

AS MERKO EHITUS  
GROUP

Consolidated interim report Q1 2002

## COMMENTARY TO FIRST QUARTER 2002 FINANCIAL RESULTS

Merko Ehitus group 2002 first quarter consolidated and unaudited net sales amounted to 293,7 million EEK (18,8 million EUR), and net profit was 18,8 million EEK (1,2 million EUR). The respective figures year ago were net sales of 255,6 million EEK (16,3 million EUR) and net profit of 15,3 million EEK (979 thousand EUR).

Merko Ehitus group deals in the field of construction and with activities concerned to that, in Estonia, Latvia and Lithuania. Companies of the group Q1 2002 net sales and consolidated net sales (sales outside the group) were (in thousand EEK):

	Net Sales	Including consolidated net sales
Estonian companies		
<b>Construction</b>		
AS Merko Ehitus	178 233	177 508
AS Gustaf (100% partnership)	28 996	28 457
AS Merko Tartu (66% partnership)	17 193	17 193
<b>Production of structures for small houses</b>		
OÜ Matek (71,6% partnership)	5 181	5 181
<b>Road construction</b>		
Tallinna Teede AS (100% partnership)	9 147	9 147
<b>Construction</b>		
AS Normanni Linnagrupp (50% partnership)	-	-
AS Insenerivõrgud (50% partnership)	-	-
<b>Production of concrete</b>		
AS Tartu Maja Betoontooted (25% partnership)	21 996	-
Latvian companies		
<b>Construction</b>		
SIA Merks (100% partnership)	33 839	33 839
Lithuanian companies		
<b>Construction</b>		
UAB Merko Statyba (100% partnership)	22 360	22 360

Companies of the group Q1 2002 net sales and consolidated net sales (sales outside the group) were (in thousand EUR):

	Net Sales	Including consolidated net sales
Estonian companies		
<b>Construction</b>		
AS Merko Ehitus	11 391	11 345
AS Gustaf (100% partnership)	1 853	1 819
AS Merko Tartu (66% partnership)	1 099	1 099
<b>Production of structures for small houses</b>		
OÜ Matek (71,6% partnership)	331	331
<b>Road construction</b>		
Tallinna Teede AS (100% partnership)	585	585
<b>Construction</b>		
AS Normanni Linnagrupp (50% partnership)	0	-
AS Insenerivõrgud (50% partnership)	0	-
<b>Production of concrete</b>		
AS Tartu Maja Betoontooted (25% partnership)	1 406	-
Latvian companies		
<b>Construction</b>		
SIA Merks (100% partnership)	2 163	2 163
Lithuanian companies		
<b>Construction</b>		
UAB Merko Statyba (100% partnership)	1 429	1 429

Merko Ehitus group Q1 2002 consolidated data illustrating financial ratios were:

	Q1 2002	Q1 2001
Net profit margin	6,4 %	6,0 %
Operating profit margin	5,8 %	5,5 %
Return on equity (per year)	30,3%	35,7%
Return on assets (per year)	14,5%	13,9%
Current ratio	1,7	1,6
Invoice turnover (per year)	7,8	9,4
Equity-to-assets ratio	49 %	44 %

Year 2002 Q1 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. For the first time real estate investments are reverberated in balance sheet as separate subdivision. Real estate investments are reported at purchase price.

in thousand EEK and EUR

**CONSOLIDATED INCOME STATEMENT**

unaudited

	Note	EEK		EUR	
		2002.a. 3 months	2001.a. 3 months	2002.a. 3 months	2001.a. 3 months
Sales	1	293 684	255 642	18 770	16 338
Cost of sales		262 429	231 694	16 772	14 808
<b>Gross profit</b>		31 255	23 948	1 998	1 531
Marketing expenses		2 824	2 404	180	154
Administrative expenses		11 816	8 850	755	566
Other operating income		1 149	1 984	73	127
Other operating expenses		586	696	37	44
<b>Operating profit</b>		17 178	13 982	1 098	894
Financial income from stocks of associated companies		522	24	33	2
incl. Equity method gains		522	24	33	2
Foreign exchange gain		1 267	2 126	81	136
Other interest and similar income		915	1 586	58	101
Total financial income		2 704	3 736	173	239
Financial expenses related to associated companies		182	724	12	46
incl. Equity method gains		182	724	12	46
Interest expense		88	44	6	3
Foreign exchange loss		914	1 257	58	80
Other financial expenses		14	46	1	3
Total financial expenses		1 198	2 071	77	132
<b>Profit (- loss) from normal operations</b>		18 684	15 647	1 194	1 000
Net profit (- loss) for the financial year		<u>18 684</u>	<u>15 647</u>	<u>1 194</u>	<u>1 000</u>
Minority interest		-104	325	-7	21
<b>Net profit (- loss) for the group</b>		<u>18 788</u>	<u>15 322</u>	<u>1 201</u>	<u>979</u>
Net profit (- loss) per share ( basic and diluted, in EEK and EUR)	2	2,12	1,73	0,14	0,11

in thousand EEK and EUR

**CONSOLIDATED BALANCE SHEET**

unaudited

ASSETS	EEK		EUR	
	31.03.02	31.12.01	31.03.02	31.12.01
Cash and cash equivalents	37 739	60 814	2 412	3 887
Marketable securities	35 123	18 516	2 245	1 183
Accounts receivable	150 903	186 861	9 644	11 943
Allowance for doubtful receivables	-38	-53	-2	-3
Total accounts receivable	150 865	186 808	9 642	11 939
Receivables from subsidiary and parent companies	1 735	1 735	111	111
Receivables from associated companies	6 941	6 941	444	444
Other short-term receivables	39 165	43 112	2 503	2 755
Total other receivables	47 841	51 788	3 058	3 310
Interest receivable	1 318	739	84	47
Other accrued income	106	254	7	16
Total accrued income	1 424	993	91	63
Prepaid taxes	10 838	6 850	693	438
Other prepaid expenses	3 005	1 534	192	98
Total prepaid expenses	13 843	8 384	885	536
Raw materials	1 942	4 041	124	258
Work-in-progress	7 141	9 092	456	581
Finished goods	1 436	855	92	55
Merchandise purchased for resale	38 319	32 667	2 449	2 088
Prepayments to suppliers	13 069	567	835	36
Construction-in-progress	12 776	5 821	817	372
Due from customers	63 015	35 281	4 027	2 255
Total inventories	137 698	88 324	8 800	5 645
<b>Total current assets</b>	<b>424 533</b>	<b>415 627</b>	<b>27 133</b>	<b>26 563</b>
Shares in associated companies	12 281	12 489	785	798
Long-term receivables from associated companies	468	100	30	6
Other shares, holdings and debt securities	1 800	1 800	115	115
Long-term accounts receivable	488	-	31	-
Miscellaneous long-term receivables	7 667	7 588	490	485
Total long-term financial assets	22 704	21 977	1 451	1 405
Buildings	26 934	26 934	1 721	1 721
Accumulated real-estate investments depreciation	-7 294	-6 755	-466	-432
Prepayments for real-estate investments	15 855	10 655	1 013	681
Total real-estate investments	35 495	30 834	2 269	1 971
Land and buildings	16 116	16 086	1 030	1 028
Ground lease	458	458	29	29
Plant and equipment	62 279	64 064	3 980	4 094
Other equipment and fixtures	16 792	16 105	1 073	1 029
Accumulated depreciation	-46 997	-46 914	-3 004	-2 998
Self-constructed physical assets under construction	188	173	12	11
Total non-current physical assets	48 836	49 972	3 121	3 194
Purchased concessions, patents, licenses, etc.	95	97	6	6
Goodwill	-6 434	-6 773	-411	-433
Total intangible assets	-6 339	-6 676	-405	-427
<b>Total non-current assets</b>	<b>100 696</b>	<b>96 107</b>	<b>6 436</b>	<b>6 142</b>
<b>TOTAL ASSETS</b>	<b>525 229</b>	<b>511 734</b>	<b>33 568</b>	<b>32 706</b>

	EEK		EUR	
	31.03.02	31.12.01	31.03.02	31.12.01
<b>LIABILITIES AND OWNERS' EQUITY</b>				
Debentures (except bank loans)	12 636	4 533	808	290
Short-term loans from financial institutions	7	8	0	1
Total debt obligations	12 643	4 541	808	290
Customer prepayments	15 065	9 865	963	630
Accounts payable to suppliers	93 373	122 504	5 968	7 829
Payables to associated companies	226	1 493	14	95
Tax liabilities	6 451	11 842	412	757
Payables to employees	11 296	10 165	722	650
Dividends payable	1 595	-	102	-
Interest payable	4	10	0	1
Other accrued expenses	536	941	34	60
Total accrued expenses	13 431	11 116	858	710
Provisions for construction warranty liability	4 136	3 737	264	239
Due to customers	106 561	94 572	6 810	6 044
Other current provisions	158	155	10	10
Total current provisions	110 855	98 464	7 085	6 293
<b>Total current liabilities</b>	252 044	259 825	16 109	16 606
Non-convertible debt	4 204	204	269	13
Accounts payable to suppliers	7 596	7 478	485	478
<b>Total non-current liabilities</b>	11 800	7 682	754	491
<b>TOTAL LIABILITIES</b>	263 844	267 507	16 863	17 097
Minority interests	3 989	5 829	255	373
<b>OWNERS' EQUITY</b>				
Share capital	88 500	88 500	5 656	5 656
Share premium	2 950	2 950	189	189
Mandatory legal reserve	8 205	8 205	524	524
Retained earnings	137 525	49 213	8 789	3 145
Net profit (- loss) for the financial year	18 788	88 312	1 201	5 644
Exchange rate differences	1 428	1 218	91	78
<b>TOTAL OWNERS' EQUITY</b>	257 396	238 398	16 451	15 236
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	525 229	511 734	33 568	32 706

*in thousand EEK and EUR*

**STATEMENT OF CHANGES IN EQUITY**

unaudited

EEK	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
<b>Closing balance 31.12.00</b>	88 500	2 950	4 875	541	66 601	163 467
Exchange rate differences	-	-	-	623	-	623
Net profit (-loss) for the financial year	-	-	-	-	15 322	15 322
<b>Closing balance 31.03.01</b>	88 500	2 950	4 875	1 164	81 923	179 412
<b>Closing balance 31.12.01</b>	88 500	2 950	8 205	1 218	137 525	238 398
Exchange rate differences	-	-	-	210	-	210
Net profit (-loss) for the financial year	-	-	-	-	18 788	18 788
<b>Closing balance 31.03.02</b>	88 500	2 950	8 205	1 428	156 313	257 396
EUR	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
<b>Closing balance 31.12.00</b>	5 656	189	312	35	4 257	10 447
Exchange rate differences	-	-	-	40	-	40
Net profit (-loss) for the financial year	-	-	-	-	979	979
<b>Closing balance 31.03.01</b>	5 656	189	312	74	5 236	11 466
<b>Closing balance 31.12.01</b>	5 656	189	524	78	8 789	15 236
Exchange rate differences	-	-	-	13	-	13
Net profit (-loss) for the financial year	-	-	-	-	1 201	1 201
<b>Closing balance 31.03.02</b>	5 656	189	524	91	9 990	16 451

The share capital of AS Merko Ehitus consists of 8 850 000 common shares which have a par value of EEK 10.

in thousand EEK and EUR

## CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2002.a. 3 months	2001.a. 3 months	2002.a. 3 months	2001.a. 3 months
<b>Operating activities</b>				
<b>Profit from normal operations</b>	18 684	15 647	1 194	1 000
Depreciation	2 805	2 423	179	155
Other adjustments *	-16 782	3 081	-1 073	197
<b>Operating profit before working capital changes</b>	4 707	21 151	301	1 352
<b>Working capital changes</b>				
Marketable securities	-16 581	-13 500	-1 060	-863
Receivables	74 378	79 178	4 754	5 060
Accrued income	149	6	10	0
Prepaid expenses	-5 375	-4 362	-344	-279
Inventories	-14 007	-206	-895	-13
Customer prepayments	5 173	2 985	331	191
Accounts payable to suppliers	-33 235	-73 417	-2 124	-4 692
Other liabilities	-31 802	-1 337	-2 033	-85
Tax liabilities	-5 389	-5 206	-344	-333
Accrued liabilities	362	-734	23	-47
<b>Cash generated from operations</b>	-21 620	4 558	-1 382	291
<b>Interests</b>				
Interests received	258	1 207	16	77
Interests paid	-90	-56	-6	-4
<b>Dividends</b>				
Dividends received	560	-	36	-
<b>Company income tax</b>				
Pre-paid income tax	-207	-	-13	-
<b>Net cash from operating activities</b>	-21 099	5 709	-1 348	365
<b>Investing activities</b>				
Long-term loans made	-2 453	-1 119	-157	-72
Long-term loan payments received	1 822	872	116	56
Acquisition of real-estate investments	-5 200	-	-332	-
Purchase of property, plant and equipment	-1 592	-2 136	-102	-137
Sale of property, plant and equipment	861	7 188	55	459
<b>Net cash used in investing activities</b>	-6 562	4 805	-419	307
<b>Financing activities</b>				
Proceeds from borrowings	10 600	1 407	677	90
Repayments of borrowings	-1 778	-6 851	-114	-438
Repayments of finance lease liabilities	-4 344	-	-278	-
<b>Net cash used in financing activities</b>	4 478	-5 444	286	-348
<b>Total cash flow</b>	-23 183	5 070	-1 482	324
<b>Net increase/decrease in cash and cash equivalents</b>	-23 183	5 070	-1 482	324
Cash and cash equivalents at the beginning of the period	60 814	42 294	3 887	2 703
Effects of exchange rate differences	108	1 927	7	123
Cash and cash equivalents at the end of the period	37 739	49 291	2 412	3 150



**\* Other adjustments**

Adjustments of revenues from construction contracts according to the percentage of completion method	-15 363	5 078	-982	325
Warranty reserve changes	367	-87	23	-6
Vacation reserve changes	350	464	22	30
Profit or loss from disposals or liquidation of property, plant and equipment	-663	-175	-42	-11
Profit or loss from long-term investments	-340	701	-22	45
Value adjustments of marketable securities	-47	-15	-3	-1
Foreign exchange profit or loss	-333	-1 414	-21	-90
Interest income	-837	-1 527	-53	-98
Interest expense	84	56	5	4
<b>Total other adjustments</b>	<b>-16 782</b>	<b>3 081</b>	<b>-1 073</b>	<b>197</b>

## NOTES

### Note 1 Segment information

#### Business segments

Q1 2002	Construction	Production of structures for small houses	Production of concrete	Road construction	Group
Sales	379 356	5 181	-	9 147	293 684
Operating profit of the business segment	17 208	-763	-	733	<u>17 178</u>
Financial items					1 666
incl. profit from associate companies	-182	-	522	-	340
Profit (- loss) for the group from normal operations					18 684
Minority interest					-104
Net profit (- loss) for the financial year					<u>18 788</u>
Segment assets	426 220	10 832	-	54 636	491 688
Associate companies	4 282	-	4 350	3 648	12 280
Unallocated assets					21 261
Consolidated total assets					<u>525 229</u>
Segment liabilities	221 893	8 326	-	27 167	257 386
Unallocated liabilities					6 459
Consolidated total liabilities					<u>263 845</u>
Acquisition of real-estate investments	5 200	-	-	-	5 200
Acquisition of property, plant and equipment and intangible assets	1 434	32	-	126	1 592
Depreciation	1 350	170	-	1 285	2 805

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 real-estate investments	Acquisition of tangible fixed assets
Estonia	231 037	411 163	5 200	1 087
Latvia	35 331	84 344	-	280
Lithuania	23 086	29 722	-	225
Germany	4 002	-	-	-
Denmark	168	-	-	-
Others	60	-	-	-
<b>Total</b>	<u>293 684</u>	<u>525 229</u>	<u>5 200</u>	<u>1 592</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.

*in thousand EEK*

**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.

	<b>Q1 2002</b>
Net profit (loss) attributable to shareholders	18 788
Weighted average number of ordinary shares (thousands)	8 850
<b>Basic net earnings (loss) per share (in EEK)</b>	<u>2.12</u>

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