

AS MERKO EHITUS  
GROUP

Consolidated interim report 6M 2004

## COMMENTARY TO 6M 2004 FINANCIAL RESULTS

Merko Ehitus group 6M 2004 consolidated and unaudited net sales amounted to EEK 1 498,6 million (EUR 95,8 million) and net profit was EEK 109,8 million (EUR 7,0 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 in first quarter from the disposal of a project managing unit of Tallinna Teede AS. Compared to the same period of previous year net sales increased by 38,5% and net profit 31,1% (without extraordinary profit).

Companies of the Group 6M 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				
<b>Construction</b>				
AS Merko Ehitus	1 052 600	67 273	1 052 353	67 258
AS Gustaf (100% partnership)	31 431	2 009	30 757	1 966
OÜ Gustaf Tallinn (80% partnership)	30 214	1 931	29 648	1 895
AS Merko Tartu (66% partnership)	36 009	2 301	25 356	1 621
Tallinna Teede AS (100% partnership)	59 500	3 803	52 921	3 382
<b>Construction</b>				
AS Normanni Linnagrupp(50% partnership)	64 347	4 113	-	-
<b>Production of concrete</b>				
AS Tartu Maja Betoontooted (25% partnership)	60 204	3 848	-	-
<b>Telecommunication networks</b>				
AS Telegrupp (45% partnership)	35 621	2 277	-	-
Latvian companies				
<b>Construction</b>				
SIA Merks (100% partnership)	206 763	13 215	206 763	13 215
Lithuanian companies				
<b>Construction</b>				
UAB Merko Statyba (100% partnership)	100 839	6 445	100 839	6 445

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

	2004 6 months	2003 6 months
Net profit margin	6,5 %*	6,9 %
Operating profit margin	7,3 %*	8,0 %
Return on equity (per year)	43,9 %	45,7 %
Return on assets (per year)	19,0 %	18,8 %
Current ratio	1,6	1,4
Equity-to-assets ratio	46,2 %	40,2 %

\*without extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit x 2 / Average equity during the period

Return on assets: Net profit x 2 / Average assets during the period

Current ratio: Current assets / Current liabilities

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

Year 2004 6M 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	
		2004 6 months	2003 6 months	2004 6 months	2003 6 months
Sales	1	1 498 636	1 082 075	95 780	69 157
Cost of sales		(1 344 732)	(960 336)	(85 944)	(61 377)
<b>Gross profit</b>		153 904	121 739	9 836	7 781
Marketing expenses		(7 770)	(7 664)	(497)	(490)
Administrative expenses		(36 926)	(31 743)	(2 360)	(2 029)
Other operating income		12 345	4 824	789	308
Other operating expenses		(997)	(848)	(64)	(54)
<b>Operating profit</b>		120 556	86 308	7 705	5 516
Financial income and expenses from stocks of subsidiaries		(299)	1	(19)	0
Financial income and expenses from stocks of associate companies		3 239	2 403	207	154
Financial income and expenses from other long-term financial investments		50	1 014	3	65
Interest expense		(869)	(688)	(56)	(44)
Foreign exchange gain		615	(2 398)	39	(153)
Other financial income and expenses		(3 723)	(4 003)	(238)	(256)
Total financial income and expenses		(987)	(3 671)	(63)	(235)
<b>Profit before taxes</b>		119 569	82 637	7 642	5 281
Income tax		(8 454)	(6 530)	(540)	(417)
Net profit for fiscal year		<u>111 115</u>	<u>76 107</u>	<u>7 102</u>	<u>4 864</u>
Minority interest		(1 316)	(1 265)	(84)	(81)
<b>Net profit for the group</b>		<u>109 799</u>	<u>74 842</u>	<u>7 017</u>	<u>4 783</u>
Net profit per share (basic and diluted, in kroons and euros)	2	12,41	8,46	0,79	0,54

**CONSOLIDATED INCOME STATEMENT**

unaudited

	EEK		EUR	
	2004 II quarter	2003 II quarter	2004 II quarter	2003 II quarter
Sales	728 475	614 697	46 558	39 286
Cost of sales	(644 674)	(539 685)	(41 202)	(34 492)
<b>Gross profit</b>	<b>83 801</b>	<b>75 012</b>	<b>5 356</b>	<b>4 794</b>
Marketing expenses	(4 384)	(4 099)	(280)	(262)
Administrative expenses	(20 714)	(16 632)	(1 324)	(1 063)
Other operating income	328	1 110	21	71
Other operating expenses	(890)	(37)	(57)	(2)
<b>Operating profit</b>	<b>58 141</b>	<b>55 354</b>	<b>3 716</b>	<b>3 538</b>
Financial income and expenses from stocks of associate companies	3 158	1 690	202	108
Financial income and expenses from other long-term financial investments	50	234	3	15
Interest expense	(425)	(543)	(27)	(35)
Foreign exchange gain	35	(962)	2	(61)
Other financial income and expenses	(2 093)	(1 614)	(134)	(103)
Total financial income and expenses	725	(1 195)	46	(76)
<b>Profit before taxes</b>	<b>58 866</b>	<b>54 159</b>	<b>3 762</b>	<b>3 461</b>
Income tax	(7 479)	(6 530)	(478)	(417)
Net profit for fiscal year	51 387	47 629	3 284	3 044
Minority interest	(809)	(952)	(52)	(61)
<b>Net profit for the group</b>	<b>50 578</b>	<b>46 677</b>	<b>3 233</b>	<b>2 983</b>
Net profit per share (basic and diluted, in kroons and euros)	5,72	5,27	0,37	0,34

*in thousand kroons and euros*

**CONSOLIDATED BALANCE SHEET**

unaudited

ASSETS	EEK		EUR	
	30.06.04	31.12.03	30.06.04	31.12.03
Cash and cash equivalents	289 308	240 152	18 490	15 348
Marketable securities	29 843	36 096	1 907	2 307
Accounts receivable	265 725	408 704	16 983	26 121
Allowance for doubtful receivables	(398)	(408)	(25)	(26)
Total accounts receivable	265 327	408 296	16 957	26 095
Receivables from other companies of the Group	10 892	4 810	696	308
Receivables from associate companies	26 784	11 022	1 712	704
Other short-term receivables	44 359	11 553	2 835	738
Total other receivables	82 035	27 385	5 243	1 750
Interest receivable	957	388	61	25
Dividends receivable	260	233	17	15
Other accrued income	209	52	13	3
Total accrued income	1 426	673	91	43
Prepaid taxes and tax refund	5 255	12 642	336	808
incl. income tax	19	1 746	1	112
Other prepaid expenses	5 815	8 538	372	546
Total prepaid expenses	11 070	21 180	708	1 354
Raw materials	1 524	839	97	54
Work-in-progress	79 712	38 309	5 095	2 448
Merchandise purchased for resale	106 434	105 900	6 802	6 768
Prepayments to suppliers	1 692	138	108	9
Prepayments for real estate	827	13 565	53	867
Prepayments for construction work	17 572	24 503	1 123	1 566
Due from customers	53 474	72 009	3 418	4 602
Total inventories	261 235	255 263	16 696	16 314
<b>Total current assets</b>	<b>940 244</b>	<b>989 045</b>	<b>60 093</b>	<b>63 211</b>
Shares in associate companies	26 654	25 040	1 704	1 600
Long-term receivables from associate companies	6 300	-	403	-
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	18 102	5 649	1 157	362
incl. deferred income tax liability	4 124	4 124	264	264
Total long-term financial investments	52 856	32 489	3 378	2 077
Land	44 790	26 181	2 863	1 673
Buildings	3 496	3 496	223	223
Accumulated real estate investments depreciat.	(536)	(396)	(34)	(25)
Prepayments for real estate investments	20 569	23 588	1 315	1 508
Total real estate investments	68 319	52 869	4 366	3 379
Land and buildings	37 480	9 909	2 395	633
Ground lease	458	458	29	29
Plant and equipment	86 124	84 038	5 504	5 371
Other equipment and fixtures	26 227	25 180	1 676	1 609
Accumulated depreciation	(50 278)	(46 774)	(3 213)	(2 989)
Fixed assets in-progress and advance payments on fixed assets	851	240	54	16
Total tangible assets	100 862	73 051	6 446	4 669
Purchased concessions, patents, licenses, etc.	428	331	27	21
Goodwill	(1 419)	(1 923)	(91)	(123)
Total intangible assets	(991)	(1 592)	(63)	(102)
<b>Total non-current assets</b>	<b>221 046</b>	<b>156 817</b>	<b>14 127</b>	<b>10 023</b>
<b>TOTAL ASSETS</b>	<b>1 161 290</b>	<b>1 145 862</b>	<b>74 220</b>	<b>73 234</b>

in thousand kroons and euros

	EEK		EUR	
	30.06.04	31.12.03	30.06.04	31.12.03
<b>LIABILITIES AND OWNERS' EQUITY</b>				
Short-term loans and bonds	-	9 063	-	579
Current period long-term debt repayment	3 365	3 384	215	217
Total debt obligations	3 365	12 447	215	796
Customer prepayments	17 018	17 881	1 088	1 143
Accounts payable to suppliers	194 654	267 597	12 441	17 103
Payables to other companies of the Group	4 962	10 611	317	678
Payables to associate companies	15 745	11 148	1 006	712
Other short-term payables	2 447	2 440	156	157
Total other payables	23 154	24 199	1 480	1 547
Tax liabilities	17 654	21 352	1 128	1 365
incl. income tax	466	5 124	30	327
Payables to employees	21 873	20 100	1 398	1 285
Dividends payable	25	3	2	0
Interest payable	62	299	4	19
Other accrued expenses	14 976	693	957	44
Total accrued expenses	36 936	21 095	2 361	1 348
Provisions for construction warranty liability	5 929	5 191	379	332
Due to customers	298 318	281 537	19 066	17 993
Total current provisions	304 247	286 728	19 445	18 325
<b>Total current liabilities</b>	<b>597 028</b>	<b>651 299</b>	<b>38 157</b>	<b>41 626</b>
Loans, bonds and financial lease liabilities	14 717	16 399	941	1 048
Merchandise credit	7 731	7 092	494	453
Other long-term payables	-	2 440	-	156
Total other long-term payables	7 731	9 532	494	609
<b>Total non-current liabilities</b>	<b>22 448</b>	<b>25 931</b>	<b>1 435</b>	<b>1 657</b>
<b>TOTAL LIABILITIES</b>	<b>619 476</b>	<b>677 230</b>	<b>39 592</b>	<b>43 283</b>
Minority interests	4 929	4 809	315	307
<b>OWNERS' EQUITY</b>				
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	327 733	180 430	20 946	11 531
Net profit for fiscal year	109 799	184 473	7 017	11 790
Exchange rate differences	(947)	(1 380)	(61)	(88)
<b>TOTAL OWNERS' EQUITY</b>	<b>536 885</b>	<b>463 823</b>	<b>34 313</b>	<b>29 644</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>1 161 290</b>	<b>1 145 862</b>	<b>74 220</b>	<b>73 234</b>

*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
<b>Closing balance 31.12.02</b>	88 500	2 950	8 850	174	200 343	300 817
Exchange rate differences	-	-	-	(810)	-	(810)
Dividends	-	-	-	-	(19 913)	(19 913)
Net profit for fiscal year	-	-	-	-	74 842	74 842
<b>Closing balance 30.06.03</b>	88 500	2 950	8 850	(636)	255 272	354 936
<b>Closing balance 31.12.03</b>	88 500	2 950	8 850	(1 380)	364 903	463 823
Exchange rate differences	-	-	-	433	-	433
Dividends	-	-	-	-	(37 170)	(37 170)
Net profit for fiscal year	-	-	-	-	109 799	109 799
<b>Closing balance 30.06.04</b>	88 500	2 950	8 850	(947)	437 532	536 885
EUR	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
<b>Closing balance 31.12.02</b>	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(52)	-	(52)
Dividends	-	-	-	-	(1 273)	(1 273)
Net profit for fiscal year	-	-	-	-	4 783	4 783
<b>Closing balance 30.06.03</b>	5 656	189	566	(41)	16 315	22 684
<b>Closing balance 31.12.03</b>	5 656	189	566	(88)	23 321	29 644
Exchange rate differences	-	-	-	28	-	28
Dividends	-	-	-	-	(2 376)	(2 376)
Net profit for fiscal year	-	-	-	-	7 017	7 017
<b>Closing balance 30.06.04</b>	5 656	189	566	(61)	27 963	34 313

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**

consolidated, unaudited

	EEK		EUR	
	2004 6 months	2003 6 months	2004 6 months	2003 6 months
<b>Operating activities</b>				
Operating profit	120 556	86 308	7 705	5 516
Adjustments:				
depreciation	6 830	6 166	437	394
(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	239	(2 626)	15	(168)
adjustments of revenues from construction contracts according to the percentage of completion method	34 475	59 998	2 203	3 835
reserve changes	(95)	1 670	(6)	107
Change in receivables and prepayments concerning operating activities	141 914	(183 309)	9 070	(11 716)
Change in inventories	(21 474)	(902)	(1 372)	(58)
Change in liabilities and prepayments concerning operating activities	(63 986)	98 124	(4 089)	6 271
Interests and other financial expenses paid	(1 164)	(2 640)	(74)	(169)
Company income tax paid	(7 987)	(3 683)	(510)	(235)
<b>Net cash from operating activities</b>	<b>197 657</b>	<b>58 807</b>	<b>12 633</b>	<b>3 758</b>
<b>Investing activities</b>				
Acquisition of subsidiary	(2 440)	-	(156)	-
Disposal of subsidiary	-	15	-	1
Acquisition of associate companies	(44)	-	(3)	-
Disposal of associate companies	-	804	-	51
Disposal of unit	(2 900)	-	(185)	-
Acquisition of real estate investments	(15 591)	(45)	(996)	(3)
Disposal of real estate investments	-	161	-	10
Acquisition of tangible assets	(36 245)	(19 505)	(2 316)	(1 247)
Disposal of tangible assets	919	2 799	59	179
Acquisition of intangible assets	(11)	(3 163)	(1)	(202)
Loans granted	(47 952)	(8 530)	(3 065)	(545)
Granted loan payments received	556	11 912	36	761
Interests received	2 467	1 478	158	94
Dividends received	1 679	-	107	-
<b>Net cash used in investing activities</b>	<b>(99 562)</b>	<b>(14 074)</b>	<b>(6 363)</b>	<b>(899)</b>
<b>Financing activities</b>				
Loans drawn	-	14 095	-	901
Repayments of loans	(9 263)	(2 661)	(592)	(170)
Repayments of finance lease liabilities	(1 638)	(657)	(105)	(42)
Share issue	105	-	7	-
Dividends paid	(38 770)	(20 054)	(2 478)	(1 282)
<b>Net cash used in financing activities</b>	<b>(49 566)</b>	<b>(9 277)</b>	<b>(3 168)</b>	<b>(593)</b>
<b>Total cash flow</b>	<b>48 529</b>	<b>35 456</b>	<b>3 102</b>	<b>2 266</b>
<b>Cash and cash equivalent at the beginning of the period</b>	<b>240 152</b>	<b>96 310</b>	<b>15 349</b>	<b>6 155</b>
<b>Change in cash and cash equivalents</b>	<b>48 529</b>	<b>35 456</b>	<b>3 102</b>	<b>2 266</b>
<b>Effects of exchange rate differences</b>	<b>627</b>	<b>1 240</b>	<b>40</b>	<b>79</b>
<b>Cash and cash equivalent at the end of the period</b>	<b>289 308</b>	<b>133 006</b>	<b>18 490</b>	<b>8 501</b>



## NOTES

### Note 1 Segment information

#### Business segments

2004 6 months	Construc- -tion	Road- construc- -tion	Production of concrete	Construc- tion of networks	Group
Sales	1 439 136	59 500	-	-	1 498 636
Operating profit of the business segment	99 257	21 299	-	-	120 556
Financial items					(987)
incl. profit (loss) from associate companies	1 365	-	1 406	468	3 239
Profit before taxes					119 569
Income tax					(8 454)
Net profit for the Group					111 115
Minority interest					(1 316)
Net profit					109 799
Segment assets	1 016 194	86 985	-	-	1 103 179
Associate companies	2 562	3 096	12 306	8 690	26 654
Unallocated assets					31 457
Consolidated total assets					1 161 290
Segment liabilities	559 778	42 018	-	-	601 796
Unallocated liabilities					17 680
Consolidated total liabilities					619 476
Acquisition of real estate investm.	15 591	-	-	-	15 591
Acquisition of tangible and intangible assets	30 516	5 729	-	-	36 245
Depreciation	2 361	4 469	-	-	6 830

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	1 191 034	911 157	15 591	7 157
Latvia	206 763	156 084	-	1 735
Lithuania	100 839	94 049	-	27 353
<b>Total</b>	<u>1 498 636</u>	<u>1 161 290</u>	<u>15 591</u>	<u>36 245</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.

	<b>2004 6 months</b>
Net profit attributable to shareholders (in thousand kroons)	109 799
Weighted average number of ordinary shares (thousand items)	8 850
<b>Basic net earnings per share</b> (in kroons)	<u>12,41</u>

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