

AS MERKO EHITUS
GROUP

Consolidated interim report 9M 2000

COMMENTARY TO 9M 2000 FINANCIAL RESULTS

The 9m 2000 unaudited and consolidated net sales of Merko Ehitus group amounted to EEK 910 million, and net profit was EEK 39.7 million. The respective figures year ago were net sales of EEK 523.9 million and net profit of EEK 18.7 million (excluding extraordinary financial expense EEK 56.2 million from spinoff of E.L.L. Kinnisvara).

The consolidated financial results of Merko Ehitus group include the results of parent company AS Merko Ehitus, and its 100% subsidiaries SIA Merks (project management and construction) in Latvia, UAB Merko Statyba (project management and construction) in Lithuania, and Gustaf (construction), and 66% holding in subsidiary Merko Tartu (construction), and 65% holding in subsidiary Matek (production of small houses and timber construction).

In addition to the subsidiaries, the financial results of Merko Ehitus group also include the results of the affiliated enterprises Normanni Linnagrupi AS (project management, 50% holding) and Insenerivõrgud (engineering, 50% holding) and Tartu Maja Betoontooted (production of concrete, 25% holding).

Financial ratios illustrating the activities of Merko Ehitus group in 9m 2000 were:

	9m 2000	9m 1999
Net profit margin	4.4%	3.6%*
Operating profit margin	4.0%	7.2%*
Return on equity (annual)	43.6%	19.0%*
Return on assets (annual)	14.5%	8.2%*
Current ratio	1.3	1.7
Invoice turnover (annual)	7.0	12.6
Equity-to-assets ratio	29.8%	47.9%

* excluding one-off financial expense EEK 56.2 million from spinoff of E.L.L. Kinnisvara

Net profit margin: net profit / net sales

Operating profit margin: operating profit / net sales

Return on equity (annual): (net profit * 4/3) / average equity during the period

Return on assets (annual): (net profit * 4/3) / average assets during the period

Current ratio: current assets / current liabilities

Invoice turnover (annual): (net sales * 4/3) / accounts receivable

Equity-to-assets ratio: owners equity / total assets

The 9m 2000 consolidated income statement and balance sheet are compiled in accordance with the principles of the International Accounting Standards (IAS), and correspond with the Estonian legal acts regulating the accounting principles used.

CONSOLIDATED INCOME STATEMENT

unaudited, in thousand EEK

	Note	9M 2000	9M 1999
Sales	1	910 004	523 930
Cost of sales		850 448	454 985
Gross profit		59 556	68 945
Marketing expenses		6 230	7 697
Administrative expenses		19 200	20 983
Other operating income		6 308	5 426
Other operating expenses		3 841	8 011
Operating profit		36 593	37 680
Financial income from stocks of subsidiary companies		-	12
Financial income from stocks of associated companies		717	2 706
Income from other noncurrent financial investments		1 051	-
Foreign exchange gain		2 881	711
Other interest and similar income		2 645	3 122
Total financial income		7 294	6 551
Financial expenses related to subsidiary companies		-	11 339
Financial expenses related to associated companies		741	146
Interest expense		539	1 589
Foreign exchange loss		1 649	289
Other financial expenses		394	56 534 *
Total financial expenses		3 323	69 897 *
Profit (- loss) from ordinary activities		40 564	-25 666 *
Profit (loss-) before taxes		40 564	-25 666 *
Income tax		-	12 214
Deferred income tax		-	-373
Net profit (- loss) for the financial year		40 564	-37 507 *
Minority interest		833	8
Net profit (- loss) for the group		39 731	-37 515 *
Net profit (- loss) per share (basic and diluted, in EEK)	2	4,49	-4,24 *

* Includes the one-off financial expense of 56 238 thousand EEK due to the spin-off of E.L.L. Kinnisvara

Net profit of 9m 1999 of Merko Ehitus group, without one-off financial expense of 56 238 thousand EEK due to the spin-off of E.L.L. Kinnisvara, was 18 723 thousand EEK.

CONSOLIDATED BALANCE SHEET
unaudited, in thousand EEK

	30.09.00	31.12.99
ASSETS		
Cash and cash equivalents	39 306	25 239
Marketable securities	77 725	27 699
Accounts receivable	172 660	87 734
Allowance for doubtful receivables	-274	-124
Total accounts receivable	172 386	87 610
Receivables from subsidiary and parent companies	1 735	1 735
Receivables from associated companies	2 506	1 222
Other short-term receivables	68 491	37 697
Total other receivables	72 732	40 654
Interest receivable	510	467
Dividends receivable	-	218
Other accrued income	118	945
Total accrued income	628	1 630
Prepaid taxes	3 178	2 587
Other prepaid expenses	14 663	10 307
Total prepaid expenses	17 841	12 894
Raw materials	2 743	2 535
Work-in-progress	171	-
Finished goods	1 471	1 133
Merchandise purchased for resale	3 283	3 327
Prepayments to suppliers	7 375	1 550
Total inventories	15 043	8 545
Total current assets	395 661	204 271
Shares in associated companies	5 308	11 207
Other shares, holdings and debt securities	700	115
Miscellaneous long-term receivables	5 238	4 028
Total long-term financial assets	11 246	15 350
Land and buildings	49 328	46 904
Ground lease	1 603	1 603
Plant and equipment	14 694	12 988
Other equipment and fixtures	7 459	6 854
Accumulated depreciation	-21 069	-16 138
Self-constructed physical assets under construction	177	110
Prepayments for noncurrent physical assets	120	
Total noncurrent physical assets	52 312	52 321
Purchased concessions, patents, licenses, etc.	48	9
Goodwill	862	1 206
Total intangible assets	910	1 215
Total non-current assets	64 468	68 886
TOTAL ASSETS	460 129	273 157

	30.09.00	31.12.99
LIABILITIES AND OWNERS' EQUITY		
Debentures (except bank loans)	5 706	6 107
Short-term loans from financial institutions	633	2 035
Total debt obligations	6 339	8 142
Customer prepayments	77 853	43 109
Accounts payable to suppliers	136 818	52 526
Payables to subsidiary and parent companies	-	48
Payables to associated companies	-	398
Total other payables	-	446
Tax liabilities	4 674	5 318
Payables to employees	6 579	5 572
Interests payable	-	9
Other accrued expenses	7 993	11 433
Total accrued expenses	14 572	17 014
Provisions for construction warranty liability	1 347	1 310
Due to customers for contract work	70 961	29 485
Total current liabilities	312 564	157 350
Non-convertible debt	6 854	6 854
Total non-current liabilities	6 854	6 854
TOTAL LIABILITIES	319 418	164 204
Minority interests	3 672	2 839
OWNERS' EQUITY		
Share capital	88 500	88 500
Share premium	2 950	2 950
Mandatory legal reserve	4 875	4 875
Retained earnings	6	47 717
Net profit (- loss) for the financial year	39 731	-39 746
Exchange rate differences	977	1 818
TOTAL OWNERS' EQUITY	137 039	106 114
TOTAL LIABILITIES AND OWNERS' EQUITY	460 129	273 157

STATEMENT OF CHANGES IN EQUITY

unaudited, in thousand EEK

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.98	88 500	2 950	2 950	4	58 753	153 157
Exchange rate differences	-	-	-	948	-	948
Net profit (- loss) for the financial year	-	-	-	-	-37 515	-37 515
Dividends	-	-	-	-	-7 523	-7 523
Change in reserve capital	-	-	1 925	-	-1 925	-
Closing balance 30.09.99	88 500	2 950	4 875	952	11 790	109 067
Closing balance 31.12.99	88 500	2 950	4 875	1 818	7 971	106 114
Exchange rate differences	-	-	-	-841	-	-841
Net profit (- loss) for the financial year	-	-	-	-	39 731	39 731
Dividends	-	-	-	-	-7 965	-
Closing balance 30.09.00	88 500	2 950	4 875	977	39 737	137 039

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

CASH FLOW STATEMENT
 unaudited, in thousand EEK

9M 2000

Operating activities	
Profit from ordinary activities	40 564
Depreciation	5 689
Other adjustments *	1 324
Operating profit before working capital changes	47 577
Working capital changes	
Marketable securities	-44 728
Receivables	-78 838
Accrued income	827
Prepaid expenses	-4 915
Inventories	-6 201
Customer prepayments	32 059
Accounts payable to suppliers	70 409
Other liabilities	14 983
Tax liabilities	-588
Accrued liabilities	1 020
Cash generated from operations	31 605
Interests	
Interests received	2 272
Interests paid	-521
Dividends	
Dividends received	229
Company income tax	
Income tax paid for the previous fiscal year	-49
Net cash from operating activities	33 536
Investing activities	
Acquisition of other long-term investments	-600
Disposal of other long-term investments	21
Long-term loans made	-3 507
Loan payments received	1 603
Purchase of property, plant and equipment	-4 767
Sale of property, plant and equipment	236
Net cash used in investing activities	-6 987
Financing activities	
Proceeds from borrowings	5 706
Used overdraft	-1 402
Repayments of borrowings	-5 744
Repayments of finance lease liabilities	-74
Dividends paid	-7 965
Net cash used in financing activities	-9 479
Total cash flow	17 070
Net increase/decrease in cash and cash equivalents	17 070
Cash and cash equivalents at the beginning of the period	25 219
Effects of exchange rate differences	2 017
Cash and cash equivalents at the end of the period	44 306

*** Other adjustments**

Adjustments of revenues from construction contracts according to the percentage of completion method	6 089
Warranty reserve changes	137
Vacation reserve changes	80
Profit or loss from disposals or liquidation of property, plant and equipment	-38
Profit or loss from long-term investments	-1 026
Value adjustments of marketable securities	-298
Foreign exchange profit or loss	-1 803
Interest income	-2 170
Interest expense	364
Dividends received	-11
Total other adjustments	1 324

NOTES

Note 1

Segment information

Business segments

9M 2000 in thousand EEK	Building	Timber structures	Other	Group
Sales	866 064	43 940	-	910 004
Operating profit of the business segment	35 432	1 161	-	<u>36 593</u>
Financial items				3 971
incl. profit from associate companies	-741	-	717	-24
Net profit (- loss) for the financial year				40 564
Minority interest				833
Net profit (- loss) for the group				<u>39 731</u>
Segment assets	433 458	15 426	-	448 884
Associate companies	3 604	-	1 704	5 308
Unallocated assets				5 937
Consolidated total assets				<u>460 129</u>
Segment liabilities	304 255	10 490	-	314 745
Unallocated liabilities				4 674
Consolidated total liabilities				<u>319 419</u>
Acquisition of property, plant and equipment and intangible assets	4 403	364	-	4 767
Depreciation	5 308	381	-	5 689

Other segments are manufacturing of concrete products and funding of projects and consultations. Neither of the above is important enough to be reported as a separate business segment.

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

Geographical segments

	Sale	Total assets	Acquisition of tangible fixed assets
Estonia	714 521	360 894	1 620
Latvia	93 507	57 551	2 444
Lithuania	66 130	41 684	703
Germany	15 072	-	-
Sweden	9 130	-	-
Norway	6 345	-	-
Russia	3 025	-	-
Austria	1 622	-	-
France	639	-	-
Iceland	13	-	-
Total	<u>910 004</u>	<u>460 129</u>	<u>4 767</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.

in thousand EEK	9M 2000
Net profit (loss) attributable to shareholders	39 731
Weighted average number of ordinary shares	8 850
Basic net earnings (loss) per share (in EEK)	4,49