AS Merko Ehitus

Group

Consolidated Annual Report

Translation of the Estonian original

Beginning of financial year: 01.01.2009

End of financial year: 31.12.2009

Main activity:	general contracting of construction
Commercial Register no.:	11520257
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E-mail:	merko@merko.ee
Web site:	www.merko.ee
Auditor:	AS PricewaterhouseCoopers

Supervisory Board:	Tõnu Toomik, Teet Roopalu, Jaan Mäe, Indrek Neivelt, Olari Taal
Directorate:	Tõnu Toomik, Teet Roopalu, Jaan Mäe
Management Board:	Tiit Roben, Alar Lagus, Veljo Viitmann, Andres Agukas

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MANAGEMENT REPORT

General information

AS Merko Ehitus on is a leading construction group offering complete solutions. AS Merko Ehitus was set up in 1990 and the Company's home markets are Estonia, Latvia and Lithuania. The group consists of 27 subsidiaries and 5 associates and joint ventures, the largest of which 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%), OÜ Fort Ehitus (75%) and AS Tartu Maja Betoontooted (25%).

Key changes which occurred in the group in 2009:

- At 2 April 2009, AS Merko Ehitus and its wholly-owned subsidiary OÜ Rae Tehnopark signed a merger agreement with the goal of ensuring better transparency of AS Merko Ehitus group and simplification of its reporting (http://www.nasdaqomxbaltic.com/market/?pg=news&news_id=234355).
- At 2 December 2009, the wholly-owned subsidiary of AS Merko Ehitus, Tallinna Teede AS acquired 100% ownership in the entity AS Vooremaa Teed from the Republic of Estonia. The purchase price paid for the entity was EEK 48.0 million. The main activity of AS Vooremaa Teed is road construction and maintenance of roads in Jõgeva County. According to the development plan of Tallinna Teede AS, the goal of the acquisition of the entity was entry into the market of road maintenance and development of a road construction unit in Central Estonia. In addition, the acquisition of AS Vooremaa Teed facilitates better use of the existing resources of Tallinna Teede AS and finding of synergies for product development (http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news_id=238295).
- At 18 December 2009, AS Merko Ehitus acquired 100% ownership in the entity OÜ Tähelinna Kinnisvara (registration code: 10723293) from AS E.L.L. Kinnisvara. The purchase price paid for the entity was EEK 51.9 million. OÜ Tähelinna Kinnisvara was established in 2001 and its main activities include real estate development and investments. The company owns a 6-storied office building at Järvevana tee 9G, Tallinn that was completed in 2003 as the head office building of AS Merko Ehitus (http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100098328&list=2&tab=news&news_id=238554).

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 the book "Eesti Talurahva Arhitektuur" (*Estonian Vernacular Architecture*) with the list price of EEK 410. The suspicion submitted against the subsidiaries mentions Estravel's gift coupon of EEK 25 thousand, the book with the list price of 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 the meeting of the Supervisory Board of Merko Ehitus held at 28 September 2009, a proposal of the Management Board to provide co-financing in the amount of up to EEK 300 million over the next 12 months to customers for new construction contracts to be concluded as well as to fund the acquisition of new registered immovables, was approved.

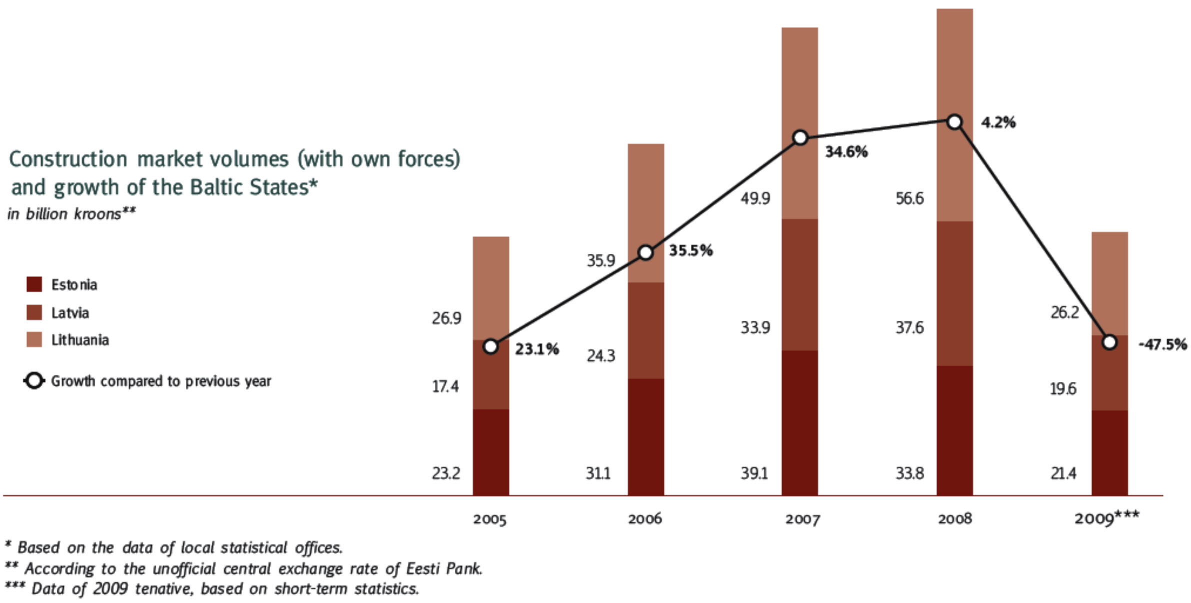
When making investments, the Management Board of Merko Ehitus needs to focus on the following priorities:

1) participation in PPP projects of the public sector;
2) provision of funding for EU-funded projects' public sector co-financing for construction projects;
3) co-financing of promising development projects up to 30% of the cost of the project under the assumption that the project has a well-developed business plan and it is secured with borrowed funds;
4) acquisition of promising residential registered immovables in the largest cities. The registered immovables with a moderate construction volume and approved detailed plans in well-developed residential environments are preferred.

The Supervisory Board estimates that the availability of capital and good liquidity in today's economic environment represent a competitive advantage for Merko Ehitus and it should be used more aggressively in the attainment of business goals.

Baltic construction market

In 2009, construction works with own resources were performed in the Baltic region for EEK 67.2 billion, which is EEK 60.8 billion less than in 2008. While in 2008 the Baltic construction market grew by a few percentage points, then in 2009 the Baltic construction market contracted by 47.5% as a whole. Lithuania experienced the biggest drop, where the construction market in current prices fell by 53.7% (2008: 13.4% growth) and fell to EEK 26.2 billion. Latvia did not fare much better, its construction market fell by 47.7% in a year, totalling 29.1% of the total Baltic construction market in 2009 or EEK 19.6 billion. As the decline in the Estonian construction market commenced already in 2008, the decline was limited to 36.5% in Estonia. According to the data by Statistics Estonia, construction works with own resources were performed for EEK 21.4 billion in 2009, totalling 31.9% of the total Baltic construction market. Along with a decline in construction works, the construction works performed per capita also fell. Construction works per capita were performed for EUR 1024 in Estonia, EUR 560 in Latvia and EUR 501 in Lithuania.



Although according to the data by Statistics Estonia, the construction prices decreased by -8.5% in Estonia in 2009 as compared to 2009, including the labour costs by -15.9, by -10.9% % in Latvia, including labour costs by -21.8% and by -10.6% in Lithuania, it can definitely be stated that the actual decline remained between 20-30%. The decline in volumes and related intensifying competition have brought the construction prices down to the level of 2005. To gain new orders, offers are made at prices lower than direct costs, in a hope to compensate the difference on account of lower in prices in future periods. We estimate that the construction prices stabilised by the end of 2009 and therefore the tactics to capitalise on a further decline is no longer justified, as it involves heightened business risks for tenderers, performance risks for contracting entities and credit risks for potential suppliers.

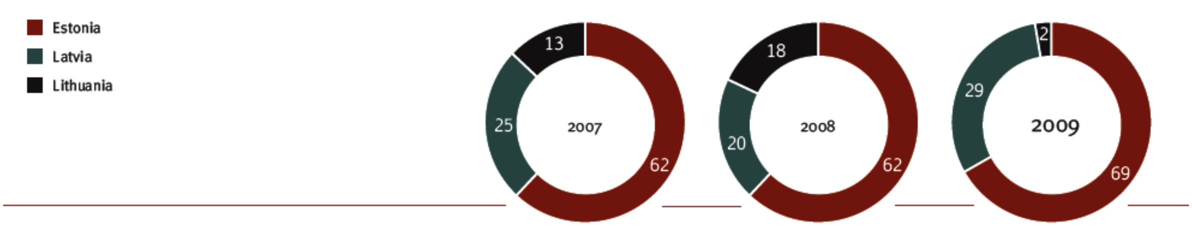
In the last quarter of 2009, the market of residential premises in Estonia demonstrated the first signs of a revival, the number of transactions as well as average prices increased. Purchasers who postponed purchases of residential premises, waiting for prices to fall, have understood that the decline in prices cannot last forever and choices will be significantly more limited if they continue to wait. A favourable price level has once again made the real estate market attractive for foreign capital. In general, foreign capital is independent from the local loan market and therefore the probability of realisation of transactions is high. During the last one and half years, a large drop in prices has occurred (40-50%) and, as a result of its halting in the third quarter, the banks have become significantly more active in the housing market. The financing of new residential premises has become safer for the banks, loans granted on new terms enable the banks to improve their income base and compensate for negative impact of non-performing loans. As a result of the aforementioned trends, the degree of self-financing and interest margins for end users dropped in the fourth quarter of 2009.

During 2009, a total of 3026 user permits (2008: 5300) were issued in Estonia, 4160 (2008: 8084) in Latvia and 9400 (2008: 11 829) in Lithuania for new dwellings.

Operating results

In 2009, the revenue of Merko Ehitus group was EEK 3181.2 million, decreasing by 31.6% in a year. In 2009, Estonia contributed 68.6%, Latvia 29.1% and Lithuania 2.3% to the group sales. As compared to 2008, the revenue increased by 2.3% in Latvia and decreased by 91.3% in Lithuania and 24.6% in Estonia. Considering the decline of the Baltic construction market by 47.5% and the fact that the group earned a profit in the financial year, the year 2009 as a whole can be considered satisfactory.

Geographical distribution of revenue of Merko Ehitus group
per cent



The consolidated sales revenue of the group's largest entities:

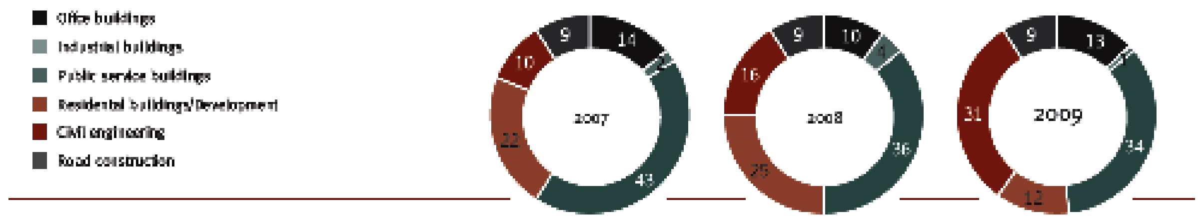
in thousands of kroons and euros

	2009		2008	
	EEK	EUR	EEK	EUR
Estonian entities				
AS Merko Ehitus (parent)	1 689 327	107 968	1 861 553	118 975
AS Gustaf (75% ownership)	44 131	2 820	142 558	9 111
OÜ Gustaf Tallinn (80% ownership)	61 126	3 907	140 930	9 007
AS Merko Tartu (66% ownership)	72 073	4 606	308 732	19 732

Tallinna Teede AS (100% ownership)	275 423	17 603	432 273	27 627
OÜ Woody (100% ownership)	25 000	1 598	79 803	5 100
Latvian entity				
SIA Merks (100% ownership)	925 985	59 181	878 295	56 133
Lithuanian entity				
UAB Merko Statyba (100% ownership)	70 915	4 532	797 902	50 995

Engineering construction contributed 31%, residential construction/development 12%, service buildings 34%, office buildings 13%, industrial buildings 1% and road construction 9% to the group´s revenue. Of construction activities, 70% was for new buildings and 30% was renovation and reconstruction works. In 2009, the group concluded construction contracts in the total amount of EEK 1.1 billion and as at 31.12.2009, the group´s contract portfolio totalled EEK 1.3 billion.

Distribution of construction activities of the group
per cent

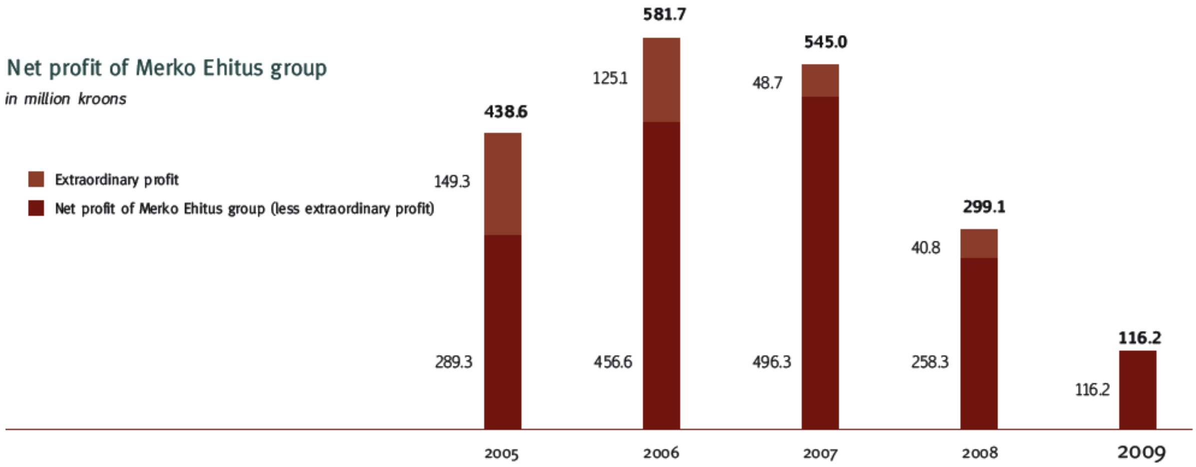


The largest projects completed in 2009

Solaris	new facility	Rävala blvd. 12, Tallinn	46 805 m²	AS Merko Ehitus
Port Artur 2	new facility	Lai street 11, Pärnu	16 885 m²	AS Merko Ehitus
Delta Plaza office building	new facility	Pärnu road 141, Tallinn	10 213 m²	AS Merko Ehitus
Tallink office building	new facility	Sadama street 5/7, Tallinn	5223 m²	AS Merko Ehitus
Viimsi kindergarten-primary school	new facility	Karulaugu road 5, Viimsi rural municipality	9138 m²	AS Merko Ehitus
Keila 110 kV substation Anne 110 kV substation Ülemiste 110 kV GIS substation	reconstruct-tion	Tutermaa village, Harjumaa Lohkva village, Tartumaa Katusepapi 36C, Tallinn		AS Merko Ehitus
Overpass of Suur-Sõjamäe and Järvevana Road	new facility	Suur-Sõjamäe and Järvevana Road	95 m	AS Merko Ehitus
Rannu-Jõesuu bridge	new facility	Rannu rural municipality, Tartu-Viljandi road	92 m	AS Merko Ehitus
Tallinn landfill's cells no. 6, 7 and 8	new facility	Jõelähtme rural municipality, Harjumaa	5.8 ha	AS Merko Ehitus
Water and sewage facilities of Märjamaa and Vigala rural municipalities	new facility	Raplamaa	56.9 km	AS Merko Ehitus
Office building/warehouse	new facility	Piepilsētas, Ķekava rural municipality, Riga County	14 154 m²	SIA Merks
Study and research building of Tartu University	new facility	Viljandi road 42, Tartu	13 300 m²	AS Merko Tartu

In a year, the cost of goods sold by the group decreased by 29.9% while marketing, and general and administrative expenses decreased by 18.5%. The cost-saving measures implemented for reduction of costs led to a decline in marketing, general and administrative expenses, of which the decline in staff costs totalled EEK 9.8 million, the decline in consulting/legal assistance expenses totalled EEK 12.0 million, the decline in advertising and sponsorship expenses totalled EEK 9.0 million and the decline in other expenses totalled EEK 14.8 million. As the revenue for the period fell faster than the expenses, the cost of goods sold increased to 89.1% of revenue, and marketing and general and administrative expenses increased to 6.3% during the period.

In 2009, the group's pre-tax profit totalled EEK 119.9 million, decreasing by EEK 212.9 million in a year and the net profit was EEK 116.2 million, decreasing by EEK 183.0 million or 61.2%. The decline in profit was influenced by a drop in sales revenue, profitability in the construction and development area, and extraordinary expenses due to the change in the economic environment. In 2009, the group incurred a loss of EEK 90.6 million on write-down of development projects (including properties for sale of EEK 66.9 million, construction in progress of EEK 3.7 million and finished buildings of EEK 20.0 million), EEK 8.0 million on impairment of non-current assets and EEK 13.8 million on write-off of irrecoverable receivables. The group's pre-tax profit before extraordinary write-downs was EEK 232.3 million. The impact of the seasonal nature of the construction activity and the cyclical nature of the development activity was insignificant.



The group's priorities in 2009 included positive cash flows and liquidity. In 2009, the group´s total cash flows amounted to EEK -156.3 million, including the cash flows from operating activities of EEK +368.4 million, cash flows from investment activities of EEK -198.7 million and cash flows from financing activities of EEK -326.0 million. The cash flows from operating activities in the reporting period were mostly affected by the change in inventories of EEK +281.1 million, the change in liabilities and prepayments related to operating activities of EEK -306.3 million and the operating profit of EEK +132.0 million. Of the group´s cash flows from investing activities acquisition of financial investments totalled EEK -138.2 million, including acquisition of subsidiaries of EEK -62.1 million, balance of issued and repaid loans EEK -20.1 million, interest received EEK +32.0 million and investments in property, plant and equipment EEK -13.2 million. Of the cash flows from financing activities, payment of loans totalled EEK -243.9 million and that of dividends EEK -64.7 million. As at 31 December 2009, monetary funds in the group's bank accounts and term deposits totalled EEK 760.6 million.

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

	2007	2008	2009
Net profit margin	9.9%	6.4%	3.7%
Net profit margin before write-downs (excluding extraordinary profit)	9.0%	9.3%	7.2%
EBT margin	10.7%	7.1%	3.8%
Operating profit margin	9.5%	7.0%	4.2%
Return on equity per annum	30.2%	14.6%	5.5%
Return on assets per annum	15.3%	7.7%	3.1%
Equity ratio	51.5%	53.7%	60.5%
Current ratio	2.4	2.8	2.3
Quick ratio	1.0	1.3	1.2
General expense ratio	4.5%	5.8%	6.3%
Personnel expense ratio	7.4%	8.8%	8.8%
Debt ratio	34.9%	35.6%	24.6%
Accounts receivable turnover (in days)	59	42	44
Accounts payable turnover (in days)	41	33	29
Sales revenue per employee (in million EEK)	5.376	4.549	4.007
Average number of full-time employees in the group	1025	1023	794

Net profit margin: Net profit / Revenue
EBT margin: Profit before tax / Revenue
Operating profit margin: Operating profit / Revenue
Return on equity per annum: Net profit / Average equity of the period*
Return on assets per annum: Net profit / Average assets of the period
Equity ratio: Owners' equity* / Total assets
Current ratio: Current assets / Current liabilities
General expense ratio: General expenses / Revenue
Personnel expense ratio: Personnel expenses / Revenue
Debt to equity ratio: Interest-bearing liabilities / Owners' equity*
Accounts receivable turnover: Trade receivables / Revenue x 365
Accounts payable turnover: Payables to supplies / Cost of goods sold x 365
Sales revenue per employee: Sales revenue / Average number of full-time employees

* attributable to equity holders of the parent

Business risks

Market risk. One of the peculiarities of construction activities is the fact that the execution of the contracts concluded will take months, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months. This time lag enables the sector to arrange its activities to be prepared for potential setbacks as well as booms.
Several unfavourable factors – appreciation of credit, a decline in demand and general uncertainty about the future have significantly reduced the value of real estate. The housing development area and coping with a

continued decline in prices and sales volumes have been one of the main sources of market risk for Merko Ehitus group arising from the value of real estate. In 2009, the group sold 280 apartments with a total cost of EEK 338.5 million (exclusive of VAT) and, as at 31.12.2009, the inventories included 187 unsold finished apartments with a total cost of EEK 224.4 million and 441 apartments in the stage of construction with a total cost of EEK 210.8 million. The group's stock of apartments varies by regions, of the finished buildings 119 apartments are located in Riga, 62 in Tartu and 6 in Vilnius. As the stock in Tallinn reached zero in the fourth quarter of 2009, Merko Ehitus commenced the construction of three new apartment buildings (with a total of 109 apartments) in Tallinn. To minimise risks, the commenced projects are generally small-scaled and regionally dispersed.

Operating risk. The group concludes total risk insurance contracts with insurance companies in order to hedge for unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 10 million. The risks of the projects whose cost exceeds EUR 10 million or which the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for design work, an insurance contract for professional liability is required from subcontractors covering the damage arising from design, erroneous measurement, advice and instructions, or such a contract is concluded at own expense. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2009, indemnity applications totalling EEK 4.2 million were submitted to insurance companies and insurance benefits were received in the amount of EEK 0.8 million and those in processing total EEK 1.9 million.

The prices of construction services and materials which move quickly have made the budgeting of projects more difficult, increasing the risk of inadequate pricing of bids. Unpredictably and more intense competition put serious pressure on the profitability of the construction sector, significantly reducing the margin for erring when making bids and presenting a serious threat for sustainable development of the sector.

A warranty reserve has been set up at the Company to cover the construction errors which have become evident during the warranty period. In 2009, warranty provisions were set up in the total amount of EEK 13.6 million and disbursements amounted to EEK 15.0 million. As at the year-end, the Company's warranty provision amounted to EEK 18.5 million. With regard to work performed by subcontractors, the subcontractor is responsible for elimination of errors that became evident during the warranty period. With regard to significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon the first demand.

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

Credit risk. In connection with substantial deterioration of the economic climate, the share of credit risk in the group's risk matrix has significantly increased. In managing credit risk, close attention is paid to the payment behaviour of business partners, their financial position is analysed and if necessary, third parties are involved as guarantors in transactions. With regard to prepayments to suppliers, a bank guarantee by suppliers is required. In 2009, the payment discipline of customers clearly worsened, although in absolute numbers, the amount of doubtful receivables decreased from EEK 20.1 million to 19.9 million, the ratio of write-downs to sales increased, the amount of invoices past due 30 and more days increased from EEK 83.1 million to EEK 113.7 million during the period. As at 31.12.2009, the group had receivables past due in the amount of EEK 149.7 million, of which EEK 106.9 million were collected after the balance sheet date. Management closely monitors the pattern of receivables and is of opinion that the receivables at the year-end do not contain major credit risks posing a threat for the Company's sustainability of operations. The Company's available funds are primarily held in overnight deposits or term deposits at the banks Swedbank, SEB, Nordea and Unicredit group with a high credit rating (Moody's rating of Baa3/D and higher).

Interest rate risk. As at 31.12.2009, the group's interest-bearing liabilities totalled EEK 523.9 million, of which short-term loans and the current portion of long-term debt totalled EEK 447.6 million 2010 and long-term loans and finance lease liabilities totalled EEK 76.3 million. The volume of interest-bearing liabilities decreased by EEK 214.2 million in a year and as at the year-end, these liabilities made up 14.9% of the Company's balance sheet total. Of the liabilities assumed, the liabilities that were exposed to the risk of EURIBOR totalled EEK 470.1 million. In addition to the risk of EURIBOR, the refinancing of liabilities brings about a threat of a change in the risk margin caused by a change in the economic environment, such a change may have both a positive and negative impact. The management estimates that the interest margin of loans assumed in local currencies may decrease by 1-3% upon refinancing, depending on the previous time of fixing of interest. As most of the margins of loans related to EURIBOR subject to refinancing are fixed in a period preceding the economic crisis, the refinancing of such liabilities leads to growth in interest expenses in the group. The balance of liabilities related to the euro and exposed to a change in the risk margin was EEK 266 643 thousand.

Liquidity risk. Due to a decrease in money supply, lower turnover speed of development projects and potential negative scenarios with regard to the payment discipline, one of the group's main priorities in the near future will be the ensuring of liquidity. As at 31.12.2009, the group´s current ratio was 2.3 (31.12.2008: 2.8) and quick ratio was 1.2 (31.12.2008: 1.3). To ensure liquidity and better management of the cash flows, the group entities have concluded overdraft contracts with banks in the total amount of EEK 168.2 million. In addition to overdraft credits, the Company has a working capital loan facility with the limit of EEK 50 million from AS Riverito. The majority of the group's loans were taken for implementation of short-term development projects. Due to lower demand for residential housing, it may be forecast that the selling periods of projects will get longer as compared to the initial plan, and the effective period of existing contracts will not cover the longer selling periods. As a result of this, there is a need to extend the existing loans during 12 to 18 months. Management estimates that the group's capital structure – high equity ratio of 60.5% of the balance sheet total and a moderate proportion of borrowings of 14.9% of the balance sheet total – ensures the feasibility of the extension of existing financial liabilities and obtaining additional working capital in the changed economic cycle, as well as the Company's trustworthiness in the eyes of creditors. The Company's priority in 2010 continues to be preservation of liquidity.

Foreign currency risk. The group's construction contracts are mostly concluded in the currency of the country of location and open foreign currency positions in daily activities are avoided. The most significant foreign contracts are concluded in euros. The Latvian lats (exchange rate EUR 1 = LVL 0.702804 +/- 1%), the Lithuanian litas and the Estonian kroon are pegged to the Euro and hence the preconditions for short-term hedging of foreign currency risks have been created. To eliminate foreign currency risks, the structure of the Company's assets and liabilities by currencies is monitored, and the euro is the preferred currency in conclusion of long-term construction contracts. As at the balance sheet date, EEK 2 922 621 thousand or 83.2% of the group's assets were denominated in local currencies, including the assets in EEK which made up

47.4%, assets in LVL 31.7% and in LTL 4.1% of the balance sheet total. Liabilities in local currencies made up EEK 2 976 511 thousand or 84.7% of the balance sheet total, including liabilities in EEK 60.5%, in LVL 22.1% and in LTL 2.1%. Management estimates that the possibility of and need for devaluation of national currencies in 2009 has significantly decreased. It is highly probable that Estonia will adopt the euro in 2011, which should have a stabilising effect on the region as a whole.

Legal risks. Due to the probability of miscellaneous interpretation of contracts, regulations and laws, there is a risk that some buyers, contractors or supervisory authorities consider the Company's activities to be in conflict with the laws or contracts. As at 31.12.2009, the Company had set up provisions for potential claims and legal costs in the amount of EEK 14.5 million. In 2009, legal costs in the amount of EEK 0.9 million were covered from the provisions and new reserves were set up in the amount of EEK 7.5 million.

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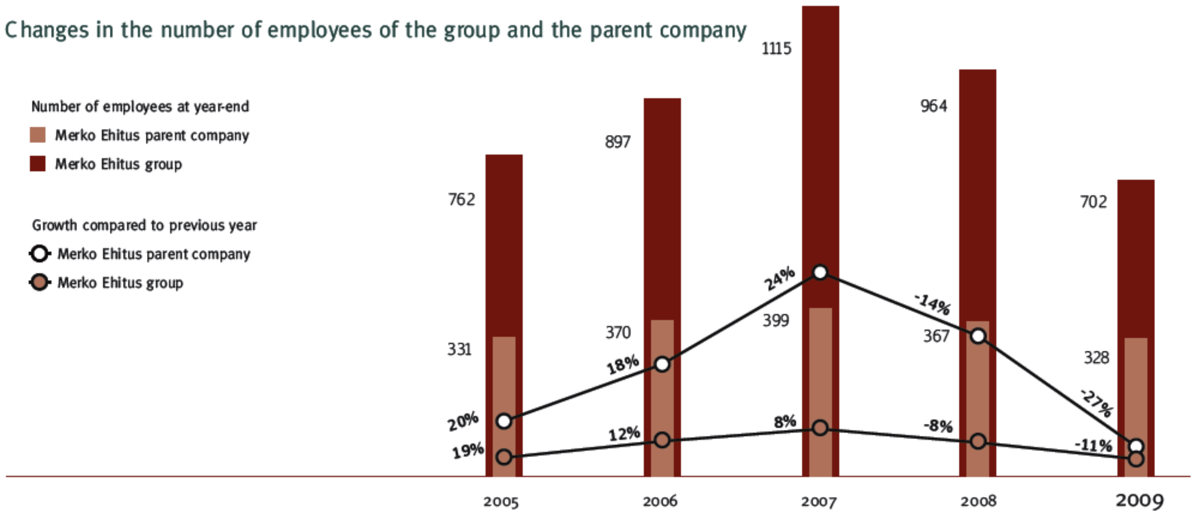
Due to intensifying competition, legal disputes involving public procurements have significantly increased in recent years. The competitors of Merko have disputed the possession of experience and succession of AS Merko Ehitus in participation in several public procurements. The position of AS Merko Ehitus is, that the demerger has not limited the rights and capabilities of the Company to participate in public procurements. The position of AS Merko Ehitus has been supported by past judicial practice. By its rulings of 20.10.2009 and 02.11.2009, Tallinn Administrative Court again expressly confirmed that Merko Ehitus can, in participating in public procurements, rely on both pre-demerger sales indicators and experience. In the opinion of the court, the demerger plan of Merko Ehitus clearly shows that after the demerger Merko Ehitus will continue to have the competence necessary to construct procurement objects.

The Company and its people

One of the main values of Merko Ehitus is its people. Due to the general deterioration of the economic situation, the number of the group's full-time employees decreased by 262 people in a year and at 31.12.2009, the group had 702 full-time employees. The gross wages and salaries of the group's full-time employees totalled EEK 278.9 million, of which base wages and salaries made up 72.6% and bonuses made up 27.4%, or 31.7% less than in 2008. As compared to 2008, the average number of group's employees decreased by 27.2% and the average gross wages per employee decreased by 11.6%. The number of employees of the parent AS Merko Ehitus was 328 at the year-end 2009, decreasing by 39 people in a year. Gross wages and salaries paid to full-time employees totalled EEK 136.7 million, declining by 24.7% in a year, including base wages and salaries by 23.9% and bonuses by 26.1%.



As at 31.12.2009, the Management Board of AS Merko Ehitus had four members. The members of the Management Board are all full-time employees of AS Merko Ehitus and their gross remuneration in 2009 totalled EEK 8.4 million, incl. base remuneration of EEK 2.7 million and bonuses of EEK 5.7 million. All members of the Management Board currently work on the basis of service contracts. Upon the premature removal of a member of the Management Board or non-extension of their service contracts, its members are paid severance pay which equals their last 24 months' remuneration.

According to a resolution of the general meeting of shareholders at 31 October 2008, the management structure of the group was reformed, as a result of which a 3-member Directorate was formed and the Supervisory Board of AS Merko Ehitus was changed to have 5 members. Due to the change, some of the functions of the Supervisory Board were reallocated to the 3-member Directorate and significant changes were made in the remuneration principles concerning the members of the Supervisory Board. In 2009, the members of the Supervisory Board were paid gross remuneration of EEK 3.0 million, incl. base remuneration of EEK 1.2 million and bonuses of EEK 1.8 million. The remuneration of the members of the Supervisory Board totalled EEK 3.1 million in 2009.

In 2009, the group sponsored sports, culture and education with EEK 9.1 million.

In the area of sports, we foster the development and projects of sports aimed at young people, enabling to create opportunities for engagement in athletic activities and active vacationing. The group’s largest sponsorship project continued to be the initiative launched in collaboration with Swedbank, Eesti Energia and the Ministry of Culture of the Republic of Estonia as well as the Estonian Ski Association, called the Estonian Hiking Tracks. We also supported the recreational sports series called Merko Winter Paths that was launched by Eesti Terviserajad SA and organised by Stamina Sports Club, by which, in addition to creation of well-maintained sports areas, we try to vigorously contribute to the development of regular exercising habits of Estonians. With a prize fund of $ 15 000, Merko Ehitus supported the ITF international series tennis tournament Merko Open 2009, in which nearly 60 players from Europe and the USA participated. In addition, we support the Estonian Tennis Association. We have also contributed to the efforts to organise Narva Grand Prix show jumping of the Equestrian Federation of Estonia and FEI World Cup final of Central European League in show jumping. We continue to support the Estonian national cross-country skiing team and the youth team Merko Team.

In the area of culture and education, collaboration with the Estonian Art Museum and Drama Theatre continued. In the area of education, the group's priority is construction-related education and research work. In 2009, cooperation continued with Tallinn University of Technology in the fields of development, research and studies, and with the Development Fund of Tallinn University of Technology for granting the scholarship bearing the name of professor Heinrich Laul for young lecturers/scientists with a doctoral degree in construction science. Merko Ehitus pays scholarships to 10 Master's degree students at Tallinn University of Technology.

In the social field, cooperation with our partner Tilsi Children's Home continued. In spring 2009, we built a long-anticipated grill house for the children, which was opened with a large grill party immediately prior to the Child Protection Day and school graduations in summer. In December, Santa's elves sent large gift parcels containing books collected by employees of Merko from Tallinn to the library of the children's home.

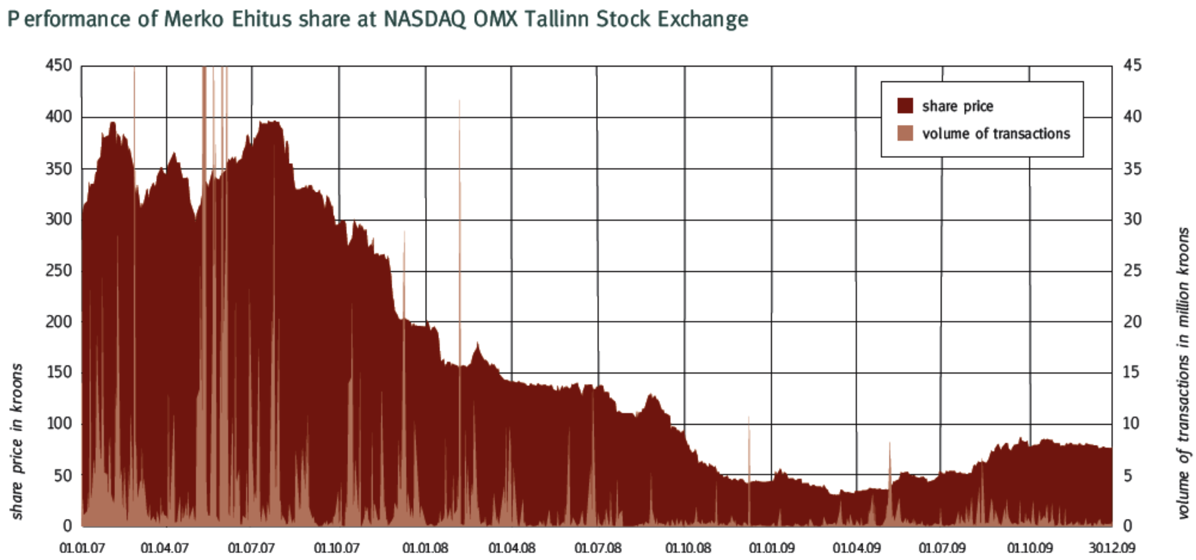
Shares and shareholders

Information on securities

Name of security	Share of Merko Ehitus
ISIN	EE3100098328
Type of security	Freely transferable ordinary shares
Issuer	AS Merko Ehitus
Activity of issuer	Construction
Residency of issuer	Estonia
Nominal value	10.00
Currency	EEK
Number of securities	17 700 000
Number of votes per share	1 vote
Registration at ECSD	08.07.2008
Stock Exchange List	Main List

	31.12.2007	31.12.2008	31.12.2009
Basic earnings per share (EPS), EEK	30.79	16.90	6.56
Earnings per share, EEK	113.88	117.23	120.16
P/B (price to book ratio)	1.79	0.37	0.65
P/E (price / earnings ratio)	6.61	2.59	11.97

The shares of Merko Ehitus are listed in the Main List of NASDAQ OMX Tallinn. 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 price of the shares as at 30.12.2009 was EEK 78.55. As at 31.12.2009, the market capitalisation of AS Merko Ehitus was EEK 1.39 billion.



Trading history of securities	2007	2008	2009
Highest	402.12	202.62	90.44
Lowest	191.67	40.40	28.95
Closing	203.41	43.81	78.55
Change, %	-33.84	-78.46	+79.8
Traded shares	5 532 018	2 367 089	2 782 150
Turnover, EEK million	1 830.68	285.14	146.83
Market value, in EEK million, as at the year-end	3 600.35	775.44	1390.26

Structure of shareholders as at 31.12.2009

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shareholders
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%

The main shareholders of AS Merko Ehitus as at 31.12.2009

	Number of shares	Percentage of total
AS Riverito	12 742 686	71.99%
ING Luxembourg S.A., clients	963 376	5.44%
Skandinaviska Enskilda Banken Ab, clients	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%

Outlook for 2010

Construction market and its developments

The year 2010 will probably be the most challenging year of the crisis for the construction sector. While the volumes and profitability of the sector in 2008 and 2009 were maintained by the portfolio of previous periods, the moment of truth caused by inertness in the sector will reach each company in the construction sector in 2010. Coping with the situation will depend only on the flexibility of the Company to adjust to changes, and on the reserves saved for a rainy day.

Although the environment in different Baltic States may slightly differ, the construction volumes certainly continue to drop in all three states and a tense competitive atmosphere will prevail. The construction prices will slightly increase as a result of the workers going abroad and realisation that price dumping will not solve the problems of companies. The contractors who had consciously or unconsciously gone along with price dumping in 2009, will pay a high price for it.

Funding conditions will be liberalised – projects with lower risk and companies with a stronger balance sheet will be obtain monetary resources first. Preference is given to production companies with an export potential, and to real estate and construction, provided the projects are related to the aforementioned areas. In the sector of trade and commercial real estate, oversupply still prevails and provision of funding for those areas has stopped. The key words in the lease projects continue to be coping with lower lease income, borrowings and liquidity. An outlook for a fast recovery of the market is non-existent.

The improved labour supply and a decline in construction and staff expenses will probably raise the interest of foreign investors for the area. Estonia may have a certain advantage with regard to investments should the confidence about the ability of the state to adopt the euro in 2011 increase.

Most of the new construction projects continue to be launched in the area of infrastructure and environmental structures financed by the public sector and EU structural funds. A drop in the income of the private sector and a decline in consumption have significantly harmed the income base and financial capacity of the public sector. Limited resources are directed, on a populist basis, to the social sphere and it may significantly constrain the use of resources of structural funds.

There is no reason to expect fast improvement of demand in the market of residential premises, the rate of unemployment and loan burden of people are still high, earnings and consumer confidence are at the lowest leve ever. A favourable price level attracts foreign capital back to the market, apartments as well as properties with a high development potential are purchased. At the same time, a small niche for launching of new small-scale development projects is being created as a result of the decreased supply of residential premises. At first, new development projects may be expected in Estonia and, if everything goes as planned, also in Lithuania and then in Latvia at the end of 2010.

Notwithstanding the negative outlook of the construction and real estate sector in 2010, the year may be extraordinarily favourable for making investments. With the existence of sufficient own funds, it is possible to create a strong basis for further development. The group's goal for 2010 is to find new opportunities.

Corporate Governance Code (CGC)

From 2006, the Corporate Governance Code (CGC) which lays down the general principles for managing entities and treating shareholders applies to the issuers of equity securities which are listed on NASDAQ OMX Tallinn Stock Exchange. The CGC principles are recommended to the publicly traded companies and the entities are free to decide whether to follow the main CGC principles or not. The Corporate Governance Code is based on the principle of *follow or explain* according to which an entity shall explain its standpoints and activities with regard to those CGC provisions which it does not follow.

Merko Ehitus places great value on the equal treatment of its shareholders, the transparency of the Company's management processes as well as the reliability of its activities. This report deals with those CGC principles which AS Merko Ehitus does not follow for technical, economic or other reasons.

I General Meeting of Shareholders

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company.

The Company shall announce the time, place, and agenda of the General Meeting as well as the recommendations of the Supervisory Board with regard to the items on the agenda in a national daily newspaper, on the Company's web site and through the stock exchange system. The General Meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders. Any shareholder or his authorised representative may participate in the General Meeting. No picture taking or filming is allowed at the General Meeting, because it may disturb the privacy of shareholders. Participation in the General Meeting cannot be accomplished through the means of communication because there are no reliably ways to identify shareholders and to ensure the privacy of participating shareholders.

On behalf of the Company, the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. The Company does not consider the participation of all members of the Management and Supervisory Boards in the General Meeting relevant.

II Management Board

The Management Board of AS Merko Ehitus has four members, and it represents the Company and manages its daily operations. The activities of the members of the Management Board are divided by areas of operation: general management and development – Tiit Roben, construction – Andres Agukas, technology – Veljo Viitmann, finance – Alar Lagus. The Chairman of the Management Board, Tiit Roben, oversees the work of the Management Board.

The members of the Management Board have entered into three-year service contracts with the Company. The Company discloses the total amount of remuneration and bonuses paid to the members of the Management Board in the annual report, as it believes that the disclosure of personalised remuneration does not create additional value but disturbs the privacy of the members of the Management Board. Upon premature termination or non-extension of the service contract and under the condition that the members of the Management Board shall not compete with the Company, severance pay shall be paid to the members of the Management Board equalling twenty-four month basic remuneration of the member of the Management Board.

In paying bonuses to the members of the Management Board, the financial performance of the group and entities governed by the Management Board shall be considered. On reviewing the quarterly results of operations, the Supervisory Board of the Company shall review and approve the bonuses payable to the Management Board. Twenty-five per cent of the bonuses payable on the basis of interim financial statements shall be withheld and paid after the approval of the annual report by the General Meeting of Shareholders. No share options have been used to motivate the members of the Management Board.

III Supervisory Board

The General Meeting of Shareholders shall elect the Supervisory Board. The Supervisory Board shall determine the Company's operating strategy, endorse the transactions as authorised by the articles of association, elect the members of the Management Board and monitor the performance of the Management Board during the time the General Meetings are not held. From 31 October 2008, the Supervisory Board of AS Merko Ehitus has five members: Teet Roopalu, Jaan Mäe, Indrek Neivelt, Olari Taal and Chairman of the Supervisory Board, Tõnu Toomik.

The General Meeting of Shareholders shall approve the remuneration of the members of the Supervisory Board. The procedure for paying remuneration to the current Supervisory Board was approved by the General Meeting of Shareholders held at 31 October 2008.

Upon premature termination or non-extension of the powers, no severance pay is paid to the members of the Supervisory Board.

Simultaneously with the election of the new Supervisory Board at 31 October 2008, the Directorate of AS Merko Ehitus was set up, the main function of which is the development of the positions in respect of the group's strategy and activities for expansion to the markets located outside the Republic of Estonia and for subsidiaries and associates set up in foreign countries as well as group entities involved in lines of business requiring specific knowledge. The Directorate shall grant the Management Board its consent to complete the transactions concerning the Directorate's functions or shall refuse to grant it. The Supervisory Board shall oversee the Directorate's activities. The group's Directorate has 3 members who are also members of the Supervisory Board.

IV Collaboration of the Management and Supervisory Boards

To ensure that the Company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a month, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the Company's business operations, the fulfilment of the Company's short and long-term goals and the risks impacting them.

V Disclosure of information

In disclosing information, AS Merko Ehitus shall follow the rules and regulations of NASDAQ OMX Tallinn Stock Exchange and immediately disclose important information regarding the Company's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the Company and its business partners. In respect of construction contracts entered into, contracts with the volume of 150 million kroons and higher shall be disclosed separately in stock exchange releases. Important information shall be disclosed through the stock exchange system and on the Company's Web site.

During the year, Merko Ehitus shall not publish the dates for disclosing information, the so-called financial calendar, because the disclosure of reliable dates would incorporate additional time factor into the dates and endanger the timeliness of disclosures. Merko Ehitus shall generally publish important information regarding the Company after the end of the trading day and shall inform its shareholders about publishing interim financial statements and the annual report at least two days prior to their disclosure.

If possible, the Company shall participate in the presentations and press conferences arranged by analysts and investors. The information made available at the meetings is public, i.e. available in the reports of the Company, on its Web site or other public sources. We believe that the publication of the schedule for meetings does not provide any valuable additional information for the shareholders and therefore, such information shall not be published.

VI Election of an auditor and auditing the financial statements

The Company's financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

In electing the auditor, the Company shall consider auditor's independence, competence, reliability and the price of the service. The Company shall not publish the fees paid for the provision of auditing and consulting services, because such activities may significantly impair the Company's ability to obtain the service for a competitive price in the future.

When proposing to elect a new auditor, the Supervisory Board shall also present its rationale for the change to the General Meeting of Shareholders. In extending the contract with the auditor who audited the Company in the previous financial year, the Supervisory Board shall acknowledge with its choice that the auditor has fulfilled the expectations laid on him/her and the Supervisory Board is content with the quality of the service provided.

The Management Board of AS Merko Ehitus acknowledges and confirms that to the best of management's knowledge, the management report for the 2009 financial year presents a true and fair view of the business development and results, and the financial position of the Issuer and the consolidation group entities, and it includes a description of the main risks and uncertainties.

Tiit Roben	Chairman of the Management Board	20.04.2010
Alar Lagus	Member of the Management Board	20.04.2010
Veljo Viitmann	Member of the Management Board	20.04.2010
Andres Agukas	Member of the Management Board	20.04.2010

FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Merko Ehitus consolidated financial statements as presented on pages 20-75.

The Management Board confirms that:

- the accounting methods used for preparing the financial statements are in compliance with International Financial Reporting Standards as adopted by the European Union;
- the 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 and all group entities are going concerns.

Tiit Roben	Chairman of the Management Board	20.04.2010
Alar Lagus	Member of the Management Board	20.04.2010
Veljo Viitmann	Member of the Management Board	20.04.2010
Andres Agukas	Member of the Management Board	20.04.2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of		EEK		EUR	
	Note	**2009**	**2008**	**2009**	**2008**
Revenue	3	3 181 209	4 653 933	203 316	297 441
Cost of goods sold	4	(2 835 169)	(4 045 306)	(181 200)	(258 542)
Gross profit		346 040	608 627	22 116	38 899
Marketing expenses	5	(47 094)	(43 921)	(3 009)	(2 807)
Administrative and general expenses	6	(154 000)	(202 820)	(9 842)	(12 963)
Other operating income	7	14 408	9 529	921	609
Other operating expenses	8	(27 326)	(43 333)	(1 746)	(2 769)
Operating profit		132 028	328 082	8 440	20 969
Finance income	9	39 517	34 405	2 525	2 199
Finance costs	10	(24 597)	(26 631)	(1 573)	(1 702)
Profit from sale of subsidiaries	19	-	1 418	-	91
Profit/loss from associates and joint ventures	20	(27 090)	(4 565)	(1 731)	(292)
Profit before tax		119 858	332 709	7 661	21 265
Corporate income tax expense	11	(8 496)	(26 339)	(543)	(1 684)
Net profit for financial year		111 362	306 370	7 118	19 581
incl. net profit attributable to					
equity holders of the parent		116 166	299 140	7 424	19 120
attributable to minority interest		(4 804)	7 230	(306)	461
Other comprehensive income					
Currency translation differences of foreign entities		(2 266)	(7 465)	(145)	(477)
Comprehensive income for the period		109 096	298 905	6 973	19 104
incl. net profit attributable to					
equity holders of the parent		113 900	291 675	7 279	18 643
attributable to minority interest		(4 804)	7 230	(306)	461
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EEK/ EUR)	12	6,56	16,90	0,42	1,08

The notes set out on pages 25-75 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of		EEK		EUR	
	Note	**31.12.2009**	**31.12.2008**	**31.12.2009**	**31.12.2008**
ASSETS					
Current assets					
Cash and cash equivalents	14	359 732	515 191	22 991	32 927
Short-term deposits	15	400 916	262 759	25 623	16 793
Trade and other receivables	16	661 954	780 665	42 306	49 894
Prepaid corporate income tax		3 885	3 875	248	247
Inventories	18	1 536 463	1 817 486	98 199	116 158
Assets held for sale		-	173	-	11
		2 962 950	3 380 149	189 367	216 030
Non-current assets					
Investments in associates and joint ventures	20	179 421	206 761	11 467	13 214
Other long-term loans and receivables	21	32 468	29 049	2 075	1 857
Deferred income tax assets	22	32 069	24 226	2 050	1 548
Investment property	23	16 552	12 002	1 058	767
Property, plant and equipment	24	266 276	197 094	17 018	12 597
Intangible assets	25	24 238	11 807	1 549	755
		551 024	480 939	35 217	30 738
TOTAL ASSETS		3 513 974	3 861 088	224 584	246 768
LIABILITIES					
Current liabilities					
Borrowings	27	447 569	206 657	28 605	13 208
Trade and other payables	28	782 470	963 631	50 009	61 588
Corporate income tax liability		5 249	8 699	335	556
Government grants	29	37 702	32 317	2 410	2 065
		1 272 990	1 211 304	81 359	77 417
Non-current liabilities					
Long-term borrowings	27	76 316	531 396	4 878	33 962
Other long-term trade payables	30	10 658	8 824	681	564
		86 974	540 220	5 559	34 526
TOTAL LIABILITIES		1 359 964	1 751 524	86 918	111 943
EQUITY					
Minority interest		27 129	34 633	1 734	2 213
Equity attributable to equity holders of the parent					
Share capital	32	177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation differences		(14 816)	(12 550)	(947)	(802)
Retained earnings		1 946 997	1 892 781	124 436	120 971
		2 126 881	2 074 931	135 932	132 612
TOTAL EQUITY		2 154 010	2 109 564	137 666	134 825
TOTAL LIABILITIES AND EQUITY		3 513 974	3 861 088	224 584	246 768

The notes set out on pages 25-75 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*In thousands of **EEK***	Note	Equity attributable to equity holders of the parent					Minority interest	Total
		Share capital	Statutory reserve capital	Currency translation differences	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 for the financial year		-	-	(7 465)	299 140	291 675	7 230	298 905
Net assets separated in demerger		-	-	-	(232 501)	(232 501)	-	(232 501)
Minority interest of liquidated subsidiary		-	-	-	-	-	(8)	(8)
Dividends	13	-	-	-	-	-	(6 528)	(6 528)
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 for the financial year		-	-	(2 266)	116 166	113 900	(4 804)	109 096
Dividends	13	-	-	-	(61 950)	(61 950)	(2 700)	(64 650)
Balance as at 31.12.2009		177 000	17 700	(14 816)	1 946 997	2 126 881	27 129	2 154 010

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

The notes set out on pages 25-75 are an integral part of these consolidated financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

In thousands of		EEK		EUR	
	Note	**2009**	**2008**	**2009**	**2008**
Cash flows from operating activities					
Operating profit		132 028	328 082	8 440	20 969
Adjustments:					
Depreciation and impairment charge	23-25	37 471	33 437	2 395	2 137
Profit/loss from sales of non-current assets	7	(519)	(954)	(33)	(61)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		56 548	146 798	3 614	9 382
Interest income from business activities		(4 476)	(1 404)	(286)	(90)
Change in provisions		(2 327)	(48 404)	(149)	(3 094)
Change in trade and other receivables related to operat. activities		223 055	387 471	14 256	24 764
Change in inventories		281 116	190 082	17 966	12 148
Change in trade and other payables related to operat. activities		(306 272)	(279 853)	(19 574)	(17 886)
Interest paid		(28 157)	(22 381)	(1 800)	(1 430)
Other finance income		(62)	(112)	(5)	(7)
Corporate income tax paid		(19 971)	(51 068)	(1 276)	(3 264)
Total cash flows from operating activities		368 434	681 694	23 548	43 568
Cash flows from investing activities					
Investment in subsidiaries	19	(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 investments		(138 157)	(265 569)	(8 830)	(16 973)
incl. deposits with maturities greater than 3 months		(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	17	(65 885)	(22 307)	(4 211)	(1 426)
Loan repayments received	17	45 793	4 190	2 927	268
Interest received		31 968	30 005	2 043	1 918
Total cash flows from investing activities		(198 750)	(231 830)	(12 703)	(14 816)
Cash flows from financing activities					
Proceeds from borrowings	27	56 841	237 380	3 633	15 171
Repayments of borrowings	27	(300 698)	(325 946)	(19 218)	(20 832)
Finance lease principal payments	27	(17 476)	(16 909)	(1 118)	(1 080)
Dividends paid		(64 650)	(6 528)	(4 132)	(417)
Cash flows from financing activities		(325 983)	(112 003)	(20 835)	(7 158)
Cash transferred in demerger		-	(25 000)	-	(1 598)
Net increase/decrease in cash and cash equivalents		(156 299)	312 861	(9 990)	19 996
Change in deposits with maturities greater than 3 months		138 157	262 759	8 830	16 793
Total change		(18 142)	575 620	(1 160)	36 789
Cash and cash equivalents at the beginning of the per	14	515 191	205 564	32 927	13 138
Deposits with maturities greater than 3 months at the beginning of the period		262 759	-	16 793	-
Total at the beginning of the period		777 950	205 564	49 720	13 138
Effect of exchange rate changes		840	(3 234)	54	(207)
Cash and cash equivalents at the end of the period	14	359 732	515 191	22 991	32 927
Deposits with maturities greater than 3m at the end of period		400 916	262 759	25 623	16 793
Total at the end of the period		760 648	777 950	48 614	49 720

The notes set out on pages 25-75 are an integral part of these consolidated financial statements.

NOTES

Note 1 Summary of significant accounting policies

1.1. General information

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter the group) for the financial year ended 31 December 2009 were signed by the Management Board at 20 April 2010.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board and which also includes the consolidated financial statements shall be approved at the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and presented by the Management Board and require preparation of a new annual report.

AS Merko Ehitus is an corporation registered in the Republic of Estonia (Commercial Register no.: 11520257, address: Järvevana tee 9G, Tallinn) and it operates in Estonia, Latvia and Lithuania. Its main activities are construction and real estate development.

From 22 July 1997, the shares of AS Merko Ehitus are listed on the Tallinn Stock Exchange. As at 31 December 2009, the majority shareholder AS Riverito (previous name: AS Merko Grupp) owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

AS Merko Ehitus was established in the demerger of the former AS Merko Ehitus, currently AS Järvevana, as a result of which all operating areas, i.e. all assets and liabilities other than the liabilities related to the criminal proceeding, were transferred to the new entity

1.2. Bases for preparation of the consolidated financial statements

The consolidated financial statements of Merko Ehitus group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention.

Several financial figures are based on management's estimates, including for example, assessment of profitability of construction contracts using the stage of completion method, assessment of the useful lives of items of property, plant and equipment, estimation of allowances for receivables and inventories, recognition of provisions for warranty obligations. Management's estimates have been made to the best of its knowledge, but they may not be accurate. The effect of changes in accounting estimates is reported in the financial statements of the period in which the change occurred.

Assets and liabilities are classified as current and non-current in statement of financial position. Current assets include assets that are expected to be used within the next financial year. Current liabilities include liabilities the due date of which is within 12 months after the balance sheet date. The remaining assets and liabilities are classified as non-current.

Expenses are classified according to their function in the income statement.

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency): the Estonian kroon, Latvian lats and the Lithuanian litas. The consolidated financial statements are presented in Estonian kroons. The primary financial statements and notes are presented in thousands of kroons. Pursuant to the requirements of the Tallinn Stock Exchange, the primary financial statements are also presented in thousands of euros. As the Estonian kroon is pegged to the Euro (EUR 1=EEK 15.6466), no exchange rate differences arise in the translation of the financial statements.

1.3. New International Financial Reporting Standards, amendments to published standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

a) Standards, amendments to standards and interpretations effective for group's financial year beginning on 1 January 2009

IAS 1 *Presentation of Financial Statements* (revised in September 2007)***.*** The main change in IAS 1 is the replacement of the income statement by the statement of comprehensive income which also includes all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The group has elected to present a single statement of comprehensive income. The revised standard also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the enitity restates comparatives due to reclassifications, changes in accounting policies, or correction of errors. The revised IAS 1 had an impact on the presentation of the group's primary statements but had no impact on the recognition or measurement of specific transactions and balances.

IFRS 8 *Operating Segments*. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or another regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in an increase in the number of reportable segments, because the previous segment *General construction* has been divided into segments *Construction of buildings and facilities, Road construction, Real estate development and Other*. The latter also includes the former segment *Concrete elements*.

IAS 23 *Borrowing Costs* (revised in March 2007). The main change to the standard is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Such borrowing costs are part of the cost of the asset, if the commencement date for capitalisation is on or after 1 January 2009. The group previously recognised all borrowing costs as an expense immediately. In accordance with the transition provisions of the standards, comparative figures have not been restated. The change in the accounting policy had no material impact on earnings per share.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7 *Financial Instruments: Disclosures* (issued in March 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary (effective for annual periods beginning on or after 1 July 2009); possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments had no material impact on the financial statements.

Standards, amendments to standards and interpretations which became effective in 2009 but which are not relevant to the group's operations.

IAS 32 and IAS 1 Amendment – ***Puttable Financial Instruments and Obligations Arising on Liquidation***.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate **— IFRS 1 and IAS 27 Amendment**.

Vesting Conditions and Cancellations – Amendment to IFRS 2 ***Share-based Payment***.

IFRIC 13 – ***Customer Loyalty Programmes***.

IFRIC 14, IAS 19 – ***The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***.

b) New standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 July 2009 which the group has adopted early.

IFRS 3 ***Business Combinations*** (revised in January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Early adoption of the amended standard had no significant impact on the consolidated financial statements.

Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The impact arising from the adoption of the standard had no significant impact on the consolidated financial statements.

c) New standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2010 which the group has not adopted early.

By the time of preparing these financial statements, new International Financial Reporting Standards and their interpretations have been issued which are effective for the group's annual periods beginning on or after

1 January 2010 but that the group has not adopted early. Below is an estimate of the group's management on the potential effect of new standards and interpretations to the financial statements in the period of their first-time adoption:

IFRIC 15 *Agreements for Construction of Real Estate* (as adopted by the EU is effective for annual periods beginning after 31 December 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 will have no impact on the financial statements, because the accounting policy applied by the group is in compliance with the interpretation.

Amendment to IAS 24 *Related Party Disclosures* (issued in November 2009; effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendments will have no material impact on the group's financial statements.

IFRS 9 *Financial Instruments* Part 1: Classification and Measurement (issued in November 2009; effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The group is considering the implications of the standard, the impact on the group and the timing of its adoption by the group.

Improvements to IFRS (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; as adopted by the EU, the amendments will be effective for annual periods beginning after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requirement to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amendment of IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; revision of IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; permission to classify certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementation of IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; revision of IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amendment of IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removal of the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

d) New standards, amendments to standards and interpretations effective for annual periods beginning on or after 1 January 2010 that the group has not adopted early and that are not relevant to the group's operations:

IFRIC 12 – ***Service Concession Arrangements*** (as adopted by the EU is effective for annual periods beginning on or after 30 March 2009).
IFRIC 16 ***Hedges of a New Investment in a Foreign Operation*** (as adopted by the EU is effective for annual periods beginning after 30 June 2009).
IFRIC 17 ***Distribution of Non-cash Assets to Owners*** (as adopted by the EU is effective for annual periods beginning after 31 October 2009).
IFRIC 18 ***Transfers of Assets from Customers*** (as adopted by the EU is effective for annual periods beginning after 31 October 2009).
Classification of Right Issues **– Amendment to IAS 32** (issued in October 2009, effective for annual periods beginning on or after 1 February 2010).
Eligible Hedged Items –Amendment to IAS 39 ***Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009).
IFRS 1 ***First-time Adoption of International Financial Reporting Standards*** (revised in December 2008, the standard is effective for IFRS financial statements prepared for a period beginning on or after 1 July 2009; as adopted by the EU is effective for annual periods beginning after 31 December 2009).
Additional Exemptions for First-time Adopters **- Amendments to IFRS 1** (effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU).
Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU).
group Cash-settled Share-based Payment Transactions **– Amendments to IFRS 2** (effective for annual periods beginning on or after 1 January 2010).
Amendment to IFRS 5 ***Non-current Assets Held for Sale and Discontinued Operations*** **and consequential amendments to IFRS 1** (effective for annual periods beginning on or after 1 July 2009).
Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (issued in March 2009, effective for annual periods beginning on or after 30 June 2009; as adopted by the EU is effective for annual periods beginning after 31 December 2009.)
Prepayments of a Minimum Funding Requirement **– Amendment to IFRIC 14** (effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU).
IFRIC 19 ***Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

1.4. Consolidation

Subsidiaries or entities that are either directly or indirectly through fellow subsidiaries controlled by the parent AS Merko Ehitus, have been consolidated on a line-by-line basis in the consolidated financial statements. Control exists when the parent owns more than one half of the voting power of the subsidiary or otherwise has power to govern the operating and financial policies of the other entity. Subsidiaries are fully consolidated in the financial statements of the group from the date of acquiring control until the date at which control ceases.

Upon consolidation, intra-group receivables and liabilities, income and expenses as well as unrealised profits and losses arising from intra-group transactions have been eliminated unless a loss is caused by impairment. group entities use uniform accounting policies.

1.5. Business combinations

Business combinations are accounted for using the purchase method. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. From the date of acquisition, the revenue and expenses of the acquired entity are reported in the income statement of the group and goodwill is reported in the statement of financial position of the group.

Goodwill is the excess of the cost of acquisition over the fair value of the assets acquired, reflecting the portion of the cost which was paid for such assets of the acquired entity that cannot be separated and recognised separately. Goodwill is recognised at its cost as an intangible asset at the date of acquisition.

Goodwill is subsequently measured at its cost less any impairment losses. Goodwill arising in a business combination is not amortised. Instead, an impairment test is carried out once a year. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable (Note 1.11).

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions with minority interest
The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of the net assets of the subsidiary.

1.6. Associates

Associates are all entities in which the group has significant influence but not control over their operating and financial policies. Significant influence is presumed to exist when the parent owns between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and subsequently measured using the equity method of accounting. Investments in associates include goodwill identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the group's income statement, and its share of post-acquisition movements in equity is recognised directly in the group's equity items. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1.7. Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted by the changes that have occurred in the group's share of the net assets under joint control. The income statement of the group includes the group's share in the profits or losses of the entity under joint control. Unrealised gains and losses from transactions between the group and its joint ventures are eliminated similarly to transactions with associates (Note 1.6).

1.8. Jointly controlled operations

Under IAS 31 *Interests in Joint Ventures*, jointly controlled operations are joint operations with third parties, whereby the assets and other resources of venturers are used without the establishment of a new entity or another unit or creation of a separate financial structure. Each venturer uses its own property, plant and equipment and carries its own inventories in the statement of financial position. The venturer also incurs its own expenses and liabilities and raises its own funds which represent its own obligations. In respect of its interest in jointly controlled operations, a venturer recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs;
- the expenses that it incurs and its share of revenue that it earns from the sale of goods or services of the joint venture.

1.9. Foreign currency

Foreign currency transactions are recorded based on the foreign currency exchange rates of the Bank of Estonia prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period.

The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into Estonian kroons for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the Bank of Estonia prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity item *Currency translation differences*.

1.10. Financial assets

The purchases and sales of financial assets are recognised at the trade date.
Depending on the purpose for which financial assets were acquired, financial assets are classified into the following categories at the group:

- financial assets at fair value through profit or loss;
- loans and receivables
- held-to-maturity investments;
- available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition.

The Company does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The group does not have any derivatives either.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets except for maturities greater than 12 months after the balance sheet date. Such assets are classified as non-current assets. Loans and receivables are initially recognised at their fair value less transaction costs. After initial recognition, the group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the following periods using the effective interest rate method.

Receivables are assessed based on the collectible amounts. Each receivable is assessed separately considering all known information on the solvency of the party to transaction. Receivables whose collection is improbable are written down during the reporting period (see also 1.11)

1.11. Impairment of assets

Financial assets at amortised cost
The group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (loss events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the group regarding the following events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it is probable that the debtor will enter bankruptcy;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

If there is objective evidence that an impairment loss has incurred for loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have already been recognised), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be related to an event occurring after impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Non-financial assets
Assets that have indefinite useful lives (including goodwill) are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and compared with the carrying amount. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date and if necessary, the impairment loss is reversed except for the write-down of goodwill.

1.12. Inventories

Inventories are recorded in the statement of financial position at cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

In case of separately identifiable inventory items, their cost is determined based on expenditure incurred specifically for the acquisition of each asset. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used.

Inventories are recognised in the statement of financial position at the lower of cost and net realisable value. The net realisable value is the sales price less estimated costs to sell.

Expenditure incurred for real estate development is reported in the statement of financial position line *Inventories* either as work-in-progress or finished goods, depending on the stage of completion. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. Borrowing costs during the period of construction are capitalised until permit for use is obtained for the project. Expenses associated with maintenance or usage of the property are not capitalised.

A completed real estate property is sold either in parts (by houses, apartments, office spaces, etc.) or as a whole. Revenue is recognised as income from the sale of goods (Note 1.21). Upon the sale of real estate properties the group and the acquirer enter into a notarially certified agreement for transferring the property, and a respective entry is made in the land register.

1.13. Investment property

Investment property is real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both, but not for the production of goods or services, for administrative purposes or for sale in the ordinary course of business. Investment property is measured using the cost model, that is at cost less any accumulated depreciation and any accumulated impairment losses.

Buildings included in investment properties are depreciated on a straight-line basis over the period of 12.5 to 33.3 years. Land is not depreciated.

1.14. Property, plant and equipment

An item of property, plant and equipment is an asset used for production, provision of services or administrative purposes over a period longer than one year. The cost consists of the purchase price of the asset and other expenditure incurred in bringing the asset to its operating condition and location.

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred. Depreciation is calculated on a straight-line basis over the following useful lives:

- buildings 10-33.3 years;
- machinery and equipment 3-5 years:
- other items of property, plant and equipment 2.5-5 years;
- right of superficies 50 years.

Land is not depreciated.

At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets is assessed.

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Non-current assets are written down to their recoverable amount if the latter is lower than their carrying amount. The recoverable amount is the higher of the asset’s net selling price and its value in use.

1.15. Intangible assets

Intangible assets are recognised in the statement of financial position when the asset can be controlled by the Company, the expected future benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. The cost of an intangible asset consists of its purchase price and other expenditure directly related to the purchase. Intangible assets are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill is not amortised.

Software and information systems
The costs related to the development of information systems and software which are reported as intangible assets, are depreciated under a straight-line method over their estimated useful lives (2-10 years).

1.16. Finance and operating leases

Leases of property, plant and equipment which transfer all significant risks and rewards of ownership to the lessee are classified as finance leases. All other leases are recognised as operating leases.

Assets and liabilities leased under the finance lease terms are reported in the statement of financial position at the lower of fair value of the leased asset and the present value of minimum rental payments. Items of property, plant and equipment leased under the finance lease terms are depreciated over the shorter of the lease term and the useful life.

Finance lease liabilities are reduced by principal payments; interest expenses on lease payments are included within finance costs in the income statement. Finance costs are allocated to rental period so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are reported in the income statement as expenses on an accrual basis over the lease term.

1.17. Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, bonds issued and other short and long-term borrowings) are initially recorded at their fair value and are subsequently stated at amortised cost, using the effective interest rate method. The amortised cost of the current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the statement of financial position in their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had at the balance sheet date the contractual right to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs directly related to the acquisition and construction of a real estate property until the property is ready for use or sale, are capitalised. In other cases, borrowing costs are recognised as an expense in the period in which they are incurred.

1.18. Corporate income tax

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. Thus, in Estonia there are no differences between the tax bases and the carrying amounts of assets which would give rise to a deferred income tax asset or liability. From 01.01.2009, the tax rate on dividends payable is 21/79 (in 2008: 21/79; 2007: 22/78) of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared.

Corporate income tax on profits and deferred income tax expense or income of the subsidiaries located in Latvia and Lithuania as well as corporate income tax on dividends of Estonian entities are reported in the consolidated income statement.

Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax assets are recognised in the group's statement of financial position if their future realisation is probable.

Legal entities in Latvia and Lithuania that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia and the Republic of Lithuania. The profits of entities located in the Republic of Latvia are taxed at the rate of 15% (2008: 15%) and the profits of entities located in the Republic of Lithuania are taxed at the rate of 20% (2008: 15%).

1.19. Employee benefits

Termination benefits
Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of another offer made to encourage voluntary redundancy. Benefits due more than 12 months after the balance sheet date are discounted to present value.

Profit-sharing and bonus plans
The Company recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the parent's shareholders after certain adjustments. The group recognises a provision where contractually obliged or when there is past practice that has created a constructive obligation.

1.20. Provisions

Provisions are constructive or legal obligations which arise as a result of events occurring before the balance sheet date. Setting up of provisions or increasing existing provisions is recognised as expense in the income statement of the reporting period.

Provisions are recognised in the statement of financial position based on the best estimate of the management board at the present value of the expenditure expected to be suffiecient to settle the obligation. Pre-tax rate of discount is used, which reflects current market valuations of the time value of money and the risks associated with liabilities that are not already included in the best estimate of the related expenses.

Pursuant to respective building acts, the construction companies of the group provide 2-year warranties on their buildings. The calculation of warranty provisions is based on management estimates and previous periods' experience with regard to actual warranty expenses.

The expected loss arising from construction contracts is immediately recognised as an expense. A provision is recognised for onerous construction contracts which have not been completed yet (Note 1.22).

1.21. Revenue

Revenue is recognised at the fair value of the consideration received or receivable.

Revenue from the provision of construction services is recognised as revenue by reference to the stage of completion of the contract (see Note 1.22) in accordance with IAS 11 *Construction Contracts*. Revenue from own real estate development projects (private dwelling houses, apartments, office premises, etc. that have been built on the registered immovables owned by entities of Merko Ehitus group) is recognised as revenue in accordance with IAS 18 *Revenue* when significant risks and rewards of ownership of the goods are transferred to the buyer, the receipt of payment is probable and the costs incurred in respect of the transaction can be measured reliably.

When goods are sold or swapped in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents received or paid. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents received or paid.

Revenue from the provision of services is recognised based on the stage of completion of the service at the balance sheet date.

Revenue arising from interest and dividends is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably.

1.22. Construction contracts in progress

Income and expenses of construction contracts in progress have been matched under the stage of completion method. The stage of completion is determined on the basis of the relationship between the actual costs incurred by the balance sheet date and the estimated costs of the contract. The actual costs of the contract consist of direct and overhead costs of the construction contact.

If invoices submitted to the customer by the balance sheet date are either higher or lower than the income calculated under the stage of completion method, then the difference is recognised as a liability or as a receivable in the statement of financial position.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and in full.

1.23. Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate. Government grants received to compensate the operating expenses of the previous period or where there are no additional conditions attached to grants to be addressed in the future, are accounted for as income when the grant is received. Government grants are recognised when there is reasonable assurance that the grant will be received and the group will comply with all attached conditions.

1.24. Cash and cash equivalents

In the balance sheet and the cash flow statement, cash and cash equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less. In the consolidated cash flow statement in addition to the changes in cash and its equivalents, also changes in short-term bank deposits with maturities over 3 months are included due to the possibility of using these deposits immediately in case of need without significantly affecting the financial position of the group.
The indirect method has been used for the preparation of the cash flow statement.

1.25. Contingent liabilities

Contingent liabilities are those liabilities the realisation of which is less probable than non-realisation and the amount of which cannot be determined reliably. Contingent liabilities are not recognised in the statement of financial position, but they are disclosed in the notes to the financial statements.

1.26. Statutory reserve capital

Reserve capital is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

1.27. Events after the balance sheet date

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities which became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods. Material events after the balance sheet date not related to transactions in the reporting period or previous periods are not reported in the statement of financial position but they are disclosed in the notes to the financial statements.

1.28. Dividends

The distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

1.29. Segment reporting

IFRS 8 *Operating Segments*, which became effective at 1 January 2009, specifies segment reporting for operating segments whose results are regularly reviewed by the entity's chief operating decision maker to make business-related decisions. Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance.

The following segments are identified in the group's financial statements:

- construction of buildings,
- construction of facilities,
- road construction,
- real estate,
- other

The first three segments relate to the provision of construction services. The real estate segment is primarily based on its own real estate development – construction and sale, and to a lesser degree, maintenance and leasing of real estate. Other activities (management related service, security services, etc) are immaterial from the group's standpoint and they are not reported as separate operating segments in the financial statements.

1.30. Changes in presentation of information

As compared to the previous year, the following changes have been made to the presentation of information in the financial year:

- losses from write-down of inventories are recognised in the income statement line *Cost of goods sold,* in the previous year, they were recognised in the line *Other operating expenses*;
- The cost of doubtful receivables is recognised in the line *Other operating expenses*, in previous years, they were recognised in the line *Administrative and general expenses.*

Comparative information for the previous financial year has been brought in compliance with the new presentation in these financial statements. The effect of the change on the financial statements is immaterial.

Note 2 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are relevant to the consolidated financial statements of Merko Ehitus group, are disclosed below. Changes in management's estimates are reported in the income statement of the period of the change.

Valuation of receivables
In valuation of receivables, each receivable is analysed separately. In determining the need for a complete or partial write-down of receivables, the debtor's financial position, the guarantees provided, the solutions offered to pay off the loan and the previous payment behaviour of the debtor are considered.

Provision for warranty obligations
In determining the provision for warranty obligations, the statistical cost of the Company's warranty works is considered.

Inventory write-down
Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated by the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, the determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis showed that had the net realisable value been overestimated by 10% (income would be 10% lower upon the disposal of assets), the Company's write-down of inventories would have been 121 848 thousand kroons higher in 2009 (incl. land for sale in the amount of EEK 43 657 thousand, construction in progress in the amount of EEK 46 156 thousand, finished buildings in the amount of EEK 22 277 thousand and prepayments related to acquisition of real estate properties in the amount of EEK 9758 thousand). Had the value been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories for the year 2009 would have been EEK 55 121 thousand lower (incl. land for sale in the amount of EEK 13 428 thousand, construction in progress in the amount of EEK 15 868 thousand, finished buildings in the amount of EEK 19 035 thousand and prepayments related to acquisition of real estate properties in the amount of EEK 6790 thousand).

In addition to the cost of inventories, determination of the value of real estate properties also impacts the real estate related financial investments through a change in the value of the associate. Had management's estimate regarding the real estate properties located at associates been 10% more conservative, i.e. the expected return on disposal of assets had been 10% lower, an additional impairment loss in the amount of EEK 16 851 would have been incurred for financial assets and vice versa, had management's estimate been 10% more optimistic, the increase in value would have been EEK 353 thousand.

Revenue under the stage of completion method
Revenue from construction in progress is recognised under the stage of completion method (Note 1.22), which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31.12.2009, the amount of the provision for onerous contracts was 4035 thousand kroons which was determined after the evaluation of the stage of completion of construction contracts (Note 30). Risk analysis showed that a change in the estimated costs of construction projects in the range of +/-10% will result in a change in the net profit between +/- 377 558 thousand kroons.

Determination of the useful lives of items of property, plant and equipment
Management has estimated the useful lives of items of property, plant and equipment, taking into consideration conditions and volumes of business activities, historical experience in this area and future outlook. Management estimates that the useful lives of buildings and facilities are between 10 and 33.3 years depending on their structure and the purpose of use. The average useful lives of machinery and equipment are on average between 3 and 5 years and those of other fixtures between 2.5 to 5 years depending on the purpose of use of the asset.

Valuation of property, plant and equipment and intangibles
At each balance sheet date an impairment test is performed for the intangible assets with indefinite useful lives including goodwill, and the carrying amount is written down to its recoverable amount if this is lower than carrying amount. Impairment test is also carried out for property, plant and equipment and intangibles when an event or change in circumstances indicates that impairment may have occurred.

Recoverable amount is the lesser of fair value of an asset less cost to sell and its value in use. Evaluation of fair value is based on authoritative information of the proceeds from sale to an informed, interested and independent party, less cost of disposal. The test is used both for single assets and for cash-generating unit. Assets, intangible assets included, which have no autonomous (independent from other assets) capacity to earn revenues, are treated as cash-generating units and valuation of recoverable amount is based on value in use.

For the purpose of the test, in order to assess the value in use, management prepares a realistic forecast for the cash flows to be earned in subsequent periods by the business unit and calculates the present value of these cash flows. For determining the present value, the discount rate is used which management believes objectively reflects the risk level of the respective business unit and its expected rate of return. If the recoverable amount determined in such a way exceeds the carrying amount of the non-current assets and goodwill of the business unit subject to testing, goodwill is not written down.

Key assumptions for determining the recoverable amount of goodwill are disclosed in Note 19.

Borrowing costs
Borrowing costs that are related to a qualifying asset (one, that necessarily takes a substantial period of time to get ready for its intended use or sale) are recognised in the cost of inventory. Interest expense related to holding and later use of assets is recorded under financial expenses as period cost. Most of the interest expense incurred in the group is related to the acquisition of immovables and construction of residential property. The decision regarding capitalisation or expensing of borrowing costs is made by the management. Management bases its decision on the following:

Upon acquisition of immovables which are ready for intended use or sale the borrowing costs related to holding such assets are not capitalised;
Borrowing costs related to a specific development project are capitalised during the construction period until obtaining the permit for use. If, depending on the market situation, the management temporarily suspends the construction of an object, the capitalisation of borrowing costs is ceased at the same time and the borrowing costs incurred during the period of suspended development are expensed.

According to the management's estimate the borrowing costs incurred in 2009 were not related to the preparation of assets for use or sale and therefore all borrowing costs were expensed under finance expenses.

Note 3 Operating segments

in thousands of kroons

The chief operating decision maker, the directorate and management of AS Merko Ehitus, monitors the business of the group by operating segments. The performance of the segments is assessed based on segment's revenue derived from outside the group and pretax profit. The profit and loss account information and assets of reportable segments have been reported in accordance with the accounting principles used in drawing up of these financial statements. All segments are involved in the sale of construction services with the exception of real estate development segment whose revenue is derived from the sale of apartements in development projects.

2009	Buidings	Facilities	Roads	Development of real estate	Other	Total segments
Segment revenue	1 809 728	955 780	439 444	405 915	8 480	3 619 347
Inter-segment revenue	(262 646)	(15 776)	(142 295)	(13 560)	(3 861)	(438 138)
Revenue from external clients	1 547 082	940 004	297 149	392 355	4 619	3 181 209
incl. client, whose revenue is at least 10% from consolidated revenue	-	344 522	-	-	-	344 522
Depreciation and impairment charge	(2 506)	(13 106)	(9 543)	(793)	(4 456)	(30 404)
Inventory write-downs	-	-	-	(81 752)	-	(81 752)
Profit (loss) from associates and joint ventures	-	-	-	(13 634)	(13 456)	(27 090)
Other finance income/costs	51	(792)	(1 459)	(2 614)	1 181	(3 633)
Profit before tax	241 185	82 912	31 038	(24 040)	(23 308)	307 787
Segment assets	362 921	170 564	189 153	1 452 735	71 862	2 247 235

2008	Buidings	Facilities	Roads	Development of real estate	Other	Total segments
Segment revenue	2 539 459	719 381	502 919	1 141 760	41 476	4 944 995
Inter-segment revenue	(153 907)	(22 367)	(28 910)	(65 478)	(20 400)	(291 062)
Revenue from external clients	2 385 552	697 014	474 009	1 076 282	21 076	4 653 933
Depreciation and impairment charge	(3 640)	(5 062)	(9 709)	(378)	(5 538)	(24 327)
Inventory write-downs	-	-	-	(152 105)	-	(152 105)
Loss from sale of subsidiary	1 418	-	-	-	-	1 418
Profit (loss) from associates and joint ventures	3 601	-	-	(4 965)	(3 201)	(4 565)
Other finance income/costs	(1 440)	(1 481)	(1 244)	(1 067)	(130)	(5 362)
Profit before tax	306 807	27 139	19 382	232 391	(9 197)	576 522
Segment assets	321 362	201 738	164 426	1 922 425	66 124	2 676 075

In addition to the segment assets the group holds assets of EEK 1 266 739 thousand (2008: EEK 1 185 014 thousand) that can not be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to associates and joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment. A significant part of the unallocated property, plant and equipment is made up by the office building of AS Merko Ehitus acquired in 2009 for EEK 56 544 thousand.

Reconciliation of the pretax profit of segments and the group

	2009	**2008**
Profit (loss) from reporting segments	307 787	576 522
Unallocated expense (income)		
marketing expenses	(47 094)	(43 921)
administrative expenses	(154 000)	(202 820)
other operating income (expense)	(5 388)	(10 208)
financial income (expense)	18 553	13 136
incl. interest income	37 828	34 400
interest expense	(16 725)	(13 174)
Profit before tax	119 858	332 709

Unallocated expenses include such expenses (and income) that arise at group level and are not directly related to reportable segments. Unallocated finance expenses and income mostly include income from deposits but also interest expense not capitalised and other immaterial finance costs.

Revenue by client location

	2009	**2008**
Estonia	2 181 197	2 893 304
Latvia	925 985	905 345
Lithuania	74 027	855 284
Total	3 181 209	4 653 933

Property, plant and equipment (exept financial assets and deffered income tax assets) by assets location:

	31.12.2009	**31.12.2008**
Estonia	290 429	197 866
Latvia	15 825	21 993
Lithuania	812	1 044
Total	307 066	220 903

Note 4 Cost of goods sold

In thousands of kroons

	2009	2008
Construction services	1 533 504	2 343 275
Materials	455 124	399 557
Properties purchased for resale	270 884	426 138
Staff cost	247 018	356 945
Construction mechanisms and transport	93 412	137 136
Design	26 229	81 547
Allowance for inventories (Note 18)	81 752	152 105
Depreciation and impairment charge	30 404	24 327
Other expenses	96 842	124 276
Total cost of goods sold	2 835 169	4 045 306

Note 5 Marketing expenses

In thousands of kroons

	2009	2008
Staff costs	17 177	13 118
Construction tenders	10 592	3 643
Advertising, sponsorship	10 378	19 330
Transport	1 758	1 887
Depreciation and impairment charge	489	417
Other expenses	6 700	5 526
Total marketing costs	47 094	43 921

Note 6 General and administrative expenses

In thousands of kroons

	2009	2008
Staff costs	98 364	112 222
Office expenses, communication services	16 044	18 040
Transport	7 692	8 339
Consulting, legal, auditing	6 826	18 796
Depreciation and impairment charge	6 572	8 666
Computer equipment and software	4 993	7 292
Other expenses	13 509	29 465
Total general and administrative expenses	154 000	202 820

Note 7 Other operating income

In thousands of kroons

	2009	2008
Fines and penalties for delay received	2 492	3 966
Collection of doubtful receivables	4 745	30
Interest income from operating activities	4 476	1 404
Profit from sale of non-current assets	519	954
Other income	2 176	3 175
Total other operating income	14 408	9 529

Note 8 Other operating expenses

In thousands of kroons

	2009	2008
Fines, penalties	7 832	12 457
Gifts, donations	4 250	5 044
Doubtful receivables expense	13 854	20 878
Doubtful interest receivable expense	-	1 025
Other expenses	1 390	3 929
Total other operating expenses	27 326	43 333

Note 9 Finance income

In thousands of kroons

	2009	2008
Interest income	37 828	34 401
Foreign exchange gains	1 209	-
Other finance income	480	4
Total finance income	39 517	34 405

Note 10 Finance costs

In thousands of kroons

	2009	2008
Interest expense	23 478	18 392
Foreign exchange loss	-	6 942
Other finance costs	1 119	1 297
Total finance costs	24 597	26 631

Note 11 Corporate income tax

In thousands of kroons

The income tax on the group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities for the following reasons:

2009

	Latvia	**Lithuania**	**Estonia**	**Total**
Profit before tax	106 172	(77 402)	91 088	119 858
Tax rate applicable to profits	15%	20%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(15 926)	15 480	-	(446)
Tax calculated on expenses not deductible for tax purposes	(456)	(2 965)	-	(3 421)
Tax calculated on income not subject to tax	943	382	-	1 325
Effect of change in income tax rate	-	(763)	-	(763)
Tax loss not recognised in the reporting period	-	(2 001)	-	(2 001)
Corporate income tax on dividends	-	-	(3 190)	(3 190)
Tax charge	(15 439)	10 133	(3 190)	(8 496)
incl. current tax	(13 182)	-	(3 190)	(16 372)
deferred tax charge (Note 22)	(2 257)	10 133	-	7 876

2008

	Latvia	**Lithuania**	**Estonia**	**Total**
Profit before tax	72 554	30 210	229 945	332 709
Tax rate applicable to profits	15%	15%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(10 883)	(4 531)	-	(15 414)
Tax calculated on expenses not deductible for tax purposes	(3 269)	(283)	-	(3 552)
Tax calculated on income not subject to tax	2 478	508	-	2 986
Effect of change in income tax rate	-	299	-	299
Tax loss not recognised in the reporting period	-	464	-	464
Corporate income tax on dividends	-	-	(11 122)	(11 122)
Tax charge	(11 674)	(3 543)	(11 122)	(26 339)
incl. current tax	(30 348)	(5 699)	(11 122)	(47 169)
deferred tax charge (Note 22)	18 674	2 156	-	20 830

Income tax on dividends was incurred at the group due to the distribution of the subsidiaries' profits as dividends.
As at 31.12.2009, it is possible to pay out dividends to shareholders from retained earnings in the amount of EEK 1 526 423 thousand and the corresponding income tax would amount to EEK 405 758 thousand. As at 31.12.2008, it would have been possible to pay out EEK 1 485 383 thousand, and the corresponding income tax would have amounted to EEK 394 849 thousand.

Note 12 Earnings per share

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

	2009	**2008**
Net profit attributable to shareholders *(in thousands of kroons)*	116 166	299 140
Weighted average number of ordinary shares *(thousand pcs)*	17 700	17 700
Earnings per share *(in kroons)*	6.56	16.90

In 2008 and 2009, 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 13 Dividends per share

Dividends payable are recognised after the approval of profit allocation at the General Meeting of Shareholders. According to the profit allocation proposal, EEK 194 700 thousand, i.e. EEK 11 per share, will be distributed as net dividends in 2010, incurring a maximum corporate income tax charge of 21/79 of the amount paid i.e. EEK 51 756 thousand.

In 2009, EEK 61 950 thousand, i.e. 3.50 kroons per share were paid out as dividends whereas AS Merko Ehitus did not need to pay corporate income tax due to the dividends received from subsidiaries and which were taxable in prior periods. The parent AS Merko Ehitus did not pay dividends in 2008.

Note 14 Cash and cash equivalents

In thousands of 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
Total cash and cash equivalents	359 732	515 191

As at 31.12.2009, the weighted average interest on overnight deposits was 1.4% (31.12.2008: 5.3%). The weighted average interest on bank deposits with maturities of 3 months or less was 4.3% (2008: 7.6%) and the average maturity as at 31.12.2009 was 32 days (31.12.2008: 58 days).

Note 15 Short-term deposits

In thousands of kroons

	31.12.2009	**31.12.2008**
Bank deposits with maturities greater than 3 months	400 916	262 759

The weighted average interest on bank deposits with maturities greater than 3 months was 3.5% (2008: 6.5%) and the average maturity as at 31.12.2009 was 117 days (2008: 155 days).

Note 16 Trade and other receivables

In thousands of kroons

	31.12.2009	31.12.2008
Trade receivables		
Accounts receivable	405 030	556 511
incl. from related parties (note 34)	3 178	117 212
Allowance for doubtful receivables	(19 921)	(20 085)
	385 109	536 426
Tax prepayments excluding corporate income tax		
Value added tax	7 823	37 320
Social security tax	7	6
Other taxes	922	1 268
	8 752	38 594
Amounts due from customers of contract works (Note 33)	102 144	109 305
Other short-term receivables		
Short-term loans (Note 17)	96 874	47 454
Interest receivables	13 524	6 940
Receivable from buyer of subsidiary	7 125	7 000
Other short-term receivables	2 253	1 519
	119 776	62 913
Prepayments for services		
Prepayments for construction services	38 197	24 127
Prepaid insurance	1 764	1 540
Other prepaid expenses	6 212	7 760
	46 173	33 427
Total trade and other receivables	661 954	780 665

Trade receivables by due dates

Thousands of kroons

	31.12.2009		31.12.2008	
Not overdue	235 389	61.1%	403 913	75.3%
1-30 days overdue	36 021	9.4%	49 458	9.2%
31-60 days overdue	5 536	1.4%	18 060	3.3%
61-90 days overdue	54 343	14.1%	6 102	1.1%
91-120 days overdue	8 535	2.2%	15 827	3.0%
121-180 days overdue	39 317	10.2%	16 976	3.2%
More than 180 days overdue	5 968	1.6%	26 090	4.9%
Total trade receivables	385 109	100.0%	536 426	100.0%

Due to the overall deterioration of the financial environment and liquidity, the quality of receivables has also considerably deteriorated. In a year, the share of overdue receivables in total receivables has increased from 24.71% to 38.9%. In 2009, the group wrote down uncollectible receivables in the amount of EEK 19 921 thousand (2008: EEK 20 085 thousand). Management considers it likely that the receivables carried in the financial statements will be paid by customers. As at the balance sheet date, the amount of overdue receivables was EEK 149 721 thousand kroons, including EEK 1656 thousand held as security by customers, which will be released at the completion of the project upon presentation of a guarantee. By the date of approval of the financial statements, EEK 106 912 thousand of overdue debt had been collected.

A more detailed overview of the Company's credit risk is provided in Note 37.

Note 17 Loans granted

In thousand kroons

	2009	2008
Loans granted to joint ventures		
Loan balance at beginning of the year	34 667	12 725
Granted	3 925	22 307
Collected	(3 153)	(175)
Exchange difference	(43)	(190)
Loan balance at end of the year	35 396	34 667
incl. current portion	16 500	16 400
non-current portion 1...5 years	18 896	18 267
Average effective interest rate 12.4% (2008: 5.0%)		
Loans granted to entities under joint control		
Loan balance at beginning of the year	7 065	7 178
Granted	61 178	-
Loan receivable relating to sale of subsidiary	-	4 015
Reclassification of receivable as loan granted	19 962	-
Collected	(42 246)	(4 015)
Exchange difference	(15)	(113)
Loan balance at end of the year	45 944	7 065
incl. current portion	43 054	4 169
non-current portion 1...5 years	2 890	2 896
Average effective interest rate 3.2% (2008: 8.0%)		
Loans granted to un-related legal entities		
Loan balance at beginning of the year	26 885	29 899
Granted	782	-
Reclassification of receivable as loan granted	10 046	-
Collected	(394)	-
Write-down	-	(3 000)
Exchange difference	-	(14)
Loan balance at end of the year	37 319	26 885
incl. current portion	37 319	26 885
Average effective interest rate 7.7% (2008: 6.0%)		
Total loans granted		
Loan balance at beginning of the year	68 617	49 802
Granted	65 885	22 307
Reclassification of loan granted to subsidiary	-	4 015
Reclassification of receivable as loan granted	30 008	-
Collected	(45 793)	(4 190)
Exchange difference	(58)	(317)
Write-down	-	(3 000)

Loan balance at end of the year	118 659	68 617
incl. current portion (Note 16)	96 874	47 454
Non-current portion 1…5 years (Note 21)	21 785	21 163

All loans granted are fully performing at the balance sheet date.

Note 18 Inventories

In thousands of kroons

	31.12.2009	**31.12.2008**
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
*incl. registered immovables located on nature preserve areas**	*59 653*	*59 653*
Other goods purchased for resale	2 543	11
	689 086	713 814
Prepayments for inventories		
Prepayments for real estate properties	87 192	33 257
Prepayments for other inventories	14 763	1 704
	101 955	34 961
Total inventories	1 536 463	1 817 486

* There are strict building restrictions on immovables located on nature preserve areas and their use for development purposes, either directly or indirectly, is not permitted. According to the Nature Conservation Act of the Republic of Estonia, an immovable which is located within the territory of a protected area, special conservation area or species protection site and the use of which for intended purposes is significantly hindered by the protection procedure, may be transferred to the state by agreement between the state and the owner of land for a consideration equivalent to the usual value of the immovable (§20 of Nature Conservation Act). Until the entry into force of the new version of the Act, an older version was in force until 01.08.2008 which laid down the exchange of nature preserve areas with the state.

The value of an immovable, other than a forest immovable, is determined using the transaction comparison method. In determining the value of an immovable, the real rights which due to their nature cannot be deleted from the land register are considered (e.g. servitudes, neighbourhood rights) as well as those arising from laws other than the restrictions on an immovable property arising from the protection procedure which forms a basis for the acquisition of an immovable.

Based on the overall economic environment and a tense state budget situation, the transfer of the registered immovables is unlikely in the near term. Management is of opinion that in the long term, the state is required to purchase these registered immovables or annul the restrictions set for them as a result of which they have been treated as land without restrictions and the registered immovables have not been written down.

As at 31.12.2009, inventories have been written down to their net realisable value by EEK 81 752 thousand (2008: EEK 152 105 thousand) (Notes 2, 4):

	Carrying amount before write-down	Write-down	Carrying amount after write-down
31.12.2009			
Finished goods	288 232	19 990	268 242
Work-in-progress	474 144	3 716	470 428
Land purchased for resale	726 854	40 311	686 543
Prepayments for real estate	104 927	17 735	87 192
31.12.2008			
Finished goods	656 652	133 447	522 205
Work-in-progress	556 909	15 775	541 134
Land purchased for resale	716 686	2 883	713 803

Only commercial premises and apartment buildings in the categories of *Finished goods* and *Work-in-progress* were written down. In 2008, only apartment buildings were written down.

Note 19 Shares in subsidiaries

In thousands of kroons

	Ownership and voting rights % 31.12.2009	Ownership and voting rights % 31.12.2008	Location	Area of operation
Subsidiaries of AS Merko Ehitus				
AS Gustaf	75	75	Pärnu	construction
AS Merko Tartu	66	66	Tartu	construction
Ringtee Tehnopark OÜ	100	100	Tallinn	construction
Tallinna Teede AS	100	100	Tallinn	road construction
SIA Merks	100	100	Republic of Latvia, Riga	construction
UAB Merko Statyba	100	100	Republic of Lithuania, Vilnius	construction
OÜ Merko Elamu	100	100	Tallinn	real estate
OÜ Woody	100	100	Tallinn	real estate
OÜ Gustaf Tallinn	80	80	Tallinn	construction
OÜ Rae Tehnopark	-	100	Tallinn	real estate
OÜ Maryplus	100	100	Tallinn	real estate
OÜ Metsailu	100	100	Tallinn	real estate
OÜ Constancia	100	100	Tallinn	real estate
OÜ Käibevara	100	100	Tallinn	real estate
OÜ Baltic Electricity Engineering	100	100	Tallinn	electricity systems
OÜ Fort Ehitus	75	75	Harjumaa, Viimsi rural municipality	construction
OÜ Tähelinna Kinnisvara	100	-	Tallinn	real estate
OÜ Mineraal	100	-	Tallinn	other mining
AS Merko Infra	100	-	Tallinn	construction

At 2nd of April 2009, AS Merko Ehitus merged with its subsidiary OÜ Rae Tehnopark that is engaged in real estate development.
At 18th of December 2009, AS Merko Ehitus acquired OÜ Tähelinna Kinnisvara, which is the subsidiary of AS Riverito's subsidiary E.L.L. Kinnisvara, the main activity of which is the leasing of the head office building of AS Merko Ehitus.

At 18th of May 2009, AS Merko Ehitus acquired a subsidiary OÜ Mineraal involved in sand and gravel extraction and which had not yet launched its operations, and in November 2009, it set up a subsidiary AS Merko Infra, in which the former department of outdoor utility lines launched its operations.
At 2nd of December 2009, the wholly-owned subsidiary of AS Merko Ehitus, Tallinna Teede AS, acquired 100% ownership in a subsidiary AS Vooremaa Teed, the main activity of which is also road construction.

Acquisition of subsidiaries
in thousands of kroons

	AS Vooremaa Teed		**OÜ Tähelinna Kinnisvara**		**OÜ Mineraal**	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash	6 552	6 552	30 763	30 763	40	40
Receivables	6 455	6 455	32	32	-	-
Inventories	3 120	3 120	-	-	-	-
Property, plant and equipment	21 180	35 182	31 059	56 544	-	-
Current liabilities	(6 151)	(6 151)	(217)	(217)	-	-
Non-current liabilities	(10 639)	(10 639)	(36 196)	(36 196)	-	-
Net assets	20 517	34 519	25 441	50 926	40	40
Acquired ownership interest	100%		100%		100%	
Value of acquired net assets	20 517	34 519	25 441	50 926		40
Cost		48 458		50 926		40
Goodwill (Note 25)		13 939		-		-
Sales revenue						
- from the beginning of the year	54 179		8 511		873	
- post aqcuisition	4 484		180		873	
Net profit (loss)						
- from beginning of the year	8 830		4 993		320	
- post aqcuisition	541		(59)		320	

As at the balance sheet date, a goodwill test was performed for the cash-generating unit AS Vooremaa Teed which goodwill is attributable to. In the reporting period, goodwill was not written down because the recoverable amount of the cash-generating unit exceeded the carrying amount of the non-current assets and goodwill of the cash-generating unit.

The recoverable amount of the assets is determined as its value in use, using management-approved cash flow projections for the next 5 years. According the development plan, the purpose for the acquisition of the entity was expansion into the road maintenance market and development of a road construction unit in Central Estonia. The acquisition of AS Vooremaa Teed also enables better use of the existing resources and finding of synergies for product development. Post-projection period's cash flows are extrapolated using reasonable growth rates. The long-term growth rate of 2.5% for revenue and expenses is not higher than the estimated long-term GDP growth rate in Estonia.

The weighted average cost of capital is used as the discount rate, taking into consideration the Company's activities and risk level. For determining the gross margin, management uses previous periods' business experience.

Assumptions used for determining value in use:

	31.12.2009
Budget period, years	5
Average revenue growth in budget period, %	26%
Average expense growth in budget period, %	26%
Discount rate for cash flows, %	14%
Post-budget period's growth rate, %	2,5%
EBITDA margin of the budget period, %	13%

Cash flows from acquisition of subsidiaries	**AS Vooremaa Teed**	**OÜ Tähelinna Kinnisvara**	**OÜ Mineraal**	**Total**
Cost	48 458	50 926	40	99 424
Paid on acquisition in 2009	(48 458)	(50 926)	(40)	(99 424)
Cash and cash equivalents on acquisition of subsidiaries	6 552	30 763	40	37 355
Cash flows on acquisition of subsidiaries	(41 906)	(20 163)	-	(62 069)

Note 20 Investment in associates and joint ventures

	Ownership and voting rights %		**Location**	**Area of operation**
	31.12.2009	**31.12.2008**		
Associate of AS Merko Ehitus				
AS Tartu Maja Betoontooted	25	25	Tartu	concrete elements
Joint venture of AS Merko Ehitus				
OÜ Unigate	50	50	Tallinn	real estate
Joint ventures of SIA Merks				
PS Merks Terbe Lat	50	50	Republic of Latvia, Riga	construction
SIA Zakusala Estates	50	50	Republic of Latvia, Riga	real estate
Joint venture of AS Merko Tartu				
OÜ Kortermaja	50	50	Tartu	real estate

In thousands of kroons	**Investment at 31.12.2008**	**Changes in 2009**		**Investment at 31.12.2009**
		Profit/loss from entities	**Currency translation adjustments**	
Associate of AS Merko Ehitus				
AS Tartu Maja Betoontooted	53 875	(13 456)	-	40 419
Joint venture of AS Merko Ehitus				
OÜ Unigate	984	(12)	-	972
Joint ventures of SIA Merks				
PS Merks Terbe Lat	24	-	-	24
SIA Zakusala Estates	149 154	(12 961)	(250)	135 943
Joint venture of AS Merko Tartu				
OÜ Kortermaja	2 724	(661)	-	2 063
Total joint ventures	152 886	(13 634)	(250)	139 002
Total associates and joint ventures	206 761	(27 090)	(250)	179 421

In thousands of kroons	**Investment at 31.12.2007**	**Changes in 2008**			**Investment at 31.12.2008**
		Profit/loss from entities	**dividends**	**Currency translation adjust-ments**	
Associate of AS Merko Ehitus					
AS Tartu Maja Betoontooted	57 042	-	(3 167)	-	53 875
Joint ventures of AS Merko Ehitus					
Normanni Linnagrupi AS	410	(375)	(35)	-	-
OÜ Unigate	16	1 000	(32)	-	984
OÜ Tornimäe Apartments	56 255	(59 856)	3 601	-	-
Joint ventures of SIA Merks					
PS Merks Terbe Lat	25	-	-	(1)	24
SIA Zakusala Estates	154 701	-	(3 141)	(2 406)	149 154
Joint venture of AS Merko Tartu					
OÜ Kortermaja	4 515	-	(1 791)	-	2 724
Total joint ventures	215 922	(59 231)	(1 398)	(2 407)	152 886
Total associates and joint ventures	272 964	(59 231)	(4 565)	(2 407)	206 761

As at 31.12.2009, the difference between the carrying amount of the investment of OÜ Kortermaja and the equity of the investee totalling EEK 647 thousand (2008: EEK 2143 thousand) is due to the effect from the unrealised gains of mutual transactions.

The loss for 2009 from the joint venture SIA Zakusala Estates in the amount of EEK 12 961 thousand includes an impairment loss in the amount of EEK 8867 thousand due to a decline in real estate prices. As at 31.12.2009, the investment in the joint venture SIA Zakusala Estates includes intangible assets in the amount of EEK 135 819 thousand (2008: EEK 150 496 thousand), which are not recognised in the statement of financial position of the investee. The intangible assets represents the lease agreement with the City of Riga expiring at 2 June 2051 which gives it a right to use the 126 thousand m^2 registered immovable on Zakusala island in the centre of Riga.

Associates *In thousands of kroons*	**Assets 31.12.**	**Liabilities 31.12.**	**Revenue**	**Net profit/loss**
2009				
AS Tartu Maja Betoontooted	239 191	77 513	186 523	(52 699)
2008				
AS Tartu Maja Betoontooted	282 694	66 520	253 545	(13 159)

Joint ventures *In thousands of kroons*	**Assets 31.12.**		**Liabilities 31.12.**		**Equity 31.12.**	**Income**	**Expen-ses**	**Net profit/ loss**
	Current assets	**Non-current assets**	**Current liabili-ties**	**Non-current liabili-ties**				
2009								
OÜ Unigate	49 681	-	46 504	1 234	1 943	6	31	(25)
PS Merks Terbe Lat	17	-	-	-	17	-	-	-
SIA Zakusala Estates	1 853	28 663	7 250	23 018	248	48	8 235	(8 187)
OÜ Kortermaja	7 607	-	2 187	-	5 420	10 380	14 694	(4 314)
Total	59 158	28 663	55 941	24 252	7 628	10 434	22 960	(12 526)
2008								
OÜ Unigate	46 055	-	42 237	1 851	1 967	3	67	(64)
PS Merks Terbe Lat	35		-	-	35	-	-	-
SIA Zakusala Estates	4 715	28 717	2 625	22 398	8 409	71	6 354	(6 283)
OÜ Kortermaja	20 750	-	67	10 948	9 735	4 051	7 876	(3 825)
Total	71 555	28 717	44 929	35 197	20 146	4 125	14 297	(10 172)

Note 21 Other long-term loans and receivables

In thousands of kroons

	31.12.2009	**31.12.2008**
Long-term loans (Note 17)	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
Total other long-term loans and receivables	32 468	29 049

* The long-term bank deposit with the maturity at 28 December 2012 and interest rate of 4.63% has been pledged as collateral for the warranty granted to a customer of a construction contract.
* In 2006, AS Merko Ehitus sold 25% of the shares of the subsidiary AS Gustaf. The receivable is discounted at a 5% interest rate and its due date is 1 May 2011.

Note 22 Deferred income tax assets and liabilities

in thousands of kroons

Formation of deferred income tax assets and liabilities at the subsidiaries SIA Merks and UAB Merko Statyba:

31.12.2009

	Latvia	Lithuania	Total
Deferred income tax liability	-	-	-
Deferred income tax assets	18 882	13 187	32 069
incl. tax loss carryforwards	-	6 002	6 002
effect of carrying amount of property, plant and equipment	(565)	-	(565)
effect of stage of completion method	817	97	914
effect of write-down of receivables	127	531	658
effect of write-down of inventories	10 915	6 316	17 231
effect of provisions	-	(122)	(122)
effect of changes in income tax rate	-	(464)	(464)
other effects	7 588	827	8 415
Deferred income tax assets	18 882	13 187	32 069
Deferred income tax charge of the financial year (Note 11)	2 257	(10 133)	(7 876)

31.12.2008

	Latvia	Lithuania	Total
Deferred income tax liability	-	-	-
Deferred income tax assets	21 172	3 054	24 226
incl. effect of carrying amount of property, plant and equipment	(788)	-	(788)
effect of stage of completion method	676	10	686
effect of write-down of receivables	2 519	314	2 833
effect of write-down of inventories	17 236	1 228	18 464
effect of provisions	-	892	892
effect of changes in income tax rate	-	299	299
other effects	1 529	311	1 840
Deferred income tax assets	21 172	3 054	24 226
Deferred income tax charge of the financial year (Note 11)	(18 674)	(2 156)	(20 830)

The management considers it likely that the unused tax losses carried forward can be utilised against future profits, although the financial results of the Lithuanian subsidiary were negative in the reporting period.

Note 23 Investment property

in thousands of kroons

	Land	Buildings	Total
Cost at 31.12.2007	2 136	5 600	7 736
Accumulated depreciation at 31.12.2007	-	(375)	(375)
Carrying amount 31.12.2007	2 136	5 225	7 361
Exchange difference	(33)	(64)	(97)
Cost	-	2 063	2 063
Reclassification	-	3 003	3 003
Depreciation	-	(328)	(328)
Carrying amount at 31.12.2008	2 103	9 899	12 002
Cost at 31.12.2008	2 103	10 600	12 703
Accumulated depreciation at 31.12.2008	-	(701)	(701)
Carrying amount at 31.12.2008	2 103	9 899	12 002
Exchange difference	(5)	(8)	(13)
Cost	-	(1 048)	(1 048)
Reclassification	-	6 118	6 118
Depreciation	-	(507)	(507)
Carrying amount at 31.12.2009	2 098	14 454	16 552
Cost at 31.12.2009	2 098	15 650	17 748
Accumulated depreciation 31.12.2009	-	(1 196)	(1 196)
Carrying amount at 31.12.2009	2 098	14 454	16 552

As at 31.12.2009, the carrying amounts of investment properties do not significantly differ from their fair values (31.12.2008: the carrying amounts of investment properties did not significantly differ from their fair values).

In 2009, unsold apartments in the amount of EEK 6118 thousand were reclassified from finished goods of inventories to investment property (2008: EEK 3003 thousand).

Investment property has not been acquired for the purpose of earning rental income but for capital appreciation or development in the future. Buildings located on the plot of land have temporarily been leased out under the operating lease terms. Rental income receivable, maintenance costs incurred and improvement expenses are immaterial.

Note 24 Property, plant and equipment

in thousands of kroons

	Land	Buildings	Right of superficies	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2007	15 943	24 627	458	153 587	64 970	8 764	268 349
Accumulated depreciation at 31.12.2007	-	(4 246)	(95)	(55 100)	(35 996)	-	(95 437)
Carrying amount at 31.12.2007	15 943	20 381	363	98 487	28 974	8 764	172 912
Currency translation differences	-	-	-	-	(248)	-	(248)
Cost	5 105	-	-	27 258	22 525	11 564	66 452
Sale	-	-	-	(1 331)	(595)	-	(1 926)
Non-current assets of sold subsidiary	(901)	(4 457)	-	(3 396)	-	-	(8 754)
Reclassification	(10 450)	(18)	-	9 449	14 917	(14 571)	(673)
Write-offs	-	-	-	(24)	(61)	(36)	(121)
Depreciation	-	(807)	(9)	(16 472)	(13 260)	-	(30 548)
Carrying amount at 31.12.2008	9 697	15 099	354	113 971	52 252	5 721	197 094
Cost at 31.12.2008	9 697	20 008	458	181 732	97 274	5 721	314 890
Accumulated depreciation and impairment losses at 31.12.2008	-	(4 909)	(104)	(67 761)	(45 022)	-	(117 796)
Carrying amount at 31.12.2008	9 697	15 099	354	113 971	52 252	5 721	197 094
Currency translation differences	-	-	-	24	(16)	-	8
Acquisition	-	837	-	9 094	1 363	1 918	13 212
Acquisition in business combinations	3 208	57 462	-	31 056	-	-	91 726
Sale	-	-	-	(882)	(25)	-	(907)
Reclassification	-	5 539	-	8 937	(8 090)	(6 773)	(387)
Write-offs	-	-	-	(60)	(76)	-	(136)
Depreciation	-	(1 018)	(9)	(25 975)	(7 332)	-	(34 334)
Carrying amount at 31.12.2009	12 905	77 919	345	136 165	38 076	866	266 276
Cost at 31.12.2009	12 905	89 030	458	236 939	78 588	866	418 786
Accumulated depreciation and amortisation 31.12.2009	-	(11 111)	(113)	(100 774)	(40 512)	-	(152 510)
Carrying amount at 31.12.2009	12 905	77 919	345	136 165	38 076	866	266 276

Information on leased assets is provided in Note 26 and on lease payments in Note 27.
No property, plant and equipment are pledged as collateral for borrowings.

Note 25 Intangible assets

in thousands of kroons

	Goodwill (Note 19)	Software	Prepayments	Total
Cost at 31.12.2007	-	14 443	1 813	16 256
Accumulated amortisation at 31.12.2007	-	(3 682)	-	(3 682)
Carrying amount at 31.12.2007	-	10 761	1 813	12 574
Currency translation differences	-	(27)	(3)	(30)
Cost	-	1 837	-	1 837
Reclassification	-	314	(448)	(134)
Depreciation	-	(2 440)	-	(2 440)
Carrying amount at 31.12.2008	-	10 445	1 362	11 807
Cost at 31.12.2008	-	16 377	1 362	17 739
Accumulated amortisation at 31.12.2008	-	(5 932)	-	(5 932)
Carrying amount at 31.12.2008	-	10 445	1 362	11 807
Currency translation differences	-	2	-	2
Cost	13 939	984	-	14 923
Depreciation	-	(2 494)	-	(2 494)
Carrying amount at 31.12.2009	13 939	8 937	1 362	24 238
Cost at 31.12.2009	13 939	17 346	1 362	32 647
Accumulated amortisation at 31.12.2009	-	(8 409)	-	(8 409)
Carrying amount at 31.12.2009	13 939	8 937	1 362	24 238

Prepayments for intangible assets relate to prospective replacement of the group's accounting software.

Note 26 Leased assets

in thousands of kroons

	2009	2008
Assets acquired under finance lease terms		
Machinery and equipment		
Cost	130 007	117 012
Accumulated depreciation	(42 391)	(31 400)
incl. depreciation charge	(10 205)	(11 019)
Carrying amount	87 616	85 612
Assets leased under non-cancellable operating lease terms		
Right of superficies		
Payments made in the financial year	-	173

On the basis of cancellable lease agreements, operating lease payments totalling EEK 12 606 thousand (2008: EEK 11 254 thousand) were paid for passenger cars in 2009. The Company does not intend to use a bargain purchase option for the assets leased under the operating lease terms in the reporting period.

Note 27 Borrowings

in thousands of kroons

	2009	2008
Finance lease payables		
Present value of lease payments at beginning of the year	54 541	48 114
Received	10 869	23 336
Paid	(17 476)	(16 909)
Minimum future lease payments	47 934	54 541
incl. current portion	16 170	17 198
non-current portion 1...4 years	31 764	37 343
Interest expense for the reporting period	1 800	3 434
Minimum future lease payments	50 619	65 777
incl. current portion	17 303	22 472
non-current portion 1...4 years	33 316	43 305
Average effective interest rate 5.3% (2008: 6.9%)		
Base currencies EEK, EUR and LVL		
Bank loans		
Loan balance at beginning of the year	553 611	630 543
Received	56 841	237 380
Borrowing related to acquisition of subsidiary	36 196	-
Paid	(285 052)	(306 911)
Exchange difference	100	(7 401)
Loan balance at end of the year	361 696	553 611
incl. current portion	319 894	62 308
non-current portion 1…5 years	41 802	491 303
Interest cost of reporting period	14 721	35 969
incl. capitalised interest cost	-	25 071
Average effective interest rate 4.5% (2008: 5.2%)		
Base currencies LVL and EUR		
Loans from the parent		
Loan balance at beginning of the year	-	19 035
Paid	-	(19 035)
Loan balance at end of the year	-	-
Average effective interest rate (2008: 4.9%)		
Loans granted to entities under common control		
Loan balance at beginning of the year	125 001	-
Received in demerger	-	125 001

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Paid	(15 646)	-
Loan balance at end of the year	109 355	125 001
incl. current portion	109 355	125 001
Interest cost of reporting period	5 589	3 188
Average effective interest rate 4.5% (2008: 6.0%)		
Loans from associates and joint ventures		
Loan balance at beginning of the year	4 900	4 900
	-	
Loan balance at end of the year	4 900	4 900
incl. current portion	2 150	2 150
non-current portion 1…5 years	2 750	2 750
Interest cost of reporting period	273	273
Average effective interest rate 5.5% (2008: 5.5%)		
Total loans		
Loan balance at beginning of year	683 512	654 478
Received	56 841	237 380
Received in demerger	-	125 001
Borrowing related to acquisition of subsidiary	36 196	-
Paid	(300 698)	(325 946)
Exchange difference	100	(7 401)
Loan balance at end of year	475 951	683 512
incl. current portion	431 399	189 459
non-current portion 1...5 years	44 552	494 053
Total borrowings	523 885	738 053
incl. current portion	447 569	206 657
non-current portion 1...5 years	76 316	531 396

Long-term bank loans have floating rates related to Euribor or Rigibor (Riga Interbank Offered Rate - the index of Latvian interbank credit interest rates). The exposure of the group's bank borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2009	**2008**
6 months or less	180 712	352 809
6-12 months	180 984	200 802
Total bank loans	361 696	553 611

In the second half of the year, the major changes commenced in the global financial markets at the beginning of 2008 started to stabilise. The risk margins of loans continued to increase. As most of the group's loan contracts have been concluded prior to the increase in risk margins, we can assert that the fair value of bank loans is lower than their carrying amount. Among the loans from entities under common control,, there is a loan from AS Järvevana originating from demerger, the interest of which after the first 12 months is a floating interest rate of 12 month Euribor + 1%.
According to loan contracts, the loans from other entities have fixed interest rates.
Loan collaterals and pledged assets are presented in Note 31.

Note 28 Trade and other payables

in thousands of kroons

	31.12.2009	31.12.2008
Trade payables	223 149	366 551
incl. to related parties	94	1 524
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 (Note 33)	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
Total trade and other payables	782 470	963 631

Note 29 Short-term provisions

in thousands of kroons

	2009	2008
Provision for warranty obligation for construction		
Residual value at beginning of the year	19 916	15 625
Set up	13 620	17 114
Used during the year	(15 018)	(12 823)
Balance at end of the year	18 518	19 916
Provision for onerous construction contracts		
Residual value at beginning of the year	3 525	32 512
Set up	2 014	1 378
Accrued during the year	(1 504)	(30 365)
Balance at end of the year	4 035	3 525
Provision for completion of construction projects		
Residual value at beginning of the year	375	-
Set up	19	375
Used	(186)	-
Balance at end of the year	208	375

Provision for legal costs and claims filed		
Residual value at beginning of the year	7 882	22 786
Set up	7 518	4 010
Accrued during the year	(908)	(1 414)
Separated in demerger	-	(17 500)
Balance at end of the year (Note 37)	14 492	7 882
Other provisions		
Residual value at beginning of the year	619	2 289
Set up	309	619
Accrued during the year	(479)	(2 289)
Balance at end of the year	449	619
Total short-term provisions	37 702	32 317

Note 30 Other long-term trade payables

in thousands of kroons

	31.12.2009	**31.12.2008**
Trade payables	10 653	8 824
Prepayments received	5	-
Total long-term trade payables	10 658	8 824

Note 31 Loan collaterals and pledged assets

The following agreements have been entered into for guaranteeing loans and other obligations:

Between AS Merko Ehitus and Swedbank AS:
A commercial pledge agreement on movable property in the amount of EEK 200 million (registered under the first, second, fifth and seventh orders in the register of commercial pledges). The obligations arising from guarantee contracts and overdraft contracts are guaranteed by the pledge. In addition, a deposit pledge contract in the amount of EEK 2.3 million has been entered into for guaranteeing the guarantee contract concerning stage I of construction works of Puurmanni traffic network and a deposit pledge contract in the amount of EEK 0.4 million as collateral for guarantee contracts of the constructions works of AS Põlva Vesi water management project, parts II, III and V.

Between AS Merko Ehitus and Nordea Bank Finland Plc Estonia branch:
A joint mortgage under the first available order in the amount of EEK 100 million on the registered immovables recognised in the inventories of AS Merko Ehitus. The contractual obligations arising from the overdraft facility are secured by the mortgage.

Between AS Merko Ehitus and AS SEB Pank:
A commercial pledge agreement on movable property in the amount of EEK 60 million (registered under the third, fourth and sixth orders in the register of commercial pledges). The obligations arising from the guarantee contract are secured by the pledge.

Between Tallinna Teede AS, Swedbank AS and AS SEB Pank:
A commercial pledge agreement on movable property in the amount of EEK 25 million (registered under the first order in the register of commercial pledges), whereby Swedbank AS has a 14/25 legal share and AS SEB Pank has a 11/25 legal share.

Between Tallinna Teede AS and Swedbank AS:
A commercial pledge agreement on movable property in the amount of EEK 2 million (registered under the second order in the register of commercial pledges). All claims of the banks arising from contracts under the law of obligations have been secured by the pledges.

Between Tallinna Teede AS and Danske Bank AS Estonia branch:
A pledge agreement on the personal right of the deposit in the amount of EEK 3 million, with which the claims of Danske Bank AS against Tallinna Teede AS are secured, arising from the required fulfilment of guarantee agreements between Danske Bank AS and Tallinna Teede AS, and the changes and amendments made and to be made therein in the future.

Between Tallinna Teede AS, OÜ Tevener and Swedbank AS:
A mortgage in the amount of EEK 23.4 million on the registered immovable included within the non-current assets of OÜ Tevener, located in Kirdalu village, Saku rural municipality, Harjumaa to the extent of its carrying amount of EEK 26.7 million, guaranteeing the obligations arising from the loan contract entered into between Swedbank AS and Tallinna Teede AS.

Between AS Vooremaa Teed and Swedbank AS:
A mortgage on the registered immovable with the carrying amount of EEK 1.1 million located in Jõgeva that is carried within the non-current assets has been set as collateral for the limit agreement of off-balance sheet products with the limit of EEK 1 million.

Between AS Gustaf and Swedbank AS:
A commercial pledge agreement on movable property in the amount of EEK 9.1 million (registered under the first and second orders in the register of commercial pledges). Guarantee contracts entered into are guaranteed by the pledge.

Between OÜ Gustaf Tallinn and Swedbank AS:
A commercial pledge agreement on movable property in the amount of 3.9 million kroons for guaranteeing guarantee contracts.

Between AS Merko Tartu and AS SEB Pank:
A commercial pledge agreement on movable property in the amount of EEK 20.0 million. Guarantee contracts entered into are guaranteed by the pledge.

Between AS Merko Tartu and Danske Bank AS Estonia branch:
Joint mortgages on 13 registered immovables in Tartumaa up to their carrying amount of EEK 36.6 have been set as collateral for the loan contract in the amount of EEK 20 million.

Between OÜ Raadi Kortermaja and Danske Bank AS:
Mortgages have been set on two registered immovables in Tartumaa (finished goods and investment property with the carrying amount of EEK 32.4 and 8.9 million, respectively, in the statement of financial position) as collateral for the loan contract in the amount of EEK 42.0 million, for guaranteeing the obligations arising from the loan contract. In addition, the same loan contract is guaranteed by the contract of surety of AS Merko Tartu.

Between AS Merko Tartu and Danske Bank AS Estonia branch:
A joint mortgage on 13 registered immovable in Tartumaa up to their carrying amount of EEK 36.6 million have been set as collateral for the loan agreement with the limit of EEK 10.0 million.

Between SIA Merks and AS Swedbank:
A commercial pledge agreement on assets in the amount of LVL 24.2 million Latvian (532.5 million kroons). The obligations arising from overdraft contracts and guarantee contracts are guaranteed by the pledge.
Mortgages on 14 registered immovables in Riga (in the statement of financial position, property purchased for resale) have been pledged as collateral for the loan contract totalling EUR 6.2 million (EEK 97.2 million) up to their carrying amount of 17.2 million Latvian lats (EEK 378.2 million). The obligations arising from guarantee

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contracts have also been guaranteed by the mortgages on 14 registered immovables in Riga in the amount of LVL 14.7 million (EEK 324.1 million).

Between SIA Merks and Nordea Bank Finland Plc branch:
A mortgage on a registered immovable consisting of apartment ownerships and apartments in the stage of construction (construction in progress in the statement of financial position) up to its carrying amount of LVL 9.6 million (EEK 211 million) has been set as collateral for the loan agreement with the limit of EUR 9.6 million (EEK 149.5 million).

The group's assets have been pledged in the total amount of EEK 1689.7 million.

Note 32 Share capital

In 2008 and 2009, no changes occurred in share capital.

As at 31.12.2009, the share capital in the amount of EEK 177 000 thousand consisted of 17 700 thousand registered shares with the nominal value of 10 kroons each.

Additional information is disclosed in Note 37 under *Capital management*.

Note 33 Construction contracts in progress

in thousands of kroons

	31.12.2009	**31.12.2008**
Costs incurred for construction contracts in progress and corresponding profit*	6 277 655	8 855 973
Progress billings submitted	(6 491 606)	(9 013 376)
Revenue recorded from construction services during the period	2 772 962	3 561 963
Amounts due from customers for contract works (Note 16)	102 144	109 305
Amounts due to customers for contract works (Note 28)	(316 095)	(266 708)
Advance payments received for contract works	38 068	105 889

Amounts due from customers for contract works are included in the statement of financial position line *Trade and other receivables*. Amounts due to customers for contract work are included in the statement of financial position line *Trade and other payables.*
***** Costs incurred for construction contracts in progress and corresponding profit have been presented for contracts in effect, including those entered into in 2008 and 2007.

Note 34 Related party transactions

in thousands of kroons

In compiling the Annual Report, the following entities have been considered as related parties:

- parent AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, so-called 'entities controlled by the parent';
- associates and joint ventures;
- key 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 at 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

	2009	2008
Purchased construction services		
Associates and joint ventures	2 435	31 098
Entities under common control	10 972	11 870
Total purchased construction services	13 407	42 968
Construction services rendered		
Associates and joint ventures	67	1 944
Entities under joint control	133 434	934 790
Management members	15 237	6 412
Other related parties	896	1 865
Total construction services provided	149 592	945 011
Construction materials purchased		
Other related parties	82	151
Real estate purchased		
Entities under joint control	50 926	-
Real estate sold		
Entities under joint control	-	142 480
Other related parties	-	1 212
Total real estate sold	-	143 692

Loans granted to related parties are disclosed in Note 17 *Loans granted.*

Balances with related parties

	31.12.2009	31.12.2008
Trade and other receivables		
Trade receivables		
Parent company	190	-
Associates and joint ventures	74	81
Entities under joint control	483	117 065
Other related parties	2 431	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	-	74
Prepayments for inventories		
Entities under joint control	57 462	-
Other long-term loans and receivables		
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
Borrowings		
Short-term loans and bonds		
Entities under joint control	109 354	125 001
Trade and other payables		
Trade payables		
Parent company	2	-
Associates and joint ventures	-	1 045
Entities under joint control	90	478
Other related parties	2	1
Interest liabilities		
Entities under joint control	233	645
Other liabilities		
Entities under joint control	100 000	100 000

In 2009, an allowance for the receivables from entities under common control has been recognised in the amount of EEK 17 735 thousand.

Remuneration of the members of the Supervisory and Management Boards, and senior executives

In 2009, the members of the Supervisory and Management Boards as well as senior executives of AS Merko Ehitus were paid remuneration totalling EEK 14 529 thousand (2008: EEK 24 531 thousand).

Termination benefits of members of the Supervisory and Management Boards

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, the group has the obligation to pay compensation totalling EEK 5556 thousand (2008: EEK 5556 thousand).

Contracts of surety

AS Merko Ehitus provides surety for the liabilities arising from the lease agreements of its subsidiaries and consolidation group entities to Swedbank Autopargi Juhtimise AS in the amount of EEK 1555 thousand (31.12.2008: EEK 6212 thousand).

The fair value of group's surety contracts is immaterial, therefore no liability has been recorded in the balance sheet as at 31.12.2009 as well as at 31.12.2008.

Note 35 Contingent liabilities

in thousands of kroons

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

	31.12.2009	**31.12.2008**
Performance period's warranty to the customer	262 573	300 657
Tender warranty	59 254	61 258
Guarantee warranty period	152 114	107 491
Prepayment guarantee	81 296	100 110
Contracts of surety	9 705	6 362
Payment guarantee	3 318	-
Letter of credit	6 404	-
Total contingent liabilities	574 664	575 878

Performance period's warranty to the customer – warranty provider guarantees to the customer that the contractor's obligations arising from construction contract will be adequately completed.
Tender warranty – warranty provider guarantees to the customer arranging the tender process that the tenderer will sign a contract as per tender conditions.
Guarantee for warranty period – warranty provider guarantees to the customer that the construction defects discovered during the warranty period will be repaired.
Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.
Payment guarantee – warranty provider guarantees to the customer payment for goods or services.

At 29 February 2008, a claim of fine was filed against the Latvian branch of Merko Ehitus in the amount of 7.5 million kroons. In 2008, a court of first instance decided that the claim of fine submitted to AS Merko Ehitus is not justified. The plaintiff has contested the court ruling in a circuit court. The session of the circuit court has been set for September 2009. In the opinion of the group's management, this claim is unfounded as a result of which no provision has been recognised.

Tax authorities have the right to review the group's tax records within 6 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The group's management estimates that there are not any circumstances which might lead the tax authorities to impose additional significant taxes on the group.

For legal risks, please refer to the respective paragraph of Note 37.

Note 36 Effects of the economic crisis

The greatest challenge for the construction sector in the short-term is the ability to cope with the effects of the global liquidity crisis and the related general economic crisis. In management's opinion, the group's economic activities are primarily affected by the following factors:

- increase in credit risk. The potential solvency issues of debtors may lead to cancellation of contracts already entered into, impairment of the group's receivables and additional impairment losses;
- the group may not be able to find capital to fund its investment plans at reasonable prices. Refinancing of current loans will become more complicated and finance costs will increase;
- in a more complicated economic environment, the group may have difficulties in meeting the terms laid down in the loan contract, as a result of which the lender may be entitled to recall the loan prematurely;
- lower demand will affect the liquidity and value of assets especially that of residential housing built for sale and registered immovables purchased for development. The net realisable value of assets purchased and built during the economic boom may fall below the cost of assets and the group may incur additional impairment losses;
- the group's activities depend on suppliers who may experience difficulties and this may cause problems in meeting the deadlines laid down in construction contracts;
- due to lower demand, the sector's income base will decrease significantly. In order to ensure the sustainability of the group's operations, unpopular decisions need to be made – reduction of operating expenses and postponement of investments.
- due to lower demand, competition in the construction sector will significantly intensify, price pressures on services will increase and the opportunity to adequately assess risk diminishes. Entities need to assume greater risks to obtain work and the risk of possible losses will increase.

Although the economic crisis has also positive side-effects, such as improvement in the quality of work and services, a decline in the prices of inputs – it may be claimed that in the short term, there are no winners in the construction sector during the recession. In the long term, the crisis may lead to reallocation and consolidation in the market, and entities with a solid capital structure and high liquidity will be more successful.

Management does not consider it possible to reliably assess the effects of the economic crisis, and to a great extent, the scope of the realisation of the aforementioned factors will largely depend on the duration of the crisis. Management believes that it has adopted all measures to ensure the sustainability of the group's development in the conditions of the economic crisis.

Note 37 Risks

Credit risk

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. In order to lower credit risks, the payment discipline of customers is constantly monitored; construction activities are partly funded by customer prepayments. Cash is mostly held in overnight deposits or term deposits at Swedbank, SEB, Nordea, Unicredit with a high credit rating (Moody's rating Baa3/D and higher). Management estimates that the group is not exposed to significant credit risk.

Financial assets exposed to credit risk	Allocation by due dates		Carrying amount	Collateral
in thousands of kroons	1-12 months	2-5 years		
31.12.2009				
Cash and overnight deposits	135 018	-	135 018	-
Term deposits	625 630	2 809	628 439	-
Trade receivables	385 109	7 874	392 983	-
Amounts due from customers for contract works	102 144	-	102 144	-

Loans granted	96 875	21 785	118 660	25 000
Interest receivables	13 524	-	13 524	-
Other short-term receivables	9 378	-	9 378	-
Total	1 367 678	32 468	1 400 146	25 000
31.12.2008				
Cash and overnight deposits	282 543	-	282 543	-
Term deposits	495 408	2 259	497 667	-
Trade receivables	536 426	5 626	542 052	-
Amounts due from customers for contract works	109 305	-	109 305	-
Loans granted	47 454	21 163	68 617	25 000
Interest receivables	6 940	-	6 940	-
Other short-term receivables	8 519	-	8 519	-
Total	1 486 595	29 048	1 515 643	25 000

The group's customers are primarily large local entities or public sector entities with well-known and sufficient creditworthiness. The group carefully monitors the payment behaviour of its customers and publicly available information on the payment discipline of entities.
Of the financial assets, an allowance has been set up for doubtful receivables. Receivables in the amount of EEK 19 921 thousand (2008: 20 085 thousand kroons) have been written down in full.
According to the industry practice, trade receivables and receivables recorded based on the stage of completion of construction contracts have no collateral.
Of the loans granted, EEK 81 341 thousand (31.12.2008: EEK 41 732 thousand kroons) are loans to entities under joint control and associates of whose economic activities the Company has a good overview and therefore, no additional collateral is required. The short-term loans granted includes a non-performing loan in the amount of EEK 25 728 thousand, the borrower of which has not been able to meet the obligations arising from the loan agreement but which have been secured by a mortgage. Management estimates that the collateral covers the balance of the loan principal and there is no need for recognising an allowance for these financial assets.

Interest risk

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the Company's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either EURIBOR or the interbank rates of the countries of incorporation of the entities. As the share of interest-bearing liabilities in the group's capital structure is low (as at 31.12.2009: 15% of the balance sheet total), management considers the effect of changes in the interest rate environment insignificant for the operating results of the group.

Effect of changes in interest risks on finance costs

As at 31.12.2009, the group's interest-bearing liabilities totalled EEK 523 885 thousand. Loan interest depended on the base interest of 3-12 month interbank money market loans of the respective country of incorporation and EURIBOR.
As at 31.12.2009, the group's maximum need to refinance liabilities in 2010 was EEK 422 880 thousand. The need may significantly drop, because of the total amount, EEK 191 464 thousand is related to housing development and, depending on the selling success of apartments, the loan is repaid on a continuous basis.
The liabilities assumed in the amount of EEK 470 069 include liabilities that are exposed to the risk of EURIBOR. As at 31.12.2009, 12-month EURIBOR was 1.248 and management estimates that it may rise up to 50 basis points within the next 12 months . Change in EURIBOR by +/- 50 basis points causes change in the group's interest expense in the amount of EEK 2350 thousand.
In addition to the risk of EURIBOR, the refinancing of liabilities is accompanied by the risk of change in the risk margin arising from a change in the economic environment. Management estimates that it may have a reducing effect of 1-3%, depending on the date of fixing of the previous interest, on interest expense of loans assumed in local currencies. A change of +/- 100 basis points in the interest of loans assumed in local currencies would have an effect of +/- EEK 469 thousand on the group's interest expenses.

Most of the risk margins of loans related to EURIBOR and subject to refinancing are fixed in a period preceding the economic crisis and their refinancing leads to growth in the group's interest expenses. The management estimates that the risk margins of loans related to the euro may remain within 1-2.5%.
As at 31.12.2009, the balance of liabilities related to the euro and exposed to a change in the risk margin was EEK 266 643 thousand and a change of +/- 100 basis points in the risk margin would have an effect of +/- EEK 2879 thousand on the group's interest expenses. Of the current liabilities, the loan in the amount of EEK 109 354 thousand received from AS Järvevana during the demerger, where the loan interest is fixed at the level of 12 month EURIBOR + 100 basis points, is not subject to margin risk.

Foreign exchange risk
The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: Estonian kroons, Latvian lats and Lithuanian litas. The Estonian kroon, as well as the Latvian lats and Lithuanian litas are pegged to the Euro. The exchange rate of the Latvian lats is 1 EUR=0.702804 LVL +/- 1%. In order to eliminate foreign exchange risk, the proportions of assets and liabilities denominated in different currencies are monitored and key foreign contracts and long-term loan agreements are preferentially concluded in euros. As at the balance sheet date, EEK 2 922 621 thousand or 83.2% of the assets were denominated in local currencies, including the assets in EEK made up 47.4%, assets in LVL 31.7% and assets in LTL 4.1% of the balance sheet total, and EEK 2 976 511 thousand or 84.7% of the liabilities were denominated in local currencies, including liabilities in EEK made up 60.5%, in LVL 22.1% and in LTL 2.1% of the balance sheet total.

In case of simultaneous devaluation of all national currencies by 25%, the group would have additional finance income of EEK 13 472 thousand, including finance income of EEK 115 311 on the position of Estonian kroon, and costs of EEK 84 211 thousand on the position of Latvian lats and EEK 17 828 thousand on the position of Lithuanian litas. The management estimates that the need for and possibility of devaluation of national currencies has significantly decreased during 2009. It is highly probable that Estonia will adopt the euro in 2011 and it should stabilise the situation in the region as a whole.

Liquidity risk
The Company's solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2009, the group´s current ratio was 2.3 (31.12.2008: 2.8) and the quick ratio was 1.2 (31.12.2008: 1.3). To complement available current assets and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the year, the group entities had concluded overdraft contracts with banks in the total amount of EEK 168 230 thousand. In addition to the overdraft facility, the Company has a current loan facility with the limit of EEK 50 000 thousand from AS Riverito.
In 2010, the group's liquidity is primarily affected by short-term loans subject to refinancing. As at 31.12.2009, the balance of loans subject to refinancing was EEK 422 880 thousand which may significantly decline because EEK 191 464 thousand are related to housing developments and the constant payments to banks are made depending on the success with the sale of apartments.
Management estimates that the group's capital structure – a high proportion of equity at 61% of the balance sheet total and a low proportion of interest bearing liabilities at 15% of the balance sheet total – ensures the Company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt. One of the priorities of the group in 2010 will be the ensuring of its liquidity.

Financial assets/liabilities *in thousands of kroons*	Allocation by due dates 1-3 months	4-12 months	2-5 years	Total	Carrying amount
31.12.2009					
Assets					
Cash and overnight deposits	135 018	-	-	135 018	135 018
Term deposits	224 714	400 916	2809	628 439	628 439
Trade receivables	358 791	26 318	7874	392 983	392 983
Prepaid taxes *	8 752	-	-	8 752	8 752
Receivables recorded based on the stage of completion of construction contracts	102 144	-	-	102 144	102 144
Loans and interest	523	109 876	21 785	132 184	132 184
Other short-term receivables	198	9 180	-	9 378	9 378
Total	830 140	546 290	32 468	1 408 898	1 408 898
Liabilities					
Trade payables	217 408	339	5 400	223 147	223 147
Payables to employees	50 018	5 346	-	55 364	55 364
Tax liabilities	44 415	-	-	44 415	44 415
Loan and finance lease liabilities **	7 932	442 940	73 013	523 885	523 885
Other liabilities	103 947	1 433	10 658	116 038	116 038
Total	423 720	450 058	89 071	962 849	962 849
31.12.2008					
Assets					
Cash and overnight deposits	282 543	-	-	282 543	282 543
Term deposits	207 649	287 759	2 259	497 667	497 667
Trade receivables	536 426	-	5 626	542 052	542 052
Prepaid taxes *	38 594	-	-	38 594	38 594
Receivables recorded based on the stage of completion of construction contracts	109 305	-	-	109 305	109 305
Loans and interest	2	54 392	21 163	75 557	75 557
Other short-term receivables	569	7 950	-	8 519	8 519
Total	1 175 088	350 101	29 048	1 554 237	1 554 237
Liabilities					
Trade payables	286 700	79 851	8 824	375 375	375 375
Payables to employees	63 078	-	-	63 078	63 078
Tax liabilities	65 118	-	-	65 118	65 118
Loan and finance lease liabilities **	12 355	194 301	531 396	738 052	738 052
Other liabilities	105 642	206	-	105 848	105 848
Total	524 194	274 358	540 220	1 347 471	1 347 471

* Although prepaid taxes do not meet the definition of financial assets, they will offset the amount of negative cash flows from tax liabilities.

** The schedule of expected interest payments cannot be determined with reasonable certainty. In line with property development best practice, the loan obligations to acquire land plots have been assumed with open-end maturities.

The repayment of these loan obligations depends on the progress of related development projects and on the timing of cash flows generated from those projects after their completion. Consequently, management is of opinion that even its best estimate on the timing of expected interest payments would not be sufficiently accurate for the users of these financial statements and this information has not been disclosed.

Capital management

The Commercial Code of the Republic of Estonia specifies the following requirements for the share capital of the entities registered in Estonia:

- the minimum share capital of a public limited company shall be at least EEK 400 thousand;
- the net assets of a public limited company shall be at least one half of the Company's share capital but not less than EEK 400 thousand.

The size of share capital or its minimum and maximum are set out in the articles of association of a public limited company whereas the minimum share capital shall equal at least ¼ of maximum share capital.

According to the current articles of association of AS Merko Ehitus, the Company's share capital consists of 17 700 thousand ordinary shares with the nominal value of 10 kroons each and without amending the articles of association of the public limited company, changes can be made to the Company's share capital within the range of EEK 85 – 340 000 thousand. As at 31.12.2009, the share capital of AS Merko Ehitus was EEK 177 000 thousand and the net assets were EEK 2 154 010 thousand, so the Company's equity and share capital were in compliance with the requirements established in the Republic of Estonia.

In capital management, the Company follows the principle of maintaining its trustworthiness, sustainable development and the assets of shareholders through an economic cycle and hence it monitors that its equity to assets ratio should be at least 40% (31.12.2009: 61%, 31.12.2008: 54%) at any given time and interest bearing debt to assets ratio would not exceed 25% (31.12.2009: 15%, 31.12.2008: 19%). The overdraft contract with Nordea Bank Finland Plc Estonia branch sets a requirement for the consolidated equity to be 35%.

Legal risk

Due to different interpretations of contracts, regulations and laws related to group's principal activities, there is risk that some buyers, contractors or supervisory authorities evaluate the Company's activities in abiding by a law or a contract on different grounds and dispute the legitimacy of the Company's activities.

As at 31.12.2009, a provision has been set up in the group in the amount of EEK 14 492 thousand for covering potential claims and legal costs (31.12.2008: EEK 7882 thousand), (Note 29).

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 the book "Eesti Talurahva Arhitektuur" (*Estonian Vernacular Architecture*) with the list price of EEK 410. The suspicion submitted against the subsidiaries mentions Estravel's gift coupon of EEK 25 thousand, the book with the list price of EEK 410 and Estravel's gift coupon of EEK 15 thousand as the bribe. Management is of opinion that the Company has conducted its activities in conformity with laws of the Republic of Estonia and good industry practice.

According to section 44 of the Penal Code, a court can, upon conviction, impose a pecuniary punishment from EEK 50 thousand to EEK 250 000 thousand. Pecuniary punishment may be imposed as supplementary punishment in addition to forced liquidation.

Asset valuation

In conjunction with the continuing deterioration of the local economic environment in 2009, the effect of market risk continued to be of importance when evaluating the Company's activities. In 2009, the group wrote down inventories in significant amounts because due to the changes in the economic environment, their net realisable value exceeded the costs incurred for the purchasing of assets. From write-downs of asset value, the group incurred a loss of EEK 112.4 million, incl. EEK 90.6 million on the write-down of inventories (incl. registered immovables for resale in the amount of EEK 66.9 million, construction in progress in the amount of EEK 3.7 million and finished buildings in the amount of EEK 20.0 million), EEK 8.0 million on the write-down on non-current assets and a loss of EEK 13.8 million on the write-down on irrecoverable receivables. In conjunction with the poor outlook for the economic environment, the effect of the market risk on the Company's financial indicators is high in the short term.

Note 38 Number of shares owned by the members of the Supervisory and Management Board and their close relatives

As at 31.12.2009, neither the members of the Supervisory Board and Management Board of AS Merko Ehitus nor their close relatives owned any shares of Merko Ehitus, except for Toomas Annus and Tõnu Toomik through AS Riverito.

Note 39 Shareholders with more than 5% ownership

	Shares	Ownership %
AS Riverito	12 742 686	71,99
ING Luxembourg S.A. clients	963 376	5,44

Note 40 Supplementary disclosures on the parent

The financial information of the parent comprises separate primary statements of the parent (income statement, balance sheet, cash flow statement and statement of changes in equity), the disclosure of which is required by the Estonian Accounting Act. The primary financial statements of the parent have been prepared using the same accounting methods and measurement bases as for the preparation of the consolidated financial statements, except for subsidiaries, associates and joint ventures which are reported at cost in the separate primary financial statements of the parent.

Income statement
in thousands of kroons

	2009	**2008**
Revenue	1 941 232	2 059 123
Cost of goods sold	(1 770 366)	(1 861 386)
Gross profit	170 866	197 737
Marketing expenses	(24 105)	(20 097)
Administrative and general expenses	(64 977)	(86 475)
Other operating income	34 157	29 064
Other operating expenses	(9 117)	(16 302)
Operating profit	106 804	103 927
Finance income/costs	15 911	10 693
Finance income/costs from investments in subsidiaries	176 760	79 174
Finance income/costs from investments in associates and joint ventures	-	59 711
Net profit for the year	299 475	253 505

Statement of financial position

in thousands of kroons

	31.12.2009	31.12.2008
ASSETS		
Current assets		
Cash and cash equivalents	176 152	394 877
Short-term deposits	400 916	262 759
Trade and other receivables	680 160	702 420
Prepaid corporate income tax	3 438	3 438
Inventories	202 844	192 619
Non-current assets held for sale	1 750	-
	1 465 260	1 556 113
Non-current assets		
Investments in subsidiaries	445 301	317 742
Investments in associates and joint ventures	4 020	4 020
Other long-term financial assets	357 391	338 781
Property, plant and equipment	24 620	25 048
Intangible assets	7 605	7 957
	838 937	693 548
TOTAL ASSETS	2 304 197	2 249 661
LIABILITIES		
Current liabilities		
Borrowings	216 763	322 870
Trade and other payables	525 834	612 950
Short-term provisions	24 526	15 905
	767 123	951 725
Non-current liabilities		
Other long-term trade payables	8 289	6 676
TOTAL LIABILITIES	775 412	958 401
EQUITY		
Share capital	177 000	177 000
Statutory reserve capital	17 700	17 700
Retained earnings	1 334 085	1 096 560
TOTAL EQUITY	1 528 785	1 291 260
TOTAL LIABILITIES AND EQUITY	2 304 197	2 249 661

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Kuupäev/date 23. 04. 10
PricewaterhouseCoopers, Tallinn

Statement of changes in equity

in thousands of kroons

Parent	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance as at 31.12.2007	177 000	17 700	1 075 556	1 270 256
Net assets separated in demerger	-	-	(232 501)	(232 501)
Net profit for financial year	-	-	253 505	253 505
Balance as at 31.12.2008	177 000	17 700	1 096 560	1 291 260
Carrying amount of holdings under dominant or significant influence				(321 762)
Value of holdings under dominant or significant influence under the equity method				1 105 433
Adjusted unconsolidated equity 31.12.2008				**2 074 931**
Net profit for financial year	-	-	299 475	299 475
Dividends	-	-	(61 950)	(61 950)
Balance as at 31.12.2009	177 000	17 700	1 334 085	1 528 785
Carrying amount of holdings under dominant or significant influence				(449 321)
Value of holdings under dominant or significant influence under the equity method				1 047 417
Adjusted unconsolidated equity 31.12.2009				**2 126 881**

Adjusted unconsolidated retained earnings represent the amount that is available for distribution to the shareholders according to the Estonian Accounting Act.

Cash flow statement
in thousands of kroons

	2009	2008
Cash flows from operating activities		
Operating profit	106 804	103 927
Adjustments:		
depreciation and impairment charge	7 957	7 049
profit/loss from sale of non-current assets	(26)	(111)
adjustment of revenue from construction contracts under stage of completion method	73 172	115 547
interest income from business activities	(33 927)	(27 696)
change in provisions	8 426	(33 743)
Change in trade and other receivables related to operating activities	(19 801)	323 111
Change in inventories	34 035	181 115
Change in trade and other payables related to operating activities	(60 172)	(106 496)
Interest paid	(16 659)	(13 181)
Corporate income tax paid	-	(17)
	99 809	549 505
Cash flows from investing activities		
Investments in subsidiaries	(114 008)	(19 700)
Proceeds from sale and liquidation of subsidiaries	1 125	45 388
Merger with subsidiary	72 950	-
Acquisition of associates and joint ventures	-	(1 000)
Proceeds from sale of associates and joint ventures	-	60 231
Purchase of other financial assets	(138 157)	(265 019)
Purchase of property, plant and equipment	(10 422)	(15 302)
Proceeds from sale of property, plant and equipment	584	126
Purchase of intangible assets	(886)	(285)
Loans granted	(176 750)	(80 310)
Loan repayments received	87 364	15 115
Interest received	30 061	39 555
Dividends received	60 461	35 313
	(187 678)	(185 888)
Cash flows from financing activities		
Proceeds from borrowings	62 916	41 297
Loan repayments received	(132 142)	(91 128)
Finance lease principal payments	(712)	(714)
Dividends paid	(61 950)	-
	(131 888)	(50 545)
Cash transferred in demerger	-	(25 000)
Net increase/decrease in cash and cash equivalents	(219 757)	288 072
Change of short-term deposits with maturities over 3 months	138 157	262 759
Total change	(81 600)	550 831
Cash and cash equivalents in the beginning of period	394 877	107 000
Deposits with maturities over 3 months in the beginning of period	262 759	-
Total in the beginning of period	657 636	107 000
Effects of Changes in Foreign Exchange Rates	1032	(195)
Cash and cash equivalents at end of the period	176 152	394 877
Deposits with maturities over 3 months in the end of period	400 916	262 759
Total in the end of period	577 068	657 636

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2009 ANNUAL REPORT

The Management Board of AS Merko Ehitus has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2009.

Tiit Roben	Chairman of the Management Board	20.04.2010
Alar Lagus	Member of the Management Board	20.04.2010
Veljo Viitmann	Member of the Management Board	20.04.2010
Andres Agukas	Member of the Management Board	20.04.2010

The Supervisory Board has reviewed the Annual Report which consists of the management report and the financial statements prepared by the Management Board, and which also includes the auditor's report and the profit allocation proposal, and approved it for presentation at the General Meeting of Shareholders.

Tõnu Toomik	Chairman of the Supervisory Board	26.04.2010
Jaan Mäe	Member of the Supervisory Board	26.04.2010
Indrek Neivelt	Member of the Supervisory Board	26.04.2010
Teet Roopalu	Member of the Supervisory Board	26.04.2010
Olari Taal	Member of the Supervisory Board	26.04.2010

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INDEPENDENT AUDITOR´S REPORT

(Translation of the Estonian original)

To the Shareholders of AS Merko Ehitus

We have audited the accompanying consolidated financial statements of AS Merko Ehitus and its subsidiaries (the Group) which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tiit Raimla
AS PricewaterhouseCoopers

Märten Padu
Authorised Auditor

23 April 2010

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROFIT ALLOCATION PROPOSAL
in kroons

Retained earnings	1 830 830 778
Net profit for 2009	116 166 133
Total retained earnings as at 31.12.2009	**1 946 996 911**

The Management Board proposes profit allocation as follows:

As dividend (11.00 kroons per share)	194 700 000
Retained earnings after distribution of dividend	**1 752 296 911**

Tiit Roben	Chairman of the Management Board	20.04.2010
Alar Lagus	Member of the Management Board	20.04.2010
Veljo Viitmann	Member of the Management Board	20.04.2010
Andres Agukas	Member of the Management Board	20.04.2010

CONTACT DATA OF ANALYSTS FOR MERKO EHITUS GROUP

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REVENUE BREAK-DOWN OF THE PARENT PRESENTED ACCORDING TO THE ESTONIAN CLASSIFICATIONS OF ECONOMIC ACTIVITIES

Revenue break-down of the standalone parent of the group AS Merko Ehitus is presented according to Estonian Classifications of Economic Activities (EMTAK 2008), as required under the Commercial Code § 4 p.6:

in thousands of kroons

EMTAK code		**2009**	**2008**
	Rendering of construction services		
4120	construction of residential and non-residential buildings	1 022 873	1 017 558
4110	development of building projects	64 173	341 052
4211	construction of roads and railways	408 564	21 965
4221	construction of utility projects for fluids	221 260	398 042
4222	construction of utility projects for electricity and telecommunications	90 734	155 985
4291	construction of water projects	32 980	36 590
4213	construction of bridges and tunnels	54 472	61 517
4299	construction of other civil engineering projects n.e.c.	37 138	25 600
		1 932 194	2 058 309
	Real estate activities		
6810	sales of own real estate	8 500	-
6820	renting and operating of own or leased real estate	538	814
		9 038	814
	Total revenue	1 941 232	2 059 123