



## AS MERKO EHITUS GROUP

### 2010 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: 01.01.2010 – 31.12.2010

Reporting period: 01.01.2010 – 31.12.2010

Supervisory Board: Tõnu Toomik, Teet Roopalu,  
Indrek Neivelt, Olari Taal

Management Board: Tiit Roben, Alar Lagus, Veljo Viitmann,  
Andres Agukas, Jaan Mäe, Viktor Mõisja

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%) and AS Tartu Maja Betoontooted (25%).

At the regular meeting of shareholders held on 3 June 2010 Jaan Mäe was removed from the position of a Member of the Supervisory Board in connection with the restructuring of the company's managerial structure in the course of which he was elected a Member of the Management Board of AS Merko Ehitus.

On 21 December 2010 the Supervisory Board of AS Merko Ehitus decided to appoint Viktor Mõisja who had previously held the position of the Head of the Concreting Department to the Management Board of the company. Viktor Mõisja took office on 21 December 2010 and was made accountable for the spheres of quality management and inspection. In addition, Viktor Mõisja will represent AS Merko Ehitus at the court hearing that began at the Harju County Court on 10 January 2011 where AS Merko Ehitus and its subsidiaries will be prosecuted for offering bribes (i.e. gift certificates of a tourism agency in the value of 2556 Euros and an architectural book titled "Talurahva arhitektuur"). An accused legal entity must be represented in court by a Member of its Management Board.

On 22 December 2010 AS Merko Ehitus established a fully owned subsidiary in Ukraine called LLC Merko Ukraine (registration code 37458687). The establishing process was a mere formality the aim of which was to create a legal platform in order to start doing business on the local market. With this move, Merko Ehitus wishes to confirm its strategic interest in entering the Ukrainian market. The company established will mainly specialize in the managing of construction projects in Ukraine.

Due to the extensive changes in the economic environment and on the construction market, the management and supervisory boards of AS Merko Ehitus have reviewed the corporate strategy and established the group's strategic targets for 2010 to 2015.

The strategy covers the period from this year until the end of 2015. All the main principles and some of the financial targets, such as the minimum equity ratio, must be applied or met throughout the defined period.

The detailed strategy is based on the following estimates and assumptions about Baltic economy:

- There will be no economic growth in 2010; the construction sector will experience a fall by max. 10%;
- In the coming years (2011 and 2012), economic growth will not exceed 3%, as estimated by different experts;
- The main clients in the coming years will come from the public sector where focus will be on infrastructure projects co-financed by the EU funds;
- Since the public sector lacks the financial means for investment, there will be more extensive application of PPP (public private partnership) models;
- There will be more projects related to the improvement of energy performance;
- There will be more activity on the apartment market, compared to the slump in recent years;
- There will be an increased demand for industrial facilities;
- The availability of credit/loans will improve;
- Starting 2011, unemployment rates will decrease and the retail business will enter the phase of recovery.

AS Merko Ehitus strategic targets:

- The vision of AS Merko Ehitus is to provide its clients with high-quality construction services in various fields.
- AS Merko Ehitus aims to be the leading construction company on its home market – in the Baltic countries.
- In addition to the home market, AS Merko Ehitus has identified Ukraine (especially Kiev) and St. Petersburg in Russia as its prospective markets.
- Outside of the above-mentioned markets, the company will only provide construction/development services for clients that Merko has cooperated with in the past or that require a facility similar to previous construction/development projects successfully executed by Merko.

- In 2015, turnover from Estonian operations would constitute approx. 35% of the consolidated turnover; turnover from Latvian operations, Lithuanian operations, and other markets would account for approx. 30%, 25% and 10%, respectively, of the consolidated turnover. The division of profit between the different markets is expected to be more or less similar to the division of turnover.
- In addition to current construction and design-engineering services, the company will offer an even more comprehensive service covering the entire process, from helping to find the suitable plot of land to helping the client obtain financing.

AS Merko Ehitus long-term financial targets:

- To ensure that the average annual return on equity (ROE) of the group between 2011 and 2015 is at least 15%;
- To ensure that the group's equity ratio is at least 40% throughout the entire period.

In order to fulfil our targets:

1. We will look for opportunities to acquire holdings in successful companies, especially in Lithuania and Latvia.
2. We will restructure the group's management system with the help of the following methods, above all:
  - We will add a fifth member to the management board; their responsibilities will initially include foreign markets and development activities;
  - We will launch several new activities in order to improve horizontal cooperation between the different companies in the group, and in order to utilise the engineering know-how and management expertise (acquired in different countries) in the different functions of the group;
  - As the final outcome of the restructuring, we envision a publicly traded holding company which has divisions in all countries where the group has permanent operations, controlled through locally registered entities.
3. We will preserve the core of the motivational system, which has proved to be effective so far, and will enhance the system in line with our set targets.

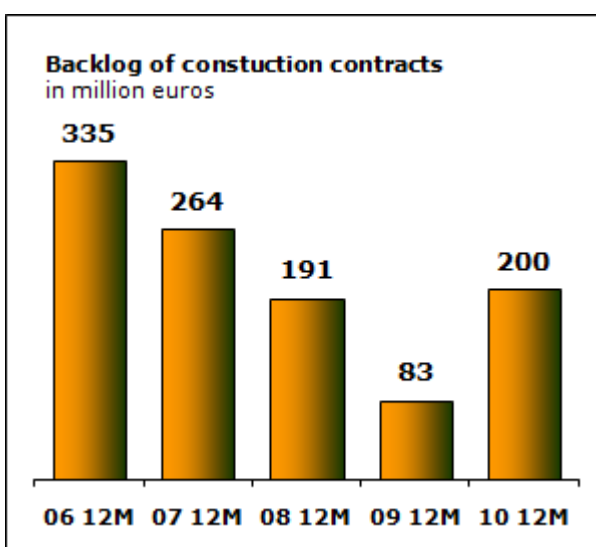
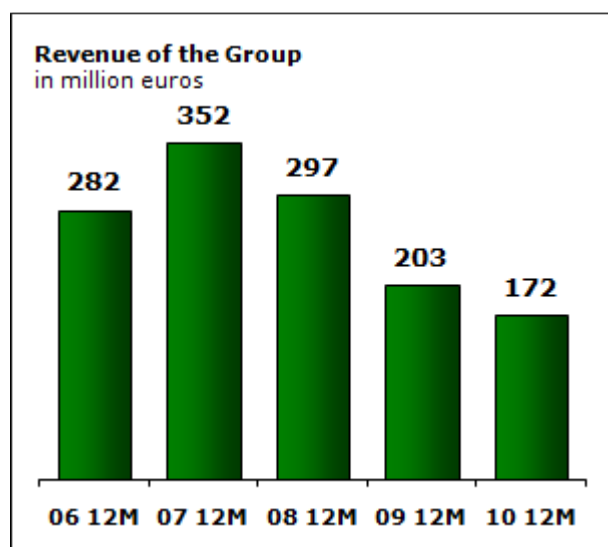
## Operating results

Group's revenue for the year 2010 was EUR 171.9 million (EEK 2689.9 million). 72.3% of the sales originated from Estonia, 25.1% from Latvia and 2.6% from Lithuania. As compared to with the year 2009, Group's sales decreased by 15.4% incl. by 10.9% in Estonia, by 27.1% in Latvia and by 5.1% in Lithuania.

Group's revenue for the IV quarter 2010 was EUR 45.6 million (EEK 714.3 million), which constitutes an annual decrease of EUR 8.5 million (EEK 133.6 million).

In 2010, the Group concluded new contracts for a total value of EUR 290 million (EEK 4.54 billion), whereas the total value of contracts concluded in Q4 was EUR 79 million (EEK 1.24 billion). The largest construction contracts concluded in 2010 have been the reconstruction of Ülemiste traffic junction (EUR 41.4 million), construction of the E20 Loo-Maardu road section (EUR 18.5 million), the water management project of the city of Maardu for the construction of the water and sewerage pipelines and facilities of the residential area of Muuga (EUR 13.3 million), construction of the Iru Waste energy block (EUR 12.6 million) and renovation of the common water supply of the Kohtla-Järve area (EUR 7.8 million). As of 31 December 2010, the Group's backlog of construction contracts in progress amounted to EUR 200 million (EEK 3.13 billion).

The group's own residential development projects and construction works related to property investments are not reported in the Group's contract portfolio. On 13 July 2010 UAB Merko Statyba, a subsidiary of AS Merko Ehitus, concluded a contract with a Vilnius city real estate company regarding the construction and 25-year rental of a Balsiu school building. The estimated investment of the project is EUR 10 million and the building needs to be ready to welcome its new students on 1 September 2011. In August 2010, the Group signed a contract with Lasnamäe City District Government to lease 2405 sq. metres of office premises to the City District Government for 15 years, starting August 2011.



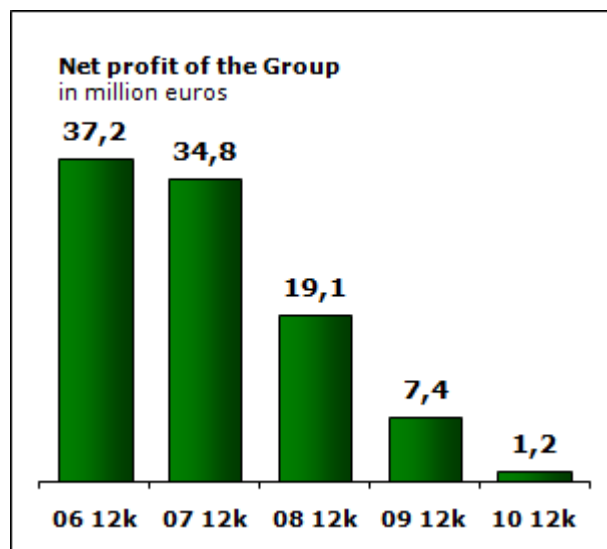
In 2010, 233 apartments were sold for a total cost of EUR 17.9 million (EEK 280.7 million) excluding value-added tax; this is a perfectly good result considering market conditions. As of 31.12.2010 Group held in inventories unsold 63 completed apartments in total cost EUR 4.9 million (EEK 77.1 million) and 424 apartments in the construction stage in total cost EUR 16.3 million (EEK 255.7 million). In the III quarter of 2010, Merko Ehitus started constructing a new apartment building with 93 apartments in Tallinn at Tartu mnt 50 and in IV quarter a new apartment building with 15 apartments in Tallinn at Kristiina 12. New apartments will be completed in the IV quarter of the year 2011. SIA Merks restarted its development project with 116 apartments in Riga, in the Skanstes area. The investment necessary for completing the project is EUR 3 million (EEK 46.9 million) and the construction works of the objects are planned to be completed in 2011 Q1. In 2010, the Group depreciated inventories by EUR 1.6 million (EEK 24.9 million) and cancelled previous depreciations by a total of EUR 0.6 million (EEK 9.0 million).

The consolidated revenue of the Group's most important companies

<i>in thousand EUR and EEK</i>				
	<b>2010</b>		<b>2009</b>	
	EUR	EEK	EUR	EEK
<b>Estonian companies</b>				
AS Merko Ehitus (parent company)	89 780	1 404 744	107 968	1 689 327
AS Gustaf (75% partnership)	2 598	40 647	2 820	44 131
OÜ Gustaf Tallinn (80% partnership)	3 451	53 997	3 907	61 126
AS Merko Tartu (66% partnership)	2 485	38 885	4 606	72 073
Tallinna Teede AS (100% partnership)	20 792	325 330	17 603	275 423
Woody OÜ (100% partnership)	3 941	61 663	1 598	25 000
<b>Latvian company</b>				
SIA Merks (100% partnership)	43 169	675 440	59 181	925 985
<b>Lithuanian company</b>				
UAB Merko Statyba (100% partnership)	4 432	69 352	4 532	70 915

Due to the decrease in volumes and the significant rise in input prices (several projects ended up in loss), the share of cost of goods sold in total costs increased, meaning that the gross profit margin fell from 10.9% to 7.3% compared to the previous year and. In 2010, the group's marketing and general administrative costs decreased by 15.1%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EUR 1.1 million (EEK 16.4 million) decrease in labour costs, EUR 0.6 million (EEK 9.1 million) decrease in office expenses and communication services, EUR 0.6 million (EEK 8.6 million) decrease in construction tenders and EUR 0.3 million (EEK 4.7 million) decrease in advertising and sponsoring were the most significant factors. Regardless of the general decrease in the marketing and general administrative expenses, the expenses on consultations and legal assistance increased, as compared to the previous year, by EUR 0.3 million (EEK 5.0 million), which is largely due to legal disputes related to procurement proceedings.

Group's earnings before taxes in 2010 were EUR 1.8 million (EEK 27.7 million), which means a decrease by EUR 5.9 million (EEK 92.2 million) compared to 2009. The net profit in the period was EUR 1.2 million (EEK 18.9 million); representing a EUR 6.2 million (EEK 97.2 million) or 83.7% decrease. The fall in profits was affected by revenue, the reduced profitability of the construction and property development sectors. Since construction prices rose faster than expected, the company was forced to significantly adjust the estimated cost of contracted works. That is also the main reason for the EUR 4.0 million (EEK 62.4 million) loss in Q4. The cyclical nature of development projects did not have a significant impact on performance in the second half of 2010.



In 2010 Group's change in short-term investments and pecuniary means amounted to EUR -36.3 million (EEK -567.6 million) and as of 31 December 2010, the Group had EUR 12.5 million (EEK 195.7 million) of funds on the Group's bank accounts and deposits. Group's cash flows from operating activities were EUR -7.3 million (EEK -113.4 million), from investment activities EUR -6.5 million (EEK -101.7 million) and from financing activities EUR -22.5 million (EEK -352.5 million). The cash flows from operating activities of the reporting period were mostly affected by change in trade and other payables related to operating activities EUR +6.3 million (EEK +98.4 million), change in inventories EUR +5.6 million (EEK +87.5 million) and change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR -23.4 million (EEK -365.5 million). From investment activities cash flows balance of granted/received loans totalled EUR -4.0 million (EEK -62.1 million), purchase of real-estate investments totalled EUR -2.6 million (EEK -41.0 million) and purchase of property, plant and equipment totalled EUR -0.8 million (EEK -12.6 million). Of the cash flow from financing activities, EUR -12.4 million (EEK -194.7 million) was used to dividend payment, EUR -10.8 million (EEK -168.2 million) for loan repayments and EUR 1.4 million (EEK -22.6 million) for finance lease principal payments.

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

	2010	2009	2008
Net profit margin	0,7 %	3,7 %	6,4 %
Profit before taxes margin	1,0 %	3,8 %	7,1 %
Operating profit margin	1,4 %	4,2 %	7,0 %
Gross profit margin	7,3 %	10,9 %	16,3 %
EBITDA margin	2,8 %	5,3 %	7,8 %
Return on equity per annum	0,9 %	5,5 %	14,6 %
Return on assets per annum	0,6 %	3,1 %	7,7 %
Equity ratio	63,8 %	60,5 %	53,7 %
Current ratio	2,7	2,3	2,8
Quick ratio	1,1	1,1	1,3
General expense ratio	6,4 %	6,3 %	5,8 %
Gross remuneration ratio	9,3 %	8,8 %	8,8 %

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

### Economic growth, at constant prices

Q4 2010 vs. Q4 2009

Estonia +6,6%

Latvia +3,7%

Lithuania +4,6%

### Construction price index, at constant prices

Q4 2010 vs. Q4 2009

Estonia +0,6% incl. labour force +0,6%

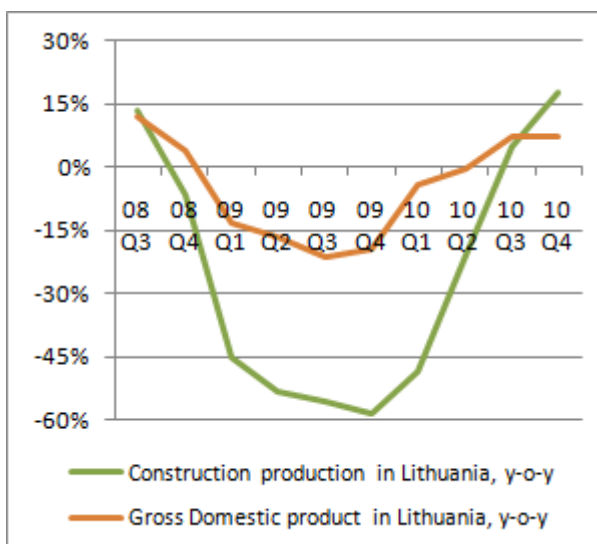
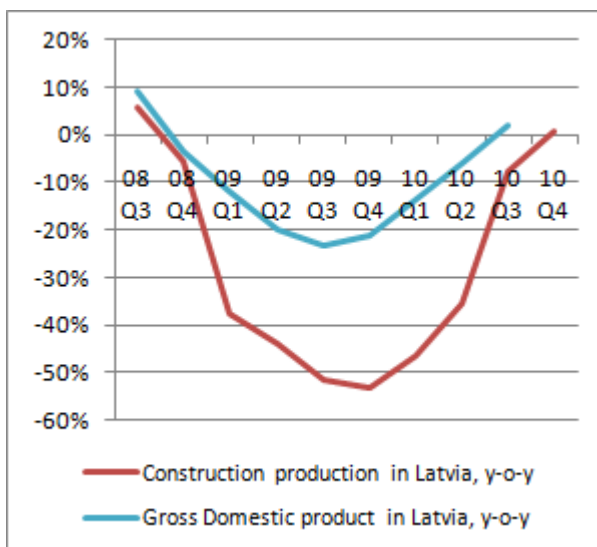
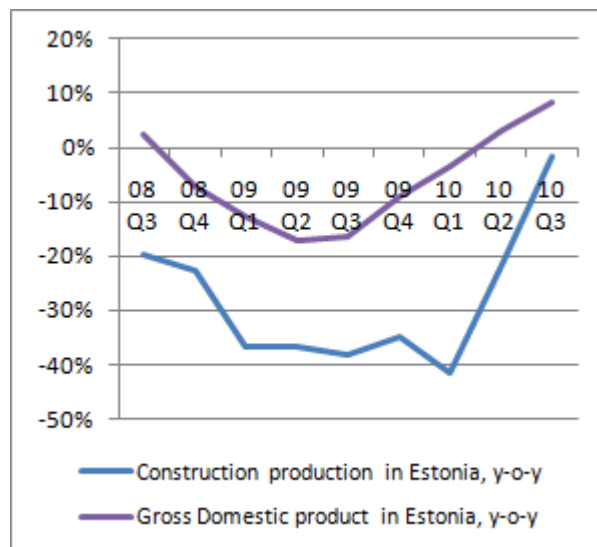
Latvia +1,5% incl. labour force +7,8%

Lithuania +0,5% incl. labour force +1,5%

In 2010, the construction market was characterised by three key-words – low demand, intense competition and rapid increase in input prices.

Boosted by a general economic upturn, the Baltic construction market showed signs of recovery in Q4: compared to Q4 2009, volumes increased by 17.7% in Lithuania and remained on the same level in Latvia. A similar trend (+0.3%) could be observed in the Q3 performance of the Estonian construction market (Information about market performance in Q4 2010 will be published on 1 March 2011). Although there was some improvement in individual quarters, the overall result for 2010 was a fall in market volume, by 9.2% in Lithuania and by 20.1% in Latvia. The Estonian market had a 17.9% decrease in the first nine months. Most of the new contracts have come from the public sector and are financed by EU structural funds. Private-sector clients still lack confidence about the future, resulting in virtually no interest in new buildings/facilities. The rental market is improving – rental prices have stabilised and the amount of available premises has decreased, whereas investors are showing greater interest in projects with rental income and in undeveloped lots.

In 2010, there was an improvement on the residential property market in Estonia and Lithuania, with an increase in both the number of transactions and the average price. The upturn in residential property prices and the signs of economic stabilisation have motivated people to take action, after a long period of postponing the purchase of a home. The positive trend is the result of improved financing options, especially the lower level of required self-financing and lower interest rates for end-consumers. A temporary sales boost in the residential property sector has encouraged developers to reconsider their postponed projects and to prepare new business plans and file loan applications. Despite the surge of optimism among developers, the launch of new projects still comes with big risks – the rise in construction prices clearly exceeds the rise in selling prices, which hampers the profitability of development projects. Therefore, we estimate that the number of new developments will remain small in the near



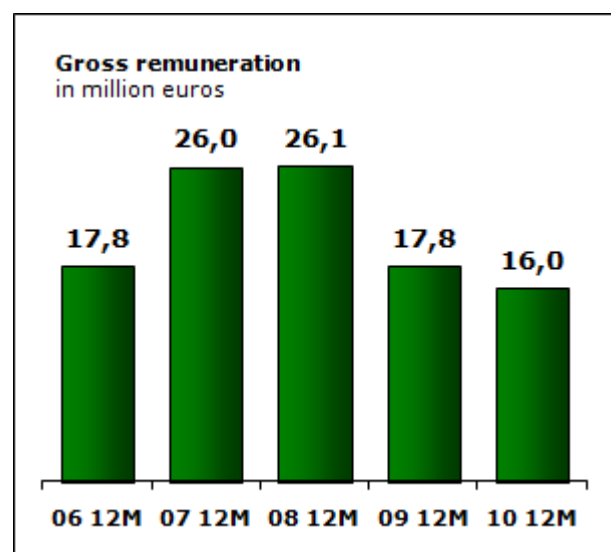
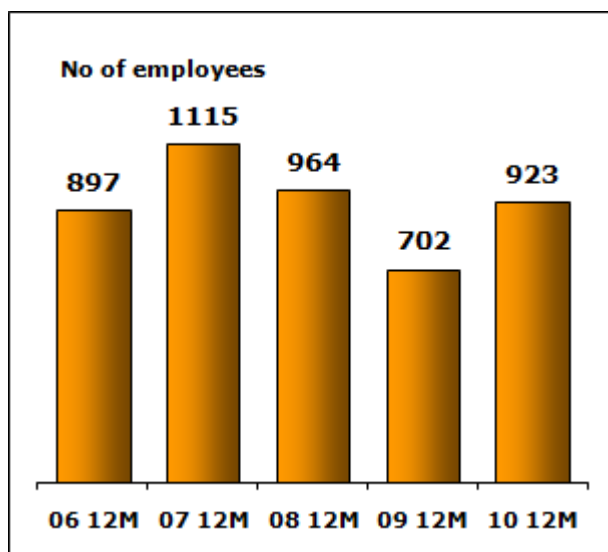
future and the supply of residential properties will decrease. Based on decreased supply and rising construction prices, we predict that the prices of residential properties will continue to rise over the next 12 months.

Strong global demand has increased the cost of inputs in the construction sector; prices have risen for materials as well as equipment rental. The strong demand in the Central-European and Scandinavian construction sector offers a good alternative for local workers – but when they take up employment abroad, it makes labour here more costly. With the higher cost of inputs and many sub-contractors focusing on foreign markets, construction services have become significantly more expensive in the last six months. Compared to 2009 when the construction market was at its low point, construction prices have increased by 20-25%. The high volatility of prices complicates cost-estimation for new projects and makes it difficult to complete projects within the planned budget. It means an additional risk for fixed-price contracting and puts price pressure on profitability. These factors contributed greatly to the group's lower-than-expected performance in Q4.

On the main contracting market, companies continue submitting of tenders featuring sums below their actual service costs in order to secure new orders while participating at invitations to tender, which results in the withdrawal of tenders or termination of contracts. In general, the victim in situations like these is the contracting entity from whom the launching of new procurement proceedings requires additional time and funds. It often happens that companies that submit such tenders complete the costly preparatory work, make a considerable profit from it and then leave the construction site. When new procurement proceedings are launched it then comes clear that the actual cost of the incomplete work exceeds the cost of the work the previous contractor failed to complete manifold. Unhealthy competition is promoted by the indifference of contracting entities and their fear of catching the eye of the public with unsuccessful procurements. Merko Ehitus does not approve of such practices and intends to stand by its commitments in the future as well. As of 31.12.2010 the funds allocated to cover unprofitable projects throughout the group amounted to EUR 2.2 million (EEK 34.8 million).

### Employees and remuneration

In 31.12.2010, the number of employees in the Group's service was 923, including 878 full-time employees. The Group increased the number of its personnel by 31.5% or 221 employees in a year. The gross remuneration paid to employees in 2010 amounted to EUR 16.0 million (EEK 250.4 million) a decrease of 10.2% compared to previous year. The smaller amount of performance pay, due to the fall in the group's profitability contributed to the fall in the group's labour costs.



## **Members of the Supervisory and Management Board of AS Merko Ehitus**

### **Supervisory Board**

Members of the supervisory board have been elected by the general meeting of shareholders. The supervisory board shall plan the activities of the company, organize the management of the company and supervise the activities of the board. The supervisory board consists of 4 members.

**Tõnu Toomik** – Born on 8 March 1961. Finished current Raatuse Gymnasium in Tartu (formerly Tartu Secondary School No. 3) and graduated from Tallinn University of Technology in the specialty of industrial and civil engineering. Started in AS Merko Ehitus in 1993 as the project manager. In the years 1997-2008 was the chairman of the management board of AS Merko Ehitus, responsible for the management and development of the activities of the company. Since August 2008 the chairman of the supervisory board of AS Merko Ehitus.

**Teet Roopalu** – Born on 30 August 1949. Finished Tallinn Secondary School No. 10 (currently Nõmme Gymnasium) and graduated from the economic faculty of Tallinn University of Technology in the specialty of construction economics and organisation. Has worked in the construction companies, incl. as a financial director; managed the economic activities in EKE system as the chief economist; as the bank director and also been involved in designing. Since November 2002 in Merko Ehitus, responsible for the financial and legal sector in Merko Ehitus. Belongs to the supervisory boards of several subsidiaries and associated companies of Riverito and Merko Ehitus.

**Indrek Neivelt** – Born on 17 March in 1967. Graduated from the class specialized in mathematics-physics of Tallinn Secondary School No. 1 (Gustav Adolf Gymnasium), the specialty of civil engineering and management of Tallinn University of Technology and the specialty of banking and finances of Stockholm University with the Master's degree. Having worked in Hansapank in different positions during 1995-2005, the last six years of it as the general director of the group and the chairman of the management board. Since 2005 the chairman of the supervisory board of Bank Saint Petersburg and also the member of the supervisory board of other different companies. Since October 2008 the member of the supervisory board of AS Merko Ehitus.

**Olari Taal** – Born on 7 August 1953. Olari Taal finished Varstu Secondary School in 1971 and graduated from Tallinn University of Technology as the civil engineer in 1976. He has managed Tartu Elamuehituskombinaat /Tartu Housing Plant/ (Tartu Maja) and Eesti Hoiupank. He has served the Republic of Estonia as the Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as the member of the 10th composition of the Parliament. Since October 2008 Olari Taal is the member of the supervisory board of AS Merko Ehitus.

### **Management Board**

The management board is a directing body of the company which represents and directs the company. The management board shall, in directing, adhere to the lawful orders of the supervisory board. The management board is required to act in the most economically purposeful manner. Since 21 December 2010 the management board consists of 6 members.

**Tiit Roben** – Born on 5 January 1966. Finished the current Mustamäe Gymnasium (formerly Tallinn Secondary School No. 44) and graduated from Tallinn University of Technology in the specialty of industrial and civil engineering. Worked as the project manager in AS Merko Ehitus in the years 1998-2002. In the years 2002-2008 worked in E.L.L. Kinnisvara AS, the company of AS Riverito, since 2005 the member of the management board of the company, development director. Since August 2008 the chairman of the management board of AS Merko Ehitus, responsible for the management and development of the activities of the company.

**Jaan Mäe** – Born on 26 September 1964. Finished Viljandi Secondary School no. 5 and graduated from Tallinn University of Technology in the specialty of industrial and civil engineering. Since December 1997 in AS Merko Ehitus, have been the object manager, project manager, division manager and member of the management board. In the years 2006-2010 - member of the supervisory board of AS Merko Ehitus and several other companies belonging to the group. Since June 2010 - member of the management board of AS Merko Ehitus, being responsible for the achievement of the objectives set in the development sector, and the chairman of the supervisory board of the Latvian and Lithuanian subsidiaries.

**Alar Lagus** – Born on 15 February 1969. Finished Rapla Secondary School and graduated from the chemical faculty of Tallinn University of Technology in the specialty of public catering organisation and technology. Pursuant to the graduation from the university worked for ten years at the different positions in Hansapank. Since 2004 works as the manager of the financial sector of Merko Ehitus and is responsible for the company's financial and managerial accounting and investor relations.

**Veljo Viitmann** – Born on 13 March 1962. Finished Türi Secondary School and graduated from the civil engineering faculty of Tallinn University of Technology in the specialty of transport engineering and bridges. Since 1994 in AS Merko Ehitus and is responsible for the preparation of the tenders for the new projects.

**Andres Agukas** – Born on 15 July 1965. Finished Pärnu-Jaagupi Secondary School and graduated from Tallinn University of Technology in the specialty of transport engineering. Started in Merko Ehitus on 2 February 1998 as the first employee of the civil engineering sector. Since October 2005 is responsible as the member of the management board for the whole sector of construction service.

**Viktor Mõisja** – Born on 1 January 1951. Graduated from the Tallinn University of Technology in 1976, having acquired the education of a civil engineer. Viktor Mõisja has been working in AS Merko Ehitus since the establishing of the company, mainly as the Head of the Concreting Department. Since 21 December 2010 is responsible as the member of the management board for the spheres of quality management and inspection.

Information on the shares controlled by the members of the supervisory and management board of AS Merko Ehitus is presented in the chapter Shares and shareholders.

## Shares and shareholders

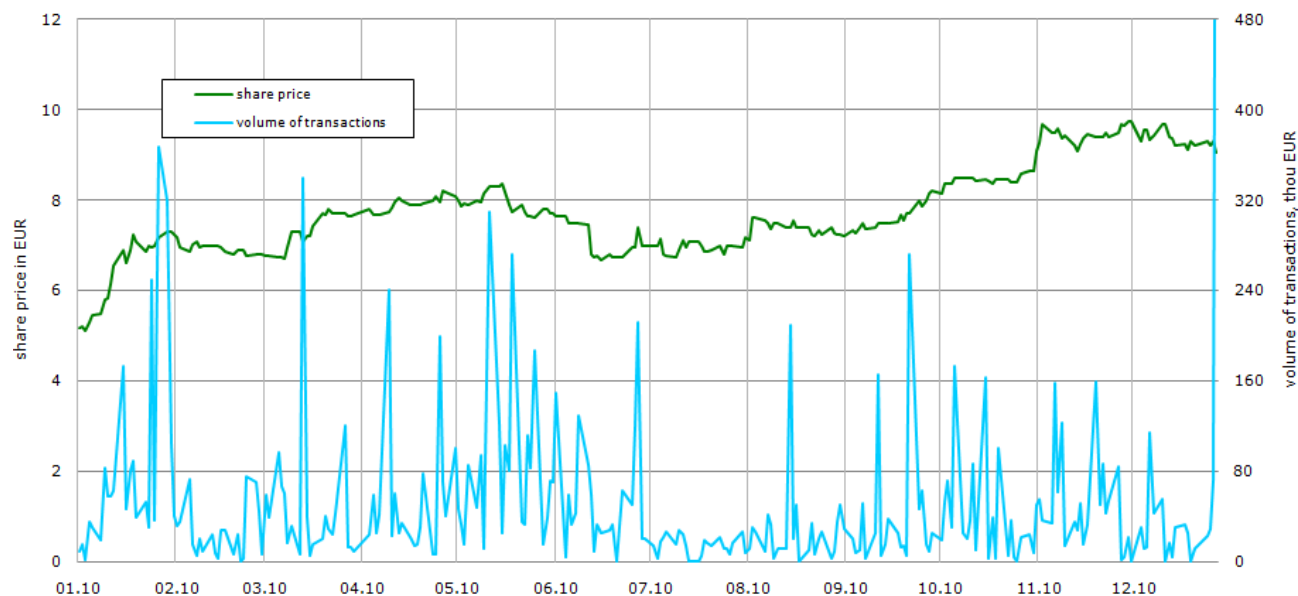
### Share information

ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	10.00 EEK (0.6391 EUR)
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

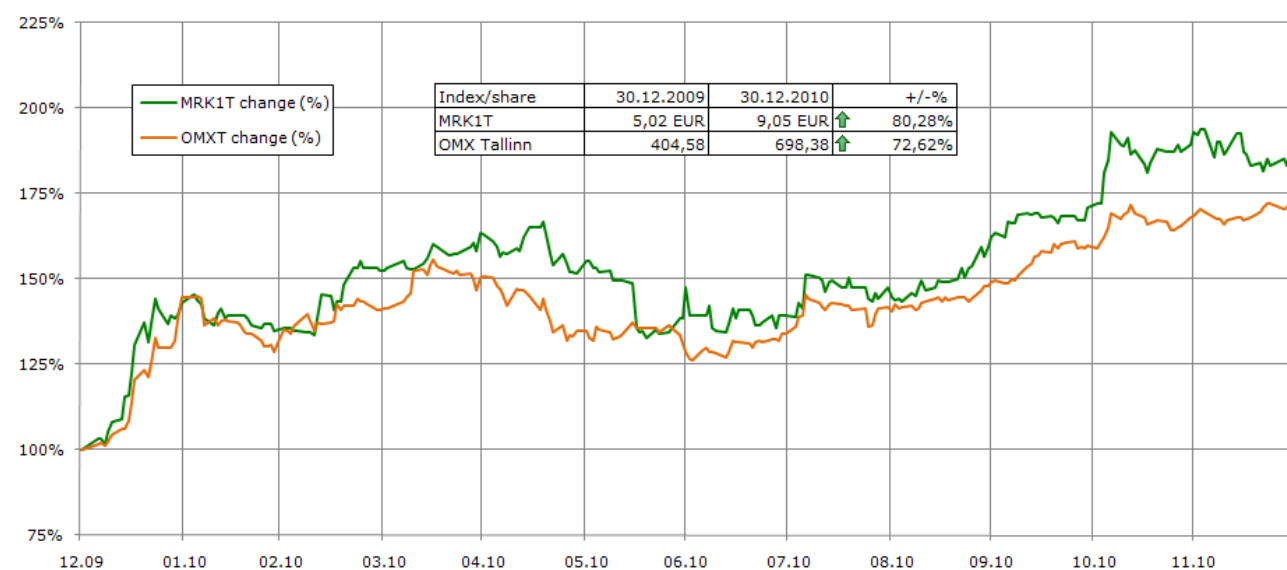
The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2010 4490 transactions with the shares of Merko Ehitus were performed in the course of which 1.7 million shares were traded and the total monetary value of transactions was EUR 13.1 million (EEK 204.8 million). The lowest share price was EUR 5.05 (EEK 79.0) and the highest price was EUR 9.89 (EEK 154.7) per share. The closing share price as of 30.12.2010 was EUR 9.05 (EEK 141.6). AS Merko Ehitus market value as of 30.12.2010 was EUR 160 million (EEK 2.5 billion).

	31.12.2010	31.12.2009	31.12.2008
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in euros	0,07	0,42	1,08
Equity per share, in euros	7,05	7,68	7,49
P/B (share price to equity per share)	1,28	0,65	0,37

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)



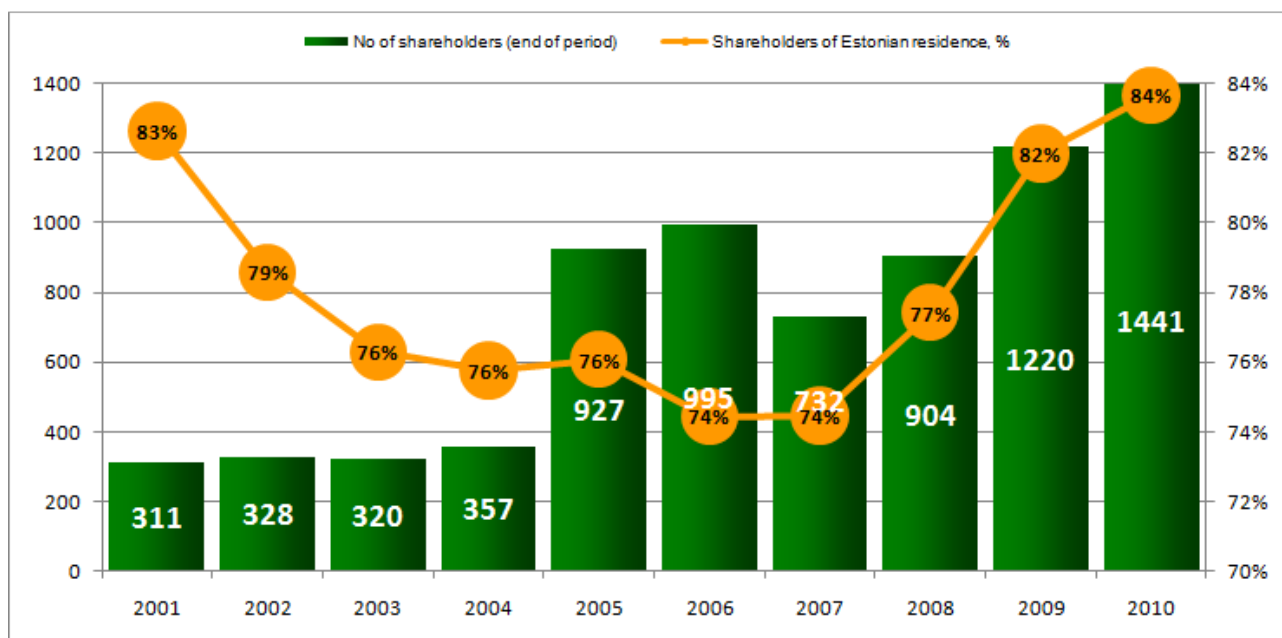
Structure of shareholders as of 31.12.2010

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	379	26,30%	20 565	0,12%
101-1000	701	48,65%	305 923	1,73%
1001-10 000	315	21,86%	889 826	5,03%
10 001 – 100 000	35	2,43%	954 947	5,39%
100 001 – 1 000 000	10	0,69%	2 786 053	15,74%
1 000 001 - ...	1	0,07%	12 742 686	71,99%
Total	1441	100%	17 700 000	100%

The main shareholders of AS Merko Ehitus as of 31.12.2010

	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	856 581	4,84%
State Street Bank and Trust Omnibus Account a Fund No OM01	169 587	0,96%
Gamma Holding OU	142 821	0,81%
SEB Elu- ja Pensionikindlustus AS	125 520	0,71%
Skandinaviska Enskilda Banken Finnish, clients	108 999	0,62%
Clearstream Banking Luxembourg S.A. clients	106 239	0,60%
Nordea Bank Finland Plc/Non-resident legal entities	106 180	0,60%
Firebird Avrora Fund, Ltd.	103 910	0,59%
AS Midas Invest	102 840	0,58%

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



Shares controlled by members of the Supervisory Board of AS Merko Ehitus as of 31.12.2010

		Number of shares	Proportion
Tõnu Toomik (AS Riverito)	Chairman of Supervisory Board	1 607 184	9,08%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31 635	0,18%
Olari Taal (OÜ Eggera)	Member of the Supervisory Board	2 500	0,01%
Teet Roopalu	Member of the Supervisory Board	0	0,00%

Shares controlled by members of the Management Board of AS Merko Ehitus as of 31.12.2010

		Number of shares	Proportion
Tiit Roben	Chairman of the Management Board	1 500	0,01%
Alar Lagus	Member of the Management Board	0	0,00%
Veljo Viitmann	Member of the Management Board	0	0,00%
Andres Agukas	Member of the Management Board	0	0,00%
Jaan Mäe	Member of the Management Board	0	0,00%
Viktor Mõisja (AS Riverito / private individual)	Member of the Management Board	1 103 734	6,23%

# STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

		EEK		EUR	
		2010	2009	2010	2009
	note	12 months	12 months	12 months	12 months
Revenue	1,2	2 689 947	3 181 209	171 919	203 316
Cost of goods sold	3	(2 492 491)	(2 835 169)	(159 299)	(181 200)
<b>Gross profit</b>		197 456	346 040	12 620	22 116
Marketing expenses		(34 312)	(47 094)	(2 193)	(3 009)
Administrative and general expenses		(136 505)	(154 000)	(8 724)	(9 842)
Other operating income		18 077	14 408	1 155	921
Other operating expenses		(7 479)	(27 326)	(478)	(1 746)
<b>Operating profit</b>		37 237	132 028	2 380	8 440
Financial income and expenses		(9 534)	(12 170)	(609)	(779)
incl. financial income (expenses) from investments into associates and joint ventures		(6 220)	(27 090)	(397)	(1 731)
interest expense		(14 212)	(23 478)	(908)	(1 501)
foreign exchange gain		1 600	1 210	102	77
other financial income and expenses		9 298	37 188	594	2 376
<b>Profit before tax</b>		27 703	119 858	1 771	7 661
Corporate income tax expense		(11 417)	(8 496)	(730)	(543)
<b>Net profit for current period</b>		16 286	111 362	1 041	7 118
incl. equity holders of the parent		18 924	116 166	1 210	7 424
minority interest		(2 638)	(4 804)	(169)	(306)
<b>Other comprehensive income</b>					
Exchange differences on translating foreign subsidiaries		364	(2 266)	23	(145)
<b>Comprehensive income</b>		16 650	109 096	1 064	6 973
incl. equity holders of the parent		19 288	113 900	1 233	7 279
minority interest		(2 638)	(4 804)	(169)	(306)
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	1,07	6,56	0,07	0,42

# STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

	EEK		EUR	
	2010 IV quarter	2009 IV quarter	2010 IV quarter	2009 IV quarter
Revenue	714 263	847 830	45 650	54 186
Cost of goods sold	(721 132)	(779 438)	(46 089)	(49 815)
<b>Gross profit</b>	(6 869)	68 392	(439)	4 371
Marketing expenses	(11 237)	(14 129)	(718)	(902)
Administrative and general expenses	(36 443)	(45 371)	(2 329)	(2 899)
Other operating income	(928)	4 307	(61)	275
Other operating expenses	(3 425)	(14 740)	(217)	(941)
<b>Operating profit</b>	(58 902)	(1 541)	(3 764)	(96)
Financial income and expenses	(5 306)	(9 858)	(339)	(631)
incl. financial income (expenses) from investments into associates and joint ventures	(3 095)	(19 046)	(197)	(1 216)
interest expense	(3 911)	(4 355)	(250)	(279)
foreign exchange gain	101	(55)	6	(4)
other financial income and expenses	1 599	13 598	102	868
<b>Profit before tax</b>	(64 208)	(11 399)	(4 103)	(727)
Corporate income tax expense	(73)	(4 166)	(4)	(266)
<b>Net profit for current period</b>	(64 135)	(7 233)	(4 099)	(461)
incl. equity holders of the parent	(62 446)	(2 736)	(3 991)	(175)
minority interest	(1 689)	(4 497)	(108)	(286)
<b>Other comprehensive income</b>				
Exchange differences on translating foreign subsidiaries	(204)	(1 234)	(13)	(79)
<b>Comprehensive income</b>	(64 339)	(8 467)	(4 112)	(540)
incl. equity holders of the parent	(62 650)	(3 970)	(4 004)	(254)
minority interest	(1 689)	(4 497)	(108)	(286)
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	(3,53)	(0,15)	(0,23)	(0,01)

# STATEMENT OF FINANCIAL POSITION

consolidated, unaudited

		EEK		EUR	
	note	31.12.2010	31.12.2009	31.12.2010	31.12.2009
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	154 211	359 732	9 856	22 991
Short-term deposits		41 475	400 916	2 651	25 623
Trade and other receivables	6	704 641	661 954	45 034	42 306
Prepaid corporate income tax		21 377	3 885	1 366	248
Inventories	7	1 455 872	1 536 463	93 048	98 199
<b>Total current assets</b>		<b>2 377 576</b>	<b>2 962 950</b>	<b>151 955</b>	<b>189 367</b>
<b>Non-current assets</b>					
Long-term financial investments	8	300 646	211 889	19 215	13 542
Deferred income tax assets		24 279	32 069	1 552	2 050
Investment property	9	56 086	16 552	3 585	1 058
Property, plant and equipment	10	277 681	266 276	17 747	17 018
Intangible assets	11	23 596	24 238	1 508	1 549
<b>Total non-current assets</b>		<b>682 288</b>	<b>551 024</b>	<b>43 607</b>	<b>35 217</b>
<b>TOTAL ASSETS</b>		<b>3 059 864</b>	<b>3 513 974</b>	<b>195 562</b>	<b>224 584</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Borrowings	12	196 430	447 569	12 554	28 605
Trade and other payables	13	613 022	782 470	39 180	50 009
Corporate income tax liability		-	5 249	-	335
Short-term provisions	14	57 071	37 702	3 648	2 410
<b>Total current liabilities</b>		<b>866 523</b>	<b>1 272 990</b>	<b>55 382</b>	<b>81 359</b>
<b>Non-current liabilities</b>					
Long-term borrowings	12	206 294	76 316	13 185	4 878
Long-term trade payables		13 223	10 653	845	681
Long-term customer prepayments		12	5	1	0
<b>Total non-current liabilities</b>		<b>219 529</b>	<b>86 974</b>	<b>14 031</b>	<b>5 559</b>
<b>Total liabilities</b>		<b>1 086 052</b>	<b>1 359 964</b>	<b>69 413</b>	<b>86 918</b>
<b>Equity</b>					
Minority interests		22 343	27 129	1 428	1 734
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		(14 452)	(14 816)	(924)	(947)
Retained earnings		1 771 221	1 946 997	113 202	124 436
Total equity attributable to equity holders of parent		<b>1 951 469</b>	<b>2 126 881</b>	<b>124 721</b>	<b>135 932</b>
<b>Total equity</b>		<b>1 973 812</b>	<b>2 154 010</b>	<b>126 149</b>	<b>137 666</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3 059 864</b>	<b>3 513 974</b>	<b>195 562</b>	<b>224 584</b>

# STATEMENT OF CHANGES IN EQUITY

consolidated, unaudited

EEK	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
<b>Balance as of 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 of 31.12.2009</b>	177 000	17 700	(14 816)	1 946 997	2 126 881	27 129	2 154 010
<b>Balance as of 31.12.2009</b>	177 000	17 700	(14 816)	1 946 997	2 126 881	27 129	2 154 010
Comprehensive income	-	-	364	18 924	19 288	(2 638)	16 650
Purchase of minority interest	-	-	-	-	-	(2 148)	(2 148)
Dividends	-	-	-	(194 700)	(194 700)	-	(194 700)
<b>Balance as of 31.12.2010</b>	177 000	17 700	(14 452)	1 771 221	1 951 469	22 343	1 973 812

EUR	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
<b>Balance as of 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 of 31. 12.2009</b>	11 312	1 131	(947)	124 436	135 932	1 734	137 666
<b>Balance as of 31.12.2009</b>	11 312	1 131	(947)	124 436	135 932	1 734	137 666
Comprehensive income	-	-	23	1 210	1 233	(169)	1 064
Purchase of minority interest	-	-	-	-	-	(137)	(137)
Dividends	-	-	-	(12 444)	(12 444)	-	(12 444)
<b>Balance as of 31.12.2010</b>	11 312	1 131	(924)	113 202	124 721	1 428	126 149

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	
	2010	2009	2010	2009
	12 months	12 months	12 months	12 months
<b>Cash flows from operating activities</b>				
Operating profit	37 237	132 028	2 380	8 440
Adjustments:				
depreciation and impairment charge	37 969	37 471	2 427	2 395
(profit) loss from sale of non-current assets	(1 185)	(519)	(76)	(33)
adjustments of revenue from construction contracts under stage of completion method	(365 548)	56 548	(23 363)	3 614
interest income from business activities	(9 817)	(4 476)	(627)	(286)
change in provisions	9 656	(2 327)	617	(149)
Change in trade/other receivables related to oper. activities	29 381	223 055	1 878	14 256
Change in inventories	87 528	281 116	5 593	17 966
Change in trade and other payables related to oper. activities	98 399	(306 272)	6 288	(19 574)
Interests paid	(13 415)	(28 157)	(857)	(1 800)
Other financial expenses (income)	(68)	(62)	(4)	(5)
Corporate income tax paid	(23 491)	(19 971)	(1 501)	(1 276)
<b>Total cash flows from operating activities</b>	<b>(113 354)</b>	<b>368 434</b>	<b>(7 245)</b>	<b>23 548</b>
<b>Cash flows from investing activities</b>				
Investment in subsidiaries	(1 110)	(62 069)	(71)	(3 967)
Proceeds from sale of subsidiaries	-	1 125	-	71
Investments in associates and joint ventures	(20)	-	(1)	-
Proceeds from sale of associates and joint ventures	24	-	2	-
Purchase of other financial investments	(166 649)	(804 699)	(10 651)	(51 430)
incl purchase of deposits with maturities great. than 3 m	(166 648)	(804 699)	(10 651)	(51 430)
Inflow of deposits with maturities greater than 3 months	526 089	666 542	33 623	42 600
incl inflow of deposits with maturities greater than 3 m	526 089	666 542	33 623	42 600
Purchase of investment property	(40 977)	-	(2 619)	-
Proceeds from sale of investment property	-	1 250	-	80
Purchase of property, plant and equipment	(12 613)	(13 222)	(806)	(845)
Proceeds from sale of property, plant and equipment	2 830	1 298	181	83
Purchase of intangible assets	(1 420)	(985)	(91)	(63)
Proceeds from sale of intangible assets	816	134	52	9
Loans granted	(126 681)	(65 885)	(8 096)	(4 211)
Loan repayments received	64 610	45 793	4 129	2 927
Interest received	12 579	31 968	804	2 043
Dividends received	220	-	14	-
<b>Total cash flows from investing activities</b>	<b>257 698</b>	<b>(198 750)</b>	<b>16 470</b>	<b>(12 703)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	33 088	56 841	2 115	3 633
Repayments of borrowings	(168 208)	(300 698)	(10 750)	(19 218)
Finance lease principal payments	(22 647)	(17 476)	(1 447)	(1 118)
Dividends paid	(194 700)	(64 650)	(12 444)	(4 132)
<b>Total cash flows from financing activities</b>	<b>(352 467)</b>	<b>(325 983)</b>	<b>(22 526)</b>	<b>(20 835)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(208 123)</b>	<b>(156 299)</b>	<b>(13 301)</b>	<b>(9 990)</b>
Change of deposits with maturities greater than 3 months	(359 441)	138 157	(22 972)	8 830
Total change	(567 564)	(18 142)	(36 273)	(1 160)
<b>Cash and cash equivalents at beginning of the period</b>	<b>359 732</b>	<b>515 191</b>	<b>22 991</b>	<b>32 927</b>
Deposits with maturities greater than 3 months at the beginning of the period	400 916	262 759	25 623	16 793
Total at the beginning of the period	760 648	777 950	48 614	49 720
<b>Effect of exchange rate changes</b>	<b>2 602</b>	<b>840</b>	<b>166</b>	<b>54</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>154 211</b>	<b>359 732</b>	<b>9 856</b>	<b>22 991</b>
Deposits with maturities greater than 3m at the end of period	41 475	400 916	2 651	25 623
Total at the end of the period	195 686	760 648	12 507	48 614

## NOTES

### Note 1 Operating segments

*in thousand kroons*

The chief operating decision maker, 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 pre-tax profit.

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 apartments in development projects.

<b>2010 12 months</b>	<b>Buildings</b>	<b>Facilities</b>	<b>Roads</b>	<b>Development of real estate</b>	<b>Other</b>	<b>Total segments</b>
Segment revenue	1 105 124	959 066	569 583	367 813	28 180	3 029 766
Inter-segment revenue	(86 029)	(119 050)	(60 903)	(57 347)	(16 490)	(339 819)
Revenue from external clients	1 019 095	840 016	508 680	310 466	11 690	2 689 947
Depreciation and impairment charge	(1 659)	(10 455)	(16 311)	(561)	(1 307)	(30 293)
Inventory write-down	-	-	-	(24 895)	-	(24 895)
Annulment of inventory write-down				8 951		8 951
Profit (loss) from associates and joint ventures	-	(2)	-	(1 495)	(4 723)	(6 220)
Other finance income/expenses	-	(93)	-	(2 804)	-	(2 897)
Profit before tax	92 616	78 270	(6 567)	26 064	(423)	189 960
Segment assets at 31.12.2010	223 103	190 100	349 145	1 836 498	55 232	2 654 078
<b>2009 12 months</b>	<b>Buildings</b>	<b>Facilities</b>	<b>Roads</b>	<b>Development of real estate</b>	<b>Other</b>	<b>Total segments</b>
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-down	-	-	-	(81 752)	-	(81 752)
Profit (loss) from associates and joint ventures	-	-	-	(13 634)	(13 456)	(27 090)
Other finance income/expenses	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 at 31.12.2009	362 921	170 564	189 153	1 452 735	71 862	2 247 235

In addition to the segment assets the group holds assets of EEK 405 786 thousand as of 31.12.2010 (31.12.2009: EEK 1 266 739 thousand) that cannot 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.

**Reconciliation of the pre-tax profit of segments and the group**

	2010 12 months	2009 12 months
Profit (loss) from reporting segments	189 960	307 787
Unallocated expense (income)		
marketing expenses	(34 312)	(47 094)
administrative expenses	(136 505)	(154 000)
other operating income (expense)	8 977	(5 388)
financial income (expense)	(417)	18 553
incl. interest income	9 267	37 828
interest expense	(11 313)	(16 725)
<b>Profit before tax</b>	<b>27 703</b>	<b>119 858</b>

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**

	2010 12 months	2009 12 months
Estonia	1 944 272	2 181 197
Latvia	675 440	925 985
Lithuania	70 235	74 027
<b>Total</b>	<b>2 689 947</b>	<b>3 181 209</b>

**Property, plant and equipment (except financial assets and deferred income tax assets) by assets location:**

	31.12.2010	31.12.2009
Estonia	309 180	290 429
Latvia	11 657	15 825
Lithuania	36 526	812
<b>Total</b>	<b>357 363</b>	<b>307 066</b>

**Note 2 Revenue**

*in thousand kroons*

	2010 12 months	2009 12 months
Rendering of services	2 374 647	2 816 630
Sale of real estate and real estate development projects	305 257	355 335
Rental income	6 740	2 153
Sale of goods	3 303	7 091
<b>Total revenue</b>	<b>2 689 947</b>	<b>3 181 209</b>

**Note 3 Cost of goods sold***in thousand kroons*

	<b>2010 12 months</b>	<b>2009 12 months</b>
Construction services	1 290 546	1 533 504
Materials	475 731	455 124
Properties purchased for resale	169 815	270 884
Staff costs	234 091	247 018
Construction mechanisms and transport	122 804	93 412
Design	24 578	26 229
Inventory write-down	24 895	81 752
Annulment of inventory write-down	(8 951)	-
Administrative expenses of real estate	4 318	3 934
Depreciation and impairment charge	30 293	30 404
Other expenses	124 371	92 908
<b>Total cost of goods sold</b>	<b>2 492 491</b>	<b>2 835 169</b>

**Note 4 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.

	<b>2010 12 months</b>	<b>2009 12 months</b>
Net profit attributable to shareholders <i>(in thousands of kroons)</i>	18 924	116 166
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
<b>Earnings per share <i>(in kroons)</i></b>	<b>1,07</b>	<b>6,56</b>

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*

	<b>31.12.2010</b>	<b>31.12.2009</b>
Cash on hand	125	270
Bank accounts	14 663	40 787
Overnight deposits	139 423	93 961
Term deposits with maturities of 3 months and less	-	224 714
<b>Total cash and cash equivalents</b>	<b>154 211</b>	<b>359 732</b>

**Note 6 Trade and other receivables***in thousand kroons*

	<b>31.12.2010</b>	<b>31.12.2009</b>
Trade receivables		
accounts receivable	340 276	405 030
allowance for doubtful receivables	(18 130)	(19 921)
	<u>322 146</u>	<u>385 109</u>
Tax prepayments excluding corporate income tax		
value added tax	18 524	7 823
social security tax	-	7
other taxes	288	922
	<u>18 812</u>	<u>8 752</u>
Amounts due from customers for contract works	212 122	102 144
Other short-term receivables		
short-term loans	101 704	96 874
interest receivables	12 642	13 524
receivable from buyer of subsidiary	1 500	7 125
other short-term receivables	2 973	2 253
	<u>118 819</u>	<u>119 776</u>
Prepayments for services		
prepayments for construction services	21 349	38 197
prepaid insurance	3 967	1 764
other prepaid expenses	7 426	6 212
	<u>32 742</u>	<u>46 173</u>
<b>Total trade and other receivables</b>	<u>704 641</u>	<u>661 954</u>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Raw materials and materials	15 046	6 752
Work-in-progress	455 819	470 428
Finished goods	200 801	268 242
Goods for resale		
registered immovables purchased for resale	660 392	686 543
other goods purchased for resale	18 360	2 543
	<u>678 752</u>	<u>689 086</u>
Prepayments for inventories		
prepayments for real estate properties	103 907	87 192
prepayments for other inventories	1 547	14 763
	<u>105 454</u>	<u>101 955</u>
<b>Total inventories</b>	<u>1 455 872</u>	<u>1 536 463</u>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Investments in associates and joint ventures	172 939	179 421
Long-term loans	98 933	21 785
Long-term interest receivables	4 823	-
Long-term bank deposit	4 994	2 809
Long-term receivable from buyer of subsidiary	-	1 375
Long-term receivables from customers of construction services	18 957	6 499
<b>Total long-term financial assets</b>	<b>300 646</b>	<b>211 889</b>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Land	2 097	2 098
Buildings at carrying amount		
cost	18 020	15 650
accumulated depreciation	(1 862)	(1 196)
	<b>16 158</b>	<b>14 454</b>
Construction in progress	37 831	-
<b>Total investment property</b>	<b>56 086</b>	<b>16 552</b>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Land	12 905	12 905
Buildings at carrying amount		
cost	89 068	89 030
accumulated depreciation	(14 001)	(11 111)
	<b>75 067</b>	<b>77 919</b>
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(122)	(113)
	<b>336</b>	<b>345</b>
Machinery and equipment at carrying amount		
cost	275 504	236 939
accumulated depreciation	(122 482)	(100 774)
	<b>153 022</b>	<b>136 165</b>
Other fixtures at carrying amount		
cost	78 004	78 588
accumulated depreciation	(41 653)	(40 512)
	<b>36 351</b>	<b>38 076</b>
Construction in progress	-	866
<b>Total property, plant and equipment</b>	<b>277 681</b>	<b>266 276</b>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Goodwill	13 939	13 939
Software at carrying amount		
cost	18 144	17 346
accumulated depreciation	(9 849)	(8 409)
	<u>8 295</u>	<u>8 937</u>
Prepayments for intangible assets	1 362	1 362
<b>Total intangible assets</b>	<u>23 596</u>	<u>24 238</u>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Finance lease payables</b>		
Present value of lease payments	<u>61 778</u>	<u>47 934</u>
incl. current portion	16 498	16 170
non-current portion 1...4 years	45 280	31 764
<b>Bank loans</b>		
Loan balance	<u>226 692</u>	<u>361 697</u>
incl. current portion	68 428	319 895
non-current portion 1...5 years	158 264	41 802
<b>Loans granted to entities under common control</b>		
Loan balance	<u>109 354</u>	<u>109 354</u>
incl. current portion	109 354	109 354
<b>Loans from other companies</b>		
Loan balance	<u>4 900</u>	<u>4 900</u>
incl. current portion	2 150	2 150
non-current portion 1...5 years	2 750	2 750
<b>Total loans</b>		
Loans balance	<u>340 946</u>	<u>475 951</u>
incl. current portion	179 932	431 399
non-current portion 1...5 years	161 014	44 552
<b>Total borrowings</b>	<u>402 724</u>	<u>523 885</u>
incl. current portion	196 430	447 569
non-current portion 1...5 years	206 294	76 316

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Trade payables	240 357	223 149
Payables to employees	42 262	55 364
Tax liabilities, except for corporate income tax		
value added tax	11 422	22 625
personal income tax	6 913	6 783
social security tax	11 854	13 045
land tax	-	80
unemployment insurance tax	1 218	1 171
contributions to mandatory funded pension	274	107
other taxes	403	604
	<u>32 084</u>	<u>44 415</u>
Amounts due to customers for contract works	60 649	316 095
Other liabilities		
interest liabilities	1 378	1 105
payable for registered immovables from demerger	100 000	100 000
other liabilities	5 110	4 274
	<u>106 488</u>	<u>105 379</u>
Prepayments received	131 182	38 068
<b>Total trade and other payables</b>	<u>613 022</u>	<u>782 470</u>

**Note 14 Short-term provisions**  
*in thousand kroons*

	<b>31.12.2010</b>	<b>31.12.2009</b>
Provision for warranty obligation for construction	17 392	18 518
Provision for onerous construction contracts	34 833	4 035
Provision for completion of construction projects	179	208
Provision for legal costs and claims filed	4 102	14 492
Other provisions	565	449
<b>Total short-term provisions</b>	<u>57 071</u>	<u>37 702</u>

## Note 15 Related party transactions

In compiling the 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 of 31.12.2010 and 31.12.2009, 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*

	2010 12 months	2009 12 months
<b>Purchased construction services</b>		
Associates and joint ventures	1	2 435
Entities under common control	2 500	10 972
<b>Total purchased construction services</b>	<b>2 501</b>	<b>13 407</b>
<b>Other services purchased</b>		
Parent	1 017	-
<b>Rendered construction services</b>		
Parent	752	-
Associates and joint ventures	2 007	67
Entities under common control	11 825	133 434
Other related parties	74	896
Management members	13 058	15 237
<b>Total construction services rendered</b>	<b>27 716</b>	<b>149 634</b>
<b>Construction materials purchased</b>		
Parent	1 182	-
Other related parties	87	82
<b>Total construction materials purchased</b>	<b>1 269</b>	<b>82</b>
<b>Real estate purchased</b>		
Entities under common control	-	50 926

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Trade and other receivables</b>		
Trade receivables		
Parent	85	190
Associates and joint ventures	285	74
Entities under common control	63	483
Other related parties	77	2 431
Short-term loans		
Associates and joint ventures	-	16 500
Entities under common control	24 360	43 054
Interest receivables		
Associates and joint ventures	5 987	9 147
Entities under common control	2 731	1 624
Other short-term receivables		
Associates and joint ventures	-	1
Goods for resale		
Parent	15 818	-
Prepayments for inventories		
Entities under common control	81 892	57 462
<b>Other long-term loans and receivables</b>		
Long-term loans		
Associates and joint ventures	74 408	18 896
Entities under common control	-	2 890
Interest receivables		
Associates and joint ventures	4 506	-
<b>Borrowings</b>		
Short-term loans and bonds		
Entities under common control	109 354	109 354
<b>Trade and other payables</b>		
Trade payables		
Parent	180	2
Entities under common control	46	90
Other related parties	5	2
Interest liabilities		
Parent	254	-
Entities under common control	228	233
Other short-term liabilities		
Entities under common control	100 000	100 000
Received prepayments		
Entities under common control	5	-

## Note 16 Contingent liabilities

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.

<i>in thousand kroons</i>	<b>31.12.2010</b>	<b>31.12.2009</b>
Performance period's warranty to the customer	302 593	262 573
Tender warranty	51 261	59 254
Guarantee warranty period	152 890	152 114
Prepayment guarantee	161 078	81 296
Contracts of surety	829	9 705
Payment guarantee	2 678	3 318
Letter of credit	-	6 404
<b>Total contingent liabilities</b>	<b>671 329</b>	<b>574 664</b>

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.

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 12 months interim report 2010 as presented on pages 3 to 27.

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 31.12.2010 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 2009.

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 Management Board		22.02.2011
Alar Lagus	Member of the Management Board		22.02.2011
Veljo Viitmann	Member of the Management Board		22.02.2011
Andres Agukas	Member of the Management Board		22.02.2011
Jaan Mäe	Member of the Management Board		22.02.2011
Viktor Mõisja	Member of the Management Board		22.02.2011