

AS MERKO EHITUS
GROUP

Consolidated interim report H1 2000

COMMENTARY TO H1 2000 FINANCIAL RESULTS

The H1 2000 unaudited and consolidated net sales of Merko Ehitus group amounted to EEK 518.3 million, and net profit was EEK 25.8 million. The respective figures year ago were net sales of EEK 342.2 million (51.5% y-o-y increase) and net profit of EEK 12.9 million (100% y-o-y increase).

The consolidated financial results of Merko Ehitus group include the results of parent company AS Merko Ehitus, and its 100% subsidiaries SIA Merks (project management and construction) in Latvia, UAB Merko Statyba (project management and construction) in Lithuania, and Gustaf (construction), and 66% holding in subsidiary Merko Tartu (construction), and 65% holding in subsidiary 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 Insenerivõrgud (engineering, 50% holding) and Tartu Maja Betoontooted (production of concrete, 25% holding).

Financial ratios illustrating the activities of Merko Ehitus group in H1 2000 were:

	H1 2000	H1 1999
Net profit margin	4.9%	3.8%
Gross profit margin	4.9%	6.7%
Return on equity (annual)	45.1%	16.5%
Return on assets (annual)	16.4%	7.3%
Current ratio	1.3	1.5
Invoice turnover (annual)	8.2	8.3
Equity-to-assets ratio	34.4%	48.2%

The H1 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	H1 2000	H1 1999
Sales	1	518 292	342 248
Cost of sales		476 849	298 370
Gross profit		41 443	43 878
Marketing expenses		3 670	4 680
Administrative expenses		12 648	14 056
Other operating income		3 251	4 568
Other operating expenses		2 892	6 966
Operating profit		25 484	22 744
Financial income from stocks of associated companies		97	2 263
Foreign exchange gain		1 159	518
Other interest and similar income		1 397	2 581
Total financial income		2 653	5 362
Financial expenses related to associated companies		541	1 647
Interest expense		359	2 828
Foreign exchange loss		531	53
Other financial expenses		415	105
Total financial expenses		1 846	4 633
Profit (- loss) from ordinary activities		26 291	23 473
Profit (loss-) before taxes		26 291	23 473
Income tax		-	10 919
Deferred income tax		-	-299
Net profit (- loss) for the financial year		26 291	12 853
Minority interest		467	-29
Net profit (- loss) for the group		25 824	12 882
Net profit (- loss) per share (basic and diluted, in kroons)	2	2,92	1,46

CONSOLIDATED BALANCE SHEET
unaudited, in thousand EEK

	30.06.00	31.12.99
ASSETS		
Cash and cash equivalents	24 911	25 239
Marketable securities	62 519	27 699
Accounts receivable	125 851	87 734
Allowance for doubtful receivables	-200	-124
Total accounts receivable	125 651	87 610
Receivables from subsidiary and parent companies	1 735	1 735
Receivables from associated companies	1 315	1 222
Other short-term receivables	28 866	37 697
Total other receivables	31 916	40 654
Interest receivable	352	467
Dividends receivable	-	218
Other accrued income	25	945
Total accrued income	377	1 630
Prepaid taxes	4 474	2 587
Other prepaid expenses	17 962	10 307
Total prepaid expenses	22 436	12 894
Raw materials	2 572	2 535
Work-in-progress	160	-
Finished goods	1 755	1 133
Merchandise purchased for resale	3 278	3 327
Prepayments to suppliers	3 547	1 550
Total inventories	11 312	8 545
Total current assets	279 122	204 271
Shares in associated companies	4 888	11 207
Other shares, holdings and debt securities	15 278	115
Miscellaneous long-term receivables	4 520	4 028
Total long-term financial assets	24 686	15 350
Land and buildings	48 761	46 904
Ground lease	1 603	1 603
Plant and equipment	13 840	12 988
Other equipment and fixtures	7 296	6 854
Accumulated depreciation	-19 450	-16 138
Self-constructed physical assets under construction	168	110
Total noncurrent physical assets	52 218	52 321
Purchased concessions, patents, licenses, etc.	56	9
Goodwill	976	1 206
Total intangible assets	1 032	1 215
Total non-current assets	77 936	68 886
TOTAL ASSETS	357 058	273 157

	30.06.00	31.12.99
LIABILITIES AND OWNERS' EQUITY		
Debtures (except bank loans)	17 165	6 107
Short-term loans from financial institutions	1 874	2 035
Total debt obligations	19 039	8 142
Customer prepayments	49 911	43 109
Accounts payable to suppliers	102 576	52 526
Payables to subsidiary and parent companies	48	48
Payables to associated companies	20	398
Total other payables	68	446
Tax liabilities	2 523	5 318
Payables to employees	6 475	5 572
Dividends payable	7 965	-
Interests payable	-	9
Other accrued expenses	190	11 433
Total accrued expenses	14 630	17 014
Provisions for construction warranty liability	1 229	1 310
Due to customers for contract work	34 150	29 485
Total current liabilities	224 126	157 350
Non-convertible debt	6 854	6 854
Total non-current liabilities	6 854	6 854
TOTAL LIABILITIES	230 980	164 204
Minority interests	3 306	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	6	47 717
Net profit (- loss) for the financial year	25 824	-39 746
Exchange rate differences	617	1 818
TOTAL OWNERS' EQUITY	122 772	106 114
TOTAL LIABILITIES AND OWNERS' EQUITY	357 058	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	-	-	-	805	-	805
Net profit (- loss) for the financial year	-	-	-	-	12 882	12 882
Dividends	-	-	-	-	-7 523	-7 523
Change in reserve capital	-	-	1 925	-	-1 925	-
Closing balance 30.06.99	88 500	2 950	4 875	809	62 187	159 321
Closing balance 31.12.99	88 500	2 950	4 875	1 818	7 971	106 114
Exchange rate differences	-	-	-	-1 201	-	-1 201
Net profit (- loss) for the financial year	-	-	-	-	25 824	25 824
Dividends	-	-	-	-	-7 965	-
Closing balance 30.06.00	88 500	2 950	4 875	617	25 830	122 772

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

H1 2000

Operating activities

Profit from ordinary activities

26 291

Depreciation

3 738

Other adjustments *

16 073

Operating profit before working capital changes

46 102

Working capital changes

Marketable securities

-34 714

Receivables

-50 658

Accrued income

920

Prepaid expenses

-9 542

Inventories

-3 366

Customer prepayments

6 802

Accounts payable to suppliers

39 244

Other liabilities

15 360

Tax liabilities

-2 744

Accrued liabilities

439

Cash generated from operations

7 843

Interests

Interests received

1 251

Interests paid

-370

Dividends

Dividends received

229

Company income tax

Income tax paid for the previous fiscal year

-49

Net cash from operating activities

8 904

Investing activities

Long-term loans made

-1 679

Loan payments received

53

Purchase of property, plant and equipment

-3 268

Sale of property, plant and equipment

144

Net cash used in investing activities

-4 750

Financing activities

Proceeds from borrowings

965

Used overdraft

-186

Repayments of borrowings

-6 033

Repayments of finance lease liabilities

-60

Net cash used in financing activities

-5 314

Total cash flow

-1 160

Net increase/decrease in cash and cash equivalents

-1 160

Cash and cash equivalents at the beginning of the period

25 219

Effects of exchange rate differences

852

Cash and cash equivalents at the end of the period

24 911

*** Other adjustments**

Adjustments of revenues from construction contracts according to the percentage of completion method	17 365
Warranty reserve changes	-36
Vacation reserve changes	143
Profit or loss from disposals or liquidation of property, plant and equipment	-85
Profit or loss from long-term investments	444
Value adjustments of marketable securities	-106
Foreign exchange profit or loss	-850
Interest income	-1 051
Interest expense	260
Dividends received	-11
Total other adjustments	16 073

NOTES

Note 1 Segment information

Business segments

H1 2000 in thousand EEK	Building	Timber structures	Other	Group
Sales	491 944	26 348	-	518 292
Operating profit of the business segment	24 924	560	-	25 484
Financial items				807
incl. profit from associate companies	-541	-	97	-444
Net profit (- loss) for the financial year				26 291
Minority interest				467
Net profit (- loss) for the group				25 824
Segment assets	319 525	12 487	-	332 372
Associate companies	3 804	-	1 084	4 888
Unallocated assets				19 798
Consolidated total assets				357 058
Segment liabilities	219 440	8 938	-	228 378
Unallocated liabilities				2 523
Consolidated total liabilities				230 981
Acquisition of property, plant and equipment and intangible assets	3 105	163	-	3 268
Depreciation	3 489	249	-	3 738

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	422 746	325 464	1 055
Latvia	57 933	24 855	1 906
Lithuania	15 732	6 739	307
Germany	10 807	-	-
Sweden	5 233	-	-
Russia	2 993	-	-
Norway	2 848	-	-
Total	<u>518 292</u>	<u>357 058</u>	<u>3 268</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.

in thousand EEK	H1 2000
Net profit (loss) attributable to shareholders	25 824
Weighted average number of ordinary shares	8 850
Basic net earnings (loss) per share (in kroons)	2,92