

AS MERKO EHITUS  
GROUP

Consolidated interim report 6M 2005

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Primary activity: General contracting in construction sector

## COMMENTARY TO 6M 2005 FINANCIAL RESULTS

Merko Ehitus group 6M 2005 consolidated and unaudited net sales amounted to 1 453 million kroons (92.9 million euros) and net profit was 149.8 million kroons (9.6 million euros) incl. 133.9 million kroons which was gained from general business activities, 12 million kroons from the disposal of surplus real estate, which was sold in order to achieve the strategic aims of the company and 3.9 million kroons from extraordinary financial income. Compared to I quarter of current year Group's turnover increased by 32.1 percent and profit increased by 24.1 percent.

Most important companies of the Group 6M 2005 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				
<b>Construction</b>				
AS Merko Ehitus	837 760	53 543	833 681	53 282
AS Gustaf (100% partnership)	37 400	2 390	35 330	2 258
OÜ Gustaf Tallinn (80% partnership)	46 681	2 983	46 323	2 961
AS Merko Tartu (66% partnership)	81 763	5 226	77 815	4 973
Tallinna Teede AS (100% partnership)	71 863	4 593	68 007	4 346
<b>Construction</b>				
AS Normanni Linnagrupp (50% partnership)	10 999	703	-	-
<b>Production of concrete</b>				
AS Tartu Maja Betoontooted (25% partnership)	128 836	8 234	-	-
<b>Communication networks</b>				
AS Telegrupp (45% partnership)	27 514	1 758	-	-
Latvian companies				
<b>Construction</b>				
SIA Merks (100% partnership)	266 033	17 003	264 767	16 922
Lithuanian companies				
<b>Construction</b>				
UAB Merko Statyba (100% partnership)	85 921	5 491	85 557	5 468

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

	2005 6 months	2004 6 months
Net profit margin	9,2 % *	6,5 % *
Operating profit margin	10,5 %	7,3 %
Return on equity (per year)	39,2 %	43,9 %
Return on assets (per year)	20,7 %	19,0 %
Current ratio	1,6	1,6
Equity-to-assets ratio	49,5 %	46,2 %
The share of general expenses in sales	4,5 %	3,0 %
The share of labour costs in sales	7,0 %	5,8 %

\* without extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit x 2\* / Average equity during the period\*

Return on assets: Net profit x 2\* / Average assets during the period

Current ratio: Current assets / Current liabilities

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

The share of general expenses in sales: General expenses / Sales

The share of labour costs in sales: Labour costs / Sales

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

**CONSOLIDATED INCOME STATEMENT**  
unaudited

	Note	EEK		EUR	
		2005 6 months	2004 6 months	2005 6 months	2004 6 months
Sales	1	1 452 790	1 498 636	92 850	95 780
Sales costs		(1 234 738)	(1 344 732)	(78 914)	(85 944)
<b>Gross profit</b>		218 052	153 904	13 936	9 836
Marketing expenses		(10 368)	(7 770)	(662)	(496)
Administrative expenses		(54 682)	(36 926)	(3 495)	(2 360)
Other operating income		800	12 345	51	789
Other operating expenses		(1 224)	(997)	(78)	(64)
<b>Operating profit</b>		152 578	120 556	9 752	7 705
Financial income and expenses		17 040	(987)	1 089	(63)
incl. financial income (expenses) from investments in subsidiaries		-	(299)	-	(19)
financial income (expenses) from investments in associate companies		11 003	3 239	703	207
financial income and expenses from other long-term financial investments		1 288	50	82	3
interest expense		(1 093)	(869)	(69)	(55)
foreign exchange gain		(121)	615	(8)	39
other financial income and expenses		5 963	(3 723)	381	(238)
<b>Profit before taxes</b>		169 618	119 569	10 841	7 642
Income tax		(18 619)	(8 454)	(1 190)	(541)
<b>Net profit for current period</b>		150 999	111 115	9 651	7 101
incl. net profit attributable to parent company		149 779	109 799	9 573	7 017
net profit attributable to minority shareholders		1 220	1 316	78	84
Parent company's net profit per share (basic and diluted, in EEK and EUR)	2	8,46	6,20	0,54	0,40

**CONSOLIDATED INCOME STATEMENT**  
unaudited

	EEK		EUR	
	2005 II quarter	2004 II quarter	2005 II quarter	2004 II quarter
Sales	826 768	728 475	52 840	46 558
Sales costs	(700 828)	(644 674)	(44 791)	(41 202)
<b>Gross profit</b>	125 940	83 801	8 049	5 356
Marketing expenses	(5 158)	(4 384)	(330)	(280)
Administrative expenses	(27 316)	(20 714)	(1 746)	(1 324)
Other operating income	588	328	38	21
Other operating expenses	(532)	(890)	(34)	(57)
<b>Operating profit</b>	93 522	58 141	5 977	3 716
Financial income and expenses	8 087	725	517	46
incl. financial income (expenses) from investments in associate companies	4 072	3 158	260	202
financial income and expenses from other long-term financial investments	1 178	50	75	3
interest expense	(712)	(425)	(45)	(27)
foreign exchange gain	(881)	35	(56)	2
other financial income and expenses	4 430	(2 093)	283	(134)
<b>Profit before taxes</b>	101 609	58 866	6 494	3 762
Income tax	(18 291)	(7 479)	(1 169)	(478)
<b>Net profit for current period</b>	83 318	51 387	5 325	3 284
incl. net profit attributable to parent company	82 949	50 578	5 301	3 232
net profit attributable to minority shareholders	369	809	24	52
Parent company's net profit per share (basic and diluted, in EEK and EUR)	4,69	2,86	0,30	0,18

**CONSOLIDATED BALANCE SHEET**  
unaudited

	EEK		EUR	
	30.06.05	31.12.04	30.06.05	31.12.04
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	111 096	141 812	7 100	9 063
Short-term financial investments	-	11 775	-	753
Receivables and prepayments				
Accounts receivable	327 147	256 834	20 908	16 415
Prepaid taxes and tax refund	18 591	17 859	1 188	1 141
Due from customers	223 450	117 180	14 281	7 489
Other short-term receivables	61 929	78 117	3 958	4 993
Prepayments for services	55 336	29 175	3 537	1 865
	<u>686 453</u>	<u>499 165</u>	<u>43 872</u>	<u>31 903</u>
Inventories				
Raw materials	3 587	1 506	229	96
Work-in-progress	24 769	29 738	1 583	1 901
Finished goods	2 784	1 209	178	77
Merchandise purchased for resale	431 842	279 896	27 600	17 889
Prepayments for inventories	12 622	38 983	807	2 491
	<u>475 604</u>	<u>351 332</u>	<u>30 397</u>	<u>22 454</u>
<b>Total current assets</b>	<u>1 273 153</u>	<u>1 004 084</u>	<u>81 369</u>	<u>64 173</u>
<b>Non-current assets</b>				
Long-term financial investments				
Shares in associated companies	25 417	35 446	1 624	2 265
Other shares and securities	10	-	1	-
Long-term receivables	81 127	19 992	5 185	1 278
	<u>106 554</u>	<u>55 438</u>	<u>6 810</u>	<u>3 543</u>
Real estate investments				
Land	48 832	56 920	3 121	3 638
Buildings	2 890	3 042	185	195
Prepayments for real estate investments	-	1 427	-	91
	<u>51 722</u>	<u>61 389</u>	<u>3 306</u>	<u>3 924</u>
Tangible assets				
Land	145	145	9	9
Buildings	16 503	4 471	1 055	286
Ground lease	386	391	25	25
Plant and equipment	51 646	47 886	3 301	3 060
Other tangible assets	18 390	15 589	1 175	996
Buildings in process and prepayments	113 128	63 283	7 230	4 045
	<u>200 198</u>	<u>131 765</u>	<u>12 795</u>	<u>8 421</u>
Intangible assets				
Goodwill	1 110	(706)	71	(45)
Development expenses	8	13	1	1
Other intangible assets	597	580	38	37
Prepayments for intangible assets	2 521	1 223	161	78
	<u>4 236</u>	<u>1 110</u>	<u>271</u>	<u>71</u>
<b>Total non-currents assets</b>	<u>362 710</u>	<u>249 702</u>	<u>23 182</u>	<u>15 959</u>
<b>TOTAL ASSETS</b>	<u>1 635 863</u>	<u>1 253 786</u>	<u>104 551</u>	<u>80 132</u>

	EEK		EUR	
	30.06.05	31.12.04	30.06.05	31.12.04
<b>LIABILITIES AND OWNERS' EQUITY</b>				
<b>Current liabilities</b>				
Raised loans				
Short-term loans and bonds	64 860	7 722	4 145	494
Long-term loans payable in the following period	5 282	4 856	338	310
	<u>70 142</u>	<u>12 578</u>	<u>4 483</u>	<u>804</u>
Liabilities and prepayments				
Accounts payable to suppliers	315 862	211 034	20 187	13 487
Payables to employees	30 497	30 630	1 949	1 958
Tax liabilities	17 067	11 429	1 091	730
Due to customers	188 906	153 974	12 073	9 841
Other payables	21 584	14 298	1 380	914
Received prepayments	143 147	66 805	9 149	4 270
	<u>717 063</u>	<u>488 170</u>	<u>45 829</u>	<u>31 200</u>
Current provisions				
Provisions to construction warranty liability	5 563	5 027	355	321
Other current provisions	1 730	757	111	48
	<u>7 293</u>	<u>5 784</u>	<u>466</u>	<u>369</u>
<b>Total current liabilities</b>	<u>794 498</u>	<u>506 532</u>	<u>50 778</u>	<u>32 373</u>
<b>Non-current liabilities</b>				
Loans, bonds and finance lease liabilities	16 934	14 046	1 082	898
Other long-term payables	8 792	8 038	562	514
<b>Total non-current liabilities</b>	<u>25 726</u>	<u>22 084</u>	<u>1 644</u>	<u>1 412</u>
<b>Total liabilities</b>	<u>820 224</u>	<u>528 616</u>	<u>52 422</u>	<u>33 785</u>
<b>Owners' equity</b>				
Minority interests	5 820	7 200	372	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
Other reserves	(5 068)	(4 663)	(324)	(298)
Undistributed profit	629 037	622 333	40 203	39 774
	<u>809 819</u>	<u>717 970</u>	<u>51 757</u>	<u>45 887</u>
<b>Total owners' equity</b>	<u>815 639</u>	<u>725 170</u>	<u>52 129</u>	<u>46 347</u>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<u>1 635 863</u>	<u>1 253 786</u>	<u>104 551</u>	<u>80 132</u>

**STATEMENT OF CHANGES IN EQUITY**  
unaudited

EEK	Equity attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Mandatory reserve	Other reserves	Undistributed profit	Total		
<b>Closing balance</b>								
<b>31.12.2003</b>	88 500	2 950	8 850	(1 380)	364 903	463 823	4 809	468 632
Exchange rate differences	-	-	-	433	-	433	-	433
Net profit for current period	-	-	-	-	109 799	109 799	1 316	111 115
Dividends	-	-	-	-	(37 170)	(37 170)	(1 600)	(38 770)
Business combinations	-	-	-	-	-	-	404	404
<b>Closing balance</b>								
<b>30.06.2004</b>	88 500	2 950	8 850	(947)	437 532	536 885	4 929	541 814
<b>Closing balance</b>								
<b>31.12.2004</b>	88 500	2 950	8 850	(4 663)	622 333	717 970	7 200	725 170
Exchange rate differences	-	-	-	(405)	-	(405)	-	(405)
Net profit for current period	-	-	-	-	149 779	149 779	1 220	150 999
Bonus issue	88 500	(2 950)	-	-	(85 550)	-	-	-
Dividends	-	-	-	-	(57 525)	(57 525)	(2 600)	(60 125)
<b>Closing balance</b>								
<b>30.06.2005</b>	177 000	-	8 850	(5 068)	629 037	809 819	5 820	815 639

EUR	Equity attributable to parent company's shareholders						Minority interest	Total
	Share capital	Share premium	Mandatory reserve	Other reserves	Undistributed profit	Total		
<b>Closing balance</b>								
<b>31.12.2003</b>	5 656	189	566	(88)	23 321	29 644	307	29 951
Exchange rate differences	-	-	-	28	-	28	-	28
Net profit for current period	-	-	-	-	7 017	7 017	84	7 101
Dividends	-	-	-	-	(2 376)	(2 376)	(102)	(2 478)
Business combinations	-	-	-	-	-	-	26	26
<b>Closing balance</b>								
<b>30.06.2004</b>	5 656	189	566	(60)	27 962	34 313	315	34 628
<b>Closing balance</b>								
<b>31.12.2004</b>	5 656	189	566	(298)	39 774	45 887	460	46 347
Exchange rate differences	-	-	-	(26)	-	(26)	-	(26)
Net profit for current period	-	-	-	-	9 573	9 573	78	9 651
Bonus issue	5 656	(189)	-	-	(5 467)	-	-	-
Dividends	-	-	-	-	(3 677)	(3 677)	(166)	(3 843)
<b>Closing balance</b>								
<b>30.06.2005</b>	11 312	-	566	(324)	40 203	51 757	372	52 129

According to the decision of the annual general meeting of shareholders held on April 28, 2005, the share capital of the company was increased in May by EEK 88 500 000 (EUR 5 656 000) by means of a bonus issue on account of a premium paid in the course of previous share issues (EEK 2 950 000 i.e. EUR 189 000) and the retained earnings of the previous financial years (EEK 85 550 00 i.e. EUR 5 467 000) issuing 8 850 000 new common shares with a nominal value of EEK 10 i.e. EUR 0.64. As a result of this, the current 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 6 months	2004 6 months	2005 6 months	2004 6 months
<b>Net cash from operating activities</b>				
Operating profit	152 578	120 556	9 752	7 705
Adjustments:				
depreciation and amortisation	7 231	6 830	462	436
(profit) loss from disposals of fixed assets	(242)	239	(15)	15
(profit) loss from disposal of units	-	(11 651)	-	(745)
adjustments of revenues from construction contracts according to the percentage of completion method	(72 915)	34 475	(4 660)	2 203
changes in provisions	(1 951)	(95)	(125)	(6)
Change in receivables and prepayments concerning operating activities	(20 460)	141 914	(1 308)	9 070
Change in inventories	(124 466)	(21 474)	(7 955)	(1 372)
Change in liabilities and prepayments concerning operating activities	182 773	(63 986)	11 681	(4 089)
Interests and other financial expenses paid	(2 027)	(1 164)	(130)	(74)
Other financial income received	3 879	-	248	-
Paid company income tax	(17 794)	(7 987)	(1 137)	(510)
	<u>106 606</u>	<u>197 657</u>	<u>6 813</u>	<u>12 633</u>
<b>Net cash spent in investing activities</b>				
Acquisition of subsidiaries	(10 522)	(2 440)	(673)	(156)
Acquisition of associate companies	-	(44)	-	(3)
Disposal of associate companies	5 550	-	355	-
Acquisition of other financial investments	(10)	-	(1)	-
Disposal of units	-	(2 900)	-	(185)
Acquisition of real estate investments	(63)	(15 591)	(4)	(996)
Disposal of real estate investments	13 065	-	835	-
Acquisition of tangible assets	(73 537)	(36 245)	(4 700)	(2 316)
Disposal of tangible assets	1 426	919	91	59
Acquisition of intangible assets	(1 446)	(11)	(92)	(1)
Granted loans	(107 463)	(47 952)	(6 868)	(3 065)
Received loan payments	38 127	556	2 437	35
Received interests	1 484	2 467	95	158
Received dividends	3 323	1 679	212	107
	<u>(130 066)</u>	<u>(99 562)</u>	<u>(8 313)</u>	<u>(6 363)</u>
<b>Net cash spent in financing activities</b>				
Loans drawn	67 795	-	4 333	-
Repayments of loans	(10 694)	(9 263)	(683)	(592)
Repayments of finance lease liabilities	(2 871)	(1 638)	(183)	(105)
Received from share issue	-	105	-	7
Dividends paid	(60 128)	(38 770)	(3 843)	(2 478)
	<u>(5 898)</u>	<u>(49 566)</u>	<u>(376)</u>	<u>(3 168)</u>
<b>Change in cash and cash equivalents</b>	(29 358)	48 529	(1 876)	3 102
Cash and cash equivalent at the beginning of the period	141 812	240 152	9 063	15 348
Effects of exchange rate differences	(1 358)	627	(87)	40
<b>Cash and cash equivalent at the end of the period</b>	<u>111 096</u>	<u>289 308</u>	<u>7 100</u>	<u>18 490</u>



**NOTES**

**Note 1 Business- and geographical segments**

**Business segments**

2005 6 months	Construc- tion	Road construction	Production of concrete	Construc- tion of networks	Group
Sales	1 380 927	71 863	-	-	1 452 790
Operating profit of the business segment	143 182	9 396	-	-	152 578
Financial items incl. profit (loss) from associate companies	5 706	1 923	4 203	(829)	11 003
Profit before taxes					169 618
Income tax					(18 619)
Net profit for the Group					150 999
incl. net profit attributable to parent company					149 779
net profit attributable to minority shareholders					1 220
Segment assets	1 399 869	110 850	-	-	1 510 719
Associate companies	2 819	-	18 845	3 752	25 416
Unallocated assets					99 728
Consolidated total assets					1 635 863
Segment liabilities	682 468	57 040	-	-	739 508
Unallocated liabilities					80 716
Consolidated total liabilities					820 224
Acquisition of real estate investments	63	-	-	-	63
Acquisition of tangible and intangible assets	72 761	6 142	-	-	78 903
Depreciation and amortisation	4 029	3 202	-	-	7 231

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
Estonia	1 100 837	1 049 243	39	14 270
Latvia	266 033	445 936	24	64 477
Lithuania	85 920	140 684	-	156
<b>Total</b>	<b>1 452 790</b>	<b>1 635 863</b>	<b>63</b>	<b>78 903</b>

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.

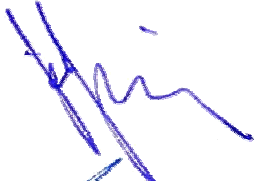
	<b>2005 6 months</b>
Net profit attributable to parent company's shareholders (in thousand kroons)	149 779
Weighted average number of ordinary shares (thousand items)	17 700
<b>Basic net earnings per share</b> (in kroons)	<u>8,46</u>

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 6M interim report 2005 as presented on pages 2 to 10.

The interim report has been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) and it presents a true and fair view of the financial position, financial results and cash flows of the company. The Board confirms that AS Merko Ehitus is a going concern.

Tõnu Toomik	Chairman of the Board		August 11, 2005
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Alar Lagus	Member of the Board		August 11, 2005
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Veljo Viitmann	Member of the Board		August 11, 2005
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Jaan Mäe	Member of the Board		August 11, 2005
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