

AS MERKO EHITUS  
GROUP

Consolidated interim report 9M 2005

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Primary activity: General contracting in construction sector

Auditor: AS PricewaterhouseCoopers

## COMMENTARY TO 9M 2005 FINANCIAL RESULTS

Third quarter proved profitable for Merko Ehitus Group due to successful housing construction development activities and improved turnover in Latvia and Lithuania. Group's unaudited net sales amounted to 2 476.5 million kroons (158.3 million euro) increasing by 10.9% as compared to the previous year. Group's net profit for the first nine months amounted to 302.8 million kroons (19.4 million euro) of which 249.0 million kroons was gained from construction and real estate development activities, 28.0 million kroons from disposal of surplus real estate and 25.8 million kroons as financial income. 38.9 million kroons of net profit was gained from extraordinary operations of which 28.0 million kroons originated from disposal of real estate and 10.9 million kroons from disposal of holdings.

However, current shortage on the workforce and building materials market together with the subsequent rapid rise in prices may slow down construction sector's future development substantially regardless of ongoing good demand and stable economic growth.

Most important companies of the Group 9M 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	1 398 026	89 350	1 389 298	88 792
AS Gustaf (100% partnership)	54 568	3 488	46 917	2 999
OÜ Gustaf Tallinn (80% partnership)	61 455	3 928	59 697	3 815
AS Merko Tartu (66% partnership)	159 713	10 207	155 764	9 955
Tallinna Teede AS (100% partnership)	171 228	10 943	153 460	9 808
<b>Construction</b>				
AS Normanni Linnagrupp (50% partnership)	11 053	735	-	-
<b>Production of concrete</b>				
AS Tartu Maja Betoontooted (25% partnership)	169 070	10 806	-	-
<b>Communication networks</b>				
AS Telegrupp (45% partnership)	51 720	3 305	-	-
Latvian companies				
<b>Construction</b>				
SIA Merks (100% partnership)	458 891	29 329	453 874	29 008
Lithuanian companies				
<b>Construction</b>				
UAB Merko Statyba (100% partnership)	167 283	10 691	166 383	10 634

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

	2005 9 months	2004 9 months
Net profit margin	10,7 % *	7,9 % *
Operating profit margin	12,2 %	8,4 %
Return on equity (per year)	48,1 %	46,4 %
Return on assets (per year)	24,8 %	20,7 %
Current ratio	1,8	1,6
Equity-to-assets ratio	47,9 %	48,3 %
The share of general expenses in sales	4,0 %	3,1 %
The share of labor costs in sales	6,6 %	6,2 %

\* without extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit x 4/3\* / Average equity during the period\*

Return on assets: Net profit x 4/3\* / 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 labor costs in sales: Labor costs / Sales

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

Year 2005 9M interim consolidated and unaudited income statement and balance sheet are compiled in accordance with the principles of the International Financial Reporting Standards (IFRS).

**INCOME STATEMENT**  
consolidated, unaudited

	Note	EEK		EUR	
		2005 9 months	2004 9 months	2005 9 months	2004 9 months
Sales	1	2 476 548	2 232 593	158 280	142 689
Sales costs		(2 075 067)	(1 976 331)	(132 621)	(126 311)
<b>Gross profit</b>		401 481	256 262	25 659	16 378
Marketing expenses		(15 449)	(11 415)	(987)	(729)
Administrative expenses		(83 666)	(57 125)	(5 347)	(3 651)
Other operating income		1 711	12 960	109	828
Other operating expenses		(1 546)	(2 418)	(99)	(155)
<b>Operating profit</b>		302 531	198 264	19 335	12 671
Financial income and expenses		25 887	1 241	1 655	80
incl. financial income (expenses) from investments in subsidiaries		5 143	(299)	329	(19)
financial income (expenses) from investments in associate companies		14 358	10 900	918	697
financial income and expenses from other long-term financial investments		2 714	147	173	9
interest expense		(2 869)	(6 077)	(183)	(387)
foreign exchange gain		(584)	2 697	(37)	172
other financial income and expenses		7 125	(6 127)	455	(392)
<b>Profit before taxes</b>		328 418	199 505	20 990	12 751
Income tax		(23 035)	(10 025)	(1 472)	(641)
<b>Net profit for current period</b>		305 383	189 480	19 518	12 110
incl. net profit attributable to parent company		302 846	187 715	19 356	11 997
net profit attributable to minority shareholders		2 537	1 765	162	113
Parent company's net profit per share (basic and diluted, in EEK and EUR)	2	17,11	10,61	1,09	0,68

**INCOME STATEMENT**  
consolidated, unaudited

	EEK		EUR	
	2005 III quarter	2004 III quarter	2005 III quarter	2004 III quarter
Sales	1 023 758	733 957	65 430	46 908
Sales costs	(840 328)	(631 561)	(53 707)	(40 364)
<b>Gross profit</b>	183 430	102 396	11 723	6 544
Marketing expenses	(5 080)	(3 645)	(325)	(233)
Administrative expenses	(28 985)	(20 170)	(1 852)	(1 289)
Other operating income	911	449	58	29
Other operating expenses	(322)	(1 321)	(20)	(84)
<b>Operating profit</b>	149 954	77 709	9 584	4 967
Financial income and expenses	8 847	2 228	565	142
incl. financial income (expenses) from investments in subsidiaries	5 143	-	329	-
financial income (expenses) from investments in associate companies	3 355	7 661	214	490
financial income and expenses from other long-term financial investments	1 426	97	91	6
interest expense	(1 776)	(5 208)	(113)	(333)
foreign exchange gain	(464)	2 082	(30)	133
other financial income and expenses	1 163	(2 404)	74	(154)
<b>Profit before taxes</b>	158 801	79 937	10 149	5 109
Income tax	(4 417)	(1 572)	(282)	(100)
<b>Net profit for current period</b>	154 384	78 365	9 867	5 009
incl. net profit attributable to parent company	153 067	77 916	9 783	4 980
net profit attributable to minority shareholders	1 317	449	84	29
Parent company's net profit per share (basic and diluted, in EEK and EUR)	8,65	4,40	0,55	0,28

**BALANCE SHEET**  
consolidated, unaudited

	EEK		EUR	
	30.09.05	31.12.04	30.09.05	31.12.04
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	92 422	141 812	5 907	9 063
Short-term financial investments	655	11 775	42	753
Receivables and prepayments				
Accounts receivable	405 980	256 834	25 947	16 415
Prepaid taxes and tax refund	33 817	17 859	2 161	1 141
Due from customers	346 377	117 180	22 137	7 489
Other short-term receivables	197 864	78 117	12 646	4 993
Prepayments for services	55 291	29 175	3 534	1 865
	<u>1 039 329</u>	<u>499 165</u>	<u>66 425</u>	<u>31 903</u>
Inventories				
Raw materials	1 033	1 506	66	96
Work-in-progress	44 174	29 738	2 823	1 901
Finished goods	1 209	1 209	77	77
Merchandise purchased for resale	437 718	279 896	27 975	17 889
Prepayments for inventories	41 910	38 983	2 679	2 491
	<u>526 044</u>	<u>351 332</u>	<u>33 620</u>	<u>22 454</u>
<b>Total current assets</b>	<u>1 658 450</u>	<u>1 004 084</u>	<u>105 994</u>	<u>64 173</u>
<b>Non-current assets</b>				
Long-term financial investments				
Shares in associated companies	28 771	35 446	1 838	2 265
Other shares and securities	10	-	1	-
Long-term receivables	15 395	19 992	984	1 278
	<u>44 176</u>	<u>55 438</u>	<u>2 823</u>	<u>3 543</u>
Real estate investments				
Land	35 635	56 920	2 277	3 638
Buildings	2 814	3 042	180	195
Prepayments for real estate investments	-	1 427	-	91
	<u>38 449</u>	<u>61 389</u>	<u>2 457</u>	<u>3 924</u>
Tangible assets				
Land	145	145	9	9
Buildings	16 347	4 471	1 045	286
Ground lease	384	391	25	25
Plant and equipment	51 321	47 886	3 280	3 060
Other tangible assets	18 337	15 589	1 172	996
Buildings in process and prepayments	177 926	63 283	11 372	4 045
	<u>264 460</u>	<u>131 765</u>	<u>16 903</u>	<u>8 421</u>
Intangible assets				
Goodwill	1 110	(706)	71	(45)
Development expenses	7	13	0	1
Other intangible assets	1 246	580	80	37
Prepayments for intangible assets	2 299	1 223	147	78
	<u>4 662</u>	<u>1 110</u>	<u>298</u>	<u>71</u>
<b>Total non-currents assets</b>	<u>351 747</u>	<u>249 702</u>	<u>22 481</u>	<u>15 959</u>
<b>TOTAL ASSETS</b>	<u>2 010 197</u>	<u>1 253 786</u>	<u>128 475</u>	<u>80 132</u>

	EEK		EUR	
	30.09.05	31.12.04	30.09.05	31.12.04
<b>LIABILITIES AND OWNERS' EQUITY</b>				
<b>Current liabilities</b>				
Raised loans				
Short-term loans and bonds	77 299	7 722	4 940	494
Long-term loans payable in the following period	5 893	4 856	377	310
	<u>83 192</u>	<u>12 578</u>	<u>5 317</u>	<u>804</u>
Liabilities and prepayments				
Accounts payable to suppliers	355 052	211 034	22 692	13 487
Payables to employees	30 169	30 630	1 928	1 958
Tax liabilities	33 426	11 429	2 136	730
Due to customers	217 461	153 974	13 898	9 841
Other payables	8 660	14 298	554	914
Received prepayments	171 656	66 805	10 971	4 270
	<u>816 424</u>	<u>488 170</u>	<u>52 179</u>	<u>31 200</u>
Current provisions				
Provisions to construction warranty liability	5 888	5 027	376	321
Other current provisions	200	757	13	48
	<u>6 088</u>	<u>5 784</u>	<u>389</u>	<u>369</u>
<b>Total current liabilities</b>	<u>905 704</u>	<u>506 532</u>	<u>57 885</u>	<u>32 373</u>
<b>Non-current liabilities</b>				
Loans, bonds and finance lease liabilities	123 937	14 046	7 921	898
Other long-term payables	10 503	8 038	671	514
<b>Total non-current liabilities</b>	<u>134 440</u>	<u>22 084</u>	<u>8 592</u>	<u>1 412</u>
<b>Total liabilities</b>	<u>1 040 144</u>	<u>528 616</u>	<u>66 477</u>	<u>33 785</u>
<b>Owners' equity</b>				
Minority interests	7 137	7 200	456	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	(5 038)	(4 663)	(322)	(298)
Undistributed profit	782 104	622 333	49 986	39 774
	<u>962 916</u>	<u>717 970</u>	<u>61 542</u>	<u>45 887</u>
<b>Total owners' equity</b>	<u>970 053</u>	<u>725 170</u>	<u>61 998</u>	<u>46 347</u>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<u>2 010 197</u>	<u>1 253 786</u>	<u>128 475</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 31.12.2003</b>	88 500	2 950	8 850	(1 380)	364 903	463 823	4 809	468 632
Exchange rate differences	-	-	-	(283)	-	(283)	-	(283)
Net profit for current period	-	-	-	-	187 715	187 715	1 765	189 480
Dividends	-	-	-	-	(37 170)	(37 170)	(1 600)	(38 770)
Business combinations	-	-	-	-	-	-	399	399
<b>Closing balance 30.09.2004</b>	88 500	2 950	8 850	(1 663)	515 448	614 085	5 373	619 458
<b>Closing balance 31.12.2004</b>	88 500	2 950	8 850	(4 663)	622 333	717 970	7 200	725 170
Exchange rate differences	-	-	-	(375)	-	(375)	-	(375)
Net profit for current period	-	-	-	-	302 846	302 846	2 537	305 383
Bonus issue	88 500	(2 950)	-	-	(85 550)	-	-	-
Dividends	-	-	-	-	(57 525)	(57 525)	(2 600)	(60 125)
<b>Closing balance 30.09.2005</b>	177 000	-	8 850	(5 038)	782 104	962 916	7 137	970 053

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 31.12.2003</b>	5 656	189	566	(88)	23 321	29 644	307	29 951
Exchange rate differences	-	-	-	(18)	-	(18)	-	(18)
Net profit for current period	-	-	-	-	11 997	11 997	113	12 110
Dividends	-	-	-	-	(2 376)	(2 376)	(102)	(2 478)
Business combinations	-	-	-	-	-	-	25	25
<b>Closing balance 30.09.2004</b>	5 656	189	566	(106)	32 942	39 247	343	39 590
<b>Closing balance 31.12.2004</b>	5 656	189	566	(298)	39 774	45 887	460	46 347
Exchange rate differences	-	-	-	(24)	-	(24)	-	(24)
Net profit for current period	-	-	-	-	19 355	19 355	162	19 517
Bonus issue	5 656	(189)	-	-	(5 467)	-	-	-
Dividends	-	-	-	-	(3 676)	(3 676)	(166)	(3 842)
<b>Closing balance 30.09.2005</b>	11 312	-	566	(322)	49 986	61 542	456	61 998

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 9 months	2004 9 months	2005 9 months	2004 9 months
<b>Net cash from operating activities</b>				
Operating profit	302 532	198 264	19 335	12 671
Adjustments:				
depreciation and amortisation	11 739	11 126	750	711
(profit) loss from disposals of fixed assets	(327)	(522)	(21)	(33)
(profit) loss from disposal of units	-	(11 651)	-	(745)
adjustments of revenues from construction contracts according to the percentage of completion method	(171 601)	(29 122)	(10 967)	(1 861)
changes in provisions	(1 257)	861	(80)	55
Change in receivables and prepayments concerning operating activities	(111 376)	52 610	(7 118)	3 362
Change in inventories	(157 270)	(131 821)	(10 051)	(8 425)
Change in liabilities and prepayments concerning operating activities	291 334	(14 350)	18 620	(917)
Interests and other financial expenses paid	(3 412)	(1 482)	(218)	(95)
Other financial income received	3 689	-	236	-
Paid company income tax	(19 268)	(9 635)	(1 232)	(616)
	<u>144 783</u>	<u>64 278</u>	<u>9 254</u>	<u>4 107</u>
<b>Net cash spent in investing activities</b>				
Acquisition of subsidiaries	(23 447)	(2 413)	(1 499)	(154)
Disposal of subsidiaries	4 534	700	290	45
Acquisition of associate companies	-	(417)	-	(27)
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)	(17 018)	(4)	(1 088)
Disposal of real estate investments	13 065	-	835	-
Acquisition of tangible assets	(140 441)	(42 254)	(8 976)	(2 700)
Disposal of tangible assets	1 347	978	86	63
Acquisition of intangible assets	(1 959)	(873)	(125)	(56)
Granted loans	(233 749)	(62 394)	(14 939)	(3 988)
Received loan payments	86 689	406	5 540	26
Received interests	4 345	3 709	278	237
Received dividends	3 323	1 679	212	107
	<u>(280 816)</u>	<u>(120 797)</u>	<u>(17 948)</u>	<u>(7 720)</u>
<b>Net cash spent in financing activities</b>				
Loans drawn	155 818	-	9 959	-
Repayments of loans	(2 631)	(9 063)	(168)	(579)
Repayments of finance lease liabilities	(4 523)	(2 447)	(289)	(156)
Received from share issue	-	105	-	7
Dividends paid	(60 128)	(38 770)	(3 843)	(2 478)
	<u>88 036</u>	<u>(50 175)</u>	<u>5 627</u>	<u>(3 206)</u>
<b>Change in cash and cash equivalents</b>	(47 497)	(106 694)	(3 035)	(6 819)
Cash and cash equivalent at the beginning of the period	141 812	240 152	9 063	15 349
Effects of exchange rate differences	(1 893)	(156)	(121)	(10)
<b>Cash and cash equivalent at the end of the period</b>	<u>92 422</u>	<u>133 302</u>	<u>5 907</u>	<u>8 520</u>



**NOTES**

**Note 1 Business- and geographical segments**

**Business segments**

2005 9 months	Construc- tion	Road construction	Production of concrete	Construc- tion of networks	Group
Sales	2 305 320	171 228	-	-	2 476 548
Operating profit of the business segment	282 505	20 026	-	-	302 531
Financial items					25 887
incl. profit (loss) from associate companies	5 620	1 923	7 545	(730)	14 358
Profit before taxes					328 418
Income tax					(23 035)
Net profit for the Group					305 383
incl. net profit attributable to parent company					302 846
net profit attributable to minority shareholders					2 537
Segment assets	1 815 765	135 916	-	-	1 951 681
Associate companies	2 732	-	22 187	3 852	28 771
Unallocated assets					29 745
Consolidated total assets					2 010 197
Segment liabilities	784 567	68 973	-	-	853 540
Unallocated liabilities					186 604
Consolidated total liabilities					1 040 144
Acquisition of real estate investments	4 934	-	-	-	4 934
Acquisition of tangible and intangible assets	139 996	8 374	-	-	148 370
Depreciation and amortisation	3 717	8 022	-	-	11 739

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	1 850 374	1 069 104	4 910	16 963
Latvia	458 891	732 201	24	131 054
Lithuania	167 283	208 892	-	353
<b>Total</b>	<b>2 476 548</b>	<b>2 010 197</b>	<b>4 934</b>	<b>148 370</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 9 months</b>
Net profit attributable to parent company's shareholders (in thousand kroons)	302 846
Weighted average number of ordinary shares (thousand items)	17 700
<b>Basic net earnings per share</b> (in kroons)	<u>17,11</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 9M 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  November 11, 2005

Alar Lagus Member of the Board  November 11, 2005

Veljo Viitmann Member of the Board  November 11, 2005

Jaan Mäe Member of the Board  November 11, 2005

Andres Agukas Member of the Board  November 11, 2005