

AS MERKO EHITUS
GROUP

Consolidated interim report 12M 2002

COMMENTARY TO 2002 INTERIM FINANCIAL RESULTS

Merko Ehitus group 2002 consolidated and unaudited interim net sales amounted to 1669,6 million EEK (106,7 million EUR), and net profit was 98,9 million EEK (6,3 million EUR). The respective figures year ago were net sales of 1358,6 million EEK (86,8 million EUR) and net profit of 87,5 million EEK (5,6 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 2002 interim net sales and consolidated net sales were (in thousand EEK):

	Net sales	including consolidated net sales
Estonian companies		
Construction		
AS Merko Ehitus	1 029 640	1 016 131
AS Gustaf (100% partnership)	115 432	105 522
AS Merko Tartu (66% partnership)	91 476	74 193
Tallinna Teede AS (100% partnership)	123 881	112 154
Production of structures for small houses		
OÜ Matek (71,6% partnership)	39 102	38 035
Construction		
AS Normanni Linnagrupp (50% partnership)	6 273	-
AS Insenervõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	120 328	-
Construction of telecommunication network		
AS Telegrupp (45% partnership)	50 649	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	92 894	92 894
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	230 675	230 668

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

	Net sales	including consolidated net sales
Estonian companies		
Construction		
AS Merko Ehitus	65 806	64 942
AS Gustaf (100% partnership)	7 377	6 744
AS Merko Tartu (66% partnership)	5 846	4 742
Tallinna Teede AS (100% partnership)	7 917	7 168
Production of structures for small houses		
OÜ Matek (71,6% partnership)	2 499	2 431
Construction		
AS Normanni Linnagrupp (50% partnership)	401	-
AS Insenervõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	7 690	-
Construction of telecommunication network		
AS Telegrupp (45% partnership)	3 237	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	5 937	5 937
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	14 743	14 742

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

	2002	2001
Net profit margin	5,9 %	6,4 %
Operating profit margin	5,9 %	6,0 %
Return on equity (per year)	36,7 %	43,6 %
Return on assets (per year)	16,2 %	17,7 %
Current ratio	1,5	1,6
Invoice turnover (per year)	10,1	7,3
Equity-to-assets ratio	42,6 %	46,6 %

Year 2002 interim 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.

CONSOLIDATED INCOME STATEMENT
unaudited

	Note	EEK		EUR	
		2002.a. 12 months	2001.a. 12 months	2002.a. 12 months	2001.a. 12 months
Sales	1	1 669 597	1 358 590	106 706	86 830
Cost of sales		(1 499 283)	(1 231 688)	(95 821)	(78 719)
Gross profit		170 314	126 902	10 885	8 110
Marketing expenses		(14 118)	(11 988)	(902)	(766)
Administrative expenses		(49 821)	(36 795)	(3 184)	(2 352)
Other operating income		2 136	6 959	137	445
Other operating expenses		(9 995)	(3 077)	(639)	(197)
Operating profit		98 516	82 001	6 296	5 241
Financial income and expenses from stocks of associated companies		2 739	2 633	175	168
Income and expenses from other non- current financial investments		1 674	-	107	-
Interest expense		(805)	(103)	(51)	(7)
Foreign exchange gain		(3 739)	(94)	(239)	(6)
Other financial income and expenses		4 386	6 564	280	420
Total financial income and expenses		4 255	9 000	272	575
Profit before taxes		102 771	91 001	6 568	5 816
Income tax on dividends		(2 431)	(783)	(155)	(50)
Income tax		(4 690)	(734)	(300)	(47)
Deferred income tax		3 912	301	250	19
Net profit (- loss) for the financial year		<u>99 562</u>	<u>89 785</u>	<u>6 363</u>	<u>5 738</u>
Minority interest		699	2 256	45	144
Net profit (- loss) for the group		<u>98 863</u>	<u>87 529</u>	<u>6 318</u>	<u>5 594</u>
Net profit (- loss) per share (basic and diluted, in EEK and EUR)	2	11,17	9,89	0,71	0,63

CONSOLIDATED BALANCE SHEET

unaudited

	EEK		EUR	
	31.12.02	31.12.01	31.12.02	31.12.01
ASSETS				
Cash and cash equivalents	96 310	67 224	6 155	4 296
Marketable securities	53 018	12 106	3 388	774
Accounts receivable	165 992	186 861	10 609	11 943
Allowance for doubtful receivables	(424)	(53)	(27)	(3)
Total accounts receivable	165 568	186 808	10 582	11 939
Receivables from parent companies	-	1 735	-	111
Receivables from associated companies	1 227	6 941	78	444
Other short-term receivables	27 245	43 112	1 741	2 755
Total other receivables	28 472	51 788	1 820	3 310
Interest receivable	1 145	739	73	47
Other accrued income	32	254	2	16
Total accrued income	1 177	993	75	63
Prepaid/refundable taxes receivables	11 275	6 850	721	438
Other prepaid expenses	3 158	1 534	202	98
Total prepaid expenses	14 433	8 384	922	536
Raw materials	2 735	4 041	175	258
Work-in-progress	41 119	9 092	1 628	581
Finished goods	1 314	855	84	55
Merchandise purchased for resale	66 426	32 667	4 245	2 088
Prepayments to suppliers	374	567	24	36
Prepayments for real-estate	15 181	-	970	-
Construction-in-progress	12 229	5 821	782	372
Due from customers	84 962	35 281	5 430	2 255
Total inventories	224 340	88 324	14 338	5 645
Total current assets	583 318	415 627	37 281	26 563
Shares in associated companies	21 338	12 489	1 364	798
Long-term receivables from associated comp.	7 757	100	496	6
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	9 906	7 588	633	485
Long-term accounts receivable	1 679	-	107	-
Total long-term financial assets	42 480	21 977	2 715	1 405
Land	15 249	797	975	121
Buildings	13 544	27 304	866	1 745
Accumulated real-estate investments depreciation	(5 140)	(7 103)	(329)	(454)
Prepayments for real-estate investments	11 655	10 655	745	681
Total real-estate investments	35 308	32 750	2 257	2 093
Land and buildings	13 015	13 823	832	883
Ground lease	458	458	29	29
Plant and equipment	66 854	64 064	4 273	4 094
Other equipment and fixtures	20 683	16 105	1 322	1 029
Accumulated depreciation	(50 927)	(46 567)	(3 255)	(2 976)
Selfconstructed physical assets under construction	170	173	11	11
Total non-current physical assets	50 253	48 056	3 212	3 071
Purchased concessions, patents, licenses, etc.	272	97	17	6
Goodwill	(5 418)	(6 773)	(346)	(433)
Total intangible assets	(5 146)	(6 676)	(329)	(427)
Total non-current assets	122 895	96 107	7 854	6 142
TOTAL ASSETS	706 213	511 734	45 135	32 706

	EEK		EUR	
	31.12.02	31.12.01	31.12.02	31.12.01
LIABILITIES AND OWNERS' EQUITY				
Debentures (except bank loans)	11 354	4 533	726	290
Short-term loans from financial institutions	1 450	8	93	1
Total debt obligations	12 804	4 541	818	290
Customer prepayments for goods and services	42 820	9 865	2 737	630
Accounts payable to suppliers	179 011	122 504	11 441	7 829
Payables to associated companies	3 853	1 493	246	95
Tax liabilities	16 344	11 842	1 045	757
Payables to employees	18 051	10 165	1 154	650
Dividends payable	889	-	57	-
Interest payable	6	10	0	1
Other accrued expenses	1 037	941	66	60
Total accrued expenses	19 983	11 116	1 277	710
Provisions for construction warranty liability	3 368	3 737	215	239
Due to customers	104 917	94 572	6 705	6 044
Other current provisions	-	155	-	10
Total current provisions	108 285	98 464	6 921	6 293
Total current liabilities	383 100	259 825	24 484	16 606
Non-convertible debt	2 604	204	166	13
Accounts payable to suppliers	14 900	7 478	952	478
Total non-current liabilities	17 504	7 682	1 119	491
TOTAL LIABILITIES	400 604	267 507	25 603	17 097
Minority interests	4 792	5 829	306	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	101 480	49 996	6 486	3 195
Net profit (- loss) for the financial year	98 863	87 529	6 318	5 594
Exchange rate differences	174	1 218	11	78
TOTAL OWNERS' EQUITY	300 817	238 398	19 226	15 236
TOTAL LIABILITIES AND OWNERS' EQUITY	706 213	511 734	45 135	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	-	-	-	677	-	677
Change in reserve capital	-	-	3 330	-	(3 330)	-
Dividends	-	-	-	-	(13 275)	(13 275)
Net profit (-loss) for the financial year	-	-	-	-	87 529	87 529
Closing balance 31.12.01	88 500	2 950	8 205	1 218	137 525	238 398
Closing balance 31.12.01	88 500	2 950	8 205	1 218	137 525	238 398
Exchange rate differences	-	-	-	(1 044)	-	(1 044)
Change in reserve capital	-	-	645	-	(645)	-
Dividends	-	-	-	-	(35 400)	(35 400)
Net profit (-loss) for the financial year	-	-	-	-	98 863	98 863
Closing balance 31.12.02	88 500	2 950	8 850	174	200 343	300 817
Closing balance 31.12.02	88 500	2 950	8 850	174	200 343	300 817

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	-	-	-	43	-	43
Change in reserve capital	-	-	213	-	(213)	-
Dividends	-	-	-	-	(848)	(848)
Net profit (-loss) for the financial year	-	-	-	-	5 594	5 594
Closing balance 31.12.01	5 656	189	524	78	8 789	15 236
Closing balance 31.12.01	5 656	189	524	78	8 789	15 236
Exchange rate differences	-	-	-	(67)	-	(67)
Change in reserve capital	-	-	41	-	(41)	-
Dividends	-	-	-	-	(2 262)	(2 262)
Net profit (-loss) for the financial year	-	-	-	-	6 318	6 318
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226

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

CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2002.a. 12 months	2001.a. 12 months	2002.a. 12 months	2001.a. 12 months
Operating activities				
Profit from normal operations	102 771	91 001	6 568	5 816
Depreciation	12 061	7 822	771	500
Other adjustments *	(39 859)	(14 331)	(2 547)	(916)
Change in receivables and prepayments concerning operating activities	8 286	78 974	530	5 047
Change in inventories	(73 348)	(23 451)	(4 688)	(1 499)
Change in liabilities and prepayments concerning operating activities	98 198	(55 700)	6 276	(3 560)
Interests paid	(1 056)	(113)	(67)	(7)
Company income tax paid	(4 075)	(2 609)	(260)	(167)
Net cash from operating activities	102 978	81 593	6 581	5 215
Investing activities				
Acquisition of subsidiary	-	(31 152)	-	(1 991)
Acquisition of associates	(6 434)	(894)	(411)	(57)
Purchase of associates	200	-	13	-
Long-term loans made	(25 567)	(6 790)	(1 634)	(434)
Long-term loan payment received	7 182	4 299	459	275
Acquisition of real-estate investments	(13 972)	-	(893)	-
Sale of real-estate investments	11 618	-	743	-
Purchase of property, plant and equipment	(10 734)	(16 919)	(686)	(1 081)
Sale of property, plant and equipment	2 154	8 883	138	568
Interests received	3 796	5 283	243	338
Dividends received	1 617	8	103	1
Net cash used in investing activities	(30 140)	(37 282)	(1 926)	(2 383)
Financing activities				
Proceeds from borrowings	12 042	-	770	-
Repayments of borrowings	(10 340)	(7 107)	(661)	(454)
Repayments of finance lease liabilities	(7 314)	-	(467)	-
Dividends paid	(36 247)	(13 824)	(2 317)	(884)
Net cash used in financing activities	(41 859)	(20 931)	(2 675)	(1 338)
Total cash flow	30 979	23 380	1 980	1 494
Net increase/decrease in cash and cash equivalents	30 979	23 380	1 980	1 494
Cash and cash equivalent at the beginning of the period	67 224	42 294	4 296	2 703
Effects of exchange rate differences	(1 893)	1 550	(121)	99
Cash and cash equivalent at the end of the period	96 310	67 224	6 155	4 296
* Other adjustments				
Adjustments of revenues from construction contracts according to the percentage of completion method	(41 605)	(8 856)	(2 659)	(566)
Warranty reserve changes	(125)	974	(8)	62
Vacation reserve changes	2 650	1 879	169	120
Profit or loss from disposals of real-estate investments	2 410	-	154	-
Profit or loss from disposals or liquidation of property, plant and equipment	(994)	(520)	(64)	(33)
Profit or loss from long-term investments	(2 767)	(2 632)	(177)	(168)
Value adjustments of marketable securities	-	(25)	-	(2)
Foreign exchange profit or loss	3 792	217	242	14
Interest income	(4 271)	(5 473)	(273)	(350)
Interest expense	1 051	113	67	7
Dividends received	-	(8)	-	(1)
Total other adjustments	(39 859)	(14 331)	(2 547)	(916)

NOTES

Note 1
Segment information

Business segments

2002 12 M	Construction	Production of structures for small houses	Production of concrete	Road construction	Others	Group
Sales	1 519 408	38 035	-	112 154	-	1 669 597
Operating profit of the business segment	90 715	(150)	-	7 951	-	98 516
Financial items incl. profit from associate companies	-635	-	2 738	65	571	2 739
Profit (- loss) for the group from normal operations						102 771
Income tax						(3 209)
Minority interest						(699)
Net profit (- loss) for the financial year						98 863
Segment assets	587 780	12 237	-	48 680	-	648 697
Associate companies	1 334	-	6 566	3 713	9 725	21 338
Unallocated assets						36 178
Consolidated total assets						706 213
Segment liabilities	(361 657)	(7 334)	-	(5 609)	-	(374 600)
Unallocated liabilities						(26 004)
Consolidated total liabilities						(400 604)
Acquisition of real-estate investments	13 972	-	-	-	-	13 972
Acquisition of property, plant and equipment and intangible assets	9 926	388	-	420	-	10 734
Depreciation	5 958	629	-	5 474	-	12 061

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	1 308 221	521 768	13 972	6 359
Latvia	101 474	92 698	-	1 773
Lithuania	230 674	91 747	-	2 602
Germany	12 122	-	-	-
Norway	9 598	-	-	-
Sweden	4 156	-	-	-
Austria	1 013	-	-	-
Ireland	1 879	-	-	-
Denmark	460	-	-	-
Total	<u>1 669 597</u>	<u>706 213</u>	<u>13 972</u>	<u>10 734</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.

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.

	2002 12 M
Net profit (loss) attributable to shareholders	98 863
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	<u>11,17</u>

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