

AS MERKO EHITUS  
GROUP

Consolidated interim report 3M 2005

## COMMENTARY TO 3M 2005 FINANCIAL RESULTS

Merko Ehitus group 3M 2005 consolidated and unaudited net sales amounted to 626 million kroons (40 million euros) and net profit was 66.8 million kroons (4.3 million euros) incl. 54.8 million kroons which was gained from general business activities and 12 million kroons from the disposal of surplus real estate, which was sold in order to achieve the strategic aims of the company.

Compared to the same period in the previous year Group's turnover decreased by 18.7 percent and profit increased by 12.8 percent.

Companies of the Group 3M 2005 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				
<b>Construction</b>				
AS Merko Ehitus	374 546	23 938	374 546	23 938
AS Gustaf (100% partnership)	14 712	940	13 861	886
OÜ Gustaf Tallinn (80% partnership)	27 427	1 753	27 427	1 753
AS Merko Tartu (66% partnership)	30 822	1 970	27 842	1 779
Tallinna Teede AS (100% partnership)	11 228	718	10 969	701
<b>Construction</b>				
AS Normanni Linnagrupp (50% partnership)	3 186	204	-	-
<b>Production of concrete</b>				
AS Tartu Maja Betoontooted (25% partnership)	39 403	2 518	-	-
<b>Communication networks</b>				
AS Telegrupp (45% partnership)	11 021	704	-	-
Latvian companies				
<b>Construction</b>				
SIA Merks (100% partnership)	110 564	7 066	110 564	7 066
Lithuanian companies				
<b>Construction</b>				
UAB Merko Statyba (100% partnership)	35 482	2 268	35 482	2 268

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

	2005 3 months	2004 3 months
Net profit margin	8,8 % *	6,2 % *
Operating profit margin	9,4 %	8,1 %
Return on equity (per year)	35,6 %	48,0 %
Return on assets (per year)	20,3 %	20,9 %
Current ratio	2,0	1,7
Equity-to-assets ratio	56,8 %	46,6 %
The share of general expenses in sales	4,8 %	2,5 %
The share of labor costs in sales	7,8 %	5,1 %

\* 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

The share of general expenses in sales: General expenses / Sales

The share of labor costs in sales: Labor costs / Sales

\* calculated from the share of the parent company's shareholders

Year 2005 3M interim consolidated and unaudited income statement and balance sheet are compiled in accordance with the principles of the International Financial Reporting Standards (IFRS).

**CONSOLIDATED INCOME STATEMENT**  
unaudited

	Note	EEK		EUR	
		2005 3 months	2004 3 months	2005 3 months	2004 3 months
Sales	1	626 023	770 161	40 010	49 222
Sales costs		(533 911)	(700 058)	(34 123)	(44 742)
<b>Gross profit</b>		92 112	70 103	5 887	4 480
Marketing expenses		(5 210)	(3 386)	(333)	(216)
Administrative expenses		(27 365)	(16 212)	(1 749)	(1 036)
Other operating income		305	12 522	19	800
Other operating expenses		(786)	(613)	(50)	(39)
<b>Operating profit</b>		59 056	62 414	3 774	3 989
Financial income and expenses		8 953	(1 712)	572	(109)
incl. financial income (expenses) from investments in subsidiaries		-	(299)	-	(19)
financial income (expenses) from investments in associate companies		6 931	82	443	5
financial income and expenses from other long-term financial investments		110	-	7	-
interest expense		(381)	(444)	(24)	(28)
foreign exchange gain		760	579	49	37
other financial income and expenses		1 533	(1 630)	98	(104)
<b>Profit before taxes</b>		68 009	60 702	4 346	3 880
Income tax		(327)	(974)	(21)	(63)
<b>Net profit for current period</b>		67 682	59 728	4 325	3 817
incl. net profit attributable to parent company		66 830	59 221	4 271	3 785
net profit attributable to minority shareholders		852	507	54	32
Parent company's net profit per share (basic and diluted, in EEK and EUR)	2	7,55	6,69	0,48	0,43

in thousand kroons and euros

**CONSOLIDATED BALANCE SHEET**  
unaudited

	EEK		EUR	
	31.03.05	31.12.04	31.03.05	31.12.04
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	86 405	141 812	5 522	9 063
Short-term financial investments	45	11 775	3	753
Receivables and prepayments				
Accounts receivable	335 099	256 834	21 417	16 415
Prepaid taxes and tax refund	24 674	17 859	1 577	1 141
Due from customers	149 419	117 180	9 550	7 489
Other short-term receivables	103 675	78 117	6 626	4 993
Prepayments for services	34 739	29 175	2 220	1 865
	<u>647 606</u>	<u>499 165</u>	<u>41 390</u>	<u>31 903</u>
Inventories				
Raw materials	1 336	1 506	85	96
Work-in-progress	28 573	29 738	1 826	1 901
Finished goods	4 073	1 209	260	77
Merchandise purchased for resale	345 198	279 896	22 062	17 889
Prepayments for inventories	5 524	38 983	353	2 491
	<u>384 704</u>	<u>351 332</u>	<u>24 586</u>	<u>22 454</u>
<b>Total current assets</b>	<u>1 118 760</u>	<u>1 004 084</u>	<u>71 501</u>	<u>64 173</u>
<b>Non-current assets</b>				
Long-term financial investments				
Shares in associated companies	35 579	35 446	2 274	2 265
Other shares and securities	10	-	1	-
Long-term receivables	23 053	19 992	1 473	1 278
	<u>58 642</u>	<u>55 438</u>	<u>3 748</u>	<u>3 543</u>
Real estate investments				
Land	43 861	56 920	2 803	3 638
Buildings	2 967	3 042	190	195
Prepayments for real estate investments	1 427	1 427	91	91
	<u>48 255</u>	<u>61 389</u>	<u>3 084</u>	<u>3 924</u>
Tangible assets				
Land	145	145	9	9
Buildings	16 660	4 471	1 065	286
Ground lease	388	391	25	25
Plant and equipment	46 384	47 886	2 964	3 060
Other tangible assets	16 397	15 589	1 048	996
Buildings in process and prepayments	71 012	63 283	4 538	4 045
Prepayments for tangible assets	519	-	33	-
	<u>151 505</u>	<u>131 765</u>	<u>9 683</u>	<u>8 421</u>
Intangible assets				
Goodwill	-	(706)	-	(45)
Development expenses	10	13	1	1
Other intangible assets	628	580	40	37
Prepayments for intangible assets	1 533	1 223	98	78
	<u>2 171</u>	<u>1 110</u>	<u>139</u>	<u>71</u>
<b>Total non-currents assets</b>	<u>260 573</u>	<u>249 702</u>	<u>16 654</u>	<u>15 959</u>
<b>TOTAL ASSETS</b>	<u>1 379 333</u>	<u>1 253 786</u>	<u>88 155</u>	<u>80 132</u>

	EEK		EUR	
	31.03.05	31.12.04	31.03.05	31.12.04
<b>LIABILITIES AND OWNERS' EQUITY</b>				
<b>Current liabilities</b>				
Raised loans				
Short-term loans and bonds	11 854	7 722	758	494
Long-term loans payable in the following period	4 518	4 856	289	310
	<u>16 372</u>	<u>12 578</u>	<u>1 047</u>	<u>804</u>
Liabilities and prepayments				
Accounts payable to suppliers	202 104	211 034	12 917	13 487
Payables to employees	35 148	30 630	2 246	1 958
Tax liabilities	24 362	11 429	1 557	730
Due to customers	157 190	153 974	10 046	9 841
Other payables	10 615	14 298	678	914
Received prepayments	114 532	66 805	7 320	4 270
	<u>543 951</u>	<u>488 170</u>	<u>34 764</u>	<u>31 200</u>
Current provisions				
Provisions to construction warranty liability	5 337	5 027	341	321
Other current provisions	-	757	-	48
	<u>5 337</u>	<u>5 784</u>	<u>341</u>	<u>369</u>
<b>Total current liabilities</b>	<u>565 660</u>	<u>506 532</u>	<u>36 152</u>	<u>32 373</u>
<b>Non-current liabilities</b>				
Loans, bonds and finance lease liabilities	14 012	14 046	896	898
Other long-term payables	8 060	8 038	515	514
<b>Total non-current liabilities</b>	<u>22 072</u>	<u>22 084</u>	<u>1 411</u>	<u>1 412</u>
<b>Total liabilities</b>	<u>587 732</u>	<u>528 616</u>	<u>37 563</u>	<u>33 785</u>
<b>Owners' equity</b>				
Minority interests	7 452	7 200	476	460
Equity attributable to parent company's shareholders				
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
Other reserves	(5 314)	(4 663)	(340)	(298)
Undistributed profit	689 163	622 333	44 045	39 774
	<u>784 149</u>	<u>717 970</u>	<u>50 116</u>	<u>45 887</u>
<b>Total owners' equity</b>	<u>791 601</u>	<u>725 170</u>	<u>50 592</u>	<u>46 347</u>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<u>1 379 333</u>	<u>1 253 786</u>	<u>88 155</u>	<u>80 132</u>

**STATEMENT OF CHANGES IN EQUITY**  
unaudited

EEK	Profit attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Mandatory reserve	Other reserves	Undistributed profit	Total		
<b>Closing balance</b>								
<b>31.12.2003</b>	88 500	2 950	8 850	(1 380)	364 903	463 823	4 809	468 632
Exchange rate differences	-	-	-	561	-	561	-	561
Net profit for current period	-	-	-	-	59 221	59 221	507	59 728
Dividends	-	-	-	-	-	-	405	405
<b>Closing balance</b>								
<b>31.03.2004</b>	88 500	2 950	8 850	(819)	424 124	523 605	5 721	529 326
<b>Closing balance</b>								
<b>31.12.2004</b>	88 500	2 950	8 850	(4 663)	622 333	717 970	7 200	725 170
Exchange rate differences	-	-	-	(651)	-	(651)	-	(651)
Net profit for current period	-	-	-	-	66 830	66 830	852	67 682
Dividends	-	-	-	-	-	-	(600)	(600)
<b>Closing balance</b>								
<b>31.03.2005</b>	88 500	2 950	8 850	(5 314)	689 163	784 149	7 452	791 601

EUR	Profit attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Mandatory reserve	Other reserves	Undistributed profit	Total		
<b>Closing balance</b>								
<b>31.12.2003</b>	5 656	189	566	(88)	23 321	29 644	307	29 951
Exchange rate differences	-	-	-	36	-	36	-	36
Net profit for current period	-	-	-	-	3 785	3 785	32	3 817
Business combinations	-	-	-	-	-	-	26	26
<b>Closing balance</b>								
<b>31.03.2004</b>	5 656	189	566	(52)	27 106	33 465	365	33 830
<b>Closing balance</b>								
<b>31.12.2004</b>	5 656	189	566	(298)	39 774	45 887	460	46 347
Exchange rate differences	-	-	-	(42)	-	(42)	-	(42)
Net profit for current period	-	-	-	-	4 271	4 271	54	4 325
Dividends	-	-	-	-	-	-	(38)	(38)
<b>Closing balance</b>								
<b>31.03.2005</b>	5 656	189	566	(340)	44 045	50 116	476	50 592

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	
	2005	2004	2005	2004
	3 months	3 months	3 months	3 months
<b>Net cash from operating activities</b>				
Operating profit	59 056	62 414	3 774	3 989
Adjustments:				
depreciation and amortisation	3 074	4 047	196	259
(profit) loss from disposals of fixed assets	(197)	(351)	(13)	(22)
(profit) loss from disposal of units	-	(11 651)	-	(745)
adjustments of revenues from construction contracts according to the percentage of completion method	(29 000)	5 530	(1 853)	353
changes in provisions	1 396	(232)	89	(15)
Change in receivables and prepayments concerning operating activities	(60 858)	93 057	(3 890)	5 947
Change in inventories	(17 869)	(916)	(1 142)	(58)
Change in liabilities and prepayments concerning operating activities	35 350	(72 087)	2 259	(4 607)
Interests and other financial expenses paid	(499)	(746)	(32)	(48)
Paid company income tax	(1 164)	(30)	(74)	(2)
	<u>(10 711)</u>	<u>79 035</u>	<u>(686)</u>	<u>5 051</u>
<b>Net cash spent in investing activities</b>				
Acquisition of subsidiary	-	(2 440)	-	(156)
Mergence of subsidiary	(1 830)	-	(117)	-
Acquisition of other financial investments	(10)	-	(1)	-
Acquisition of real estate investments	-	(12 815)	-	(819)
Acquisition of tangible assets	(23 660)	(2 574)	(1 512)	(164)
Disposal of tangible assets	698	470	45	30
Acquisition of intangible assets	(421)	(11)	(27)	(1)
Disposal of units	-	(1 600)	-	(102)
Granted loans	(50 389)	(4 050)	(3 220)	(259)
Received loan payments	21 044	3	1 345	0
Received interests	923	1 213	59	78
Received dividends	1 823	1 679	117	107
	<u>(51 822)</u>	<u>(20 125)</u>	<u>(3 311)</u>	<u>(1 286)</u>
<b>Net cash spent in financing activities</b>				
Loans drawn	9 359	12	598	1
Repayments of loans	(781)	-	(50)	-
Repayments of finance lease liabilities	(881)	(832)	(56)	(53)
Received from share issue	-	105	-	6
	<u>7 697</u>	<u>(715)</u>	<u>492</u>	<u>(46)</u>
<b>Change in cash and cash equivalents</b>	(54 836)	58 195	(3 505)	3 719
Cash and cash equivalent at the beginning of the period	141 812	240 152	9 063	15 348
Effects of exchange rate differences	(571)	410	(36)	27
<b>Cash and cash equivalent at the end of the period</b>	<u>86 405</u>	<u>298 757</u>	<u>5 522</u>	<u>19 094</u>

**NOTES**

**Note 1**

**Business- and geographical segments**

**Business segments**

<b>2005 3 months</b>	<b>Construc- tion</b>	<b>Road construction</b>	<b>Production of concrete</b>	<b>Construc- tion of networks</b>	<b>Group</b>
Sales	614 795	11 228	-	-	626 023
Operating profit of the business segment	61 328	(2 272)	-	-	59 056
Financial items					8 953
incl. profit (loss) from associate companies	5 955	-	1 695	(719)	6 931
Profit before taxes					68 009
Income tax					(327)
Net profit for the Group					67 682
Net profit attributable to parent company					66 830
Net profit attributable to minority shareholders					852
Segment assets	1 223 169	72 849	-	-	1 296 018
Associate companies	10 252	3 627	17 837	3 863	35 579
Unallocated assets					47 736
Consolidated total assets					1 379 333
Segment liabilities	501 874	31 111	-	-	532 985
Unallocated liabilities					54 747
Consolidated total liabilities					587 732
Acquisition of tangible and intangible assets	21 844	12 590	-	-	34 434
Depreciation and amortisation	1 871	1 203	-	-	3 074

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

**Geographical segments**

	<b>Sales</b>	<b>Total assets</b>	<b>Acquisition of fixed assets</b>
Estonia	479 977	945 187	14 163
Latvia	110 564	312 669	20 271
Lithuania	35 482	121 477	-
<b>Total</b>	626 023	1 379 333	34 434

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.



*in thousand kroons*

**Note 2**

**Earnings (loss) per share**

Ordinary net profit (-loss) per share is calculated on the basis of the relation between the net profit (-loss) attributed to parent company's shareholders and the weighted average number of ordinary shares excluding the shareholder's share.

	<b>2005 3 months</b>
Net profit attributable to parent company's shareholders	66 830
Weighted average number of ordinary shares (thousand items)	8 850
<b>Basic net earnings per share</b> (in kroons)	<u>7,55</u>

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