounted with an interest rate of 6 per cent.

Note 19 DEFERRED INCOME TAX ASSETS

<i>in thousand kroons</i>	2004	2003
Income tax assets formed in the subsidiary UAB Merko Statyba		
Non-deductible expenses	-	1,686
Effect of the completion method	984	494
Provisions to warranty reserve	126	143
Provisions to holiday pay reserve	131	61
Provisions for bad debts	170	-
Effect of disposal of fixed assets	-	(7)
Deferred tax losses	2,713	1,747
Deferred income tax assets at the end of the year	4,124	4,124
Deferred income tax assets at the beginning of the year	4,124	3,761
Revenue on deferred income tax in the fiscal period	-	363

Note 20 REAL ESTATE INVESTMENTS

<i>in thousand kroons</i>	Land	Buildings	Prepayments	Total
Real estate investments within the Group				
Acquisition cost 31.12.2003	26,181	3,496	23,588	53,265
Accumulated depreciation 31.12.2003	-	(396)	-	(396)
Residual value 31.12.2003	26,181	3,100	23,588	52,869
Residual value 31.12.2003	26,181	3,100	23,588	52,869
Acquisition	5,041	-	1,427	6,468
Re-grouping	25,698	249	(23,588)	2,359
Depreciation	-	(306)	-	(306)
Residual value 31.12.2004	56,920	3,043	1,427	61,390
Acquisition cost 31.12.2004	56,920	4,172	1,427	62,519
Accumulated depreciation 31.12.2004	-	(1,129)	-	(1,129)
Residual value 31.12.2004	56,920	3,043	1,427	61,390

The fair value of real estate investments as of December 31, 2004 was 107,844 thousand kroons.

	Land	Buildings	Total
Real estate investments within the parent company			
Acquisition cost 31.12.2003	25,083	3,496	28,579
Accumulated depreciation 31.12.2003	-	(396)	(396)
Residual value 31.12.2003	25,083	3,100	28,183
Residual value 31.12.2003	25,083	3,100	28,183
Depreciation	-	(280)	(280)
Residual value 31.12.2004	25,083	2,820	27,903
Acquisition cost 31.12.2004	25,083	3,496	28,579
Accumulated depreciation 31.12.2004	-	(676)	(676)
Residual value 31.12.2004	25,083	2,820	27,903

The fair value of real estate investments as of December 31 2004 was 52,314 thousand kroons.

Real estate investments have not been acquired for their rent income but for their increase in value over a period of time, or for future real estate development activities. Buildings situated on such pieces of land have been leased temporarily under commercial lease. The gained rent income is of no significant importance.

Note 21 TANGIBLE ASSETS

<i>in thousand kroons</i>	Land	Buildings	Construc- tion right	Machinery and equipment	Other	Construction in progress	Prepay- ments	Total
Group's tangible assets								
Acquisition cost 31.12.2003	2,189	7,720	458	84,038	25,180	95	145	119,825
Accumulated depreciation 1.12.2003	-	(2,735)	(58)	(30,046)	(13,935)	-	-	(46,774)
Residual value 31.12.2003	2,189	4,985	400	53,992	11,245	95	145	73,051
Residual value 31.12.2003	2,189	4,985	400	53,992	11,245	95	145	73,051
Exchange rate differences	(79)	(32)	-	-	(85)	-	-	(196)
Acquisition	-	-	-	6,684	7,705	62,357	831	77,577
Disposal	-	-	-	(460)	(113)	-	-	(573)
Re-grouping	(1,965)	(225)	-	(1,999)	1,999	-	(145)	(2,335)
Write-offs	-	-	-	(581)	(262)	-	-	(843)
Depreciation	-	(257)	(9)	(9,750)	(4,900)	-	-	(14,916)
Residual value 31.12.2004	145	4,471	391	47,886	15,589	62,452	831	131,765
Acquisition cost 31.12.2004	145	7,020	458	81,389	35,090	62,452	831	187,385
Accumulated depreciation 1.12.2004	-	(2,549)	(67)	(33,503)	(19,501)	-	-	(55,620)
Residual value 31.12.2004	145	4,471	391	47,886	15,589	62,452	831	131,765
Parent company's tangible assets			Land	Construc- tion right	Machinery and equipment	Other	Prepay- ments	Total
Acquisition cost 31.12.2003	-	458	8,044	11,749	145	20,396		
Accumulated depreciation 1.12.2003	-	(58)	(5,081)	(6,321)	-	(11,460)		
Residual value 31.12.2003	-	400	2,963	5,428	145	8,936		
Residual value 31.12.2003	-	400	2,963	5,428	145	8,936		
Acquisition	-	-	833	1,892	-	2,725		
Disposal	-	-	(40)	-	-	(40)		
Write-offs	-	-	(31)	(64)	-	(95)		
Re-grouping	145	-	(2,515)	1,807	(145)	(708)		
Depreciation	-	(9)	(1,011)	(2,211)	-	(3,231)		
Residual value 31.12.2004	145	391	199	6,852	-	7,587		
Acquisition cost 31.12.2004	145	458	2,374	17,100	-	20,077		
Accumulated depreciation 1.12.2004	-	(67)	(2,175)	(10,248)	-	(12,490)		
Residual value 31.12.2004	145	391	199	6,852	-	7,587		

Information on rented fixed assets is portrayed in note 23.

Note 22 INTANGIBLE ASSETS

<i>in thousand kroons</i>	<i>Goodwill</i>	<i>Other</i>	<i>Prepayments</i>	<i>Total</i>
Group's intangible assets				
Acquisition cost 31.12.2003	(4,144)	652	-	(3,492)
Accumulated amortisation 31.12.2003	2,221	(321)	-	1,900
Residual value 31.12.2003	(1,923)	331	-	(1,592)
Residual value 31.12.2003	(1,923)	331	-	(1,592)
Incomes	5	446	1,224	1,675
Write-offs	529	-	-	529
Amortisation	683	(185)	-	498
Residual value 31.12.2004	(706)	592	1,224	1,110
Acquisition cost 31.12.2004	(3,610)	1,098	1,224	(1,288)
Accumulated amortisation 31.12.2004	2,904	(506)	-	2,398
Residual value 31.12.2004	(706)	592	1,224	1,110

Parent company's intangible assets

504 thousand kroons reported under intangible assets of the parent company stands for a down payment for a software programme.

Note 23 RENTED ASSETS

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
Assets held under financial lease contracts				
Machinery and equipment				
Acquisition cost	28,714	28,933	-	-
Accumulated depreciation	(4,342)	(1,580)	-	-
incl. depreciation for the year	(2,762)	(1,333)	-	-
Residual value	24,372	27,353	-	-
Assets held under operational lease contracts				
Machinery and equipment				
Payments for the year	4,005	5,347	2,860	3,797
Payments for subsequent periods	9,612	15,570	7,709	9,719
incl. payments during the following year	4,282	4,880	2,964	2,431
payments in years 2 to 5	5,330	10,690	4,745	7,288
Total	13,617	20,917	10,569	13,516

Lisa 24 DEBT OBLIGATIONS

in thousand kroons

	Group		Parent company	
	2004	2003	2004	2003
Liabilities for financial lease				
Current value of rent payments at the beginning of the year	19,783	7,321	-	4,000
Raised	549	24,399	-	-
Repaid	(3,373)	(11,937)	-	(4,000)
Current value of rent payments at the end of the year	16,959	19,783	-	-
incl. short-term part	3,560	3,384	-	-
long-term part expires during the 2nd year	13,399	16,399	-	-
Interest expense for the fiscal year	882	1,050	-	202
Minimum amount of future rent payments	19,040	22,730	-	-
<i>Average interest rate 5.0 %. Base currencies are EEK and LVL.</i>				
Bank loans				
Opening balance at the beginning of the year	9,063	1,450	-	-
Raised	5,202	9,063	-	-
Repaid	(9,063)	(1,450)	-	-
Closing balance at the end of the year	5,202	9,063	-	-
incl. short-term part	4,555	9,063	-	-
long-term part payments in years 2 to 5	647	-	-	-
Interest expense for the fiscal year	152	364	-	-
<i>Average interest rate 2.3%. Base currency EUR.</i>				
Loans from subsidiaries				
Opening balance at the beginning of the year	-	-	902	902
Closing balance at the end of the year	-	-	902	902
incl. short-term part	-	-	902	902
Loans from jointly controlled companies				
Raised	522	4,932	-	-
Closing balance at the end of the year	522	4,932	-	-
incl. short-term part	522	4,932	-	-
Other loans				
Opening balance at the beginning of the year	-	6,638	-	1,200
Raised	3,941	-	-	-
Repaid	-	(6,638)	-	(1,200)
Closing balance at the end of the year	3,941	-	-	-
incl. short-term part	3,941	-	-	-
Total debt obligations	26,624	33,778	902	902
incl. short-term part	12,578	17,379	902	902
long-term part expires during the 2nd year	14,046	16,399	-	-

Loan securities and pledged assets are reported in note 28.

Note 25 LIABILITIES AND ADVANCE PAYMENTS

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
Due to suppliers	211,034	284,423	125,556	186,666
Accrued payments to employees	30,630	20,100	23,386	15,535
Tax liabilities excluding company income tax				
VAT	281	7,039	-	6,394
Personal income tax	2,230	2,499	1,149	1,546
Social security tax	7,296	6,235	4,486	4,065
Land tax	34	185	1	5
Unemployment insurance premium	111	183	46	122
Mandatory funded pension payments	121	87	58	63
Other taxes	43	-	25	-
Total tax liabilities	10,116	16,228	5,765	12,195
Due to customers (note 30)	153,974	281,537	124,223	235,379
Other payables				
Interest debts	112	300	6	9
Dividend debts	3	3	-	-
Liabilities for shares of subsidiaries	10,844	2,440	-	-
Other payables	3,339	519	425	100
Received advance payments	66,805	18,055	41,242	13,853
Total other payables	81,103	21,317	41,673	13,962
Total liabilities and advance payments	486,857	623,605	320,603	463,737

Note 26 CURRENT PROVISIONS

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
Provisions to construction warranty				
Opening balance at the beginning of the year	5,191	3,368	2,676	935
Paid	3,965	4,815	2,588	3,487
Spent	(3,372)	(2,992)	(2,029)	(1,746)
Closing balance at the end of the year	5,784	5,191	3,235	2,676

Note 27 OTHER LONG-TERM PAYABLES

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
Accounts payable to suppliers	7,421	7,092	5,349	5,863
Other long-term payables	617	2,440	-	-
Total other long-term payables	8,038	9,532	5,349	5,863

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 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 of 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 fulfilment of obligations stemming from promissory notes.

Between AS Gustaf and Hansapank:

Floating charge agreement on chattels for the aggregate value of 3 million kroons to secure the contracts of guarantee.

Between OÜ Gustaf Tallinna and Hansapank:

Floating charge agreement on chattels for the aggregate value of 3.9 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 fulfilment of obligations stemming from the contracts of guarantee and current account credit agreements.

Note 29 SHARE CAPITAL

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

In 2003 and 2004 there were no changes in share capital.

In 2004 37,170 thousand kroons were declared and paid out to shareholders. (In 2003 19,912.5 thousand kroons were declared and paid out).

According to Board's proposal, 88,500 thousand kroons of the retained earnings of 85,550 thousand kroons from the previous fiscal periods, and of the share premium of 2,950 thousand kroons, is to be used for increasing the share capital by the means of a capitalization issue by issuing 8,550 thousand new ordinary shares with the nominal value of 10 kroons each.

Note 30 CONSTRUCTION CONTRACT WORKS IN PROGRESS

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
The aggregate amount of costs incurred and recognized profits (less recognized loss) to date	2,433,813	1,882,588	1,618,153	1,316,504
Progress billing	(2,470,607)	(2,092,116)	(1,656,730)	(1,506,508)
Total adjustment of income	(36,794)	(209,528)	(38,577)	(190,004)
	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Due from customers (note 13)	117,180	72,009	85,646	45,375
Due to customers (note 25)	(153,974)	(281,537)	(124,223)	(235,379)
Total adjustment of income	(36,794)	(209,528)	(38,577)	(190,004)

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 "Receivables and prepayments".

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 "Liabilities and prepayments".

Note 3/ RELATED PARTY TRANSACTIONS

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 2004.

GOODS AND SERVICES

<i>in thousand kroons</i>	Group		Parent company	
	2004	2003	2004	2003
Purchased building services				
Subsidiaries	-	-	44,129	51,377
Associate companies	136,641	32,213	132,108	31,881
Jointly controlled companies	5,155	12,176	5,058	6,162
Total purchased building services	141,796	44,389	181,295	89,420
Provided construction services				
Subsidiaries	-	-	1,192	667
Associate companies	39,233	15,663	21,126	257
Jointly controlled companies	86,915	48,992	108	36,452
Key management personnel	1,804	425	-	-
Total provided construction services	127,952	65,080	22,426	37,376
Purchased construction materials				
Other related parties	1,864	901	91	147

According to the Board of the Company the value of the deals concluded with the above-mentioned persons do not essentially differ from the market prices.

Loans to related parties are reported in Note 14 "Allocated loans", and loans received from related parties are reported in Note 24 "Debt obligations".

BALANCE WITH RELATED PARTIES

<i>in thousand kroons</i>	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Receivables and prepayments				
Accounts receivable				
Subsidiaries	-	-	701	111
Associate companies	3,972	4,931	4,002	179
Jointly controlled companies	17,955	545	111	-
Short-term loans				
Subsidiaries	-	-	260,133	63,014
Associate companies	49,155	5,909	46,155	2,909
Jointly controlled companies	5,991	4,265	-	-
Other related parties	-	4,574	-	1,446
Interest income				
Subsidiaries	-	-	59	29
Associate companies	900	182	796	182
Dividends receivable				
Associate companies	224	233	-	-
Other long-term financial investments				
Long-term loans				
Subsidiaries	-	-	43,028	-
Other related parties	380	1,166	-	-

in thousand kroons

	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Debt obligations				
Short-term loans				
Subsidiaries	-	-	902	902
Jointly controlled companies	522	4,932	-	-
Liabilities and advance payments				
Due to suppliers				
Subsidiaries	-	-	6,357	6,969
Associate companies	2,577	11,148	-	11,148
Jointly controlled companies	212	5,679	88	89
Received advance payments				
Jointly controlled companies	10,850	-	-	-
Interest liabilities				
Subsidiaries	-	-	6	9
Key management personnel	74	150	-	-
Other liabilities				
Key management personnel	915	1,220	-	-
Jointly controlled companies	2,242	-	-	-
Long-term liabilities				
Other long-term liabilities				
Key management personnel	305	1,220	-	-

SALARIES OF THE MEMBERS OF BOARD OF DIRECTORS, THE BOARD AND EXECUTIVES

In 2004 members of the Board of Directors, the Board and key management personnel were paid 11,989.6 thousand kroons in salaries (in 2003 the sum was 7,093.4 thousand kroons).

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REMUNERATIONS FOR THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD

In case of premature recalling of members of the Board of Directors and the Board, or if members is not elected for their posts for the following fiscal period, such a members is entitled to a remuneration for their services amounting to a total of 2,748 thousand kroons (such remunerations were not applied in 2003).

SURETIES

AS Merko Ehitus secures:

- the fulfilment of obligations stemming from contracts of loan, construction and warranty limit for the aggregate value of 13,832 thousand kroons concluded between the subsidiary SIA Merks and Hansabank;
- the fulfilment of obligations stemming from warranty limit contracts for the aggregate value of 15,472 thousand kroons concluded between the subsidiary UAB Statyba and underwriters UAB Lindra;
- the fulfilment of obligations stemming from a contract of loan for the aggregate value of 5,000 thousand kroons concluded between the associate company OÜ Tornimäe Apartments and Eesti Ühispank;
- the fulfilment of obligations stemming from a contract of loan for the aggregate value of 1,000 thousand kroons concluded between the associate company OÜ Unigate and Hansabank.

Note 32 POTENTIAL LIABILITIES

in thousand kroons

	Group		Parent company	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Performance guarantee	72,604	96,359	56,026	91,005
Tender guarantee	15,158	4,023	10,785	3,250
Guarantee for warranty period	75,005	54,789	55,943	26,473
Advance payment guarantee	23,352	8,059	19,350	8,059
Sureties	43,433	34,201	43,433	34,201
Payment guarantee	15,150	3,699	9,532	2,249
Opened letter of credits	6,723	-	6,723	-
Total potential liabilities	251,425	201,130	201,792	165,237

According to the proposal of profit distribution, the amount of income tax payable on the paid out dividends is 18,165.8 thousand kroons.

Note 33 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

Interest rate risks are brought on by debt obligations with floating interest rates. Interests on banks loans are based on EURIBOR and fluctuations of EURIBOR and the average market interest rates of banks affect Group's payable interests. According to management, the Group possesses no significant interest rate risks.

Currency risk

Group's operations are carried out in Estonian kroons, Latvian lats and Lithuanian litai. Lithuanian lit was pegged to euro in 2002. Risks relating to the income and expenses of the Group were linked to the exchange rate fluctuations of the Latvian lat. Latvian lat has been pegged to euro since January 1, 2005. Substantial international agreements are concluded in euros in order to decentralize currency risks. All Group's long-term loan contracts are concluded in euros.

Fair value

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

Note 34 SIGNIFICANT SUBSEQUENT EVENTS

Subsidiary OÜ Teistest Ees purchased real estate in Rae district of Harjumaa for 38.0 million kroons. A down payment of 35,538 thousand kroons for real estate is reported under "Inventories" in the consolidated financial statements of the Group as of December 31, 2004.

Note 35 NUMBER OF SHARES OWNED BY THE MEMBERS OF THE BOARD OF DIRECTORS, THE BOARD AND THEIR NEXT OF KIN


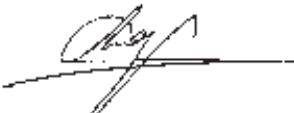


	Shares	Participation %
Management Board member		
Tõnu Toomik	9,000	0.10

Note 36 LIST OF SHAREHOLDERS WHOSE INTEREST EXCEEDS 5%

	Shares	Participation %
AS Merko Grupp	6,371,343	71.99
ING Luxembourg S.A. clients	700,000	7.91
Skandinaviska Enskilda Banken clients	509,180	5.75
Nordea Bank Finland Plc clients	461,724	5.22

SIGNATURES OF THE MEMBERS OF THE BOARD AND THE BOARD OF DIRECTORS FOR ANNUAL REPORT 2004

The Board of AS Merko Ehitus compiled the activity report, the consolidated annual accounts and the profit distribution proposal for the fiscal year 2004.

Tõnu Toomik	Chairman of the Board		March 18, 2005
Alar Lagus	Member of the Board		March 18, 2005
Veljo Viitmann	Member of the Board		March 18, 2005
Jaan Mäe	Member of the Board		March 18, 2005

Financial report compiled by the Board of the Company including the activity report, the annual accounts and accompanied with the auditors' report and the profit distribution has been reviewed by the Board of Directors and approved to be presented to the general meeting of shareholders.

Toomas Annus	Chairman of Board of Directors		April 11, 2005
Ott Kikkas	Member of Board of Directors		April 11, 2005
Teet Roopalu	Member of Board of Directors		April 11, 2005



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AUDITORS' REPORT

to the shareholders of AS Merko Ehitus

We have audited the financial statements of AS Merko Ehitus (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the financial year ended 31 December 2004. These financial statements are the responsibility of the Management Board. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial positions of the Parent Company and the Group as of 31 December 2004 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 5, 2005 Tallinn

PKF Estonia

Malle Rannik

Authorised Public Accountant

PROPOSAL FOR PROFIT DISTRIBUTION

in kroons

Retained earnings brought forward	327,733,080
Net profit for 2004	294,599,896
Total retained earnings as of 31.12.2004	622,332,976

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

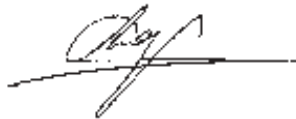
Dividends (6.50 kroons per share)	57,525,000
For increasing the share capital	85,550,000
The remaining net profit after profit allocation	479,257,976

Tõnu Toomik Chairman of the Board



March 18, 2005

Alar Lagus Member of the Board



March 18, 2005

Veljo Viitmann Member of the Board



March 18, 2005

Jaan Mäe Member of the Board



March 18, 2005

