

AS MERKO EHITUS GROUP

Consolidated interim report 12M 2008

Commercial Registry No: 11520257

Address: 9G Järvevana road, 11314 Tallinn
Telephone: +372 680 5105
Fax: +372 680 5106
E-mail: merko@merko.ee
Homepage: www.merko.ee
Primary activity: General contracting in construction sector
Auditor: AS PricewaterhouseCoopers
Beginning of financial year: 01.01.2008
End of financial year: 31.12.2008

TABLE OF CONTENTS

MANAGEMENT REPORT 3

INCOME STATEMENT 8

BALANCE SHEET 10

STATEMENT OF CHANGES IN EQUITY 11

CASH FLOW STATEMENT 12

NOTES 13

 Note 1 Business and geographical segments 13

 Note 2 Revenue 14

 Note 3 Cost of goods sold 14

 Note 4 Earnings per share 15

 Note 5 Cash and cash equivalents 15

 Note 6 Trade and other receivables 15

 Note 7 Inventories 16

 Note 8 Long-term financial assets 16

 Note 9 Investment property 16

 Note 10 Property, plant and equipment 17

 Note 11 Intangible assets 17

 Note 12 Borrowings 18

 Note 13 Trade and other payables 18

 Note 14 Short-term provisions 19

 Note 15 Other long-term trade payables 19

 Note 16 Related party transactions 19

 Note 17 Contingent liabilities 21

MANAGEMENT DECLARATION 22

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%).

The presented report provides an overview of the economic activities and financial indicators of AS Merko Ehitus in 2008, including the economic activities and financial indicators of the company's legal predecessor AS Järvevana (previous name AS Merko Ehitus) in the first 7 months of 2008.

On 17 December 2008, the Estonian Security Police Board announced that the company AS Merko Ehitus is under suspicion of offering a gratuity. According to the suspicions, a member of the management board of AS Merko Ehitus gave a book and a travel agency gift certificate worth 25 000 EEK to a city administration official as a gift, considered as a bribe for taking care of the detailed plans of seven registered immovables in the city of Tallinn. AS Merko Ehitus rejects the suspicions against the company. (http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news_id=229083).

On 7 October 2008, AS Merko Ehitus transferred its 100-percent holding in the company OÜ Põrguvälja Soojus (registry code 10711682) as a business area not necessary for the fulfilment of the group's strategic objectives. (http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=227308).

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.

On 3 June 2008 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).

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

On 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).

On 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. 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>.

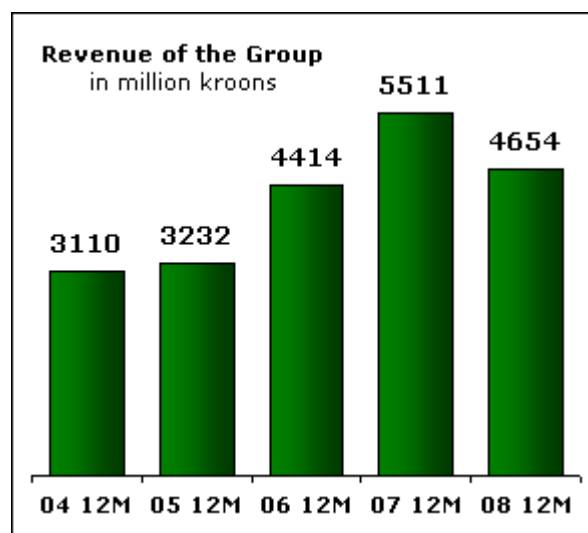
At a joint meeting held at 14 March 2008, the Management Board and the Supervisory Board of AS Merko Ehitus adopted a resolution to restructure the Company and separate operating activities from the criminal proceedings related to the land swap. The Company's management estimates that the restructuring 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 year 2008 was 4653.9 million kroons, which constitutes an annual decrease of 15.5%. 62.2% of the sales originated from Estonia, 19.4% from Latvia and 18.4% from Lithuania. As compared with the year 2007, company's sales in Lithuania increased by 15.8%, and decreased in Latvia by 34.7% and in Estonia by 14.5%.

Group's revenue in the fourth quarter of 2008 was 1101.6 million kroons. Due to the crisis in global economics, the revenue decreased by 545.6 million kroons compared to the year 2007.

As at 31 December 2008, the group's backlog of construction contracts in progress amounted to 2986 million kroons (4136 million kroons as at 31 December 2007).



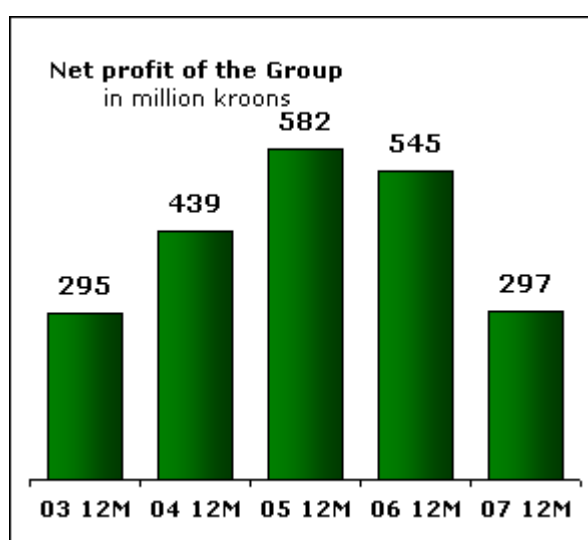
Most important companies of the Group 2008 consolidated revenue (sales outside the Group)

	<i>in thousand kroons and euros</i>			
	12 months 2008		12 months 2007	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	1 861 545	118 974	2 221 823	142 000
AS Gustaf (75% partnership)	142 558	9 111	153 123	9 786
OÜ Gustaf Tallinn (80% partnership)	140 930	9 007	146 568	9 367
AS Merko Tartu (66% partnership)	308 732	19 732	309 282	19 767
Tallinna Teede AS (100% partnership)	432 273	27 627	363 272	23 217
OÜ Woody (100% partnership)	79 803	5 100	218 642	13 974
Latvian company				
SIA Merks (100% partnership)	878 295	56 133	1 225 816	78 344
Lithuanian company				
UAB Merko Statyba (100% partnership)	797 902	50 995	696 010	44 483

In one year, the Group's cost of goods sold decreased by 17.6%, whereas the marketing and general administrative expenses increased by 8.7%, constituting 83.8% and 5.7% of the revenue respectively. Various extraordinary expenses contributed to the increase of marketing and general administrative costs in the period: expenses incurred in the division of AS Merko Ehitus and AS Järvevana, legal aid costs related to the legal succession and experience of Merko Ehitus, redundancy payments and administrative personnel expenses included in general expenses.

As a result of a decrease in demand for residential space and a consequent price drop, the group decreased the sales prices of residential space in the fourth quarter. As a consequence of the this correction, the sales price of flats fell below the costs of their acquisition and construction, and as a result, the group discounted the value of registered immovables, residential development projects, as well as work-in-progress and finished goods below their realisation (market) price in the fourth quarter, and hence resulted in an extraordinary loss of 141.8 million kroons.

In the year 2008, the Group sold 529 flats and as of the year-end owned 412 finished but unsold flats and 449 half-finished flats, of which the construction process was suspended for 438 flats.



The group's profit before taxes for the year 2008 amounted to 328.4 million kroons, having decreased by 262.4 million kroons during the course of the year, and the net profit amounted to 296.6 million kroons, having decreased by 248.5 million kroons correspondingly. The decrease of profit was mostly affected by a discount of inventories in the amount of 150.1 million kroons and a discount of receivables in the amount of 21.0 million kroons, whereas both discounts were caused by deterioration of the economic environment. The net profit of the group before the extraordinary discounts was 467.7 million kroons, having decreased by 13.3% compared to the year 2007.

Group's net cash flow of the twelve months of the year was +577.4 million kroons, including cash flow from operating activities +675.3 million kroons, from investing activities +37.2 million kroons, financing activities -110.1 million kroons and net assets separated in division -25,0 million kroons. The cash flow from operating activities were mostly influenced by the change in trade and other receivables related to operating activities (+357.0 million kroons), operating profit +323.7 million kroons, change in trade and other payables (-252.1 million kroons), change in inventories +177.8 million kroons and adjustments of revenue from construction contracts under stage of completion method +146.7 million kroons.

As at 31 December 2008, the group has 780.2 million kroons of funds on the group's bank accounts.

Construction market

The economic recession, which was to a great extent caused by local issues in the beginning of the year 2008, became more intense in the second half of the year when local deterioration of the financial environment was followed by a global collapse of the monetary market as well as an overall stagnation of the global economy. The changes quickly voided all hopes for a 'soft landing' and quick recovery of economy in the Baltic countries. The economic growth went through a rapid slowdown compared to the 4th quarter of the year 2007 in all Baltic countries. Based on initial estimates, the economy shrank by 10.5% in Latvia, 9.4% in Estonia and 1.5% in Lithuania. All three countries experience problems with balancing the state budget and coping with ongoing obligations. The situation is the severest in Latvia where a decreasing income base makes it complicated for the state to stabilise the financial system with the help of allocations from its limited resources. Essentially, the Latvian state has confessed its inability to cope with the severe problems and turned to the IMF for help. In a situation where the state and local governments were becoming the only contracting entities in the construction industry, such developments had a direct negative impact on the construction market which was already in recession to begin with.

Due to inertness of construction activities, construction volumes still grew in the year 2008 in Latvia and Lithuania, but decreased a little in Estonia. In the first nine months of 2008, construction works were carried out by the company's own forces for 40,645 million kroons in Lithuania, 28,017 million kroons in Latvia and 26,835 million kroons in Estonia. Compared to the corresponding period of 2007, the volume of construction works increased in Latvia by 19.9% and 18.5% in Lithuania, but decreased by 5.4% in Estonia. We can firmly claim that referred indicators do not reflect the current situation in the construction market. Limited access to capital and lack of the sense of security of consumers and entrepreneurs has resulted in a situation where all new projects have been suspended in the private sector. Due to the simultaneous decrease in private initiative and state investments, a significant fall in construction volumes can be expected to occur already in the first half of 2009.

Defying the reality, reports of the Statistical Office still indicate that the price of construction services is increasing in the Baltic countries: the annual increase has been 8.1% in Latvia, 2.6% in Lithuania and 0.5% in Estonia, whereas the labour costs increased in Latvia by 10.3% and decreased in Estonia by 1.7%. Presented data reflect rather the past 12 month period instead of the present market situation. Decreased demand and increased competition have resulted in a drop of service prices. As a result, most new construction offers are now made near the direct cost level, which on the corporate level means dealing with negative profit margins. Desperate price offers for services that remain 30-40% below the production costs are a common phenomenon. Operating on such a price level is not sustainable, as it can only occur on the expense of equity capital or creditors and it will sooner or later result in bankruptcies of financially weaker and less efficient companies.

Pessimistic attitudes grew stronger in the market of residential spaces in the year 2008, which also spread to Latvia and Lithuania. The prices went further down and the first companies went bankrupt. There are no signs of an increase of demand for residential and commercial spaces in the nearby future. In view of available offers at the market and reigning uncertainty the first new residential projects should become available in the market only in the year 2011. The greatest challenge of development activities will be survival in the year 2009. It is vital to concentrate on economising and coping with dried-up financing possibilities and increased liquidity issues.

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

	12 months 2008	12 months 2007
Net profit margin	6,4 %	9,9 %
Earnings before taxes margin	7,1 %	10,7%
Operating profit margin	7,0 %	9,5 %
Return on equity per annum	14,5 %	30,2 %
Return on assets per annum	7,6 %	15,3 %
Current ratio	2,2	2,4
Equity ratio	53,6 %	51,5 %
General expense ratio	5,7 %	4,5 %
Gross remuneration ratio	8,8 %	7,4 %

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

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

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

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

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

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

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

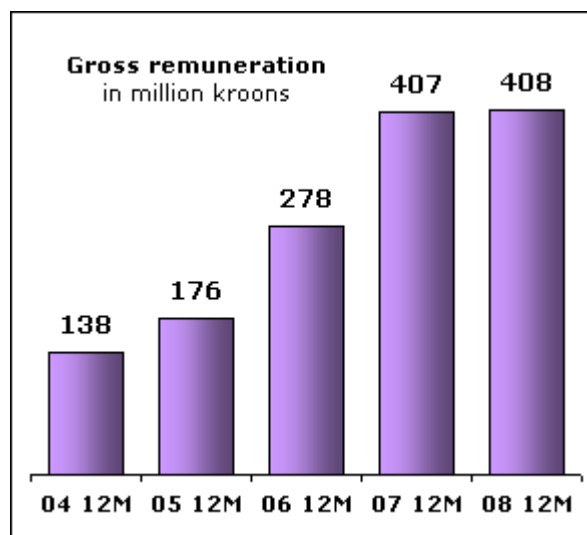
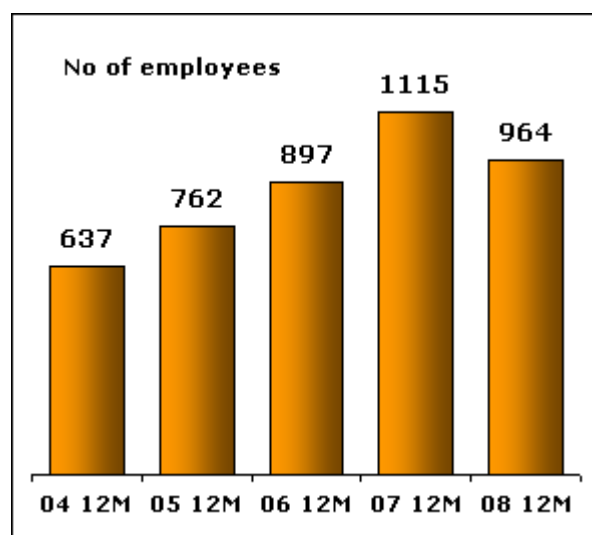
General expense ratio: $\text{General expenses} / \text{Revenue}$

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

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

Employees and remuneration

In 31.12.2008, the number of employees in the Group's service was 964, including 928 full-time employees. The group reduced the number of its personnel by 151 employees, or 13.5% in a year. The gross remuneration paid to employees in 2008 amounted to 408.4 million kroons an increase of 0.5% compared to previous year. Since most lay-offs were done in the 3rd and 4th quarter, their influence on the labour costs of the period remained insignificant.



Shares and shareholders

AS Merko Ehitus biggest shareholders as of 31.12.2008

	No of shares	Proportion
AS Riverito	12 742 686	71,99%
Skandinaviska Enskilda Banken Ab, clients	1 230 013	6,95%
ING Luxembourg S.A., clients	963 376	5,44%
Mellon Treaty Omnibus	205 349	1,16%
The Bank of New York/ING Bank Slaksi A/C ING Parasol	189 683	1,07%

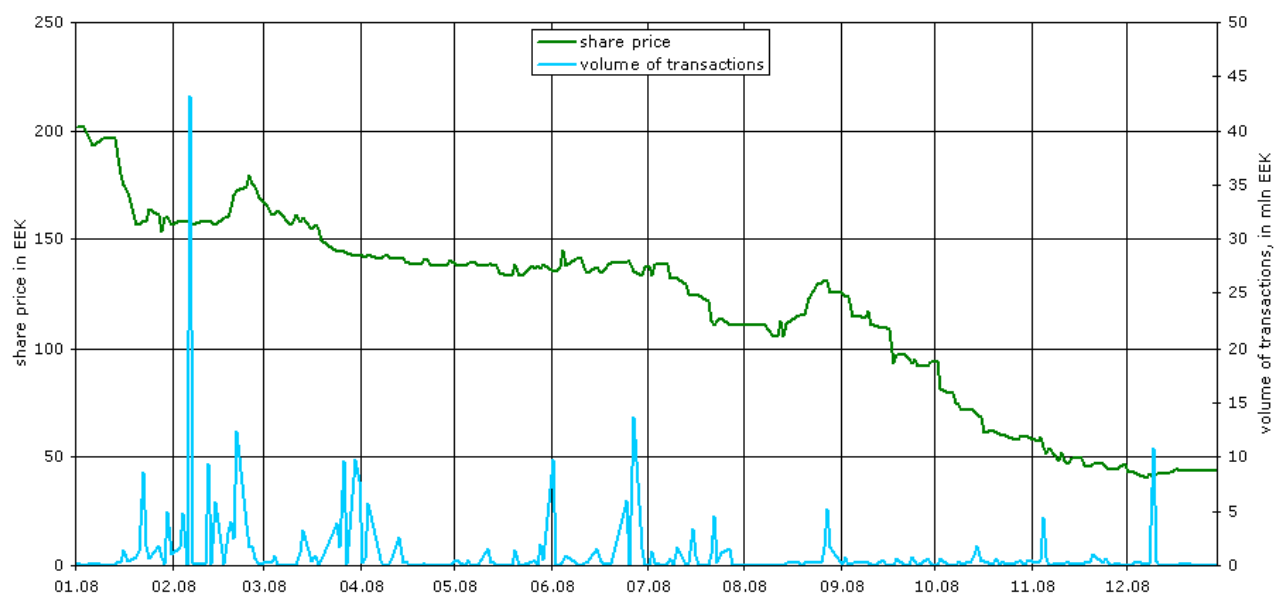
Breakdown of shareholders as of 31.12.2008

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	330	36,55%	17 194	0,10%
101-1000	407	45,07%	170 302	0,96%
1001-10 000	125	13,84%	373 165	2,11%
10 001 – 100 000	31	3,43%	1 120 587	6,33%
100 001 – 1 000 000	8	0,89%	2 046 053	11,56%
1 000 001 - ...	2	0,22%	13 972 699	78,94%
Total	903	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2008 the number of transactions with Merko Ehitus' shares was 2283, during which 2.4 million shares changed ownership and the turnover of the transactions was 285.1 million kroons. The cheapest bargain with a share was 40.40 kroons and highest 202.62 kroons per share. The closing share price with a state of 30.12.2008 was 43.81 kroons.

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.



	31.12.2008	31.12.2007	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	16,75	30,79	-45,6%
Equity per share, in kroons	117,08	113,88	+2,8%
P/B (share price to equity per share)	0,37	1,79	-79,1%
P/E (share price / earnings ratio)	2,61	6,61	-60,4%

in thousand kroons and euros

INCOME STATEMENT

consolidated, unaudited

	note	EEK		EUR	
		2008 12 months	2007 12 months	2008 12 months	2007 12 months
Revenue	1,2	4 653 925	5 510 760	297 440	352 202
Cost of goods sold	3	(3 899 531)	(4 731 752)	(249 225)	(302 415)
Gross profit		754 394	779 008	48 215	49 787
Marketing expenses		(43 921)	(32 472)	(2 807)	(2 075)
Administrative and general expenses		(223 673)	(213 806)	(14 295)	(13 665)
Other operating income		9 504	6 424	607	411
Other operating expenses		(172 560)	(18 109)	(11 029)	(1 157)
Operating profit		323 744	521 045	20 691	33 301
Financial income and expenses		4 627	69 694	296	4 454
incl. financial income (expenses) from investments into subsidiaries		1 418	-	91	-
investments into associate companies and joint ventures		(4 565)	76 440	(292)	4 885
interest expense		(18 392)	(16 948)	(1 175)	(1 083)
foreign exchange gain		(6 942)	(809)	(444)	(52)
other financial income and expenses		33 108	11 011	2 116	704
Profit before tax		328 371	590 739	20 987	37 755
Corporate income tax expense		(26 286)	(30 830)	(1 680)	(1 970)
Net profit for current period		302 085	559 909	19 307	35 785
incl. net profit attributable to equity holders of the parent company		296 554	545 049	18 953	34 835
minority interest		5 531	14 860	354	950
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	4	16,75	30,79	1,07	1,97

INCOME STATEMENT

consolidated, unaudited

	EEK		EUR	
	2008 IV quarter	2007 IV quarter	2008 IV quarter	2007 IV quarter
Revenue	1 101 559	1 647 155	70 402	105 272
Cost of goods sold	(934 650)	(1 343 339)	(59 735)	(85 855)
Gross profit	166 909	303 816	10 667	19 417
Marketing expenses	(17 801)	(12 228)	(1 138)	(782)
Administrative and general expenses	(66 458)	(89 626)	(4 247)	(5 728)
Other operating income	872	1 263	56	81
Other operating expenses	(160 092)	(13 956)	(10 232)	(892)
Operating profit	(76 570)	189 269	(4 894)	12 096
Financial income and expenses	6 680	16 517	429	1 056
incl. financial income (expenses) from investments into subsidiaries	1 418	-	91	-
investments into associate companies and joint ventures	(5 750)	14 953	(367)	956
interest expense	(5 951)	(2 593)	(380)	(166)
foreign exchange gain	417	2 371	27	152
other financial income and expenses	16 546	1 786	1 058	114
Profit before tax	(69 890)	205 786	(4 465)	13 152
Corporate income tax expense	21 293	(12 484)	1 361	(798)
Net profit for current period	(48 597)	193 302	(3 104)	12 354
incl. net profit attributable to equity holders of the parent company	(47 321)	187 025	(3 024)	11 953
minority interest	(1 276)	6 277	(81)	401
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	(2,67)	10,57	(0,17)	0,68

BALANCE SHEET

consolidated, unaudited

		EEK		EUR	
	note	31.12.2008	31.12.2007	31.12.2008	31.12.2007
ASSETS					
Current assets					
Cash and cash equivalents	5	780 210	205 564	49 865	13 138
Trade and other receivables	6	781 145	1 199 566	49 924	76 666
Prepaid corporate income tax		3 875	2 376	248	152
Inventories	7	1 809 350	2 025 426	115 638	129 448
Assets held for sale		173	-	11	-
Total current assets		3 374 753	3 432 932	215 686	219 404
Non-current assets					
Long-term financial investments	8	233 550	287 456	14 926	18 372
Deferred income tax assets		24 279	3 396	1 552	217
Investment property	9	17 545	7 361	1 121	470
Property, plant and equipment	10	201 096	172 912	12 852	11 051
Intangible assets	11	11 807	12 574	755	804
Total non-current assets		488 277	483 699	31 206	30 914
TOTAL ASSETS		3 863 030	3 916 631	246 892	250 318
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	12	535 748	304 879	34 241	19 485
Trade and other payables	13	963 870	1 015 492	61 602	64 902
Corporate income tax liability		8 699	16 718	556	1 068
Government grants		-	1 498	-	96
Short-term provisions	14	38 307	73 212	2 448	4 680
Total current liabilities		1 546 624	1 411 799	98 847	90 231
Non-current liabilities					
Long-term borrowings	12	202 304	397 713	12 930	25 418
Other long-term trade payables	15	8 824	57 423	564	3 670
Total non-current liabilities		211 128	455 136	13 494	29 088
Total liabilities		1 757 752	1 866 935	112 341	119 319
Equity					
Minority interests		32 933	33 939	2 105	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		(12 550)	(5 085)	(802)	(325)
Retained earnings		1 890 195	1 826 142	120 805	116 712
		2 072 345	2 015 757	132 446	128 830
Total equity		2 105 278	2 049 696	134 551	130 999
TOTAL LIABILITIES AND EQUITY		3 863 030	3 916 631	246 892	250 318

STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent company				Total	Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings			
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	-	-	666	-	666	-	666
Net profit for current period	-	-	-	545 049	545 049	14 860	559 909
Dividends	-	-	-	(123 900)	(123 900)	(5 065)	(128 965)
Minority interest investment	-	-	-	-	-	5 240	5 240
Balance as at 31.12.2007	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
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	-	-	(7 465)	-	(7 465)	-	(7 465)
Net assets separated on division	-	-	-	(232 501)	(232 501)	-	(232 501)
Net profit for current period	-	-	-	296 554	296 554	5 531	302 085
Dividends	-	-	-	-	-	(6 528)	(6 528)
Minority interest liquidation	-	-	-	-	-	(9)	(9)
Balance as at 31.12.2008	177 000	17 700	(12 550)	1 890 195	2 072 345	32 933	2 105 278

EUR	Equity attributable to equity holders of the parent company				Total	Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings			
Balance as at 31.12.2006	11 312	1 131	(368)	89 796	101 871	1 208	103 079
Effect of exchange rate changes	-	-	43	-	43	-	43
Net profit for current period	-	-	-	34 835	34 835	950	35 785
Dividends	-	-	-	(7 919)	(7 919)	(324)	(8 243)
Minority interest investment	-	-	-	-	-	335	335
Balance as at 31.12.2007	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Balance as at 31.12.2007	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Effect of exchange rate changes	-	-	(477)	-	(477)	-	(477)
Net assets separated on division	-	-	-	(14 860)	(14 860)	-	(14 860)
Net profit for current period	-	-	-	18 953	18 953	354	19 307
Dividends	-	-	-	-	-	(417)	(417)
Minority interest liquidation	-	-	-	-	-	(1)	(1)
Balance as at 31.12.2008	11 312	1 131	(802)	120 805	132 446	2 105	134 551

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	2007	2008	2007
	12 months	12 months	12 months	12 months
Cash flows from operating activities				
Operating profit	323 744	521 045	20 691	33 301
Adjustments:				
depreciation and impairment charge	33 376	28 670	2 133	1 832
(profit) loss from sale of non-current assets	(929)	(275)	(59)	(18)
adjustments of revenue from construction contracts under stage of completion method	146 669	(130 927)	9 374	(8 368)
interest income from business activities	(1 404)	(2 844)	(90)	(182)
government grant and change in other provisions	(41 550)	49 456	(2 656)	3 161
profit on acquisition of subsidiary	-	(720)	-	(46)
Change in trade and other receivables related to operating activities	356 963	(108 379)	22 814	(6 927)
Change in inventories	177 825	(665 436)	11 365	(42 529)
Change in trade and other payables related to operating activities	(252 139)	(127 742)	(16 115)	(8 164)
Interests paid	(17 825)	(17 144)	(1 139)	(1 096)
Other financial expenses (income)	(112)	(11)	(7)	(1)
Corporate income tax paid	(49 281)	(34 597)	(3 150)	(2 211)
	<u>675 327</u>	<u>(488 904)</u>	<u>43 191</u>	<u>(31 248)</u>
Cash flows from investing activities				
Investment into subsidiaries	(15 000)	(29 575)	(959)	(1 890)
Proceeds from sale of subsidiaries	7 000	500	447	32
Investments into associates and joint ventures	(1 000)	(3 352)	(64)	(214)
Proceeds from sale of associates and joint ventures	60 231	-	3 850	-
Purchase of investment property	(5 314)	-	(339)	-
Purchase of property, plant and equipment	(19 414)	(48 757)	(1 241)	(3 116)
Proceeds from sale of property, plant and equipment	2 895	2 718	185	174
Purchase of intangible assets	(1 837)	(4 413)	(117)	(282)
Proceeds from sale of intangible assets	1	-	0	-
Loans granted	(22 307)	(145 692)	(1 426)	(9 311)
Loan repayments received	175	134 599	11	8 602
Interest received	31 726	16 226	2 086	1 037
Dividends received	-	4 380	-	280
	<u>37 156</u>	<u>(73 366)</u>	<u>2 375</u>	<u>(4 688)</u>
Cash flows from financing activities				
Proceeds from borrowings	213 910	582 283	13 671	37 215
Repayments of borrowings	(300 599)	(345 739)	(19 212)	(22 097)
Finance lease principal payments	(16 909)	(14 260)	(1 080)	(911)
Dividends paid	(6 528)	(128 965)	(417)	(8 242)
	<u>(110 126)</u>	<u>93 319</u>	<u>(7 038)</u>	<u>5 965</u>
Pecuniary means assigned on division	(25 000)	-	(1 598)	-
Change in cash and cash equivalents	577 357	(468 951)	36 900	(29 971)
Cash and cash equivalent at beginning of period	205 564	676 143	13 138	43 213
Exchange gains/(losses) on cash and cash equivalents	(2 711)	(1 628)	(173)	(104)
Cash and cash equivalent at end of period	<u>780 210</u>	<u>205 564</u>	<u>49 865</u>	<u>13 138</u>

NOTES

Note 1 Business and geographical segments

in thousand kroons

Business segments

2008 12 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	4 221 652	432 273	-	4 653 925
Inter-segmental revenue	10	23 903	-	23 913
Segment revenue	4 221 662	456 176	-	4 677 838
Segment operating profit	318 543	5 201	-	323 744
Financial income/expenses				4 627
incl. profit/loss from associates and joint ventures	(1 269)	-	(3 171)	(4 440)
Profit before tax				328 371
Corporate income tax				(26 286)
Net profit of the Group				302 085
incl. attributable to equity owners of the parent company				296 554
minority interest				5 531
Segment assets	3 390 583	176 119	-	3 566 702
Associates and joint ventures	152 886	-	53 875	206 761
Unallocated assets				89 567
Total consolidated assets				3 863 030
Segment liabilities	903 939	82 092	-	986 031
Unallocated liabilities				771 721
Total consolidated liabilities				1 757 752
Purchase of investment property	5 314	-	-	5 314
Purchase of property, plant and equipment and intangible assets	13 249	7 396	-	20 645
Depreciation and impairment	21 050	12 326	-	33 376
2007 12 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	5 004 039	506 721	-	5 510 760
Inter-segmental revenue	191	199	-	390
Segment revenue	5 004 230	506 920	-	5 511 150
Segment operating profit	487 697	33 348	-	521 045
Financial income/expenses				69 694
incl. profit/loss from associates and joint ventures	55 577	-	20 863	76 440
Profit before tax				590 739
Corporate income tax				(30 830)
Net profit of the Group				559 909
incl. attributable to equity owners of the parent company				545 049
minority interest				14 860
Segment assets	3 406 435	178 816	-	3 585 251
Associates and joint ventures	215 922	-	57 042	272 964
Unallocated assets				58 416
Total consolidated assets				3 916 631
Segment liabilities	(1 083 479)	(82 223)	-	(1 165 702)
Unallocated liabilities				(701 232)
Total consolidated liabilities				(1 866 934)
Purchase of property, plant and equipment and intangible assets	52 129	21 822	-	73 951
Depreciation and impairment	(18 654)	(10 014)	-	(28 668)

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	
	2008 12 months	2007 12 months
Estonia	2 893 305	3 385 635
Latvia	905 344	1 386 332
Lithuania	855 276	738 793
Total	4 653 925	5 510 760

	Total assets		Purchase of investment property		Purchase of property, plant and equipment and intangible assets	
	31.12.2008	31.12.2007	2008 12 months	2007 12 months	2008 12 months	2007 12 months
Estonia	2 052 943	2 022 549	4 310	-	14 273	59 117
Latvia	1 418 020	1 486 220	1 004	-	6 035	14 741
Lithuania	392 067	407 862	-	-	338	93
Total	3 863 030	3 916 631	5 314	-	20 646	73 951

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 12 months	2007 12 months
Rendering of services	3 577 946	4 591 719
Sale of real estate and real estate development projects	1 070 021	915 741
Rental income	2 694	2 163
Sale of goods	3 264	1 137
Total revenue	4 653 925	5 510 760

Note 3 Cost of goods sold

in thousand kroons

	2008 12 months	2007 12 months
Construction services	2 350 606	3 191 237
Materials	399 557	419 679
Properties purchased for resale	426 137	398 825
Staff costs	356 945	373 901
Construction mechanisms and transport	137 136	106 955
Design	81 547	92 772
Depreciation and impairment charge	24 327	20 596
Other expenses	123 276	127 787
Total cost of goods sold	3 899 531	4 731 752

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 12 months	2007 12 months
Net profit attributable to shareholders <i>(in thousand kroons)</i>	296 554	545 049
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings per share <i>(in kroons)</i>	<u>16,75</u>	<u>30,79</u>

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

	31.12.2008	31.12.2007
Cash on hand	346	116
Bank accounts	102 876	53 722
Short-term deposits	676 988	151 726
Total cash and bank	<u>780 210</u>	<u>205 564</u>

Note 6 Trade and other receivables

in thousand kroons

	31.12.2008	31.12.2007
Trade receivables		
accounts receivable	557 096	886 967
allowance for doubtful receivables	(20 992)	(2 111)
	<u>536 104</u>	<u>884 856</u>
Tax prepayments excluding corporate income tax		
value added tax	37 226	38 139
social security tax	6	12
other taxes	1 268	1
	<u>38 500</u>	<u>38 152</u>
Amounts due from customers for contract works	109 291	151 119
Other short-term receivables		
short-term loans	47 454	41 135
interest receivables	6 940	2 075
receivable from sale of subsidiary	7 000	1 000
other short-term receivables	1 525	2 662
	<u>62 919</u>	<u>46 872</u>
Prepayments for services		
prepayments for construction services	25 112	64 864
prepaid insurance	1 540	2 339
other prepaid expenses	7 679	11 364
	<u>34 331</u>	<u>78 567</u>
Total trade and other receivables	<u>781 145</u>	<u>1 199 566</u>

Note 7 Inventories*in thousand kroons*

	31.12.2008	31.12.2007
Materials	5 372	3 501
Work-in-progress	541 134	1 209 117
Finished goods	522 205	72 434
Goods for resale		
land purchased for resale	705 667	704 111
other goods purchased for resale	11	13
	<hr/> 705 678	<hr/> 704 124
Prepayments for inventories		
prepayments for real estate properties	33 257	35 653
prepayments for other inventories	1 704	597
	<hr/> 34 961	<hr/> 36 250
Total inventories	<hr/> 1 809 350	<hr/> 2 025 426

* Land purchased for resale includes properties of commercial, production and residential land with a total surface area of 2264 thousand m² (with an average acquisition cost of 312 kroons per square metre). Mentioned figure does not include associate company's land with a total surface area 294 thousand m².

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

	31.12.2008	31.12.2007
Investments in associates and joint ventures	206 761	272 964
Long-term loans	21 163	8 667
Long-term receivable from buyer of subsidiary	2 625	3 625
Long-term receivables from customers of construction services	3 001	2 200
Total long-term financial assets	<hr/> 233 550	<hr/> 287 456

Note 9 Investment property*in thousand kroons*

	31.12.2008	31.12.2007
Land	7 646	2 136
Buildings at carrying amount		
cost	10 600	5 600
accumulated depreciation	(701)	(375)
	<hr/> 9 899	<hr/> 5 225
Total investment property	<hr/> 17 545	<hr/> 7 361

Note 10 Property, plant and equipment
in thousand kroons

	31.12.2008	31.12.2007
Land	13 699	15 943
Buildings at carrying amount		
cost	20 008	24 627
accumulated depreciation	(4 909)	(4 246)
	<hr/> 15 099	<hr/> 20 381
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(104)	(95)
	<hr/> 354	<hr/> 363
Machinery and equipment at carrying amount		
cost	181 732	153 587
accumulated depreciation	(67 761)	(55 100)
	<hr/> 113 971	<hr/> 98 487
Other fixtures at carrying amount		
cost	97 274	64 970
accumulated depreciation	(45 022)	(35 996)
	<hr/> 52 252	<hr/> 28 974
Construction in progress	5 539	36
Prepayments for property, plant and equipment	182	8 728
Total property, plant and equipment	<hr/> 201 096	<hr/> 172 912

Note 11 Intangible assets
in thousand kroons

	31.12.2008	31.12.2007
Software at carrying amount		
cost	16 377	14 443
accumulated depreciation	(5 932)	(3 682)
	<hr/> 10 445	<hr/> 10 761
Prepayments for intangible assets	1 362	1 813
Total intangible assets	<hr/> 11 807	<hr/> 12 574

Note 12 Borrowings
in thousand kroons

	31.12.2008	31.12.2007
Finance lease payables		
Present value of lease payments	54 541	48 114
incl. current portion	17 198	11 879
non-current portion 2...4 years	37 343	36 235
Loans		
Loan balance	553 611	630 543
incl. current portion	391 400	273 965
non-current portion 2...5 years	162 211	356 578
Loans from parent company		
Loan balance	-	19 035
incl. current portion	-	19 035
Loans from other companies		
Loan balance	129 900	4 900
incl. current portion	127 150	-
non-current portion 2...5 years	2 750	4 900
Total loans		
Loans balance	683 511	654 478
incl. current portion	518 550	293 000
non-current portion 2...5 years	164 961	361 478
Total borrowings		
incl. current portion	738 052	702 592
non-current portion 2...5 years	535 748	304 879
	202 304	397 713

Note 13 Trade and other payables
in thousand kroons

	31.12.2008	31.12.2007
Payables to suppliers	365 934	528 857
Payables to employees	63 078	74 892
Tax liabilities, except for corporate income tax		
value added tax	28 211	26 979
personal income tax	8 402	10 720
social security tax	17 841	17 654
land tax	19	46
unemployment insurance tax	297	319
contributions to mandatory funded pension	546	527
other taxes	1 103	570
	56 419	56 815
Amounts due to customers for contract works	266 702	161 725
Other payables		
interest liabilities	1 176	465
other payables	104 672	21 503
	105 848	21 968
Advance payments received	105 889	171 235
Total trade and other payables	963 870	1 015 492

Note 14 Short-term provisions
in thousand kroons

	31.12.2008	31.12.2007
Provision for warranty obligation for construction	18 916	15 625
Provision for onerous construction contracts	10 515	32 512
Provision for potential cancellation of construction projects	375	1 934
Provision for legal costs and claims filed	7 882	22 786
Other provisions	619	355
Total short-term provisions	38 307	73 212

Note 15 Other long-term trade payables
in thousand kroons

	31.12.2008	31.12.2007
Payables to suppliers	8 824	11 091
Advance payments received	-	46 332
Total other long-term trade payables	8 824	57 423

Note 16 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 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 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 Riverito. As at 31.12.2008 and 31.12.2007, 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

	2008 12 months	2007 12 months
Purchased construction services		
Associates and joint ventures	31 098	86 123
Entities controlled by the parent company	11 870	8 425
Total purchased construction services	42 968	94 548
Rendered construction services		
Associates and joint ventures	1 944	33 642
Entities controlled by the parent company	934 790	1 576 911
Other related parties	1 865	-
Management members	6 412	10 027
Total construction services rendered	945 011	1 625 580
Construction materials purchased		
Other related parties	151	211
Real estate sold		
Entities controlled by the parent company	142 480	81 583
Other related parties	1 212	-
Total real estate sold	143 692	-

Balances with the related parties*in thousand kroons*

	31.12.2008	31.12.2007
Trade and other receivables		
Trade receivables		
Associates and joint ventures	81	16 046
Entities controlled by the parent company	120 291	182 802
Management members	66	-
Short-term loans		
Associates and joint ventures	16 400	7 000
Entities controlled by the parent company	4 169	4 236
Interest receivables		
Associates and joint ventures	3 873	649
Entities controlled by the parent company	2 505	-
Other short-term receivables		
Other related parties	-	2
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	18 266	5 725
Entities controlled by the parent company	4 727	2 942
Borrowings		
Short-term loans and bonds		
Parent company	-	19 035
Entities controlled by the parent company	125 001	-
Other related parties	2 150	-
Trade and other payables		
Payables to suppliers		
Associates and joint ventures	1 045	11 098
Entities controlled by the parent company	456	326
Other related parties	1	-
Interest liabilities		
Parent company	-	272
Entities controlled by the parent company	645	-
Other short-term liabilities		
Entities controlled by the parent company	100 000	-
Prepayments received		
Entities controlled by the parent company	-	16 094

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>	31.12.2008	31.12.2007
Performance period's warranty to the customer	188 456	309 904
Tender warranty	20 515	23 761
Guarantee warranty period	75 778	55 500
Prepayment guarantee	65 232	68 756
Sureties	124 752	9 999
Payment guarantee	-	5 176
Letter of credit	-	11 218
Total contingent liabilities	474 733	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 12 months interim report 2008 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 12 months period ending 31.12.2008 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.

Tiit Roben	Chairman of the Board		26.02.2009
Alar Lagus	Member of the Board		26.02.2009
Veljo Viitmann	Member of the Board		26.02.2009
Andres Agukas	Member of the Board		26.02.2009