

AS MERKO EHITUS
GROUP

Consolidated interim report 12M 2003

COMMENTARY TO 2003 INTERIM FINANCIAL RESULTS

Merko Ehitus group 2003 consolidated and unaudited interim net sales amounted to EEK 2 708,2 million (EUR 173,1 million), and net profit was EEK 184,5 million (EUR 11,8 million).

The respective figures year ago were net sales of EEK 1 669,6 million (EUR 106,7 million) and net profit of EEK 98,9 million (EUR 6,3 million).

Merko Ehitus group deals in the field of construction and with activities concerned to that, in Estonia, Latvia and Lithuania. Companies of the group 2003 interim 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	1 697 409	1 696 742
AS Gustaf (100% partnership)	45 131	35 305
OÜ Gustaf Tallinn (100% partnership)	19 511	18 480
AS Merko Tartu (66% partnership)	134 474	113 357
Tallinna Teede AS (100% partnership)	142 366	116 631
Production of structures for small houses		
OÜ Matek (71,6% partnership), sold in 29.07.03	30 304	29 897
Construction		
AS Normanni Linnagrupp (50% partnership)	21 830	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	138 557	-
Telecommunication networks		
AS Telegrupp (45% partnership)	45 894	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	263 434	263 434
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	434 353	434 353

in thousand EUR

	Net sales	including consolidated net sales
Estonian companies		
Construction		
AS Merko Ehitus	108 484	108 441
AS Gustaf (100% partnership)	2 884	2 256
OÜ Gustaf Tallinn (100% partnership)	1 247	1 181
AS Merko Tartu (66% partnership)	8 594	7 245
Tallinna Teede AS (100% partnership)	9 099	7 454
Production of structures for small houses		
OÜ Matek (71,6% partnership), sold in 29.07.03	1 937	1 911
Construction		
AS Normanni Linnagrupp (50% partnership)	1 395	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	8 855	-
Telecommunication networks		
AS Telegrupp (45% partnership)	2 933	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	16 837	16 837
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	27 760	27 760

Merko Ehitus group 2003 interim consolidated data illustrating financial ratios were:

	2003	2002
Net profit margin	6,8 %	5,9 %
Operating profit margin	7,5 %	5,9 %
Return on equity (per year)	48,3 %	36,7 %
Return on assets (per year)	19,9 %	16,2 %
Current ratio	1,5	1,5
Invoice turnover (per year)	6,6	10,1
Equity-to-assets ratio	40,4 %	42,6 %

Year 2003 interim consolidated and unaudited income statement and balance sheet are compiled in accordance with the principles of the International Financial Reporting Standards (IFRS).

CONSOLIDATED INCOME STATEMENT

unaudited

	Note	EEK		EUR	
		2003 12 months	2002 12 months	2003 12 months	2002 12 months
Sales	1	2 708 199	1 669 597	173 085	106 706
Cost of sales		(2 429 661)	(1 499 283)	(155 283)	(95 821)
Gross profit		278 538	170 314	17 802	10 885
Marketing expenses		(15 832)	(14 118)	(1 012)	(902)
Administrative expenses		(73 347)	(49 821)	(4 688)	(3 184)
Other operating income		15 509	2 156	991	138
Other operating expenses		(2 322)	(10 015)	(148)	(640)
Operating profit		202 546	98 516	12 945	6 296
Financial income and expenses from stocks of subsidiaries		542	-	35	-
Financial income and expenses from stocks of associates		4 448	2 739	284	175
Financial income and expenses from other long-term financial investments		1 084	1 674	69	107
Interest expense		(2 503)	(805)	(160)	(51)
Foreign exchange gain		(2 692)	(3 739)	(172)	(239)
Other financial income and expenses		(5 684)	4 386	(363)	280
Total financial income and expenses		(4 805)	4 255	(307)	272
Profit before taxes		197 741	102 771	12 638	6 568
Income tax		(10 901)	(3 209)	(697)	(205)
Net profit (- loss) for the financial year		186 840	99 562	11 941	6 363
Minority interest		(2 367)	(699)	(151)	(45)
Net profit (- loss) for the group		184 473	98 863	11 790	6 318
Net profit per share (basic and diluted, in EEK and EUR)	2	20,84	11,17	1,33	0,71

CONSOLIDATED BALANCE SHEET

unaudited

ASSETS	EEK		EUR	
	31.12.03	31.12.02	31.12.03	31.12.02
Cash and cash equivalents	240 152	96 310	15 348	6 155
Marketable securities	36 096	53 018	2 307	3 388
Accounts receivable	409 239	165 138	26 155	10 554
Allowance for doubtful receivables	(408)	(424)	(26)	(27)
Total accounts receivable	408 831	164 714	26 129	10 527
Receivables from parent- and other group companies	4 275	6 472	273	414
Receivables from associates	11 022	1 227	704	78
Other short-term receivables	15 677	21 656	1 002	1 384
Total other receivables	30 974	29 355	1 980	1 876
Interest receivable	388	1 116	25	71
Dividends receivable	233	-	15	-
Other accrued income	52	32	3	2
Total accrued income	673	1 148	43	73
Prepaid taxes and tax refund	12 642	11 275	808	721
Other prepaid expenses	8 538	3 158	546	202
Total prepaid expenses	21 180	14 433	1 354	922
Raw materials	839	2 735	54	175
Work-in-progress	37 773	41 119	2 414	2 628
Finished goods	-	1 314	-	84
Merchandise purchased for resale	105 900	66 426	6 768	4 245
Prepayments to suppliers	138	374	9	24
Prepayments for real estate	13 565	15 181	867	970
Prepayments for construction work	24 503	12 229	1 566	782
Due from customers	74 471	84 962	4 760	5 430
Total inventories	257 189	224 340	16 437	14 338
Total current assets	995 095	583 318	63 598	37 281
Shares in associated companies	25 040	21 338	1 600	1 364
Longterm receivables from associated companies	-	7 757	-	496
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	1 525	9 906	97	633
Long-term accounts receivable	-	1 679	-	107
Total long-term financial assets	28 365	42 480	1 813	2 715
Land	26 181	15 249	1 673	975
Buildings	3 496	13 544	223	866
Accumulated real-estate investments depreciat.	(396)	(5 140)	(25)	(329)
Prepayments for real-estate investments	23 588	11 655	1 508	745
Total real-estate investments	52 869	35 308	3 379	2 257
Land and buildings	9 909	13 015	633	832
Ground lease	458	458	29	29
Plant and equipment	84 038	66 854	5 371	4 273
Other equipment and fixtures	25 180	20 683	1 609	1 322
Accumulated depreciation	(46 774)	(50 790)	(2 989)	(3 246)
Fixed assets in-progress and advance payments on fixed assets	240	170	15	11
Total fixed assets	73 051	50 390	4 669	3 220
Purchased concessions, patents, licenses, etc.	331	135	21	9
Goodwill	(1 923)	(5 418)	(123)	(346)
Total intangible assets	(1 592)	(5 283)	(102)	(338)
Total non-current assets	152 693	122 895	9 759	7 854
TOTAL ASSETS	1 147 788	706 213	73 357	45 135

	EEK		EUR	
	31.12.03	31.12.02	31.12.03	31.12.02
LIABILITIES AND OWNERS' EQUITY				
Short-term loans and bonds	9 063	8 087	579	517
Current period long-term debt repayment	3 384	4 717	216	301
Total debt obligations	12 447	12 804	796	818
Customer prepayments	17 881	42 820	1 143	2 737
Accounts payable to suppliers	267 597	178 152	17 103	11 386
Payables to parent- and other group companies	10 611	859	678	55
Payables to associated companies	11 148	3 853	712	246
Other short-term payables	2 440	-	156	-
Total other payables	24 199	4 712	1 547	301
Tax liabilities	21 352	16 344	1 365	1 045
Payables to employees	20 100	18 051	1 285	1 154
Dividends payable	3	889	0	57
Interest payable	299	6	19	0
Other accrued expenses	693	1 037	44	66
Total accrued expenses	21 095	19 983	1 348	1 277
Provisions for construction warranty liability	5 333	3 368	341	215
Due to customers	283 321	104 917	18 107	6 705
Total current provisions	288 654	108 285	18 448	6 921
Total current liabilities	653 225	383 100	41 749	24 484
Loans, bonds and financial lease liabilities	16 399	2 604	1 048	166
Merchandise credit	7 092	14 900	453	952
Other long-term payables	2 440	-	156	-
Total other long-term payables	9 532	14 900	609	952
Total non-current liabilities	25 931	17 504	1 657	1 119
TOTAL LIABILITIES	679 156	400 604	43 406	25 603
Minority interests	4 809	4 792	307	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	184 473	98 863	11 790	6 318
Exchange rate differences	(1 380)	174	(88)	11
TOTAL OWNERS' EQUITY	463 823	300 817	29 644	19 226
TOTAL LIABILITIES AND OWNERS' EQUITY	1 147 788	706 213	73 357	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	-	-	-	(1 044)	-	(1 044)
Change in reserve capital	-	-	645	-	(645)	-
Dividends	-	-	-	-	(35 400)	(35 400)
Net profit 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
Exchange rate differences	-	-	-	(1 554)	-	(1 554)
Dividends	-	-	-	-	(19 913)	(19 913)
Net profit for the financial year	-	-	-	-	184 473	184 473
Closing balance 31.12.03	88 500	2 950	8 850	(1 380)	364 903	463 823

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	-	-	-	(67)	-	(67)
Change in reserve capital	-	-	41	-	(41)	-
Dividends	-	-	-	-	(2 262)	(2 262)
Net profit for the financial year	-	-	-	-	6 318	6 318
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(99)	-	(99)
Dividends	-	-	-	-	(1 273)	(1 273)
Net profit for the financial year	-	-	-	-	11 790	11 790
Closing balance 31.12.03	5 656	189	566	(88)	23 321	29 644

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 12 months	2002 12 months	2003 12 months	2002 12 months
Operating activities				
Operating profit	202 546	98 516	12 945	6 296
Depreciation	12 958	11 079	828	708
Adjustments:				
(profit) loss from disposals and liquidation of real-estate investments	(9 450)	2 410	(604)	154
(profit) loss from disposals or liquidation of fixed assets	(2 997)	(994)	(192)	(64)
adjustments of revenues from construction contracts according to the percentage of completion method	189 809	(41 605)	12 131	(2 659)
reserve changes	8 183	2 334	523	149
Change in receivables and prepayments concerning operating activities	(249 409)	26 112	(15 940)	1 669
Change in inventories	(55 149)	(73 348)	(3 525)	(4 688)
Change in liabilities and prepayments concerning operating activities	60 295	99 061	3 854	6 331
Interests and other financial expenses paid	(1 588)	(842)	(101)	(54)
Company income tax paid	(7 947)	(4 075)	(508)	(260)
Net cash from operating activities	147 251	118 648	9 411	7 583
Investing activities				
Disposal of subsidiary	7 160	-	458	-
Mergence of subsidiary	(2 747)	-	(176)	-
Acquisition of associates	(44)	(6 434)	(3)	(411)
Disposal of associates	800	200	51	13
Acquisition of other financial investments	-	(46 789)	-	(2 990)
Disposal of other financial investments	2 548	3 147	163	201
Acquisition of real-estate investments	(23 632)	(13 972)	(1 510)	(893)
Sale of real-estate investments	14 431	11 618	922	743
Purchase of property, plant and equipment	(14 748)	(8 860)	(943)	(566)
Sale of property, plant and equipment	8 193	2 154	524	138
Acquisition of intangible assets	(197)	-	(13)	-
Loans granted	(22 023)	(14 589)	(1 408)	(932)
Granted loan payment received	46 806	21 463	2 991	1 372
Interests received	5 440	3 796	348	243
Dividends received	-	1 617	-	103
Net cash used in investing activities	21 987	(46 649)	1 405	(2 981)
Financing activities				
Loans drawn	9 063	12 042	579	770
Repayments of loans	(2 661)	(10 340)	(170)	(661)
Repayments of finance lease liabilities	(11 937)	(7 314)	(763)	(467)
Dividends paid	(21 074)	(36 247)	(1 347)	(2 317)
Net cash used in financing activities	(26 609)	(41 859)	(1 701)	(2 675)
Total cash flow	142 629	30 140	9 116	1 926
Cash and cash equivalent at the beginning of the period	96 310	67 224	6 155	4 296
Net increase/decrease in cash and cash equivalents	142 629	30 140	9 116	1 926
Effects of exchange rate differences	1 213	(1 054)	78	(67)
Cash and cash equivalent at the end of the period	240 152	96 310	15 348	6 155

NOTES**Note 1****Segment information****Business segments**

2003 12 months	Construc- tion	Road- construc- tion	Production of structures for small houses	Production of concrete	Others	Group
Sales	2 561 609	116 631	29 959	-	-	2 708 199
Operating profit of the business segment	187 946	13 527	1 073	-	-	202 546
Financial items						(4 805)
incl. profit (loss) from associate companies	555	(617)	-	4 333	177	4 448
Profit before taxes						197 741
Income tax						10 901
Profit for the group from normal operations						186 840
Minority interest						(2 367)
Net profit for the financial year						184 473
Segment assets	1 033 31	73 750	-	-	-	1 106 781
Associate companies	1 144	3 096	-	10 899	9 901	25 040
Unallocated assets						15 967
Consolidated total assets						1 147 788
Segment liabilities	615 398	13 560	-	-	-	628 958
Unallocated liabilities						50 198
Consolidated total liabilities						679 156
Acquisition of real-estate investm.	23 632	-	-	-	-	23 632
Acquisition of property, plant and equipment and intangible assets	10 986	28 928	290	-	-	40 204
Depreciation	4 817	7 763	378	-	-	12 580

Unallocated are those expenses, assets and liabilities, which can not or should not be linked to a concrete business segment.

Geographical segments

	Sales	Total assets	Acquisition of real-estate investments	Acquisition of fixed assets
Estonia	1 981 742	927 776	23 632	38 106
Lithuania	434 352	102 304	-	126
Latvia	263 435	117 708	-	1 972
Sweden	12 007	-	-	-
Norway	7 795	-	-	-
Germany	5 089	-	-	-
Ireland	1 784	-	-	-
Denmark	1 180	-	-	-
Iceland	815	-	-	-
Total	2 708 199	1 147 788	23 632	40 204

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.

	2003 12 months
Net profit attributable to shareholders	184 473
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings per share (in EEK)	<u>20,84</u>

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