

AS MERKO EHITUS
GROUP

Consolidated interim report Q1 2001

COMMENTARY TO FIRST QUARTER 2001 FINANCIAL RESULTS

The Q1 2001 unaudited and consolidated net sales of Merko Ehitus group amounted to 255,6 million EEK, and net profit was 15,3 million EEK. The respective figures year ago were net sales of 210.3 million EEK and net profit of 9.0 million EEK.

The consolidated financial results of Merko Ehitus group include the results of AS Merko Ehitus in Estonia (project management and construction), SIA Merks in Latvia (project management and construction), UAB Merko Statyba in Lithuania (project management and construction), 100% holding in subsidiary Gustaf (construction), 66% holding in subsidiary Merko Tartu (construction), and 65% holding in subsidiary Matek (production of structures for small houses).

Financial results of Merko Ehitus group also include the results of the 50% holding affiliated enterprise Normanni Linnagrupi AS (project management,) and 25% holding affiliated enterprise Tartu Maja Betootootud (production of concrete).

Financial ratios illustrating the activities of Merko Ehitus group in Q1 2001 were:

	Q1 2001	Q1 2000
Net profit margin	6,0%	4,3%
Operating profit margin	5,5%	4,4%
Return on equity (per year)	35,7%	32,6%
Return on assets (per year)	13,9%	12,2%
Current ratio	1,6	1,3
Invoice turnover (per year)	9,4	7,0
Equity-to-assets ratio	44 %	36 %

Year 2001 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, in thousand EEK

	Note	2001	2000
Sales	1	255 642	210 290
Cost of sales		231 694	192 140
Gross profit		23 948	18 150
Marketing expenses		2 404	3 021
Administrative expenses		8 850	6 003
Other operating income		1 984	347
Other operating expenses		696	214
Operating profit		13 982	9 259
Financial income from stocks of associated companies		24	29
incl. Equity method gains		24	29
Foreign exchange gain		2 126	606
Other interest and similar income		1 586	928
Total financial income		3 736	1 563
Financial expenses related to associated companies		724	472
incl. Equity method gains		724	472
Interest expense		44	178
Foreign exchange loss		1 257	793
Other financial expenses		46	138
Total financial expenses		2 071	1 581
Profit (- loss) from normal operations		15 647	9 241
Profit (loss-) before taxes		<u>15 647</u>	<u>9 241</u>
Minority interest		325	223
Net profit (- loss) for the group		<u>15 322</u>	<u>9 018</u>
Net profit (- loss) per share (basic and diluted, in EEK)	2	1,73	1,02

CONSOLIDATED BALANCE SHEET

unaudited, in thousand EEK

	31.03.01	31.12.00
ASSETS		
Cash and cash equivalents	49 291	42 294
Marketable securities	108 559	95 042
Accounts receivable	109 185	203 327
Allowance for doubtful receivables	-494	-506
Total accounts receivable	108 691	202 821
Receivables from subsidiary and parent companies	1 735	1 735
Receivables from associated companies	2 742	3 029
Other short-term receivables	35 211	18 423
Total other receivables	39 688	23 187
Interest receivable	862	542
Other accrued income	-	6
Total accrued income	862	548
Prepaid taxes	5 342	2 546
Other prepaid expenses	2 480	781
Total prepaid expenses	7 822	3 327
Raw materials	2 190	2 516
Work-in-progress	185	598
Finished goods	1 123	1 781
Merchandise purchased for resale	8 229	8 112
Prepayments to suppliers	4 054	578
Construction-in-progress	8 788	10 464
Due from customers	15 056	26 516
Total inventories	39 625	50 565
Total current assets	354 538	417 784
Shares in associated companies	4 603	5 303
Other shares, holdings and debt securities	1 800	1 800
Miscellaneous long-term receivables	4 962	5 020
Total long-term financial assets	11 365	12 123
Land and buildings	36 765	41 740
Ground lease	1 603	1 603
Plant and equipment	14 606	13 841
Other equipment and fixtures	9 861	9 119
Accumulated depreciation	-22 534	-22 438
Prepayments for noncurrent physical assets	99	2 867
Total noncurrent physical assets	40 400	46 732
Purchased concessions, patents, licenses, etc.	43	31
Goodwill	-	747
Total intangible assets	43	778
Total non-current assets	51 808	59 633
TOTAL ASSETS	406 346	477 417

	31.03.01	31.12.00
LIABILITIES AND OWNERS' EQUITY		
Debentures (except bank loans)	1 884	8 732
Short-term loans from financial institutions	1 566	159
Total debt obligations	3 450	8 891
Customer prepayments	34 456	31 313
Accounts payable to suppliers	78 969	150 957
Payables to associated companies	-	1 337
Tax liabilities	6 873	11 846
Payables to employees	6 960	7 254
Interests payable	549	-
Other accrued expenses	434	372
Total accrued expenses	7 943	7 626
Provisions for construction warranty liability	2 679	2 710
Due to customers	88 044	94 773
Other current provisions	519	437
Total current provisions	91 242	97 920
Other pre-paid revenue	-	57
Total current liabilities	222 933	309 947
Non-convertible debt	67	-
Accounts payable to suppliers	154	-
Total non-current liabilities	221	-
TOTAL LIABILITIES	223 154	309 947
Minority interests	3 780	4 003
OWNERS' EQUITY		
Share capital	88 500	88 500
Share premium	2 950	2 950
Mandatory legal reserve	4 875	4 875
Retained earnings	66 601	6
Net profit (- loss) for the financial year	15 322	66 595
Exchange rate differences	1 164	541
TOTAL OWNERS' EQUITY	179 412	163 467
TOTAL LIABILITIES AND OWNERS' EQUITY	406 346	477 417

STATEMENT OF CHANGES IN EQUITY

unaudited, in thousand EEK

	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.99	88 500	2 950	4 875	1 818	7 971	106 114
Exchange rate differences	-	-	-	92	-	92
Net profit (- loss) for the financial year	-	-	-	-	9 018	9 018
Closing balance 31.03.00	88 500	2 950	4 875	1 910	16 989	115 224
Closing balance 31.12.00	88 500	2 950	4 875	541	66 601	163 467
Exchange rate differences	-	-	-	623	-	623
Net profit (- loss) for the financial year	-	-	-	-	15 322	15 322
Closing balance 31.03.01	88 500	2 950	4 875	1 164	81 923	179 412

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

unaudited, in thousand EEK

	Q1 2001	Q1 2000
Operating activities		
Profit from normal operations	15 647	9 241
Depreciation	2 423	1 847
Other adjustments *	3 081	-19 919
Operating profit before working capital changes	21 151	-8 831
Working capital changes		
Marketable securities	-13 500	3 368
Receivables	79 178	-36 830
Accrued income	6	774
Prepaid expenses	-4 362	-8 459
Inventories	-206	-3 361
Customer prepayments	2 985	49 773
Accounts payable to suppliers	-73 417	4 296
Other liabilities	-1 337	-398
Tax liabilities	-5 206	700
Accrued liabilities	-734	-3 368
Cash generated from operations	4 558	-2 336
Interests		
Interests received	1 207	729
Interests paid	-56	-177
Dividends		
Dividends received	-	218
Net cash from operating activities	5 709	-1 566
Investing activities		
Long-term loans made	-1 119	-631
Long-term loan payments received	872	27
Purchase of property, plant and equipment	-2 136	-2 417
Sale of property, plant and equipment	7 188	-
Net cash used in investing activities	4 805	-3 021
Financing activities		
Proceeds from borrowings	1 407	-
Repayments of borrowings	-6 851	-5 498
Repayments of finance lease liabilities	-	-32
Net cash used in financing activities	-5 444	-5 530
Total cash flow	5 070	-10 117
Net increase/decrease in cash and cash equivalents	5 070	-10 117
Cash and cash equivalents at the beginning of the period	42 294	25 239
Effects of exchange rate differences	1 927	-430
Cash and cash equivalents at the end of the period	49 291	14 692
* Other adjustments		
Adjustments of revenues from construction contracts according to the percentage of completion method	5 078	-20 376
Warranty reserve changes	-87	16
Vacation reserve changes	464	475
Profit or loss from disposals or liquidation of property, plant and equipment	-175	2
Profit or loss from long-term investments	701	443
Value adjustments of marketable securities	-15	-198
Foreign exchange profit or loss	-1 414	164
Interest income	-1 527	-623
Interest expense	56	178
Total other adjustments	3 081	-19 919

NOTES

Note 1 Segment information

Business segments

Q1 2001 in thousand EEK	Building	Production of structures for small houses	Production of concrete	Group
Sales	241 451	14 191	-	255 642
Operating profit of the business segment	13 443	539	-	<u>13 982</u>
Financial items incl. profit from associate companies	-715	-	14	-701
Profit (- loss) for the group from normal operations				15 648
Minority interest				326
Net profit (- loss) for the financial year				<u>15 322</u>
Segment assets	378 614	11 024	-	389 638
Associate companies	2 602	-	2 001	4 603
Unallocated assets				12 105
Consolidated total assets				<u>406 346</u>
Segment liabilities	207 634	5 197	-	212 831
Unallocated liabilities				10 323
Consolidated total liabilities				<u>223 154</u>
Acquisition of property, plant and equipment and intangible assets	1 810	326	-	2 136
Depreciation	2 269	154	-	2 423

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 tangible fixed assets
Estonia	200 512	327 499	1 481
Latvia	13 683	35 325	99
Lithuania	28 796	43 522	556
Germany	2 299	-	-
Sweden	7 256	-	-
Norway	3 096	-	-
Total	<u>255 642</u>	<u>406 346</u>	<u>2 136</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.

in thousand EEK	Q1 2001
Net profit (loss) attributable to shareholders	15 322
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	1,73

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