



AS MERKO EHITUS GROUP

2010 6 months and II quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

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Financial year: 01.01.2010 – 31.12.2010

Reporting period: 01.01.2010 – 30.06.2010

Council: Tõnu Toomik, Teet Roopalu,
Indrek Neivelt, Olari Taal

Board: Tiit Roben, Alar Lagus, Veljo Viitmann,
Andres Agukas, Jaan Mäe

Auditor: AS PricewaterhouseCoopers

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MANAGEMENT REPORT

General information

AS Merko Ehitus operates in Estonia, Latvia and Lithuania as a construction group providing integrated construction solutions. Largest companies of the Group are SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (75%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%) and AS Tartu Maja Betoontooted (25%).

At the regular meeting of shareholders held on 3 June 2010 Jaan Mäe was removed from the position of a Member of the Supervisory Board in connection with the restructuring of the company's managerial structure in the course of which he was elected a Member of the Management Board of AS Merko Ehitus.

Due to the extensive changes in the economic environment and on the construction market, the management and supervisory boards of AS Merko Ehitus have reviewed the corporate strategy and established the group's strategic targets for 2010 to 2015.

The strategy covers the period from this year until the end of 2015. All the main principles and some of the financial targets, such as the minimum equity ratio, must be applied or met throughout the defined period.

The detailed strategy is based on the following estimates and assumptions about Baltic economy:

- There will be no economic growth in 2010; the construction sector will experience a fall by max. 10%;
- In the coming years (2011 and 2012), economic growth will not exceed 3%, as estimated by different experts;
- The main clients in the coming years will come from the public sector where focus will be on infrastructure projects co-financed by the EU funds;
- Since the public sector lacks the financial means for investment, there will be more extensive application of PPP (public private partnership) models;
- There will be more projects related to the improvement of energy performance;
- There will be more activity on the apartment market, compared to the slump in recent years;
- There will be an increased demand for industrial facilities;
- The availability of credit/loans will improve;
- Starting 2011, unemployment rates will decrease and the retail business will enter the phase of recovery.

AS Merko Ehitus strategic targets:

- The vision of AS Merko Ehitus is to provide its clients with high-quality construction services in various fields.
- AS Merko Ehitus aims to be the leading construction company on its home market – in the Baltic countries.
- In addition to the home market, AS Merko Ehitus has identified Ukraine (especially Kiev) and St. Petersburg in Russia as its prospective markets.
- Outside of the above-mentioned markets, the company will only provide construction/development services for clients that Merko has cooperated with in the past or that require a facility similar to previous construction/development projects successfully executed by Merko.
- In 2015, turnover from Estonian operations would constitute approx. 35% of the consolidated turnover; turnover from Latvian operations, Lithuanian operations, and other markets would account for approx. 30%, 25% and 10%, respectively, of the consolidated turnover. The division of profit between the different markets is expected to be more or less similar to the division of turnover.
- In addition to current construction and design-engineering services, the company will offer an even more comprehensive service covering the entire process, from helping to find the suitable plot of land to helping the client obtain financing.

AS Merko Ehitus long-term financial targets:

- To ensure that the average annual return on equity (ROE) of the group between 2011 and 2015 is at least 15%;
- To ensure that the group's equity ratio is at least 40% throughout the entire period.

In order to fulfil our targets:

1. We will look for opportunities to acquire holdings in successful companies, especially in Lithuania and Latvia.

2. We will restructure the group's management system with the help of the following methods, above all:
 - We will add a fifth member to the management board; their responsibilities will initially include foreign markets and development activities;
 - We will launch several new activities in order to improve horizontal cooperation between the different companies in the group, and in order to utilise the engineering know-how and management expertise (acquired in different countries) in the different functions of the group;
 - As the final outcome of the restructuring, we envision a publicly traded holding company which has divisions in all countries where the group has permanent operations, controlled through locally registered entities.
3. We will preserve the core of the motivational system, which has proved to be effective so far, and will enhance the system in line with our set targets.

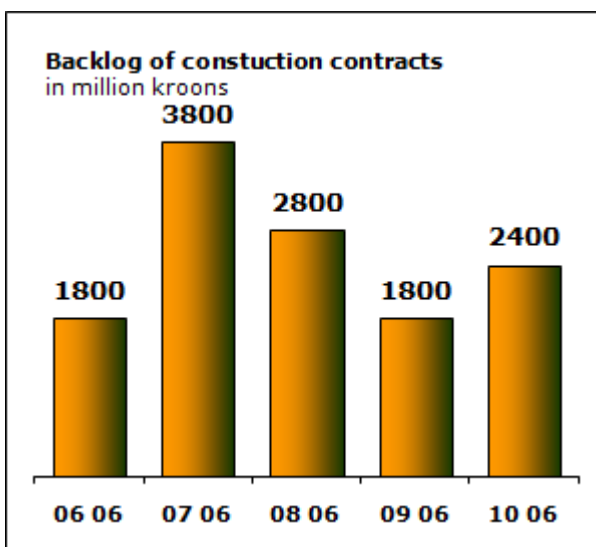
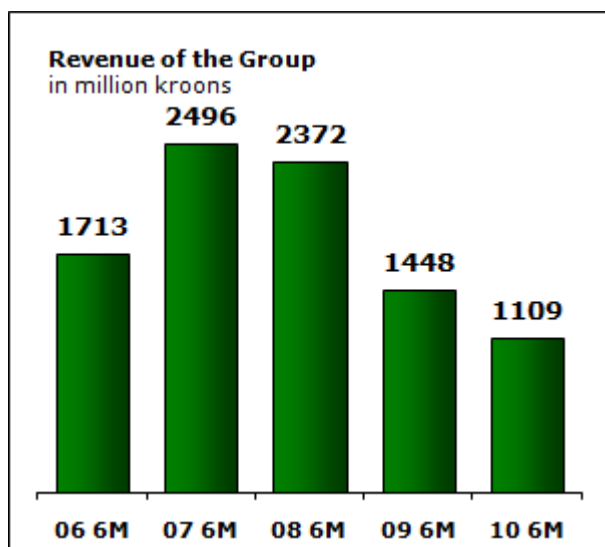
Operating results

Group's revenue for the year 2010 6 months was EEK 1108.6 million. 65.9% of the sales originated from Estonia, 31.9% from Latvia and 2.2% from Lithuania. As compared to with the 2009 6 months, company's sales increased in Latvia by 6.4% and decreased in Lithuania by 52.6% and in Estonia by 31.4%.

Group's revenue for the II quarter 2010 was EEK 608.0 million, which constitutes an annual decrease of EEK 230.7 million.

The fall in revenue in this period was caused by the continued decrease in demand in the construction sector, caused by the overall recession.

In 2010 6 months, the Group sold 84 apartments in total cost of EEK 97.4 million (without VAT). As at 30.06.2010 Group held in inventories unsold 106 completed apartments in total cost EEK 138.3 million and 438 apartments in the construction stage in total cost EEK 259.8 million. Compared to the results of 31 December 2009, the group's surplus of products in progress arising from the construction of apartments started at the end of 2009 (three buildings, 109 apartments) increased by EEK 45.6 million. The abovementioned apartments will reach to realisation in the 3rd quarter of 2010.



From the point of view of new orders, the first half of 2010 was successful for the company. On 13 July 2010 UAB Merko Statyba, a subsidiary of AS Merko Ehitus, concluded a contract with a Vilnius city real estate company regarding the construction and 25-year rental of a Balsiai school building. The estimated investment of the project is EUR 10 million and the building needs to be ready to welcome its new students on 1 September 2011. This project is a long-term real estate investment for the group the construction activities of which will neither be seen in the figures reflecting the group's construction revenue nor in the portfolio of backlog of construction contracts.

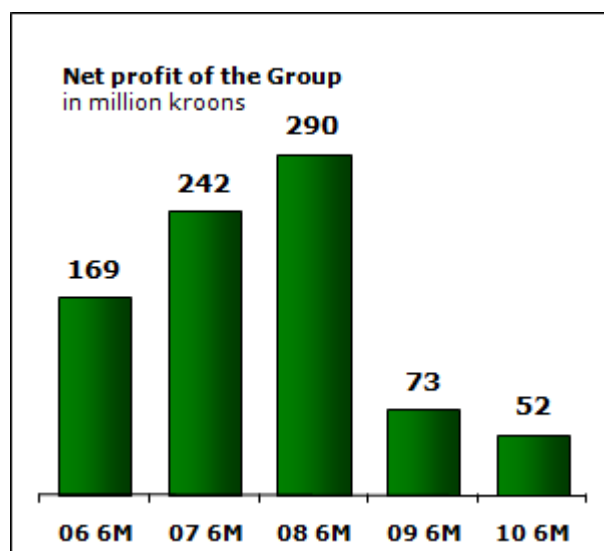
As at 30 June 2010, the group's backlog of construction contracts in progress amounted to EEK 2.4 billion.

The consolidated revenue of the Group's most important companies

<i>in thousand EEK and EUR</i>				
	6 months 2010		6 months 2009	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	537 486	34 352	797 262	50 954
AS Gustaf (75% partnership)	10 902	697	28 596	1 828
OÜ Gustaf Tallinn (80% partnership)	26 409	1 688	36 105	2 308
AS Merko Tartu (66% partnership)	18 073	1 155	50 659	3 238
Tallinna Teede AS (100% partnership)	130 297	8 327	127 881	8 173
Latvian company				
SIA Merks (100% partnership)	354 076	22 630	332 701	21 263
Lithuanian company				
UAB Merko Statyba (100% partnership)	23 132	1 478	49 207	3 145

In one year, the Group's cost of goods sold decreased by 23.7% and marketing and general administrative expenses by 16.4%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 8.2 million decrease in labour costs, EEK 3.4 million decrease in office expenses and communication services and EEK 2.7 million decrease in advertising and sponsoring were the most significant factors. Despite the vigorous measures, the group's cost-cutting rate failed to keep up with the fall in revenue – thus, the cost of goods sold in the period increased to 88.1% and marketing and administrative costs to 7.3%.

The group's earnings before taxes in 2010 6 months were EEK 61.1 million, which means a decrease by EEK 16.8 million compared to 2009 6 months. The net profit in the period was EEK 51.9 million; representing an EEK 21.3 million or 29.1% decrease. The fall in earnings was affected by revenue, the reduced profitability of the construction and property development sectors. The cyclical nature of the development activity was insignificant. In the 2nd quarter of 2010, due to the slight recovery of the selling prices of apartments, the value of products in progress which had previously been decreased was increased by EEK 4 million.



In 2010 6 months Group's total cash flows amounted to EEK -75.0 million, of which the cash flows from operating activities totalled EEK +28.8 million, from investment activities EEK +184.7 million and from financing activities EEK -288.5 million. The cash flows from operating activities of the reporting period were mostly affected by change in trade and other payables related to operating activities EEK +129.2 million, change in receivables and liabilities related to construction contracts recognised under the stage of completion method EEK -186.1 million and operating profit EEK +64.3 million. From investment activities cash flows EEK -46.4 million from balance of granted/received loans and EEK +232.3 million from return of deposits with maturities greater than 3 months. Of the cash flow from financing activities, EEK -194.7 million was used to dividend payment, EEK -108.9 million for loan repayments and EEK -13.8 million for finance lease principal payments.

As at 30 June 2010, the Group has EEK 455.1 million of funds on the Group's bank accounts and deposits.

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

	6 months 2010	6 months 2009	6 months 2008
Net profit margin	4,7 %	5,1 %	12,2 %
Profit before taxes margin	5,5 %	5,4 %	14,1 %

Operating profit margin	5,8 %	5,2 %	14,3 %
Gross profit margin	11,9 %	11,6 %	19,4 %
EBITDA margin	7,7 %	6,1 %	14,9 %
Return on equity per annum	5,0 %	7,0 %	26,9 %
Return on assets per annum	3,0 %	3,9 %	14,5 %
Equity ratio	60,1 %	56,8 %	56,2 %
Current ratio	2,3	2,9	2,3
Quick ratio	1,0	1,4	1,1
General expense ratio	7,3 %	6,7 %	5,0 %
Gross remuneration ratio	10,9 %	10,1 %	9,0 %

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

Profit before taxes margin: $\text{Profit before taxes} / \text{Revenue}$

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

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

EBITDA margin: $(\text{Operating profit} + \text{Depreciation and impairment charge}) / \text{Revenue}$

Return on equity: $\text{Net profit}^* \times 2 / \text{Average equity during the period}^*$

Return on assets: $\text{Net profit}^* \times 2 / \text{Average assets during the period}$

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: $\text{Gross remuneration} / \text{Revenue}$

*attributable to equity owners of the parent

Construction market

Economic growth, at constant prices

Q2 2010 vs. Q2 2009

Estonia will be published 11.08.2010

Latvia -3,0%

Lithuania +1,1%

Construction price index

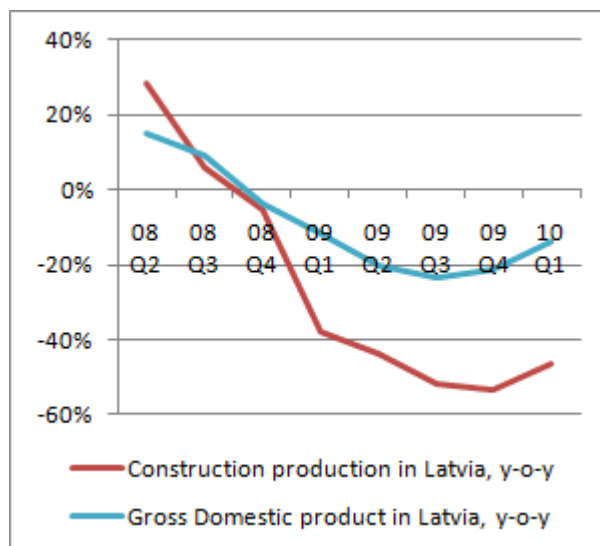
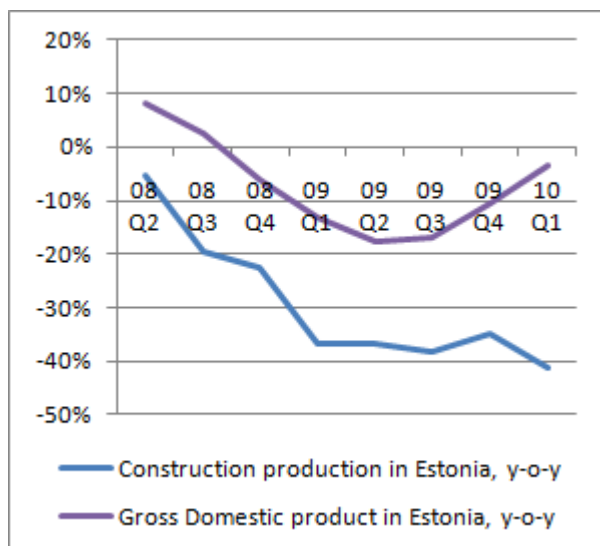
Q2 2010 vs. Q2 2009

Estonia -3,4% incl. labour force -6,4%

Latvia -3,2% incl. labour force +0,3%

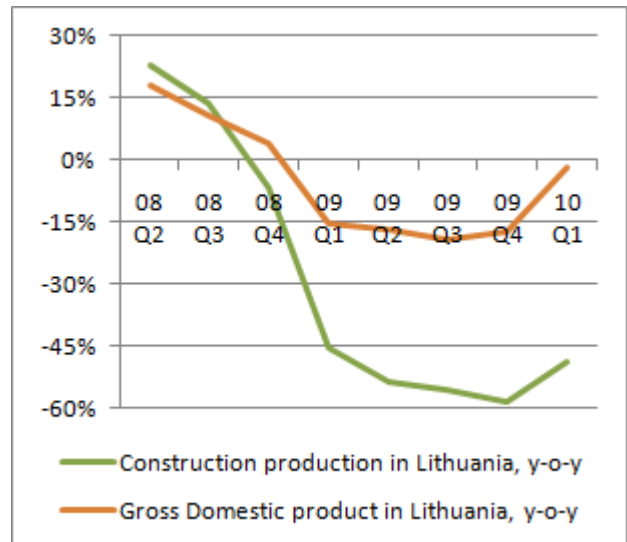
Lithuania -5,1% incl. labour force -11,1%

In the first half of 2010 the sector was characterized by the continually low demand of construction services and intense competition in the sphere of offers. Construction volumes continued to decrease (I quarter 2010 vs I quarter 2009: in Estonia -41.4%, in Latvia -46.6% and in Lithuania -48.5%, at current prices). Despite the extremely intense competition, the prices of services and materials on the construction market increased by app. 10%. An increase could be noticed both in the prices of metal- and oil-based construction materials as well as in the cost of labour and equipment. Strong demand for services in Central Europe and Scandinavia has improved the mobility of labour, resulting in the increase of the prices of services – the prices of construction services have, by today, been to and come back from to the lowest of lows and will most probably increase by another 5-10% during the next six months.



On the main contracting market, companies continue to submit tenders featuring sums below their actual service costs in order to get new orders while participating at invitations to tender, which results in the withdrawal of tenders or termination of contracts. Generally, the victim in such situations is the contracting entity from whom the launching of new procurement proceedings requires additional time and funds. It is often the case that companies that submit below actual cost tenders complete the costly preparatory work, make a considerable profit from it and then leave the construction site. When new procurement proceedings are launched, it is often discovered that the price of the unfinished work is actually 2 to 3 times higher than the price stated on the tender that was not completed by the previous contractor

and that the already completed work is 2 to 3 times cheaper. Unhealthy competition is promoted by the indifference of contracting entities and their fear of becoming the general public's centre of attention due to unsuccessful procurements plus their fear that, when the matter is taken to court, the dispute with the company that submitted the below actual cost tender could drag on for an extended period of time resulting in the withdrawal of the financing from the European Union by the time a verdict is reached. Contracting entities fail to realize that by not punishing the substandard work performed, they encourage the companies that are used to submitting tenders that are below actual costs to take even cruder measures and that by not demanding the contractor who terminated the contract unilaterally to pay the damages they are stealing from the owner, that is from the state or the local government. We sincerely hope that the state bodies concerned will review the procedures of public procurements and that the contractors who have breached their contracts in the abovementioned manner will not be allowed to enter any new procurement proceedings.



However, the submitting of below actual cost tenders might not always be based on ill will. During the past year, the prices of construction services have changed by app. 25% and increased by app. 10% during the past six months. Such price volatility makes it difficult to draw up budgets for new projects, includes new risks in the completion of long-term construction projects (lasting for 12 months and longer) with fixed price ranges and puts more pressure on the profitability of projects. Companies that, despite the difficult times, manage to fully complete their contractual obligations are worth to be acknowledged.

Most new construction projects are initiated in the sphere of infrastructure- and environment-related structures financed by the public sector and the structural funds of the European Union. Foreign investors have also become more interested in the real estate- and lease flow-related projects. Among of the most active parties in the real estate sector are also the companies created by banks to deal with and manage the development of unsuccessful real estate projects. The involvement of the latter has made it more plausible that the market prices of residential premises and land will soon stabilize.

The end of 2009 and the first half of 2010 showed the first signs of increased activity on the residential premises market with an increase in both the number of transactions as well as in the prices. The current price range of premises offered and the signs showing the stabilization of the economic environment have motivated the people who have been putting off buying a home for a long period of time to take action. As a result of the trends mentioned above, the financing situation has improved during the past few months, the most significant improvements being the reduced self-financing limits and interest margins for end consumers.

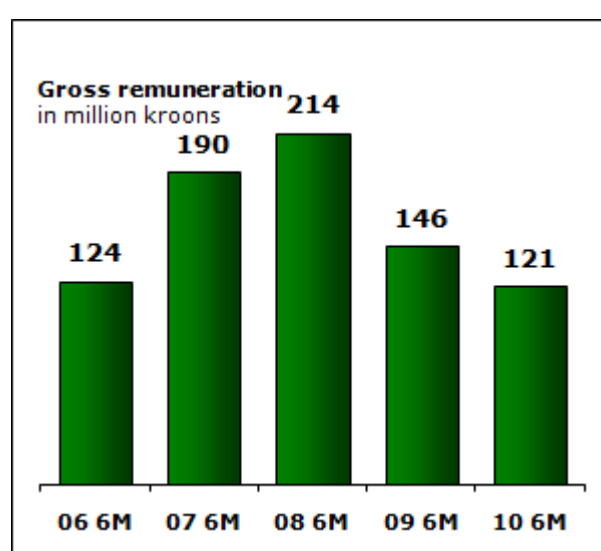
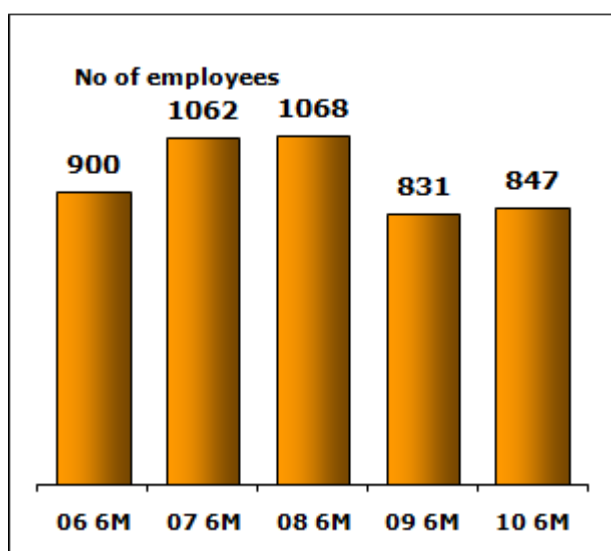
The temporary success in selling residential premises has encouraged numerous developers to review frozen projects and formalize new business plans and loan applications. Some developers that are less dependent on the financing

spheres, including AS Merko Ehitus, have launched new small-scale development projects. Despite the noticeable optimism displayed by developers, the volume of development projects will still remain modest in the nearest future, which will lead to a decrease in the number of residential premises offered. Due to the decrease of residential premises offered and the increase in construction prices we expect the prices of residential premises to increase by 5-10% during the next 12 months.

The availability of funds for financing long-term projects continues to be limited, the price of funds is high and the preconditions for new loan means becoming available unrealistic, which is why we do not expect new lease projects to enter the market. During the second half of the year, the cash flows from lease projects might also recover due to increased consumption but the sector will still be characterized by coping with decreased levels of lease profits, loan commitments and liquidity.

Employees and remuneration

In 30.06.2010, the number of employees in the Group's service was 847, including 798 full-time employees. The Group increased the number of its personnel by 1.9% or 16 employees in a year. The gross remuneration paid to employees in 2010 6 months amounted to EEK 121.2 million a decrease of 16.7% compared to previous year. The smaller amount of performance pay, due to the fall in the group's profitability contributed to the fall in the group's labour costs.



Shares and shareholders

Share information

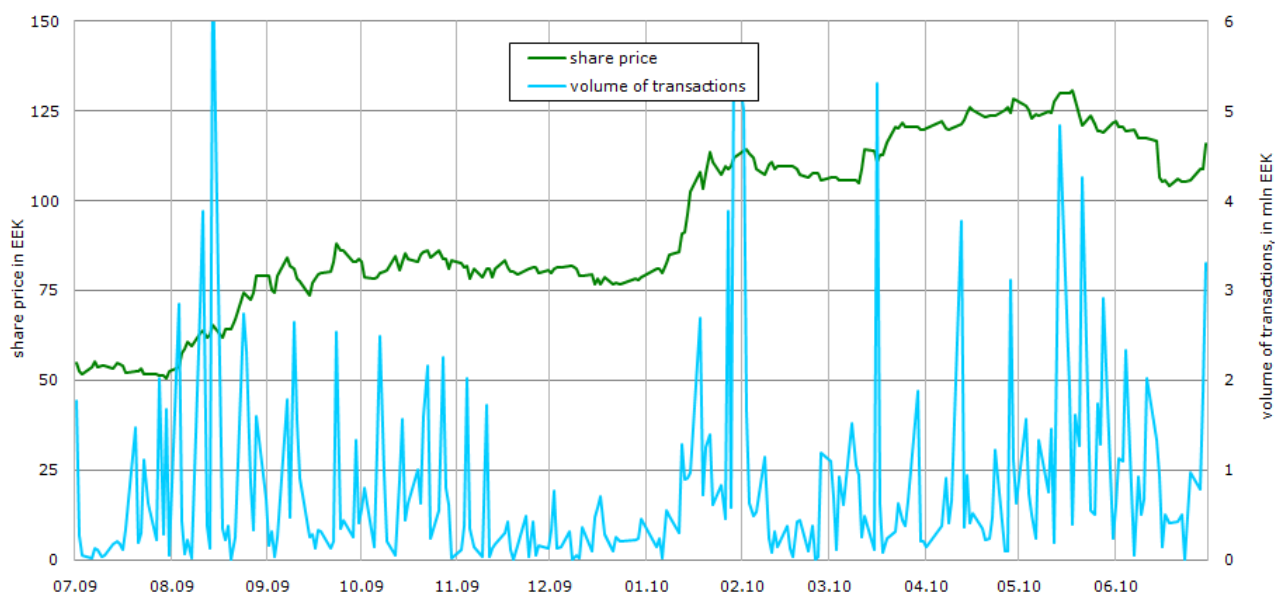
ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	10.00 EEK
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2010 6 months 2693 transactions with the shares of Merko Ehitus were performed in the course of which 1.1 million shares were

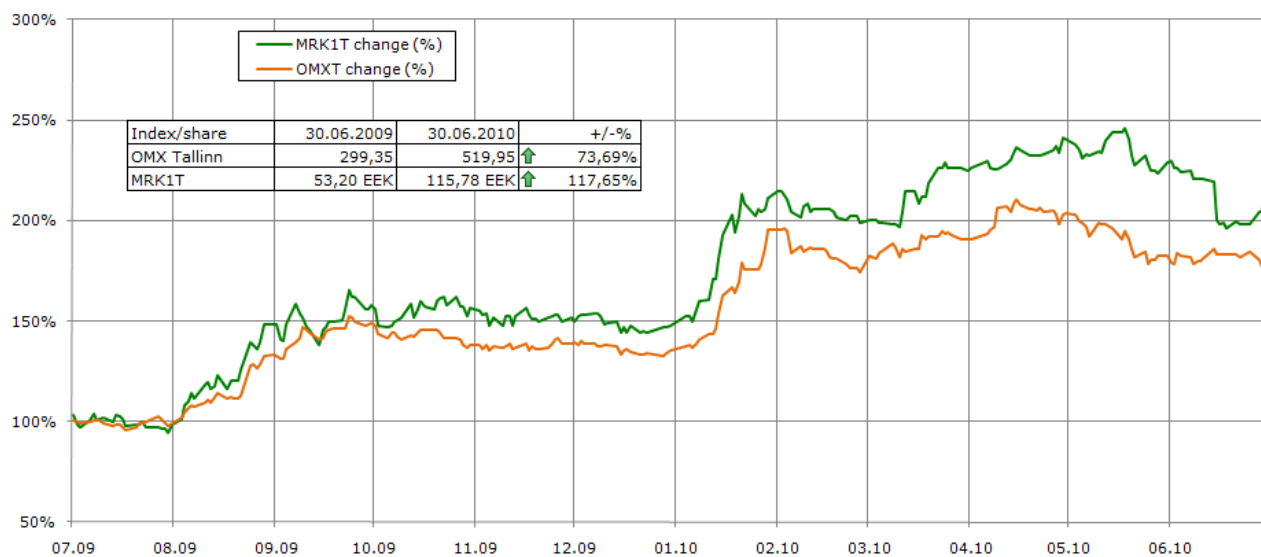
traded and the total monetary value of transactions was EEK 120.7 million. The lowest share price was EEK 79.02 and the highest price was EEK 135.7 per share. The closing share price as at 30.06.2010 was EEK 115.8. AS Merko Ehitus market value as at 30.06.2010 was EEK 2.05 billion.

	30.06.2010	30.06.2009	30.06.2008
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in kroons	2,93	4,14	16,39
Equity per share, in kroons	112,15	118,08	129,93
P/B (share price to equity per share)	1,03	0,45	1,02

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



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



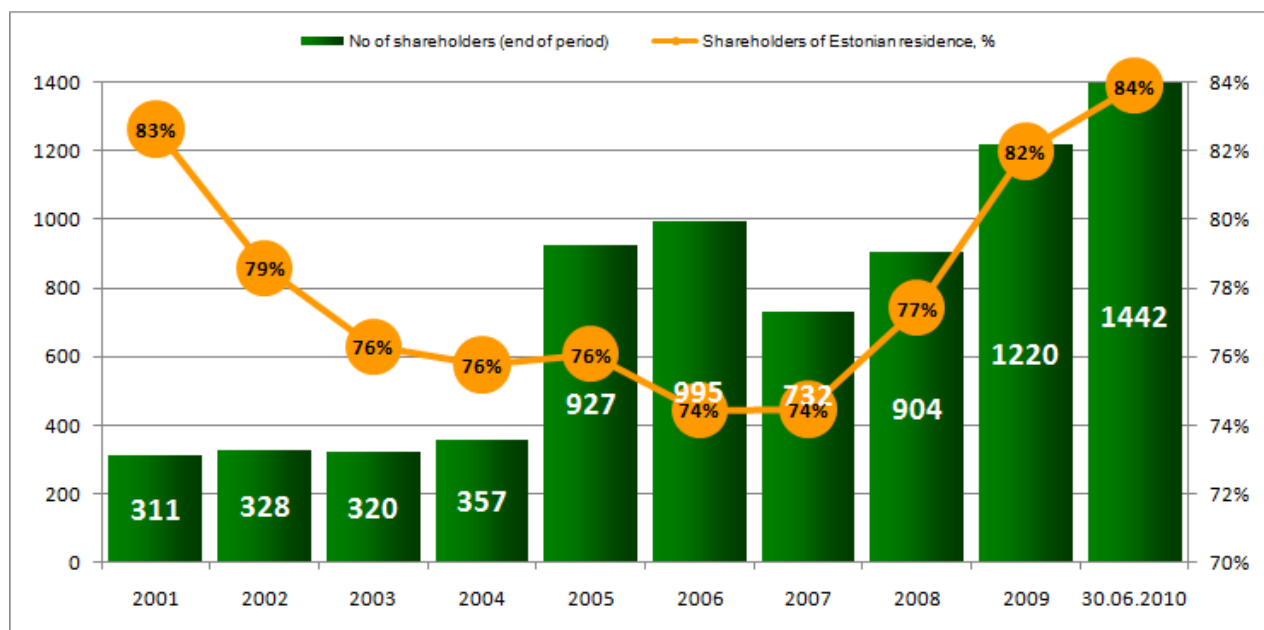
Structure of shareholders as at 30.06.2010

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	383	26,56%	21 590	0,12%
101-1000	704	48,82%	312 058	1,76%
1001-10 000	308	21,36%	897 566	5,07%
10 001 – 100 000	36	2,50%	995 193	5,62%
100 001 – 1 000 000	10	0,69%	2 730 907	15,44%
1 000 001 - ...	1	0,07%	12 742 686	71,99%
Total	1442	100%	17 700 000	100%

The main shareholders of AS Merko Ehitus as at 30.06.2010

	Number of shares	Proportion
AS Riverito	12 742 686	71,99%
ING Luxembourg S.A., clients	963 376	5,44%
Skandinaviska Enskilda Banken Ab, clients	708 977	4,01%
State Street Bank and Trust Omnibus Account a Fund No OM01	279 882	1,58%
Nordea Bank Finland Plc/Non-resident legal entities	125 815	0,71%
SEB Elu- ja Pensionikindlustus AS	125 520	0,71%
Arvo Nõges	114 000	0,64%
AS Midas Invest	108 240	0,61%
Clearstream Banking Luxembourg S.A. clients	104 139	0,59%
Skandinaviska Enskilda Banken Finnish, clients	100 710	0,57%
SEB Pank AS, clients	100 248	0,57%

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



STATEMENT OF COMPREHENSIVE INCOME
consolidated, unaudited

		EEK		EUR	
	note	2010 6 months	2009 6 months	2010 6 months	2009 6 months
Revenue	1,2	1 108 623	1 447 887	70 854	92 537
Cost of goods sold	3	(976 445)	(1 280 561)	(62 406)	(81 843)
Gross profit		132 178	167 326	8 448	10 694
Marketing expenses		(15 615)	(20 135)	(998)	(1 287)
Administrative and general expenses		(65 163)	(76 489)	(4 165)	(4 889)
Other operating income		15 869	6 987	1 014	447
Other operating expenses		(3 017)	(1 758)	(193)	(112)
Operating profit		64 252	75 931	4 106	4 853
Financial income and expenses		(3 128)	1 997	(200)	128
incl. financial income (expenses) from invest- ments into associates and joint ventures		(4 437)	(5 964)	(284)	(381)
interest expense		(6 417)	(14 683)	(410)	(938)
foreign exchange gain		1 486	3 884	95	248
other financial income and expenses		6 240	18 760	399	1 199
Profit before tax		61 124	77 928	3 906	4 981
Corporate income tax expense		(9 531)	(4 938)	(610)	(316)
Net profit for current period		51 593	72 990	3 296	4 665
incl. equity holders of the parent		51 909	73 191	3 318	4 678
minority interest		(316)	(201)	(22)	(13)
Other comprehensive income					
Exchange differences on translating foreign subsidiaries		1 002	3 930	64	251
Comprehensive income		52 595	76 920	3 360	4 916
incl. equity holders of the parent		52 911	77 121	3 382	4 929
minority interest		(316)	(201)	(22)	(13)
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	2,93	4,14	0,19	0,26

STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

	EEK		EUR	
	2010 II quarter	2009 II quarter	2010 II quarter	2009 II quarter
Revenue	608 000	838 696	38 858	53 602
Cost of goods sold	(534 339)	(755 559)	(34 150)	(48 290)
Gross profit	73 661	83 137	4 708	5 312
Marketing expenses	(8 437)	(13 085)	(539)	(836)
Administrative and general expenses	(30 737)	(39 480)	(1 965)	(2 523)
Other operating income	3 918	5 077	250	325
Other operating expenses	(44)	(947)	(3)	(60)
Operating profit	38 361	34 702	2 451	2 218
Financial income and expenses	(1 078)	6 322	(70)	404
incl. financial income (expenses) from investments into associates and joint ventures	(2 007)	(2 641)	(129)	(169)
interest expense	(3 167)	(6 844)	(202)	(437)
foreign exchange gain	37	3 714	2	237
other financial income and expenses	4 059	12 093	259	773
Profit before tax	37 283	41 024	2 381	2 622
Corporate income tax expense	(1 424)	(285)	(91)	(19)
Net profit for current period	35 859	40 739	2 290	2 603
incl. equity holders of the parent	35 342	40 465	2 259	2 586
minority interest	517	274	31	17
Other comprehensive income				
Exchange differences on translating foreign subsidiaries	157	4 936	10	315
Comprehensive income	36 016	45 675	2 300	2 918
incl. equity holders of the parent	35 499	45 401	2 269	2 901
minority interest	517	274	31	17
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	2,00	2,29	0,13	0,15

STATEMENT OF FINANCIAL POSITION

consolidated, unaudited

		EEK		EUR	
	Note	30.06.2010	31.12.2009	30.06.2010	31.12.2009
ASSETS					
Current assets					
Cash and cash equivalents	5	286 441	359 732	18 307	22 991
Short-term deposits		168 643	400 916	10 778	25 623
Trade and other receivables	6	728 741	661 954	46 874	42 306
Prepaid corporate income tax		17 487	3 885	818	248
Inventories	7	1 520 514	1 536 463	97 178	98 199
Total current assets		2 721 826	2 962 950	173 955	189 367
Non-current assets					
Long-term financial investments	8	227 728	211 889	14 555	13 542
Deferred income tax assets		29 885	32 069	1 910	2 050
Investment property	9	16 226	16 552	1 037	1 058
Property, plant and equipment	10	283 339	266 276	18 109	17 018
Intangible assets	11	23 572	24 238	1 507	1 549
Total non-current assets		580 750	551 024	37 118	35 217
TOTAL ASSETS		3 302 576	3 513 974	211 073	224 584
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	12	374 924	447 569	23 962	28 605
Trade and other payables	13	770 346	782 470	49 235	50 009
Corporate income tax liability		-	5 249	-	335
Short-term provisions	14	54 270	37 702	3 468	2 410
Total current liabilities		1 199 540	1 272 990	76 665	81 359
Non-current liabilities					
Long-term borrowings	12	83 924	76 316	5 364	4 878
Long-term trade payables		9 355	10 653	598	681
Long-term customer prepayments		-	5	-	0
Total non-current liabilities		93 279	86 974	5 962	5 559
Total liabilities		1 292 819	1 359 964	82 627	86 918
Equity					
Minority interests		24 665	27 129	1 576	1 734
Equity attributable to equity holders of the parent					
Share capital		177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation adjustment		(13 814)	(14 816)	(883)	(947)
Retained earnings		1 804 206	1 946 997	115 310	124 436
Total equity attributable to equity holders of parent		1 985 092	2 126 881	126 870	135 932
Total equity		2 009 757	2 154 010	128 446	137 666
TOTAL LIABILITIES AND EQUITY		3 302 576	3 513 974	211 073	224 584

STATEMENT OF CHANGES IN EQUITY

consolidated, unaudited

EEK	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2008	177 000	17 700	(12 550)	1 892 781	2 074 931	34 633	2 109 564
Comprehensive income	-	-	3 930	73 191	77 121	(201)	76 920
Dividends	-	-	-	(61 950)	(61 950)	(2 700)	(64 650)
Balance as at 30.06.2009	177 000	17 700	(8 620)	1 904 022	2 090 102	31 732	2 121 834
Balance as at 31.12.2009	177 000	17 700	(14 816)	1 946 997	2 126 881	27 129	2 154 010
Comprehensive income	-	-	1 002	51 909	52 911	(316)	52 595
Purchase of minority interest	-	-	-	-	-	(2 148)	(2 148)
Dividends	-	-	-	(194 700)	(194 700)	-	(194 700)
Balance as at 30.06.2010	177 000	17 700	(13 814)	1 804 206	1 985 092	24 665	2 009 757

EUR	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2008	11 312	1 131	(802)	120 971	132 612	2 213	134 825
Comprehensive income	-	-	251	4 678	4 929	(13)	4 916
Dividends	-	-	-	(3 959)	(3 959)	(172)	(4 131)
Balance as at 30. 06.2009	11 312	1 131	(551)	121 690	133 582	2 028	135 610
Balance as at 31.12.2009	11 312	1 131	(947)	124 436	135 932	1 734	137 666
Comprehensive income	-	-	64	3 318	3 382	(20)	3 362
Purchase of minority interest	-	-	-	-	-	(138)	(138)
Dividends	-	-	-	(12 444)	(12 444)	-	(12 444)
Balance as at 30.06.2010	11 312	1 131	(883)	115 310	126 870	1 576	128 446

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

CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2010 6 months	2009 6 months	2010 6 months	2009 6 months
Cash flows from operating activities				
Operating profit	64 252	75 931	4 106	4 853
Adjustments:				
depreciation and impairment charge	18 596	12 859	1 189	822
(profit) loss from sale of non-current assets	(395)	(432)	(25)	(28)
adjustments of revenue from construction contracts under stage of completion method	(186 103)	13 332	(11 894)	852
interest income from business activities	(4 779)	(1 854)	(305)	(118)
change in provisions	5 189	(1 685)	331	(108)
Change in trade and other receivables related to operating activities	15 659	(32 106)	1 001	(2 052)
Change in inventories	16 613	148 734	1 061	9 505
Change in trade and other payables related to operating activities	129 205	(181 244)	8 258	(11 584)
Interests paid	(6 160)	(20 816)	(394)	(1 330)
Other financial expenses (income)	(15)	(48)	(1)	(3)
Corporate income tax paid	(23 266)	(17 739)	(1 487)	(1 135)
Total cash flows from operating activities	28 796	(5 068)	1 840	(326)
Cash flows from investing activities				
Investment in subsidiaries	(1 110)	-	(71)	-
Proceeds from sale of subsidiaries	-	1 125	-	72
Investments in associates and joint ventures	(20)	-	(1)	-
Inflow of deposits with maturities greater than 3 months	232 273	28 650	14 845	1 831
Purchase of investment property	-	(1 001)	-	(64)
Proceeds from sale of investment property	-	1 250	-	80
Purchase of property, plant and equipment	(7 909)	(3 842)	(505)	(246)
Proceeds from sale of property, plant and equipment	2 391	467	153	30
Purchase of intangible assets	(332)	(898)	(21)	(57)
Proceeds from sale of intangible assets	-	134	-	9
Loans granted	(88 557)	(64 808)	(5 660)	(4 142)
Loan repayments received	42 165	21 041	2 695	1 345
Interest received	5 873	18 603	375	1 189
Total cash flows from investing activities	184 774	721	11 810	47
Cash flows from financing activities				
Proceeds from borrowings	28 834	47 694	1 843	3 048
Repayments of borrowings	(108 894)	(162 761)	(6 960)	(10 402)
Finance lease principal payments	(13 775)	(8 646)	(880)	(553)
Dividends paid	(194 700)	(64 650)	(12 444)	(4 131)
Total cash flows from financing activities	(288 535)	(188 363)	(18 441)	(12 038)
Net increase/decrease in cash and cash equivalents	(74 965)	(192 710)	(4 791)	(12 317)
Change in deposits with maturities greater than 3 months	(232 273)	(28 650)	(14 845)	(1 831)
Total change	(307 238)	(221 360)	(19 636)	(14 148)
Cash and cash equivalents at beginning of the period	359 732	515 191	22 991	32 927
Deposits with maturities greater than 3 months at the beginning of the period	400 916	262 759	25 623	16 793
Total at the beginning of the period	760 648	777 950	48 614	49 720
Effect of exchange rate changes	1 674	1 245	107	80
Cash and cash equivalents at the end of the period	286 441	323 726	18 307	20 690
Deposits with maturities greater than 3 months at the end of the period	168 643	234 109	10 778	14 962
Total at the end of the period	455 084	557 835	29 085	35 652

NOTES

Note 1 Operating segments *in thousand kroons*

The chief operating decision maker, management of AS Merko Ehitus, monitors the business of the group by operating segments. The performance of the segments is assessed based on segment's revenue derived from outside the group and pre-tax profit.

All segments are involved in the sale of construction services with the exception of real estate development segment whose revenue is derived from the sale of apartments in development projects.

2010 6 months	Buildings	Facilities	Roads	Development of real estate	Other	Total segments
Segment revenue	504 380	441 453	186 354	129 187	10 570	1 271 944
Inter-segment revenue	(48 746)	(65 424)	(14 937)	(27 594)	(6 620)	(163 321)
Revenue from external clients	455 634	376 029	171 417	101 593	3 950	1 108 623
Depreciation and impairment charge	(935)	(4 968)	(7 631)	(277)	(821)	(14 632)
Profit (loss) from associates and joint ventures	-	(2)	-	(1 508)	(2 927)	(4 437)
Other finance income/expenses	-	(12)	-	(257)	(137)	(406)
Profit before tax	81 591	40 949	(1 611)	15 399	(136)	136 192
Segment assets at 30.06.2010	236 672	209 852	286 264	1 730 162	117 538	2 580 488

2009 6 months	Buildings	Facilities	Roads	Development of real estate	Other	Total segments
Segment revenue	810 756	384 952	178 783	206 110	18 493	1 599 094
Inter-segment revenue	(97 512)	(1 594)	(39 801)	(11 710)	(590)	(151 207)
Revenue from external clients incl. client, whose revenue is at least 10% from consolidated revenue	713 244	383 358	138 982	194 400	17 903	1 447 887
Depreciation and impairment charge	174 407	-	-	-	-	174 407
Depreciation and impairment charge	(1 739)	(984)	(4 989)	(55)	(1 444)	(9 211)
Profit (loss) from associates and joint ventures	-	-	-	(670)	(5 294)	(5 964)
Other finance income/expenses	(3)	(479)	(510)	(1 826)	(37)	(2 855)
Profit before tax	104 328	46 090	13 257	(11 550)	8 349	160 474
Segment assets at 30.06.2009	380 041	318 591	183 934	1 891 924	96 640	2 871 130

In addition to the segment assets the group holds assets of EEK 722 088 thousand as at 30.06.2010 (30.06.2009: EEK 809 877 thousand) that can not 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

	2010 6 months	2009 6 months
Profit (loss) from reporting segments	136 192	160 474
Unallocated expense (income)		
marketing expenses	(15 615)	(20 135)
administrative expenses	(65 163)	(76 489)
other operating income (expense)	3 995	3 262
financial income (expense)	1 715	10 816
incl. interest income	6 239	19 407
interest expense	(6 024)	(11 265)
Profit before tax	61 124	77 928

Unallocated expenses include such expenses (and income) that arise at group level and are not directly related to reportable segments. Unallocated finance expenses and income mostly include income from deposits but also interest expense not capitalised and other immaterial finance costs.

Revenue by client location

	2010 6 months	2009 6 months
Estonia	730 757	1 065 031
Latvia	354 076	332 701
Lithuania	23 790	50 155
Total	1 108 623	1 447 887

Property, plant and equipment (except financial assets and deferred income tax assets) by assets location:

	30.06.2010	30.06.2009
Estonia	308 568	194 438
Latvia	13 849	18 868
Lithuania	720	909
Total	323 137	214 215

Note 2 Revenue

in thousand kroons

	2010 6 months	2009 6 months
Rendering of services	1 009 087	1 248 413
Sale of real estate and real estate development projects	97 214	193 786
Rental income	881	1 042
Sale of goods	1 441	4 646
Total revenue	1 108 623	1 447 887

Note 3 Cost of goods sold
in thousand kroons

	2010 6 months	2009 6 months
Construction services	446 637	697 846
Materials	213 414	192 523
Properties purchased for resale	91 799	139 652
Staff costs	106 283	127 579
Construction mechanisms and transport	55 761	38 154
Design	8 739	19 520
Administrative expenses of real estate	2 523	2 075
Depreciation and impairment charge	14 632	9 211
Other expenses	36 657	54 001
Total cost of goods sold	976 445	1 280 561

Note 4 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.

	2010 6 months	2009 6 months
Net profit attributable to shareholders <i>(in thousands of kroons)</i>	51 909	73 191
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings per share <i>(in kroons)</i>	2,93	4,14

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

Note 5 Cash and cash equivalents
in thousand kroons

	30.06.2010	31.12.2009
Cash on hand	179	270
Bank accounts	42 513	40 787
Overnight deposits	134 992	93 961
Term deposits with maturities of 3 months and less	108 757	224 714
Total cash and cash equivalents	286 441	359 732

Note 6 Trade and other receivables
in thousand kroons

	30.06.2010	31.12.2009
Trade receivables		
accounts receivable	361 506	405 030
allowance for doubtful receivables	(19 536)	(19 921)
	<u>341 970</u>	<u>385 109</u>
Tax prepayments excluding corporate income tax		
value added tax	12 480	7 823
social security tax	7	7
other taxes	323	922
	<u>12 810</u>	<u>8 752</u>
Amounts due from customers for contract works	156 939	102 144
Other short-term receivables		
short-term loans	137 185	96 874
interest receivables	15 197	13 524
receivable from buyer of subsidiary	7 100	7 125
other short-term receivables	4 885	2 253
	<u>164 367</u>	<u>119 776</u>
Prepayments for services		
prepayments for construction services	40 861	38 197
prepaid insurance	4 284	1 764
other prepaid expenses	7 510	6 212
	<u>52 655</u>	<u>46 173</u>
Total trade and other receivables	<u>728 741</u>	<u>661 954</u>

Note 7 Inventories
in thousand kroons

	30.06.2010	31.12.2009
Raw materials and materials	8 646	6 752
Work-in-progress	529 837	470 428
Finished goods	180 672	268 242
Goods for resale		
registered immovables purchased for resale	686 637	686 543
other goods purchased for resale	20 341	2 543
	<u>706 978</u>	<u>689 086</u>
Prepayments for inventories		
prepayments for real estate properties	87 263	87 192
prepayments for other inventories	7 118	14 763
	<u>94 381</u>	<u>101 955</u>
Total inventories	<u>1 520 514</u>	<u>1 536 463</u>

Note 8 Long-term financial assets
in thousand kroons

	30.06.2010	31.12.2009
Investments in associates and joint ventures	175 174	179 421
Long-term loans	26 761	21 785
Long-term bank deposit	2 809	2 809
Long-term receivable from buyer of subsidiary	-	1 375
Long-term receivables from customers of construction services	22 984	6 499
Total long-term financial assets	227 728	211 889

Note 9 Investment property
in thousand kroons

	30.06.2010	31.12.2009
Land	2 101	2 098
Buildings at carrying amount		
cost	15 655	15 650
accumulated depreciation	(1 530)	(1 196)
	14 125	14 454
Total investment property	16 226	16 552

Note 10 Property, plant and equipment
in thousand kroons

	30.06.2010	31.12.2009
Land	12 905	12 905
Buildings at carrying amount		
cost	89 868	89 030
accumulated depreciation	(13 394)	(11 111)
	76 474	77 919
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(118)	(113)
	340	345
Machinery and equipment at carrying amount		
cost	262 248	236 939
accumulated depreciation	(131 217)	(100 774)
	131 031	136 165
Other fixtures at carrying amount		
cost	77 621	78 588
accumulated depreciation	(41 349)	(40 512)
	36 272	38 076
Construction in progress	26 317	866
Total property, plant and equipment	283 339	266 276

Note 11 Intangible assets
in thousand kroons

	30.06.2010	31.12.2009
Goodwill	13 939	13 939
Software at carrying amount		
cost	17 683	17 346
accumulated depreciation	(9 412)	(8 409)
	8 271	8 937
Prepayments for intangible assets	1 362	1 362
Total intangible assets	23 572	24 238

Note 12 Borrowings
in thousand kroons

	30.06.2010	31.12.2009
Finance lease payables		
Present value of lease payments	62 608	47 934
incl. current portion	14 696	16 170
non-current portion 1...4 years	47 912	31 764
Bank loans		
Loan balance	281 986	361 696
incl. current portion	248 724	319 894
non-current portion 1...5 years	33 262	41 802
Loans granted to entities under common control		
Loan balance	109 354	109 355
incl. current portion	109 354	109 355
Loans from other companies		
Loan balance	4 900	4 900
incl. current portion	2 150	2 150
non-current portion 1...5 years	2 750	2 750
Total loans		
Loans balance	396 240	475 951
incl. current portion	360 228	431 399
non-current portion 1...5 years	36 012	44 552
Total borrowings	458 848	523 885
incl. current portion	374 924	447 569
non-current portion 1...5 years	83 924	76 316

Note 13 Trade and other payables
in thousand kroons

	30.06.2010	31.12.2009
Trade payables	295 066	223 149
Payables to employees	43 809	55 364
Tax liabilities, except for corporate income tax		
value added tax	6 685	22 625
personal income tax	6 271	6 783
social security tax	11 945	13 045
land tax	285	80
unemployment insurance tax	1 108	1 171
contributions to mandatory funded pension	253	107
other taxes	248	604
	<hr/> 26 795	<hr/> 44 415
Amounts due to customers for contract works	184 883	316 095
Other liabilities		
interest liabilities	1 221	1 105
payable for registered immovables from demerger	100 000	100 000
other liabilities	1 648	4 274
	<hr/> 102 869	<hr/> 105 379
Prepayments received	116 924	38 068
Total trade and other payables	<hr/> 770 346	<hr/> 782 470

Note 14 Short-term provisions
in thousand kroons

	30.06.2010	31.12.2009
Provision for warranty obligation for construction	16 509	18 518
Provision for onerous construction contracts	34 175	4 035
Provision for completion of construction projects	586	208
Provision for legal costs and claims filed	3 000	14 492
Other provisions	-	449
Total short-term provisions	<hr/> 54 270	<hr/> 37 702

Note 15 Related party transactions

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

- parent 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 managers and their close relatives;
- entities sharing key personnel with AS Merko Ehitus.

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

The parent of AS Merko Ehitus is AS Riverito. As at 30.06.2010 and 31.12.2009, 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 kroons

	2010 6 months	2009 6 months
Purchased construction services		
Associates and joint ventures	3 766	1 488
Entities under common control	1 320	5 379
Total purchased construction services	<hr/> 5 086	<hr/> 6 867
Rendered construction services		
Associates and joint ventures	823	4
Entities under common control	1 449	20 457
Other related parties	7	914
Management members	9 618	4 652
Total construction services rendered	<hr/> 11 897	<hr/> 26 027
Construction materials purchased		
Other related parties	<hr/> 19	<hr/> 16

Balances with the related parties*in thousand kroons*

	30.06.2010	31.12.2009
Trade and other receivables		
Trade receivables		
Parent	-	190
Associates and joint ventures	215	74
Entities under common control	60	483
Other related parties	1	2 431
Short-term loans		
Associates and joint ventures	16 435	16 500
Entities under common control	38 325	43 055
Interest receivables		
Associates and joint ventures	9 814	9 147
Entities under common control	2 983	1 624
Other short-term receivables		
Associates and joint ventures	2	1
Prepayments for inventories		
Entities under common control	57 533	57 462
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	23 489	18 896
Entities under common control	2 893	2 890
Borrowings		
Short-term loans and bonds		
Entities under common control	109 354	109 354
Trade and other payables		
Trade payables		
Parent	21 069	2
Entities under common control	41	83
Other related parties	11	2
Interest liabilities		
Entities under common control	215	233
Other short-term liabilities		
Entities under common control	100 000	100 000

Note 16 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 kroons</i>	30.06.2010	31.12.2009
Performance period's warranty to the customer	267 459	262 573
Tender warranty	79 753	59 254
Guarantee warranty period	124 443	152 114
Prepayment guarantee	125 131	81 296
Contracts of surety	7 524	9 705
Payment guarantee	21 999	3 318
Letter of credit	-	6 404
Total contingent liabilities	626 309	574 664

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

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 DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 6 months interim report 2010 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.

The consolidated interim financial statements of AS Merko Ehitus for the 6 months period ending 30.06.2010 have been prepared in accordance with IAS 34 "Interim Financial Reporting" for condensed interim financial statements. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2009.

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.

Tiit Roben	Chairman of the Board		10.08.2010
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Alar Lagus	Member of the Board		10.08.2010
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Veljo Viitmann	Member of the Board		10.08.2010
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Andres Agukas	Member of the Board		10.08.2010
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Jaan Mäe	Member of the Board		10.08.2010
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