

AS MERKO EHITUS
GROUP

Consolidated interim report 6M 2002

COMMENTARY TO 6M 2002 FINANCIAL RESULTS

Merko Ehitus group 6M 2002 consolidated and unaudited net sales amounted to 668,6 million EEK (42,7 million EUR), and net profit was 42,7 million EEK (2,7 million EUR). The respective figures year ago were net sales of 561,8 million EEK (35,9 million EUR) and net profit of 33,1 million EEK (2,1 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 2002 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	414 520	411 211
AS Gustaf (100% partnership)	55 982	54 372
AS Merko Tartu (66% partnership)	33 882	32 909
Production of structures for small houses		
OÜ Matek (71,6% partnership)	13 409	13 182
Road construction		
Tallinna Teede AS (100% partnership)	48 993	47 210
Construction		
AS Normanni Linnagrupp (50% partnership)	968	-
AS Insenerivõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	53 012	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	51 552	51 552
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	58 132	58 132

Companies of the group 6M 2002 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	26 493	26 281
AS Gustaf (100% partnership)	3 578	3 475
AS Merko Tartu (66% partnership)	2 166	2 103
Production of structures for small houses		
OÜ Matek (71,6% partnership)	857	843
Road construction		
Tallinna Teede AS (100% partnership)	3 131	3 017
Construction		
AS Normanni Linnagrupp (50% partnership)	62	-
AS Insenerivõrgud (50% partnership)	-	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	3 388	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	3 295	3 295
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	3 715	3 715

Merko Ehitus group 6M 2002 consolidated data illustrating financial ratios were:

	6M 2002	6M 2001
Net profit margin	6,4 %	5,9 %
Operating profit margin	6,4 %	5,2 %
Return on equity (per year)	35,5 %	38,1 %
Return on assets (per year)	15,9 %	14,9 %
Current ratio	1,5	1,6
Invoice turnover (per year)	5,8	9,8
Equity-to-assets ratio	43,0 %	44,6 %

Year 2002 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.

in thousand EEK and EUR

CONSOLIDATED INCOME STATEMENT

unaudited

	Note	EEK		EUR	
		2002 6 months	2001 6 months	2002 6 months	2001 6 months
Sales	1	668 568	561 768	42 729	35 903
Cost of sales		597 084	512 715	38 161	32 768
Gross profit		71 484	49 053	4 569	3 135
Marketing expenses		6 124	5 020	391	321
Administrative expenses		22 611	18 624	1 445	1 190
Other operating income		8 200	4 678	524	299
Other operating expenses		8 357	1 015	534	65
Operating profit		42 592	29 072	2 722	1 858
Financial income from stocks of associated companies		1 125	656	72	42
incl. Equity method gains		1 125	656	72	42
Foreign exchange gain		1 191	4 285	76	274
Other interest and similar income		1 715	3 054	110	195
Total financial income		4 031	7 995	258	511
Financial expenses related to associated companies		352	929	22	59
incl. Equity method gains		352	929	22	59
Interest expense		230	22	15	1
Foreign exchange loss		3 114	2 516	199	161
Other financial expenses		77	49	5	3
Total financial expenses		3 773	3 516	241	225
Profit (- loss) from normal operations		42 850	33 551	2 739	2 144
Net profit (- loss) for the financial year		42 850	33 551	2 739	2 144
Minority interest		121	462	8	30
Net profit (- loss) for the group		42 729	33 089	2 731	2 115
Net profit (- loss) per share (basic and diluted, in EEK and EUR)	2	4,83	3,74	0,31	0,24

in thousand EEK and EUR

CONSOLIDATED BALANCE SHEET

unaudited

ASSETS	EEK		EUR	
	30.06.02	31.12.01	30.06.02	31.12.01
Cash and cash equivalents	49 051	60 814	3 135	3 887
Marketable securities	16 681	18 516	1 066	1 183
Accounts receivable	231 917	186 861	14 822	11 943
Allowance for doubtful receivables	-38	-53	-2	-3
Total accounts receivable	231 879	186 808	14 820	11 939
Receivables from subsidiary and parent companies	0	1 735	0	111
Receivables from associated companies	7 375	6 941	471	444
Other short-term receivables	31 054	43 112	1 985	2 755
Total other receivables	38 429	51 788	2 456	3 310
Interest receivable	598	739	38	47
Other accrued income	261	254	17	16
Total accrued income	859	993	55	63
Prepaid taxes	4 732	6 850	302	438
Other prepaid expenses	3 451	1 534	221	98
Total prepaid expenses	8 183	8 384	523	536
Raw materials	2 633	4 041	168	258
Work-in-progress	2 755	9 092	176	581
Finished goods	1 400	855	89	55
Merchandise purchased for resale	63 820	32 667	4 079	2 088
Prepayments to suppliers	16 079	567	1 028	36
Construction-in-progress	3 884	5 821	248	372
Due from customers	27 151	35 281	1 735	2 255
Total inventories	117 722	88 324	7 524	5 645
Total current assets	462 804	415 627	29 578	26 563
Shares in associated companies	11 514	12 489	736	798
Long-term receivables from associated companies	529	100	34	6
Other shares, holdings and debt securities	3 947	1 800	252	115
Miscellaneous long-term receivables	10 039	7 588	642	485
Long-term accounts receivable	59	-	4	-
Total long-term financial assets	26 088	21 977	1 667	1 405
Land	696	797	44	51
Buildings	23 390	26 934	1 495	1 721
Accumulated real-estate investments depreciation	-7 100	-6 755	-454	-432
Prepayments for real-estate investments	14 261	10 655	911	681
Total real-estate investments	31 247	31 631	1 997	2 022
Land and buildings	8 305	15 289	531	977
Ground lease	6 718	458	429	29
Plant and equipment	65 527	64 064	4 188	4 094
Other equipment and fixtures	17 139	16 105	1 095	1 029
Accumulated depreciation	-47 198	-46 914	-3 016	-2 998
Selfconstructed physical assets under construction	162	173	10	11
Prepayments for non-current physical assets	50	-	3	-
Total non-current physical assets	50 703	49 175	3 241	3 143
Purchased concessions, patents, licenses, etc.	97	97	6	6
Goodwill	-6 095	-6 773	-390	-433
Total intangible assets	-5 998	-6 676	-383	-427
Total non-current assets	102 040	96 107	6 522	6 142
TOTAL ASSETS	564 844	511 734	36 100	32 706

	EEK		EUR	
	30.06.02	31.12.01	30.06.02	31.12.01
LIABILITIES AND OWNERS' EQUITY				
Debentures (except bank loans)	16 831	4 533	1 076	290
Short-term loans from financial institutions	9	8	1	1
Total debt obligations	16 840	4 541	1 076	290
Customer prepayments	13 692	9 865	875	630
Accounts payable to suppliers	127 521	122 504	8 150	7 829
Payables to associated companies	2 245	1 493	143	95
Tax liabilities	10 237	11 842	654	757
Payables to employees	12 151	10 165	777	650
Dividends payable	795	-	51	-
Interest payable	19	10	1	1
Other accrued expenses	695	941	44	60
Total accrued expenses	13 660	11 116	873	710
Provisions for construction warranty liability	3 793	3 737	242	239
Due to customers	113 327	94 572	7 243	6 044
Other current provisions	159	155	10	10
Total current provisions	117 279	98 464	7 495	6 293
Total current liabilities	301 474	259 825	19 268	16 606
Non-convertible debt	7 321	204	468	13
Accounts payable to suppliers	8 851	7 478	566	478
Total non-current liabilities	16 172	7 682	1 034	491
TOTAL LIABILITIES	317 646	267 507	20 301	17 097
Minority interests	4 177	5 829	267	373
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	8 205	566	524
Retained earnings	99 540	49 213	6 362	3 145
Net profit (- loss) for the financial year	42 729	88 312	2 731	5 644
Exchange rate differences	452	1 218	29	78
TOTAL OWNERS' EQUITY	243 021	238 398	15 532	15 236
TOTAL LIABILITIES AND OWNERS' EQUITY	564 844	511 734	36 100	32 706

in thousand EEK and EUR

STATEMENT OF CHANGES IN EQUITY

unaudited, in thousand EEK

EEK	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
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
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
Dividend income tax	-	-	-	-	-1 940	-1 940
Net profit (-loss) for the financial year	-	-	-	-	42 729	42 729
Closing balance 30.06.02	88 500	2 950	8 850	452	142 269	243 021
EUR	Share capital	Share premium	Reserve	Reserve for exchange rate differences	Retained earnings	Total
Closing balance 31.12.00	5 656	189	312	35	4 257	10 447
Exchange rate differences	-	-	-	82	-	82
Change in reserve capital	-	-	213	-	-213	0
Dividends	-	-	-	-	-848	-848
Dividend income tax	-	-	-	-	-50	-50
Net profit (-loss) for the financial year	-	-	-	-	2 115	2 115
Closing balance 30.06.01	5 656	189	524	117	5 260	11 746
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	0
Dividends	-	-	-	-	-2 262	-2 262
Dividend income tax	-	-	-	-	-124	-124
Net profit (-loss) for the financial year	-	-	-	-	2 731	2 731
Closing balance 30.06.02	5 656	189	566	29	9 093	15 532

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	
	2002 6 months	2001 6 months	2002 6 months	2001 6 months
Operating activities				
Profit from normal operations	42 850	33 550	2 739	2 144
Depreciation	5 594	4 156	358	266
Other adjustments *	23 954	-30 433	1 531	-1 945
Operating profit before working capital changes	72 398	7 273	4 627	465
Working capital changes				
Marketable securities	1 751	28 751	112	1 838
Receivables	-17 807	66 417	-1 138	4 245
Accrued income	-6	6	0	0
Prepaid expenses	362	-306	23	-20
Inventories	-29 965	-23 278	-1 915	-1 488
Customer prepayments	3 948	4 830	252	309
Accounts payable to suppliers	11 682	-42 062	747	-2 688
Other liabilities	-11 581	-2 103	-740	-134
Tax liabilities	-1 449	-6 497	-93	-415
Accrued liabilities	925	-1 175	59	-75
Cash generated from operations	30 258	31 856	1 934	2 036
Interests				
Interests received	1 839	2 968	118	190
Interests paid	-149	-74	-10	-5
Dividends				
Dividends received	1 661	8	106	1
Company income tax				
Income tax paid for the previous financial year	-	-798	-	-51
Pre-paid income tax	-566	-	-36	-
Net cash from operating activities	33 043	33 960	2 112	2 170
Investing activities				
Acquisition of associates	-22	-929	-1	-59
Long-term loans made	-6 885	-2 799	-440	-179
Long-term loan payment received	3 417	1 974	218	126
Acquisition of real-estate investments	-3 606	-	-230	-
Sale of real-estate investments	3 165	-	202	-
Purchase of property, plant and equipment	-8 067	-3 774	-516	-241
Sale of property, plant and equipment	1 858	8 490	119	543
Net cash used in investing activities	-10 140	2 962	-648	189
Financing activities				
Proceeds from borrowings	10 602	-	678	-
Repayments of borrowings	-2 376	-6 939	-152	-443
Repayments of finance lease liabilities	-4 794	-	-306	-
Dividends paid	-36 200	-13 824	-2 314	-884
Net cash used in financing activities	-32 768	-20 763	-2 094	-1 327
Total cash flow	-9 865	16 159	-630	1 033
Net increase/decrease in cash and cash equivalents	-9 865	16 159	-630	1 033
Cash and cash equivalent at the beginning of the period	60 814	42 294	3 887	2 703
Effects of exchange rate differences	-1 898	3 983	-121	255
Cash and cash equivalent at the end of the period	49 051	62 436	3 135	3 990

*** Other adjustments**

Adjustments of revenues from construction contracts according to the percentage of completion method	26 461	-24 234	1 691	-1 549
Warranty reserve changes	38	-195	2	-12
Vacation reserve changes	852	484	54	31
Profit or loss from disposals of real-estate investments	-205	-	-13	-
Profit or loss from disposals or liquidation of property, plant and equipment	-787	-368	-50	-24
Profit or loss from long-term investments	-773	273	-49	17
Value adjustments of marketable securities	63	-23	4	-1
Foreign exchange profit or loss	1 974	-2 696	126	-172
Interest income	-1 698	-2 978	-109	-190
Interest expense	148	96	9	6
Dividends received	-	-8	-	-1
Dividend income tax	-2 119	-784	-135	-50
Total other adjustments	23 954	-30 433	1 531	-1 945

NOTES

Note 1

Segment information

Business segments

6M 2002	Construction	Road construction	Production of concrete	Production of structures for small houses	Group
Sales	607 949	47 210	-	13 409	668 568
Operating profit of the business segment	35 526	7 707	-	-641	42 592
Financial items					258
incl. profit from associate companies	-352	-	1 125		773
Profit (- loss) for the group from normal operations					42 850
Minority interest					121
Net profit (- loss) for the financial year					42 729
Segment assets	464 669	68 290	-	1 065	534 024
Associate companies	2 913	3 648	4 953	-	11 514
Unallocated assets					19 306
Consolidated total assets					564 844
Segment liabilities	284 450	17 845	-	5 105	307 400
Unallocated liabilities					10 246
Consolidated total liabilities					317 646
Acquisition of real-estate investments	3 606	-	-	-	3 606
Acquisition of property, plant and equipment and intangible assets	3 564	4 293	-	209	8 066
Depreciation	2 611	2 645	-	338	5 594

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	541 539	480 012	3 606	6 478
Latvia	58 533	35 505	-	841
Lithuania	58 132	49 327	-	747
Germany	6 524	-	-	-
Austria	2 599	-	-	-
Norway	1 013	-	-	-
Denmark	168	-	-	-
Others	60	-	-	-
Total	668 568	564 844	3 606	8 066

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.

	6M 2002
Net profit (loss) attributable to shareholders	42 729
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	<u>4,83</u>

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