



AS MERKO EHITUS GROUP

2012 9 months and III quarter consolidated unaudited interim report

Business name: AS Merko Ehitus

Primary activity: general contracting in construction sector

Registration no: 11520257

Address: 9G Järvevana road 11314 Tallinn

Telephone: +372 650 1250

Fax: +372 650 1251

E-mail: merko@merko.ee

Homepage: www.merko.ee

Financial year: 01.01.2012 – 31.12.2012

Reporting period: 01.01.2012 – 30.09.2012

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

Management Board: Andres Trink, Viktor Mõisja

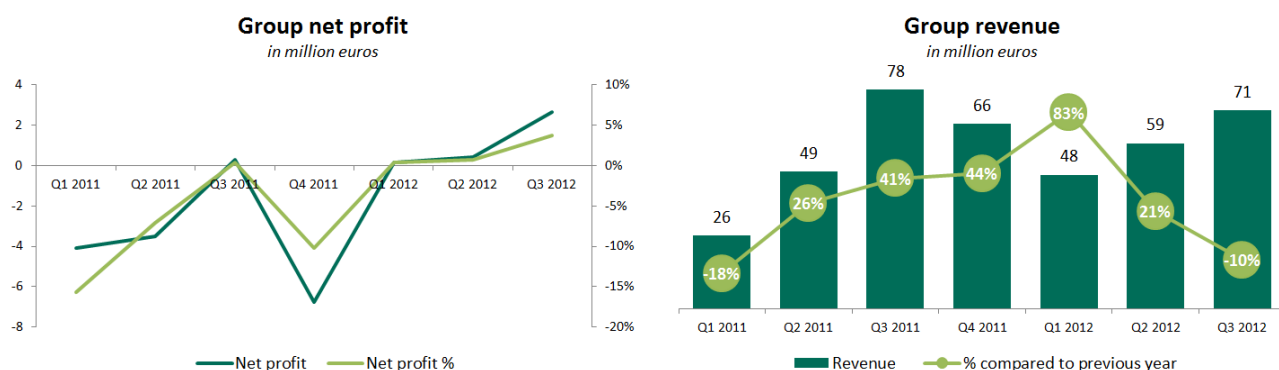
Auditor: AS PricewaterhouseCoopers

TABLE OF CONTENTS

MANAGEMENT REPORT.....	3
CONSOLIDATED FINANCIAL STATEMENT.....	12
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	12
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	14
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	15
CONSOLIDATED CASH FLOW STATEMENT.....	16
NOTES.....	17
Note 1 Accounting policies used.....	17
Note 2 Operating segments.....	17
Note 3 Cost of goods sold.....	19
Note 4 Earnings per share.....	19
Note 5 Cash and cash equivalents.....	19
Note 6 Trade and other receivables.....	20
Note 7 Inventories.....	20
Note 8 Long-term financial assets.....	21
Note 9 Investment property.....	21
Note 10 Property, plant and equipment.....	21
Note 11 Intangible assets.....	22
Note 12 Borrowings.....	22
Note 13 Payables and prepayments.....	23
Note 14 Short-term provisions.....	23
Note 15 Related party transactions.....	23
Note 16 Contingent liabilities.....	27
MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT.....	28

MANAGEMENT REPORT

Overview of the results for the first 9 months



- ❖ **Profitability:** net profit for the first 9 months of 2012 amounted to EUR 3.2 million (first 9 months of 2011: a net loss of EUR 7.3 million). The EUR 2.6 million net profit for the third quarter of 2012 (Q2 2012: EUR 0.4 million) shows a positive trend towards an improvement in profitability.
- ❖ **Revenue meets expectations:** EUR 177.7 million was generated in revenue in the first 9 months of 2012. This constitutes a 15.9% increase from the same period last year (first 9 months of 2011: EUR 153.4 million). The revenue for the third quarter of 2012 amounted to EUR 70.9 million (Q3 2011: EUR 78.3 million).
- ❖ **Financial position has improved:** the group's financial resources totalled EUR 15.5 million at the end of the reporting period (EUR 5.5 million in the same period in 2011). As at 30 September 2012, the total net debt of the group was negative in the amount of EUR 25.9 million (30 September 2011: negative in the amount of EUR 27.4 million).
- ❖ **Secured order book has remained stable:** in the first 9 months of the year, group companies entered into new contracts in the total amount of EUR 211 million (first 9 months of 2011: EUR 148 million), with the secured order book amounting to EUR 200 million as at 30 September 2012 (as at 30 September 2011: EUR 195 million).

Background information and major changes introduced in the corporate structure

AS Merko Ehitus is a holding company incorporating construction and real estate development companies offering integrated construction solutions in Estonia, Latvia and Lithuania. Major construction companies incorporated under the holding company include AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%), as well as the AS Merko Ehitus Eesti group companies Tallinna Teede AS (100%) and AS Merko Infra (100%).

As a result of the changes introduced in the company’s management structure at the beginning of 2012, the Supervisory Board of AS Merko Ehitus resolved, at its meeting of 3 September 2012, to recall management board member Alar Lagus from the Management Board of AS Merko Ehitus. Mr Lagus will continue serving as a member of the Management Board of AS Merko Ehitus Eesti, a 100% subsidiary of AS Merko Ehitus.

The Management Board of the holding company AS Merko Ehitus will continue with two members: Andres Trink and Viktor Mõisja.

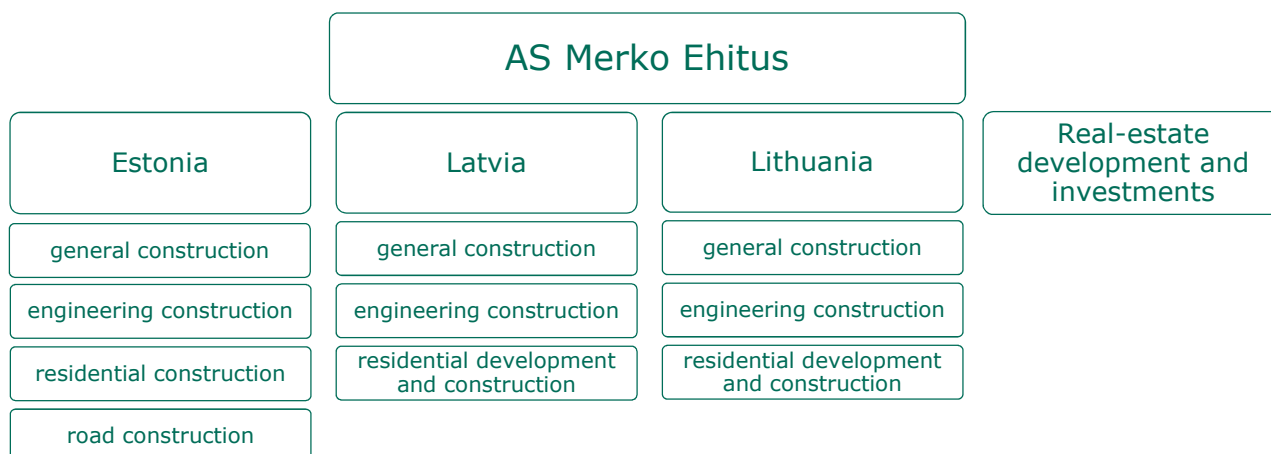
The profiles of the members of the Management Board and Supervisory Board have been presented in Note 15 to the financial statements, and published, together with the track record and photographs, on the company’s website at www.merko.ee.

The changes introduced in the management of SIA Merks, the Latvian-based subsidiary of AS Merko Ehitus, took effect in September 2012, with the former Chairman of the Management Board Ivars Geidāns being appointed a member of the Supervisory Board of SIA Merks, and the former CFO Oskars Ozoliņš the Chairman of the Management Board of SIA Merks. The Management Board of SIA Merks will continue with two members: Oskars Ozoliņš as the chairman and construction director Jānis Šperbergs as member of the Management Board. The company’s Supervisory Board will continue with Andres Trink serving as the chairman, and Tõnu Toomik, Jaan Mäe and Ivars Geidāns as members.

In connection with the revising of the Ukrainian market prospects, the Supervisory Board of AS Merko Ehitus approved, on 4 September 2012, the management’s proposal for the initiation of the liquidation of the 100% subsidiary Merko Ukraine LLC. As at 30 September 2012, the company had no work-in-progress, contracts that needed to be served, or employees in Ukraine.

On 6 July 2012, AS Merko Ehitus transferred 25% of its stake in the reinforced concrete element manufacturer AS TMB to the Management Board of the company.

In 2012, the business strategy of AS Merko Ehitus subsidiary companies focused on improving profitability, enhancing the efficiency of the cost base and strengthening the long-term liquidity position, concentrating on general contracting and real estate development at the domestic markets of Estonia, Latvia and Lithuania. The structure of the group’s business areas as at 30 September 2012 has been presented below:



AS Merko Ehitus received two awards in September 2012:

The Entrepreneurship Award 2012

AS Merko Ehitus was granted the most competitive enterprise award in the field of construction at the Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.

Euromoney – Real Estate Survey 2012

In its real estate market survey for 2012, Euromoney – the international financial journal with a history of more than 40 years – declared AS Merko Ehitus Estonia's best developer. The Real Estate Survey 2012 is the eighth survey conducted by Euromoney with the aim of ranking the best in real estate on the basis of the market data, as well as the assessments of developers, counsellors, business customers, investors and banks.

Business activities

Key financial indicators (in millions of euros):

	9 months 2012	9 months 2011	9 months 2010
Revenue			
Estonia	152.8	107.0	91.1
Latvia	18.9	31.9	32.1
Lithuania	6.0	14.5	3.1
Revenue total	177.7	153.4	126.3
Operating profit (EBIT)	3.0	(6.7)	6.1
attributable to equity holders of the parent	3.2	(7.3)	5.2
attributable to non-controlling interest	(0.1)	(0.1)	(0.1)
Net profit	3.1	(7.4)	5.1
Earnings per share (EPS), in euros	0.18	(0.41)	0.29
Cash and cash equivalents at the end of period	15.5	5.5	21.2

Merko Ehitus generated a total of EUR 177.7 million in revenue in the first 9 months of 2012, including the EUR 70.9 million generated in the third quarter. 86.0% of the revenue was generated in Estonia, 10.6% in Latvia and 3.4% in Lithuania. The consolidated revenue grew by 15.9%, compared to the first 9 months of 2011. This can mainly be attributed to the increase in the revenue generated from engineering projects in Estonia. A bulk of the revenue generated from the construction sector can be attributed to projects co-financed by the European Structural Funds.

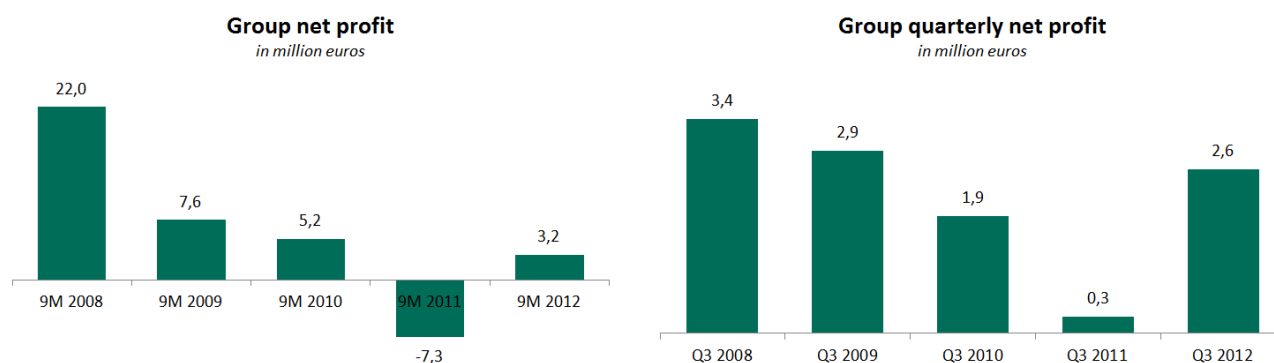
A total of 119 apartments were sold in the first 9 months of 2012 at the total cost of EUR 12.8 million (w/o VAT) (113 apartments and EUR 12.3 million in the first 9 months of 2011). Work-in-progress covers 292 apartments, including the apartment building in Räägu Street in Tallinn (a total of 20 apartments; scheduled to be completed in the summer of 2013), and the apartment building in Eha Street (a total of 27 apartments, scheduled to be completed in the summer of 2013). In Riga, a 115-apartment building is nearing completion in Skanstes Street (scheduled to be completed in the fourth quarter of 2012) and a 62-apartment building is under construction in Grostonas Street (scheduled to be completed in the autumn of 2013). In Vilnius, A 68-apartment building in Mokslininkų Street is scheduled to be completed at the end of 2012. The real estate market has become more selective – key aspects considered in the evaluation of risks prior to the launch of each project is the location, scale of development, design solutions and the target group.



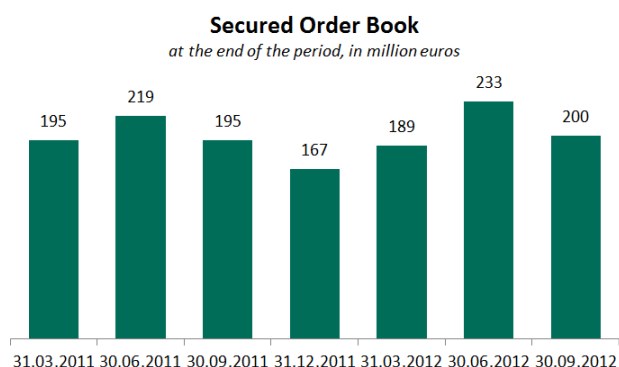
The group posted a gross profit of EUR 10.7 million from development and construction activities in the first 9 months of 2012 (EUR 0.4 million in the first 9 months of 2011). The seasonal nature of construction activities had minor impact on the results for the first 9 months of 2012, compared to previous periods – the third quarter has traditionally been the most active construction period of the calendar year. New profitable projects have positively contributed to the gross period, compared to last year. In addition, the previous recognition of losses from problematic projects has had a further positive impact. Consequently, the gross profit margin has advanced by 5.8% (first 9 months of 2012: 6.0%), compared to the 9 months of 2011 (0.2%).

The consolidated earnings before taxes (EBT) for the first 9 months of 2012 amounted to EUR 3.5 million and net profit to EUR 3.2 million, compared to the negative EBT of EUR 7.1 million and net loss of EUR 7.3 million for the first 9 months of 2011.

The group posted a net profit of EUR 2.6 million in the third quarter of 2012, compared to the EUR 0.3 million net profit for the third quarter of 2011.



As at 30 September 2012, secured order book amounted to EUR 200 million, compared to the EUR 195 million as at 30 September 2011. The group does not include residential building projects developed by the group and development of investment property in the contracts portfolio.



A total of EUR 211 million worth of new contracts were concluded in the first 9 months of 2012, compared to the EUR 148 million in the same period last year. The largest construction agreements concluded in the last 9 months have been brought out below:

Contracts	Cost
	in million of euros
AS Eesti Energia Narva Power Plants: general constr. on the 300 MW oil-shale based energy block	17.3
North Estonia Medical Centre	23.9
Water treatment facility of the City of Narva	21.1
Water supply, sewerage system and wastewater pumping stations of Vääna-Jõesuu and Viti villages	7.7
Kiisa emergency power plant	7.2

The group has improved on its financial resources. As at the end of the reporting period the Merko Ehitus group's financial resources amounted to EUR 15.5 million, compared to the EUR 5.5 million in the same period last year.

Cash flow from operating activities was a negative EUR 15.8 million (9 months of 2011: negative EUR 22.2 million), cash flow from investing activities a positive EUR 8.1 million (9 months of 2011: EUR 5.8 million) and cash flow from financing activities EUR 4.7 million (9 months of 2011: EUR 11.8 million). Cash flow from operating activities was affected the most by the negative change in receivables and prepayments related to operating activities (EUR 20.5 million) as well as the positive change in the liabilities and prepayments related to operating activities (EUR 5.3 million). The share of public procurement with long terms of payment (a contractual average of 56 days after approval of the work) has increased in the consolidated cash flow from operating activities, exerting pressure on current assets, including optimal management of cash flows. To buttress the cash flow from operating activities, the group has, after a careful analysis, engaged additional debt capital, including factoring. The debt ratio has still remained modest (17.6% for the 9 months of 2012).

The EUR 8.1 million cash flow from investing activities is made up of the positive EUR 6.1 million of repayment of loans related to the financing of development activities as well as the EUR 2.8 million generated from the disposal of the share in AS TMB. Negative cash flows consist of the EUR 1.4 million spent on the acquisition of investment property (mainly the construction of the court and police department building in Jõgeva).

The balance of loans received and loans repaid contributed EUR 5.4 million and the repayment of the finance lease principal EUR 0.7 million to the cash flow from financing activities.

The financial ratios of Merko Ehitus for the first 9 months of 2012, and the methods for calculating the financial ratios (per share attributable to equity holders of the parent company)

		9 months 2012	9 months 2011	9 months 2010
Net profit margin	%	1.8	-4.8	4.1
EBT margin	%	1.9	-4.7	4.7
Operating margin	%	1.7	-4.4	4.9
Gross profit margin	%	6.0	0.2	10.3
EBITDA margin	%	2.8	-3.3	6.3
ROE	%	-3.2	-9.5	3.8
ROA	%	-1.6	-5.5	2.3
Equity ratio	%	47.9	52.7	61.2
Current ratio	multiplier	1.9	2.1	2.6
Quick ratio	multiplier	1.0	1.0	1.2
General expense ratio	%	4.5	4.9	6.2
Gross remuneration ratio	%	7.6	8.1	9.2
Debt ratio	%	17.6	15.0	12.9
Accounts receivable turnover	days	60	55	46
Accounts payable turnover	days	51	42	38
Revenue per employee	thousand euros	197	162	156
Average number of employees (in group)	people	902	944	809

MANAGEMENT REPORT

Net profit margin = net profit / revenue

EBT margin = EBT / revenue

Operating profit margin = operating profit / revenue

Gross margin = gross profit / revenue

EBITDA margin = (operating profit + depreciation, amortisation and impairment) / revenue

ROE = net profit / equity

ROA = net profit / total assets

Equity ratio = equity / total assets

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventories) / current liabilities

General expense ratio = general expenses / revenue

Gross remuneration ratio = gross remuneration / revenue

Debt ratio: interest-bearing liabilities / total assets

Accounts receivable turnover = accounts receivable / revenue x 365

Accounts payable turnover = accounts payable / cost of goods sold x 365

Revenue per employee = revenue / average number of employees

Employees and remuneration

The number of the group's employees has dropped by 41 in the last 12 months (-4.3%). As at 30 September 2012, the group had a total of 920 employees (including fixed-term and part-time employees). Changes were introduced in the management of UAB Merko Statyba and SIA Merks on the basis of the efficiency programme implemented at the beginning of 2012, with the number of administrative staff members reduced from 67 to 35 in the subsidiaries.

A total of EUR 13.4 million was paid in gross remuneration to employees in the first 9 months of 2012. This constitutes an 8.6% increase from last year. Basic wages made up 82.8% of the gross wages, with performance pay contributing 17.2%.



Share and shareholders

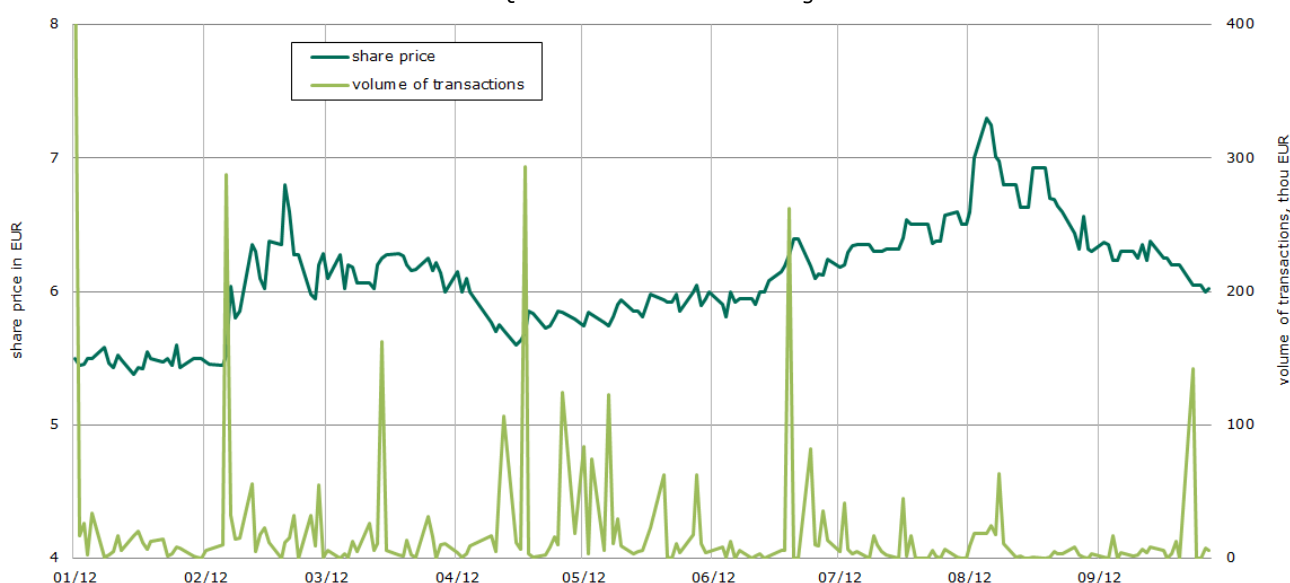
Information on security

ISIN	EE3100098328
Short name	MRK1T
List	Baltic Main List
Nominal value	no par value
Securities issued	17 700 000
Securities listed	17 700 000
Date of listing	11 August 2008

The shares of Merko Ehitus have been listed in the main list of NASDAQ OMX Tallinn. A total of 1,352 transactions were conducted with the shares of Merko Ehitus in the first 9 months of 2012, with 0.67 million shares traded, generating a turnover of EUR 4.0 million. The lowest share price amounted to EUR 5.37 and the highest to EUR 7.30 per share. The closing price of the share was EUR 6.02 on 30 September 2012. As at 30 September 2012, the market value of AS Merko Ehitus amounted to EUR 107 million.

	30.09.2012	30.09.2011	30.09.2010
No. of shares, pcs	17 700 000	17 700 000	17 700 000
Earnings per share (EPS), in euros	0.18	-0.41	0.29
Equity per share, in euros	6.36	6.53	7.27
P/B (price to book ratio)	0.95	0.81	1.12

Performance of Merko Ehitus share at NASDAQ OMX Tallinn Stock Exchange in 2012



Structure of shareholders as at 30.09.2012

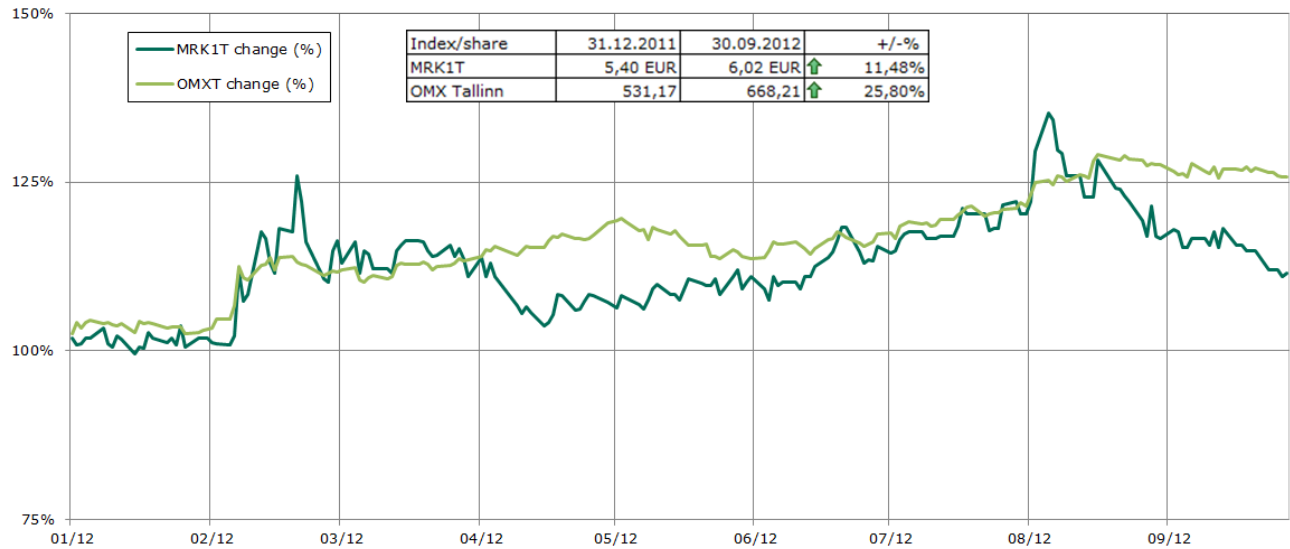
No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1 000 001 - ...	1	0.07%	12 742 686	71.99%
100 001 – 1 000 000	11	0.77%	3 072 772	17.36%
10 001 – 100 000	28	1.96%	845 017	4.77%
1001-10 000	246	17.20%	714 942	4.04%
101-1000	737	51.54%	302 137	1.71%
1-100	407	28.46%	22 446	0.13%
Total	1430	100%	17 700 000	100%

MANAGEMENT REPORT

Main shareholders of AS Merko Ehitus as at 30.09.2012 and change compared to previous quarter:

	No. of shares	% of total	Change
AS Riverito	12 742 686	71.99%	-
ING Luxembourg S.A., clients	974 126	5.50%	-
Skandinaviska Enskilda Banken Ab, clients	736 864	4.16%	-2 000
Firebird Republics Fund Ltd	302 395	1.71%	+32 741
Ergo Pensionifond 2P2	165 759	0.94%	-5 920
Gamma Holding OÜ	162 566	0.92%	+11 301
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0.86%	-
SEB Elu- ja Pensionikindlustus AS	125 520	0.71%	-
Skandinaviska Enskilda Banken Finnish clients	125 191	0.71%	-
AS Midas Invest	112 555	0.64%	-
Andersson Investeeringud OÜ	111 841	0.63%	-
Clearstream Banking Luxembourg S.A. clients	102 937	0.58%	-

Performance of the share of Merko Ehitus and comparison index OMX Tallinn in 2012



CONSOLIDATED FINANCIAL STATEMENT

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	<i>note</i>	2012 9 months	2011 9 months
Revenue	2	177 729	153 391
Cost of goods sold	3	<u>(167 077)</u>	<u>(153 036)</u>
Gross profit (loss)		10 652	355
Marketing expenses		(1 385)	(1 574)
Administrative and general expenses		(6 688)	(5 974)
Other operating income		604	587
Other operating expenses		<u>(180)</u>	<u>(101)</u>
Operating profit (loss)		3 003	(6 707)
Finance income/costs		<u>461</u>	<u>(425)</u>
incl. finance income/costs from investments in subsidiaries		-	14
finance income/costs from investments in associates and joint ventures		189	157
finance income/costs from other long-term investments		1 016	-
interest expense		(921)	(756)
foreign exchange gain		37	104
other financial income (expenses)		<u>140</u>	<u>56</u>
Profit (loss) before tax		3 464	(7 132)
Corporate income tax expense		(340)	(238)
Net profit (loss) for current period		<u>3 124</u>	<u>(7 370)</u>
incl. net profit (loss) attributable to equity holders of the parent		3 202	(7 329)
net profit (loss) attributable to non-controlling interest		(78)	(41)
Other comprehensive income (loss)			
Currency translation differences of foreign entities		107	23
Comprehensive income (loss) for the period		<u>3 231</u>	<u>(7 347)</u>
incl. net profit (loss) attributable to equity holders of the parent		3 309	(7 306)
net profit (loss) attributable to non-controlling interest		(78)	(41)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	4	0.18	(0.41)

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	2012	2011
	III quarter	III quarter
Revenue	70 874	78 344
Cost of goods sold	(65 260)	(75 556)
Gross profit (loss)	5 614	2 788
Marketing expenses	(483)	(412)
Administrative and general expenses	(2 632)	(2 081)
Other operating income	146	267
Other operating expenses	(60)	(52)
Operating profit (loss)	2 585	510
Finance income/costs	64	(104)
incl. finance income/costs from investments in subsidiaries	-	14
finance income/costs from investments in associates and joint ventures	7	132
finance income/costs from other long-term investments	341	-
interest expense	(278)	(342)
foreign exchange gain	(19)	77
other financial income (expenses)	13	15
Profit (loss) before tax	2 649	406
Corporate income tax expense	(35)	(238)
Net profit (loss) for current period	2 614	168
incl. net profit (loss) attributable to equity holders of the parent	2 623	263
net profit (loss) attributable to non-controlling interest	(9)	(95)
Other comprehensive income (loss)		
Currency translation differences of foreign entities	19	(3)
Comprehensive income (loss) for the period	2 633	165
incl. net profit (loss) attributable to equity holders of the parent	2 642	260
net profit (loss) attributable to non-controlling interest	(9)	(95)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	0.15	0.01

in thousand euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

	<i>note</i>	30.09.2012	31.12.2011
ASSETS			
Current assets			
Cash and cash equivalents	5	15 479	18 510
Short-term deposits		-	140
Trade and other receivables	6	83 307	64 449
Prepaid corporate income tax		478	686
Inventories	7	90 105	87 834
Total current assets		<u>189 369</u>	<u>171 619</u>
Non-current assets			
Long-term financial assets	8	23 947	27 051
Deferred income tax assets		1 642	1 870
Investment property	9	3 586	2 313
Property, plant and equipment	10	15 048	16 057
Intangible assets	11	1 375	1 427
Total non-current assets		<u>45 598</u>	<u>48 718</u>
TOTAL ASSETS		<u>234 967</u>	<u>220 337</u>
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	12	20 145	16 574
Payables and prepayments	13	71 934	61 635
Short-term provisions	14	6 828	6 781
Total current liabilities		<u>98 907</u>	<u>84 990</u>
Non-current liabilities			
Long-term borrowings	12	21 278	23 764
Long-term interest liabilities		1	-
Long-term trade payables		792	790
Deferred corporate income tax liability		131	131
Long-term provisions		31	66
Total non-current liabilities		<u>22 233</u>	<u>24 751</u>
Total liabilities		<u>121 140</u>	<u>109 741</u>
Equity			
Non-controlling interest		1 278	1 356
Equity attributable to equity holders of the parent			
Share capital		12 000	12 000
Statutory reserve capital		1 200	1 131
Currency translation differences		(463)	(570)
Retained earnings		99 812	96 679
Total equity attributable to equity holders of parent		<u>112 549</u>	<u>109 240</u>
Total equity		<u>113 827</u>	<u>110 596</u>
TOTAL LIABILITIES AND EQUITY		<u>234 967</u>	<u>220 337</u>

in thousand euros

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/accumulated losses			
Balance as at 31.12.2010	11 312	1 131	(924)	113 221	124 740	1 428	126 168
Profit (loss) for the financial year	-	-	-	(7 329)	(7 329)	(41)	(7 370)
Other comprehensive income	-	-	23	-	23	-	23
Total comprehensive income (loss) for the financial year	-	-	23	(7 329)	(7 306)	(41)	(7 347)
Bonus issue	688	-	-	(688)	-	-	-
Dividends	-	-	-	(1 770)	(1 770)	-	(1 770)
Total transactions with owners	688	-	-	(2 458)	(1 770)	-	(1 770)
Balance as at 30.09.2011	12 000	1 131	(901)	103 434	115 664	1 387	117 051
Balance as at 31.12.2011	12 000	1 131	(570)	96 679	109 240	1 356	110 596
Profit (loss) for the financial year	-	-	-	3 202	3 202	(78)	3 124
Other comprehensive income	-	-	107	-	107	-	107
Total comprehensive income (loss) for the financial year	-	-	107	3 202	3 309	(78)	3 231
Bonus issue	-	69	-	(69)	-	-	-
Balance as at 30.09.2012	12 000	1 200	(463)	99 812	112 549	1 278	113 827

The share capital of AS Merko Ehitus consists of 17 700 000 shares with non-par value.

in thousand euros

CONSOLIDATED CASH FLOW STATEMENT

unaudited

	2012	2011
	9 months	9 months
Cash flows used in operating activities		
Operating profit (loss)	3 003	(6 707)
Adjustments:		
depreciation and impairment charge	1 928	1 610
(profit) loss from sales of non-current assets	(104)	(96)
change in construction contracts recognised under the stage of completion method	(3 685)	(1 416)
interest income from business activities	(256)	(263)
change in provisions	873	1 640
Change in trade and other receivables related to operating activities	(20 473)	(38 558)
Change in inventories	(1 909)	3 408
Change in trade and other payables related to operating activities	5 317	18 268
Interest paid	(758)	(755)
Other finance income/costs	92	(16)
Corporate income tax (paid)/reclaimed	208	686
Total cash flows used in operating activities	(15 764)	(22 199)
Cash flows from investing activities		
Proceeds from sale of subsidiary	-	(214)
Proceeds from sale of associate	2 750	-
Purchase/proceeds from deposits with maturities greater than 3 months	140	2 511
Purchase of investment property	(1 437)	(2 532)
Purchase of property, plant and equipment	(526)	(855)
Proceeds from sale of property, plant and equipment	157	1 353
Purchase of intangible assets	(11)	(26)
Proceeds from sale of intangible assets	-	3
Loans granted	(45)	(312)
Loan repayments received	6 096	5 456
Interest received	899	397
Dividends received	88	57
Total cash flows from investing activities	8 111	5 838
Cash flows from (used in) financing activities		
Proceeds from borrowings	13 648	20 167
Repayments of borrowings	(8 281)	(5 155)
Selling-leaseback on terms of capital lease	-	65
Finance lease principal payments	(682)	(1 509)
Dividends paid	-	(1 770)
Total cash flows from financing activities	4 685	11 798
Net increase/decrease in cash and cash equivalents	(2 968)	(4 563)
Change in deposits with maturities greater than 3 months	(140)	(2 511)
Total change	(3 108)	(7 074)
Cash and cash equivalents at the beginning of the period	18 510	9 856
Deposits with maturities greater than 3 months at the beginning of period	140	2 651
Total at the beginning of the period	18 650	12 507
Effect of exchange rate changes	(63)	102
Cash and cash equivalents at the end of the period	15 479	5 395
Deposits with maturities greater than 3 months at the end of the period	-	140
Total at the end of the period	15 479	5 535

NOTES

Note 1 Accounting policies used

The interim report of AS Merko Ehitus group for the 2012 9 months and III quarter is composed according to the terms of international accounting standard IAS 34 "Interim Financial Reporting" regarding the condensed interim financial statements. In the interim report same accounting principles and methods are used as in the 2011 financial statement. Accounting methods used in the interim report are consistent with the international financial accounting standards, as they are approved by the European Union.

By the opinion of the Management Board the consolidated interim report of AS Merko Ehitus for the 2012 9 months and III quarter reflects the economic results of the group true and fair and according to the principle of continuity. The impact of the seasonal nature of the construction activity for the results of the reporting period and the cyclical nature of the development activity for the results of the 2012 3rd quarter was insignificant.

Note 2 Operating segments

in thousand euros

The chief operating decision-maker, i.e. the management of AS Merko Ehitus, monitors the business of the group by operating segments. The performance of the segments is assessed by the chief operating decision maker based on segment revenue derived from outside the group and pre-tax profit. Profit before taxes of the segments comprises in substance of their revenue and cost of goods sold; other expenses and income are not allocated to segments as these are monitored for the group as a whole and are not directly related to operating segments.

The profit and loss account information and assets of reportable segments have been reported in accordance with the accounting principles used in preparation of these financial statements. All segments are involved in the sale of construction services with the exception of the real estate development segment whose revenue is derived from the sale of apartments in development projects.

2012 9 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	43 250	86 413	32 593	22 467	1 886	186 609
Inter-segment revenue	(132)	(134)	-	(8 166)	(448)	(8 880)
Revenue from external clients	43 118	86 279	32 593	14 301	1 438	177 729
Depreciation	(52)	(368)	(780)	(84)	(363)	(1 647)
Inventory write-down (note 3)	-	-	-	(23)	-	(23)
Setting up provisions	(193)	(1 238)	(99)	(352)	-	(1 882)
Profit (loss) from associates and joint ventures	-	-	-	(45)	234	189
Other finance income/costs	(23)	(21)	(70)	740	(1)	625
incl. interest income	-	-	-	1 054	-	1 054
interest expense	(23)	(21)	(70)	(314)	(2)	(430)
Profit (loss) before tax	3 266	5 475	1 213	1 571	117	11 642
Segment assets 30.09.2012	10 467	46 559	30 913	125 846	1 625	215 410

CONSOLIDATED FINANCIAL STATEMENT

2011 9 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	54 358	67 401	38 840	16 452	2 080	179 131
Inter-segment revenue	(2 029)	(12 199)	(6 849)	(3 983)	(680)	(25 740)
Revenue from external clients	52 329	55 202	31 991	12 469	1 400	153 391
Depreciation	(54)	(103)	(845)	(53)	(238)	(1 293)
Reversal of inventory write-downs (note 3)	-	-	-	238	-	238
Setting up provisions	(477)	(483)	(2 216)	(23)	-	(3 199)
Profit (loss) from subsidiaries	14	-	-	-	-	14
Profit (loss) from associates and joint ventures	-	13	-	(34)	178	157
Other finance income/costs	(3)	(5)	-	(163)	(24)	(195)
incl. interest expense	-	(4)	-	(140)	(24)	(168)
Profit (loss) before tax	4 352	(428)	(3 815)	300	(30)	379
Segment assets 30.09.2011	15 517	28 244	32 517	116 306	5 645	198 229

In addition to the segment assets, as at 30.09.2012 the group holds assets of EUR 19 557 thousand (30.09.2011: EUR 21 151 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

	2012 9 months	2011 9 months
Profit (loss) from reporting segments	11 642	379
Unallocated expense (income)		
marketing expenses	(1 385)	(1 574)
general and administrative expenses	(6 688)	(5 974)
incl. setting up provisions	(100)	-
other operating income (expense)	248	438
finance income (costs)	(353)	(401)
incl. interest income	11	67
interest expense	(491)	(558)
Total profit (loss) before tax	3 464	(7 132)

Retained financial cost and income include financial income from bank deposits, exchange gains (losses), loan interest costs not subject to capitalisation, and other financial costs and income.

Revenue by client location

	2012 9 months	2011 9 months
Estonia	152 854	107 050
Latvia	18 864	31 881
Lithuania	6 011	14 460
Total	177 729	153 391

Non-current assets (except for financial assets and deferred income tax assets) by location of assets:

	30.09.2012	30.09.2011
Estonia	19 464	20 789
Latvia	442	595
Lithuania	103	94
Total	20 009	21 478

Note 3 Cost of goods sold

in thousand euros

	2012 9 months	2011 9 months
Construction services	99 364	76 194
Materials	28 740	33 050
Properties purchased for resale	4 942	11 934
Staff costs	14 373	12 023
Construction mechanisms and transport	8 630	8 352
Design	827	1 569
Real estate management costs	138	176
Depreciation and impairment charge	1 647	1 293
Inventory write-down	23	-
Reversal of inventory write-downs	-	(238)
Provisions	1 882	3 199
Other expenses	6 511	5 484
Total cost of goods sold	167 077	153 036

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.

	2012 9 months	2011 9 months
Net profit (loss) attributable to shareholders <i>(in thousands of euros)</i>	3 202	(7 329)
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17 700	17 700
Earnings (loss) per share <i>(in euros)</i>	0.18	(0.41)

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 euros

	30.09.2012	31.12.2011
Cash on hand	15	10
Bank accounts	9 630	9 173
Overnight deposits	5 834	9 327
Total cash and cash equivalents	15 479	18 510

Note 6 Trade and other receivables

in thousand euros

	30.09.2012	31.12.2011
Trade receivables		
accounts receivable	48 573	36 151
allowance for doubtful receivables	(549)	(544)
	<u>48 024</u>	<u>35 607</u>
Tax prepayments excluding corporate income tax		
value added tax	1 013	618
other taxes	36	5
	<u>1 049</u>	<u>623</u>
Amounts due from customers of contract works	23 781	16 016
Other short-term receivables		
short-term loans	5 509	7 673
interest receivables	926	881
receivable from buyer of subsidiary	96	-
other short-term receivables	232	1 444
	<u>6 763</u>	<u>9 998</u>
Prepayments for services		
prepayments for construction services	2 744	1 499
prepaid insurance	476	296
other prepaid expenses	470	410
	<u>3 690</u>	<u>2 205</u>
Total trade and other receivables	<u>83 307</u>	<u>64 449</u>

Note 7 Inventories

in thousand euros

	30.09.2012	31.12.2011
Materials	706	807
Work-in-progress	30 194	33 056
Finished goods	15 416	10 549
Goods for resale		
registered immovables purchased for resale	40 351	36 570
other goods purchased for resale	1 166	1 062
	<u>45 517</u>	<u>37 632</u>
Prepayments for inventories		
prepayments for real estate properties	1 750	5 560
prepayments for other inventories	522	230
	<u>2 272</u>	<u>5 790</u>
Total inventories	<u>90 105</u>	<u>87 834</u>

Note 8 Long-term financial assets

in thousand euros

	30.09.2012	31.12.2011
Investments in associates and joint ventures	7 371	9 986
Long-term loans	3 823	5 096
Long-term interest receivables	34	17
Long-term bank deposit	192	180
Long-term receivable from buyer of subsidiary	-	96
Long-term receivables from customers of construction services	12 527	11 676
Total long-term financial assets	23 947	27 051

Note 9 Investment property

in thousand euros

	30.09.2012	31.12.2011
Land	137	136
Right of superficies at carrying amount		
cost	29	29
accumulated depreciation	(9)	(8)
	<u>20</u>	<u>21</u>
Buildings at carrying amount		
cost	3 669	1 215
accumulated depreciation	(240)	(171)
	<u>3 429</u>	<u>1 044</u>
Construction in progress	-	1 112
Total investment property	3 586	2 313

Note 10 Property, plant and equipment

in thousand euros

	30.09.2012	31.12.2011
Land	825	825
Buildings at carrying amount		
cost	5 788	5 726
accumulated depreciation	(1 221)	(1 080)
	<u>4 567</u>	<u>4 646</u>
Machinery and equipment at carrying amount		
cost	17 331	16 947
accumulated depreciation	(9 719)	(8 733)
	<u>7 612</u>	<u>8 214</u>
Other fixtures at carrying amount		
cost	5 254	5 169
accumulated depreciation	(3 219)	(2 797)
	<u>2 035</u>	<u>2 372</u>
Prepayments for property, plant and equipment	9	-
Total property, plant and equipment	15 048	16 057

Note 11 Intangible assets
in thousand euros

	30.09.2012	31.12.2011
Goodwill	891	891
Software at carrying amount		
cost	1 220	1 209
accumulated depreciation	(788)	(725)
	<u>432</u>	<u>484</u>
Prepayments for intangible assets	52	52
Total intangible assets	<u>1 375</u>	<u>1 427</u>

Note 12 Borrowings
in thousand euros

	30.09.2012	31.12.2011
Finance lease payables		
Present value of lease payments	<u>2 595</u>	<u>2 974</u>
incl. current portion	792	825
non-current portion 1...4 years	1 803	2 149
Bank loans		
Loan balance	<u>27 292</u>	<u>29 909</u>
incl. current portion	7 919	8 294
non-current portion 1...5 years	19 373	21 615
Factoring liability		
Factoring balance	<u>2 842</u>	-
incl. current portion	2 842	-
Loans from entities under common control		
Loan balance	<u>6 945</u>	<u>6 945</u>
incl. current portion	6 945	6 945
Loans from related parties		
Loan balance	<u>102</u>	-
incl. non-current portion 1...5 years	102	-
Loans from other entities		
Loan balance	<u>1 647</u>	<u>510</u>
incl. current portion	1 647	510
Total loans		
Loans balance	<u>38 828</u>	<u>37 364</u>
incl. current portion	19 353	15 749
non-current portion 1...5 years	19 475	21 615
Total borrowings	<u>41 423</u>	<u>40 338</u>
incl. current portion	20 145	16 574
non-current portion 1...5 years	21 278	23 764

Note 13 Payables and prepayments

in thousand euros

	30.09.2012	31.12.2011
Trade payables	34 752	34 206
Payables to employees	3 868	2 835
Tax liabilities, except for corporate income tax		
value added tax	981	837
personal income tax	494	458
social security tax	917	871
unemployment insurance tax	94	86
contributions to mandatory funded pension	37	28
other taxes	278	224
	<u>2 801</u>	<u>2 504</u>
Amounts due to customers for contract works	14 390	10 314
Other liabilities		
interest liabilities	99	111
payable for registered immovables from demerger	6 391	6 391
other liabilities	128	402
	<u>6 618</u>	<u>6 904</u>
Prepayments received	9 505	4 872
Total payables and prepayments	<u>71 934</u>	<u>61 635</u>

Note 14 Short-term provisions

in thousand euros

	30.09.2012	31.12.2011
Provision for warranty obligation for construction	1 461	1 367
Provision for onerous construction contracts	3 314	3 526
Provision for legal costs and claims filed	1 427	1 326
Other provisions	626	562
Total short-term provisions	<u>6 828</u>	<u>6 781</u>

Note 15 Related party transactions

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

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

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

Transactions among related parties are executed on equivalent terms as transactions among independent parties.

The parent of AS Merko Ehitus is AS Riverito. As at 30.09.2012 and 31.12.2011, AS Riverito owned 72% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS Merko Ehitus subsidiaries, associates and joint ventures

	Ownership %		Location	Area of operation
	30.09.2012	30.09.2011		
AS Merko Ehitus subsidiaries				
AS Merko Ehitus Eesti	100	-	Tallinn	construction
SIA Merks	100	100	Republic of Latvia, Riga	construction
UAB Merko Statyba	100	100	Republic of Lithuania, Vilnius	construction
Ringtee Tehnopark OÜ	100	100	Tallinn	construction
OÜ Jõgeva Haldus	100	100	Tallinn	real estate
OÜ Woody	100	100	Tallinn	real estate
OÜ Maryplus	100	100	Tallinn	real estate
OÜ Metsailu	100	100	Tallinn	real estate
OÜ Constancia	100	100	Tallinn	real estate
OÜ Käibevara	100	100	Tallinn	real estate
OÜ Baltic Electricity Engineering	100	100	Tallinn	electricity systems
OÜ Tähelinna Kinnisvara	100	100	Tallinn	real estate
OÜ Merko Property	100	-	Tallinn	real estate
Merko Ukraine LLC	100	100	Republic of Ukraine, Kharkiv	construction
Merko Finland OY	100	-	Republic of Finland	construction
OÜ Pallasti Kinnisvara	-	100	Tallinn	real estate
AS Merko Ehitus associates and joint ventures				
OÜ Unigate	50	50	Tallinn	real estate
Poolkoksimäe Sulgemise OÜ	50	50	Tallinn	construction
AS TMB	-	25	Tartu	concrete elements

Goods and services

in thousand euros

	2012 9 months	2011 9 months
Construction services rendered		
Associates and joint ventures	191	109
Entities under common control	81	1 302
Other related parties	464	2
Management members	2	6
Total construction services rendered	738	1 419
Purchased construction services		
Associates and joint ventures	75	-
Entities under common control	2	101
Total purchased construction services	77	101
Other services purchased		
Parent company	86	86
Entities under common control	100	-
Total other services purchased	186	86
Construction materials purchased		
Other related parties	125	108
Interest income		
Associates and joint ventures	83	80
Entities under common control	-	70
Total interest income	83	150

CONSOLIDATED FINANCIAL STATEMENT

Interest expense

Parent company	79	64
Entities under common control	153	137
Total interest expense	232	201

Balances with the related parties

in thousand euros

	30.09.2012	31.12.2011
Trade and other receivables		
Trade receivables		
Parent company	2	3
Associates and joint ventures	34	23
Entities under common control	8	187
Management members	-	25
Other related parties	129	1
Total trade receivables	<u>173</u>	<u>239</u>
Short-term loans		
Associates and joint ventures	1 374	1 343
Interest receivables		
Associates and joint ventures	868	784
Other short-term receivables		
Associates and joint ventures	-	4
Other related parties	1	-
Prepayments for inventories		
Entities under common control	-	3 810
Total trade and other receivables	<u>2 416</u>	<u>6 180</u>
Long-term loans and receivables		
Long-term loans		
Associates and joint ventures	<u>3 618</u>	<u>3 587</u>
Borrowings		
Short-term loans and bonds		
Entities under common control	<u>6 945</u>	<u>6 945</u>
Payables and prepayments		
Trade payables		
Parent company	12	12
Entities under common control	4	553
Associates and joint ventures	-	51
Other related parties	-	52
Total trade and other payables	<u>16</u>	<u>668</u>
Interest liabilities		
Parent company	1	15
Entities under common control	11	19
Total interest liabilities	<u>12</u>	<u>34</u>
Other liabilities		
Entities under common control	6 391	6 391
Total payables and prepayments	<u>6 419</u>	<u>7 093</u>

Long-term borrowings

Long-term loans

Other related parties

102

-

Remuneration of the members of the Supervisory and Management Boards

In 2012 9 months, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid remuneration totalling EUR 1037 thousand (2011 9 months: EUR 732 thousand).

Termination benefits of members of the Supervisory and Management Boards

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid upon the termination of the contract. In 2012 9 months, the members of the group's Management Board were paid benefits totalling EUR 118 thousand. During the 2011 9 months benefits for the members of the Management Board were not paid.

Members of the Supervisory and Management Board of AS Merko Ehitus

Track record and photographs of the members of the Supervisory Board can be found on AS Merko Ehitus website at: www.merko.ee

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30.09.2012

		No. of shares	% of total
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8 322 914	47.02%
Tõnu Toomik (AS Riverito)	Member of the Supervisory Board	1 607 185	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%
		9 964 234	56.29%

As a continuation of the changes in the management structure of Merko Ehitus group enforced as at the beginning of 2012, the Supervisory Board of AS Merko Ehitus decided at its meeting of 3 September 2012 to recall Management Board member Alar Lagus. The Management Board of the holding company AS Merko Ehitus will continue with two members: Andres Trink and Viktor Mõisja.

Track record and photographs of members of the Management Board can be found on AS Merko Ehitus website at: www.merko.ee

Shares held by members of the Management Board of AS Merko Ehitus as at 30.09.2012

		No. of shares	% of total
Andres Trink	Chairman of the Management Board	0	0.00%
Viktor Mõisja (AS Riverito / private person)	Member of the Management Board	1 103 734	6.23%
		1 103 734	6.23%

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 euros</i>	30.09.2012	31.12.2011
Performance period's warranty to the customer	30 253	22 276
Tender warranty	2 226	3 309
Guarantee warranty period	9 633	9 347
Prepayment guarantee	11 522	12 270
Contracts of surety	1 778	1 248
Payment guarantee	149	1 255
Total contingent liabilities	55 561	49 705

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 – guarantor ensures to the bid organiser that the tenderer does not withdraw a tender during its validity period.

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 BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of Merko Ehitus has prepared the interim consolidated report for the 9 months and III quarter of financial year 2012 as presented on pages 3 to 27.

The Management Board confirms to the best of its knowledge:

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

The Management Board of AS Merko Ehitus declares and confirms that to the best of knowledge of the management, the interim activity report provides an accurate and fair overview of the development, results and financial situation of the company and the undertakings involved in consolidation, and that it includes the description of principal risks and uncertainties and describes transactions with related parties.

Andres Trink Chairman of the Management Board



08.11.2012

Viktor Mõisja Member of the Management Board



08.11.2012