



AS MERKO EHITUS GROUP

2013 3 months consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

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Financial year: 01.01.2013 – 31.12.2013

Reporting period: 01.01.2013 – 31.03.2013

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

Management Board: Andres Trink, Viktor Möisja

Auditor: AS PricewaterhouseCoopers

TABLE OF CONTENTS

BRIEF OVERVIEW OF THE GROUP	3
VISION	4
VALUES	4
STRATEGY.....	4
LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018	4
MANAGEMENT REPORT	5
CONSOLIDATED FINANCIAL STATEMENT.....	24
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	24
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	25
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	26
CONSOLIDATED CASH FLOW STATEMENT	27
NOTES.....	28
Note 1 Accounting policies used.....	28
Note 1.1. Changes in presentation of information	28
Note 2 Operating segments.....	29
Note 3 Cost of goods sold	31
Note 4 Earnings per share.....	31
Note 5 Cash and cash equivalents.....	31
Note 6 Trade and other receivables	32
Note 7 Inventories	32
Note 8 Long-term financial assets	33
Note 9 Investment property	33
Note 10 Property, plant and equipment	33
Note 11 Intangible assets	34
Note 12 Borrowings	34
Note 13 Payables and prepayments	35
Note 14 Short-term provisions	35
Note 15 Related party transactions	35
Note 16 Contingent liabilities.....	39
MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT	40

BRIEF OVERVIEW OF THE GROUP

AS Merko Ehitus, a company founded in 1990, currently operates as a holding company. Group companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development. In the construction sector, the group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with about 7% of the total volume of the Estonian construction market.

In Latvia and Lithuania, Merko Ehitus operates through its subsidiaries SIA Merks and UAB Merko Statyba, focusing selectively on projects where the competitive advantage is perceivable as compared to other market players.

Merko Ehitus has the highest owners' equity in the Estonian construction sector and is able to finance projects by itself. Our objective is to maintain liquidity. We have been conservative in involving debt capital. We observe that we would have sufficient necessary resources to continuously invest in attractive projects.

The shares of Merko are listed on Tallinn Stock Exchange since 1997. As at the year-end 2012, the Group employed more than 900 people.

Long-term experience in different markets, a wide scope of construction services, flexibility, reliability and meeting of deadlines and primarily quality have helped Merko Ehitus to achieve and maintain the position of the market leader in the Baltics. Depending on the expectations of contracting entities, the group companies perform both small-scale construction works as well as large scale, complicated and innovative projects, with a focus on general contracting and project management.

International quality, environmental protection and occupational safety certificates ISO 9001, ISO 14001 and OHSAS 18001 have been assigned to the group's larger construction companies.

VISION

Our vision is reliable solutions and quality performance for your ideas.

VALUES

RESPONSIBILITY - We decide based on business thinking/awareness and ethical beliefs. We offer continuous and environment-friendly solutions.

KEEPING PROMISES - We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation; the keeping of one's promises is mutual.

COMPETENCE - We value quality and professionalism. We constantly develop our professional knowledge and skills.

INITIATIVE - We manage processes and we are result-oriented. We accept the challenges which presume more.

CREATIVITY - We are open, innovative and creative in working out and implementing the solutions. We are willing to carry out our thoughts.

STRATEGY

The business strategy of AS Merko Ehitus subsidiaries focuses on improving profitability and enhancing the efficiency of the cost base, offering general contracting services in the field of construction of buildings and infrastructure facilities and developing residential real estate in its home markets Estonia, Latvia and Lithuania. The group's objective is to remain the leader in the Baltic construction market. Considering weak growth prospects of the construction market, finding new growth opportunities is part of the business strategy.

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

At the meeting held on 8 April 2013, the Management Board and the Supervisory Board of AS Merko Ehitus reviewed the company's strategic development directions and approved long-term financial objectives until 2018.

Considering the weak growth perspective of the Baltic construction and real estate market in the coming few years, the overall low interest environment and the company's high equity base, the strategy and the financial objectives are focussed on improving the return on invested capital and increasing the efficiency of the balance structure.

The objectives are based on the following assumptions concerning the external environment:

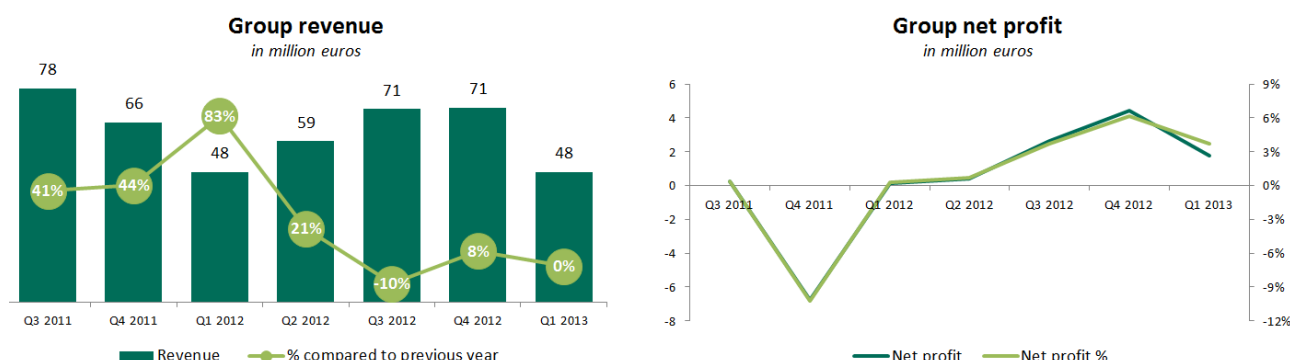
- The Baltic construction market will not experience considerable growth in the coming two years;
- The share of public procurements in construction contracts will remain high, but their volume will temporarily decrease as of the second half of 2013 due to the end of the current EU funding period. On the whole, the financial resources allocated to economy will remain at the same level in the new EU funding period (2014-2020), but the structure thereof will change. The activity of private clients in developing and launching larger construction projects will recover slowly.
- The number of service providers in the construction sector exceeds the demand and there is still a surplus capacity of property, plant and equipment. The tightening competition in the construction market puts increasing pressure on the profit margins of construction companies.
- The Baltic apartment market will continue to see a moderate growth in transaction activity and prices, particularly in capital cities.

The long-term financial objectives of AS Merko Ehitus cover the period until 2018 and will be reviewed annually based on the market situation, the company's financial standing and strategy:

- The minimum period average return on equity (ROE): 10%
- Dividend pay-out ratio: 50-70% of the annual profit
- Equity ratio: at least 40%

MANAGEMENT REPORT

Overview of the 3 months results



- ❖ **Profitability has improved:** net profit in Q1 2013 was EUR 1.8 million (Q1 2012: EUR 0.2 million) indicates a positive trend arising from an increase in the number of profitable projects. However, maintaining the profitability remains a challenge.
- ❖ **Revenue at the same level:** Q1 2013 revenue was EUR 47.9 million (Q1 2012: EUR 47.8 million), which is at the same level compared to the previous year.
- ❖ **Strong cash position:** by the end of the reporting period, the group had EUR 35.8 million in cash and cash equivalents (incl EUR 2.5 million short-term deposits), equity EUR 118.6 million (52.9% of total assets). Comparable figures in 2012 were accordingly EUR 8.7 million and EUR 109.4 million (51.7% of total assets).
- ❖ **Secured order book is stable:** as at 31 March 2013 totalled EUR 193 million (31 March 2012: EUR 189 million).
- ❖ **Changes in management structure:** as at 1 May 2013 Ivars Geidāns has been removed from the Supervisory Board of SIA Merks. The Supervisory Board of SIA Merks will continue with three members.

		3 months 2013 31.03.2013	3 months 2012 31.03.2012	Variance
Revenue	million EUR	47.9	47.8	+0.1%
Gross profit	million EUR	4.2	2.5	+69.2%
Gross profit margin	%	8.8	5.2	+3.6%
Net profit (equity holders of parent)	million EUR	1.8	0.2	+1040.0%
Net profit margin	%	3.7	0.3	+3.4%
EPS	EUR	0.10	0.01	+1040.0%
As of period-end:				
ROE	%	8.1	-8.7	+16.8%
Equity ratio	%	52.9	51.7	+1.2%
Secured order book	million EUR	193	189	+2.1%
Total assets	million EUR	224.0	211.5	+5.9%
Number of employees	people	869	884	-1.7%

Calculations of ratios are provided on page 23 of the report.

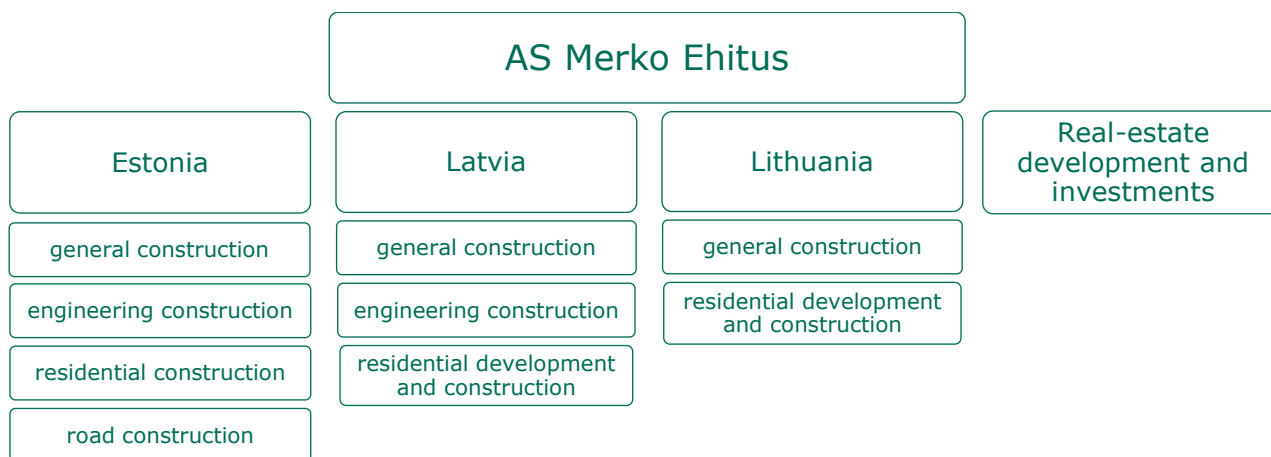
Background information and major changes introduced in the corporate structure

AS Merko Ehitus is a holding company incorporating construction and real estate development companies offering integrated construction solutions in Estonia, Latvia and Lithuania. Major construction companies incorporated under the holding company include AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%), as well as the AS Merko Ehitus Eesti group companies Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Viktor Mõisja.

The profiles of the members of the Management Board and Supervisory Board have been presented in Note 15 to the financial statements, and published, together with the track record and photographs, on the company's website at www.merko.ee.

The structure of the group's business areas as at 31 March 2013 has been presented below:



Changes in the legal structure of the group

In the first quarter of 2013, OÜ Paepargi 57 was established as a 100% subsidiary of AS Merko Ehitus group. The share capital of the private limited company is EUR 2,500. The company was founded for the purpose of ensuring company-based accounting for development projects.

Changes in the management structure of SIA Merks

In conjunction with a review of the management structure and in a follow-up to the changes implemented in 2012, a change occurred in the Supervisory Board of SIA Merks, a subsidiary of AS Merko Ehitus, whereby Ivars Geidāns has been removed from the Supervisory Board. The Supervisory Board of SIA Merks will continue with three Members: Andres Trink (Chairman), Tõnu Toomik and Jaan Mäe. Oskars Ozoliņš and Jānis Šperbergs will continue on the Management Board of the company.

OPERATING RESULTS

Business activities

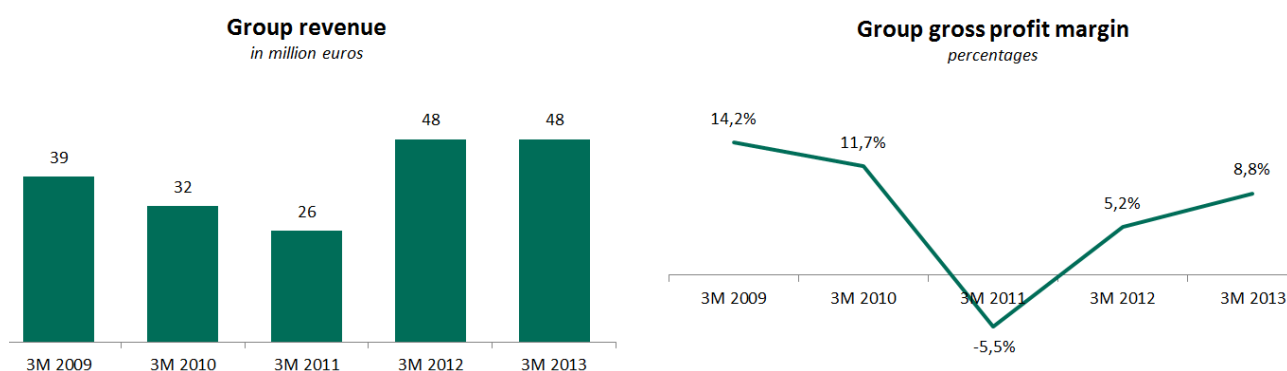
Key financial indicators (in millions of euros):

	3m 2013	3m 2012	Variance
Revenue			
Estonia	37.5	41.9	-10.6%
Latvia	8.4	3.9	+115.0%
Lithuania	2.0	2.0	+1.9%
Revenue total	47.9	47.8	+0.1%
Gross profit	4.2	2.5	+69.2%
Operating profit (EBIT)	2.3	0.6	+297.3
attributable to equity holders of the parent	1.8	0.2	+1040.0%
attributable to non-controlling interest	(0.0)	(0.0)	-25.8%
Net profit	1.8	0.2	+1096.9%
Earnings per share (EPS), in euros	0.10	0.01	+900.0%
Pecuniary means at the end of period	35.8*	8.7	+310.7%

* incl short-term deposits in the amount of EUR 2.5 million

Revenue and gross profit

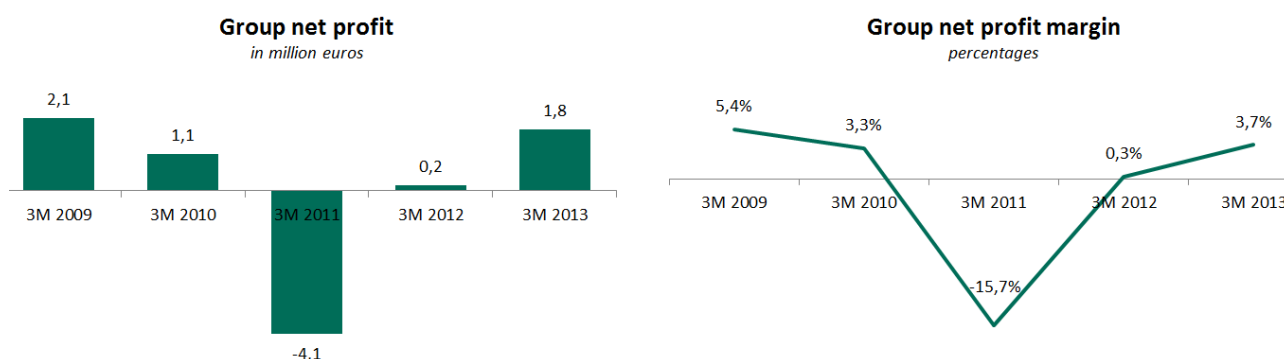
Merko Ehitus group generated a total of EUR 47.9 million in revenue in 3 months of 2013. 78.4% of the revenue was generated in Estonia, 17.4% in Latvia and 4.2% in Lithuania (3 months of 2012: 87.8% in Estonia, 8.1% Latvia and 4.1% in Lithuania). Compared to the 3 months of 2012 the group revenue remained the same (growth 0.1%). During the reporting period, orders from the private sector have increased, but the majority of revenue is still related to projects financed with support from the EU structural funds.



In 3 months of 2013 the group's gross profit from development and construction activities totalled EUR 4.2 million (3 months of 2012: EUR 2.5 million). The gross profit margin has increased by 3.6% year over year (3 months of 2012: 5.2%). The profit margin increase has been primarily influenced by the real estate development segment through an increased sales volume of apartments compared to the same period in 2012. Considering the tightening competition in the construction sector, maintaining the gross margin on the same level is a major challenge for our subsidiaries in the construction sector.

Net profit

In 3 months of 2013, the group's pre-tax profit totalled EUR 2.0 million and net profit was EUR 1.8 million as compared to the pre-tax profit of EUR 0.4 million and net profit of EUR 0.2 million in 3 months of 2012.



Business segments

The group manages business activities in the following areas at activity:

- General construction - includes the construction of buildings for different purposes including offices, hotels, museums, culture and business centres, social, production and service buildings as well as buildings of various industrial structures.
- Engineering construction - The engineering construction segment of Merko builds port structures, landfilling areas at landfills, various road structures (tunnels, overpasses, bridges), water and sewerage pipelines, water treatment plants and other complex engineering and environmental projects.
- Road construction - In this segment, Merko carries out road construction and builds the associated infrastructure. In addition, we carry out road maintenance works and maintenance repair.
- Real estate development - including development of apartment projects, long-term financial investments and commercial real estate projects.

General construction

General construction segment (million EUR)	3 months 2013	3 months 2012	Variance
Revenue	12.6	11.4	+9.9%
% of revenue	26.3%	23.9%	
Gross profit	0.5	0.8	-39.3%
Gross profit margin	3.8%	6.8%	

In the first quarter of 2013, the revenue of the general construction segment increased by 9.9% from the same period last year. At the same time, the gross profit of the segment has decreased, mainly due to the pressure on the margins exerted by tightening competition caused by the scarcity of projects. While in 2012 the market was primarily dominated by public sector projects, the beginning of 2013 has seen an increase also in private sector orders.

Our major projects in the first three months included construction work at the North Estonia Medical Centre and the production building of Tallegg.

Engineering or infrastructure construction

Civil engineering segment (million EUR)	3 months 2013	3 months 2012	Variance
Revenue	20.7	25.7	-19.3%
% of revenue	43.3%	53.8%	
Gross profit	2.4	1.6	+46.5%
Gross profit margin	11.4%	6.3%	

The revenue of the civil engineering segment amounted to EUR 20.7 million in the first three months (3 months of 2012: EUR 25.7 million), which is 19.3% less than in 2012. The decrease from the previous year is mainly due to a drop in the volume of pipeline projects. In the first quarter of 2013, our main projects included the reconstruction of pipelines in Vääna-Jõesuu and the construction of a 300MW power plant for Eesti Energia. The said area continues to form the largest proportion in the group's revenue (Q1 2013: 43.3%). The gross profit of the civil engineering segment amounted to EUR 2.4 million (3 months of 2012: EUR 1.6 million) and the gross profit margin was 11.4% (3 months of 2012: 6.3%). The positive shift is mainly due to the fact that the results of loss-making projects had already been recorded in the previous period.

The civil engineering segment includes many challenges, primarily in connection with the end of the 2007-2013 EU budgeting period and due to the fact that the pace of launching new projects has decreased.

Road construction

Road construction segment (million EUR)	3 months 2013	3 months 2012	Variance
Revenue	7.8	7.4	+5.3%
% of revenue	16.3%	15.5%	
Gross profit	0.5	0.1	+275.0%
Gross profit margin	6.4%	1.8%	

The revenue of the road construction segment amounted to EUR 7.8 million in the first quarter of 2013, which means a 5.3% increase from 2012. In the first quarter of 2013, the segment earned a gross profit of EUR 0.5 million, which yields a gross profit margin of 6.4%, mainly on account of the volume of road maintenance works.

We continue with our largest project of constructing the Ülemiste traffic junction, the final completion of which is scheduled for the end of 2013. The road construction segment is still affected by the high volatility of the price of bitumen, which is one of the main components of asphalt and has a significant impact on the price of works.

Real estate development

Real estate development (million EUR)	3 months 2013	3 months 2012	Variance
Revenue	6.5	3.2	+104.3%
% of revenue	13.6%	6.7%	
Gross profit	0.9	0.2	+482.1%
Gross profit margin	14.0%	4.9%	

A total of 57 apartments were sold in 3 months of 2013 at the total value of EUR 6.2 million (excl. VAT), (3 months of 2012: 14 apartments and EUR 2.0 million, respectively). At the end of the period, Merko Ehitus group's inventory comprised 98 completed but not yet sold apartments (41 in Estonia, 22 in Latvia and 35 in Lithuania).

The following table lists the apartment projects in progress:

Project	Town/Country	Completion time	No of apartments
Räägu 9	Tallinn, Estonia	2013 summer	20
Eha 4 / Paldiski 17	Tallinn, Estonia	2013 summer	27
Vaarika 5	Tartu, Estonia	2013 summer	15
Pallasti 46, 48, 50	Tallinn, Estonia	2013 autumn	69
Grostonas 17	Riga, Latvia	2013 autumn	62
Tedre 55	Tallinn, Estonia	2014 spring	47
Total			240

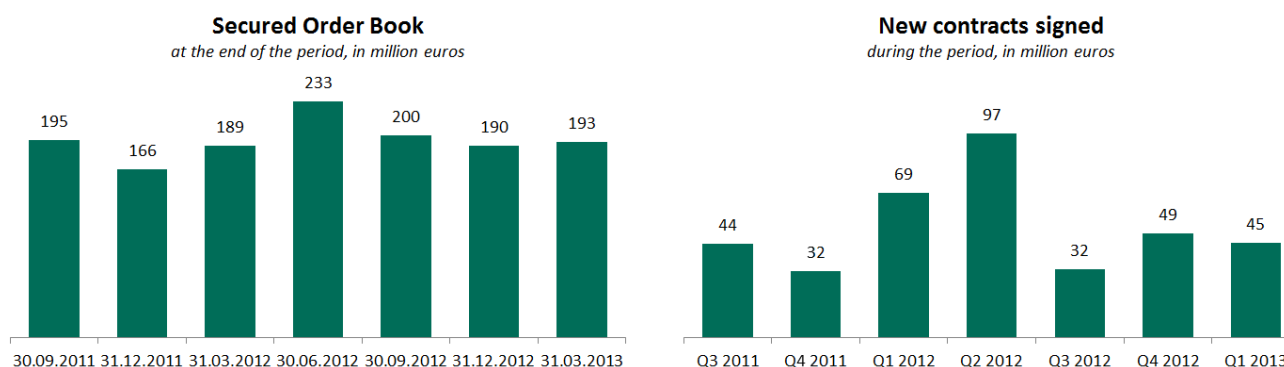
After the balance sheet date, we continued the construction of the residential and commercial building (111 apartments) at 6 Kentmanni Street, which had been suspended in 2008. The first two floors of the buildings are intended primarily as business premises and the remaining 12 floors as apartments. The building already has two underground parking floors. The planned term of completion is the end of 2014.

In addition, the construction activity on 200 apartments in Tartu from 2007 has been frozen.

One of our objectives is to keep a moderate portfolio of land plots to ensure stable implementation of property development projects considering the market conditions. At the same time the real estate market has become more selective – key aspects considered in the evaluation of risks prior to the launch of each project are the location, scale of development, design solutions and the target group. In view of the low mortgage interest rates and the limited supply on the market of new apartments over the last three years, demand and transaction activity in the apartment market has grown moderately.

Secured Order Book

As at 31 March 2013, the group's secured order book amounted to EUR 193 million as compared to EUR 189 million as at 31 March 2012. The group does not include residential building projects developed by the group and development of the investment property in the order book.



In the last 3 months, EUR 45 million worth of new contracts were signed (own developments) as compared to EUR 69 million in 2012 3 months. The group signed a contract to perform general construction works pertaining to the construction of the new 300MW CFB thermal power plant of Eesti Energia Narva Elektriijaamad AS in amount of EUR 17.3 million during I quarter 2012. There were no contracts in similar size signed during I quarter 2013. The table below shows the largest construction contracts that were signed in the first quarter of 2013:

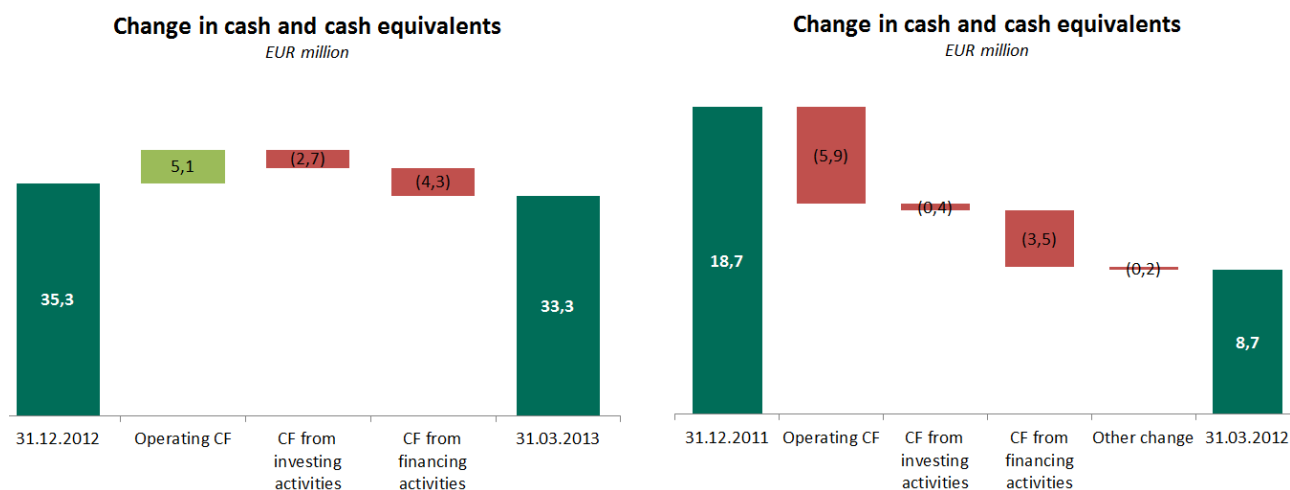
Brief description of contract	Cost million EUR	Country
Narva-Jõesuu Noorus SPA and hotel	10.6	Estonia
Jurmala, apartment buildings at Dzintaru 36	7.9	Latvia
KTN Tallinn Logistic Center, II construction stage, I phase	7-8	Estonia
Trade Center Peetri Selver	3.8	Estonia
Elva sewage and water treatment plant	2.3	Estonia

After balance sheet date 2 contracts were signed for construction of the Tondiraba ice arena in Tallinn (contract price EUR 22.5 million) and Nurmevälja logistics center, where the exact price of the contract is not disclosed, but the contract value will remain in the range of EUR 7-8 million.

Although the share of public procurements in construction orders remains high also in 2013, the beginning of this year has seen increased activity also in the private clients segment of the construction market in all three Baltic countries. With the current EU financial framework period ending, a certain drop in the volume of public procurements can be forecast starting in the latter half of 2013. As a result, it will be a challenge in its own right to keep the volume of new construction agreements at the 2012 level.

Cash flows

The cash position of the group is stable. As at the end of the reporting period, the cash and cash equivalents of Merko Ehitus group amounted to EUR 33.3 million (as at 31 March 2012: EUR 8.7 million). The group also has EUR 2.5 million in short-term deposits with a maturity term of more than 3 months. The strategic cash position and investment capability of the holding company AS Merko Ehitus has improved considerably in a year.



The 3-month cash flow from operating activity was positive at EUR 5.1 million (3 months of 2012: negative EUR 5.9 million), cash flow from investing activity was negative at EUR 2.7 million (3 months of 2012: negative EUR 0.4 million) and the cash flow from financing activity was negative at EUR 4.3 million (3 months of 2012: negative EUR 3.4 million). The cash flow from operating activity was mostly influenced by the positive change in trade and other payables related to operating activity EUR 2.6 million, by the operating profit EUR 2.3 million and negative change in provisions EUR -1.7 million.

The share of public sector orders with a long payment term has increased as a proportion of the group's cash flows from operating activities (by contract, an average of 56 days after evaluation of the work) and there is an additional burden on working capital, including optimal management of cash flows. To support cash flows arising from operating activity, the group has been prudent in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (14.5% as at 3 months of 2013).

Cash flows from investing activities include the acquisition of short-term deposit with a maturity term of more than 3 months in the amount of EUR -2.5 million, while the balance of other investments and acquisition of PPE was EUR -0.2 million.

The balance of loans received and loans repaid contributed EUR -3.3 million, factoring EUR -0.7 million and the repayment of the finance lease principal EUR -0.3 million to the cash flow from financing activities.

Financial ratios

(per share attributable to equity holders of the parent company)

		3m 2013	3m 2012	3m 2011
Income statement summary				
Revenue	million EUR	47.9	47.8	26.2
Gross profit	million EUR	4.2	2.5	(1.4)
Gross profit margin	%	8.8	5.2	-5.5
Operating profit	million EUR	2.3	0.6	(3.8)
Operating profit margin	%	4.8	1.2	-14.6
Profit before tax	million EUR	2.0	0.4	(4.1)
EBT margin	%	4.1	0.9	-15.7
Net profit	million EUR	1.8	0.1	(4.1)
equity holders of the parent	million EUR	1.8	0.2	(4.1)
non-controlling interest	million EUR	(0.0)	(0.0)	0.0
Net profit margin	%	3.7	0.3	-15.7
Other key figures				
ROE	%	8.1	-8.7	-3.1
ROA	%	4.1	-4.5	-1.9
ROIC	%	7.0	-5.9	-1.9
Equity ratio	%	52.9	51.7	62.1
Debt ratio	%	14.5	17.4	12.8
Current ratio	times	2.2	2.0	2.6
Quick ratio	times	1.2	0.9	0.9
Accounts receivable turnover	days	58	55	51
Accounts payable turnover	days	46	47	41
EBITDA margin	%	6.0	2.4	-12.4
General expense ratio	%	5.5	5.2	9.7
Personnel expense ratio	%	10.0	8.5	14.5
Revenue per employee	thousand EUR	57	54	29
Average number of employees (group)	people	838	880	915
Secured Order Book	million EUR	193	189	195

Calculations of ratios are provided on page 23 of the report.

Risk management

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial objectives. The company considers it important to assess aggregate group's risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. For the company, the most important risks are market risk, operating risk and financial risks. The latter including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks.

Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.

Market risk. One of the peculiarities of construction activities is the fact that the execution of the contracts concluded is a long-term process, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months. This time lag enables the sector to arrange its activities to be prepared for potential setbacks as well as booms.

Significantly more attention is being paid to potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability. Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development area is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. Because of the selectiveness of the real estate market, setting the right sale price for new development projects in the given region have become very important. For hedging the area's price risk, price statistics collected by the group and available from other public sources is being constantly analysed.

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. Management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 31.03.2013, 14.5% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Foreign exchange risk. The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvian lats in Latvia and Lithuanian litas in Lithuania. From 1 January 2011, Estonia adopted the euro as its national currency. Latvian lats and Lithuanian litas are pegged to the euro. The exchange rate of the Latvian lats is 1 EUR= LVL 0.702804 +/-1% and Latvia is expected to adopt the euro at 1 January 2014. In order to eliminate foreign exchange risk, the proportions of assets and liabilities denominated in different currencies are monitored and key foreign contracts and the preferred currency for conclusion of long-term loan contracts is the euro. As Estonia uses the euro and Latvia plans to adopt the euro at 1 January 2014, the need and probability for devaluation of the Lithuanian national currency is low and the situation as a whole is stable in the Baltic States.

Operating risk. The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 9.6 million. The risks of the projects which cost exceeds EUR 9.6 million or the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events.

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the group's warranty provision amounted to EUR 1.7 million. With regard to work performed by subcontractors, the subcontractor is responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

One important part of managing operating risks is the mapping out of the situation and anticipation of risks. ISO 9001/14001 management systems have been set up the largest group entities and the occupational health and safety system OHSAS 18001 has been set up at Merko Ehitus Eesti, Merko Infra, Merko Tartu as well as the Latvian and Lithuanian subsidiaries. Full-time quality control specialists work at the group whose work responsibilities include ensuring the development and functioning of quality, occupational safety and management systems.

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, their financial position is analysed and if necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer. Free cash is mostly held in overnight deposits or term deposits at Swedbank, SEB and Nordea bank groups. The management estimates that the group is not exposed to significant credit risk.

Liquidity risk. The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.03.2013, the group's current ratio was 2.2 (31.03.2012: 2.0) and the quick ratio 1.2 (31.03.2012: 0.9). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at period-end, the group entities had concluded overdraft contracts with banks in the total amount of EUR 6.5 million. In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million from AS Riverito, which had not been withdrawn in full as at the period-end.

The management estimates that the group's capital structure – a solid proportion of equity at 52.9% of the balance sheet total and a moderate proportion of interest bearing liabilities at 14.5% of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk. Due to different interpretations of contracts, regulations and laws related to group's principal activities, there is a risk that some buyers, contractors or supervisory authorities evaluate the company's activities from the perspective of laws or contracts from a different position and dispute the legitimacy of the company's activities.

As at 31 March 2013, a provision has been set up at the group in the amount of EUR 1.3 million for covering potential claims and legal costs.

An overview of the key legal disputes of group entities as at 31 March 2013 is presented below:

Estonia

On 9 January 2011, a court case opened at Harju County Court which among other issues dealt with the claim filed against AS Merko Ehitus and its subsidiaries OÜ Metsailu, OÜ Woody, OÜ Constancia in relation to the giving of the bribe to the former Tallinn city official Ivo Parbus. The Prosecutor's Offices has charged Merko Ehitus and its subsidiaries with the giving of the bribe by the then member of management board Tõnu Korts – Estravel's gift coupon of EUR 1,597.80 and the book with the list price of EUR 26.20 titled "Eesti Talurahva Arhitektuur" (Estonian Vernacular Architecture) - in order to accelerate real estate business related proceedings in Tallinn City authorities.

On 30 March 2012 Harju County Court proclaimed the judgment, according to which AS Merko Ehitus, OÜ Metsailu, OÜ Woody, OÜ Constancia were convicted based on Penal Code section 297 subsection 3 (granting or promising a gratuity by a legal person) imposing a pecuniary punishment to AS Merko Ehitus in the amount of EUR 300,000, to OÜ Woody and OÜ Constancia each in the amount of EUR 200,000 and to OÜ Metsailu in the amount of EUR 100,000. According to the Income Tax Act, a pecuniary punishment is subject to income tax and upon the enforcement of the pecuniary punishment the group companies will have to pay EUR 213 thousand of income tax in addition to the amount of the pecuniary punishment. To reflect the judgment of Harju County Court after the balance sheet date, an additional provision in the amount of EUR 1.0 million was set up to cover the possible pecuniary punishment and associated tax liability.

At 21 January 2013, Tallinna District Court upheld the judgement of Harju County Court and dismissed the appeals of AS Merko Ehitus, OÜ Metsailu, OÜ Woody and OÜ Constancia. The judgment has not been entered into force, AS Merko Ehitus and its subsidiaries have appealed it to the Supreme Court.

Pursuant to § 38 subsection 1 clause 1, a contracting authority shall not award a public contract to a person and shall exclude from a procurement procedure a tenderer or candidate who or whose legal representative has been convicted of committing offences relating to professional misconduct in a criminal procedure, and whose data concerning punishment have not been deleted from the penal register in accordance with the Penal Register Act. Accordingly, AS Merko Ehitus, OÜ Metsailu, OÜ Woody, OÜ Constancia cannot participate in the public procurement in case of criminal conviction. The respective limitation does not concern other companies of the group.

The management of the group is of opinion that the company has not granted a gratuity and has conducted its activities in conformity with the laws of the Republic of Estonia.

At 5 December 2012, Sanoma Trade OY filed a claim in Helsinki Arbitration Court against AS Merko Ehitus Eesti in the amount of EUR 0.2 million. The claim is related to construction works performed by AS Merko Ehitus (10068022) in 1999-2001. The group's management is of opinion that Helsinki Arbitration Court lacks jurisdiction to review this claim; the claim has also expired and is manifestly unfounded. As at 9 April 2013, the counterparty has dropped its claim.

Lithuania

At 25 May 2012, RUAB Vakarų inžineriniai tinklai (hereinafter „Vakaru“) filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of LTL 680 thousand (EUR 197 thousand), related to the repeal of the joint venture contract concerning the sewerage and wastewater pipeline project (project „Construction of Sewerage and Wastewater Pipelines in Seda, Plinkšiai and Bugeniai“). AS Merko Ehitus does not believe that the joint venture contract was terminated illegally, but rather that it was related to the breach of the contract by the partner.

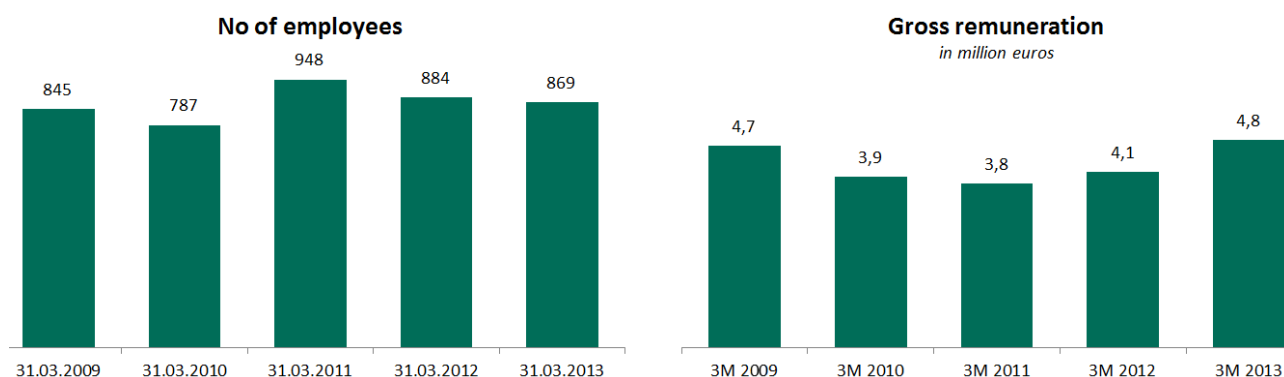
As a legal restructuring has been launched for Vakarų, AS Merko Ehitus has filed a creditor's claim in the amount of LTL 490 thousand (EUR 142 thousand) in respect of the failure to fulfil the project's obligations. At 25 February 2013, AS Merko Ehitus filed an additional claim against Vakarų regarding a partial repeal of the invoice in the amount of LTL 242 thousand (EUR 70 thousand) that had been included in the claim by Vakarų at 25 May 2012 in the amount of LVL 680 thousand (EUR 197 thousand). As at 31 December 2012, allowances have been set up in full by the group in respect of these claims.

At 10 October 2012, UAB Šiaulių Vandenys filed a claim against UAB Merko Statyba, because according to UAB Šiaulių Vandenys, UAB Merko Statyba failed to meet the deadline for works. The claim included a fine for delay, 7.75% interest and state property taxes in the amount of LTL 237 thousand (EUR 69 thousand). At 11 January 2013, UAB Merko Statyba filed a counterclaim in the amount of LTL 537 thousand (EUR 155 thousand) and extension of the deadline for works by 154 days, primarily due to the refusal by the counterparty to pay for the additional works contracted by UAB Šiaulių Vandenys and to extend the deadline for works. The pre-court institution – the Dispute Settlement Council – decided to satisfy the claim of UAB Merko Statyba regarding payment for additional works and extension of the deadline for works. The dispute will continue in the court. The hearing of the Court of First Instance has not been set by the time of preparation of the financial statements.

Employees and remuneration

The number of the group's employees decreased by 15 in the last 12 months (-1.7%) and as at 31 March 2013, the group had a total of 869 employees (including fixed-term and part-time employees).






The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration. Gross wages and salaries paid to employees in 3 months of 2013 totalled EUR 4.8 million, of which base wages and salaries accounted for 75.7% and bonuses accounted for 24.3% (3 months of 2012: EUR 4.1 million, of which base wages and salaries were 85.5% and bonuses were 14.5%). In a year, gross wages and salaries increased by 17.1%, including a 4.4% increase in base wages and salaries and a 98.1% increase in bonuses.



Supervisory Board

The Supervisory Board shall plan the activities of the company, organise the management of the company and supervise the activities of the Management Board. According to the Articles of Association of Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

At the annual general meeting of shareholders held at 28 June 2011, it was decided to extend the term of office of Supervisory Board members Tõnu Toomik, Teet Roopalu, Indrek Neivelt and Olari Taal until 28 June 2014, i.e. for three years and, in addition, to elect Toomas Annus as the additional member of the Supervisory Board of AS Merko Ehitus with a term of office until 28 June 2014. The Supervisory Board of AS Merko Ehitus has 5 members of whom, in accordance with the requirements of the Good Governance Code, two - Indrek Neivelt and Olari Taal - are independent members:

Toomas Annus (52)	Tõnu Toomik (52)	Teet Roopalu (63)
Chairman of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
 <p>Positions held: 2011-... Merko Ehitus AS, Chairman of the SB. 2009-... E.L.L.Kinnisvara AS, Member of the MB. 2008-... Järvevaba AS, Chairman of the MB. 1999-2009 E.L.L.Kinnisvara, Chairman of the SB. 1997-2008 Merko Ehitus AS, Chairman of the SB. 1996-... Riverito AS, Chairman of the MB. 1991-1996 EKE MRK, Chairman of the MB. 1989-1991 EKE MRK, director of the company.</p> <p>Education: Tallinn University of Technology, industrial and civil engineering. Tallinn Technical School of Building and Mechanics (TEMT; presently known as the University of Applied Sciences), industrial and civil engineering.</p> <p>Number of shares: 8,322,914</p>	 <p>Positions held: 2011-... Merko Ehitus AS, Member of the SB. 2008-2011 Merko Ehitus AS, Chairman of the SB. 1997-2008 Merko Ehitus AS, Chairman of the MB. 1993-1997 Merko Ehitus AS, Project Manager. Member of Supervisory Boards of the group's subsidiaries and associated companies.</p> <p>Education: Tallinn University of Technology industrial and civil engineering.</p> <p>Number of shares: 1,607,185</p>	 <p>Positions held: 2004-... Merko Ehitus AS, Member of the SB. 2010-... Riverito AS, Member of the MB. 2002-2004 Merko Ehitus AS, Adviser to the MB. Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE (Estonian Collective Farm Construction) as a chief economist; worked as a bank director; and has also worked in building design. Member of Supervisory Boards of subsidiaries and associated companies.</p> <p>Education: Tallinn University of Technology construction economics and organisation.</p> <p>Number of shares: –</p>
Indrek Neivelt (46)	Olari Taal (59)	
Member of the Supervisory Board	Member of the Supervisory Board	
 <p>Positions held: 2008-... Merko Ehitus AS, Member of the SB. 2005-... Bank Saint Petersburg, Chairman of the SB. 1999-2005 Hansabank, Director General of the Group, Chairman of the MB. 1991-1999 Hansabank, various positions. Belongs to Supervisory Boards of various companies.</p> <p>Education: Tallinn University of Technology civil engineering economics and management. Stockholm University, banking and finance, MBA.</p> <p>Number of shares: 31,635</p>	 <p>Positions held: 2008-... Merko Ehitus AS, Member of the SB. Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank). Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).</p> <p>Education: Tallinn University of Technology, civil engineering.</p> <p>Number of shares: 2,500</p>	



SB – Supervisory Board.
MB – Management Board.

Management Board

The Management Board is a governing body which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of all shareholders and ensures the company's sustainable development in accordance with set objectives and strategy.

To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a month, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

Starting from 3 September 2012, the Management Board of AS Merko Ehitus has 2 members: Andres Trink (Chairman of the Management Board) and Viktor Mõisja (member of the Management Board).

Andres Trink (46)	Viktor Mõisja (62)
Chairman of the Management Board Appointed: 1 January 2012. Term ends: 31 December 2014.	Member of the Management Board Appointed: 21 December 2010. Term ends: 20 December 2013.
	
<p>Positions held:</p> <p>2012-... Merko Ehitus AS, Chairman of the Management Board. Chairman of the Supervisory Board of Merko Ehitus Eesti AS and SIA Merks and Member of the Supervisory Board of UAB Merko Statyba. Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a member of the Management Board of Baltic banking at Hansabank (now Swedbank).</p> <p>Education:</p> <p>Tallinn University of Technology, automated management systems engineering (summa cum laude) Estonian Business School, international business administration Graduate of the INSEAD University (France), executive management programme.</p> <p>Number of shares: –</p>	<p>Positions held:</p> <p>2010-... Merko Ehitus AS, Member of the Management Board. Works for Merko Ehitus since 1991 as a foreman, site manager and, since 2001, head of concrete work department.</p> <p>Education:</p> <p>Tallinn University of Technology, heating and gas supply and ventilation.</p> <p>Number of shares: 1,103,734</p>

The responsibilities of Andres Trink, Chairman of the Management Board, include, among others, fulfilling daily obligations of the CEO of AS Merko Ehitus, managing and representing for the company, ensuring compliance with the Articles of Association, legal acts, organising the work of the Management Board and supervisory boards of the more important subsidiaries, coordinating the development of strategies and providing for their implementation.

The area of responsibility of Viktor Mõisja is quality management and supervision.

Share and shareholders

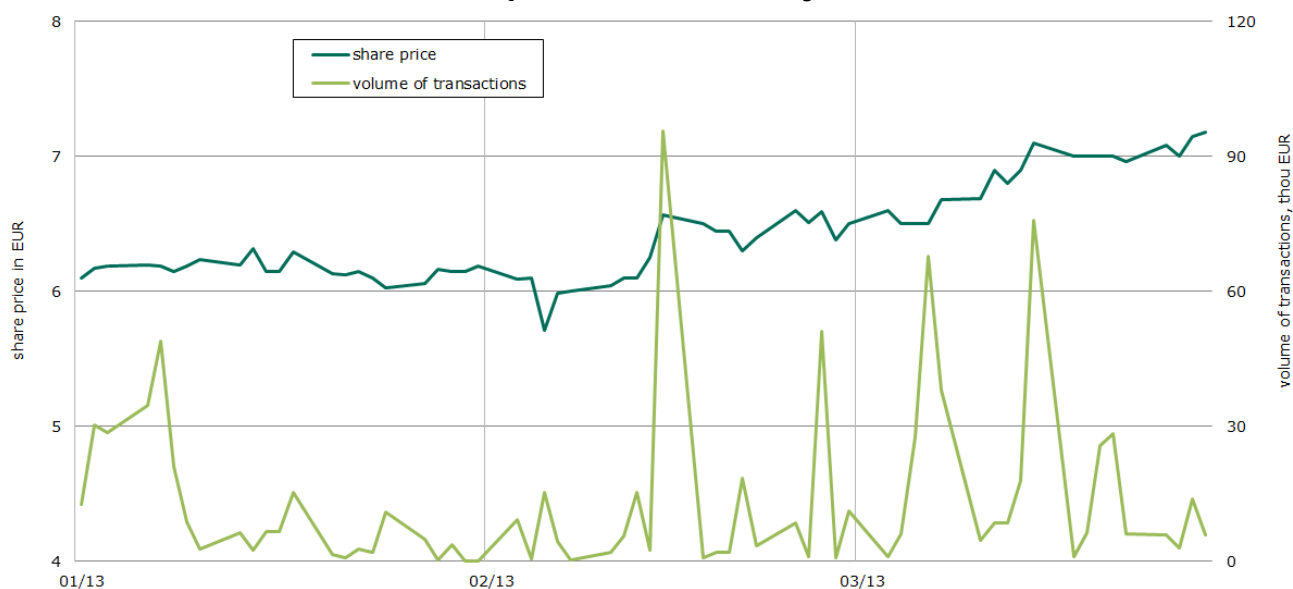
Information on security

Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Residency of issuer	Estonia
Stock Exchange List	Main List
ISIN	EE3100098328
Nominal value	without nominal value
No of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR
Date of listing	11 August 2008

The shares of Merko Ehitus have been listed in the main list of NASDAQ OMX Tallinn. A total of 480 transactions were conducted with the shares of Merko Ehitus in 3 months of 2013, with 0.13 million shares traded, generating a turnover of EUR 0.85 million. The lowest share price amounted to EUR 5.71 and the highest to EUR 7.48 per share. The closing price of the share was EUR 7.18 on 31 March 2013. As at 31 March 2013, the market value of AS Merko Ehitus amounted to EUR 127 million.

	31.03.2013	31.03.2012	31.03.2011
No of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), in euros	0.10	0.01	-0.23
Equity per share, in euros	6.47	6.35	7.08
P/B (price to book ratio)	1.11	0.94	1.31
P/E (price / earnings ratio)	13.76	-10.81	-41.82
Market value, million EUR	127	106	165

Performance of Merko Ehitus share at NASDAQ OMX Tallinn Stock Exchange in 2013



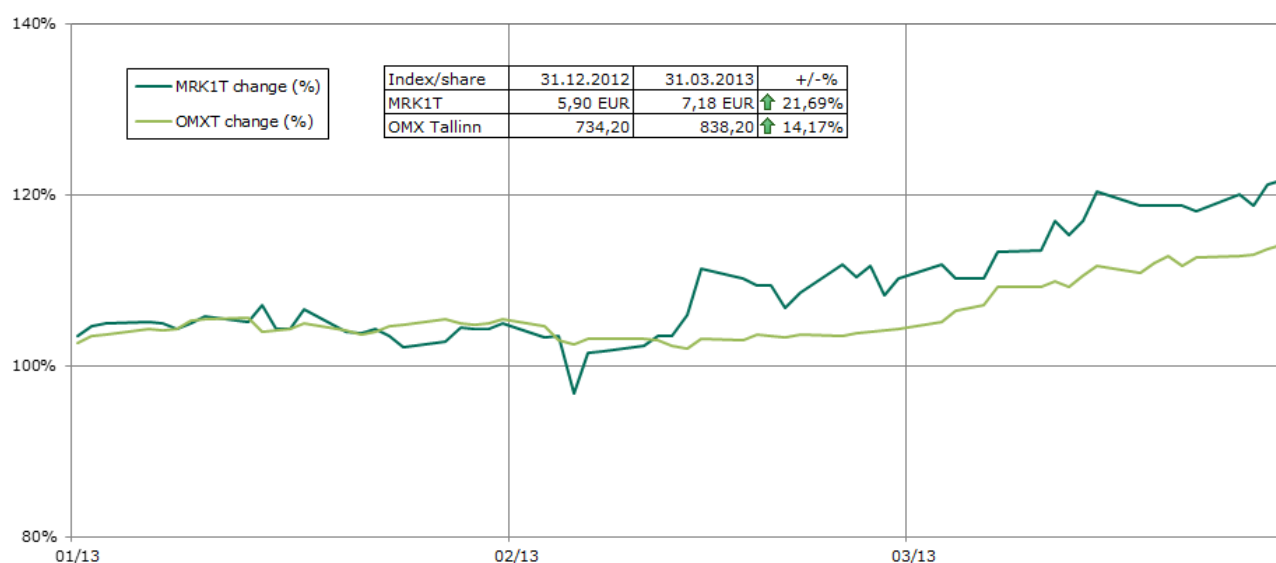
Structure of shareholders as at 31.03.2013

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1 000 001 - ...	1	0.07%	12,742,686	71.99%
100 001 – 1 000 000	10	0.70%	3,079,085	17.40%
10 001 – 100 000	26	1.82%	838,215	4.74%
1001-10 000	238	16.62%	706,824	3.99%
101-1000	752	52.51%	311,097	1.76%
1-100	405	28.28%	22,093	0.12%
Total	1432	100%	17,700,000	100%

Main shareholders of AS Merko Ehitus as of 31 March 2013 and the change compared to the previous quarter:

	No of shares	% of total 31.03.2013	% of total 31.12.2012	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A., clients	974,126	5.50%	5.50%	-
Skandinaviska Enskilda Banken Ab, clients	867,568	4.90%	5.07%	-29,296
Firebird Republics Fund Ltd	302,395	1.71%	1.71%	-
Gamma Holding OÜ	177,700	1.00%	0.92%	+14,444
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
Skandinaviska Enskilda Banken Finnish clients	135,191	0.76%	0.71%	+10,000
SEB Elu- ja Pensionikindlustus AS	128,020	0.72%	0.71%	+2,500
Andersson Investeeringud OÜ	120,015	0.68%	0.68%	-
AS Midas Invest	118,555	0.67%	0.66%	+1,500
Clearstream Banking Luxembourg S.A. clients	102,497	0.58%	0.58%	-

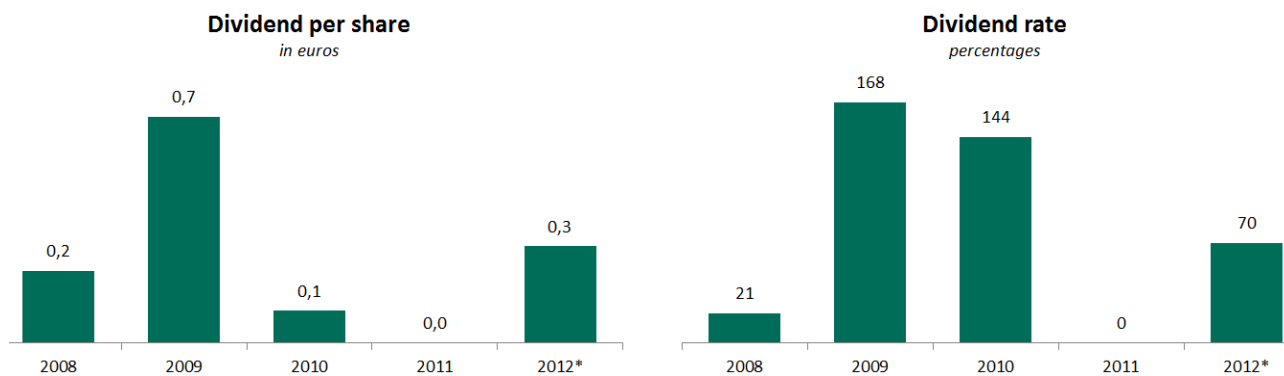
Performance of the share of Merko Ehitus and comparison index OMX Tallinn in 2013



Dividend policy

The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

At the meeting held on 8 April 2013, the Management Board and Supervisory Board of AS Merko Ehitus reviewed the company's strategic development trends and approved the long-term financial objectives until 2018, under which a new objective of paying the shareholders 50-70% of the annual profit as dividends was established. In the past five years, the shareholders have received dividends from the net profit for the accounting year as follows:



*according to proposal of the Management Board

DEFINITIONS OF THE KEY FINANCIAL FIGURES

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Profit before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity (%)	=	$\frac{\text{Rolling last 4 quarter net profit (attributable to equity holders of the parent)}}{\text{Shareholders equity (average)}}$
Return on assets (%)	=	$\frac{\text{Rolling last 4 quarter net profit (attributable to equity holders of the parent)}}{\text{Total assets (average)}}$
Return on invested capital (%)	=	$\frac{\text{Rolling last 4 quarter (EBT + interest income - foreign exchange gain (losses) + other financial income)}}{\text{Shareholders equity (average) + interest-bearing liabilities (average)}}$
Equity ratio (%)	=	$\frac{\text{Shareholders equity}}{\text{Total assets}}$
Debt to equity ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$
Accounts receivable turnover (days)	=	$\frac{\text{Rolling last 4 quarter trade receivables (average)} \times 365}{\text{Rolling last 4 quarter revenue}}$
Accounts payable turnover (days)	=	$\frac{\text{Rolling last 4 quarter payables to suppliers (average)} \times 365}{\text{Rolling last 4 quarter cost of goods sold}}$
EBITDA margin (%)	=	$\frac{\text{Operating profit + depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{General expenses}}{\text{Revenue}}$
Personnel expense ratio (%)	=	$\frac{\text{Personnel expenses}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity / share (EUR)	=	$\frac{\text{Shareholders equity (last 4 quarter average)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Price per earnings ratio, P/E	=	$\frac{\text{Share price 31.03}}{\text{Rolling last 4 quarter earnings per share}}$
Price to book ratio, P/B	=	$\frac{\text{Share price 31.03}}{\text{Equity per share (last 4 quarter average)}}$
Market capitalisation	=	Share price 31.03 x Number of shares

CONSOLIDATED FINANCIAL STATEMENT*in thousand euros***CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

unaudited

	<i>note</i>	2013 3 months	2012 3 months
Revenue	2	47,859	47,791
Cost of goods sold	3	(43,624)	(45,288)
Gross profit (loss)		4,235	2,503
Marketing expenses		(656)	(428)
Administrative and general expenses		(1,956)	(2,048)
Other operating income		708	571
Other operating expenses		(44)	(23)
Operating profit (loss)		2,287	575
Finance income/costs		(333)	(159)
incl. finance income/costs from investments in associates and joint ventures		(34)	105
finance income/costs from other long-term investments		13	-
interest expense		(210)	(313)
foreign exchange gain		(110)	(63)
other financial income (expenses)		8	112
Profit (loss) before tax		1,954	416
Corporate income tax expense		(194)	(269)
Net profit (loss) for current period		1,760	147
incl. net profit (loss) attributable to equity holders of the parent		1,766	155
net profit (loss) attributable to non-controlling interest		(6)	(8)
Other comprehensive income (loss)			
Currency translation differences of foreign entities		(141)	(23)
Comprehensive income (loss) for the period		1,619	124
incl. net profit (loss) attributable to equity holders of the parent		1,625	132
net profit (loss) attributable to non-controlling interest		(6)	(8)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	4	0.10	0.01

in thousand euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

	<i>note</i>	31.03.2013	31.12.2012
ASSETS			
Current assets			
Cash and cash equivalents	5	33,349	35,316
Short-term deposits		2,500	-
Trade and other receivables	6	58,853	60,343
Prepaid corporate income tax		480	478
Inventories	7	82,127	82,830
Total current assets		<u>177,309</u>	<u>178,967</u>
Non-current assets			
Long-term financial assets	8	25,124	24,378
Deferred income tax assets		1,818	1,919
Investment property	9	3,546	3,566
Property, plant and equipment	10	14,826	14,853
Intangible assets	11	1,346	1,365
Total non-current assets		<u>46,660</u>	<u>46,081</u>
TOTAL ASSETS		<u>223,969</u>	<u>225,048</u>
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	12,590	16,299
Payables and prepayments	13	64,378	63,209
Income tax liability		47	-
Short-term provisions	14	5,268	6,165
Total current liabilities		<u>82,283</u>	<u>85,673</u>
Non-current liabilities			
Long-term borrowings	12	19,813	19,205
Long-term interest liabilities		4	3
Long-term trade payables		1,686	1,553
Deferred corporate income tax liability		380	327
Long-term provisions		15	20
Total non-current liabilities		<u>21,898</u>	<u>21,108</u>
Total liabilities		<u>104,181</u>	<u>106,781</u>
Equity			
Non-controlling interest		1,232	1,342
Equity attributable to equity holders of the parent			
Share capital		12,000	12,000
Statutory reserve capital		1,200	1,200
Currency translation differences		(653)	(512)
Retained earnings		106,009	104,237
Total equity attributable to equity holders of parent		<u>118,556</u>	<u>116,925</u>
Total equity		<u>119,788</u>	<u>118,267</u>
TOTAL LIABILITIES AND EQUITY		<u>223,969</u>	<u>225,048</u>

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 at 31.12.2011	12,000	1,131	(570)	96,679	109,240	1,356	110,596
Profit (loss) for the reporting period	-	-	-	155	155	(8)	147
Other comprehensive income	-	-	(23)	-	(23)	-	(23)
Total comprehensive income (loss) for the reporting period	-	-	(23)	155	132	(8)	124
Balance as at 31.03.2012	12,000	1,131	(593)	96,834	109,372	1,348	110,720
Balance as at 31.12.2012	12,000	1,200	(512)	104,237	116,925	1,342	118,267
Profit (loss) for the reporting period	-	-	-	1,766	1,766	(6)	1,760
Other comprehensive income	-	-	(141)	-	(141)	-	(141)
Total comprehensive income (loss) for the reporting period	-	-	(141)	1,766	1,625	(6)	1,619
Purchase of minority share	-	-	-	6	6	(104)	(98)
Balance as at 31.03.2013	12,000	1,200	(653)	106,009	118,556	1,232	119,788

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

in thousand euros

CONSOLIDATED CASH FLOW STATEMENT

unaudited

	2013 3 months	2012 3 months
Cash flows used in operating activities		
Operating profit (loss)	2,287	575
Adjustments:		
depreciation and impairment charge	595	575
(profit) loss from sales of non-current assets	(38)	(69)
change in construction contracts recognised under the stage of completion method	733	(2,023)
interest income from business activities	(375)	(435)
change in provisions	(1,743)	(153)
Change in trade and other receivables related to operating activities	567	(5,064)
Change in inventories	504	(2,367)
Change in trade and other payables related to operating activities	2,638	3,438
Interest received	151	42
Interest paid	(231)	(370)
Other finance income/costs	(9)	(2)
Corporate income tax (paid)/reclaimed	(2)	(26)
Total cash flows used in operating activities	5,077	(5,879)
Cash flows from investing activities		
Purchase/proceeds from deposits with maturities greater than 3 months	(2,500)	140
Purchase of investment property	(26)	(486)
Purchase of property, plant and equipment	(269)	(162)
Proceeds from sale of property, plant and equipment	38	96
Purchase of intangible assets	(3)	(2)
Interest received	26	1
Total cash flows from investing activities	(2,734)	(413)
Cash flows from (used in) financing activities		
Proceeds from borrowings	488	1,069
Repayments of borrowings	(3,731)	(4,286)
Factorings	(696)	-
Finance lease principal payments	(333)	(235)
Total cash flows from financing activities	(4,272)	(3,452)
Net increase/decrease in cash and cash equivalents	(1,929)	(9,744)
Change in deposits with maturities greater than 3 months	2,500	(140)
Total change	571	(9,884)
Cash and cash equivalents at the beginning of the period	35,316	18,510
Deposits with maturities greater than 3 months at the beginning of period	-	140
Total at the beginning of the period	35,316	18,650
Effect of exchange rate changes	(38)	(34)
Cash and cash equivalents at the end of the period	33,349	8,732
Deposits with maturities greater than 3 months at the end of the period	2,500	-
Total at the end of the period	35,849	8,732

NOTES

Note 1 Accounting policies used

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2013 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2012 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2012 3 months unaudited comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 3 months of 2013 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

Note 1.1. Changes in presentation of information

- a. In 2012 3 months interim report issued loans and issued loans repayments were recognised as investing activities in the cash flow statement of Merko Ehitus group. However, loans have been granted to real estate developers under the assumption that Merko Ehitus group will get an opportunity to provide a construction service in development projects. Due to the direct connection between the loans granted and the group's business, these loans and the related interest charges are recognised in the cash flows from operating activities in the cash flow statement.
- b. In the cash flow statement of the 3 month interim report of 2012, Merko Ehitus group recorded the repayments of bank loans taken for apartment development as non-monetary transactions in cases where upon the sales of an apartment the client or the client's bank pays the money directly to cover the development loan assumed by the company. However, the essence of such transactions is the sales of an apartment (receipt of cash) and the repayment of the loan by the company to the bank, which are recorded as monetary transactions under financing activities in the cash flow statement.
- c. In 2012 3 months interim report finance income recognised in the income statement included interest income earned on a receivable not paid off by the buyer of Balsiu schoolhouse. Considering the fact that the construction of Balsiu schoolhouse was essentially the group's business, the respective interest income was reclassified from finance income to operating income in the income statement. Interest received on the receivable from the buyer of Balsiu schoolhouse is also included within cash flows from operating activities.

The comparative information of the previous financial year that is presented in the consolidated financial statements for 2013 3 months has been changed to correspond to the new presentation. Thus, the following items have been adjusted in the financial statements:

- granted loan repayments that are related to operating activities are included in the item *Change in payments and receivables related to operating activities* under cash flows from operating activities in the consolidated cash flow statement, last year 3 month interim report they were included in the items *Repayments of loans granted* (2012: EUR 7 thousand) under cash flows from investing activities;
- interest income from operating activities is included in the item *Interest received* under cash flows from operating activities in the consolidated cash flow statement, last year 3 months interim report it was included in the item *Interest received* (2012: EUR 42 thousand) under the cash flows from investing activities;
- Repayments of the bank loans related to apartment development are recorded in the cash flow statement on the line *Repayments of borrowings* under financing activities (2012: EUR 352 thousand);
- interest income on accounts receivable is included in the item *Other income* in the consolidated statement of comprehensive income; last year 3 months interim report it was included in the item *Finance income* (2012: EUR 334 thousand);

Due to the change in the income statement, the items *Operating profit* and *Interest income from operating activities*, the items *Other finance income* and *incl. interest income* in Note 2 *Operating Segments* has been changed by the same amount in the cash flow statement;

The comparative information for 2012 has been changed in the financial statements as follows: in the consolidated statement of comprehensive income, other income and operating profit have increased by EUR 334 thousand; finance income has decreased by the same amount. In the consolidated cash flow statement, cash flows from operating activities increased by EUR 401 thousand, at the same time cash flows from investing activities decreased by EUR 49 thousand and cash flows from financing activities by EUR 352 thousand.

Note 2 Operating segments

in thousand euros

The highest instance of business decision-making in the group – the Management Board of the parent AS Merko Ehitus, keeps track of the group's operating activity by each field of activity. The result of the business segments is evaluated by the highest decision-maker on the basis of the revenue from outside the group and profit before taxes. The pre-tax profit of the segments is essentially made up of their revenue and costs of goods sold; other expense and income are not divided into segments, as they are monitored at the group level as a whole and they lack a direct connection with the business segments.

The segments' income statement figures reported and the segment assets are recognized in conformity with the accounting policies used in these financial statements. All segments are engaged in sales of construction service, except for the real estate development segment, whose revenue consists of sales of apartments developed for the purpose of sale. The amount of each cost item in segment reporting is a figure presented to management for making decision about allocation of resources to segments and valuation of segment operating results. The costs that come after the profit of reporting segments are recognised in segment reporting using the same principles as in the financial statements and they are not used for evaluation of the results of operating segments by the company's management. In segment reporting, all intra-group transactions with income, expenses and assets and unrealised gains and losses between reportable segments have been eliminated unless the loss is due to impairment.

2013 3 months	General construc- tion	Enginee- ring const- ruction	Road construc- tion	Real estate develop- ment	Other	Total segments
Segment revenue	12,698	20,935	7,783	9,182	294	50,892
Inter-segment revenue	(131)	(206)	-	(2,686)	(10)	(3,033)
Revenue from external clients	12,567	20,729	7,783	6,496	284	47,859
Gross profit (-loss)	474	2,359	495	908	(1)	4,235
Segment pre-tax profit (loss)	467	2,351	490	1,159	(1)	4,466
incl. interest income from operating activities	-	-	-	371	-	371
depreciation	(21)	(144)	(266)	(46)	(24)	(501)
recognition of provisions	(85)	(76)	(22)	(13)	-	(196)
gain (loss) on associates and joint ventures	-	-	-	(34)	-	(34)
other finance income (costs)	(6)	(5)	(16)	(85)	-	(112)
incl. interest expenses	(6)	(5)	(16)	(84)	-	(111)
Segment assets 31.03.2013	15,458	29,612	24,365	116,266	1,193	186,894
incl. associates and joint ventures	-	18	-	7,097	-	7,115
2012 3 months	General construc- tion	Enginee- ring const- ruction	Road construc- tion	Real estate develop- ment	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
Gross profit (-loss)	781	1,610	132	156	(176)	2,503
Segment pre-tax profit (loss)	808	1,605	133	304	(57)	2,793
incl. interest income from operating activities	-	-	-	334	-	334
depreciation	(15)	(121)	(292)	(13)	(30)	(471)
recognition of provisions	(42)	(177)	(56)	(86)	-	(361)
gain (loss) on associates and joint ventures	-	-	-	(7)	112	105
other finance income (costs)	(4)	(4)	-	(180)	-	(188)
incl. interest expenses	(4)	(4)	-	(180)	-	(188)
Segment assets 31.03.2012	10,766	29,239	22,707	124,575	3,924	191,211
incl. associates and joint ventures	-	18	-	7,352	2,713	10,083

Besides segments' assets, the group's assets as at 31 March 2013 were EUR 37,075 thousand (31 March 2012: EUR 20,327 thousand) that are not possible or expedient to associate with a specific segment. The following are recognized as the group's undistributed assets: cash and cash equivalents, deposits, loans, not including loans to associated companies or joint ventures, prepayments of taxes, other receivables and the undistributed non-current assets.

Reconciliation of the pre-tax profit (loss) of segments and the group

	2013 3 months	2012 3 months
Pre-tax profit (loss) from reporting segments	4,466	2,793
Unallocated expense (income)		
marketing expenses	(656)	(428)
general and administrative expenses	(1,956)	(2,048)
other operating income (expense)	287	175
incl. interest income from operating activities	4	101
finance income (costs)	(187)	(76)
incl. interest income	23	16
interest expense	(98)	(125)
Total profit (loss) before tax	1,954	416

Unallocated finance costs and income include income from bank deposits, foreign exchange gains (losses), uncapitalised loan interest expenses and other finance income and costs.

Revenue by client location

	2013 3 months	2012 3 months
Estonia	37,510	41,943
Latvia	8,343	3,880
Lithuania	2,006	1,968
Total	47,859	47,791

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

	31.03.2013	31.03.2012
Estonia	19,120	19,156
Latvia	510	495
Lithuania	88	109
Total	19,718	19,760

Note 3 Cost of goods sold

in thousand euros

	2013 3 months	2012 3 months
Construction services	23,816	25,112
Materials	6,233	7,834
Properties purchased for resale	3,926	2,576
Staff costs	4,787	4,263
Construction mechanisms and transport	2,137	1,921
Design	239	331
Real estate management costs	74	97
Depreciation and impairment charge	501	471
Provisions	196	361
Other expenses	1,715	2,322
Total cost of goods sold	43,624	45,288

Note 4 Earnings per share

EPS (earnings per share) is derived as a ratio of the net profit belonging to shareholders and the weighted average number of ordinary shares.

	2013 3 months	2012 3 months
Net profit (loss) attributable to shareholders <i>(in thousands of euros)</i>	1,766	155
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0.10	0.01

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 euros

	31.03.2013	31.12.2012
Cash on hand	19	16
Bank accounts	6,276	5,808
Overnight deposits	19,554	17,492
Bank deposits with maturities less than 3 months	7,500	12,000
Total cash and cash equivalents	33,349	35,316

Note 6 Trade and other receivables
in thousand euros

	31.03.2013	31.12.2012
Trade receivables		
accounts receivable	33,733	34,967
allowance for doubtful receivables	(861)	(864)
	<u>32,872</u>	<u>34,103</u>
Tax prepayments excluding corporate income tax		
value added tax	758	791
other taxes	1	10
	<u>759</u>	<u>801</u>
Amounts due from customers of contract works	18,804	18,981
Other short-term receivables		
short-term loans	1,785	1,887
interest receivables	968	948
receivable from buyer of subsidiary	-	96
other short-term receivables	1,267	1,256
	<u>4,020</u>	<u>4,187</u>
Prepayments for services		
prepayments for construction services	1,545	1,388
prepaid insurance	450	416
other prepaid expenses	403	467
	<u>2,398</u>	<u>2,271</u>
Total trade and other receivables	<u>58,853</u>	<u>60,343</u>

Note 7 Inventories
in thousand euros

	31.03.2013	31.12.2012
Materials	501	563
Work-in-progress	22,064	18,528
Finished goods	16,607	21,499
Goods for resale		
registered immovables purchased for resale	40,429	39,548
other goods purchased for resale	995	1,000
	<u>41,424</u>	<u>40,548</u>
Prepayments for inventories		
prepayments for real estate properties	1,086	1,097
prepayments for other inventories	445	595
	<u>1,531</u>	<u>1,692</u>
Total inventories	<u>82,127</u>	<u>82,830</u>

Note 8 Long-term financial assets
in thousand euros

	31.03.2013	31.12.2012
Investments in associates and joint ventures	7,115	7,190
Long-term loans	3,645	3,666
Long-term bank deposit	49	49
Long-term receivables from customers of construction services	14,315	13,473
Total long-term financial assets	25,124	24,378

Note 9 Investment property
in thousand euros

	31.03.2013	31.12.2012
Land	136	136
Right of superficies at carrying amount		
cost	29	29
accumulated depreciation	(9)	(9)
	20	20
Buildings at carrying amount		
cost	3,687	3,662
accumulated depreciation	(297)	(252)
	3,390	3,410
Total investment property	3,546	3,566

Note 10 Property, plant and equipment
in thousand euros

	31.03.2013	31.12.2012
Land	825	825
Buildings at carrying amount		
cost	5,788	5,788
accumulated depreciation	(1,315)	(1,268)
	4,473	4,520
Machinery and equipment at carrying amount		
cost	17,049	16,963
accumulated depreciation	(9,773)	(9,624)
	7,276	7,339
Other fixtures at carrying amount		
cost	5,500	5,518
accumulated depreciation	(3,393)	(3,360)
	2,107	2,158
Prepayments for property, plant and equipment	145	11
Total property, plant and equipment	14,826	14,853

Note 11 Intangible assets
in thousand euros

	31.03.2013	31.12.2012
Goodwill	891	891
Software at carrying amount		
cost	1,227	1,231
accumulated depreciation	(824)	(809)
	403	422
Prepayments for intangible assets	52	52
Total intangible assets	1,346	1,365

Note 12 Borrowings
in thousand euros

	31.03.2013	31.12.2012
Finance lease payables		
Present value of lease payments	3,319	2,441
incl. current portion	993	782
non-current portion 1...4 years	2,326	1,659
Bank loans		
Loan balance	19,634	22,957
incl. current portion	2,249	5,513
non-current portion 1...5 years	17,385	17,444
Factoring liability		
Factoring balance	848	1,544
incl. current portion	848	1,544
Loans from entities under common control		
Loan balance	8,145	8,145
incl. current portion	8,145	8,145
Loans from related parties		
Loan balance	102	102
incl. non-current portion 1...5 years	102	102
Loans from other entities		
Loan balance	355	315
incl. current portion	355	315
Total loans		
Loans balance	29,084	33,063
incl. current portion	11,597	15,517
non-current portion 1...5 years	17,487	17,546
Total borrowings	32,403	35,504
incl. current portion	12,590	16,299
non-current portion 1...5 years	19,813	19,205

Note 13 Payables and prepayments
in thousand euros

	31.03.2013	31.12.2012
Trade payables	23,794	21,602
Payables to employees	4,942	5,541
Tax liabilities, except for corporate income tax		
value added tax	1,286	2,186
personal income tax	513	533
social security tax	942	989
unemployment insurance tax	71	88
contributions to mandatory funded pension	39	40
other taxes	304	240
	<u>3,155</u>	<u>4,076</u>
Amounts due to customers for contract works	13,106	12,550
Other liabilities		
interest liabilities	108	113
payable for registered immovables from demerger	5,380	5,380
other liabilities	2,938	2,639
	<u>8,426</u>	<u>8,132</u>
Prepayments received	10,955	11,308
Total payables and prepayments	<u>64,378</u>	<u>63,209</u>

Note 14 Short-term provisions
in thousand euros

	31.03.2013	31.12.2012
Provision for warranty obligation for construction	1,658	1,619
Provision for onerous construction contracts	1,612	2,067
Provision for legal costs and claims filed	1,276	1,342
Other provisions	722	1,137
Total short-term provisions	<u>5,268</u>	<u>6,165</u>

Note 15 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 at 31.03.2013 and 31.12.2012, AS Riverito owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS Merko Ehitus subsidiaries and joint ventures

	Ownership %		Location	Area of operation
	31.03.2013	31.12.2012		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Tallinn	construction
Tallinna Teede AS	100	100	Tallinn	road construction
OÜ Tevener	100	100	Tallinn	mining
AS Vooremaa Teed	100	100	Jõgeva	road construction
AS Merko Infra	100	100	Tallinn	construction
AS Gustaf	92.5	85	Pärnu	construction
OÜ Gustaf Tallinn	80	80	Tallinn	construction
AS Merko Tartu	66	66	Tartu	construction
OÜ Raadi Kortermaja	100	100	Tartu	real estate
OÜ Fort Ehitus	75	75	Harjumaa, Viimsi	construction
OÜ Mineraal	100	100	Tallinn	mining
SIA Merks	100	100	Republic of Latvia, Riga	construction
SIA SK Viesturdarzs	100	100	Republic of Latvia, Riga	real estate
SIA Merks Investicijas	100	100	Republic of Latvia, Riga	real estate
SIA Industrias Parks	100	100	Republic of Latvia, Riga	real estate
SIA Elniko	100	100	Republic of Latvia, Riga	real estate
SIA Ropažu Priedes	100	100	Republic of Latvia, Riga	real estate
SIA Skanstes Virsotnes	100	100	Republic of Latvia, Riga	real estate
SIA Polystar	99.96	99.96	Republic of Latvia, Riga	real estate
PS Merko-Merks	100	100	Republic of Latvia, Riga	construction
UAB Merko Statyba	100	100	Republic of Lithuania, Vilnius	construction
UAB Merko Inžinerija	100	100	Republic of Lithuania, Vilnius	construction
OÜ Merko Property	100	100	Tallinn	real estate
UAB Balsiu mokyklos SPV	100	100	Republic of Lithuania, Vilnius	real estate
UAB Merko Bustas	100	100	Republic of Lithuania, Vilnius	real estate
UAB MN Projektas	100	100	Republic of Lithuania, Vilnius	real estate
UAB Jurininku aikšte	100	100	Republic of Lithuania, Vilnius	real estate
Ringtee Tehnopark OÜ	100	100	Tallinn	construction
OÜ Jõgeva Haldus	100	100	Tallinn	real estate
OÜ Metsailu	100	100	Tallinn	real estate
OÜ Woody	100	100	Tallinn	real estate
OÜ Maryplus	100	100	Tallinn	real estate
OÜ Constancia	100	100	Tallinn	real estate
OÜ Paepargi 57	100	-	Tallinn	real estate
OÜ Käibevara	100	100	Tallinn	real estate
OÜ Baltic Electricity Engineering	100	100	Tallinn	electricity systems
OÜ Tähelinna Kinnisvara	100	100	Tallinn	real estate
Väike-Paekalda OÜ	100	100	Tallinn	real estate
Suur-Paekalda OÜ	100	100	Tallinn	real estate
Merko Ukraine LLC	100	100	Republic of Ukraine, Kharkiv	construction
Merko Finland OY	100	100	Republic of Finland, Helsinki	construction
Lenko Stroi LLC	100	100	Russia, Peterburg	construction
Joint ventures				
OÜ Unigate	50	50	Tallinn	real estate
Poolkoksimäe Sulgemise OÜ	50	50	Tallinn	construction
OÜ Kortermaja	50	50	Tartu	real estate
SIA Zakusala Estates	50	50	Republic of Latvia, Riga	real estate

Goods and services

in thousand euros

	2013 3 months	2012 3 months
Construction services rendered		
Parent company	4	-
Associates and joint ventures	91	52
Entities under common control	279	3
Other related parties	-	39
Total construction services rendered	374	94
Services and materials purchased		
Parent company	29	29
Associates and joint ventures	-	75
Entities under common control	42	26
Other related parties	-	116
Total services and materials purchased	71	246
Interest income		
Associates and joint ventures	28	27
Interest expense		
Parent company	-	29
Entities under common control	39	56
Management members	1	-
Total interest expense	40	85

Balances with the related parties

in thousand euros

	31.03.2013	31.12.2012
Short-term receivables		
Trade receivables		
Parent company	6	9
Associates and joint ventures	25	24
Entities under common control	6	13
Other related parties	1	1
Total trade receivables	38	47
Short-term loans		
Associates and joint ventures	1,391	1,382
Interest receivables		
Associates and joint ventures	921	896
Prepayments for inventories		
Entities under common control	-	3,806
Total short-term receivables	2,350	6,131
Long-term receivables		
Long-term loans		
Associates and joint ventures	3,590	3,610
Current liabilities		
Short-term loans		
Entities under common control	8,145	8,145

CONSOLIDATED FINANCIAL STATEMENT

Trade payables		
Parent company	12	12
Entities under common control	6	5
Total trade payables	18	17
Interest liabilities		
Entities under common control	14	12
Other liabilities		
Entities under common control	5,380	5,380
Total current liabilities	13,557	13,554
Non-current liabilities		
Long-term loans		
Management members	102	102
Long-term interest liabilities		
Management members	4	3
Total non-current liabilities	106	105

Remuneration of the members of the Supervisory and Management Boards

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the management board of major subsidiaries for the 3 months of 2013 was EUR 393 thousand (3 months of 2012: EUR 274 thousand).

Termination benefits of members of the Supervisory and Management Boards

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 3 months of 2013, the Management Board members of major subsidiaries received EUR 12 thousand in compensation (3 months of 2012: EUR 52 thousand).

Members of the Supervisory and Management Board

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at: www.merko.ee.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.03.2013

		No. of shares	% 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%
		9,964,234	56.29%

The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Viktor Mõisja.

Shares held by members of the Management Board of AS Merko Ehitus as at 31.03.2013

		No. of shares	% of total
Andres Trink	Chairman of the Management Board	0	0.00%
Viktor Mõisja (AS Riverito / private person)	Member of the Management Board	1,103,734	6.23%
		1,103,734	6.23%

Note 16 Contingent liabilities

The group has purchased the following guarantees from financial institutions to ensure the group's obligations to third parties. The said amounts constitute the maximum extent of the third-party claims against the group should the group fail to perform its contractual obligations. In the estimation of the Management Board, it is unlikely that expenditures will be incurred in connection with these guarantees.

<i>in thousand euros</i>	31.03.2013	31.12.2012
Performance period's warranty to the customer	26,454	26,731
Tender warranty	2,381	1,929
Guarantee warranty period	11,136	11,627
Prepayment guarantee	11,005	10,020
Contracts of surety	1,647	1,507
Total contingent liabilities	52,623	51,814

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.

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 3 months of 2013, which are set out on pages 5-39.

The Management Board confirms that to the best of its knowledge:

- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and cash flows;
- the parent company and the group companies are going concerns.

The Management Board of AS Merko Ehitus declares and confirms that the interim financial statements provide, to the best of the knowledge of the Management Board, a true and fair view of the development, results and financial position of the company and the consolidated undertakings as a whole, include a description of the principal risks and uncertainties, and reflect transactions with related parties.

Andres Trink

Chairman of the Management Board

08.05.2013

Viktor Mõisja

Member of the Management Board

08.05.2013