



AS MERKO EHITUS GROUP

2010 3 months 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 – 31.03.2010

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

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 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:

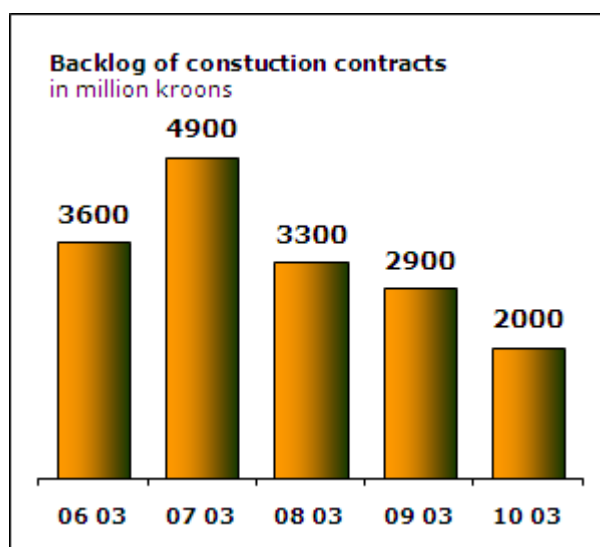
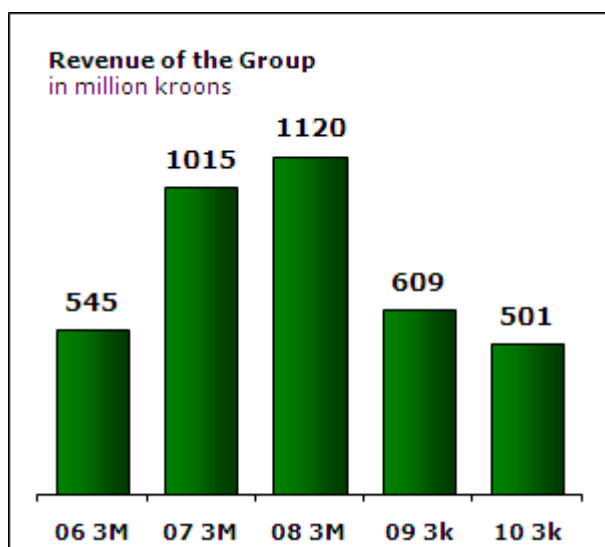
- We will add a fifth member to the management board; their responsibilities will initially include foreign markets and development activities;
 - We will launch several new activities in order to improve horizontal cooperation between the different companies in the group, and in order to utilise the 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 3 months was EEK 500.6 million. 51.9% of the sales originated from Estonia, 47.1% from Latvia and 1.0% from Lithuania. As compared to with the 2009 3 months, company's sales increased in Latvia by 64.6% and decreased in Lithuania by 71.6% and in Estonia by 42.0%.

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 2010 3 months, the Group sold 45 apartments in total cost of EEK 52.7 million (without VAT). As at 31.03.2010 Group held in inventories unsold 142 completed apartments in total cost EEK 174.4 million and 441 apartments in the construction stage in total cost EEK 232.6 million. As the stock in Tallinn reached zero in the fourth quarter of 2009, Merko Ehitus commenced the construction of three new apartment buildings (with a total of 109 apartments) in Tallinn.



As at 31 March 2010, the group's backlog of construction contracts in progress amounted to EEK 2.0 billion.

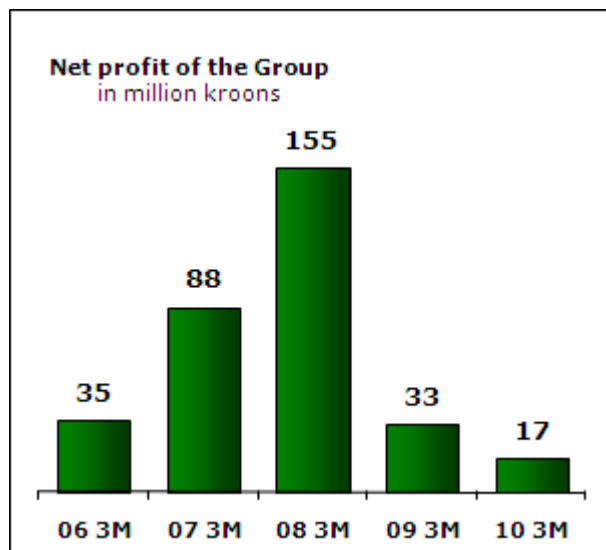
The consolidated revenue of the Group's most important companies

<i>in thousand EEK and EUR</i>				
	3 months 2010		3 months 2009	
	EEK	EUR	EEK	EUR
Estonian companies				
AS Merko Ehitus (parent company)	209 257	13 374	358 256	22 897
AS Gustaf (75% partnership)	2 217	142	12 732	814
OÜ Gustaf Tallinn (80% partnership)	8 939	571	17 048	1 090
AS Merko Tartu (66% partnership)	9 552	610	36 657	2 343
Tallinna Teede AS (100% partnership)	28 438	1 818	19 397	1 240

Latvian company				
SIA Merks (100% partnership)	235 763	15 068	143 192	9 152
Lithuanian company				
UAB Merko Statyba (100% partnership)	4 527	289	17 070	1 091

In one year, the Group's cost of goods sold decreased by 15.4% and marketing and general administrative expenses by 5.6%. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 2.5 million decrease in labour costs, EEK 2.8 million decrease in office expenses and communication services and EEK 1.3 million decrease in advertising and sponsoring were the most significant factors. Despite the vigorous measures, the group's cost-cutting rate failed to keep up with the fall in revenue – thus, the cost of goods sold in the period increased to 88.3% and marketing and administrative costs to 8.3%.

The group's earnings before taxes in 2010 3 months were EEK 23.8 million, which means a decrease by EEK 13.1 million compared to 2009 3 months. The net profit in the period was EEK 16.6 million; representing an EEK 16.2 million or 49.4% decrease. The fall in earnings was affected by revenue, the reduced profitability of the construction and property development sectors and the impact of the seasonal nature of the construction activity. The cyclical nature of the development activity was insignificant.



In 2010 3 months Group's total cash flows amounted to EEK -3.5 million, of which the cash flows from operating activities totalled EEK +75.2 million, from investment activities EEK -25,6 million and from financing activities EEK -53.1 million. The cash flows from operating activities of the reporting period were mostly affected by change in trade and other receivables related to operating activities EEK -130.5 million, change in receivables and liabilities related to construction contracts recognised under the stage of completion method EEK -125,9 million and operating profit EEK +25.9 million. From investment activities cash flows EEK -84.2 million from loans granted and EEK 63.5 million from return of deposits with maturities greater than 3 months. Of the cash flow from financing activities, EEK -51.5 million was used to repay loans and EEK -4.9 million for finance lease principal payments.

As at 31 March 2010, the Group has EEK 694.9 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

	3 months 2010	3 months 2009	3 months 2008
Net profit margin	3,3 %	5,4 %	13,8 %
Profit before taxes margin	4,8 %	6,1 %	15,7 %
Operating profit margin	5,2 %	6,8 %	15,9 %
Gross profit margin	11,7 %	14,2 %	21,0 %
EBITDA margin	7,0 %	7,8 %	16,5 %
Return on equity per annum	3,1 %	6,3 %	29,6 %
Return on assets per annum	1,9 %	3,5 %	15,8 %
Equity ratio	60,5 %	57,7 %	55,5 %
Current ratio	2,5	3,1	2,7
Quick ratio	1,2	1,4	1,1
General expense ratio	8,3 %	7,2 %	5,1 %
Gross remuneration ratio	12,3 %	12,0 %	9,3 %

Net profit margin: $\text{Net profit}^* / \text{Revenue}$
 Profit before taxes margin: $\text{Profit before taxes} / \text{Revenue}$
 Operating profit margin: $\text{Operating profit} / \text{Revenue}$
 Gross profit margin: $\text{Gross profit} / \text{Revenue}$
 EBITDA margin: $(\text{Operating profit} + \text{Depreciation and impairment charge}) / \text{Revenue}$
 Return on equity: $\text{Net profit}^* \times 4 / \text{Average equity during the period}^*$
 Return on assets: $\text{Net profit}^* \times 4 / \text{Average assets during the period}$
 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

Q1 2010 vs. Q1 2009

Estonia	-2,3%
Latvia	-6,0%
Lithuania	-2,9%

Construction price index

Q1 2010 vs. Q1 2009

Estonia	-7,1%	incl. labour force	-13,1%
Latvia	-7,3%	incl. labour force	-7,0%
Lithuania	-10,1%	incl. labour force	-15,4%

The building sector was not affected by major changes during the 1st quarter of year 2010. The volumes continued to drop, accompanied by tougher competition, price decrease of building services stopped, prices of building materials appreciated, relying upon metal and oil products as input. Offers are often made at building competitions at prices lower than direct costs to acquire new clients, hoping to compensate the price difference by expected price decline. Quite definitely, such an approach is no longer sustainable in today's economic environment, includes enhanced commercial risks for the tenderer, implementation risks for the clients and credit risks for possible suppliers. According to our estimates, the prices of construction works have hit the rock bottom and reserves for continued price decrease are no longer available. Reaching the bottom and following possible rise of prices of construction works will bring complications with budgets of new projects, accompanied by extra risks to be considered when performing long-term (concluded for 12 months and longer) contracts with fixed price rates and price pressure, affecting the profitability of projects.

Low prices of construction works have created a situation where we can observe a certain increase in activities of small-scale, repair works market, where the need for loan capital is lower and usually savings are used to fund the works. One can note increased interest of foreign investors in the region; however, there are no real transactions yet. Majority of the large-scale construction projects are initiated in the sphere of infrastructure and environmental civil engineering works, where the funding is made available by public sector and the Structural Funds of the European Union. Declining income of private sector and dropping consumption rates have damaged considerably the income base of public sector, also affecting financial capabilities. Companies, established by banks to develop failed real estate projects, have entered the property sector as a new force to be considered with. The active involvement of the latter have somewhat assured that marked that the prices of residential property are about to stabilise.

During the last quarter of 2009 and the first quarter of 2010 the market of residential property of Estonia showed the first signs of perking up, the number of transactions as well as average prices increased. Buyers, having postponed their purchase of residential property, hoping that the prices will continue to plummet, have realised that the prices can't drop forever and further waiting would limit their freedom of choice to a major degree. The large price decline (40-50%) of the last year and a half and stopping thereof during the 2nd half of 2009 has made banks to adopt a more aggressive attitude again. Today's price levels have made financing residential property safer for banks; loans granted under new terms and conditions allow banks to improve their income base and therefore, compensate for the

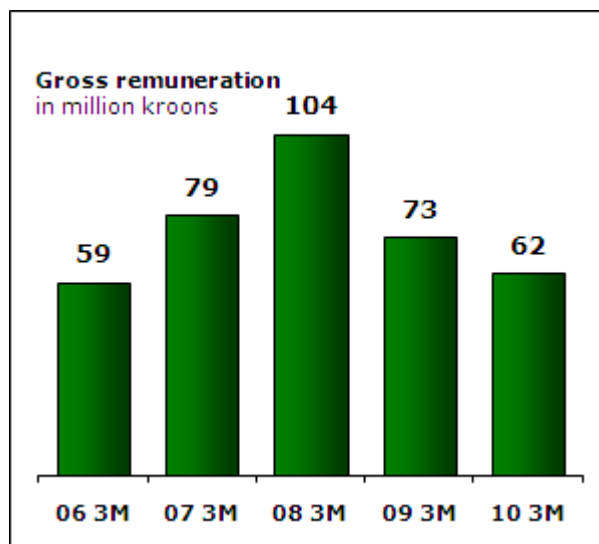
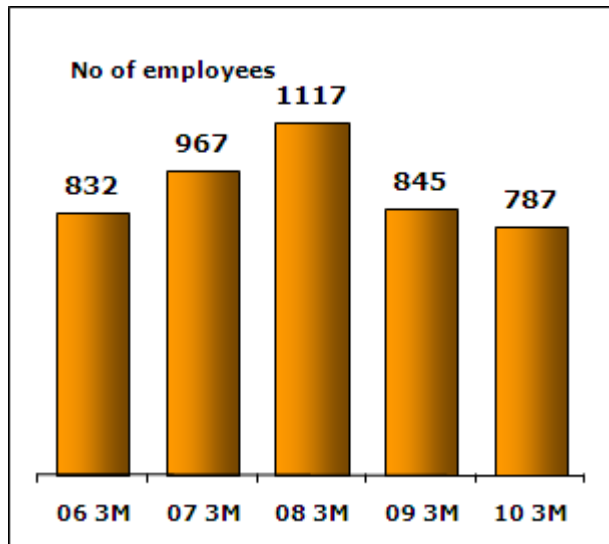
influence of failed loans. The aforementioned trends have contributed to a financing environment, which has warmed up over the last months, above all, where it concerns the self-financing rates and interest margins for final consumers.

Temporary sales success in the sphere of residential property has encouraged many developers to review suspended projects and launch fresh business plans and loan requests. Some Estonian developers, depending on the financing environment to a lesser degree, including Merko Ehitus, have launched a number of small-scale development projects. Regardless of budding optimism, characterising developers and banks, the scope of new development projects shall remain rather modest in the future and therefore, the choice of offered residential property is expected to continue to narrow down.

The availability of finances for funding long-term projects is still restricted; the price of money remains high and pre-conditions for gaining access to loan capital unrealistic. Therefore, the launching of new rental projects could hardly be expected. Rental project cash flows can be expected to improve during the second half of the year, as consumption environment improves, however, the key words of this sector will still be struggling with dried-up rental revenues, loan commitments and liquidity issues.

Employees and remuneration

In 31.03.2010, the number of employees in the Group's service was 787, including 751 full-time employees. The Group reduced the number of its personnel by 6.9% or 58 employees in a year. The gross remuneration paid to employees in 2010 3 months amounted to EEK 61.6 million a decrease of 15.4% compared to previous year. The smaller amount of performance pay, due to the fall in the group's profitability, and the reduced staff levels also contributed to the fall in the group's labour costs.



Shares and shareholders

Share information

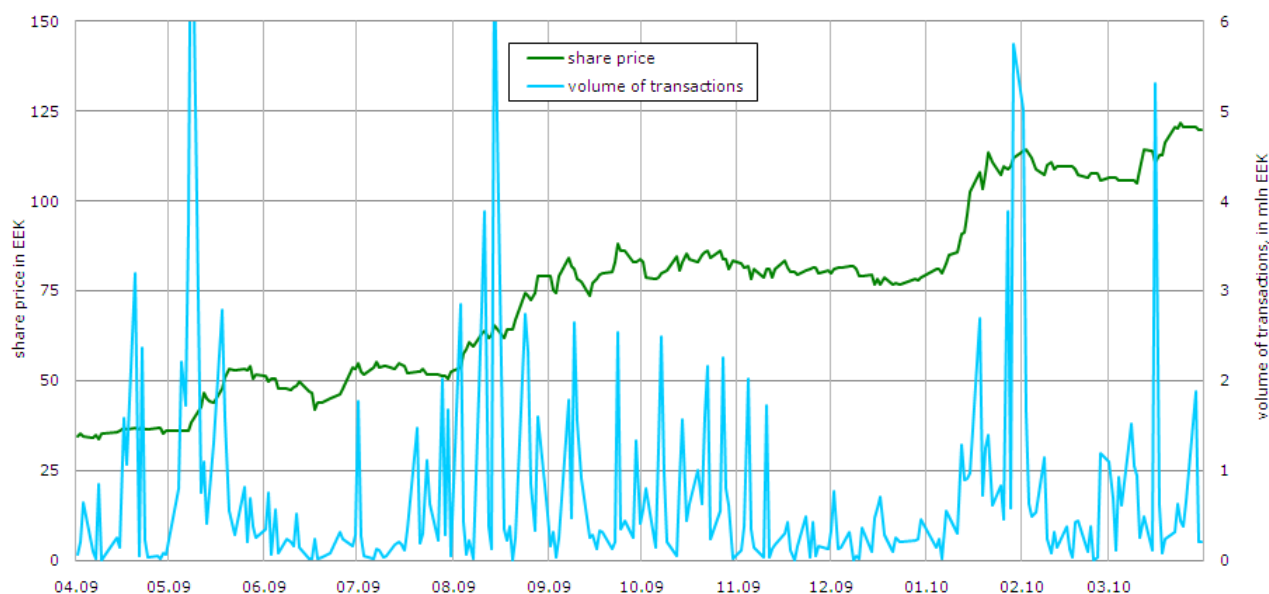
ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	10.00 EEK

Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

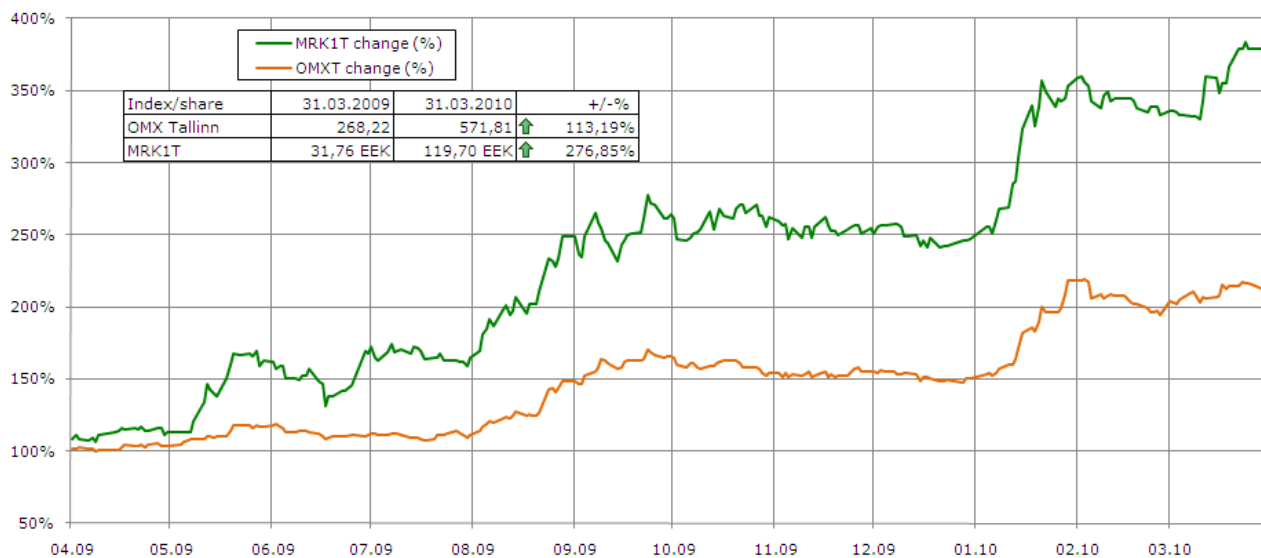
The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2010 3 months 1246 transactions with the shares of Merko Ehitus were performed in the course of which 0.5 million shares were traded and the total monetary value of transactions was EEK 55.9 million. The lowest share price was EEK 79.02 and the highest price was EEK 124.7 per share. The closing share price as at 31.03.2010 was EEK 119.7. AS Merko Ehitus market value as at 31.03.2010 was EEK 2.12 billion.

	31.03.2010	31.03.2009	31.03.2008
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in kroons	0,94	1,85	8,75
Equity per share, in kroons	121,15	119,02	122,58
P/B (share price to equity per share)	0,99	0,27	1,16

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)



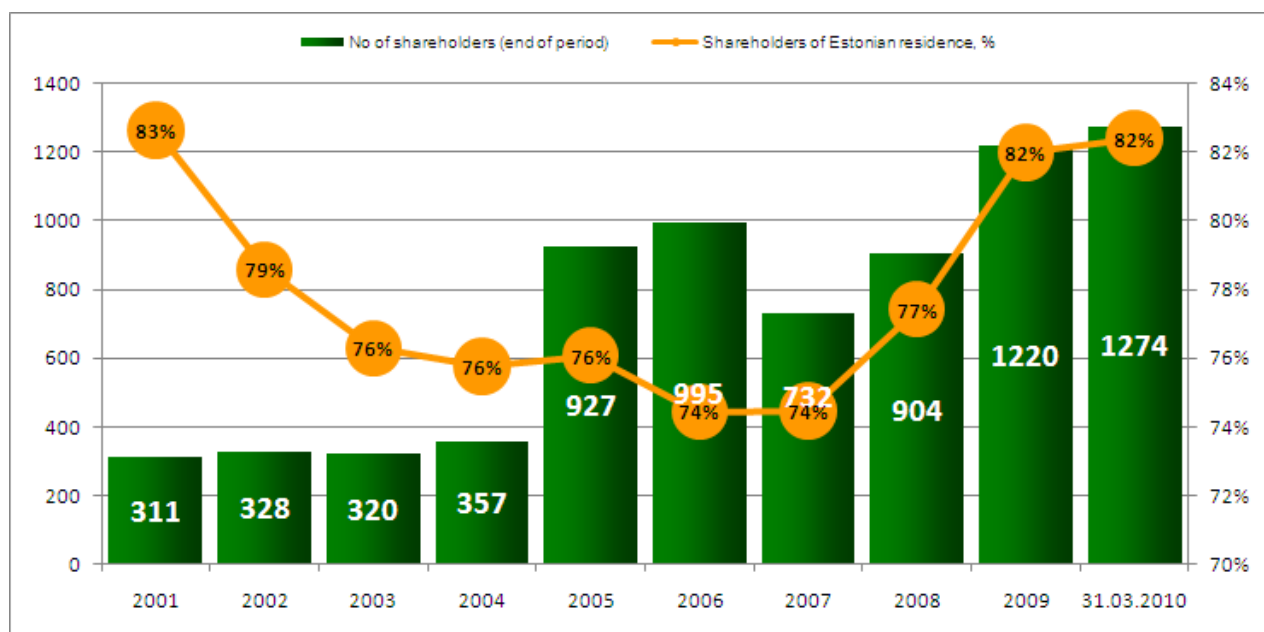
Structure of shareholders as at 31.03.2010

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	353	27,71%	19 056	0,11%
101-1000	616	48,35%	277 290	1,57%
1001-10 000	263	20,64%	764 236	4,32%
10 001 – 100 000	32	2,51%	1 080 350	6,10%
100 001 – 1 000 000	9	0,71%	2 816 382	15,91%
1 000 001 - ...	1	0,08%	12 742 686	71,99%
Total	1274	100%	17 700 000	100%

The main shareholders of AS Merko Ehitus as at 31.03.2010

	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	805 788	4,55%
State Street Bank and Trust Omnibus Account a Fund No OM01	309 332	1,75%
Nordea Bank Finland Plc/Non-resident legal entities	169 369	0,96%
SEB Elu- ja Pensionikindlustus AS	125 738	0,71%
SEB Pank AS, clients	118 410	0,67%
Gamma Holding OÜ	114 000	0,64%
Skandinaviska Enskilda Banken Finnish, clients	106 230	0,60%
Clearstream Banking Luxembourg S.A. clients	104 139	0,59%

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



STATEMENT OF COMPREHENSIVE INCOME
consolidated, unaudited

		EEK		EUR	
	note	2010 3 months	2009 3 months	2010 3 months	2009 3 months
Revenue	1,2	500 623	609 191	31 996	38 934
Cost of goods sold	3	(442 106)	(525 002)	(28 256)	(33 553)
Gross profit		58 517	84 189	3 740	5 381
Marketing expenses		(7 178)	(7 050)	(459)	(451)
Administrative and general expenses		(34 426)	(37 009)	(2 200)	(2 365)
Other operating income		11 951	1 910	764	122
Other operating expenses		(2 973)	(811)	(190)	(52)
Operating profit		25 891	41 229	1 655	2 635
Financial income and expenses		(2 050)	(4 325)	(130)	(276)
incl. financial income (expenses) from invest- ments into associates and joint ventures		(2 430)	(3 323)	(155)	(213)
interest expense		(3 250)	(7 839)	(208)	(501)
foreign exchange gain		1 449	170	93	11
other financial income and expenses		2 181	6 667	140	427
Profit before tax		23 841	36 904	1 525	2 359
Corporate income tax expense		(8 107)	(4 653)	(519)	(297)
Net profit for current period		15 734	32 251	1 006	2 062
incl. equity holders of the parent		16 567	32 726	1 059	2 092
minority interest		(833)	(475)	(53)	(30)
Other comprehensive income					
Exchange differences on translating foreign subsidiaries		845	(1 006)	54	(64)
Comprehensive income		16 579	31 245	1 060	1 998
incl. equity holders of the parent		17 412	31 720	1 113	2 028
minority interest		(833)	(475)	(53)	(30)
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	0,94	1,85	0,06	0,12

STATEMENT OF FINANCIAL POSITION

consolidated, unaudited

		EEK		EUR	
	note	31.03.2010	31.12.2009	31.03.2010	31.12.2009
ASSETS					
Current assets					
Cash and cash equivalents	5	357 507	359 732	22 849	22 991
Short-term deposits		337 415	400 916	21 565	25 623
Trade and other receivables	6	631 600	661 954	40 367	42 306
Prepaid corporate income tax		10 090	3 885	645	248
Inventories	7	1 506 199	1 536 463	96 264	98 199
Total current assets		2 842 811	2 962 950	181 690	189 367
Non-current assets					
Long-term financial investments	8	219 048	211 889	13 999	13 542
Deferred income tax assets		29 888	32 069	1 910	2 050
Investment property	9	16 394	16 552	1 047	1 058
Property, plant and equipment	10	261 668	266 276	16 724	17 018
Intangible assets	11	24 014	24 238	1 535	1 549
Total non-current assets		551 012	551 024	35 215	35 217
TOTAL ASSETS		3 393 823	3 513 974	216 905	224 584
LIABILITIES AND EQUITY					
Current liabilities					
Borrowings	12	401 452	447 569	25 657	28 605
Trade and other payables	13	674 550	782 470	43 112	50 009
Corporate income tax liability		5 256	5 249	336	335
Short-term provisions	14	64 416	37 702	4 117	2 410
Total current liabilities		1 145 674	1 272 990	73 222	81 359
Non-current liabilities					
Long-term borrowings	12	69 722	76 316	4 456	4 878
Long-term trade payables		9 979	10 653	638	681
Long-term customer prepayments		8	5	1	0
Total non-current liabilities		79 709	86 974	5 095	5 559
Total liabilities		1 225 383	1 359 964	78 317	86 918
Equity					
Minority interests		24 147	27 129	1 543	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		(13 971)	(14 816)	(893)	(947)
Retained earnings		1 963 564	1 946 997	125 495	124 436
Total equity attributable to equity holders of parent		2 144 293	2 126 881	137 045	135 932
Total equity		2 168 440	2 154 010	138 588	137 666
TOTAL LIABILITIES AND EQUITY		3 393 823	3 513 974	216 905	224 584

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		
Balance as at 31.12.2008	177 000	17 700	(12 550)	1 892 781	2 074 931	34 633	2 109 564
Comprehensive income	-	-	(1 006)	32 726	31 720	(475)	31 245
Dividends	-	-	-	-	-	(2 700)	(2 700)
Balance as at 31.03.2009	177 000	17 700	(13 556)	1 925 507	2 106 651	31 458	2 138 109
Balance as at 31.12.2009	177 000	17 700	(14 816)	1 946 997	2 126 881	27 129	2 154 010
Comprehensive income	-	-	845	16 567	17 412	(833)	16 579
Purchase of minority interest	-	-	-	-	-	(2 149)	(2 149)
Balance as at 31.03.2010	177 000	17 700	(13 971)	1 963 564	2 144 293	24 147	2 168 440

EUR	Equity attributable to equity holders of the parent					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
Balance as at 31.12.2008	11 312	1 131	(802)	120 971	132 612	2 213	134 825
Comprehensive income	-	-	(64)	2 092	2 028	(30)	1 998
Dividends	-	-	-	-	-	(173)	(173)
Balance as at 31.03.2009	11 312	1 131	(866)	123 063	134 640	2 010	136 650
Balance as at 31.12.2009	11 312	1 131	(947)	124 436	135 932	1 734	137 666
Comprehensive income	-	-	54	1 059	1 113	(53)	1 060
Purchase of minority interest	-	-	-	-	-	(138)	(138)
Balance as at 31.03.2010	11 312	1 131	(893)	125 495	137 045	1 543	138 588

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 3 months	2009 3 months	2010 3 months	2009 3 months
Cash flows from operating activities				
Operating profit	25 891	41 229	1 655	2 635
Adjustments:				
depreciation and impairment charge	9 305	6 510	595	416
(profit) loss from sale of non-current assets	(48)	(409)	(3)	(26)
adjustments of revenue from construction contracts under stage of completion method	(125 922)	(12 309)	(8 048)	(787)
interest income from business activities	(2 206)	(574)	(141)	(37)
change in provisions	23 671	(4 395)	1 513	(281)
Change in trade and other receivables related to operating activities	130 476	107 257	8 339	6 854
Change in inventories	31 809	54 741	2 032	3 499
Change in trade and other payables related to operating activities	(4 642)	(170 387)	(297)	(10 890)
Interests paid	(3 977)	(11 155)	(254)	(713)
Other financial expenses (income)	(10)	(30)	(1)	(2)
Corporate income tax paid	(9 181)	(5 974)	(587)	(382)
Total cash flows from operating activities	75 166	4 504	4 803	286
Cash flows from investing activities				
Investment in subsidiaries	(1 110)	-	(71)	-
Investments in associates and joint ventures	(20)	-	(1)	-
Purchase of deposits with maturities greater than 3 months	-	(170 948)	-	(10 926)
Inflow of deposits with maturities greater than 3 months	63 501	-	4 058	-
Proceeds from sale of investment property	-	1 250	-	80
Purchase of property, plant and equipment	(5 819)	(3 099)	(372)	(198)
Proceeds from sale of property, plant and equipment	1 859	371	119	24
Purchase of intangible assets	(283)	(670)	(18)	(43)
Proceeds from sale of intangible assets	-	134	-	9
Loans granted	(84 241)	(53 612)	(5 384)	(3 426)
Loan repayments received	120	20 641	8	1 319
Interest received	384	6 439	25	412
Total cash flows from investing activities	(25 609)	(199 494)	(1 636)	(12 749)
Cash flows from financing activities				
Proceeds from borrowings	3 404	10 188	218	651
Repayments of borrowings	(51 545)	(72 445)	(3 294)	(4 630)
Finance lease principal payments	(4 911)	(4 323)	(314)	(276)
Total cash flows from financing activities	(53 052)	(66 580)	(3 390)	(4 255)
Net increase/decrease in cash and cash equivalents	(3 495)	(261 570)	(223)	(16 718)
Change in deposits with maturities greater than 3 months	(63 501)	170 948	(4 058)	10 926
Total change	(66 996)	(90 622)	(4 281)	(5 792)
Cash and cash equivalents at beginning of the period	359 732	515 191	22 991	32 927
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
Effect of exchange rate changes	1 270	750	81	48
Cash and cash equivalents at the end of the period	357 507	254 371	22 849	16 257
Deposits with maturities greater than 3 months at the end of the period	337 415	433 707	21 565	27 719
Total at the end of the period	694 922	688 078	44 414	43 976

NOTES

Note 1 Operating segments *in thousand kroons*

The chief operating decision maker, the directorate and management of AS Merko Ehitus, monitors the business of the group by operating segments. The performance of the segments is assessed based on segment's revenue derived from outside the group and 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.

2010 3 months	Buildings	Facilities	Roads	Development of real estate	Other	Total segments
Segment revenue	281 991	172 162	33 585	62 464	2 333	552 535
Inter-segment revenue	(18 712)	(22 789)	(1 623)	(8 307)	(481)	(51 912)
Revenue from external clients	263 279	149 373	31 962	54 157	1 852	500 623
Depreciation and impairment charge	(507)	(2 471)	(3 460)	(125)	(707)	(7 270)
Profit (loss) from associates and joint ventures	-	(4)	-	(521)	(1 905)	(2 430)
Other finance income/costs	-	(99)	-	(714)	-	(813)
Profit before tax	59 090	18 288	(20 121)	10 315	(3 359)	64 213
Segment assets 31.03.2010	217 062	193 736	180 564	1 729 735	103 467	2 424 564
2009 3 months	Buildings	Facilities	Roads	Development of real estate	Other	Total segments
Segment revenue	377 315	129 836	28 640	112 465	7 129	655 385
Inter-segment revenue	(28 318)	(5 135)	-	(11 685)	(1 056)	(46 194)
Revenue from external clients incl. client, whose revenue is at least 10% from consolidated revenue	348 997	124 701	28 640	100 780	6 073	609 191
	70 945	-	-	-	-	70 945
Depreciation and impairment charge	(741)	(463)	(2 470)	(115)	(742)	(4 531)
Inventory write-downs	-	-	-	(2 619)	-	(2 619)
Profit (loss) from associates and joint ventures	-	-	-	(179)	(3 144)	(3 323)
Other finance income/costs	(2)	(316)	(287)	(761)	(24)	(1 390)
Profit before tax	59 250	9 193	(1 459)	11 197	1 444	79 625
Segment assets 31.03.2009	291 734	219 742	150 652	1 615 560	58 761	2 336 449

In addition to the segment assets the group holds assets of EEK 969 259 thousand as at 31.03.2010 (31.03.2009: EEK 1 317 284 thousand) that can not be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to associates and joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

	2010 3 months	2009 3 months
Profit (loss) from reporting segments	64 213	79 625
Unallocated expense (income)		
marketing expenses	(7 178)	(7 050)
administrative expenses	(34 426)	(37 009)
other operating income (expense)	39	950
financial income (expense)	1 193	388
incl. interest income	2 165	7 314
interest expense	(1 226)	(5 958)
Profit before tax	23 841	36 904

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 3 months	2009 3 months
Estonia	259 710	447 874
Latvia	235 763	143 192
Lithuania	5 150	18 125
Total	500 623	609 191

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

	31.03.2010	31.03.2009
Estonia	286 311	197 326
Latvia	15 000	20 109
Lithuania	765	958
Total	302 076	218 393

Note 2 Revenue

in thousand kroons

	2010 3 months	2009 3 months
Rendering of services	449 243	505 307
Sale of real estate and real estate development projects	50 668	100 418
Rental income	429	1 159
Sale of goods	283	2 307
Total revenue	500 623	609 191

Note 3 Cost of goods sold*in thousand kroons*

	2010 3 months	2009 3 months
Construction services	204 230	290 064
Materials	84 787	58 942
Properties purchased for resale	50 877	55 818
Staff costs	55 539	62 150
Construction mechanisms and transport	16 580	14 289
Design	3 347	9 044
Depreciation and impairment charge	7 270	4 531
Allowance for inventories	-	2 619
Other expenses	19 476	27 545
Total cost of goods sold	442 106	525 002

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.

	2010 3 months	2009 3 months
Net profit attributable to shareholders <i>(in thousands of kroons)</i>	16 567	32 726
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings per share <i>(in kroons)</i>	0,94	1,85

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*

	31.03.2010	31.12.2009
Cash on hand	224	270
Bank accounts	57 882	40 787
Overnight deposits	199 245	93 961
Term deposits with maturities of 3 months and less	100 156	224 714
Total cash and cash equivalents	357 507	359 732

Note 6 Trade and other receivables
in thousand kroons

	31.03.2010	31.12.2009
Trade receivables		
accounts receivable	268 690	405 030
allowance for doubtful receivables	(19 555)	(19 921)
	<u>249 135</u>	<u>385 109</u>
Tax prepayments excluding corporate income tax		
value added tax	10 086	7 823
social security tax	6	7
other taxes	540	922
	<u>10 632</u>	<u>8 752</u>
Amounts due from customers for contract works	127 279	102 144
Other short-term receivables		
short-term loans	179 160	96 874
interest receivables	14 143	13 524
receivable from buyer of subsidiary	6 675	7 125
other short-term receivables	4 635	2 253
	<u>204 613</u>	<u>119 776</u>
Prepayments for services		
prepayments for construction services	29 989	38 197
prepaid insurance	4 392	1 764
other prepaid expenses	5 560	6 212
	<u>39 941</u>	<u>46 173</u>
Total trade and other receivables	<u>631 600</u>	<u>661 954</u>

Note 7 Inventories
in thousand kroons

	31.03.2010	31.12.2009
Raw materials and materials	6 410	6 752
Work-in-progress	502 317	470 428
Finished goods	218 748	268 242
Goods for resale		
registered immovables purchased for resale	684 935	686 543
other goods purchased for resale	2 543	2 543
	<u>687 478</u>	<u>689 086</u>
Prepayments for inventories		
prepayments for real estate properties	87 274	87 192
prepayments for other inventories	3 972	14 763
	<u>91 246</u>	<u>101 955</u>
Total inventories	<u>1 506 199</u>	<u>1 536 463</u>

Note 8 Long-term financial assets
in thousand kroons

	31.03.2010	31.12.2009
Investments in associates and joint ventures	177 205	179 421
Long-term loans	22 523	21 785
Long-term bank deposit	2 809	2 809
Long-term receivable from buyer of subsidiary	825	1 375
Long-term receivables from customers of construction services	15 686	6 499
Total long-term financial assets	219 048	211 889

Note 9 Investment property
in thousand kroons

	31.03.2010	31.12.2009
Land	2 101	2 098
Buildings at carrying amount		
cost	15 657	15 650
accumulated depreciation	(1 364)	(1 196)
	14 293	14 454
Total investment property	16 394	16 552

Note 10 Property, plant and equipment
in thousand kroons

	31.03.2010	31.12.2009
Land	12 905	12 905
Buildings at carrying amount		
cost	89 869	89 030
accumulated depreciation	(12 672)	(11 111)
	77 197	77 919
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(115)	(113)
	343	345
Machinery and equipment at carrying amount		
cost	260 110	236 939
accumulated depreciation	(127 153)	(100 774)
	132 957	136 165
Other fixtures at carrying amount		
cost	77 359	78 588
accumulated depreciation	(39 959)	(40 512)
	37 400	38 076
Construction in progress	866	866
Total property, plant and equipment	261 668	266 276

Note 11 Intangible assets
in thousand kroons

	31.03.2010	31.12.2009
Goodwill	13 939	13 939
Software at carrying amount		
cost	17 636	17 346
accumulated depreciation	(8 923)	(8 409)
	<u>8 713</u>	<u>8 937</u>
Prepayments for intangible assets	1 362	1 362
Total intangible assets	<u>24 014</u>	<u>24 238</u>

Note 12 Borrowings
in thousand kroons

	31.03.2010	31.12.2009
Finance lease payables		
Present value of lease payments	<u>43 026</u>	<u>47 934</u>
incl. current portion	13 399	16 170
non-current portion 1...4 years	29 627	31 764
Bank loans		
Loan balance	<u>313 894</u>	<u>361 696</u>
incl. current portion	276 549	319 894
non-current portion 1...5 years	37 345	41 802
Loans granted to entities under common control		
Loan balance	<u>109 354</u>	<u>109 355</u>
incl. current portion	109 354	109 355
Loans from other companies		
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
Total loans		
Loans balance	<u>428 148</u>	<u>475 951</u>
incl. current portion	388 053	431 399
non-current portion 1...5 years	40 095	44 552
Total borrowings	<u>471 174</u>	<u>523 885</u>
incl. current portion	401 452	447 569
non-current portion 1...5 years	69 722	76 316

Note 13 Trade and other payables*in thousand kroons*

	31.03.2010	31.12.2009
Trade payables	189 861	223 149
Payables to employees	58 429	55 364
Tax liabilities, except for corporate income tax		
value added tax	8 762	22 625
personal income tax	8 849	6 783
social security tax	14 685	13 045
land tax	285	80
unemployment insurance tax	1 115	1 171
contributions to mandatory funded pension	237	107
other taxes	160	604
	34 093	44 415
Amounts due to customers for contract works	215 354	316 095
Other liabilities		
interest liabilities	1 135	1 105
payable for registered immovables from demerger	100 000	100 000
other liabilities	2 618	4 274
	103 753	105 379
Prepayments received	73 060	38 068
Total trade and other payables	674 550	782 470

Note 14 Short-term provisions*in thousand kroons*

	31.03.2010	31.12.2009
Provision for warranty obligation for construction	17 709	18 518
Provision for onerous construction contracts	31 495	4 035
Provision for completion of construction projects	522	208
Provision for legal costs and claims filed	14 508	14 492
Other provisions	182	449
Total short-term provisions	64 416	37 702

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 at 31.03.2010 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 3 months	2009 3 months
Purchased construction services		
Associates and joint ventures	-	1 352
Entities under common control	856	3 103
Total purchased construction services	856	4 455
Rendered construction services		
Associates and joint ventures	296	2
Entities under common control	966	15 116
Other related parties	7	140
Management members	5 685	2 944
Total construction services rendered	6 954	18 202
Construction materials purchased		
Other related parties	5	9

Balances with the related parties*in thousand kroons*

	31.03.2010	31.12.2009
Trade and other receivables		
Trade receivables		
Parent	188	190
Associates and joint ventures	203	74
Entities under common control	1	483
Other related parties	6 256	2 431
Short-term loans		
Associates and joint ventures	16 435	16 500
Entities under common control	43 061	43 055
Interest receivables		
Associates and joint ventures	9 483	9 147
Entities under common control	2 304	1 624
Other short-term receivables		
Associates and joint ventures		1
Other related parties	5	-
Prepayments for inventories		
Entities under common control	57 544	57 462
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	19 629	18 896
Entities under common control	2 894	2 890
Borrowings		
Short-term loans and bonds		
Entities under common control	109 354	109 354
Trade and other payables		
Trade payables		
Parent	-	2
Entities under common control	82	83
Other related parties	8	2
Interest liabilities		
Entities under common control	222	233
Other short-term liabilities		
Entities under common control	100 000	100 000

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>	31.03.2010	31.12.2009
Performance period's warranty to the customer	309 471	262 573
Tender warranty	67 359	59 254
Guarantee warranty period	128 773	152 114
Prepayment guarantee	136 652	81 296
Contracts of surety	7 617	9 705
Payment guarantee	2 183	3 318
Letter of credit	1 087	6 404
Total contingent liabilities	653 142	574 664

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 3 months interim report 2010 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 3 months period ending 31.03.2010 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 Board

13.05.2010

Alar Lagus Member of the Board

13.05.2010

Veljo Viitmann Member of the Board

13.05.2010

Andres Agukas Member of the Board

13.05.2010