

AS MERKO EHITUS
GROUP

Consolidated interim report Q1 2000

COMMENTARY TO Q1 2000 FINANCIAL RESULTS

The Q1 2000 unaudited and consolidated net sales of Merko Ehitus Group amounted to 210.3 million EEK, and net profit was 9.0 million EEK. The respective figures year ago were net sales of 155.9 million EEK and net profit of 6,2 million EEK.

The consolidated financial results of Merko Ehitus Group include the results of AS Merko Ehitus, and its 100% subsidiaries AS Gustaf (construction), SIA Merks (construction), UAB Merko Statyba (construction), and 66% holding in subsidiary AS Merko Tartu (construction), and 65% holding in subsidiary OÜ Matek (production of small houses and timber construction).

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 Vesimer Investeeringute AS (investments, project management and real estate development, 50% holding), AS Insenerivõrgud (civil engineering, 50% holding) and AS Tartu Maja Betoontooted (production of concrete, 25% holding).

Financial ratios illustrating the activities of Merko Ehitus Group in Q1 2000 were:

	Q1 2000	Q1 1999
Net profit margin	4,3%	4,0%
Operating profit margin	4,4%	5,7%
Return on equity (per year)	32,6%	15,8%
Return on assets (per year)	12,2%	6,7%
Current ratio	1,3	1,4
Invoice turnover (per year)	7,0	7,4
Equity-to-assets ratio	36%	45%

The Q1 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.

CONSOLIDATED INCOME STATEMENT

unaudited, in thousand EEK

	Note	Q1 2000	Q1 1999
Sales	1	210 290	155 867
Cost of sales		192 140	140 766
Gross profit		18 150	15 101
Marketing expenses		3 021	2 596
Administrative expenses		6 003	6 920
Other operating income		347	3 825
Other operating expenses		214	589
Operating profit		9 259	8 821
Financial income from stocks of associated companies		29	1 579
Foreign exchange gain		606	389
Other interest and similar income		928	1 736
Total financial income		1 563	3 704
Financial expenses related to associated companies		472	1 016
Interest expense		178	1 732
Foreign exchange loss		793	49
Other financial expenses		138	64
Total financial expenses		1 581	2 861
Profit (- loss) from ordinary activities		9 241	9 664
Profit (loss-) before taxes		9 241	9 664
Income tax		-	3 295
Deferred income tax		-	-111
Net profit (- loss) for the financial year		9 241	6 480
Minority interest		223	292
Net profit (- loss) for the group		9 018	6 188
Net profit (- loss) per share (basic and diluted, in kroons)	2	1,02	-4,49

CONSOLIDATED BALANCE SHEET

unaudited, in thousand EEK

	31.03.00	31.12.99
ASSETS		
Cash and cash equivalents	14 692	25 239
Marketable securities	24 528	27 699
Accounts receivable	120 880	87 734
Allowance for doubtful receivables	-124	-124
Total accounts receivable	120 756	87 610
Receivables from subsidiary and parent companies	1 735	1 735
Receivables from associated companies	3 107	1 222
Other short-term receivables	49 769	37 697
Total other receivables	54 611	40 654
Interest receivable	363	467
Dividends receivable	-	218
Other accrued income	171	945
Total accrued income	534	1 630
Prepaid taxes	2 578	2 587
Other prepaid expenses	18 810	10 307
Total prepaid expenses	21 388	12 894
Raw materials	2 301	2 535
Work-in-progress	386	-
Finished goods	973	1 133
Merchandise purchased for resale	3 278	3 327
Prepayments to suppliers	4 893	1 550
Total inventories	11 831	8 545
Total current assets	248 340	204 271
Shares in associated companies	10 674	11 207
Other shares, holdings and debt securities	115	115
Miscellaneous long-term receivables	4 092	4 028
Total long-term financial assets	14 971	15 350
Land and buildings	48 810	46 904
Ground lease	1 603	1 603
Plant and equipment	13 627	12 988
Other equipment and fixtures	7 183	6 854
Accumulated depreciation	-18 032	-16 138
Self-constructed physical assets under construction	156	110
Total noncurrent physical assets	53 347	52 321
Purchased concessions, patents, licenses, etc.	9	9
Goodwill	1 091	1 206
Total intangible assets	1 100	1 215
Total non-current assets	69 418	68 886
TOTAL ASSETS	317 758	273 157

LIABILITIES AND OWNERS' EQUITY	31.03.00	31.12.99
Debentures (except bank loans)	1 744	6 107
Short-term loans from financial institutions	393	2 035
Total debt obligations	2 137	8 142
Customer prepayments	92 881	43 109
Accounts payable to suppliers	56 766	52 526
Payables to subsidiary and parent companies	48	48
Payables to associated companies	-	398
Total other payables	48	446
Tax liabilities	6 016	5 318
Payables to employees	6 189	5 572
Interests payable	9	9
Other accrued expenses	7 990	11 433
Total accrued expenses	14 188	17 014
Provisions for construction warranty liability	1 266	1 310
Due to customers for contract work	19 316	29 485
Total current liabilities	192 618	157 350
Non-convertible debt	6 854	6 854
Total non-current liabilities	6 854	6 854
TOTAL LIABILITIES	199 472	164 204
Minority interests	3 062	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	7 971	47 717
Net profit (- loss) for the financial year	9 018	-39 746
Exchange rate differences	1 910	1 818
TOTAL OWNERS' EQUITY	115 224	106 114
TOTAL LIABILITIES AND OWNERS' EQUITY	317 758	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 pre-paid income tax from 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	-	-	-	92	-	92
Net profit (- loss) for the financial year	-	-	-	-	9 018	9 018
Closing balance 31.03.00	88 500	2 950	4 875	1 910	16 989	115 224

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

	Q1 2000
Operating activities	
Profit from ordinary activities	9 241
Depreciation	1 847
Other adjustments *	-19 919
Operating profit before working capital changes	-8 831
Working capital changes	
Marketable securities	3 368
Receivables	-36 830
Accrued income	774
Prepaid expenses	-8 459
Inventories	-3 361
Customer prepayments	49 773
Accounts payable to suppliers	4 296
Other liabilities	-398
Tax liabilities	700
Accrued liabilities	-3 368
Cash generated from operations	-2 336
Interests	
Interests received	729
Interests paid	-177
Dividends	
Dividends received	218
Net cash from operating activities	-1 566
Investing activities	
Long-term loans made	-631
Loan payments received	27
Purchase of property, plant and equipment	-2 417
Net cash used in investing activities	-3 021
Financing activities	
Repayments of borrowings	-3 856
Repayments of finance lease liabilities	-32
Net cash used in financing activities	-5 530
Total cash flow	-10 117
Net increase/decrease in cash and cash equivalents	-10 117
Cash and cash equivalents at the beginning of the period	25 239
Effects of exchange rate differences	-430
Cash and cash equivalents at the end of the period	14 692
* Other adjustments	
Adjustments of revenues from construction contracts according to the percentage of completion method	-20 376
Warranty reserve changes	16
Vacation reserve changes	475
Profit or loss from disposals or liquidation of property, plant and equipment	2
Profit or loss from long-term investments	443
Value adjustments of marketable securities	-198
Foreign exchange profit or loss	164
Interest income	-623
Interest expense	178
Total other adjustments	-19 919

NOTES

Note 1 Segment information

Business segments

1999	Building	Timber structures	Other	Group
Sales	198 172	12 118	-	210 290
Operating profit of the business segment	8 671	588	-	9 259
Financial items				-18
incl. profit from associate companies	-247	-	-196	-443
Net profit (- loss) for the financial year				9 241
Minority interest				223
Net profit (- loss) for the group				9 018
Segment assets	291 732	12 684	-	304 416
Associate companies	9 973	-	791	10 764
Unallocated assets				2 578
Consolidated total assets				317 758
Segment liabilities	184 743	8 713	-	193 456
Unallocated liabilities				6 016
Consolidated total liabilities				199 472
Acquisition of property, plant and equipment and intangible assets	2 327	90	-	2 417
Depreciation	1 726	121	-	1 847

Other segments are manufacturing of concrete products and funding of projects and consultations. Neither of the above is important enough to be reported as a separate business segment.

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	178 316	252 928	595
Latvia	16 929	61 492	1 822
Lithuania	5 971	3 318	-
Germany	4 537	-	-
Russia	2 823	-	-
Norway	1 257	-	-
Others	457	20	-
Total	210 290	317 758	2 417

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.

	Q1 2000
Net profit (loss) attributable to shareholders	9 018
Weighted average number of ordinary shares	8 850
Basic net earnings (loss) per share (in kroons)	<u>1,02</u>

In 2000 Q1, there were no potential ordinary shares, wherefore the diluted net earnings per share equals the basic net earnings per share.