

AS MERKO EHITUS
GROUP

Consolidated interim report 3M 2004

COMMENTARY TO 3M 2004 FINANCIAL RESULTS

Merko Ehitus group's main branches of business are construction and related activities in Estonia, Latvia and Lithuania. AS Merko Ehitus group consists of the following principal companies: SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (100%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), AS Normanni Linnagrupp (50%), AS Telegrupp (45%) and AS Tartu Maja Betoontooted (25%).

Merko Ehitus group 3M 2004 consolidated and unaudited net sales amounted to EEK 770,2 million (EUR 49,2 million) and net profit was EEK 59,2 million (EUR 3,8 million). Profit was earned from general business activities with the exception of a nonrecurring profit of 11.7 million kroons (0.7 million euros), which was gained from the disposal of a project managing unit of Tallinna Teede AS.

The respective figures year ago were net sales of EEK 467,4 million (EUR 29,9 million) and net profit of EEK 28,2 million (EUR 1,8 million).

Companies of the group 3M 2004 net sales and consolidated net sales (sales outside the group) were (in thousand kroons and euros):

	Sales		including consolidated net sales	
	EEK	EUR	EEK	EUR
Estonian companies				
Construction				
AS Merko Ehitus	613 710	39 223	613 482	39 209
AS Gustaf (100% partnership)	7 386	472	6 860	438
OÜ Gustaf Tallinn (80% partnership)	15 335	980	14 775	944
AS Merko Tartu (66% partnership)	13 705	876	8 921	570
Tallinna Teede AS (100% partnership)	9 793	626	9 793	626
Construction				
AS Normanni Linnagrupp (50% partnership)	32 108	2 052	-	-
Production of concrete				
AS Tartu Maja Betoontooted (25% partnership)	23 823	1 523	-	-
Telecommunication networks				
AS Telegrupp (45% partnership)	18 886	1 207	-	-
Latvian companies				
Construction				
SIA Merks (100% partnership)	83 236	5 320	83 236	5 320
Lithuanian companies				
Construction				
UAB Merko Statyba (100% partnership)	33 094	2 115	33 094	2 115

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

	3M 2004	3M 2003
Net profit margin	6,2 %*	6,0 %
Operating profit margin	8,1 %	6,6 %
Return on equity (per year)	48,0 %	35,8 %
Return on assets (per year)	20,9 %	14,5 %
Current ratio	1,7	1,4
Equity-to-assets ratio	46,6 %	38,7 %

* without extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit x 4 / Average equity during the period

Return on assets: Net profit x 4 / Average assets during the period

Current ratio: Current assets / Current liabilities

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

Year 2004 3M interim consolidated and unaudited income statement and balance sheet are compiled in accordance with the principles of the International Financial Reporting Standards (IFRS).

in thousand kroons and euros

CONSOLIDATED INCOME STATEMENT

unaudited

	Note	EEK		EUR	
		2004 3 months	2003 3 months	2004 3 months	2003 3 months
Sales	1	770 161	467 378	49 222	29 871
Cost of sales		(700 058)	(420 651)	(44 742)	(26 884)
Gross profit		70 103	46 727	4 480	2 987
Marketing expenses		(3 386)	(3 565)	(216)	(228)
Administrative expenses		(16 212)	(15 111)	(1 036)	(966)
Other operating income		12 522	3 714	800	237
Other operating expenses		(613)	(811)	(39)	(52)
Operating profit		62 414	30 954	3 989	1 978
Financial income and expenses from stocks of subsidiaries		(299)	1	(19)	0
Financial income and expenses from stocks of associate companies		82	713	5	46
Financial income and expenses from other long-term financial investments		-	780	-	50
Interest expense		(444)	(145)	(28)	(9)
Foreign exchange gain		579	(1 436)	37	(92)
Other financial income and expenses		(1 630)	(2 389)	(104)	(153)
Total financial income and expenses		(1 712)	(2 476)	(109)	(158)
Profit before taxes		60 702	28 478	3 880	1 820
Income tax		(974)	-	(63)	-
Net profit for fiscal year		59 728	28 478	3 817	1 820
Minority interest		(507)	(313)	(32)	(20)
Net profit for the group		59 221	28 165	3 785	1 800
Net profit per share (basic and diluted, in kroons and euros)	2	6,69	3,18	0,43	0,20

in thousand kroons and euros

CONSOLIDATED BALANCE SHEET

unaudited

ASSETS	EEK		EUR	
	31.03.04	31.12.03	31.03.04	31.12.03
Cash and cash equivalents	298 757	240 152	19 094	15 348
Marketable securities	33 656	36 096	2 151	2 307
Accounts receivable	309 238	408 704	19 764	26 121
Allowance for doubtful receivables	(399)	(408)	-26	(26)
Total accounts receivable	308 839	408 296	19 738	26 095
Receivables from other companies of the Group	13 745	4 810	879	308
Receivables from associate companies	9 236	11 022	590	704
Other short-term receivables	23 298	11 553	1 489	738
Total other receivables	46 279	27 385	2 958	1 750
Interest receivable	707	388	45	25
Dividends receivable	239	233	15	15
Other accrued income	51	52	3	3
Total accrued income	997	673	64	43
Prepaid taxes and tax refund	7 696	12 642	492	808
incl. income tax	1 243	1 746	79	112
Other prepaid expenses	7 372	8 538	471	546
Total prepaid expenses	15 068	21 180	963	1 354
Raw materials	874	839	56	54
Work-in-progress	28 253	38 309	1 806	2 448
Merchandise purchased for resale	124 593	105 900	7 963	6 768
Prepayments to suppliers	402	138	26	9
Prepayments for real estate	3 582	13 565	229	867
Prepayments for construction work	28 377	24 503	1 813	1 566
Due from customers	54 930	72 009	3 510	4 602
Total inventories	241 011	255 263	15 403	16 314
Total current assets	944 607	989 045	60 371	63 211
Shares in associate companies	23 443	25 040	1 498	1 600
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	18 066	5 649	1 155	362
incl. deferred income tax liability	4 124	4 124	264	264
Total long-term financial investments	43 309	32 489	2 768	2 077
Land	62 584	26 181	4 000	1 673
Buildings	3 496	3 496	223	223
Accumulated real estate investments depreciat.	(466)	(396)	(30)	(25)
Prepayments for real estate investments	-	23 588	-	1 508
Total real estate investments	65 614	52 869	4 193	3 379
Land and buildings	10 137	9 909	648	633
Ground lease	458	458	29	29
Plant and equipment	81 171	84 038	5 188	5 371
Other equipment and fixtures	25 029	25 180	1 600	1 609
Accumulated depreciation	(47 327)	(46 774)	(3 025)	(2 989)
Fixed assets in-progress and advance payments on fixed assets	1 718	240	110	16
Total tangible assets	71 186	73 051	4 550	4 669
Purchased concessions, patents, licenses, etc.	345	331	22	21
Goodwill	(1 661)	(1 923)	(106)	(123)
Total intangible assets	(1 316)	(1 592)	(84)	(102)
Total non-current assets	178 793	156 817	11 427	10 023
TOTAL ASSETS	1 123 400	1 145 862	71 798	73 234

	EEK		EUR	
	31.03.04	31.12.03	31.03.04	31.12.03
LIABILITIES AND OWNERS' EQUITY				
Short-term loans and bonds	9 063	9 063	579	579
Current period long-term debt repayment	3 356	3 384	215	217
Total debt obligations	12 419	12 447	794	796
Customer prepayments	20 732	17 881	1 325	1 143
Accounts payable to suppliers	208 488	267 597	13 325	17 103
Payables to other companies of the Group	4 932	10 611	315	678
Payables to associate companies	9 723	11 148	622	712
Other short-term payables	3 745	2 440	239	157
Total other payables	18 400	24 199	1 176	1 547
Tax liabilities	12 909	21 352	825	1 365
incl. income tax	993	5 124	63	327
Payables to employees	20 777	20 100	1 328	1 285
Dividends payable	3	3	0	0
Interest payable	19	299	1	19
Other accrued expenses	1 276	693	82	44
Total accrued expenses	22 075	21 095	1 411	1 348
Provisions for construction warranty liability	5 507	5 191	352	332
Due to customers	270 914	281 537	17 314	17 992
Total current provisions	276 421	286 728	17 666	18 324
Total current liabilities	571 444	651 299	36 522	41 626
Loans, bonds and financial lease liabilities	15 565	16 399	995	1 048
Merchandise credit	7 065	7 092	451	453
Other long-term payables		2 440	0	156
Total other long-term payables	7 065	9 532	451	609
Total non-current liabilities	22 630	25 931	1 446	1 657
TOTAL LIABILITIES	594 074	677 230	37 968	43 283
Minority interests	5 721	4 809	365	307
OWNERS' EQUITY				
Share capital	88 500	88 500	5 656	5 656
Share premium	2 950	2 950	189	189
Mandatory legal reserve	8 850	8 850	566	566
Retained earnings	364 903	180 430	23 321	11 531
Net profit for fiscal year	59 221	184 473	3 785	11 790
Exchange rate differences	(819)	(1 380)	-52	(88)
TOTAL OWNERS' EQUITY	523 605	463 823	33 465	29 644
TOTAL LIABILITIES AND OWNERS' EQUITY	1 123 400	1 145 862	71 798	73 234

in thousand kroons and euros

STATEMENT OF CHANGES IN EQUITY
unaudited

EEK	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.02	88 500	2 950	8 850	174	200 343	300 817
Exchange rate differences	-	-	-	(310)	-	(310)
Net profit for fiscal year	-	-	-	-	28 165	28 165
Closing balance 31.03.03	88 500	2 950	8 850	(136)	228 508	328 672
Closing balance 31.12.03	88 500	2 950	8 850	(1 380)	364 903	463 823
Exchange rate differences	-	-	-	561	-	561
Net profit for fiscal year	-	-	-	-	59 221	59 221
Closing balance 31.03.04	88 500	2 950	8 850	(819)	424 124	523 605

EUR	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(20)	-	(20)
Net profit for fiscal year	-	-	-	-	1 800	1 800
Closing balance 31.03.03	5 656	189	566	(9)	14 604	21 006
Closing balance 31.12.03	5 656	189	566	(88)	23 321	29 644
Exchange rate differences	-	-	-	36	-	36
Net profit for fiscal year	-	-	-	-	3 785	3 785
Closing balance 31.03.04	5 656	189	566	(52)	27 106	33 465

The share capital of AS Merko Ehitus consists of 8 850 000 common shares which have a par value of EEK 10.

in thousand kroons and euros

CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2004 3 months	2003 3 months	2004 3 months	2003 3 months
Operating activities				
Operating profit	62 414	30 954	3 989	1 978
Adjustments:				
depreciation	3 320	2 839	212	181
(profit) loss from disposal of a unit	(11 651)	-	(745)	-
(profit) loss from disposals and liquidation of real estate investments	-	(299)	-	(19)
(profit) loss from disposals or liquidation of fixed assets	376	(2 411)	24	(154)
adjustments of revenues from construction contracts according to the percentage of completion method	5 530	58 288	354	3 725
reserve changes	(232)	972	(15)	62
Change in receivables and prepayments concerning operating activities	93 057	(166 820)	5 947	(10 662)
Change in inventories	(916)	66	(58)	4
Change in liabilities and prepayments concerning operating activities	(72 087)	20 362	(4 607)	1 302
Interests and other financial expenses paid	(746)	(1 319)	(48)	(84)
Company income tax paid	(30)	(181)	(2)	(11)
Net cash from operating activities	79 035	(57 549)	5 051	(3 678)
Investing activities				
Acquisition of subsidiary	(2 440)	-	(156)	-
Disposal of subsidiary	-	14	-	1
Disposal of associate companies	-	800	-	51
Disposal of unit	(1 600)	-	(102)	-
Acquisition of real estate investments	(12 815)	-	(819)	-
Acquisition of tangible assets	(2 574)	(12 797)	(164)	(818)
Disposal of tangible assets	470	2 087	30	133
Acquisition of intangible assets	(11)	-	(1)	-
Loans granted	(4 050)	(3 903)	(259)	(249)
Granted loan payments received	3	8 176	0	523
Interests received	1 213	943	78	60
Dividends received	1 679	-	107	-
Net cash used in investing activities	(20 125)	(4 680)	(1 286)	(299)
Financing activities				
Loans drawn	12	35 496	1	2 269
Repayments of loans	-	(2 361)	-	(151)
Repayments of finance lease liabilities	(832)	(355)	(53)	(23)
Share issue	105	-	6	-
Net cash used in financing activities	(715)	32 780	(46)	2 095
Total cash flow	58 195	(29 449)	3 719	(1 882)
Cash and cash equivalent at the beginning of the period	240 152	96 310	15 348	6 155
Change in cash and cash equivalents	58 195	(29 449)	3 719	(1 882)
Effects of exchange rate differences	410	625	27	40
Cash and cash equivalent at the end of the period	298 757	67 486	19 094	4 313

NOTES

Note 1 Segment information

Business segments

2004 3 months	Construc- tion	Road- construc- tion	Production of concrete	Construc- tion of networks	Group
Sales	760 368	9 793	-	-	770 161
Operating profit of the business segment	53 428	8 986	-	-	62 414
Financial items					(1 712)
incl. profit (loss) from associate companies	(32)	-	36	78	82
Profit before taxes					60 702
Income tax					(974)
Net profit for the Group					59 728
Minority interest					(507)
Net profit					59 221
Segment assets	999 360	72 795	-	-	1 072 155
Associate companies	1 112	3 096	10 934	8 301	23 443
Unallocated assets					27 802
Consolidated total assets					1 123 400
Segment liabilities	543 352	28 750	-	-	572 102
Unallocated liabilities					21 972
Consolidated total liabilities					594 074
Acquisition of real estate investm.	12 815	-	-	-	12 815
Acquisition of tangible and intangible assets	962	1 623	-	-	2 585
Depreciation	1 154	2 166	-	-	3 320

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

Geographical segments

	Sales	Total assets	Acquisition of real estate investments	Acquisition of fixed assets
Estonia	653 831	879 634	12 815	2 170
Lithuania	83 236	133 151	-	415
Latvia	33 094	110 615	-	-
Total	<u>770 161</u>	<u>1 123 400</u>	<u>12 815</u>	<u>2 585</u>

Sales revenue is based on the country in which the customer is located; the assets are reported basing on the geographic location of the assets.

Note 2 Earnings (loss) per share

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

	2004 3 months
Net profit attributable to shareholders (in thousand kroons)	59 221
Weighted average number of ordinary shares (thousand items)	8 850
Basic net earnings per share (in kroons)	<u>6,69</u>

There have been no potential ordinary shares, wherefore the diluted net earnings per share equals the basic net earnings per share.