

# AS MERKO EHITUS GROUP

## Consolidated interim report 3M 2008

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Primary activity:	General contracting in construction sector
Auditor:	AS PricewaterhouseCoopers
Beginning of financial year:	01.01.2008
End of financial year:	31.12.2008

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## MANAGEMENT REPORT

### General information

Merko Ehitus is a leading building corporation offering integrated solutions since 1990, with branches currently in Estonia, Latvia and Lithuania. Largest companies of the Group 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 Betoontooted (25%).

At a joint meeting held at 14 March 2008, the Management Board and the Supervisory Board of AS Merko Ehitus adopted a resolution to restructure the Company and separate operating activities from the criminal proceedings related to the land swap. The Company's management estimates that the restructuring of the Company is the best way to ensure its sustainable development and protect the interests of shareholders and employees in the long-lasting criminal proceedings related to the land swap.

The delay in the process of criminal proceedings related to the land swap launched in 2005 and the accompanying ambiguity and speculation in the media have started to take a toll on the Company's operations and thus harming the interests of the Company and its shareholders.

At 15 April 2008, the management of AS Merko Ehitus presented the Company's restructuring plan ([http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news\\_id=222602](http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news_id=222602)), according to which AS Merko Ehitus will be split up/demerged so that AS Merko Ehitus, e.g. assets (other than liquid assets in the amount of 250 million kroons), liabilities and contracts as well as the business name will be separated and transferred to the new company being set up (hereinafter AS Uus Merko). The exact description of assets and the division plan have been published in the materials announcing the general meeting of shareholders <http://www.merko.ee/eng/investor/generalmeeting/2008>. As a result of the demerger, each shareholder will receive one share of AS Uus Merko for each share of AS Merko Ehitus and the shares of AS Uus Merko will be listed on the Tallinn Stock Exchange as soon as possible. The business name of AS Merko Ehitus will also be changed and the Company's shares will continue to be listed on the Tallinn Stock Exchange. The sole member of the Management Board of the new company will be Toomas Annus.

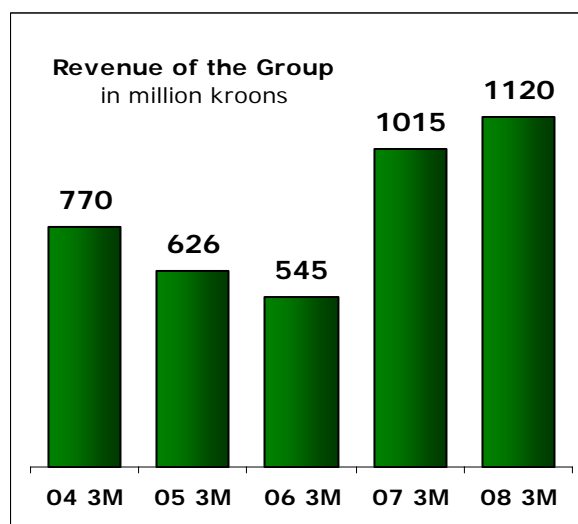
At May 2 2008 AS Merko Ehitus transferred the 100-percent holding in the company OÜ Karulaugu Kinnisvara (registry code 11034491) to AS E.L.L. Kinnisvara. The sale price of the company was 42 million kroons; from this amount, 4.12 million kroons, the balance of company's financial obligations and current assets, were deducted. ([http://www.baltic.omxnordicexchange.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news\\_id=223284](http://www.baltic.omxnordicexchange.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news_id=223284))

At May 21 2008 AS Merko Ehitus transferred the 50-percent holding in the company OÜ Tornimäe Apartments (registry code 11016607) to the copartner AS EKE Invest. The sale price of the company was 58 million kroons. ([http://www.baltic.omxnordicexchange.com/market/?pg=news&news\\_id=223709](http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=223709)).

### Business operations

Group's revenue for the 3 months in 2008 was 1119.6 million kroons, which constitutes an annual increase of 10.3%. 55.2% of the sales originated from Estonia, 26.7% from Latvia and 18.1% from Lithuania. As compared with the respective period in 2007, company's sales in Latvia increased by 94.1%, in Lithuania by 19.7% and decreased in Estonia by -10.7%.

The warm winter jointly with the cyclic nature of residential construction and real estate development had a positive effect on the revenue.



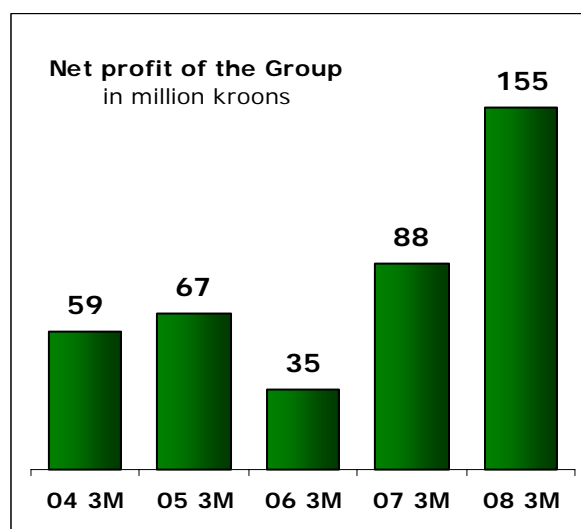
Most important companies of the Group 3 months 2008 consolidated revenue (sales outside the Group)

<i>in thousand kroons and euros</i>				
	<b>2008 3 months</b>		<b>2007 3 months</b>	
	EEK	EUR	EEK	EUR
<b>Estonian companies</b>				
AS Merko Ehitus (parent company)	458 331	29 293	464 357	29 678
AS Gustaf (75% partnership)	44 746	2 860	22 411	1 432
OÜ Gustaf Tallinn (80% partnership)	40 188	2 568	34 221	2 187
AS Merko Tartu (66% partnership)	39 940	2 553	40 030	2 558
Tallinna Teede AS (100% partnership)	33 244	2 125	20 650	1 320
OÜ Woody (100% partnership)	16 805	1 074	123 227	7 876
<b>Latvian company</b>				
SIA Merks (100% partnership)	287 354	18 365	127 341	8 139
<b>Lithuanian company</b>				
UAB Merko Statyba (100% partnership)	195 203	12 476	156 893	10 027

In one year, the Group's cost of goods sold decreased by -0.2%, whereas the marketing and general administrative expenses increased by 38.9%, constituting 79.0% and 5.1% of the revenue respectively. The successful development activities enabled the company to compensate the impact of the rapid growth of the costs of services and labour and as a result Group's net profit margin increased from 8.7% to 13.8%.

The Group's net profit in the first three months of 2008 was 154.9 million kroons, having increased by 75.1% compared to the last year.

Group's net cash flow of the 3 months of the year was +152.7 million kroons, including cash flow from operating activities +276.5 million kroons, from investing activities -10.8 million kroons and financing activities -113.0 million kroons. The cash flow from operating activities were mostly influenced by the change in trade and other receivables related to operating activities (+379.8 million kroons), change in trade and other payables (-371.6 million kroons) and operating profit +177,9 million kroons.



## Construction market

The 1st quarter witnessed the slowing down of the economic growth in all three Baltic States. As against the 1st quarter of 2007, the rate of growth of GDP in Estonia was as low as 0.4%, in Latvia 3.6% and in Lithuania 6.4%. Retardation of the economic growth poses a serious challenge to budgets of self-governments and national governments in all three Baltic States and generates doubts as to feasibility of projects funded by the public sector.

The past quarter did not bring about significant changes in the construction sector. According to information provided by the Statistical Offices, the building prices continued appreciation. In the year, the building service became more expensive in Latvia by 20.7%, in Lithuania by 15.4% and in Estonia by 6.0%, while labour costs climbed up in Latvia by 41.3% and in Estonia by 9.5%. For the most part however, the appreciation occurred in 2007. As against the 4th quarter of 2007 the building service appreciated in Estonia by 1.1%, in Lithuania by 2.0% and in Latvia by 5.1%. By reference to decreasing demand and tighter competition the following quarters of the year may witness stabilization of prices, and in respect of certain types of work, also a certain lowering of expenses. When planning the projects however one should not reckon with steep decline in prices, because the labour price in the market will continue to be dependent on demand of building service in the neighbouring countries, and a significant part of building materials is imported into the Baltic States at the prices applicable in the world market.

The market of residential premises picked up, to a certain extent at the end of the 1st quarter. However, it is rather a seasonal trend that a breaking point in the feeling of security and alertness to buy of the buyers. With regard to development projects of residential building and commercial premises the market will evidently remain passive and recovery may be expected as late as in 2009. For the time being the largest challenge in the sector is how to cope with the narrowing financing opportunities and liquidity problems.

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

	2008 3 months	2007 3 months
Net profit margin	13,8 %	8,7 %
Operating profit margin	15,9 %	8,7 %
Return on equity per annum	29,6 %	21,6 %
Return on assets per annum	15,8 %	10,9 %
Current ratio	2,7	2,1
Equity ratio	55,5 %	51,0 %
General expense ratio	5,1 %	4,1 %
Personnel expense ratio	10,9 %	12,8 %
Average number of full-time employees	1081	907

Net profit margin:  $\text{Net profit}^* / \text{Revenue}$

Operating profit margin:  $\text{Operating profit} / \text{Revenue}$

Return on equity:  $\text{Net profit} \times 4^* / \text{Average equity during the period}^*$

Return on assets:  $\text{Net profit} \times 4^* / \text{Average assets during the period}$

Current ratio:  $\text{Current assets} / \text{Current liabilities}$

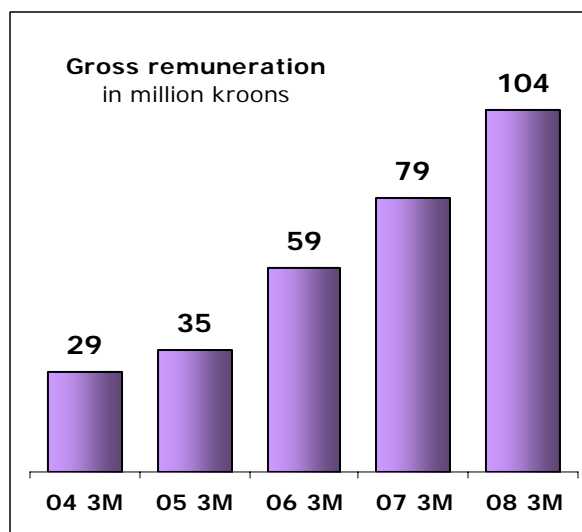
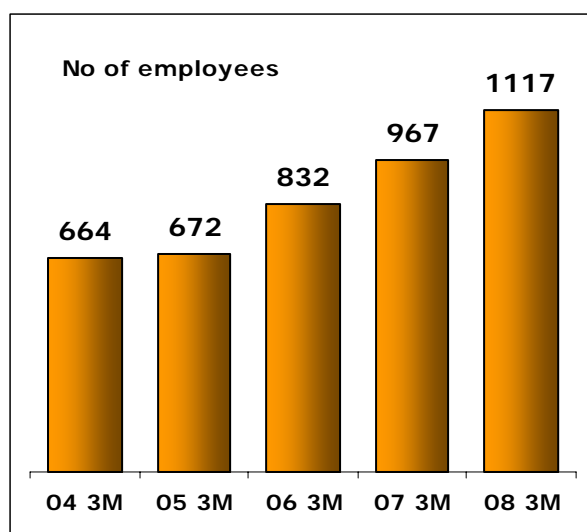
Equity ratio:  $\text{Owners equity}^* / \text{Total assets}$

General expense ratio:  $\text{General expenses} / \text{Revenue}$

Personnel expense ratio:  $\text{Personnel expenses} / \text{Revenue}$

\* calculated as attributable to the equity holders of the parent company

In 31.03.2008, the number of employees in the Group's service was 1117, including 1082 full-time employees. The number of the Group's employees increased by 15.5% (150 new employees were recruited). The gross remuneration paid to full-time personnel in 3 months 2008 amounted to 104.2 million kroons an increase of 31.4% compared to previous year.



## Shares and shareholders

AS Merko Ehitus biggest shareholders as of 31.03.2008

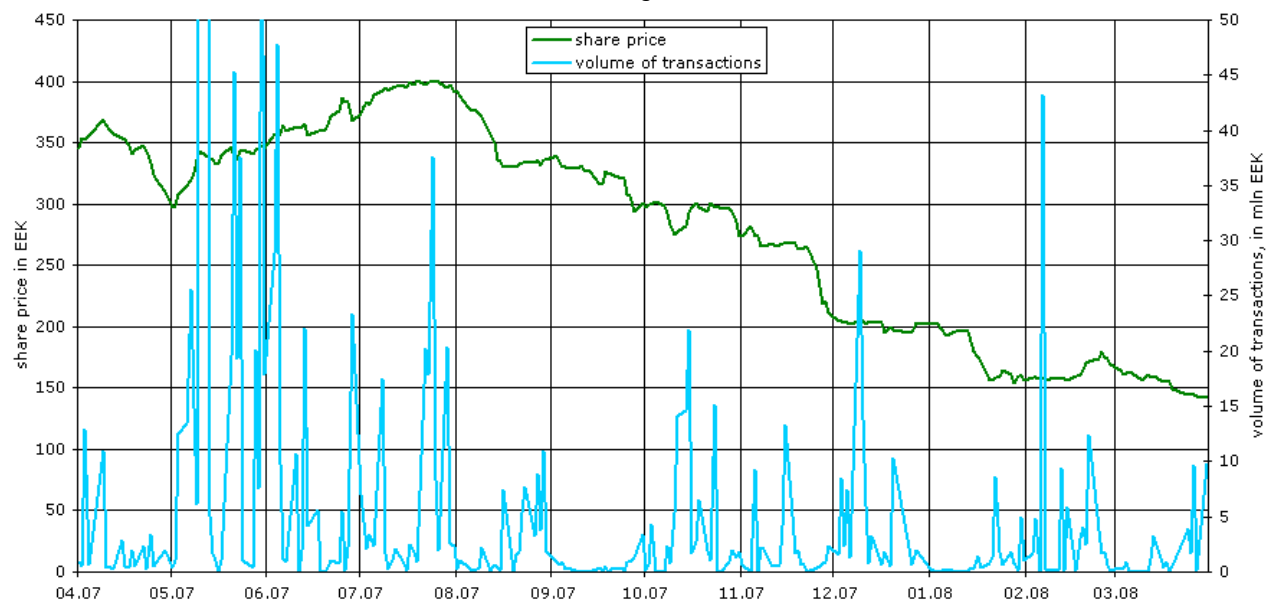
	No. of shares	Ownership
AS Merko Grupp	12 742 686	71,99%
Skandinaviska Enskilda Banken Ab, clients	1 160 427	6,56%
ING Luxembourg S.A., clients	909 500	5,14%
State Str. Munich Care of SSB Boston/DWS Invest. S.A. for DWS Osteuropa	265 904	1,50%
Mellon Treaty Omnibus	198 478	1,12%
The Bank of New York/ING Bank Slaski A/C ING Parosol	189 683	1,07%
Danske Bank clients	183 512	1,04%
Bank Austria Creditanstalt AG clients	177 831	1,00%

# Breakdown of shareholders as of 31.03.2008

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	304	39,28%	15 041	0,09%
101-1000	346	44,70%	140 241	0,79%
1001-10 000	84	10,85%	270 795	1,53%
10 001 – 100 000	27	3,49%	820 248	4,63%
100 001 – 1 000 000	11	1,42%	2 550 562	14,41%
1 000 001 - ...	2	0,26%	13 903 113	78,55%
Total	774	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange. In 2008 3 months the number of transactions with Merko Ehitus' shares was 737, during which 1.0 million shares changed ownership and the turnover of the transactions was 154.9 million kroons. The cheapest bargain with a share was 141.60 kroons and highest 202.62 kroons per share. The closing share price with a state of 31.03.2008 was 142.38 kroons.

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



	31.03.2008	31.03.2007	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	8,75	5,00	+ 75,0%
Equity per share, in kroons	122,58	94,69	+29,5%
P/B (share price to equity per share)	1,16	3,66	-68,3%

# INCOME STATEMENT

consolidated, unaudited

		EEK		EUR	
	note	2008 3 months	2007 3 months	2008 3 months	2007 3 months
Revenue	1,2	1 119 572	1 014 864	71 554	64 862
Cost of goods sold	3	(884 377)	(886 352)	(56 522)	(56 648)
<b>Gross profit</b>		235 195	128 512	15 032	8 214
Marketing expenses		(7 888)	(5 605)	(504)	(358)
Administrative and general expenses		(49 373)	(35 610)	(3 156)	(2 276)
Other operating income		1 704	2 102	109	134
Other operating expenses		(1 738)	(1 038)	(111)	(66)
<b>Operating profit</b>		177 900	88 361	11 370	5 648
Financial income and expenses		(1 762)	3 907	(113)	250
incl. financial income (expenses) from investments in associate companies and joint ventures		2 280	6 831	145	437
interest expense		(5 584)	(2 733)	(357)	(175)
foreign exchange gain		(1 692)	(3 447)	(108)	(220)
other financial income and expenses		3 234	3 256	207	208
<b>Profit before tax</b>		176 138	92 268	11 257	5 898
Corporate income tax expense		(20 138)	(881)	(1 287)	(57)
<b>Net profit for current period</b>		156 000	91 387	9 970	5 841
incl. net profit attributable to equity holders of the parent company		154 881	88 450	9 898	5 653
minority interest		1 119	2 937	72	188
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	4	8,75	5,00	0,56	0,32

**BALANCE SHEET**  
consolidated, unaudited

		EEK		EUR	
	note	31.03.2008	31.12.2007	31.03.2008	31.12.2007
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	356 863	205 564	22 808	13 138
Trade and other receivables	6	1 000 831	1 199 566	63 963	76 666
Prepaid corporate income tax		3 568	2 376	228	152
Inventories	7	2 047 829	2 025 426	130 880	129 448
<b>Total current assets</b>		<b>3 409 091</b>	<b>3 432 932</b>	<b>217 879</b>	<b>219 404</b>
<b>Non-current assets</b>					
Long-term financial investments	8	300 197	287 456	19 186	18 372
Deferred income tax assets		3 392	3 396	217	217
Investment property	9	12 946	7 361	828	470
Property, plant and equipment	10	172 134	172 912	11 001	11 051
Intangible assets	11	12 675	12 574	810	804
<b>Total non-current assets</b>		<b>501 344</b>	<b>483 699</b>	<b>32 042</b>	<b>30 914</b>
<b>TOTAL ASSETS</b>		<b>3 910 435</b>	<b>3 916 631</b>	<b>249 921</b>	<b>250 318</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Borrowings	12	192 924	304 879	12 330	19 485
Trade and other payables	13	939 593	1 015 492	60 050	64 902
Corporate income tax liability		36 159	16 718	2 311	1 068
Government grants		1 498	1 498	96	96
Short-term provisions	14	81 495	73 212	5 208	4 680
<b>Total current liabilities</b>		<b>1 251 669</b>	<b>1 411 799</b>	<b>79 995</b>	<b>90 231</b>
<b>Non-current liabilities</b>					
Long-term borrowings	12	399 165	397 713	25 512	25 418
Other long-term trade payables	15	54 796	57 423	3 502	3 670
<b>Total non-current liabilities</b>		<b>453 961</b>	<b>455 136</b>	<b>29 014</b>	<b>29 088</b>
<b>Total liabilities</b>		<b>1 705 630</b>	<b>1 866 935</b>	<b>109 009</b>	<b>119 319</b>
<b>Equity</b>					
Minority interests		35 058	33 939	2 241	2 169
Equity attributable to equity holders of the parent company					
Share capital		177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation adjustment		(5 976)	(5 085)	(382)	(325)
Retained earnings		1 981 023	1 826 142	126 610	116 712
		<b>2 169 747</b>	<b>2 015 757</b>	<b>138 671</b>	<b>128 830</b>
<b>Total equity</b>		<b>2 204 805</b>	<b>2 049 696</b>	<b>140 912</b>	<b>130 999</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3 910 435</b>	<b>3 916 631</b>	<b>249 921</b>	<b>250 318</b>



*in thousand kroons and euros*

## STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent company					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
<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
Effect of exchange rate changes	-	-	(6 326)	-	(6 326)	-	(6 326)
Net profit for current period	-	-	-	88 450	88 450	2 937	91 387
<b>Balance as at 31.03.2007</b>	177 000	17 700	(12 077)	1 493 443	1 676 066	21 841	1 697 907
<b>Balance as at 31.12.2007</b>	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Effect of exchange rate changes	-	-	(891)	-	(891)	-	(891)
Net profit for current period	-	-	-	154 881	154 881	1 119	156 000
<b>Balance as at 31.03.2008</b>	177 000	17 700	(5 976)	1 981 023	2 169 747	35 058	2 204 805

EUR	Equity attributable to equity holders of the parent company					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
<b>Balance as at 31.12.2006</b>	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
<b>Balance as at 31.03.2007</b>	11 312	1 131	(771)	95 449	107 121	1 396	108 517
<b>Balance as at 31.12.2007</b>	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Effect of exchange rate changes	-	-	(57)	-	(57)	-	(57)
Net profit for current period	-	-	-	9 898	9 898	72	9 970
<b>Balance as at 31.03.2008</b>	11 312	1 131	(382)	126 610	138 671	2 241	140 912

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	
	2008	2007	2008	2007
	3 months	3 months	3 months	3 months
<b>Cash flows from operating activities</b>				
Operating profit	177 900	88 361	11 370	5 648
Adjustments:				
depreciation and impairment charge	7 024	5 519	449	353
(profit) loss from sale of non-current assets	(327)	(214)	(21)	(14)
adjustments of revenue from construction contracts under stage of completion method	113 684	41 366	7 266	2 644
interest income from business activities	(1 028)	(1 094)	(66)	(70)
government grant and change in other provisions	(6 095)	26 160	(390)	1 672
Change in trade and other receivables related to operating activities	162 644	(24 215)	10 395	(1 548)
Change in inventories	(13 433)	(137 643)	(859)	(8 797)
Change in trade and other payables related to operating activities	(154 437)	(186 530)	(9 870)	(11 922)
Interests paid	(8 790)	(4 348)	(562)	(278)
Other financial expenses (income)	(5)	(3)	0	0
Corporate income tax paid	(639)	(669)	(41)	(43)
	<u>276 498</u>	<u>(193 310)</u>	<u>17 671</u>	<u>(12 355)</u>
<b>Cash flows from investing activities</b>				
Proceeds from sale of subsidiaries	-	6 891	-	440
Investments into associates and joint ventures	(1 000)	(3 343)	(64)	(214)
Purchase of investment property	(112)	-	(7)	-
Purchase of property, plant and equipment	(3 734)	(11 169)	(239)	(714)
Proceeds from sale of property, plant and equipment	867	1 267	55	81
Purchase of intangible assets	(606)	(1 086)	(39)	(69)
Loans granted	(9 737)	(110 757)	(622)	(7 079)
Loan repayments received	-	21 573	-	1 379
Interest received	3 482	6 348	223	406
	<u>(10 840)</u>	<u>(90 276)</u>	<u>(693)</u>	<u>(5 770)</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	28 113	60 693	1 797	3 879
Repayments of borrowings	(137 211)	(127 144)	(8 769)	(8 126)
Finance lease principal payments	(3 903)	(2 241)	(249)	(143)
	<u>(113 001)</u>	<u>(68 692)</u>	<u>(7 221)</u>	<u>(4 390)</u>
<b>Change in cash and cash equivalents</b>	152 657	(352 278)	9 757	(22 515)
Cash and cash equivalent at beginning of period	205 564	676 143	13 138	43 213
Exchange gains/(losses) on cash and cash equivalents	(1 358)	(1 962)	(87)	(125)
<b>Cash and cash equivalent at end of period</b>	<u>356 863</u>	<u>321 903</u>	<u>22 808</u>	<u>20 573</u>

## NOTES

### Note 1 Business and geographical segments *in thousand kroons*

#### Business segments

2008 3 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	1 086 328	33 244	-	1 119 572
Inter-segmental revenue	-	101	-	101
Segment revenue	1 086 328	33 345	-	1 119 673
Segment operating profit	175 676	2 224	-	177 900
Financial income/expenses				(1 762)
incl. profit/loss from associates and joint ventures	1 223	-	1 057	2 280
Profit before tax				176 138
Corporate income tax				(20 138)
Net profit of the Group				156 000
incl. attributable to equity owners of the parent company				154 881
minority interest				1 119
Segment assets	3 403 766	172 907	-	3 576 673
Associates and joint ventures	217 884	-	58 099	275 983
Unallocated assets				57 779
Total consolidated assets				3 910 435
Segment liabilities	1 012 166	60 008	-	1 072 174
Unallocated liabilities				633 456
Total consolidated liabilities				1 705 630
Purchase of investment property	112	-	-	112
Purchase of property, plant and equipment and intangible assets	3 853	486	-	4 339
Depreciation and impairment	4 801	2 223	-	7 024
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

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

	Revenue		Total assets		Purchase of property, plant and equipment and intangible assets	
	2008 3 months	2007 3 months	31.03.2008	31.03.2007	2008 3 months	2007 3 months
Estonia	617 618	691 303	1 976 274	1 704 099	2 410	11 311
Latvia	299 087	154 112	1 567 214	1 268 175	1 803	4 589
Lithuania	202 867	169 449	366 947	316 973	126	-
<b>Total</b>	<b>1 119 572</b>	<b>1 014 864</b>	<b>3 910 435</b>	<b>3 289 247</b>	<b>4 339</b>	<b>15 900</b>

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

*in thousand kroons*

	2008 3 months	2007 3 months
Rendering of services	703 705	852 676
Sale of real estate and real estate development projects	415 389	161 620
Rental income	236	393
Sale of goods	242	175
<b>Total revenue</b>	<b>1 119 572</b>	<b>1 014 864</b>

## Note 3 Cost of goods sold

*in thousand kroons*

	2008 3 months	2007 3 months
Materials	83 266	86 020
Construction services	511 129	621 412
Properties purchased for resale	128 519	17 564
Staff costs	89 210	103 140
Depreciation and impairment charge	4 567	3 888
Design	18 669	19 994
Construction mechanisms and transport	21 424	12 722
Other expenses	27 593	21 612
<b>Total cost of goods sold</b>	<b>884 377</b>	<b>886 352</b>

## 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.

	2008 3 months	2007 3 months
Net profit attributable to shareholders <i>(in thousand kroons)</i>	154 881	88 450
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
<b>Earnings per share <i>(in kroons)</i></b>	<b>8,75</b>	<b>5,00</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.

**Note 5 Cash and cash equivalents**  
in thousand kroons

	31.03.2008	31.12.2007
Cash on hand	158	116
Bank accounts	193 977	53 722
Short-term deposits	162 728	151 726
<b>Total cash and bank</b>	<b>356 863</b>	<b>205 564</b>

**Note 6 Trade and other receivables**  
in thousand kroons

	31.03.2008	31.12.2007
Trade receivables		
accounts receivable	732 392	886 967
allowance for doubtful receivables	(2 105)	(2 111)
	730 827	884 856
Tax prepayments excluding corporate income tax		
value added tax	26 592	38 139
social security tax	12	12
other taxes	1	1
	26 605	38 152
Amounts due from customers for contract works	113 664	151 119
Other short-term receivables		
short-term loans	41 128	41 135
interest receivables	4 053	2 075
receivable from sale of subsidiary	1 000	1 000
other short-term receivables	920	2 662
	47 101	46 872
Prepayments for services		
prepayments for construction services	72 076	64 864
prepaid insurance	2 699	2 339
other prepaid expenses	7 859	11 364
	82 634	78 567
<b>Total trade and other receivables</b>	<b>1 000 831</b>	<b>1 199 566</b>

**Note 7 Inventories**  
in thousand kroons

	31.03.2008	31.12.2007
Materials	7 791	3 501
Work-in-progress	1 123 410	1 209 117
Finished goods	164 260	72 434
Goods for resale		
land purchased for resale	713 728	704 111
other goods purchased for resale	13	13
	713 741	704 124
Prepayments for inventories		
prepayments for real estate properties	33 257	35 653
prepayments for other inventories	5 370	597
	38 627	36 250
<b>Total inventories</b>	<b>2 047 829</b>	<b>2 025 426</b>

**Note 8 Long-term financial assets**  
in thousand kroons

	31.03.2008	31.12.2007
Investments in associates and joint ventures	275 983	272 964
Long-term loans	18 389	8 667
Long-term receivable from buyer of subsidiary	3 625	3 625
Long-term receivables from customers of construction services	2 200	2 200
<b>Total long-term financial assets</b>	<b>300 197</b>	<b>287 456</b>

**Note 9 Investment property**  
in thousand kroons

	31.03.2008	31.12.2007
Land	7 676	2 136
Buildings at carrying amount		
cost	5 706	5 600
accumulated depreciation	(436)	(375)
	<b>5 270</b>	<b>5 225</b>
<b>Total investment property</b>	<b>12 946</b>	<b>7 361</b>

**Note 10 Property, plant and equipment**  
in thousand kroons

	31.03.2008	31.12.2007
Land	15 943	15 943
Buildings at carrying amount		
cost	24 619	24 627
accumulated depreciation	(4 454)	(4 246)
	<b>20 165</b>	<b>20 381</b>
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(97)	(95)
	<b>361</b>	<b>363</b>
Machinery and equipment at carrying amount		
cost	158 874	153 587
accumulated depreciation	(58 281)	(55 100)
	<b>100 593</b>	<b>98 487</b>
Other fixtures at carrying amount		
cost	65 930	64 970
accumulated depreciation	(38 124)	(35 996)
	<b>27 806</b>	<b>28 974</b>
Construction in progress	132	36
Prepayments for property, plant and equipment	7 134	8 728
<b>Total property, plant and equipment</b>	<b>172 134</b>	<b>172 912</b>

**Note 11 Intangible assets**  
in thousand kroons

	31.03.2008	31.12.2007
Software at carrying amount		
cost	15 118	14 443
accumulated depreciation	(4 255)	(3 682)
	10 863	10 761
Prepayments for intangible assets	1 812	1 813
<b>Total intangible assets</b>	12 675	12 574

**Note 12 Borrowings**  
in thousand kroons

	31.03.2008	31.12.2007
<b>Finance lease payables</b>		
Present value of lease payments	47 400	48 114
incl. current portion	13 881	11 879
non-current portion 2...4 years	33 519	36 235
Interest expense of reporting period	547	3 272
Minimum future lease payments	50 718	51 404
incl. current portion	13 263	13 441
non-current portion 2...4 years	37 455	37 963
Base currencies EEK, EUR and LVL		
<b>Loans</b>		
Loan balance	539 789	630 543
incl. current portion	176 893	273 965
non-current portion 2...5 years	362 896	356 578
Interest cost of reporting period	14 366	28 714
incl. capitalised interest cost	3 293	20 975
Base currencies LVL and EUR		
<b>Loans from parent company</b>		
Loan balance	-	19 035
incl. current portion	-	19 035
<b>Loans from other companies</b>		
Loan balance	4 900	4 900
incl. current portion	2 150	-
non-current portion 2...5 years	2 750	4 900
<b>Total loans</b>		
Loans balance	544 689	654 478
incl. current portion	179 043	293 000
non-current portion 2...5 years	365 646	361 478
<b>Total borrowings</b>	592 089	702 592
incl. current portion	192 924	304 879
non-current portion 2...5 years	399 165	397 713

**Note 13 Trade and other payables**  
in thousand kroons

	31.03.2008	31.12.2007
Payables to suppliers	391 281	528 857
Payables to employees	77 812	74 892
Tax liabilities, except for corporate income tax		
value added tax	18 797	26 979
personal income tax	11 347	10 720
social security tax	20 292	17 654
land tax	60	46
unemployment insurance tax	337	319
contributions to mandatory funded pension	756	527
other taxes	1 018	570
	<hr/> 52 607	<hr/> 56 815
Amounts due to customers for contract works	253 404	161 725
Other payables		
interest liabilities	1 049	465
other payables	7 343	21 503
	<hr/> 8 392	<hr/> 21 968
Advance payments received	156 097	171 235
<b>Total trade and other payables</b>	<hr/> 939 593	<hr/> 1 015 492

**Note 14 Short-term provisions**  
in thousand kroons

	31.03.2008	31.12.2007
Provision for warranty obligation for construction	16 147	15 625
Provision for onerous construction contracts	27 785	32 512
Provision for potential cancellation of construction projects	14 624	1 934
Provision for legal costs and claims filed	21 776	22 786
Other provisions	1 163	355
<b>Total short-term provisions</b>	<hr/> 81 495	<hr/> 73 212

**Note 15 Other long-term trade payables**  
in thousand kroons

	31.03.2008	31.12.2007
Payables to suppliers	7 655	11 091
Advance payments received	47 141	46 332
<b>Total long-term trade payables</b>	<hr/> 54 796	<hr/> 57 423



## Note 16 Related party transactions

In compiling the report, the following entities have been considered as related parties:

- parent company AS Merko Grupp;
- shareholders of AS Merko Grupp with significant influence through AS Merko Grupp;
- other shareholders with significant influence;
- other subsidiaries of AS Merko Grupp, so-called 'entities controlled by the parent company';
- associates and joint ventures;
- key managers and their close relatives;
- entities under control of persons mentioned above;

Significant influence is presumed to exist when the person has more than 20% of the voting power.

The parent company of AS Merko Ehitus is AS Merko Grupp. As at 31.03.2008 and 31.12.2007, AS Merko Grupp owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the Group is Mr Toomas Annus.

### Goods and services

*in thousand kroons*

	2008 3 months	2007 3 months
<b>Purchased construction services</b>		
Associates and joint ventures	12 891	18 720
Entities controlled by the parent company	2 842	3 825
<b>Total purchased construction services</b>	<u>15 733</u>	<u>22 545</u>
<b>Construction services rendered</b>		
Associates and joint ventures	-	9 169
Entities controlled by the parent company	191 810	292 009
Management members	795	3 830
<b>Total construction services rendered</b>	<u>192 605</u>	<u>305 008</u>
<b>Construction materials purchased</b>		
Other related parties	<u>31</u>	<u>19</u>
<b>Real estate sold</b>		
Entities controlled by the parent company	<u>99 644</u>	<u>-</u>

### Balances with the related parties

*in thousand kroons*

	30.03.2008	31.12.2007
<b>Trade and other receivables</b>		
Trade receivables		
Associates and joint ventures	6 704	16 046
Entities controlled by the parent company	234 130	182 802
Short-term loans		
Associates and joint ventures	7 000	7 000
Entities controlled by the parent company	4 228	4 236
Interest receivables		
Associates and joint ventures	979	649
Entities controlled by the parent company	961	-

Other short-term receivables		
Other related parties	-	2
<b>Other long-term loans and receivables</b>		
Long-term loans		
Associates and joint ventures	15 451	5 725
Entities controlled by the parent company	2 937	2 942
<b>Borrowings</b>		
Short-term loans and bonds		
Parent company	-	19 035
<b>Trade and other payables</b>		
Payables to suppliers		
Associates and joint ventures	8 437	11 098
Entities controlled by the parent company	-	326
Prepayments received		
Entities controlled by the parent company	19 071	16 094
Interest liabilities		
Parent company	-	272

## Note 17 Contingent liabilities

The Group has purchased the following guarantees in the following maximum amounts from financial institutions to cover Group's maximum exposure to third parties if the Group would not be able to fulfil its contractual obligations. The management believes that the likelihood of additional expenses due to these guarantees is remote.

<i>in thousand kroons</i>	<b>31.03.2008</b>	<b>31.12.2007</b>
Performance period's warranty to the customer	306 538	309 904
Tender warranty	33 663	23 761
Guarantee warranty period	84 843	55 500
Prepayment guarantee	76 501	68 756
Sureties	5 158	9 999
Payment guarantee	7 681	5 176
Letter of credit	-	11 218
<b>Total contingent liabilities</b>	<b>514 384</b>	<b>484 314</b>

Performance period's warranty to the customer – warranty provider grants to customer that contractor's obligations arising from construction contract will be adequately completed.

Tender warranty – warranty provider grants to customer arranging the tender process that the tenderer will sign a contract as per tender conditions.

Guarantee for warranty period - warranty provider grants to customer that construction defects discovered during the warranty period will be repaired.

Prepayment guarantee - warranty provider grants to customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.

Payment guarantee – warranty provider grants to customer payment for goods or services.

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 3 months interim report 2008 as presented on pages 3 to 18.

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 interim financial statements of AS Merko Ehitus for the 3 months period ending 31.03.2008 have been prepared in accordance with IAS 34 "Interim Financial Reporting" for condensed interim financial statements. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2007.

Tõnu Toomik	Chairman of the Board		23.05.2008
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Alar Lagus	Member of the Board		23.05.2008
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Veljo Viitmann	Member of the Board		23.05.2008
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Andres Agukas	Member of the Board		23.05.2008
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Tõnu Korts	Member of the Board		23.05.2008
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