

# AS MERKO EHITUS GROUP

## Consolidated interim report 12M 2006

Beginning of financial year: 01.01.2006

End of financial year: 31.12.2006

Commercial Registry No: 10068022

Address: 9G Järvevana road, 11314 Tallinn

Telephone: +372 680 5105

Fax: +372 680 5106

E-mail: [merko@merko.ee](mailto:merko@merko.ee)

Homepage: [www.merko.ee](http://www.merko.ee)

Primary activity: General contracting in construction sector

Auditor: AS PricewaterhouseCoopers

## MANAGEMENT REPORT

### General information

Merko Ehitus is a leading building corporation offering integral solutions, with branches currently in Estonia, Latvia and Lithuania. Merko Ehitus has been in business since 1990. The Group consists of 32 subsidiaries and 7 associates and joint ventures the largest of which are: SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (75%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), OÜ Woody (100%) and AS Tartu Maja Betootootud (25%).

In 2006, the following important changes took place in the Group's structure.

- In February AS Merko Ehitus sold a 12% holding in the associated company AS Telegrupp for 1847 thousand kroons. In June, the remaining 19% holding in AS Telegrupp was sold for 3004 thousand kroons.
- In July AS Merko Ehitus sold a 25% holding in the subsidiary AS Gustaf for 5125 thousand kroons.
- In December a Latvian subsidiary of AS Merko Ehitus SIA Merks sold its 100% holding in a trading company SIA Arena Riga, as a non-related operating area to primary activities. The sales price was 17.61 million euros.
- In December AS Merko Ehitus sold its 100% holding in a trading company OÜ Rannamõisa Kinnisvara for 31.89 million kroons. Regarding the whole Group, the sales transaction is considered as sale of real estate.

### Business operations

The net sales of Merko Ehitus Group for 12 months in 2006 was 4414.4 million kroons, with a 36.6% rise within a year. The capacity of activities carried out outside Estonia rise from 24.5% to 36.7% of the Group's sales. 63.3% of revenue was earned in Estonia, 23.9% in Latvia and 12.8% in Lithuania. Compared to 2005 the net sales grew 14.5% in Estonia, 88.5% in Latvia and 144.4% in Lithuania.

In 4th quarter of 2006 the Group's net sales was 1343.3 million kroons, which exceeded the numbers of 2005 for the same period by 77.7%, which is 587.5 million kroons more. The seasonal and cyclical influence of the construction activities for Group's 4th quarter's revenues was insignificant.

Most important companies of the Group 12M 2006 consolidated net sales (sales outside the Group) were:

*in thousand kroons and euros*

	2006 12 months		2005 12 months	
	EEK	EUR	EEK	EUR
<b>Estonian companies</b>				
<b>Construction</b>				
AS Merko Ehitus	1 789 157	114 348	1 779 827	113 752
AS Gustaf (75% partnership)	97 049	6 203	60 922	3 894
OÜ Gustaf Tallinn (80% partnership)	124 068	7 929	77 555	4 957
AS Merko Tartu (66% partnership)	255 769	16 347	232 972	14 890
Tallinna Teede AS (100% partnership)	317 591	20 298	204 005	13 038
OÜ Woody (100% partnership)	306 354	19 580	106 080	6 780
<b>Latvian companies</b>				
<b>Construction</b>				
SIA Merks (100% partnership)	973 636	62 227	545 068	34 836
<b>Lithuanian companies</b>				
<b>Construction</b>				
UAB Merko Statyba (100% partnership)	507 309	32 423	208 850	13 348

Due to the growth of capacities, rise in prices for work labor and materials, the expense for the output grew 36.1% within a year constituting 84.4% from sales. Marketing and administrative expenses grew 14.5%, constituting 3.9% from sales. Despite the rapid rise of expenses for work labor and materials and also intensive situation in labor market, the company managed to maintain the total profit margin on a 15.6% level from sales and rise the operating profit margin from 13.5% to 14.3% from revenue.

The Group's net profit for 12 months was 581.7 million kroons. 125.1 million kroons from net profit was earned as extraordinary profit from sales of shareholdings, 284.7 million kroons from development activities, 164.2 million from construction activities and 7.7 million kroons from financial activities. The benefit-cost ratio of the net profit without extraordinary profit was 10.2% and profit margin for construction activities 4.6%.

The Group's net profit grew by 32.6% within a year and profit earned outside Estonia grew by 155.9%. For the first time the net profit of Latvian and Lithuanian units (252.7 million kroons) exceeded parent company AS Merko Ehitus' 218.1 million kroons profit.

The net profit of the Group for 4th quarter of 2006 was 246.5 million kroons, with a yearly growth of 82.1%.

## Construction market

4th quarter did not bring significant changes in the construction landscape, the demand in the sector was good and the construction market grew strongly in all three Baltic States. In market prices, the growth of the construction sector during the last 9 months amounted to 37.9% in Estonia, 38.5% in Latvia and 31.2% in Lithuania according to the Statistical Offices. Constantly increasing construction prices contributed significantly to this growth.

Rapidly increasing volumes have affected the availability of workforce and building materials, and have also boosted the rise of construction costs. As compared to the fourth quarter in 2005, construction costs increased by 25.0% in Latvia, 13.7% in Estonia and 9.9% in Lithuania including the respective 41.1% and 25.2% increase in labor costs in Latvia and Estonia.

The deficit for work labor and construction details as well rapid growth in real estate prices will still be biggest challenges for the development of the sector. Rapid growth brings instability to the sector; the risk for due date and post-budget construction rises. In short term perspective the demand exceeds offerings and the growth in construction sector exceeds the economic growth. In middle term perspective the rapid growth of prices of construction services and according to economy analysts' predictions the slackening of economic growth can have a negative effect on the demand and the growth in building sector might slow down.

The ratios and calculation methods characterizing the operating activities of the Group were as follows:

	2006 12 months	2005 12 months
Net profit margin *	10.3 %	9.0 %
Operating profit margin	14.3 %	13.5 %
Return on equity per annum	43.2 %	48.2 %
Return on assets per annum	21.4 %	24.9 %
Current ratio	2.0	2.0
Equity ratio	49.6 %	49.6 %
General expenses to net sales	3.9 %	4.6 %
Staff costs to net sales	8.0 %	7.3 %
Average number of full-time employees	850	695

\* less extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit \* / Average equity during the period\*

Return on assets: Net profit \* / Average assets during the period

Current ratio: Current assets / Current liabilities

Equity ratio: Owners equity\* / Total assets

General expenses to net sales: General expenses / Sales

Staff costs to net sales: Staff costs / Sales

\* calculated from the share of the parent company's shareholders

In 31.12.2006, the average number of full-time employees in the Group's service was 850, having increased by 9 employees in last quarter and by 155 employees in last year. The gross salaries paid to full-time personnel amounted to 276.5 million kroons, an increase of 59.0% compared to the year 2005.

## Shares and shareholders

AS Merko Ehitus biggest shareholders as of 31.12.2006

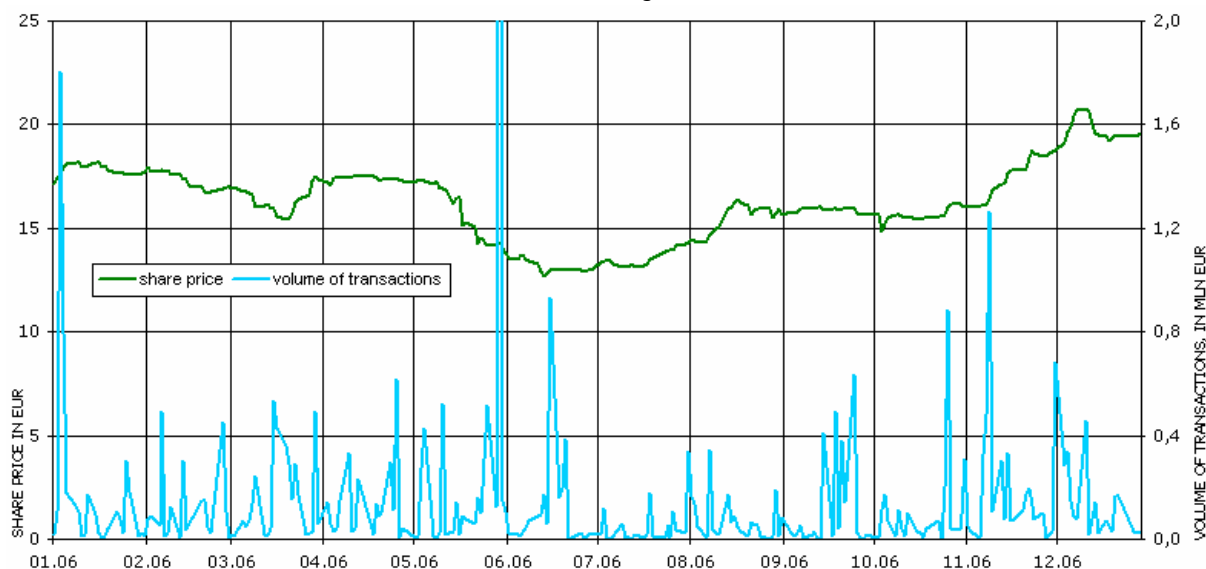
	No. of shares	Ownership
AS Merko Grupp	12 742 686	71.99%
ING Luxembourg S.A.	1 214 700	6.86%
Skandinaviska Enskilda Banken Ab, clients	789 365	4.46%
Nordea Bank Finland Plc, clients	503 172	2.84%
OKO Bank Plc, clients	248 594	1.40%
J.P. Morgan Bank Luxembourg S.A.	189 306	1.07%

Breakdown of shareholders as of 31.12.2006

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	398	39.80%	21 918	0.12%
101-1000	451	45.10%	173 912	0.98%
1001-10 000	116	11.60%	346 672	1.96%
10 001 – 100 000	24	2.40%	889 761	5.03%
100 001 – 1 000 000	9	0.90%	2 310 351	13.05%
1 000 001 - ...	2	0.20%	13 957 386	78.86%
Total	1000	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange. In 2006 the number of transactions with Merko Ehitus' shares was 3589, during which 3.4 million shares changed ownership and the turnover of the transactions was 832.6 million kroons. The cheapest bargain with a share was 197.46 kroons and highest 326.23 kroons per share. The closing share price with a state of 29.12.2006 was 307.46 kroons.

Performance of Merko Ehitus share at Tallinn Stock Exchange (2006 12 months)



	31.12.2006	31.12.2005	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	32.87	24.78	+32.6%
Equity per share, in kroons	90.05	62.23	+44.7%
P/B (share price to equity per share)	3.41	4.34	-21.4%
P/E (share price / earnings per share)	9.35	10.89	-14.1%

in thousand kroons and euros

**INCOME STATEMENT**  
consolidated, unaudited

	Note	EEK		EUR	
		2006 12 months	2005 12 months	2006 12 months	2005 12 months
Sales	1	4 414 361	3 232 392	282 129	206 588
Cost of goods sold		(3 727 561)	(2 738 714)	(238 234)	(175 036)
<b>Gross profit</b>		686 800	493 678	43 895	31 552
Marketing expenses		(23 390)	(22 595)	(1 495)	(1 444)
Administrative and general expenses		(148 654)	(127 632)	(9 501)	(8 157)
Other operating income		148 067	185 052	9 463	11 827
Other operating expenses		(29 952)	(93 452)	(1 914)	(5 973)
<b>Operating profit</b>		632 871	435 051	40 448	27 805
Financial income and expenses		7 733	28 673	494	1 833
incl. financial income (expenses) from investments in subsidiaries		2 326	7 499	149	479
financial income (expenses) from investments in associate companies and joint ventures		17 461	19 632	1 116	1 255
financial income and expenses from other long-term financial investments		7	11	0	1
interest expense		(14 288)	(2 418)	(913)	(155)
foreign exchange gain		(6 064)	(2 277)	(388)	(145)
other financial income and expenses		8 291	6 226	530	398
<b>Profit before tax</b>		640 604	463 724	40 942	29 638
Corporate income tax expense		(49 913)	(18 437)	(3 190)	(1 178)
<b>Net profit for current period</b>		590 691	445 287	37 752	28 460
incl. net profit attributable to equity holders of the parent company		581 738	438 638	37 180	28 034
minority interest		8 953	6 649	572	426
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	2	32,87	24,78	2,10	1,58

**INCOME STATEMENT**  
consolidated, unaudited

	EEK		EUR	
	2006 IV quarter	2005 IV quarter	2006 IV quarter	2005 IV quarter
Sales	1 343 319	755 843	85 854	48 307
Cost of goods sold	(1 131 204)	(663 648)	(72 297)	(42 415)
<b>Gross profit</b>	212 115	92 195	13 557	5 892
Marketing expenses	(7 921)	(7 146)	(506)	(457)
Administrative and general expenses	(51 961)	(43 965)	(3 321)	(2 810)
Other operating income	133 572	178 453	8 537	11 405
Other operating expenses	(14 485)	(92 077)	(926)	(5 885)
<b>Operating profit</b>	271 320	127 460	17 341	8 145
Financial income and expenses	2 074	7 428	133	476
incl. financial income (expenses) from investments in subsidiaries	0	2 356	0	151
financial income (expenses) from investments in associate companies and joint ventures	5 346	5 274	342	337
financial income and expenses from other long-term financial investments	-	11	-	1
interest expense	(4 023)	593	(257)	38
foreign exchange gain	(2 298)	(1 693)	(147)	(108)
other financial income and expenses	3 049	887	195	57
<b>Profit before tax</b>	273 394	134 888	17 474	8 621
Corporate income tax expense	(24 267)	4 598	(1 551)	294
<b>Net profit for current period</b>	249 127	139 486	15 923	8 915
incl. net profit attributable to equity holders of the parent company	246 463	135 374	15 752	8 652
minority interest	2 664	4 112	171	263
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	13,92	7,65	0,89	0,49

**BALANCE SHEET**

consolidated, unaudited

	EEK		EUR	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	676 143	268 446	43 213	17 157
Receivables and prepayments				
Accounts receivable	551 362	296 281	35 238	18 936
Prepaid corporate income tax	6 428	2 471	411	158
Other prepayments and refunds of taxes	32 553	34 199	2 081	2 186
Due from customers	135 408	82 224	8 654	5 255
Other short-term receivables	39 345	57 353	2 515	3 666
Prepayments for services	95 435	72 053	6 099	4 605
	<u>860 531</u>	<u>544 581</u>	<u>54 998</u>	<u>34 806</u>
Inventories				
Raw materials and materials	4 579	1 845	293	118
Work-in-progress	567 868	98 202	36 293	6 276
Finished goods	18 121	4 461	1 158	285
Goods purchased for resale	723 441	855 080	46 237	54 650
Prepayments for inventories	42 725	4 500	2 731	288
	<u>1 356 734</u>	<u>964 088</u>	<u>86 712</u>	<u>61 617</u>
Non-current assets held for sale				
Machinery and equipment	733	-	47	-
<b>Total current assets</b>	<u>2 894 141</u>	<u>1 777 115</u>	<u>184 970</u>	<u>113 580</u>
<b>Non-current assets</b>				
Long-term financial investments				
Shares in associated companies and joint ventures	200 798	179 609	12 833	11 479
Deferred income tax assets	6 592	8 753	421	559
Long-term receivables	8 476	8 524	542	545
	<u>215 866</u>	<u>196 886</u>	<u>13 796</u>	<u>12 583</u>
Investment property				
Land	2 134	35 634	136	2 277
Buildings	1 766	6 872	113	439
	<u>3 900</u>	<u>42 506</u>	<u>249</u>	<u>2 716</u>
Property, plant and equipment				
Land	145	145	9	9
Buildings	15 246	12 408	975	793
Right of superficies	372	382	24	24
Machinery and equipment	51 270	48 882	3 277	3 124
Other property, plant and equipment	22 859	18 518	1 461	1 184
Buildings in process and prepayments	553	118 669	35	7 584
	<u>90 445</u>	<u>199 004</u>	<u>5 781</u>	<u>12 718</u>
Intangible assets				
Development expenses	-	5	-	0
Other intangible assets	2 662	1 513	170	97
Prepayments for intangible assets	7 515	2 847	480	182
	<u>10 177</u>	<u>4 365</u>	<u>650</u>	<u>279</u>
<b>Total non-currents assets</b>	<u>320 388</u>	<u>442 761</u>	<u>20 476</u>	<u>28 296</u>
<b>TOTAL ASSETS</b>	<u>3 214 529</u>	<u>2 219 876</u>	<u>205 446</u>	<u>141 876</u>

	EEK		EUR	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Borrowings				
Short-term loans and bonds	275 425	105 144	17 603	6 720
Long-term loans payable in the following period	8 367	9 697	535	620
	<u>283 792</u>	<u>114 841</u>	<u>18 138</u>	<u>7 340</u>
Trade payables				
Payables to suppliers	464 199	282 087	29 668	18 029
Payables to employees	64 218	37 688	4 104	2 409
Company income tax liability	18 868	950	1 206	61
Other tax liabilities	41 866	25 020	2 676	1 599
Due to customers	276 940	185 648	17 700	11 865
Other payables	27 290	19 637	1 744	1 255
Received prepayments	206 883	161 156	13 222	10 299
	<u>1 100 264</u>	<u>712 186</u>	<u>70 320</u>	<u>45 517</u>
Government grants	1 498	22 225	96	1 420
Current provisions	33 517	21 741	2 142	1 390
<b>Total current liabilities</b>	<u>1 419 071</u>	<u>870 993</u>	<u>90 696</u>	<u>55 667</u>
<b>Non-current liabilities</b>				
Loans, bonds and finance lease liabilities	159 335	202 824	10 183	12 963
Other long-term payables	23 277	22 726	1 488	1 452
Deferred income tax liability	-	11 385	-	728
<b>Total non-current liabilities</b>	<u>182 612</u>	<u>236 935</u>	<u>11 671</u>	<u>15 143</u>
<b>Total liabilities</b>	<u>1 601 683</u>	<u>1 107 928</u>	<u>102 367</u>	<u>70 810</u>
<b>Equity</b>				
Minority interests	18 904	10 552	1 208	674
Equity attributable to equity holders of the parent company				
Share capital	177 000	177 000	11 312	11 312
Statutory reserve capital	17 700	8 850	1 131	566
Currency translation adjustment	(5 751)	(5 059)	(368)	(323)
Retained earnings	1 404 993	920 605	89 796	58 837
	<u>1 593 942</u>	<u>1 101 396</u>	<u>101 871</u>	<u>70 392</u>
<b>Total equity</b>	<u>1 612 846</u>	<u>1 111 948</u>	<u>103 079</u>	<u>71 066</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>3 214 529</u>	<u>2 219 876</u>	<u>205 446</u>	<u>141 876</u>



**STATEMENT OF CHANGES IN EQUITY**

unaudited

EEK

	Equity attributable to equity holders of the parent company						Minority interest	Total
	Share capital	Share pre-mium	Statu-tory reserve capital	Currency trans-lation adjust-ment	Retained earnings	Total		
<b>Balance as at 31.12.2004</b>	88 500	2 950	8 850	(4 663)	622 333	717 970	7 200	725 170
Effect of changes in account- ing policies 01.01.2005	-	-	-	-	2 709	2 709	-	2 709
Effect of exchange rate changes	-	-	-	(396)	-	(396)	-	(396)
Net profit for current period	-	-	-	-	438 638	438 638	6 649	445 287
Business combinations	-	-	-	-	-	-	(697)	(697)
Equity capitalisation	88 500	(2 950)	-	-	(85 550)	-	-	-
Dividends	-	-	-	-	(57 525)	(57 525)	(2 600)	(60 125)
<b>Balance as at 31.12.2005</b>	177 000	-	8 850	(5 059)	920 605	1 101 396	10 552	1 111 948
Effect of exchange rate changes	-	-	-	(692)	-	(692)	-	(692)
Net profit for current period	-	-	-	-	581 738	581 738	8 953	590 691
Business combinations	-	-	-	-	-	-	2 799	2 799
Dividends	-	-	-	-	(88 500)	(88 500)	(3 400)	(91 900)
Increase of reserve capital	-	-	8 850	-	(8 850)	-	-	-
<b>Balance as at 31.12.2006</b>	177 000	-	17 700	(5 751)	1 404 993	1 593 942	18 904	1 612 846

EUR

	Equity attributable to equity holders of the parent company						Minority interest	Total
	Share capital	Share pre-mium	Statu-tory reserve capital	Currency trans-lation adjust-ment	Retained earnings	Total		
<b>Balance as at 31.12.2004</b>	5 656	189	566	(298)	39 774	45 887	460	46 347
Effect of changes in account- ing policies 01.01.2005	-	-	-	-	173	173	-	173
Effect of exchange rate changes	-	-	-	(25)	-	(25)	-	(25)
Net profit for current period	-	-	-	-	28 034	28 034	426	28 460
Business combinations	-	-	-	-	-	-	(46)	(46)
Equity capitalisation	5 656	(189)	-	-	(5 467)	-	-	-
Dividends	-	-	-	-	(3 677)	(3 677)	(166)	(3 843)
<b>Balance as at 31.12.2005</b>	11 312	-	566	(323)	58 837	70 392	674	71 066
Effect of exchange rate changes	-	-	-	(45)	-	(45)	-	(45)
Net profit for current period	-	-	-	-	37 180	37 180	572	37 752
Business combinations	-	-	-	-	-	-	179	179
Dividends	-	-	-	-	(5 656)	(5 656)	(217)	(5 873)
Increase of reserve capital	-	-	565	-	(565)	-	-	-
<b>Balance as at 31.12.2006</b>	11 312	-	1 131	(368)	89 796	101 871	1 208	103 079

The share capital of AS Merko Ehitus consists of 17 700 000 common shares with a nominal value of EEK 10 i.e. EUR 0.64.

**CASH FLOW STATEMENT**

consolidated, unaudited

	EEK		EUR	
	2006	2005	2006	2005
	12 months	12 months	12 months	12 months
<b>Cash flows from operating activities</b>				
Operating profit	632 871	435 051	40 448	27 805
Adjustments:				
depreciation and amortisation	30 747	109 637	1 965	7 007
(profit) loss from sale of non-current assets	(122 403)	(535)	(7 823)	(34)
adjustments of revenue from construction contracts under stage of completion method	38 109	66 630	2 436	4 258
interest income from business activities	(2 335)	(5 590)	(149)	(357)
change in government grants and other provisions	5 455	(22 973)	349	(1 468)
Change in trade receivables related to operating activities	(189 193)	(27 321)	(12 092)	(1 746)
Change in inventories	(363 595)	(464 906)	(23 238)	(29 713)
Change in trade payables related to operating activities	186 197	186 556	11 900	11 923
Interests paid	(16 168)	(2 811)	(1 033)	(180)
Other financial expenses (income)	(7)	3 857	(1)	247
Corporate income tax paid	(43 991)	(12 928)	(2 812)	(826)
	<u>155 687</u>	<u>264 667</u>	<u>9 950</u>	<u>16 916</u>
<b>Cash flows from investing activities</b>				
Investments into subsidiaries	(3 029)	(23 985)	(195)	(1 533)
Proceeds from sale of subsidiaries	(2)	3 376	0	216
Liquidation proceeds of subsidiary to minority shareholders	(20)	(694)	(1)	(44)
Investments into associates and joint ventures	(7 866)	(136 228)	(503)	(8 707)
Proceeds from sale of associates and joint ventures	1 847	8 306	118	531
Proceeds from sale of other financial investments	3 004	3	192	0
Purchase of investment property	-	(63)	-	(4)
Purchase of property, plant and equipment	(76 264)	(226 960)	(4 874)	(14 505)
Proceeds from sale of property, plant and equipment	290 753	2 143	18 583	137
Purchase of intangible assets	(6 739)	(2 917)	(431)	(186)
Sales of a unit	9 717	2 752	621	176
Loans granted	(275 353)	(190 123)	(17 958)	(12 151)
Loan repayments received	286 953	176 311	18 340	11 268
Interest received	8 393	6 641	536	424
Dividends received	3 000	3 323	192	212
	<u>234 394</u>	<u>(378 115)</u>	<u>14 980</u>	<u>(24 166)</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	268 726	293 567	17 175	18 762
Repayments of borrowings	(144 017)	(6 724)	(9 204)	(430)
Finance lease principal payments	(11 163)	(5 832)	(714)	(373)
Government grants received	-	22 225	-	1 421
Dividends paid	(91 900)	(60 128)	(5 873)	(3 843)
	<u>21 646</u>	<u>243 108</u>	<u>1 384</u>	<u>15 537</u>
<b>Change in cash and cash equivalents</b>	411 727	129 660	26 314	8 287
Cash and cash equivalent at beginning of period	268 446	141 812	17 157	9 063
Effect of exchange rate changes	(4 030)	(3 026)	(258)	(193)
<b>Cash and cash equivalent at end of period</b>	<u>676 143</u>	<u>268 446</u>	<u>43 213</u>	<u>17 157</u>

**NOTES****Note 1 Business- and geographical segments****Business segments**

<b>2006 12 months</b>	<b>Construc- tion</b>	<b>Road construction</b>	<b>Concrete elements</b>	<b>Group</b>	
Sales	4 097 263	317 098	-	4 414 361	
Sales between segments	377 656	104 117	-	481 773	
Sales of the segment	4 474 919	421 215	-	4 896 134	
Segment's operating profit	596 374	36 497	-	632 871	
Financial income (expenses)				7 733	
incl. profit (loss) from associates and joint ventures	(416)	-	17 877	17 461	
Profit before tax				640 604	
Corporate income tax				49 913	
Net profit for the Group				590 691	
incl. attributable to equity owners of the parent company				581 738	
minority interest				8 953	
Segment's asset	2 772 635	187 047	-	2 959 682	
Associates and joint ventures	160 619	-	40 179	200 798	
Unallocated assets				54 049	
Total consolidated assets				3 214 529	
Segment's liabilities	1 033 996	63 825	-	1 097 821	
Unallocated liabilities				503 862	
Total consolidated liabilities				1 601 683	
Purchase of property, plant and equipment and intangible assets	80 654	12 510	-	93 164	
Depreciation and amortization	22 377	8 370	-	30 747	
<b>2005 12 months</b>	<b>Construc- tion</b>	<b>Road construction</b>	<b>Concrete elements</b>	<b>Construction of commu- nication networks</b>	<b>Group</b>
Sales	3 028 386	204 006	-	-	3 232 392
Sales between segments	4 773	34 338	-	-	39 111
Sales of the segment	3 033 159	238 344	-	-	3 271 503
Segment's operating profit	416 770	18 281	-	-	435 051
Financial income (expenses)					28 673
incl. profit /loss from associates and joint vent.	5 839	1 924	10 660	1 209	19 632
Profit before tax					463 724
Corporate income tax					(18 437)
Net profit for the Group					445 287
incl. attributable to equity owners of the parent company					438 638
minority interest					6 649
Segment's asset	1 856 012	121 555	-	-	1 977 567
Associates and joint ventures	150 773	-	25 302	3 534	179 609
Unallocated assets					62 700
Total consolidated assets					2 2219 876
Segment's liabilities	715 238	37 671	-	-	752 909
Unallocated liabilities					355 019
Total consolidated liabilities					1 107 928
Purchase of investment property	63	-	-	-	63
Purchase of property, plant and equipment and intangible assets	227 228	9 015	-	-	236 243
Depreciation and amortization	99 525	10 112	-	-	109 637

Costs, assets and liabilities that cannot be related to a specific asset or it is not practical to do so are considered as unallocated.

In 2006, AS Merko Ehitus sold all the shares in the associated company AS Telegrupp and as a result of this, communication network construction operations are no longer considered an independent business segment.

### Geographical segments

	Sales		Total assets		Purchase of investment property		Purchase of property, plant and equipment and intangible assets	
	12 M 2006	12 M 2005	31.12.2006	31.12.2005	12 M 2006	12 M 2005	12 M 2006	12 M 2005
Estonia	2 794 317	2 441 325	1 700 964	1 033 085	-	39	27 018	20 440
Latvia	1 055 632	560 107	1 244 312	991 929	-	24	65 699	215 356
Lithuania	564 412	230 960	269 253	194 862	-	-	447	447
<b>Total</b>	<b>4 414 361</b>	<b>3 232 392</b>	<b>3 214 529</b>	<b>2 219 876</b>	<b>-</b>	<b>63</b>	<b>92 164</b>	<b>236 243</b>

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

Ordinary net profit (-loss) per share is calculated on the basis of the relation between the net profit (-loss) attributed to parent company's shareholders and the weighted average number of ordinary shares excluding the shareholder's share.

	2006 12 months	2005 12 months
Net profit attributable to shareholders (in thousand kroons)	581 738	438 638
Weighted average number of ordinary shares (thousand pcs)	17 700	17 700
<b>Earnings per share (in kroons)</b>	<b>32,87</b>	<b>24,78</b>

The Group did not have any potential ordinary shares to be issued, therefore the diluted earnings per share equal the basic earnings per share.



## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 12M interim report 2006 as presented on pages 2 to 12.

The Management Board of Merko Ehitus confirms in its best knowledge, that:

- the accounting principles applied in preparing the interim financial statement are in accordance with International Financial Reporting Standards as adopted by the EU;
- the interim financial statement presents a true and fair view of the financial position, financial results and cash flows of the parent and its subsidiaries;
- AS Merko Ehitus and its subsidiaries are going concerns.

The consolidated financial statements income statement, balance sheet, statement of changes in equity and cash flow statement of the Merko Ehitus Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2005.

Tõnu Toomik	Chairman of the Board		22.02.2007
Alar Lagus	Member of the Board		22.02.2007
Veljo Viitmann	Member of the Board		22.02.2007
Andres Agukas	Member of the Board		22.02.2007
Tõnu Korts	Member of the Board		22.02.2007