



AS MERKO EHITUS GROUP

2013 6 months and II quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activities: activities of holding companies
general contracting in construction sector
real estate development

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Financial year: 01.01.2013 – 31.12.2013

Reporting period: 01.01.2013 – 30.06.2013

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

Management Board: Andres Trink, Tõnu Toomik

Auditor: AS PricewaterhouseCoopers

TABLE OF CONTENTS

BRIEF OVERVIEW OF THE GROUP	3
VISION	4
VALUES	4
STRATEGY.....	4
LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018	4
MANAGEMENT REPORT	5
CONSOLIDATED FINANCIAL STATEMENT.....	29
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	29
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	31
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	32
CONSOLIDATED CASH FLOW STATEMENT	33
NOTES.....	34
Note 1 Accounting policies used.....	34
Note 1.1. Changes in presentation of information	34
Note 2 Operating segments.....	35
Note 3 Cost of goods sold	37
Note 4 Earnings per share.....	37
Note 5 Cash and cash equivalents.....	37
Note 6 Trade and other receivables	38
Note 7 Inventories	38
Note 8 Long-term financial assets	39
Note 9 Investment property	39
Note 10 Property, plant and equipment	39
Note 11 Intangible assets	40
Note 12 Borrowings	40
Note 13 Payables and prepayments	41
Note 14 Short-term provisions	41
Note 15 Related party transactions	41
Note 16 Contingent liabilities.....	45
MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT	46

BRIEF OVERVIEW OF THE GROUP

AS Merko Ehitus, a company founded in 1990, currently operates as a holding company. Group companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development. Major construction companies incorporated under the holding company include AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%), as well as the AS Merko Ehitus Eesti group companies Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The shares of Merko are listed on Tallinn Stock Exchange since 1997. As at the year-end 2012, the Group employed more than 900 people.

Merko Ehitus has the highest owners' equity in the Estonian construction sector and is able to finance projects by itself. Our objective is to maintain liquidity. We have been conservative in involving debt capital. We observe that we would have sufficient necessary resources to continuously invest in attractive projects.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with about 7% of the total volume of the Estonian construction market as at 2012 year-end.

In Latvia and Lithuania, Merko Ehitus operates through its subsidiaries SIA Merks and UAB Merko Statyba, focusing selectively on projects where the competitive advantage is perceivable as compared to other market players.

Long-term experience in different markets, a wide scope of construction services, flexibility, reliability and meeting of deadlines and primarily quality have helped Merko Ehitus group companies to achieve and maintain the position of the market leader in the Baltics. Depending on the expectations of contracting entities, the group companies perform both small-scale construction works as well as large scale, complicated and innovative projects, with a focus on general contracting and project management.

International quality, environmental protection and occupational safety certificates ISO 9001, ISO 14001 and OHSAS 18001 have been assigned to the group's larger construction companies.

VISION

Our vision is reliable solutions and quality performance for your ideas.

VALUES

RESPONSIBILITY - We decide based on business thinking/awareness and ethical beliefs. We offer continuous and environment-friendly solutions.

KEEPING PROMISES - We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation; the keeping of one's promises is mutual.

COMPETENCE - We value quality and professionalism. We constantly develop our professional knowledge and skills.

INITIATIVE - We manage processes and we are result-oriented. We accept the challenges which presume more.

CREATIVITY - We are open, innovative and creative in working out and implementing the solutions. We are willing to carry out our thoughts.

STRATEGY

The business strategy of AS Merko Ehitus subsidiaries focuses on improving profitability and enhancing the efficiency of the cost base, offering general contracting services in the field of construction of buildings and infrastructure facilities and developing residential real estate in its home markets Estonia, Latvia and Lithuania. The group's objective is to remain the leader in the Baltic construction market.

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

At the meeting held on 8 April 2013, the Management Board and the Supervisory Board of AS Merko Ehitus reviewed the company's strategic development directions and approved long-term financial objectives until 2018.

Considering the weak growth perspective of the Baltic construction and real estate market in the coming few years, the overall low interest environment and the company's high equity base, the strategy and the financial objectives are focussed on improving the return on invested capital and increasing the efficiency of the balance structure.

The objectives are based on the following assumptions concerning the external environment:

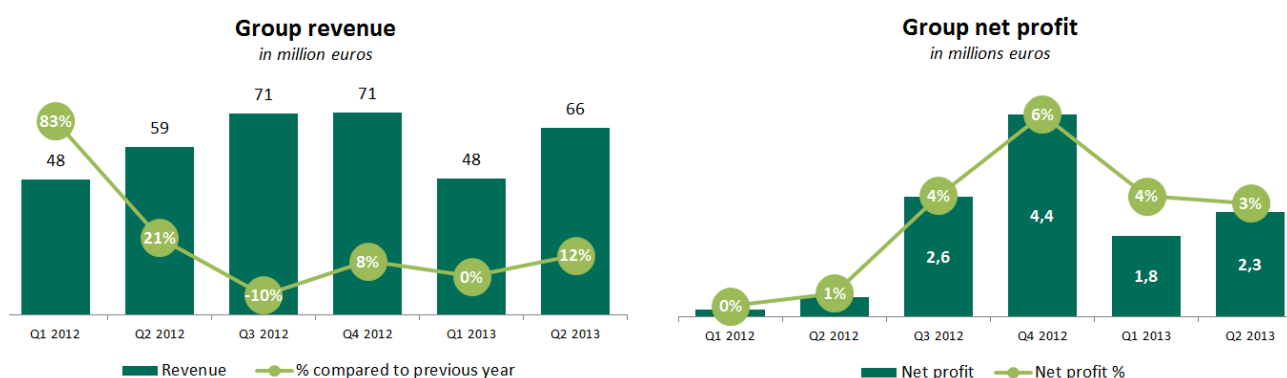
- The Baltic construction market will not experience considerable growth in the coming two years;
- The share of public procurements in construction contracts will remain high, but their volume will temporarily decrease as of the second half of 2013 due to the end of the current EU funding period. On the whole, the financial resources allocated to economy will remain at the same level in the new EU funding period (2014-2020), but the structure thereof will change. The activity of private clients in developing and launching larger construction projects will recover slowly.
- The number of service providers in the construction sector exceeds the demand and there is still a surplus capacity of property, plant and equipment. The tightening competition in the construction market puts increasing pressure on the profit margins of construction companies.
- The Baltic apartment market will continue to see a moderate growth in transaction activity and prices, particularly in capital cities.

The long-term financial objectives of AS Merko Ehitus cover the period until 2018 and will be reviewed annually based on the market situation, the company's financial standing and strategy:

- The minimum period average return on equity (ROE): 10%
- Dividend pay-out ratio: 50-70% of the annual profit
- Equity ratio: at least 40%

MANAGEMENT REPORT

Overview of the 6 months and Q2 results



- ❖ **Profitability:** net profit in 6M 2013 was EUR 4.0 million (6M 2012: EUR 0.6 million) and net profit in Q2 was EUR 2.3 million (Q2 2012: EUR 0.4 million).
- ❖ **Revenue has increased:** 6M 2013 revenue was EUR 113.7 million (6M 2012: EUR 106.9 million). Revenue in Q2 was EUR 65.9 million (Q2 2012: EUR 59.1 million), which has increased 11.5% compared to the same period last year.
- ❖ **Strong cash position:** by the end of the reporting period, the group had EUR 33.8 million in cash and cash equivalents (incl. EUR 2.5 million short-term deposits), equity EUR 115.5 million (48.8% of total assets). Comparable figures in 2012 were accordingly EUR 11.7 million and EUR 109.9 million (48.5% of total assets).
- ❖ **Secured order book is stable:** In Q2 2013, EUR 51 million worth of new contracts were signed (Q2 2012: EUR 97 million) and as at 30 June 2013, the group's secured order book amounted to EUR 184 million (30 June 2012: EUR 233 million).

		6M '13	6M '12	Variance	Q2 '13	Q2 '12	Variance
Revenue	million EUR	113.7	106.9	+6.4%	65.9	59.1	+11.5%
Gross profit	million EUR	9.8	5.0	+95.0%	5.6	2.5	+120.5%
Gross profit margin	%	8.6	4.7	+83.2%	8.5	4.3	+97.7%
Net profit (parent)	million EUR	4.0	0.6	+599.5%	2.3	0.4	+438.7%
Net profit margin	%	3.6	0.5	+557.2%	3.5	0.7	+382.9%
EPS	EUR	0.23	0.03	+599.5%	0.13	0.02	+438.7%

		30.06.13	30.06.12	Variance
ROE (on yearly basis)	%	9.6	-5.3	+279.8%
Equity ratio	%	48.8	48.5	+0.8%
Secured order book	million EUR	184	233	-21.0%
Total assets	million EUR	236.6	226.8	+4.3%
Number of employees	people	943	957	-1.5%

Calculations of ratios are provided on page 28 of the report.

Background information and major changes introduced in the corporate structure

AS Merko Ehitus is a holding company incorporating construction and real estate development companies offering integrated construction solutions in Estonia, Latvia and Lithuania. Major construction companies incorporated under the holding company include AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%), as well as the AS Merko Ehitus Eesti group companies Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Tõnu Toomik.

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 21-24 and Note 15 to the financial statements, and published, together with the track record and photographs, on the company's website at www.merko.ee.

The structure of the group's business areas as at 30 June 2013 has been presented below:



AGM and changes in the management structure of AS Merko Ehitus

The general meeting of the shareholders was held on 5 June 2013. The general meeting resolved to approve the annual report and the profit allocation proposal for 2012. Pursuant to the profit allocation proposal, a dividend payable of EUR 5.3 million (EUR 0.3 per share) was recognised in the consolidated balance sheet as at 30 June 2013. The dividends were paid out to shareholders on 3 July 2013.

In addition, the annual general meeting resolved to recall Member of the Supervisory Board Tõnu Toomik in connection with the Supervisory Board's resolution to appoint Tõnu Toomik as Member of the Management Board of AS Merko Ehitus. The Supervisory Board of AS Merko Ehitus resolved to recall Member of the Management Board Viktor Mõisja from 5 June 2013, with Mr Mõisja continuing service in the engineering division of the company's subsidiary AS Merko Ehitus Eesti, and to appoint the former member of the Supervisory Board Tõnu Toomik as a new member of the Management Board.

Changes in the legal structure of the group

In the second quarter of 2013, OÜ Baltic Electricity Engineering, a 100% subsidiary of AS Merko Ehitus, was renamed OÜ Merko Investments. The private limited company has a share capital of EUR 10,000.

MANAGEMENT REPORT

On 22 May 2013, AS Merko Ehitus concluded an intra-group transaction, disposing a 100% stake in SIA Merks, a subsidiary engaged in construction, to OÜ Merko Investments, which is fully owned by AS Merko Ehitus. The transaction served the technical purpose of reorganising the legal structure of the group.

By 4 July 2013, the liquidation of Merko Ukraine LLC, initiated in the autumn of 2012, was completed, with the company deleted from the registers.

On 10 June 2013, the shareholders of OÜ Unigate, a 50%-owned joint venture of AS Merko Ehitus, resolved to increase the nominal value of the share of the joint venture by EUR 887.07 to EUR 6,000 with the aim of bringing the company's share capital into line with the requirements arising from the Commercial Code. A monetary contribution of EUR 350,000 was made by both shareholders, with the nominal value of the share capital amounting to EUR 444 and the share premium to EUR 349,556.

On 17 July 2013, UAB Merko Bustas, a 100% subsidiary of AS Merko Ehitus, established a 100% subsidiary UAB Kražiu Projektas in Lithuania, with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was established with the aim of acquiring registered immovables for development purposes in Lithuania.

Greatest contributors to the construction market in the first six months of 2013

The company's prediction of the greatest contributors to the construction market in the upcoming quarters has not changed significantly since the annual report 2012.

While in 2012, a majority of large-scale contracts for construction in the Baltic States were initiated by the public sector and financed largely from the EU Structural Funds, these trends have been reversed in the first half-year of 2013, with new life breathed into the private sector. All in all, a decrease in construction volumes is expected in the Baltic States in 2013. This can mostly be attributed to the anticipated decrease in public procurement volumes in connection with the expiry of the EU budget period 2007-2013 and uncertainties regarding the distribution of funds for the budget period 2014-2020. With civil engineering works still engulfing the highest construction volumes, the year 2013 has seen a revitalization of building projects by private contracting entities in the sectors of trade, logistics and other commercial space, albeit the total number of projects remains modest.

In 2013, the Baltic construction market is still characterized by tight competition and aggressive pricing in construction procurements. Due to the contracting entities' persistent focus on the most favourable construction price, it is still difficult for the main contractors to maintain their competitive edge.

The contracting entities' high demands with regard to guarantees, and the long terms of payment lay a heavy burden on the current assets of construction companies. Cash flow management skills are required for companies to remain competitive. We therefore make an effort to maintain a stable equity base, and only engage debt capital after careful consideration.

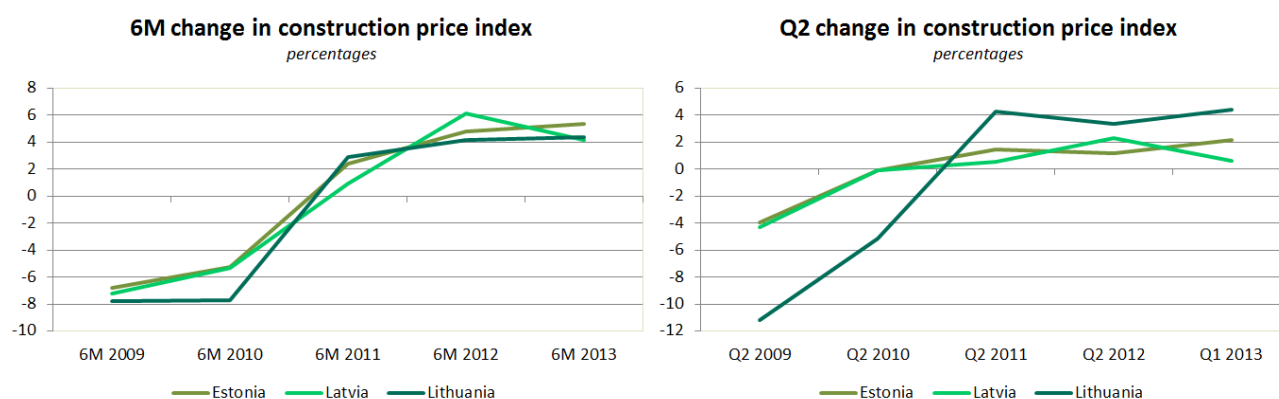
The apartment market has been gradually improving in all Baltic States. Despite the price-sensitive consumer, the demand for well-located high-quality residential space remains high in all three Baltic States. Previously frozen apartment development projects have been re-launched, increasing the supply of new apartments. More and more apartment buyers focus on the quality of construction (energy efficiency, sound insulation) and base their purchase decisions on the availability of infrastructure (parking, services, logistics) in the area. The low Euribor level continues to enhance availability of bank loans. Still, the customers' enthusiasm in applying for bank loans remains lower in Latvia, as well as in Lithuania, than in Estonia.

The banks, in turn, show no enthusiasm in financing the residential development projects of smaller-scale developers, and tend to demand a high proportion (up to 50% of the project volume) of preliminary contracts. These trends provide the group with a competitive edge in the marketing of new development projects and endorse the launch of new development projects in the capitals of all Baltic States.

In Latvia, the apartment market continues to be supported by the role of foreign investors in the new apartments market, motivated by the prospects of acquiring an EU residence permit, as well as the final decision regarding the changeover to the euro at the beginning of 2014. The Lithuanian apartment market continues to be dominated by the sale of "grey box" apartments.

Considering the poor prospects for growth in the construction market, no wage pressures are foreseen. Neither are we expecting major changes in the input price level. Albeit the weak construction market could be expected to exert a downward pressure on input prices, the general inflation is expected to negate the trend. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events.

	6 months 2013			II quarter 2013		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
Construction price index change, y-o-y	5.4%	4.2%	4.4%	5.2%	3.1%	4.3%
Labour force	15.0%	9.9%	7.9%	15.0%	6.5%	7.7%
Building machines	4.5%	3.0%	1.9%	5.2%	2.3%	1.8%
Building materials	1.1%	1.5%	3.0%	7.9%	1.6%	2.9%



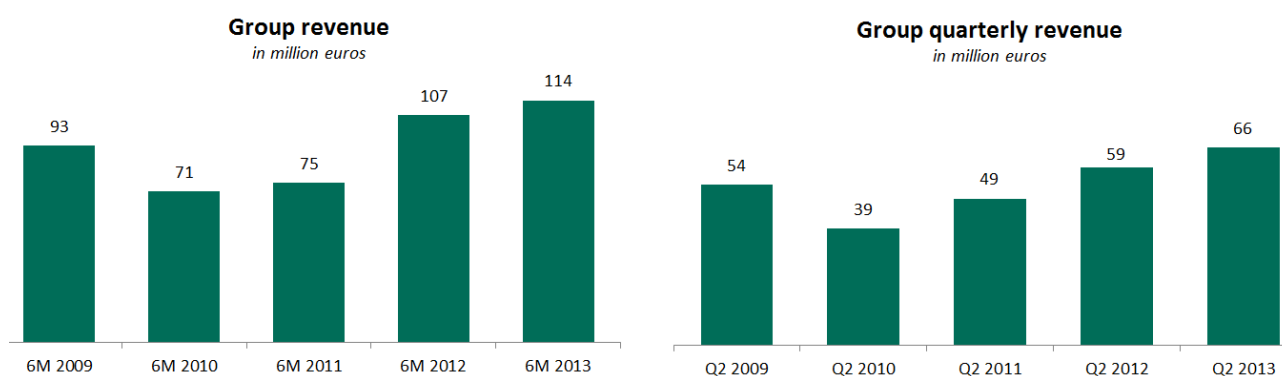
AS Merko Ehitus's subsidiary AS Merko Ehitus Eesti – the number one main contractor in the Estonian construction market – is well-positioned and able to compete in all of the activities pursued. In Latvia, AS Merko Ehitus's subsidiary SIA Merks is among the 5-6 leading main contractors; we believe in our ability to maintain the position. In Lithuania, the activities of AS Merko Ehitus's subsidiary UAB Merko Statyba revolve, above all, around apartment development projects and the buildings (general construction) segment, which is witnessing a tight competition with regard to procurements. The position of the main contractors in the Lithuanian market continues to be affected by the activities of the so-called contracting entity consulting companies, who complicate the main contractors' pursuit of favourable construction orders. In both Latvia and Lithuania, it remains a huge challenge for foreign companies to participate in public procurements.

OPERATING RESULTS**Business activities**

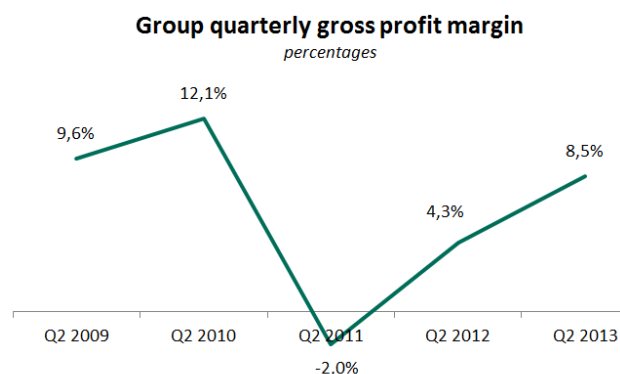
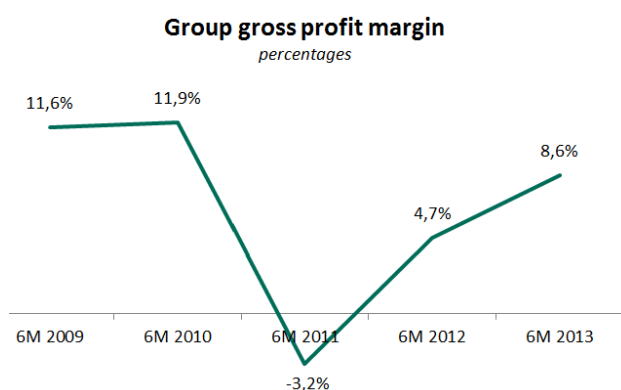
Key financial indicators (in million of euros):

	6M 2013	6M 2012	Q2 2013	Q2 2012
Revenue				
Estonia	92.8	94.2	55.3	52.3
Latvia	17.5	8.5	9.2	4.6
Lithuania	3.4	4.2	1.4	2.2
Revenue total	113.7	106.9	65.9	59.1
Gross profit	9.8	5.0	5.6	2.5
Operating profit (EBIT)	5.1	1.1	2.8	0.5
attributable to equity holders of the parent	4.0	0.6	2.3	0.4
attributable to non-controlling interest	(0.0)	(0.1)	(0.1)	(0.0)
Net profit	4.0	0.5	2.2	0.4
Earnings per share (EPS), in euros	0.23	0.03	0.13	0.02
Pecuniary means at the end of period	33.8*	11.7	33.8*	11.7

* incl short-term deposits in the amount of EUR 2.5 million

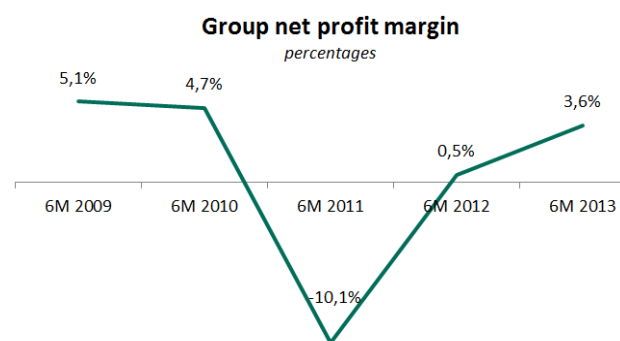
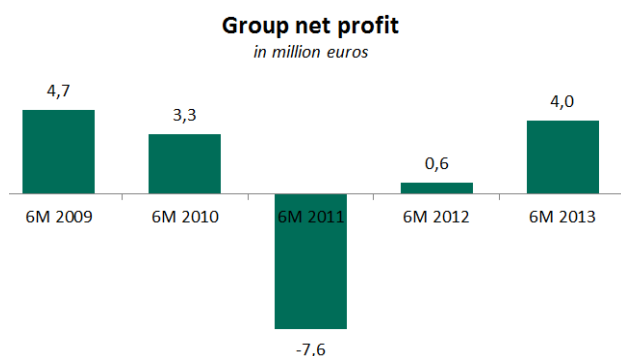
Revenue and gross profit

Merko Ehitus group generated a total of EUR 113.7 million in revenue in 6 months of 2013. 81.6% of the revenue was generated in Estonia, 15.4% in Latvia and 3.0% in Lithuania (6 months of 2012: 84.0% in Estonia, 14.0% in Latvia and 2.0% in Lithuania). Compared to the 6 months of 2012 the group revenue increased by 6.4%. During the reporting period, orders from the private sector have increased, but the majority of revenue is still related to projects financed with support from the EU structural funds – state orders. Revenue in Q2 2013 was EUR 65.9 million, which has increased 11.5% compared to the previous year (Q2 2012: EUR 59.1 million). The increase in revenue, compared to last year, can be mainly attributed to projects pursued in the general construction segment.

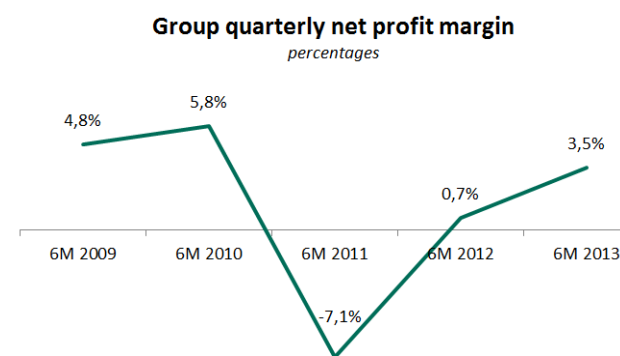
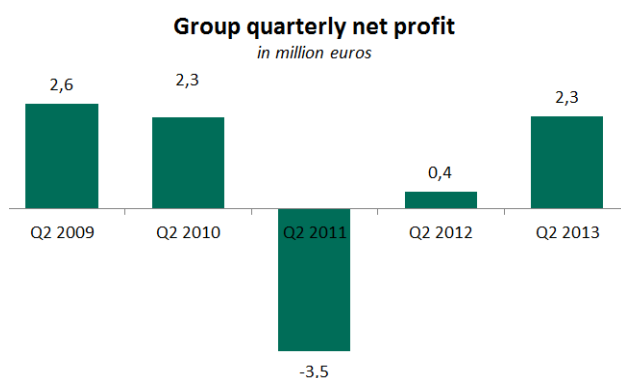


In 6 months of 2013 the group's gross profit from development and construction activities totalled EUR 9.8 million (6 months of 2012: EUR 5.0 million). The gross profit in Q2 2013 was EUR 5.6 million (Q2 2012: EUR 2.5 million). Both the six-month (8.6%) and the quarterly (8.5%) gross profit margin has improved by approximately 4%, compared to the same period last year (first six months of 2012: 4.7%; Q2 2012: 4.3%). Key contributors to the rise in the profit margin are the road construction segment and the real estate development segment. At the same time, the margin has fallen at the expense of the profitability of the general construction and engineering segments. The scarcity of projects and the ever-tightening competition in the construction sector pose a huge challenge in the maintaining of the current gross profit margin for new procurements in all segments, but especially in general construction, where competition and the number of companies participating at the procurements is the highest.

Net profit



In 6 months of 2013, the group's pre-tax profit totalled EUR 4.5 million and net profit was EUR 4.0 million as compared to the pre-tax profit of EUR 0.8 million and net profit of EUR 0.6 million in 6 months of 2012. Group's net profit margin was 3.6% (6 months of 2012: 0.5%).



In Q2 of 2013, the group's pre-tax profit totalled EUR 2.6 million and net profit was EUR 2.3 million as compared to the pre-tax profit of EUR 0.4 million and net profit of EUR 0.4 million in Q2 of 2012. Group's quarterly result is comparable to years 2010 and 2009 level, but the profit margins were higher in those years.

Business segments

The group manages business activities in the following areas at activity:

- General construction - includes the construction of buildings for different purposes including offices, hotels, museums, culture and business centres, social, production and service buildings as well as buildings of various industrial structures.
- Engineering construction - The engineering construction segment of Merko builds port structures, landfilling areas at landfills, various road structures (tunnels, overpasses, bridges), water and sewerage pipelines, water treatment plants and other complex engineering and environmental projects.
- Road construction - In this segment, Merko carries out road construction and builds the associated infrastructure. In addition, we carry out road maintenance works and maintenance repair.
- Real estate development - including development of apartment projects, long-term financial investments and commercial real estate projects.

General construction

General construction <i>million EUR</i>	6M 2013	6M 2012	Variance	Q2 2013	Q2 2012	Variance
Revenue	33.5	23.2	+44.3%	20.9	11.8	+77.8%
% of revenue	29.4%	21.7%		31.7%	19.9%	
Gross profit	1.2	1.9	-34.1%	0.8	1.1	-30.4%
Gross profit margin	3.7%	8.1%		3.7%	9.4%	

In the first half-year of 2013, the revenue of the general construction segment increased by 44.3% from the same period last year. At the same time, the gross profit of the segment has decreased, mainly due to the pressure on the margins exerted by tightening competition caused by the scarcity of projects. While in 2012 the market was primarily dominated by public sector projects, the 2013 has seen an increase also in private sector orders. Nevertheless, public procurements continue to make up a bulk of the work-in-progress.

Our major projects in the II quarter included reconstruction work at the North-Estonia Medical Centre in Mustamäe, construction of KTN Tallinn logistics centre (II construction phase, I stage) and Tondiraba ice arena.

Engineering or infrastructure construction

Civil engineering <i>million EUR</i>	6M 2013	6M 2012	Variance	Q2 2013	Q2 2012	Variance
Revenue	45.5	55.3	-17.7%	24.8	29.6	-16.3%
% of revenue	40.0%	51.8%		37.6%	50.1%	
Gross profit	3.9	3.3	+19.8%	1.6	1.7	-5.7%
Gross profit margin	8.7%	6.0%		6.4%	5.7%	

The revenue of the civil engineering segment amounted to EUR 45.5 million in the first half-year (6 months of 2012: EUR 55.3 million), which is 17.7% less than in 2012. The decrease from the previous year is mainly due to a drop in the volume of pipeline projects. In the second quarter of 2013, our main projects included the reconstruction of pipelines in Vääna-Jõesuu and the closing of industrial waste and semi-coke landfill in Kohtla-Järve. The said area continues to form the largest proportion in the group's revenue (6 months of 2013: 40.0%). The gross profit of the civil engineering segment amounted to EUR 3.9 million (6 months of 2012: EUR 3.3 million) and the gross profit margin was 8.7% (6 months of 2012: 6.0%). The positive shift is mainly due to the fact that the results of loss-making projects had already been recorded in the previous period.

The civil engineering segment includes challenges, primarily in connection with the end of the 2007-2013 EU budgeting period and due to the fact that the pace of launching new projects has decreased.

Road construction

Road construction <i>million EUR</i>	6M 2013	6M 2012	Variance	Q2 2013	Q2 2012	Variance
Revenue	22.6	18.5	+21.9%	14.8	11.1	+32.9%
% of revenue	19.8%	17.3%		22.4%	18.8%	
Gross profit	2.7	-0.7	+474.3%	2.3	-0.9	+360.0%
Gross profit margin	12.2%	-4.0%		15.2%	-7.8%	

The revenue of the road construction segment amounted to EUR 22.6 million in the first half-year of 2013, which means a 21.9% increase from 2012. In the first half-year of 2013, the segment earned a gross profit of EUR 2.7 million, which yields a gross profit margin of 12.2%. The increase in both revenue and profit was supported by the increase in road construction and maintenance volumes in the second quarter of 2013.

We continue with our largest construction project of constructing the Ülemiste traffic junction, the final completion of which is scheduled for the end of 2013.

Real estate development

Real estate development <i>million EUR</i>	6M 2013	6M 2012	Variance	Q2 2013	Q2 2012	Variance
Revenue	11.7	9.1	+27.8%	5.2	5.9	-13.1%
% of revenue	10.3%	8.5%		7.8%	10.1%	
Gross profit	1.9	0.6	+211.6%	1.0	0.4	+116.9%
Gross profit margin	16.1%	6.6%		18.7%	7.5%	

A total of 94 apartments were sold in 6 months of 2013 at the total value of EUR 10.8 million (excl. VAT), (6 months of 2012: 67 apartments and EUR 8.0 million, respectively). At the end of the period, Merko Ehitus group's inventory comprised 62 completed but not yet sold apartments (24 in Estonia, 14 in Latvia and 24 in Lithuania).

The following table lists the apartment projects in progress:

Project	Town/Country	Completion time	No of apartments
Räägu 9	Tallinn, Estonia	2013 summer	20
Eha 4 / Paldiski 17	Tallinn, Estonia	2013 summer	27
Vaarika 5	Tartu, Estonia	2013 summer	15
Pallasti 46, 48, 50	Tallinn, Estonia	2013 autumn	69
Grostonas 17	Riga, Latvia	2013 autumn	62
Tedre 55	Tallinn, Estonia	2014 spring	47
			240
Started in Q2 2013			
Pärna Avenue 8	Tartu, Estonia	2013 year-end	42
Grostonas 19	Riga, Latvia	2014 autumn	82
Mokslininku II stage	Vilnius, Lithuania	2014 autumn	54
Kentmanni 6	Tallinn, Estonia	2014 year-end	92
			270
Total			510

Two previously frozen development projects were re-launched in the second quarter of 2013. In Tallinn, the company launched construction of the Kentmanni 6 residential and commercial building (number of apartments in the new

design: 92), a project frozen in 2008. The first two floors of the building have been designed as commercial space, with the remaining 12 floors allocated for apartments. Two underground parking lots had been constructed for the building by the end of 2008. The building is scheduled to be completed at the end of 2014.

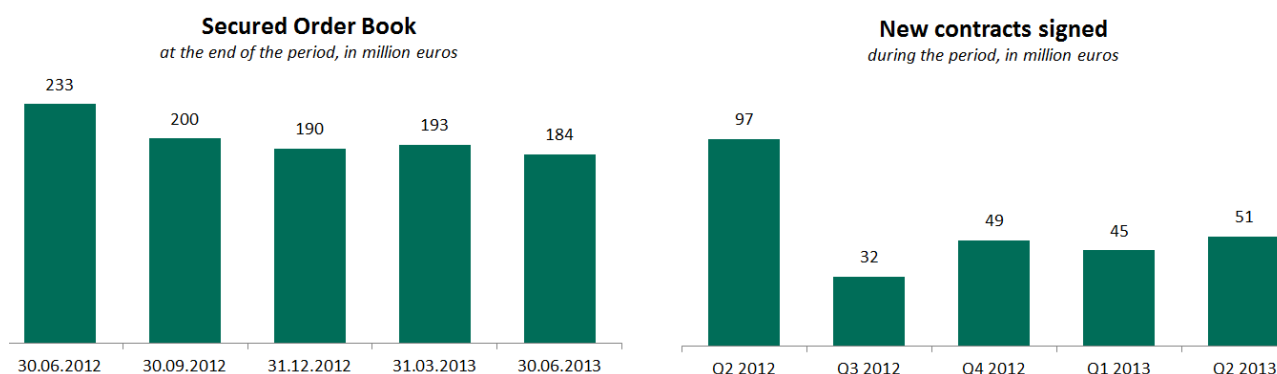
In the second quarter of 2013, we partially re-launched the Pärna Avenue development project (42 apartments) in Raadi, Tartu. As at 30 June 2013, the company thus has a single frozen project in Tartu – the 158-apartment project shelved in 2007.

In addition, we launched new development projects in both Riga and Vilnius in the second quarter of 2013. The development project launched in Riga constitutes a continuation of the apartment building which is nearing completion at Grostonas 17 in the Skanstese district – we will build an 82-apartment residential building just next to it. In Vilnius, we will proceed with the second stage of the Mokslininku project (54 apartments).

One of our objectives is to keep a moderate portfolio of land plots to ensure stable implementation of property development projects considering the market conditions. At the same time the real estate market has become more selective – key aspects considered in the evaluation of risks prior to the launch of each project are the location, scale of development, design solutions and the target group. In view of the low mortgage interest rates and the limited supply on the market of new apartments over the last three years, demand and transaction activity in the apartment market has grown moderately.

Secured Order Book

As at 30 June 2013, the group's secured order book amounted to EUR 184 million as compared to EUR 233 million as at 30 June 2012. The group does not include residential building projects developed by the group and development of the investment property in the order book.



In second quarter of 2013, EUR 51 million worth of new contracts were signed (without own developments) as compared to EUR 97 million in same period previous year. Public procurement remained the greatest contributor to the volume of contracts concluded in the second quarter of 2012. Major contracts included the design and construction of the Narva City water treatment plant (EUR 21 million), reconstruction of the North-Estonia Medical Centre in Mustamäe (EUR 24 million) and reconstruction of the Ülemiste traffic interchange (EUR 8 million). The table below shows the largest construction contracts that were signed in the second quarter of 2013:

Brief description of contract	Cost million EUR	Completion time	Country
Tondiraba ice-arena	22.5	June 2014	Estonia
Nurmevälja logistics centre	7-8	Q1 2014	Estonia
Baloži boiler house	4.3	July 2014	Latvia
Konsum supermarket in Narva	3.1	May 2014	Estonia

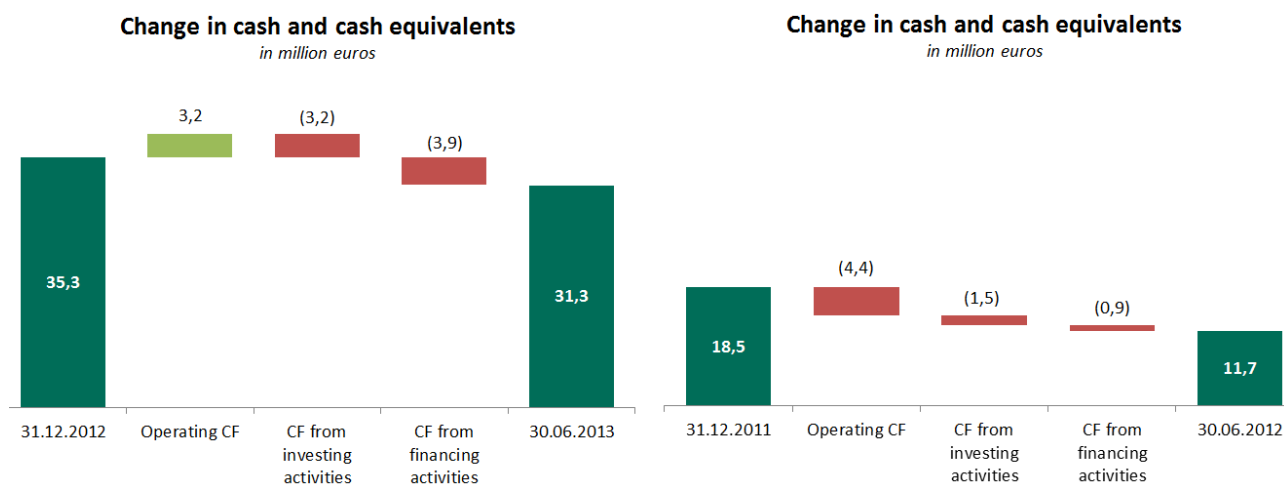
After the balance sheet date, a contract was concluded on 18 July 2013 between the AS Merko Ehitus group company AS Merko Ehitus Eesti and the AS Olympic Entertainment Group company Kesklinna Hotelli OÜ for the construction of a hotel and entertainment complex in Tallinn. The hotel will be operated by the international hotel chain Hilton Worldwide. The contract value is nearly EUR 31 million. Demolition work on the present-day Park Hotel & Casino will commence in October 2013, with the construction of the new building to be launched in February 2014. The work is scheduled to be delivered in December 2015.

Furthermore, on 1 August 2013, SIA Merks – a Latvian-based subsidiary of AS Merko Ehitus – concluded a contract with Liepāja City Government for the construction of the multi-functional Lielais Dzintars centre in Liepāja. The contract value is EUR 28.3 million, with the work scheduled to be delivered in July 2015.

Although public procurements make up a bulk of the construction orders for 2013, the private sector has shown signs of recovery in all Baltic States in the first half of 2013. Considering the expiry of the current EU budget period in the second half of 2013, we are expecting a decrease in the volume of public procurements. Consequently, it will prove quite a challenge to keep the volume of new contracts at its current level (the level for 2012).

Cash flows

The cash position of the group is stable. As at the end of the reporting period, the cash and cash equivalents of Merko Ehitus group amounted to EUR 31.3 million (as at 30 June 2012: EUR 11.7 million). The group also has EUR 2.5 million in short-term deposits with a maturity term of more than 3 months. The strategic cash position and investment capability of the holding company AS Merko Ehitus has improved during the year.



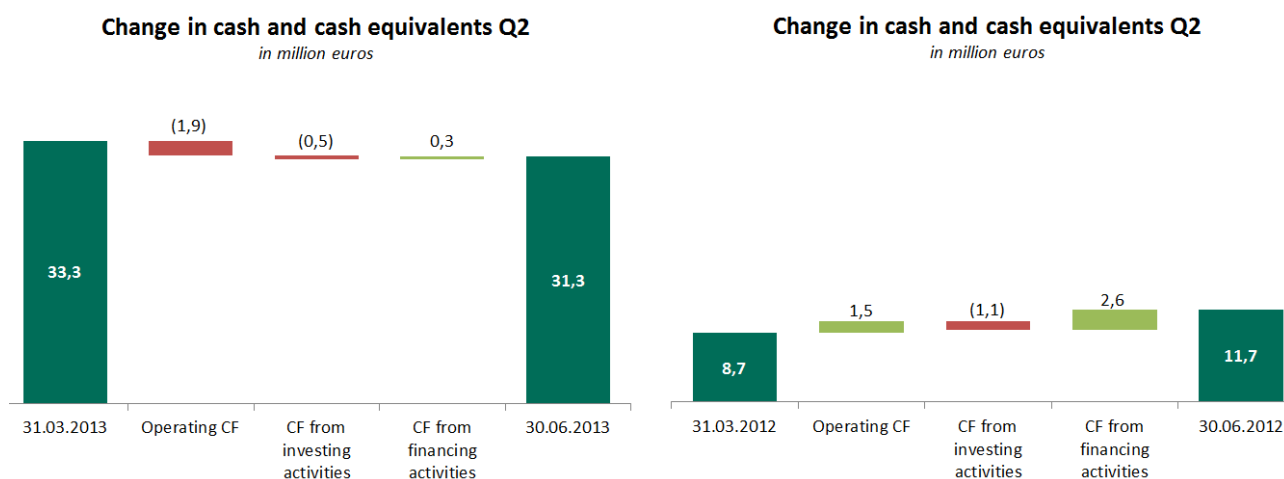
The 6-month cash flow from operating activity was positive at EUR 3.2 million (6 months of 2012: negative EUR 4.4 million), cash flow from investing activity was negative at EUR 3.2 million (6 months of 2012: negative EUR 1.5 million) and the cash flow from financing activity was negative at EUR 3.9 million (6 months of 2012: negative EUR 0.9 million). The cash flow from operating activity was mostly influenced by the negative change in trade and other receivables related to operating activities EUR 16.2 million, by the positive change in trade and other payables related to operating activities EUR 13.1 million, by the operating profit EUR 5.1 million and positive change in construction contracts recognised under the stage of completion method EUR 4.1 million.

The share of public orders remains high in the consolidated cash flows, with long terms of payment (an average of 56 days after registered delivery of the work) and a persistent burden on current assets, including cash flow management. To support cash flows arising from operating activity, the group has been prudent in raising additional

external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (13.9% as at 6 months of 2013).

Cash flows from investing activities include the acquisition of short-term deposit with a maturity term of more than 3 months in the amount of EUR -2.5 million, while the balance of other investments and acquisition of PPE was EUR -0.7 million.

The net of loans received and loans repaid in connection with development projects amounted to EUR -2.9 million, factoring to EUR -0.4 million and financial lease repayments to EUR -0.6 million in the cash flow from financing activities.



The Q2 2013 cash flow from operating activity was negative at EUR 1.9 million (Q2 2012: positive EUR 1.5 million), cash flow from investing activity was negative at EUR 0.5 million (Q2 2012: negative EUR 1.1 million) and the cash flow from financing activity was positive at EUR 0.3 million (Q2 2012: positive EUR 2.6 million). The negative quarterly cash flow from operating activities was mainly conditioned by the current asset outflow related to the launch of large-scale projects in the last quarter of the year.

Cash flow from financing activities amounted to EUR 2.6 million in the second quarter of 2012 – EUR 2.3 million higher than the EUR 0.3 million in the second quarter of 2013. This difference can mainly be attributed to the low level of debt financing used for the residential development projects.

Financial ratios

(per share attributable to equity holders of the parent company)

		6M 2013	6M 2012	6M 2011	Q2 2013	Q2 2012	Q2 2011
Income statement summary							
Revenue	million EUR	113.7	106.9	75.0	65.9	59.1	48.9
Gross profit	million EUR	9.8	5.0	(2.4)	5.6	2.5	(1.0)
Gross profit margin	%	8.6	4.7	-3.2	8.5	4.3	-2.0
Operating profit	million EUR	5.1	1.1	(7.2)	2.8	0.5	(3.4)
Operating profit margin	%	4.5	1.0	-9.6	4.3	0.9	-6.9
Profit before tax	million EUR	4.5	0.8	(7.5)	2.6	0.4	(3.4)
EBT margin	%	4.0	0.8	-10.0	3.9	0.7	-7.0
Net profit	million EUR	4.0	0.5	(7.5)	2.2	0.4	(3.4)
equity holders of the parent	million EUR	4.0	0.6	(7.6)	2.3	0.4	(3.5)
non-controlling interest	million EUR	(0.0)	(0.1)	0.1	(0.1)	(0.0)	0.1
Net profit margin	%	3.6	0.5	-10.1	3.5	0.7	-7.1
Other income statement figures							
EBITDA margin	%	5.5	2.2	-8.3	5.2	1.9	-6.0
General expense ratio	%	5.0	4.6	6.7	4.7	4.2	5.2
Gross earnings ratio	%	9.6	8.2	10.7	9.3	7.9	8.7
Revenue per employee	thousand	130	118	80	75	65	52

		30.06.13	30.06.12	30.06.11
Other key figures				
ROE	%	9.6	-5.3	-7.9
ROA	%	4.8	-2.7	-4.8
ROIC	%	10.0	-3.3	-5.8
Equity ratio	%	48.8	48.5	53.7
Debt ratio	%	13.9	17.6	16.6
Current ratio	times	1.9	1.8	2.0
Quick ratio	times	1.1	0.9	0.9
Accounts receivable turnover	days	50	56	55
Accounts payable turnover	days	38	48	42
Average number of employees	people	878	903	937
Secured Order Book	million EUR	184	233	219

Calculations of ratios are provided on page 28 of the report.

Risk management

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial objectives. The company considers it important to assess aggregate group's risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. For the company, the most important risks are market risk, operating risk and financial risks. The latter including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks.

Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.

Market risk. One of the peculiarities of construction activities is the fact that the execution of the contracts concluded is a long-term process, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months. This time lag enables the sector to arrange its activities to be prepared for potential setbacks as well as booms.

Significantly more attention is being paid to potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability. Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development area is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. Because of the selectiveness of the real estate market, setting the right sale price for new development projects in the given region have become very important. For hedging the area's price risk, price statistics collected by the group and available from other public sources is being constantly analysed.

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. Management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 30.06.2013, 13.9% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Foreign exchange risk. The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvian lats in Latvia and Lithuanian litas in Lithuania. From 1 January 2011, Estonia adopted the euro as its national currency. Latvian lats and Lithuanian litas are pegged to the euro. The exchange rate of the Latvian lats is 1 EUR= LVL 0.702804 +/-1% and currently it is assured that Latvia is adopting the euro at 1 January 2014. In order to eliminate foreign exchange risk, the proportions of assets and liabilities denominated in different currencies are monitored and key foreign contracts and the preferred currency for conclusion of long-term loan contracts is the euro. As Estonia uses the euro and Latvia adopts the euro at 1 January 2014, the need and probability for devaluation of the Lithuanian national currency is low and the situation as a whole is stable in the Baltic States.

Operating risk. The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 9.6 million. The risks of the projects which cost exceeds EUR 9.6 million or the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events.

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the group's warranty provision amounted to EUR 1.7 million. With regard to work performed by subcontractors, the subcontractor is responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

One important part of managing operating risks is the mapping out of the situation and anticipation of risks. ISO 9001/14001 management systems have been set up the largest group entities and the occupational health and safety system OHSAS 18001 has been set up at Merko Ehitus Eesti, Merko Infra, Merko Tartu as well as the Latvian and Lithuanian subsidiaries. Full-time quality control specialists work at the group whose work responsibilities include ensuring the development and functioning of quality, occupational safety and management systems.

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, their financial position is analysed and if necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer. Free cash is mostly held in overnight deposits or term deposits at Swedbank, SEB and Nordea bank groups. The management estimates that the group is not exposed to significant credit risk.

Liquidity risk. The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 30.06.2013, the group's current ratio was 1.9 (30.06.2012: 1.8) and the quick ratio 1.1 (30.06.2012: 0.9). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at period-end, the group entities had concluded overdraft contracts with banks in the total amount of EUR 6.4 million, which had not been withdrawn in full. In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million from AS Riverito, which had not been withdrawn in full as at the period-end.

The management estimates that the group's capital structure – a solid proportion of equity at 48.8% of the balance sheet total and a moderate proportion of interest bearing liabilities at 13.9% of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk. Due to different interpretations of contracts, regulations and laws related to group's principal activities, there is a risk that some buyers, contractors or supervisory authorities evaluate the company's activities from the perspective of laws or contracts from a different position and dispute the legitimacy of the company's activities.

As at 30 June 2013, a provision has been set up at the group in the amount of EUR 0.4 million for covering potential claims and legal costs.

An overview of the key legal disputes of group entities as at 30 June 2013 is presented below:

Estonia

On 9 January 2011, a court case opened at Harju County Court which among other issues dealt with the claim filed against AS Merko Ehitus and its subsidiaries OÜ Metsailu, OÜ Woody, OÜ Constancia in relation to the giving of the bribe to the former Tallinn city official Ivo Parbus. The Prosecutor's Offices charged Merko Ehitus and its subsidiaries with the giving of the bribe by the then member of management board Tõnu Korts – Estravel's gift coupon of EUR 1,597.80 and the book with the list price of EUR 26.20 titled "Eesti Talurahva Arhitektuur" (Estonian Vernacular Architecture) - in order to accelerate real estate business related proceedings in Tallinn City authorities.

On 30 March 2012 Harju County Court proclaimed the judgment, according to which AS Merko Ehitus, OÜ Metsailu, OÜ Woody, OÜ Constancia were convicted based on Penal Code section 297 subsection 3 (granting or promising a gratuity by a legal person) imposing a pecuniary punishment to AS Merko Ehitus in the amount of EUR 300,000, to OÜ Woody and OÜ Constancia each in the amount of EUR 200,000 and to OÜ Metsailu in the amount of EUR 100,000.

At 21 January 2013, Tallinna District Court upheld the judgement of Harju County Court and dismissed the appeals of AS Merko Ehitus, OÜ Metsailu, OÜ Woody and OÜ Constancia. On 8 May 2013, the Supreme Court resolved not to accept the appeal in cassation submitted by OÜ Metsailu, OÜ Woody, AS Merko Ehitus and OÜ Constancia in criminal matter No 1-09-20251. This means that the judgement of Tallinn District Court of 21 January 2013, by which the judgement of conviction by Harju County Court of 30 March 2012 was not amended, entered into force.

AS Merko Ehitus and the convicted subsidiaries paid the fines ordered in the amount of EUR 800,000 in the second quarter of 2013.

Pursuant to § 38 subsection 1 clause 1, a contracting authority shall not award a public contract to a person and shall exclude from a procurement procedure a tenderer or candidate who or whose legal representative has been convicted of committing offences relating to professional misconduct in a criminal procedure, and whose data concerning punishment have not been deleted from the penal register in accordance with the Penal Register Act. Accordingly, AS Merko Ehitus, OÜ Metsailu, OÜ Woody, OÜ Constancia cannot participate in the public procurements. The management does not believe this to pose a material risk, as none of these companies currently participate in public procurements.

Lithuania

At 25 May 2012, RUAB Vakarų inžineriniai tinklai (hereinafter „Vakaru“) filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of LTL 680 thousand (EUR 197 thousand), related to the repeal of the joint venture contract concerning the sewerage and wastewater pipeline project (project „Construction of Sewerage and Wastewater Pipelines in Seda, Plinkšiai and Bugeniai“). AS Merko Ehitus does not believe that the joint venture contract was terminated illegally, but rather that it was related to the breach of the contract by the partner. As a bankruptcy procedure has been launched for Vakarų the court procedures are stopped at the moment.

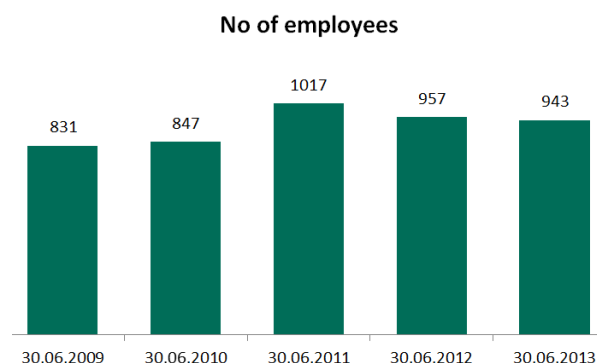
As a bankruptcy procedure has been launched for Vakarų, AS Merko Ehitus has filed a creditor's claim in the amount of LTL 490 thousand (EUR 142 thousand) in respect of the failure to fulfil the project's obligations. At 25 February 2013, AS Merko Ehitus filed an additional claim against Vakarų regarding a partial repeal of the invoice in the amount of LTL 242 thousand (EUR 70 thousand) that had been included in the claim by Vakarų at 25 May 2012 in the amount of LTL 680 thousand (EUR 197 thousand). As at 31 December 2012, allowances have been set up in full by the group in respect of these claims.

At 10 October 2012, UAB Šiaulių Vandenys filed a claim against UAB Merko Statyba, because according to UAB Šiaulių Vandenys, UAB Merko Statyba failed to meet the deadline for works. The claim included a fine for delay, 7,75% interest and state fees in the amount of LTL 237 thousand (EUR 69 thousand). At 11 January 2013, UAB Merko Statyba filed a counterclaim in the amount of LTL 537 thousand (EUR 155 thousand) and extension of the deadline for works by 154 days, primarily due to the refusal by the counterparty to pay for the additional works contracted by UAB

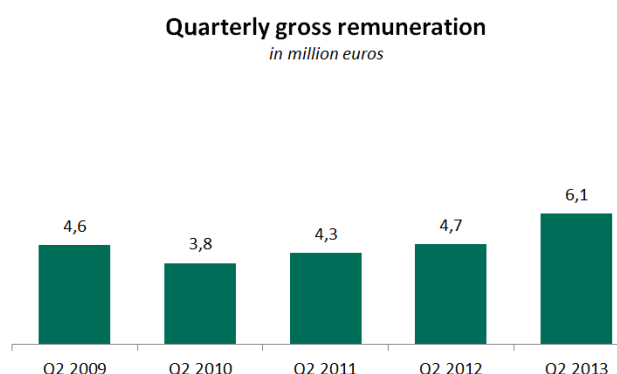
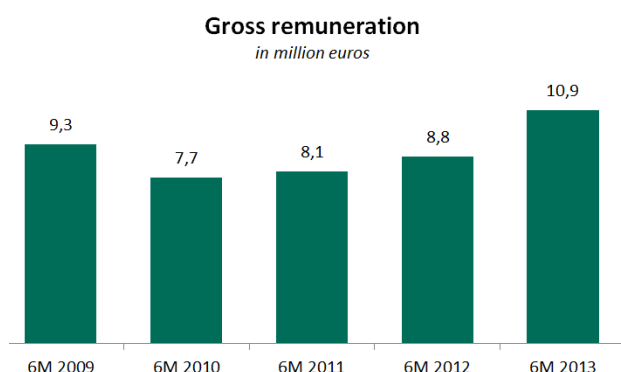
Šiaulių Vandenys and to extend the deadline for works. The pre-court institution – the Dispute Settlement Council – decided to satisfy the claim of UAB Merko Statyba regarding payment for additional works and extension of the deadline for works. The dispute will continue in the court. The hearings of the Court of First Instance started on 27 June 2013 and continued on 3 July 2013. The third hearing is scheduled on 10 September 2013.

Employees and remuneration

The number of the group's employees decreased by 14 in the last 12 months (-1.5%) and as at 30 June 2013, the group had a total of 943 employees (including fixed-term and part-time employees).



The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration. Gross wages and salaries paid to employees in 6 months of 2013 totalled EUR 10.9 million, of which base wages and salaries accounted for 72.0% and bonuses accounted for 28.0% (6 months of 2012: EUR 8.8 million, of which base wages and salaries were 83.5% and bonuses were 16.5%). In a year, gross wages and salaries increased by 24.7%, including a 7.4% increase in base wages and salaries and a 112.5% increase in bonuses.



Supervisory Board

The Supervisory Board shall plan the activities of the company, organise the management of the company and supervise the activities of the Management Board. The Supervisory Board will inform the general meeting of the results of the inspection. According to the Articles of Association of Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

At the annual general meeting of shareholders held at 28 June 2011, it was decided to extend the term of office of Supervisory Board members Tõnu Toomik, Teet Roopalu, Indrek Neivelt and Olari Taal until 28 June 2014, i.e. for three years and, in addition, to elect Toomas Annus as the additional member of the Supervisory Board of AS Merko Ehitus with a term of office until 28 June 2014.

The annual general meeting held on 5 June 2013 resolved to recall Member of the Supervisory Board Tõnu Toomik in connection with the Supervisory Board's request of appointing Mr Toomik as Member of the Management Board of AS Merko Ehitus. The authority of Tõnu Toomik as a member of the Supervisory Board expired on 5 June 2013.

The Supervisory Board of AS Merko Ehitus has 4 members of whom, in accordance with the requirements of the Good Governance Code, two - Indrek Neivelt and Olari Taal - are independent members:

Toomas Annus (52)	Teet Roopalu (63)
Chairman of the Supervisory Board	Member of the Supervisory Board
 Positions held: 2011-... Merko Ehitus AS, Chairman of the Supervisory Board. 2009-... E.L.L.Kinnisvara AS, Member of the Management Board. 2008-... Järvevana AS, Chairman of the Management Board. 1999-2009 E.L.L.Kinnisvara, Chairman of the Supervisory Board. 1997-2008 Merko Ehitus AS, Chairman of the Supervisory Board. 1996-... Riverito AS, Chairman of the Management Board. 1991-1996 EKE MRK, Chairman of the Management Board. 1989-1991 EKE MRK, director of the company. Education: Tallinn University of Technology, industrial and civil engineering. Tallinn Technical School of Building and Mechanics (TEMT; presently known as the University of Applied Sciences), industrial and civil engineering. Number of shares: 8,322,914	 Positions held: 2004-... Merko Ehitus AS, Member of the Supervisory Board. 2010-... Riverito AS, Member of the Management Board. 2002-2004 Merko Ehitus AS, Adviser to the Management Board. Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE (Estonian Collective Farm Construction) as a chief economist; worked as a bank director; and has also worked in building design. Member of Supervisory Boards of subsidiaries and associated companies. Education: Tallinn University of Technology construction economics and organisation. Number of shares: –
Indrek Neivelt (46)	Olari Taal (59)
Member of the Supervisory Board	Member of the Supervisory Board
 Positions held: 2008-... Merko Ehitus AS, Member of the Supervisory Board. 2005-... Bank Saint PeterSupervisory Boardurg, Chairman of the Supervisory Board. 1999-2005 Hansabank, Director General of the Group, Chairman of the Management Board. 1991-1999 Hansabank, various positions. Belongs to Supervisory Boards of various companies. Education: Tallinn University of Technology civil engineering economics and management. Stockholm University, banking and finance, MBA. Number of shares: 31,635	 Positions held: 2008-... Merko Ehitus AS, Member of the Supervisory Board. Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank). Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia). Education: Tallinn University of Technology, civil engineering. Number of shares: 2,500

Management Board

The Management Board is a governing body which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of all shareholders and ensures the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a month, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

The Supervisory Board of AS Merko Ehitus resolved to recall Member of the Management Board Viktor Mõisja from 5 June 2013, with Mr Mõisja continuing service in the engineering division of the company's subsidiary AS Merko Ehitus Eesti, and to appoint the former member of the Supervisory Board Tõnu Toomik as a new member of the Management Board. The Management Board of the holding company AS Merko Ehitus will continue with two members: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

Andres Trink (46)	Tõnu Toomik (52)
Chairman of the Management Board Appointed: 1 January 2012 Term ends: 31 December 2014	Member of the Management Board Appointed: 6 June 2013 Term ends: 5 June 2016
 Positions held: 2012-... Merko Ehitus AS, Chairman of the Management Board. Chairman of the Supervisory Board of Merko Ehitus Eesti AS and SIA Merks and Member of the Supervisory Board of UAB Merko Statyba. Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a member of the Management Board of Baltic banking at Hansabank (now Swedbank). Education: Tallinn University of Technology, automated management systems engineering (summa cum laude) Estonian Business School, international business administration Graduate of the INSEAD University (France), executive management programme. Number of shares: –	 Positions held: 2013-... Merko Ehitus AS, Member of the Management Board 2011-2013 Merko Ehitus AS, Member of the Supervisory Board 2008-2011 Merko Ehitus AS, Chairman of the Supervisory Board 1997-2008 Merko Ehitus AS, Chairman of the Management Board 1993-1997 Merko Ehitus AS, Project Manager Member of the Supervisory Boards of the group's subsidiaries and associated companies. Education: Tallinn University of Technology industrial and civil engineering. Number of shares: 1,607,185

Among other things, Chairman of the Management Board Andres Trink has been charged with the task of performing the daily duties of the CEO of AS Merko Ehitus, managing and representing the company, ensuring compliance with

the articles of association, organising the work of the Management Board and the key subsidiaries, coordinating strategies and their implementation, and taking responsibility for business development and finances. Tõnu Toomik is responsible for management of the real estate portfolio and coordination of the development of the construction area across the group companies.

Supervisory and management boards of subsidiaries

Authorisation and responsibility of supervisory boards of subsidiaries of AS Merko Ehitus are based on their Articles of Association and intergroup rules. Generally, Supervisory Boards of subsidiaries consist of members of the Management Board or Supervisory Board of the company that is the main shareholder of the specific subsidiary. Supervisory Board meetings of the most significant subsidiaries are held usually once a month, otherwise according to the group's needs, Articles of Association of subsidiaries and legal provisions. Generally, no separate fee is paid to members of the Supervisory Board of subsidiaries. Members of the Supervisory Board will also receive no termination benefit in case their contract of service is terminated before due date or not extended.

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 30 June 2013:

Company	Supervisory Board	Management Board
AS Merko Ehitus Eesti	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Taavi Ojala	Tiit Roben (Chairman), Andres Agukas, Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra	-	Tarmo Pohlak, Arno Elias
AS Tallinna Teed	Tiit Roben (Chairman), Andres Agukas, Alar Lagus	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments	-	Andres Trink, Signe Kukin
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Jaan Mäe	Oskars Ozolinš (Chairman), Jānis Šperbergs
UAB Merko Statyba	Gediminas Tursa (Chairman), Andres Trink, Tõnu Toomik, Jaan Mäe	Saulius Putrimas (Chairman), Jaanus Rästas

The authority of Richard Viies, Member of the Management Board of Tallinna Teede AS, expired on 5 January 2013 in connection with the lapse of the contract of service. The authority of Richard Viies as a member of the Management Board was not extended. The Management Board of Tallinna Teede AS will continue with two members: Jüri Läll (Chairman) and Jüri Helila.

On 22 May 2013, the Supervisory Board of OÜ Merko Investments resolved to recall members of the Management Board Jaanus Ojangu and Boris Tehnikov, and appoint Andres Trink and Signe Kukin as new members of the Management Board from 23 May 2013 onwards.

Share and shareholders

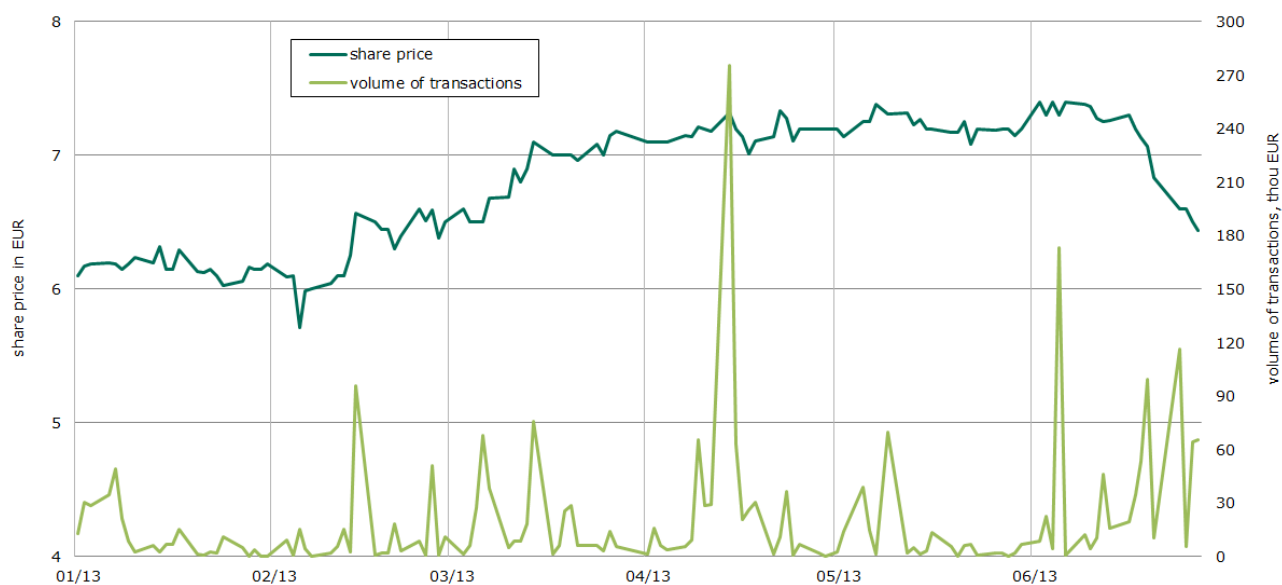
Information on security

Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Residency of issuer	Estonia
Stock Exchange List	Main List
ISIN	EE3100098328
Nominal value	without nominal value
No of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR
Date of listing	11 August 2008

The shares of Merko Ehitus have been listed in the main list of NASDAQ OMX Tallinn. A total of 1051 transactions were conducted with the shares of Merko Ehitus in 6 months of 2013, with 0.36 million shares traded, generating a turnover of EUR 2.45 million. The lowest share price amounted to EUR 5.71 and the highest to EUR 7.70 per share. The closing price of the share was EUR 6.44 on 30 June 2013. As at 30 June 2013, the market value of AS Merko Ehitus amounted to EUR 114 million.

	30.06.2013	30.06.2012	30.06.2011
No of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), in euros	0.23	0.03	-0.43
Equity per share, in euros	6.55	6.27	6.91
P/B (price to book ratio)	0.98	0.99	1.14
P/E (price / earnings ratio)	8.86	-18.68	-14.35
Market value, million EUR	114	110	139

Performance of Merko Ehitus share at NASDAQ OMX Tallinn Stock Exchange in 2013



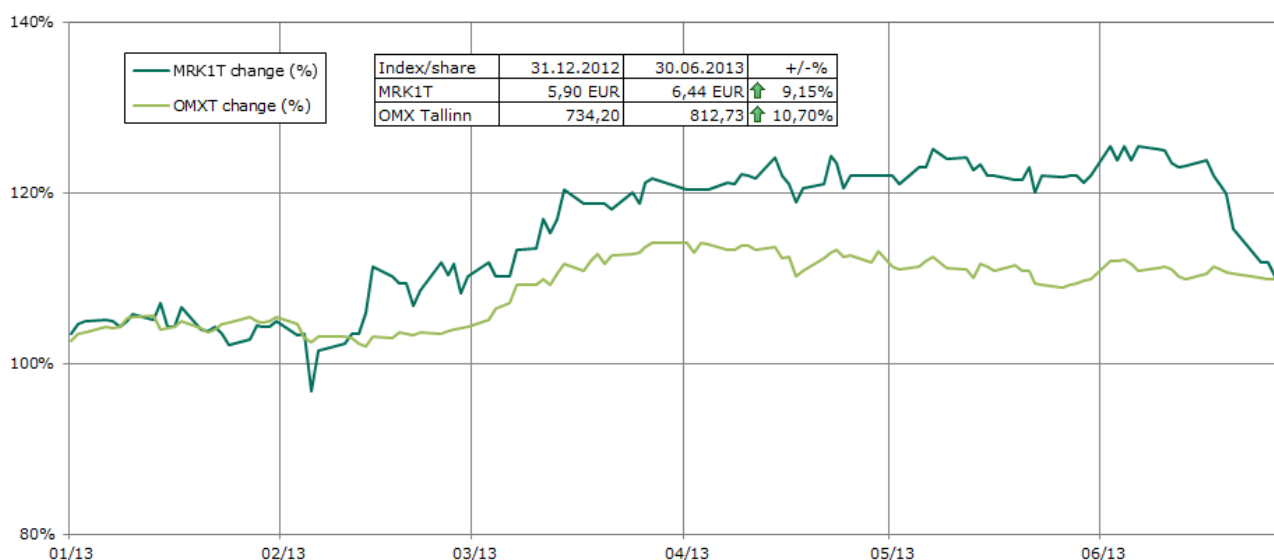
Structure of shareholders as at 30.06.2013

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1,000,001 - ...	1	0.07%	12,742,686	71.99%
100,001 – 1,000,000	9	0.63%	2,987,093	16.88%
10,001 – 100,000	30	2.08%	899,931	5.09%
1,001-10,000	251	17.43%	734,663	4.15%
101-1,000	744	51.67%	313,649	1.77%
1-100	405	28.12%	21,978	0.12%
Total	1,440	100%	17,700,000	100%

Main shareholders of AS Merko Ehitus as of 30 June 2013 and the change compared to the previous quarter:

	No of shares	% of total 30.06.2013	% of total 31.03.2013	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A., clients	974,126	5.50%	5.50%	-
Skandinaviska Enskilda Banken Ab, clients	845,611	4.78%	4.90%	-21,957
Firebird Republics Fund Ltd	302,395	1.71%	1.71%	-
Arvo Nõges	178,600	1.01%	1.00%	+900
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
Skandinaviska Enskilda Banken Finnish clients	143,191	0.81%	0.76%	+8,000
Clearstream Banking Luxembourg S.A. clients	140,947	0.80%	0.58%	+38,450
SEB Elu- ja Pensionikindlustus AS	128,020	0.72%	0.72%	-
AS Midas Invest	121,185	0.68%	0.67%	+2,630

Performance of the share of Merko Ehitus and comparison index OMX Tallinn in 2013

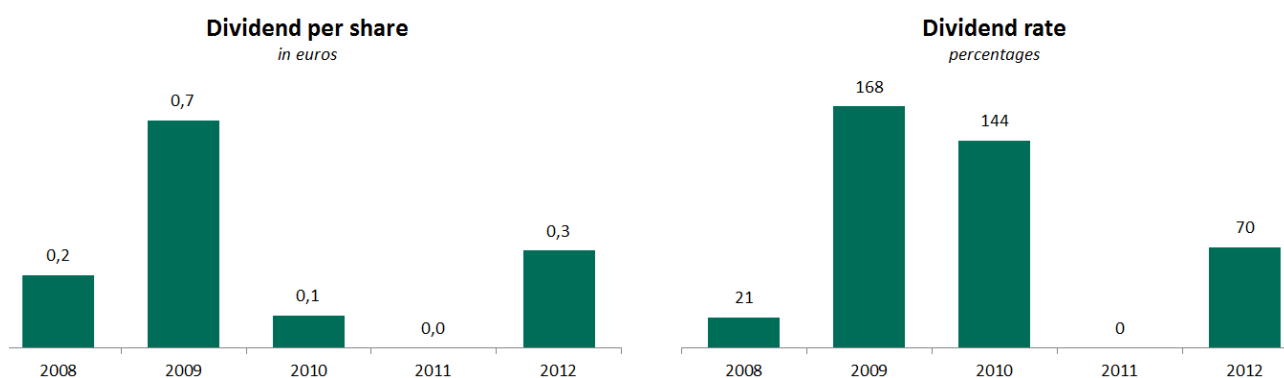


Dividend policy

The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

A dividend payable of EUR 5.3 million (EUR 0.3 per share) has been recognised in the consolidated balance sheet as at 30 June 2013. The dividends were paid out to shareholders on 3 July 2013.

At the meeting held on 8 April 2013, the Management Board and Supervisory Board of AS Merko Ehitus reviewed the company's strategic development trends and approved the long-term financial objectives until 2018, under which a new objective of paying the shareholders 50-70% of the annual profit as dividends was established. In the past five years, the shareholders have received dividends from the net profit for the accounting year as follows:



DEFINITIONS OF THE KEY FINANCIAL FIGURES

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Profit before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity (%)	=	$\frac{\text{Rolling last 4 quarter net profit (attributable to equity holders of the parent)}}{\text{Shareholders equity (average)}}$
Return on assets (%)	=	$\frac{\text{Rolling last 4 quarter net profit (attributable to equity holders of the parent)}}{\text{Total assets (average)}}$
Return on invested capital (%)	=	$\frac{\text{Rolling last 4 quarter (EBT + interest income - foreign exchange gain (losses) + other financial income)}}{\text{Shareholders equity (average) + interest-bearing liabilities (average)}}$
Equity ratio (%)	=	$\frac{\text{Shareholders equity}}{\text{Total assets}}$
Debt to equity ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets - inventories}}{\text{Current liabilities}}$
Accounts receivable turnover (days)	=	$\frac{\text{Rolling last 4 quarter trade receivables (average)} \times 365}{\text{Rolling last 4 quarter revenue}}$
Accounts payable turnover (days)	=	$\frac{\text{Rolling last 4 quarter payables to suppliers (average)} \times 365}{\text{Rolling last 4 quarter cost of goods sold}}$
EBITDA margin (%)	=	$\frac{\text{Operating profit + depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{General expenses}}{\text{Revenue}}$
Gross earnings ratio (%)	=	$\frac{\text{Gross earnings}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity / share (EUR)	=	$\frac{\text{Shareholders equity (last 4 quarter average)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Price per earnings ratio, P/E	=	$\frac{\text{Share price 30.06}}{\text{Rolling last 4 quarter earnings per share}}$
Price to book ratio, P/B	=	$\frac{\text{Share price 30.06}}{\text{Equity per share (last 4 quarter average)}}$
Market capitalisation	=	Share price 30.06 x Number of shares

CONSOLIDATED FINANCIAL STATEMENT

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	note	2013 6 months	2012 6 months
Revenue	2	113,743	106,855
Cost of goods sold	3	(103,918)	(101,817)
Gross profit (loss)		9,825	5,038
Marketing expenses		(1,391)	(902)
Administrative and general expenses		(4,339)	(4,056)
Other operating income		1,218	1,132
Other operating expenses		(186)	(120)
Operating profit (loss)		5,127	1,092
Finance income/costs		(614)	(277)
incl. finance income/costs from investments in associates and joint ventures		(70)	182
finance income/costs from other long-term investments		23	-
interest expense		(416)	(643)
foreign exchange gain		(167)	56
other financial income (expenses)		16	128
Profit (loss) before tax		4,513	815
Corporate income tax expense		(521)	(305)
Net profit (loss) for current period		3,992	510
incl. net profit (loss) attributable to equity holders of the parent		4,050	579
net profit (loss) attributable to non-controlling interest		(58)	(69)
Other comprehensive income (loss)			
Currency translation differences of foreign entities		(148)	88
Comprehensive income (loss) for the period		3,844	598
incl. net profit (loss) attributable to equity holders of the parent		3,902	667
net profit (loss) attributable to non-controlling interest		(58)	(69)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	4	0.23	0.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2013 II quarter	2012 II quarter
Revenue	65,884	59,064
Cost of goods sold	(60,294)	(56,529)
Gross profit (loss)	5,590	2,535
Marketing expenses	(735)	(474)
Administrative and general expenses	(2,383)	(2,008)
Other operating income	510	561
Other operating expenses	(142)	(97)
Operating profit (loss)	2,840	517
Finance income/costs	(281)	(118)
incl. finance income/costs from investments in associates and joint ventures	(36)	77
finance income/costs from other long-term investments	10	-
interest expense	(206)	(330)
foreign exchange gain	(57)	119
other financial income (expenses)	8	16
Profit (loss) before tax	2,559	399
Corporate income tax expense	(327)	(36)
Net profit (loss) for current period	2,232	363
incl. net profit (loss) attributable to equity holders of the parent	2,284	424
net profit (loss) attributable to non-controlling interest	(52)	(61)
Other comprehensive income (loss)		
Currency translation differences of foreign entities	(7)	111
Comprehensive income (loss) for the period		
incl. net profit (loss) attributable to equity holders of the parent	2,225	474
net profit (loss) attributable to non-controlling interest	2,277	535
Other comprehensive income (loss)	(52)	(61)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	0.13	0.02

in thousand euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

	note	30.06.2013	31.12.2012
ASSETS			
Current assets			
Cash and cash equivalents	5	31,329	35,316
Short-term deposits		2,500	-
Trade and other receivables	6	71,853	60,343
Prepaid corporate income tax		33	478
Inventories	7	83,844	82,830
Total current assets		<u>189,559</u>	<u>178,967</u>
Non-current assets			
Long-term financial assets	8	25,949	24,378
Deferred income tax assets		1,817	1,919
Investment property	9	3,418	3,566
Property, plant and equipment	10	14,624	14,853
Intangible assets	11	1,276	1,365
Total non-current assets		<u>47,084</u>	<u>46,081</u>
TOTAL ASSETS		<u>236,643</u>	<u>225,048</u>
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	12,854	16,299
Payables and prepayments	13	80,777	63,209
Income tax liability		115	-
Short-term provisions	14	4,053	6,165
Total current liabilities		<u>97,799</u>	<u>85,673</u>
Non-current liabilities			
Long-term borrowings	12	19,992	19,205
Long-term interest liabilities		6	3
Long-term trade payables		1,727	1,553
Deferred corporate income tax liability		406	327
Long-term provisions		10	20
Total non-current liabilities		<u>22,141</u>	<u>21,108</u>
Total liabilities		<u>119,940</u>	<u>106,781</u>
Equity			
Non-controlling interest		1,180	1,342
Equity attributable to equity holders of the parent			
Share capital		12,000	12,000
Statutory reserve capital		1,200	1,200
Currency translation differences		(660)	(512)
Retained earnings		102,983	104,237
Total equity attributable to equity holders of parent		<u>115,523</u>	<u>116,925</u>
Total equity		<u>116,703</u>	<u>118,267</u>
TOTAL LIABILITIES AND EQUITY		<u>236,643</u>	<u>225,048</u>

*in thousand euros***CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

unaudited

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/ accumulated losses	Total		
Balance as at 31.12.2011	12,000	1,131	(570)	96,679	109,240	1,356	110,596
Profit (loss) for the reporting period	-	-	-	579	579	(69)	510
Other comprehensive income	-	-	88	-	88	-	88
Total comprehensive income (loss) for the reporting period	-	-	88	579	667	(69)	598
Transfer to statutory reserve capital	-	69	-	(69)	-	-	-
Balance as at 30.06.2012	12,000	1,200	(482)	97,189	109,907	1,287	111,194
Balance as at 31.12.2012	12,000	1,200	(512)	104,237	116,925	1,342	118,267
Profit (loss) for the reporting period	-	-	-	4,050	4,050	(58)	3,992
Other comprehensive income	-	-	(148)	-	(148)	-	(148)
Total comprehensive income (loss) for the reporting period	-	-	(148)	4,050	3,902	(58)	3,844
Purchase of minority share	-	-	-	6	6	(104)	(98)
Dividends	-	-	-	(5,310)	(5,310)	-	(5,310)
Total transactions with owners	-	-	-	(5,304)	(5,304)	(104)	(5,408)
Balance as at 30.06.2013	12,000	1,200	(660)	102,983	115,523	1,180	116,703

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

	2013 6 months	2012 6 months
Cash flows used in operating activities		
Operating profit (loss)	5,127	1,092
Adjustments:		
depreciation and impairment charge	1,184	1,206
(profit) loss from sales of non-current assets	(82)	(92)
change in construction contracts recognised under the stage of completion method	4,137	(1,639)
interest income from business activities	(740)	(830)
change in provisions	(2,204)	205
Change in trade and other receivables related to operating activities	(16,247)	(8,076)
Change in inventories	(1,116)	(1,303)
Change in trade and other payables related to operating activities	13,064	5,184
Interest received	560	271
Interest paid	(443)	(676)
Other finance costs/income	(61)	91
Corporate income tax (paid)/reclaimed	(4)	210
Total cash flows used in operating activities	3,175	(4,357)
Cash flows from investing activities		
Purchase of joint ventures	(350)	-
Purchase/proceeds from deposits with maturities greater than 3 months	(2,500)	140
Purchase of investment property	(29)	(1,341)
Purchase of property, plant and equipment	(473)	(444)
Proceeds from sale of property, plant and equipment	113	126
Purchase of intangible assets	(4)	(6)
Interest received	42	2
Total cash flows from investing activities	(3,201)	(1,523)
Cash flows from (used in) financing activities		
Proceeds from borrowings	1,688	6,355
Repayments of borrowings	(4,593)	(8,670)
Factorings	(403)	1,927
Finance lease principal payments	(600)	(473)
Total cash flows from financing activities	(3,908)	(861)
Net increase/decrease in cash and cash equivalents	(3,934)	(6,741)
Change in deposits with maturities greater than 3 months	2,500	(140)
Total change	(1,434)	(6,881)
Cash and cash equivalents at the beginning of the period	35,316	18,510
Deposits with maturities greater than 3 months at the beginning of period	-	140
Total at the beginning of the period	35,316	18,650
Effect of exchange rate changes	(53)	(36)
Cash and cash equivalents at the end of the period	31,329	11,733
Deposits with maturities greater than 3 months at the end of the period	2,500	-
Total at the end of the period	33,829	11,733

NOTES

Note 1 Accounting policies used

The consolidated interim financial statements of the AS Merko Ehitus group for 6 months 2013 and II quarter were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2012 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2012 6 months and II quarter unaudited comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 6 months and II quarter of 2013 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

Note 1.1. Changes in presentation of information

- a. In 2012 6 months and II quarter interim report issued loans and issued loans repayments were recognised as investing activities in the cash flow statement of Merko Ehitus group. However, loans have been granted to real estate developers under the assumption that Merko Ehitus group will get an opportunity to provide a construction service in development projects. Due to the direct connection between the loans granted and the group's business, these loans and the related interest charges are recognised in the cash flows from operating activities in the cash flow statement.
- b. In the cash flow statement of the 6 month and II quarter interim report of 2012, Merko Ehitus group recorded the repayments of bank loans taken for apartment development as non-monetary transactions in cases where upon the sales of an apartment the client or the client's bank pays the money directly to cover the development loan assumed by the company. However, the essence of such transactions is the sales of an apartment (receipt of cash) and the repayment of the loan by the company to the bank, which are recorded as monetary transactions under financing activities in the cash flow statement.
- c. In 2012 6 months and II quarter interim report finance income recognised in the income statement included interest income earned on a receivable not paid off by the buyer of Balsiu schoolhouse. Considering the fact that the construction of Balsiu schoolhouse was essentially the group's business, the respective interest income was reclassified from finance income to operating income in the income statement. Interest received on the receivable from the buyer of Balsiu schoolhouse is also included within cash flows from operating activities.

The comparative information of the previous financial year that is presented in the consolidated financial statements for 2013 6 months and II quarter has been changed to correspond to the new presentation. Thus, the following items have been adjusted in the financial statements:

- granted loan repayments that are related to operating activities are included in the item *Change in payments and receivables related to operating activities* under cash flows from operating activities in the consolidated cash flow statement, last year 6 month and II quarter interim report they were included in the items *Repayments of loans granted* (2012: EUR 2,347 thousand) under cash flows from investing activities;
 - interest income from operating activities is included in the item *Interest received* under cash flows from operating activities in the consolidated cash flow statement, last year 6 months and II quarter interim report it was included in the item *Interest received* (2012: EUR 272 thousand) under the cash flows from investing activities;
 - Repayments of the bank loans related to apartment development are recorded in the cash flow statement on the line *Repayments of borrowings* under financing activities (2012: EUR 3,062 thousand);
 - interest income on accounts receivable is included in the item *Other income* in the consolidated statement of comprehensive income; last year 6 months and II quarter interim report it was included in the item *Finance income* (2012: EUR 674 thousand);
- Due to the change in the income statement, the items *Operating profit* and *Interest income from operating activities*, the items *Other finance income* and *incl. interest income* in Note 2 *Operating Segments* has been changed by the same amount in the cash flow statement;

The comparative information for 2012 has been changed in the financial statements as follows: in the consolidated statement of comprehensive income, other income and operating profit have increased by EUR 674 thousand; finance income has decreased by the same amount. In the consolidated cash flow statement, cash flows from operating activities increased by EUR 5,681 thousand, at the same time cash flows from investing activities decreased by EUR 2,619 thousand and cash flows from financing activities by EUR 3,062 thousand.

Note 2 Operating segments

in thousand euros

The highest instance of business decision-making in the group – the Management Board of the parent AS Merko Ehitus, keeps track of the group's operating activity by each field of activity. The result of the business segments is evaluated by the highest decision-maker on the basis of the revenue from outside the group and profit before taxes. The pre-tax profit of the segments is essentially made up of their revenue and costs of goods sold; other expense and income are not divided into segments, as they are monitored at the group level as a whole and they lack a direct connection with the business segments.

The amount of each cost item in segment reporting is a figure presented to management for making decision about allocation of resources to segments and valuation of segment operating results. The costs that come after the profit of reporting segments are recognised in segment reporting using the same principles as in the financial statements and they are not used for evaluation of the results of operating segments by the company's management. In segment reporting, all intra-group transactions with income, expenses and assets and unrealised gains and losses between reportable segments have been eliminated unless the loss is due to impairment.

2013 6 months	General construc- tion	Enginee- ring const- ruction	Road construc- tion	Real estate develop- ment	Other	Total segments
Segment revenue	33,606	45,956	22,552	17,368	576	120,058
Inter-segment revenue	(142)	(456)	-	(5,703)	(14)	(6,315)
Revenue from external clients	33,464	45,500	22,552	11,665	562	113,743
Gross profit (-loss)	1,240	3,949	2,747	1,873	16	9,825
Segment pre-tax profit (loss)	1,228	3,981	2,675	2,378	16	10,278
incl. interest income from operating activities	-	-	-	734	-	734
depreciation	(43)	(290)	(515)	(93)	(58)	(999)
recognition of provisions	(161)	(150)	(62)	(64)	-	(437)
gain (loss) on associates and joint ventures	-	-	-	(70)	-	(70)
other finance income (costs)	(8)	(11)	(30)	(159)	-	(208)
incl. interest expenses	(8)	(11)	(30)	(159)	-	(208)
Segment assets 30.06.2013	22,145	32,552	28,884	119,839	1,413	204,833
incl. associates and joint ventures	-	18	-	7,404	-	7,422
2012 6 months	General construc- tion	Enginee- ring const- ruction	Road construc- tion	Real estate develop- ment	Other	Total segments
Segment revenue	24,523	55,333	18,504	14,140	1,040	113,540
Inter-segment revenue	(1,337)	(31)	-	(5,013)	(304)	(6,685)
Revenue from external clients	23,186	55,302	18,504	9,127	736	106,855
Gross profit (-loss)	1,881	3,296	(734)	601	(6)	5,038
Segment pre-tax profit (loss)	1,902	3,324	(687)	1,042	196	5,777
incl. interest income from operating activities	-	-	-	674	-	674
depreciation	(30)	(171)	(624)	(40)	(146)	(1,011)
recognition of provisions	(96)	(405)	(230)	(209)	-	(940)
gain (loss) on associates and joint ventures	-	-	-	(25)	207	182
other finance income (costs)	(12)	(10)	-	(207)	(11)	(240)
incl. interest expenses	(12)	(10)	-	(217)	(11)	(250)
Segment assets 30.06.2012	12,148	38,452	26,880	123,735	4,494	205,709
incl. associates and joint ventures	-	18	-	7,371	2,723	10,112

Besides segments' assets, the group's assets as at 30 June 2013 were EUR 31,810 thousand (30 June 2012: EUR 21,133 thousand) that are not possible or expedient to associate with a specific segment. The following are recognized as the group's undistributed assets: cash and cash equivalents, deposits, loans, not including loans to associated companies or joint ventures, prepayments of taxes, other receivables and the undistributed non-current assets.

Reconciliation of the pre-tax profit (loss) of segments and the group

	2013 6 months	2012 6 months
Pre-tax profit (loss) from reporting segments	10,278	5,777
Unallocated expense (income)		
marketing expenses	(1,391)	(902)
general and administrative expenses	(4,339)	(4,056)
other operating income (expense)	301	215
incl. interest income from operating activities	6	156
finance income (costs)	(336)	(219)
incl. interest income	44	35
interest expense	(208)	(393)
Total profit (loss) before tax	4,513	815

Unallocated finance costs and income include income from bank deposits, foreign exchange gains (losses), uncapitalised loan interest expenses and other finance income and costs.

Revenue by client location

	2013 6 months	2012 6 months
Estonia	92,825	94,223
Latvia	17,550	8,493
Lithuania	3,368	4,139
Total	113,743	106,855

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

	30.06.2013	30.06.2012
Estonia	18,824	19,995
Latvia	412	470
Lithuania	82	108
Total	19,318	20,573

Note 3 Cost of goods sold
in thousand euros

	2013 6 months	2012 6 months
Construction services	58,304	58,950
Materials	16,591	18,551
Properties purchased for resale	6,182	3,453
Staff costs	10,742	9,063
Construction mechanisms and transport	5,839	4,705
Design	868	564
Real estate management costs	139	176
Depreciation and impairment charge	999	1,011
Provisions	437	940
Other expenses	3 817	4,404
Total cost of goods sold	103,918	101,817

Note 4 Earnings per share

EPS (earnings per share) is derived as a ratio of the net profit belonging to shareholders and the weighted average number of ordinary shares.

	2013 6 months	2012 6 months
Net profit (loss) attributable to shareholders <i>(in thousands of euros)</i>	2,284	579
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0.13	0.03

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 euros

	30.06.2013	31.12.2012
Cash on hand	20	16
Bank accounts	4,633	5,808
Overnight deposits	26,676	17,492
Bank deposits with maturities less than 3 months	-	12,000
Total cash and cash equivalents	31,329	35,316

Note 6 Trade and other receivables
in thousand euros

	30.06.2013	31.12.2012
Trade receivables		
accounts receivable	50,679	34,967
allowance for doubtful receivables	(818)	(864)
	<u>49,861</u>	<u>34,103</u>
Tax prepayments excluding corporate income tax		
value added tax	489	791
other taxes	9	10
	<u>498</u>	<u>801</u>
Amounts due from customers of contract works	15,519	18,981
Other short-term receivables		
short-term loans	1,492	1,887
interest receivables	601	948
receivable from buyer of subsidiary	-	96
other short-term receivables	<u>1,216</u>	<u>1,256</u>
	<u>3,309</u>	<u>4,187</u>
Prepayments for services		
prepayments for construction services	1,791	1,388
prepaid insurance	459	416
other prepaid expenses	<u>416</u>	<u>467</u>
	<u>2,666</u>	<u>2,271</u>
Total trade and other receivables	<u>71,853</u>	<u>60,343</u>

Note 7 Inventories
in thousand euros

	30.06.2013	31.12.2012
Materials	752	563
Work-in-progress	29,076	18,528
Finished goods	13,320	21,499
Goods for resale		
registered immovables purchased for resale	38,131	39,548
other goods purchased for resale	<u>987</u>	<u>1,000</u>
	<u>39,118</u>	<u>40,548</u>
Prepayments for inventories		
prepayments for real estate properties	1,086	1,097
prepayments for other inventories	<u>492</u>	<u>595</u>
	<u>1,578</u>	<u>1,692</u>
Total inventories	<u>83,844</u>	<u>82,830</u>

Note 8 Long-term financial assets
in thousand euros

	30.06.2013	31.12.2012
Investments in associates and joint ventures	7,422	7,190
Long-term loans	3,645	3,666
Long-term bank deposit	49	49
Long-term receivables from customers of construction services	14,833	13,473
Total long-term financial assets	25,949	24,378

Note 9 Investment property
in thousand euros

	30.06.2013	31.12.2012
Land	51	136
Right of superficies at carrying amount		
cost	29	29
accumulated depreciation	(9)	(9)
	20	20
Buildings at carrying amount		
cost	3,688	3,662
accumulated depreciation	(341)	(252)
	3,347	3,410
Total investment property	3,418	3,566

Note 10 Property, plant and equipment
in thousand euros

	30.06.2013	31.12.2012
Land	825	825
Buildings at carrying amount		
cost	5,788	5,788
accumulated depreciation	(1,363)	(1,268)
	4,425	4,520
Machinery and equipment at carrying amount		
cost	17,262	16,963
accumulated depreciation	(9,948)	(9,624)
	7,314	7,339
Other fixtures at carrying amount		
cost	5,532	5,518
accumulated depreciation	(3,472)	(3,360)
	2,060	2,158
Prepayments for property, plant and equipment	-	11
Total property, plant and equipment	14,624	14,853

Note 11 Intangible assets
in thousand euros

	30.06.2013	31.12.2012
Goodwill	891	891
Software at carrying amount		
cost	1,230	1,231
accumulated depreciation	(845)	(809)
	<u>385</u>	<u>422</u>
Prepayments for intangible assets	-	52
Total intangible assets	<u>1,276</u>	<u>1,365</u>

Note 12 Borrowings
in thousand euros

	30.06.2013	31.12.2012
Finance lease payables		
Present value of lease payments	<u>3,141</u>	<u>2,441</u>
incl. current portion	943	782
non-current portion 1...4 years	2,198	1,659
Bank loans		
Loan balance	<u>19,962</u>	<u>22,957</u>
incl. current portion	2,270	5,513
non-current portion 1...5 years	17,692	17,444
Factoring liability		
Factoring balance	<u>1,141</u>	<u>1,544</u>
incl. current portion	1,141	1,544
Loans from entities under common control		
Loan balance	<u>8,145</u>	<u>8,145</u>
incl. current portion	8,145	8,145
Loans from related parties		
Loan balance	<u>102</u>	<u>102</u>
incl. non-current portion 1...5 years	102	102
Loans from other entities		
Loan balance	<u>355</u>	<u>315</u>
incl. current portion	355	315
Total loans		
Loans balance	<u>29,705</u>	<u>33,063</u>
incl. current portion	11,911	15,517
non-current portion 1...5 years	17,794	17,546
Total borrowings	<u>32,846</u>	<u>35,504</u>
incl. current portion	12,854	16,299
non-current portion 1...5 years	19,992	19,205

Note 13 Payables and prepayments
in thousand euros

	30.06.2013	31.12.2012
Trade payables	36,495	21,602
Payables to employees	5,638	5,541
Tax liabilities, except for corporate income tax		
value added tax	1,763	2,186
personal income tax	543	533
social security tax	991	989
unemployment insurance tax	74	88
contributions to mandatory funded pension	42	40
other taxes	139	240
	3,552	4,076
Amounts due to customers for contract works	13,225	12,550
Other liabilities		
interest liabilities	113	113
payable for registered immovables from demerger	5,380	5,380
dividend liabilities	5,310	-
other liabilities	1,441	2,639
	12,244	8,132
Prepayments received	9,623	11,308
Total payables and prepayments	80,777	63,209

Note 14 Short-term provisions
in thousand euros

	30.06.2013	31.12.2012
Provision for warranty obligation for construction	1,704	1,619
Provision for onerous construction contracts	1,208	2,067
Provision for legal costs and claims filed	396	1,342
Other provisions	745	1,137
Total short-term provisions	4,053	6,165

Note 15 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 at 30.06.2013 and 31.12.2012, AS Riverito owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS Merko Ehitus subsidiaries and joint ventures

	Ownership %		Location	Area of operation
	30.06.2013	31.12.2012		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	construction
Tallinna Teede AS	100	100	Estonia, Tallinn	road construction
OÜ Tevener	100	100	Estonia, Tallinn	mining
AS Vooremaa Teed	100	100	Estonia, Jõgeva	road construction
AS Merko Infra	100	100	Estonia, Tallinn	construction
AS Gustaf	92,5	85	Estonia, Pärnu	construction
OÜ Gustaf Tallinn	80	80	Estonia, Tallinn	construction
AS Merko Tartu	66	66	Estonia, Tartu	construction
OÜ Raadi Kortermaja	100	100	Estonia, Tartu	real estate
OÜ Fort Ehitus	75	75	Estonia, Viimsi	construction
OÜ Mineraal	100	100	Estonia, Tallinn	mining
UAB Merko Statyba	100	100	Lithuania, Vilnius	construction
UAB Merko Inžinerija	100	100	Lithuania, Vilnius	construction
OÜ Merko Property	100	100	Estonia, Tallinn	real estate
UAB Balsiu mokyklos SPV	100	100	Lithuania, Vilnius	real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	real estate
UAB Jurininku aikštele	100	100	Lithuania, Vilnius	real estate
Ringtee Tehnopark OÜ	100	100	Estonia, Tallinn	construction
OÜ Jõgeva Haldus	100	100	Estonia, Tallinn	real estate
OÜ Metsailu	100	100	Estonia, Tallinn	real estate
OÜ Woody	100	100	Estonia, Tallinn	real estate
OÜ Maryplus	100	100	Estonia, Tallinn	real estate
OÜ Constancia	100	100	Estonia, Tallinn	real estate
OÜ Paepargi 57	100	-	Estonia, Tallinn	real estate
OÜ Käibevara	100	100	Estonia, Tallinn	real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	holding
SIA Merks*	100	100	Latvia, Riga	construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	real estate
SIA Merks Investicijas	100	100	Latvia, Riga	real estate
SIA Industrialas Parks	100	100	Latvia, Riga	real estate
SIA Elniko	100	100	Latvia, Riga	real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	real estate
SIA Skanstes Virsotnes	100	100	Latvia, Riga	real estate
SIA Polystar	100	99,96	Latvia, Riga	real estate
PS Merko-Merks	100	100	Latvia, Riga	construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	real estate
Väike-Paekalda OÜ	100	100	Estonia, Tallinn	real estate
Suur-Paekalda OÜ	100	100	Estonia, Tallinn	real estate
Merko Ukraine LLC**	100	100	Ukraine, Kharkiv	construction
Merko Finland OY	100	100	Finland, Helsinki	construction
Lenko Stroi LLC	100	100	Russia, St. Petersburg	construction
Joint ventures				
OÜ Unigate	50	50	Estonia, Tallinn	real estate
Poolkoksimäe Sulgemise OÜ	50	50	Estonia, Tallinn	construction
OÜ Kortermaja	50	50	Estonia, Tartu	real estate
SIA Zakusala Estates	50	50	Latvia, Riga	real estate

* On 22 May 2013, AS Merko Ehitus concluded an intra-group transaction, selling a 100% stake in its subsidiary SIA Merks to OÜ Merko Investments.

** In the second quarter of 2013, the liquidation of AS Merko Ehitus's 100% subsidiary Merko Ukraine LLC was completed. The company was deleted from the commercial register as at 4 July 2013.

After the balance sheet date, on 17 July 2013, UAB Merko Bustas established a 100% subsidiary UAB Kražiu Projektas in Lithuania. With a share capital of LTL 10,000, the company aims to acquire real estate in Vilnius.

Goods and services

in thousand euros

	2013 6 months	2012 6 months
Construction services rendered		
Parent company	7	-
Associates and joint ventures	151	128
Entities under common control	430	12
Other related parties	1	224
Total construction services rendered	589	364
Services and materials purchased		
Parent company	58	58
Associates and joint ventures	-	75
Entities under common control	68	71
Other related parties	-	115
Total services and materials purchased	126	319
Interest income		
Associates and joint ventures	56	54
Interest expense		
Parent company	-	62
Entities under common control	79	112
Management members	3	-
Total interest expense	82	174

Balances with the related parties

in thousand euros

	30.06.2013	31.12.2012
Short-term receivables		
Trade receivables		
Parent company	5	9
Associates and joint ventures	27	24
Entities under common control	178	13
Other related parties	1	1
Total trade receivables	211	47
Short-term loans		
Associates and joint ventures	1,391	1,382
Interest receivables		
Associates and joint ventures	599	896
Prepayments for inventories		
Entities under common control	-	3,806
Total short-term receivables	2,201	6,131
Long-term receivables		
Long-term loans		
Associates and joint ventures	3,589	3,610

Current liabilities

Short-term loans		
Entities under common control	8,145	8,145
Trade payables		
Parent company	12	12
Entities under common control	1	5
Total trade payables	13	17
Interest liabilities		
Entities under common control	13	12
Dividend liabilities		
Parent	3,823	-
Other liabilities		
Entities under common control	5,380	5,380
Total current liabilities	17,374	13,554

Non-current liabilities

Long-term loans		
Management members	102	102
Long-term interest liabilities		
Management members	6	3
Total non-current liabilities	108	105

Remuneration of the members of the Supervisory and Management Boards

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the management board of major subsidiaries for the 6 months of 2013 was EUR 1,002 thousand (6 months of 2012: EUR 633 thousand).

Termination benefits of members of the Supervisory and Management Boards

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 6 months of 2013, the Management Board members of major subsidiaries received EUR 25 thousand in compensation (6 months of 2012: EUR 59 thousand).

Members of the Supervisory and Management Board

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at: www.merko.ee.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30.06.2013

		No. of shares	% of total
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8,322,914	47.02%
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%
		8,357,049	47.21%

The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Tõnu Toomik.

Shares held by members of the Management Board of AS Merko Ehitus as at 30.06.2013

		No. of shares	% of total
Andres Trink	Chairman of the Management Board	0	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,185	9.08%

Note 16 Contingent liabilities

The group has purchased the following guarantees from financial institutions to ensure the group's obligations to third parties. The said amounts constitute the maximum extent of the third-party claims against the group should the group fail to perform its contractual obligations. In the estimation of the Management Board, it is unlikely that expenditures will be incurred in connection with these guarantees.

<i>in thousand euros</i>	30.06.2013	31.12.2012
Performance period's warranty to the customer	29,681	26,731
Tender warranty	1,594	1,929
Guarantee warranty period	10,743	11,627
Prepayment guarantee	9,095	10,020
Contracts of surety	1,819	1,507
Total contingent liabilities	52,932	51,814

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.

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 6 months and II quarter of 2013, which are set out on pages 5-45.

The Management Board confirms that to the best of its knowledge:

- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and cash flows;
- the parent company and the group companies are going concerns.

The Management Board of AS Merko Ehitus declares and confirms that the interim financial statements provide, to the best of the knowledge of the Management Board, a true and fair view of the development, results and financial position of the company and the consolidated undertakings as a whole, include a description of the principal risks and uncertainties, and reflect transactions with related parties.

Andres Trink Chairman of the Management Board



08.08.2013

Tõnu Toomik Member of the Management Board



08.08.2013