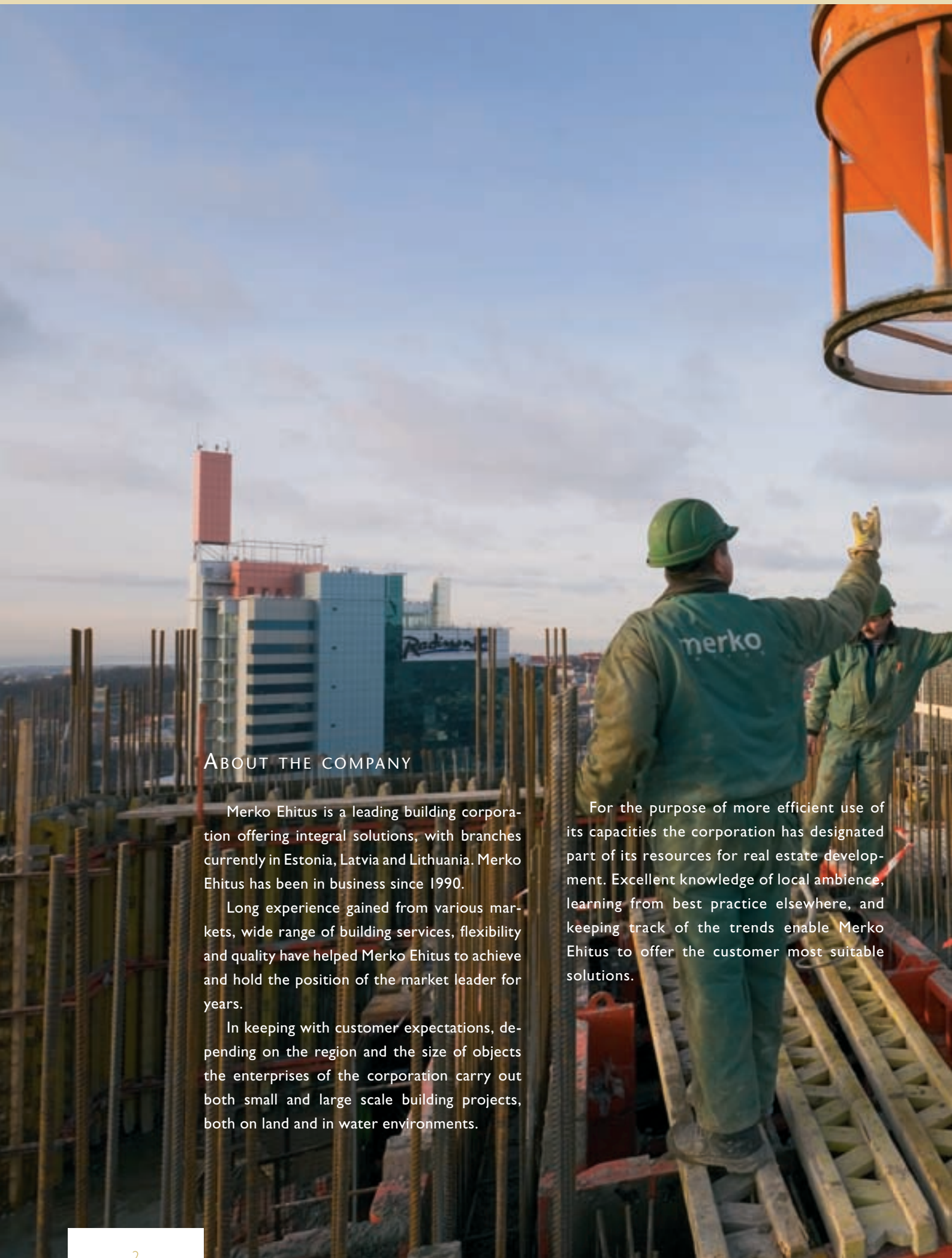


2005



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ABOUT THE COMPANY

Merko Ehitus is a leading building corporation offering integral solutions, with branches currently in Estonia, Latvia and Lithuania. Merko Ehitus has been in business since 1990.

Long experience gained from various markets, wide range of building services, flexibility and quality have helped Merko Ehitus to achieve and hold the position of the market leader for years.

In keeping with customer expectations, depending on the region and the size of objects the enterprises of the corporation carry out both small and large scale building projects, both on land and in water environments.

For the purpose of more efficient use of its capacities the corporation has designated part of its resources for real estate development. Excellent knowledge of local ambience, learning from best practice elsewhere, and keeping track of the trends enable Merko Ehitus to offer the customer most suitable solutions.

MISSION

Based on long-term experience, a strong team and continuous learning, Merko Ehitus offers sustainable and working integral solutions, providing satisfaction and security in the area of real estate development, architectural design and building.

VISION

The goal of Merko Ehitus is to become in three years, one of the five strongest building companies in the Baltic States, to develop one tenth of the residential premises of Estonia and Latvia and to achieve, in the Baltic region, 5% of market share.



ADDRESS BY CHAIRMAN OF THE COUNCIL

At the end of the past year, Merko Ehitus celebrated its 15th anniversary in landmark surroundings – in the new centre KUMU of the Estonian Art Museum, the building of which we had just finalised.

Merko Ehitus has, since its inception mirrored the developments related to the new build-up of society and transition to market economy. By now the development of Estonia has seemingly reached the stage where the society is starting to invest in values of culture. We are happy to have been an integral part of that onward movement of the society.

Our development continues. In 2005 the turnover of Merko Ehitus grew 3.9%, amounting to 206.6 million euros. In Estonia the turnover were 156 million, in Latvia 35.8 million and in Lithuania 14.8 million euros. The market grew, however at a more rapid pace than we expected. In Latvia and Lithuania, neither Merks nor Merko Statyba, have attained the position among the five largest building companies. Although Merko Ehitus leads the building market in the Baltic States (3.5% of total turnover), the result falls short of the 5% market share laid down in our plans. It was the residential building market, in particular, where we could not meet the demand. That failure taught us important lessons, which will hopefully help us fulfil those goals in the proximate future.

It is a complicated task to provide for an organic growth of the organisation, keeping pace with the growth of the building market and at the same time aspiring to increase the market share. All building companies have been facing, in an impressive form, the problem of qualified labour deficit, which has, among other factors significantly boosted prices. Because it is not a concern for only the building sector, and calls for major structural changes in vocational education system, among others, I believe the public sector will co-operate with entrepreneurs in this issue. Hopefully we will not be late with that.

The shortage of qualified labour will, in the nearest future, increasingly raise the issue of the quality of building work. Due to increasing demand, a number of building works will fall into the lap of non-qualified builders. I believe that in this respect Merko Ehitus will tower positively above many competitors, because over the years we have paid special attention to quality management and control. The building quality is being appreciated more and more.

Worth highlighting among the future trend is the anticipated larger growth in residential building. Also, the growth will be manifest in road construction and civil engineering. The objective of Merko is to build 10% of Estonian and Latvian residential premises. Latvia is the state having clearly the largest growth potential in all building areas. Merko will go all out to be ready to meet that challenge.

I hereby thank all shareholders, workers and co-operation partners for the contribution, which you have made to the development of Merko during those 15 years. You have bolstered our credibility in all Baltic States. In the name and on behalf of Merko Ehitus corporation, I thank customers for the trust you have put in us and I assure you that we will continue in the next 15 years, and beyond to merit your trust.



Toomas Annus

Chairman of the Council

HIGHLIGHTS 1990-2005

1990

5 November – founding of AS EKE Merko.

1995

Turnover of Merko increased 187%, attaining the figure of 9.6 million euros. Main office of Hansabank in Tallinn completed.

1996

22 November – the company name was officially changed to AS Merko Ehitus.

1997

22 July – Merko's shares were listed in the main list of Tallinn Stock Exchange. Merko founded its branch SIA Merks in Latvia.

1998

Merko attained the position of the building company with the largest turnover at 53.9 million euros in Estonia and also in the Baltic States. Main offices of Ühispank and Kristiine Trade Centre in Tallinn completed. In Lithuania, Merko founded its branch UAB Merko Statyba.

1999

Merko started the engineering structures division, whose designated areas of activity are ports, controlled landfills, roads, bridges, water and sewerage pipelines etc. Merko was granted the international ISO 9001 quality certificate. The real property development (E.L.L. Kinnisvara) spun off from building activity.

2000

Building of hotel SAS Radisson in Tallinn completed. Turnover of Merko topped one billion kroons (63.9 million euros).

2001

In connection with growth in market demand of residential houses and apartments, Merko set up a residential building division.

2002

Merko acquired the shares of road building company Tallinna Teede AS.

2003

The price of Merko share on Tallinn Stock Exchange soared by 126.6 per cent.

2004

The spring witnessed the completion of one of the most spectacular buildings of Merko - Viru Centre in downtown Tallinn.

In November the new main office of Hansabanka in Riga completed.

2005

Art Museum KUMU and coal terminal in Muuga completed.



Hotel Radisson SAS in Tallinn



Main office of Hansabanka in Riga



Kristiine Trade Centre in Tallinn



Main office of Ühispank in Tallinn



Viru Centre in Tallinn

HIGHLIGHTS 2005

- Completion of Muuga coal terminal
- Completion of the building of Estonian Art Museum KUMU
- Building of a multifunctional hall in Riga by Merks
- Baltic Electricity Engineering OÜ established
- First projects of the electrical works division completed
- Turnover of the Merko Ehitus corporation grew by 3.9%
- AS Merko Kaevandused and a part of stock in AS Telegrupp was sold

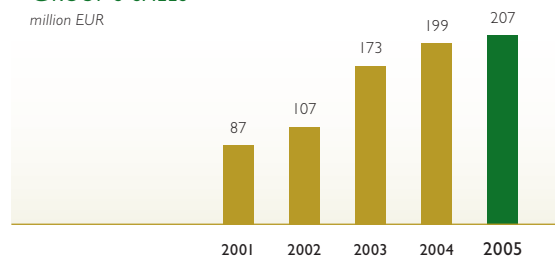


Muuga coal terminal

KEY INDICATORS

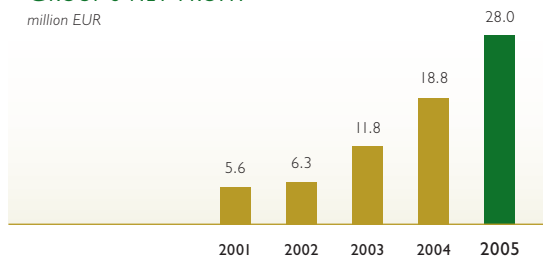
GROUP'S SALES

million EUR



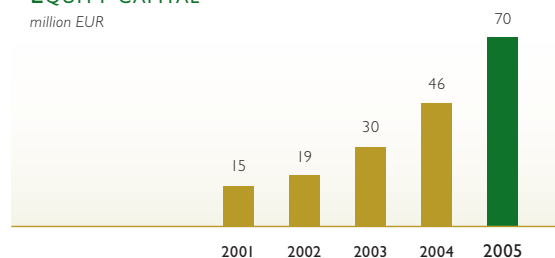
GROUP'S NET PROFIT

million EUR

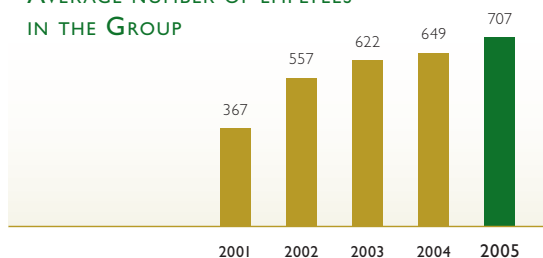


EQUITY CAPITAL

million EUR



AVERAGE NUMBER OF EMPLOYEES IN THE GROUP



| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|--------|---------|---------|---------|----------------|
| Net sales (thou EUR) | 86,830 | 106,706 | 173,051 | 198,791 | 206,588 |
| incl. construction sales (thou EUR) | 82,437 | 103,417 | 169,851 | 194,773 | 203,917 |
| Share of construction sales | 95% | 97% | 98% | 98% | 99% |
| Net sales in Estonia (thou EUR) | 60,446 | 83,537 | 126,622 | 159,078 | 156,030 |
| Net sales outside of Estonia (thou EUR) | 26,384 | 23,169 | 46,429 | 39,713 | 50,558 |
| Share of net sales outside of Estonia | 30% | 22% | 27% | 20% | 24% |
| Net profit for the Group (thou EUR) | 5,594 | 6,318 | 11,790 | 18,828 | 28,034 |
| Net profit margin | 6.4% | 5.9% | 6.8% | 9.5% | 13.6% |
| Operating profit margin | 6.0% | 5.9% | 7.5% | 10.3% | 13.5% |
| Return on equity per annum | 43.6% | 36.7% | 48.3% | 49.9% | 48.2% |
| Return on assets per annum | 17.7% | 16.2% | 19.9% | 24.1% | 24.9% |
| Equity ratio | 47% | 43% | 40% | 55% | 50% |
| Current ratio | 1.6 | 1.5 | 1.5 | 2.0 | 2.0 |
| General expenses to net sales | 3.6% | 3.8% | 3.3% | 3.4% | 4.6% |
| Staff costs to net sales | 4.6% | 7.1% | 5.7% | 6.3% | 7.3% |
| Average number of employees in the Group | 367 | 557 | 622 | 649 | 707 |



House at Pärnu Rd in Tallinn

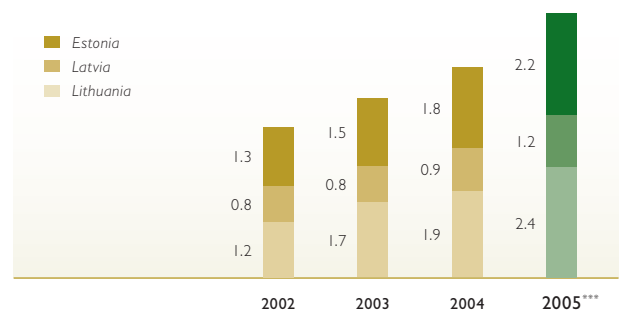
BUILDING MARKET OF THE BALTIC STATES

Developments and growth in the building and residential houses market are intricately related to general economical environment. In the recent years the engine of economic growth has been the rapid growth of domestic demand, resulting from more impetuous rate of investments and the stable growth in private consumption. General availability of loans and accession to the European Union on May 1st 2004, have also contributed with a positive impact for the economy.

Economies of Estonia, Latvia and Lithuania have steadily grown in recent years. By now, the building market of the Baltic States has picked up and is in forward motion. In 2005, the volume of building works in the Baltic States as a whole increased ca 26 per cent, due to the demand in building market, not letting up in vigour and pace, especially so in residential construction. In 2005, there were 5.8 billion euros worth

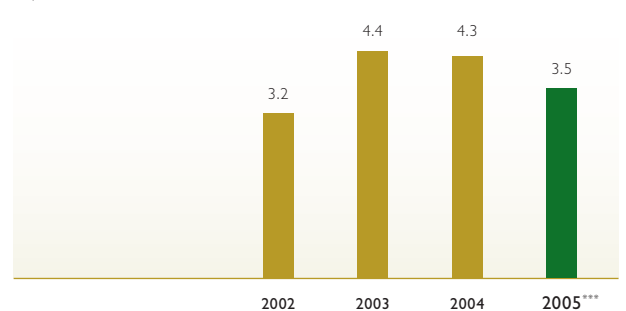
CONSTRUCTION VOLUMES IN BALTIC STATES*

billion EUR**



MARKET SHARE OF MERKO EHTUS

per cent



* Based on information from local statistical offices and trade organizations.

** Data converted into EUR according to the unofficial average currency exchange rates of Eesti Pank.

*** Data of year 2005 is preliminary, according to the cursory statistics.

building works performed in the Baltic States, which makes ca 1.2 billion euros more than in 2004. Estonia's share of the construction works performed was 38, Lithuania's 42 and Latvia's 20 per cent.

According to the data of the Statistical Office, in 2005 the Estonian building companies built both in Estonia and abroad for the total of 2.3 billion euros, which in current prices signifies a 27.8 per cent increase compared to the previous year. In Estonia, the total volume of building sector was 2.2 billion euros, i.e. 26.5 per cent growth.

Latvian building market has in recent years manifested a stable growth, and last year grew by 28.7 per cent in current prices. 63.7% of the building works was performed in major towns and in their closest neigh-

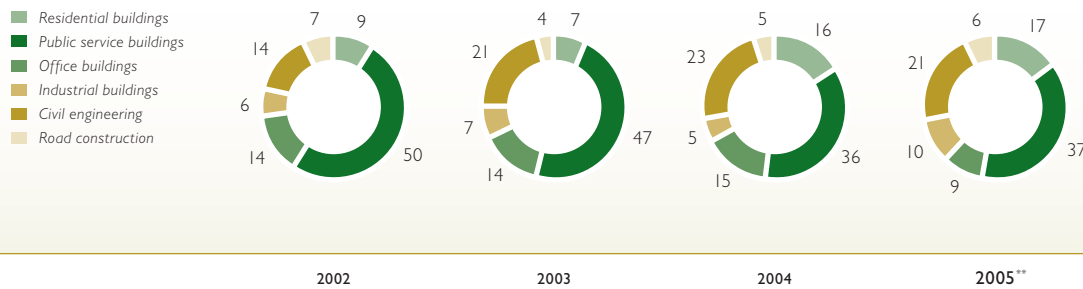
bourhood (in Riga, Ventspils and Liepaja). Like in previous years, building of structures with social functions continued.

In the Lithuanian building market, the growth started in previous years did not let up in pace. In 2004, the building works were performed for the total of 1.9 billion euros, in 2005 the total was 2.4 billion euros. The volume of building works grew, in current prices, 26% in the year. The bulk of the building activity has concentrated in the neighbourhood of large towns of Lithuania (Vilnius, Klaipeda, Kaunas).

The year of 2005 was prosperous for Merko Ehitus. The turnover was 206.6 million euros, the growth as against the past year 3.9 per cent and the growth in profit 48.9 per cent.

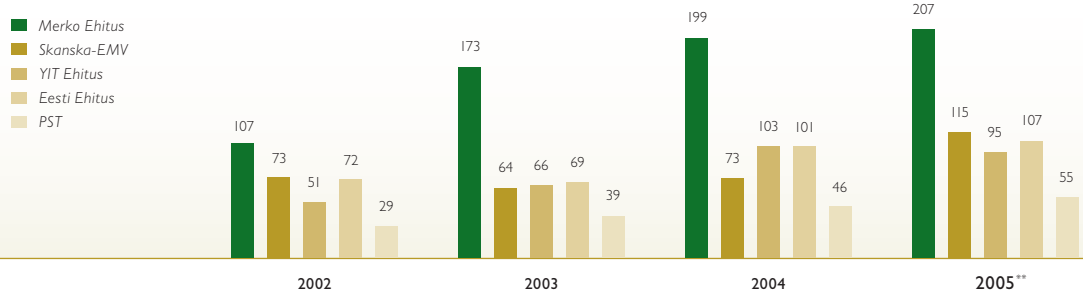
STRUCTURE OF BUILDINGS OF MERKO EHITUS

per cent



COMPARISON OF NET SALES WITH BIGGEST COMPETITORS

million EUR*



* Data converted into EUR according to the unofficial average currency exchange rates of Eesti Pank.

** Data of year 2005 is preliminary, according to the cursory statistics.

KUMU

ESTONIAN ART FOUND A BEFITTING ABODE

The history of building the Art Museum is almost one hundred years long. The project was first described in more precise and vivid detail in 1994, when the Finnish architect Pekka Vapaavuori won the international architectural competition to construct the building. Boldly defying the restrictions imposed by special features of the location, he managed to design a structure that according to Estonian standards was completely unique with integral inner and outer architecture.

From then on, it took a few more years to reach the point when construction works could finally begin. As a result of the government tender arranged by the Foundation of Building the Art Museum on August 18, 2003, the contract for building the new Art Museum was signed with Merko Ehitus. Building

the Art Museum was a very demanding and complicated process. During the building process, architectural design was being done at the same time, involving ten different design offices. The work was finalised thanks to the excellent co-operation within the whole team – from the project manager to the secretary.

We placed special emphasis on ensuring the quality of the work of subcontractors and conducted systematic control starting from carrying out check-ups of new materials arriving at the building site to final check-ups at acceptance and handover of the building. In the KUMU project, several new and unorthodox methods, technologies and materials were used. The biggest challenge was the 9-metre-high tunnel leading to the Museum. 12-14 metres

TECHNICAL DATA

- Area 23 910 m²
- Cubic volume 122 780 m³
- 2/3 of horizontal surfaces (so-called roofs) are underground
- Volume of water proof insulation of vertical surfaces 10 000 m²
- Subcontractors – nearly 100
- 20 people strong team
- 7-floor building
- Exhibition halls - 5000 m²
- Multifunctional auditorium
- Art repository - 2000 m²
- Café
- Restaurant
- Open-air café
- Workshops of restoration and conservation of paintings

under the limestone strata were unstable surface layers (sandstone etc). In order to fortify the layers, almost the whole perimeter of the pit was covered with concrete screen, to the level of those layers. The work progressed rapidly and the results were good, the selected technology proved to be correct. In evidence of that, the building is underground (of horizontal surfaces ca two thirds are “underground”), which is the reason why, unlike a conventional building, the water and the damp proofing had to be laid on ca 10 000 square metres. In the interior for the first time we were faced with a need to use specific materials and finishing technologies that are required in museums and exhibition halls.

The indispensable agent providing the cohesion of the process was Foundation of Building the Art

Museum, which created the balance between the Museum's dreams and ambitions and the realistic opportunities. Approximately 100 subcontractors and suppliers participated in the building process, all of whom are to be commended for having made their best efforts for the Estonian art.

Despite the complex and difficult project and short deadlines we successfully managed to complete the structure in due time. Estonian Art Museum was opened to the public in February 2006. The final result proves that we met the expectations set high by none other than ourselves.

Raul Ojala

Project Manager



IN THE WORDS OF THE ARCHITECT

Now, pending the opening of KUMU at the beginning of year, it is a particular pleasure to hark back and recollect the achievements of the past year. I feel privileged for being granted the opportunity to work with KUMU project, and I believe that the builders feel the same. Rarely does one have a chance to build anything as pregnant of meaning as is an art museum. KUMU has certainly been, in one way or another, to me and to many others, a project unequalled.

Being the first large project of my architectural office and taking 12 years to complete, KUMU will hold a very special place for me in the future, too. Every project has its specificity, deriving from the project itself and people who toil at it day-in day-out to make matters proceed. In case of KUMU I consider it especially important that during the lengthy process, the co-operation between people involved, i.e. the museum, the principal, the designers and builders was faultless.

Although a large project like that quite naturally gave rise to disputes and controversies, some of them quite tensely stretched, the first thing I will remember is the excellent spirit of cooperation, which nowadays is not infrequently missed on building sites. From the first project meeting to the last, benevolent ambience prevailed, the fruits of which we can enjoy now.

The outcome of this building work is superb in every aspect and it has been a great joy to me to present it to both Estonians and Finns. It is not only the

building specialists that have noticed the final finishing elaborated to the minute details, both in respect of project and construction work. This has stuck out to all visitors.

I reckon that all of us, having participated in the project, can be rightfully proud of our achievement. I wish to thank everybody who has provided a helping hand in the project, for creating beneficial atmosphere of co-operation, and for individual contribution to this excellent result.

Looking forward to new and fascinating projects

Pekka Vapaavuori

PART OF OURSELVES

The new building of the Estonian Art Museum (KUMU) has been finalised as an outcome of common efforts of the principal, the architect Pekka Vapaavuori, Estonian designers, builders and supervisors and it will serve as a cultural bridge spanning the divides and linking us in the future not only to the world of European culture, but to the whole artistic world. Just like art is part of nature, KUMU is a morsel of Kadriorg, Tallinn and Estonia, and also a piece of us, clamouring for and acting daily as we did, for the Estonian art to find a sweet home.

By capacity, KUMU is almost as large as the national theatre Estonia, which will celebrate its 100th anniversary soon. The various communication wires laid in KUMU will run to the very heart of Europe – Brussels. In this respect, it is proper to recall the enunciation of builders of the theatre Estonia from 100 years ago: „Let all anger and enmity and disunion vanish into thin air, at large undertakings and buildings! For that, we will earn the gratitude of the future generation – the Estonian people.”

Thankful for the productive co-operation

Voldemar Promet

Chairman of Board of the Foundation of Building the Art Museum

THE DREAM REALISED

Allegedly, the Estonian Art Museum exists, but it isn't there as yet. There is an institution, there has been a succession of temporary buildings, but nevertheless up till now a regular House of Estonian Art has not been put up. There is no place where an Estonian man could look at his national art from its assumable beginning to the end, i.e. to today. There is no centre, where one could obtain various and comprehensive information about Estonian works of art, where the world art could be made visible in local paradigm. The art life of large centres can be spell-binding, but as people, we still live in a given context, we live here and now, with our personal abilities and possibilities, we live as Estonians. Hence, for us the Art Museum is an exhibition hall, a warehouse and a club, thus equalling to a symbol of our being, generally an essential element of identity of an Estonian.

*Professor Leonhard Lapin's foreword to the exhibition
„Vision of Estonian Art Museum” in Rotermann Salt
Storage 7.06-10.11.96*

The dream of a new building of Art Museum has nestled for decades in the hearts of generations. The dream of a building, which would provide an opportunity to duly keep and expose the heritage of Estonian art, of a building as creator of new art culture and intellectual environment. On February 17th 2006 this dream turned into a reality. As a result of joint efforts of many people, the new main house of the Estonian Art Museum KUMU in Kadriorg was completed. The KUMU project was structurally and technologically very sophisticated. And yet the Estonian designers moulded a spectacular building, which is not just Art Museum, but a superb cultural centre. The words of gratitude of many Estonian and international specialists and lovers of art have already reached us. I thank, in the name of Estonian Art Museum everybody, whose joint effort has enabled Estonian art to arrive home, at long last.

KUMU - art is living here.

Marika Valk

Director General of Estonian Art Museum



ESTONIAN BUILDING MARKET



AS MERKO EHITUS QUALITY CONTINUES TO BE THE PRIORITY

Rapid development of the building and real estate market in 2005 presented Merko Ehitus with significant challenges. We have undergone major progress, we have staked on Merko's strengths in the market and we have efficiently used our internal resources. The high market demand has brought about a high level of orders and shortage of labour in the building sector, in a wider sense. The situation on hand has signalled the need and possibility to focus on projects, which most of all highlight the competences and quality of Merko Ehitus.

In view of the market situation we must make corrections in our development plans: hereinafter we plan to increase the volume of works performed by the corporations' own resources (e.g. concrete works and finishing works). We also plan for closer co-operation with reliable subcontractors and partners, whose services tend to be in short supply on the market.

Of major significance among larger projects completed in the past year are undoubtedly the new building of Estonian Art Museum KUMU and the Muuga coal terminal – both presented specific building and engineering demands for Merko Ehitus to meet. Worth mentioning among buildings completed in 2005 are Admiral's House (commercial and residential house

in Tallinn, at Ahtri St), Wendre production building in Pärnu and apartment block at Rävälä Blvd in Tallinn, and the 110 kV cable runs facility of Tõnismäe substation, Tallinn, the first project of electrical works division.

Because one of the prerequisites of successful participation in substations procurement tenders is the existence of one's own design unit, we established the Baltic Electricity Engineering OÜ. The areas of business of that company is designing of medium and high voltage electrical systems and projecting of networks and installation works at substations.

A sign of even more specific focus on our main activity is the fact that we sold AS Merko Kaevandused and part of our shares in AS Telegrupp.

In 2006 we contemplate to increase the share of projects prepared in the domain of real estate development, allowing for continuing work with higher margins. We perceive that in order to meet the market demand and to increase our market share we must grow at least 10% a year and build at least 500 apartments.

The larger projects covered with contracts in 2006 are the building in Tallinn of poly-functional high-rise in Tornimäe St, extension and renovation of the water and sewerage network of Tartu town, the building of Saaremaa port, Emajõe substation of 110 kV cable runs, Viimsi school house and hotel Tallink SPA.

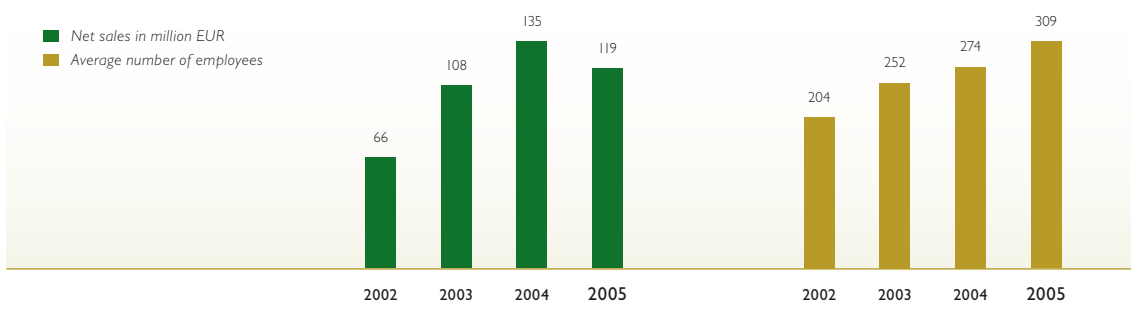
The growth also means the need for new office premises for Merko Ehitus, because the present rooms have become too cramped. Therefore we will take to use new space in our own building.

The continually growing volumes and markets mean, in the first place the need to pay ever more attention at securing the quality of building products and services, and at improving safety of building projects. This is the first priority for Merko Ehitus, and we will allow for no reduction of standards in this area.

Tõnu Toomik

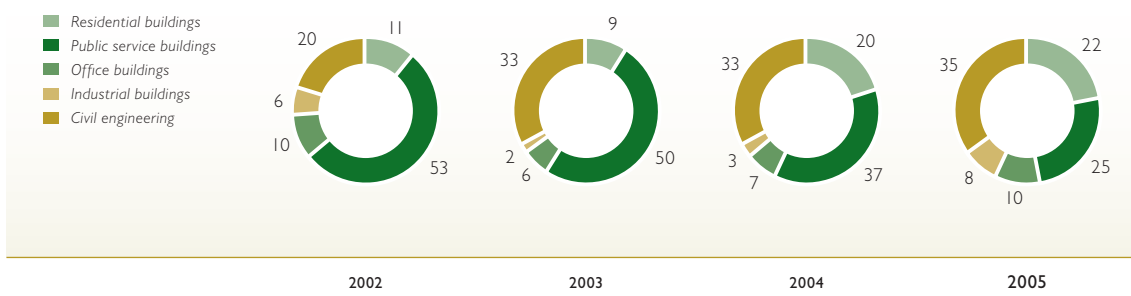
Chairman of Board of AS Merko Ehitus

NET SALES AND NUMBER OF EMPLOYEES



STRUCTURE OF BUILDINGS

per cent







Admiral's House in Tallinn



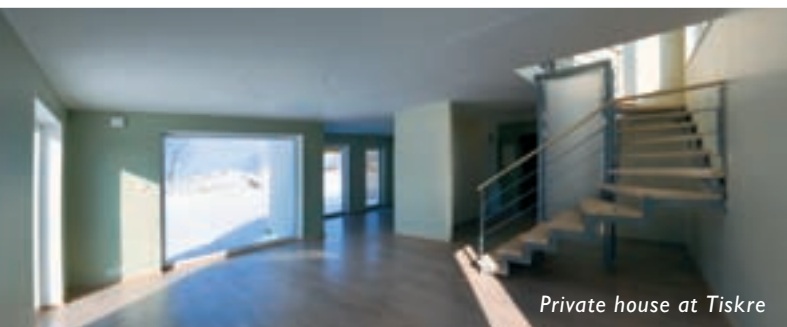
Apartment blocks in Tabasalu, Harjumaa

COMMENTARY OF A PRIVATE CUSTOMER

Our family is extremely satisfied with our new home. As a result of personal approach, benevolent attitude, and taking into account the needs and wishes of every family, there are individual apartments available to all. Merko Ehitus' new apartment blocks in Tabasalu centre attracted major interest among the local people, in the first place, attributing value to green environment and vicinity of the sea, who view Tabasalu as their sweet home.

Moving into a new and modern house was a magnificent opportunity for people to improve their living conditions. The predominant opinion of happy settlers is that characteristic to the whole project is its integral solution: greenery, children's playground, new IT-solutions in the house. All this makes the living environment pleasant and convenient.

Resident of a mid-rise built by Merko Ehitus



Private house at Tiskre



Apartment block at Tiskre

AS MERKO TARTU

GROWTH 105%

2005 was a year of successes to Merko Tartu. We exceeded in the building turnover for the first time the 200 million kroons (12.8 million euros) level, and the profit increased proportionately. Merko Tartu continued its main activity – project management of building. Excellent co-operation with principals and subcontractors enabled to successfully launch new building projects and their timely completion.

A solid niche among the services offered by us has been development projects of residential building, the need for and the possibility of which being created by an impressive demand for new residential spaces.

The stable development of the company continued, manifesting itself in the growth of volume of building works and in development of qualification and professionalism of the young project managers. At the end of the year, AS Merko Tartu kept on payroll a 19-people strong youthful and vigorous team. Turnover of Merko Tartu amounted in 2005 to 15.4 million euros, amounting to 105% growth in the year.

In 2004 the increased figures implied more efficient co-operation with other companies, both regarding the obtaining of new building projects and the project and financial management of objects, while in 2005 the prevalent characteristic is manifestation of the results of years-long targeted development activity and involvement of a professional team in the development of the company.

All of the building activity of Merko Tartu in 2005 was located in Estonia. The outstanding projects completed were the gym of Põltsamaa co-educational upper secondary school, Mäo Invest production building, OÜ Tarmetec production building in Tartu, Selver trade centres in Tallinn and Pärnu, Firm Kinnisvara OÜ production and office building in Tallinn and the painting shop of Loksa Shipyard.

The larger objects covered with contracts in 2006 are the building works of Võru sports hall, the building of production and warehouse premises in Kehra, the annex to Tabasalu co-educational upper secondary school,



South Estonian Centre for Collection of Hazardous Waste and three apartment houses in Tartu.

Merko Tartu management system has for over a year now met the requirements of internationally recognised management quality standard ISO 9001. Observation of fixed rules has enhanced the management quality and safety of building the objects, and has accelerated and simplified the intra-company and extra-company information exchange. The goals set for the previous period were fulfilled, and quality goals have been set for the new period as well.

The strategic goal of the company is to achieve a permanent competitive edge, by creating and providing customers value through quality of product and service, flexibility and reliability of the company. Achievement of the goals is supported by existence of necessary resources and the management system implemented in the company.

In the name of Merko Tartu I thank all our co-operation partners for pleasant common work and the customers for continuing confidence in us.

A handwritten signature in black ink, appearing to read 'Margus Kull'.

Margus Kull

Member of Board of AS Merko Tartu



AS GUSTAF

ENTRY TO MARKET IN WEST ESTONIA

One of the major tasks of AS Gustaf in 2005 was securing stable operation of the company against the background of rapid developments of the building environment, which would enable laying down a strong basis for the future. In general, this attempt was successful – although the turnover did not grow significantly as opposed to the previous year, the production volumes distributed uniformly, as per year. The staff was replenished by new members, regardless of stiff competition in the labour market. They will need time to get settled in our corporate milieu and also additional training. We believe that in the next year, their contribution will increase, thanks to which we can also plan growth in volumes.

As in several other companies, our margins too suffered, in fulfilment of contracts signed before price increases in materials and services. Generally, however our efforts bore fruit, the minimum goals were fulfilled and we can hopefully look into the new financial year.

Because the company in progress is in a constant flux, the development of a quality control system and enhancing of the organisation of work will require continually demanding efforts.

In 2005, out of ca 4.5 million euros building turnover, residential houses accounted for 49%, industrial

objects 35%, works in trade, service and cultural institutions 11% and building of office premises 5%.

The more significant objects completed in Pärnu in 2005 are the common car centre of Salome Pärnu OÜ and Rehviexpress OÜ and the 26 apartment residential house cum shop commissioned by OÜ Kanpol Kinisvara. The company continued renovation of the complex of production buildings of the electronics company Scanfil OÜ, which will get new impetus in 2006 with the construction of the new 5,100 m² production building. In Pärnu county, the company completed also the annex to the trade centre of the Vändra Consumers' Co-operative. Also worth mentioning is 110/10 kV substation put up in Tallinn, Põhja Blvd, where the builders faced relatively complicated situations during the installation of technological equipment. We also launched activity in Lääne county, with the first larger object completed being the extension of peat processing plants belonging to Kekkilä Group, the principal OÜ Langham.

A prominent place in the plans for the next year is held by production and community buildings, the construction of which has until now yielded better results. The company has started building the annex in Sindi to the plant OÜ Fein-Elast Eesti. The activity will also continue in Haapsalu, where the Haapsalu Consumers' Co-operative projects the 9-floor commercial and residential building, seconded by simultaneous preliminary works.

Raigo Jaanuste

Chairman of Board of AS Gustaf



OÜ GUSTAF TALLINN

NEW TECHNICAL SOLUTIONS

In 2005, our turnover grew as against the previous year by 40%. We achieved the growth in turnover mostly thanks to large-scale works and efficiency in performance of works. The share of subcontractors increased as well. Worth mentioning among larger works should be the building works of restaurant Senso of Hotel Olümpia. The interior designers were from Norway and their selection of materials and spatial solutions were novel and interesting to us. Entirely new, also was the experience of building the porte cochère (awning) in front of Hotel Olümpia. For the first time in Estonia, the light lattice frames of aluminium were used, manufactured in a German factory and put up on the site not unlike Lego-blocks. We also continued the pleasant co-operation with our long time customer Hansabank.

Summing it up, we can be content with the past year. We managed to avoid large labour loss, which is continuously posing challenges to us, due to ever-increasing mobility of workforce, in particular in the direction of our Nordic neighbours. Among the objects in progress in 2006, more important to us are the reconstruction works of the yard house of the Lithuanian Embassy and reconstruction of the building at Vana-Viru 9.



A stylized, handwritten signature in black ink, consisting of several fluid, overlapping strokes.

Tiit Pomerants

Chairman of Board of OÜ Gustaf Tallinn

The Wendre production building in Pärnu





TALLINNA TEEDE AS

THE COMPETITION IS BECOMING STIFFER

2005 witnessed development of the company according to plans. The turnover grew from 10.3 million euros in 2004 to 15.2 million euros, while the number of workers increased only from 127 to 133. Larger objects to be pointed out are the restoration repairs in the Maardu-Valgejõe stretch of the St. Petersburg highway, as well as the building works of the second stage of Smuuli Rd in the stretch of St. Petersburg highway – Suur-Sõjamäe St and the restoration repairs of Sõpruse Blvd in the stretch of Linnu Rd – Endla St together with the works of the so-called Taksopargi crossroad.

In addition to that we performed other works on ca 120 objects, of which the traditionally noteworthy part was constituted by sports and leisure facilities. Of special highlight here are the stadium of the Vikerlase St in Lasnamäe, the stadium of the German upper secondary school, the stadium of the Saue upper secondary school and the bicycle path of Vana-Narva Rd and Mäe St.

One accomplishment of 2005 is the completion of the reconstruction of the office building of the company, as a result of which the working conditions of engineers and technicians improved substantially, as well as washing and clothing conditions of workers. The ranks of our project managers and foremen were significantly replenished, creating good conditions for setting new goals.

In 2006 we are looking forward to continuing at the same growth rate. There are new objects and challenges ahead. By the beginning 2006, there are ca 11 million euros worth of works covered by contracts, substantially more than at the beginning of previous years. A new challenge is the restoration repair works, commissioned by Roads Administration in Jõhvi-Tartu-Valga highway, where we will act as subcontractor. This object is one of our priorities in 2006.

The building works of the second stretch in Smuuli Rd and the restoration repairs of Suur-Sõjamäe St will continue. We are hopeful that we will also successfully participate in building and reconstruction of sports and leisure facilities.

At the end 2005, we won the tender for reconstruction of the stadium in Pae St, we continue works in constructing the Pirita jogging and stick walking path.

Achievement of goals will surely not be easy, because there are quite a few newcomers in road building market and the competition is becoming stiffer. However, in order to make progress we must set our objectives high.

Tiit Padar

Chairman of Board of Tallinna Teede AS



Sindi bridge

THE LARGEST BUILDING PROJECTS COMPLETED IN ESTONIA IN 2005

| | | | |
|--|----------------|-----------------------------------|-------------------------|
| Estonian Art Museum | new building | Weizenbergi 34 / Valge I, Tallinn | 23,910 m ² |
| Muuga coal terminal | new building | Muuga, Harjumaa | 573,500 m ² |
| Commercial and residential building Admiral's House | new building | Ahtri 6, Tallinn | 23,424 m ² |
| Wendre production building | new building | Lina 31, Pärnu | 24,957 m ² |
| Apartment house | new building | Pärnu Rd 131B, Tallinn | 5,480 m ² |
| Building of the Tallinn Circuit Court | reconstruction | Pärnu Rd 7, Tallinn | 3,995 m ² |
| Apartment house | new building | Uus-Tatari 23, Tallinn | 5,265 m ² |
| Apartment house | new building | Rävala Blvd 19, Tallinn | 15,902 m ² |
| Sindi bridge | reconstruction | Sindi, Pärnu county | length 128 m, width 6 m |
| Kunda aspen ground-wood mill | new building | Kunda | 6,400 m ² |
| Main building of Transgroup Invest AS | new building | Jõe 4a, Tallinn | 4,659 m ² |
| 110 kV cable runs of Tõnismäe substation | new building | downtown Tallinn | 4.5 km |
| Commercial building * | new building | Tallinna Rd 64c, Pärnu town | 3,179 m ² |
| Ministry of Social Affairs, administration building ** | reconstruction | Gonsiori 29, Tallinn | 8,560 m ² |
| Reval Hotel Olümpia, restaurant Senso of the 2 nd floor *** | reconstruction | Liivalaia 33, Tallinn | 2,000 m ² |
| Stretch of Sõpruse Blvd (Endla St - Linnu Rd) **** | repairs | Sõpruse Blvd, Tallinn | 45,000 m ² |

THE LARGEST BUILDING PROJECTS COVERED WITH CONTRACTS IN ESTONIA IN 2006

| | | | |
|--|------------------------|---|------------------------|
| Tornimäe poly-functional high rise | new building | Tornimäe 3, Tallinn | 14,885 m ² |
| Tartu water and sewerage network | extended and renovated | Tartu town, 14 districts | 130 km |
| Viaduct of extension of Smuuli Rd | novel facility | In the stretch of Smuuli Rd St. Petersburg Rd – Suur-Sõjamäe St | 5,180 m ² |
| Saaremaa port | new building | Ninase village, Mustjala parish, Saaremaa | 11,200 m ² |
| The 2 nd stage of Tallinn controlled tip | novel facility | Loovälja, Rebala village, Jõelähtme parish, Harjumaa | 33,500 m ² |
| The 2 nd stage of the extension of the Valga water and sewerage network | novel facility | Valga town | 47.6 km |
| Dvigatel's main pipelines | novel facility | Dvigatel's industrial park, Lasnamäe borough, Tallinn | 6.5 km |
| 110 kV cable runs of Emajõe substation | novel facility | Tartu | 4.4 km |
| Ülejõe 110 kV substation of Tartu | reconstruction | Roosi 80, Tartu | 105 m ² |
| Parking house of Transgroup Invest AS | new building | Jõe 4a, Tallinn | 8,512 m ² |
| Veerenni office building | new building | Veerenni 58, Tallinn | 6,650 m ² |
| Viimsi school house | new building | Randvere Rd 8, Viimsi | 18,197 m ² |
| Hotel Tallink SPA | new building | Sadama 11a, Tallinn | 20,537 m ² |
| Office building of Bank of Estonia | new building | Sakala 6, Tallinn | 2,093 m ² |
| Hotel Forum | new building | Narva Rd 1a / Viru Sq 2a, Tallinn | 17,121 m ² |
| Mustakivi trade centre | new building | Mustakivi 17, Tallinn | 11,292 m ² |
| 2 nd stage of Tabasalu apartment houses | new building | Tabasalu borough town, Harku parish | 7,015 m ² |
| Iru social houses | new building | Hooldekodu Rd 21, 23, Tallinn | 10,387 m ² |
| Apartment house | new building | Mooni 89b, Räägu 10c, Räägu 10b, Tallinn | 3,062 m ² |
| Apartment house | new building | Räägu 14A / Tüve 57, Räägu 14 / Kännu 27, Tallinn | 4,814 m ² |
| Row house | new building | Tüve 55, Kännu 29, Tallinn | 2,336 m ² |
| Apartment house | new building | Kolde Blvd 67, Tallinn | 4,966 m ² |
| SCANFIL OÜ production building * | new building | Vanasauga 40, Pärnu town | 5,100 m ² |
| Võru sports hall ** | new building | Räpina mnt 3a, Võru town | 9,000 m ² |
| Vana-Viru 9 building *** | reconstruction | Vana-Viru 9, Tallinn | 740 m ² |
| Jõhvi–Tartu–Valga highway **** | reconstruction | Ida-Viru, Tartu and Valga counties | 100,000 m ² |

Merko Ehitus' objects, unless otherwise indicated:

* Gustaf ** Merko Tartu *** Gustaf Tallinn **** Tallinna Teed

LATVIAN BUILDING MARKET



SIA MERKS

The last year was the first full year after Latvia acceded to the European Union, and both the Latvian economy as a whole, and the Latvian building market were given new impetus from opening of the borders and expansion of the markets. The work of SIA Merks merited great recognition at the beginning of 2005, when Latvian Builders Union awarded us with the prize for the best office building 2004, namely for the main office of Hansabanka.

The year of 2005 was abounding with new challenges and offered to Merks an opportunity to prove its professionalism, a well-known asset of Merks. We carried out strenuous building works in erecting the multifunctional hall Arena Riga, a project of immense value for our company and actually to the whole Latvian society. When the project was started, many wondered whether it could possibly be completed by the fixed deadline – everybody knew that in May 2006, it was supposed to be the venue of Ice Hockey World Championships. This project was breathtakingly interesting to us, and very sophisticated. In the course of work, various difficulties emerged, because we had to find innovative technological solutions and develop the architectural conception, which had not been seen before in Latvian building practice. Since the deadlines for completion could not, by any means have been put back, the detailed time schedule was to be observed

and Merks' commitments to Latvian society, hockey fans and International Ice Hockey Federation were to be honoured.

It is not an exaggeration to assert that the building process was followed, with close scrutiny by the whole Latvian society. At the end 2005 we could finally proclaim that the hall Arena Riga with widely divergent options for use would be completed in February 2006 – two months before the Ice Hockey Championships. Thereafter, the hall can be used to stage various concerts and sports games.

The larger projects completed in 2005 were the extension of trade centre Spice, the reconstruction of car centres Hyundai and Mitsubishi.

During the year we experienced positive effects of accession to the EU: the flow of new investments, simplification of various administration and tax systems' processes, new business opportunities. Simultaneously we were also faced by negative factors, for instance labour drain to other European countries and rising prices of building materials, directly affecting the building process. This resulted in growth of building cost.

Last year we proved that we belong amongst the leading Latvian building companies. Hence our plans for the future are rightfully ambitious and far-sighted. In the future we will place the main emphasis on development of real estate projects, we will work out and develop in Riga the conceptions of integral boroughs and will realise them. In Skanstes street, in Lucavsala and Zakusala, on a plot of land of several hectares, SIA Merks will build a number of office premises, residential houses and leisure centres.

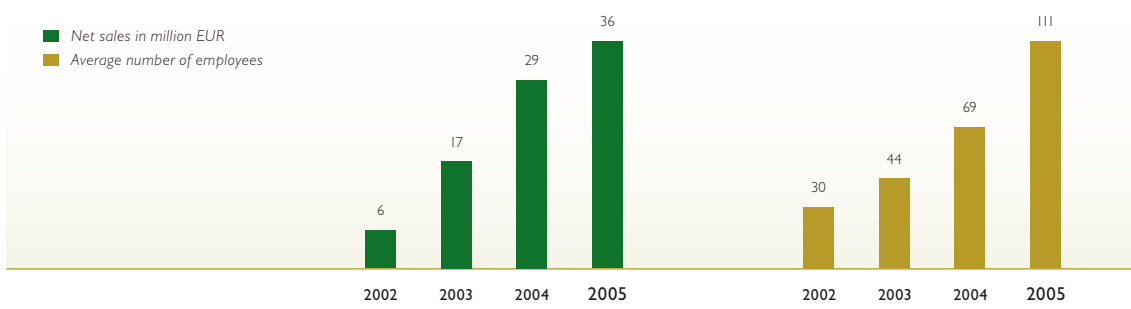
The growth of building works in Latvia will continue. As compared to 2004, in current prices they have grown by ca 30%. The investors' interest to prospective real estate and building projects of Merks promises success also in 2006.

A stylized, handwritten signature in black ink, consisting of several fluid, overlapping strokes that form the name 'Ivars Geidans'.

Ivars Geidans

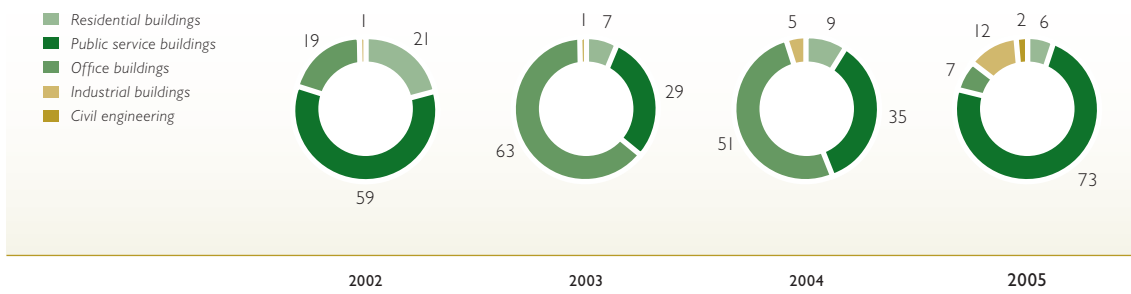
Director General of SIA Merks

NET SALES AND NUMBER OF EMPLOYEES



STRUCTURE OF BUILDINGS

per cent



THE LARGEST BUILDING PROJECTS COMPLETED IN LATVIA IN 2005

| | | | |
|--|--------------|-------------------------|-----------------------|
| Trade centre Spice 2 nd stage | new building | Lielirbes 29 a, Riga | 24,000 m ² |
| Trade centre K-rauta | new building | Lucavsalas 3, Riga | 8,528 m ² |
| Plant building TMB Elemendid | new building | Salaspils, Riga area | 6,430 m ² |
| Mitsubishi & Hyundai car centre | new building | Lielirbes 32, Riga | 5,864 m ² |
| Warehouse and office building | new building | Lielirbes 32a, Riga | 4,700 m ² |
| Warehouse and office building | new building | Ķekava, Riga district | 3,900 m ² |
| Brewery Cēsu Alus 2 nd stage | new building | Aldaru laukums 1, Cēsis | 3,360 m ² |

THE LARGEST BUILDING PROJECTS COVERED WITH CONTRACTS IN LATVIA IN 2006

| | | | |
|---|----------------|-------------------------|-----------------------|
| Trade centre Spice 3 rd stage | new building | Lielirbes 29 a, Riga | 28,300 m ² |
| Multifunctional hall Arena Riga | new building | Skanstes 21, Riga | 23,700 m ² |
| Office building | new building | Hospitāju 55, Riga | 19,450 m ² |
| Plant building Valmieras stikla šķiedra | new building | Cempu 13, Valmiera | 16,000 m ² |
| Office building | new building | Skanstes, Riga | 11,350 m ² |
| Trade centre Spice 1 st stage | reconstruction | Lielirbes 29 a, Riga | 5,825 m ² |
| DFDS office and warehouse building | new building | Katlakalna 1, Riga | 3,214 m ² |
| Brewery Cēsu Alus 3 rd stage | new building | Aldaru laukums 1, Cēsis | 2,500 m ² |
| Apartment house | new building | Skanstes St, Riga | 65,600 m ² |
| Apartment house | new building | Kaivas t., Riga | 50,700 m ² |
| Apartment house | new building | Rūpniecības 21, Riga | 13,800 m ² |
| Apartment house | new building | Strautu 21, Riga | 5,200 m ² |
| Water treatment plant | novel facility | Kauguri, Jūrmala | |
| Drinking water treatment plants in Eastern Latvia | reconstruction | 14 towns | |



Arena Riga



Warehouse and Office building in Riga



Mitsubishi & Hyundai car centre in Riga



Arena Riga interior view



Arena Riga interior view

LITHUANIAN BUILDING MARKET



UAB MERKO STATYBA

The Lithuanian building market showed a steady rise in 2005. This was furthered by a large number of projects and the trend of growth in building volumes, which has not let up in pace for years.

Merko Statyba celebrated the New Year 2005 in a new, modern A-class commercial centre L3, with floor area totalling 6,200 m². By all assumptions, we will complete the 2nd stage of that project in this year.

It is also pleasant to announce that in 2005, we finalised an extraordinary building – Trade centre

Mandarinas in Vilnius with floor area totalling 8,720 m². This object is not business as usual because we performed the building works in record time – just in nine months. This was possible, thanks to simultaneous projecting and building work. Due to well co-ordinated and cohesive co-operation between the building team, suppliers and customers, the project yielded a truly excellent result.

Last year Merko Statyba paid special attention to preparation and performance of large projects. One of such projects was a multifunctional trade centre in Šiauliai integrated with the bus station. The total area of the complex, including the parking spaces inside the building and on the roof, totals 50,000 m². The building accommodates shops, cafes and entertainment centres. The anticipated time of completion of the object is autumn 2006.

Another large and interesting project is the shopping and entertainment centre Panorama in Vilnius. This is the largest shopping and entertainment centre in the region of Vilnius prevalently dotted with administrative and cultural institutions, enjoying a fast and convenient access from every part of the town. The building with 129,000 m² surface area and panoramic view is also impressive because it accommodates on three floors 120 retail shops and over 15 catering points, it has an entertainment zone and a zone for repose, a supermarket and rehabilitation



Trade centre Mandarinas in Vilnius

centre (SPA) together with a fitness-club. The preparatory works for building have already been undertaken. The contemplated deadline for finishing is 2007.

Past year we also started with the first engineering construction projects. One of the most interesting among them is reconstruction and development of water treatment facilities of Neringa town, embracing reconstruction of existing water treatment plants in Nida, Preila-Pervalka and Juodkrante, including the renovation of existing structures, renovation of clean water reservoirs and building of new ones, renovation of external systems and installation of new ones, building an electrical power supply system and an automation system, selection of technological process, selection of technological equipment etc. Presently wastewater is discharged, without any purification straight to the Kuramaa bay.

In 2005 we also laid down the first modern regional landfill in the Šiauliai county, the construction of which would take ca two years. We hope to perform such projects also in the future. For the following

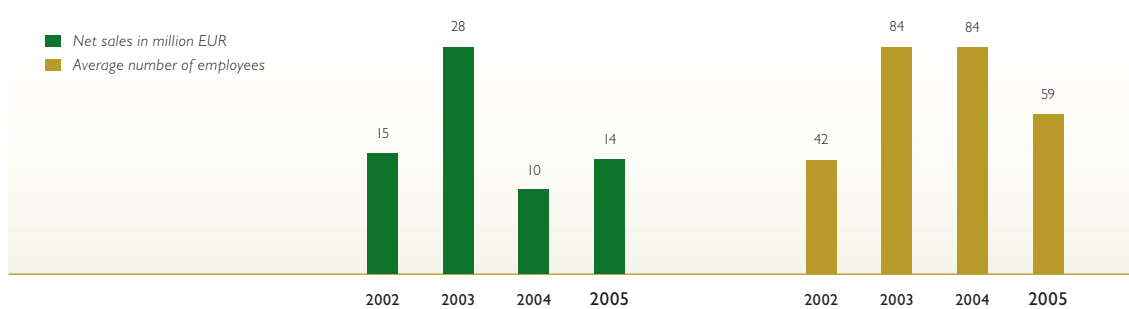
years, Merko Statyba envisions immense opportunities in residential buildings. We have acquired plots of land in Vilnius, Kaunas and Klaipeda and in the nearest years, we plan to build at least 700 apartments per year. Our wish is that the people living in the houses constructed by us could feel truly at home.

The success of all implemented projects is another proof that Merko Statyba is capable of realising sophisticated building tasks. The skill and experience of project management and performance of building and montage works with our own forces is the foundation on which we can offer professional and high quality building service. As it is, we have much to be proud of!

Sigitas Aglinskis

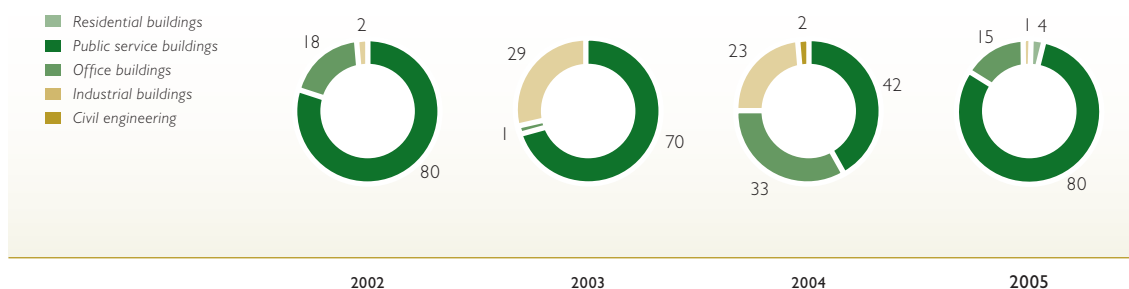
Managing Director of UAB Merko Statyba

NET SALES AND NUMBER OF EMPLOYEES



STRUCTURE OF BUILDINGS

per cent



THE LARGEST BUILDING PROJECTS COMPLETED IN LITHUANIA IN 2005

| | | | |
|------------------------------------|--------------|--|----------------------|
| UAB Rimvesta Trade centre RIMI | new building | Vilnius, on the corner of Ateities St and Žadeikos | 9,300 m ² |
| UAB Centresta Commercial centre L3 | new building | Vilnius, Laisvės Blvd 3 | 6,499 m ² |

THE LARGEST BUILDING PROJECTS COVERED WITH CONTRACTS IN LITHUANIA IN 2006

| | | | |
|--|------------------------------|--------------------------------------|-----------------------|
| UAB Saltesta trade and commercial centre Panorama | new building | Vilnius, Saltoniškių St 9 | 65,000 m ² |
| UAB Titvesta multifunctional hall Trade centre integrated with bus station | new building | Šiauliai, Tilžės St 109 | 40,000 m ² |
| UAB Neringos Vanduo drinking water treatment plants of Neringa town | reconstruction and extension | Neringa town | |
| UAB Neringos Vanduo wastewater treatment plants of Neringa town | reconstruction and extension | Neringa town | |
| UAB Univesa administration building | new building | Kaunas, Taikos Blvd 88A | 4,028 m ² |
| Apartment house | new building | Vilnius, Vivalskio St 12A | 7,320 m ² |
| Apartment house | new building | Vilnius, Saltoniškių St 36 | 9,788 m ² |
| Apartment houses | new building | Vilnius, Gabijos St 35, 35B | 33,000 m ² |
| Šiauliai regional landfill | novel facility | Šiauliai district, Auštrakai village | 20.8 ha |



Trade centre Mandarinas in Vilnius



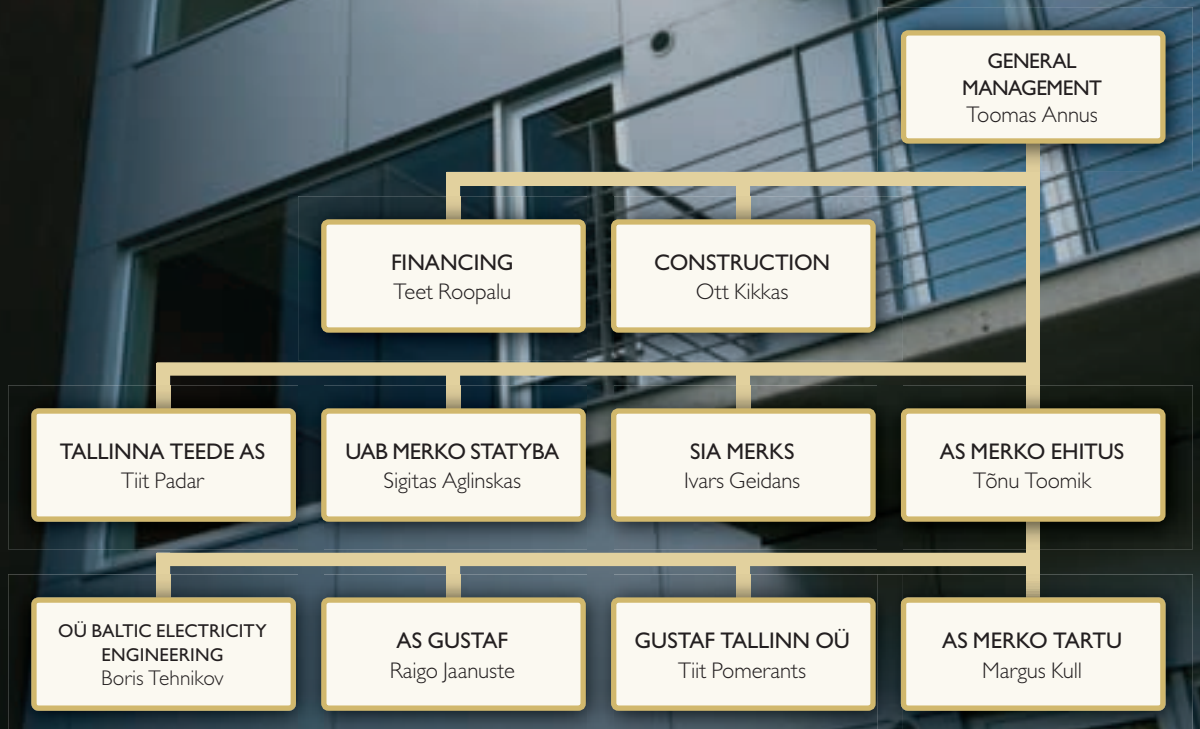
Office building L3 in Vilnius



Medical centre in Vilnius

Apartment block at Rävälä Blvd in Tallinn

MANAGEMENT STRUCTURE OF THE CORPORATION



SHAREHOLDERS

SHARE OF MERKO EHITUS

| | 2002 | 2003 | 2004 | 2005 |
|---|-----------|-----------|-----------|------------------|
| Earnings per share (in EUR) * | 0.36 | 0.67 | 1.06 | 1.58 |
| Dividends per share (in EUR) * | 0.07 | 0.13 | 0.21 | 0.32** |
| Dividend payout ratio | 20% | 20% | 20% | 20% |
| Equity per share (in EUR, at the end of year) * | 1.09 | 1.67 | 2.59 | 3.98 |
| P/B (share price to equity per share) | 2.4 | 3.6 | 3.7 | 4.3 |
| P/E (share price/ earnings per share) *** | 7.4 | 9.0 | 9.1 | 10.9 |
| Security trading history (in EUR) | | | | |
| High **** | 2.65 | 6.45 | 9.73 | 20.90 |
| Low **** | 1.37 | 2.58 | 6.00 | 9.60 |
| Last **** | 2.65 | 6.01 | 9.72 | 17.25 |
| Change, % | +91.08 | +126.60 | +61.86 | +77.47 |
| Traded volume | 1,415,401 | 2,387,667 | 1,465,632 | 2,847,923 |
| Turnover, in million EUR | 6.07 | 15.43 | 22.75 | 67.26 |
| Capitalisation, in million EUR | 46.91 | 106.29 | 172.04 | 305.32 |

* To render the data comparable, the figures has been computed based on 17.7 M shares, which number had resulted from the bonus issue carried out in 2005.

** According to the proposal of the Board of Merko Ehitus.

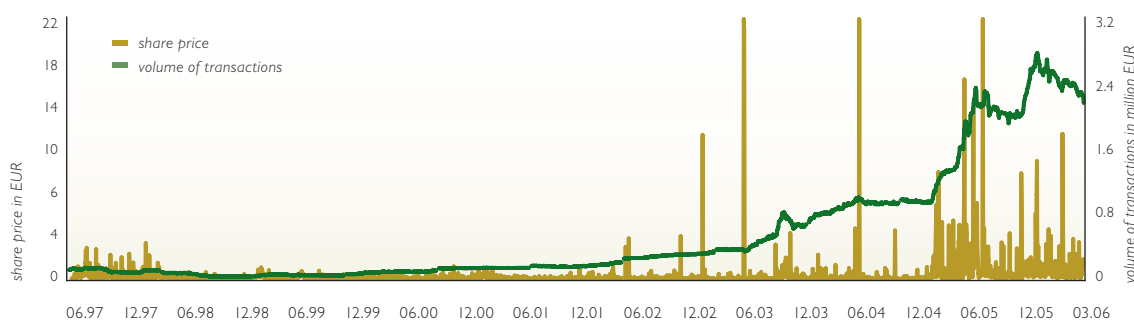
*** Calculated on the basis of the profit for the respective fiscal year.

**** To render the data comparable, the share prices preceding the bonus issue have been corrected to 17.7 M shares.

STRUCTURE OF SHAREHOLDERS (AS OF 31.12.2005)

| Shareholders | Number of shares | Participation, % |
|----------------------------------|-------------------|------------------|
| Merko Grupp | 12,742,686 | 72.0 |
| ING Luxembourg S.A. clients | 1,135,900 | 6.4 |
| SEB, clients | 992,310 | 5.6 |
| Nordea Bank, clients | 608,683 | 3.4 |
| Okobank, clients | 262,600 | 1.5 |
| Clearstream Banking, clients | 245,007 | 1.4 |
| J.P. Morgan Bank Luxembourg S.A. | 194,200 | 1.1 |
| Other shareholders | 1,518,614 | 8.6 |
| Total | 17,700,000 | 100.0 |

PERFORMANCE OF MERKO EHITUS SHARE AT TALLINN STOCK EXCHANGE



FINANCIAL OVERVIEW OF THE CORPORATION

The year of 2005 turned out a success for Merko Ehitus. The turnover of the corporation grew, as against 2004 by 3.9% and was 206.6 million euros. 99% of the turnover was from building activity, while 1% was other turnover. The growth of turnover still fell short of expectations, because the resources of the corporation were bound with Riga Arena project and Rockwool plant project in Vyborg, which was not reported in the turnover of the company.

Of the building activity of the concern, 86% were new buildings and 14% renovation and reconstruction works. Worth mentioning among major building objects in 2005 are Estonian Art Museum, apartment block at Rävala Blvd, Wendre production building, Muuga coal terminal, Spice trade centre and the commercial and residential building Admiral's House.

The domestic market of AS Merko Ehitus is the Baltic States. Thanks to the growth of building volumes in Latvia and Lithuania, the share of exports of goods and the turnover of services provided outside Estonia increased in the sales income of the corporation, from 20% in 2004, to 24% in 2005.

The aggregate cash flow of the corporation in 2005 from economic activity was +8.3 million euros, of

which the operating activity cash flow was +16.9 million euros. The operating activity cash flow of the period was affected, most of all by operating profit +27.8 million euros, change of inventories -29.7 million euros, change in operating activity related liabilities and prepayments +11.9 million euros, depreciation and amortisation +7.0 million euros, adjustment of revenues from construction contracts by percentage-of-completion method +4.3 million euros. The cash flow of the corporation from investment activity was -24.2 million euros, of which -14.5 million euros were investments into tangible assets, -9.5 million euros investments in subsidiaries and associated companies, -12.1 million euros the loans granted, +11.3 million euros repayments of loans in the period and +0.6 million euros other income from investment activity. Investments were made on account of own funds of the corporation and to the tune of 18.8 million euros on account of leverage. Cash flow of the company from financing activity was +15.5 million euros, of which the balance of taken/repaid credit liabilities was respectively +18.0 million euros, the paid dividends -3.8 million euros and the target financing obtained +1.4 million euros.

THE RATIOS CHARACTERIZING THE OPERATING ACTIVITIES OF THE CORPORATION

| | 2002 | 2003 | 2004 | 2005 |
|---|-------|-------|-------|--------------|
| Net profit margin | 5.9% | 6.8% | 9.5% | 13.6% |
| Net profit margin * | 5.9% | 6.8% | 8.8% | 9.0% |
| Operating profit margin | 5.9% | 7.5% | 10.3% | 13.5% |
| Return on equity per annum | 36.7% | 48.3% | 49.9% | 48.2% |
| Return on assets per annum | 16.2% | 19.9% | 24.1% | 24.9% |
| Equity ratio | 42.6% | 40.4% | 55.3% | 49.6% |
| Current ratio | 1.5 | 1.5 | 2.0 | 2.0 |
| General expenses to net sales | 3.8% | 3.3% | 3.4% | 4.6% |
| Staff costs to net sales | 7.1% | 5.7% | 6.3% | 7.3% |
| Debt/equity ratio | 5.1% | 6.2% | 3.7% | 28.8% |
| Average duration of accounts receivable (in days) | 36 | 55 | 30 | 33 |
| Average duration of accounts payable (in days) | 39 | 36 | 25 | 32 |
| Sales per employee (in thou EUR) | 191.6 | 278.2 | 306.3 | 292.2 |

* Less extraordinary profit.

BALANCE SHEET

| <i>in thou EUR</i> | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---------------|---------------|---------------|---------------|----------------|
| Cash and marketable securities | 5,070 | 9,543 | 17,655 | 9,816 | 17,157 |
| Receivables, prepaid expenses and inventories | 21,493 | 27,738 | 45,556 | 60,625 | 96,423 |
| Total current assets | 26,563 | 37,281 | 63,211 | 70,441 | 113,580 |
| Long-term financial assets | 1,405 | 2,715 | 2,077 | 7,467 | 15,299 |
| Tangible and intangible assets | 4,738 | 5,139 | 7,946 | 5,089 | 12,997 |
| Total noncurrent assets | 6,143 | 7,854 | 10,023 | 12,556 | 28,296 |
| Total assets | 32,706 | 45,135 | 73,234 | 82,997 | 141,876 |
| Current liabilities | 16,606 | 24,484 | 41,626 | 35,238 | 55,667 |
| Non-current liabilities | 491 | 1,119 | 1,657 | 1,412 | 15,143 |
| Total liabilities | 17,097 | 25,603 | 43,283 | 36,650 | 70,810 |
| Owners' equity | 15,236 | 19,226 | 29,644 | 45,887 | 70,392 |
| Minority share | 373 | 306 | 307 | 460 | 674 |
| Total liabilities and owners' equity | 32,706 | 45,135 | 73,234 | 82,997 | 141,876 |

INCOME STATEMENT

| <i>in thou EUR</i> | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------------------|--------------|---------------|---------------|---------------|----------------|
| Net sales | 86,830 | 106,706 | 173,051 | 198,791 | 206,588 |
| Cost of goods sold | 78,719 | 95,821 | 155,249 | 172,305 | 175,036 |
| Gross profit | 8,111 | 10,885 | 17,802 | 26,486 | 31,552 |
| Marketing expenses | 766 | 902 | 1,012 | 1,159 | 1,444 |
| Administration and general expenses | 2,352 | 3,184 | 4,688 | 5,694 | 8,157 |
| Other income | 445 | 137 | 980 | 4,605 | 11,827 |
| Other expenses | 197 | 640 | 137 | 3,805 | 5,937 |
| Operating profit | 5,241 | 6,296 | 12,945 | 20,433 | 27,805 |
| Financial income and -expenses | 575 | 272 | -307 | -737 | 1,833 |
| Profit before taxes | 5,816 | 6,568 | 12,638 | 19,696 | 29,638 |
| Net profit of the group | 5,594 | 6,318 | 11,790 | 18,828 | 28,034 |

SOCIAL RESPONSIBILITY

CONTRIBUTIONS TO CULTURE AND SPORTS

AS MERKO EHITUS:

- **Project “Estonian health trails”**
- **Estonian Basketball Union**
Activity of boys and girls under 16.
- **Ballroom dancing**
26 – 27 November 2005 – European Championship in 10 dances, held in Saku Grand Hall.
- **Jumping Gala. Tallinn 2005**
Non-Profit Association Audentes Sports Club.
- **Estonian Ski Union**

AS MERKO TARTU:

- **Tartu Ski Club**
- **Non-Profit Association “Residential Sports”**
- **Non-Profit Association “Otepää Air Force”**
- **Children’s Hockey Club**
- **Non-Profit Association “Knight”**

AS GUSTAF:

- **Pärnu Volleyball Club**
Coach Johannes Noormäe’s volleyball boys

ESTONIAN HEALTH TRAILS

In various youth skiing competition series in Estonia, there are a great deal more than one thousand active young people participating. One of the important conditions of keeping this up is providing the suitable environment. The options for playing sports round the year, and the quality of facilities and their availability fall conspicuously short of standards. In May 2004, Chairman of Council of Merko Ehitus Toomas Annus presented an idea at the meeting of board of the Ski Union to cover Estonia with network of sports trails available to all. After the first mapping of the current situation it was evident that putting into practice that impressive vision calls for joint efforts.

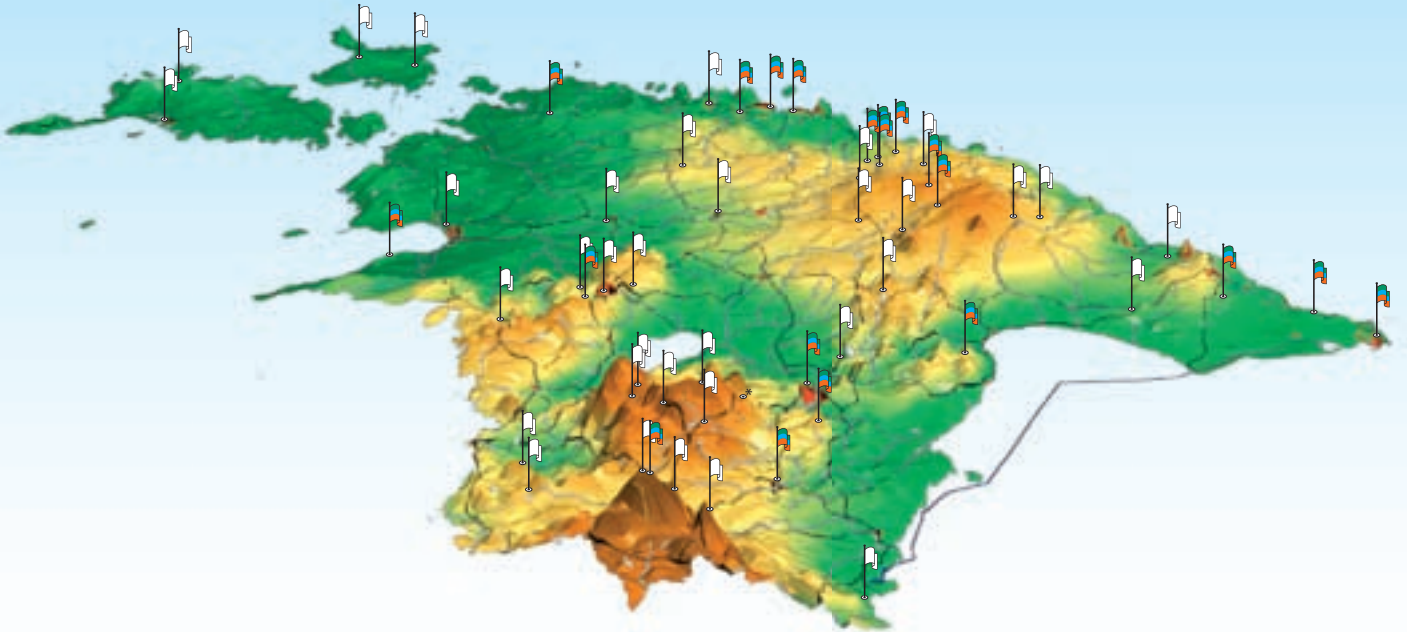
At the end 2004 Hansapank, Merko Ehitus and Eesti Energia, acting in co-operation with Ministry of Culture, signed the memorandum of the project “Estonian Health Trails”, aimed at making the natural health trails being available for all and around the year. The well illuminated, technically equipped and maintained health trails are expected to become a popular alternative to swimming pools and sports halls. The three named companies expressed their readiness to invest into the project altogether 30 million kroons (1.9 million euros).

In one and a half year the following works have been performed:

- In Tallinn, the extension of Pirita trails and new sections of the trail. By now, there are 8 km of trails, a centre with strengthened artificial snow and maintenance equipment of the trails.
- In Tallinn at Nõmme, reconstruction of the illumination of the whole 5 km-long trail.
- In Pärnumaa, building project of development of Jõulumäe centre, illumination of 3 km health trail, equipment for production of artificial snow, building of the new ski bridge.
- The project of uniting the winter period trail maintenance equipment and health trails of Kõrvemaa, and laying down new linking sections between centres.
- In Tartu, at Tähtvere the illumination of trails of rest park to the extent of ca 6 km.
- In Tartumaa, detailed planning of Vooremäe health centre.
- In Lääne-Virumaa, illumination of Tamsalu health trail to the extent of 4.4 km.
- In Võrumaa, illumination of Haanja health trail.
- In Ida-Virumaa, illumination of Pannjärve 3 km health trail.
- In Jõgevamaa, project of illumination of Pala health trail.
- In Viljandimaa, project of illumination of Holstre-Polli health trail and ski stadium.
- In Narva, launching of development of Pähklikäe health trails.
- Special training to initiators of centres and maintenance and upkeep operators.



Eesti Terviserajad



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WE WILL PROVIDE FOR THE POSSIBILITY OF HEALTHY LIFESTYLES

Estonian Ski Union has been in co-ordinating and initiating of the projects of Estonian Health Trails. The total needs of the project are by a magnitude larger than the contributions made hitherto, and therefore we are looking forward to the state and local governments and other enterprises besides Merko Ehitus, Hansabank and Eesti Energia to join the project. As of today, the needs for development of over forty centres-districts have been mapped out.

I am glad that the objective set by Estonian Health Trails project and the presently attained goals have met with positive reaction and have increased the contribution

by the state in amateur and fitness sports, as well as in development of amateur sports centres in all counties.

The past period was undoubtedly decisive in improvement of technical development of ski centres and in procurement of know-how necessary for management. By recourse to the wider public and through joint effort, we can ensure the availability of active opportunity of movement in nature round the year and free of charge to a major part of Estonian population. Thereby we will be able to guarantee to the Estonian population the opportunity to lead a healthy mode of life, and the continuation of development of skiing as national sports of Estonians.

Jaanus Pulles

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Chairman of Non-Profit Association Estonian Ski Union

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