

AS MERKO EHITUS
GROUP

Consolidated interim report 9M 2004

COMMENTARY TO 9M 2004 FINANCIAL RESULTS

Merko Ehitus group 9M 2004 consolidated and unaudited net sales amounted to EEK 2 232.6 million (EUR 142.7 million) and net profit was EEK 187.7 million (EUR 12.0 million). The 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 1st 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 20,4% and net profit 31,4% (without extraordinary profit. The enhancement of Group's operating and net profit margins was due to successful sales of residential space and increase of efficiency in 3rd quarter.

Companies of the Group 9M 2004 net sales and consolidated net sales (sales outside the Group) were:

	<i>in thousand kroons and euros</i>			
	Sales		including consolidated net sales	
	EEK	EUR	EEK	EUR
Estonian companies				
Construction				
AS Merko Ehitus	1 514 313	96 782	1 513 696	96 743
AS Gustaf (100% partnership)	48 282	3 086	47 488	3 035
OÜ Gustaf Tallinn (80% partnership)	45 215	2 890	44 516	2 845
AS Merko Tartu (66% partnership)	68 108	4 353	43 490	2 780
Tallinna Teede AS (100% partnership)	127 903	8 174	118 821	7 594
Construction				
AS Normanni Linnagrupp(50% partnership)	97 737	6 247	-	-
Production of concrete				
AS Tartu Maja Betoontooted (25% partnership)	110 714	7 076	-	-
Telecommunication networks				
AS Telegrupp (45% partnership)	46 755	2 988	-	-
Latvian companies				
Construction				
SIA Merks (100% partnership)	326 983	20 898	326 983	20 898
Lithuanian companies				
Construction				
UAB Merko Statyba (100% partnership)	137 246	8 772	137 246	8 772

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

	9M 2004	9M 2003
Net profit margin	7,9 %*	7,2 %
Operating profit margin	8,4 %*	8,1 %
Return on equity (per year)	46,4 %	50,0 %
Return on assets (per year)	20,7 %	20,1 %
Current ratio	1,6	1,5
Equity-to-assets ratio	48,3 %	38,6 %

*without extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: (Net profit x 4/3) / Average equity during the period

Return on assets: (Net profit x 4/3) / Average assets during the period

Current ratio: Current assets / Current liabilities

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

Year 2004 9M 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 9 months	2003 9 months	2004 9 months	2003 9 months
Sales	1	2 232 593	1 854 739	142 689	118 539
Cost of sales		(1 976 331)	(1 657 554)	(126 311)	(105 937)
Gross profit		256 262	197 185	16 378	12 602
Marketing expenses		(11 415)	(10 790)	(730)	(690)
Administrative expenses		(57 125)	(49 454)	(3 651)	(3 161)
Other operating income		12 960	15 317	828	979
Other operating expenses		(2 418)	(1 455)	(155)	(93)
Operating profit		198 264	150 803	12 671	9 638
Financial income and expenses from stocks of subsidiaries		(299)	542	(19)	35
Financial income and expenses from stocks of associate companies		10 900	3 372	697	216
Financial income and expenses from other long-term financial investments		147	1 080	9	69
Interest expense		(6 077)	(1 351)	(388)	(86)
Foreign exchange gain		2 697	(2 402)	172	(154)
Other financial income and expenses		(6 127)	(5 078)	(392)	(325)
Total financial income and expenses		1 241	(3 837)	79	(245)
Profit before taxes		199 505	146 966	12 751	9 393
Income tax		(10 025)	(11 088)	(641)	(709)
Net profit for fiscal year		<u>189 480</u>	<u>135 878</u>	<u>12 110</u>	<u>8 684</u>
Minority interest		(1 765)	(1 859)	(113)	(119)
Net profit for the group		<u>187 715</u>	<u>134 019</u>	<u>11 997</u>	<u>8 565</u>
Net profit per share (basic and diluted, in kroons and euros)	2	21,21	15,14	1,36	0,97

in thousand kroons and euros

CONSOLIDATED INCOME STATEMENT

unaudited

	EEK		EUR	
	2004	2003	2004	2003
	III quarter	III quarter	III quarter	III quarter
Sales	733 957	772 664	46 908	49 382
Cost of sales	(631 561)	(697 218)	(40 364)	(44 560)
Gross profit	102 396	75 446	6 544	4 822
Marketing expenses	(3 645)	(3 126)	(233)	(200)
Administrative expenses	(20 170)	(17 711)	(1 289)	(1 132)
Other operating income	449	10 493	29	671
Other operating expenses	(1 321)	(607)	(84)	(39)
Operating profit	77 709	64 495	4 967	4 122
Financial income and expenses from stocks of subsidiaries	-	541	-	35
Financial income and expenses from stocks of associate companies	7 661	969	490	62
Financial income and expenses from other long-term financial investments	97	66	6	4
Interest expense	(5 208)	(663)	(333)	(42)
Foreign exchange gain	2 082	(4)	133	(0)
Other financial income and expenses	(2 404)	(1 075)	(154)	(69)
Total financial income and expenses	2 228	(166)	142	(11)
Profit before taxes	79 937	64 329	5 109	4 111
Income tax	(1 572)	(4 558)	(100)	(291)
Net profit for fiscal year	78 365	59 771	5 008	3 820
Minority interest	(449)	(594)	(29)	(38)
Net profit for the group	77 916	59 177	4 980	3 782
Net profit per share (basic and diluted, in kroons and euros)	8,80	6,69	0,56	0,43

in thousand kroons and euros

CONSOLIDATED BALANCE SHEET

unaudited

ASSETS	EEK		EUR	
	30.09.04	31.12.03	30.09.04	31.12.03
Cash and cash equivalents	133 302	240 152	8 520	15 349
Marketable securities	25 235	36 096	1 613	2 307
Accounts receivable	292 096	408 704	18 668	26 121
Allowance for doubtful receivables	(383)	(408)	(24)	(26)
Total accounts receivable	291 713	408 296	18 644	26 095
Receivables from other companies of the Group	36 955	4 810	2 362	308
Receivables from associate companies	33 509	11 022	2 142	704
Due from customers	102 309	72 009	6 539	4 602
Other short-term receivables	80 971	11 553	5 175	738
Total other receivables	253 744	99 394	16 217	6 352
Interest receivable	1 390	388	89	25
Dividends receivable	235	233	15	15
Other accrued income	52	52	3	3
Total accrued income	1 677	673	107	43
Prepaid taxes and tax refund	10 525	12 642	673	808
incl. income tax	3 423	1 746	219	112
Other prepaid expenses	4 717	8 538	301	546
Total prepaid expenses	15 242	21 180	974	1 354
Raw materials	1 714	839	110	54
Work-in-progress	63 979	38 309	4 089	2 448
Finished goods	33 955	-	2 170	-
Merchandise purchased for resale	188 453	105 900	12 044	6 768
Prepayments to suppliers	1 318	138	84	9
Prepayments for real estate	277	13 565	18	867
Prepayments for construction work	25 432	24 503	1 625	1 566
Total inventories	315 128	183 254	20 140	11 712
Total current assets	1 036 040	989 045	66 215	63 211
Shares in associate companies	34 622	25 040	2 213	1 600
Long-term receivables from associate companies	8 297	-	530	-
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	18 224	5 649	1 165	362
incl. deferred income tax liability	4 124	4 124	264	264
Total long-term financial investments	62 943	32 489	4 023	2 077
Land	65 359	26 181	4 177	1 673
Buildings	3 496	3 496	223	223
Accumulated real estate investments depreciat.	(606)	(396)	(39)	(25)
Prepayments for real estate investments	1 427	23 588	91	1 508
Total real estate investments	69 676	52 869	4 453	3 379
Land and buildings	37 868	9 909	2 420	633
Ground lease	458	458	29	29
Plant and equipment	86 383	84 038	5 521	5 371
Other equipment and fixtures	28 524	25 180	1 823	1 609
Accumulated depreciation	(53 517)	(46 774)	(3 420)	(2 989)
Fixed assets in-progress and advance payments on fixed assets	3 240	240	207	16
Total tangible assets	102 956	73 051	6 580	4 669
Purchased concessions, patents, licenses, etc.	569	331	36	21
Goodwill	(1 140)	(1 923)	(73)	(123)
Prepayments for intangible assets	861	-	55	-
Total intangible assets	290	(1 592)	19	(102)
Total non-current assets	235 865	156 817	15 075	10 023
TOTAL ASSETS	1 271 905	1 145 862	81 290	73 234

in thousand kroons and euros

	EEK		EUR	
	30.09.04	31.12.03	30.09.04	31.12.03
LIABILITIES AND OWNERS' EQUITY				
Short-term loans and bonds	-	9 063	-	579
Current period long-term debt repayment	3 375	3 384	216	217
Total debt obligations	3 375	12 447	216	796
Customer prepayments	33 796	17 881	2 160	1 143
Accounts payable to suppliers	238 532	267 597	15 245	17 103
Payables to other companies of the Group	777	10 611	50	678
Payables to associate companies	7 470	11 148	477	712
Due to customers	283 217	281 537	18 101	17 993
Other short-term payables	7 156	2 440	457	157
Total other payables	298 620	305 736	19 085	19 540
Tax liabilities	15 359	21 352	982	1 365
incl. income tax	3 339	5 124	213	327
Payables to employees	22 965	20 100	1 468	1 285
Dividends payable	3	3	0	0
Interest payable	68	299	4	19
Other accrued expenses	11 610	693	742	44
Total accrued expenses	34 646	21 095	2 214	1 348
Provisions for construction warranty liability	5 787	5 191	370	332
Total current liabilities	630 115	651 299	40 272	41 626
Loans, bonds and financial lease liabilities	13 867	16 399	886	1 048
Merchandise credit	8 465	7 092	541	453
Other long-term payables	-	2 440	-	156
Total other long-term payables	8 465	9 532	541	609
Total non-current liabilities	22 332	25 931	1 427	1 657
TOTAL LIABILITIES	652 447	677 230	41 699	43 283
Minority interests	5 373	4 809	343	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	327 733	180 430	20 946	11 531
Net profit for fiscal year	187 715	184 473	11 997	11 790
Exchange rate differences	(1 663)	(1 380)	(106)	(88)
TOTAL OWNERS' EQUITY	614 085	463 823	39 247	29 644
TOTAL LIABILITIES AND OWNERS' EQUITY	1 271 905	1 145 862	81 290	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	-	-	-	(778)	-	(778)
Dividends	-	-	-	-	(19 913)	(19 913)
Net profit for fiscal year	-	-	-	-	134 019	134 019
Closing balance 30.09.03	88 500	2 950	8 850	(604)	314 449	414 145
Closing balance 31.12.03	88 500	2 950	8 850	(1 380)	364 903	463 823
Exchange rate differences	-	-	-	(283)	-	(283)
Dividends	-	-	-	-	(37 170)	(37 170)
Net profit for fiscal year	-	-	-	-	187 715	187 715
Closing balance 30.09.04	88 500	2 950	8 850	(1 663)	515 448	614 085
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	-	-	-	(50)	-	(50)
Dividends	-	-	-	-	(1 273)	(1 273)
Net profit for fiscal year	-	-	-	-	8 565	8 565
Closing balance 30.09.03	5 656	189	566	(41)	20 097	26 469
Closing balance 31.12.03	5 656	189	566	(88)	23 321	29 644
Exchange rate differences	-	-	-	(18)	-	(18)
Dividends	-	-	-	-	(2 376)	(2 376)
Net profit for fiscal year	-	-	-	-	11 997	11 997
Closing balance 30.09.04	5 656	189	566	(106)	32 943	39 247

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	2003	2004	2003
	9 months	9 months	9 months	9 months
Operating activities				
Operating profit	198 264	150 803	12 671	9 638
Adjustments:				
Depreciation and amortisation expense	11 126	9 405	711	601
(profit) loss from disposal of a unit	(11 651)	-	(745)	-
(profit) loss from disposals of real estate investments	-	(9 450)	-	(604)
(profit) loss from disposals of fixed assets	(522)	(2 764)	(33)	(177)
adjustments of revenues from construction contracts according to the percentage of completion method	(29 122)	126 511	(1 861)	8 086
reserve changes	861	2 687	55	183
Change in receivables and prepayments concerning operating activities	52 610	(316 501)	3 362	(20 228)
Change in inventories	(131 821)	24 452	(8 425)	1 563
Change in liabilities and prepayments concerning operating activities	(14 350)	132 923	(917)	8 495
Interests and other financial expenses paid	(1 482)	(1 155)	(95)	(74)
Company income tax paid	(9 635)	(4 753)	(616)	(304)
Net cash from operating activities	64 278	112 338	4 108	7 180
Investing activities				
Acquisition of subsidiary	(2 413)	-	(154)	-
Disposal of subsidiary	700	2 210	45	141
Acquisition of associate companies	(417)	-	(27)	-
Disposal of associate companies	-	804	-	51
Disposal of other financial investments	-	761	-	49
Disposal of unit	(2 900)	-	(185)	-
Acquisition of real estate investments	(17 018)	(45)	(1 088)	(3)
Disposal of real estate investments	-	9 800	-	626
Acquisition of tangible assets	(42 254)	(22 555)	(2 701)	(1 442)
Disposal of tangible assets	978	4 896	63	313
Acquisition of intangible assets	(873)	(3 275)	(56)	(209)
Loans granted	(62 394)	(9 158)	(3 988)	(585)
Granted loan payments received	406	22 428	26	1 433
Interests received	3 709	3 702	237	237
Dividends received	1 679	-	107	-
Net cash used in investing activities	(120 797)	9 568	(7 720)	612
Financing activities				
Loans drawn	-	13 595	-	869
Repayments of loans	(9 063)	(7 193)	(579)	(460)
Repayments of finance lease liabilities	(2 447)	(934)	(156)	(60)
Share issue	105	-	7	-
Dividends paid	(38 770)	(21 074)	(2 478)	(1 347)
Net cash used in financing activities	(50 175)	(15 606)	(3 207)	(997)
Total cash flow	(106 694)	106 300	(6 819)	6 794
Cash and cash equivalent at the beginning of the period	240 152	96 310	15 349	6 155
Change in cash and cash equivalents	(106 694)	106 300	(6 819)	6 794
Effects of exchange rate differences	(156)	(4 473)	(10)	(286)
Cash and cash equivalent at the end of the p.	133 302	198 137	8 520	12 663

NOTES

Note 1 Segment information

Business segments

2004 9 months	Construc- -tion	Road- construc- -tion	Production of concrete	Construc- -tion of networks	Group
Sales	1 439 136	127 903	-	-	2 232 593
Operating profit of the business segment		23 993	-	-	198 264
Financial items					1 241
incl. profit (loss) from associate companies		-	4 040	141	10 900
Profit before taxes					199 505
Income tax					(10 025)
Net profit for the Group					189 480
Minority interest					(1 765)
Net profit					187 715
Segment assets	1 058 815	105 000	-	-	1 163 815
Associate companies	8 224	3 096	14 939	8 363	34 622
Unallocated assets					73 468
Consolidated total assets					1 271 905
Segment liabilities	584 197	52 891	-	-	637 088
Unallocated liabilities					15 359
Consolidated total liabilities					652 447
Acquisition of real estate investm.	40 605	-	-	-	40 605
Acquisition of tangible and intangible assets	34 546	8 581	-	-	43 127
Depreciation	4 380	6 746	-	-	11 126

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	1 768 364	957 393	40 605	11 468
Latvia	326 983	216 720	-	4 009
Lithuania	137 246	97 792	-	27 650
Total	<u>2 232 593</u>	<u>1 271 905</u>	<u>40 605</u>	<u>43 127</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 9 months
Net profit attributable to shareholders (in thousand kroons)	187 715
Weighted average number of ordinary shares (thousand items)	8 850
Basic net earnings per share (in kroons)	<u>21,21</u>

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