



AS MERKO EHITUS GROUP

2012 3 months consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

Registration no: 11520257

Address: 9G Järvevana road 11314 Tallinn

Telephone: +372 680 5105

Fax: +372 680 5106

E-mail: merko@merko.ee

Homepage: www.merko.ee

Financial year: 01.01.2012 – 31.12.2012

Reporting period: 01.01.2012 – 31.03.2012

Supervisory Board: Toomas Annus, Tõnu Toomik, Teet Roopalu,
Indrek Neivelt, Olari Taal

Management Board: Andres Trink, Alar Lagus, Viktor Mõisja

Auditor: AS PricewaterhouseCoopers

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MANAGEMENT REPORT

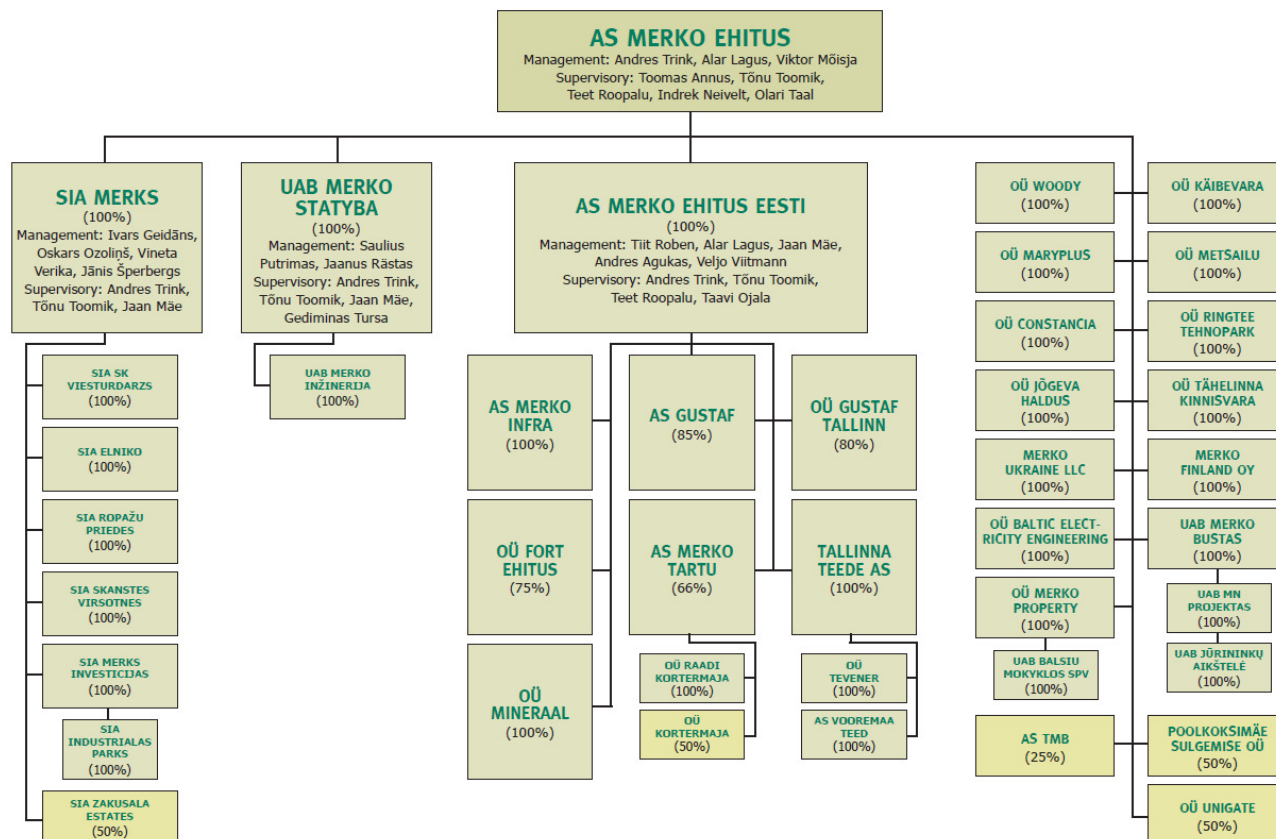
General information and structure of the group

AS Merko Ehitus is operating as a construction and real estate development group providing integrated solutions in the field of construction in Estonia, Latvia and Lithuania. The largest construction companies of the group are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and companies belonging to the AS Merko Ehitus Eesti group Tallinna Teede AS (100%), AS Merko Infra (100%), AS Gustaf (85%), OÜ Gustaf Tallinn (80%) and AS Merko Tartu (66%).

In accordance with the strategic directions approved in 2010 and pursuant to the decision of the Supervisory Board of AS Merko Ehitus dated 30 December 2011, all of the construction activities of the group were transferred to AS Merko Ehitus Eesti as of 1 January 2012. The aim of the changes was to separate the management of the group and Estonian production activities and more efficient distribution of resources between the business areas of the group. After the changes are completed AS Merko Ehitus will operate as a holding company that is independently not involved in production activities and which holds 100% holdings in the construction companies AS Merko Ehitus Eesti, SIA Merks and UAB Merko Statyba as well as the real estate business unit of the group together with the companies owning real estate. The main activity of the holding company is to develop and realise the strategies of the different business areas of the Merko Ehitus group, first and foremost through the long-term planning of resources.

In the first quarter of the year 2012 a 100% subsidiary Merko Finland OY was registered in Finland with the aim of establishing technical preconditions for starting potential construction projects in longer perspective in Russia and as a result of an intra-group transaction Lithuanian subsidiaries UAB Balsiu Mokyklos SPV and UAB Merko Bustas were transferred, respectively, to OÜ Merko Property and AS Merko Ehitus.

Structure of AS Merko Ehitus group as of 31.03.2012:



Operating results

In 2012 3 months, the revenue of the group was EUR 47.8 million. Estonia contributed 87.8%, Latvia 8.1% and Lithuania 4.1% to the group's revenue. As compared to 2011 3 months, the group's revenue increased by +82.6%, including +110.9% in Estonia, +74.7% in Lithuania and -24.7% in Latvia.

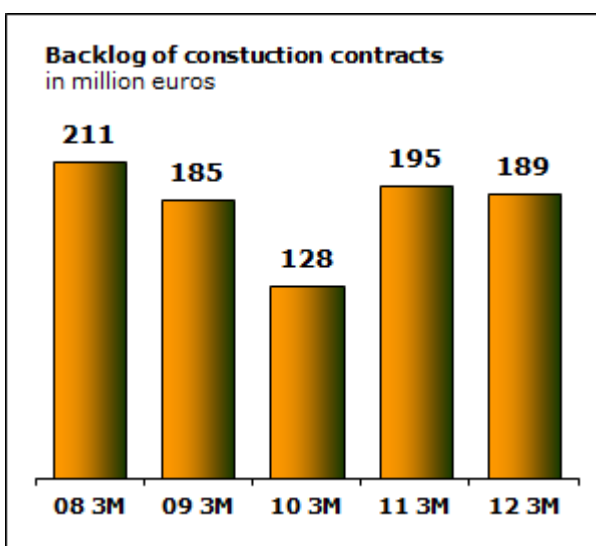
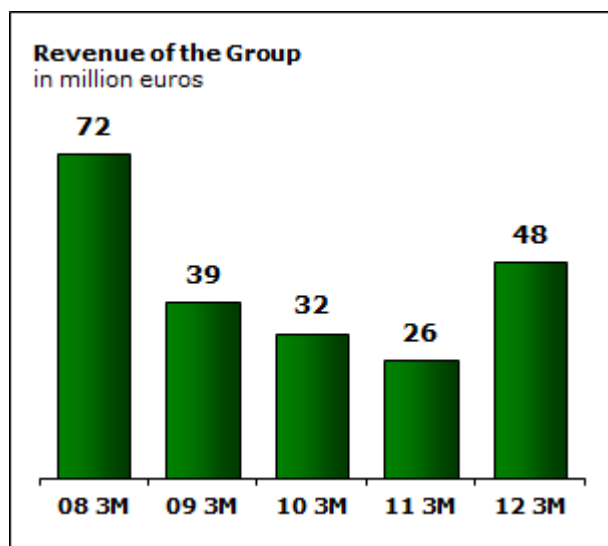
The consolidated revenue of the group's largest entities:

	3 months 2012	3 months 2011**	3 months 2010**
Estonian entities			
AS Merko Ehitus*	2 897	100	15
AS Merko Ehitus Eesti group (100% ownership)	39 329	19 837	16 624
AS Merko Ehitus Eesti (100% ownership)	22 738	13 567	13 365
Tallinna Teede AS (100% ownership)	3 688	1 940	1 818
AS Merko Infra (100% ownership)	9 038	1 437	5
Other subsidiaries	3 865	2 893	1 436
Latvian entity			
SIA Merks (100% ownership)	3 880	5 116	15 068
Lithuanian entity			
UAB Merko Statyba (100% ownership)	1 685	1 120	289
Total Merko Ehitus group	47 791	26 173	31 996

* includes the revenues of the smaller subsidiaries of AS Merko Ehitus

** approximate comparative indicators of the new structure of AS Merko Ehitus

As of 31 March 2012, the group's portfolio on unfinished construction contracts totalled EUR 189 million. The contract portfolio does not include residential projects developed by the group and the works related to construction of investment properties (incl. the contract for the construction and leasing of Jõgeva police and court building).

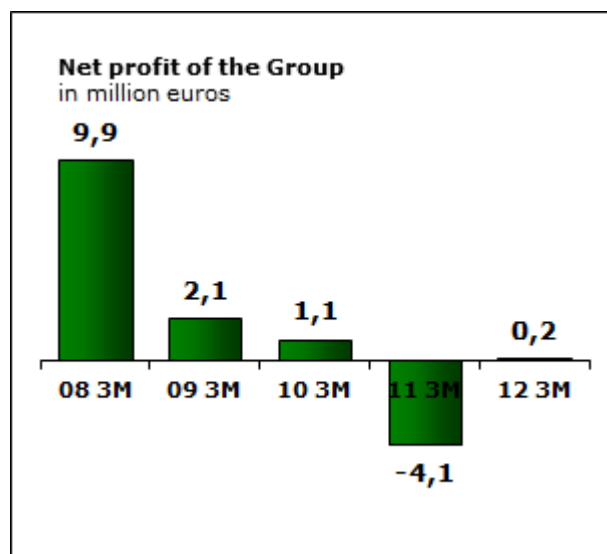


During the first 3 months of the year 2012, 14 apartments were sold at the total cost of EUR 2.0 million (VAT not included), which does not include transactions covered with preliminary contracts under the law of obligations. As of 31.03.2012 inventories included 114 unsold completed apartments (81 apartments in Tallinn, 29 in Tartu and 4 in Riga) with the total cost of EUR 11.5 million and 507 apartment in the stage of construction, the cost of which, as on the balance sheet date was EUR 20.9 million. Due to the continuing low transaction activity on the housing market, the construction of 311 apartments (in the amount of EUR 8.4 million) has currently been halted and the construction of 196 apartments is underway, including two 21-apartment buildings in Tallinn, on Hane street (time of completion:

summer of 2012), three 13-apartment buildings in Tallinn, on Pallasti street (time of completion: summer of 2012) and a 115-apartment building in Riga, on Skanstese street (time of completion: autumn of 2012). In order to minimise risks, new projects are generally small-scaled or directed at a specific target group and regionally dispersed. The impact of the cyclical nature of the development activity was insignificant for the results of the first quarter.

With the first three months of the year 2012, the group earned a gross profit of EUR 2.5 million (within 3 months of 2011 EUR -1.4 million) from development and construction activities. The impact of seasonality of construction activities on the results of the quarter as compared to the previous years has been insignificant. As compared to the first quarter of the year 2011, the marketing and general administration costs of the group decreased by 2.3% and the share of these costs in the revenue formed 5.2% (9.7% in the first quarter of 2011).

During the first 3 months of the year 2012, the profit before taxes of the group was EUR 0.4 million and the net profit EUR 0.2 million as compared to the EUR 4.1 million of loss before taxes and net loss of the same sum during the first three months of the year 2011.



In 2012 3 months, the change in short-term investments, and cash and cash equivalents of Merko Ehitus group was EUR -9.7 million and as of 31 March 2012, the cash and cash equivalents in the bank accounts and term deposits of the group were in the amount of EUR 8.7 million. The cash flows from operating activities totalled EUR -6.7 million, cash flows from investing activities totalled EUR +0.1 million and cash flows from financing activities totalled EUR -3.1 million. The cash flows from operating activities in the reporting period were mostly affected by the change in receivables and prepayments of EUR -5.4 million, change in liabilities and prepayments related to operating activities of EUR +3.4 million and the change in inventories EUR -2.9 million. Of the cash flows from financing activities, the balance of loans received and repaid totalled EUR -2.9 million and finance lease payments totalled EUR -0.2 million.

The financial ratios and methodology for calculating the ratios describing the group's main operations

	3 months 2012	3 months 2011	3 months 2010
Net profit margin	0,3 %	-15,7 %	3,3 %
EBT margin	0,9 %	-15,7 %	4,8 %
Operating profit margin	0,5 %	-14,6 %	5,2 %
Gross margin	5,2 %	-5,5 %	11,7 %
EBITDA margin	1,7 %	-12,4 %	7,0 %
Return on equity per annum	0,6 %	-13,4 %	3,1 %
Return on assets per annum	0,3 %	-8,4 %	1,9 %
Equity ratio	51,7 %	62,1 %	63,2 %
Current ratio	2,0	2,6	2,5
Quick ratio	0,9	0,9	1,2
General expense ratio	5,2 %	9,7 %	8,3 %
Gross remuneration ratio	7,2 %	14,5 %	12,3 %
Debt to assets	17,4 %	12,8 %	13,9 %
Accounts receivable turnover (in days)	60	75	45
Accounts payable turnover (in days)	55	48	39
Revenue per employee (in thousand euros)	55	29	43
Average number of full-time employees at the group	863	901	748

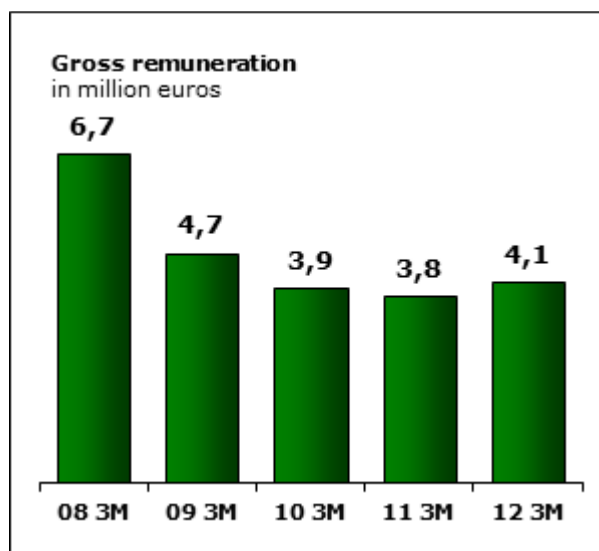
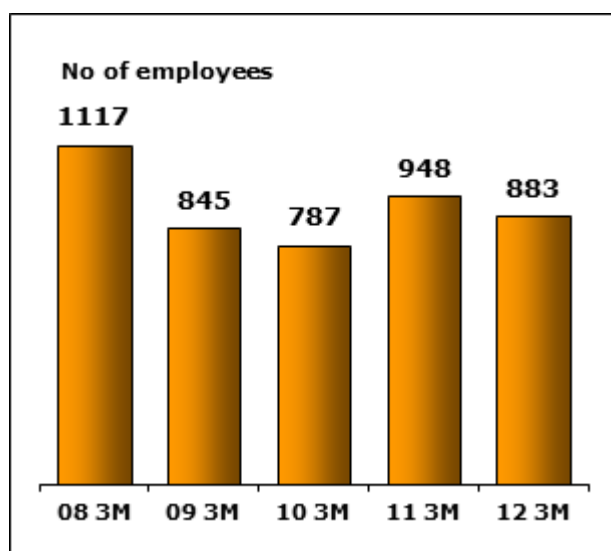
Net profit margin: $\text{Net profit}^* / \text{Revenue}$
 EBT margin: $\text{Profit before taxes} / \text{Revenue}$
 Operating profit margin: $\text{Operating profit} / \text{Revenue}$
 Gross margin: $\text{Gross profit} / \text{Revenue}$
 EBITDA margin: $(\text{Operating profit} + \text{Depreciation and impairment charge}) / \text{Revenue}$
 Return on equity: $\text{Net profit} \times 4^* / \text{Average equity during the period}^*$
 Return on assets: $\text{Net profit} \times 4^* / \text{Average assets during the period}$
 Equity ratio: $\text{Owners equity}^* / \text{Total assets}$

Current ratio: $\text{Current assets} / \text{Current liabilities}$
 Quick ratio: $(\text{Current assets} - \text{Inventories}) / \text{Current liabilities}$
 General expense ratio: $\text{General expenses} / \text{Revenue}$
 Gross remuneration ratio: $\text{Gross remuneration} / \text{Revenue}$
 Debt to assets: $\text{Interest-bearing liabilities} / \text{Total assets}$
 Accounts receivable turnover: $\text{Trade receivables} \times 365 / \text{Revenue} \times 4$
 Accounts payable turnover: $\text{Payables to supplies} \times 365 / \text{Cost of goods sold} \times 4$
 Revenue per employee: $\text{Revenue} / \text{Average number of full-time employees}$

* attributable to equity holders of the parent

Employees and remuneration

The number of group's employees decreased by 65 (-6.9%) employees in a year and as of 31.03.2012, the group had 883 employees. Within the framework of the efficiency program implemented from the first quarter changes were carried out in the management of Merko Statyba, furthermore, the number of administrative employees was decreased in the Lithuanian and Latvian subsidiaries. The gross remuneration paid to employees in 2012 3 months amounted to EUR 4.1 million an increase of 7.3% compared to previous year. Salaries accounted for 85.5% of the gross remuneration, and performance-related pay accounted for 14.5%.



Members of the Supervisory and Management Board of AS Merko Ehitus

Supervisory Board

The general meeting of shareholders elects the company's Supervisory Board. The Supervisory Board plans the company's activities and arranges its management as well as performs supervision over the Management Board. The Supervisory Board of AS Merko Ehitus has five members.

At the general meeting of shareholders held at 28 June 2011, it was decided to extend the term of office of the members of the Supervisory Board Tõnu Toomik, Teet Roopalu, Indrek Neivelt and Olari Taal until 28 June 2014, i.e. for three years from the time of extension and to elect Toomas Annus as a new member of the Supervisory Board whose term of office will also expire at 28 June 2014.

Toomas Annus - Born at 5 October 1960. Finished Tallinn Technical School of Building and Mechanics (TEMT) and graduated from Tallinn University of Technology in the specialty of industrial and civil engineering of the civil engineering faculty. From 1987, he was the Chairman of the Management Board of EKE MRK (predecessor of Merko Ehitus), from 1991, the Chairman of the Management Board of AS Merko Ehitus. In 1997 – 2008, and from June 2011, he is the Chairman of the Supervisory Board of AS Merko Ehitus.

Tõnu Toomik - Born at 8 March 1961. Finished Raatuse Gymnasium in Tartu (former Tartu Secondary School no. 3) and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. From 1993, started to work as a project manager at AS Merko Ehitus. Between 1997-2008, he was a member of the Management Board of AS Merko Ehitus, being responsible for the management and development of the Company. From August 2008, he was the Chairman of the Supervisory Board of AS Merko Ehitus.

Teet Roopalu - Born at 30 August 1949. Finished Nõmme Gymnasium (former Tallinn Secondary School no. 10) and graduated from the Faculty of Economics of Tallinn University of Technology, majoring in construction economics and organisation. He has worked at construction companies, including as a director of finance, managed the economic activities in EKE (Estonian Collective Farm Construction) system as a chief economist, as a bank director and has also been involved in design work. Since November 2002, he works at AS Merko Ehitus and is responsible for the Company's financial and legal areas. He is a member of the Supervisory Boards of several subsidiaries and associates of AS Riverito and of AS Merko Ehitus.

Indrek Neivelt - Born at 17 March 1967. Finished a mathematics and physics - biased class at Tallinn Secondary School no. 1 (current Gustav Adolf Gymnasium), graduated from Tallinn University of technology, majoring in civil engineering economics and management, and received his MBA in banking and finance from Stockholm University. Between 1991-2005, he worked in various positions at Hansapank, over the last six years as the general director of the group and chairman of the Management Board. From 2005, he is a Chairman of the Supervisory Board of Bank Saint Petersburg and is a member of supervisory boards of several entities. From October 2008, he is member of the Supervisory Board of AS Merko Ehitus.

Olari Taal - Born at 7 August 1953. In 1971, finished Varstu Secondary School and in 1976, graduated as a civil engineer from Tallinn University of Technology. Has managed Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank). He has served the Republic of Estonia as the Minister of Construction, Minister of Economic Affairs, Minister of Internal Affairs and as a member of the 10th Riigikogu (Parliament of Estonia). From October 2008, he is a member of the Supervisory Board of AS Merko Ehitus.

Management Board

The Management Board is the Company's governing body, which represents and manages the Company. The Management Board shall adhere to the lawful regulations of the Supervisory Board. The Management Board is under the obligation to act in the most economically purposeful manner. At the meeting of the Supervisory Board held on the 2nd of December 2011, the Management and Supervisory Boards of AS Merko Ehitus decided to change the group's management structure a result of which the Management Board of AS Merko Ehitus has three members as of 1st January 2012.

Andres Trink – Born at 1 February 1967. Finished the English-biased class of Pärnu Secondary School no. 1 with honours and graduated cum laude with Master of Science degree from Tallinn University of Technology in automated management systems engineering. He has studied international business administration at the Estonian Business School and completed the Advanced Management Program for senior executives at INSEAD University in France. He has worked in various senior executive positions in the private as well as public sector. He has been working in the financial sector for the last 15 years, including as a member of the management board of Hansabank Baltic banking. From 1 January 2012, he is the Chairman of the Management Board of AS Merko Ehitus, being responsible for the launch and strategic development of the structure of the new holding company. He is also the Chairman of the Supervisory Boards of AS Merko Ehitus Eesti, SIA Merks and UAB Merko Statyba.

Alar Lagus - Born at 15 February 1969. Finished Rapla Secondary School and graduated from the Faculty of Chemistry of Tallinn University of Technology, majoring in organisation and technology of public catering. After graduation, worked in various positions at Hansapank. From 2004, he works as a manager in the finance area and is responsible for the Company's financial and managerial accounting and investor relations.

Viktor Mõisja – Born at 6 January 1951. Graduated as a civil engineer from Tallinn University of Technology in 1976. Viktor Mõisja has worked at AS Merko Ehitus since the foundation of the Company and most of the time as a manager of the department of concrete works. From 21 December 2010, he is a member of the Company's Management Board and his area of responsibility is quality management and supervision.

Information about the shares held by the members of the Supervisory and Management Boards is disclosed in chapter "Share and shareholders" of the report.

Construction market

Economic growth, in constant prices

Q1 2012 vs. Q1 2011

Estonia published on 11.05.2012

Latvia published on 10.05.2012

Lithuania +3,9%

Construction price index, in constant prices

Q1 2012 vs. Q1 2011

Estonia +5,0% incl. labour force +6,8%

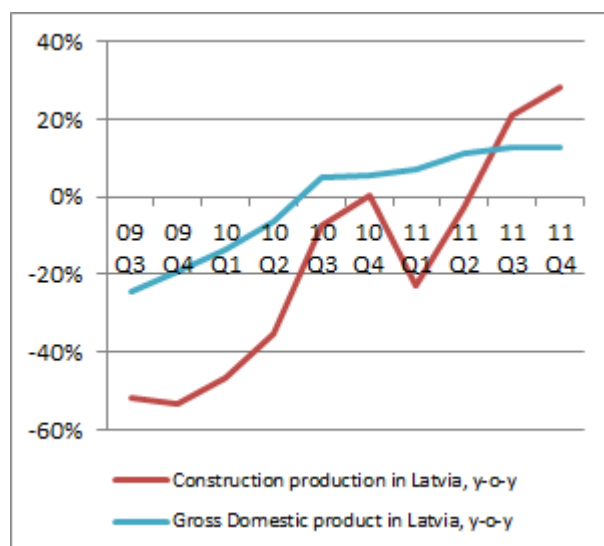
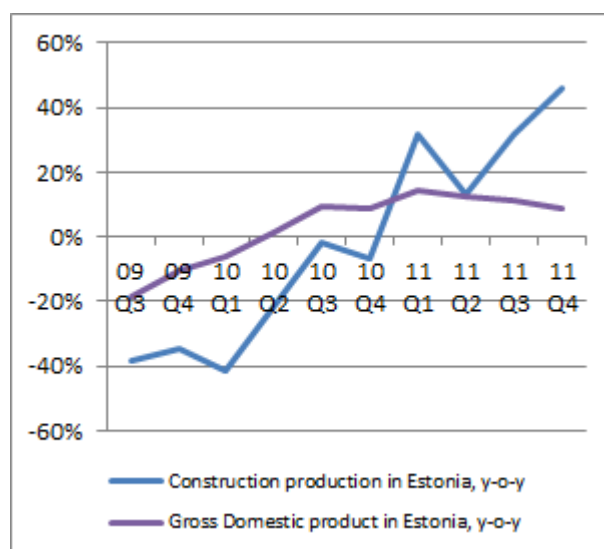
Latvia +5,2% incl. labour force +9,0%

Lithuania +5,0% incl. labour force +7,3%

Tendencies influencing the construction market in the coming quarters:

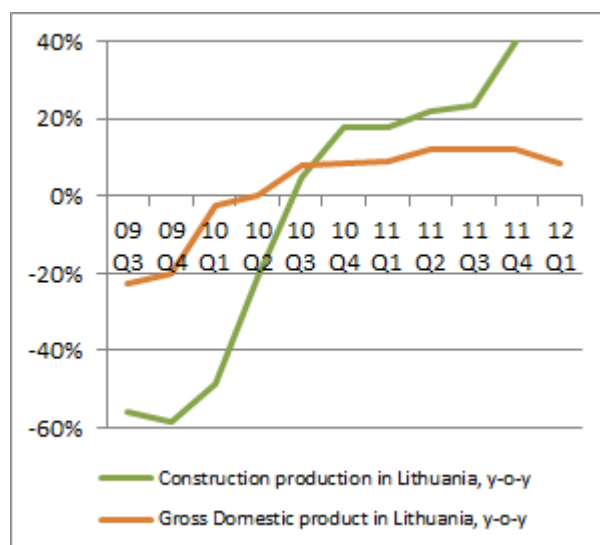
In the year 2012, the majority of the new large-scale construction contracts in the Baltic states still come from the public sector and are funded from the European Union structural funds. Considering the continuously high requirements of the clients on guarantees and long payment terms, the burden on the circulating capital of the construction companies continues to be intense and in order to remain in competition, it is important that the company has the capacity to manage cash flows. Some companies may be in difficulty in obtaining sufficient guarantees due to the lack of security. Furthermore, there are many examples on clients cancelling the procurements due to the fact that the bids are not within the previously prepared budget and the funds allocated for funding the projects are insufficient.

Intense competition in major public procurements continues. Considering the extremely low profitability of the construction sector and the negative financial results of earlier years, the construction companies cannot afford new objects that yield loss. Assessing and managing risks in making construction offers has become more and more important and construction companies are paying a lot of attention to it. Construction companies with a stronger equity base and lower debt burden are more likely to strengthen their market position in the segment of larger construction orders.



As a positive trend, increase of activeness of private clients in the preparation of development projects of commercial real estate can be observed, although the activeness of concluding actual construction contracts will presumably remain low in 2012.

The activeness of the apartment market in all three Baltic states continues to be low as compared to the years before the crisis. At the same time, the realisation of various apartment development projects that were frozen before, has been activated. This will increase the offer of new apartments. The apartment buyers are increasingly focused on the construction quality and in making their purchase decisions, they are relying on the availability of infrastructure in the region (parking, services, logistics). The availability of bank loans in financing apartment transactions may be considered rather good in all three Baltic states, although in Latvia, the internal demand and activeness of private clients continues to be very low.



Share and shareholders

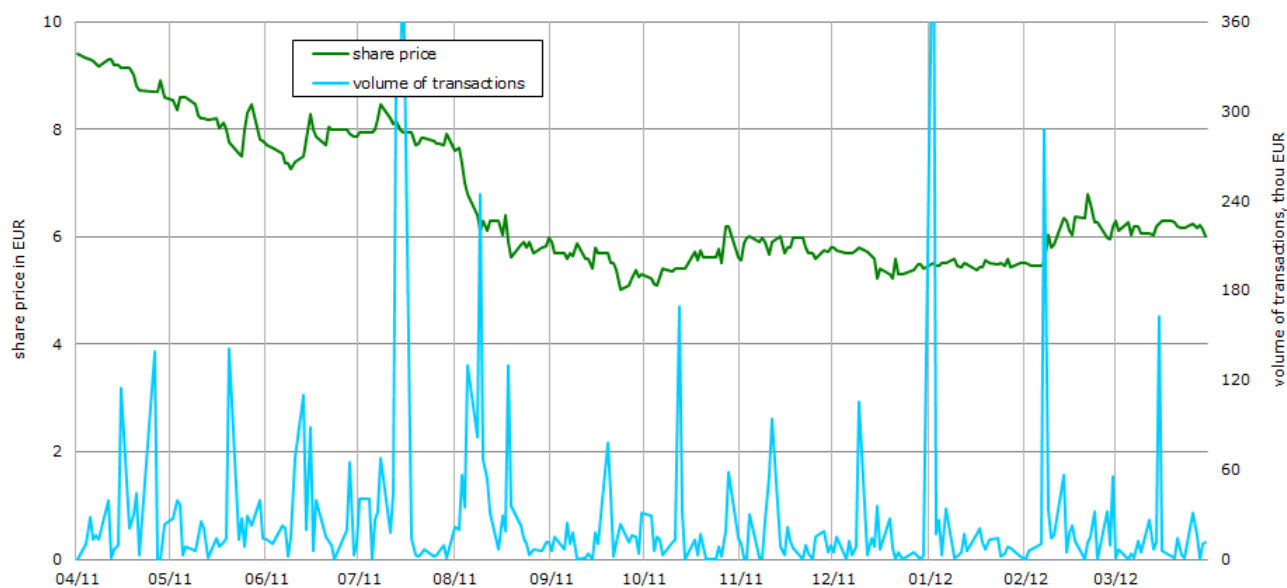
Share information

ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal value	no par value
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2012 3 months 547 transactions with the shares of Merko Ehitus were performed in the course of which 0.3 million shares were traded and the total monetary value of transactions was EUR 1.7 million. The lowest share price was EUR 5.37 and the highest price was EUR 6.80 per share. The closing share price as of 31.03.2012 was EUR 6.00. AS Merko Ehitus market value as of 31.03.2012 was EUR 106 million.

	31.03.2012	31.03.2011	31.03.2010
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in euros	0,01	-0,23	0,06
Equity per share, in euros	6,18	6,82	7,74
P/B (price to book ratio)	0,97	1,36	0,99

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



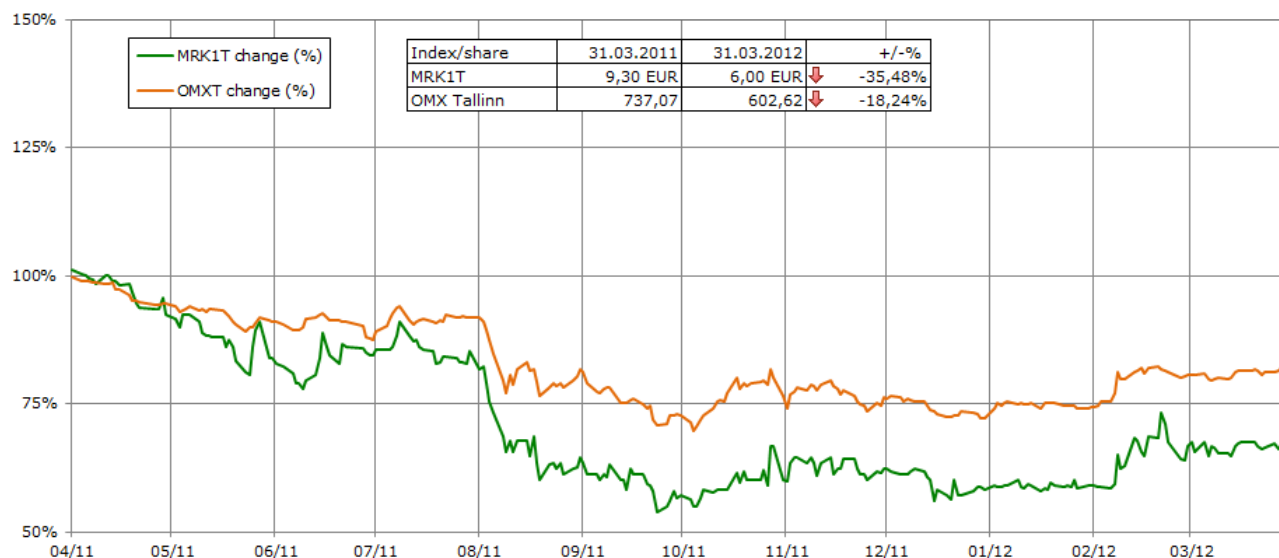
Structure of shareholders as of 31.03.2012

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	429	27,61%	23 277	0,13%
101-1000	810	52,13%	343 091	1,94%
1001-10 000	274	17,63%	810 567	4,58%
10 001 – 100 000	30	1,93%	959 134	5,42%
100 001 – 1 000 000	10	0,64%	2 821 245	15,94%
1 000 001 - ...	1	0,06%	12 742 686	71,99%
Total	1554	100%	17 700 000	100%

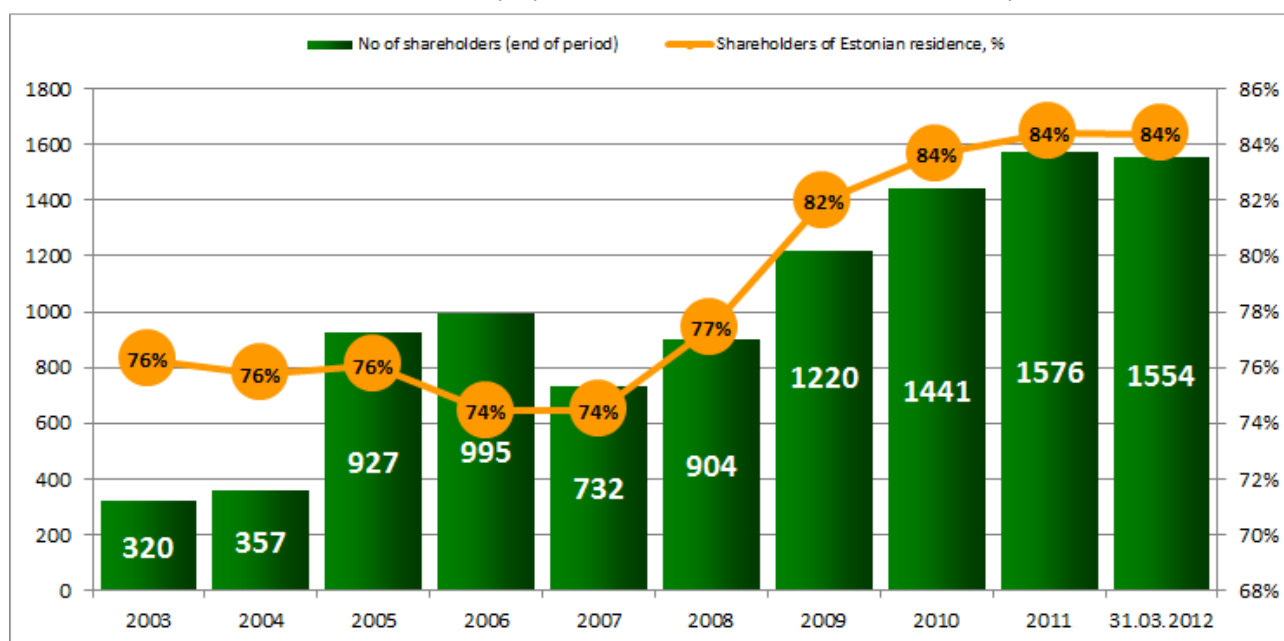
Main shareholders of AS Merko Ehitus as of 31.03.2012

	Number of shares	Percentage of total
AS Riverito	12 742 686	71,99%
ING Luxembourg S.A., clients	974 126	5,50%
Skandinaviska Enskilda Banken Ab, clients	757 289	4,28%
Firebird Republics Fund Ltd	182 754	1,03%
Ergo Pensionifond 2P2	171 679	0,97%
State Street Bank and Trust Omnibus Account a Fund No OM01	156 718	0,89%
Gamma Holding OU	143 847	0,81%
SEB Elu- ja Pensionikindlustus AS	125 520	0,71%
Andersson Investeeringud OU	103 570	0,59%
Clearstream Banking Luxembourg S.A. clients	102 937	0,58%
AS Midas Invest	102 805	0,58%

Performance of the share of Merko Ehitus and comparison index OMX Tallinn (last 12 months)



Number of shareholders of Merko Ehitus and proportion of shareholders of Estonian residency



Shares held by members of the Supervisory Board of AS Merko Ehitus as of 31.03.2012

		Number of shares	Percentage of total
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8 322 914	47,02%
Tõnu Toomik (AS Riverito)	Member of the Supervisory Board	1 607 185	9,08%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31 635	0,18%
Olari Taal (OÜ Eggera)	Member of the Supervisory Board	2 500	0,01%
Teet Roopalu	Member of the Supervisory Board	0	0,00%

Shares held by members of the Management Board of AS Merko Ehitus as of 31.03.2012

		Number of shares	Percentage of total
Andres Trink	Chairman of the Management Board	0	0,00%
Alar Lagus	Member of the Management Board	0	0,00%
Viktor Mõisja (AS Riverito / private person)	Member of the Management Board	1 103 734	6,23%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
unaudited

	note	2012 3 months	2011 3 months
Revenue	2,3	47 791	26 173
Cost of goods sold	4	(45 288)	(27 608)
Gross profit (-loss)		2 503	(1 435)
Marketing expenses		(428)	(562)
Administrative and general expenses		(2 048)	(1 972)
Other operating income		237	184
Other operating expenses		(23)	(37)
Operating profit (-loss)		241	(3 822)
Finance income/costs		175	(276)
incl. finance income/costs from investments in associates and joint ventures		105	(76)
finance income/costs from other long-term investments		335	-
interest expense		(313)	(210)
foreign exchange gain		(63)	(9)
other financial income (expenses)		111	19
Profit (loss) before tax		416	(4 098)
Corporate income tax expense		(269)	-
Net profit (-loss) for current period		147	(4 098)
incl. net profit (-loss) attributable to equity holders of the parent		155	(4 107)
net profit (-loss) attributable to non-controlling interest		(8)	9
Other comprehensive income (-loss)			
Currency translation differences of foreign entities		(23)	18
Comprehensive income (-loss) for the period		124	(4 080)
incl. net profit (-loss) attributable to equity holders of the parent		132	(4 089)
net profit (-loss) attributable to non-controlling interest		(8)	9
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	5	0,01	(0,23)

in thousand euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

	note	31.03.2012	31.12.2011
ASSETS			
Current assets			
Cash and cash equivalents	6	8 732	18 510
Short-term deposits		-	140
Trade and other receivables	7	64 154	64 449
Prepaid corporate income tax		711	686
Inventories	8	90 290	87 834
Total current assets		163 887	171 619
Non-current assets			
Long-term financial assets	9	26 256	27 051
Deferred income tax assets		1 635	1 870
Investment property	10	2 702	2 313
Property, plant and equipment	11	15 650	16 057
Intangible assets	12	1 408	1 427
Total non-current assets		47 651	48 718
TOTAL ASSETS		211 538	220 337
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	13	17 545	16 574
Payables and prepayments	14	56 581	61 635
Short-term provisions	15	6 437	6 781
Total current liabilities		80 563	84 990
Non-current liabilities			
Long-term borrowings	13	19 333	23 764
Long-term trade payables		737	790
Deferred corporate income tax liability		131	131
Long-term provisions		54	66
Total non-current liabilities		20 255	24 751
Total liabilities		100 818	109 741
Equity			
Non-controlling interest		1 348	1 356
Equity attributable to equity holders of the parent			
Share capital		12 000	12 000
Statutory reserve capital		1 131	1 131
Currency translation differences		(593)	(570)
Retained earnings		96 834	96 679
Total equity attributable to equity holders of parent		109 372	109 240
Total equity		110 720	110 596
TOTAL LIABILITIES AND EQUITY		211 538	220 337

in thousand euros

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/accumulated losses	Total		
Balance as of 31.12.2010	11 312	1 131	(924)	113 221	124 740	1 428	126 168
Profit (loss) for the financial year	-	-	-	(4 107)	(4 107)	9	(4 098)
Other comprehensive income	-	-	18	-	18	-	18
Total comprehensive income (-loss) for the financial year	-	-	18	(4 107)	(4 089)	9	(4 080)
Balance as of 31. 03.2011	11 312	1 131	(906)	109 114	120 651	1 437	122 088
Balance as of 31.12.2011	12 000	1 131	(570)	96 679	109 240	1 356	110 596
Profit (loss) for the financial year	-	-	-	155	155	(8)	147
Other comprehensive income	-	-	(23)	-	(23)	-	(23)
Total comprehensive income (-loss) for the financial year	-	-	(23)	155	132	(8)	124
Balance as of 31.03.2012	12 000	1 131	(593)	96 834	109 372	1 348	110 720

The share capital of AS Merko Ehitus consists of 17 700 000 shares with non-par value.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

	2012 3 months	2011 3 months
Cash flows used in operating activities		
Operating profit (loss)	241	(3 822)
Adjustments:		
depreciation and impairment charge	575	572
(profit) loss from sales of non-current assets	(69)	(45)
change in receivables and liabilities related to construction contracts recognised under the stage of completion method	(2 023)	4 887
interest income from business activities	(101)	(88)
change in provisions	(153)	554
Change in trade and other receivables related to operating activities	(5 423)	(1 893)
Change in inventories	(2 367)	(1 908)
Change in trade and other payables related to operating activities	3 438	1 073
Interest paid	(370)	(228)
Other finance income/costs	(2)	(13)
Corporate income tax (paid)/reclaimed	(26)	(250)
Total cash flows used in operating activities	(6 280)	(1 161)
Cash flows from investing activities		
Purchase/proceeds from deposits with maturities greater than 3 months	140	2 453
Purchase of investment property	(486)	(1 949)
Proceeds from sale of investment property	-	-
Purchase of property, plant and equipment	(162)	(505)
Proceeds from sale of property, plant and equipment	96	124
Purchase of intangible assets	(2)	(17)
Proceeds from sale of intangible assets	-	3
Loans granted	-	(175)
Loan repayments received	7	503
Interest received	43	285
Dividends received	-	8
Total cash flows from investing activities	(364)	730
Cash flows from (used in) financing activities		
Proceeds from borrowings	1 069	506
Repayments of borrowings	(3 934)	(1 211)
Selling-leaseback on terms of capital lease	-	65
Finance lease principal payments	(235)	(307)
Total cash flows from financing activities	(3 100)	(947)
Net increase/decrease in cash and cash equivalents	(9 744)	(1 378)
Change in deposits with maturities greater than 3 months	(140)	(2 453)
Total change	(9 884)	(3 831)
Cash and cash equivalents at the beginning of the period	18 510	9 856
Deposits with maturities greater than 3 months at the beginning of period	140	2 651
Total at the beginning of the period	18 650	12 507
Effect of exchange rate changes	(34)	(9)
Cash and cash equivalents at the end of the period	8 732	8 469
Deposits with maturities greater than 3 months at the end of the period	-	198
Total at the end of the period	8 732	8 667

NOTES

Note 1 Accounting policies

The interim report of Merko Ehitus group for the 2012 3 months is composed according to the terms of international accounting standard IAS 34 "Interim Financial Reporting" regarding the condensed interim financial statements. In the interim report same accounting principles and methods are used as in the 2011 financial statement. Accounting methods used in the interim report are consistent with the international financial accounting standards, as they are approved by the European Union.

By the opinion of the Management Board the consolidated interim report of Merko Ehitus AS for the 2012 3 months reflects the economic results of the group true and fair and according to the principle of continuity. The impact of the seasonal nature of the construction activity and the cyclical nature of the development activity was insignificant for the results of the reporting period.

Note 2 Operating segments

in thousand euros

The chief operating decision-maker, i.e. the management of AS Merko Ehitus, monitors the business of the group by operating segments. The performance of the segments is assessed by the chief operating decision maker based on segment revenue derived from outside the group and pre-tax profit. Profit before taxes of the segments comprises in substance of their revenue and cost of goods sold; other expenses and income are not allocated to segments as these are monitored for the group as a whole and are not directly related to operating segments.

The profit and loss account information and assets of reportable segments have been reported in accordance with the accounting principles used in preparation of these financial statements. All segments are involved in the sale of construction services with the exception of the real estate development segment whose revenue is derived from the sale of apartments in development projects.

2012 3 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	11 458	25 709	7 392	5 593	229	50 381
Inter-segment revenue	(22)	(10)	-	(2 413)	(145)	(2 590)
Revenue from external clients	11 436	25 699	7 392	3 180	84	47 791
Depreciation	(15)	(121)	(292)	(13)	(30)	(471)
Setting up provisions	(42)	(177)	(56)	(86)	-	(361)
Profit (loss) from associates and joint ventures	-	-	-	(7)	112	105
Other finance income/costs	(4)	(4)	-	154	-	146
incl. interest income	-	-	-	194	-	194
interest expense	(4)	(4)	-	(43)	-	(51)
Profit (loss) before tax	808	1 605	133	304	(57)	2 793
Segment assets 31.03.2012	10 766	29 239	22 707	124 575	3 924	191 211

2011 3 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	12 460	11 964	3 176	1 933	527	30 060
Inter-segment revenue	(605)	(1 958)	(177)	(963)	(184)	(3 887)
Revenue from external clients	11 855	10 006	2 999	970	343	26 173
Depreciation	(21)	(74)	(269)	(15)	(85)	(464)
Setting up provisions	(190)	(351)	(1 004)	(22)	-	(1 567)
Profit (loss) from associates and joint ventures	-	-	-	(21)	(55)	(76)
Other finance income/costs	-	-	-	(31)	(4)	(35)
incl. interest income	1	-	-	-	-	1
interest expense	-	-	-	(43)	(4)	(47)
Profit (loss) before tax	637	(732)	(1 226)	(176)	(36)	(1 533)
Segment assets 31.03.2011	11 488	15 046	18 573	118 839	6 476	170 422

In addition to the segment assets, as of 31.03.2012 the group holds assets of EUR 20 327 thousand (31.03.2011: EUR 23 860 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to associates and joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

Reconciliation of the pre-tax profit of segments and the group

	2012 3 months	2011 3 months
Profit (loss) from reporting segments	2 793	(1 533)
Unallocated expense (income)		
marketing expenses	(428)	(562)
general and administrative expenses	(2 048)	(1 972)
other operating income (expense)	175	134
finance income (costs)	(76)	(165)
incl. interest income	156	29
interest expense	(262)	(163)
Total profit (loss) before tax	416	(4 098)

Retained financial cost and income include financial income from bank deposits, exchange gains (losses), loan interest costs not subject to capitalisation, and other financial costs and income.

Revenue by client location

	2012 3 months	2011 3 months
Estonia	41 943	19 890
Latvia	3 880	5 156
Lithuania	1 968	1 127
Total	47 791	26 173

Non-current assets (except for financial assets and deferred income tax assets) by location of assets:

	31.03.2012	31.03.2011
Estonia	19 156	19 926
Latvia	495	682
Lithuania	109	3 835
Total	19 760	24 443

Note 3 Revenue*in thousand euros*

	2012 3 months	2011 3 months
Rendering of services	43 328	25 050
Sale of real estate and real estate development projects	4 346	931
Rental income	50	128
Sale of goods	67	64
Total revenue	47 791	26 173

Note 4 Cost of goods sold*in thousand euros*

	2012 3 months	2011 3 months
Construction services	25 316	13 167
Materials	7 834	5 769
Properties purchased for resale	2 576	863
Staff costs	4 263	3 490
Construction mechanisms and transport	1 921	1 623
Design	331	449
Real estate management costs	97	53
Depreciation and impairment charge	471	464
Other expenses	2 479	1 730
Total cost of goods sold	45 288	27 608

Note 5 Earnings per share

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

	2012 3 months	2011 3 months
Net profit (-loss) attributable to shareholders <i>(in thousands of euros)</i>	155	(4 107)
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings (loss) per share <i>(in euros)</i>	0,01	(0,23)

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 6 Cash and cash equivalents*in thousand euros*

	31.03.2012	31.12.2011
Cash on hand	11	10
Bank accounts	5 180	9 173
Overnight deposits	3 541	9 327
Total cash and cash equivalents	8 732	18 510

Note 7 Trade and other receivables*in thousand euros*

	31.03.2012	31.12.2011
Trade receivables		
accounts receivable	32 169	36 151
allowance for doubtful receivables	(544)	(544)
	31 625	35 607
Tax prepayments excluding corporate income tax		
value added tax	694	618
other taxes	3	5
	697	623
Amounts due from customers of contract works	16 764	16 016
Other short-term receivables		
short-term loans	10 540	7 673
interest receivables	948	881
other short-term receivables	1 308	1 444
	12 796	9 998
Prepayments for services		
prepayments for construction services	1 579	1 499
prepaid insurance	337	296
other prepaid expenses	356	410
	2 272	2 205
Total trade and other receivables	64 154	64 449

Note 8 Inventories*in thousand euros*

	31.03.2012	31.12.2011
Materials	759	807
Work-in-progress	26 623	33 056
Finished goods	19 476	10 549
Goods for resale		
registered immovables purchased for resale	36 652	36 570
other goods purchased for resale	1 056	1 062
	37 708	37 632
Prepayments for inventories		
prepayments for real estate properties	5 556	5 560
prepayments for other inventories	168	230
	5 724	5 790
Total inventories	90 290	87 834

Note 9 Long-term financial assets*in thousand euros*

	31.03.2012	31.12.2011
Investments in associates and joint ventures	10 083	9 986
Long-term loans	3 781	5 096
Long-term interest receivables	22	17
Long-term bank deposit	192	180
Long-term receivable from buyer of subsidiary	96	96
Long-term receivables from customers of construction services	12 082	11 676
Total long-term financial assets	26 256	27 051

Note 10 Investment property*in thousand euros*

	31.03.2012	31.12.2011
Land	136	136
Right of superficies at carrying amount		
cost	29	29
accumulated depreciation	(8)	(8)
	21	21
Buildings at carrying amount		
cost	1 119	1 215
accumulated depreciation	(173)	(171)
	946	1 044
Construction in progress	1 599	1 112
Total investment property	2 702	2 313

Note 11 Property, plant and equipment*in thousand euros*

	31.03.2012	31.12.2011
Land	825	825
Buildings at carrying amount		
cost	5 727	5 726
accumulated depreciation	(1 127)	(1 080)
	4 600	4 646
Machinery and equipment at carrying amount		
cost	16 974	16 947
accumulated depreciation	(9 058)	(8 733)
	7 916	8 214
Other fixtures at carrying amount		
cost	5 196	5 169
accumulated depreciation	(2 887)	(2 797)
	2 309	2 372
Total property, plant and equipment	15 650	16 057

Note 12 Intangible assets
in thousand euros

	31.03.2012	31.12.2011
Goodwill	891	891
Software at carrying amount		
cost	1 210	1 209
accumulated depreciation	(745)	(725)
	<u>465</u>	<u>484</u>
Prepayments for intangible assets	52	52
Total intangible assets	<u>1 408</u>	<u>1 427</u>

Note 13 Borrowings
in thousand euros

	31.03.2012	31.12.2011
Finance lease payables		
Present value of lease payments	<u>2 740</u>	<u>2 974</u>
incl. current portion	783	825
non-current portion 1...4 years	1 957	2 149
Bank loans		
Loan balance	<u>25 805</u>	<u>29 909</u>
incl. current portion	8 429	8 294
non-current portion 1...5 years	17 376	21 615
Loans from parent		
Loan balance	<u>878</u>	-
incl. current portion	878	-
Loans from entities under common control		
Loan balance	<u>6 945</u>	<u>6 945</u>
incl. current portion	6 945	6 945
Loans from other entities		
Loan balance	<u>510</u>	<u>510</u>
incl. current portion	510	510
Total loans		
Loans balance	<u>34 138</u>	<u>37 364</u>
incl. current portion	16 762	15 749
non-current portion 1...5 years	17 376	21 615
Total borrowings	<u>36 878</u>	<u>40 338</u>
incl. current portion	17 545	16 574
non-current portion 1...5 years	19 333	23 764

Note 14 Payables and prepayments
in thousand euros

	31.03.2012	31.12.2011
Trade payables	27 456	34 206
Payables to employees	3 172	2 835
Tax liabilities, except for corporate income tax		
value added tax	754	837
personal income tax	466	458
social security tax	873	871
unemployment insurance tax	86	86
contributions to mandatory funded pension	33	28
other taxes	287	224
	<u>2 499</u>	<u>2 504</u>
Amounts due to customers for contract works	9 041	10 314
Other liabilities		
interest liabilities	114	111
payable for registered immovables from demerger	6 391	6 391
other liabilities	531	402
	<u>7 036</u>	<u>6 904</u>
Prepayments received	7 377	4 872
Total payables and prepayments	<u>56 581</u>	<u>61 635</u>

Note 15 Short-term provisions
in thousand euros

	31.03.2012	31.12.2011
Provision for warranty obligation for construction	1 436	1 367
Provision for onerous construction contracts	3 139	3 526
Provision for legal costs and claims filed	1 326	1 326
Other provisions	536	562
Total short-term provisions	<u>6 437</u>	<u>6 781</u>

Note 16 Related party transactions

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

- parent company AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, so-called 'entities controlled by the parent';
- associates and joint ventures;
- key members of the management, their close relatives and entities under their control or significant influence.

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

Transactions among related parties are executed on equivalent terms as transactions among independent parties.

The parent of AS Merko Ehitus is AS Riverito. As of 31.03.2012 and 31.12.2011, AS Riverito 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 euros*

	2012 3 months	2011 3 months
Construction services rendered		
Parent company	-	29
Associates and joint ventures	52	36
Entities under common control	3	689
Other related parties	39	-
Management members	-	5
Total construction services rendered	<u>94</u>	<u>759</u>
Purchased construction services		
Associates and joint ventures	75	-
Entities under common control	-	35
Other services purchased		
Parent company	29	8
Entities under common control	26	-
Other related parties	12	-
Total other services purchased	<u>67</u>	<u>8</u>
Construction materials purchased		
Other related parties	<u>104</u>	<u>24</u>
Interest income		
Associates and joint ventures	27	26
Entities under common control	-	23
Total interest income	<u>27</u>	<u>49</u>
Interest expense		
Parent company	29	-
Entities under common control	56	42
Total interest expense	<u>85</u>	<u>42</u>

Balances with the related parties*in thousand euros*

	31.03.2012	31.12.2011
Trade and other receivables		
Trade receivables		
Parent company	3	3
Associates and joint ventures	23	23
Entities under common control	4	187
Management members	-	25
Other related parties	1	1
Total trade receivables	<u>31</u>	<u>239</u>
Short-term loans		
Associates and joint ventures	1 343	1 343
Interest receivables		
Associates and joint ventures	811	784
Other short-term receivables		
Entities under common control	-	4
Other related parties	1	-
Prepayments for inventories		
Entities under common control	3 806	3 810
Total trade and other receivables	<u>5 992</u>	<u>6 180</u>
Long-term loans and receivables		
Long-term loans		
Associates and joint ventures	<u>3 583</u>	<u>3 587</u>
Borrowings		
Short-term loans and bonds		
Entities under common control	<u>6 945</u>	<u>6 945</u>
Payables and prepayments		
Trade payables		
Parent company	12	12
Entities under common control	12	553
Associates and joint ventures	-	51
Other related parties	33	52
Total trade and other payables	<u>57</u>	<u>668</u>
Interest liabilities		
Parent company	10	15
Entities under common control	19	19
Total interest liabilities	<u>29</u>	<u>34</u>
Other liabilities		
Entities under common control	6 391	6 391
Total payables and prepayments	<u>6 477</u>	<u>7 093</u>

Remuneration of the members of the Supervisory and Management Boards

In 2012 3 months, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid remuneration totalling EUR 274 thousand (2011 3 months: EUR 346 thousand).

Termination benefits of members of the Supervisory and Management Boards

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. In 2012 3 months, the members of the group's Management Boards were paid benefits totalling EUR 52 thousand. During the 2011 3 months benefits for the members of the Management Board were not paid.

Note 17 Contingent liabilities

The group has purchased the following guarantees from financial institutions to guarantee the group's obligations to third parties. These amounts represent the maximum right of claim by third persons against the group in case the group is unable to meet its contractual obligations. Management estimates that additional expenses related to these guarantees are unlikely.

<i>in thousand euros</i>	31.03.2012	31.12.2011
Performance period's warranty to the customer	27 784	22 276
Tender warranty	3 842	3 309
Guarantee warranty period	9 921	9 347
Prepayment guarantee	10 898	12 270
Contracts of surety	1 603	1 248
Payment guarantee	-	1 255
Letter of credit	338	-
Total contingent liabilities	54 386	49 705

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

Tender warranty – guarantor ensures to the bid organiser that the tenderer does not withdraw a tender during its validity period.

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

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

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

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of Merko Ehitus has prepared the consolidated 2012 3 months interim report as presented on pages 3 to 25.

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.

Further, the Board of AS Merko Ehitus declares and confirms that to the best knowledge of the Management, the Management Report of the Interim Report gives a true and fair view of the business development and performance and financial state of the company and consolidated entrepreneurs as a whole and includes a description of risks and suspicions.

Andres Trink Chairman of the Management Board

09.05.2012

Alar Lagus Member of the Management Board

09.05.2012

Viktor Mõisja Member of the Management Board

09.05.2012