

# AS MERKO EHITUS GROUP

## Consolidated interim report 12M 2007

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

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## MANAGEMENT REPORT

### General information

Merko Ehitus is a leading building corporation offering integrated solutions since 1990, with branches currently in Estonia, Latvia and Lithuania. 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 April 5 2007 AS Merko Ehitus acquired 75% holding of OÜ Fort Ehitus (Registry Code 10722444). Principal activities of OÜ Fort Ehitus are hydraulic engineering and pile works. The holding was acquired in order to strengthen competence of the group in the field of pile works and hydraulic engineering construction ([http://www.baltic.omxgroup.com/market/?pg=news&news\\_id=213583](http://www.baltic.omxgroup.com/market/?pg=news&news_id=213583)).

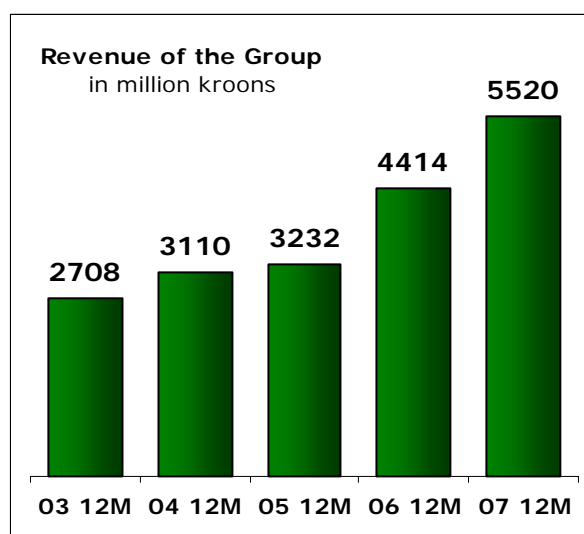
On October 15<sup>th</sup>, 2007, the Prosecutor's Office brought up a suspicion against AS Merko Ehitus and Chairman of the company's Supervisory Board, Mr. Toomas Annus, for bribing and abuse of confidence. The contents of the suspicions filed were incomprehensible for the management of AS Merko Ehitus as the activities of both the company and its management bodies has been and is correct in all aspects and in compliance with the law of the Republic of Estonia. The suspicions and comments by Merko Ehitus were disclosed in the company's stock exchange release of 23.10.2007 ([http://www.baltic.omxgroup.com/market/?pg=news&news\\_id=218499](http://www.baltic.omxgroup.com/market/?pg=news&news_id=218499)).

The impact of the suspicions on the company's economic outcomes in 2007 is insignificant. Nevertheless, the management considers it important to mention that filing of suspicions may, in mid-term perspective, influence the company's competitiveness and competition situation in Estonian building market, as a whole.

### Business operations

Group's revenue for the 12 months in 2007 were 5520.0 million kroons, which constitutes an annual increase of 25.0%. 61.4% of the sales originated from Estonia, 25.2% from Latvia and 13.4% from Lithuania. As compared with the respective period in 2006, company's sales in Latvia increased by 31.6%, in Lithuania by 30,9% and in Estonia by 21.4%.

Group's revenue in the fourth quarter of 2007 were 1656.4 million having increased by 313.0 million kroons or by 23.3% as compared to the same period in 2006. The seasonality of road construction works and sales of housing projects in fourth quarter had a positive effect on the revenue.

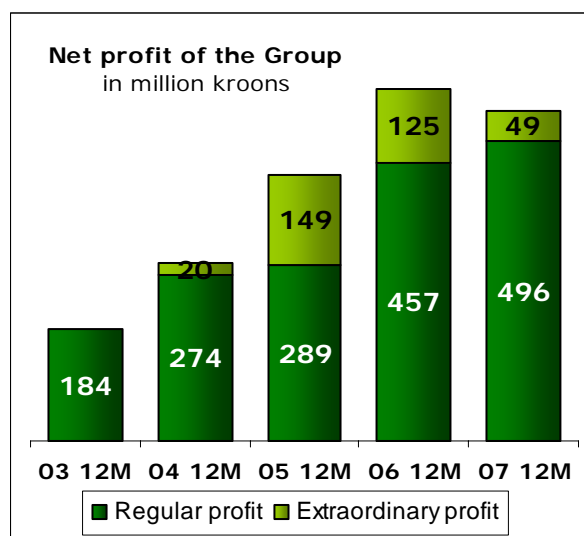


Most important companies of the Group 12 months 2007 consolidated revenue (sales outside the Group)

	<i>in thousand kroons and euros</i>			
	2007 12 months		2006 12 months	
	EEK	EUR	EEK	EUR
<b>Estonian companies</b>				
AS Merko Ehitus (parent company)	2 256 611	144 224	1 864 882	119 188
AS Gustaf (75% partnership)	153 123	9 786	97 049	6 203
OÜ Gustaf Tallinn (80% partnership)	148 108	9 466	124 068	7 929
AS Merko Tartu (66% partnership)	309 282	19 767	255 769	16 347
Tallinna Teede AS (100% partnership)	363 272	23 217	317 591	20 298
OÜ Woody (100% partnership)	218 641	13 974	306 354	19 580
<b>Latvian company</b>				
SIA Merks (100% partnership)	1 229 043	78 550	973 636	62 227
<b>Lithuanian company</b>				
UAB Merko Statyba (100% partnership)	696 010	44 483	507 309	32 423

Compared to 12M 2006 the cost of goods sold increased by 27.4% and the marketing and general administration costs 37.0% forming respectively 86.0% and 4.3% of the sales. Increase in expenses exceeding the growth in income led to a lower gross margin of 14.0% as compared to 15.6% in 2006. Also, the operating profit margin fell from 14.3% to 9.5%.

The net profit of the Group for 12M 2007 was 544.5 million kroons. Extraordinary profit from sale of land plots contributed 48.7 million kroons. In a year, the Group's net profit from core business increased from 456.6 million to 495.9 million kroons with a yearly growth of 6.8%. Due to the decrease of the gross and operating profit margin, the net profit margin decreased during the reference period from 13.2% to 9.9%.



Group's net cash flow of the 12 months of the year was -473.3 million kroons, including cash flow from operating activities -489.3 million kroons, from investing activities -75.4 million kroons and financing activities +91.4 million kroons. The cash flow from operating activities were mostly influenced by the change in inventories arising from development activities (-665.7 million kroons) and change in trade payables related to operating activities (-129.9 million kroons). The negative cash flow of the period was covered with additional loans (net cash flow of the period from borrowings +220.4 million kroons) and liquid assets of the Group.

### Construction market

Problems in the US housing market and related negative background for the real estate and financial sector and negative outlooks, attributable to the economies of the Baltic States, have had little impact on the main building market indices of the region. According to the information of the Statistical Office, the building market grew in all the Baltic States during the first 9 months of the year 2007: building works conducted with own forces grew, compared to the current prices of 2006, during the 9 month in Latvia, Lithuania, and Estonia, respectively, by 43.8%, 43.5% and 25.3%. At the same time, different development stages can be distinguished in the building market by states: rapid market growth is notable in Latvia and Lithuania while in Estonia activity level is lower and the growth in volume is slowing down.

The growth of building prices slowed down in the UV quarter; the price of the services, compared to the IV quarter of the year 2006, in Latvia, Lithuania and Estonia grew, respectively, by 22.3%, 15.6% and 8.6%, including the growth of labour costs in Latvia and Estonia, respectively, by 43.3% and 14.4%. We do believe that rapid growth of building prices, experienced over the last years, is now a problem of the past and stabilisation of prices will characterise the building market in 2008.

The housing market of Latvia and Estonia was characterised by low demand and considerable decline in volume of transactions; the supply of new apartments went up and differentiation of sales price of different projects took place. Certain improvement of the situation can, due to seasonal nature of housing market, only be expected in spring and summer when the housing market usually becomes more active.

As the result of passive market, developers have frozen majority of their new projects for an undetermined period. This may cause disproportion in demand and supply in the end of 2008/beginning of 2009. Until then, the biggest challenge of the sector is to cope in the condition of restricted financing alternatives and skilful management of solvency risks that arise from extended sales period of apartments.

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

	2007 12 months	2006 12 months
Net profit margin	9,0 %*	10,3 %*
Operating profit margin	9,5 %	14,3 %

Return on equity per annum	30,2 %	43,2 %
Return on assets per annum	15,3 %	21,4 %
Current ratio	2,4	2,0
Equity ratio	51,4 %	49,6 %
General expenses to sales	4,3 %	3,9 %
Staff costs to sales	9,2 %	8,0 %
Average number of full-time employees	1025	850

\* less extraordinary profit

Net profit margin: Net profit\* / Sales

Operating profit margin: Operating profit / Sales

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

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

Current ratio: Current assets / Current liabilities

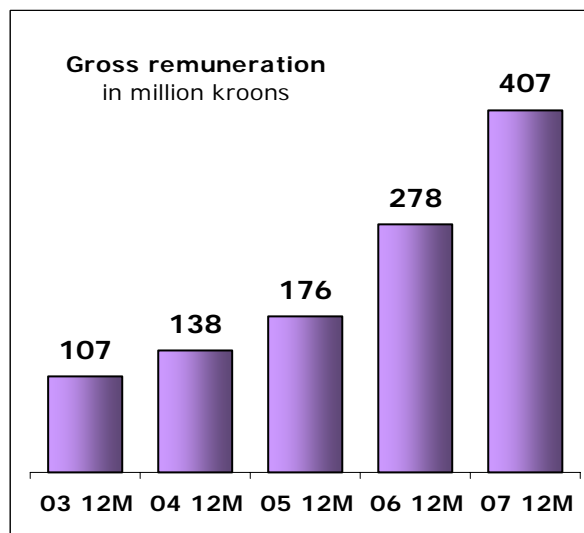
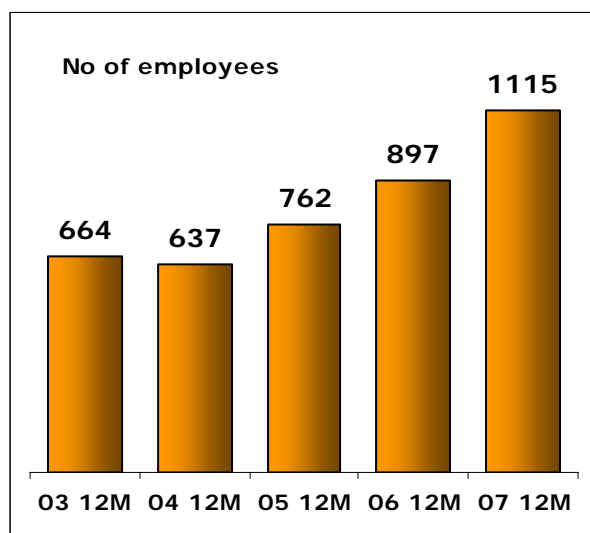
Equity ratio: Owners equity\* / Total assets

General expenses to sales: General expenses / Sales

Staff costs to sales: Staff costs / Sales

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

In 31.12.2007, the number of employees in the Group's service was 1115, including 1079 full-time employees. The number of the Group's employees increased by 24.3% (218 new employees were recruited). The gross remuneration paid to full-time personnel in 12 months 2007 amounted to 406.6 million kroons an increase of 46.3% compared to previous year.



## Shares and shareholders

AS Merko Ehitus biggest shareholders as of 31.12.2007

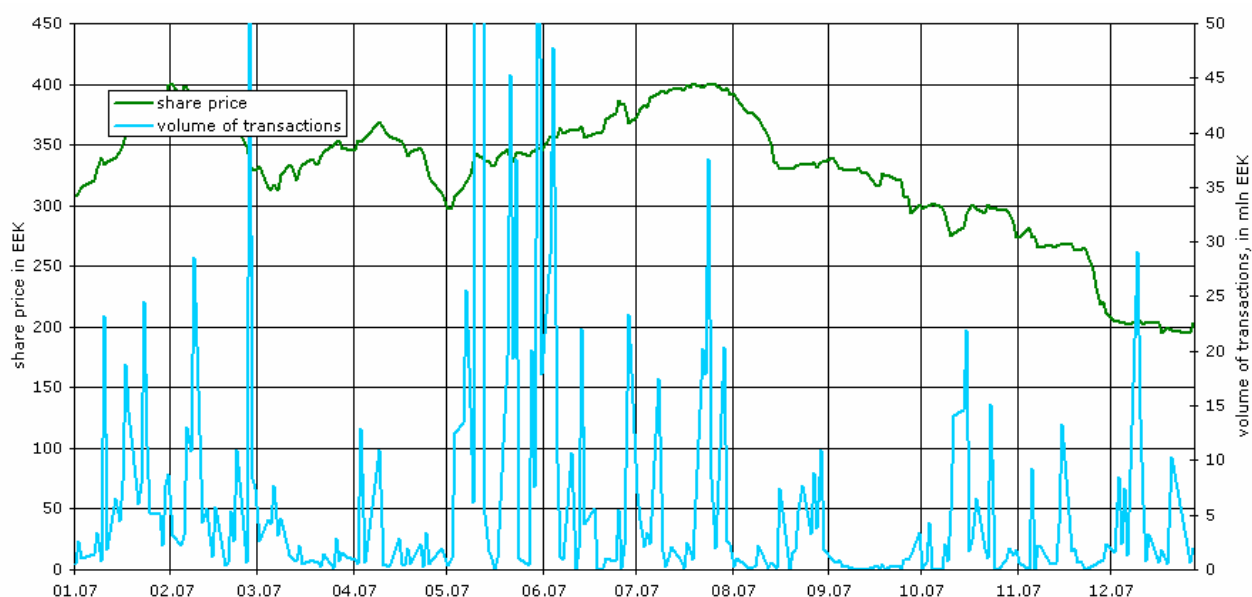
	No. of shares	Ownership
AS Merko Grupp	12 742 686	71,99%
Skandinaviska Enskilda Banken Ab, clients	1 014 250	5,73%
ING Luxembourg S.A., clients	909 500	5,14%
J.P. Morgan Bank Luxembourg S.A., clients	387 900	2,19%
State Str. Munich Care of SSB Boston/DWS Invest. S.A. for DWS Osteuropa	215 904	1,22%
Danske Bank clients	191 709	1,08%
The Bank of New York/ING Bank Slaksi A/C ING Parasol	189 683	1,07%
Mellon Treaty Omnibus	179 678	1,02%

Breakdown of shareholders as of 31.12.2007

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	294	40,83%	14 908	0,09%
101-1000	309	42,92%	120 371	0,68%
1001-10 000	79	10,97%	246 741	1,39%
10 001 – 100 000	25	3,47%	776 407	4,39%
100 001 – 1 000 000	11	1,53%	2 784 637	15,73%
1 000 001 - ...	2	0,28%	13 756 936	77,72%
Total	720	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange. In 2007 12 months the number of transactions with Merko Ehitus' shares was 4899, during which 5.5 million shares changed ownership and the turnover of the transactions was 1830.7 million kroons. The cheapest bargain with a share was 191.67 kroons and highest 402.12 kroons per share. The closing share price with a state of 28.12.2007 was 203.41 kroons.

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



	31.12.2007	31.12.2006	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	30,76	32,87	-6,4%
Equity per share, in kroons	113,86	90,05	+26,4%
P/B (share price to equity per share)	1,79	3,41	-47,5%
P/E (share price / earnings per share)	6,61	9,35	-29,3%

## INCOME STATEMENT

consolidated, unaudited

	Note	EEK		EUR	
		2007 12 months	2006 12 months	2007 12 months	2006 12 months
Revenue	1,2	5 519 967	4 414 361	352 790	282 129
Cost of goods sold	3	(4 749 671)	(3 727 561)	(303 559)	(238 234)
<b>Gross profit</b>		770 296	686 800	49 231	43 895
Marketing expenses		(31 856)	(23 390)	(2 036)	(1 495)
Administrative and general expenses		(204 077)	(148 792)	(13 043)	(9 510)
Other operating income		5 704	148 205	365	9 472
Other operating expenses		(18 134)	(29 952)	(1 159)	(1 914)
<b>Operating profit</b>		521 933	632 871	33 358	40 448
Financial income and expenses		68 847	7 737	4 400	494
incl. financial income and expenses					
from stocks of subsidiaries		-	2 326	-	149
financial income (expenses) from					
investments in associate companies					
and joint ventures		75 592	17 461	4 831	1 116
financial income and expenses from					
other long-term financial investments		-	7	-	0
interest expense		(16 948)	(14 288)	(1 083)	(913)
foreign exchange gain		(747)	(6 064)	(48)	(388)
other financial income and expenses		10 950	8 295	700	530
<b>Profit before tax</b>		590 780	640 608	37 758	40 942
Corporate income tax expense		(31 075)	(49 917)	(1 986)	(3 190)
<b>Net profit for current period</b>		559 705	590 691	35 772	37 752
incl. net profit attributable to equity holders					
of the parent company		544 537	581 738	34 802	37 180
minority interest		15 168	8 953	970	572
Earnings per share for profit attributable to					
the equity holders of the parent company					
(basic and diluted, in EEK and EUR)	4	30,76	32,87	1,97	2,10

## INCOME STATEMENT

consolidated, unaudited

	EEK		EUR	
	2007 IV quarter	2006 IV quarter	2007 IV quarter	2006 IV quarter
Revenue	1 656 362	1 343 319	105 861	85 854
Cost of goods sold	(1 361 259)	(1 131 204)	(87 000)	(72 297)
<b>Gross profit</b>	295 103	212 115	18 861	13 557
Marketing expenses	(11 611)	(7 921)	(742)	(506)
Administrative and general expenses	(79 897)	(51 961)	(5 106)	(3 321)
Other operating income	456	133 572	29	8 537
Other operating expenses	(13 894)	(14 485)	(888)	(926)
<b>Operating profit</b>	190 157	271 320	12 154	17 341
Financial income and expenses	15 670	2 074	1 002	133
incl. financial income (expenses) from investments in associate companies and joint ventures	14 106	5 346	902	342
interest expense	(2 593)	(4 023)	(166)	(257)
foreign exchange gain	2 371	(2 298)	152	(147)
other financial income and expenses	1 786	3 051	114	195
<b>Profit before tax</b>	205 827	273 394	13 156	17 474
Corporate income tax expense	(12 729)	(24 267)	(814)	(1 551)
<b>Net profit for current period</b>	193 098	249 127	12 342	15 923
incl. net profit attributable to equity holders of the parent company	186 513	246 463	11 920	15 752
minority interest	6 585	2 664	422	171
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	10,54	13,92	0,67	0,89



**BALANCE SHEET**

consolidated, unaudited

	EEK		EUR	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	201 032	676 143	12 848	43 213
Financial assets at fair value through profit or loss	4 532	-	290	-
Receivables and prepayments				
Accounts receivable	884 876	551 362	56 554	35 238
Prepaid corporate income tax	943	6 428	60	411
Other prepayments and refunds of taxes	39 585	32 553	2 530	2 081
Due from customers	150 877	135 408	9 643	8 654
Other short-term receivables	46 869	39 345	2 995	2 515
Prepayments for services	81 538	95 435	5 211	6 099
	<u>1 204 688</u>	<u>860 531</u>	<u>76 993</u>	<u>54 998</u>
Inventories				
Raw materials and materials	3 501	4 579	224	293
Work-in-progress	1 209 653	567 868	77 310	36 293
Finished goods	72 421	18 121	4 629	1 158
Goods purchased for resale	706 520	723 441	45 155	46 237
Prepayments for inventories	33 854	42 725	2 164	2 731
	<u>2 025 949</u>	<u>1 356 734</u>	<u>129 482</u>	<u>86 712</u>
Non-current assets held for sale				
Machinery and equipment	-	733	-	47
<b>Total current assets</b>	<u>3 436 201</u>	<u>2 894 141</u>	<u>219 613</u>	<u>184 970</u>
<b>Non-current assets</b>				
Long-term financial investments				
Shares in associated companies and joint ventures	272 116	200 798	17 391	12 833
Deferred income tax assets	3 396	6 592	217	421
Long-term receivables	14 492	8 476	926	542
	<u>290 004</u>	<u>215 866</u>	<u>18 534</u>	<u>13 796</u>
Investment property				
Land	2 136	2 134	137	136
Buildings	5 225	1 766	334	113
	<u>7 361</u>	<u>3 900</u>	<u>471</u>	<u>249</u>
Property, plant and equipment				
Land	15 943	145	1 019	9
Buildings	20 381	15 246	1 303	975
Right of superficies	363	372	23	24
Machinery and equipment	98 487	51 270	6 294	3 277
Other property, plant and equipment	28 974	22 859	1 852	1 461
Buildings in process and prepayments	36	553	2	35
Prepayments for property, plant and equipment	8 728	-	558	-
	<u>172 912</u>	<u>90 445</u>	<u>11 051</u>	<u>5 781</u>
Intangible assets				
Other intangible assets	10 727	2 662	686	170
Prepayments for intangible assets	1 813	7 515	116	480
	<u>12 540</u>	<u>10 177</u>	<u>802</u>	<u>650</u>
<b>Total non-currents assets</b>	<u>482 817</u>	<u>320 388</u>	<u>30 858</u>	<u>20 476</u>
<b>TOTAL ASSETS</b>	<u>3 919 018</u>	<u>3 214 529</u>	<u>250 471</u>	<u>205 446</u>

	EEK		EUR	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Borrowings				
Short-term loans and bonds	293 000	275 425	18 726	17 603
Long-term loans payable in the following period	11 879	8 367	759	535
	<u>304 879</u>	<u>283 792</u>	<u>19 485</u>	<u>18 138</u>
Trade payables				
Payables to suppliers	528 856	464 199	33 800	29 668
Payables to employees	68 247	64 218	4 362	4 104
Company income tax liability	16 963	18 868	1 084	1 206
Other tax liabilities	56 699	41 866	3 624	2 676
Due to customers	169 650	276 940	10 843	17 700
Other payables	2 937	27 290	188	1 744
Received prepayments	171 235	206 883	10 944	13 222
	<u>1 014 587</u>	<u>1 100 264</u>	<u>64 845</u>	<u>70 320</u>
Government grants	1 498	1 498	96	96
Current provisions	93 426	33 517	5 971	2 142
<b>Total current liabilities</b>	<u>1 414 390</u>	<u>1 419 071</u>	<u>90 397</u>	<u>90 696</u>
<b>Non-current liabilities</b>				
Loans, bonds and finance lease liabilities				
Long-term payables to suppliers	397 713	159 336	25 418	10 183
Long-term customer prepayments	11 091	10 351	709	662
	<u>46 332</u>	<u>12 925</u>	<u>2 961</u>	<u>826</u>
<b>Total non-current liabilities</b>	<u>455 136</u>	<u>182 612</u>	<u>29 088</u>	<u>11 671</u>
<b>Total liabilities</b>	<u>1 869 526</u>	<u>1 601 683</u>	<u>119 485</u>	<u>102 367</u>
<b>Equity</b>				
Minority interests	34 247	18 904	2 189	1 208
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	(5 085)	(5 751)	(325)	(368)
Retained earnings	1 825 630	1 404 993	116 679	89 796
	<u>2 015 245</u>	<u>1 593 942</u>	<u>128 797</u>	<u>101 871</u>
<b>Total equity</b>	<u>2 049 492</u>	<u>1 612 846</u>	<u>130 986</u>	<u>103 079</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>3 919 018</u>	<u>3 214 529</u>	<u>250 471</u>	<u>205 446</u>

## 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			
<b>Balance as at 31.12.2005</b>	177 000	8 850	(5 059)	920 605	1 101 396	10 552	1 111 948
Effect of exchange rate changes	-	-	(692)	-	(692)	-	(692)
Net profit for current period	-	-	-	581 738	581 738	8 953	590 691
Dividends	-	-	-	(88 500)	(88 500)	(3 400)	(91 900)
Transfers to statutory reserve capital	-	8 850	-	(8 850)	-	-	-
Minority interest investment	-	-	-	-	-	2 799	2 799
<b>Balance as at 31.12.2006</b>	177 000	17 700	(5 751)	1 404 993	1 593 942	18 904	1 612 846
Effect of exchange rate changes	-	-	666	-	666	-	666
Net profit for current period	-	-	-	544 537	544 537	15 168	559 705
Dividends	-	-	-	(123 900)	(123 900)	(5 065)	(128 965)
Minority interest investment	-	-	-	-	-	5 240	5 240
<b>Balance as at 31.12.2007</b>	177 000	17 700	(5 085)	1 825 630	2 015 245	34 247	2 049 492

EUR	Equity attributable to equity holders of the parent company				Total	Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings			
<b>Balance as at 31.12.2005</b>	11 312	566	(323)	58 837	70 392	674	71 066
Effect of exchange rate changes	-	-	(45)	-	(45)	-	(45)
Net profit for current period	-	-	-	37 180	37 180	572	37 752
Dividends	-	-	-	(5 656)	(5 656)	(217)	(5 873)
Transfers to statutory reserve capital	-	565	-	(565)	-	-	-
Minority interest investment	-	-	-	-	-	179	179
<b>Balance as at 31.12.2006</b>	11 312	1 131	(368)	89 796	101 871	1 208	103 079
Effect of exchange rate changes	-	-	43	-	43	-	43
Net profit for current period	-	-	-	34 802	34 802	970	35 772
Dividends	-	-	-	(7 919)	(7 919)	(324)	(8 243)
Minority interest investment	-	-	-	-	-	335	335
<b>Balance as at 31.12.2007</b>	11 312	1 131	(325)	116 679	128 797	2 189	130 986

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

**CASH FLOW STATEMENT**

consolidated, unaudited

	EEK		EUR	
	2007 12 months	2006 12 months	2007 12 months	2006 12 months
<b>Cash flows from operating activities</b>				
Operating profit	521 933	632 871	33 358	40 448
Adjustments:				
depreciation and impairment charge	27 930	30 747	1 785	1 965
(profit) loss from sale of non-current assets	(337)	(122 403)	(21)	(7 823)
adjustments of revenue from construction contracts under stage of completion method	(122 630)	38 109	(7 837)	2 436
interest income from business activities	(2 844)	(2 335)	(182)	(149)
change in other provisions	45 567	5 455	2 912	349
Change in trade and other receivables related to operating activities	(111 368)	(189 193)	(7 118)	(12 092)
Change in inventories	(665 677)	(363 595)	(42 544)	(23 238)
Change in trade and other payables related to operating activities	(129 892)	186 197	(8 302)	11 900
Interests paid	(17 144)	(16 168)	(1 096)	(1 033)
Other financial expenses (income)	(11)	(7)	(1)	(1)
Corporate income tax paid	(34 842)	(43 991)	(2 227)	(2 812)
	<u>(489 315)</u>	<u>155 687</u>	<u>(31 273)</u>	<u>9 950</u>
<b>Cash flows from investing activities</b>				
Investments into subsidiaries	(29 575)	(3 029)	(1 890)	(195)
Proceeds from sale of subsidiaries	500	(2)	32	0
Subsidiary liquidation proceeds to minority shareholders	-	(20)	-	(1)
Investments into associates and joint ventures	(3 352)	(7 866)	(214)	(503)
Proceeds from sale of associates and joint ventures	-	1 847	-	118
Proceeds from sale of other financial assets	-	3 004	-	192
Purchase of property, plant and equipment	(47 983)	(76 264)	(3 067)	(4 874)
Proceeds from sale of property, plant and equipment	2 006	290 753	128	18 583
Purchase of intangible assets	(4 413)	(6 739)	(282)	(431)
Sale of a business unit	-	9 717	-	621
Loans granted	(150 122)	(275 353)	(9 594)	(17 598)
Loan repayments received	136 943	286 953	8 752	18 340
Interest received	16 226	8 393	1 037	536
Dividends received	4 380	3 000	280	192
	<u>(75 390)</u>	<u>234 394</u>	<u>(4 818)</u>	<u>14 980</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	582 250	268 726	37 213	17 175
Repayments of borrowings	(348 083)	(144 017)	(22 247)	(9 204)
Finance lease principal payments	(13 780)	(11 163)	(881)	(714)
Dividends paid	(128 965)	(91 900)	(8 242)	(5 873)
	<u>91 422</u>	<u>21 646</u>	<u>5 843</u>	<u>1 384</u>
<b>Change in cash and cash equivalents</b>	(473 283)	411 727	(30 248)	26 314
Cash and cash equivalent at beginning of period	676 143	268 446	43 213	17 157
Exchange gains/(losses) on cash and cash equivalents	(1 828)	(4 030)	(117)	(258)
<b>Cash and cash equivalent at end of period</b>	<u>201 032</u>	<u>676 143</u>	<u>12 848</u>	<u>43 213</u>

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

<b>2007 12 months</b>	<b>Construc- tion</b>	<b>Road construction</b>	<b>Concrete elements</b>	<b>Group</b>
Consolidated revenue	5 086 812	433 155	-	5 519 967
Inter-segmental revenue	191	69 884	-	70 075
Segment revenue	5 087 003	503 039	-	5 590 042
Segment operating profit	488 585	33 348	-	521 933
Financial income/expenses				68 847
incl. profit/loss from associates and joint ventures	54 729	-	20 863	75 592
Profit before tax				590 780
Corporate income tax				31 075
Net profit of the Group				559 705
incl. attributable to equity owners of the parent company				544 537
minority interest				15 168
Segment assets	3 400 221	178 815	-	3 579 036
Associates and joint ventures	215 073	-	57 043	272 116
Unallocated assets				67 866
Total consolidated assets				3 919 018
Segment liabilities	1 090 883	82 223	-	1 173 106
Unallocated liabilities				696 420
Total consolidated liabilities				1 869 526
Purchase of investment property				
Purchase of property, plant and equipment and intangible assets	48 615	6 618	-	55 233
Depreciation and impairment	17 916	10 014	-	27 930
<b>2006 12 months</b>	<b>Construc- tion</b>	<b>Road construction</b>	<b>Concrete elements</b>	<b>Group</b>
Consolidated revenue	4 097 263	317 098	-	4 414 361
Inter-segmental revenue	377 656	104 117	-	481 773
Segment revenue	4 474 919	421 215	-	4 896 134
Segment operating profit	596 374	36 497	-	632 871
Financial income/expenses				7 733
incl. profit/loss from associates and joint ventures	(416)	-	17 877	17 461
Profit before tax				640 604
Corporate income tax				49 913
Net profit of the Group				590 691
incl. attributable to equity owners of the parent company				581 738
minority interest				8 953
Segment assets	2 772 635	187 047	-	2 959 682
Associates and joint ventures	160 619	-	40 179	200 798
Unallocated assets				54 049
Total consolidated assets				3 214 529
Segment liabilities	1 033 996	63 825	-	1 097 821
Unallocated liabilities				503 862
Total consolidated liabilities				1 601 683
Purchase of property, plant and equipment and intangible assets	80 654	12 510	-	93 164
Depreciation and impairment	22 377	8 370	-	30 747

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	
	2007 12 months	2006 12 months	31.12.2007	31.12.2006	2007 12 months	2006 12 months
Estonia	3 391 916	2 794 317	2 024 936	1 700 964	43 614	27 018
Latvia	1 389 258	1 055 632	1 486 220	1 244 312	11 522	65 699
Lithuania	738 793	564 412	407 862	269 253	97	447
<b>Total</b>	<b>5 519 967</b>	<b>4 414 361</b>	<b>3 919 018</b>	<b>3 214 529</b>	<b>55 233</b>	<b>93 164</b>

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

## Note 2 Revenue

	2007	2006
Rendering of services	4 589 163	3 535 810
Sale of real estate and real estate development projects	927 504	831 490
Rental income	2 163	45 272
Sale of goods	1 137	1 789
<b>Total revenue</b>	<b>5 519 967</b>	<b>4 414 361</b>

## Note 3 Cost of goods sold

	2007	2006
Materials	419 650	369 094
Construction services	3 207 091	2 592 026
Properties purchased for resale	401 687	215 889
Staff costs	373 886	247 902
Depreciation and impairment charge	19 823	25 098
Design	92 770	72 851
Construction mechanisms and transport	108 335	108 629
Other expenses	126 429	96 072
<b>Total cost of goods sold</b>	<b>4 749 671</b>	<b>3 727 561</b>

## Note 4 Earnings per share

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

	2007	2006
Net profit attributable to shareholders (in thousand of kroons)	544 537	581 738
Weighted average number of ordinary shares (thousand pcs)	17 700	17 700
<b>Earnings per share (in kroons)</b>	<b>30,76</b>	<b>32,87</b>

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

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 12 months interim report 2007 as presented on pages 3 to 14.

The Management Board confirms to the best of its knowledge:

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

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

Tõnu Toomik	Chairman of the Board		19.02.2008
Alar Lagus	Member of the Board		19.02.2008
Veljo Viitmann	Member of the Board		19.02.2008
Andres Agukas	Member of the Board		19.02.2008
Tõnu Korts	Member of the Board		19.02.2008