

AS MERKO EHITUS GROUP

Consolidated interim report 6M 2009

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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%), OÜ Woody (100%) and AS Tartu Maja Betoontooted (25%).

On 2 April 2009, AS Merko Ehitus and its 100% subsidiary OÜ Rae Tehnopark made a merger agreement with a view of ensuring better transparency of AS Merko Ehitus group and facilitating reporting (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=234355).

At 3 April 2009, a suspicion was elaborated which was earlier submitted against AS Merko Ehitus in relation to the giving of a bribe to Ivo Parbus. While the suspicion submitted at 17 December 2008 stated that the bribe was given for the purpose of accelerating the proceedings with the plans of seven properties, then according to the elaboration of 3 April, the number of properties decreased to three. Concerning the plans for the remaining four properties, a suspicion on the same bribe object was submitted against OÜ Woody, OÜ Metsailu and OÜ Constancia that are subsidiaries of AS Merko Ehitus. In addition to Estravel's gift coupon of EEK 25 thousand, the suspected bribe of AS Merko Ehitus also includes book "Eesti Talurahva Arhitektuur" costing EEK 410. The suspicion submitted against the subsidiaries mentions Estravel's gift coupon of EEK 25 thousand, a book costing EEK 410 and Estravel's gift coupon of EEK 15 thousand as the bribe. The suspects consider the suspicions to be unfounded (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=232461).

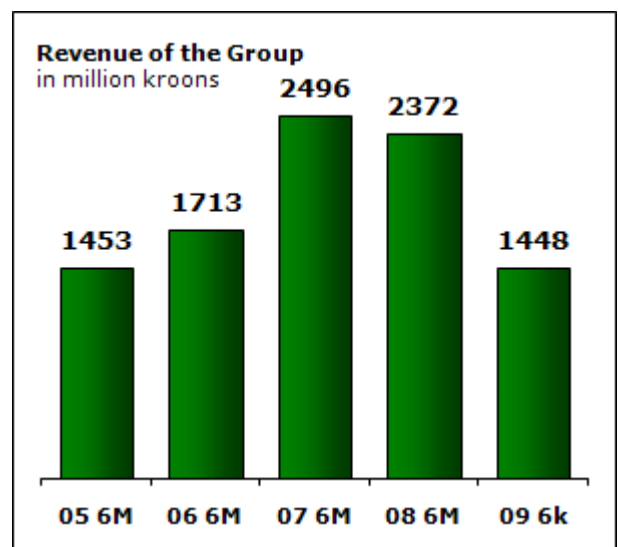
At its 16 April 2009 session, the Government of the Republic of Estonia approved the tender submitted by Tallinna Teede AS (100% subsidiary of AS Merko Ehitus) as the winning tender in the privatisation auction of the 100% holding in the state-owned company AS Vooremaa Teed. The acquisition of AS Vooremaa Teed will significantly improve the group's presence in the road construction and maintenance sector and will create new opportunities for the further development of the field (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=233031).

Operating results

Group's revenue for the 2009 6 months was EEK 1447.9 million, which constitutes an annual decrease of 39.0%. 73.5% of the sales originated from Estonia, 23.0% from Latvia and 3.5% from Lithuania. As compared to with the 2008 6 months, company's sales decreased in Lithuania by 86.7%, in Latvia by 39.3% and in Estonia by 26.4%.

Group's revenue for the II quarter 2009 was EEK 838.7 million, which constitutes an annual decrease of EEK 414.0 million.

Continued decrease in demand in the construction sector due to the overall economic low caused a drop in the period's revenue.

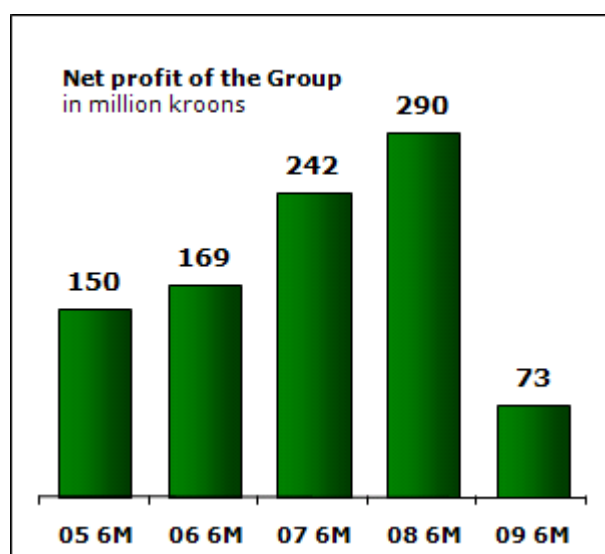


As at 30 June 2009, the group's backlog of construction contracts in progress amounted to EEK 1.8 billion.

The consolidated revenue of the Group's most important companies

<i>in thousand EEK and EUR</i>				
	6 months 2009		6 months 2008	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	797 262	50 954	973 059	62 190
AS Gustaf (75% partnership)	28 596	1 828	98 371	6 287
OÜ Gustaf Tallinn (80% partnership)	36 105	2 308	69 626	4 450
AS Merko Tartu (66% partnership)	50 659	3 238	100 733	6 438
Tallinna Teede AS (100% partnership)	127 881	8 173	176 607	11 287
OÜ Woody (100% partnership)	15 705	1 004	58 170	3 718
Latvian company				
SIA Merks (100% partnership)	332 701	21 263	527 491	33 713
Lithuanian company				
UAB Merko Statyba (100% partnership)	49 207	3 145	361 165	23 083

In one year, the Group's cost of goods sold decreased by 33.1% and marketing and general administrative expenses by 18.5%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 8.7 million decrease in labour costs, EEK 6.1 million decrease in consultation and legal aid and EEK 4.5 million decrease in advertising and sponsoring being 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 88.4% and marketing and administrative costs to 6.7%.



The Group's profit before taxes for 6 months 2009 amounted to EEK 77.9 million, having decreased by EEK 255.8 million compared to 2008 6 months and net profit amounted to EEK 73.2 million, having decreased by EEK 217.0 million or 74.8% correspondingly. The slump in profit was influenced both by the decreased profitability of the construction and development fields and the general fall in construction volumes. The seasonality of the construction business and the cyclic nature of development activities did not have a significant influence on the results of the first half of the year.

In 6 months 2009, the Group sold 146 apartments in total cost of EEK 174.6 million (without VAT). As of 30.06.2009 Group held in inventories unsold 321 completed apartments in total cost EEK 383.0 million and 392 apartments in the construction stage which construction progress was frozen until a recovery in demand.

In second quarter 2009 the group made a 16.0 million kroons loss due to the adjustment of finished residential housing development projects to recoverable amount (market price). The inventories of Merko Ehitus group, including unfinished and finished goods, are carried at cost in the company's accounts, which according to the assessment of the management exceed the recoverable amount of assets at present price levels.

In 6 months 2009 Group's total cash flows amounted to EEK -192.7 million, of which the cash flows from operating activities totalled EEK -5.1 million, from investment activities EEK +0.7 million and from financing activities EEK -188.3 million. The cash flows from operating activities of the reporting period were mostly affected by change in liabilities and prepayments related to operating activities EEK -181.2 million, change in inventories EEK +148.7

million, operating profit EEK +75.9 million and change in receivables and prepayments related to operating activities EEK -32.1 million. From investment activities cash flows EEK -43.8 million from balance of granted/received loans, EEK +28.7 million constituted from realisation of pecuniary means applied to deposits last quarter and EEK +18.6 million from received interests. The cash flows from financing activities were mostly affected by change in the balance of credit liabilities assumed/repaid by EEK -115.1 million and dividends paid EEK -64.7 million.

As of 30 June 2009, the Group has EEK 557.8 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 2009	6 months 2008
Net profit margin	5,1 %	12,2 %
EBT margin	5,4 %	14,1 %
Operating profit margin	5,2 %	14,3 %
Return on equity per annum	7,0 %	26,9 %
Return on assets per annum	3,9 %	14,5 %
Current ratio	2,9	2,3
Quick ratio	1,4	1,1
Equity ratio	56,8 %	56,2 %
General expense ratio	6,7 %	5,0 %
Gross remuneration ratio	10,1 %	9,0 %

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

EBT margin: $\text{Profit before tax} / \text{Revenue}$

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

Return on equity: $\text{Net profit} \times 4^* / \text{Average equity during the period}^*$

Return on assets: $\text{Net profit} \times 4^* / \text{Average assets during the period}$

Current ratio: $\text{Current assets} / \text{Current liabilities}$

Quick ratio: $(\text{Current assets} - \text{Inventories}) / \text{Current liabilities}$

Equity ratio: $\text{Owners equity}^* / \text{Total assets}$

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

Continued worsening of the economic situation, decrease in construction volume and declining of profitability was seen in the first half-year. The economy decreased 18.0% in Latvia, 15.6% in Estonia and 12.6% in Lithuania compared to 2008 first quarter. Statistics Lithuania that published GDP figures for 2009 Q2 announced a 22.4% decrease in economy year-to-year. While Estonia and Latvia publish their GDP figures in the middle of August, one can see already today that the results will be the same as in Lithuania or even worse. There is no hope of the situation improving in 2009.

More strict financing conditions and negative expectations have brought investing activity in the region to a standstill. Most expansion plans have been postponed indefinitely and the private sector is focusing on the management of costs and cash flows. The fall in consumption and income has substantially damaged the revenue base of the public sector and the public sector's capacity to initiate new projects. Majority of new construction projects are started in infrastructure and environment construction sector, funded by the public sector and European Union Structural Funds. Excessive bureaucracy and incapability of the local governments to produce required self-financing restrict a more active use of European monies.

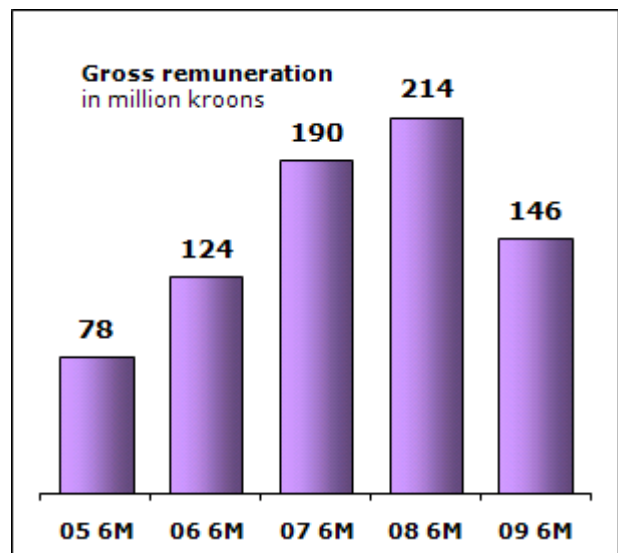
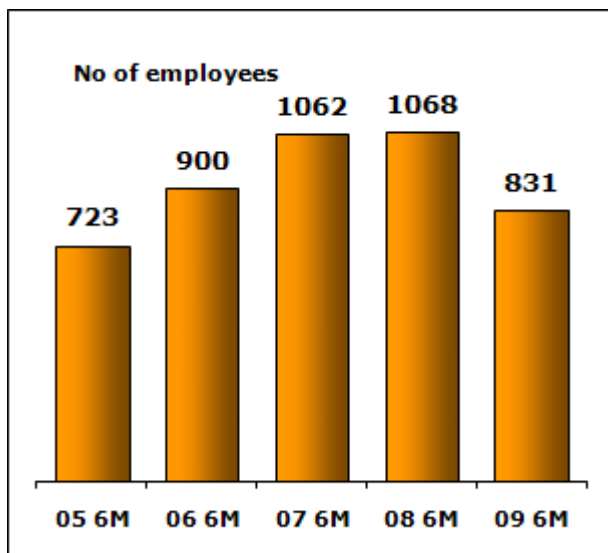
The downward trend of building prices due to decreasing volume and tougher competition was continued, bringing the building prices down to the 2005 level. New construction projects can be considered successful if revenue equals costs. In order to get new projects, tenders are frequently made at lower of direct costs. Such activity is clearly

unsustainable, involving higher business risks for tenderers, execution risks for clients and credit risks for potential suppliers.

Unattractive financing terms and clients who lack sense of security have caused the housing market overcome by lethargy. Reduced demand has pressured the prices to slump 40–50% from their peak and substantially lengthened the period for making a real estate sale. Despite exceptionally favourable building prices, it is not realistic to earn profit from development projects in the current economic situation. Limited availability of financing and lack of positive vision among developers do not create conditions for the improvement of current situation, which is why no new projects are expected in the market. The challenge of the development projects would be to meet undertaken financial liabilities and cope with liquidity issues.

Employees and remuneration

In 30.06.2009, the number of employees in the Group's service was 831, including 808 full-time employees. The Group reduced the number of its personnel by 22.2% or 237 employees in a year. The gross remuneration paid to employees in 6 months 2009 amounted to EEK 145.5 million a decrease of 32,1% compared to previous year. The smaller amount of performance pay, due to the fall in the group's profitability, and the reduced staff levels also contributed to the fall in the group's labour costs.



Shares and shareholders

The main shareholders of AS Merko Ehitus as of 30.06.2009

	Number of shares	Proportion
AS Riverito	12 742 686	71,99%
Skandinaviska Enskilda Banken Ab, clients	999 377	5,65%
ING Luxembourg S.A., clients	963 376	5,44%
Mellon Treaty Omnibus	141 229	0,80%
SEB Elu- ja Pensionikindlustus AS	131 733	0,74%
Clearstream Banking Luxembourg S.A. clients	124 494	0,70%
Skandinaviska Enskilda Banken Finnish, clients	112 260	0,63%
State Street Bank and Trust Omnibus Account a Fund No OM01	106 232	0,60%

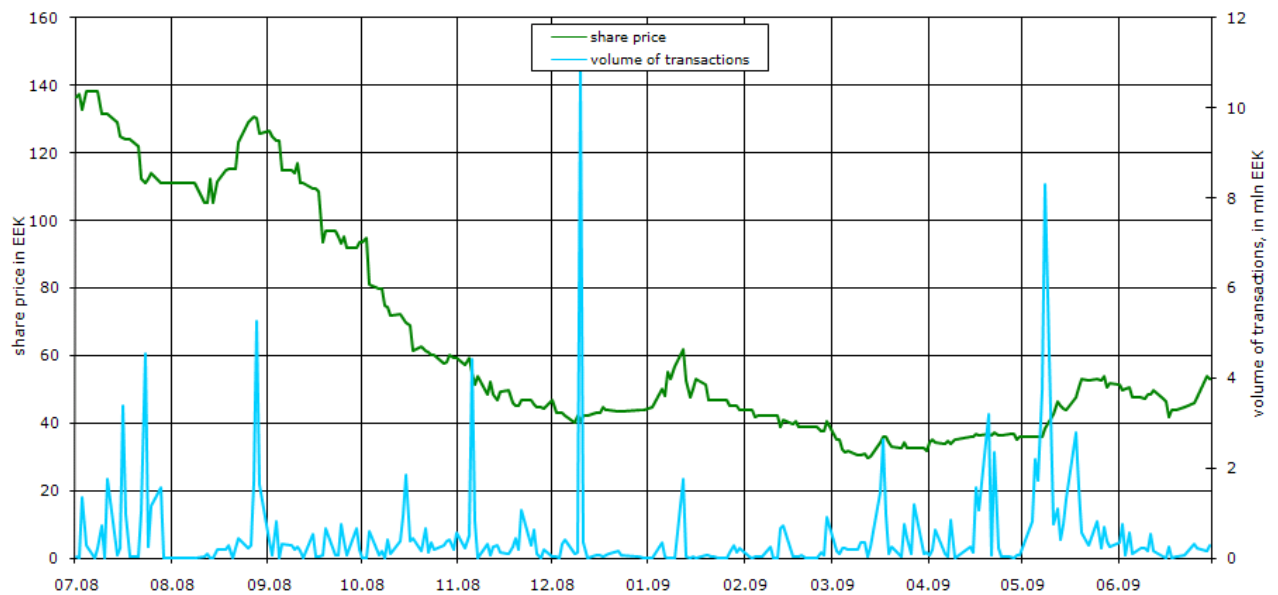
Structure of shareholders as of 30.06.2009

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	326	29,29%	17 203	0,10%
101-1000	500	44,92%	227 988	1,29%
1001-10 000	239	21,47%	671 486	3,79%
10 001 – 100 000	40	3,60%	1 461 936	8,26%
100 001 – 1 000 000	7	0,63%	2 578 701	14,57%
1 000 001 - ...	1	0,09%	12 742 686	71,99%
Total	1113	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2009 first 6 months 1832 transactions with the shares of Merko Ehitus were performed in the course of which 1.6 million shares were traded and the total monetary value of transactions was EEK 60.4 million. The lowest share price was EEK 28.95 and the highest price was EEK 61.80 per share. The closing share price as at 30.06.2009 was EEK 53.20.

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

The diagram reflects the share price of AS Järvevana, the legal predecessor of AS Merko Ehitus, until 1 Aug 2008.



	30.06.2009	30.06.2008	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	4,14	16,39	-74,8%
Equity per share, in kroons	118,08	129,93	-9,1%
P/B (share price to equity per share)	0,45	1,02	-56,0%

STATEMENT OF COMPREHENSIVE INCOME
consolidated, unaudited

	note	EEK		EUR	
		2009 6 months	2008 6 months	2009 6 months	2008 6 months
Revenue	1,2	1 447 887	2 372 305	92 537	151 618
Cost of goods sold	3	(1 280 561)	(1 913 248)	(81 843)	(122 279)
Gross profit		167 326	459 057	10 694	29 339
Marketing expenses		(20 135)	(17 491)	(1 287)	(1 118)
Administrative and general expenses		(76 489)	(101 020)	(4 889)	(6 456)
Other operating income		6 987	5 929	447	379
Other operating expenses		(1 758)	(7 601)	(112)	(486)
Operating profit		75 931	338 874	4 853	21 658
Financial income and expenses		1 997	(5 120)	128	(327)
incl. financial income (expenses) from investments into associates and joint ventures		(5 964)	1 202	(381)	77
interest expense		(14 683)	(7 678)	(938)	(491)
foreign exchange gain		3 884	(5 870)	248	(375)
other financial income and expenses		18 760	7 226	1 199	462
Profit before tax		77 928	333 754	4 9841	21 331
Corporate income tax expense		(4 938)	(40 623)	(316)	(2 596)
Net profit for current period		72 990	293 131	4 665	18 735
incl. equity holders of the parent		73 191	290 178	4 678	18 546
minority interest		(201)	2 953	(13)	189
Other comprehensive income					
Exchange differences on translating foreign subsidiaries		3 930	(6 142)	251	(393)
Comprehensive income		76 920	286 989	4 916	18 342
incl. equity holders of the parent		77 121	284 036	4 929	18 153
minority interest		(201)	2 953	(13)	189
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	4,14	16,39	0,26	1,05

STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

	EEK		EUR	
	2009 II quarter	2008 II quarter	2009 II quarter	2008 II quarter
Revenue	838 696	1 252 733	53 602	80 064
Cost of goods sold	(758 178)	(1 028 871)	(48 456)	(65 757)
Gross profit	80 518	223 862	5 146	14 307
Marketing expenses	(13 085)	(9 603)	(836)	(614)
Administrative and general expenses	(39 480)	(51 647)	(2 523)	(3 301)
Other operating income	5 083	4 236	325	271
Other operating expenses	1 666	(5 874)	106	(375)
Operating profit	34 702	160 974	2 218	10 288
Financial income and expenses	6 322	(3 359)	404	(215)
incl. financial income (expenses) from investments into associates and joint ventures	(2 641)	(1 078)	(169)	(69)
interest expense	(6 844)	(2 095)	(437)	(134)
foreign exchange gain	3 714	(4 178)	237	(267)
other financial income and expenses	12 093	3 992	773	255
Profit before tax	41 024	157 615	2 622	10 073
Corporate income tax expense	(285)	(20 485)	(19)	(1 309)
Net profit for current period	40 739	137 130	2 603	8 764
incl. equity holders of the parent	40 465	135 296	2 586	8 647
minority interest	274	1 834	17	117
Other comprehensive income				
Exchange differences on translating foreign subsidiaries	4 936	(5 251)	315	(336)
Comprehensive income	45 675	131 879	2 918	8 428
incl. equity holders of the parent	45 401	130 045	2 901	8 311
minority interest	274	1 834	17	117
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	2,29	7,64	0,15	0,49

STATEMENT OF FINANCIAL POSITION
consolidated, unaudited

	note	EEK		EUR	
		30.06.2009	31.12.2008	30.06.2009	31.12.2008
ASSETS					
Current assets					
Cash and cash equivalents	5	323 726	515 191	20 690	32 927
Short-term deposits	6	234 109	262 759	14 962	16 793
Trade and other receivables	7	961 713	780 665	61 465	49 894
Prepaid corporate income tax		11 808	3 875	755	247
Inventories	8	1 679 134	1 817 486	107 316	116 158
Assets held for sale		-	173	-	11
Total current assets		3 210 490	3 380 149	205 188	216 030
Non-current assets					
Long-term financial investments	9	233 650	235 810	14 933	15 071
Deferred income tax assets		22 652	24 226	1 448	1 548
Investment property	10	13 602	12 002	870	767
Property, plant and equipment	11	189 152	197 094	12 089	12 597
Intangible assets	12	11 461	11 807	732	755
Total non-current assets		470 517	480 939	30 072	30 738
TOTAL ASSETS		3 681 007	3 861 088	235 260	246 768
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	13	185 081	206 657	11 829	13 208
Trade and other payables	14	895 127	963 631	57 209	61 588
Corporate income tax liability		2 043	8 699	131	556
Short-term provisions	15	35 796	32 317	2 288	2 065
Total current liabilities		1 118 047	1 211 304	71 457	77 417
Non-current liabilities					
Long-term borrowings	13	432 526	531 396	27 643	33 962
Other long-term trade payables	16	8 600	8 824	550	564
Total non-current liabilities		441 126	540 220	28 193	34 526
Total liabilities		1 559 173	1 751 524	99 650	111 943
Equity					
Minority interests		31 732	34 633	2 028	2 213
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		(8 620)	(12 550)	(551)	(802)
Retained earnings		1 904 022	1 892 781	121 690	120 971
		2 090 102	2 074 931	133 582	132 612
Total equity		2 121 834	2 109 564	135 610	134 825
TOTAL LIABILITIES AND EQUITY		3 681 007	3 861 088	235 260	246 768

STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent				Total	Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings			
Balance as at 31.12.2007	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Comprehensive income	-	-	(6 142)	290 178	284 036	2 953	286 989
Dividends	-	-	-	-	-	(6 528)	(6 528)
Business combinations	-	-	-	-	-	(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
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

EUR	Equity attributable to equity holders of the parent				Total	Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings			
Balance as at 31.12.2007	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Comprehensive income	-	-	(393)	18 546	18 153	189	18 342
Dividends	-	-	-	-	-	(417)	(417)
Business combinations	-	-	-	-	-	(1)	(1)
Balance as at 30.06.2008	11 312	1 131	(718)	135 258	146 983	1 940	148 923
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

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	
	2009 6 months	2008 6 months	2009 6 months	2008 6 months
Cash flows from operating activities				
Operating profit	75 931	338 874	4 853	21 658
Adjustments:				
depreciation and impairment charge	12 859	14 116	822	902
(profit) loss from sale of non-current assets	(432)	(386)	(28)	(25)
adjustments of revenue from construction contracts under stage of completion method	13 332	158 283	852	10 116
interest income from business activities	(1 854)	(1 823)	(118)	(117)
government grant and change in other provisions	(1 685)	(17 654)	(108)	(1 128)
Change in trade and other receivables related to operating activities	(32 106)	216 314	(2 052)	13 825
Change in inventories	148 734	30 261	9 505	1 934
Change in trade and other payables related to operating activities	(181 244)	(143 276)	(11 584)	(9 157)
Interests paid	(20 816)	(13 359)	(1330)	(854)
Other financial expenses (income)	(48)	(8)	(3)	(1)
Corporate income tax paid	(17 739)	(29 361)	(1 135)	(1 876)
	<u>(5 068)</u>	<u>551 981</u>	<u>(326)</u>	<u>35 277</u>
Cash flows from investing activities				
Investment in subsidiaries	-40		-3	
Proceeds from sale of subsidiaries	1 125	1 000	72	64
Investments in associates and joint ventures	-	(1 000)	-	(64)
Proceeds from sale of associates and joint ventures	-	58 000	-	3 707
Proceeds from sale of other financial investment	28 650	-	1 831	-
Purchase of investment property	(1 001)	(112)	(64)	(7)
Proceeds from sale of investment property	1 250	-	80	-
Purchase of property, plant and equipment	(3 842)	(13 725)	(246)	(877)
Proceeds from sale of property, plant and equipment	467	1 052	30	67
Purchase of intangible assets	(898)	(1 112)	(57)	(71)
Proceeds from sale of intangible assets	134	-	9	-
Loans granted	(64 808)	(19 372)	(4 142)	(1 238)
Loan repayments received	21 041	4 190	1 345	268
Interest received	18 603	10 876	1 189	695
	<u>681</u>	<u>39 797</u>	<u>44</u>	<u>2 544</u>
Cash flows from financing activities				
Proceeds from borrowings	47 694	87 455	3 048	5 589
Repayments of borrowings	(162 761)	(162 795)	(10 402)	(10 404)
Finance lease principal payments	(8 646)	(7 443)	(553)	(476)
Issue of shares	40	-	3	-
Dividends paid	(64 650)	(6 528)	(4 131)	(417)
	<u>(188 323)</u>	<u>(89 311)</u>	<u>(12 035)</u>	<u>(5 708)</u>
Net increase/decrease in cash and cash equivalents	(192 710)	502 467	(12 317)	32 113
Cash and cash equivalent at beginning of period	515 191	205 564	32 927	13 138
Exchange losses on cash and cash equivalents	1 245	(3 417)	80	(218)
Cash and cash equivalent at end of period	<u>323 726</u>	<u>704 614</u>	<u>20 690</u>	<u>45 033</u>

NOTES

Note 1 Business and geographical segments

in thousand kroons

Business segments

2009 6 months	General construction	Road construction	Concrete elements	Group
Consolidated revenue	1 320 006	127 881	-	1 447 887
Inter-segmental revenue	1 732	40 053	-	41 785
Segment revenue	1 321 738	167 934	-	1 489 672
Segment operating profit	68 369	7 562	-	75 931
Financial income/expenses incl. profit/loss from associates and joint ventures	(670)	-	(5 294)	1 997 (5 964)
Profit before tax				77 928
Corporate income tax				(4 938)
Group's net profit for current period				72 990
incl. attributable to equity owners of the parent minority interest				73 191 (201)
Segment assets	3 220 568	196 900	-	3 417 468
Associates and joint ventures	153 513	-	48 581	202 094
Unallocated assets				61 445
Total consolidated assets				3 681 007
Segment liabilities	(792 149)	(118 517)	-	(910 666)
Unallocated liabilities				(648 507)
Total consolidated liabilities				(1 559 173)
Purchase of investment property	-	1 001	-	1 001
Purchase of property, plant and equipment and intangible assets	1 956	1 886	-	3 842
Depreciation and impairment	(7 554)	(5 305)	-	(12 859)
2008 6 months	General construction	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 incl. profit/loss from associates and joint ventures	367	-	835	(5 120) 1 202
Profit before tax				333 754
Corporate income tax				(40 623)
Group's net profit for current period				293 131
incl. attributable to equity owners of the parent minority interest				290 178 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)

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	
	2009 6 months	2008 6 months
Estonia	1 065 031	1 447 491
Latvia	332 701	548 491
Lithuania	50 155	376 323
Total	1 447 887	2 372 305

	Total assets		Purchase of investment property		Purchase of property, plant and equipment and intangible assets	
	30.06.2009	30.06.2008	2009 6 months	2008 6 months	2009 6 months	2008 6 months
Estonia	2 061 682	2 109 178	1 001	-	3 779	11 641
Latvia	1 371 287	1 559 387	-	112	63	2 869
Lithuania	248 038	424 856	-	-	-	327
Total	3 681 007	4 093 421	1 001	112	3 842	14 837

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

	2009 6 months	2008 6 months
Rendering of services	1 248 413	1 611 074
Sale of real estate and real estate development projects	193 786	759 609
Rental income	1 042	1 196
Sale of goods	4 646	426
Total revenue	1 447 887	2 372 305

Note 3 Cost of goods sold

in thousand kroons

	2009 6 months	2008 6 months
Construction services	699 921	1 164 632
Materials	192 523	190 733
Properties purchased for resale	139 652	224 827
Staff costs	127 579	173 848
Construction mechanisms and transport	38 154	58 472
Design	19 520	37 329
Depreciation and impairment charge	9 211	9 289
Other expenses	54 001	54 118
Total cost of goods sold	1 280 561	1 913 248

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.

	2009 6 months	2008 6 months
Net profit attributable to shareholders <i>(in thousand kroons)</i>	73 191	290 178
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings per share <i>(in kroons)</i>	4,14	16,39

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

	30.06.2009	31.12.2008
Cash on hand	262	346
Bank accounts	26 294	50 691
Overnight deposits	285 170	231 505
Term deposits with maturities of 3 months and less	12 000	232 649
Total cash and cash equivalents	323 726	515 191

Note 6 Short-term deposits

in thousand kroons

	30.06.2009	31.12.2008
Bank deposits with maturities greater than 3 months	234 109	262 759

Note 7 Trade and other receivables

in thousand kroons

	30.06.2009	31.12.2008
Trade receivables		
accounts receivable	649 069	556 511
allowance for doubtful receivables	(19 706)	(20 085)
	<u>629 363</u>	<u>536 426</u>
Tax prepayments excluding corporate income tax		
value added tax	6 695	37 320
social security tax	9	6
other taxes	533	1 268
	<u>7 237</u>	<u>38 594</u>
Amounts due from customers for contract works	155 751	109 305
Other short-term receivables		
short-term loans	100 473	47 454
interest receivables	9 226	6 940
receivable from sale of subsidiary	7 125	7 000
other short-term receivables	3 099	1 519
	<u>119 923</u>	<u>62 913</u>

Prepayments for services		
prepayments for construction services	39 138	24 127
prepaid insurance	1 846	1 540
other prepaid expenses	8 455	7 760
	<hr/>	<hr/>
	49 439	33 427
Total trade and other receivables	<hr/>	<hr/>
	961 713	780 665

Note 8 Inventories

in thousand kroons

	30.06.2009	31.12.2008
Raw materials and materials	6 124	5 372
Work-in-progress	465 379	541 134
Finished goods	454 684	522 205
Goods for resale		
registered immovables purchased for resale	714 043	713 803
other goods purchased for resale	8	11
	<hr/>	<hr/>
	714 051	713 814
Prepayments for inventories		
prepayments for real estate properties	29 730	33 257
prepayments for other inventories	9 166	1 704
	<hr/>	<hr/>
	38 896	34 961
Total inventories	<hr/>	<hr/>
	1 679 134	1 817 486

Note 9 Long-term financial assets

in thousand kroons

	30.06.2009	31.12.2008
Investments in associates and joint ventures	202 094	206 761
Long-term loans	23 307	21 163
Long-term bank deposit	2 809	2 259
Long-term receivable from buyer of subsidiary	1 375	2 625
Long-term receivables from customers of construction services	4 065	3 002
Total long-term financial assets	<hr/>	<hr/>
	233 650	235 810

Note 10 Investment property

in thousand kroons

	30.06.2009	31.12.2008
Land	3 122	2 103
Buildings at carrying amount		
cost	11 408	10 600
accumulated depreciation	(928)	(701)
	<hr/>	<hr/>
	10 480	9 899
Total investment property	<hr/>	<hr/>
	13 602	12 002

Note 11 Property, plant and equipment
in thousand kroons

	30.06.2009	31.12.2008
Land	9 697	9 697
Buildings at carrying amount		
cost	26 352	20 008
accumulated depreciation	(5 335)	(4 909)
	<u>21 017</u>	<u>15 099</u>
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(108)	(104)
	<u>350</u>	<u>354</u>
Machinery and equipment at carrying amount		
cost	195 800	181 732
accumulated depreciation	(80 192)	(67 761)
	<u>115 608</u>	<u>113 971</u>
Other fixtures at carrying amount		
cost	83 488	97 274
accumulated depreciation	(41 527)	(45 022)
	<u>41 961</u>	<u>52 252</u>
Construction in progress	519	5 539
Prepayments for property, plant and equipment	-	182
Total property, plant and equipment	<u>189 152</u>	<u>197 094</u>

Note 12 Intangible assets
in thousand kroons

	30.06.2009	31.12.2008
Software at carrying amount		
cost	17 316	16 377
accumulated depreciation	(7 217)	(5 932)
	<u>10 099</u>	<u>10 445</u>
Prepayments for intangible assets	1 362	1 362
Total intangible assets	<u>11 461</u>	<u>11 807</u>

Note 13 Borrowings
in thousand kroons

	30.06.2009	31.12.2008
Finance lease payables		
Present value of lease payments	45 929	54 541
incl. current portion	13 208	17 198
non-current portion 1...4 years	32 721	37 343
Bank loans		
Loan balance	441 777	553 611
incl. current portion	44 722	62 308
non-current portion 1...5 years	397 055	491 303
Loans from parent		
Loan balance	125 001	125 001
incl. current portion	125 001	125 001
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	571 678	683 512
incl. current portion	171 873	189 459
non-current portion 1...5 years	399 805	494 053
Total borrowings		
incl. current portion	185 081	206 657
non-current portion 1...5 years	432 526	531 396

Note 14 Trade and other payables
in thousand kroons

	30.06.2009	31.12.2008
Trade payables	294 344	366 551
Payables to employees	58 011	63 077
Tax liabilities, except for corporate income tax		
value added tax	23 243	28 211
personal income tax	7 171	8 402
social security tax	12 549	17 841
land tax	41	19
unemployment insurance tax	847	297
contributions to mandatory funded pension	-	546
other taxes	257	1 103
	44 108	56 419
Amounts due to customers for contract works	326 770	266 708
Other liabilities		
interest liabilities	1 164	1 176
dividend liabilities	-	-
payable for registered immovables from demerger	100 000	100 000
other liabilities	1 638	3 811
	102 802	104 987
Prepayments received	69 092	105 889
Total trade and other payables	895 127	963 631

Note 15 Short-term provisions*in thousand kroons*

	30.06.2009	31.12.2008
Provision for warranty obligation for construction	18 201	19 916
Provision for onerous construction contracts	8 365	3 525
Provision for potential cancellation of construction projects	1 294	375
Provision for legal costs and claims filed	7 917	7 882
Other provisions	19	619
Total short-term provisions	35 796	32 317

Note 16 Other long-term trade payables*in thousand kroons*

	30.06.2009	31.12.2008
Trade payables	8 590	8 824
Prepayments received	10	-
Total other long-term trade payables	8 600	8 824

Note 17 Related party transactions

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

- parent company AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, so-called 'entities controlled by the parent company';
- 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 of 30.06.2009 and 31.12.2008, 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*

	2009 6 months	2008 6 months
Purchased construction services		
Associates and joint ventures	1 488	14 256
Entities under joint control	5 379	2 308
Total purchased construction services	6 867	16 564
Rendered construction services		
Associates and joint ventures	4	197
Entities under joint control	20 457	424 548
Other related parties	914	-
Management members	4 652	3 094
Total construction services rendered	26 027	427 839
Construction materials purchased		
Other related parties	16	159
Real estate sold		
Entities under joint control	-	143 324
Total real estate sold	-	143 324

Balances with the related parties*in thousand kroons*

	30.06.2009	31.12.2008
Trade and other receivables		
Trade receivables		
Associates and joint ventures	3	81
Entities under joint control	96 187	117 065
Other related parties	1 051	66
Short-term loans		
Associates and joint ventures	16 900	16 400
Entities under joint control	45 043	4 169
Other related parties	47	-
Interest receivables		
Associates and joint ventures	4 554	3 873
Entities under joint control	4 146	2 505
Other short-term receivables		
Entities under joint control	-	74
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	20 386	18 266
Entities under joint control	2 921	2 896
Other long-term loans and receivables		-
Entities under joint control	1 831	1 831
Borrowings		
Short-term loans and bonds		
Entities under joint control	125 001	125 001
Trade and other payables		
Trade payables		
Associates and joint ventures	-	1 045
Entities under joint control	208	478
Other related parties	5	1
Interest liabilities		
Entities under joint control	625	645
Other short-term liabilities		
Entities under joint control	100 000	100 000

Note 18 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>	30.06.2009	31.12.2008
Performance period's warranty to the customer	233 388	300 657
Tender warranty	69 904	61 258
Guarantee warranty period	114 826	107 491
Prepayment guarantee	73 517	100 110
Sureties	10 018	6 362
Payment guarantee	10 568	-
Letter of credit	1 635	-
Total contingent liabilities	513 856	575 878

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


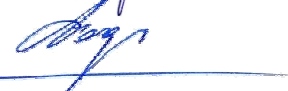


The Management Board of Merko Ehitus has prepared the consolidated 6 months interim report 2009 as presented on pages 3 to 21.

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 30.06.2009 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 2008.

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		07.08.2009
Alar Lagus	Member of the Board		07.08.2009
Veljo Viitmann	Member of the Board		07.08.2009
Andres Agukas	Member of the Board		07.08.2009