

# AS MERKO EHITUS GROUP

## Consolidated interim report 9M 2008

Commercial Registry No: 11520257

Address: 9G Järvevana road, 11314 Tallinn  
Telephone: +372 680 5105  
Fax: +372 680 5106  
E-mail: [merko@merko.ee](mailto:merko@merko.ee)  
Homepage: [www.merko.ee](http://www.merko.ee)  
Primary activity: General contracting in construction sector  
Auditor: AS PricewaterhouseCoopers  
Beginning of financial year: 01.01.2008  
End of financial year: 31.12.2008

**TABLE OF CONTENTS**

MANAGEMENT REPORT ..... 3

INCOME STATEMENT ..... 8

BALANCE SHEET ..... 10

STATEMENT OF CHANGES IN EQUITY ..... 11

CASH FLOW STATEMENT ..... 12

NOTES ..... 13

    Note 1 Business and geographical segments ..... 13

    Note 2 Revenue ..... 14

    Note 3 Cost of goods sold ..... 14

    Note 4 Earnings per share ..... 15

    Note 5 Cash and cash equivalents ..... 15

    Note 6 Trade and other receivables ..... 15

    Note 7 Inventories ..... 16

    Note 8 Long-term financial assets ..... 16

    Note 9 Investment property ..... 16

    Note 10 Property, plant and equipment ..... 17

    Note 11 Intangible assets ..... 17

    Note 12 Borrowings ..... 18

    Note 13 Trade and other payables ..... 18

    Note 14 Short-term provisions ..... 19

    Note 15 Other long-term trade payables ..... 19

    Note 16 Related party transactions ..... 19

    Note 17 Contingent liabilities ..... 21

MANAGEMENT DECLARATION ..... 22

## MANAGEMENT REPORT

### General information

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

The presented report provides an overview of the economic activities and financial indicators of AS Merko Ehitus in the first 9 months of 2008, including the economic activities and financial indicators of the company's legal predecessor AS Järvevana (previous name AS Merko Ehitus) in the first 7 months of 2008.

On 7 October 2008, AS Merko Ehitus transferred its 100-percent holding in the company OÜ Põrguvälja Soojus (registry code 10711682) as a business area not necessary for the fulfilment of the group's strategic objectives. ([http://www.baltic.omxnordicexchange.com/market/?pg=news&news\\_id=227308](http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=227308)).

On 1 August 2008, the registration department of Harju County Court made an entry in the Commercial Register registering the division of AS Merko Ehitus (registry code 10068022, with the new business name 'Aktsiaselts Järvevana') into the limited companies Merko Ehitus (registry code 11520257) and Järvevana (registry code 10068022).

Pursuant to the division plan (<http://www.merko.ee/upload/File/Restruktureerimise%20dokumendid/AS%20Merko%20Ehitus%20jagunemiskava%20ENG.pdf>), upon the division, AS Järvevana transferred to AS Merko Ehitus the entire set of assets related to the economic activities of the building company, including all concluded building, subcontracting and supply contracts; the equipment, machinery and employees; all professional know-how and cash-flows without interrupting the continuing economic activities.

On 3 June 2008 the Annual General Meeting ([http://www.baltic.omxnordicexchange.com/market/?pg=news&news\\_id=226094](http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=226094)) approved the division of the company to into the limited companies new Merko Ehitus (registry code 11520257) and Järvevana (registry code 10068022).

On May 21 2008 AS Merko Ehitus transferred the 50-percent holding in the company OÜ Tornimäe Apartments (registry code 11016607) to the co-partner AS EKE Invest. The sale price of the company was 58 million kroons ([http://www.baltic.omxnordicexchange.com/market/?pg=news&news\\_id=223709](http://www.baltic.omxnordicexchange.com/market/?pg=news&news_id=223709)).

On May 2 2008 AS Merko Ehitus transferred the 100-percent holding in the company OÜ Karulaugu Kinnisvara (registry code 11034491) to AS E.L.L. Kinnisvara. The sale price of the company was 42 million kroons; from this amount, 4.12 million kroons, the balance of company's financial obligations and current assets, were deducted ([http://www.baltic.omxnordicexchange.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news\\_id=223284](http://www.baltic.omxnordicexchange.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news_id=223284)).

On 15 April 2008, the management of AS Merko Ehitus presented the Company's restructuring plan ([http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news\\_id=222602](http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100003559&list=2&tab=news&news_id=222602)), according to which AS Merko Ehitus was split up/demerged so that AS Merko Ehitus, e.g. assets (other than liquid assets in the amount of 250 million kroons), liabilities and contracts as well as the business name was separated and transferred to the new company being set up. The exact description of assets and the division plan were published in the materials announcing the general meeting of shareholders <http://www.merko.ee/eng/investor/generalmeeting/2008>.

At a joint meeting held at 14 March 2008, the Management Board and the Supervisory Board of AS Merko Ehitus adopted a resolution to restructure the Company and separate operating activities from the criminal proceedings related to the land swap. The Company's management estimates that the restructuring of the Company is the best way to ensure its sustainable development and protect the interests of shareholders and employees in the long-lasting criminal proceedings related to the land swap.

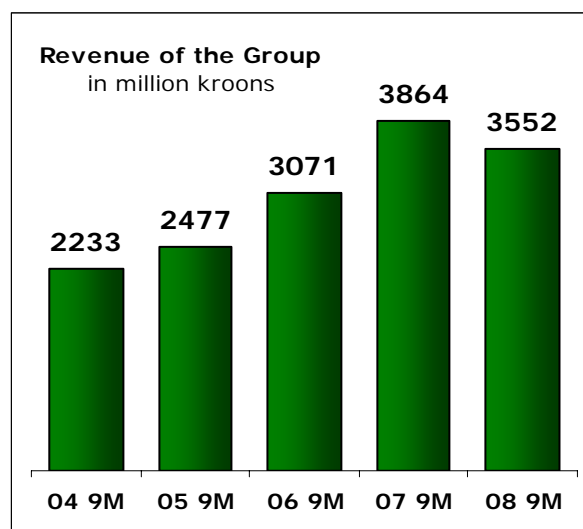
## Business operations

Group's revenue for the 9 months in 2008 was 3552.4 million kroons, which constitutes an annual decrease of 8.1%. 60.8% of the sales originated from Estonia, 21.0% from Latvia and 18.2% from Lithuania. As compared with the respective period in 2007, company's sales in Lithuania increased by 15.4%, and decreased in Latvia by 17.5% and in Estonia by 10.0%.

Group's revenue in the third quarter of 2008 was 1180.1 million having decreased by 187.8 million kroons as compared to the same period in 2007.

Revenue of the period decreased due to the weak economic situation in the building sector caused by overall economic recession.

As at 30 September 2008, the group's backlog of construction contracts in progress amounted to 3611 million kroons (4040 million kroons as at 30 September 2007).

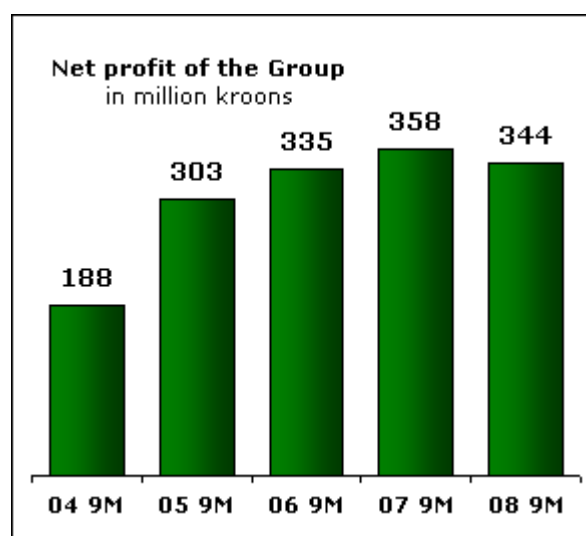


Most important companies of the Group 9 months 2008 consolidated revenue (sales outside the Group)

	<i>in thousand kroons and euros</i>			
	2008 9 months		2007 9 months	
	EEK	EUR	EEK	EUR
<b>Estonian companies</b>				
AS Merko Ehitus (parent company)	1 390 113	88 844	1 608 086	102 775
AS Gustaf (75% partnership)	123 425	7 888	111 062	7 098
OÜ Gustaf Tallinn (80% partnership)	109 094	6 972	102 936	6 579
AS Merko Tartu (66% partnership)	155 907	9 964	181 502	11 600
Tallinna Teede AS (100% partnership)	368 506	23 552	253 327	16 191
OÜ Woody (100% partnership)	65 020	4 156	198 125	12 662
<b>Latvian company</b>				
SIA Merks (100% partnership)	718 407	45 915	779 876	49 843
<b>Lithuanian company</b>				
UAB Merko Statyba (100% partnership)	612 893	39 171	525 819	33 606

In one year, the Group's cost of goods sold decreased by 12.5%, whereas the marketing and general administrative expenses increased by 26.9%, constituting 83.5% and 5.2% of the revenue respectively. Various extraordinary expenses contributed to the increase of marketing and general administrative costs in the period: expenses incurred in the division of AS Merko Ehitus and AS Järvevana, legal aid costs related to the legal succession and experience of Merko Ehitus, redundancy payments and administrative personnel expenses included in general expenses.

In the 3<sup>rd</sup> quarter, the group suffered a loss of 15.3 million kroons due to the finished residential development projects being impaired to recoverable value. Merko Ehitus group's inventories, incl. unfinished and finished production, have been recorded in the company's statements at acquisition cost, which in the management's estimate exceeds the recoverable value of the objects at the current price level.



The group's profit before taxes in the first 9 months of 2008 was 398.3 million kroons, having grown 13.3 million kroons from the previous year. Net profit was 343.9 million kroons – having decreased by 4.0% in a year. Thanks to

favourable climate conditions in the 1<sup>st</sup> quarter, the successful residential and real estate development activities in the first six months and the dropping prices of construction services, the net profit margin of the period increased from 9.3% to 9.7% compared to the same period last year.

Group's net cash flow of the nine months of the year was +574.1 million kroons, including cash flow from operating activities +640.0 million kroons, from investing activities +25.6 million kroons, financing activities –66.5 million kroons and net assets separated in division -25,0 million kroons. The cash flow from operating activities were mostly influenced by operating profit +400.3 million kroons, adjustments of revenue from construction contracts under stage of completion method +261.2 million kroons, the change in trade and other receivables related to operating activities (+125.2 million kroons) and change in trade and other payables (–112.4 million kroons). As at 30 September 2008, the group has 776.1 million kroons of funds on the group's bank accounts.

## **Construction market**

In the first six months, the group performed construction works with own forces in the extent of 24,381 million kroons in Lithuania, 16,552 million kroons in Latvia and 16,972 million kroons in Estonia, which means that compared to the first half of 2007 the volume of construction works increased by 30.8% in Latvia and by 23.1% in Lithuania and decreased by 0.4% in Estonia. Due to the inertness of the building sector, a major decline can be expected in the 4<sup>th</sup> quarter this year and in 2009. Indicators characterising the general economic environment provide a more adequate clue to developments in the near future.

The 3<sup>rd</sup> quarter saw a considerable decline in the local financial investment environment, which was caused by the global financial crisis. Financial institutions achieved a new level in conservativeness – even funding of working capital and investments of working projects with strong cash flows has become very complicated, not to mention starting new projects. The terms and conditions of residential loans granted to private persons have become considerably more stringent: self-financing rate has risen from 10% to 25-30% and interest margin from 0.5-1% to 1.5-3.5%. Diminishing financing possibilities and uncertainty concerning the future are the main problems related to private investments. Regardless of ultra-favourable construction prices, developers lack interest and courage to start new projects.

The state and local governments will be the most realistic clients for construction sector in the nearest future. The slow-down of local economic growth – compared to the 3<sup>rd</sup> quarter of 2007, economic growth decelerated in all the Baltic countries and preliminary estimates show an economic growth of 3.1% in Lithuania and an economic recession of 4.2% in Latvia and 3.3% in Estonia – and the global financial crisis exert considerable pressure on the budgets and investment capacity of the state and local governments in the Baltic area. The situation is becoming particularly complicated in Latvia, where the state has to use its limited resources in the light of dwindling revenue to allocate funds for stabilising the financial system.

Statistical Office reports continue to show an increase in construction prices in the Baltic countries – annual growth of 13.9% in Latvia, 9.1% in Lithuania and 3.1% in Estonia, while labour costs climbed up in Latvia by 20.4% and in Estonia by 3.0%. Decreasing demand and tightening competition have cut the service prices and a further decline in prices will pose a challenge to the sustainability of construction companies. In the nearest future we will probably see the liquidation of financially weaker and less efficient companies. Main contractors in the construction business may experience a temporary improvement of profitability arising from works performed in a period of fallen prices and under contracts concluded in previous periods. The majority of new contracting offers are made at prices close to costs and therefore the profitability of the building sector will definitely decrease in the medium and long-term perspective.

The residential market remained reserved in the 3<sup>rd</sup> quarter, prices continued to fall and the first serious bankruptcies took place. The nearest future shows no signs of improvement in the demand for residential and commercial premises. Provided that the financial sector is able to restore confidence, the loan market returns to normal and the overall economic situation improves in 2009, the first signs of recovery in the development sector may be expected in 2010. Coping with diminished financing possibilities and liquidity problems and the radical cutting of costs will be the main challenges in the development sector. In the first 9 months of 2008, the group sold 423 apartments, 207 completed unsold apartments and 758 apartments in construction process are held as inventory.

The ratios and calculation methods characterizing the operating activities of the Group

	2008 9 months	2007 9 months
Net profit margin	9,7 %	9,3 %
Operating profit margin	11,3 %	8,6 %
Return on equity per annum	22,2 %	27,9 %
Return on assets per annum	11,2 %	13,5 %
Current ratio	2,0	2,1
Equity ratio	50,0 %	47,0 %
General expense ratio	5,2 %	3,7 %
Gross remuneration ratio	8,8 %	7,5 %

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

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

Return on equity:  $\text{Net profit} \times 4/3^* / \text{Average equity during the period}^*$

Return on assets:  $\text{Net profit} \times 4/3^* / \text{Average assets during the period}$

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

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

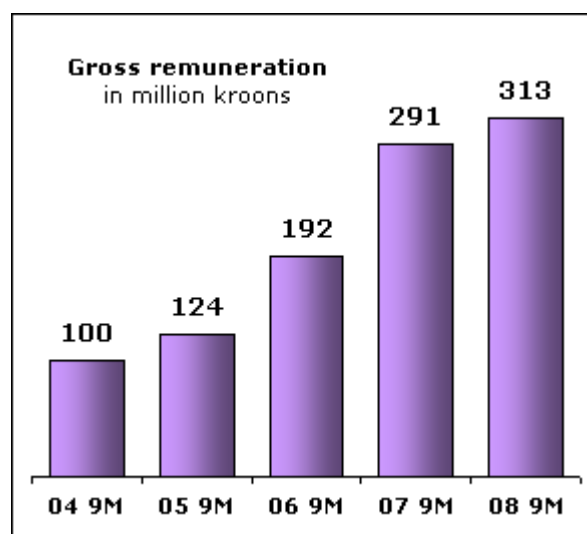
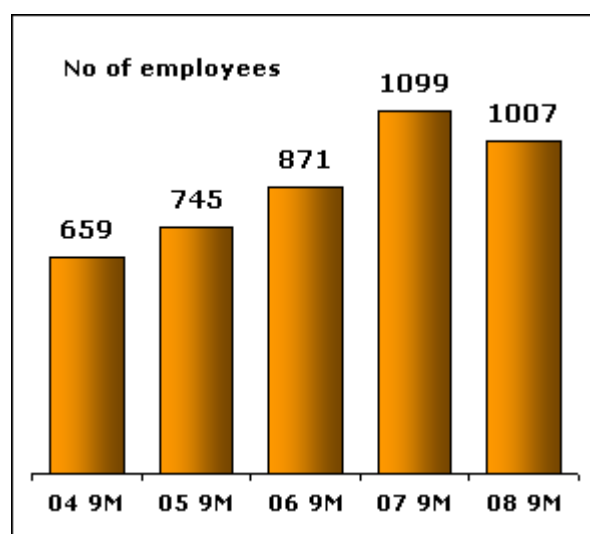
General expense ratio:  $\text{General expenses} / \text{Revenue}$

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

\* calculated as attributable to the equity holders of the parent company

### Employees and remuneration

In 30.09.2008, the number of employees in the Group's service was 1007, including 974 full-time employees. The group reduced the number of its personnel by 92 employees, or 8.4% in a year. The gross remuneration paid to employees in 9 months 2008 amounted to 312.8 million kroons an increase of 7.6% compared to previous year.



### Shares and shareholders

AS Merko Ehitus biggest shareholders as of 30.09.2008

	No. of shares	Ownership
AS Merko Grupp	12 742 686	71,99%
Skandinaviska Enskilda Banken Ab, clients	1 189 091	6,72%
ING Luxembourg S.A., clients	963 376	5,44%
The Bank of New York Mellon Treaty Omnibus	262 349	1,48%
The Bank of New York/ING Bank Slaksi A/C ING Parasol	189 683	1,07%

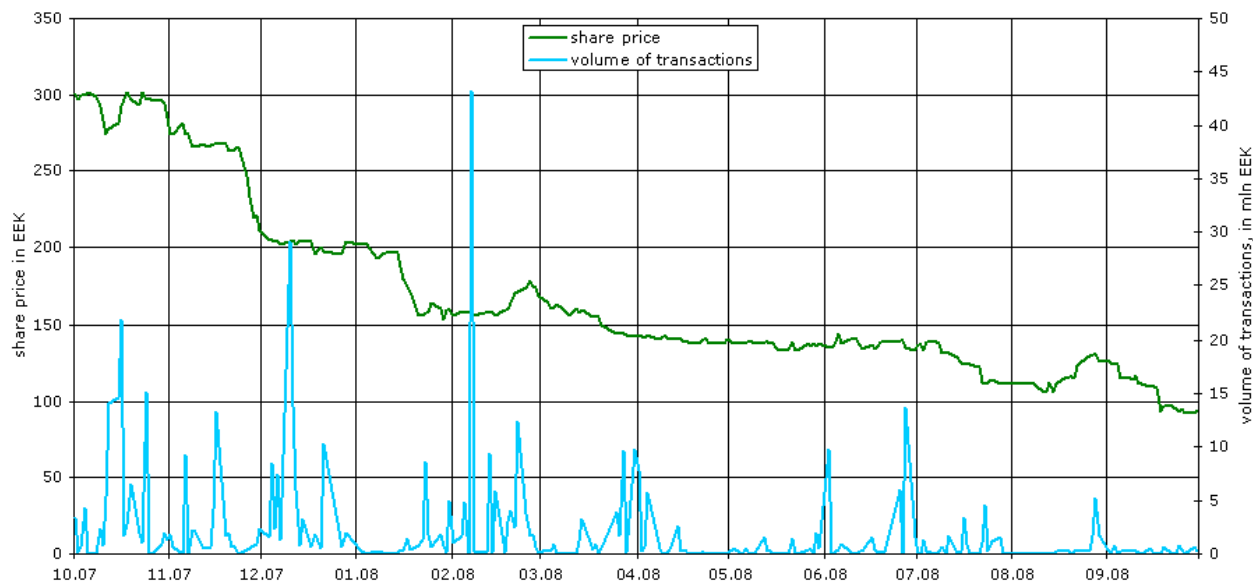
Breakdown of shareholders as of 30.09.2008

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	314	38,57%	15 946	0,09%
101-1000	363	44,59%	142 511	0,81%
1001-10 000	93	11,43%	275 245	1,56%
10 001 – 100 000	33	4,05%	1 138 879	6,43%
100 001 – 1 000 000	9	1,11%	2 195 642	12,40%
1 000 001 - ...	2	0,25%	13 931 777	78,71%
Total	814	100%	17 700 000	100%

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange. In 2008 9 months the number of transactions with Merko Ehitus' shares was 1481, during which 1.7 million shares changed ownership and the turnover of the transactions was 253.3 million kroons. The cheapest bargain with a share was 86.10 kroons and highest 202.62 kroons per share. The closing share price with a state of 30.09.2008 was 93.88 kroons.

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

The diagram reflects the share price of AS Järvevana, the legal predecessor of AS Merko Ehitus, until 1 Aug 2008.



	30.09.2008	30.09.2007	+/-
No. of shares, thousand pcs	17 700	17 700	
Earnings per share (EPS), in kroons	19,43	20,23	-4,0%
Equity per share, in kroons	119,66	103,06	+16,1%
P/B (share price to equity per share)	0,78	2,85	-72,4%

## INCOME STATEMENT

consolidated, unaudited

	note	EEK		EUR	
		2008 9 months	2007 9 months	2008 9 months	2007 9 months
Revenue	1,2	3 552 366	3 863 605	227 038	246 929
Cost of goods sold	3	(2 964 881)	(3 388 412)	(189 490)	(216 559)
<b>Gross profit</b>		587 485	475 193	37 548	30 370
Marketing expenses		(26 120)	(20 244)	(1 669)	(1 294)
Administrative and general expenses		(157 215)	(124 180)	(10 048)	(7 937)
Other operating income		8 632	5 345	552	342
Other operating expenses		(12 468)	(4 338)	(797)	(277)
<b>Operating profit</b>		400 314	331 776	25 586	21 204
Financial income and expenses		(2 054)	53 177	(132)	3 400
incl. financial income (expenses) from investments in associate companies and joint ventures		1 185	61 486	76	3 930
interest expense		(12 442)	(14 355)	(795)	(917)
foreign exchange gain		(7 359)	(3 179)	(470)	(203)
other financial income and expenses		16 562	9 225	1 057	590
<b>Profit before tax</b>		398 260	384 953	25 454	24 604
Corporate income tax expense		(47 579)	(18 346)	(3 041)	(1 173)
<b>Net profit for current period</b>		350 681	366 607	22 413	23 431
incl. net profit attributable to equity holders of the parent company		343 874	358 024	21 978	22 882
minority interest		6 807	8 583	435	549
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	4	19,43	20,23	1,24	1,29



## INCOME STATEMENT

consolidated, unaudited

	EEK		EUR	
	2008 III quarter	2007 III quarter	2008 III quarter	2007 III quarter
Revenue	1 180 062	1 367 855	75 420	87 422
Cost of goods sold	(1 051 633)	(1 198 290)	(67 212)	(76 585)
<b>Gross profit</b>	128 429	169 565	8 208	10 837
Marketing expenses	(8 629)	(7 788)	(551)	(498)
Administrative and general expenses	(56 195)	(42 725)	(3 592)	(2 731)
Other operating income	2 747	2 856	176	183
Other operating expenses	(4 911)	(1 393)	(314)	(89)
<b>Operating profit</b>	61 441	120 515	3 927	7 702
Financial income and expenses	3 066	1 724	196	111
incl. financial income (expenses) from investments in associate companies and joint ventures	(18)	8 711	(1)	557
interest expense	(4 763)	(7 827)	(304)	(500)
foreign exchange gain	(1 489)	(3 317)	(95)	(212)
other financial income and expenses	9 336	4 157	596	266
<b>Profit before tax</b>	64 507	122 239	4 123	7 813
Corporate income tax expense	(6 956)	(3 267)	(445)	(209)
<b>Net profit for current period</b>	57 551	118 972	3 678	7 604
incl. net profit attributable to equity holders of the parent company	53 696	116 023	3 432	7 416
minority interest	3 855	2 949	246	188
 Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	 3,03	 6,55	 0,19	 0,42

**BALANCE SHEET**

consolidated, unaudited

	note	EEK		EUR	
		30.09.2008	31.12.2007	30.09.2008	31.12.2007
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	776 096	205 564	49 602	13 138
Trade and other receivables	6	988 554	1 199 566	63 180	76 666
Prepaid corporate income tax		3 771	2 376	241	152
Inventories	7	1 982 619	2 025 426	126 712	129 448
<b>Total current assets</b>		<b>3 751 040</b>	<b>3 432 932</b>	<b>239 735</b>	<b>219 404</b>
<b>Non-current assets</b>					
Long-term financial investments	8	245 689	287 456	15 702	18 372
Deferred income tax assets		3 355	3 396	214	217
Investment property	9	17 016	7 361	1 088	470
Property, plant and equipment	10	211 047	172 912	13 489	11 051
Intangible assets	11	11 868	12 574	758	804
<b>Total non-current assets</b>		<b>488 975</b>	<b>483 699</b>	<b>31 251</b>	<b>30 914</b>
<b>TOTAL ASSETS</b>		<b>4 240 015</b>	<b>3 916 631</b>	<b>270 986</b>	<b>250 318</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Borrowings	12	578 240	304 879	36 956	19 485
Trade and other payables	13	1 226 326	1 015 492	78 377	64 902
Corporate income tax liability		20 822	16 718	1 331	1 068
Government grants		-	1 498	-	96
Short-term provisions	14	43 567	73 212	2 784	4 680
<b>Total current liabilities</b>		<b>1 868 955</b>	<b>1 411 799</b>	<b>119 448</b>	<b>90 231</b>
<b>Non-current liabilities</b>					
Long-term borrowings	12	212 000	397 713	13 549	25 418
Other long-term trade payables	15	6 882	57 423	440	3 670
<b>Total non-current liabilities</b>		<b>218 882</b>	<b>455 136</b>	<b>13 989</b>	<b>29 088</b>
<b>Total liabilities</b>		<b>2 087 837</b>	<b>1 866 935</b>	<b>133 437</b>	<b>119 319</b>
<b>Equity</b>					
Minority interests		34 209	33 939	2 186	2 169
Equity attributable to equity holders of the parent company					
Share capital		177 000	177 000	11 312	11 312
Statutory reserve capital		17 700	17 700	1 131	1 131
Currency translation adjustment		(14 246)	(5 085)	(910)	(325)
Retained earnings		1 937 515	1 826 142	123 830	116 712
		<b>2 117 969</b>	<b>2 015 757</b>	<b>135 363</b>	<b>128 830</b>
<b>Total equity</b>		<b>2 152 178</b>	<b>2 049 696</b>	<b>137 549</b>	<b>130 999</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4 240 015</b>	<b>3 916 631</b>	<b>270 986</b>	<b>250 318</b>

## STATEMENT OF CHANGES IN EQUITY

unaudited

EEK	Equity attributable to equity holders of the parent company					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
<b>Balance as at 31.12.2006</b>	177 000	17 700	(5 751)	1 404 993	1 593 942	18 904	1 612 846
Effect of exchange rate changes	-	-	(3 888)	-	(3 888)	-	(3 888)
Net profit for current period	-	-	-	358 024	358 024	8 583	366 607
Dividends	-	-	-	(123 900)	(123 900)	(5 065)	(128 965)
Minority interest investment	-	-	-	-	-	5 240	5 240
<b>Balance as at 30.09.2007</b>	177 000	17 700	(9 639)	1 639 117	1 824 178	27 662	1 851 840
<b>Balance as at 31.12.2007</b>	177 000	17 700	(5 085)	1 826 142	2 015 757	33 939	2 049 696
Effect of exchange rate changes	-	-	(9 161)	-	(9 161)	-	(9 161)
Net assets separated on division	-	-	-	(232 501)	(232 501)	-	(232 501)
Net profit for current period	-	-	-	343 874	343 874	6 807	350 681
Dividends	-	-	-	-	-	(6 528)	(6 528)
Minority interest liquidation	-	-	-	-	-	(9)	(9)
<b>Balance as at 30.09.2008</b>	177 000	17 700	(14 246)	1 937 515	2 117 969	34 209	2 152 178

EUR	Equity attributable to equity holders of the parent company					Minority interest	Total
	Share capital	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total		
<b>Balance as at 31.12.2006</b>	11 312	1 131	(368)	89 796	101 871	1 208	103 079
Effect of exchange rate changes	-	-	(248)	-	(248)	-	(248)
Net profit for current period	-	-	-	22 882	22 882	549	23 431
Dividends	-	-	-	(7 919)	(7 919)	(324)	(8 243)
Minority interest investment	-	-	-	-	-	335	335
<b>Balance as at 30.09.2007</b>	11 312	1 131	(616)	104 759	116 586	1 768	118 354
<b>Balance as at 31.12.2007</b>	11 312	1 131	(325)	116 712	128 830	2 169	130 999
Effect of exchange rate changes	-	-	(585)	-	(585)	-	(585)
Net assets separated on division	-	-	-	(14 860)	(14 860)	-	(14 860)
Net profit for current period	-	-	-	21 978	21 978	435	22 413
Dividends	-	-	-	-	-	(417)	(417)
Minority interest liquidation	-	-	-	-	-	(1)	(1)
<b>Balance as at 30.09.2008</b>	11 312	1 131	(910)	123 830	135 363	2 186	137 549

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	
	2008 9 months	2007 9 months	2008 9 months	2007 9 months
<b>Cash flows from operating activities</b>				
Operating profit	400 314	331 776	25 585	21 204
Adjustments:				
depreciation and impairment charge	22 858	17 121	1 461	1 094
(profit) loss from sale of non-current assets	(764)	(429)	(49)	(27)
adjustments of revenue from construction contracts under stage of completion method	261 204	(127 215)	16 694	(8 131)
interest income from business activities	(2 744)	(3 646)	(175)	(233)
government grant and change in other provisions	(26 222)	33 399	(1 676)	2 135
Change in trade and other receivables related to operating activities	125 161	(234 419)	7 999	(14 983)
Change in inventories	26 820	(569 194)	1 714	(36 378)
Change in trade and other payables related to operating activities	(112 429)	(48 691)	(7 185)	(3 112)
Interests paid	(15 062)	(16 545)	(963)	(1 057)
Other financial expenses (income)	(41)	(7)	(3)	0
Corporate income tax paid	(39 048)	(29 790)	(2 496)	(1 904)
	<u>640 047</u>	<u>(647 640)</u>	<u>40 906</u>	<u>(41 392)</u>
<b>Cash flows from investing activities</b>				
Investment into subsidiaries	(15 000)	(29 575)	(959)	(1 890)
Proceeds from sale of subsidiaries	1 000	6 890	64	440
Investments into associates and joint ventures	(1 000)	(3 353)	(64)	(214)
Proceeds from sale of associates and joint ventures	59 856	-	3 826	-
Purchase of investment property	(4 259)	(750)	(272)	(48)
Purchase of property, plant and equipment	(19 476)	(31 308)	(1 245)	(2 001)
Proceeds from sale of property, plant and equipment	2 572	1 694	164	108
Purchase of intangible assets	(1 132)	(4 253)	(72)	(272)
Loans granted	(20 216)	(144 555)	(1 292)	(9 239)
Loan repayments received	4 989	134 600	319	8 603
Interest received	18 216	13 345	1 164	853
Dividends received	-	4 380	-	280
	<u>25 550</u>	<u>(52 885)</u>	<u>1 633</u>	<u>(3 380)</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	147 110	554 320	9 402	35 428
Repayments of borrowings	(193 496)	(270 392)	(12 367)	(17 281)
Finance lease principal payments	(13 608)	(8 791)	(869)	(562)
Dividends paid	(6 528)	(128 965)	(417)	(8 242)
	<u>(66 522)</u>	<u>146 172</u>	<u>(4 251)</u>	<u>9 343</u>
<b>Pecuniary means assigned on division</b>	(25 000)	-	(1 598)	-
<b>Change in cash and cash equivalents</b>	<u>574 075</u>	<u>(554 353)</u>	<u>36 690</u>	<u>(35 429)</u>
Cash and cash equivalent at beginning of period	205 564	676 143	13 138	43 213
Exchange gains/(losses) on cash and cash equivalents	(3 543)	(1 591)	(226)	(102)
<b>Cash and cash equivalent at end of period</b>	<u>776 096</u>	<u>120 199</u>	<u>49 602</u>	<u>7 682</u>

## NOTES

### Note 1 Business and geographical segments

*in thousand kroons*

#### Business segments

2008 9 months	Construc- tion	Road construction	Concrete elements	Group
Consolidated revenue	3 183 796	368 570	-	3 552 366
Inter-segmental revenue	10	13 157	-	13 167
Segment revenue	3 183 806	381 727	-	3 565 533
Segment operating profit	396 017	4 297	-	400 314
Financial income/expenses				(2 054)
incl. profit/loss from associates and joint ventures	2 244	-	(1 059)	1 185
Profit before tax				398 260
Corporate income tax				(47 579)
Net profit of the Group				350 681
incl. attributable to equity owners of the parent company				343 874
minority interest				6 807
Segment assets	3 740 406	229 055	-	3 969 461
Associates and joint ventures	156 741	-	56 039	212 780
Unallocated assets				57 774
Total consolidated assets				4 240 015
Segment liabilities	1 132 153	127 414	-	1 259 567
Unallocated liabilities				828 270
Total consolidated liabilities				2 087 837
Purchase of investment property	4 259	-	-	4 259
Purchase of property, plant and equipment and intangible assets	16 589	4 019	-	20 608
Depreciation and impairment	13 339	9 519	-	22 858
<b>2007 9 months</b>	<b>Construc- tion</b>	<b>Road construction</b>	<b>Concrete elements</b>	<b>Group</b>
Consolidated revenue	3 610 278	253 327	-	3 863 605
Inter-segmental revenue	-	55 659	-	55 659
Segment revenue	3 610 278	308 986	-	3 919 264
Segment operating profit	299 287	32 489	-	331 776
Financial income/expenses				53 177
incl. profit/loss from associates and joint ventures	42 448	-	19 038	61 486
Profit before tax				384 953
Corporate income tax				(18 346)
Net profit of the Group				366 607
incl. attributable to equity owners of the parent company				358 024
minority interest				8 583
Segment assets	3 278 945	224 871	-	3 503 816
Associates and joint ventures	201 044	-	55 217	256 261
Unallocated assets				81 961
Total consolidated assets				3 842 038
Segment liabilities	1 477 396	84 870	-	1 562 266
Unallocated liabilities				427 932
Total consolidated liabilities				1 990 198
Purchase of investment property	750	-	-	750
Purchase of property, plant and equipment and intangible assets	35 555	4 817	-	40 372
Depreciation and impairment	9 720	7 401	-	17 121

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

## Geographical segments

	Revenue	
	2008 9 months	2007 9 months
Estonia	2 161 020	2 400 806
Latvia	744 470	902 414
Lithuania	646 876	560 385
<b>Total</b>	<b>3 552 366</b>	<b>3 863 605</b>

	Total assets		Purchase of investment property		Purchase of property, plant and equipment and intangible assets	
	30.09.2008	30.09.2007	30.09.2008	30.09.2007	2008 9 months	2007 9 months
Estonia	2 248 047	2 056 821	3 252	-	15 084	28 750
Latvia	1 516 232	1 408 881	1 007	-	5 186	11 555
Lithuania	475 736	376 336	-	-	338	67
<b>Total</b>	<b>4 240 015</b>	<b>3 842 038</b>	<b>4 259</b>	<b>-</b>	<b>20 608</b>	<b>40 372</b>

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

### Note 2 Revenue

*in thousand kroons*

	2008 9 months	2007 9 months
Rendering of services	2 647 283	3 326 352
Sale of real estate and real estate development projects	900 957	535 132
Rental income	2 124	1 436
Sale of goods	2 002	685
<b>Total revenue</b>	<b>3 552 366</b>	<b>3 863 605</b>

### Note 3 Cost of goods sold

*in thousand kroons*

	2008 9 months	2007 9 months
Materials	309 555	339 336
Construction services	1 814 121	2 373 202
Properties purchased for resale	312 094	191 412
Staff costs	265 171	275 090
Depreciation and impairment charge	15 719	11 686
Design	56 252	66 367
Construction mechanisms and transport	108 272	75 866
Other expenses	83 697	55 453
<b>Total cost of goods sold</b>	<b>2 964 881</b>	<b>3 388 412</b>

#### Note 4 Earnings per share

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

	2008 9 months	2007 9 months
Net profit attributable to shareholders <i>(in thousand kroons)</i>	343 874	358 024
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
<b>Earnings per share <i>(in kroons)</i></b>	<u>19,43</u>	<u>20,23</u>

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

#### Note 5 Cash and cash equivalents *in thousand kroons*

	30.09.2008	31.12.2007
Cash on hand	272	116
Bank accounts	240 976	53 722
Short-term deposits	534 848	151 726
<b>Total cash and bank</b>	<u>776 096</u>	<u>205 564</u>

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

	30.09.2008	31.12.2007
Trade receivables		
accounts receivable	789 449	886 967
allowance for doubtful receivables	(2 089)	(2 111)
	<u>787 360</u>	<u>884 856</u>
Tax prepayments excluding corporate income tax		
value added tax	21 286	38 139
social security tax	6	12
other taxes	219	1
	<u>21 511</u>	<u>38 152</u>
Amounts due from customers for contract works	71 034	151 119
Other short-term receivables		
short-term loans	41 052	41 135
interest receivables	4 703	2 075
receivable from sale of subsidiary	1 000	1 000
other short-term receivables	1 705	2 662
	<u>48 460</u>	<u>46 872</u>
Prepayments for services		
prepayments for construction services	45 136	64 864
prepaid insurance	1 496	2 339
other prepaid expenses	13 557	11 364
	<u>60 189</u>	<u>78 567</u>
<b>Total trade and other receivables</b>	<u>988 554</u>	<u>1 199 566</u>

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
Materials	4 351	3 501
Work-in-progress	983 831	1 209 117
Finished goods	254 955	72 434
Goods for resale		
land purchased for resale	704 857	704 111
other goods purchased for resale	12	13
	<hr/> 704 869	<hr/> 704 124
Prepayments for inventories		
prepayments for real estate properties	33 257	35 653
prepayments for other inventories	1 356	597
	<hr/> 34 613	<hr/> 36 250
<b>Total inventories</b>	<hr/> <b>1 982 619</b>	<hr/> <b>2 025 426</b>

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
Investments in associates and joint ventures	212 780	272 964
Long-term loans	28 964	8 667
Long-term receivable from buyer of subsidiary	2 625	3 625
Long-term receivables from customers of construction services	1 320	2 200
<b>Total long-term financial assets</b>	<hr/> <b>245 689</b>	<hr/> <b>287 456</b>

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
Land	7 645	2 136
Buildings at carrying amount		
cost	9 929	5 600
accumulated depreciation	(558)	(375)
	<hr/> 9 371	<hr/> 5 225
<b>Total investment property</b>	<hr/> <b>17 016</b>	<hr/> <b>7 361</b>



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

	<b>30.09.2008</b>	<b>31.12.2007</b>
Land	10 248	15 943
Buildings at carrying amount		
cost	24 619	24 627
accumulated depreciation	(4 849)	(4 246)
	<u>19 770</u>	<u>20 381</u>
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(102)	(95)
	<u>356</u>	<u>363</u>
Machinery and equipment at carrying amount		
cost	187 023	153 587
accumulated depreciation	(63 385)	(55 100)
	<u>123 638</u>	<u>98 487</u>
Other fixtures at carrying amount		
cost	99 286	64 970
accumulated depreciation	(44 092)	(35 996)
	<u>55 194</u>	<u>28 974</u>
Construction in progress	1 471	36
Prepayments for property, plant and equipment	370	8 728
<b>Total property, plant and equipment</b>	<u>211 047</u>	<u>172 912</u>

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
Software at carrying amount		
cost	15 518	14 443
accumulated depreciation	(5 456)	(3 682)
	<u>10 062</u>	<u>10 761</u>
Prepayments for intangible assets	1 806	1 813
<b>Total intangible assets</b>	<u>11 868</u>	<u>12 574</u>

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
<b>Finance lease payables</b>		
Present value of lease payments	61 627	48 114
incl. current portion	12 860	11 879
non-current portion 2...4 years	48 767	36 235
<b>Loans</b>		
Loan balance	598 713	630 543
incl. current portion	438 230	273 965
non-current portion 2...5 years	160 483	356 578
<b>Loans from parent company</b>		
Loan balance	-	19 035
incl. current portion	-	19 035
<b>Loans from other companies</b>		
Loan balance	129 900	4 900
incl. current portion	127 150	-
non-current portion 2...5 years	2 750	4 900
<b>Total loans</b>		
Loans balance	728 613	654 478
incl. current portion	565 380	293 000
non-current portion 2...5 years	163 233	361 478
<b>Total borrowings</b>		
incl. current portion	790 240	702 592
non-current portion 2...5 years	578 240	304 879
	212 000	397 713

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
Payables to suppliers	500 108	528 857
Payables to employees	66 889	74 892
Tax liabilities, except for corporate income tax		
value added tax	22 605	26 979
personal income tax	9 824	10 720
social security tax	17 293	17 654
land tax	7	46
unemployment insurance tax	317	319
contributions to mandatory funded pension	622	527
other taxes	222	570
	50 890	56 815
Amounts due to customers for contract works	358 637	161 725
Other payables		
interest liabilities	842	465
other payables	108 678	21 503
	109 520	21 968
Advance payments received	140 282	171 235
<b>Total trade and other payables</b>	<b>1 226 326</b>	<b>1 015 492</b>

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

	30.09.2008	31.12.2007
Provision for warranty obligation for construction	14 431	15 625
Provision for onerous construction contracts	17 587	32 512
Provision for potential cancellation of construction projects	1 612	1 934
Provision for legal costs and claims filed	9 937	22 786
Other provisions	-	355
<b>Total short-term provisions</b>	43 567	73 212

**Note 15 Other long-term trade payables**  
*in thousand kroons*

	30.09.2008	31.12.2007
Payables to suppliers	6 882	11 091
Advance payments received	-	46 332
<b>Total other long-term trade payables</b>	6 882	57 423

**Note 16 Related party transactions**

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

- parent company AS Merko Grupp;
- shareholders of AS Merko Grupp with significant influence through AS Merko Grupp;
- other shareholders with significant influence;
- other subsidiaries of AS Merko Grupp, so-called 'entities controlled by the parent company';
- associates and joint ventures;
- key managers and their close relatives;
- entities under control of persons mentioned above.

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

The parent company of AS Merko Ehitus is AS Merko Grupp. As at 30.09.2008 and 31.12.2007, AS Merko Grupp 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*

	2008 9 months	2007 9 months
<b>Purchased construction services</b>		
Associates and joint ventures	27 979	66 329
Entities controlled by the parent company	7 849	6 501
<b>Total purchased construction services</b>	35 828	72 830
<b>Construction services rendered</b>		
Associates and joint ventures	70	23 049
Entities controlled by the parent company	728 276	1 076 340
Management members	4 037	14 948
<b>Total construction services rendered</b>	732 383	1 114 337
<b>Construction materials purchased</b>		
Other related parties	144	242
<b>Real estate sold</b>		
Entities controlled by the parent company	142 907	-

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

	<b>30.09.2008</b>	<b>31.12.2007</b>
<b>Trade and other receivables</b>		
Trade receivables		
Associates and joint ventures	10	16 046
Entities controlled by the parent company	208 727	182 802
Management members	1 893	-
Short-term loans		
Associates and joint ventures	7 000	7 000
Entities controlled by the parent company	4 166	4 236
Interest receivables		
Associates and joint ventures	1 491	649
Other short-term receivables		
Other related parties	-	2
<b>Other long-term loans and receivables</b>		
Long-term loans		
Associates and joint ventures	26 070	5 725
Entities controlled by the parent company	2 894	2 942
<b>Borrowings</b>		
Short-term loans and bonds		
Parent company	-	19 035
Entities controlled by the parent company	125 001	-
Other related parties	2 150	-
<b>Trade and other payables</b>		
Payables to suppliers		
Associates and joint ventures	1 242	11 098
Entities controlled by the parent company	798	326
Interest liabilities		
Parent company	-	272
Entities controlled by the parent company	625	-
Other short-term liabilities		
Entities controlled by the parent company	100 000	-
Prepayments received		
Entities controlled by the parent company	12 869	16 094

## Note 17 Contingent liabilities

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

<i>in thousand kroons</i>	<b>30.09.2008</b>	<b>31.12.2007</b>
Performance period's warranty to the customer	270 207	309 904
Tender warranty	29 400	23 761
Guarantee warranty period	113 136	55 500
Prepayment guarantee	74 467	68 756
Sureties	60 669	9 999
Payment guarantee	2 266	5 176
Letter of credit	-	11 218
<b>Total contingent liabilities</b>	<b>550 145</b>	<b>484 314</b>

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

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

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

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

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

## MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 9 months interim report 2008 as presented on pages 3 to 21.

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 9 months period ending 30.09.2008 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 2007.

Tiit Roben	Chairman of the Board		21.11.2008
Alar Lagus	Member of the Board		21.11.2008
Veljo Viitmann	Member of the Board		21.11.2008
Andres Agukas	Member of the Board		21.11.2008
Tõnu Korts	Member of the Board		21.11.2008