

AS MERKO EHITUS
GROUP

Consolidated interim report 12M 2004

COMMENTARY TO 12M 2004 FINANCIAL RESULTS

Merko Ehitus group 12M 2004 consolidated and unaudited net sales amounted to EEK 3 110.4 million (EUR 198.8 million) and net profit was EEK 294.6 million (EUR 18.8 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 and 8.7 million kroons (0.6 million euros), which was gained in fourth quarter 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 increased by 14.9 percent and profit by 48.7 percent (without extraordinary profit). Increase in profit earning capacity resulted mainly from the successful sale of residential buildings in the third and fourth quarter.

Companies of the Group 12M 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				
Construction				
AS Merko Ehitus	2 110 292	134 872	2 109 100	134 796
AS Gustaf (100% partnership)	69 149	4 419	68 220	4 360
OÜ Gustaf Tallinn (80% partnership)	56 890	3 636	55 602	3 554
AS Merko Tartu (66% partnership)	117 527	7 511	78 725	5 031
Tallinna Teede AS (100% partnership)	161 361	10 313	147 542	9 430
Construction				
AS Normanni Linnagrupp (50% partnership)	128 407	8 207	-	-
Production of concrete				
AS Tartu Maja Betoontooted (25% partnership)	165 829	10 598	-	-
Communication networks				
AS Telegrupp (45% partnership)	65 953	4 215	-	-
Latvian companies				
Construction				
SIA Merks (100% partnership)	460 511	29 432	460 511	29 432
Lithuanian companies				
Construction				
UAB Merko Statyba (100% partnership)	160 862	10 281	160 862	10 281

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

	2004 12 months	2003 12 months
Net profit margin	8,8 %*	6,8 %
Operating profit margin	9,5 %*	7,5 %
Return on equity (per year)	49,9 %	48,3 %
Return on assets (per year)	24,6 %	19,9 %
Current ratio	2,0	1,5
Equity-to-assets ratio	57,8 %	40,4 %

* without extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit* / Average equity during the period*

Return on assets: Net profit* / Average assets during the period

Current ratio: Current assets / Current liabilities

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

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

The new and revised IFRS standards were applied prematurely in the consolidated 12-month interim report of 2004. Also, instructions of the Accounting Regulatory Committee regarding the requirements for presenting information in the annual accounts were applied prematurely. Figures for 2003 are presented in a comparable manner.

CONSOLIDATED INCOME STATEMENT
 unaudited

	Note	EEK		EUR	
		2004 12 months	2003 12 months	2004 12 months	2003 12 months
Sales	1	3 110 399	2 707 663	198 791	173 051
Cost of sales		(2 695 989)	(2 429 125)	(172 305)	(155 249)
Gross profit		414 410	278 538	26 486	17 802
Marketing expenses		(18 138)	(15 832)	(1 159)	(1 012)
Administrative expenses		(89 089)	(73 363)	(5 694)	(4 689)
Other operating income		13 607	15 326	870	980
Other operating expenses		(3 677)	(2 121)	(235)	(136)
Operating profit		317 113	202 548	20 267	12 945
Financial income and expenses		(8 928)	(4 807)	(571)	(307)
incl. financial income (expenses) from investments in subsidiaries		(299)	542	(19)	35
financial income (expenses) from investments in associate companies		9 956	4 446	636	284
financial income and expenses from other long-term financial investments		(1 478)	1 084	(94)	69
interest expense		(3 395)	(2 503)	(217)	(160)
foreign exchange gain		(5 254)	(2 692)	(336)	(172)
other financial income and expenses		(8 458)	(5 684)	(541)	(363)
Profit before taxes		308 185	197 741	19 697	12 638
Income tax		(9 997)	(10 901)	(639)	(697)
Net profit for current period		298 188	186 840	19 058	11 941
incl. net profit attributable to minority shareholders		3 584	2 367	229	151
net profit attributable to parent company		294 604	184 473	18 829	11 790
Parent company's net profit per share (basic and diluted, in EEK and EUR)	2	33,29	20,84	2,13	1,33

CONSOLIDATED INCOME STATEMENT
 unaudited

	Note	EEK		EUR	
		2004 IV quarter	2003 IV quarter	2004 IV quarter	2003 IV quarter
Sales	1	877 806	852 924	56 102	54 512
Cost of sales		<u>(719 657)</u>	<u>(771 571)</u>	<u>(45 994)</u>	<u>(49 312)</u>
Gross profit		158 149	81 353	10 108	5 199
Marketing expenses		(6 724)	(5 042)	(430)	(322)
Administrative expenses		(31 965)	(23 894)	(2 043)	(1 529)
Other operating income		665	804	43	51
Other operating expenses		<u>(1 276)</u>	<u>(1 476)</u>	<u>(82)</u>	<u>(92)</u>
Operating profit		118 849	51 745	7 596	3 307
Financial income and expenses		<u>(10 168)</u>	<u>(970)</u>	<u>(650)</u>	<u>(62)</u>
incl. financial income (expenses) from investments in associate companies		(944)	1 074	(60)	69
financial income and expenses from other long-term financial investments		(1 624)	4	(104)	0
interest expense		(415)	(1 152)	(27)	(74)
foreign exchange gain		(4 854)	(290)	(310)	(19)
other financial income and expenses		<u>(2 331)</u>	<u>(606)</u>	<u>(149)</u>	<u>(39)</u>
Profit before taxes		108 681	50 775	6 946	3 245
Income tax		28	187	2	12
Net profit for current period		<u>108 709</u>	<u>50 962</u>	<u>6 948</u>	<u>3 257</u>
incl. net profit attributable to minority shareholders		1 819	508	116	32
net profit attributable to parent company		106 890	50 454	6 832	3 225
 Parent company's net profit per share (basic and diluted, in EEK and EUR)	2	12,08	5,70	0,77	0,36

CONSOLIDATED BALANCE SHEET
unaudited

	EEK		EUR	
	31.12.04	31.12.03	31.12.04	31.12.03
ASSETS				
Current assets				
Cash	141 812	240 152	9 063	15 348
Short-term financial investments	11 775	36 096	753	2 307
Receivables and prepayments				
Accounts receivable	256 834	413 770	16 415	26 446
Prepaid taxes and tax refund	17 859	12 642	1 141	808
Due from customers	117 180	72 009	7 489	4 602
Other short-term receivables	113 379	22 585	7 246	1 443
Prepayments for services	29 175	33 178	1 865	2 120
	<u>534 427</u>	<u>554 184</u>	<u>34 156</u>	<u>35 419</u>
Inventories				
Raw materials	1 506	839	96	54
Work-in-progress	29 738	38 309	1 901	2 448
Finished goods	1 209	-	77	-
Merchandise purchased for resale	279 896	105 900	17 889	6 768
Prepayments for inventories	3 722	13 565	238	867
	<u>316 071</u>	<u>158 613</u>	<u>20 201</u>	<u>10 137</u>
Total current assets	<u>1 004 085</u>	<u>989 045</u>	<u>64 173</u>	<u>63 211</u>
Non-current assets				
Long-term financial investments				
Shares in associated companies	35 452	25 040	2 266	1 600
Other shares and securities	-	1 800	-	115
Long-term receivables	19 991	5 649	1 278	362
	<u>55 443</u>	<u>32 489</u>	<u>3 544</u>	<u>2 077</u>
Real estate investments				
Land	56 920	26 181	3 638	1 673
Buildings	3 042	3 100	194	198
Prepayments for real estate investments	1 427	23 588	91	1 508
	<u>61 389</u>	<u>52 869</u>	<u>3 923</u>	<u>3 379</u>
Tangible assets				
Land	145	2 189	9	140
Buildings	4 471	4 985	286	319
Ground lease	391	400	25	26
Plant and equipment	47 886	53 992	3 060	3 450
Other tangible assets	15 589	11 245	996	719
Buildings in process and prepayments	63 283	240	4 045	15
	<u>131 765</u>	<u>73 051</u>	<u>8 421</u>	<u>4 669</u>
Intangible assets				
Goodwill	(706)	(1 923)	(45)	(123)
Development expenses	13	-	1	-
Other intangible assets	580	331	37	21
Prepayments for intangible assets	1 223	-	78	-
	<u>1 110</u>	<u>(1 592)</u>	<u>71</u>	<u>(102)</u>
Total non-currents assets	<u>249 707</u>	<u>156 817</u>	<u>15 959</u>	<u>10 023</u>
TOTAL ASSETS	<u>1 253 792</u>	<u>1 145 862</u>	<u>80 132</u>	<u>73 234</u>

in thousand kroons and euros

	EEK		EUR	
	31.12.04	31.12.03	31.12.04	31.12.03
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Loans				
Short-term loans and bonds	7 722	14 154	493	894
Long-term loans payable in the following period	3 561	3 384	228	216
	<u>11 283</u>	<u>17 538</u>	<u>721</u>	<u>1 110</u>
Debts and prepayments				
Accounts payable to suppliers	211 034	284 264	13 487	18 179
Payables to employees	30 630	20 100	1 958	1 285
Tax liabilities	11 429	21 352	730	1 365
Due to customers	153 974	281 537	9 841	17 993
Other payables	14 298	3 262	914	208
Received prepayments	66 805	18 055	4 270	1 154
	<u>488 170</u>	<u>628 570</u>	<u>31 200</u>	<u>40 184</u>
Current provisions				
Provisions to construction warranty liability	5 027	5 191	321	332
Other current provisions	757	-	48	-
	<u>5 784</u>	<u>5 191</u>	<u>369</u>	<u>332</u>
Total current liabilities	<u>505 237</u>	<u>651 299</u>	<u>32 290</u>	<u>41 626</u>
Non-current liabilities				
Loans, bonds and finance lease liabilities				
Loans, bonds and finance lease liabilities	15 341	16 399	980	1 048
Other long-term payables	8 038	9 532	514	609
	<u>23 379</u>	<u>25 931</u>	<u>1 494</u>	<u>1 657</u>
Total non-current liabilities	<u>23 379</u>	<u>25 931</u>	<u>1 494</u>	<u>1 657</u>
Total liabilities	<u>528 616</u>	<u>677 230</u>	<u>33 784</u>	<u>43 283</u>
Owners' equity				
Minority interests				
Minority interests	7 202	4 809	460	307
Capital 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	(4 663)	(1 380)	(298)	(88)
Retained earnings	622 337	364 903	39 775	23 321
	<u>717 974</u>	<u>463 823</u>	<u>45 888</u>	<u>29 644</u>
Total owners' equity	<u>725 176</u>	<u>468 632</u>	<u>46 348</u>	<u>29 951</u>
TOTAL LIABILITIES AND OWNERS' EQUITY	<u>1 253 792</u>	<u>1 145 862</u>	<u>80 132</u>	<u>73 234</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	Retained earnings	Total		
Closing balance 31.12.2002	88 500	2 950	8 850	174	200 343	300 817	4 792	305 609
Exchange rate differences	-	-	-	(1 554)	-	(1 554)	-	(1 554)
Net profit for current period	-	-	-	-	184 473	184 473	2 367	186 840
Dividends	-	-	-	-	(19 913)	(19 913)	(1 019)	(20 932)
Business combinations	-	-	-	-	-	-	(1 331)	(1 331)
Closing balance 31.12.2003	88 500	2 950	8 850	(1 380)	364 903	463 823	4 809	468 632
Exchange rate differences	-	-	-	(3 283)	-	(3 283)	-	(3 283)
Net profit for current period	-	-	-	-	294 604	294 604	3 584	298 188
Dividends	-	-	-	-	(37 170)	(37 170)	(1 600)	(38 770)
Business combinations	-	-	-	-	-	-	409	409
Closing balance 31.12.2004	88 500	2 950	8 850	(4 663)	622 337	717 974	7 202	725 176

EUR	Profit attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Mandatory reserve	Other reserves	Retained earnings	Total		
Closing balance 31.12.2002	5 656	189	566	11	12 804	19 226	306	19 532
Exchange rate differences	-	-	-	(99)	-	(99)	-	(99)
Net profit for current period	-	-	-	-	11 790	11 790	151	11 941
Dividends	-	-	-	-	(1 273)	(1 273)	(65)	(1 338)
Business combinations	-	-	-	-	-	-	(85)	(85)
Closing balance 31.12.2003	5 656	189	566	(88)	23 321	29 644	307	29 951
Exchange rate differences	-	-	-	(210)	-	(210)	-	(210)
Net profit for current period	-	-	-	-	18 829	18 829	229	19 058
Dividends	-	-	-	-	(2 375)	(2 375)	(102)	(2 477)
Business combinations	-	-	-	-	-	-	26	26
Closing balance 31.12.2004	5 656	189	566	(298)	39 775	45 888	460	46 348

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	
	2004	2003	2004	2003
	12 months	12 months	12 months	12 months
Net cash from operating activities				
Operating profit	317 113	202 548	20 267	12 945
Adjustments:				
depreciation of tangible assets	15 038	12 973	961	829
(profit) loss from disposals of real estate investments	-	(9 450)	-	(604)
(profit) loss from disposals of fixed assets	(1 028)	(3 012)	(66)	(193)
(profit) loss from disposal of a unit	(11 651)	-	(745)	-
adjustments of revenues from construction contracts according to the percentage of completion method	(173 460)	190 345	(11 086)	12 165
reserve changes	7 650	8 183	489	523
Change in receivables and prepayments concerning operating activities	157 969	(249 409)	10 096	(15 940)
Change in inventories	(144 232)	(55 685)	(9 218)	(3 559)
Change in liabilities and prepayments concerning operating activities	(13 306)	60 295	(849)	3 854
Interests and other financial expenses paid	(1 692)	(1 588)	(108)	(101)
Company income tax paid	(15 359)	(7 947)	(982)	(508)
	<u>137 042</u>	<u>147 253</u>	<u>8 759</u>	<u>9 411</u>
Net cash used in investing activities				
Acquisition of subsidiary	(3 510)	4 939	(224)	316
Disposal of subsidiary	700	2 210	45	141
Mergence of subsidiary	(2 440)	(2 747)	(156)	(175)
Acquisition of associate companies	(2 393)	(44)	(153)	(3)
Disposal of associate companies	-	804	-	51
Disposal of other financial investments	141	2 552	9	163
Acquisition of real estate investments	(17 018)	(23 632)	(1 088)	(1 510)
Disposal of real estate investments	-	14 431	-	922
Acquisition of tangible assets	(79 996)	(14 748)	(5 113)	(943)
Disposal of tangible assets	985	8 194	63	524
Acquisition of intangible assets	(1 699)	(197)	(109)	(13)
Disposal of unit	(776)	-	(49)	-
Loans granted	(110 190)	(22 023)	(7 042)	(1 408)
Granted loan payments received	17 088	46 806	1 092	2 992
Interests received	6 751	5 440	431	348
Dividends received	1 679	-	107	-
	<u>(190 678)</u>	<u>21 985</u>	<u>(12 187)</u>	<u>1 405</u>
Net cash used in financing activities				
Loans drawn	6 077	9 063	388	579
Repayments of loans	(9 063)	(2 661)	(579)	(170)
Repayments of finance lease liabilities	(3 373)	(11 937)	(216)	(763)
Gained from share issue	105	-	7	-
Dividends paid	(38 770)	(21 074)	(2 478)	(1 347)
	<u>(45 024)</u>	<u>(26 609)</u>	<u>(2 878)</u>	<u>(1 701)</u>
Change in cash and cash equivalents	(98 660)	142 629	(6 306)	9 115
Cash and cash equivalent at the beginning of the per.	240 152	96 310	15 348	6 155
Effects of exchange rate differences	320	1 213	21	78
Cash and cash equivalent at the end of the per.	<u>141 812</u>	<u>240 152</u>	<u>(9 063)</u>	<u>15 348</u>

NOTES**Note 1****Business- and geographical segments****Business segments**

2004 12 months	Construc- tion	Road construction	Production of concrete	Construc- tion of networks	Group
Sales	2 949 038	161 361	-	-	3 110 399
Operating profit of the business segment	294 862	22 251	-	-	317 113
Financial items					(8 928)
incl. profit (loss) from associate companies	7 791	531	5 243	(3 609)	9 956
Profit before taxes					308 185
Income tax					(9 997)
Net profit for the Group					298 188
Net profit attributable to minority shareholders					(3 584)
Net profit attributable to parent company					294 604
Segment assets	1 093 446	87 043	-	-	1 180 489
Associate companies	20 290	3 627	5 243	6 292	35 452
Unallocated assets					37 851
Consolidated total assets					1 253 792
Segment liabilities	475 445	15 119	-	-	490 564
Unallocated liabilities					38 052
Consolidated total liabilities					528 616
Acquisition of real estate investments	19 350	-	-	-	19 350
Acquisition of tangible and intangible assets	66 022	15 673	-	-	81 695
Depreciation of tangible assets	6 069	8 969	-	-	15 038

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	2 489 027	849 696	17 018	21 119
Latvia	460 510	277 108	2 332	60 543
Lithuania	160 862	126 988	-	33
Total	3 110 399	1 253 792	19 350	81 695

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.

	2004 12 months
Net profit attributable to parent company's shareholders	294 604
Weighted average number of ordinary shares (thousand items)	8 850
Basic net earnings per share (in kroons)	<u>33,29</u>

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