

AS MERKO EHITUS
GROUP

Consolidated interim report 12M 2005

Commercial Registry No: 10068022

Address: 9G Järvevana road, 11314 Tallinn

Telephone: +372 680 5105

Fax: +372 680 5106

E-mail: merko@merko.ee

Homepage: www.merko.ee

Primary activity: General contracting in construction sector

Auditor: AS PricewaterhouseCoopers

COMMENTARY TO 12M 2005 FINANCIAL RESULTS

Sales revenue of Merko Ehitus Group in the last quarter of 2005 was 764.5 million kroons and profit 138.5 million kroons. Group's sales revenue in 2005 was 3 241.1 million kroons and profit 441.8 million kroons of which 271.4 million kroons was gained from construction and development activities. 170.4 million kroons of the net profit originated from extraordinary operations of which 84.7 million kroons was gained from disposal of property, 74.8 million kroons from portraying targeted financing as income and 10.9 million kroons from disposal of shareholdings and rights. As compared to the previous year, Group's sales revenue increased by 4.2 percent and profit by 50.0 percent.

In December 2005, SIA Merks, a subsidiary of Merko Ehitus Group, completed construction works of the multifunctional Riga Arena in Riga and the building complex was licensed for use on January 31st. Thus the first development phase of 30 million euro on Skanstens street in Riga was completed during which Merko Group acquired 22.1 hectares of land, built utility networks and constructed a multifunctional arena with seating capacity of 12 500 seats.

Two structural changes were carried out within the Group in December: SIA Merks acquired a 50 percent share for 9.4 million euro in SIA Zakusala Estates (http://www.market.ee.omxgroup.com/?pg=news&news_id=203811) and Group's position in AS Telegrupp was cut down from 45 percent to 31 percent. In accordance with the contracts concluded with other shareholders, Group transfers its holding in AS Telegrupp to management in 2006-2007.

Good demand continued on construction market and construction sector witnessed considerable growth in all three Baltic States in the last quarter of 2005. However, demand for qualified work force remains high which restricts possibilities for providing construction services thus boosting the rise of construction costs, which also took place in the fourth quarter. Construction costs have risen 7-11 percent within one year (7.3% in Estonia, 11.4% in Latvia and 7.6% in Lithuania). Limited supply may considerably affect timely completion and costs of construction projects in near future thus jeopardizing sector's profitability.

Group altered its accounting policies in portraying residential building operations as advised by Group's auditors while compiling annual report of 2005. So far, apartment building development operations were portrayed in accordance with international accounting standard IAS 11 (construction contracts) according to which each sale/purchase contract concluded with the buyer is considered as a separate construction contract and proceeds from the development project are portrayed according to the percentage of completion method starting from the conclusion of the relevant sale/purchase contract. In the current report, Group portrays development projects in accordance with IAS 2 (inventories) and IAS 18 (revenue) and the total sales revenue arising from selling of apartments is portrayed in Group's profit and loss statement after transfer of possession to the buyer. Due to the change, revenue from development project is portrayed within a very short period of time which increases profit and profitability volatility in quarterly reports. For a more objective view, it is advisable to base comparative analyses on accumulative reports (quarterly and interim reports). This change in the accounting policy has no significant effect on the annual report of 2005 thus the previous annual reports of the Group have not been altered.

Due to portraying the target financing of Riga Arena in accordance with IAS 20, the respective comparative figures of 2004 have been altered in the annual report of 2005. As a result, balance sheet total of 2004 increased with 45 million kroons. This change in the accounting policy does not affect the loss and profit statement or the cash flow statement of 2004.

Most important companies of the Group 12M 2005 consolidated net sales (sales outside the Group) were:

in thousand kroons and euros

	12M 2005		12M 2004	
	EEK	EUR	EEK	EUR
Estonian companies				
Construction				
AS Merko Ehitus	1 779 827	113 752	2 109 100	134 796
AS Gustaf (100% partnership)	60 922	3 894	68 220	4 360
OÜ Gustaf Tallinn (80% partnership)	77 555	4 957	55 602	3 554
AS Merko Tartu (66% partnership)	232 972	14 890	78 725	5 031
Tallinna Teede AS (100% partnership)	204 005	13 038	147 542	9 430
Latvian companies				
Construction				
SIA Merks (100% partnership)	545 855	34 886	460 511	29 432
Lithuanian companies				
Construction				
UAB Merko Statyba (100% partnership)	216 727	13 851	160 862	10 281

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

	2005 12 months	2004 12 months
Net profit margin	8,4% *	8,8 % *
Operating profit margin	13,6 %	10,2 %
Return on equity (per year)	48,6 %	49,9 %
Return on assets (per year)	25,4 %	24,6 %
Current ratio	2,0	2,0
Equity-to-assets ratio	49,6 %	57,3 %
The share of general expenses in sales	4,6 %	3,4 %
The share of labor costs in sales	7,3 %	6,3 %

* without extraordinary profit

Net profit margin: $\text{Net profit} / \text{Sales}$

Operating profit margin: $\text{Operating profit} / \text{Sales}$

Return on equity: $\text{Net profit} / \text{Average equity during the period}^*$

Return on assets: $\text{Net profit} / \text{Average assets during the period}$

Current ratio: $\text{Current assets} / \text{Current liabilities}$

Equity-to-assets ratio: $\text{Owners equity}^* / \text{Total assets}$

The share of general expenses in sales: $\text{General expenses} / \text{Sales}$

The share of labor costs in sales: $\text{Labor costs} / \text{Sales}$

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

In 2005, the average number of full-time employees in the Group's service was 695 having increased by 59 employees as compared to 2004. The gross salaries paid to full-time personnel amounted to 173.9 million kroons.

INCOME STATEMENT
consolidated, unaudited

	Note	EEK		EUR	
		2005 12 months	2004 12 months	2005 12 months	2004 12 months
Sales	1	3 241 055	3 110 399	207 141	198 791
Sales costs		(2 744 662)	(2 695 989)	(175 416)	(172 305)
Gross profit		496 393	414 410	31 725	26 486
Marketing expenses		(22 546)	(18 138)	(1 441)	(1 159)
Administrative expenses		(125 270)	(89 089)	(8 006)	(5 694)
Other operating income		96 956	16 198	6 197	1 035
Other operating expenses		(4 718)	(3 677)	(302)	(235)
Operating profit		440 815	319 704	28 173	20 433
Financial income and expenses		27 339	(11 525)	1 748	(737)
incl. financial income (expenses) from investments in subsidiaries		6 215	(299)	397	(19)
financial income (expenses) from investments in associate companies and joint ventures		19 584	9 950	1 252	636
financial income and expenses from other long-term financial investments		11	(1 800)	1	(115)
interest expense		(2 418)	(3 395)	(155)	(217)
foreign exchange gain		(2 277)	(5 254)	(145)	(336)
other financial income and expenses		6 224	(10 727)	398	(686)
Profit before taxes		468 154	308 179	29 921	19 696
Income tax		(19 700)	(9 997)	(1 259)	(639)
Net profit for current period		448 454	298 182	28 662	19 057
incl. net profit attributable to parent company		441 769	294 600	28 234	18 828
net profit attributable to minority shareholders		6 685	3 582	428	229
Parent company's net profit per share (basic and diluted, in EEK and EUR)	2	24,96	16,64	1,60	1,06

INCOME STATEMENT
consolidated, unaudited

	EEK		EUR	
	2005 IV quarter	2004 IV quarter	2005 IV quarter	2004 IV quarter
Sales	764 507	877 806	48 861	56 102
Sales costs	(669 595)	(719 657)	(42 795)	(45 994)
Gross profit	94 912	158 149	6 066	10 108
Marketing expenses	(7 098)	(6 724)	(454)	(430)
Administrative expenses	(41 604)	(31 965)	(2 659)	(2 043)
Other operating income	90 357	2 347	5 775	150
Other operating expenses	(3 343)	(1 276)	(214)	(82)
Operating profit	133 224	120 531	8 514	7 703
Financial income and expenses	6 094	(11 856)	390	(758)
incl. financial income (expenses) from investments in subsidiaries	1 073	-	69	-
financial income (expenses) from investments in associate companies and joint ventures	5 226	(950)	334	(61)
financial income and expenses from other long-term financial investments	11	(1 800)	1	(115)
interest expense	593	(415)	38	(27)
foreign exchange gain	(1 693)	(4 853)	(108)	(310)
other financial income and expenses	884	(3 838)	56	(245)
Profit before taxes	139 318	108 675	8 904	6 945
Income tax	3 336	28	213	2
Net profit for current period	142 654	108 703	9 117	6 947
incl. net profit attributable to parent company	138 506	106 885	8 852	6 831
net profit attributable to minority shareholders	4 148	1 818	265	116
Parent company's net profit per share (basic and diluted, in EEK and EUR)	7,83	6,04	0,50	0,39

BALANCE SHEET

consolidated, unaudited

	EEK		EUR	
	31.12.05	31.12.04 adjusted	31.12.05	31.12.04 adjusted
ASSETS				
Current assets				
Cash	268 446	141 812	17 157	9 063
Short-term financial investments	-	11 775	-	753
Receivables and prepayments				
Accounts receivable	296 616	256 834	18 957	16 415
Prepaid taxes and tax refund	36 675	17 859	2 344	1 141
Due from customers	82 224	117 180	5 255	7 489
Other short-term receivables	57 354	78 117	3 666	4 993
Prepayments for services	72 960	29 175	4 663	1 865
	<u>545 829</u>	<u>499 165</u>	<u>34 885</u>	<u>31 903</u>
Inventories				
Raw materials	1 932	1 506	123	96
Work-in-progress	98 202	29 738	6 276	1 901
Finished goods	4 461	1 209	285	77
Merchandise purchased for resale	852 233	377 963	54 468	24 157
Prepayments for inventories	4 500	38 983	288	2 491
	<u>961 328</u>	<u>449 399</u>	<u>61 440</u>	<u>28 722</u>
Total current assets	<u>1 775 603</u>	<u>1 102 151</u>	<u>113 482</u>	<u>70 441</u>
Non-current assets				
Long-term financial investments				
Shares in associated companies and joint ventures	179 561	35 446	11 477	2 265
Long-term receivables	16 014	19 992	1 023	1 278
	<u>195 575</u>	<u>55 438</u>	<u>12 500</u>	<u>3 543</u>
Real estate investments				
Land	35 634	56 920	2 277	3 638
Buildings	2 737	3 042	175	195
Prepayments for real estate investments	-	1 427	-	91
	<u>38 371</u>	<u>61 389</u>	<u>2 452</u>	<u>3 924</u>
Tangible assets				
Land	145	145	9	9
Buildings	16 543	4 471	1 057	286
Ground lease	382	391	25	25
Plant and equipment	49 226	47 886	3 146	3 060
Other tangible assets	18 175	15 589	1 162	996
Buildings in process and prepayments	118 668	10 034	7 584	642
	<u>203 139</u>	<u>78 516</u>	<u>12 983</u>	<u>5 018</u>
Intangible assets				
Goodwill	2 896	(706)	185	(45)
Development expenses	6	13	0	1
Other intangible assets	1 513	580	97	37
Prepayments for intangible assets	2 847	1 223	182	78
	<u>7 262</u>	<u>1 110</u>	<u>464</u>	<u>71</u>
Total non-currents assets	<u>444 347</u>	<u>196 453</u>	<u>28 399</u>	<u>12 556</u>
TOTAL ASSETS	<u>2 219 950</u>	<u>1 298 604</u>	<u>141 881</u>	<u>82 997</u>

	EEK		EUR	
	31.12.05	31.12.04 adjusted	31.12.05	31.12.04 adjusted
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Raised loans				
Short-term loans and bonds	105 144	7 722	6 720	494
Long-term loans payable in the following period	9 697	4 856	620	310
	<u>114 841</u>	<u>12 578</u>	<u>7 340</u>	<u>804</u>
Liabilities and prepayments				
Accounts payable to suppliers	282 087	211 034	18 029	13 487
Payables to employees	37 299	30 630	2 384	1 958
Tax liabilities	25 975	11 429	1 660	730
Due to customers	185 648	153 974	11 865	9 841
Other payables	19 637	14 298	1 255	914
Received prepayments	161 156	66 805	10 299	4 270
	<u>711 802</u>	<u>488 170</u>	<u>45 492</u>	<u>31 200</u>
Government grants	-	44 818	-	2 865
Current provisions	43 966	5 784	2 810	369
Total current liabilities	<u>870 609</u>	<u>551 350</u>	<u>55 642</u>	<u>35 238</u>
Non-current liabilities				
Loans, bonds and finance lease liabilities	202 824	14 046	12 963	898
Other long-term payables	22 726	8 038	1 452	514
Deferred income tax liability	11 385	-	728	-
Total non-current liabilities	<u>236 935</u>	<u>22 084</u>	<u>15 143</u>	<u>1 412</u>
Total liabilities	<u>1 107 544</u>	<u>573 434</u>	<u>70 785</u>	<u>36 650</u>
Owners' equity				
Minority interests	10 589	7 200	677	460
Equity attributable to parent company's shareholders				
Share capital	177 000	88 500	11 312	5 656
Share premium	-	2 950	-	189
Mandatory legal reserve	8 850	8 850	566	566
Exchange rate differences	(5 060)	(4 663)	(323)	(298)
Undistributed profit	921 027	622 333	58 864	39 774
	<u>1 101 817</u>	<u>717 970</u>	<u>70 419</u>	<u>45 887</u>
Total owners' equity	<u>1 112 406</u>	<u>725 170</u>	<u>71 096</u>	<u>46 347</u>
TOTAL LIABILITIES AND OWNERS' EQUITY	<u>2 219 950</u>	<u>1 298 604</u>	<u>141 881</u>	<u>82 997</u>

STATEMENT OF CHANGES IN EQUITY
unaudited

EEK	Equity attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Man-datory reserve	Exchange rate differences	Undistri-buted profit	Total		
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	-	-	-	-	294 600	294 600	3 582	298 182
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)	622 333	717 970	7 200	725 170
Closing balance								
31.12.2004	88 500	2 950	8 850	(4 663)	622 333	717 970	7 200	725 170
Exchange rate differences	-	-	-	(397)	-	(397)	-	(397)
Net profit for current period	-	-	-	-	441 769	441 769	6 685	448 454
Bonus issue	88 500	(2 950)	-	-	(85 550)	-	-	-
Dividends	-	-	-	-	(57 525)	(57 525)	(2 600)	(60 125)
Business combinations	-	-	-	-	-	-	(696)	(696)
Closing balance								
31.12.2005	177 000	-	8 850	(5 060)	921 027	1 101 817	10 589	1 112 406

EUR	Equity attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Man-datory reserve	Exchange rate differences	Undistri-buted profit	Total		
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	-	-	-	-	18 828	18 828	229	19 057
Dividends	-	-	-	-	(2 375)	(2 375)	(102)	(2 477)
Business combinations	-	-	-	-	-	-	26	26
Closing balance								
31.12.2004	5 656	189	566	(298)	39 774	45 887	460	46 347
Closing balance								
31.12.2004	5 656	189	566	(298)	39 774	45 887	460	46 347
Exchange rate differences	-	-	-	(25)	-	(25)	-	(25)
Net profit for current period	-	-	-	-	28 234	28 234	427	28 661
Bonus issue	5 656	(189)	-	-	(5 467)	-	-	-
Dividends	-	-	-	-	(3 677)	(3 677)	(166)	(3 843)
Business combinations	-	-	-	-	-	-	(44)	(44)
Closing balance								
31.12.2005	11 312	-	566	(323)	58 864	70 419	677	71 096

The share capital of AS Merko Ehitus consists of 17 700 000 common shares with a nominal value of EEK 10 i.e. EUR 0.64.

CASH FLOW STATEMENT
consolidated, unaudited

	EEK		EUR	
	2005 12 months	2004 12 months	2005 12 months	2004 12 months
Net cash from operating activities				
Operating profit	440 815	319 704	28 173	20 433
Adjustments:				
depreciation and amortisation	106 921	68 287	6 833	4 364
(profit) loss from disposals of fixed assets	(529)	(545)	(34)	(35)
(profit) loss from disposal of units	-	(11 651)	-	(745)
adjustments of revenues from construction contracts according to the percentage of completion method	66 643	(173 460)	4 259	(11 086)
interest income from operating activities	(6 823)	(2 591)	(436)	(166)
changes in provisions	(22 973)	7 650	(1 468)	489
Change in receivables and prepayments concerning operating activities	(25 533)	157 969	(1 632)	10 096
Change in inventories	(435 607)	(278 044)	(27 840)	(17 770)
Change in liabilities and prepayments concerning operating activities	185 076	31 512	11 829	2 015
Interests paid	(2 811)	(1 692)	(180)	(108)
Other financial expenses (income)	3 318	-	212	-
Paid company income tax	(12 928)	(15 359)	(826)	(982)
	<u>295 569</u>	<u>101 780</u>	<u>18 890</u>	<u>6 505</u>
Net cash spent in investing activities				
Acquisition of subsidiaries	(23 985)	(3 510)	(1 533)	(224)
Disposal of subsidiaries	7 663	700	490	45
Mergence of subsidiaries	-	(2 440)	-	(156)
Acquisition of associate companies	(136 237)	(2 393)	(8 707)	(153)
Disposal of associate companies	8 306	-	531	-
Disposal of other financial investments	3	141	0	9
Acquisition of real estate investments	(63)	(17 018)	(4)	(1 088)
Acquisition of tangible assets	(226 960)	(79 996)	(14 505)	(5 113)
Disposal of tangible assets	2 690	985	172	63
Acquisition of intangible assets	(2 917)	(1 699)	(186)	(108)
Disposal of units	-	(776)	-	(49)
Granted loans	(147 811)	(74 928)	(9 447)	(4 789)
Received loan payments	95 723	17 088	6 118	1 092
Received interests	7 870	6 751	503	431
Received dividends	3 323	1 679	212	107
	<u>(412 395)</u>	<u>(155 416)</u>	<u>(26 356)</u>	<u>(9 933)</u>
Net cash spent in financing activities				
Loans drawn	310 806	6 077	19 864	388
Repayments of loans	(19 992)	(9 063)	(1 278)	(579)
Repayments of finance lease liabilities	(5 832)	(3 373)	(373)	(216)
Received from share issue	-	105	-	7
Received government grants	22 227	-	1 421	-
Dividends paid	(60 128)	(38 770)	(3 843)	(2 478)
	<u>247 081</u>	<u>(45 024)</u>	<u>15 791</u>	<u>(2 878)</u>
Change in cash and cash equivalents	130 255	(98 660)	8 325	(6 306)
Cash and cash equivalent at the beginning of the period	141 812	240 152	9 063	15 348
Effects of exchange rate differences	(3 621)	320	(231)	21
Cash and cash equivalent at the end of the period	<u>268 446</u>	<u>141 812</u>	<u>17 157</u>	<u>(9 063)</u>

NOTES

Note 1 Business- and geographical segments

Business segments

2005 12 months	Construc- tion	Road construction	Production of concrete	Construc- tion of networks	Group
Sales	3 002 711	238 344	-	-	3 241 055
Operating profit of the business segment	422 534	18 281	-	-	440 815
Financial items					27 339
incl. profit (loss) from associate companies	5 839	1 924	10 612	1 209	19 584
Profit before taxes					468 154
Income tax					(19 700)
Net profit for the Group					448 454
incl. net profit attributable to parent company					441 769
net profit attributable to minority shareholders					6 685
Segment assets	1 866 145	121 555	-	-	1 987 700
Associate companies	150 773	-	25 254	3 534	179 561
Unallocated assets					52 689
Consolidated total assets					2 219 950
Segment liabilities	726 234	37 671	-	-	763 905
Unallocated liabilities					343 639
Consolidated total liabilities					1 107 544
Acquisition of real estate investments	63	-	-	-	63
Acquisition of tangible and intangible assets	226 044	9 015	-	-	235 059
Depreciation and amortisation	96 809	10 112	-	-	106 921
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	297 432	22 272	-	-	319 704
Financial items					(11 525)
incl. profit (loss) from associate companies	6 107	531	5 243	(1 931)	9 950
Profit before taxes					308 179
Income tax					(9 997)
Net profit for the Group					298 182
incl. net profit attributable to parent company					294 600
net profit attributable to minority shareholders					3 582
Segment assets	1 138 264	87 043	-	-	1 225 307
Associate companies	20 284	3 627	5 243	6 292	35 446
Unallocated assets					37 851
Consolidated total assets					1 298 604
Segment liabilities	520 263	15 119	-	-	535 382
Unallocated liabilities					38 052
Consolidated total liabilities					573 434
Acquisition of real estate investments	6 468	-	-	-	6 468
Acquisition of tangible and intangible assets	63 579	15 673	-	-	79 252
Depreciation and amortisation	59 318	8 969	-	-	68 287

Such expenses, assets and liabilities are unallocated, which can not or should not be linked to a certain business segment.

Geographical segments

	Sales		Total assets		Acquisition of real estate investments		Acquisition of tangible and intangible assets	
	2005 12 months	2004 12 months	31.12.2005	31.12.2004	2005 12 months	2004 12 months	2005 12 months	2004 12 months
Estonia	2 404 076	2 489 027	1 033 226	849 690	39	6 468	31 639	21 119
Latvia	571 142	460 510	991 929	321 926	24	-	215 380	57 861
Lithuania	238 837	160 862	194 795	126 988	-	-	447	272
Total	3 214 055	3 110 399	2 219 950	1 298 604	63	6 468	247 466	79 252

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

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.

	2005 12 months	2004 12 months*
Net profit attributable to parent company's shareholders (in thousand kroons)	441 769	294 600
Weighted average number of ordinary shares (thousand items)	17 700	17 700
Basic net earnings per share (in kroons)	24,96	16,64

* Bonus issue of 2004 is included in the fiscal year figures.

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

BOARD'S DECLARATION

The Board of Merko Ehitus has prepared the consolidated 12M interim report 2005 as presented on pages 2 to 11.

The Board of Merko Ehitus confirms in its best knowledge, that:

- the accounting principles applied in preparing the interim financial statement are in accordance with International Financial Reporting Standards as adopted by the EU;
- the interim financial statement presents a true and fair view of the financial position, financial results and cash flows of the parent and its subsidiaries;
- AS Merko Ehitus and its subsidiaries are going concerns.

Tõnu Toomik	Chairman of the Board		23.02.2006
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Alar Lagus	Member of the Board		23.02.2006
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Veljo Viitmann	Member of the Board		23.02.2006
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Jaan Mäe	Member of the Board		23.02.2006
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Andres Agukas	Member of the Board		23.02.2006
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