

AS JÄRVEVANA
GROUP

Consolidated interim report 6M 2008

Commercial Registry No: 10068022

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

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MANAGEMENT REPORT

General information

The presented report shows AS Järvevana's economic activities and financial indicators before the division. Up until 1 August 2008, AS Järvevana operated in Estonia, Latvia and Lithuania as a construction group providing integrated construction solutions. Largest companies of the Group were SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (75%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), OÜ Woody (100%) and AS Tartu Maja Betoontooted (25%).

On 1 August 2008, the registration department of Harju County Court made an entry in the Commercial Register registering the division of AS Merko Ehitus (registry code 10068022, with the new business name 'Aktiaselts Järvevana') into the limited companies Merko Ehitus (registry code 11520257) and Järvevana (registry code 10068022).

Pursuant to the division plan (<http://www.merko.ee/upload/File/Restruktureerimise%20dokumendid/AS%20Merko%20Ehitus%20jagunemiskava%20ENG.pdf>), upon the division, AS Järvevana transferred to AS Merko Ehitus the entire set of assets related to the economic activities of the building company, including all concluded building, subcontracting and supply contracts; the equipment, machinery and employees; all professional know-how and cash-flows without interrupting the continuing economic activities. The limited company's only remaining activity is ensuring the fast acquittal, which is in the shareholders' interests, in the criminal case No 05913000055 (http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=226059).

On 3 June the Annual General Meeting (http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=226094) approved the division of the company to into the limited companies new Merko Ehitus (registry code 11520257) and Järvevana (registry code 10068022).

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

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

At 15 April 2008, the management of AS Merko Ehitus presented the Company's restructuring plan (http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news_id=222602), according to which AS Merko Ehitus was split up/demerged so that AS Merko Ehitus, e.g. assets (other than liquid assets in the amount of 250 million kroons), liabilities and contracts as well as the business name was separated and transferred to the new company being set up (hereinafter AS Uus Merko). The exact description of assets and the division plan were published in the materials announcing the general meeting of shareholders <http://www.merko.ee/eng/investor/generalmeeting/2008>.

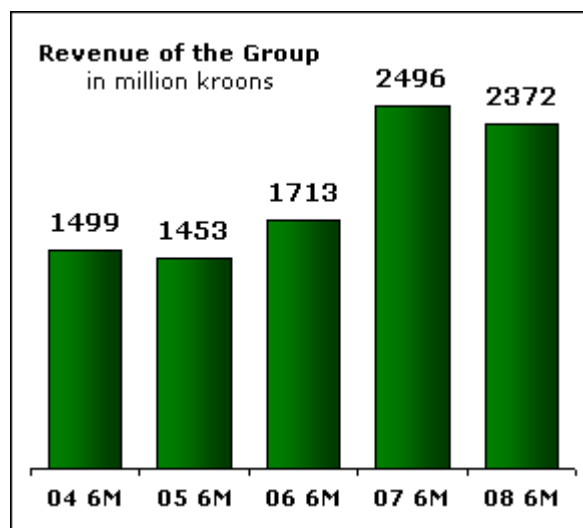
At a joint meeting held at 14 March 2008, the Management Board and the Supervisory Board of AS Merko Ehitus adopted a resolution to restructure the Company and separate operating activities from the criminal proceedings related to the land swap. The Company's management estimates that the restructuring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

Business operations

Group's revenue for the 6 months in 2008 was 2372.3 million kroons, which constitutes an annual decrease of 4.9%. 61.0% of the sales originated from Estonia, 23.1% from Latvia and 15.9% from Lithuania. As compared with the respective period in 2007, company's sales in Lithuania increased by 1.6%, and decreased in Latvia by 5.5% and in Estonia by 6.3%.

Group's revenue in the second quarter of 2008 was 1252.7 million having decreased by 228.2 million kroons as compared to the same period in 2007.

The decrease in the period's revenue was the result of the low activity in the building sector, caused by the overall economic slump.

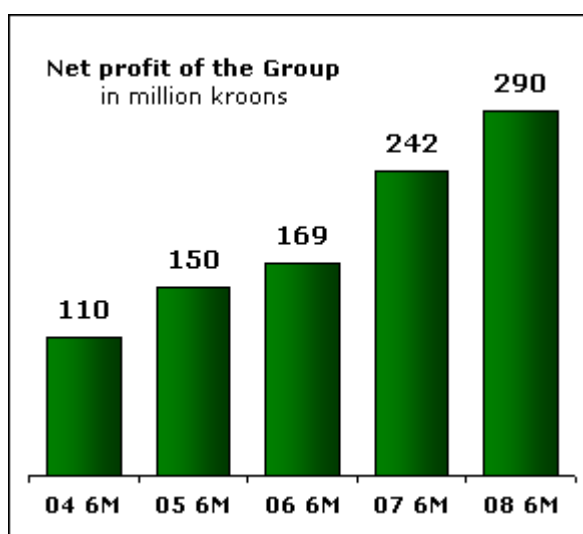


Most important companies of the Group 6 months 2008 consolidated revenue (sales outside the Group)

	<i>in thousand kroons and euros</i>			
	2008 6 months		2007 6 months	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	973 059	62 190	1 020 003	65 190
AS Gustaf (75% partnership)	98 371	6 287	70 117	4 481
OÜ Gustaf Tallinn (80% partnership)	69 626	4 450	65 958	4 215
AS Merko Tartu (66% partnership)	100 733	6 438	111 607	7 133
Tallinna Teede AS (100% partnership)	176 607	11 287	118 159	7 552
OÜ Woody (100% partnership)	58 170	3 718	182 716	11 678
Latvian company				
SIA Merks (100% partnership)	527 491	33 713	507 653	32 445
Lithuanian company				
UAB Merko Statyba (100% partnership)	361 165	23 083	342 945	21 918

In one year, the Group's cost of goods sold decreased by 12.6%, whereas the marketing and general administrative expenses increased by 26.2%, constituting 80.6% and 5.0% of the revenue respectively. The successful development activities enabled the company to compensate the impact of the rapid growth of the costs of services and labor and as a result Group's net profit margin increased from 9.7% to 12.2%.

The Group's net profit in the six months of 2008 was 290.2 million kroons, having increased by 19.9% compared to the last year and profit before tax was 333.8 million kroons, having increased by 27.0% compared to six months 2007. Profitability was positively influenced by the warm winter which boosted 1st quarter sales and by the big share of housing and property developments in the sales of the 1st and 2nd quarters.



The net profit for the first 6 months of 2008 turned out to be the highest profit ever received within the concern for the first half of the year. Since the property and housing development projects have a long preparation period, the achieved results reflect the good performance in previous periods and do not give an adequate idea of the current slump on the construction market.

Group's net cash flow of the six months of the year was +502.5 million kroons, including cash flow from operating activities +552.0 million kroons, from investing activities +39.8 million kroons and financing activities –89.3 million kroons. The cash flow from operating activities were mostly influenced by operating profit +338.9 million kroons, the change in trade and other receivables related to operating activities (+216.3 million kroons), change in trade and other payables (–143.3 million kroons) and adjustments of revenue from construction contracts under stage of completion method +158.3 million kroons. As at 30 June 2008, the group has 704.6 million kroons of funds on the group's bank accounts.

Construction market

During the first 6 months of 2008, construction production (with own forces) was performed in Lithuania for 24 381 million Estonian kroons, in Latvia for 16 552 million Estonian kroons and in Estonia for 16 972 million Estonian kroons; compared to the first half of 2007, the volume of construction work in Latvia increased by 30.8%, in Lithuania by 23.1% and decreased in Estonia by 0.4%. Due to the inertness of construction activities, the sector follows economic trends with a 12-18 month delay, which is why the previously given growth figures reflect more the situation of the construction market in 2007 than that in 2008. The figures illustrating the general economic environment can give a more adequate picture of developments in sector for the nearest future.

Compared to the second quarter of 2007, initial observations have shown that economic growth for the same period of this year in Latvia has been 0.2% and in Lithuania 5.5%, whereas economic growth in Estonia has decreased by 1.4%. The deceleration of economic growth creates considerably more tension between state and local government budgets and influences their investment capabilities. The biggest problems of private investments are decreasing financing opportunities, uncertainty and negative future perspectives. Regardless of a few courageous developers who have started to use the advantage of low construction prices in their best interests, general interest towards construction services in all of the three Baltic States is low.

Although Statistics Departments claims that the prices of construction services have been increasing in the Baltic States -a yearly growth in Latvia being 16.0%, in Lithuania 11.9% and in Estonia 4.2%, while labour costs climbed up in Latvia by 27.0% and in Estonia by 6.0%- experience has shown that the prices of construction services have decreased by 25-30% within the past year. The decrease of demand and tougher competition has taken the prices of services to a level from where their further decrease will challenge the sustainability of construction companies. The nearest future will probably see the liquidation of financially weaker and less effective companies. The close connection of the workforce market of the Baltic States to the workforce market of the European Union, the great dependence of construction sector inputs on the prices of the global market and the probable decrease in the number of offers due to the bankruptcy of companies and the transition of workforce from foreign countries set clear boundaries to the further decrease in the prices of construction services.

The market of residential premises was slow to grow in the second quarter as is usual in the summer period. In the third quarter, a somewhat seasonally inspired increase of demand can be expected but no signs of the recovery of the demand for residential and commercial premises in the perspective of the next 12 months can be detected. The situation might change in the second half of 2009 when owners have been found for most of the new and waiting to be sold residential premises. The biggest challenge for developmental activities will be the handling of decreased financing opportunities and liquidity problems.

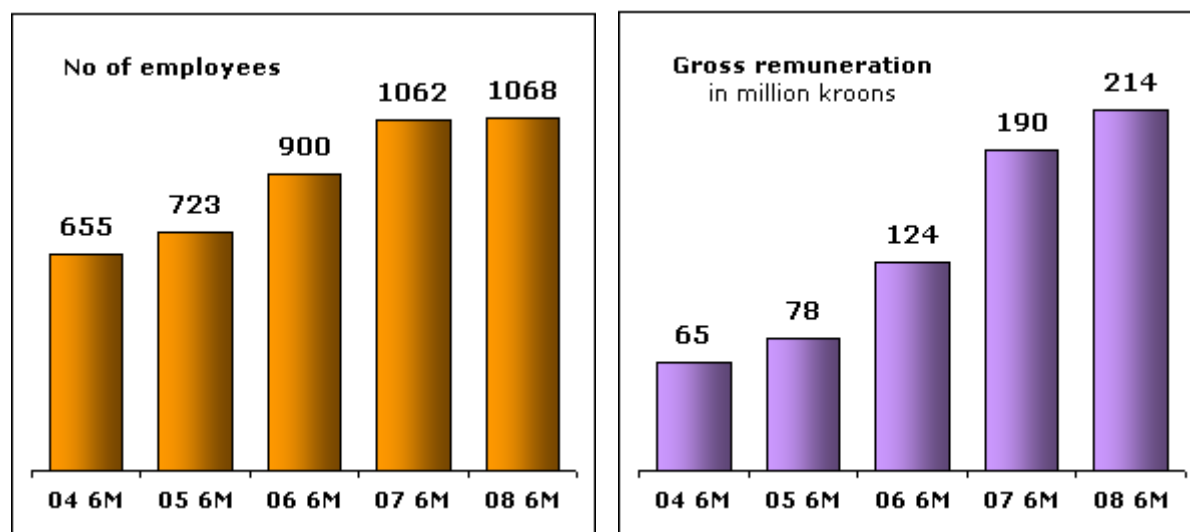
The ratios and calculation methods characterizing the operating activities of the Group

	2008 6 months	2007 6 months
Net profit margin	12,2 %	9,7 %
Operating profit margin	14,3 %	8,5 %
Return on equity per annum	26,9 %	29,3 %
Return on assets per annum	14,5 %	14,2 %
Current ratio	2,3	2,1
Equity ratio	56,2 %	47,7 %
General expense ratio	5,0 %	3,8 %
Personnel expense ratio	10,1 %	10,1 %
Average number of full-time employees	1070	948

Net profit margin: $\text{Net profit}^* / \text{Revenue}$
 Operating profit margin: $\text{Operating profit} / \text{Revenue}$
 Return on equity: $\text{Net profit} \times 2^* / \text{Average equity during the period}^*$
 Return on assets: $\text{Net profit} \times 2^* / \text{Average assets during the period}$
 Current ratio: $\text{Current assets} / \text{Current liabilities}$
 Equity ratio: $\text{Owners equity}^* / \text{Total assets}$
 General expense ratio: $\text{General expenses} / \text{Revenue}$
 Personnel expense ratio: $\text{Personnel expenses} / \text{Revenue}$

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

In 30.06.2008, the number of employees in the Group's service was 1068, including 1036 full-time employees. The number of the Group's employees increased by 0.6% (6 new employees were recruited). The gross remuneration paid to employees in 6 months 2008 amounted to 214.4 million kroons an increase of 12.7% compared to previous year.



Shares and shareholders

AS Merko Ehitus biggest shareholders as of 30.06.2008

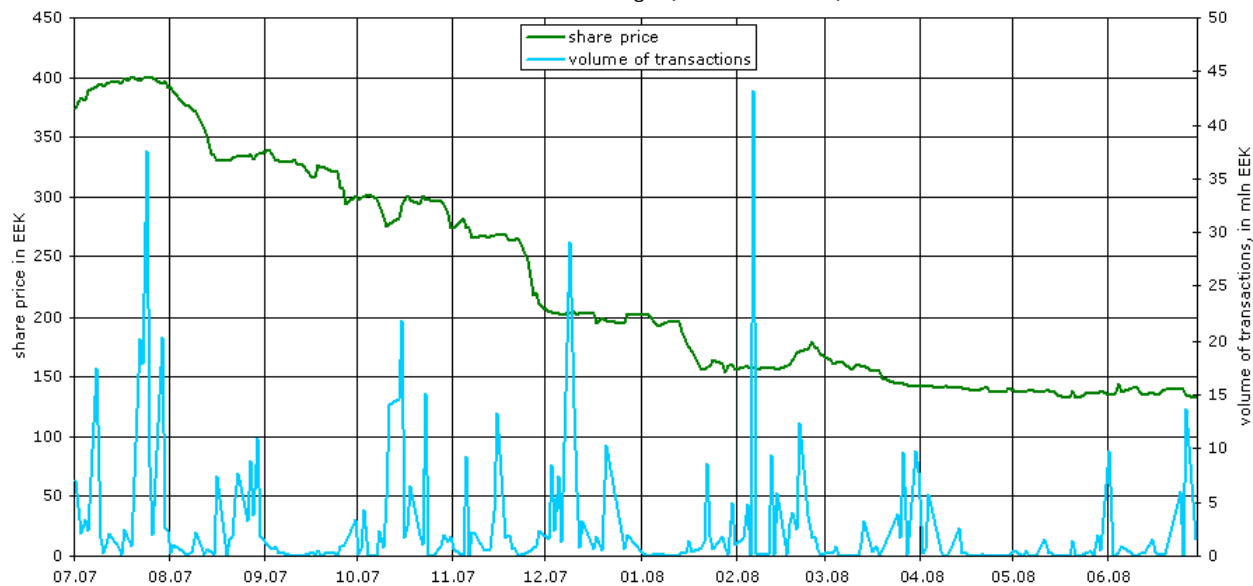
	No. of shares	Ownership
AS Merko Grupp	12 742 686	71,99%
Skandinaviska Enskilda Banken Ab, clients	1 246 004	7,04%
ING Luxembourg S.A., clients	939 500	5,31%
State Str. Munich Care of SSB Boston/DWS Invest. S.A. for DWS Osteuropa	265 904	1,50%
Mellon Treaty Omnibus	211 478	1,19%
The Bank of New York/ING Bank Slaski A/C ING Parasol	189 683	1,07%

Breakdown os shareholders as of 30.06.2008

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	305	39,35%	15 177	0,09%
101-1000	342	44,13%	136 773	0,77%
1001-10 000	85	10,97%	266 296	1,50%
10 001 – 100 000	33	4,26%	1 131 206	6,39%
100 001 – 1 000 000	8	1,03%	2 161 858	12,21%
1 000 001 - ...	2	0,26%	13 988 690	79,03%
Total	775	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange. In 2008 6 months the number of transactions with Merko Ehitus' shares was 1062, during which 1.4 million shares changed ownership and the turnover of the transactions was 219.3 million kroons. The cheapest bargain with a share was 123.60 kroons and highest 202.62 kroons per share. The closing share price with a state of 30.06.2008 was 133.00 kroons.

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



	30.06.2008	30.06.2007	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	16,39	13,67	+19,9%
Equity per share, in kroons	129,93	96,77	+34,3%
P/B (share price to equity per share)	1,02	3,80	-73,1%

INCOME STATEMENT
consolidated, unaudited

	note	EEK		EUR	
		2008 6 months	2007 6 months	2008 6 months	2007 6 months
Revenue	1,2	2 372 305	2 495 751	151 618	159 507
Cost of goods sold	3	(1 913 248)	(2 190 123)	(122 279)	(139 974)
Gross profit		459 057	305 628	29 339	19 533
Marketing expenses		(17 491)	(12 456)	(1 118)	(796)
Administrative and general expenses		(101 020)	(81 456)	(6 456)	(5 206)
Other operating income		5 929	2 490	379	159
Other operating expenses		(7 601)	(2 945)	(486)	(188)
Operating profit		338 874	211 261	21 658	13 502
Financial income and expenses		(5 120)	51 453	(327)	3 289
incl. financial income (expenses) from investments in associate companies and joint ventures		1 202	52 775	77	3 373
interest expense		(7 678)	(6 528)	(491)	(417)
foreign exchange gain		(5 870)	138	(375)	9
other financial income and expenses		7 226	5 068	462	324
Profit before tax		333 754	262 714	21 331	16 791
Corporate income tax expense		(40 623)	(15 079)	(2 596)	(964)
Net profit for current period		293 131	247 635	18 735	15 827
incl. net profit attributable to equity holders of the parent company		290 178	242 000	18 546	15 467
minority interest		2 953	5 635	189	360
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	4	16,39	13,67	1,05	0,87

INCOME STATEMENT

consolidated, unaudited

	EEK		EUR	
	2008 II quarter	2007 II quarter	2008 II quarter	2007 II quarter
Revenue	1 252 733	1 480 887	80 064	94 646
Cost of goods sold	(1 028 871)	(1 303 771)	(65 757)	(83 326)
Gross profit	223 862	177 116	14 307	11 320
Marketing expenses	(9 603)	(6 851)	(614)	(438)
Administrative and general expenses	(51 647)	(45 845)	(3 301)	(2 930)
Other operating income	4 236	387	271	25
Other operating expenses	(5 874)	(1 907)	(375)	(122)
Operating profit	160 974	122 900	10 288	7 855
Financial income and expenses	(3 359)	47 546	(215)	3 038
incl. financial income (expenses) from investments in associate companies and joint ventures	(1 078)	45 943	(69)	2 936
interest expense	(2 095)	(3 795)	(134)	(243)
foreign exchange gain	(4 178)	3 585	(267)	229
other financial income and expenses	3 992	1 813	255	116
Profit before tax	157 615	170 446	10 073	10 893
Corporate income tax expense	(20 485)	(14 197)	(1 309)	(907)
Net profit for current period	137 130	156 249	8 764	9 986
incl. net profit attributable to equity holders of the parent company	135 296	153 550	8 647	9 814
minority interest	1 834	2 699	117	172
 Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	 7,64	 8,68	 0,49	 0,55

BALANCE SHEET

consolidated, unaudited

	note	EEK		EUR	
		30.06.2008	31.12.2007	30.06.2008	31.12.2007
ASSETS					
Current assets					
Cash and cash equivalents	5	704 614	205 564	45 033	13 138
Trade and other receivables	6	938 821	1 199 566	60 001	76 666
Prepaid corporate income tax		7 866	2 376	503	152
Inventories	7	1 989 425	2 025 426	127 147	129 448
Total current assets		3 640 726	3 432 932	232 684	219 404
Non-current assets					
Long-term financial investments	8	247 266	287 456	15 803	18 372
Deferred income tax assets		3 369	3 396	215	217
Investment property	9	12 831	7 361	820	470
Property, plant and equipment	10	176 772	172 912	11 298	11 051
Intangible assets	11	12 457	12 574	797	804
Total non-current assets		452 695	483 699	28 933	30 914
TOTAL ASSETS		4 093 421	3 916 631	261 617	250 318
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	12	424 953	304 879	27 159	19 485
Trade and other payables	13	1 030 579	1 015 492	65 866	64 902
Corporate income tax liability		29 458	16 718	1 883	1 068
Government grants		1 483	1 498	95	96
Short-term provisions	14	75 139	73 212	4 802	4 680
Total current liabilities		1 561 612	1 411 799	99 805	90 231
Non-current liabilities					
Long-term borrowings	12	194 074	397 713	12 404	25 418
Other long-term trade payables	15	7 587	57 423	485	3 670
Total non-current liabilities		201 661	455 136	12 889	29 088
Total liabilities		1 763 273	1 866 935	112 694	119 319
Equity					
Minority interests		30 355	33 939	1 940	2 169
Equity attributable to equity holders of the parent company					
Share capital		177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation adjustment		(11 227)	(5 085)	(718)	(325)
Retained earnings		2 116 320	1 826 142	135 258	116 712
		2 299 793	2 015 757	146 983	128 830
Total equity		2 330 148	2 049 696	148 923	130 999
TOTAL LIABILITIES AND EQUITY		4 093 421	3 916 631	261 617	250 318

STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent company					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2006	177 000	17 700	(5 751)	1 404 993	1 593 942	18 904	1 612 846
Effect of exchange rate changes	-	-	726	-	726	-	726
Net profit for current period	-	-	-	242 000	242 000	5 635	247 635
Dividends	-	-	-	(123 900)	(123 900)	(5 066)	(128 966)
Minority interest investment	-	-	-	-	-	5 240	5 240
Balance as at 30.06.2007	177 000	17 700	(5 025)	1 523 093	1 712 768	24 713	1 737 481
Balance as at 31.12.2007	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Effect of exchange rate changes	-	-	(6 142)	-	(6 142)	-	(6 142)
Net profit for current period	-	-	-	290 178	290 178	2 953	293 131
Dividends	-	-	-	-	-	(6 528)	(6 528)
Minority interest liquidation	-	-	-	-	-	(9)	(9)
Balance as at 30.06.2008	177 000	17 700	(11 227)	2 116 320	2 299 793	30 355	2 330 148

EUR	Equity attributable to equity holders of the parent company					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2006	11 312	1 131	(368)	89 796	101 871	1 208	103 079
Effect of exchange rate changes	-	-	47	-	47	-	47
Net profit for current period	-	-	-	15 467	15 467	360	15 827
Dividends	-	-	-	(7 919)	(7 919)	(324)	(8 243)
Minority interest investment	-	-	-	-	-	335	335
Balance as at 30.06.2007	11 312	1 131	(321)	97 344	109 466	1 579	111 045
Balance as at 31.12.2007	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Effect of exchange rate changes	-	-	(393)	-	(393)	-	(393)
Net profit for current period	-	-	-	18 546	18 546	189	18 735
Dividends	-	-	-	-	-	(417)	(417)
Minority interest liquidation	-	-	-	-	-	(1)	(1)
Balance as at 30.06.2008	11 312	1 131	(718)	135 258	146 983	1 940	148 923

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

CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2008 6 months	2007 6 months	2008 6 months	2007 6 months
Cash flows from operating activities				
Operating profit	338 874	211 261	21 658	13 502
Adjustments:				
depreciation and impairment charge	14 116	11 261	902	720
(profit) loss from sale of non-current assets	(386)	(248)	(25)	(16)
adjustments of revenue from construction contracts under stage of completion method	158 283	(82 551)	10 116	(5 276)
interest income from business activities	(1 823)	(1 378)	(117)	(88)
government grant and change in other provisions	(17 654)	19 094	(1 128)	1 220
Change in trade and other receivables related to operating activities	216 314	(219 047)	13 825	(13 999)
Change in inventories	30 261	(289 531)	1 934	(18 504)
Change in trade and other payables related to operating activities	(143 276)	(20 057)	(9 157)	(1 282)
Interests paid	(13 359)	(9 277)	(854)	(593)
Other financial expenses (income)	(8)	(7)	(1)	(0)
Corporate income tax paid	(29 361)	(29 775)	(1 876)	(1 903)
	<u>551 981</u>	<u>(410 255)</u>	<u>35 277</u>	<u>(26 219)</u>
Cash flows from investing activities				
Investment into subsidiaries	-	(14 615)	-	(934)
Proceeds from sale of subsidiaries	1 000	6 890	64	440
Investments into associates and joint ventures	(1 000)	(3 351)	(64)	(214)
Proceeds from sale of associates and joint ventures	58 000	-	3 707	-
Purchase of investment property	(112)	(750)	(7)	(48)
Purchase of property, plant and equipment	(13 725)	(26 795)	(877)	(1 713)
Proceeds from sale of property, plant and equipment	1 052	1 425	67	91
Purchase of intangible assets	(1 112)	(3 141)	(71)	(201)
Loans granted	(19 372)	(141 547)	(1 238)	(9 047)
Loan repayments received	4 190	134 612	268	8 603
Interest received	10 876	9 119	695	583
Dividends received	-	4 380	-	280
	<u>39 797</u>	<u>(33 773)</u>	<u>2 544</u>	<u>(2 160)</u>
Cash flows from financing activities				
Proceeds from borrowings	87 455	320 459	5 589	20 481
Repayments of borrowings	(162 795)	(223 359)	(10 404)	(14 275)
Finance lease principal payments	(7 443)	(5 697)	(476)	(364)
Dividends paid	(6 528)	(128 965)	(417)	(8 242)
	<u>(89 311)</u>	<u>(37 562)</u>	<u>(5 708)</u>	<u>(2 400)</u>
Change in cash and cash equivalents	502 467	(481 590)	32 113	(30 779)
Cash and cash equivalent at beginning of period	205 564	676 143	13 138	43 213
Exchange gains/(losses) on cash and cash equivalents	(3 417)	(1 254)	(218)	(80)
Cash and cash equivalent at end of period	<u>704 614</u>	<u>193 299</u>	<u>45 033</u>	<u>12 354</u>

NOTES

Note 1 Business and geographical segments

in thousand kroons

Business segments

2008 6 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	2 195 698	176 607	-	2 372 305
Inter-segmental revenue	-	2 075	-	2 075
Segment revenue	2 195 698	178 682	-	2 374 380
Segment operating profit	320 696	18 178	-	338 874
Financial income/expenses				(5 120)
incl. profit/loss from associates and joint ventures	367	-	835	1 202
Profit before tax				333 754
Corporate income tax				(40 623)
Net profit of the Group				293 131
incl. attributable to equity owners of the parent company				290 178
minority interest				2 953
Segment assets	3 604 937	222 375	-	3 827 312
Associates and joint ventures	157 201	-	58 310	215 511
Unallocated assets				50 598
Total consolidated assets				4 093 421
Segment liabilities	1 024 837	114 941	-	1 139 778
Unallocated liabilities				623 495
Total consolidated liabilities				1 763 273
Purchase of investment property	112	-	-	112
Purchase of property, plant and equipment and intangible assets	12 035	2 802	-	14 837
Depreciation and impairment	8 939	5 177	-	14 116
2007 6 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	2 377 497	118 254	-	2 495 751
Inter-segmental revenue	-	37 388	-	37 388
Segment revenue	2 377 497	155 642	-	2 533 139
Segment operating profit	197 885	13 376	-	211 261
Financial income/expenses				51 453
incl. profit/loss from associates and joint ventures	41 349	-	11 426	52 775
Profit before tax				262 714
Corporate income tax				(15 079)
Net profit of the Group				247 635
incl. attributable to equity owners of the parent company				242 000
minority interest				5 635
Segment assets	3 074 463	195 906	-	3 270 369
Associates and joint ventures	201 876	-	47 605	249 481
Unallocated assets				73 693
Total consolidated assets				3 593 543
Segment liabilities	1 171 171	69 463	-	1 240 634
Unallocated liabilities				615 428
Total consolidated liabilities				1 856 062
Purchase of investment property	750	-	-	750
Purchase of property, plant and equipment and intangible assets	27 107	4 310	-	31 417
Depreciation and impairment	6 505	4 756	-	11 261

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

Geographical segments

	Revenue		Total assets		Purchase of property, plant and equipment and intangible assets	
	2008 6 months	2007 6 months	30.06.2008	30.06.2007	2008 6 months	2007 6 months
Estonia	1 447 491	1 545 102	2 109 178	1 825 275	11 641	23 662
Latvia	548 491	580 356	1 559 387	1 385 713	2 869	7 708
Lithuania	376 323	370 293	424 856	382 555	327	47
Total	2 372 305	2 495 751	4 093 421	3 593 543	14 837	31 417

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

Note 2 Revenue

in thousand kroons

	2008 6 months	2007 6 months
Rendering of services	1 611 074	2 053 540
Sale of real estate and real estate development projects	759 609	440 909
Rental income	1 196	831
Sale of goods	426	471
Total revenue	2 372 305	2 495 751

Note 3 Cost of goods sold

in thousand kroons

	2008 6 months	2007 6 months
Materials	190 733	191 612
Construction services	1 164 632	1 491 566
Properties purchased for resale	224 827	166 227
Staff costs	173 848	191 037
Depreciation and impairment charge	9 289	7 670
Design	37 329	47 947
Construction mechanisms and transport	58 472	41 843
Other expenses	54 118	52 221
Total cost of goods sold	1 913 248	2 190 123

Note 4 Earnings per share

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

	2008 6 months	2007 6 months
Net profit attributable to shareholders <i>(in thousand kroons)</i>	290 178	242 000
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings per share <i>(in kroons)</i>	16,39	13,67

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

	30.06.2008	31.12.2007
Cash on hand	106	116
Bank accounts	198 852	53 722
Short-term deposits	505 656	151 726
Total cash and bank	704 614	205 564

Note 6 Trade and other receivables
in thousand kroons

	30.06.2008	31.12.2007
Trade receivables		
accounts receivable	677 216	886 967
allowance for doubtful receivables	(2 095)	(2 111)
	675 121	884 856
Tax prepayments excluding corporate income tax		
value added tax	22 894	38 139
social security tax	12	12
other taxes	7	1
	22 913	38 152
Amounts due from customers for contract works	108 796	151 119
Other short-term receivables		
short-term loans	41 075	41 135
interest receivables	3 773	2 075
receivable from sale of subsidiary	1 000	1 000
other short-term receivables	3 597	2 662
	49 445	46 872
Prepayments for services		
prepayments for construction services	67 050	64 864
prepaid insurance	2 371	2 339
other prepaid expenses	13 125	11 364
	82 546	78 567
Total trade and other receivables	938 821	1 199 566

Note 7 Inventories
in thousand kroons

	30.06.2008	31.12.2007
Materials	9 173	3 501
Work-in-progress	992 804	1 209 117
Finished goods	259 553	72 434
Goods for resale		
land purchased for resale	689 067	704 111
other goods purchased for resale	12	13
	689 079	704 124
Prepayments for inventories		
prepayments for real estate properties	35 653	35 653
prepayments for other inventories	3 163	597
	38 816	36 250
Total inventories	1 989 425	2 025 426

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

	30.06.2008	31.12.2007
Investments in associates and joint ventures	215 511	272 964
Long-term loans	27 685	8 667
Long-term receivable from buyer of subsidiary	2 625	3 625
Long-term receivables from customers of construction services	1 445	2 200
Total long-term financial assets	<u>247 266</u>	<u>287 456</u>

Note 9 Investment property*in thousand kroons*

	30.06.2008	31.12.2007
Land	7 657	2 136
Buildings at carrying amount		
cost	5 672	5 600
accumulated depreciation	(498)	(375)
	<u>5 174</u>	<u>5 225</u>
Total investment property	<u>12 831</u>	<u>7 361</u>

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

	30.06.2008	31.12.2007
Land	21 660	15 943
Buildings at carrying amount		
cost	24 619	24 627
accumulated depreciation	(4 652)	(4 246)
	<u>19 967</u>	<u>20 381</u>
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(99)	(95)
	<u>359</u>	<u>363</u>
Machinery and equipment at carrying amount		
cost	163 553	153 587
accumulated depreciation	(61 245)	(55 100)
	<u>102 308</u>	<u>98 487</u>
Other fixtures at carrying amount		
cost	67 132	64 970
accumulated depreciation	(40 611)	(35 996)
	<u>26 521</u>	<u>28 974</u>
Construction in progress	64	36
Prepayments for property, plant and equipment	5 893	8 728
Total property, plant and equipment	<u>176 772</u>	<u>172 912</u>

Note 11 Intangible assets
in thousand kroons

	30.06.2008	31.12.2007
Software at carrying amount		
cost	15 517	14 443
accumulated depreciation	(4 869)	(3 682)
	<u>10 648</u>	<u>10 761</u>
Prepayments for intangible assets	1 809	1 813
Total intangible assets	<u>12 457</u>	<u>12 574</u>

Note 12 Borrowings
in thousand kroons

	30.06.2008	31.12.2007
Finance lease payables		
Present value of lease payments	44 411	48 114
incl. current portion	12 978	11 879
non-current portion 2...4 years	31 433	36 235
Loans		
Loan balance	569 716	630 543
incl. current portion	409 825	273 965
non-current portion 2...5 years	159 891	356 578
Loans from parent company		
Loan balance	-	19 035
incl. current portion	-	19 035
Loans from other companies		
Loan balance	4 900	4 900
incl. current portion	2 150	-
non-current portion 2...5 years	2 750	4 900
Total loans		
Loans balance	574 616	654 478
incl. current portion	411 975	293 000
non-current portion 2...5 years	162 641	361 478
Total borrowings	<u>619 027</u>	<u>702 592</u>
incl. current portion	424 953	304 879
non-current portion 2...5 years	194 074	397 713

Note 13 Trade and other payables
in thousand kroons

	30.06.2008	31.12.2007
Payables to suppliers	431 049	528 857
Payables to employees	63 462	74 892
Tax liabilities, except for corporate income tax		
value added tax	16 144	26 979
personal income tax	11 511	10 720
social security tax	18 311	17 654
land tax	372	46
unemployment insurance tax	1 620	319
contributions to mandatory funded pension	734	527
other taxes	187	570
	<hr/> 48 879	<hr/> 56 815
Amounts due to customers for contract works	292 976	161 725
Other payables		
interest liabilities	277	465
other payables	15 111	21 503
	<hr/> 15 388	<hr/> 21 968
Advance payments received	178 825	171 235
Total trade and other payables	<hr/> 1 030 579	<hr/> 1 015 492

Note 14 Short-term provisions
in thousand kroons

	30.06.2008	31.12.2007
Provision for warranty obligation for construction	15 795	15 625
Provision for onerous construction contracts	26 300	32 512
Provision for potential cancellation of construction projects	5 202	1 934
Provision for legal costs and claims filed	27 824	22 786
Other provisions	18	355
Total short-term provisions	<hr/> 75 139	<hr/> 73 212

Note 15 Other long-term trade payables
in thousand kroons

	30.06.2008	31.12.2007
Payables to suppliers	7 587	11 091
Advance payments received	-	46 332
Total long-term trade payables	<hr/> 7 587	<hr/> 57 423

Note 16 Related party transactions

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

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

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

The parent company of AS Merko Ehitus is AS Merko Grupp. As at 30.06.2008 and 31.12.2007, AS Merko Grupp owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the Group is Mr Toomas Annus.

Goods and services

in thousand kroons

	2008 6 months	2007 6 months
Purchased construction services		
Associates and joint ventures	14 256	28 889
Entities controlled by the parent company	2 308	1 398
Total purchased construction services	<u>16 564</u>	<u>30 287</u>
Construction services rendered		
Associates and joint ventures	197	20 042
Entities controlled by the parent company	424 548	666 058
Management members	3 094	6 610
Total construction services rendered	<u>427 839</u>	<u>692 710</u>
Construction materials purchased		
Other related parties	<u>159</u>	<u>242</u>
Real estate sold		
Entities controlled by the parent company	<u>143 324</u>	-

Balances with the related parties

in thousand kroons

	30.06.2008	31.12.2007
Trade and other receivables		
Trade receivables		
Associates and joint ventures	3	16 046
Entities controlled by the parent company	158 673	182 802
Management members	3	-
Short-term loans		
Associates and joint ventures	7 000	7 000
Entities controlled by the parent company	4 190	4 236
Interest receivables		
Associates and joint ventures	1 156	649
Other short-term receivables		
Other related parties	-	2

Other long-term loans and receivables

Long-term loans		
Associates and joint ventures	24 775	5 725
Entities controlled by the parent company	2 910	2 942

Borrowings

Short-term loans and bonds		
Parent company	-	19 035
Other related parties	2 150	-

Trade and other payables

Payables to suppliers		
Associates and joint ventures	1 328	11 098
Entities controlled by the parent company	256	326
Prepayments received		
Entities controlled by the parent company	16 829	16 094
Interest liabilities		
Parent company	-	272

Note 17 Contingent liabilities

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

<i>in thousand kroons</i>	30.06.2008	31.12.2007
Performance period's warranty to the customer	343 463	309 904
Tender warranty	37 003	23 761
Guarantee warranty period	84 295	55 500
Prepayment guarantee	89 400	68 756
Sureties	42 000	9 999
Payment guarantee	1 964	5 176
Letter of credit	-	11 218
Total contingent liabilities	598 125	484 314

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

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

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

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

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

MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 6 months interim report 2008 as presented on pages 3 to 20.

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 30.06.2008 have been prepared in accordance with IAS 34 "Interim Financial Reporting" for condensed interim financial statements. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2007.

Tõnu Toomik	Chairman of the Board		29.08.2008
Alar Lagus	Member of the Board		29.08.2008
Veljo Viitmann	Member of the Board		29.08.2008
Andres Agukas	Member of the Board		29.08.2008
Tõnu Korts	Member of the Board		29.08.2008