



## AS MERKO EHITUS GROUP

### 2009 12 months and IV quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

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Financial year: 01.01.2009 – 31.12.2009

Reporting period: 01.01.2009 – 31.12.2009

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

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## MANAGEMENT REPORT

### General information

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

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](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](http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=232461)).

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.

On 2 December 2009, Tallinna Teede AS, a wholly owned subsidiary of AS Merko Ehitus, acquired the 100-percent holding in the company AS Vooremaa Teed from the Republic of Estonia. The purchase price of the company was EEK 47 989 570. The principal activity of AS Vooremaa Teed is road construction and maintenance in Jõgeva County. Pursuant to the development plan of Tallinna Teede AS, the company was acquired in order to facilitate expansion into the road maintenance market and to establish a road construction division in central Estonia. The acquisition of AS Vooremaa Teed also allows the better utilisation of the existing resources of Tallinna Teede AS, and creates synergy for portfolio expansion ([http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news\\_id=238295](http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news_id=238295)).

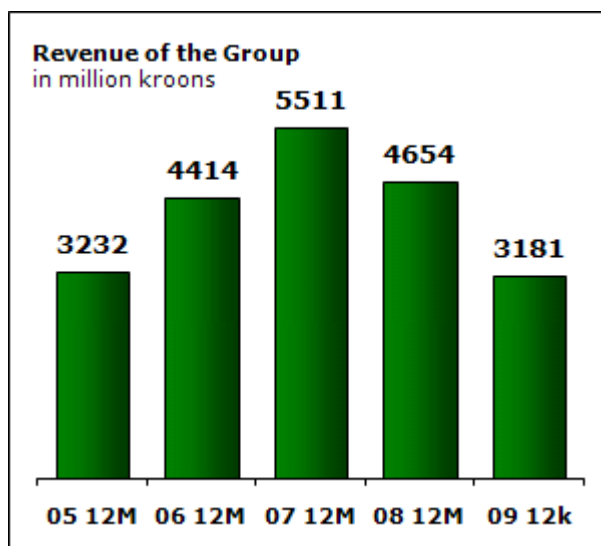
On 18 December 2009, AS Merko Ehitus acquired the 100% holding in the company OÜ Tähelinna Kinnisvara (registry code 10723293) from AS E.L.L. Kinnisvara. The purchase price of the company was EEK 51.9 million. The company OÜ Tähelinna Kinnisvara was established in 2001. The principal activity of the company is property development and investments. The company owns a six-storey office building Järvevana tee 9G, Tallinn; the building was completed in 2003 and houses the headquarters of AS Merko Ehitus ([http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news\\_id=238554](http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news_id=238554)).

## Operating results

Group's revenue for the year 2009 was EEK 3181.2 million. 68.6% of the sales originated from Estonia, 29.1% from Latvia and 2.3% from Lithuania. As compared to with the year 2008, company's sales increased in Latvia by 2.3% and decreased in Lithuania by 91.3% and in Estonia by 24.6%.

Group's revenue for the IV quarter 2009 was EEK 847.8 million, which constitutes an annual decrease of EEK 253.7 million.

The fall in revenue in this period was caused by the reduced unit prices in construction and the continued decrease in demand in the construction sector, caused by the overall recession.



In 2009, the Group sold 280 apartments in total cost of EEK 338.5 million (without VAT). As of 31.12.2009 Group held in inventories unsold 187 completed apartments in total cost EEK 224.4 million and 441 apartments in the construction stage in total cost EEK 210.8 million. In Q4, Merko Ehitus began the construction of three new apartment buildings in Tallinn (with 109 flats in total).

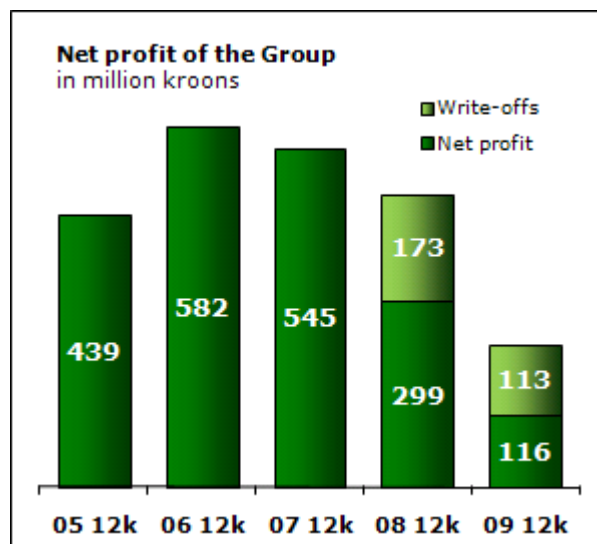
As at 31 December 2009, the group's backlog of construction contracts in progress amounted to EEK 1.3 billion.

The consolidated revenue of the Group's most important companies

|                                      | <i>in thousand EEK and EUR</i> |         |           |         |
|--------------------------------------|--------------------------------|---------|-----------|---------|
|                                      | 2009                           |         | 2008      |         |
|                                      | EEK                            | EUR     | EEK       | EUR     |
| <b>Estonian companies</b>            |                                |         |           |         |
| AS Merko Ehitus (parent company)     | 1 689 327                      | 107 968 | 1 861 553 | 118 975 |
| AS Gustaf (75% partnership)          | 44 131                         | 2 820   | 142 558   | 9 111   |
| OÜ Gustaf Tallinn (80% partnership)  | 61 126                         | 3 907   | 140 930   | 9 007   |
| AS Merko Tartu (66% partnership)     | 72 073                         | 4 606   | 308 732   | 19 732  |
| Tallinna Teede AS (100% partnership) | 275 423                        | 17 603  | 432 273   | 27 627  |
| OÜ Woody (100% partnership)          | 25 000                         | 1 598   | 79 803    | 5 100   |
| <b>Latvian company</b>               |                                |         |           |         |
| SIA Merks (100% partnership)         | 925 985                        | 59 181  | 878 295   | 56 133  |
| <b>Lithuanian company</b>            |                                |         |           |         |
| UAB Merko Statyba (100% partnership) | 70 915                         | 4 532   | 797 902   | 50 995  |

In one year, the Group's cost of goods sold decreased by 29.9% and marketing and general administrative expenses by 18.5%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 9.8 million decrease in labour costs, EEK 12.0 million decrease in consultation/legal aid, EEK 9.0 million decrease in advertising and sponsoring and EEK 14.8 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 89.1% and marketing and administrative costs to 6.3%.

The group's earnings before taxes in 2009 were EEK 119.9 million, which means a decrease by EEK 212.9 million compared to 2008. The net profit in the period was EEK 116.2 million; representing an EEK 183.0 million or 61.2% 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 2009, the group suffered an 90.7 million loss due to the depreciation of development projects (incl. properties for sale by EEK 66.9 million; work in progress by EEK 3.7 million, and finished goods by EEK 20.1 million); and a further EEK 8.0 million due to the depreciation of non-current assets and EEK 13.8 million loss from the write-off of uncollectible accounts. The Group's earnings before taxes were EEK 232.4 million before extraordinary write-offs. 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 priorities in 2009 were positive cash flow and liquidity. In 2009 Group's total cash flows amounted to EEK -156.3 million, of which the cash flows from operating activities totalled EEK +368.4 million, from investment activities EEK -198,7 million and from financing activities EEK -326.0 million. The cash flows from operating activities of the reporting period were mostly affected by change in inventories EEK +338.9 million, change in liabilities and prepayments related to operating activities EEK -306.3 million and operating profit EEK +132.0 million. From investment activities cash flows EEK -138.2 million from purchase of other financial investment, EEK -62.1 million investment in subsidiaries, EEK -20.1 million from balance of granted/received loans, EEK +32.0 million from received interests and EEK -13.2 million from purchase of property, plant and equipment. Of the cash flow from financing activities, EEK -243.9 million was used to repay loans and EEK -64.7 million was paid as dividends.

As of 31 December 2009, the Group has EEK 760.6 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

|                            | 2009   | 2008   | 2007   |
|----------------------------|--------|--------|--------|
| Net profit margin          | 3,7 %  | 6,4 %  | 9,9 %  |
| Profit before taxes margin | 3,8 %  | 7,1 %  | 10,7 % |
| Operating profit margin    | 4,2 %  | 7,0 %  | 9,5 %  |
| Gross profit margin        | 10,9 % | 16,3 % | 14,1 % |
| EBITDA margin              | 5,3 %  | 7,8 %  | 10,0 % |
| Return on equity per annum | 5,5 %  | 14,6 % | 30,2 % |
| Return on assets per annum | 3,1 %  | 7,7 %  | 15,3 % |
| Equity ratio               | 60,5 % | 53,7 % | 51,5 % |
| Current ratio              | 2,3    | 2,8    | 2,4    |
| Quick ratio                | 1,2    | 1,3    | 1,0    |

|                          |       |       |       |
|--------------------------|-------|-------|-------|
| General expense ratio    | 6,3 % | 5,8 % | 4,5 % |
| Gross remuneration ratio | 8,8 % | 8,8 % | 7,4 % |

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

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

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 year 2009 was a year of full-blown recession. Domestic consumption decreased, unemployment increased and the budgetary balance of the public sector was problematic. National statistics offices have published the GDP figures for Q4 2009 and reported negative economic growth (compared to Q4 2008): -17.7% in Latvia, -13.0% in Lithuania and -9.4% in Estonia. In Estonia, this recession seems to have bottomed out in Q4 2009, and in Latvia and Lithuania it will bottom out in the first half of 2010. Although the economy as a whole may recover in 2010, the construction sector will see the fall continue in 2010. In 2009, construction volumes fell by 47.7% in Latvia and by 53.7% in Lithuania compared to 2008. Statistics Estonia will publish this data on 1 March 2010, but the fall in Estonia is estimated to be around 37 to 40 percent.

The situation on the construction market remains difficult. Due to the decrease in volumes and the resulting stiffer competition, construction rates have fallen back to the level of 2005. To win new contracts, companies submit tenders with prices far below the direct expenses and hope to make up for the difference as prices fall in the future. This approach is definitely not sustainable. It means increased business risks for the contractors, execution risks for the clients and credit risks for potential suppliers. We believe that the fall in construction rates has now stopped and there is no reserve for a further fall. With the prices bottoming out and the subsequent potential increase in construction rates, there are additional risks for long-term (12 months or more) fixed price building contracts, as the price pressure threatens the profitability of these projects.

The absence of financing options, the conservative policies of creditors and the lack of positive expectations mean that there is virtually no investment by the local private sector. Expansion plans have been postponed indefinitely and the private sector is focusing on cost and cash flow management. Since construction rates are low, there has been some activity on the small-scale contracting (i.e. repair) market, where external financing is usually not necessary and projects are mostly financed from savings. We have noticed an increased interest from foreign investors in investing in this region, but this is also very theoretical and not yet proved by real transactions. Most of the new construction projects launched are in the field of infrastructure and environmental facilities, financed by the public sector and the EU's structural funds. The decrease in the private sector's revenue and the fall in consumption have significantly damaged the public sector's revenue base and financial means.

In Q4 2009, the Estonian residential property market showed first signs of recovery as there was an increase in the number of transactions as well as in average prices. Buyers who had postponed purchasing a home to wait for prices to fall have now realised that the fall in home prices cannot last forever and that their selection diminishes the longer they wait. The good price level has once again made the Estonian property market attractive for foreign capital. As a rule, foreign capital does not depend on the local loan market, and thus transactions are much more likely to come through. In the last eighteen months, there has been a great fall in prices (by 40 to 50%) which levelled out in Q3

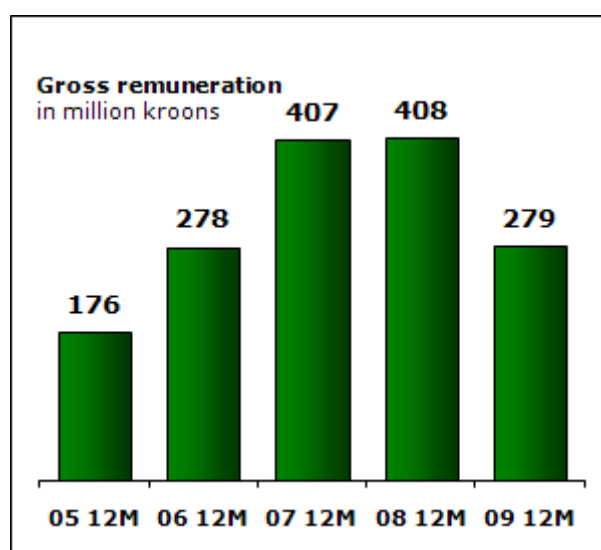
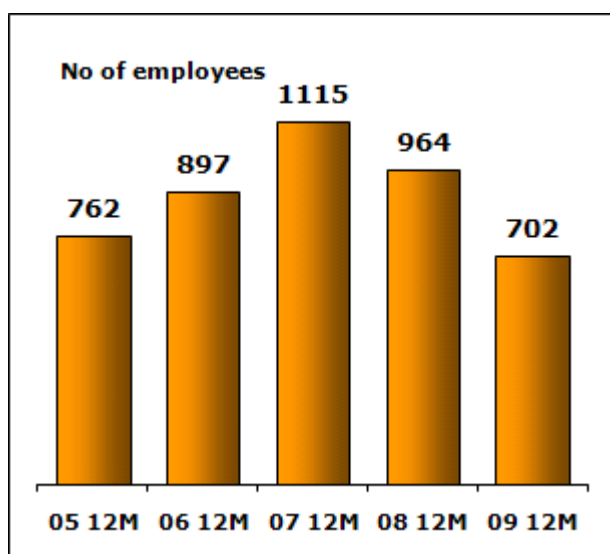
2009. This has made the banks much more aggressive. It is now much safer for banks to finance new residential properties. The loans granted under the new terms help to improve the banks' revenue base and compensate the negative effect of bad loans. As a result of the abovementioned trends, the financing situation has improved in recent months, especially in terms of the down payment required and the interest margin for end consumers.

In Q4, several Estonian property developers, including Merko Ehitus, launched new small-scale development projects. At the same time, the volume of these projects is insignificant, and therefore it is likely that the fall in supply will continue.

There is a limited availability of financing for long-term projects; the cost of credit is high, and the requirements for obtaining credit are unrealistic. Therefore, we do not expect any new rental projects to emerge. As for rental projects, the key words are still the same: dealing with the fall in rental income, the accounts payable, and liquidity issues. The outlook for the fast recovery of the market is grim.

### Employees and remuneration

In 31.12.2009, the number of employees in the Group's service was 702, including 682 full-time employees. The Group reduced the number of its personnel by 27.2% or 262 employees in a year. The gross remuneration paid to employees in 2009 amounted to EEK 278.9 million a decrease of 31.7% 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.



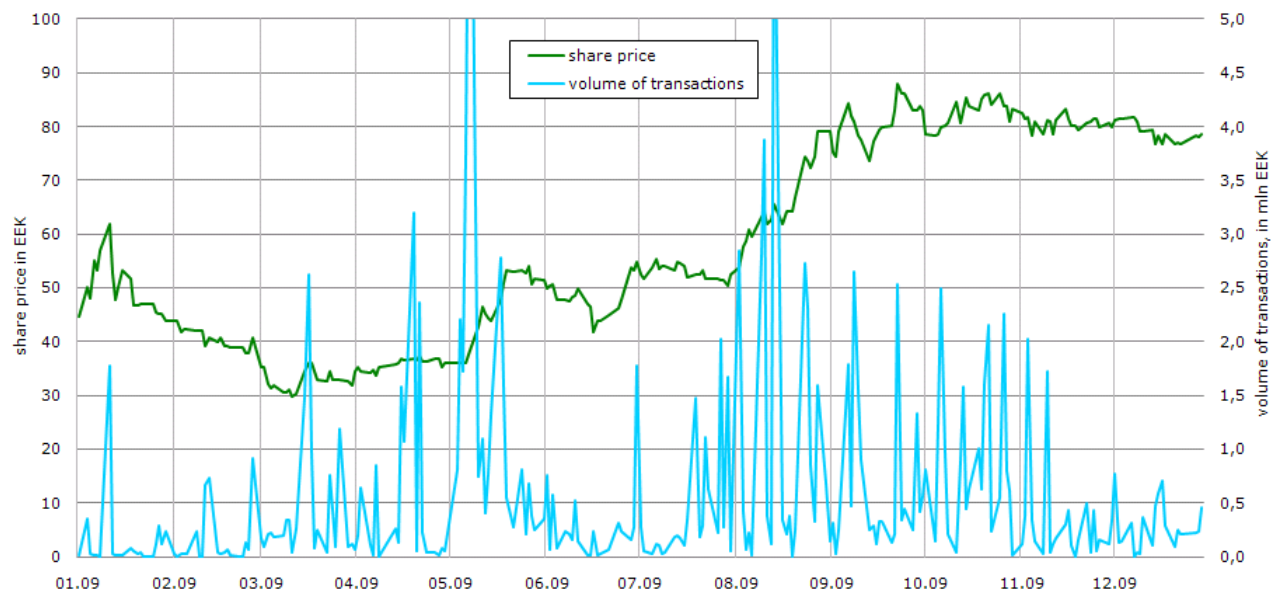
### Shares and shareholders

#### Share information

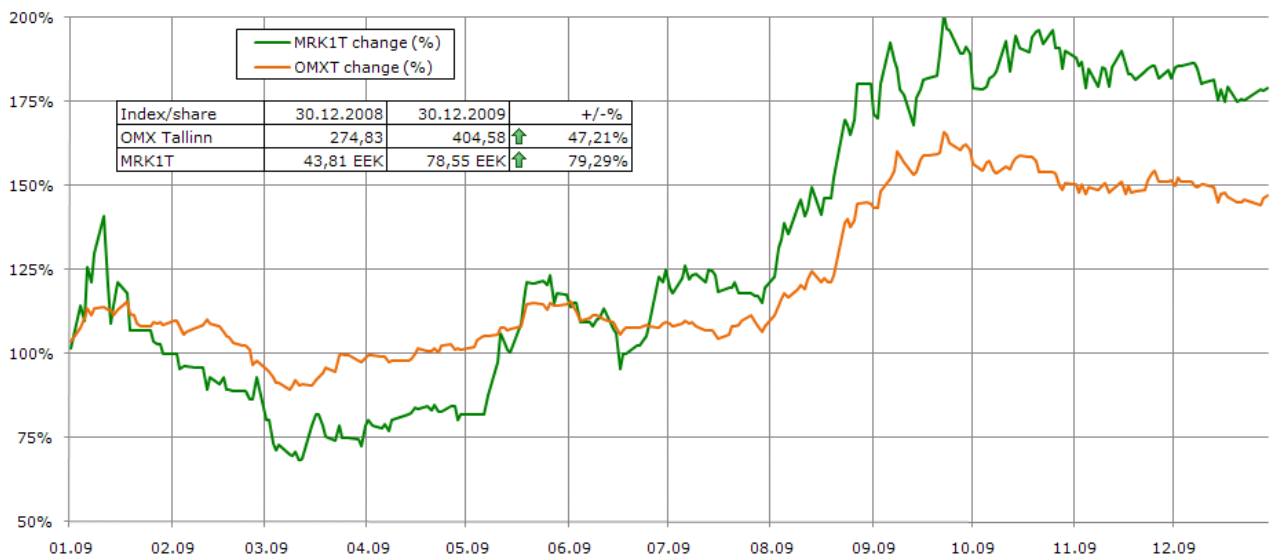
|                               |                  |
|-------------------------------|------------------|
| ISIN                          | EE3100098328     |
| Short name of the security    | MRK1T            |
| Stock Exchange List           | Baltic Main List |
| Nominal                       | 10.00 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 3862 transactions with the shares of Merko Ehitus were performed in the course of which 2.8 million shares were traded and the total monetary value of transactions was EEK 146.8 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 30.12.2009 was EEK 78.55. AS Merko Ehitus market value as at 31.12.2009 was EEK 1.39 billion.

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)



|                                       | 31.12.2009 | 31.12.2008 | 31.12.2007 |
|---------------------------------------|------------|------------|------------|
| No. of shares, thousand pcs           | 17 700     | 17 700     | 17 700     |
| Earnings per share (EPS), in kroons   | 6,56       | 16,90      | 30,79      |
| Equity per share, in kroons           | 120,16     | 117,23     | 113,88     |
| P/B (share price to equity per share) | 0,65       | 0,37       | 1,79       |



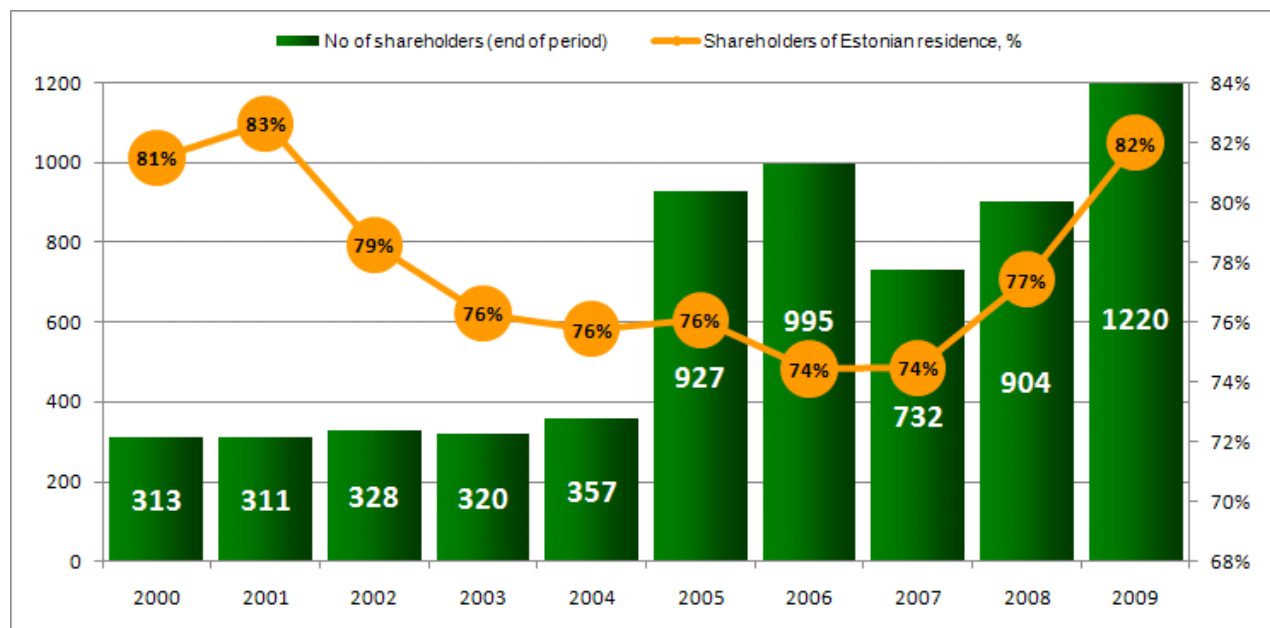
The main shareholders of AS Merko Ehitus as of 31.12.2009

|  | 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                  | 799 148          | 4,52%      |
| State Street Bank and Trust Omnibus Account a Fund No OM01 | 309 332          | 1,75%      |
| Nordea Bank Finland Plc/Non-resident legal entities        | 189 126          | 1,07%      |
| SEB Elu- ja Pensionikindlustus AS                          | 128 733          | 0,73%      |
| SEB Pank AS, clients                                       | 117 260          | 0,66%      |
| Skandinaviska Enskilda Banken Finnish, clients             | 111 230          | 0,63%      |
| Gamma Holding OÜ   | 110 210          | 0,62%      |
| Clearstream Banking Luxembourg S.A. clients                | 108 084          | 0,61%      |

Structure of shareholders as of 31.12.2009

| No. of shares       | No. of shareholders | % of shareholders | No. of shares | % of shares |
|---------------------|---------------------|-------------------|---------------|-------------|
| 1-100               | 341                 | 27,95%            | 18 286        | 0,10%       |
| 101-1000            | 570                 | 46,72%            | 261 113       | 1,48%       |
| 1001-10 000         | 265                 | 21,72%            | 779 474       | 4,40%       |
| 10 001 – 100 000    | 34                  | 2,79%             | 1 061 942     | 6,00%       |
| 100 001 – 1 000 000 | 9                   | 0,74%             | 2 836 499     | 16,03%      |
| 1 000 001 - ...     | 1                   | 0,08%             | 12 742 686    | 71,99%      |
| Total               | 1220                | 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<br>12 months | 2008<br>12 months | 2009<br>12 months | 2008<br>12 months |
| Revenue  | 1,2  | 3 181 209         | 4 653 933         | 203 316           | 297 441           |
| Cost of goods sold   | 3    | (2 835 169)       | (4 045 306)       | (181 200)         | (258 542)         |
| <b>Gross profit</b>  |      | 346 040           | 608 627           | 22 116            | 38 899            |
| Marketing expenses   |      | (47 094)          | (43 921)          | (3 009)           | (2 807)           |
| Administrative and general expenses  |      | (154 000)         | (202 820)         | (9 842)           | (12 963)          |
| Other operating income   |      | 14 408            | 9 529             | 921               | 609               |
| Other operating expenses   |      | (27 326)          | (43 333)          | (1 746)           | (2 769)           |
| <b>Operating profit</b>  |      | 132 028           | 328 082           | 8 440             | 20 969            |
| Financial income and expenses  |      | (12 170)          | 4 627             | (779)             | 296               |
| incl. financial income (expenses) from<br>investments into subsidiaries  |      | -                 | 1 418             | -                 | 91                |
| financial income (expenses) from<br>investments into associates and joint<br>ventures                                    |      | (18 222)          | (4 565)           | (1 165)           | (292)             |
| financial income (expenses) from other<br>long-term financial investments  |      | (8 867)           | -                 | (567)             | -                 |
| interest expense   |      | (23 478)          | (18 392)          | (1 501)           | (1 175)           |
| foreign exchange gain  |      | 1 209             | (6 942)           | 77                | (444)             |
| other financial income and expenses  |      | 37 188            | 33 108            | 2 377             | 2 116             |
| <b>Profit before tax</b>   |      | 119 858           | 332 709           | 7 661             | 21 265            |
| Corporate income tax expense   |      | (8 496)           | (26 339)          | (543)             | (1 684)           |
| <b>Net profit for current period</b>   |      | 111 362           | 306 370           | 7 118             | 19 581            |
| incl. equity holders of the parent   |      | 116 166           | 299 140           | 7 424             | 19 119            |
| minority interest  |      | (4 804)           | 7 230             | (306)             | 462               |
| <b>Other comprehensive income</b>  |      |                   |                   |                   |                   |
| Exchange differences on translating foreign<br>subsidiaries  |      | (2 266)           | (7 465)           | (145)             | (477)             |
| <b>Comprehensive income</b>  |      | 109 096           | 298 905           | 6 973             | 19 104            |
| incl. equity holders of the parent   |      | 113 900           | 291 675           | 7 279             | 18 642            |
| minority interest  |      | (4 804)           | 7 230             | (306)             | 462               |
| Earnings per share for profit attributable to the<br>equity holders of the parent<br>(basic and diluted, in EEK and EUR) | 4    | 6,56              | 16,90             | 0,42              | 1,08              |

## STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

|  | EEK                |                    | EUR                |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 2009<br>IV quarter | 2008<br>IV quarter | 2009<br>IV quarter | 2008<br>IV quarter |
| Revenue  | 847 830            | 1 101 566          | 54 186             | 70 403             |
| Cost of goods sold   | (779 438)          | (1 080 425)        | (49 815)           | (69 051)           |
| <b>Gross profit</b>  | 68 392             | 21 141             | 4 371              | 1 352              |
| Marketing expenses   | (14 129)           | (17 801)           | (903)              | (1 138)            |
| Administrative and general expenses  | (36 645)           | (45 600)           | (2 342)            | (2 914)            |
| Other operating income   | 4 306              | 842                | 275                | 53                 |
| Other operating expenses   | (23 466)           | (30 815)           | (1 499)            | (1 969)            |
| <b>Operating profit</b>  | (1 542)            | (72 233)           | (98)               | (4 616)            |
| Financial income and expenses  | (9 857)            | 6 682              | (629)              | 428                |
| incl. financial income (expenses) from investments<br>into subsidiaries  | -                  | 1 418              | -                  | 91                 |
| financial income (expenses) from investments<br>into associates and joint ventures                                       | (10 178)           | (5 749)            | (650)              | (367)              |
| financial income (expenses) from other long-<br>term financial investments   | (8 867)            | -                  | (567)              | -                  |
| interest expense   | (4 355)            | (5 950)            | (278)              | (380)              |
| foreign exchange gain  | (56)               | 417                | (4)                | 26                 |
| other financial income and expenses  | 13 599             | 16 546             | 870                | 1 058              |
| <b>Profit before tax</b>   | (11 399)           | (65 551)           | (727)              | (4 188)            |
| Corporate income tax expense   | (4 166)            | (21 240)           | (266)              | (1 357)            |
| <b>Net profit for current period</b>   | (7 233)            | (44 311)           | (461)              | (2 831)            |
| incl. equity holders of the parent   | (2 736)            | (44 733)           | (175)              | (2 858)            |
| minority interest  | (4 497)            | 422                | (286)              | 27                 |
| <b>Other comprehensive income</b>  |                    |                    |                    |                    |
| Exchange differences on translating foreign subsidiaries   | (1 234)            | 1 696              | (79)               | 108                |
| <b>Comprehensive income</b>  | (8 467)            | (42 615)           | (540)              | (2 723)            |
| incl. equity holders of the parent   | (3 970)            | (43 037)           | (254)              | (2 750)            |
| minority interest  | (4 497)            | 422                | (286)              | 27                 |
| Earnings per share for profit attributable to the<br>equity holders of the parent<br>(basic and diluted, in EEK and EUR) | (0,15)             | (2,53)             | (0,01)             | (0,16)             |

**STATEMENT OF FINANCIAL POSITION**

consolidated, unaudited

|   |      | EEK              |                  | EUR            |                |
|---|------|------------------|------------------|----------------|----------------|
|   | note | 31.12.2009       | 31.12.2008       | 31.12.2009     | 31.12.2008     |
| <b>ASSETS</b>                                       |      |                  |                  |                |                |
| <b>Current assets</b>                               |      |                  |                  |                |                |
| Cash and cash equivalents                           | 5    | 359 732          | 515 191          | 22 991         | 32 927         |
| Short-term deposits                                 |      | 400 916          | 262 759          | 25 623         | 16 793         |
| Trade and other receivables                         | 6    | 719 416          | 780 665          | 45 978         | 49 894         |
| Prepaid corporate income tax                        |      | 3 885            | 3 875            | 248            | 247            |
| Inventories   | 7    | 1 479 001        | 1 817 486        | 94 527         | 116 158        |
| Assets held for sale                                |      | -                | 173              | -              | 11             |
| <b>Total current assets</b>                         |      | <b>2 962 950</b> | <b>3 380 149</b> | <b>189 367</b> | <b>216 030</b> |
| <b>Non-current assets</b>                           |      |                  |                  |                |                |
| Long-term financial investments                     | 8    | 211 889          | 235 810          | 13 542         | 15 071         |
| Deferred income tax assets                          |      | 32 069           | 24 226           | 2 050          | 1 548          |
| Investment property                                 | 9    | 16 552           | 12 002           | 1 058          | 767            |
| Property, plant and equipment                       | 10   | 266 276          | 197 094          | 17 018         | 12 597         |
| Intangible assets                                   | 11   | 24 238           | 11 807           | 1 549          | 755            |
| <b>Total non-current assets</b>                     |      | <b>551 024</b>   | <b>480 939</b>   | <b>35 217</b>  | <b>30 738</b>  |
| <b>TOTAL ASSETS</b>                                 |      | <b>3 513 974</b> | <b>3 861 088</b> | <b>224 584</b> | <b>246 768</b> |
| <b>LIABILITIES AND EQUITY</b>                       |      |                  |                  |                |                |
| <b>Current liabilities</b>                          |      |                  |                  |                |                |
| Borrowings  | 12   | 447 569          | 206 657          | 28 605         | 13 208         |
| Trade and other payables                            | 13   | 782 470          | 963 631          | 50 009         | 61 588         |
| Corporate income tax liability                      |      | 5 249            | 8 699            | 335            | 556            |
| Short-term provisions                               | 14   | 37 702           | 32 317           | 2 410          | 2 065          |
| <b>Total current liabilities</b>                    |      | <b>1 272 990</b> | <b>1 211 304</b> | <b>81 359</b>  | <b>77 417</b>  |
| <b>Non-current liabilities</b>                      |      |                  |                  |                |                |
| Long-term borrowings                                | 12   | 76 316           | 531 396          | 4 878          | 33 962         |
| Long-term trade payables                            |      | 10 653           | 8 824            | 681            | 564            |
| Long-term customer prepayments                      |      | 5                | -                | 0              | -              |
| <b>Total non-current liabilities</b>                |      | <b>86 974</b>    | <b>540 220</b>   | <b>5 559</b>   | <b>34 526</b>  |
| <b>Total liabilities</b>                            |      | <b>1 359 964</b> | <b>1 751 524</b> | <b>86 918</b>  | <b>111 943</b> |
| <b>Equity</b>                                       |      |                  |                  |                |                |
| Minority interests                                  |      | 27 129           | 34 633           | 1 734          | 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                     |      | (14 816)         | (12 550)         | (947)          | (802)          |
| Retained earnings                                   |      | 1 946 997        | 1 892 781        | 124 436        | 120 971        |
|   |      | <b>2 126 881</b> | <b>2 074 931</b> | <b>135 932</b> | <b>132 612</b> |
| <b>Total equity</b>                                 |      | <b>2 154 010</b> | <b>2 109 564</b> | <b>137 666</b> | <b>134 825</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                 |      | <b>3 513 974</b> | <b>3 861 088</b> | <b>224 584</b> | <b>246 768</b> |

**STATEMENT OF CHANGES IN EQUITY**

unaudited

| EEK                              | Equity attributable to equity holders of the parent |                           |                                 |                   | Total     | Minority interest | Total     |
|----------------------------------|---|---------------------------|---------------------------------|-------------------|-----------|-------------------|-----------|
|                                  | Share capital                                       | Statutory reserve capital | Currency translation adjustment | Retained earnings |           |                   |           |
| <b>Balance as at 31.12.2007</b>  | 177 000   | 17 700                    | (5 085)                         | 1 826 142         | 2 015 757 | 33 939            | 2 049 696 |
| Comprehensive income             | -   | -                         | (7 465)                         | 299 140           | 291 675   | 7 230             | 298 905   |
| Net assets separated in demerger | -   | -                         | -                               | (232 501)         | (232 501) | -                 | (232 501) |
| Dividends                        | -   | -                         | -                               | -                 | -         | (6 528)           | (6 528)   |
| Business combinations            | -   | -                         | -                               | -                 | -         | (8)               | (8)       |
| <b>Balance as at 31.12.2008</b>  | 177 000   | 17 700                    | (12 550)                        | 1 892 781         | 2 074 931 | 34 633            | 2 109 564 |
| <b>Balance as at 31.12.2008</b>  | 177 000   | 17 700                    | (12 550)                        | 1 892 781         | 2 074 931 | 34 633            | 2 109 564 |
| Comprehensive income             | -   | -                         | (2 266)                         | 116 166           | 113 900   | (4 804)           | 109 096   |
| Dividends                        | -   | -                         | -                               | (61 950)          | (61 950)  | (2 700)           | (64 650)  |
| <b>Balance as at 31.12.2009</b>  | 177 000   | 17 700                    | (14 816)                        | 1 946 997         | 2 126 881 | 27 129            | 2 154 010 |

| EUR                              | Equity attributable to equity holders of the parent |                           |                                 |                   | Total    | Minority interest | Total    |
|----------------------------------|---|---------------------------|---------------------------------|-------------------|----------|-------------------|----------|
|                                  | Share capital                                       | Statutory reserve capital | Currency translation adjustment | Retained earnings |          |                   |          |
| <b>Balance as at 31.12.2007</b>  | 11 312  | 1 131                     | (325)                           | 116 712           | 128 830  | 2 169             | 130 999  |
| Comprehensive income             | -   | -                         | (477)                           | 19 119            | 18 642   | 462               | 19 104   |
| Net assets separated in demerger | -   | -                         | -                               | (14 860)          | (14 860) | -                 | (14 860) |
| Dividends                        | -   | -                         | -                               | -                 | -        | (417)             | (417)    |
| Business combinations            | -   | -                         | -                               | -                 | -        | (1)               | (1)      |
| <b>Balance as at 31.12.2008</b>  | 11 312  | 1 131                     | (802)                           | 120 971           | 132 612  | 2 213             | 134 825  |
| <b>Balance as at 31.12.2008</b>  | 11 312  | 1 131                     | (802)                           | 120 971           | 132 612  | 2 213             | 134 825  |
| Comprehensive income             | -   | -                         | (145)                           | 7 424             | 7 279    | (306)             | 6 973    |
| Dividends                        | -   | -                         | -                               | (3 959)           | (3 959)  | (173)             | (4 132)  |
| <b>Balance as at 31.12.2009</b>  | 11 312  | 1 131                     | (947)                           | 124 436           | 135 932  | 1 734             | 137 666  |

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<br>12 months | 2008<br>12 months | 2009<br>12 months | 2008<br>12 months |
| <b>Cash flows from operating activities</b>   |                   |                   |                   |                   |
| Operating profit  | 132 028           | 328 082           | 8 440             | 20 969            |
| Adjustments:  |                   |                   |                   |                   |
| depreciation and impairment charge  | 37 471            | 33 437            | 2 395             | 2 137             |
| (profit) loss from sale of non-current assets                                       | (519)             | (954)             | (33)              | (61)              |
| adjustments of revenue from construction contracts under stage of completion method | 56 548            | 146 798           | 3 614             | 9 382             |
| interest income from business activities  | (4 476)           | (1 404)           | (286)             | (90)              |
| government grant and change in other provisions                                     | (2 327)           | (48 404)          | (149)             | (3 094)           |
| Change in trade and other receivables related to operating activities               | 165 285           | 387 471           | 10 564            | 24 764            |
| Change in inventories   | 338 886           | 190 082           | 21 658            | 12 148            |
| Change in trade and other payables related to operating activities                  | (306 272)         | (279 853)         | (19 574)          | (17 886)          |
| Interests paid  | (28 157)          | (22 381)          | (1 800)           | (1 430)           |
| Other financial expenses (income)   | (62)              | (112)             | (5)               | (7)               |
| Corporate income tax paid   | (19 971)          | (51 068)          | (1 276)           | (3 264)           |
|   | <u>368 434</u>    | <u>681 694</u>    | <u>23 548</u>     | <u>43 568</u>     |
| <b>Cash flows from investing activities</b>   |                   |                   |                   |                   |
| Investment in subsidiaries  | (62 069)          | -                 | (3 967)           | -                 |
| Proceeds from sale of subsidiaries  | 1 125             | 6 967             | 71                | 445               |
| Investments in associates and joint ventures  | -                 | (1 000)           | -                 | (64)              |
| Proceeds from sale of associates and joint ventures                                 | -                 | 60 231            | -                 | 3 850             |
| Purchase of financial investment  | (138 157)         | (265 569)         | (8 830)           | (16 973)          |
| incl. over 3-months short-term deposits   | (138 157)         | (262 759)         | (8 830)           | (16 793)          |
| Purchase of investment property   | -                 | (2 063)           | -                 | (132)             |
| Proceeds from sale of investment property   | 1 250             | -                 | 80                | -                 |
| Purchase of property, plant and equipment   | (13 222)          | (43 343)          | (845)             | (2 770)           |
| Proceeds from sale of property, plant and equipment                                 | 1 298             | 2 895             | 83                | 185               |
| Purchase of intangible assets   | (985)             | (1 837)           | (63)              | (117)             |
| Proceeds from sale of intangible assets   | 134               | 1                 | 9                 | 0                 |
| Loans granted   | (65 885)          | (22 307)          | (4 211)           | (1 426)           |
| Loan repayments received  | 45 793            | 4 190             | 2 927             | 268               |
| Interest received   | 31 968            | 30 005            | 2 043             | 1 918             |
|   | <u>(198 750)</u>  | <u>(231 830)</u>  | <u>(12 703)</u>   | <u>(14 816)</u>   |
| <b>Cash flows from financing activities</b>   |                   |                   |                   |                   |
| Proceeds from borrowings  | 56 841            | 237 380           | 3 633             | 15 171            |
| Repayments of borrowings  | (300 698)         | (325 946)         | (19 218)          | (20 832)          |
| Finance lease principal payments  | (17 476)          | (16 909)          | (1 118)           | (1 080)           |
| Dividends paid  | (64 650)          | (6 528)           | (4 132)           | (417)             |
|   | <u>(325 983)</u>  | <u>(112 003)</u>  | <u>(20 835)</u>   | <u>(7 158)</u>    |
| <b>Cash transferred in demerger</b>   | -                 | (25 000)          | -                 | (1 598)           |
| <b>Net increase/decrease in cash and cash equivalents</b>                           | (156 299)         | 312 861           | (9 990)           | 19 996            |
| <b>Exchange losses on cash and cash equivalents</b>                                 | 840               | (3 234)           | 54                | (207)             |
| Over 3-months short-term deposits change  | 138 157           | 262 759           | 8 830             | 16 793            |
| Total change  | (17 302)          | 572 386           | (1 106)           | 36 582            |
| <b>Cash and cash equivalents at beginning of the period</b>                         | 515 191           | 205 564           | 32 927            | 13 138            |
| Over 3-months short-term deposits at beginning of period                            | 262 759           | -                 | 16 793            | -                 |
| Total at beginning of the period  | 777 950           | 205 564           | 49 720            | 13 138            |
| <b>Cash and cash equivalents at end of the period</b>                               | 359 732           | 515 191           | 22 991            | 32 927            |
| Over 3-months short-term deposits at end of the period                              | 400 916           | 262 759           | 25 623            | 16 793            |
| Total at end of the period  | 760 648           | 777 950           | 48 614            | 49 720            |

## NOTES

### Note 1 Business and geographical segments

*in thousand kroons*

#### Business segments

| 2009 12 months   | General<br>construction | Road<br>construction | Concrete<br>elements | Group       |
|--|-------------------------|----------------------|----------------------|-------------|
| Consolidated revenue   | 2 905 786               | 275 423              | -                    | 3 181 209   |
| Inter-segmental revenue  | 8 473                   | 142 568              | -                    | 151 041     |
| Segment revenue  | 2 914 259               | 417 991              | -                    | 3 332 250   |
| Segment operating profit   | 124 246                 | 7 782                | -                    | 132 028     |
| Financial income/expenses  |                         |                      |                      | (12 170)    |
| incl. profit/loss from associates and joint ventures               | (4 766)                 | -                    | (13 456)             | (18 222)    |
| Profit before tax  |                         |                      |                      | 119 858     |
| Corporate income tax   |                         |                      |                      | (8 496)     |
| Group's net profit for current period                              |                         |                      |                      | 111 362     |
| incl. attributable to equity owners of the parent                  |                         |                      |                      | 116 166     |
| minority interest  |                         |                      |                      | (4 804)     |
| Segment assets   | 3 057 696               | 203 568              | -                    | 3 261 264   |
| Associates and joint ventures                                      | 139 002                 | -                    | 40 419               | 179 421     |
| Unallocated assets   |                         |                      |                      | 73 289      |
| Total consolidated assets  |                         |                      |                      | 3 513 974   |
| Segment liabilities  | (771 162)               | (68 437)             | -                    | (839 599)   |
| Unallocated liabilities  |                         |                      |                      | (520 365)   |
| Total consolidated liabilities                                     |                         |                      |                      | (1 359 964) |
| Purchase of property, plant and equipment<br>and intangible assets | 11 623                  | 2 584                | -                    | 14 207      |
| Depreciation and impairment  | (25 617)                | (11 854)             | -                    | (37 471)    |
| 2008 12 months   | General<br>construction | Road<br>construction | Concrete<br>elements | Group       |
| Consolidated revenue   | 4 221 660               | 432 273              | -                    | 4 653 933   |
| Inter-segmental revenue  | 10                      | 23 903               | -                    | 23 913      |
| Segment revenue  | 4 221 670               | 456 176              | -                    | 4 677 846   |
| Segment operating profit   | 322 881                 | 5 201                | -                    | 328 082     |
| Financial income/expenses  |                         |                      |                      | 4 627       |
| incl. profit/loss from associates and joint ventures               | (1 398)                 | -                    | (3 167)              | (4 565)     |
| Profit before tax  |                         |                      |                      | 332 709     |
| Corporate income tax   |                         |                      |                      | (26 339)    |
| Group's net profit for current period                              |                         |                      |                      | 306 370     |
| incl. attributable to equity owners of the parent                  |                         |                      |                      | 299 140     |
| minority interest  |                         |                      |                      | 7 230       |
| Segment assets   | 3 386 340               | 176 119              | -                    | 3 562 459   |
| Associates and joint ventures                                      | 152 886                 | -                    | 53 875               | 206 761     |
| Unallocated assets   |                         |                      |                      | 91 868      |
| Total consolidated assets  |                         |                      |                      | 3 861 088   |
| Segment liabilities  | (897 711)               | (82 092)             | -                    | (979 803)   |
| Unallocated liabilities  |                         |                      |                      | (771 721)   |
| Total consolidated liabilities                                     |                         |                      |                      | (1 751 524) |
| Purchase of investment property                                    | 2 063                   | -                    | -                    | 2 063       |
| Purchase of property, plant and equipment<br>and intangible assets | 40 006                  | 28 283               | -                    | 68 289      |
| Depreciation and impairment  | (21 111)                | (12 326)             | -                    | (33 437)    |

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 12 months   | 2008 12 months   |
| Estonia      | 2 181 197        | 2 893 304        |
| Latvia       | 925 985          | 905 345          |
| Lithuania    | 74 027           | 855 284          |
| <b>Total</b> | <b>3 181 209</b> | <b>4 653 933</b> |

|              | Total assets     |                  | Purchase of investment property |                | Purchase of property, plant and equipment and intangible assets |                |
|--------------|------------------|------------------|---------------------------------|----------------|---|----------------|
|              | 31.12.2009       | 31.12.2008       | 2009 12 months                  | 2008 12 months | 2009 12 months  | 2008 12 months |
| Estonia      | 2 004 637        | 2 111 648        | -                               | 1 059          | 14 037  | 61 467         |
| Latvia       | 1 350 115        | 1 418 020        | -                               | 1 004          | 170   | 6 484          |
| Lithuania    | 159 222          | 331 420          | -                               | -              | -   | 338            |
| <b>Total</b> | <b>3 513 974</b> | <b>3 861 088</b> | <b>-</b>                        | <b>2 063</b>   | <b>14 207</b>   | <b>68 289</b>  |

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

## Note 2 Revenue

*in thousand kroons*

|  | 2009 12 months   | 2008 12 months   |
|--|------------------|------------------|
| Rendering of services                                    | 2 816 556        | 3 577 954        |
| Sale of real estate and real estate development projects | 355 409          | 1 070 021        |
| Rental income  | 2 153            | 2 694            |
| Sale of goods  | 7 091            | 3 264            |
| <b>Total revenue</b>                                     | <b>3 181 209</b> | <b>4 653 933</b> |

## Note 3 Cost of goods sold

*in thousand kroons*

|                                       | 2009 12 months   | 2008 12 months   |
|---------------------------------------|------------------|------------------|
| Construction services                 | 1 533 504        | 2 343 275        |
| Materials                             | 455 124          | 399 557          |
| Properties purchased for resale       | 270 884          | 426 138          |
| Staff costs                           | 247 018          | 356 945          |
| Construction mechanisms and transport | 93 412           | 137 136          |
| Design                                | 26 229           | 81 547           |
| Depreciation and impairment charge    | 30 404           | 24 327           |
| Inventories write-offs                | 81 752           | 152 105          |
| Other expenses                        | 96 842           | 124 276          |
| <b>Total cost of goods sold</b>       | <b>2 835 169</b> | <b>4 045 306</b> |



#### Note 4 Earnings per share

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

|   | 2009 12 months | 2008 12 months |
|---|----------------|----------------|
| Net profit attributable to shareholders <i>(in thousand kroons)</i> | 116 166        | 299 140        |
| Weighted average number of ordinary shares <i>(thousand pcs)</i>    | 17 700         | 17 700         |
| <b>Earnings per share <i>(in kroons)</i></b>                        | <u>6,56</u>    | <u>16,90</u>   |

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

#### Note 5 Cash and cash equivalents

*in thousand kroons*

|  | 31.12.2009     | 31.12.2008     |
|--|----------------|----------------|
| Cash on hand                                       | 270            | 346            |
| Bank accounts                                      | 40 787         | 50 691         |
| Overnight deposits                                 | 93 961         | 231 505        |
| Term deposits with maturities of 3 months and less | 224 714        | 232 649        |
| <b>Total cash and cash equivalents</b>             | <u>359 732</u> | <u>515 191</u> |

#### Note 6 Trade and other receivables

*in thousand kroons*

|  | 31.12.2009     | 31.12.2008     |
|--|----------------|----------------|
| Trade receivables                              |                |                |
| accounts receivable                            | 405 030        | 556 511        |
| allowance for doubtful receivables             | (19 921)       | (20 085)       |
|  | <u>385 109</u> | <u>536 426</u> |
| Tax prepayments excluding corporate income tax |                |                |
| value added tax                                | 7 823          | 37 320         |
| social security tax                            | 7              | 6              |
| other taxes                                    | 922            | 1 268          |
|  | <u>8 752</u>   | <u>38 594</u>  |
| Amounts due from customers for contract works  | 102 144        | 109 305        |
| Other short-term receivables                   |                |                |
| short-term loans                               | 96 874         | 47 454         |
| interest receivables                           | 13 524         | 6 940          |
| receivable from sale of subsidiary             | 7 125          | 7 000          |
| other short-term receivables                   | 2 253          | 1 519          |
|  | <u>119 776</u> | <u>62 913</u>  |
| Prepayments for services                       |                |                |
| prepayments for construction services          | 95 659         | 24 127         |
| prepaid insurance                              | 1 764          | 1 540          |
| other prepaid expenses                         | 6 212          | 7 760          |
|  | <u>103 635</u> | <u>33 427</u>  |
| <b>Total trade and other receivables</b>       | <u>719 416</u> | <u>780 665</u> |

**Note 7 Inventories***in thousand kroons*

|  | <b>31.12.2009</b> | <b>31.12.2008</b> |
|--|-------------------|-------------------|
| Raw materials and materials                | 6 752             | 5 372             |
| Work-in-progress                           | 470 428           | 541 134           |
| Finished goods                             | 268 242           | 522 205           |
| Goods for resale                           |                   |                   |
| registered immovables purchased for resale | 686 543           | 713 803           |
| other goods purchased for resale           | 2 543             | 11                |
|  | <hr/> 689 086     | <hr/> 713 814     |
| Prepayments for inventories                |                   |                   |
| prepayments for real estate properties     | 29 730            | 33 257            |
| prepayments for other inventories          | 14 763            | 1 704             |
|  | <hr/> 44 493      | <hr/> 34 961      |
| <b>Total inventories</b>                   | <hr/> 1 479 001   | <hr/> 1 817 486   |

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

|   | <b>31.12.2009</b> | <b>31.12.2008</b> |
|---|-------------------|-------------------|
| Investments in associates and joint ventures                  | 179 421           | 206 761           |
| Long-term loans   | 21 785            | 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 | 6 499             | 3 002             |
| <b>Total long-term financial assets</b>                       | <hr/> 211 889     | <hr/> 235 810     |

**Note 9 Investment property***in thousand kroons*

|                                  | <b>31.12.2009</b> | <b>31.12.2008</b> |
|----------------------------------|-------------------|-------------------|
| Land                             | 2 098             | 2 103             |
| Buildings at carrying amount     |                   |                   |
| cost                             | 15 650            | 10 600            |
| accumulated depreciation         | (1 196)           | (701)             |
|                                  | <hr/> 14 454      | <hr/> 9 899       |
| <b>Total investment property</b> | <hr/> 16 552      | <hr/> 12 002      |

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

|   | <b>31.12.2009</b> | <b>31.12.2008</b> |
|---|-------------------|-------------------|
| Land  | 12 905            | 9 697             |
| Buildings at carrying amount                  |                   |                   |
| cost  | 89 030            | 20 008            |
| accumulated depreciation                      | (11 111)          | (4 909)           |
|   | <hr/> 77 919      | <hr/> 15 099      |
| Right of superficies at carrying amount       |                   |                   |
| cost  | 458               | 458               |
| accumulated depreciation                      | (113)             | (104)             |
|   | <hr/> 345         | <hr/> 354         |
| Machinery and equipment at carrying amount    |                   |                   |
| cost  | 236 939           | 181 732           |
| accumulated depreciation                      | (100 774)         | (67 761)          |
|   | <hr/> 136 165     | <hr/> 113 971     |
| Other fixtures at carrying amount             |                   |                   |
| cost  | 78 588            | 97 274            |
| accumulated depreciation                      | (40 512)          | (45 022)          |
|   | <hr/> 38 076      | <hr/> 52 252      |
| Construction in progress                      | 866               | 5 539             |
| Prepayments for property, plant and equipment | -                 | 182               |
|   | <hr/>             | <hr/>             |
| <b>Total property, plant and equipment</b>    | <hr/> 266 276     | <hr/> 197 094     |

**Note 11 Intangible assets**  
*in thousand kroons*

|                                   | <b>31.12.2009</b> | <b>31.12.2008</b> |
|-----------------------------------|-------------------|-------------------|
| Goodwill                          | 13 939            | -                 |
| Software at carrying amount       |                   |                   |
| cost                              | 17 346            | 16 377            |
| accumulated depreciation          | (8 409)           | (5 932)           |
|                                   | <hr/> 8 937       | <hr/> 10 445      |
| Prepayments for intangible assets | 1 362             | 1 362             |
|                                   | <hr/>             | <hr/>             |
| <b>Total intangible assets</b>    | <hr/> 24 238      | <hr/> 11 807      |

**Note 12 Borrowings**  
*in thousand kroons*

|   | <b>31.12.2009</b> | <b>31.12.2008</b> |
|---|-------------------|-------------------|
| <b>Finance lease payables</b>                         |                   |                   |
| Present value of lease payments                       | 47 934            | 54 541            |
| incl. current portion                                 | 16 170            | 17 198            |
| non-current portion 1...4 years                       | 31 764            | 37 343            |
| <b>Bank loans</b>                                     |                   |                   |
| Loan balance  | 361 697           | 553 611           |
| incl. current portion                                 | 319 895           | 62 308            |
| non-current portion 1...5 years                       | 41 802            | 491 303           |
| <b>Loans granted to entities under common control</b> |                   |                   |
| Loan balance  | 109 354           | 125 001           |
| incl. current portion                                 | 109 354           | 125 001           |
| <b>Loans from other companies</b>                     |                   |                   |
| Loan balance  | 4 900             | 4 900             |
| incl. current portion                                 | 2 150             | 2 150             |
| non-current portion 1...5 years                       | 2 750             | 2 750             |
| <b>Total loans</b>                                    |                   |                   |
| Loans balance   | 475 951           | 683 512           |
| incl. current portion                                 | 431 399           | 189 459           |
| non-current portion 1...5 years                       | 44 552            | 494 053           |
| <b>Total borrowings</b>                               |                   |                   |
| incl. current portion                                 | 447 569           | 206 657           |
| non-current portion 1...5 years                       | 76 316            | 531 396           |

**Note 13 Trade and other payables**  
*in thousand kroons*

|  | <b>31.12.2009</b> | <b>31.12.2008</b> |
|--|-------------------|-------------------|
| Trade payables                                   | 223 149           | 366 551           |
| Payables to employees                            | 55 364            | 63 077            |
| Tax liabilities, except for corporate income tax |                   |                   |
| value added tax                                  | 22 625            | 28 211            |
| personal income tax                              | 6 783             | 8 402             |
| social security tax                              | 13 045            | 17 841            |
| land tax   | 80                | 19                |
| unemployment insurance tax                       | 1 171             | 297               |
| contributions to mandatory funded pension        | 107               | 546               |
| other taxes                                      | 604               | 1 103             |
|  | 44 415            | 56 419            |
| Amounts due to customers for contract works      | 316 095           | 266 708           |
| Other liabilities                                |                   |                   |
| interest liabilities                             | 1 105             | 1 176             |
| payable for registered immovables from demerger  | 100 000           | 100 000           |
| other liabilities                                | 4 274             | 3 811             |
|  | 105 379           | 104 987           |
| Prepayments received                             | 38 068            | 105 889           |
| <b>Total trade and other payables</b>            | <b>782 470</b>    | <b>963 631</b>    |

## Note 14 Short-term provisions

*in thousand kroons*

|   | 31.12.2009    | 31.12.2008    |
|---|---------------|---------------|
| Provision for warranty obligation for construction            | 18 518        | 19 916        |
| Provision for onerous construction contracts                  | 4 035         | 3 525         |
| Provision for potential cancellation of construction projects | 208           | 375           |
| Provision for legal costs and claims filed                    | 14 492        | 7 882         |
| Other provisions  | 449           | 619           |
| <b>Total short-term provisions</b>                            | <b>37 702</b> | <b>32 317</b> |

## 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 31.12.2009 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 12 months | 2008 12 months |
|--|----------------|----------------|
| <b>Purchased construction services</b>       |                |                |
| Associates and joint ventures                | 2 435          | 31 098         |
| Entities under joint control                 | 10 988         | 11 870         |
| <b>Total purchased construction services</b> | <b>13 423</b>  | <b>42 968</b>  |
| <b>Rendered construction services</b>        |                |                |
| Associates and joint ventures                | 67             | 1 944          |
| Entities under joint control                 | 133 392        | 934 790        |
| Other related parties                        | 896            | 1 865          |
| Management members                           | 15 237         | 6 412          |
| <b>Total construction services rendered</b>  | <b>149 592</b> | <b>945 011</b> |
| <b>Construction materials purchased</b>      |                |                |
| Other related parties                        | 82             | 151            |
| <b>Real estate purchased</b>                 |                |                |
| Entities under joint control                 | 50 926         | -              |
| <b>Real estate sold</b>                      |                |                |
| Entities under joint control                 | -              | 142 480        |
| Other related parties                        | -              | 1 212          |
| <b>Total real estate sold</b>                | <b>-</b>       | <b>143 692</b> |

**Balances with the related parties***in thousand kroons*

|  | 31.12.2009 | 31.12.2008 |
|--|------------|------------|
| <b>Trade and other receivables</b>           |            |            |
| Trade receivables                            |            |            |
| Parent                                       | 190        | -          |
| Associates and joint ventures                | 74         | 81         |
| Entities under joint control                 | 498        | 117 065    |
| Other related parties                        | 2 416      | 66         |
| Short-term loans                             |            |            |
| Associates and joint ventures                | 16 500     | 16 400     |
| Entities under joint control                 | 43 055     | 4 169      |
| Interest receivables                         |            |            |
| Associates and joint ventures                | 9 147      | 3 873      |
| Entities under joint control                 | 1 624      | 2 505      |
| Other short-term receivables                 |            |            |
| Associates and joint ventures                | 1          | -          |
| Entities under joint control                 | 57 463     | 74         |
| <b>Other long-term loans and receivables</b> |            |            |
| Long-term loans                              |            |            |
| Associates and joint ventures                | 18 896     | 18 266     |
| Entities under joint control                 | 2 890      | 2 896      |
| Other long-term loans and receivables        |            |            |
| Entities under joint control                 | -          | 1 831      |
| <b>Borrowings</b>                            |            |            |
| Short-term loans and bonds                   |            |            |
| Entities under joint control                 | 109 354    | 125 001    |
| <b>Trade and other payables</b>              |            |            |
| Trade payables                               |            |            |
| Parent                                       | 2          | -          |
| Associates and joint ventures                | -          | 1 045      |
| Entities under joint control                 | 83         | 478        |
| Other related parties                        | 2          | 1          |
| Interest liabilities                         |            |            |
| Entities under joint control                 | 233        | 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>                     | <b>31.12.2009</b> | <b>31.12.2008</b> |
|---|-------------------|-------------------|
| Performance period's warranty to the customer | 262 573           | 300 657           |
| Tender warranty                               | 59 454            | 61 258            |
| Guarantee warranty period                     | 152 114           | 107 491           |
| Prepayment guarantee                          | 81 296            | 100 110           |
| Sureties                                      | 9 705             | 6 362             |
| Payment guarantee                             | 3 318             | -                 |
| Letter of credit                              | 6 404             | -                 |
| <b>Total contingent liabilities</b>           | <b>574 864</b>    | <b>575 878</b>    |

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

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

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

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

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

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 12 months interim report 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 12 months period ending 31.12.2009 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 |  | 25.02.2010 |
|------------|-----------------------|--|------------|

|            |                     |  |            |
|------------|---------------------|--|------------|
| Alar Lagus | Member of the Board |  | 25.02.2010 |
|------------|---------------------|--|------------|

|                |                     |  |            |
|----------------|---------------------|--|------------|
| Veljo Viitmann | Member of the Board |  | 25.02.2010 |
|----------------|---------------------|--|------------|

|               |                     |  |            |
|---------------|---------------------|--|------------|
| Andres Agukas | Member of the Board |  | 25.02.2010 |
|---------------|---------------------|--|------------|