



AS MERKO EHITUS GROUP

2009 9 months and III quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

Registration no: 11520257

Address: 9G Järvevana road 11314 Tallinn

Telephone: +372 680 5105

Fax: +372 680 5106

E-mail: merko@merko.ee

Homepage: www.merko.ee

Financial year: 01.01.2009 – 31.12.2009

Reporting period: 01.01.2009 – 30.09.2009

Council: Tõnu Toomik, Teet Roopalu, Jaan Mäe,
Indrek Neivelt, Olari Taal

Directorate: Tõnu Toomik, Teet Roopalu, Jaan Mäe

Board: Tiit Roben, Alar Lagus, Veljo Viitmann, Andres Agukas

Auditor: AS PricewaterhouseCoopers

TABLE OF CONTENTS

MANAGEMENT REPORT	3
STATEMENT OF COMPREHENSIVE INCOME	10
STATEMENT OF FINANCIAL POSITION	12
STATEMENT OF CHANGES IN EQUITY	13
CASH FLOW STATEMENT	14
NOTES.....	15
Note 1 Business and geographical segments	15
Note 2 Revenue	16
Note 3 Cost of goods sold	16
Note 4 Earnings per share.....	17
Note 5 Cash and cash equivalents.....	17
Note 6 Trade and other receivables.....	17
Note 7 Inventories	18
Note 8 Long-term financial assets	18
Note 9 Investment property	18
Note 10 Property, plant and equipment	19
Note 11 Intangible assets	19
Note 12 Borrowings	20
Note 13 Trade and other payables	20
Note 14 Short-term provisions	21
Note 15 Related party transactions	21
Note 16 Contingent liabilities.....	23
MANAGEMENT DECLARATION	24

MANAGEMENT REPORT

General information

AS Merko Ehitus operates in Estonia, Latvia and Lithuania as a construction group providing integrated construction solutions. Largest companies of the Group are SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (75%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), OÜ Woody (100%) and AS Tartu Maja Betootooted (25%).

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

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

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

On 28 September 2009, the Supervisory Board of AS Merko Ehitus approved the proposal of the Management Board for affording up to EEK 300 million of the company's funds to clients in co-financing of new construction contracts as well as financing the purchase of new real property, within the next 12 months.

The Management Board of Merko Ehitus must adhere to the following priorities in the investment activities:

- 1) Participation in public sector PPP projects;
- 2) Provision of co-financing for public sector construction projects funded by the EU;
- 3) Co-financing of development projects with good potential, by providing up to 30% of the project cost, on the condition that the project has an effective business plan and that external financing has been secured;
- 4) Acquisition of residential properties with good potential in larger cities. Preferred properties: those with a moderate work volume and a valid detailed plan, located in a developed residential environment.

Capitalisation and good liquidity are competitive advantages of Merko Ehitus upon judgement of the Supervisory Board and that should be used daringly to achieve commercial aims.

Operating results

Group's revenue for the 2009 9 months was EEK 2333.4 million. 71.4% of the sales originated from Estonia, 26.0% from Latvia and 2.6% from Lithuania. As compared to with the 2008 9 months, company's sales decreased in Lithuania by 90.7%, in Estonia by 22.8% and in Latvia by 18.6%.

Group's revenue for the III quarter 2009 was EEK 855.5 million, which constitutes an annual decrease of EEK 294.6 million.

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

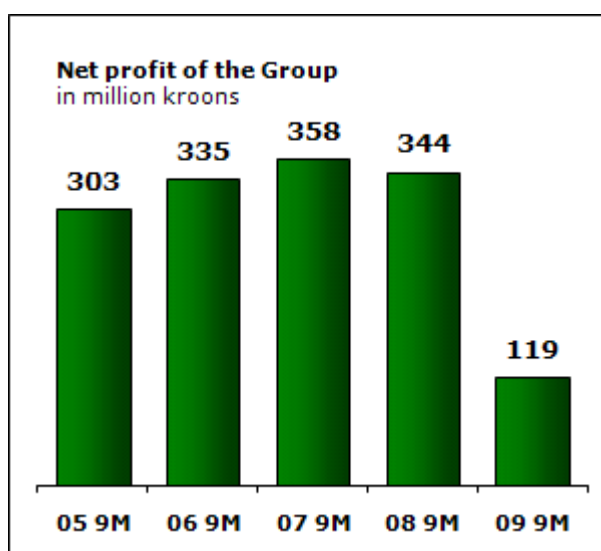
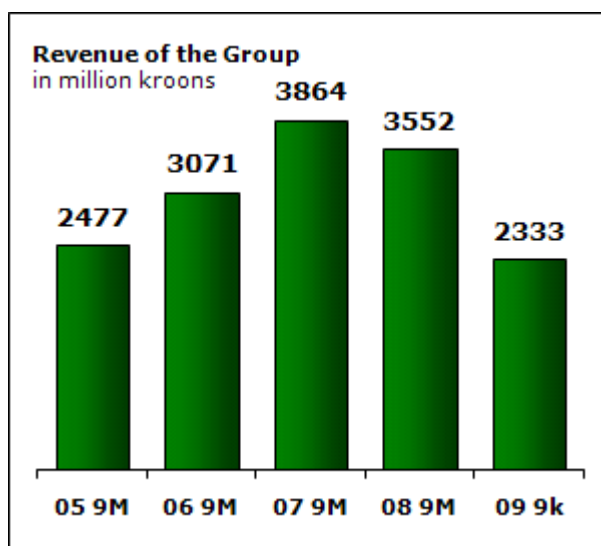
In 9 months 2009, the Group sold 201 apartments in total cost of EEK 243.0 million (without VAT). As of 30.09.2009 Group held in inventories unsold 266 completed apartments in total cost EEK 318.8 million and 392 apartments in the construction stage in total cost EEK 262.5 million.

As at 30 September 2009, the group's backlog of construction contracts in progress amounted to EEK 1.6 billion.

The consolidated revenue of the Group's most important companies

	<i>in thousand EEK and EUR</i>			
	9 months 2009		9 months 2008	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	1 263 801	80 772	1 390 113	88 844
AS Gustaf (75% partnership)	39 942	2 553	123 425	7 888
OÜ Gustaf Tallinn (80% partnership)	47 136	3 013	109 094	6 972
AS Merko Tartu (66% partnership)	61 730	3 945	155 907	9 964
Tallinna Teede AS (100% partnership)	216 760	13 854	368 506	23 552
OÜ Woody (100% partnership)	24 988	1 597	65 020	4 156
Latvian company				
SIA Merks (100% partnership)	605 853	38 721	718 407	45 915
Lithuanian company				
UAB Merko Statyba (100% partnership)	58 380	3 731	612 893	39 171

In one year, the Group's cost of goods sold decreased by 30.7% and marketing and general administrative expenses by 18.0%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 13.9 million decrease in labour costs, EEK 4.8 million decrease in office expenses and communication services, EEK 4.1 million decrease in advertising and sponsoring and EEK 15.8 million decrease in other costs were the most significant factors. Despite the vigorous measures, the group's cost-cutting rate failed to keep up with the fall in revenue – thus, the cost of goods sold in the period increased to 88.1% and marketing and administrative costs to 6.4%.



The group's earnings before taxes in the first nine months of 2009 were EEK 131.3 million, which means a decrease by EEK 267.0 million compared to 2008. The net profit in the period was EEK 118.9 million, representing an EEK 225.0 million or 65.4% decrease. The fall in earnings was affected by revenue, the reduced profitability of the construction and property development sectors, and the extraordinary expenses resulting from changes in the economic conditions. In the first nine months of 2009, the group suffered an 55.3 million loss due to the depreciation of development projects (incl. properties for sale by EEK 26.5 million; work in progress by EEK 12.8 million, and finished goods by EEK 16.0 million); and a further EEK 8.7 million loss from the write-off of uncollectible accounts. The seasonality of the construction field and the cyclic nature of property development did not have a significant impact on the financial performance.

Group's priority in 2009 is cash flow and liquidity. In 9 months 2009 Group's total cash flows amounted to EEK -30.3 million, of which the cash flows from operating activities totalled EEK +224.1 million, from investment activities EEK -9,7 million and from financing activities EEK-244.7 million. The cash flows from operating activities of the reporting period were mostly affected by change in inventories EEK +239.5 million, change in liabilities and prepayments related to operating activities EEK -148.4 million and operating profit EEK +133.6 million. From investment activities cash flows EEK -22.6 million from balance of granted/received loans, EEK +24.7 million from received interests and EEK -12.7 million from purchase of property, plant and equipment. The cash flows from financing activities were mostly affected by repayments of the borrowings by EEK -167.1 million and dividends paid EEK -64.7 million.

As of 30 September 2009, the Group has EEK 749.6 million of funds on the Group's bank accounts and deposits.

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

	9 months 2009	9 months 2008	9 months 2007
Net profit margin	5,1 %	9,7 %	9,3 %
Profit before taxes margin	5,6 %	11,2 %	10,0 %
Operating profit margin	5,7 %	11,3 %	8,6 %
Gross profit margin	11,9 %	16,5 %	12,3 %
EBITDA margin	6,6 %	11,9 %	9,0 %
Return on equity per annum	7,5 %	22,2 %	27,9 %
Return on assets per annum	4,2 %	11,2 %	13,5 %
Equity ratio	58,1 %	50,0 %	47,0 %
Current ratio	2,4	2,0	2,1
Quick ratio	1,2	0,9	0,9
General expense ratio	6,4 %	5,2 %	3,7 %
Gross remuneration ratio	9,3 %	8,8 %	7,5 %

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

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

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

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

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

Return on equity: $\text{Net profit} \times 4/3^* / \text{Average equity during the period}^*$

Return on assets: $\text{Net profit} \times 4/3^* / \text{Average assets during the period}$

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

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

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

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

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

*attributable to equity owners of the parent

Construction market

The key-words for the 2009 9 months are deteriorated economic conditions, unemployment increased sharply, domestic consumption fell and the public sector had to deal with the budgetary deficit. The Republic of Latvia has published its GDP figures for Q3 2009 and declared an 18.4% fall in economy from the previous year, while the same figures for Estonia and Lithuania were 15.3% and 14.3% respectively. The crisis will probably bottom out in Q4 and there might be a slight upturn in the economy in 2010. Due to the recession, construction volumes in the first six months fell by 36.6% in Estonia, by 41.5% in Latvia and by 49.9% in Lithuania, compared to the figures in the previous year.

As volumes decreased and competition became stiffer, construction prices fell down to the level of 2005. To win new contracts, contractors often submit tenders with prices below the direct costs and hope to compensate for the difference with a fall in prices in the future. This approach is definitely not sustainable; it entails increased business risks for the tenderer, execution risks for customers, and credit risk for potential suppliers. According to our estimate, construction prices have now bottomed out and there is no reserve for further price reductions.

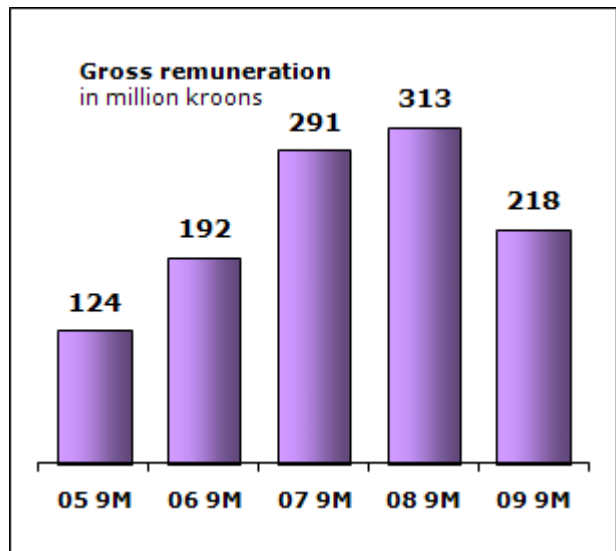
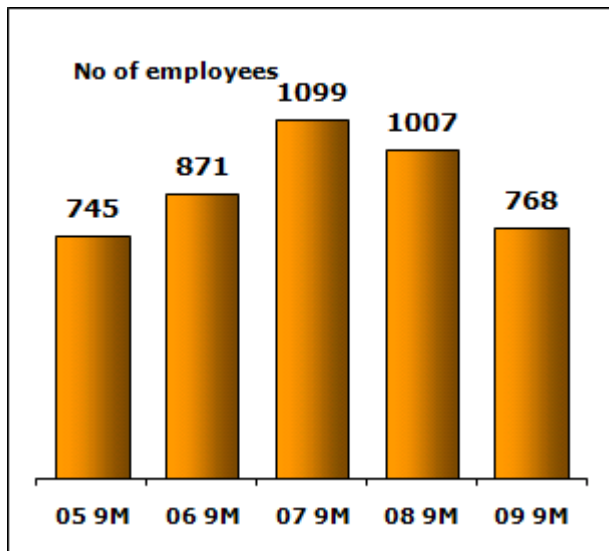
The lack of financing and the negative expectations have reduced the investment activity of the private sector to zero in this region. Most of the expansion plans have been postponed indefinitely and the private sector is focusing on cost and cash-flow management. As a result of the lower prices, we can see increased activity on the market of small-scale works (the so-called repair works) as the need for external financing is lower and the works are mostly financed from savings. The majority of new construction projects initiated concern infrastructural and environmental facilities financed by the public sector and the EU structural funds. A more active use of European funding is hindered by the excessive bureaucracy involved and the inability of local governments to provide the required self-financing. The decrease in consumption and incomes has significantly damaged the public sector's revenue base and poses a serious challenge for the sector's financial capacity.

In Q3, we could see the first signs of recovery on the residential property market. Buyers who had been postponing purchasing a home for a long time, as they waited for the prices to fall, have realised that the fall in residential property prices is not everlasting and that if they wait any further they will have much less choice. The fall in prices by 40 to 50 percent in the previous 18 months stopped in Q3 2009, meaning that banks are much more confident about financing the purchase of homes; the loans given at the new, lower rates help to improve the banks' revenue base and compensate the negative impact of bad loans. Some financial institutions are also motivated by the desire to increase their market share at the expense of more passive competitors, with the help of these safe loans. As a result of the abovementioned trends, financing conditions – especially the amount of self-financing required and the interest margins for end users – have improved in recent months. Unfortunately, consumers still lack confidence in the market and thus there is no chance of a rapid market recovery.

There is still a limited amount of funds available to property developers; financing is expensive and the pre-requirements for receiving a loan are unrealistic. Thus, no new projects are likely to be launched in the near future. The supply of new residential properties is decreasing. The key-word in property development is still handling debt and liquidity issues.

Employees and remuneration

In 30.09.2009, the number of employees in the Group's service was 768, including 746 full-time employees. The Group reduced the number of its personnel by 23.7% or 239 employees in a year. The gross remuneration paid to employees in 9 months 2009 amounted to EEK 217.6 million a decrease of 30,4% compared to previous year. The smaller amount of performance pay, due to the fall in the group's profitability, and the reduced staff levels also contributed to the fall in the group's labour costs.



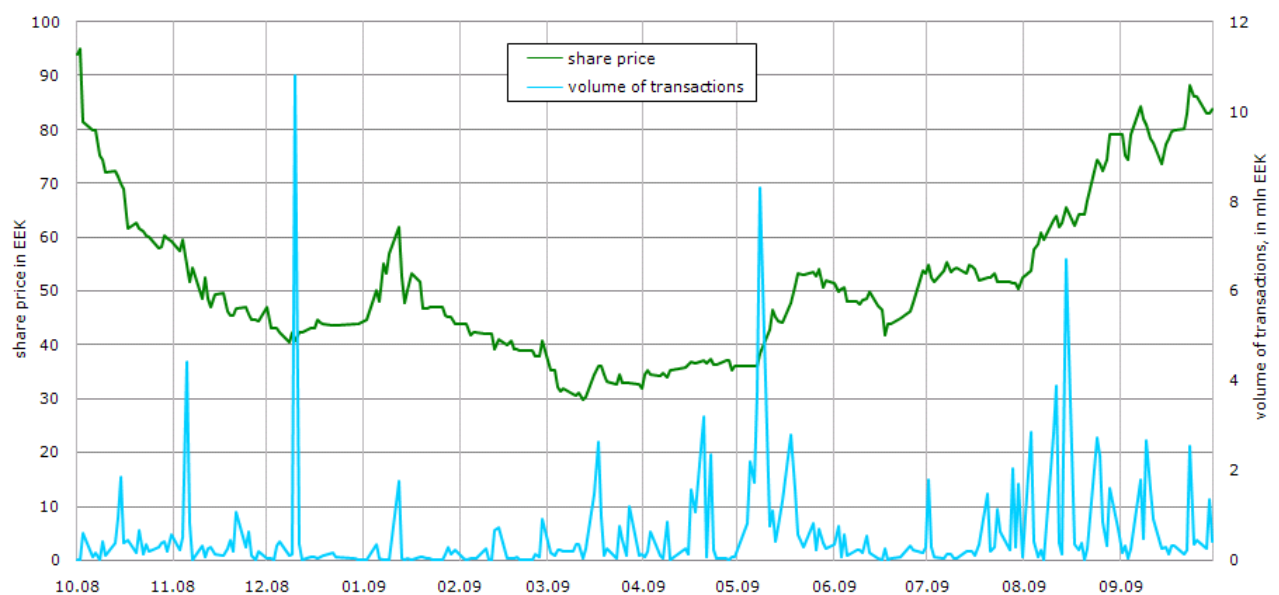
Shares and shareholders

Share information

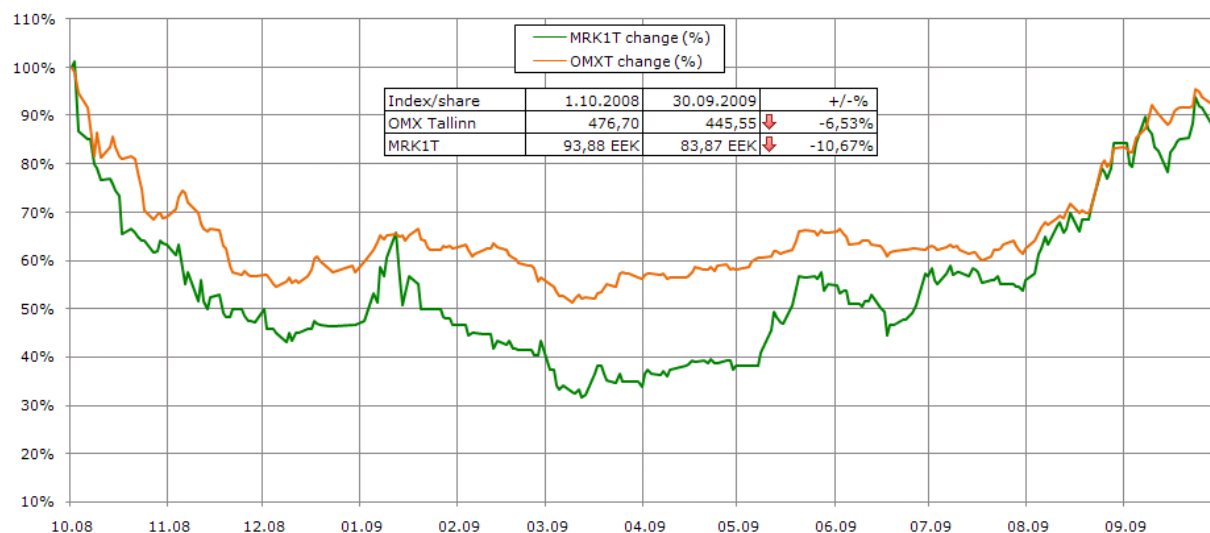
ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	10.00 EEK
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2009 first 9 months 2980 transactions with the shares of Merko Ehitus were performed in the course of which 2.4 million shares were traded and the total monetary value of transactions was EEK 113.9 million. The lowest share price was EEK 28.95 and the highest price was EEK 90.44 per share. The closing share price as at 30.09.2009 was EEK 83.87.

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



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



	30.09.2009	30.09.2008	30.09.2007
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in kroons	6,72	19,43	20,23
Equity per share, in kroons	120,39	119,66	103,06
P/B (share price to equity per share)	0,70	0,78	2,85

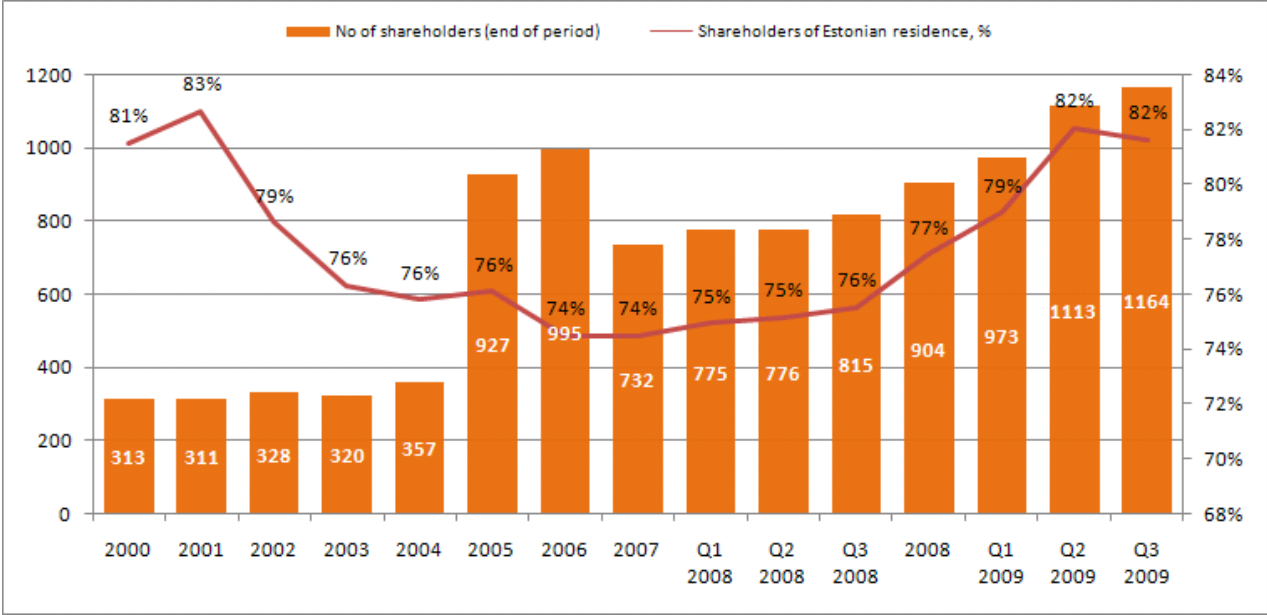
The main shareholders of AS Merko Ehitus as of 30.09.2009

	Number of shares	Proportion
AS Riverito	12 742 686	71,99%
ING Luxembourg S.A., clients	963 376	5,44%
Skandinaviska Enskilda Banken Ab, clients	834 393	4,71%
State Street Bank and Trust Omnibus Account a Fund No OM01	253 232	1,43%
Nordea Bank Finland Plc/Non-resident legal entities	203 076	1,15%
Mellon Treaty Omnibus	141 229	0,80%
SEB Elu- ja Pensionikindlustus AS	129 733	0,73%
Skandinaviska Enskilda Banken Finnish, clients	123 230	0,70%
Clearstream Banking Luxembourg S.A. clients	120 894	0,68%
SEB Pank AS, clients	119 351	0,67%
Gamma Holding OÜ	110 210	0,62%

Structure of shareholders as of 30.09.2009

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	334	28,69%	17 547	0,10%
101-1000	547	46,99%	244 693	1,38%
1001-10 000	241	20,71%	736 210	4,16%
10 001 – 100 000	31	2,66%	960 140	5,43%
100 001 – 1 000 000	10	0,86%	2 998 724	16,94%
1 000 001 - ...	1	0,09%	12 742 686	71,99%
Total	1164	100%	17 700 000	100%

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



STATEMENT OF COMPREHENSIVE INCOME
consolidated, unaudited

	note	EEK		EUR	
		2009 9 months	2008 9 months	2009 9 months	2008 9 months
Revenue	1,2	2 333 379	3 552 366	149 130	227 038
Cost of goods sold	3	(2 055 731)	(2 964 881)	(131 385)	(189 490)
Gross profit		277 648	587 485	17 745	37 548
Marketing expenses		(32 965)	(26 120)	(2 107)	(1 669)
Administrative and general expenses		(117 355)	(157 215)	(7 500)	(10 048)
Other operating income		10 101	8 632	646	552
Other operating expenses		(3 860)	(12 468)	(248)	(797)
Operating profit		133 569	400 314	8 536	25 586
Financial income and expenses		(2 312)	(2 054)	(148)	(132)
incl. financial income (expenses) from investments into associates and joint ventures		(8 044)	1 185	(515)	76
interest expense		(19 123)	(12 442)	(1 222)	(795)
foreign exchange gain		1 265	(7 359)	81	(470)
other financial income and expenses		23 590	16 562	1 508	1 057
Profit before tax		131 257	398 260	8 388	25 454
Corporate income tax expense		(12 662)	(47 579)	(809)	(3 041)
Net profit for current period		118 595	350 681	7 579	22 413
incl. equity holders of the parent		118 902	343 874	7 599	21 978
minority interest		(307)	6 807	(20)	435
Other comprehensive income					
Exchange differences on translating foreign subsidiaries		(1 032)	(9 161)	(66)	(585)
Comprehensive income		117 563	341 520	7 513	21 828
incl. equity holders of the parent		117 870	334 713	7 533	21 393
minority interest		(307)	6 807	(20)	435
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	6,72	19,43	0,43	1,24

STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

	EEK		EUR	
	2009 III quarter	2008 III quarter	2009 III quarter	2008 III quarter
Revenue	885 492	1 180 062	56 593	75 420
Cost of goods sold	(775 170)	(1 051 633)	(49 542)	(67 212)
Gross profit	110 322	128 429	7 051	8 208
Marketing expenses	(12 830)	(8 629)	(820)	(551)
Administrative and general expenses	(40 867)	(56 195)	(2 612)	(3 592)
Other operating income	3 141	2 747	201	176
Other operating expenses	(2 128)	(4 911)	(137)	(314)
Operating profit	57 638	61 441	3 683	3 927
Financial income and expenses	(4 309)	3 066	(276)	196
incl. financial income (expenses) from investments into associates and joint ventures	(2 080)	(18)	(134)	(1)
interest expense	(4 440)	(4 763)	(284)	(304)
foreign exchange gain	(2 619)	(1 489)	(167)	(95)
other financial income and expenses	4 830	9 336	309	596
Profit before tax	53 329	64 507	3 407	4 123
Corporate income tax expense	(7 724)	(6 956)	(493)	(445)
Net profit for current period	45 605	57 551	2 914	3 678
incl. equity holders of the parent	45 711	53 696	2 921	3 432
minority interest	(106)	3 855	(7)	246
Other comprehensive income				
Exchange differences on translating foreign subsidiaries	(4 962)	(3 019)	(317)	(192)
Comprehensive income	40 643	54 532	2 597	3 486
incl. equity holders of the parent	40 749	50 677	2 604	3 240
minority interest	(106)	3 855	(7)	246
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	2,58	3,03	0,17	0,19

STATEMENT OF FINANCIAL POSITION

consolidated, unaudited

	note	EEK		EUR	
		30.09.2009	31.12.2008	30.09.2009	31.12.2008
ASSETS					
Current assets					
Cash and cash equivalents	5	485 460	515 191	31 027	32 927
Short-term deposits		264 162	262 759	16 883	16 793
Trade and other receivables	6	867 515	780 665	55 444	49 894
Prepaid corporate income tax		11 768	3 875	752	247
Inventories	7	1 580 994	1 817 486	101 044	116 158
Assets held for sale		-	173	-	11
Total current assets		3 209 899	3 380 149	205 150	216 030
Non-current assets					
Long-term financial investments	8	229 029	235 810	14 638	15 071
Deferred income tax assets		14 795	24 226	946	1 548
Investment property	9	12 420	12 002	793	767
Property, plant and equipment	10	191 117	197 094	12 214	12 597
Intangible assets	11	10 763	11 807	688	755
Total non-current assets		458 124	480 939	29 279	30 738
TOTAL ASSETS		3 668 023	3 861 088	234 429	246 768
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	12	420 335	206 657	26 864	13 208
Trade and other payables	13	911 649	963 631	58 266	61 588
Corporate income tax liability		1	8 699	0	556
Short-term provisions	14	27 324	32 317	1 746	2 065
Total current liabilities		1 359 309	1 211 304	86 876	77 417
Non-current liabilities					
Long-term borrowings	12	138 241	531 396	8 835	33 962
Other long-term trade payables		7 996	8 824	511	564
Total non-current liabilities		146 237	540 220	9 346	34 526
Total liabilities		1 505 546	1 751 524	96 222	111 943
Equity					
Minority interests		31 626	34 633	2 021	2 213
Equity attributable to equity holders of the parent					
Share capital		177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation adjustment		(13 582)	(12 550)	(868)	(802)
Retained earnings		1 949 733	1 892 781	124 611	120 971
		2 130 851	2 074 931	136 186	132 612
Total equity		2 162 477	2 109 564	138 207	134 825
TOTAL LIABILITIES AND EQUITY		3 668 023	3 861 088	234 429	246 768

STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2007	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Comprehensive income	-	-	(9 161)	343 874	334 713	6 807	341 520
Net assets separated in demerger	-	-	-	(232 501)	(232 501)	-	(232 501)
Dividends	-	-	-	-	-	(6 528)	(6 528)
Business combinations	-	-	-	-	-	(9)	(9)
Balance as at 30.09.2008	177 000	17 700	(14 246)	1 937 515	2 117 969	34 209	2 152 178
Balance as at 31.12.2008	177 000	17 700	(12 550)	1 892 781	2 074 931	34 633	2 109 564
Comprehensive income	-	-	(1 032)	118 902	117 870	(307)	117 563
Dividends	-	-	-	(61 950)	(61 950)	(2 700)	(64 650)
Balance as at 30.09.2009	177 000	17 700	(13 582)	1 949 733	2 130 851	31 626	2 162 477

EUR	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2007	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Comprehensive income	-	-	(585)	21 978	21 393	435	21 828
Net assets separated in demerger	-	-	-	(14 860)	(14 860)	-	(14 860)
Dividends	-	-	-	-	-	(417)	(417)
Business combinations	-	-	-	-	-	(1)	(1)
Balance as at 30.09.2008	11 312	1 131	(910)	123 830	135 363	2 186	137 549
Balance as at 31.12.2008	11 312	1 131	(802)	120 971	132 612	2 213	134 825
Comprehensive income	-	-	(66)	7 599	7 533	(20)	7 513
Dividends	-	-	-	(3 959)	(3 959)	(172)	(4 131)
Balance as at 30.09.2009	11 312	1 131	(868)	124 611	136 186	2 021	138 207

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

CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2009 9 months	2008 9 months	2009 9 months	2008 9 months
Cash flows from operating activities				
Operating profit	133 569	400 314	8 536	25 585
Adjustments:				
depreciation and impairment charge	20 400	22 858	1 304	1 461
(profit) loss from sale of non-current assets	(563)	(764)	(36)	(49)
adjustments of revenue from construction contracts under stage of completion method	20 077	261 204	1 283	16 694
interest income from business activities	(3 359)	(2 744)	(215)	(175)
government grant and change in other provisions	(16 754)	(26 222)	(1 071)	(1 676)
Change in trade and other receivables related to operating activities	23 180	125 161	1 481	7 999
Change in inventories	239 511	26 820	15 309	1 714
Change in trade and other payables related to operating activities	(148 377)	(112 429)	(9 483)	(7 185)
Interests paid	(23 542)	(15 062)	(1 505)	(963)
Other financial expenses (income)	(55)	(41)	(4)	(3)
Corporate income tax paid	(19 993)	(39 048)	(1 278)	(2 496)
	<u>224 094</u>	<u>640 047</u>	<u>14 321</u>	<u>40 906</u>
Cash flows from investing activities				
Investment in subsidiaries	-	(15 000)	-	(959)
Proceeds from sale of subsidiaries	1 125	1 000	72	64
Investments in associates and joint ventures	-	(1 000)	-	(64)
Proceeds from sale of associates and joint ventures	-	59 856	-	3 826
Purchase of financial investment	(1 403)	-	(90)	-
Purchase of investment property	-	(4 259)	-	(272)
Proceeds from sale of investment property	1 250	-	80	-
Purchase of property, plant and equipment	(12 650)	(19 476)	(808)	(1 245)
Proceeds from sale of property, plant and equipment	634	2 572	41	164
Purchase of intangible assets	(905)	(1 132)	(58)	(72)
Proceeds from sale of intangible assets	134	-	9	-
Loans granted	(65 889)	(20 216)	(4 211)	(1 292)
Loan repayments received	43 330	4 989	2 769	319
Interest received	24 663	18 216	1 576	1 164
	<u>(9 711)</u>	<u>25 550</u>	<u>(620)</u>	<u>1 633</u>
Cash flows from financing activities				
Proceeds from borrowings	55 731	147 110	3 562	9 402
Repayments of borrowings	(222 799)	(193 496)	(14 239)	(12 367)
Finance lease principal payments	(12 965)	(13 608)	(829)	(869)
Dividends paid	(64 650)	(6 528)	(4 131)	(417)
	<u>(244 683)</u>	<u>(66 522)</u>	<u>(15 637)</u>	<u>(4 251)</u>
Cash transferred in demerger	-	(25 000)	-	(1 598)
Net increase/decrease in cash and cash equivalents	<u>(30 300)</u>	<u>574 075</u>	<u>(1 936)</u>	<u>36 690</u>
Cash and cash equivalent at beginning of period	515 191	205 564	32 927	13 138
Exchange losses on cash and cash equivalents	569	(3 543)	36	(226)
Cash and cash equivalent at end of period	<u>485 460</u>	<u>776 096</u>	<u>31 027</u>	<u>49 602</u>

NOTES

Note 1 Business and geographical segments

in thousand kroons

Business segments

2009 9 months	General construction	Road construction	Concrete elements	Group
Consolidated revenue	2 116 619	216 760	-	2 333 379
Inter-segmental revenue	8 275	130 287	-	138 562
Segment revenue	2 124 894	347 047	-	2 471 941
Segment operating profit	111 271	22 298	-	133 569
Financial income/expenses incl. profit/loss from associates and joint ventures	(1 129)	-	(6 915)	(2 312) (8 044)
Profit before tax				131 257
Corporate income tax				(12 662)
Group's net profit for current period				118 595
incl. attributable to equity owners of the parent				118 902
minority interest				(307)
Segment assets	3 196 290	221 677	-	3 417 967
Associates and joint ventures	151 752	-	46 960	198 712
Unallocated assets				51 344
Total consolidated assets				3 668 023
Segment liabilities	(832 764)	(125 014)	-	(957 778)
Unallocated liabilities				(547 768)
Total consolidated liabilities				(1 505 546)
Purchase of property, plant and equipment and intangible assets	11 435	2 120	-	13 555
Depreciation and impairment	(11 494)	(8 906)	-	(20 400)
2008 9 months	General construction	Road construction	Concrete elements	Group
Consolidated revenue	3 183 796	368 570	-	3 552 366
Inter-segmental revenue	10	13 157	-	13 167
Segment revenue	3 183 806	381 727	-	3 565 533
Segment operating profit	396 017	4 297	-	400 314
Financial income/expenses incl. profit/loss from associates and joint ventures	2 244	-	(1 059)	(2 054) 1 185
Profit before tax				398 260
Corporate income tax				(47 579)
Group's net profit for current period				350 681
incl. attributable to equity owners of the parent				343 874
minority interest				6 807
Segment assets	3 740 406	229 055	-	3 969 461
Associates and joint ventures	156 741	-	56 039	212 780
Unallocated assets				57 774
Total consolidated assets				4 240 015
Segment liabilities	(1 132 153)	(127 414)	-	(1 259 567)
Unallocated liabilities				(828 270)
Total consolidated liabilities				(2 087 837)
Purchase of investment property	4 259	-	-	4 259
Purchase of property, plant and equipment and intangible assets	16 589	4 019	-	20 608
Depreciation and impairment	(13 339)	(9 519)	-	(22 858)

Costs, assets and liabilities that cannot be related to a specific asset or it is not practical to do so are considered as unallocated.

Geographical segments

	Revenue	
	2009 9 months	2008 9 months
Estonia	1 667 305	2 161 020
Latvia	605 853	744 470
Lithuania	60 221	646 876
Total	2 333 379	3 552 366

	Total assets		Purchase of investment property		Purchase of property, plant and equipment and intangible assets	
	30.09.2009	30.09.2008	2009 9 months	2008 9 months	2009 9 months	2008 9 months
Estonia	2 096 814	2 248 047	-	3 252	13 435	15 084
Latvia	1 370 835	1 516 232	-	1 007	120	5 186
Lithuania	200 374	475 736	-	-	-	338
Total	3 668 023	4 240 015	-	4 259	13 555	20 608

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

Note 2 Revenue

in thousand kroons

	2009 9 months	2008 9 months
Rendering of services	2 066 494	2 647 283
Sale of real estate and real estate development projects	258 594	900 957
Rental income	1 736	2 124
Sale of goods	6 555	2 002
Total revenue	2 333 379	3 552 366

Note 3 Cost of goods sold

in thousand kroons

	2009 9 months	2008 9 months
Construction services	1 139 304	1 814 121
Materials	338 368	309 555
Properties purchased for resale	210 111	312 094
Staff costs	190 434	265 171
Construction mechanisms and transport	73 315	108 272
Design	22 474	56 252
Depreciation and impairment charge	14 928	15 719
Other expenses	66 797	83 697
Total cost of goods sold	2 055 731	2 964 881

Note 4 Earnings per share

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

	2009 9 months	2008 9 months
Net profit attributable to shareholders <i>(in thousand kroons)</i>	118 902	343 874
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings per share <i>(in kroons)</i>	6,72	19,43

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

Note 5 Cash and cash equivalents

in thousand kroons

	30.09.2009	31.12.2008
Cash on hand	274	346
Bank accounts	85 060	50 691
Overnight deposits	219 698	231 505
Term deposits with maturities of 3 months and less	180 428	232 649
Total cash and cash equivalents	485 460	515 191

Note 6 Trade and other receivables

in thousand kroons

	30.09.2009	31.12.2008
Trade receivables		
accounts receivable	604 881	556 511
allowance for doubtful receivables	(28 333)	(20 085)
	<u>576 548</u>	<u>536 426</u>
Tax prepayments excluding corporate income tax		
value added tax	4 725	37 320
social security tax	7	6
other taxes	1 500	1 268
	<u>6 232</u>	<u>38 594</u>
Amounts due from customers for contract works	139 704	109 305
Other short-term receivables		
short-term loans	77 330	47 454
interest receivables	10 347	6 940
receivable from sale of subsidiary	7 125	7 000
other short-term receivables	4 400	1 519
	<u>99 202</u>	<u>62 913</u>
Prepayments for services		
prepayments for construction services	37 433	24 127
prepaid insurance	1 482	1 540
other prepaid expenses	6 914	7 760
	<u>45 829</u>	<u>33 427</u>
Total trade and other receivables	867 515	780 665

Note 7 Inventories*in thousand kroons*

	30.09.2009	31.12.2008
Raw materials and materials	4 940	5 372
Work-in-progress	454 714	541 134
Finished goods	392 439	522 205
Goods for resale		
registered immovables purchased for resale	693 641	713 803
other goods purchased for resale	2 545	11
	<hr/> 696 186	<hr/> 713 814
Prepayments for inventories		
prepayments for real estate properties	29 730	33 257
prepayments for other inventories	2 985	1 704
	<hr/> 32 715	<hr/> 34 961
Total inventories	<hr/> 1 580 994	<hr/> 1 817 486

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

	30.09.2009	31.12.2008
Investments in associates and joint ventures	198 712	206 761
Long-term loans	23 876	21 163
Long-term bank deposit	2 809	2 259
Long-term receivable from buyer of subsidiary	1 375	2 625
Long-term receivables from customers of construction services	2 257	3 002
Total long-term financial assets	<hr/> 229 029	<hr/> 235 810

Note 9 Investment property*in thousand kroons*

	30.09.2009	31.12.2008
Land	2 102	2 103
Buildings at carrying amount		
cost	11 368	10 600
accumulated depreciation	(1 050)	(701)
	<hr/> 10 318	<hr/> 9 899
Total investment property	<hr/> 12 420	<hr/> 12 002

Note 10 Property, plant and equipment*in thousand kroons*

	30.09.2009	31.12.2008
Land	9 697	9 697
Buildings at carrying amount		
cost	26 352	20 008
accumulated depreciation	(5 550)	(4 909)
	<hr/> 20 802	<hr/> 15 099
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(111)	(104)
	<hr/> 347	<hr/> 354
Machinery and equipment at carrying amount		
cost	206 755	181 732
accumulated depreciation	(86 355)	(67 761)
	<hr/> 120 400	<hr/> 113 971
Other fixtures at carrying amount		
cost	80 343	97 274
accumulated depreciation	(40 988)	(45 022)
	<hr/> 39 355	<hr/> 52 252
Construction in progress	516	5 539
Prepayments for property, plant and equipment	-	182
	<hr/> 191 117	<hr/> 197 094
Total property, plant and equipment		

Note 11 Intangible assets*in thousand kroons*

	30.09.2009	31.12.2008
Software at carrying amount		
cost	17 281	16 377
accumulated depreciation	(7 880)	(5 932)
	<hr/> 9 401	<hr/> 10 445
Prepayments for intangible assets	1 362	1 362
	<hr/> 10 763	<hr/> 11 807
Total intangible assets		

Note 12 Borrowings
in thousand kroons

	30.09.2009	31.12.2008
Finance lease payables		
Present value of lease payments	41 586	54 541
incl. current portion	10 579	17 198
non-current portion 1...4 years	31 007	37 343
Bank loans		
Loan balance	394 913	553 611
incl. current portion	290 429	62 308
non-current portion 1...5 years	104 484	491 303
Loans from parent		
Loan balance	117 177	125 001
incl. current portion	117 177	125 001
Loans from other companies		
Loan balance	4 900	4 900
incl. current portion	2 150	2 150
non-current portion 1...5 years	2 750	2 750
Total loans		
Loans balance	516 990	683 512
incl. current portion	409 756	189 459
non-current portion 1...5 years	107 234	494 053
Total borrowings		
incl. current portion	420 335	206 657
non-current portion 1...5 years	138 241	531 396

Note 13 Trade and other payables
in thousand kroons

	30.09.2009	31.12.2008
Trade payables	340 754	366 551
Payables to employees	52 992	63 077
Tax liabilities, except for corporate income tax		
value added tax	9 402	28 211
personal income tax	7 134	8 402
social security tax	12 701	17 841
land tax	10	19
unemployment insurance tax	1 282	297
contributions to mandatory funded pension	-	546
other taxes	249	1 103
	30 778	56 419
Amounts due to customers for contract works	316 976	266 708
Other liabilities		
interest liabilities	795	1 176
payable for registered immovables from demerger	100 000	100 000
other liabilities	291	3 811
	101 086	104 987
Prepayments received	69 063	105 889
Total trade and other payables	911 649	963 631

Note 14 Short-term provisions*in thousand kroons*

	30.09.2009	31.12.2008
Provision for warranty obligation for construction	16 424	19 916
Provision for onerous construction contracts	3 581	3 525
Provision for potential cancellation of construction projects	326	375
Provision for legal costs and claims filed	6 974	7 882
Other provisions	19	619
Total short-term provisions	27 324	32 317

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 company';
- associates and joint ventures;
- key managers and their close relatives;
- entities sharing key personnel with AS Merko Ehitus.

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

The parent of AS Merko Ehitus is AS Riverito. As of 30.09.2009 and 31.12.2008, AS Riverito owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the Group is Mr Toomas Annus.

Goods and services*in thousand kroons*

	2009 9 months	2008 9 months
Purchased construction services		
Associates and joint ventures	2 423	14 256
Entities under joint control	8 502	2 308
Total purchased construction services	10 925	16 564
Rendered construction services		
Associates and joint ventures	19	197
Entities under joint control	131 342	424 548
Other related parties	75	-
Management members	7 287	3 094
Total construction services rendered	138 723	427 839
Construction materials purchased		
Other related parties	48	159
Real estate sold		
Entities under joint control	-	143 324
Total real estate sold	-	143 324

Balances with the related parties*in thousand kroons*

	30.09.2009	31.12.2008
Trade and other receivables		
Trade receivables		
Associates and joint ventures	60	81
Entities under joint control	96 709	117 065
Other related parties	1 400	66
Short-term loans		
Associates and joint ventures	16 900	16 400
Entities under joint control	23 101	4 169
Interest receivables		
Associates and joint ventures	4 872	3 873
Entities under joint control	4 686	2 505
Other short-term receivables		
Associates and joint ventures	4	-
Entities under joint control	-	74
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	20 980	18 266
Entities under joint control	2 896	2 896
Other long-term loans and receivables		
Entities under joint control	-	1 831
Borrowings		
Short-term loans and bonds		
Entities under joint control	117 177	125 001
Trade and other payables		
Trade payables		
Associates and joint ventures	593	1 045
Entities under joint control	269	478
Other related parties	3	1
Interest liabilities		
Parent	11	-
Entities under joint control	230	645
Other short-term liabilities		
Entities under joint control	100 000	100 000

Note 16 Contingent liabilities

The Group has purchased the following guarantees in the following maximum amounts from financial institutions to cover Group's maximum exposure to third parties if the Group would not be able to fulfil its contractual obligations. The management believes that the likelihood of additional expenses due to these guarantees is remote.

<i>in thousand kroons</i>	30.09.2009	31.12.2008
Performance period's warranty to the customer	235 574	300 657
Tender warranty	57 705	61 258
Guarantee warranty period	141 074	107 491
Prepayment guarantee	63 766	100 110
Sureties	9 862	6 362
Payment guarantee	3 956	-
Letter of credit	5 544	-
Total contingent liabilities	517 481	575 878

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

Tender warranty – warranty provider grants to customer arranging the tender process that the tenderer will sign a contract as per tender conditions.

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

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

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

MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 9 months interim report 2009 as presented on pages 3 to 23.

The Management Board confirms to the best of its knowledge:

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

The consolidated interim financial statements of AS Merko Ehitus for the 9 months period ending 30.09.2009 have been prepared in accordance with IAS 34 "Interim Financial Reporting" for condensed interim financial statements. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2008.

Further, the Board of AS Merko Ehitus declares and confirms that to the best knowledge of the Management, the Management Report of the Interim Report gives a true and fair view of the business development and performance and financial state of the company and consolidated entrepreneurs as a whole and includes a description of risks and suspicions.

Tiit Roben	Chairman of the Board		13.11.2009
------------	-----------------------	--	------------

Alar Lagus	Member of the Board		13.11.2009
------------	---------------------	--	------------

Veljo Viitmann	Member of the Board		13.11.2009
----------------	---------------------	--	------------

Andres Agukas	Member of the Board		13.11.2009
---------------	---------------------	--	------------