

AS MERKO EHITUS
GROUP

Consolidated interim report 12M 2000

COMMENTARY TO 12M 2000 FINANCIAL RESULTS

Year 2000 unaudited and consolidated net sales of Merko Ehitus group amounted to 1420 million EEK, and net profit was 66.6 million EEK. The respective figures year ago were net sales of 734 million EEK and net profit, excluding the one-off financial expense of 56.2 million EEK, incurred by the spin-off of E.L.L. Kinnisvara, was 16.5 million EEK.

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 structures for small houses).

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

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

| | 2000 a. | 1999 a. |
|-----------------------------|---------|---------|
| Net profit margin | 4,7% | 2,2%* |
| Operating profit margin | 4,6% | 3,2% |
| Return on equity (per year) | 49,4% | 12,6%* |
| Return on assets (per year) | 17,7% | 5,0%* |
| Current ratio | 1,3 | 1,3 |
| Invoice turnover (per year) | 7,0 | 8,4 |
| Equity-to-assets ratio | 34% | 39% |

* excluding the one-off financial expense of 56.2 million EEK, incurred by the spin-off of E.L.L. Kinnisvara

Net profit margin: net profit / net sales

Gross profit margin: gross profit / net sales

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

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

Current ratio: current assets / current liabilities

Invoice turnover (annual): net sales / accounts receivable

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

Year 2000 consolidated and unaudited 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.

Unfinished construction contracts are presented in the balance sheet according to the Standard of "Accounting for long-term construction contracts" of the Estonian Accounting Board, which came into effect in year 2000. In order to ensure the comparability, the figures of unfinished construction contracts of 1999 are presented on the same balance sheet rows.

The following corrections have been made: The figure shown on the row "Due from customers" was in the 1999 balance sheet under the "Other current receivables". The figure shown on the row "Due to customers" was in the 1999 balance sheet under the "Due to customers for contract work". The figure shown on the row "Construction-in-progress" was in the 1999 balance sheet under the "Other prepaid expenses"

CONSOLIDATED INCOME STATEMENT

unaudited, in thousand EEK

| | Note | 2000 | 1999 |
|--|------|-----------|-----------|
| Sales | 1 | 1 420 469 | 733 657 |
| Cost of sales | | 1 319 713 | 669 652 |
| Gross profit | | 100 756 | 64 005 |
| Marketing expenses | | 9 875 | 10 576 |
| Administrative expenses | | 27 428 | 28 498 |
| Other operating income | | 7 868 | 5 790 |
| Other operating expenses | | 5 407 | 7 405 |
| Operating profit | | 65 914 | 23 316 |
| Financial income from stocks of subsidiary companies | | - | 12 |
| Financial income from stocks of associated companies | | 1 001 | 1 637 |
| Income from other noncurrent financial investments | | 1 051 | - |
| Foreign exchange gain | | 3 815 | 1 277 |
| Other interest and similar income | | 3 917 | 5 279 |
| Total financial income | | 9 784 | 8 205 |
| Financial expenses related to subsidiary companies | | - | 67 577 * |
| Financial expenses related to associated companies | | 1 064 | 141 |
| Interest expense | | 716 | 1 693 |
| Foreign exchange loss | | 3 829 | 1 498 |
| Value adjustments to financial assets | | 100 | - |
| Other financial expenses | | 447 | 345 |
| Total financial expenses | | 6 156 | 71 254 * |
| Profit (- loss) from ordinary activities | | 69 542 | -39 733 * |
| Profit (loss-) before taxes | | 69 542 | -39 733 * |
| Income tax | | 1 341 | 1 314 |
| Deferred income tax | | 442 | -1 484 |
| Net profit (- loss) for the financial year | | 67 759 | -39 563 * |
| Minority interest | | 1 164 | 183 |
| Net profit (- loss) for the group | | 66 595 | -39 746 * |
| Net profit (- loss) per share (basic and diluted, in EEK) | 2 | 7,52 | -4,49 * |

* The 1999 income statement includes the one-off financial expense of 56 238 thousand EEK due to the spin-off of E.L.L. Kinnisvara. Net profit of Merko Ehitus group for 1999, without the mentioned one-off financial expense was 16 492 thousand EEK.

** Basic net earnings per share for 1999, without the one-off financial expense of 56 238 thousand EEK due to the spin-off of E.L.L. Kinnisvara, was EEK 1,86.

CONSOLIDATED BALANCE SHEET

unaudited, in thousand EEK

| | 31.12.00 | 31.12.99 |
|---|-----------------|-----------------|
| ASSETS | | |
| Cash and cash equivalents | 42 294 | 25 239 |
| Marketable securities | 95 042 | 27 699 |
| Accounts receivable | 203 327 | 87 734 |
| Allowance for doubtful receivables | -506 | -124 |
| Total accounts receivable | 202 821 | 87 610 |
| Receivables from subsidiary and parent companies | 1 735 | 1 735 |
| Receivables from associated companies | 3 029 | 1 222 |
| Other short-term receivables | 18 423 | 14 276 |
| Total other receivables | 23 187 | 17 233 |
| Interest receivable | 542 | 467 |
| Dividends receivable | - | 218 |
| Other accrued income | 6 | 945 |
| Total accrued income | 548 | 1 630 |
| Prepaid taxes | 2 546 | 2 587 |
| Other prepaid expenses | 781 | 4 293 |
| Total prepaid expenses | 3 327 | 6 880 |
| Raw materials | 2 516 | 2 535 |
| Work-in-progress | 598 | - |
| Finished goods | 1 781 | 1 133 |
| Merchandise purchased for resale | 8 112 | 3 327 |
| Prepayments to suppliers | 578 | 1 550 |
| Construction-in-progress | 10 464 | 6 014 |
| Due from customers | 26 516 | 23 421 |
| Total inventories | 50 565 | 37 980 |
| Total current assets | 417 784 | 204 271 |
| Shares in associated companies | 5 303 | 11 207 |
| Other shares, holdings and debt securities | 1 800 | 115 |
| Miscellaneous long-term receivables | 5 020 | 4 028 |
| Total long-term financial assets | 12 123 | 15 350 |
| Land and buildings | 41 740 | 46 904 |
| Ground lease | 1 603 | 1 603 |
| Plant and equipment | 13 841 | 12 988 |
| Other equipment and fixtures | 9 119 | 6 854 |
| Accumulated depreciation | -22 438 | -16 138 |
| Self-constructed physical assets under construction | - | 110 |
| Prepayments for noncurrent physical assets | 2 867 | - |
| Total noncurrent physical assets | 46 732 | 52 321 |
| Purchased concessions, patents, licenses, etc. | 31 | 9 |
| Goodwill | 747 | 1 206 |
| Total intangible assets | 778 | 1 215 |
| Total non-current assets | 59 633 | 68 886 |
| TOTAL ASSETS | 477 417 | 273 157 |

| | 31.12.00 | 31.12.99 |
|--|-----------------|-----------------|
| LIABILITIES AND OWNERS' EQUITY | | |
| Debentures (except bank loans) | 8 732 | 6 107 |
| Short-term loans from financial institutions | 159 | 2 035 |
| Total debt obligations | 8 891 | 8 142 |
| Customer prepayments | 31 313 | 43 109 |
| Accounts payable to suppliers | 150 957 | 52 526 |
| Payables to subsidiary and parent companies | - | 48 |
| Payables to associated companies | 1 337 | 398 |
| Total other payables | 1 337 | 446 |
| Tax liabilities | 11 846 | 5 318 |
| Payables to employees | 7 254 | 5 572 |
| Interests payable | - | 9 |
| Other accrued expenses | 372 | 11 433 |
| Total accrued expenses | 7 626 | 17 014 |
| Provisions for construction warranty liability | 2 710 | 1 310 |
| Due to customers | 94 773 | 29 485 |
| Other current provisions | 437 | - |
| Total current provisions | 97 920 | 30 795 |
| Other pre-paid revenue | 57 | - |
| Total current liabilities | 309 947 | 157 350 |
| Non-convertible debt | - | 6 854 |
| Total non-current liabilities | - | 6 854 |
| TOTAL LIABILITIES | 309 947 | 164 204 |
| Minority interests | 4 003 | 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 | 66 595 | -39 746 |
| Exchange rate differences | 541 | 1 818 |
| TOTAL OWNERS' EQUITY | 163 467 | 106 114 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | 477 417 | 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 | - | - | - | 1 814 | - | 1 814 |
| Balance of prepaied income tax on dividends | - | - | - | - | -1 589 | -1 589 |
| Net profit (- loss) for the financial year | - | - | - | - | -39 746 | -39 746 |
| Dividends | - | - | - | - | -7 522 | -7 522 |
| Change in reserve capital | - | - | 1 925 | - | -1 925 | - |
| Closing balance 31.12.99 | 88 500 | 2 950 | 4 875 | 1 818 | 7 971 | 106 114 |
| Exchange rate differences | - | - | - | -1 277 | - | -1 277 |
| Net profit (- loss) for the financial year | - | - | - | - | 66 595 | 66 595 |
| Dividends | - | - | - | - | -7 965 | -7 965 |
| Closing balance 31.12.00 | 88 500 | 2 950 | 4 875 | 541 | 66 601 | 163 467 |

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

| | 2000 | 1999 |
|---|----------------|----------------|
| Operating activities | | |
| Profit from ordinary activities | 69 542 | -39 733 |
| Depreciation | 7 833 | 6 249 |
| Other adjustments * | 59 611 | 42 333 |
| Operating profit before working capital changes | 136 986 | 8 849 |
| Working capital changes | | |
| Marketable securities | -67 146 | -16 531 |
| Receivables | -134 203 | 78 901 |
| Accrued income | 939 | 833 |
| Prepaid expenses | 2 368 | 1 069 |
| Inventories | -5 346 | -1 707 |
| Customer prepayments | -10 573 | 15 828 |
| Accounts payable to suppliers | 87 752 | -6 784 |
| Other liabilities | 11 452 | -59 593 |
| Tax liabilities | 5 520 | 3 022 |
| Accrued liabilities | 802 | 8 923 |
| Other pre-paid revenue | 57 | - |
| Cash generated from operations | 28 608 | 32 810 |
| Interests | | |
| Interests received | 3 474 | 4 086 |
| Interests paid | -646 | -2 086 |
| Dividends | | |
| Dividends received | 229 | 45 |
| Company income tax | | |
| Income tax paid for the previous fiscal year | 136 | 2 817 |
| Pre-paid income tax | -253 | -4 313 |
| Net cash from operating activities | 31 548 | 33 359 |
| Investing activities | | |
| Disposal of subsidiary | - | 18 842 |
| Acquisition of associates | -34 | -2 820 |
| Disposal of associate company | 5 875 | 3 824 |
| Acquisition of other long-term investments | -1 800 | - |
| Disposal of other long-term investments | 21 | 411 |
| Long-term loans made | -3 832 | -313 |
| Long-term loan payments received | 2 503 | 595 |
| Purchase of property, plant and equipment | -7 389 | -25 304 |
| Sale of property, plant and equipment | 2 273 | 8 315 |
| Net cash used in investing activities | -2 383 | 3 550 |
| Financing activities | | |
| Proceeds from borrowings | 6 796 | 8 444 |
| Repayments of borrowings | -11 735 | -26 841 |
| Repayments of finance lease liabilities | -78 | -154 |
| Dividends paid | -7 965 | -7 523 |
| Net cash used in financing activities | -12 982 | -26 074 |
| Total cash flow | 16 183 | 10 835 |
| Net increase/decrease in cash and cash equivalents | 16 183 | 10 835 |
| Cash and cash equivalents at the beginning of the period | 25 239 | 14 199 |
| Effects of exchange rate differences | 872 | 205 |
| Cash and cash equivalents at the end of the period | 42 294 | 25 239 |

*** Other adjustments**

| | | |
|--|---------------|---------------|
| Adjustments of revenues from construction contracts according to the percentage of completion method | 62 172 | -23 305 |
| Warranty reserve changes | 1 406 | -1 274 |
| Vacation reserve changes | 826 | -410 |
| Profit or loss from disposals or liquidation of property, plant and equipment | 1 | 3 034 |
| Profit or loss from long-term investments | -860 | 66 337 |
| Value adjustments of marketable securities | -199 | -180 |
| Foreign exchange profit or loss | -704 | 628 |
| Interest income | -3 736 | -4 384 |
| Interest expense | 716 | 1 886 |
| Dividends received | -11 | -45 |
| Long-term receivable classified as subsidiary | - | 46 |
| Total other adjustments | 59 611 | 42 333 |

NOTES

Note 1 Segment information

Business segments

| 2000 in thousand EEK | Building | Production of structures for small houses | Production of concrete | Group |
|---|-----------|--|---------------------------|-----------|
| Sales | 1 362 552 | 57 917 | - | 1 420 469 |
| Operating profit of the business segment | 64 290 | 1 624 | - | 65 914 |
| Financial items | | | | 3 628 |
| incl. profit from associate companies | -1 064 | - | 1 001 | -63 |
| Profit before tax | | | | 69 542 |
| Income tax | | | | 1 683 |
| Net profit (- loss) for the group | | | | 67 859 |
| Minority interest | | | | 1 164 |
| Net profit (- loss) for the financial year | | | | 66 695 |
| Segment assets | 453 005 | 12 229 | - | 465 234 |
| Associate companies | 3 315 | - | 1 988 | 5 303 |
| Unallocated assets | | | | 6 808 |
| Consolidated total assets | | | | 477 417 |
| Segment liabilities | 301 229 | 7 310 | - | 308 539 |
| Unallocated liabilities | | | | 1 311 |
| Consolidated total liabilities | | | | 309 850 |
| Acquisition of property, plant and equipment and intangible assets | 6 843 | 559 | - | 7 402 |
| Depreciation | 7 307 | 526 | - | 7 833 |

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 | 1 016 315 | 352 418 | 3 291 |
| Latvia | 129 612 | 29 368 | 2 645 |
| Lithuania | 226 471 | 95 631 | 1 466 |
| Germany | 22 769 | - | - |
| Sweden | 11 793 | - | - |
| Norway | 8 196 | - | - |
| Russia | 3 025 | - | - |
| Austria | 1 622 | - | - |
| France | 639 | - | - |
| Iceland | 13 | - | - |
| Denmark | 14 | - | - |
| Total | 1 420 469 | 477 417 | 7 402 |

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 | 2000 |
| Net profit (loss) attributable to shareholders | 66 595 |
| Weighted average number of ordinary shares | 8 850 |
| Basic net earnings (loss) per share (in EEK) | 7,52 |