



AS MERKO EHITUS GROUP

2011 6 months and II quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

Registration 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

Financial year: 01.01.2011 – 31.12.2011

Reporting period: 01.01.2011 – 30.06.2011

Supervisory Board: Toomas Annus, Tõnu Toomik, Teet Roopalu,
Indrek Neivelt, Olari Taal

Management Board: Tiit Roben, Alar Lagus, Veljo Viitmann,
Andres Agukas, Jaan Mäe, Viktor Mõisja

Auditor: AS PricewaterhouseCoopers

TABLE OF CONTENTS

MANAGEMENT REPORT.....	3
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	12
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	14
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	15
CONSOLIDATED CASH FLOW STATEMENT	16
NOTES	17
Note 1 Accounting policies.....	17
Note 2 Operating segments	17
Note 3 Revenue	19
Note 4 Cost of goods sold.....	19
Note 5 Earnings per share	19
Note 6 Cash and cash equivalents	20
Note 7 Trade and other receivables	20
Note 8 Inventories	20
Note 9 Long-term financial assets	21
Note 10 Investment property	21
Note 11 Property, plant and equipment	21
Note 12 Intangible assets	22
Note 13 Borrowings.....	22
Note 14 Trade and other payables.....	23
Note 15 Short-term provisions.....	23
Note 16 Related party transactions	24
Note 17 Contingent liabilities	26
MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT	27

MANAGEMENT REPORT

General information

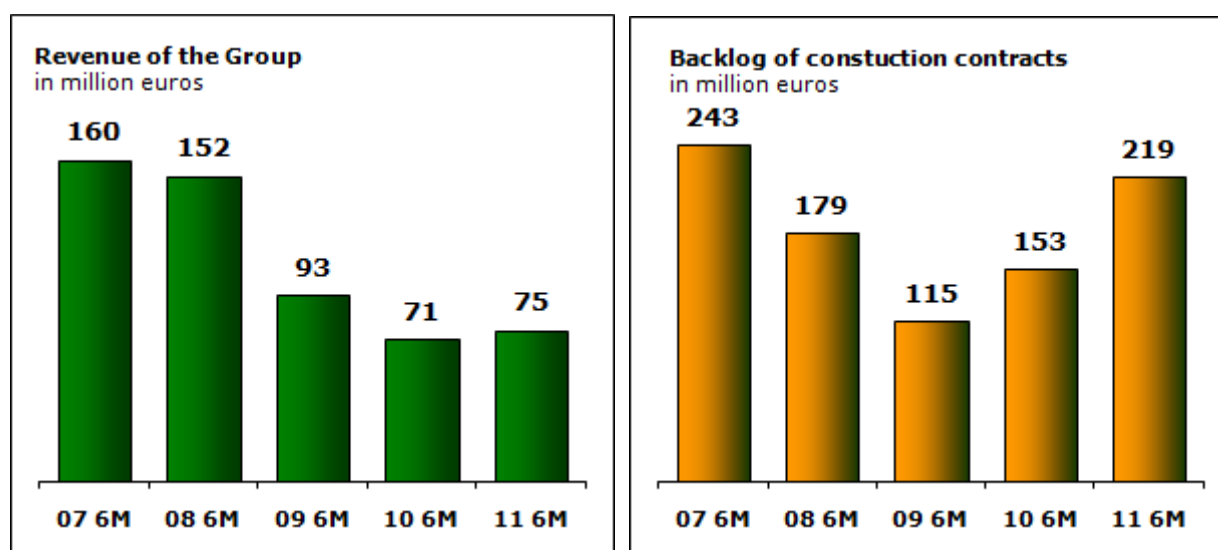
AS Merko Ehitus operates in Estonia, Latvia and Lithuania as a construction group offering complete solutions in the construction field. The largest companies belonging to the group are SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (85%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), AS Merko Infra (100%) and AS Tartu Maja Betoontooted (25%).

Operating results

In 2011 6 months, the revenue of the construction group was EUR 75.0 million. Estonia contributed 78.8%, Latvia 18.0% and Lithuania 3.2% to the group's revenue. As compared to 2010 6 months, the group's revenue increased by 5.9%, including +26.6% in Estonia, +59.4% in Lithuania and -40.3% in Latvia.

Group's revenue for Q2 2011 was EUR 48.9 million, which constitutes an annual increase of EUR 10.0 million (+25.8%).

As of 30 June 2011, the group's portfolio on unfinished construction contracts totalled EUR 219 million. The contract portfolio does not include residential development projects developed by the Company and the works related to construction of investment properties.



In 2011 6 months, the group sold 24 apartments for EUR 2.2 million, (exclusive of VAT). As of 30.06.2011, the inventories included 38 unsold apartments with a total cost of EUR 2.8 million and 597 apartments in the stage of construction with a total cost of EUR 26.7 million as of the balance sheet date. Of the finished buildings 32 apartments are located in Tartu and 6 in Riga. At the moment the group is building an apartment building with 93 apartments at Tartu road 50 in Tallinn (completion time Q4 2011), an apartment building with 15 apartments at Kristiina 12, Tallinn (completion time Q4 2011), two apartment buildings (21 apartments in each) at Hane Street in Tallinn (completion time summer 2012) and two apartment buildings with 115 and 133 apartments at Skanstese street in Riga (completion time July 2011 and December 2012 respectively).

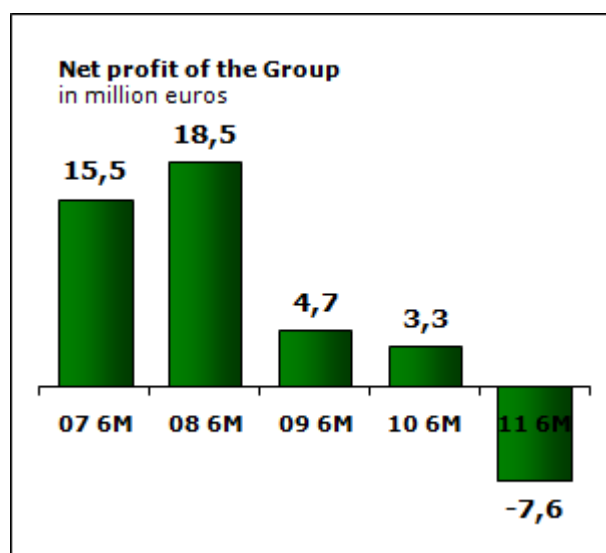
In 2011, the share of infrastructure facilities has grown, which has significantly increased the impact of seasonality on the group's quarterly performance (EUR 26.2 million revenue in Q1 2011 compared to EUR 48.9 million in Q2). The impact of the cyclical nature of development projects on Q2 results and the results of the first 6 months was insignificant.

The consolidated revenue of the group's largest entities:

	<i>in thousand euros</i>		
	6 months 2011	6 months 2010	6 months 2009
Estonian entities			
AS Merko Ehitus (parent)	41 658	34 352	50 954
Tallinna Teede AS (100% ownership)	6 895	8 327	8 173
AS Merko Infra (100% ownership)	4 034	5	-
AS Gustaf (85% ownership)	1 285	697	1 828
OÜ Gustaf Tallinn (80% ownership)	3 161	1 688	2 308
AS Merko Tartu (66% ownership)	1 551	1 155	3 238
Latvian entity			
SIA Merks (100% ownership)	13 508	22 630	21 263
Lithuanian entity			
UAB Merko Statyba (100% ownership)	2 144	1 478	3 145

Marketing and general administrative expenditures of the group decreased by 2.1% with the first six months of 2011. Work on cutting the marketing and general administrative expenditures continues and the management has set the goal to take the proportion of the respective costs under 5.5% of revenue by the end of 2011.

The group ended the first half of 2011 at a loss. The group's EBIT loss for the first six months was EUR 7.5 million, and net loss was EUR 7.6 million – by comparison, for the first six months of 2010, the group reported an EBIT profit of EUR 3.9 million and net profit of EUR 3.3 million. The loss was caused by the rapid increase in construction prices in 2009/2010, which exceeded considerably the estimated input prices that were used to calculate the cost of the tenders submitted in 2009/2010. As of 30.06.2011, the group had drawn appropriations to cover the costs necessary for terminating non-profitable projects in the total amount of EUR 4.3 million. The management believes that the second half of 2011 will be better than the first, but the group will still not make a profit for the year in total.



In 2011 6 months, the change in short-term investments, and cash and cash equivalents of Merko Ehitus group was EUR -7.2 million and as of 30 June 2011, the cash and cash equivalents in the bank accounts and term deposits of the group were in the amount of EUR 4.5 million. The cash flows from operating activities totalled EUR -16.2 million, cash flows from investing activities totalled EUR -1.3 million and cash flows from financing activities totalled EUR +9.5 million. The cash flows from operating activities in the reporting period were mostly affected by the change in trade and other receivables related to operating activities of EUR -18.6 million, change in trade and other payables related to operating activities of EUR +13.0 million and operating loss EUR -7.2 million. Of the cash flows from investing activities, purchase of investment property totalled EUR -5.1 million, the balance of issued and repaid loans totalled EUR +3.0 million and investments in property, plant and equipment totalled EUR -0.7 million. Of the cash flows from financing activities the balance of gained and repaid loans totalled EUR +10.0 million and EUR -0.6 million was spent on finance lease principal payments.

The ratios and methodology for calculating the financial ratios describing the group's main operations

	6 months 2011	6 months 2010	6 months 2009
Net profit margin	-10,1 %	4,7 %	5,1 %
Profit before taxes margin	-10,0 %	5,5 %	5,4 %
Operating profit margin	-9,6 %	5,8 %	5,2 %
Gross profit margin	-3,2 %	11,9 %	11,6 %
EBITDA margin	-8,3 %	7,7 %	6,1 %
Return on equity per annum	-12,6 %	5,0 %	7,0 %
Return on assets per annum	-7,4 %	3,0 %	3,9 %
Equity ratio	53,7 %	60,1 %	56,8 %
Current ratio	2,0	2,3	2,9
Quick ratio	0,9	1,0	1,4
General expense ratio	6,7 %	7,3 %	6,7 %
Gross remuneration ratio	10,7 %	10,9 %	10,1 %
Debt to assets	16,6 %	13,9 %	16,8 %
Accounts receivable turnover (days)	85	56	79
Accounts payable turnover (days)	66	55	42
Revenue per employee (thousand euros)	81	92	110
Average number of full-time employees (group)	923	766	844

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

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

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

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

EBITDA margin: $(\text{Operating profit} + \text{Depreciation and impairment charge}) / \text{Revenue}$

Return on equity: $\text{Net profit} \times 2^* / \text{Avg equity during the period}^*$

Return on assets: $\text{Net profit} \times 2^* / \text{Avg assets during the period}$

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

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

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

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

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

Debt to assets: $\text{Interest-bearing liabilities} / \text{Total assets}$

Accounts receivable turnover: $\text{Trade receivables} / \text{Revenue} \times 365/2$

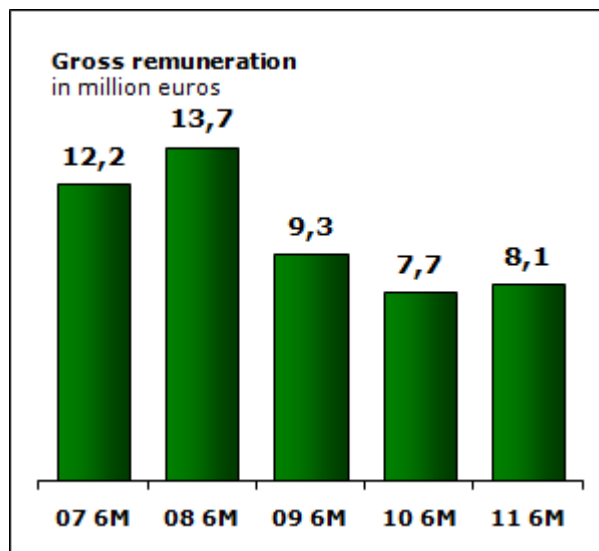
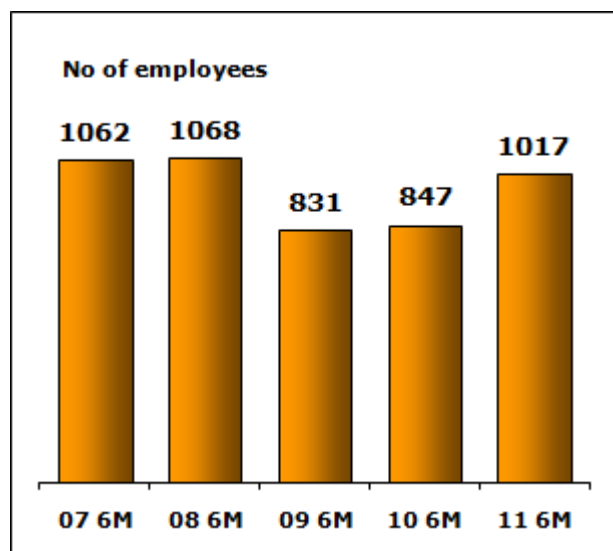
Accounts payable turnover: $\text{Payables to supplies} / \text{Cost of goods sold} \times 365/2$

Revenue per employee: $\text{Revenue} / \text{Average number of full-time employees}$

* attributable to equity owners of the parent

Employees and remuneration

Due to the growth of the contract portfolio and the increase in the share of facilities in the structure of contracts, the number of group's employees increased by 170 (+20,1%) employees and as of 30.06.2011, the group had 1017 employees. The gross remuneration paid to employees in 2011 6 months amounted to EUR 8.06 million an increase of 4.0% compared to previous year. The group's labour costs have increased due to the employment of new personnel. Salaries accounted for 83.9% of the gross remuneration, and performance-related pay accounted for 16.1%.



Members of the Supervisory and Management Board of AS Merko Ehitus

Supervisory Board

The general meeting of shareholders elects the Company's Supervisory Board. The Supervisory Board plans the Company's activities and arranges its management as well as performs supervision over the Management Board. The general meeting of shareholders, held on 28 June 2011, elected an additional member (Mr Toomas Annus) to the current Supervisory Board of AS Merko Ehitus. Thus, the Supervisory Board of AS Merko Ehitus now has 5 members.

Toomas Annus - Born at 5 October 1960. Finished Tallinn Technical School of Building and Mechanics and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. Since 1987 the chairman of the Management Board of EKE MRK, the predecessor of Merko Ehitus, since 1991 the chairman of the Management Board of AS Merko Ehitus. In the years 1997-2008 and again from June 2011 the chairman of the Supervisory Board of AS Merko Ehitus.

Tõnu Toomik – Born at 8 March 1961. Finished Raatuse Gymnasium in Tartu (former Tartu Secondary School no. 3) and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. From 1993, started to work as a project manager at AS Merko Ehitus. Between 1997-2008, was a member of the Management Board of AS Merko Ehitus, being responsible for the management and development of the Company. From August 2008, is the member of the Supervisory Board of AS Merko Ehitus.

Teet Roopalu – Born at 30 August 1949. Finished Tallinn Secondary School no. 10 (current Nõmme Gymnasium) and graduated from the Faculty of Economics of Tallinn University of Technology, majoring in construction economics and organisation. Has worked at construction companies, including as a director of finance, managed the economic activities in EKE (*Estonian Collective Farm Construction*) system as a chief economist, as a bank director and has also been involved in design work. Since November 2002, works at AS Merko Ehitus and is responsible for the Company's financial and legal areas. Is a member of the Supervisory Board of AS Riverito and those of several subsidiaries and associates of AS Merko Ehitus.

Indrek Neivelt – Born at 17 March 1967. Finished a mathematics and physics - biased class at Tallinna Secondary School no. 1 (current Gustav Adolf Gymnasium), graduated from Tallinn University of technology, majoring in civil engineering economics and management, and received his MBA in banking and finance from Stockholm University. Between 1991-2005, worked in various positions at Hansapank, over the last six years as the general director of the group and chairman of the Management Board. From 2005, is a Chairman of the Supervisory Board of Bank Saint Petersburg and is a member of supervisory boards of several entities. From October 2008, is member of the Supervisory Board of AS Merko Ehitus.

Olari Taal – Born at 7 August 1953. In 1971, finished Varstu Secondary School and in 1976, graduated as a civil engineer from Tallinn University of Technology. Has managed Tartu Elamuehituskombinaat (*Tartu Housing Plant*; Tartu Maja) and Eesti Hoiupank (*Estonian Savings Bank*). Has served the Republic of Estonia as the Minister of Construction, Minister of Economic Affairs, Minister of Internal Affairs and as a member of the 10th Riigikogu (Parliament of Estonia). From October 2008, Olari Taal is a member of the Supervisory Board of AS Merko Ehitus.

Management Board

The Management Board is the Company's governing body, which represents and manages the Company. The Management Board shall adhere to the lawful regulations of the Supervisory Board. The Management Board is under the obligation to act in most economically purposeful manner. As of 21.12.2010, the Management Board of AS Merko Ehitus has 6 members.

Tiit Roben – Born at 5 January 1966. Finished Mustamäe Gymnasium (former name: Tallinn Secondary School no. 44) in Tallinn and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. Worked as a project manager at AS Merko Ehitus between 1998-2002. Between 2002-2008, worked at AS Riverito's entity E.L.L.Kinnisvara AS, from 2005, is a member of the Company's Management Board. From August 2008, is the Chairman of the Management Board of AS Merko Ehitus, being responsible for the management and development of the Company.

Jaan Mäe – Born at 26 September 1964. Finished Viljandi Secondary School no. 5. and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. From December 1997, works at AS Merko Ehitus, has been project manager, division manager and member of the Management Board. Between 2006-2010, was a member of the Supervisory Board of AS Merko Ehitus and several group entities. From June 2010, is a member of the Management Board of AS Merko Ehitus, being responsible for attainment of goals in the area of development and is the Chairman of the Supervisory Board of Latvian and Lithuanian subsidiaries.

Alar Lagus – Born at 15 February 1969. Finished Rapla Secondary School and graduated from the Faculty of Chemistry of Tallinn University of Technology, majoring in organisation and technology of public catering. After graduation, worked in various positions at Hansapank. From 2004, works as a manager in the finance area and is responsible for the Company's financial and managerial accounting and investor relations.

Veljo Viitmann – Born at 13 March 1962. Finished Türi Secondary School and graduated from Tallinn University of Technology, majoring in road engineering and bridges. From 1994, works at AS Merko Ehitus and is responsible for preparation of tenders for new projects.

Andres Agukas – Born at 15 July 1965. Finished Pärnu-Jaagupi Secondary School and graduated from Tallinn University of Technology, majoring in road engineering. At 2 February 1998, started to work at AS Merko Ehitus as the first employee in the area of civil engineering. From October 2005, as a member of the Management Board is responsible for the whole area of the construction service.

Viktor Mõisja – Born at 6 January 1951. Graduated as a civil engineer from Tallinn University of Technology. Viktor Mõisja has worked at AS Merko Ehitus since the foundation of the Company and most of the time as a manager of the department of concrete works. From 21 December 2010, is a member of the Company's Management Board and his area of responsibility are quality management and supervision.

Information about the shares held by the members of the Supervisory and management Boards is disclosed in chapter "Share and shareholders" of the report.

Construction market

Economic growth, at constant prices

Q2 2011 vs. Q2 2010

Estonia +8,4%

Latvia +5,3%

Lithuania +6,1%

Construction price index, at constant prices

Q2 2011 vs. Q2 2010

Estonia +3,2% incl. labour force +7,0%

Latvia +1,3% incl. labour force -5,6%

Lithuania +4,3% incl. labour force +6,9%

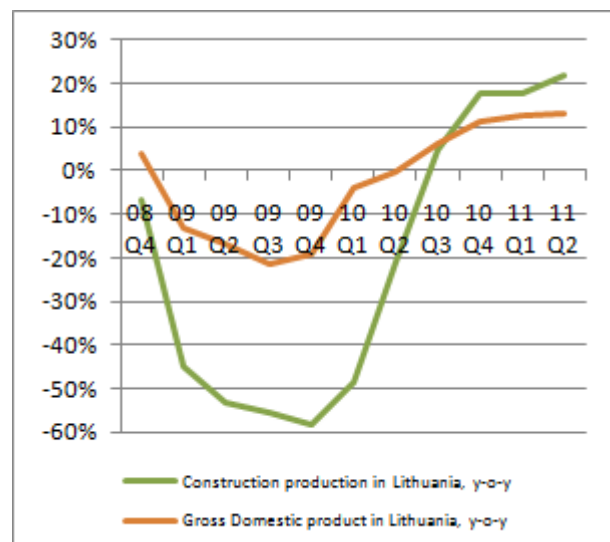
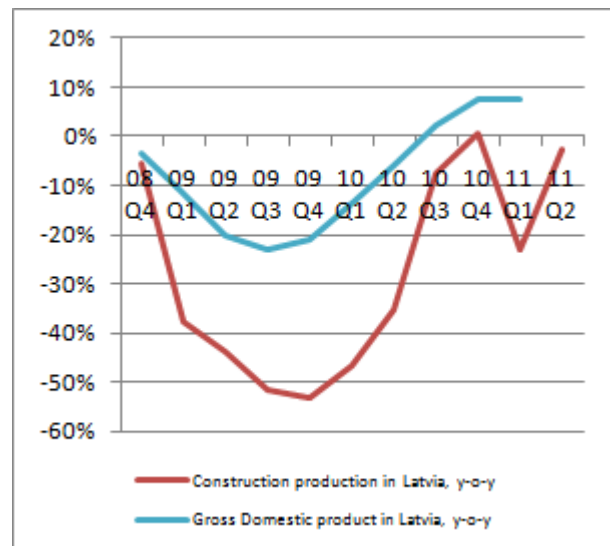
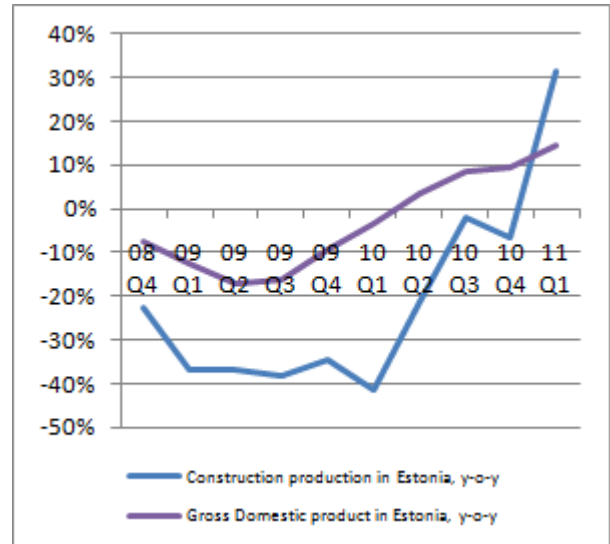
Improvement of the overall economic climate has given the Baltic construction market a positive boost. In Lithuania and Estonia, construction volumes with own forces have increased in the last year: in Lithuania, along with a +6.1% GDP growth*, there has been a 21.8% growth in construction volumes**, compared to Q2 2010 (+17.7% respectively in Q1 2011); and in Estonia the construction market** grew 31.4% in Q1 2011 compared to the same period last year (construction market results for Q2 2011 will be published on 29 August 2011). The situation is most difficult in Latvia where, despite a +5.3% GDP* growth, construction volumes** are still down from last year by -2.7% (-23.0% respectively in Q1 2011). However, it is hoped that the Latvian construction market bottomed out in 2010, and that construction volumes will increase by the end of 2011.

* in constant prices

** in current prices

High global demand has brought about the rise in the construction sector input prices. There has been an especially marked increase in the prices of materials containing petroleum products and metals. High demand in the construction sectors of Central Europe and Scandinavia offers a considerable alternative for the local labour to sell their labour force to foreign countries; this keeps the labour force prices high. More expensive inputs and orientation of several sub-contracting companies towards external markets has resulted in remarkable increase in construction service prices. Compared towards the bottom of the construction market in 2009, the construction prices as of today have increased by 30-40%. High volatility of prices makes budgeting of new projects and execution of projects according to planned expenditures complicated and brings about an additional risk upon executing contracts with fixed prices.

The rapid rise in input prices, the additional requirements set by clients and the postponement of works have all caused many contractors to have difficulties with the performance of the contracts. Contracting entities cancel



tender invitations more and more often since the offers made do not comply with the budgets drawn in 2009/2010 and financial means for executing the project are insufficient.

Confidence of private contractors towards the future is still low, so there is no interest in constructing new buildings/facilities. Estonia's transition to Euro has not remarkably enlivened the activity of external investments in the area nor influenced the construction market positively as hoped. Still most of the new contracts originate from the public sector and are funded with the help of EU Structural Funds.

For the construction companies, the year of 2011 shall be the most challenging since. Guarantees and payment terms dictated by the contracting entities turn constantly more and more unfavourable for the construction companies, load over the circulating capital of companies increases and cash-flow management as well as liquidity becomes more and more determining.

Share and shareholders

Share information

ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	no par value
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

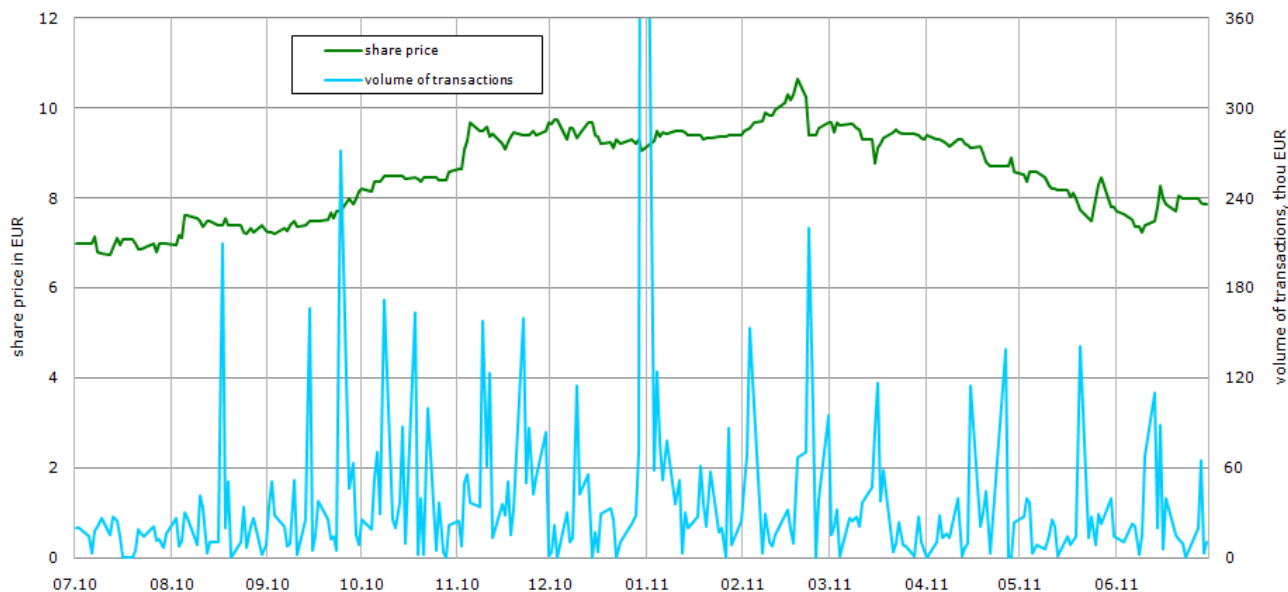
The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2011 6 months 1990 transactions with the shares of Merko Ehitus were performed in the course of which 0.5 million shares were traded and the total monetary value of transactions was EUR 4.23 million. The lowest share price was EUR 7.05 and the highest price was EUR 10.65 per share. The closing share price as of 30.06.2011 was EUR 7.85. AS Merko Ehitus market value as of 30.06.2011 was EUR 139 million.

	30.06.2011	30.06.2010	30.06.2009
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in euros	-0,43	0,19	0,26
Equity per share, in euros	6,52	7,17	7,55
P/B (share price to equity per share)	1,20	1,03	0,45

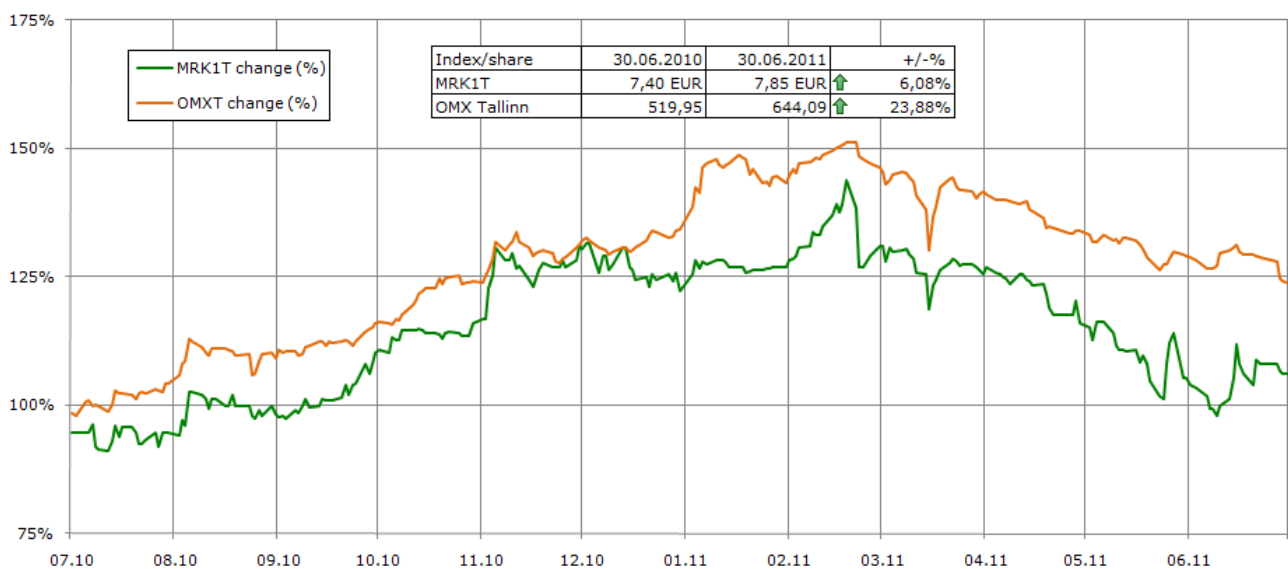
Structure of shareholders as of 30.06.2011

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	430	25,90%	23 565	0,13%
101-1000	857	51,63%	374 007	2,11%
1001-10 000	327	19,70%	902 216	5,10%
10 001 - 100 000	38	2,29%	1 165 384	6,59%
100 001 - 1 000 000	7	0,42%	2 492 142	14,08%
1 000 001 - ...	1	0,06%	12 742 686	71,99%
Total	1660	100%	17 700 000	100%

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



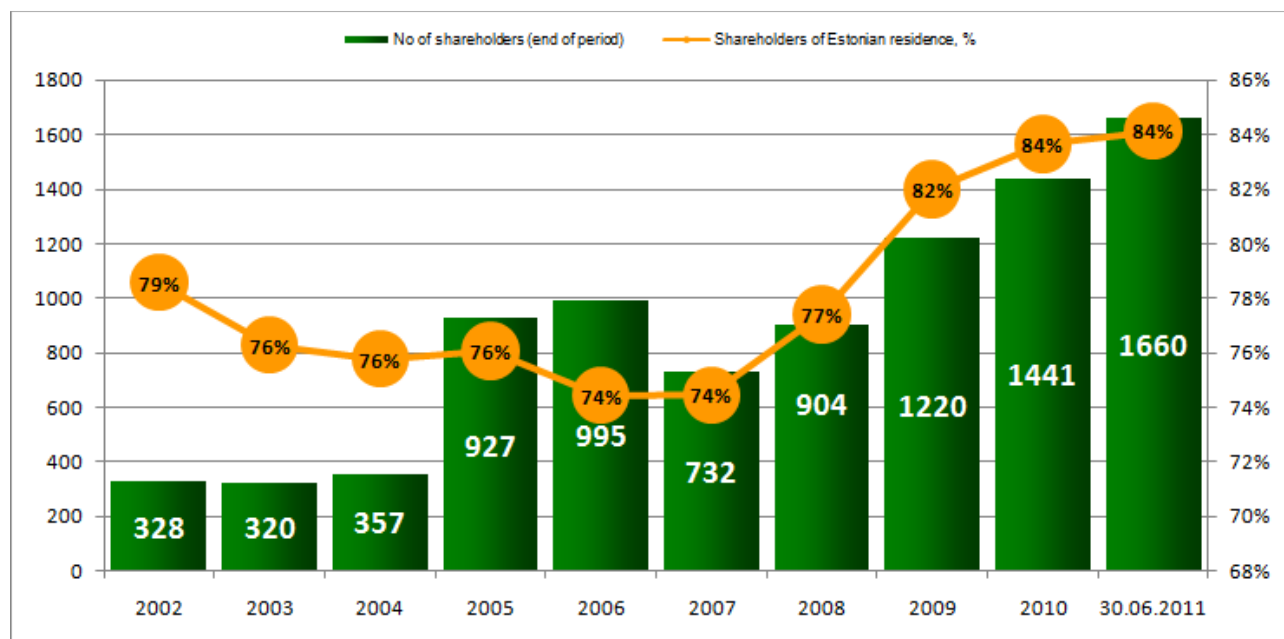
Performance of the share of Merko Ehitus and comparison index OMX Tallinn (last 12 months)



The main shareholders of AS Merko Ehitus as of 30.06.2011

	Number of shares	Percentage of total
AS Riverito	12 742 686	71,99%
ING Luxembourg S.A., clients	963 376	5,44%
Skandinaviska Enskilda Banken Ab, clients	903 581	5,11%
State Street Bank and Trust Omnibus Account a Fund No OM01	156 718	0,89%
Gamma Holding OÜ	132 468	0,75%
SEB Elu- ja Pensionikindlustus AS	125 520	0,71%
Clearstream Banking Luxembourg S.A. clients	106 239	0,60%
AS Midas Invest	104 240	0,59%

Number of shareholders of Merko Ehitus and proportion of shareholders of Estonian residency



Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.06.2011

		Number of shares	Percentage of total
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8 322 914	47,02%
Tõnu Toomik (AS Riverito)	Member of the Supervisory Board	1 607 185	9,08%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31 635	0,18%
Olari Taal (OÜ Eggera)	Member of the Supervisory Board	2 500	0,01%
Teet Roopalu	Member of the Supervisory Board	0	0,00%

Shares held by members of the Management Board of AS Merko Ehitus as of 30.06.2011

		Number of shares	Percentage of total
Tiit Roben (OÜ Amistad Invest)	Chairman of the Management Board	1 500	0,01%
Alar Lagus	Member of the Management Board	0	0,00%
Veljo Viitmann	Member of the Management Board	0	0,00%
Andres Agukas	Member of the Management Board	0	0,00%
Jaan Mäe	Member of the Management Board	0	0,00%
Viktor Mõisja (AS Riverito / private person)	Member of the Management Board	1 103 734	6,23%

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	<i>note</i>	2011 6 months	2010 6 months
Revenue	2,3	75 047	70 854
Cost of goods sold	4	<u>(77 480)</u>	<u>(62 406)</u>
Gross profit		(2 433)	8 448
Marketing expenses		(1 162)	(998)
Administrative and general expenses		(3 893)	(4 165)
Other operating income		320	1 014
Other operating expenses		<u>(49)</u>	<u>(193)</u>
Operating profit (loss)		(7 217)	4 106
Financial income and expenses		<u>(321)</u>	<u>(200)</u>
incl. financial income (expenses) from investments into associates and joint ventures		25	(284)
interest expense		(414)	(410)
foreign exchange gain		27	95
other financial income (expenses)		<u>41</u>	<u>399</u>
Profit (loss) before tax		(7 538)	3 906
Corporate income tax expense		-	(608)
Net profit (loss) for current period		<u>(7 538)</u>	<u>3 298</u>
incl. equity holders of the parent		(7 592)	3 318
non-controlling interest		54	(20)
Other comprehensive income (loss)			
Currency translation differences of foreign entities		26	64
Comprehensive income (loss) for the period		<u>(7 512)</u>	<u>3 362</u>
incl. equity holders of the parent		(7 566)	3 382
non-controlling interest		54	(20)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	5	(0,43)	0,19

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	2011	2010
	II quarter	II quarter
Revenue	48 874	38 858
Cost of goods sold	<u>(49 872)</u>	<u>(34 150)</u>
Gross profit	(998)	4 708
Marketing expenses	(600)	(539)
Administrative and general expenses	(1 921)	(1 965)
Other operating income	136	250
Other operating expenses	<u>(12)</u>	<u>(3)</u>
Operating profit (loss)	(3 395)	2 451
Financial income and expenses	<u>(45)</u>	<u>(70)</u>
incl. financial income (expenses) from investments into associates and joint ventures	101	(129)
interest expense	(204)	(202)
foreign exchange gain	36	2
other financial income (expenses)	<u>22</u>	<u>259</u>
Profit (loss) before tax	(3 440)	2 381
Corporate income tax expense	-	(89)
Net profit (loss) for current period	<u>(3 440)</u>	<u>2 292</u>
incl. equity holders of the parent	(3 485)	2 259
non-controlling interest	45	33
Other comprehensive income (loss)		
Currency translation differences of foreign entities	8	10
Comprehensive income (loss) for the period	<u>(3 432)</u>	<u>2 302</u>
incl. equity holders of the parent	(3 477)	2 269
non-controlling interest	45	33
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	(0,20)	0,13

in thousand euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

	note	30.06.2011	31.12.2010
ASSETS			
Current assets			
Cash and cash equivalents	6	4 389	9 856
Short-term deposits		146	2 651
Trade and other receivables	7	65 925	44 938
Prepaid corporate income tax		682	1 366
Inventories	8	98 084	93 048
Non-current assets held for sale		180	-
Total current assets		<u>169 406</u>	<u>151 859</u>
Non-current assets			
Long-term financial assets	9	17 442	19 311
Deferred income tax assets		1 572	1 571
Investment property	10	8 458	3 585
Property, plant and equipment	11	16 726	17 747
Intangible assets	12	1 467	1 508
Total non-current assets		<u>45 665</u>	<u>43 722</u>
TOTAL ASSETS		<u>215 071</u>	<u>195 581</u>
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	13	21 479	12 554
Trade and other payables	14	55 820	39 154
Provisions	15	5 817	3 674
Total current liabilities		<u>83 116</u>	<u>55 382</u>
Non-current liabilities			
Long-term borrowings	13	14 263	13 185
Long-term trade payables		806	845
Long-term customer prepayments		0	1
Total non-current liabilities		<u>15 069</u>	<u>14 031</u>
Total liabilities		<u>98 185</u>	<u>69 413</u>
Equity			
Non-controlling interest		1 482	1 428
Equity attributable to equity holders of the parent			
Share capital		11 312	11 312
Unregistered share capital		688	-
Statutory reserve capital		1 131	1 131
Currency translation adjustment		(898)	(924)
Retained earnings		<u>103 171</u>	<u>113 221</u>
Total equity attributable to equity holders of parent		<u>115 404</u>	<u>124 740</u>
Total equity		<u>116 886</u>	<u>126 168</u>
TOTAL LIABILITIES AND EQUITY		<u>215 071</u>	<u>195 581</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

	Equity attributable to equity holders of the parent					Total	Non-controlling interest	Total
	Share capital	Unregistered share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as of 31.12.2009	11 312	-	1 131	(947)	124 436	135 932	1 734	137 666
Comprehensive income (loss)	-	-	-	64	3 318	3 382	(20)	3 362
Purchase of non-controlling interest	-	-	-	-	-	-	(138)	(138)
Dividends	-	-	-	-	(12 444)	(12 444)	-	(12 444)
Balance as of 30. 06.2010	11 312	-	1 131	(883)	115 310	126 870	1 576	128 446
Balance as of 31.12.2010	11 312	-	1 131	(924)	113 221	124 740	1 428	126 168
Comprehensive income (loss)	-	-	-	26	(7 592)	(7 566)	54	(7 512)
Equity financing	-	688	-	-	(688)	-	-	-
Dividends	-	-	-	-	(1 770)	(1 770)	-	(1 770)
Balance as of 30.06.2011	11 312	688	1 131	(898)	103 171	115 404	1 482	116 886

The share capital of AS Merko Ehitus consists of 17 700 000 shares with non par value.

in thousand euros

CONSOLIDATED CASH FLOW STATEMENT

unaudited

	2011	2010
	6 months	6 months
Cash flows from operating activities		
Operating profit (loss)	(7 217)	4 106
Adjustments:		
depreciation and impairment charge	1 019	1 189
(profit) loss from sales of non-current assets	(44)	(25)
change in receivables and liabilities related to construction contracts recognised under the stage of completion method	(1 397)	(11 894)
interest income from business activities	(175)	(305)
change in provisions	1 992	331
Change in trade and other receivables related to operating activities	(18 591)	1 001
Change in inventories	(5 007)	1 061
Change in trade and other payables related to operating activities	13 006	8 258
Interest paid	(426)	(394)
Other financial expenses (income)	(14)	(1)
Corporate income tax paid	687	(1 487)
Total cash flows from operating activities	(16 167)	1 840
Cash flows from investing activities		
Investment in subsidiaries	-	(71)
Investments in associates and joint ventures	-	(1)
Purchase/proceeds of/from deposits with maturities greater than 3 months	2 505	14 845
Purchase of investment property	(5 149)	-
Purchase of property, plant and equipment	(746)	(505)
Proceeds from sale of property, plant and equipment	1 252	153
Purchase of intangible assets	(21)	(21)
Proceeds from sale of intangible assets	3	-
Loans granted	(261)	(5 660)
Loan repayments received	3 261	2 695
Interest received	346	375
Dividends received	41	-
Total cash flows from investing activities	1 231	11 810
Cash flows from financing activities		
Proceeds from borrowings	11 599	1 843
Repayments of borrowings	(1 601)	(6 960)
Selling-leaseback on terms of capital lease	65	-
Finance lease principal payments	(618)	(880)
Dividends paid	-	(12 444)
Total cash flows from financing activities	9 445	(18 441)
Net increase/decrease in cash and cash equivalents	(5 491)	(4 791)
Change of deposits with maturities greater than 3 months	(2 505)	(14 845)
Total change	(7 996)	(19 636)
Cash and cash equivalents at the beginning of the period	9 856	22 991
Deposits with maturities greater than 3 months at the beginning of period	2 651	25 623
Total at the beginning of the period	12 507	48 614
Effect of exchange rate changes	24	107
Cash and cash equivalents at the end of the period	4 389	18 307
Deposits with maturities greater than 3 months at the end of the period	146	10 778
Total at the end of the period	4 535	29 085

NOTES

Note 1 Accounting policies

The interim report of Merko Ehitus group for the 2011 6 months and II quarter is composed according to the terms of international accounting standard IAS 34 "Interim Financial Reporting" regarding the condensed interim financial statements. In the interim report same accounting principles and methods are used as in the 2010 financial statement. Accounting methods used in the interim report are consistent with the international financial accounting standards, as they are approved by the European Union.

By the opinion of the Management Board the consolidated interim report of Merko Ehitus AS for the 2011 6 months and II quarter reflects the economic results of the group true and fair and according to the principle of continuity. An increase in the proportion of the construction of infrastructure objects has in 2011 significantly increased the impact of seasonality on the group's revenue. The impact of cyclic development activities over the results was insignificant.

Note 2 Operating segments

in thousand euros

The chief operating decision-maker, i.e. the management of AS Merko Ehitus, monitors the business of the group by operating segments. The performance of the segments is assessed by the chief operating decision maker based on segment revenue derived from outside the group and pre-tax profit. Profit before taxes of the segments comprises in substance of their revenue and cost of goods sold; other expenses and income are not allocated to segments as these are monitored for the group as a whole and are not directly related to operating segments.

The profit and loss account information and assets of reportable segments have been reported in accordance with the accounting principles used in preparation of these financial statements. All segments are involved in the sale of construction services with the exception of the real estate development segment whose revenue is derived from the sale of apartments in development projects.

2011 6 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	27 147	36 254	18 061	4 662	1 341	87 465
Inter-segment revenue	(1 091)	(5 560)	(2 959)	(2 392)	(416)	(12 418)
Revenue from external clients	26 056	30 694	15 102	2 270	925	75 047
Depreciation and impairment charge	(39)	(13)	(558)	(30)	(166)	(806)
Setting up provisions	(211)	(1 068)	(2 214)	(33)	-	(3 526)
Profit (loss) from associates and joint ventures	-	3	-	(26)	48	25
Other finance income/costs	-	(1)	-	(80)	(6)	(87)
Profit (loss) before tax	1 158	(724)	(2 582)	(212)	(75)	(2 435)
Segment assets 30.06.2011	13 991	23 558	27 360	110 779	20 212	195 900

2010 6 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	32 235	28 214	11 911	8 257	675	81 292
Inter-segment revenue	(3 115)	(4 181)	(955)	(1 764)	(423)	(10 438)
Revenue from external clients	29 120	24 033	10 956	6 493	252	70 854
Depreciation and impairment charge	(60)	(318)	(488)	(18)	(51)	(935)
Setting up provisions	(893)	(396)	(991)	(11)	-	(2291)
Profit (loss) from associates and joint ventures	-	-	-	(96)	(188)	(284)
Other finance income/costs	-	-	-	(16)	(9)	(25)
Profit (loss) before tax	5 214	2 618	(102)	984	(11)	8 703
Segment assets 30.06.2010	15 126	13 412	18 296	110 577	7 512	164 923

In addition to the segment assets, as of 30.06.2011 the group holds assets of EUR 19 171 thousand (30.06.2010: EUR 46 150 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to associates and joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

Reconciliation of the pre-tax profit of segments and the group

	2011 6 months	2010 6 months
Profit (loss) from reporting segments	(2 435)	8 703
Unallocated expense (income)		
marketing expenses	(1 162)	(998)
general and administrative expenses	(3 893)	(4 165)
incl. setting up provisions	-	-
other operating income (expense)	211	257
finance income (costs)	(259)	109
incl. interest income	52	399
interest expense	(338)	(385)
Total profit before tax	(7 538)	3 906

Unallocated finance costs and income mostly include income from deposits but also interest expense not capitalised and other immaterial finance costs.

Revenue by client location

	2011 6 months	2010 6 months
Estonia	59 115	46 704
Latvia	13 508	22 630
Lithuania	2 424	1 520
Total	75 047	70 854

Non-current assets (except for financial assets and deferred income tax assets) by location of assets:

	30.06.2011	30.06.2010
Estonia	19 852	19 721
Latvia	681	885
Lithuania	6 118	47
Total	<u>26 651</u>	<u>20 653</u>

Note 3 Revenue*in thousand euros*

	2011 6 months	2010 6 months
Rendering of services	72 202	64 493
Sale of real estate and real estate development projects	2 221	6 213
Rental income	382	56
Sale of goods	242	92
Total revenue	<u>75 047</u>	<u>70 854</u>

Note 4 Cost of goods sold*in thousand euros*

	2011 6 months	2010 6 months
Construction services	38 280	28 545
Materials	19 618	13 640
Properties purchased for resale	2 111	5 867
Staff costs	7 698	6 793
Construction mechanisms and transport	4 364	3 564
Design	1 100	559
Real estate management costs	103	160
Depreciation and impairment charge	806	935
Other expenses	3 400	2 343
Total cost of goods sold	<u>77 480</u>	<u>62 406</u>

Note 5 Earnings per share

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

	2011 6 months	2010 6 months
Net profit (loss) attributable to shareholders (<i>in thousands of euros</i>)	(7 592)	3 318
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17 700	17 700
Earnings per share (<i>in euros</i>)	<u>(0,43)</u>	<u>0,19</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 6 Cash and cash equivalents*in thousand euros*

	30.06.2011	31.12.2010
Cash on hand	11	8
Bank accounts	2 543	937
Overnight deposits	1 635	8 911
Term deposits with maturities of 3 months and less	200	-
Total cash and cash equivalents	4 389	9 856

Note 7 Trade and other receivables*in thousand euros*

	30.06.2011	31.12.2010
Trade receivables		
accounts receivable	36 162	21 748
allowance for doubtful receivables	(1 145)	(1 159)
	<u>35 017</u>	<u>20 589</u>
Tax prepayments excluding corporate income tax		
value added tax	1 695	1 184
other taxes	16	17
	<u>1 711</u>	<u>1 201</u>
Amounts due from customers of contract works	17 222	13 557
Other short-term receivables		
short-term loans	7 082	6 500
interest receivables	977	808
other short-term receivables	172	190
	<u>8 231</u>	<u>7 498</u>
Prepayments for services		
prepayments for construction services	2 890	1 364
prepaid insurance	406	254
other prepaid expenses	448	475
	<u>3 744</u>	<u>2 093</u>
Total trade and other receivables	65 925	44 938

Note 8 Inventories*in thousand euros*

	30.06.2011	31.12.2010
Raw materials and materials	2 024	962
Work-in-progress	37 723	31 826
Finished goods	10 777	12 834
Goods for resale		
registered immovables purchased for resale	39 577	39 513
other goods purchased for resale	1 140	1 173
	<u>40 717</u>	<u>40 686</u>
Prepayments for inventories		
prepayments for real estate properties	6 644	6 641
prepayments for other inventories	199	99
	<u>6 843</u>	<u>6 740</u>
Total inventories	98 084	93 048

Note 9 Long-term financial assets*in thousand euros*

	30.06.2011	31.12.2010
Investments in associates and joint ventures	11 043	11 053
Long-term loans	4 971	6 323
Long-term interest receivables	25	308
Long-term bank deposit	180	319
Long-term receivable from buyer of subsidiary	96	96
Long-term receivables from customers of construction services	1 127	1 212
Total long-term financial assets	17 442	19 311

Note 10 Investment property*in thousand euros*

	30.06.2011	31.12.2010
Land	134	134
Buildings at carrying amount		
cost	1 152	1 152
accumulated depreciation	(144)	(119)
	<u>1 008</u>	<u>1 033</u>
Construction in progress	7 316	2 418
Total investment property	8 458	3 585

Note 11 Property, plant and equipment*in thousand euros*

	30.06.2011	31.12.2010
Land	825	825
Buildings at carrying amount		
cost	5 692	5 692
accumulated depreciation	(987)	(894)
	<u>4 705</u>	<u>4 798</u>
Right of superficies at carrying amount		
cost	29	29
accumulated depreciation	(8)	(8)
	<u>21</u>	<u>21</u>
Machinery and equipment at carrying amount		
cost	16 146	17 608
accumulated depreciation	(7 696)	(7 828)
	<u>8 450</u>	<u>9 780</u>
Other fixtures at carrying amount		
cost	5 207	4 985
accumulated depreciation	(2 714)	(2 662)
	<u>2 493</u>	<u>2 323</u>
Construction in progress and prepayments	232	-
Total property, plant and equipment	16 726	17 747

Note 12 Intangible assets*in thousand euros*

	30.06.2011	31.12.2010
Goodwill	891	891
Software at carrying amount		
cost	1 162	1 160
accumulated depreciation	(673)	(630)
	<u>489</u>	<u>530</u>
Prepayments for intangible assets	87	87
Total intangible assets	<u>1 467</u>	<u>1 508</u>

Note 13 Borrowings*in thousand euros*

	30.06.2011	31.12.2010
Finance lease payables		
Present value of lease payments	<u>3 952</u>	<u>3 949</u>
incl. current portion	918	1 055
non-current portion 1...4 years	3 034	2 894
Bank loans		
Loan balance	<u>23 095</u>	<u>14 488</u>
incl. current portion	12 042	4 373
non-current portion 1...5 years	11 053	10 115
Loans from parent		
Loan balance	<u>1 313</u>	-
incl. current portion	1 313	-
Loans from entities under common control		
Loan balance	<u>6 989</u>	<u>6 989</u>
incl. current portion	6 989	6 989
Loans from other entities		
Loan balance	<u>393</u>	<u>313</u>
incl. current portion	217	137
non-current portion 1...5 years	176	176
Total loans		
Loans balance	<u>31 790</u>	<u>21 790</u>
incl. current portion	20 561	11 499
non-current portion 1...5 years	11 229	10 291
Total borrowings	<u>35 742</u>	<u>25 739</u>
incl. current portion	21 479	12 554
non-current portion 1...5 years	14 263	13 185

Note 14 Trade and other payables*in thousand euros*

	30.06.2011	31.12.2010
Trade payables	27 887	15 362
Payables to employees	2 867	2 701
Tax liabilities, except for corporate income tax		
value added tax	278	730
personal income tax	459	442
social security tax	894	758
unemployment insurance tax	87	78
contributions to mandatory funded pension	25	18
other taxes	65	25
	<u>1 808</u>	<u>2 051</u>
Amounts due to customers for contract works	6 140	3 876
Other liabilities		
interest liabilities	91	88
payable for registered immovables from demerger	6 391	6 391
other liabilities	95	301
dividend liabilities	1 770	-
	<u>8 347</u>	<u>6 780</u>
Prepayments received	8 771	8 384
Total trade and other payables	<u>55 820</u>	<u>39 154</u>

Note 15 Short-term provisions*in thousand euros*

	30.06.2011	31.12.2010
Provision for warranty obligation for construction	1 126	1 112
Provision for onerous construction contracts	4 349	2 226
Provision for legal costs and claims filed	313	262
Other provisions	29	74
Total short-term provisions	<u>5 817</u>	<u>3 674</u>

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 over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, so-called 'entities controlled by the parent';
- associates and joint ventures;
- key members of the management, their close relatives and entities under their control or significant influence.

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

Transactions among related parties are executed on equivalent terms as transactions among independent parties.

The parent of AS Merko Ehitus is AS Riverito. As of 30.06.2011 and 31.12.2010, 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 euros

	2011 6 months	2010 6 months
Construction services rendered		
Associates and joint ventures	70	53
Entities under common control	892	93
Management members	5	614
Total construction services rendered	<u>967</u>	<u>760</u>
Purchased construction services		
Associates and joint ventures	-	241
Entities under common control	70	84
Total purchased construction services	<u>70</u>	<u>325</u>
Purchased other services		
Parent company	<u>58</u>	-
Construction materials purchased		
Other related parties	<u>68</u>	<u>1</u>
Interest income		
Associates and joint ventures	53	42
Entities under common control	38	87
Total interest income	<u>91</u>	<u>129</u>
Interest expenses		
Parent company	14	-
Entities under common control	85	83
Total interest expenses	<u>99</u>	<u>83</u>

Balances with the related parties*in thousand euros*

	30.06.2011	31.12.2010
Trade and other receivables		
Trade receivables		
Parent company	3	5
Associates and joint ventures	16	18
Entities under common control	41	4
Other related parties	-	5
Short-term loans		
Associates and joint ventures	1 315	-
Entities under common control	460	1 557
Interest receivables		
Associates and joint ventures	724	383
Entities under common control	197	175
Other short-term receivables		
Associates and joint ventures	-	4
Prepayments for inventories		
Entities under common control	4 744	4 741
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	3 537	4 756
Interest receivables		
Associates and joint ventures	-	288
Borrowings		
Short-term loans and bonds		
Parent company	1 313	-
Entities under common control	6 989	6 989
Trade and other payables		
Trade payables		
Parent company	12	12
Entities under common control	9	3
Other related parties	19	-
Interest liabilities		
Parent company	13	16
Entities under common control	14	15
Dividend liabilities		
Parent company	1 274	-
Other short-term liabilities		
Entities under common control	6 391	6 391

Remuneration of the members of the Supervisory and Management Boards

In 6 months 2011, the members of the Supervisory and Management Boards of AS Merko Ehitus were paid remuneration totalling EUR 244 thousand (2010 6 months EUR 396 thousand).

Termination benefits of members of the Supervisory and Management Boards

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. During the 6 months of 2011 benefits for the members of the Management Board were not paid.

Note 17 Contingent liabilities

The group has purchased the following guarantees from financial institutions to guarantee the group's obligations to third parties. These amounts represent the maximum right of claim by third persons against the group in case the group is unable to meet its contractual obligations. Management estimates that additional expenses related to these guarantees are unlikely.

<i>in thousand euros</i>	30.06.2011	31.12.2010
Performance period's warranty to the customer	25 008	19 339
Tender warranty	3 750	3 276
Guarantee warranty period	7 948	9 771
Prepayment guarantee	11 289	10 295
Contracts of surety	1 249	53
Payment guarantee	473	171
Total contingent liabilities	49 717	42 905

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

Tender warranty – guarantor ensures to the bid organiser that the tenderer does not withdraw a tender during its validity period.

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

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

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

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of Merko Ehitus has prepared the consolidated 2011 6 months and II quarter interim report as presented on pages 3 to 26.

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.

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 Management Board		17.08.2011
Alar Lagus	Member of the Management Board		17.08.2011
Veljo Viitmann	Member of the Management Board		17.08.2011
Andres Agukas	Member of the Management Board		17.08.2011
Jaan Mäe	Member of the Management Board		17.08.2011
Viktor Mõisja	Member of the Management Board		17.08.2011