

# AS MERKO EHITUS GROUP

## Consolidated interim report 3M 2007

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

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## MANAGEMENT REPORT

### General information

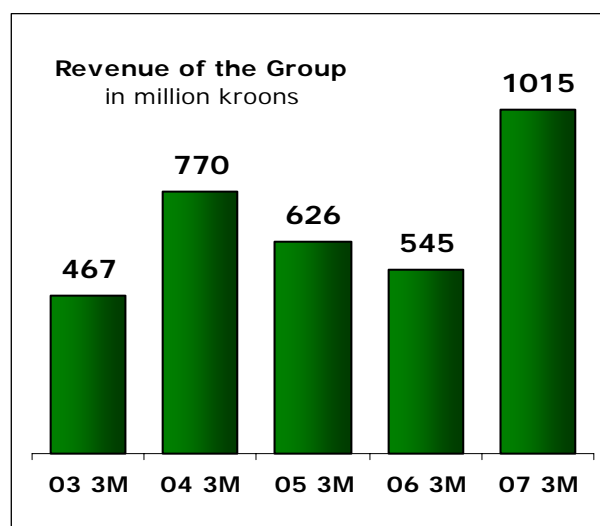
Merko Ehitus is a leading building corporation offering integral solutions, with branches currently in Estonia, Latvia and Lithuania. Merko Ehitus has been in business since 1990. The Group consists of 32 subsidiaries and 7 associates and joint ventures the largest of which are: SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (75%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), OÜ Woody (100%) and AS Tartu Maja Betootootood (25%).

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

### Business operations

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

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

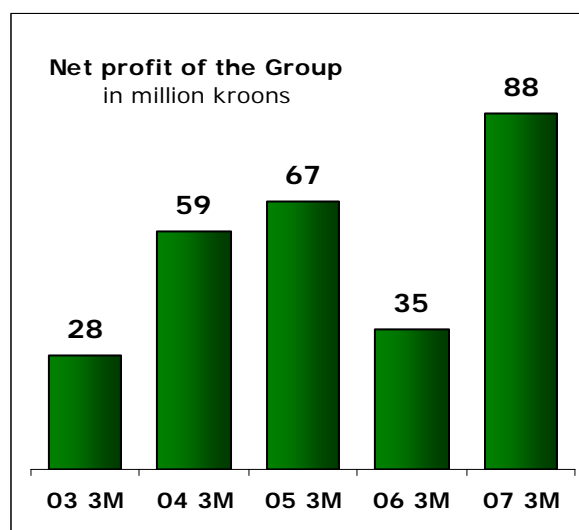


Most important companies of the Group 3M 2007 consolidated revenue (sales outside the Group)

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

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

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



### Construction market

1<sup>st</sup> quarter 2007 did not bring significant changes in the construction landscape, the demand in the sector was good and the construction market grew strongly in all three Baltic States. Constantly increasing construction prices contributed significantly to this growth. As compared to the 1<sup>st</sup> quarter in 2006, construction costs increased by 30.4% in Latvia, 15.6% in Estonia and 10.7% in Lithuania including the respective 52.8% and 17.3% increase in labor costs in Latvia and Estonia.

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

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

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

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

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

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

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

Current ratio: Current assets / Current liabilities

Equity ratio: Owners equity\* / Total assets

General expenses to sales: General expenses / Sales

Staff costs to sales: Staff costs / Sales

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

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

## Shares and shareholders

AS Merko Ehitus biggest shareholders as of 31.03.2007

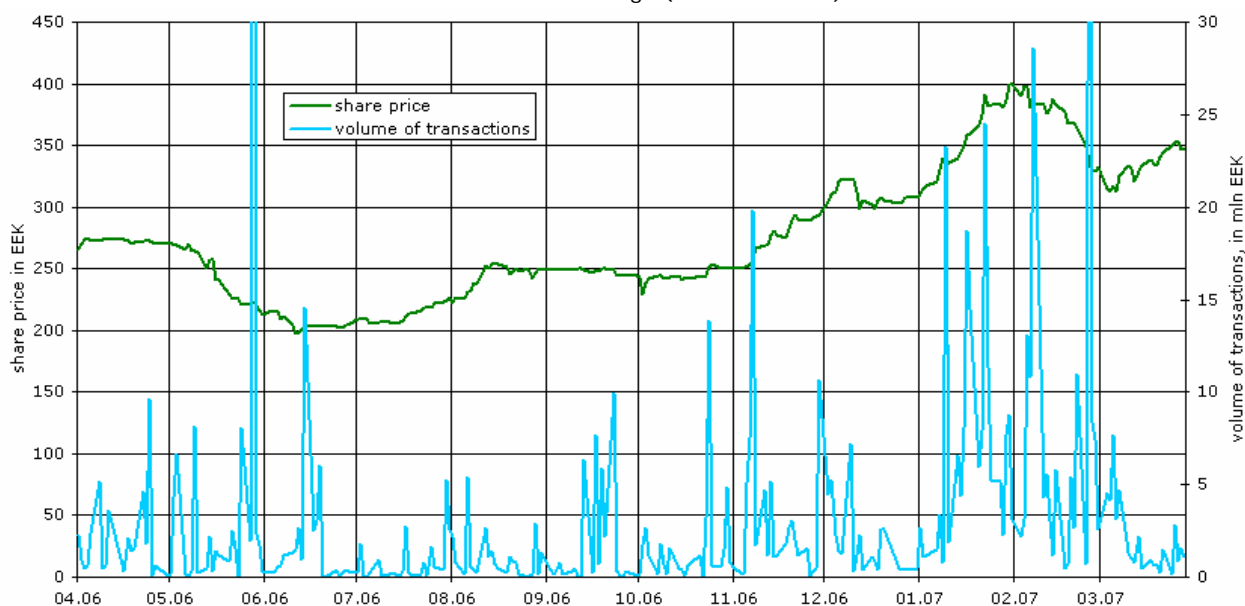
|   | No. of shares | Ownership |
|---|---------------|-----------|
| AS Merko Grupp                            | 12 742 686    | 71.99%    |
| ING Luxembourg S.A., clients              | 1 127 000     | 6.37%     |
| Skandinaviska Enskilda Banken Ab, clients | 765 365       | 4.32%     |
| Nordea Bank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

Breakdown of shareholders as of 31.03.2007

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

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

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



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

## INCOME STATEMENT

consolidated, unaudited

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

**BALANCE SHEET**

consolidated, unaudited

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

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



## STATEMENT OF SHANGES IN EQUITY

unaudited

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

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

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

**CASH FLOW STATEMENT**

consolidated, unaudited

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

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

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

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

## Geographical segments

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

Revenue is based on the country in which the customer is located; the assets are reported basing on the geographic location of the assets.

## Note 2 Revenue

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

## Note 3 Cost of goods sold

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

## Note 4 Earnings per share

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

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

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

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 3M interim report 2007 as presented on pages 3 to 12.

The Management Board confirms to the best of its knowledge:

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

The consolidated financial statements income statement, balance sheet, statement of changes in equity and cash flow statement of the Merko Ehitus Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2006.

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