

AS MERKO EHITUS
GROUP

Consolidated interim report 9M 2002

COMMENTARY TO 9M 2002 FINANCIAL RESULTS

Merko Ehitus group 9M 2002 consolidated and unaudited net sales amounted to 1140,6 million EEK (72,9 million EUR), and net profit was 74,3 million EEK (4,8 million EUR). The respective figures year ago were net sales of 894,9 million EEK (57,2 million EUR) and net profit of 55,9 million EEK (3,6 million 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 9M 2002 net sales and consolidated net sales (sales outside the group) were (in thousand EEK):

	Net sales	including consolidated net sales
Estonian companies		
Construction		
AS Merko Ehitus	717 217	709 244
AS Gustaf (100% partnership)	83 016	79 432
AS Merko Tartu (66% partnership)	68 199	58 927
Tallinna Teede AS (100% partnership)	90 796	86 324
Production of structures for small houses		
OÜ Matek (71,6% partnership)	25 289	24 746
Construction		
AS Normanni Linnagrupp (50% partnership)	2 095	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	91 315	-
Telecommunication		
AS Telegrupp (45% partnership)	29 546	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	63 736	63 736
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	118 162	118 162

Companies of the group 9M 2002 net sales and consolidated net sales (sales outside the group) were (in thousand EUR):

	Net sales	including consolidated net sales
Estonian companies		
Construction		
AS Merko Ehitus	45 838	45 329
AS Gustaf (100% partnership)	5 306	5 077
AS Merko Tartu (66% partnership)	4 359	3 766
Tallinna Teede AS (100% partnership)	5 803	5 517
Production of structures for small houses		
OÜ Matek (71,6% partnership)	1 616	1 582
Construction		
AS Normanni Linnagrupp (50% partnership)	134	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	5 836	-
Telecommunication		
AS Telegrupp (45% partnership)	1 888	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	4 074	4 074
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	7 552	7 552

Merko Ehitus group 9M 2002 consolidated data illustrating financial ratios were:

	9M 2002	9M 2001
Net profit margin	6,5 %	6,2 %
Operating profit margin	6,3 %	6,0 %
Return on equity (per year)	38,6 %	40,4 %
Return on assets (per year)	16,5 %	15,7 %
Current ratio	1,5	1,6
Invoice turnover (per year)	5,2	7,3
Equity-to-assets ratio	39,9 %	43,5 %

Year 2002 9M 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.

in thousand EEK and EUR

CONSOLIDATED INCOME STATEMENT
unaudited

	Note	EEK		EUR	
		2002.a. 9 months	2001.a. 9 months	2002.a. 9 months	2001.a. 9 months
Sales	1	1 140 571	894 868	72 896	57 192
Cost of sales		1 021 130	811 520	65 262	51 865
Gross profit		119 441	83 348	7 634	5 327
Marketing expenses		9 517	9 353	608	598
Administrative expenses		35 208	26 879	2 250	1 718
Other operating income		5 252	7 786	336	498
Other operating expenses		8 117	1 489	519	95
Operating profit		71 851	53 413	4 592	3 414
Financial income from stocks of associated companies		2 124	1 399	136	89
incl. Equity method gains		2 124	1 399	136	89
Income from other non-current financial investment		10	-	1	-
Foreign exchange gain		1 181	3 030	75	194
Other interest and similar income		4 502	5 759	288	368
Total financial income		7 817	10 188	500	651
Financial expenses related to associated companies		591	1 138	38	73
incl. Equity method gains		591	1 138	38	73
Interest expense		444	76	28	5
Foreign exchange loss		3 615	5 407	231	346
Other financial expenses		78	17	5	1
Total financial expenses		4 728	6 638	302	424
Profit (- loss) from normal operations		74 940	56 963	4 790	3 641
Net profit (- loss) for the financial year		<u>74 940</u>	<u>56 963</u>	<u>4 790</u>	<u>3 641</u>
Minority interest		620	1 090	40	70
Net profit (- loss) for the group		<u>74 320</u>	<u>55 873</u>	<u>4 750</u>	<u>3 571</u>
Net profit (- loss) per share (basic and diluted, in EEK and EUR)	2	8,40	6,31	0,54	0,40

in thousand EEK and EUR

CONSOLIDATED BALANCE SHEET

unaudited

	EEK		EUR	
	30.09.02	31.12.01	30.09.02	31.12.01
ASSETS				
Cash and cash equivalents	51 552	60 814	3 295	3 887
Marketable securities	20 965	18 516	1 340	1 183
Accounts receivable	290 393	186 861	18 559	11 943
Allowance for doubtful receivables	-38	-53	-2	-3
Total accounts receivable	290 355	186 808	18 557	11 939
Receivables from parent companies	2	1 735	0	111
Receivables from associated companies	6 118	6 941	391	444
Other short-term receivables	25 864	43 112	1 653	2 755
Total other receivables	31 984	51 788	2 044	3 310
Interest receivable	506	739	32	47
Other accrued income	481	254	31	16
Total accrued income	987	993	63	63
Prepaid taxes	5 491	6 850	351	438
Other prepaid expenses	3 722	1 534	238	98
Total prepaid expenses	9 213	8 384	589	536
Raw materials	2 974	4 041	190	258
Work-in-progress	18 925	9 092	1 210	581
Finished goods	1 571	855	100	55
Merchandise purchased for resale	45 579	32 667	2 913	2 088
Prepayments to suppliers	37 758	567	2 413	36
Construction-in-progress	6 718	5 821	429	372
Due from customers	56 815	35 281	3 631	2 255
Total inventories	170 340	88 324	10 887	5 645
Total current assets	575 396	415 627	36 774	26 563
Shares in associated companies	21 175	12 489	1 353	798
Long-term receivables from associated companies	929	100	59	6
Other shares, holdings and debt securities	12 281	1 800	785	115
Miscellaneous long-term receivables	11 913	7 588	761	485
Long-term accounts receivable	59	0	4	0
Total long-term financial assets	46 357	21 977	2 963	1 405
Land	1 998	797	128	51
Buildings	13 544	26 934	866	1 721
Accumulated real-estate investments depreciation	-4 876	-6 755	-312	-432
Prepayments for real-estate investments	11 655	10 655	745	681
Total real-estate investments	22 321	31 631	1 427	2 022
Land and buildings	7 953	15 289	508	977
Ground lease	6 718	458	429	29
Plant and equipment	65 943	64 064	4 215	4 094
Other equipment and fixtures	18 293	16 105	1 169	1 029
Accumulated depreciation	-48 813	-46 914	-3 120	-2 998
Selfconstructed physical assets under construction	161	173	10	11
Prepayments for non-current physical assets	187	0	12	0
Total non-current physical assets	50 442	49 175	3 224	3 143
Purchased concessions, patents, licenses, etc.	139	97	9	6
Goodwill	-5 757	-6 773	-368	-433
Total intangible assets	-5 618	-6 676	-359	-427
Total non-current assets	113 502	96 107	7 254	6 142
TOTAL ASSETS	688 898	511 734	44 028	32 706

	EEK		EUR	
	30.09.02	31.12.01	30.09.02	31.12.01
LIABILITIES AND OWNERS' EQUITY				
Debentures (except bank loans)	15 266	4 533	976	290
Short-term loans from financial institutions	13	8	1	1
Total debt obligations	15 279	4 541	977	290
Customer prepayments	23 705	9 865	1 515	630
Accounts payable to suppliers	156 341	122 504	9 992	7 829
Payables to associated companies	851	1 493	54	95
Tax liabilities	12 780	11 842	817	757
Payables to employees	13 452	10 165	860	650
Dividends payable	795	-	51	-
Interest payable	2	10	0	1
Other accrued expenses	786	941	50	60
Total accrued expenses	15 035	11 116	961	710
Provisions for construction warranty liability	3 692	3 737	236	239
Due to customers	164 844	94 572	10 535	6 044
Other current provisions	158	155	10	10
Total current provisions	168 694	98 464	10 781	6 293
Total current liabilities	392 685	259 825	25 097	16 606
Non-convertible debt	7 321	204	468	13
Accounts payable to suppliers	9 551	7 478	610	478
Total non-current liabilities	16 872	7 682	1 078	491
TOTAL LIABILITIES	409 557	267 507	26 175	17 097
Minority interests	4 676	5 829	299	373
OWNERS' EQUITY				
Share capital	88 500	88 500	5 656	5 656
Share premium	2 950	2 950	189	189
Mandatory legal reserve	8 850	8 205	566	524
Retained earnings	99 540	49 213	6 362	3 145
Net profit (- loss) for the financial year	74 320	88 312	4 750	5 644
Exchange rate differences	505	1 218	32	78
TOTAL OWNERS' EQUITY	274 665	238 398	17 554	15 236
TOTAL LIABILITIES AND OWNERS' EQUITY	688 898	511 734	44 028	32 706

in thousand EEK and EUR

STATEMENT OF CHANGES IN EQUITY
unaudited, in thousand EEK

EEK	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.00	88 500	2 950	4 875	541	66 601	163 467
Exchange rate differences	-	-	-	327	-	327
Change in reserve capital	-	-	3 330	-	-3 330	-
Dividends	-	-	-	-	-13 275	-13 275
Dividend income tax	-	-	-	-	-783	-783
Net profit (-loss) for the financial year	-	-	-	-	55 873	55 873
Closing balance 30.09.01	88 500	2 950	8 205	868	105 086	205 609
Closing balance 31.12.01	88 500	2 950	8 205	1 218	137 525	238 398
Exchange rate differences	-	-	-	-713	-	-713
Change in reserve capital	-	-	645	-	-645	-
Dividends	-	-	-	-	-35 400	-35 400
Dividend income tax	-	-	-	-	-1 940	-1 940
Net profit (-loss) for the financial year	-	-	-	-	74 320	74 320
Closing balance 30.09.02	88 500	2 950	8 850	505	173 860	274 665
EUR	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.00	5 656	189	311	35	4 256	10 447
Exchange rate differences	-	-	-	21	-	21
Change in reserve capital	-	-	213	-	-213	-
Dividends	-	-	-	-	-848	-848
Dividend income tax	-	-	-	-	-50	-50
Net profit (-loss) for the financial year	-	-	-	-	3 571	3 571
Closing balance 30.09.01	5 656	189	524	56	6 716	13 141
Closing balance 31.12.01	5 656	189	524	78	8 789	15 236
Exchange rate differences	-	-	-	-46	-	-46
Change in reserve capital	-	-	41	-	-41	-
Dividends	-	-	-	-	-2 262	-2 262
Dividend income tax	-	-	-	-	-124	-124
Net profit (-loss) for the financial year	-	-	-	-	4 750	4 750
Closing balance 30.09.02	5 656	189	566	32	11 112	17 554

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. 9 months	2001.a. 9 months	2002.a. 9 months	2001.a. 9 months
Operating activities				
Profit from normal operations	74 940	56 963	4 790	3 641
Depreciation	8 442	6 518	540	417
Other adjustments *	48 117	18 612	3 075	1 190
Operating profit before working capital changes	131 499	82 093	8 404	5 247
Working capital changes				
Marketable securities	-2 510	34 701	-160	2 218
Receivables	-74 732	1 560	-4 776	100
Accrued income	-226	3	-14	0
Prepaid expenses	257	-2 882	16	-184
Inventories	-53 979	-40 866	-3 450	-2 612
Customer prepayments	13 904	-12 833	889	-820
Accounts payable to suppliers	38 559	-35 735	2 464	-2 284
Other liabilities	-1 768	187	-113	12
Tax liabilities	1 038	-4 043	66	-258
Accrued liabilities	1 975	1 086	126	69
Cash generated from operations	54 017	23 271	3 452	1 487
Interests				
Interests received	2 594	4 110	166	263
Interests paid	-2 012	-59	-129	-4
Dividends				
Dividends received	1 635	8	104	1
Company income tax				
Income tax paid for the previous financial year	-	-803	-	-51
Pre-paid income tax	-1 361	-335	-87	-21
Net cash from operating activities	54 873	26 192	3 507	1 674
Investing activities				
Acquisition of associates	-6 434	-893	-411	-57
Acquisition of other long-term financial investments	-10 838	-	-693	-
Long-term loans made	-21 481	-4 528	-1 373	-289
Long-term loan payment received	5 126	2 948	328	188
Acquisition of real-estate investments	-6 035	-	-386	-
Sale of real-estate investments	11 618	-	743	-
Purchase of property, plant and equipment	-10 619	-5 001	-679	-320
Sale of property, plant and equipment	2 029	8 751	130	559
Net cash used in investing activities	-36 634	1 277	-2 341	82
Financing activities				
Proceeds from borrowings	23 310	693	1 490	44
Repayments of borrowings	-7 276	-6 936	-465	-443
Repayments of finance lease liabilities	-5 612	-	-359	-
Dividends paid	-36 200	-13 824	-2 314	-884
Net cash used in financing activities	-25 778	-20 067	-1 648	-1 283
Total cash flow	-7 539	7 402	-482	473
Net increase/decrease in cash and cash equivalents	-7 539	7 402	-482	473
Cash and cash equivalent at the beginning of the period	60 814	42 294	3 887	2 703
Effects of exchange rate differences	-1 723	30	-110	2
Cash and cash equivalent at the end of the period	51 552	49 726	3 295	3 178

*** Other adjustments**

Adjustments of revenues from construction contracts according to the percentage of completion method	47 618	23 020	3 043	1 471
Warranty reserve changes	964	770	62	49
Vacation reserve changes	1 274	430	81	27
Profit or loss from disposals of real-estate investments	1 677	-	107	-
Profit or loss from disposals or liquidation of property, plant and equipment	-184	-411	-12	-26
Profit or loss from long-term investments	-1 543	-260	-99	-17
Value adjustments of marketable securities	39	-39	2	-2
Foreign exchange profit or loss	2 487	66	159	4
Interest income	-2 362	-4 260	-151	-272
Interest expense	265	88	17	6
Dividends received	-	-8	-	-1
Dividend income tax	-2 118	-784	-135	-50
Total other adjustments	48 117	18 612	3 075	1 190

NOTES

Note 1 Segment information

Business segments

9M 2002	Construction	Production of structures for small houses	Production of concrete	Others	Group
Sales	1 115 282	25 289	-	-	1 140 571
Operating profit of the business segment	71 955	-104	-	-	71 851
Financial items					3 089
incl. profit from associate companies	-543	-	2 123	-48	1 532
Profit (- loss) for the group from normal operations					74 940
Minority interest					620
Net profit (- loss) for the financial year					74 320
Segment assets	623 634	12 801	-	-	636 435
Associate companies	6 119	-	5 951	9 105	21 175
Unallocated assets					31 288
Consolidated total assets					688 898
Segment liabilities	389 334	7 431	-	-	396 765
Unallocated liabilities					12 792
Consolidated total liabilities					409 557
Acquisition of real-estate investments	6 263	-	-	-	6 263
Acquisition of property, plant and equipment and intangible assets	10 398	221	-	-	10 619
Depreciation	7 943	499	-	-	8 442

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	932 529	550 952	6 263	8 293
Latvia	72 077	43 814	-	1 100
Lithuania	118 162	94 132	-	1 226
Germany	9 797	-	-	-
Austria	1 013	-	-	-
Norway	6 543	-	-	-
Denmark	282	-	-	-
Others	168	-	-	-
Total	1 140 571	688 898	6 263	10 619

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.

	9M 2002
Net profit (loss) attributable to shareholders	74 320
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	<u>8,40</u>

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