

AS MERKO EHITUS
GROUP

Consolidated interim report Q1 2003

COMMENTARY TO 3M 2003 FINANCIAL RESULTS

Merko Ehitus group 3M 2003 consolidated and unaudited net sales amounted to 467,4 million EEK (29,9 million EUR), and net profit was 28,2 million EEK (1,8 million EUR).

The respective figures year ago were net sales of 293,7 million EEK (18,8 million EUR) and net profit of 18,8 million EEK (1,2 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 3M 2003 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	244 438	244 302
AS Gustaf (100% partnership)	19 624	18 155
AS Merko Tartu (66% partnership)	20 739	16 549
Tallinna Teede AS (100% partnership)	10 992	10 977
Production of structures for small houses		
OÜ Matek (71,6% partnership)	15 604	15 262
Construction		
AS Normanni Linnagrupp (50% partnership)	2 903	-
AS Insenerivõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	31 197	-
Telecommunication networks		
AS Telegrupp (45% partnership)	6 619	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	57 640	57 640
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	104 493	104 493

Companies of the group 3M 2003 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	15 622	15 614
AS Gustaf (100% partnership)	1 254	1 160
AS Merko Tartu (66% partnership)	1 325	1 058
Tallinna Teede AS (100% partnership)	702	702
Production of structures for small houses		
OÜ Matek (71,6% partnership)	997	975
Construction		
AS Normanni Linnagrupp (50% partnership)	186	-
AS Insenerivõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	1 994	-
Telecommunication networks		
AS Telegrupp (45% partnership)	423	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	3 684	3 684
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	6 678	6 678

Merko Ehitus group 3M 2003 consolidated data illustrating financial ratios were:

	3M 2003	3M 2002
Net profit margin	6,0 %	6,4 %
Operating profit margin	6,6 %	5,8 %
Return on equity (per year)	35,8 %	30,3 %
Return on assets (per year)	14,5 %	14,5 %
Current ratio	1,4	1,7
Invoice turnover (per year)	5,9	7,8
Equity-to-assets ratio	38,7 %	49,0 %

Year 2003 3M 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	
		2003.a. 3 months	2002.a. 3 months	2003.a. 3 months	2002.a. 3 months
Sales	1	467 378	293 684	29 871	18 770
Cost of sales		(420 651)	(262 429)	(26 884)	(16 772)
Gross profit		46 727	31 255	2 986	1 998
Marketing expenses		(3 565)	(2 824)	(228)	(180)
Administrative expenses		(15 111)	(11 816)	(966)	(755)
Other operating income		3 714	1 128	237	72
Other operating expenses		(811)	(565)	(52)	(36)
Operating profit		30 954	17 178	1 978	1 098
Financial income and expenses from stocks of subsidiaries		1	-	0	-
Financial income and expenses from stocks of associates		713	340	46	22
Financial income and expenses from other non-current financial investments		780	-	50	-
Interest expense		(145)	(88)	(9)	(6)
Foreign exchange loss		(1 436)	353	(92)	23
Other financial income and expenses		(2 389)	901	(153)	58
Total financial income and expenses		(2 476)	1 506	(158)	96
Net profit (- loss) for the financial year		<u>28 478</u>	<u>18 684</u>	<u>1 820</u>	<u>1 194</u>
Minority interest		(313)	104	(20)	7
Net profit (- loss) for the group		<u>28 165</u>	<u>18 788</u>	<u>1 800</u>	<u>1 201</u>
Net profit (- loss) per share (basic and diluted, in EEK and EUR)	2	3,18	2,12	0,20	0,14

in thousand EEK and EUR

CONSOLIDATED BALANCE SHEET

unaudited

	EEK		EUR	
	31.03.03	31.12.02	31.03.03	31.12.02
ASSETS				
Cash and cash equivalents	67 485	96 310	4 313	6 155
Marketable securities	49 076	53 018	3 137	3 388
Accounts receivable	319 195	165 992	20 400	10 609
Allowance for doubtful receivables	(307)	(424)	(20)	(27)
Total accounts receivable	318 888	165 568	20 381	10 582
Receivables from associates	1 452	1 227	93	78
Other short-term receivables	27 886	27 245	1 782	1 741
Total other receivables	29 338	28 472	1 875	1 820
Interest receivable	694	1 145	44	73
Dividends receivable	249	-	16	-
Other accrued income	234	32	15	2
Total accrued income	1 177	1 177	75	75
Prepaid taxes	9 484	11 275	606	721
Other prepaid expenses	3 049	3 158	195	202
Total prepaid expenses	12 533	14 433	801	922
Raw materials	4 471	2 735	286	175
Work-in-progress	17 939	41 119	1 147	1 628
Finished goods	944	1 314	60	84
Merchandise purchased for resale	48 126	66 426	3 076	4 245
Prepayments to suppliers	48	374	3	24
Prepayments for real estate	5 083	15 181	325	970
Construction-in-progress	30 819	12 229	1 970	782
Due from customers	111 055	84 962	7 098	5 430
Total inventories	218 485	224 340	13 964	14 338
Total current assets	696 982	583 318	44 545	37 281
Shares in associated companies	21 264	21 338	1 359	1 364
Long-term receivables from associated companies	12 478	7 757	797	496
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	13 116	9 906	838	633
Long-term accounts receivable	-	1 679	-	107
Total long-term financial assets	48 658	42 480	3 110	2 715
Land	28 617	15 249	1 829	975
Buildings	7 840	13 544	501	866
Accumulated real-estate investments depreciation	(3 883)	(5 140)	(248)	(329)
Prepayments for real-estate investments	11 655	11 655	745	745
Total real-estate investments	44 229	35 308	2 827	2 257
Land and buildings	10 842	13 015	693	832
Ground lease	458	458	29	29
Plant and equipment	73 272	66 854	4 683	4 273
Other equipment and fixtures	24 806	20 683	1 585	1 322
Accumulated depreciation	(54 516)	(50 790)	(3 484)	(3 246)
Selfconstructed physical assets under construction	169	170	11	11
Prepayments for non-current physical assets	6 217	-	397	-
Total non-current physical assets	61 248	50 390	3 914	3 220
Purchased concessions, patents, licenses, etc.	168	135	11	9
Goodwill	(1 917)	(5 418)	(123)	(346)
Total intangible assets	(1 749)	(5 283)	(112)	(338)
Total non-current assets	152 386	122 895	9 739	7 854
TOTAL ASSETS	849 368	706 213	54 284	45 135

	EEK		EUR	
	31.03.03	31.12.02	31.03.03	31.12.02
LIABILITIES AND OWNERS' EQUITY				
Short-term loans and bonds	35 796	8 087	2 288	517
Current period long-term debt repayment	4 736	4 717	303	301
Total debt obligations	40 532	12 804	2 590	818
Customer prepayments	25 274	42 820	1 615	2 737
Accounts payable to suppliers	190 725	179 011	12 190	11 441
Payables to associated companies	852	3 853	54	246
Tax liabilities	24 556	16 344	1 569	1 045
Payables to employees	16 266	18 051	1 040	1 154
Dividends payable	499	889	32	57
Interest payable	-	6	-	0
Other accrued expenses	841	1 037	54	66
Total accrued expenses	17 606	19 983	1 125	1 277
Provisions for construction warranty liability	3 625	3 368	232	215
Due to customers	189 646	104 917	12 121	6 705
Total current provisions	193 271	108 285	12 352	6 921
Total current liabilities	492 816	383 100	31 497	24 484
Loans, bonds and financial lease liabilities	2 895	2 604	185	166
Accounts payable to suppliers	14 994	14 900	958	952
Other long-term payables	4 880	-	312	-
Total non-current liabilities	22 769	17 504	1 455	1 119
TOTAL LIABILITIES	515 585	400 604	32 952	25 603
Minority interests	5 111	4 792	327	306
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	8 850	566	566
Retained earnings	200 343	101 480	12 804	6 486
Net profit (- loss) for the financial year	28 165	98 863	1 800	6 318
Exchange rate differences	(136)	174	(9)	11
TOTAL OWNERS' EQUITY	328 672	300 817	21 006	19 226
TOTAL LIABILITIES AND OWNERS' EQUITY	849 368	706 213	54 284	45 135

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
Closing balance 31.12.01	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
Closing balance 31.03.02	88 500	2 950	8 205	1 428	156 313	257 396
Closing balance 31.12.02	88 500	2 950	8 850	174	200 343	300 817
Exchange rate differences	-	-	-	(310)	-	(310)
Net profit (-loss) for the financial year	-	-	-	-	28 165	28 165
Closing balance 31.03.03	88 500	2 950	8 850	(136)	228 508	328 672
EUR	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.01	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
Closing balance 31.03.02	5 656	189	524	91	9 990	16 451
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(20)	-	(20)
Net profit (-loss) for the financial year	-	-	-	-	1 800	1 800
Closing balance 31.03.03	5 656	189	566	(9)	14 604	21 006

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	
	2003.a. 3 months	2002.a. 3 months	2003.a. 3 months	2002.a. 3 months
Operating activities				
Profit from normal operations	28 478	18 684	1 820	1 194
Depreciation	2 839	2 805	181	179
Other adjustments *	57 857	(16 782)	3 698	(1 073)
Change in receivables and prepayments concerning operating activities	(166 820)	52 571	(10 662)	3 360
Change in inventories	66	(14 007)	4	(895)
Change in liabilities and prepayments concerning operating activities	20 362	(64 891)	1 301	(4 147)
Interests paid	(151)	(90)	(10)	(6)
Company income tax paid	(181)	(207)	(12)	(13)
Net cash from operating activities	(57 550)	(21 917)	(3 678)	(1 401)
Investing activities				
Disposal of subsidiary	15	-	1	-
Disposal of associates	800	-	51	-
Long-term loans made	(3 903)	(2 453)	(249)	(157)
Long-term loan payment received	8 176	1 822	523	116
Acquisition of real-estate investments	-	(5 200)	-	(332)
Purchase of property, plant and equipment	(12 797)	(1 592)	(818)	(102)
Sale of property, plant and equipment	2 087	861	133	55
Interests received	943	258	60	16
Dividends received	-	560	-	36
Net cash used in investing activities	(4 679)	(5 744)	(299)	(367)
Financing activities				
Proceeds from borrowings	35 496	10 600	2 269	677
Repayments of borrowings	(2 361)	(1 778)	(151)	(114)
Repayments of finance lease liabilities	(355)	(4 344)	(23)	(278)
Dividends paid	-	-	-	-
Net cash used in financing activities	32 780	4 478	2 095	286
Total cash flow	(29 449)	(23 183)	(1 882)	(1 482)
Net increase/decrease in cash and cash equivalents	(29 449)	(23 183)	(1 882)	(1 482)
Cash and cash equivalent at the beginning of the period	96 310	60 814	6 155	3 887
Effects of exchange rate differences	625	108	40	7
Cash and cash equivalent at the end of the period	67 486	37 739	4 313	2 412
* Other adjustments				
Adjustments of revenues from construction contracts according to the percentage of completion method	58 288	(15 363)	3 725	(982)
Warranty reserve changes	88	367	6	23
Vacation reserve changes	884	350	56	22
Profit or loss from disposals of real-estate invest.	(299)	-	(19)	-
Profit or loss from disposals or liquidation of property, plant and equipment	(2 411)	(663)	(154)	(42)
Profit or loss from long-term investments	(716)	(340)	(46)	(22)
Value adjustments of marketable securities	2 959	(47)	189	(3)
Foreign exchange profit or loss	215	(333)	14	(21)
Interest income	(1 296)	(837)	(83)	(53)
Interest expense	145	84	9	5
Total other adjustments	57 857	(16 782)	3 698	(1 073)

NOTES

Note 1 Segment information

Business segments

2003 3 months	Construction	Production of structures for small houses	Production of concrete	Road-construction	Others	Group
Sales	441 139	15 262	-	10 977	-	467 378
Operating profit of the business segment	32 413	483	-	(1 942)	-	30 954
Financial items						(2 476)
incl. profit from associate companies	609	-	537	-	(433)	713
Profit (- loss) for the group from normal operations						28 478
Minority interest						(313)
Net profit (- loss) for the financial year						28 165
Segment assets	729 139	10 786	-	51 083	-	791 008
Associate companies	1 157	-	7 103	3 713	9 292	21 265
Unallocated assets						37 095
Consolidated total assets						849 368
Segment liabilities	(434 900)	(7 007)	-	(13 626)	-	(455 533)
Unallocated liabilities						(60 052)
Consolidated total liabilities						(515 585)
Acquisition of real-estate investments	13 599	-	-	-	-	13 599
Acquisition of property, plant and equipment and intangible assets	3 931	595	-	16 313	-	20 839
Depreciation	1 110	187	-	1 542	-	2 839

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	290 431	635 241	13 599	20 308
Latvia	57 640	93 066	-	531
Lithuania	104 493	121 061	-	-
Germany	1 104	-	-	-
Norway	5 042	-	-	-
Sweden	6 993	-	-	-
Ireland	1 267	-	-	-
Iceland	408	-	-	-
Total	467 378	849 368	13 599	20 839

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.

	2003 3 months
Net profit (loss) attributable to shareholders	28 165
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	<u>3,18</u>

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