



## AS MERKO EHITUS GROUP

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

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

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Financial year: 01.01.2009 – 31.12.2009

Reporting period: 01.01.2009 – 31.12.2009

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

Directorate: Tõnu Toomik, Teet Roopalu, Jaan Mäe

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

Auditor: AS PricewaterhouseCoopers

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## MANAGEMENT REPORT

### General information

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

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

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

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

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

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

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

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

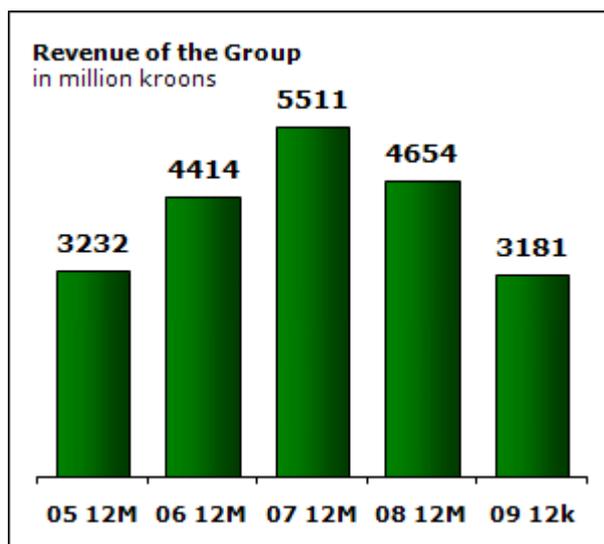
On 18 December 2009, AS Merko Ehitus acquired the 100% holding in the company OÜ Tähelinna Kinnisvara (registry code 10723293) from AS E.L.L. Kinnisvara. The purchase price of the company was EEK 51.9 million. The company OÜ Tähelinna Kinnisvara was established in 2001. The principal activity of the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

## Operating results

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

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

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



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

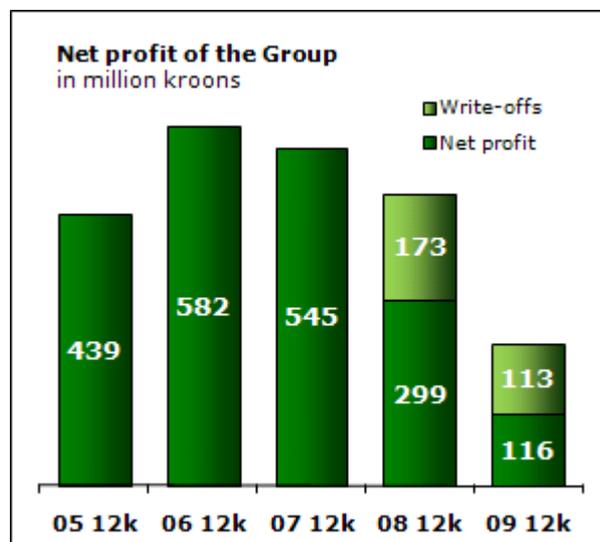
As at 31 December 2009, the group's backlog of construction contracts in progress amounted to EEK 1.3 billion.

The consolidated revenue of the Group's most important companies

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

In one year, the Group's cost of goods sold decreased by 29.9% and marketing and general administrative expenses by 18.5%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 9.8 million decrease in labour costs, EEK 12.0 million decrease in consultation/legal aid, EEK 9.0 million decrease in advertising and sponsoring and EEK 14.8 million decrease in other costs were the most significant factors. Despite the vigorous measures, the group's cost-cutting rate failed to keep up with the fall in revenue – thus, the cost of goods sold in the period increased to 89.1% and marketing and administrative costs to 6.3%.

The group's earnings before taxes in 2009 were EEK 119.9 million, which means a decrease by EEK 212.9 million compared to 2008. The net profit in the period was EEK 116.2 million; representing an EEK 183.0 million or 61.2% decrease. The fall in earnings was affected by revenue, the reduced profitability of the construction and property development sectors, and the extraordinary expenses resulting from changes in the economic conditions. In 2009, the group suffered an 90.7 million loss due to the depreciation of development projects (incl. properties for sale by EEK 66.9 million; work in progress by EEK 3.7 million, and finished goods by EEK 20.1 million); and a further EEK 8.0 million due to the depreciation of non-current assets and EEK 13.8 million loss from the write-off of uncollectible accounts. The Group's earnings before taxes were EEK 232.4 million before extraordinary write-offs. The seasonality of the construction field and the cyclic nature of property development did not have a significant impact on the financial performance.



Group's priorities in 2009 were positive cash flow and liquidity. In 2009 Group's total cash flows amounted to EEK -156.3 million, of which the cash flows from operating activities totalled EEK +368.4 million, from investment activities EEK -198,7 million and from financing activities EEK -326.0 million. The cash flows from operating activities of the reporting period were mostly affected by change in inventories EEK +338.9 million, change in liabilities and prepayments related to operating activities EEK -306.3 million and operating profit EEK +132.0 million. From investment activities cash flows EEK -138.2 million from purchase of other financial investment, EEK -62.1 million investment in subsidiaries, EEK -20.1 million from balance of granted/received loans, EEK +32.0 million from received interests and EEK -13.2 million from purchase of property, plant and equipment. Of the cash flow from financing activities, EEK -243.9 million was used to repay loans and EEK -64.7 million was paid as dividends.

As of 31 December 2009, the Group has EEK 760.6 million of funds on the Group's bank accounts and deposits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

\*attributable to equity owners of the parent

## Construction market

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

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

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

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

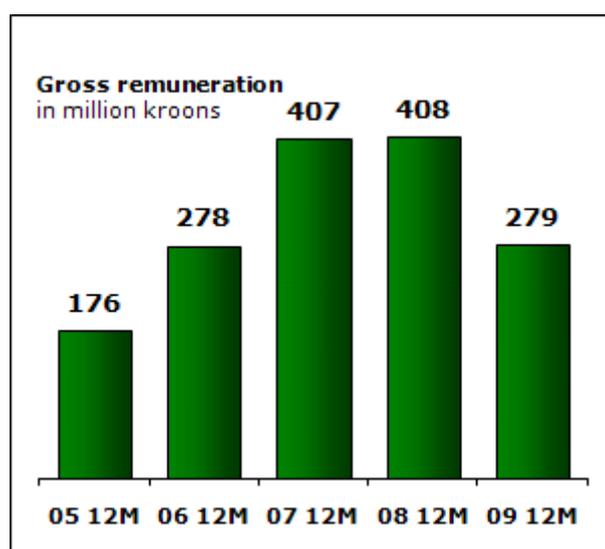
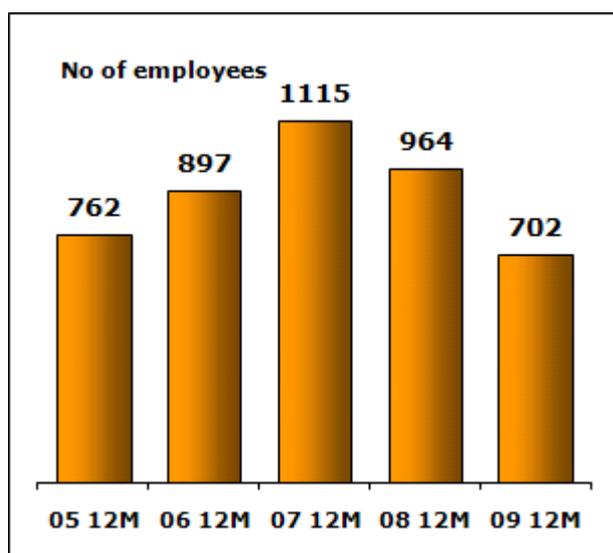
2009. This has made the banks much more aggressive. It is now much safer for banks to finance new residential properties. The loans granted under the new terms help to improve the banks' revenue base and compensate the negative effect of bad loans. As a result of the abovementioned trends, the financing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

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

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

### Employees and remuneration

In 31.12.2009, the number of employees in the Group's service was 702, including 682 full-time employees. The Group reduced the number of its personnel by 27.2% or 262 employees in a year. The gross remuneration paid to employees in 2009 amounted to EEK 278.9 million a decrease of 31.7% compared to previous year. The smaller amount of performance pay, due to the fall in the group's profitability, and the reduced staff levels also contributed to the fall in the group's labour costs.



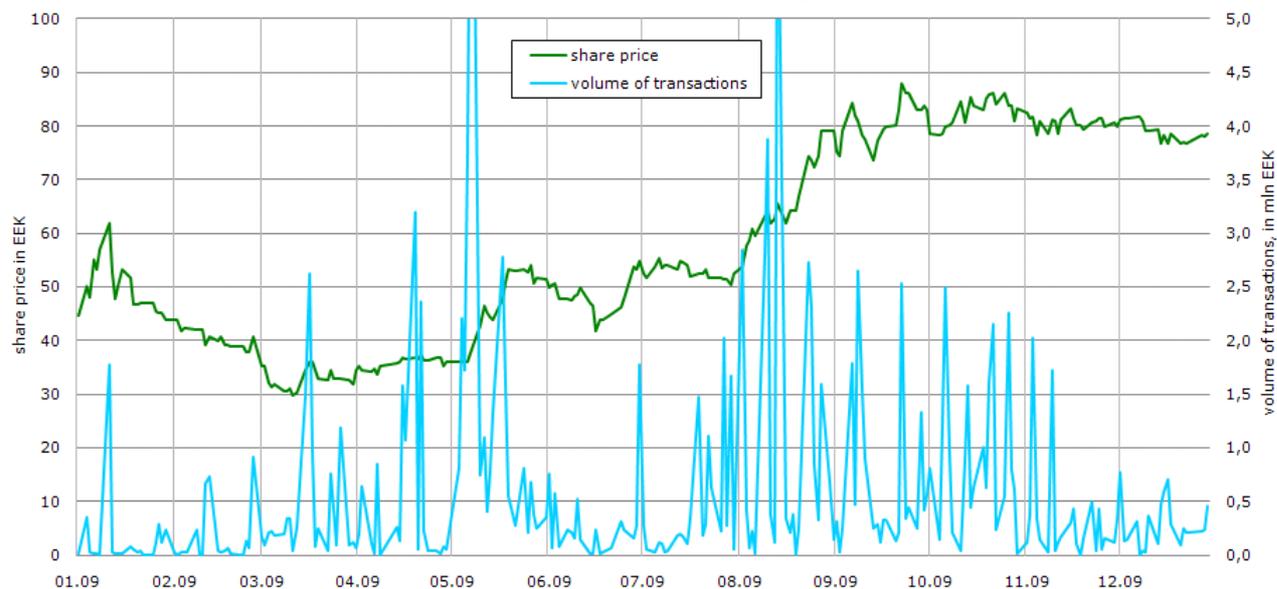
### Shares and shareholders

#### Share information

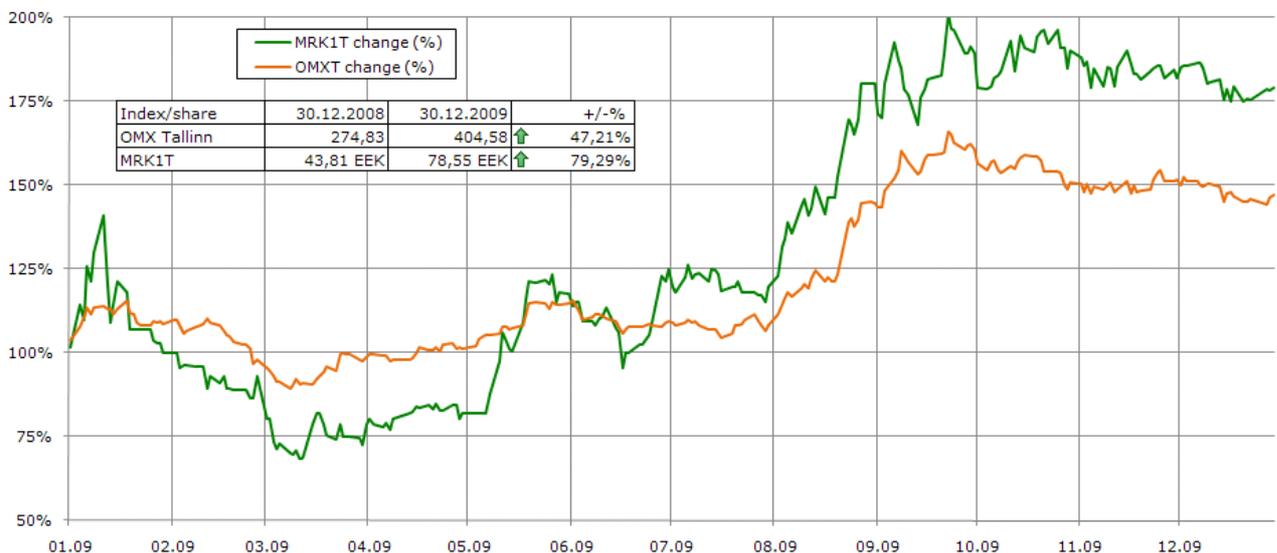
ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	10.00 EEK
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2009 3862 transactions with the shares of Merko Ehitus were performed in the course of which 2.8 million shares were traded and the total monetary value of transactions was EEK 146.8 million. The lowest share price was EEK 28.95 and the highest price was EEK 90.44 per share. The closing share price as at 30.12.2009 was EEK 78.55. AS Merko Ehitus market value as at 31.12.2009 was EEK 1.39 billion.

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



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



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

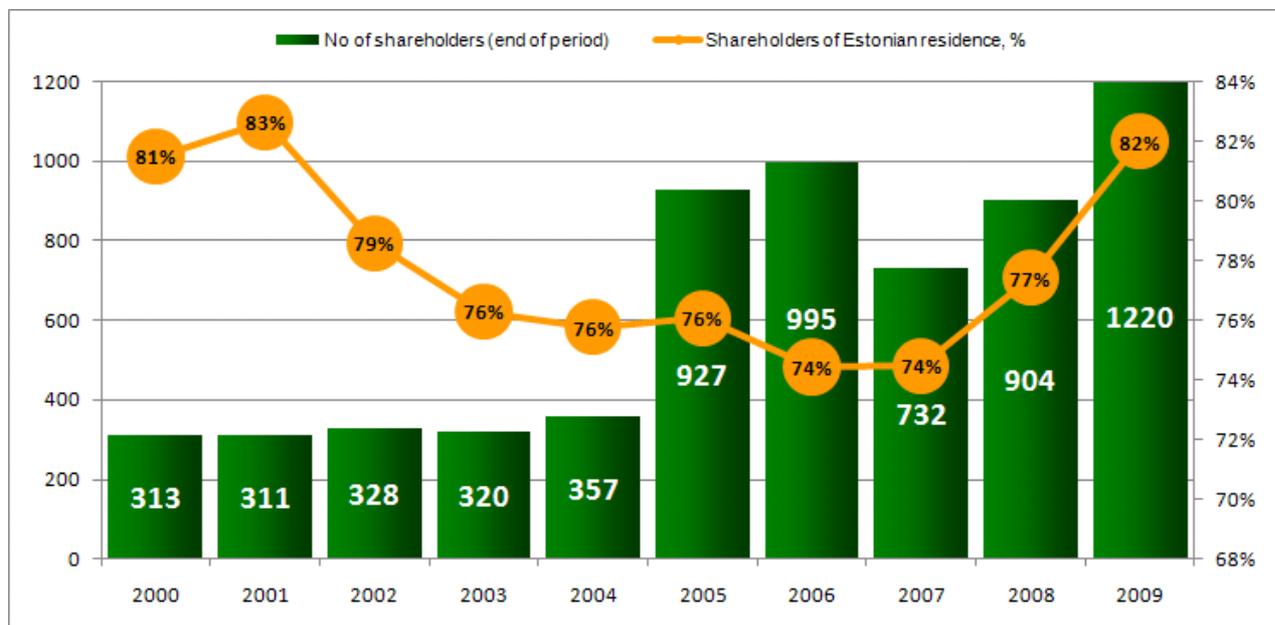
The main shareholders of AS Merko Ehitus as of 31.12.2009

	Number of shares	Proportion
AS Riverito	12 742 686	71,99%
ING Luxembourg S.A., clients	963 376	5,44%
Skandinaviska Enskilda Banken Ab, clients	799 148	4,52%
State Street Bank and Trust Omnibus Account a Fund No OM01	309 332	1,75%
Nordea Bank Finland Plc/Non-resident legal entities	189 126	1,07%
SEB Elu- ja Pensionikindlustus AS	128 733	0,73%
SEB Pank AS, clients	117 260	0,66%
Skandinaviska Enskilda Banken Finnish, clients	111 230	0,63%
Gamma Holding OÜ	110 210	0,62%
Clearstream Banking Luxembourg S.A. clients	108 084	0,61%

Structure of shareholders as of 31.12.2009

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	341	27,95%	18 286	0,10%
101-1000	570	46,72%	261 113	1,48%
1001-10 000	265	21,72%	779 474	4,40%
10 001 – 100 000	34	2,79%	1 061 942	6,00%
100 001 – 1 000 000	9	0,74%	2 836 499	16,03%
1 000 001 - ...	1	0,08%	12 742 686	71,99%
Total	1220	100%	17 700 000	100%

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



**STATEMENT OF COMPREHENSIVE INCOME**  
consolidated, unaudited

	note	EEK		EUR	
		2009 12 months	2008 12 months	2009 12 months	2008 12 months
Revenue	1,2	3 181 209	4 653 933	203 316	297 441
Cost of goods sold	3	(2 835 169)	(4 045 306)	(181 200)	(258 542)
<b>Gross profit</b>		346 040	608 627	22 116	38 899
Marketing expenses		(47 094)	(43 921)	(3 009)	(2 807)
Administrative and general expenses		(154 000)	(202 820)	(9 842)	(12 963)
Other operating income		14 408	9 529	921	609
Other operating expenses		(27 326)	(43 333)	(1 746)	(2 769)
<b>Operating profit</b>		132 028	328 082	8 440	20 969
Financial income and expenses		(12 170)	4 627	(779)	296
incl. financial income (expenses) from investments into subsidiaries		-	1 418	-	91
financial income (expenses) from investments into associates and joint ventures		(18 222)	(4 565)	(1 165)	(292)
financial income (expenses) from other long-term financial investments		(8 867)	-	(567)	-
interest expense		(23 478)	(18 392)	(1 501)	(1 175)
foreign exchange gain		1 209	(6 942)	77	(444)
other financial income and expenses		37 188	33 108	2 377	2 116
<b>Profit before tax</b>		119 858	332 709	7 661	21 265
Corporate income tax expense		(8 496)	(26 339)	(543)	(1 684)
<b>Net profit for current period</b>		111 362	306 370	7 118	19 581
incl. equity holders of the parent		116 166	299 140	7 424	19 119
minority interest		(4 804)	7 230	(306)	462
<b>Other comprehensive income</b>					
Exchange differences on translating foreign subsidiaries		(2 266)	(7 465)	(145)	(477)
<b>Comprehensive income</b>		109 096	298 905	6 973	19 104
incl. equity holders of the parent		113 900	291 675	7 279	18 642
minority interest		(4 804)	7 230	(306)	462
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	6,56	16,90	0,42	1,08

## STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

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

**STATEMENT OF FINANCIAL POSITION**

consolidated, unaudited

		EEK		EUR	
	note	31.12.2009	31.12.2008	31.12.2009	31.12.2008
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	359 732	515 191	22 991	32 927
Short-term deposits		400 916	262 759	25 623	16 793
Trade and other receivables	6	719 416	780 665	45 978	49 894
Prepaid corporate income tax		3 885	3 875	248	247
Inventories	7	1 479 001	1 817 486	94 527	116 158
Assets held for sale		-	173	-	11
<b>Total current assets</b>		<b>2 962 950</b>	<b>3 380 149</b>	<b>189 367</b>	<b>216 030</b>
<b>Non-current assets</b>					
Long-term financial investments	8	211 889	235 810	13 542	15 071
Deferred income tax assets		32 069	24 226	2 050	1 548
Investment property	9	16 552	12 002	1 058	767
Property, plant and equipment	10	266 276	197 094	17 018	12 597
Intangible assets	11	24 238	11 807	1 549	755
<b>Total non-current assets</b>		<b>551 024</b>	<b>480 939</b>	<b>35 217</b>	<b>30 738</b>
<b>TOTAL ASSETS</b>		<b>3 513 974</b>	<b>3 861 088</b>	<b>224 584</b>	<b>246 768</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Borrowings	12	447 569	206 657	28 605	13 208
Trade and other payables	13	782 470	963 631	50 009	61 588
Corporate income tax liability		5 249	8 699	335	556
Short-term provisions	14	37 702	32 317	2 410	2 065
<b>Total current liabilities</b>		<b>1 272 990</b>	<b>1 211 304</b>	<b>81 359</b>	<b>77 417</b>
<b>Non-current liabilities</b>					
Long-term borrowings	12	76 316	531 396	4 878	33 962
Long-term trade payables		10 653	8 824	681	564
Long-term customer prepayments		5	-	0	-
<b>Total non-current liabilities</b>		<b>86 974</b>	<b>540 220</b>	<b>5 559</b>	<b>34 526</b>
<b>Total liabilities</b>		<b>1 359 964</b>	<b>1 751 524</b>	<b>86 918</b>	<b>111 943</b>
<b>Equity</b>					
Minority interests		27 129	34 633	1 734	2 213
Equity attributable to equity holders of the parent					
Share capital		177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation adjustment		(14 816)	(12 550)	(947)	(802)
Retained earnings		1 946 997	1 892 781	124 436	120 971
		<b>2 126 881</b>	<b>2 074 931</b>	<b>135 932</b>	<b>132 612</b>
<b>Total equity</b>		<b>2 154 010</b>	<b>2 109 564</b>	<b>137 666</b>	<b>134 825</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3 513 974</b>	<b>3 861 088</b>	<b>224 584</b>	<b>246 768</b>

**STATEMENT OF CHANGES IN EQUITY**

unaudited

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

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

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

**CASH FLOW STATEMENT**

consolidated, unaudited

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

## NOTES

### Note 1 Business and geographical segments *in thousand kroons*

#### Business segments

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

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

## Geographical segments

	Revenue	
	2009 12 months	2008 12 months
Estonia	2 181 197	2 893 304
Latvia	925 985	905 345
Lithuania	74 027	855 284
<b>Total</b>	<b>3 181 209</b>	<b>4 653 933</b>

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

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

## Note 2 Revenue

*in thousand kroons*

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

## Note 3 Cost of goods sold

*in thousand kroons*

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

#### Note 4 Earnings per share

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

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

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

#### Note 5 Cash and cash equivalents

*in thousand kroons*

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

#### Note 6 Trade and other receivables

*in thousand kroons*

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

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

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

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

	<b>31.12.2009</b>	<b>31.12.2008</b>
Investments in associates and joint ventures	179 421	206 761
Long-term loans	21 785	21 163
Long-term bank deposit	2 809	2 259
Long-term receivable from buyer of subsidiary	1 375	2 625
Long-term receivables from customers of construction services	6 499	3 002
<b>Total long-term financial assets</b>	<hr/> 211 889	<hr/> 235 810

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

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

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

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

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

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

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

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

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

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

## Note 14 Short-term provisions

*in thousand kroons*

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

## Note 15 Related party transactions

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

- parent company AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;
- other shareholders with significant influence;
- other subsidiaries of AS Riverito, so-called 'entities controlled by the parent company';
- associates and joint ventures;
- key managers and their close relatives;
- entities sharing key personnel with AS Merko Ehitus.

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

The parent of AS Merko Ehitus is AS Riverito. As of 31.12.2009 and 31.12.2008, AS Riverito owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the Group is Mr Toomas Annus.

## Goods and services

*in thousand kroons*

	2009 12 months	2008 12 months
<b>Purchased construction services</b>		
Associates and joint ventures	2 435	31 098
Entities under joint control	10 988	11 870
<b>Total purchased construction services</b>	<b>13 423</b>	<b>42 968</b>
<b>Rendered construction services</b>		
Associates and joint ventures	67	1 944
Entities under joint control	133 392	934 790
Other related parties	896	1 865
Management members	15 237	6 412
<b>Total construction services rendered</b>	<b>149 592</b>	<b>945 011</b>
<b>Construction materials purchased</b>		
Other related parties	82	151
<b>Real estate purchased</b>		
Entities under joint control	50 926	-
<b>Real estate sold</b>		
Entities under joint control	-	142 480
Other related parties	-	1 212
<b>Total real estate sold</b>	<b>-</b>	<b>143 692</b>

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

	31.12.2009	31.12.2008
<b>Trade and other receivables</b>		
Trade receivables		
Parent	190	-
Associates and joint ventures	74	81
Entities under joint control	498	117 065
Other related parties	2 416	66
Short-term loans		
Associates and joint ventures	16 500	16 400
Entities under joint control	43 055	4 169
Interest receivables		
Associates and joint ventures	9 147	3 873
Entities under joint control	1 624	2 505
Other short-term receivables		
Associates and joint ventures	1	-
Entities under joint control	57 463	74
<b>Other long-term loans and receivables</b>		
Long-term loans		
Associates and joint ventures	18 896	18 266
Entities under joint control	2 890	2 896
Other long-term loans and receivables		
Entities under joint control	-	1 831
<b>Borrowings</b>		
Short-term loans and bonds		
Entities under joint control	109 354	125 001
<b>Trade and other payables</b>		
Trade payables		
Parent	2	-
Associates and joint ventures	-	1 045
Entities under joint control	83	478
Other related parties	2	1
Interest liabilities		
Entities under joint control	233	645
Other short-term liabilities		
Entities under joint control	100 000	100 000

## Note 16 Contingent liabilities

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

<i>in thousand kroons</i>	<b>31.12.2009</b>	<b>31.12.2008</b>
Performance period's warranty to the customer	262 573	300 657
Tender warranty	59 454	61 258
Guarantee warranty period	152 114	107 491
Prepayment guarantee	81 296	100 110
Sureties	9 705	6 362
Payment guarantee	3 318	-
Letter of credit	6 404	-
<b>Total contingent liabilities</b>	<b>574 864</b>	<b>575 878</b>

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

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

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

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

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

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 12 months interim report 2009 as presented on pages 3 to 23.

The Management Board confirms to the best of its knowledge:

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

The consolidated interim financial statements of AS Merko Ehitus for the 12 months period ending 31.12.2009 have been prepared in accordance with IAS 34 "Interim Financial Reporting" for condensed interim financial statements. Company applies the same accounting policies in its interim financial statements as applied in its annual financial statement of 2008.

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

Tiit Roben	Chairman of the Board		25.02.2010
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Alar Lagus	Member of the Board		25.02.2010
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Veljo Viitmann	Member of the Board		25.02.2010
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Andres Agukas	Member of the Board		25.02.2010
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