



## AS MERKO EHITUS GROUP

### 2010 9 months and III 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 – 30.09.2010

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

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

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.

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.

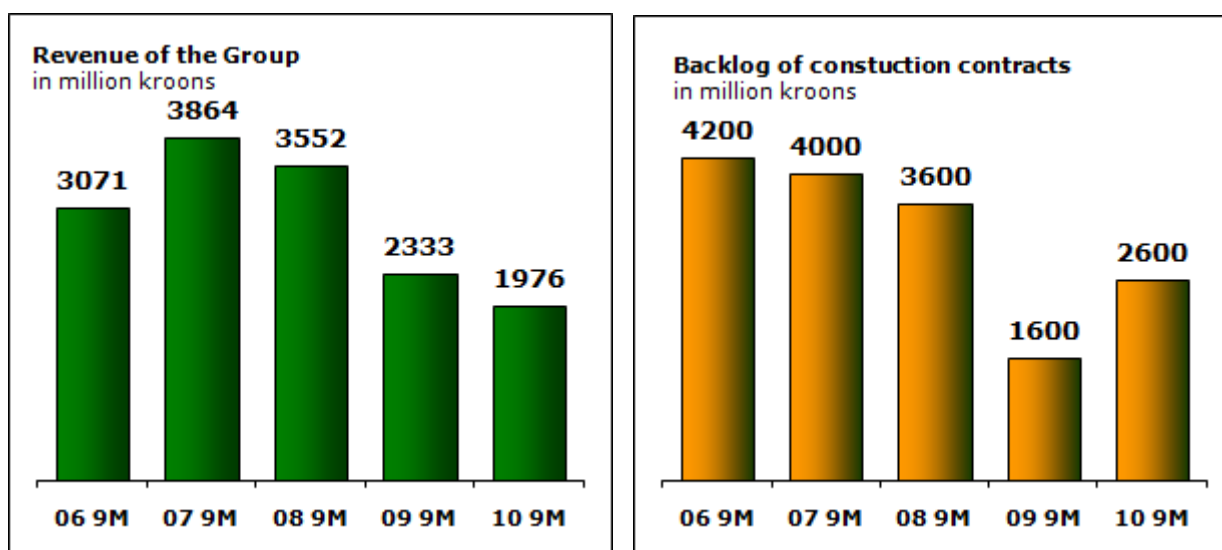
## Operating results

Group's revenue for the year 2010 9 months was EEK 1975.7 million. 72.2% of the sales originated from Estonia, 25.4% from Latvia and 2.4% from Lithuania. As compared to with the 2009 9 months, Group's sales decreased by 15.5% incl. by 14.5% in Estonia, by 17.2% in Latvia and by 20.3% in Lithuania.

Group's revenue for the III quarter 2010 was EEK 867.1 million, which constitutes an annual decrease of EEK 18.4 million.

In 2010, the company has successfully increased the portfolio of its construction works. 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. This project is a long-term real estate investment for the group the construction activities of which will neither be seen in the figures reflecting the group's construction revenue nor in the portfolio of backlog of construction contracts. The largest construction contracts concluded in 2010 have been the construction of the E20 Loo-Maardu road section (EEK 288.8 million), construction of the Iru Waste energy block (EEK 197.9 million) and the contract concluded after the balance sheet date for 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 (EEK 207.7 million) and renovation of the common water supply of the Kohtla-Järve area (EEK 121.9 million).

As of 30 September 2010, the Group's backlog of construction contracts in progress amounted to EEK 2.6 billion.



The Group's apartment sales during the period were good, considering the market situation. In 2010 9 months, the Group sold 175 apartments in total cost of EEK 205.1 million (without VAT). As of 30.09.2010 Group held in inventories unsold 121 completed apartments in total cost EEK 139.0 million and 316 apartments in the construction

stage in total cost EEK 178.2 million. In the III quarter of 2010, Merko Ehitus started constructing a new apartment building with 110 apartments in Tallinn at Tartu mnt 50. 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 and the construction works of the objects are planned to be completed in the I quarter of the year 2011.

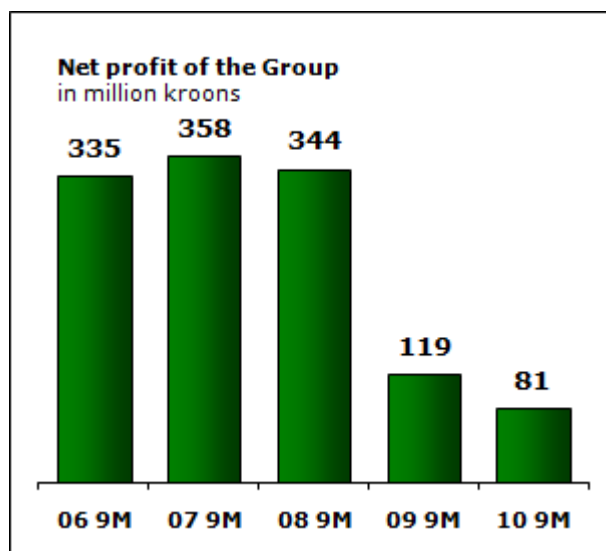
The consolidated revenue of the Group's most important companies

<i>in thousand EEK and EUR</i>				
	<b>9 months 2010</b>		<b>9 months 2009</b>	
	EEK	EUR	EEK	EUR
<b>Estonian companies</b>				
AS Merko Ehitus (parent company)	1 051 357	67 194	1 263 801	80 772
AS Gustaf (75% partnership)	27 862	1 781	39 942	2 553
OÜ Gustaf Tallinn (80% partnership)	37 697	2 409	47 136	3 013
AS Merko Tartu (66% partnership)	26 898	1 719	61 730	3 945
Tallinna Teede AS (100% partnership)	249 806	15 965	216 760	13 854
Woody OÜ (100% partnership)	23 682	1 514	24 988	1 597
<b>Latvian company</b>				
SIA Merks (100% partnership)	501 724	32 066	605 853	38 721
<b>Lithuanian company</b>				
UAB Merko Statyba (100% partnership)	47 347	3 026	58 380	3 731

In one year, the Group's cost of goods sold decreased by 13.8% and marketing and general administrative expenses by 18.1%. As compared to the first six months of the year, the share of marketing and general administrative expenses in revenues decreased. The economizing measures taken to reduce costs helped to decrease marketing and administrative expenses, with the EEK 7.0 million decrease in labour costs, EEK 7.1 million decrease in office expenses and communication services and EEK 5.1 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 EEK 3.6 million, which is largely due to legal disputes related to procurement proceedings.

Group's earnings before taxes in 2010 9 months were EEK 91.9 million, which means a decrease by EEK 39.3 million compared to 2009 9 months. The net profit in the period was EEK 81.4 million; representing an EEK 37.5 million or 31.6% decrease. Revaluating the previously discounted real estate to the level of today's transaction formed EEK 1.3 million. The fall in profits was affected by revenue, the reduced profitability of the construction and property development sectors. The cyclical nature of the development activity was insignificant.

In 2010 9 months Group's change in short-term investments and pecuniary means amounted to EEK -431.7 million and as of 30 September 2010, the Group had EEK 331.1 million of funds on the Group's bank accounts and deposits. Group's cash flows from operating activities were EEK -39.0 million, from investment activities EEK -62.8 million and from financing activities EEK -329.9 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 EEK +181.7 million, change in receivables and liabilities related to construction contracts recognised under the stage of completion method EEK -300.5 million and operating profit EEK +96.1 million. From investment activities cash flows balance of



granted/received loans totalled EEK -48.2 million and purchase of property, plant and equipment totalled EEK -10.0 million. Of the cash flow from financing activities, EEK -194.7 million was used to dividend payment, EEK -146.4 million for loan repayments and EEK -17.9 million for finance lease principal payments.

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

	9 months 2010	9 months 2009	9 months 2008
Net profit margin	4,1 %	5,1 %	9,7 %
Profit before taxes margin	4,7 %	5,6 %	11,2 %
Operating profit margin	4,9 %	5,7 %	11,3 %
Gross profit margin	10,3 %	11,9 %	16,5 %
EBITDA margin	6,3 %	6,6 %	11,9 %
Return on equity per annum	5,2 %	7,5 %	22,2 %
Return on assets per annum	3,2 %	4,2 %	11,2 %
Equity ratio	61,2 %	58,1 %	50,0 %
Current ratio	2,6	2,4	2,0
Quick ratio	1,2	1,2	0,9
General expense ratio	6,2 %	6,4 %	5,2 %
Gross remuneration ratio	9,2 %	9,3 %	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:  $\text{Net profit}^* \times 4/3 / \text{Average equity during the period}^*$

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

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

Q3 2010 vs. Q3 2009

Estonia +4,7%

Latvia +2,7%

Lithuania +0,6%

### Construction price index, at constant prices

Q3 2010 vs. Q3 2009

Estonia -0,9% incl. labour force -3,3%

Latvia -1,2% incl. labour force +4,1%

Lithuania -1,9% incl. labour force 0,0%

The third quarter of the year 2010 did not bring any alleviation to the building sector, the market was characterised by the weak demand characteristic of the first half of the year, and tight competition on the offer side, additionally decrease in the volumes continued (II quarter 2010 vs. II quarter 2009 in Estonia -21.4%, in Latvia -35.4% and Lithuania -20.9%, at current rates). Most of the new construction projects are started in the area of infrastructure and environmental facilities financed by the public sector and structural funds of the European Union. At the same time, increase in the interests of the foreign investors in registered immovables and projects with rent flow can be noticed. Companies founded by banks for developing and managing unsuccessful real estate projects are actively operating in the real estate sector and in many ways thanks to the latter, the prices of housing and registered immovables have stabilised.

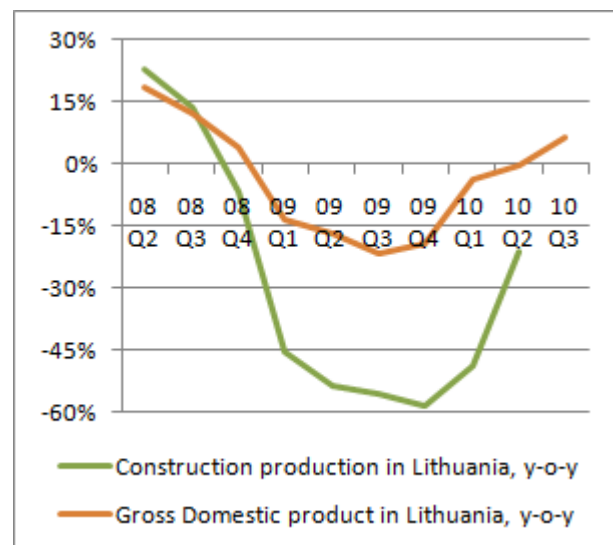
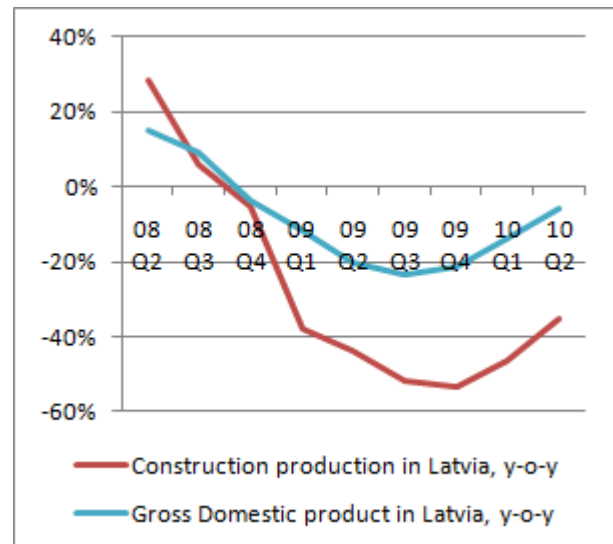
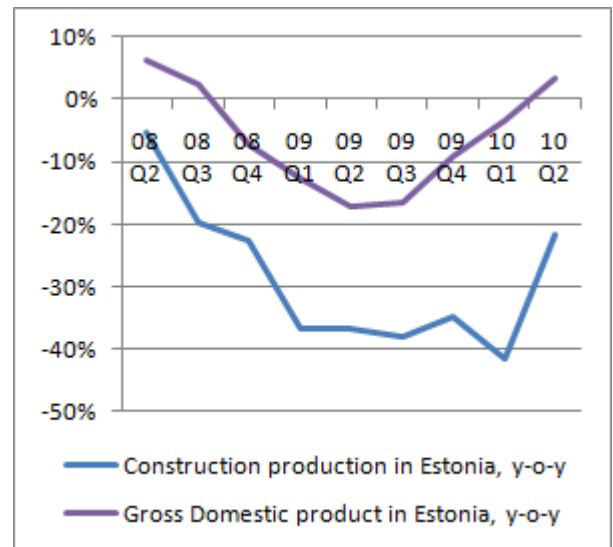
Due to the improvement in the global demand, the prices of the construction materials based on metal, cement and petrochemicals as well as prices of labour and machinery have increased during the last 9 months. String demand in Central Europe and Scandinavia has made the labour force move again, resulting in intense convergence of prices. We can say with certainty that the construction prices have passed the bottom now and the 10-15% increase in prices during the last nine months is still not sufficient to achieve a balance point. High volatility of the prices makes

budgeting of the new projects very complicated and brings along additional risk of performing construction projects with fixed prices and price pressure on profitability of projects.

The construction services market is still characterised by tight competition, the margins for covering costs and risks are minimal and the price offers are generally bordering net cost. As compared to the first half of the year, the number of low bids and aggressiveness of the market participant has clearly decreased. This is conditioned by the increase of the input prices, which have turned to rise in the year 2010. Attitude of the clients and suppliers who won tenders with low bids has become more aware, bigger guarantees as well as substantial explanations on the biddings made are requested from the bidders. Many of the companies who won tenders with low bids in the year 2009 have ended their activities by now or are about to do so.

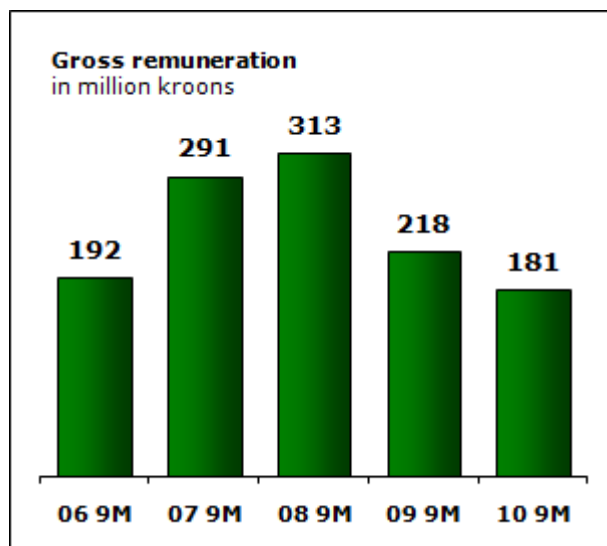
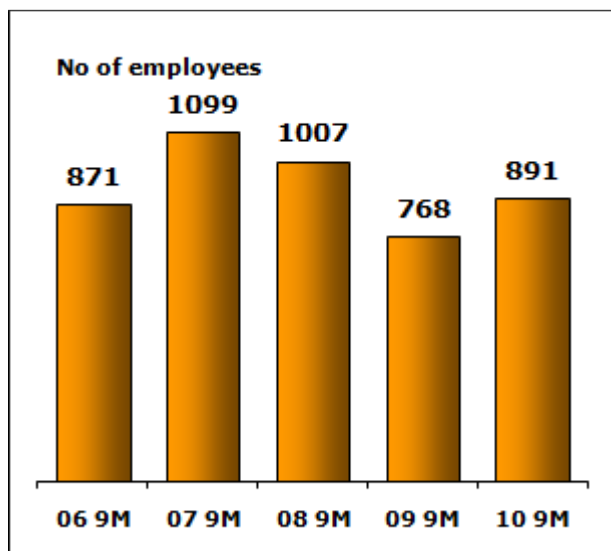
The year 2010 has shown signs of recovery in the housing market in Estonia and Latvia, the number of transactions as well as the average prices have increased. The increasing price level of housing and signs of stabilisation in the economic environment have made people, who have been postponing buying a home for a long time, more active. The improved financing environment, including the decreased self-financing rate and interest margin for final consumers has facilitated the improvement of the outlook. Temporary sales success in the housing sector has encouraged many developers to review their frozen projects and formalise new business plans and loan applications. Some developers who depend less on the financing environment, including Merko Ehitus, have started with new small-scale development projects. Regardless of the budding optimism in the ranks of the developers, the volume of new development projects will remain modest in the nearest future and therefore decreased in the housing offers can be expected. Due to decrease in the offers and increase in the construction prices, we predict a certain increase of the housing prices during the next 12 months.

With the restoration of the sense of security of consumers, consumption will be activated in 2011 and the market of commercial premises will be stabilised. The developers will gain new courage to carry out the postponed improvements and expansions in the existing centres. There is no reason to expect arrival of new large-scale office and commercial premises to the market – interest of the financial institutions in funding new long-term development projects continues to be low, price of the money high and the preconditions for opening the loan funds unrealistic.



## Employees and remuneration

In 30.09.2010, the number of employees in the Group's service was 891, including 846 full-time employees. The Group increased the number of its personnel by 16.0% or 123 employees in a year. The gross remuneration paid to employees in 2010 9 months amounted to EEK 181.5 million a decrease of 16.6% 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.



## Shares and shareholders

### Share information

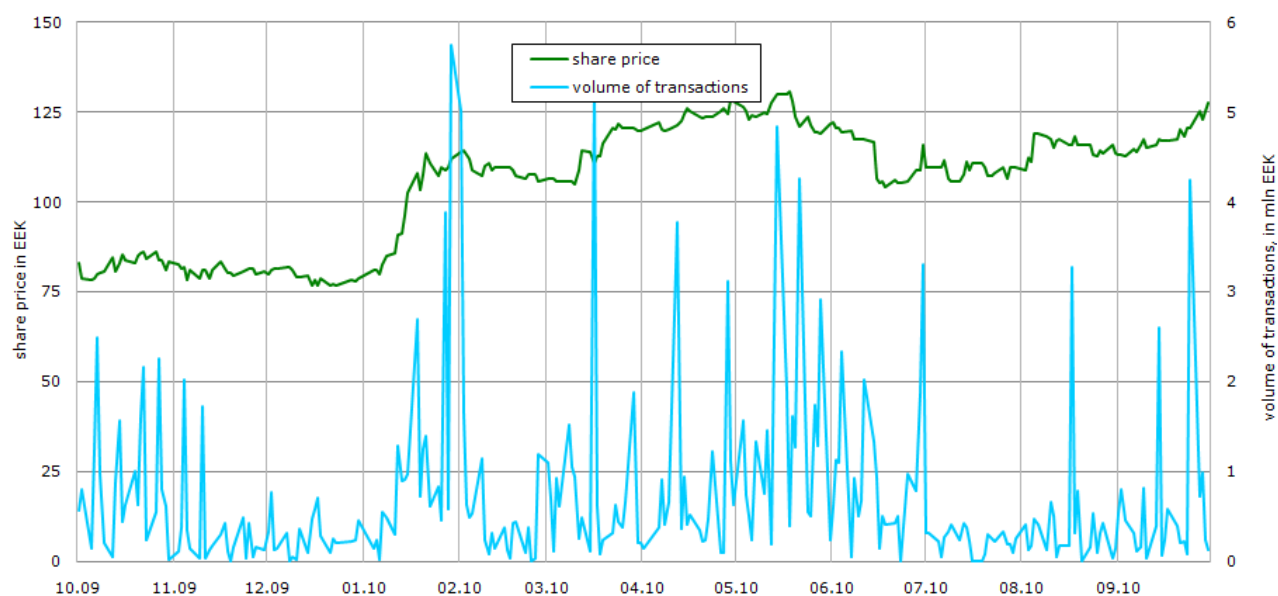
ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	10.00 EEK
Total no of securities issued	17 700 000
No of listed securities	17 700 000
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the main list of NASDAQ OMX Tallinn Stock Exchange. In 2010 9 months 3385 transactions with the shares of Merko Ehitus were performed in the course of which 1.3 million shares were traded and the total monetary value of transactions was EEK 149.3 million. The lowest share price was EEK 79.02 and the highest price was EEK 135.7 per share. The closing share price as of 30.09.2010 was EEK 127.5. AS Merko Ehitus market value as of 30.09.2010 was EEK 2.26 billion.

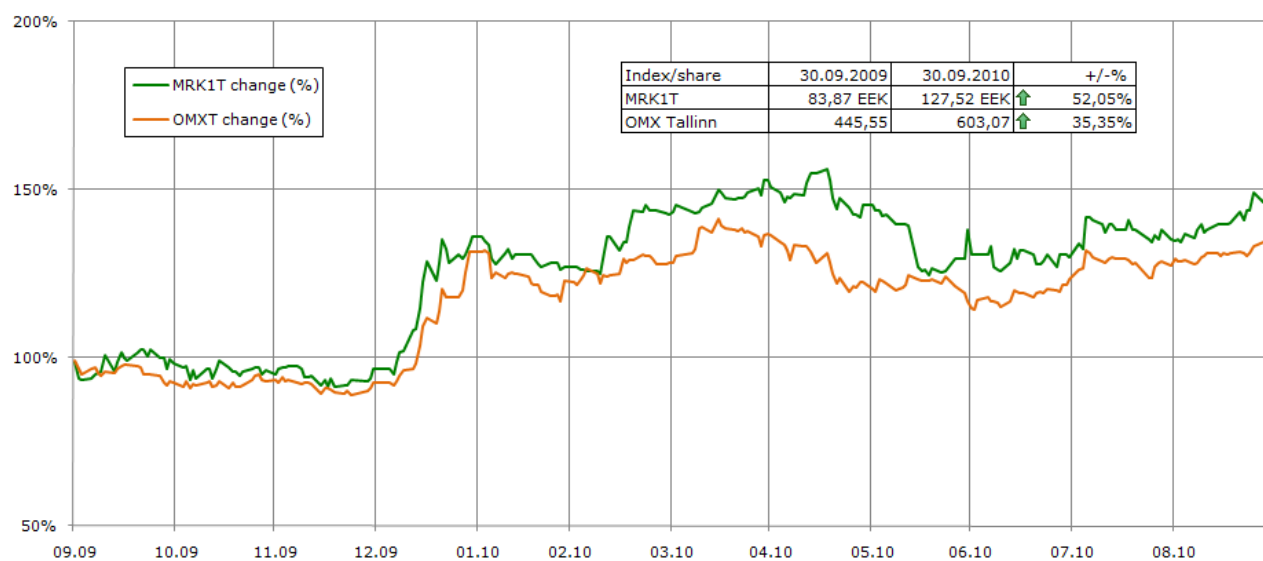
	30.09.2010	30.09.2009	30.09.2008
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in kroons	4,60	6,72	19,43
Equity per share, in kroons	113,79	120,39	119,66
P/B (share price to equity per share)	1,12	0,70	0,78



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)



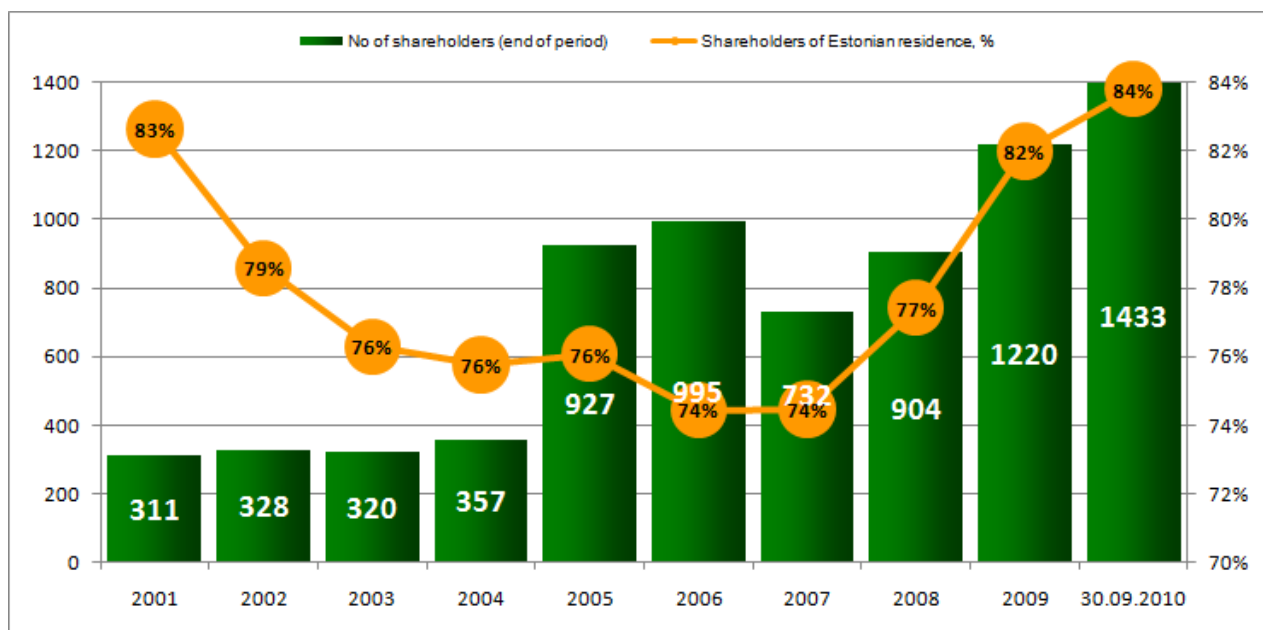
Structure of shareholders as of 30.09.2010

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	379	26,45%	20 760	0,12%
101-1000	698	48,71%	307 966	1,74%
1001-10 000	310	21,63%	906 572	5,12%
10 001 – 100 000	36	2,51%	1 092 922	6,18%
100 001 – 1 000 000	9	0,63%	2 629 094	14,85%
1 000 001 - ...	1	0,07%	12 742 686	71,99%
Total	1433	100%	17 700 000	100%

The main shareholders of AS Merko Ehitus as of 30.09.2010

	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	784 542	4,43%
State Street Bank and Trust Omnibus Account a Fund No OM01	201 382	1,14%
SEB Elu- ja Pensionikindlustus AS	125 520	0,71%
Nordea Bank Finland Plc/Non-resident legal entities	123 065	0,70%
Arvo Nõges	115 520	0,65%
AS Midas Invest	108 240	0,61%
Clearstream Banking Luxembourg S.A. clients	105 239	0,59%
Skandinaviska Enskilda Banken Finnish, clients	102 210	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 30.09.2010

		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 30.09.2010

		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%

# STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

		EEK		EUR	
	note	2010 9 months	2009 9 months	2010 9 months	2009 9 months
Revenue	1,2	1 975 684	2 333 379	126 269	149 130
Cost of goods sold	3	(1 771 359)	(2 055 731)	(113 210)	(131 385)
<b>Gross profit</b>		204 325	277 648	13 059	17 745
Marketing expenses		(23 075)	(32 965)	(1 475)	(2 107)
Administrative and general expenses		(100 062)	(108 629)	(6 395)	(6 943)
Other operating income		19 029	10 101	1 216	646
Other operating expenses		(4 078)	(12 586)	(261)	(805)
<b>Operating profit</b>		96 139	133 569	6 144	8 536
Financial income and expenses		(4 228)	(2 312)	(270)	(148)
incl. financial income (expenses) from investments into associates and joint ventures		(3 125)	(8 044)	(200)	(515)
interest expense		(10 301)	(19 123)	(658)	(1 222)
foreign exchange gain		1 499	1 265	96	81
other financial income and expenses		7 699	23 590	492	1 508
<b>Profit before tax</b>		91 911	131 257	5 874	8 388
Corporate income tax expense		(11 490)	(12 662)	(734)	(809)
<b>Net profit for current period</b>		80 421	118 595	5 140	7 579
incl. equity holders of the parent		81 370	118 902	5 201	7 599
minority interest		(949)	(307)	(61)	(20)
<b>Other comprehensive income</b>					
Exchange differences on translating foreign subsidiaries		568	(1 032)	36	(66)
<b>Comprehensive income</b>		80 989	117 563	5 176	7 513
incl. equity holders of the parent		81 938	117 870	5 237	7 533
minority interest		(949)	(307)	(61)	(20)
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	4	4,60	6,72	0,29	0,43

# STATEMENT OF COMPREHENSIVE INCOME

consolidated, unaudited

	EEK		EUR	
	2010 III quarter	2009 III quarter	2010 III quarter	2009 III quarter
Revenue	867 061	885 492	55 415	56 593
Cost of goods sold	(794 914)	(775 170)	(50 804)	(49 542)
<b>Gross profit</b>	72 147	110 322	4 611	7 051
Marketing expenses	(7 460)	(12 830)	(477)	(820)
Administrative and general expenses	(34 899)	(40 867)	(2 230)	(2 612)
Other operating income	3 160	3 141	202	201
Other operating expenses	(1 061)	(2 128)	(68)	(137)
<b>Operating profit</b>	31 887	57 638	2 038	3 683
Financial income and expenses	(1 100)	(4 309)	(70)	(276)
incl. financial income (expenses) from invest- ments into associates and joint ventures	1 312	(2 080)	84	(134)
interest expense	(3 884)	(4 440)	(248)	(284)
foreign exchange gain	13	(2 619)	1	(167)
other financial income and expenses	1 459	4 830	93	309
<b>Profit before tax</b>	30 787	53 329	1 968	3 407
Corporate income tax expense	(1 959)	(7 724)	(124)	(493)
<b>Net profit for current period</b>	28 828	45 605	1 844	2 914
incl. equity holders of the parent	29 461	45 711	1 883	2 921
minority interest	(633)	(106)	(39)	(7)
<b>Other comprehensive income</b>				
Exchange differences on translating foreign subsidiaries	(434)	(4 962)	(28)	(317)
<b>Comprehensive income</b>	28 394	40 643	1 816	2 597
incl. equity holders of the parent	29 027	40 749	1 855	2 604
minority interest	(633)	(106)	(39)	(7)
Earnings per share for profit attributable to the equity holders of the parent (basic and diluted, in EEK and EUR)	1,66	2,58	0,11	0,17

# STATEMENT OF FINANCIAL POSITION

consolidated, unaudited

		EEK		EUR	
	note	30.09.2010	31.12.2009	30.09.2010	31.12.2009
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	213 698	359 732	13 658	22 991
Short-term deposits		117 355	400 916	7 500	25 623
Trade and other receivables	6	884 191	661 954	56 509	42 306
Prepaid corporate income tax		20 051	3 885	1 281	248
Inventories	7	1 457 840	1 536 463	93 173	98 199
<b>Total current assets</b>		<b>2 693 135</b>	<b>2 962 950</b>	<b>172 121</b>	<b>189 367</b>
<b>Non-current assets</b>					
Long-term financial investments	8	242 137	211 889	15 475	13 542
Deferred income tax assets		25 457	32 069	1 627	2 050
Investment property	9	24 443	16 552	1 562	1 058
Property, plant and equipment	10	282 428	266 276	18 051	17 018
Intangible assets	11	23 107	24 238	1 477	1 549
<b>Total non-current assets</b>		<b>597 572</b>	<b>551 024</b>	<b>38 192</b>	<b>35 217</b>
<b>TOTAL ASSETS</b>		<b>3 290 707</b>	<b>3 513 974</b>	<b>210 313</b>	<b>224 584</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Borrowings	12	217 740	447 569	13 916	28 605
Trade and other payables	13	758 334	782 470	48 466	50 009
Corporate income tax liability		-	5 249	-	335
Short-term provisions	14	60 259	37 702	3 851	2 410
<b>Total current liabilities</b>		<b>1 036 333</b>	<b>1 272 990</b>	<b>66 233</b>	<b>81 359</b>
<b>Non-current liabilities</b>					
Long-term borrowings	12	205 693	76 316	13 146	4 878
Long-term trade payables		10 523	10 653	673	681
Long-term customer prepayments		7	5	0	0
<b>Total non-current liabilities</b>		<b>216 223</b>	<b>86 974</b>	<b>13 819</b>	<b>5 559</b>
<b>Total liabilities</b>		<b>1 252 556</b>	<b>1 359 964</b>	<b>80 052</b>	<b>86 918</b>
<b>Equity</b>					
Minority interests		24 032	27 129	1 536	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		(14 248)	(14 816)	(911)	(947)
Retained earnings		1 833 667	1 946 997	117 193	124 436
Total equity attributable to equity holders of parent		<b>2 014 119</b>	<b>2 126 881</b>	<b>128 725</b>	<b>135 932</b>
<b>Total equity</b>		<b>2 038 151</b>	<b>2 154 010</b>	<b>130 261</b>	<b>137 666</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3 290 707</b>	<b>3 513 974</b>	<b>210 313</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	-	-	(1 032)	118 902	117 870	(307)	117 563
Dividends	-	-	-	(61 950)	(61 950)	(2 700)	(64 650)
<b>Balance as of 30.09.2009</b>	177 000	17 700	(13 582)	1 949 733	2 130 851	31 626	2 162 477
<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	-	-	568	81 370	81 938	(949)	80 989
Purchase of minority interest	-	-	-	-	-	(2 148)	(2 148)
Dividends	-	-	-	(194 700)	(194 700)	-	(194 700)
<b>Balance as of 30.09.2010</b>	177 000	17 700	(14 248)	1 833 667	2 014 119	24 032	2 038 151

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	-	-	(66)	7 599	7 533	(20)	7 513
Dividends	-	-	-	(3 959)	(3 959)	(172)	(4 131)
<b>Balance as of 30. 09.2009</b>	11 312	1 131	(868)	124 611	136 186	2 021	138 207
<b>Balance as of 31.12.2009</b>	11 312	1 131	(947)	124 436	135 932	1 734	137 666
Comprehensive income	-	-	36	5 201	5 237	(61)	5 176
Purchase of minority interest	-	-	-	-	-	(138)	(138)
Dividends	-	-	-	(12 444)	(12 444)	-	(12 444)
<b>Balance as of 30.09.2010</b>	11 312	1 131	(911)	117 193	128 725	1 536	130 261

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
	9 months	9 months	9 months	9 months
<b>Cash flows from operating activities</b>				
Operating profit	96 139	133 569	6 144	8 536
Adjustments:				
depreciation and impairment charge	28 071	20 400	1 794	1 304
(profit) loss from sale of non-current assets	(414)	(563)	(26)	(36)
adjustments of revenue from construction contracts under stage of completion method	(300 500)	20 077	(19 205)	1 283
interest income from business activities	(7 145)	(3 359)	(457)	(215)
change in provisions	10 723	(16 754)	685	(1 071)
Change in trade/other receivables related to oper. activities	(92 960)	23 180	(5 941)	1 481
Change in inventories	78 960	239 511	5 046	15 309
Change in trade and other payables related to operating activities	181 658	(148 377)	11 610	(9 483)
Interests paid	(10 108)	(23 542)	(646)	(1 505)
Other financial expenses (income)	(32)	(55)	(2)	(4)
Corporate income tax paid	(23 384)	(19 993)	(1 495)	(1 278)
<b>Total cash flows from operating activities</b>	<b>(38 992)</b>	<b>224 094</b>	<b>(2 493)</b>	<b>14 321</b>
<b>Cash flows from investing activities</b>				
Investment in subsidiaries	(1 110)	-	(71)	-
Proceeds from sale of subsidiaries	-	1 125	-	72
Investments in associates and joint ventures	(20)	-	(1)	-
Proceeds from sale of associates and joint ventures	24	-	2	-
Purchase of other financial investments	(153 648)	(460 110)	(9 820)	(29 407)
incl purchase of deposits with maturities great. than 3 m	(148 648)	(460 110)	(9 500)	(29 407)
Inflow of deposits with maturities greater than 3 months	432 209	458 707	27 623	29 317
Purchase of investment property	(8 389)	-	(536)	-
Proceeds from sale of investment property	-	1 250	-	80
Purchase of property, plant and equipment	(10 028)	(12 650)	(641)	(808)
Proceeds from sale of property, plant and equipment	2 755	634	176	41
Purchase of intangible assets	(360)	(905)	(23)	(58)
Proceeds from sale of intangible assets	-	134	-	9
Loans granted	(90 426)	(65 889)	(5 779)	(4 211)
Loan repayments received	42 228	43 330	2 699	2 769
Interest received	7 303	24 663	467	1 576
Dividends received	220	-	14	-
<b>Total cash flows from investing activities</b>	<b>220 758</b>	<b>(9 711)</b>	<b>14 110</b>	<b>(620)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	29 067	55 731	1 858	3 562
Repayments of borrowings	(146 393)	(222 799)	(9 356)	(14 239)
Finance lease principal payments	(17 920)	(12 965)	(1 145)	(829)
Dividends paid	(194 700)	(64 650)	(12 444)	(4 131)
<b>Total cash flows from financing activities</b>	<b>(329 946)</b>	<b>(244 683)</b>	<b>(21 087)</b>	<b>(15 637)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(148 180)</b>	<b>(30 300)</b>	<b>(9 470)</b>	<b>(1 936)</b>
Change of deposits with maturities greater than 3 months	(283 561)	1 403	(18 123)	90
Total change	(431 741)	(28 897)	(27 593)	(1 846)
<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>2 146</b>	<b>569</b>	<b>137</b>	<b>36</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>213 698</b>	<b>485 460</b>	<b>13 658</b>	<b>31 027</b>
Deposits with maturit. greater than 3m at the end of per.	117 355	264 162	7 500	16 883
Total at the end of the period	331 053	749 622	21 158	47 910

## 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 9 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	801 391	721 026	420 087	281 732	20 512	2 244 748
Inter-segment revenue	(78 872)	(92 210)	(43 894)	(40 612)	(13 476)	(269 064)
Revenue from external clients	722 519	628 816	376 193	241 120	7 036	1 975 684
Depreciation and impairment charge	(1 356)	(7 613)	(11 979)	(367)	(978)	(22 293)
Profit (loss) from associates and joint ventures	-	(2)	-	(1 090)	(2 033)	(3 125)
Other finance income/expenses	-	(21)	-	(394)	(232)	(647)
Profit before tax	90 070	78 381	1 339	38 263	1 493	209 546
Segment assets at 30.09.2010	265 524	258 005	385 389	1 664 573	131 730	2 705 221

<b>2009 9 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	1 311 103	699 023	359 404	270 304	26 592	2 666 426
Inter-segment revenue	(181 373)	(8 461)	(130 015)	(10 747)	(2 451)	(333 047)
Revenue from external clients incl. client, whose revenue is at least 10% from consolidated revenue	1 129 730	690 562	229 389	259 557	24 141	2 333 379
Depreciation and impairment charge	(2 079)	(1 892)	(8 448)	(142)	(2 367)	(14 928)
Profit (loss) from associates and joint ventures	-	-	-	(1 129)	(6 915)	(8 044)
Other finance income/expenses	(2)	(630)	(677)	(1 979)	(47)	(3 335)
Profit before tax	192 582	79 225	31 752	(47 362)	11 636	267 833
Segment assets at 30.09.2009	304 010	293 982	190 592	1 651 388	57 292	2 497 264

In addition to the segment assets the group holds assets of EEK 585 486 thousand as of 30.09.2010 (30.09.2009: EEK 1 170 759 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 9 months	2009 9 months
Profit (loss) from reporting segments	209 546	267 833
Unallocated expense (income)		
marketing expenses	(23 075)	(32 965)
administrative expenses	(100 062)	(108 629)
other operating income (expense)	5 958	(4 049)
financial income (expense)	(456)	9 067
incl. interest income	7 674	24 151
interest expense	(9 650)	(16 023)
<b>Profit before tax</b>	<b>91 911</b>	<b>131 257</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 9 months	2009 9 months
Estonia	1 425 952	1 667 305
Latvia	501 724	605 853
Lithuania	48 008	60 221
<b>Total</b>	<b>1 975 684</b>	<b>2 333 379</b>

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

	30.09.2010	30.09.2009
Estonia	308 930	196 309
Latvia	12 496	17 131
Lithuania	8 552	860
<b>Total</b>	<b>329 978</b>	<b>214 300</b>

**Note 2 Revenue**

*in thousand kroons*

	2010 9 months	2009 9 months
Rendering of services	1 734 777	2 066 494
Sale of real estate and real estate development projects	233 725	258 594
Rental income	4 893	1 736
Sale of goods	2 289	6 555
<b>Total revenue</b>	<b>1 975 684</b>	<b>2 333 379</b>

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

	2010 9 months	2009 9 months
Construction services	886 732	1 136 406
Materials	362 096	338 368
Properties purchased for resale	142 202	210 111
Staff costs	163 653	190 434
Construction mechanisms and transport	93 371	73 315
Design	15 273	22 474
Administrative expenses of real estate	3 356	2 898
Depreciation and impairment charge	22 293	14 928
Other expenses	82 383	66 797
<b>Total cost of goods sold</b>	<b>1 771 359</b>	<b>2 055 731</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.

	2010 9 months	2009 9 months
Net profit attributable to shareholders <i>(in thousands of kroons)</i>	81 370	118 902
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
<b>Earnings per share <i>(in kroons)</i></b>	<b>4,60</b>	<b>6,72</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*

	30.09.2010	31.12.2009
Cash on hand	149	270
Bank accounts	82 989	40 787
Overnight deposits	130 560	93 961
Term deposits with maturities of 3 months and less	-	224 714
<b>Total cash and cash equivalents</b>	<b>213 698</b>	<b>359 732</b>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Trade receivables		
accounts receivable	475 521	405 030
allowance for doubtful receivables	(19 516)	(19 921)
	<u>456 005</u>	<u>385 109</u>
Tax prepayments excluding corporate income tax		
value added tax	14 677	7 823
social security tax	8	7
other taxes	238	922
	<u>14 923</u>	<u>8 752</u>
Amounts due from customers for contract works	208 231	102 144
Other short-term receivables		
short-term loans	137 118	96 874
interest receivables	17 098	13 524
receivable from buyer of subsidiary	7 100	7 125
other short-term receivables	3 981	2 253
	<u>165 297</u>	<u>119 776</u>
Prepayments for services		
prepayments for construction services	28 629	38 197
prepaid insurance	4 049	1 764
other prepaid expenses	7 057	6 212
	<u>39 735</u>	<u>46 173</u>
<b>Total trade and other receivables</b>	<u>884 191</u>	<u>661 954</u>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Raw materials and materials	12 704	6 752
Work-in-progress	462 186	470 428
Finished goods	174 107	268 242
Goods for resale		
registered immovables purchased for resale	698 605	686 543
other goods purchased for resale	18 554	2 543
	<u>717 159</u>	<u>689 086</u>
Prepayments for inventories		
prepayments for real estate properties	89 420	87 192
prepayments for other inventories	2 264	14 763
	<u>91 684</u>	<u>101 955</u>
<b>Total inventories</b>	<u>1 457 840</u>	<u>1 536 463</u>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Investments in associates and joint ventures	176 106	179 421
Long-term loans	34 815	21 785
Long-term bank deposit	9 992	2 809
Long-term receivable from buyer of subsidiary	-	1 375
Long-term receivables from customers of construction services	21 224	6 499
<b>Total long-term financial assets</b>	<b>242 137</b>	<b>211 889</b>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Land	2 098	2 098
Buildings at carrying amount		
cost	15 650	15 650
accumulated depreciation	(1 695)	(1 196)
	<b>13 955</b>	<b>14 454</b>
Construction in progress	8 390	-
<b>Total investment property</b>	<b>24 443</b>	<b>16 552</b>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Land	12 905	12 905
Buildings at carrying amount		
cost	89 868	89 030
accumulated depreciation	(14 117)	(11 111)
	<b>75 751</b>	<b>77 919</b>
Right of superficies at carrying amount		
cost	458	458
accumulated depreciation	(120)	(113)
	<b>338</b>	<b>345</b>
Machinery and equipment at carrying amount		
cost	293 815	236 939
accumulated depreciation	(137 509)	(100 774)
	<b>156 306</b>	<b>136 165</b>
Other fixtures at carrying amount		
cost	77 816	78 588
accumulated depreciation	(42 082)	(40 512)
	<b>35 734</b>	<b>38 076</b>
Construction in progress	1 302	866
Prepayments for property, plant and equipment	92	-
<b>Total property, plant and equipment</b>	<b>282 428</b>	<b>266 276</b>

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

	30.09.2010	31.12.2009
Goodwill	13 939	13 939
Software at carrying amount		
cost	17 706	17 346
accumulated depreciation	(9 900)	(8 409)
	<u>7 806</u>	<u>8 937</u>
Prepayments for intangible assets	1 362	1 362
<b>Total intangible assets</b>	<u>23 107</u>	<u>24 238</u>

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

	30.09.2010	31.12.2009
<b>Finance lease payables</b>		
Present value of lease payments	<u>64 599</u>	<u>47 934</u>
incl. current portion	18 157	16 170
non-current portion 1...4 years	46 442	31 764
<b>Bank loans</b>		
Loan balance	<u>244 580</u>	<u>361 697</u>
incl. current portion	88 079	319 895
non-current portion 1...5 years	156 501	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>358 834</u>	<u>475 951</u>
incl. current portion	199 583	431 399
non-current portion 1...5 years	159 251	44 552
<b>Total borrowings</b>	<u>423 433</u>	<u>523 885</u>
incl. current portion	217 740	447 569
non-current portion 1...5 years	205 693	76 316

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Trade payables	352 782	223 149
Payables to employees	43 750	55 364
Tax liabilities, except for corporate income tax		
value added tax	12 990	22 625
personal income tax	6 083	6 783
social security tax	11 630	13 045
land tax	642	80
unemployment insurance tax	1 123	1 171
contributions to mandatory funded pension	234	107
other taxes	241	604
	<u>32 943</u>	<u>44 415</u>
Amounts due to customers for contract works	121 759	316 095
Other liabilities		
interest liabilities	1 617	1 105
payable for registered immovables from demerger	100 000	100 000
other liabilities	1 859	4 274
	<u>103 476</u>	<u>105 379</u>
Prepayments received	103 624	38 068
<b>Total trade and other payables</b>	<u>758 334</u>	<u>782 470</u>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
Provision for warranty obligation for construction	14 739	18 518
Provision for onerous construction contracts	41 937	4 035
Provision for completion of construction projects	583	208
Provision for legal costs and claims filed	3 000	14 492
Other provisions	-	449
<b>Total short-term provisions</b>	<u>60 259</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 30.09.2010 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 9 months	2009 9 months
<b>Purchased construction services</b>		
Associates and joint ventures	1	2 423
Entities under common control	2 426	8 502
<b>Total purchased construction services</b>	<u>2 427</u>	<u>10 925</u>
<b>Rendered construction services</b>		
Associates and joint ventures	1 338	19
Entities under common control	1 615	131 342
Other related parties	7	75
Management members	13 034	7 287
<b>Total construction services rendered</b>	<u>15 994</u>	<u>138 723</u>
<b>Construction materials purchased</b>		
Other related parties	<u>33</u>	<u>48</u>

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

	<b>30.09.2010</b>	<b>31.12.2009</b>
<b>Trade and other receivables</b>		
Trade receivables		
Parent	59	190
Associates and joint ventures	211	74
Entities under common control	87	483
Other related parties	10	2 431
Short-term loans		
Associates and joint ventures	16 435	16 500
Entities under common control	38 258	43 055
Interest receivables		
Associates and joint ventures	10 144	9 147
Entities under common control	3 579	1 624
Other short-term receivables		
Associates and joint ventures	-	1
Prepayments for inventories		
Entities under common control	59 350	57 462
<b>Other long-term loans and receivables</b>		
Long-term loans		
Associates and joint ventures	23 576	18 896
Entities under common control	2 890	2 890
<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	-	2
Entities under common control	45	83
Other related parties	-	2
Interest liabilities		
Parent	103	-
Entities under common control	215	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>	<b>30.09.2010</b>	<b>31.12.2009</b>
Performance period's warranty to the customer	257 093	262 573
Tender warranty	76 426	59 254
Guarantee warranty period	150 366	152 114
Prepayment guarantee	131 568	81 296
Contracts of surety	5 470	9 705
Payment guarantee	2 278	3 318
Letter of credit	-	6 404
<b>Total contingent liabilities</b>	<b>623 201</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 9 months interim report 2010 as presented on pages 3 to 25.

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 30.09.2010 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

11.11.2010

Alar Lagus Member of the Management Board

11.11.2010

Veljo Viitmann Member of the Management Board

11.11.2010

Andres Agukas Member of the Management Board

11.11.2010

Jaan Mäe Member of the Management Board

11.11.2010