

AS MERKO EHITUS
GROUP

Consolidated interim report 6M 2003

COMMENTARY TO 6M 2003 FINANCIAL RESULTS

Merko Ehitus group 6M 2003 consolidated and unaudited net sales amounted to 1 082,1 million EEK (69,2 million EUR), and net profit was 74,8 million EEK (4,8 million EUR). The respective figures year ago were net sales of 668,6 million EEK (42,7 million EUR) and net profit of 42,7 million EEK (2,7 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 6M 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	573 970	573 687
AS Gustaf (100% partnership)	30 708	28 511
OÜ Gustaf Tallinn (100% partnership)	1 905	1 809
AS Merko Tartu (66% partnership)	58 363	50 038
Tallinna Teede AS (100% partnership)	45 633	40 787
Production of structures for small houses		
OÜ Matek (71,6% partnership)	30 304	29 959
Construction		
AS Normanni Linnagrupp (50% partnership)	4 033	-
AS Insenervõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	66 685	-
Telecommunication networks		
AS Telegrupp (45% partnership)	21 112	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	112 032	112 032
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	245 252	245 252

Companies of the group 6M 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	36 683	36 665
AS Gustaf (100% partnership)	1 963	1 822
OÜ Gustaf Tallinn (100% partnership)	122	116
AS Merko Tartu (66% partnership)	3 730	3 198
Tallinna Teede AS (100% partnership)	2 916	2 607
Production of structures for small houses		
OÜ Matek (71,6% partnership)	1 937	1 915
Construction		
AS Normanni Linnagrupp (50% partnership)	258	-
AS Insenervõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	4 262	-
Telecommunication networks		
AS Telegrupp (45% partnership)	1 349	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	7 160	7 160
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	15 674	15 674

Merko Ehitus group 6M 2003 consolidated data illustrating financial ratios were:

	6M 2003	6M 2002
Net profit margin	6,9 %	6,4 %
Operating profit margin	8,0 %	6,4 %
Return on equity (per year)	45,7 %	35,5 %
Return on assets (per year)	18,8 %	15,9 %
Current ratio	1,4	1,5
Invoice turnover (per year)	6,7	5,8
Equity-to-assets ratio	40,2 %	43,0 %

Year 2003 6M 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	
		2003.a. 6 months	2002.a. 6 months	2003.a. 6 months	2002.a. 6 months
Sales	1	1 082 075	668 568	69 157	42 729
Cost of sales		(960 336)	(597 084)	(61 377)	(38 161)
Gross profit		121 739	71 484	7 781	4 568
Marketing expenses		(7 664)	(6 124)	(490)	(391)
Administrative expenses		(31 743)	(22 611)	(2 029)	(1 445)
Other operating income		4 824	8 200	308	524
Other operating expenses		(848)	(8 357)	(54)	(534)
Operating profit		86 308	42 592	5 516	2 722
Financial income and expenses from stocks of subsidiaries		1	-	0	-
Financial income and expenses from stocks of associates		2 403	773	154	50
Financial income and expenses from other non-current financial investments		1 014	-	65	-
Interest expense		(688)	(230)	(44)	(15)
Foreign exchange gain		(2 398)	(1 923)	(153)	(123)
Other financial income and expenses		(4 003)	1 638	(256)	105
Total financial income and expenses		(3 671)	258	(235)	17
Profit before taxes		82 637	42 850	5 281	2 739
Income tax		(6 530)	(2 119)	(417)	(135)
Net profit (- loss) for the financial year		<u>76 107</u>	<u>40 731</u>	<u>4 864</u>	<u>2 603</u>
Minority interest		(1 265)	(35)	(81)	(2)
Net profit (- loss) for the group		<u>74 842</u>	<u>40 696</u>	<u>4 783</u>	<u>2 601</u>
Net profit (- loss) per share (basic and diluted, in EEK and EUR)	2	8,46	4,60	0,54	0,29

CONSOLIDATED BALANCE SHEET

unaudited

	EEK		EUR	
	30.06.03	31.12.02	30.06.03	31.12.02
ASSETS				
Cash and cash equivalents	133 006	96 310	8 501	6 155
Marketable securities	45 517	53 018	2 909	3 388
Accounts receivable	323 989	165 992	20 707	10 609
Allowance for doubtful receivables	(407)	(424)	(26)	(27)
Total accounts receivable	323 582	165 568	20 681	10 582
Receivables from associates	4	1 227	0	78
Other short-term receivables	25 268	27 245	1 615	1 741
Total other receivables	25 272	28 472	1 615	1 820
Interest receivable	744	1 145	48	73
Dividends receivable	241	-	15	-
Other accrued income	5	32	0	2
Total accrued income	990	1 177	63	75
Prepaid taxes	15 914	11 275	1 017	721
Other prepaid expenses	7 318	3 158	468	202
Total prepaid expenses	23 232	14 433	1 485	922
Raw materials	2 503	2 735	160	175
Work-in-progress	34 032	41 119	2 175	1 628
Finished goods	1 120	1 314	72	84
Merchandise purchased for resale	46 318	66 426	2 960	4 245
Prepayments to suppliers	459	374	29	24
Prepayments for real estate	2 582	15 181	165	970
Construction-in-progress	26 515	12 229	1 695	782
Due from customers	60 880	84 962	3 891	5 430
Total inventories	174 409	224 340	11 147	14 338
Total current assets	726 008	583 318	46 400	37 281
Shares in associated companies	22 953	21 338	1 467	1 364
Longterm receivables from associated companies	14 695	7 757	939	496
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	13 489	9 906	862	633
Long-term accounts receivable	-	1 679	-	107
Total long-term financial assets	52 937	42 480	3 383	2 715
Land	28 617	15 249	1 829	975
Buildings	7 470	13 544	477	866
Accumulated real-estate investments depreciation	(3 663)	(5 140)	(234)	(329)
Prepayments for real-estate investments	11 538	11 655	737	745
Total real-estate investments	43 962	35 308	2 810	2 257
Land and buildings	10 326	13 015	660	832
Ground lease	458	458	29	29
Plant and equipment	74 622	66 854	4 769	4 273
Other equipment and fixtures	25 254	20 683	1 614	1 322
Accumulated depreciation	(55 779)	(50 790)	(3 565)	(3 246)
Selfconstructed physical assets under construction	325	170	21	11
Prepayments for non-current physical assets	7 179	-	459	-
Total non-current physical assets	62 385	50 390	3 987	3 220
Purchased concessions, patents, licenses, etc.	200	135	13	9
Goodwill	(1 789)	(5 418)	(114)	(346)
Total intangible assets	(1 589)	(5 283)	(102)	(338)
Total non-current assets	157 695	122 895	10 079	7 854
TOTAL ASSETS	883 703	706 213	56 479	45 135

	EEK		EUR	
	30.06.03	31.12.02	30.06.03	31.12.02
LIABILITIES AND OWNERS' EQUITY				
Short-term loans and bonds	14 094	8 087	901	517
Current period long-term debt repayment	4 850	4 717	310	301
Total debt obligations	18 944	12 804	1 211	818
Customer prepayments	48 716	42 820	3 114	2 737
Accounts payable to suppliers	232 250	179 011	14 843	11 441
Payables to associated companies	855	3 853	55	246
Other short-term payables	2 456	-	157	-
Total other payables	3 311	3 853	212	246
Tax liabilities	23 976	16 344	1 532	1 045
Payables to employees	17 469	18 051	1 116	1 154
Dividends payable	1 227	889	78	57
Interest payable	17	6	1	0
Other accrued expenses	947	1 037	61	66
Total accrued expenses	19 660	19 983	1 256	1 277
Provisions for construction warranty liability	3 476	3 368	222	215
Due to customers	153 105	104 917	9 785	6 705
Total current provisions	156 581	108 285	10 007	6 921
Total current liabilities	503 438	383 100	32 175	24 484
Loans, bonds and financial lease liabilities	2 557	2 604	163	166
Accounts payable to suppliers	15 290	14 900	977	952
Other long-term payables	2 440	-	156	-
Total other long-term payables	17 730	14 900	1 133	952
Total non-current liabilities	20 287	17 504	1 297	1 119
TOTAL LIABILITIES	523 725	400 604	33 472	25 603
Minority interests	5 042	4 792	322	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	180 430	101 480	11 532	6 486
Net profit (- loss) for the financial year	74 842	98 863	4 783	6 318
Exchange rate differences	(636)	174	(41)	11
TOTAL OWNERS' EQUITY	354 936	300 817	22 684	19 226
TOTAL LIABILITIES AND OWNERS' EQUITY	883 703	706 213	56 479	45 135

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	-	-	-	(766)	-	(766)
Change in reserve capital	-	-	645	-	(645)	-
Dividends	-	-	-	-	(35 400)	(35 400)
Net profit (-loss) for the financial year	-	-	-	-	40 696	40 696
Closing balance 30.06.02	88 500	2 950	8 850	452	142 176	242 928
Closing balance 31.12.02	88 500	2 950	8 850	174	200 343	300 817
Exchange rate differences	-	-	-	(810)	-	(810)
Dividends	-	-	-	-	(19 913)	(19 913)
Net profit (-loss) for the financial year	-	-	-	-	74 842	74 842
Closing balance 30.06.03	88 500	2 950	8 850	(636)	255 272	354 936

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	-	-	-	(49)	-	(49)
Change in reserve capital	-	-	41	-	(41)	-
Dividends	-	-	-	-	(2 262)	(2 262)
Net profit (-loss) for the financial year	-	-	-	-	2 601	2 601
Closing balance 30.06.02	5 656	189	566	29	9 087	15 526
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(52)	-	(52)
Dividends	-	-	-	-	(1 273)	(1 273)
Net profit (-loss) for the financial year	-	-	-	-	4 783	4 783
Closing balance 30.06.03	5 656	189	566	(41)	16 315	22 684

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	
	2003.a. 6 months	2002.a. 6 months	2003.a. 6 months	2002.a. 6 months
Operating activities				
Profit from normal operations	82 637	42 850	5 281	2 739
Depreciation	6 166	5 594	394	358
Other adjustments *	60 451	26 073	3 864	1 666
Change in receivables and prepayments concerning operating activities	(183 308)	(15 700)	(11 715)	(1 003)
Change in inventories	(902)	(29 965)	(58)	(1 915)
Change in liabilities and prepayments concerning operating activities	98 124	3 525	6 271	225
Interests paid	(677)	(149)	(43)	(10)
Company income tax paid	(3 684)	(2 685)	(235)	(172)
Net cash from operating activities	58 807	29 543	3 758	1 888
Investing activities				
Disposal of subsidiary	15	-	1	-
Acquisition of associates	-	(22)	-	(1)
Disposal of associates	804	-	51	-
Long-term loans made	(8 530)	(6 885)	(545)	(440)
Long-term loan payment received	11 912	3 417	761	218
Acquisition of real-estate investments	(45)	(3 606)	(3)	(230)
Sale of real-estate investments	161	3 165	10	202
Purchase of property, plant and equipment	(19 505)	(8 067)	(1 247)	(516)
Sale of property, plant and equipment	2 799	1 858	179	119
Acquisition of intangible assets	(3 163)	-	(202)	-
Interests received	1 478	1 839	94	118
Dividends received	-	1 661	-	106
Net cash used in investing activities	(14 074)	(6 640)	(899)	(424)
Financing activities				
Proceeds from borrowings	14 095	10 602	901	678
Repayments of borrowings	(2 661)	(2 376)	(170)	(152)
Repayments of finance lease liabilities	(657)	(4 794)	(42)	(306)
Dividends paid	(20 054)	(36 200)	(1 282)	(2 314)
Net cash used in financing activities	(9 277)	(32 768)	(593)	(2 094)
Total cash flow	35 456	(9 865)	2 266	(630)
Net increase/decrease in cash and cash equivalents				
	35 456	(9 865)	2 266	(630)
Cash and cash equivalent at the beginning of the period	96 310	60 814	6 155	3 887
Effects of exchange rate differences	1 240	(1 898)	79	(121)
Cash and cash equivalent at the end of the period	133 006	49 051	8 501	3 135
* Other adjustments				
Adjustments of revenues from construction contracts according to the percentage of completion method	59 998	26 461	3 835	1 691
Warranty reserve changes	669	38	43	2
Vacation reserve changes	1 001	852	64	54
Profit or loss from disposals of real-estate invest.	(299)	(205)	(19)	(13)
Profit or loss from disposals or liquidation of property, plant and equipment	(2 626)	(787)	(168)	(50)
Profit or loss from long-term investments	(2 405)	(773)	(154)	(49)
Value adjustments of marketable securities	5 236	63	335	4
Foreign exchange profit or loss	442	1 974	28	126
Interest income	(2 253)	(1 698)	(144)	(109)
Interest expense	688	148	44	9
Total other adjustments	60 451	26 073	3 864	1 666

NOTES

**Note 1
Segment information**

Business segments

2003 6 months	Construction	Production of structures for small houses	Production of concrete	Road-construction	Others	Group
Sales	1 011 328	29 959	-	40 788	-	1 082 075
Operating profit of the business segment	81 580	1 073	-	3 655	-	86 308
Financial items						(3 671)
incl. profit from associate companies	413	-	1 721	-	270	2 404
Profit before taxes						82 637
Income tax						(6 530)
Profit (- loss) for the group from normal operations						76 107
Minority interest						(1 265)
Net profit (- loss) for the financial year						<u>74 842</u>
Segment assets	746 108	13 248	-	60 239	-	819 595
Associate companies	959	-	8 287	3 712	9 995	22 953
Unallocated assets						41 155
Consolidated total assets						<u>883 703</u>
Segment liabilities	(457 179)	(8 641)	-	(20 335)	-	(486 155)
Unallocated liabilities						(37 570)
Consolidated total liabilities						<u>(523 725)</u>
Acquisition of real-estate investm.	13 483	-	-	-	-	13 483
Acquisition of property, plant and equipment and intangible assets	6 165	290	-	16 213	-	22 668
Depreciation	2 409	378	-	3 379	-	6 166

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	696 117	710 430	13 483	21 025
Latvia	112 037	83 349	-	1 089
Lithuania	245 252	89 924	-	554
Germany	5 089	-	-	-
Norway	7 795	-	-	-
Sweden	12 007	-	-	-
Ireland	1 784	-	-	-
Denmark	1 179	-	-	-
Iceland	815	-	-	-
Total	<u>1 082 075</u>	<u>883 703</u>	<u>13 483</u>	<u>22 668</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.

	2003 6 months
Net profit (loss) attributable to shareholders	74 842
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	<u>8,46</u>

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