

AS MERKO EHITUS GROUP

Consolidated interim report 3M 2007

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Primary activity: General contracting in construction sector
Auditor: AS PricewaterhouseCoopers
Beginning of financial year: 01.01.2007
End of financial year: 31.12.2007

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MANAGEMENT REPORT

General information

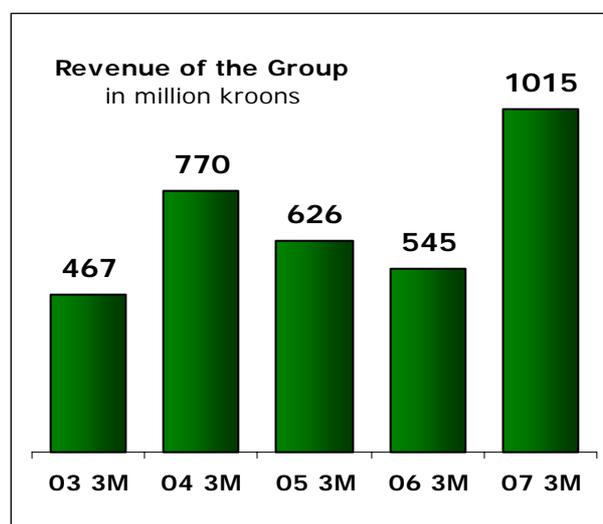
Merko Ehitus is a leading building corporation offering integral solutions, with branches currently in Estonia, Latvia and Lithuania. Merko Ehitus has been in business since 1990. The Group consists of 32 subsidiaries and 7 associates and joint ventures the largest of which are: SIA Merks (100%), UAB 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 Betootootood (25%).

On April 5 2007 AS Merko Ehitus acquired 75% holding of OÜ Fort Ehitus (Registry Code 10722444). Principal activities of OÜ Fort Ehitus are hydraulic engineering and pile works. The holding was acquired in order to strengthen competence of the group in the field of pile works and hydraulic engineering construction. (http://www.baltic.omxgroup.com/market/?pg=news&news_id=213583)

Business operations

The sales of Merko Ehitus Group for 3 months in 2007 was 1014.9 million kroons, with a 86.4% rise within a year. The capacity of activities carried out outside Estonia rise from 30.3% to 31.9% of the Group's sales. 68.1% of revenue was earned in Estonia, 15.2% in Latvia and 16.7% in Lithuania. Compared to 3 months in 2006 the sales grew 82.0% in Estonia, 45.8% in Latvia and 186.6% in Lithuania.

The warm winter jointly with the cyclic nature of residential building construction operations had a positive effect on the sales.

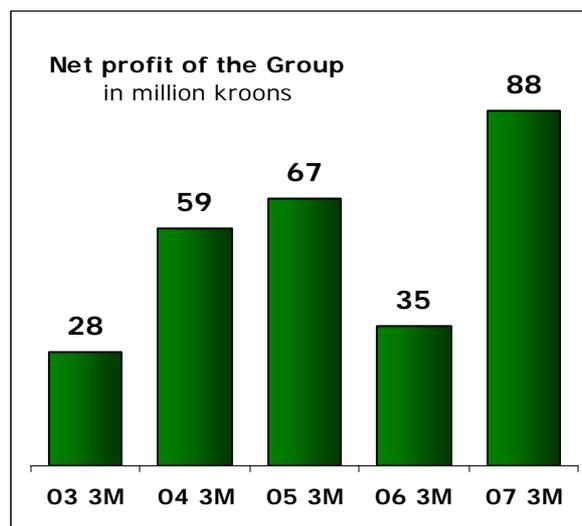


Most important companies of the Group 3M 2007 consolidated revenue (sales outside the Group)

	<i>in thousand kroons and euros</i>			
	2007 3 months		2006 3 months	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	464 357	29 678	278 427	17 795
AS Gustaf (75% partnership)	22 411	1 432	16 949	1 083
OÜ Gustaf Tallinn (80% partnership)	34 221	2 187	20 416	1 305
AS Merko Tartu (66% partnership)	40 030	2 558	28 204	1 803
Tallinna Teede AS (100% partnership)	20 650	1 320	2 734	175
OÜ Woody (100% partnership)	123 227	7 876	47 688	3 048
Latvian company				
SIA Merks (100% partnership)	127 341	8 139	93 298	5 963
Lithuanian company				
UAB Merko Statyba (100% partnership)	156 893	10 027	56 799	3 630

Due to the volume growth and appreciation of labour and material costs, the cost of goods sold increased by 88.6% and the distribution and administrative expenses increased by 6.8%, contributing 87.3% and 4.1%, respectively, to sales revenue. Due to the improved sales, the operating profit increased from 6.3 per cent to 8.7 per cent of the sales as compared with the first quarter of 2006.

The net profit of the Group for 2007 3M was 88.5 million kroons, with a yearly growth of 149.9%. The cyclic nature of residential building construction operations and increased sales had a positive effect on the profit of the first quarter.



Construction market

1st quarter 2007 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. Constantly increasing construction prices contributed significantly to this growth. As compared to the 1st quarter in 2006, construction costs increased by 30.4% in Latvia, 15.6% in Estonia and 10.7% in Lithuania including the respective 52.8% and 17.3% increase in labor costs in Latvia and Estonia.

As a result of the seasonal nature of small-scale construction operations the supply of construction materials improved temporarily but this is likely to decline in the 2nd quarter as seasonal small construction activities speed up. Public sector has a significant role in regulating the domestic demand. The state and local governments have published various calls for tenders regarding infrastructure construction operations. Unfortunately, the availability of necessary resources has not been thoroughly considered in the tender notices, and the estimated volume of these construction works often greatly exceeds the available resources contributing to the already anxious atmosphere in the construction sector. The lack of available workforce in the sector remains unchanged thus further increasing the wage level in the sector.

The said trends are likely to have a considerable effect on the development of the sector in the near future. It is likely that the rapid and continuous rise in construction prices together with the strict fiscal policy aiming at keeping the inflation at bay have a negative effect on the development of the construction sector in the medium term.

The ratios and calculation methods characterizing the operating activities of the Group

	2007 3 months	2006 3 months
Net profit margin	8.7 %	6.4 %
Operating profit margin	8.7 %	6.3 %
Return on equity per annum	21.6 %	12.4 %
Return on assets per annum	10.9 %	6.0 %
Current ratio	2.1	2.0
Equity ratio	51.0 %	47.4 %
General expenses to sales	4.1 %	7.1 %
Staff costs to sales	12.8 %	13.3 %
Average number of full-time employees	907	790

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit x 4* / Average equity during the period*

Return on assets: Net profit x 4* / Average assets during the period

Current ratio: Current assets / Current liabilities

Equity ratio: Owners equity* / Total assets

General expenses to sales: General expenses / Sales

Staff costs to sales: Staff costs / Sales

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

In 31.03.2007, the average number of full-time employees in the Group's service was 907, having increased by 57 employees in last quarter. The gross salaries paid to full-time personnel in 1st quarter amounted to 78.7 million kroons.

Shares and shareholders

AS Merko Ehitus biggest shareholders as of 31.03.2007

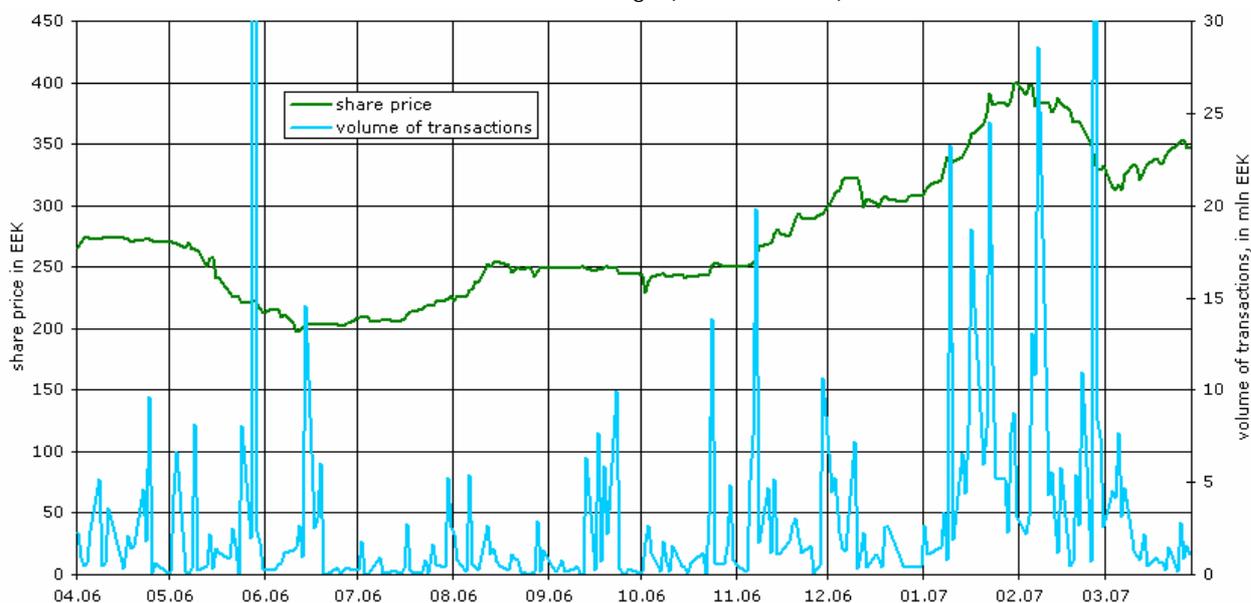
	No. of shares	Ownership
AS Merko Grupp	12 742 686	71.99%
ING Luxembourg S.A., clients	1 127 000	6.37%
Skandinaviska Enskilda Banken Ab, clients	765 365	4.32%
Nordea Bank Finland Plc, clients	574 311	3.24%
J.P. Morgan Bank Luxembourg S.A., clients	273 900	1.55%
OKO Bank Plc, clients	188 794	1.07%

Breakdown of shareholders as of 31.03.2007

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	315	41.45%	15 635	0.09%
101-1000	326	42.89%	125 509	0.71%
1001-10 000	88	11.58%	270 507	1.53%
10 001 – 100 000	17	2.24%	636 868	3.60%
100 001 – 1 000 000	12	1.58%	2 781 795	15.72%
1 000 001 - ...	2	0.26%	13 869 686	78.35%
Total	760	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange. In 1st quarter 2007 the number of transactions with Merko Ehitus' shares was 1869, during which 1.1 million shares changed ownership and the turnover of the transactions was 380.6 million kroons. The cheapest bargain with a share was 300.41 kroons and highest 400.71 kroons per share. The closing share price with a state of 30.03.2007 was 346.89 kroons.

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



	31.03.2007	31.03.2006	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	5.00	1.96	+155.1%
Equity per share, in kroons	94.69	64.19	+47.5%
P/B (share price to equity per share)	3.66	4.20	-12.9%

INCOME STATEMENT

consolidated, unaudited

	Note	EEK		EUR	
		2007 3 months	2006 3 months	2007 3 months	2006 3 months
Revenue	1	1 014 864	544 576	64 862	34 805
Cost of goods sold		(886 352)	(470 008)	(56 648)	(30 039)
Gross profit		128 512	74 568	8 214	4 766
Marketing expenses		(5 605)	(6 134)	(358)	(392)
Administrative and general expenses		(35 610)	(32 469)	(2 276)	(2 075)
Other operating income		2 102	1 407	134	90
Other operating expenses		(1 038)	(3 260)	(66)	(209)
Operating profit		88 361	34 112	5 648	2 180
Financial income and expenses		3 907	1 280	250	82
incl. financial income (expenses) from investments in associate companies and joint ventures		6 831	3 203	437	205
financial income and expenses from other long-term financial investments		0	3	0	0
interest expense		(2 733)	(2 194)	(175)	(140)
foreign exchange gain		(3 447)	(1 199)	(220)	(77)
other financial income and expenses		3 256	1 467	208	94
Profit before tax		92 268	35 392	5 898	2 262
Corporate income tax expense		(881)	-	(57)	-
Net profit for current period		91 387	35 392	5 841	2 262
incl. net profit attributable to equity holders of the parent company		88 450	34 723	5 653	2 219
minority interest		2 937	669	188	43
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	2	5.00	1.96	0.32	0.24

BALANCE SHEET

consolidated, unaudited

	EEK		EUR	
	31.03.2007	31.12.2006	31.03.2007	31.12.2006
ASSETS				
Current assets				
Cash and cash equivalents	321 903	676 143	20 573	43 213
Receivables and prepayments				
Accounts receivable	754 368	551 362	48 213	35 238
Prepaid corporate income tax	1 433	6 428	92	411
Other prepayments and refunds of taxes	41 996	32 553	2 684	2 081
Due from customers	115 035	135 408	7 352	8 654
Other short-term receivables	126 194	39 345	8 065	2 515
Prepayments for services	113 317	95 435	7 242	6 099
	<u>1 152 343</u>	<u>860 531</u>	<u>73 648</u>	<u>54 998</u>
Inventories				
Raw materials and materials	4 484	4 579	287	293
Work-in-progress	700 771	567 868	44 787	36 293
Finished goods	27 914	18 121	1 784	1 158
Goods purchased for resale	703 596	723 441	44 968	46 237
Prepayments for inventories	43 508	42 725	2 781	2 731
	<u>1 480 273</u>	<u>1 356 734</u>	<u>94 607</u>	<u>86 712</u>
Non-current assets held for sale				
Machinery and equipment	-	733	-	47
Total current assets	<u>2 954 519</u>	<u>2 894 141</u>	<u>188 828</u>	<u>184 970</u>
Non-current assets				
Long-term financial investments				
Shares in associated companies and joint ventures	204 979	200 798	13 101	12 833
Deferred income tax assets	6 547	6 592	418	421
Long-term receivables	8 666	8 476	554	542
	<u>220 192</u>	<u>215 866</u>	<u>14 073</u>	<u>13 796</u>
Investment property				
Land	2 098	2 134	134	136
Buildings	1 742	1 766	111	113
	<u>3 840</u>	<u>3 900</u>	<u>245</u>	<u>249</u>
Property, plant and equipment				
Land	895	145	57	9
Buildings	15 095	15 246	965	975
Right of superficies	370	372	24	24
Machinery and equipment	54 716	51 270	3 497	3 277
Other property, plant and equipment	25 428	22 859	1 625	1 461
Buildings in process and prepayments	877	553	56	35
Prepayments for property, plant and equipment	2 414	-	154	-
	<u>99 795</u>	<u>90 445</u>	<u>6 378</u>	<u>5 781</u>
Intangible assets				
Other intangible assets	2 906	2 662	186	170
Prepayments for intangible assets	7 995	7 515	511	480
	<u>10 901</u>	<u>10 777</u>	<u>697</u>	<u>650</u>
Total non-currents assets	<u>334 728</u>	<u>320 388</u>	<u>21 393</u>	<u>20 476</u>
TOTAL ASSETS	<u>3 289 247</u>	<u>3 214 529</u>	<u>210 221</u>	<u>205 446</u>

	EEK		EUR	
	31.03.2007	31.12.2006	31.03.2007	31.12.2006
LIABILITIES AND EQUITY				
Current liabilities				
Borrowings				
Short-term loans and bonds	213 892	275 425	13 670	17 603
Long-term loans payable in the following period	9 713	8 367	621	535
	<u>223 605</u>	<u>283 792</u>	<u>14 291</u>	<u>18 138</u>
Trade payables				
Payables to suppliers	444 492	464 199	28 408	29 668
Payables to employees	64 412	64 218	4 117	4 104
Company income tax liability	19 423	18 868	1 241	1 206
Other tax liabilities	47 130	41 866	3 012	2 676
Due to customers	297 611	276 940	19 021	17 700
Other payables	1 168	27 290	75	1 744
Received prepayments	222 164	206 883	14 199	13 222
	<u>1 096 400</u>	<u>1 100 264</u>	<u>70 073</u>	<u>70 320</u>
Government grants	1 472	1 498	94	96
Current provisions	80 580	33 517	5 150	2 142
	<u>1 402 057</u>	<u>1 419 071</u>	<u>89 608</u>	<u>90 696</u>
Total current liabilities				
Non-current liabilities				
Loans, bonds and finance lease liabilities	149 814	159 335	9 575	10 183
Other long-term payables	39 470	23 277	2 522	1 488
	<u>189 284</u>	<u>182 612</u>	<u>12 097</u>	<u>11 671</u>
Total non-current liabilities				
	<u>1 591 341</u>	<u>1 601 683</u>	<u>101 705</u>	<u>102 367</u>
Total liabilities				
Equity				
Minority interests	21 840	18 904	1 396	1 208
Equity attributable to equity holders of the parent company				
Share capital	17 000	177 000	11 312	11 312
Statutory reserve capital	17 700	17 700	1 131	1 131
Currency translation adjustment	(12 077)	(5 751)	(771)	(368)
Retained earnings	1 493 443	1 404 993	95 448	89 796
	<u>1 676 066</u>	<u>1 593 942</u>	<u>107 120</u>	<u>101 871</u>
Total equity				
	<u>1 697 906</u>	<u>1 612 846</u>	<u>108 516</u>	<u>103 079</u>
TOTAL LIABILITIES AND EQUITY				
	<u>3 289 247</u>	<u>3 214 529</u>	<u>210 221</u>	<u>205 446</u>

STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent company						Minority interest	Total
	Share capital	Share premium	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2005	177 000	-	8 850	(5 059)	920 605	1 101 396	10 552	1 111 948
Effect of exchange rate changes	-	-	-	50	-	50	-	50
Net profit for current period	-	-	-	-	34 723	34 723	669	35 392
Balance as at 31.03.2006	177 000	-	8 850	(5 009)	955 328	1 136 169	11 221	1 147 390
Balance as at 31.12.2006	177 000	-	17 700	(5 751)	1 404 993	1 593 942	18 904	1 612 846
Effect of exchange rate changes	-	-	-	(6 326)	-	(6 326)	-	(6 326)
Net profit for current period	-	-	-	-	-	88 450	2 937	91 387
Balance as at 31.03.2007	177 000	-	17 700	(12 077)	1 493 443	1 676 066	21 840	1 697 906

EUR	Equity attributable to equity holders of the parent company						Minority interest	Total
	Share capital	Share premium	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2005	11 312	-	566	(323)	58 837	70 392	674	71 066
Effect of exchange rate changes	-	-	-	3	-	3	-	3
Net profit for current period	-	-	-	-	2 219	2 219	43	2 264
Balance as at 31.03.2006	11 312	-	566	(320)	61 056	72 614	717	73 331
Balance as at 31.12.2006	11 312	-	1 131	(368)	89 796	101 871	1 208	103 079
Effect of exchange rate changes	-	-	-	(403)	-	(403)	-	(403)
Net profit for current period	-	-	-	-	5 653	5 653	188	5 841
Balance as at 31.03.2007	11 312	-	1 131	(771)	95 448	107 120	1 396	108 516

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	
	2007 3 months	2006 3 months	2007 3 months	2006 3 months
Cash flows from operating activities				
Operating profit	88 361	34 112	5 648	2 180
Adjustments:				
depreciation and impairment charge	5 519	5 451	353	348
(profit) loss from sale of non-current assets	(214)	(11)	(14)	(1)
adjustments of revenue from construction contracts under stage of completion method	41 366	84 987	2 644	5 432
interest income from business activities	(1 094)	(350)	(70)	(22)
change in government grants and other provisions	26 160	(2 324)	1 672	(149)
Change in trade and other receivables related to operating activities	(24 215)	67 875	(1 548)	4 338
Change in inventories	(137 643)	(126 736)	(8 797)	(8 100)
Change in trade and other payables related to operating activities	(186 530)	(60 243)	(11 922)	(3 850)
Interests paid	(4 348)	(2 914)	(278)	(186)
Other financial expenses (income)	(3)	4	0	-
Corporate income tax paid	(669)	(940)	(43)	(60)
	<u>(193 310)</u>	<u>(1 089)</u>	<u>(12 355)</u>	<u>(70)</u>
Cash flows from investing activities				
Investments into subsidiaries	-	(2 677)	-	(171)
Proceeds from sale of subsidiaries	6 891	-	440	-
Investments into associates and joint ventures	(3 343)	-	(214)	-
Proceeds from sale of associates and joint ventures	-	1 847	-	118
Purchase of property, plant and equipment	(11 169)	(51 504)	(714)	(3 292)
Proceeds from sale of property, plant and equipment	1 267	14	81	1
Purchase of intangible assets	(1 086)	(2 140)	(69)	(137)
Loans granted	(110 757)	(1 221)	(7 079)	(78)
Loan repayments received	21 573	14 763	1 379	944
Interest received	6 348	1 304	406	83
	<u>(90 276)</u>	<u>(39 614)</u>	<u>(5 770)</u>	<u>(2 532)</u>
Cash flows from financing activities				
Proceeds from borrowings	60 693	79 294	3 879	5 068
Repayments of borrowings	(127 144)	-	(8 126)	-
Finance lease principal payments	(2 241)	(1 517)	(143)	(97)
	<u>(68 692)</u>	<u>77 777</u>	<u>(4 390)</u>	<u>4 971</u>
Change in cash and cash equivalents	(352 278)	37 074	(22 515)	2 369
Cash and cash equivalent at beginning of period	676 143	268 446	43 213	17 157
Effect of exchange rate changes	(1 962)	(1 227)	(125)	(78)
Cash and cash equivalent at end of period	<u>321 903</u>	<u>304 293</u>	<u>20 573</u>	<u>19 448</u>

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

2007 3 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	994 762	20 102	-	1 014 864
Inter-segmental revenue	-	23 431	-	23 431
Segment revenue	994 762	43 533	-	1 038 295
Segment operating profit	88 148	213	-	88 361
Financial income/expenses				3 907
incl. profit/loss from associates and joint ventures	2 336	-	4 495	6 831
Profit before tax				92 268
Corporate income tax				(881)
Net profit of the Group				91 387
incl. attributable to equity owners of the parent company				88 450
minority interest				2 937
Segment assets	2 873 109	152 517	-	3 025 626
Associates and joint ventures	160 305	-	44 674	204 979
Unallocated assets				58 642
Total consolidated assets				3 289 247
Segment liabilities	1 117 986	33 382	-	1 151 368
Unallocated liabilities				439 973
Total consolidated liabilities				1 591 341
Purchase of property, plant and equipment and intangible assets	13 013	2 887	-	15 900
Depreciation and impairment	3 310	2 209	-	5 519
2006 3 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	541 796	2 780	-	544 576
Inter-segmental revenue	-	22 002	-	22 002
Segment revenue	541 796	24 782	-	566 578
Segment operating profit	33 940	172	-	34 112
Financial income/expenses				1 280
incl. profit/loss from associates and joint ventures	539	-	2 664	3 203
Profit before tax				35 392
Corporate income tax				-
Net profit of the Group				35 392
incl. attributable to equity owners of the parent company				34 723
minority interest				669
Segment assets	2 057 195	108 403	-	2 165 598
Associates and joint ventures	150 664	-	27 966	178 630
Unallocated assets				53 765
Total consolidated assets				2 397 993
Segment liabilities	796 727	43 270	-	839 997
Unallocated liabilities				410 606
Total consolidated liabilities				1 250 603
Purchase of property, plant and equipment and intangible assets	53 417	226	-	53 643
Depreciation and impairment	3 441	2 010	-	5 451

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

Geographical segments

	Sales		Total assets		Purchase of property, plant and equipment and intangible assets	
	2007 3 months	2006 3 months	31.03.2007	31.03.2006	2007 3 months	2006 3 months
Estonia	691 303	379 757	1 704 099	1 120 338	11 311	2 883
Latvia	154 112	105 691	1 268 175	1 077 690	4 589	50 452
Lithuania	169 449	59 128	316 973	199 965	-	308
Total	1 014 864	544 576	3 289 247	2 397 993	15 900	53 643

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 Revenue

	2007 3 months	2006 3 months
Rendering of services	852 676	493 680
Sale of real estate and real estate development projects	161 620	47 786
Rental income	393	3 057
Sale of goods	175	53
Total revenue	1 014 864	544 576

Note 3 Cost of goods sold

	2007 3 months	2006 3 months
Materials	86 020	71 505
Construction services	621 412	292 736
Properties purchased for resale	17 564	8 085
Staff costs	103 140	47 368
Depreciation and impairment charge	3 888	4 185
Design	19 994	13 006
Construction mechanisms and transport	12 722	11 199
Other expenses	21 612	21 924
Total cost of goods sold	886 352	470 008

Note 4 Earnings per share

Basic earnings per share for profit attributable to equity holders of the parent company has been derived by dividing the net profit attributable to shareholders by the weighted average number of shares.

	2007 3 months	2006 3 months
Net profit attributable to shareholders (in thousand of kroons)	88 450	34 723
Weighted average number of ordinary shares (thousand pcs)	17 700	17 700
Earnings per share (in kroons)	5.00	1.96

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 3M interim report 2007 as presented on pages 3 to 12.

The Management Board confirms to the best of its knowledge:

- the accounting methods used for preparing the interim financial statements are in compliance with International Financial Reporting Standards as adopted by the European Union;
- the interim financial statements give a true and fair view of the financial position, the results of operations and the cash flows of the Group;
- the parent company and all Group companies 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 2006.

Tõnu Toomik	Chairman of the Board		18.05.2007
Alar Lagus	Member of the Board		18.05.2007
Veljo Viitmann	Member of the Board		18.05.2007
Andres Agukas	Member of the Board		18.05.2007
Tõnu Korts	Member of the Board		18.05.2007