

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 3 months | 2002 3 months | 2003 3 months | 2002 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 | | 28 478 | 18 684 | 1 820 | 1 194 |
| Minority interest | | (313) | 104 | (20) | 7 |
| Net profit (- loss) for the group | | 28 165 | 18 788 | 1 800 | 1 201 |
| 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 3 months | 2002 3 months | 2003 3 months | 2002 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.

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.