

AS MERKO EHITUS
GROUP

Consolidated interim report H1 2001

COMMENTARY TO H1 2001 FINANCIAL RESULTS

The H1 2001 unaudited and consolidated net sales of Merko Ehitus group amounted to 561,8 million EEK, and net profit was 33,1 million EEK. The respective figures year ago were net sales of 518,3 million EEK and net profit of 25,8 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 Betootooted (production of concrete).

Financial ratios illustrating the activities of Merko Ehitus group in H1 2001 were:

	H1 2001	H1 2000
Net profit margin	5,9%	4,9%
Operating profit margin	5,2%	4,9%
Return on equity (per year)	38,1%	45,1%
Return on assets (per year)	14,9%	16,4%
Current ratio	1,6	1,3
Invoice turnover (per year)	9,8	8,2
Equity-to-assets ratio	44,6 %	34,4 %

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	H1 2001	H1 2000
Sales	1	561 768	518 292
Cost of sales		512 715	476 849
Gross profit		49 053	41 443
Marketing expenses		5 020	3 670
Administrative expenses		18 624	12 648
Other operating income		4 678	3 251
Other operating expenses		1 015	2 892
Operating profit		29 072	25 484
Financial income from stocks of associated companies		656	97
incl. Equity method gains		656	97
Foreign exchange gain		4 285	1 159
Other interest and similar income		3 054	1 397
Total financial income		7 995	2 653
Financial expenses related to associated companies		929	541
incl. Equity method gains		929	534
Interest expense		22	359
Foreign exchange loss		2 516	531
Other financial expenses		49	415
Total financial expenses		3 516	1 846
Profit (- loss) from normal operations		33 551	26 291
Profit (loss-) before taxes		<u>33 551</u>	<u>26 291</u>
Minority interest		462	467
Net profit (- loss) for the group		<u>33 089</u>	<u>25 824</u>
Net profit (- loss) per share (basic and diluted, in EEK)	2	3,74	2,92

CONSOLIDATED BALANCE SHEET

unaudited, in thousand EEK

	30.06.01	31.12.00
ASSETS		
Cash and cash equivalents	62 436	42 294
Marketable securities	66 869	95 042
Accounts receivable	115 705	203 327
Allowance for doubtful receivables	-494	-506
Total accounts receivable	115 211	202 821
Receivables from subsidiary and parent companies	1 735	1 735
Receivables from associated companies	11 405	3 029
Other short-term receivables	34 901	18 423
Total other receivables	48 041	23 187
Interest receivable	553	542
Other accrued income	-	6
Total accrued income	553	548
Prepaid taxes	2 122	2 546
Other prepaid expenses	1 583	781
Total prepaid expenses	3 705	3 327
Raw materials	1 578	2 516
Work-in-progress	194	598
Finished goods	741	1 781
Merchandise purchased for resale	29 302	8 112
Prepayments to suppliers	1 592	578
Construction-in-progress	14 277	10 464
Due from customers	14 382	26 516
Total inventories	62 066	50 565
Total current assets	358 881	417 784
Shares in associated companies	5 960	5 303
Other shares, holdings and debt securities	1 800	1 800
Miscellaneous long-term receivables	5 814	5 020
Total long-term financial assets	13 574	12 123
Land and buildings	36 876	41 740
Ground lease	458	1 603
Plant and equipment	15 205	13 841
Other equipment and fixtures	10 848	9 119
Accumulated depreciation	-24 085	-22 438
Prepayments for noncurrent physical assets	-	2 867
Total noncurrent physical assets	39 302	46 732
Purchased concessions, patents, licenses, etc.	69	31
Goodwill	-	747
Total intangible assets	69	778
Total non-current assets	52 945	59 633
TOTAL ASSETS	411 826	477 417

	30.06.01	31.12.00
LIABILITIES AND OWNERS' EQUITY		
Debentures (except bank loans)	1 799	8 732
Short-term loans from financial institutions	157	159
Total debt obligations	1 956	8 891
Customer prepayments	36 477	31 313
Accounts payable to suppliers	107 044	150 957
Payables to associated companies	-	1 337
Tax liabilities	4 734	11 846
Payables to employees	6 659	7 254
Other accrued expenses	388	372
Total accrued expenses	7 047	7 626
Provisions for construction warranty liability	2 614	2 710
Due to customers	58 335	94 773
Other current provisions	496	437
Total current provisions	61 445	97 920
Other pre-paid revenue	-	57
Total current liabilities	218 703	309 947
Non-convertible debt	67	-
Accounts payable to suppliers	5 354	-
Total non-current liabilities	5 421	-
TOTAL LIABILITIES	224 124	309 947
Minority interests	3 916	4 003
OWNERS' EQUITY		
Share capital	88 500	88 500
Share premium	2 950	2 950
Mandatory legal reserve	8 205	4 875
Retained earnings	49 213	6
Net profit (- loss) for the financial year	33 089	66 595
Exchange rate differences	1 829	541
TOTAL OWNERS' EQUITY	183 786	163 467
TOTAL LIABILITIES AND OWNERS' EQUITY	411 826	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	-	-	-	-1 201	-	-1 201
Dividends	-	-	-	-	-7 965	-7 965
Net profit (- loss) for the financial year	-	-	-	-	25 824	25 824
Closing balance 30.06.00	88 500	2 950	4 875	617	25 830	122 772
Closing balance 31.12.00	88 500	2 950	4 875	541	66 601	163 467
Exchange rate differences	-	-	-	1 288	-	1 288
Change in reserve capital	-	-	3 330	-	-3 330	-
Dividends	-	-	-	-	-13 275	-13 275
Dividend income tax	-	-	-	-	-783	-783
Net profit (- loss) for the financial year	-	-	-	-	33 089	33 089
Closing balance 30.06.01	88 500	2 950	8 205	1 829	82 302	183 786

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

	H1 2001	H1 2000
Operating activities		
Profit from normal operations	33 550	26 291
Depreciation	4 156	3 738
Other adjustments *	-30 433	16 053
Operating profit before working capital changes	7 273	46 082
Working capital changes		
Marketable securities	28 751	-34 714
Receivables	66 417	-50 658
Accrued income	6	920
Prepaid expenses	-306	654
Inventories	-23 278	-13 562
Customer prepayments	4 830	6 802
Accounts payable to suppliers	-42 062	39 244
Other liabilities	-2 103	15 360
Tax liabilities	-6 497	-2 744
Accrued liabilities	-1 175	439
Cash generated from operations	31 856	7 823
Interests		
Interests received	2 968	1 251
Interests paid	-74	-370
Dividends		
Dividends received	8	229
Company income tax		
Income tax paid for the previous fiscal year	-798	-49
Net cash from operating activities	33 960	8 884
Investing activities		
Acquisition of associates	-929	-
Long-term loans made	-2 799	-1 679
Long-term loan payments received	1 974	53
Purchase of property, plant and equipment	-3 774	-3 268
Sale of property, plant and equipment	8 490	144
Net cash used in investing activities	2 962	-4 750
Financing activities		
Proceeds from borrowings	-	965
Repayments of borrowings	-6 939	-6 219
Repayments of finance lease liabilities	-	-60
Dividends paid	-13 824	-
Net cash used in financing activities	-20 763	-5 314
Total cash flow	16 159	-1 180
Net increase/decrease in cash and cash equivalents	16 159	-1 180
Cash and cash equivalents at the beginning of the period	42 294	25 239
Effects of exchange rate differences	3 983	852
Cash and cash equivalents at the end of the period	62 436	24 911
* Other adjustments		
Adjustments of revenues from construction contracts according to the percentage of completion method	-24 234	17 365
Warranty reserve changes	-195	-36
Vacation reserve changes	484	143

Profit or loss from disposals or liquidation of property, plant and equipment	-368	-85
Profit or loss from long-term investments	273	424
Value adjustments of marketable securities	-23	-106
Foreign exchange profit or loss	-2 696	-850
Interest income	-2 978	-1 051
Interest expense	96	260
Dividends received	-8	-11
Dividend income tax	-784	-
Total other adjustments	-30 433	16 053

NOTES

Note 1

Segment information

Business segments

H1 2001 in thousand EEK	Building	Production of structures for small houses	Production of concrete	Group
Sales	539 056	22 712	-	561 768
Operating profit of the business segment	28 806	266	-	29 072
Financial items				4 479
incl. profit from associate companies	-929	-	656	-273
Profit (- loss) for the group from normal operations				33 551
Minority interest				462
Net profit (- loss) for the financial year				33 089
Segment assets	387 633	6 762	-	394 395
Associate companies	3 316	-	2 644	5 960
Unallocated assets				11 471
Consolidated total assets				411 826
Segment liabilities	215 878	1 556	-	217 434
Unallocated liabilities				6 690
Consolidated total liabilities				224 124
Acquisition of property, plant and equipment and intangible assets	3 338	436	-	3 774
Depreciation	3 837	319	-	4 156

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	422 418	336 798	1 895
Latvia	60 031	51 494	803
Lithuania	60 481	23 534	1 076
Germany	7 222	-	-
Sweden	7 830	-	-
Norway	3 110	-	-
Denmark	676	-	-
Total	561 768	411 826	3 774

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	H1 2001
Net profit (loss) attributable to shareholders	33 089
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	3,74

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