

AS MERKO EHITUS
GROUP

Consolidated interim report 9M 2003

COMMENTARY TO 9M 2003 FINANCIAL RESULTS

Merko Ehitus group 9M 2003 consolidated and unaudited net sales amounted to 1 854,7 million EEK (118,5 million EUR), and net profit was 134,0 million EEK (8,6 million EUR). The respective figures year ago were net sales of 1 140,6 million EEK (72,9 million EUR) and net profit of 72,3 million EEK (4,6 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 9M 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	1 087 920	1 087 420
AS Gustaf (100% partnership)	35 542	31 505
OÜ Gustaf Tallinn (100% partnership)	9 915	9 601
AS Merko Tartu (66% partnership)	92 074	80 553
Tallinna Teede AS (100% partnership)	99 621	83 317
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)	4 091	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	108 775	-
Telecommunication networks		
AS Telegrupp (45% partnership)	29 945	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	174 760	174 760
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	357 686	357 686

in thousand EUR

	Net sales	including consolidated net sales
Estonian companies		
Construction		
AS Merko Ehitus	1 087 920	1 087 420
AS Gustaf (100% partnership)	35 542	31 505
OÜ Gustaf Tallinn (100% partnership)	9 915	9 601
AS Merko Tartu (66% partnership)	92 074	80 553
Tallinna Teede AS (100% partnership)	99 621	83 317
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)	261	-
Production of concrete		
AS Tartu Maja Betoontooted (25% partnership)	6 952	-
Telecommunication networks		
AS Telegrupp (45% partnership)	1 914	-
Latvian companies		
Construction		
SIA Merks (100% partnership)	11 169	11 169
Lithuanian companies		
Construction		
UAB Merko Statyba (100% partnership)	22 860	22 860

Merko Ehitus group 9M 2003 consolidated data illustrating financial ratios were:

	9M 2003	9M 2002
Net profit margin	7,2 %	6,5 %
Operating profit margin	8,1 %	6,3 %
Return on equity (per year)	50,0 %	38,6 %
Return on assets (per year)	20,1 %	16,5 %
Current ratio	1,5	1,5
Invoice turnover (per year)	5,5	5,2
Equity-to-assets ratio	38,6 %	39,9 %

Year 2003 9M 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

	Note	EEK		EUR	
		2003 9 months	2002 9 months	2003 9 months	2002 9 months
Sales	1	1 854 739	1 140 571	118 539	72 896
Cost of sales		(1 657 554)	(1 021 130)	(105 937)	(65 262)
Gross profit		197 185	119 441	12 602	7 634
Marketing expenses		(10 790)	(9 517)	(690)	(608)
Administrative expenses		(49 454)	(35 208)	(3 161)	(2 250)
Other operating income		15 317	5 252	979	336
Other operating expenses		(1 455)	(8 117)	(93)	(519)
Operating profit		150 803	71 851	9 638	4 592
Financial income and expenses from stocks of subsidiaries		542	-	35	-
Financial income and expenses from stocks of associates		3 372	1 533	216	98
Financial income and expenses from other non-current financial investments		1 080	11	69	1
Interest expense		(1 351)	(444)	(86)	(28)
Foreign exchange gain		(2 402)	(2 434)	(154)	(156)
Other financial income and expenses		(5 078)	4 424	(325)	283
Total financial income and expenses		(3 837)	3 090	(245)	197
Profit before taxes		146 966	74 941	9 393	4 790
Income tax		(11 088)	(2 119)	(709)	(135)
Net profit (- loss) for the financial year		135 878	72 822	8 684	4 654
Minority interest		(1 859)	(535)	(119)	(34)
Net profit (- loss) for the group		134 019	72 287	8 565	4 620
Net profit (- loss) per share (basic and diluted, in EEK and EUR)	2	15,14	8,17	0,97	0,52

in thousand EEK and EUR

CONSOLIDATED BALANCE SHEET

unaudited

	EEK		EUR	
	30.09.03	31.12.02	30.09.03	31.12.02
ASSETS				
Cash and cash equivalents	198 137	96 310	12 663	6 155
Marketable securities	41 879	53 018	2 677	3 388
Accounts receivable	445 990	165 992	28 504	10 609
Allowance for doubtful receivables	(407)	(424)	(26)	(27)
Total accounts receivable	445 583	165 568	28 478	10 582
Receivables from associates	2 013	1 227	129	78
Other short-term receivables	30 493	27 245	1 949	1 741
Total other receivables	32 506	28 472	2 078	1 820
Interest receivable	1 779	1 145	114	73
Dividends receivable	238	-	15	-
Other accrued income	-	32	-	2
Total accrued income	2 017	1 177	129	75
Prepaid taxes	13 327	11 275	852	721
Other prepaid expenses	8 028	3 158	513	202
Total prepaid expenses	21 355	14 433	1 365	922
Raw materials	1 118	2 735	71	175
Work-in-progress	2 867	41 119	183	1 628
Finished goods	-	1 314	-	84
Merchandise purchased for resale	44 647	66 426	2 853	4 245
Prepayments to suppliers	272	374	17	24
Prepayments for real estate	3 581	15 181	229	970
Construction-in-progress	28 760	12 229	1 838	782
Due from customers	91 845	84 962	5 870	5 430
Total inventories	173 090	224 340	11 062	14 338
Total current assets	914 567	583 318	58 451	37 281
Shares in associated companies	23 921	21 338	1 529	1 364
Longterm receivables from associated companies	3 000	7 757	192	496
Other shares, holdings and debt securities	1 800	1 800	115	115
Miscellaneous long-term receivables	11 515	9 906	736	633
Long-term accounts receivable	-	1 679	-	107
Total long-term financial assets	40 236	42 480	2 572	2 715
Land	39 780	15 249	2 542	975
Buildings	3 496	13 544	223	866
Accumulated real-estate investments depreciat.	(326)	(5 140)	(21)	(329)
Prepayments for real-estate investments	-	11 655	-	745
Total real-estate investments	42 950	35 308	2 745	2 257
Land and buildings	8 306	13 015	531	832
Ground lease	458	458	29	29
Plant and equipment	97 886	66 854	6 256	4 273
Other equipment and fixtures	23 701	20 683	1 515	1 322
Accumulated depreciation	(55 082)	(50 790)	(3 520)	(3 246)
Selfconstructed physical assets under construct.	216	170	14	11
Prepayments for non-current physical assets	410	-	26	-
Total non-current physical assets	75 895	50 390	4 851	3 220
Purchased concessions, patents, licenses, etc.	252	135	16	9
Goodwill	(1 608)	(5 418)	(103)	(346)
Total intangible assets	(1 356)	(5 283)	(87)	(338)
Total non-current assets	157 725	122 895	10 080	7 854
TOTAL ASSETS	1 072 292	706 213	68 532	45 135

	EEK		EUR	
	30.09.03	31.12.02	30.09.03	31.12.02
LIABILITIES AND OWNERS' EQUITY				
Short-term loans and bonds	9 063	8 087	579	517
Current period long-term debt repayment	7 387	4 717	472	301
Total debt obligations	16 450	12 804	1 051	818
Customer prepayments	21 035	42 820	1 344	2 737
Accounts payable to suppliers	297 939	179 011	19 042	11 441
Payables to associated companies	373	3 853	24	246
Other short-term payables	2 503	-	160	-
Total other payables	2 876	3 853	184	246
Tax liabilities	27 302	16 344	1 745	1 045
Payables to employees	15 948	18 051	1 019	1 154
Dividends payable	-	889	-	57
Interest payable	213	6	14	0
Other accrued expenses	772	1 037	49	66
Total accrued expenses	16 933	19 983	1 082	1 277
Provisions for construction warranty liability	4 284	3 368	274	215
Due to customers	238 491	104 917	15 242	6 705
Total current provisions	242 775	108 285	15 516	6 921
Total current liabilities	625 310	383 100	39 964	24 484
Loans, bonds and financial lease liabilities	17 109	2 604	1 093	166
Accounts payable to suppliers	8 986	14 900	574	952
Other long-term payables	2 440	-	156	-
Total other long-term payables	11 426	14 900	730	952
Total non-current liabilities	28 535	17 504	1 824	1 119
TOTAL LIABILITIES	653 845	400 604	41 788	25 603
Minority interests	4 302	4 792	275	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	134 019	98 863	8 565	6 318
Exchange rate differences	(604)	174	(39)	11
TOTAL OWNERS' EQUITY	414 145	300 817	26 469	19 226
TOTAL LIABILITIES AND OWNERS' EQUITY	1 072 292	706 213	68 532	45 135

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	-	-	-	(713)	-	(713)
Change in reserve capital	-	-	645	-	(645)	-
Dividends	-	-	-	-	(35 400)	(35 400)
Net profit (-loss) for the financial year	-	-	-	-	72 287	72 287
Closing balance 30.09.02	88 500	2 950	8 850	505	173 767	274 572
Closing balance 31.12.02	88 500	2 950	8 850	174	200 343	300 817
Exchange rate differences	-	-	-	(778)	-	(778)
Dividends	-	-	-	-	(19 913)	(19 913)
Net profit (-loss) for the financial year	-	-	-	-	134 019	134 019
Closing balance 30.09.03	88 500	2 950	8 850	(604)	314 449	414 145
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	-	-	-	(46)	-	(46)
Change in reserve capital	-	-	41	-	(41)	-
Dividends	-	-	-	-	(2 262)	(2 262)
Net profit (-loss) for the financial year	-	-	-	-	4 620	4 620
Closing balance 30.09.02	5 656	189	566	32	11 106	17 548
Closing balance 31.12.02	5 656	189	566	11	12 804	19 226
Exchange rate differences	-	-	-	(50)	-	(50)
Dividends	-	-	-	-	(1 273)	(1 273)
Net profit (-loss) for the financial year	-	-	-	-	8 565	8 565
Closing balance 30.09.03	5 656	189	566	(39)	20 097	26 469

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 9 months	2002 9 months	2003 9 months	2002 9 months
Operating activities				
Profit from normal operations	146 966	74 941	9 393	4 790
Depreciation	9 405	8 442	601	540
Other adjustments *	120 754	50 235	7 718	3 211
Change in receivables and prepayments concerning operating activities	(315 894)	(77 211)	(20 189)	(4 935)
Change in inventories	24 452	(53 979)	1 563	(3 450)
Change in liabilities and prepayments concerning operating activities	132 923	53 708	8 495	3 433
Interests paid	(1 143)	(2 012)	(73)	(129)
Company income tax paid	(4 753)	(3 480)	(304)	(222)
Net cash from operating activities	112 710	50 644	7 203	3 237
Investing activities				
Disposal of subsidiary	2 210	-	141	-
Acquisition of associates	-	(6 434)	-	(411)
Disposal of associates	804	-	51	-
Acquisition of other long-term finan. investments	-	(10 838)	-	(693)
Long-term loans made	(9 158)	(21 481)	(585)	(1 373)
Long-term loan payment received	22 429	5 126	1 433	328
Acquisition of real-estate investments	(45)	(6 035)	(3)	(386)
Sale of real-estate investments	9 800	11 618	626	743
Purchase of property, plant and equipment	(22 555)	(10 619)	(1 442)	(679)
Sale of property, plant and equipment	4 896	2 029	313	130
Acquisition of intangible assets	(3 275)	-	(209)	-
Interests received	3 702	2 594	237	166
Dividends received	-	1 635	-	104
Net cash used in investing activities	8 808	(32 405)	563	(2 071)
Financing activities				
Proceeds from borrowings	13 595	23 310	869	1 490
Repayments of borrowings	(7 193)	(7 276)	(460)	(465)
Repayments of finance lease liabilities	(934)	(5 612)	(60)	(359)
Dividends paid	(21 074)	(36 200)	(1 347)	(2 314)
Net cash used in financing activities	(15 606)	(25 778)	(997)	(1 648)
Total cash flow	105 912	(7 539)	6 769	(482)
Net increase/decrease in cash and cash equivalents	105 912	(7 539)	6 769	(482)
Cash and cash equivalent at the beginning of the period	96 310	60 814	6 155	3 887
Effects of exchange rate differences	(4 085)	(1 723)	(261)	(110)
Cash and cash equivalent at the end of the period	198 137	51 552	12 663	3 295
* Other adjustments				
Adjustments of revenues from construction contracts according to the percentage of completion method	126 511	47 618	8 086	3 043
Warranty reserve changes	1 078	964	69	62
Vacation reserve changes	1 788	1 274	114	81
Profit or loss from disposals of real-estate invest.	(9 451)	1 677	(604)	107
Profit or loss from disposals or liquidation of property, plant and equipment	(2 764)	(184)	(177)	(12)
Profit or loss from long-term fin. investments	(3 914)	(1 543)	(250)	(99)
Value adjustments of marketable securities	8 336	39	533	2
Foreign exchange profit or loss	2 432	2 487	155	159
Interest income	(4 605)	(2 362)	(294)	(151)
Interest expense	1 343	265	86	17
Total other adjustments	120 754	50 235	7 718	3 211

NOTES

Note 1

Segment information

Business segments

2003 9 months	Construc- tion	Production of structures for small houses	Produc- tion of concrete	Road- construc- tion	Others	Group
Sales	1 741 463	29 959	-	83 317	-	1 854 739
Operating profit of the business segment	138 176	1 073	-	11 554	-	150 803
Financial items						(3 837)
incl. profit from associate companies	307	-	3 286	(112)	(109)	3 372
Profit before taxes						146 966
Income tax						(11 088)
Profit (- loss) for the group from normal operations						135 878
Minority interest						(1 859)
Net profit (- loss) for the financial year						134 019
Segment assets	923 173	-	-	95 555	-	1 018 728
Associate companies	853	-	9 852	3 600	9 616	23 921
Unallocated assets						29 643
Consolidated total assets						1 072 292
Segment liabilities	(564 989)	-	-	(52 490)	-	(617 479)
Unallocated liabilities						(36 366)
Consolidated total liabilities						(653 845)
Acquisition of real-estate invest.	13 108	-	-	-	-	13 108
Acquisition of property, plant and equipment and intangible assets	6 877	290	-	28 471	-	35 638
Depreciation	3 654	378	-	5 373	-	9 405

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	1 293 620	868 320	13 108	34 157
Latvia	174 764	109 559	-	1 481
Lithuania	357 686	94 413	-	-
Germany	5 089	-	-	-
Norway	7 795	-	-	-
Sweden	12 007	-	-	-
Ireland	1 784	-	-	-
Denmark	1 179	-	-	-
Iceland	815	-	-	-
Total	1 854 739	1 072 292	13 108	35 638

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 9 months
Net profit (loss) attributable to shareholders	134 019
Weighted average number of ordinary shares (thousands)	8 850
Basic net earnings (loss) per share (in EEK)	<u>15,14</u>

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