



AS MERKO EHITUS GROUP

2011 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: 01.01.2011 – 31.12.2011

Reporting period: 01.01.2011 – 30.09.2011

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

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

Auditor: AS PricewaterhouseCoopers

SISUKORD

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MANAGEMENT REPORT

General information

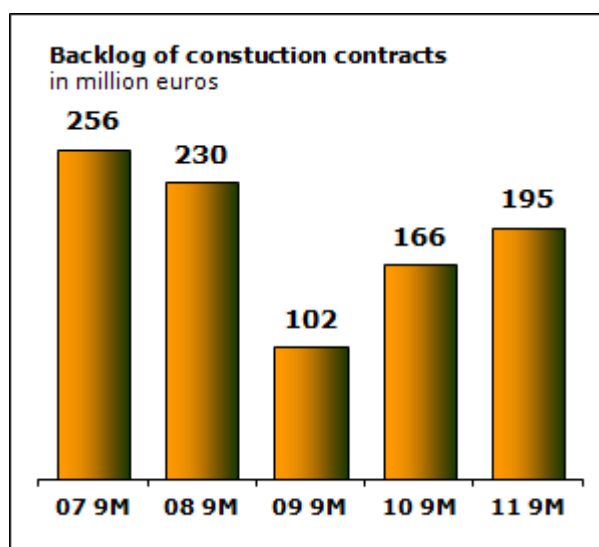
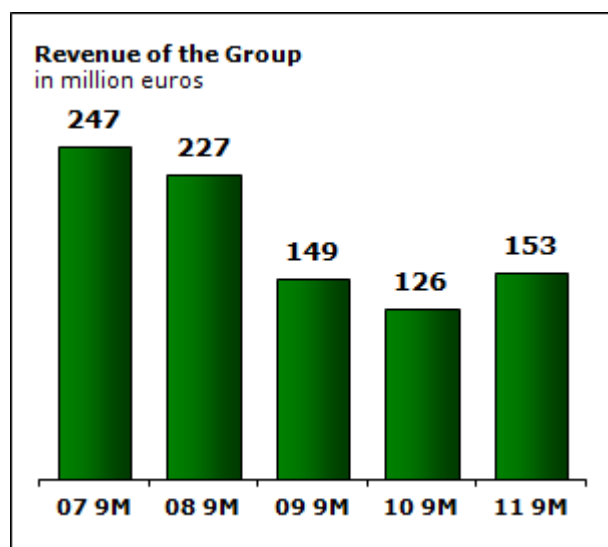
AS Merko Ehitus operates in Estonia, Latvia and Lithuania as a construction group offering complete solutions in the construction field. The largest companies belonging to the group are SIA Merks (100%), UAB Merko Statyba (100%), Tallinna Teede AS (100%), AS Gustaf (85%), OÜ Gustaf Tallinn (80%), AS Merko Tartu (66%), AS Merko Infra (100%) and AS Tartu Maja Betoontooted (25%).

Operating results

In 2011 9 months, the revenue of the construction group was EUR 153.4 million. Estonia contributed 69.8%, Latvia 20.8% and Lithuania 9.4% to the group's revenue. As compared to 2010 9 months, the group's revenue increased by +21.5%, including +17.5% in Estonia, +371.3% in Lithuania and -0.6% in Latvia.

Group's revenue for Q3 2011 was EUR 78.3 million, which constitutes an annual increase of EUR 22.9 million (+41.4%).

As of 30 September 2011, the group's portfolio on unfinished construction contracts totalled EUR 195 million. The contract portfolio does not include residential development projects developed by the Company and the works related to construction of investment properties.



In 2011 9 months, the group sold 113 apartments for EUR 12.3 million, (exclusive of VAT). As of 30.09.2011, the inventories included 64 unsold apartments with a total cost of EUR 6.6 million and 483 apartments in the stage of construction with a total cost of EUR 17.8 million as of the balance sheet date. Of the finished buildings 30 apartments are located in Tartu and 34 in Riga. At the moment the group is building an apartment building with 93 apartments at Tartu road 50A in Tallinn (completion time Q4 2011), two apartment buildings (21 apartments in each) at Hane Street in Tallinn (completion time summer 2012) and an apartment building with 133 apartments at Skanstese street in Riga (completion time October 2012). An apartment building with 15 apartments at Kristiina 12, Tallinn was in finishing stage as of balance sheet date.

In 2011, the share of infrastructure facilities has grown, which has significantly increased the impact of seasonality on the group's quarterly performance (EUR 26.2 million in Q1 and EUR 48.9 million revenue in Q2 compared to EUR 78.3 million in Q3 2011). In Q3, revenue was influenced by the cyclical nature of property developments as follows: apartment sales reached EUR 10.1 million which constituted 82.3% of 2011 9 months apartments total sales, and the group earned EUR 11.1 million as revenue upon the delivery of Balsiu school to the tenant.

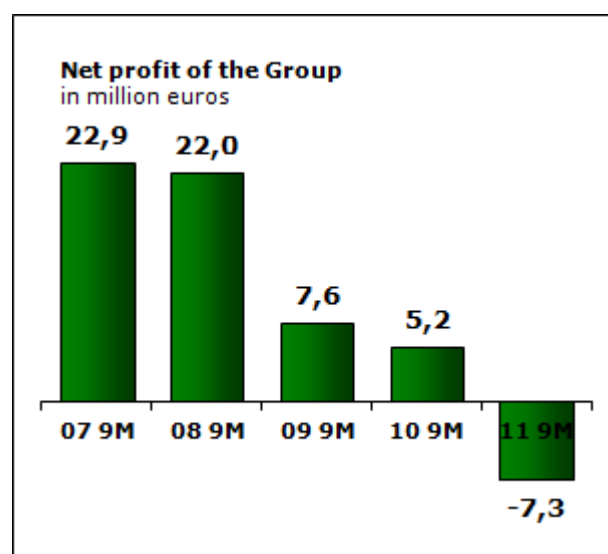
The consolidated revenue of the group's largest entities:

	<i>in thousand euros</i>		
	9 months 2011	9 months 2010	9 months 2009
Estonian entities			
AS Merko Ehitus (parent)	72 665	67 194	80 772
Tallinna Teede AS (100% ownership)	15 227	15 965	13 854
AS Merko Infra (100% ownership)	9 331	16	-
AS Gustaf (85% ownership)	2 164	1 781	2 553
OÜ Gustaf Tallinn (80% ownership)	3 845	2 409	3 013
AS Merko Tartu (66% ownership)	3 766	1 719	3 945
Latvian entity			
SIA Merks (100% ownership)	31 881	32 066	38 721
Lithuanian entity			
UAB Merko Statyba (100% ownership)	13 296	3 026	3 731

In the first 9 months of 2011, the group made a gross profit of EUR 0.4 million, incl. EUR 2.8 million in Q3. Generation of a profit was supported by the stabilisation of construction prices which decreased discount losses and thereby improved the average profitability of works completed.

Marketing and general administrative expenditures of the group decreased by 4.1% with the 9 months of 2011. Work on cutting the marketing and general administrative expenditures continues and the management has set the goal to maintain the proportion of the respective costs under 5.5% of revenue by the end of 2011.

The group's loss before taxes for the first 9 months of 2011 was EUR 7.1 million, with a net loss of EUR 7.3 million – in 9 months 2010, the group had a profit of EUR 5.9 million before taxes and a net profit of EUR 5.2 million. The loss was caused by a faster increase in construction prices than predicted in the tenders prepared in 2009/2010, and by the devaluation of loss-making projects in the first half of 2011 when the estimates were corrected. As of 30.09.2011, the group had allocated a total of EUR 3.5 million as appropriations to cover the costs of completing loss-making projects. As predicted, Q3 2011 was better than the first six months, with the group earning a net profit of EUR 0.3 million.



In 2011 9 months, the change in short-term investments, and cash and cash equivalents of Merko Ehitus group was EUR -7.1 million and as of 30 September 2011, the cash and cash equivalents in the bank accounts and term deposits of the group were in the amount of EUR 5.5 million. The cash flows from operating activities totalled EUR -22.2 million, cash flows from investing activities totalled EUR +3.3 million and cash flows from financing activities totalled EUR +11.8 million. The cash flows from operating activities in the reporting period were mostly affected by the change in trade and other receivables related to operating activities of EUR -38.6 million, change in trade and other payables related to operating activities of EUR +18.3 million and operating loss EUR -6.7 million. Of the cash flows from investing activities, purchase of investment property totalled EUR -2.5 million, the balance of issued and repaid loans totalled EUR +5.1 million and investments in property, plant and equipment totalled EUR -0.9 million. Of the cash flows from financing activities the balance of gained and repaid loans totalled EUR +15.0 million, dividends paid EUR -1.8 million and EUR -1.5 million was spent on finance lease principal payments.

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

	9 months 2011	9 months 2010	9 months 2009
Net profit margin	-4,8 %	4,1 %	5,1 %
Profit before taxes margin	-4,7 %	4,7 %	5,6 %
Operating profit margin	-4,4 %	4,9 %	5,7 %
Gross profit margin	0,2 %	10,3 %	11,9 %
EBITDA margin	-3,3 %	6,3 %	6,6 %
Return on equity per annum	-8,1 %	5,2 %	7,5 %
Return on assets per annum	-4,7 %	3,2 %	4,2 %
Equity ratio	52,7 %	61,2 %	58,1 %
Current ratio	2,1	2,6	2,4
Quick ratio	1,0	1,2	1,2
General expense ratio	4,9 %	6,2 %	6,4 %
Gross remuneration ratio	8,1 %	9,2 %	9,3 %
Debt to assets	15,0 %	12,9 %	15,2 %
Accounts receivable turnover (days)	76	63	68
Accounts payable turnover (days)	61	55	45
Revenue per employee (thousand euros)	165	160	183
Average number of full-time employees (group)	931	790	813

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

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

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

Debt to assets: $\text{Interest-bearing liabilities} / \text{Total assets}$

Accounts receivable turnover: $\text{Trade receivables} / \text{Revenue} \times 365/4/3$

Accounts payable turnover: $\text{Payables to supplies} / \text{Cost of goods sold} \times 365/4/3$

Revenue per employee: $\text{Revenue} / \text{Average number of full-time employees}$

* *attributable to equity owners of the parent*

Members of the Supervisory and Management Board of AS Merko Ehitus

Supervisory Board

The general meeting of shareholders elects the Company's Supervisory Board. The Supervisory Board plans the Company's activities and arranges its management as well as performs supervision over the Management Board. The general meeting of shareholders, held on 28 June 2011, elected an additional member (Mr Toomas Annus) to the current Supervisory Board of AS Merko Ehitus. Thus, the Supervisory Board of AS Merko Ehitus now has 5 members.

Toomas Annus - Born at 5 October 1960. Finished Tallinn Technical School of Building and Mechanics and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. Since 1987 the chairman of the Management Board of EKE MRK, the predecessor of Merko Ehitus, since 1991 the chairman of the Management Board of AS Merko Ehitus. In the years 1997-2008 and again from June 2011 the chairman of the Supervisory Board of AS Merko Ehitus.

Tõnu Toomik - Born at 8 March 1961. Finished Raatuse Gymnasium in Tartu (former Tartu Secondary School no. 3) and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. From 1993, started to work as a project manager at AS Merko Ehitus. Between 1997-2008, was a member of the Management Board of

AS Merko Ehitus, being responsible for the management and development of the Company. From August 2008, is the member of the Supervisory Board of AS Merko Ehitus.

Teet Roopalu – Born at 30 August 1949. Finished Tallinn Secondary School no. 10 (current Nõmme Gymnasium) and graduated from the Faculty of Economics of Tallinn University of Technology, majoring in construction economics and organisation. Has worked at construction companies, including as a director of finance, managed the economic activities in EKE (*Estonian Collective Farm Construction*) system as a chief economist, as a bank director and has also been involved in design work. Since November 2002, works at AS Merko Ehitus and is responsible for the Company's financial and legal areas. Is a member of the Supervisory Board of AS Riverito and those of several subsidiaries and associates of AS Merko Ehitus.

Indrek Neivelt – Born at 17 March 1967. Finished a mathematics and physics - biased class at Tallinna Secondary School no. 1 (current Gustav Adolf Gymnasium), graduated from Tallinn University of technology, majoring in civil engineering economics and management, and received his MBA in banking and finance from Stockholm University. Between 1991-2005, worked in various positions at Hansapank, over the last six years as the general director of the group and chairman of the Management Board. From 2005, is a Chairman of the Supervisory Board of Bank Saint Petersburg and is a member of supervisory boards of several entities. From October 2008, is member of the Supervisory Board of AS Merko Ehitus.

Olari Taal – Born at 7 August 1953. In 1971, finished Varstu Secondary School and in 1976, graduated as a civil engineer from Tallinn University of Technology. Has managed Tartu Elamuehituskombinaat (*Tartu Housing Plant*; Tartu Maja) and Eesti Hoiupank (*Estonian Savings Bank*). Has served the Republic of Estonia as the Minister of Construction, Minister of Economic Affairs, Minister of Internal Affairs and as a member of the 10th Riigikogu (Parliament of Estonia). From October 2008, Olari Taal is a member of the Supervisory Board of AS Merko Ehitus.

Management Board

The Management Board is the Company's governing body, which represents and manages the Company. The Management Board shall adhere to the lawful regulations of the Supervisory Board. The Management Board is under the obligation to act in most economically purposeful manner. As of 21.12.2010, the Management Board of AS Merko Ehitus has 6 members.

Tiit Roben – Born at 5 January 1966. Finished Mustamäe Gymnasium (former name: Tallinn Secondary School no. 44) in Tallinn and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. Worked as a project manager at AS Merko Ehitus between 1998-2002. Between 2002-2008, worked at AS Riverito's entity E.L.L.Kinnisvara AS, from 2005, is a member of the Company's Management Board. From August 2008, is the Chairman of the Management Board of AS Merko Ehitus, being responsible for the management and development of the Company.

Jaan Mäe – Born at 26 September 1964. Finished Viljandi Secondary School no. 5. and graduated from Tallinn University of Technology, majoring in industrial and civil engineering. From December 1997, works at AS Merko Ehitus, has been project manager, division manager and member of the Management Board. Between 2006-2010, was a member of the Supervisory Board of AS Merko Ehitus and several group entities. From June 2010, is a member of the Management Board of AS Merko Ehitus, being responsible for attainment of goals in the area of development and is the Chairman of the Supervisory Board of Latvian and Lithuanian subsidiaries.

Alar Lagus – Born at 15 February 1969. Finished Rapla Secondary School and graduated from the Faculty of Chemistry of Tallinn University of Technology, majoring in organisation and technology of public catering. After graduation, worked in various positions at Hansapank. From 2004, works as a manager in the finance area and is responsible for the Company's financial and managerial accounting and investor relations.

Veljo Viitmann – Born at 13 March 1962. Finished Türi Secondary School and graduated from Tallinn University of Technology, majoring in road engineering and bridges. From 1994, works at AS Merko Ehitus and is responsible for preparation of tenders for new projects.

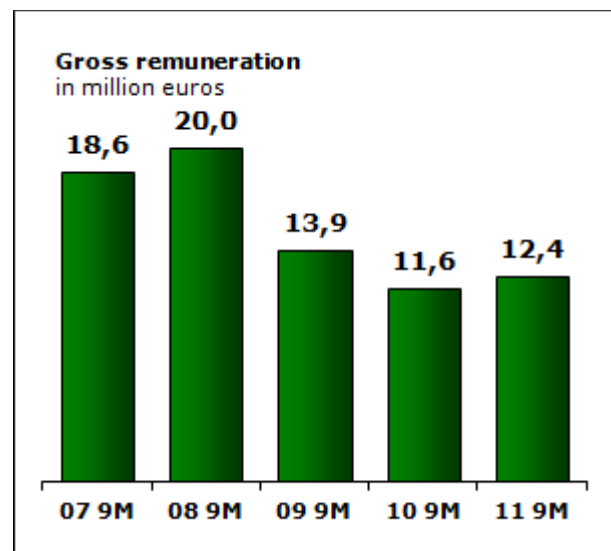
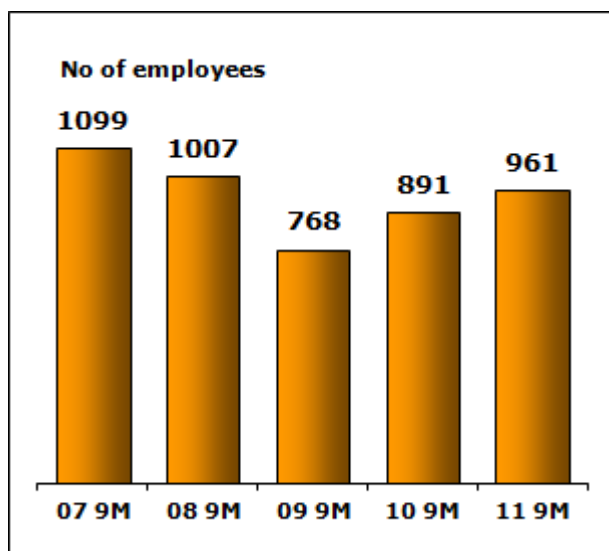
Andres Agukas – Born at 15 July 1965. Finished Pärnu-Jaagupi Secondary School and graduated from Tallinn University of Technology, majoring in road engineering. At 2 February 1998, started to work at AS Merko Ehitus as the first employee in the area of civil engineering. From October 2005, as a member of the Management Board is responsible for the whole area of the construction service.

Viktor Mõisja – Born at 6 January 1951. Graduated as a civil engineer from Tallinn University of Technology. Viktor Mõisja has worked at AS Merko Ehitus since the foundation of the Company and most of the time as a manager of the department of concrete works. From 21 December 2010, is a member of the Company's Management Board and his area of responsibility are quality management and supervision.

Information about the shares held by the members of the Supervisory and management Boards is disclosed in chapter "Share and shareholders" of the report.

Employees and remuneration

Due to the growth of the contract portfolio and the increase in the share of facilities in the structure of contracts, the number of group's employees increased by 70 (+7,9%) employees and as of 30.09.2011, the group had 961 employees. The gross remuneration paid to employees in 2011 9 months amounted to EUR 12.36 million an increase of 6.6% compared to previous year. The group's labour costs have increased due to the employment of new personnel. Salaries accounted for 85.1% of the gross remuneration, and performance-related pay accounted for 14.9%.



Construction market

Economic growth, in constant prices

Q3 2011 vs. Q3 2010

Estonia +7,9%

Latvia +5,7%

Lithuania +6,6%

Construction price index, in constant prices

Q3 2011 vs. Q3 2010

Estonia +3,0% incl. labour force +7,7%

Latvia +2,1% incl. labour force -1,0%

Lithuania +3,4% incl. labour force +4,7%

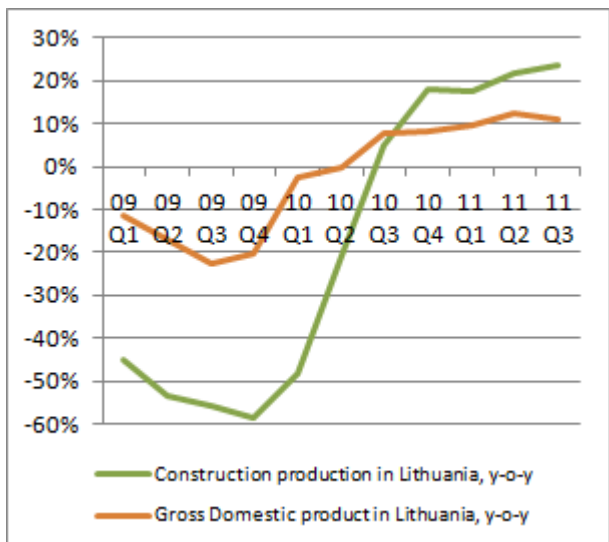
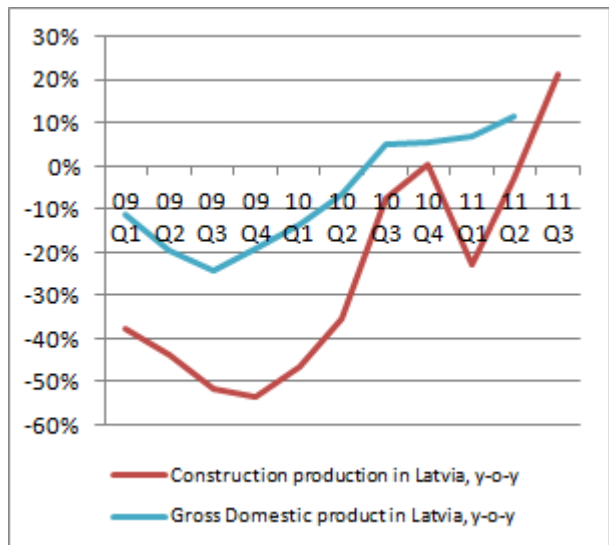
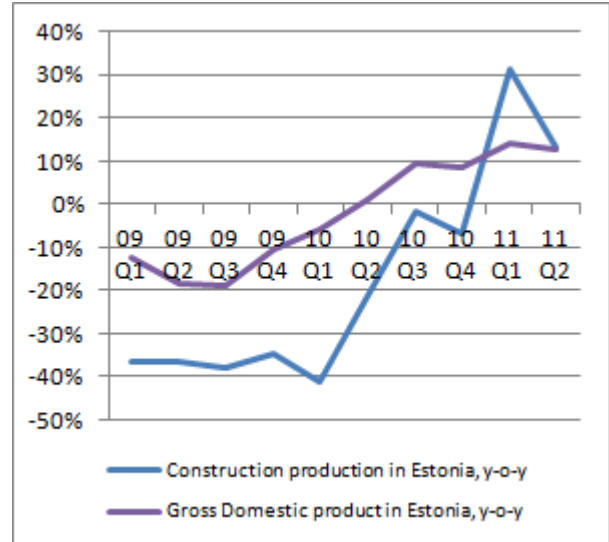
Improvement of the economic environment of the Baltic countries in the first half of the year has had a positive impact on the construction market. Volumes of construction works completed by own forces have grown in all Baltic countries during the year. In Lithuania, construction works in the total volume of 1.27 billion euros* were completed during the first 9 months, meaning a growth of +21.9% compared to the 9 months of the previous year, including +23,7% in Q3. In Latvia, construction works by own forces were completed in the total volume of 0.71 billion euros* during the 9 months, meaning annual growth of +4.5%, including an increase of +21.2% in Q3. In Estonia, the 3rd quarter results of the construction market will be published on 29.11.2011. It is reasonable to expect continuation of the trends of the first semester. During the first 6 months of 2011, construction works by own forces were completed in Estonia in the total volume of 0.56 billion euros*, i.e. +19.7% compared to the result of the previous year (2011 Q1 respectively +31.4%).

* in current prices

The construction market of the neighbouring blocks is affected by the following trends:

The sense of security regarding the future that the region's private contracting entities share has decreased compared to the beginning of the year, which is also why there is no interest in the construction of new buildings/structures. Estonia's adaptation of the euro has failed to significantly increase foreign investment activities in the area and it has not affected the construction market as positively as expected. Most new construction contracts still originate from the public sector and they are financed from the sources of the Structural Funds of the European Union.

The small number of contracting entities remaining in the market (the state, local governments) enjoy their position – they make the guarantee requirements and payment terms prescribed to contractors more severe, the strain on companies' circulating capital increases, and the companies' capability to cope with the management of liquidity and cash flows becomes increasingly decisive.



Due to significant volatility of input prices, it is difficult to budget projects and complete construction works within the limits of planned cost, bringing about additional risks in the performance of fixed-price construction contracts. If in the first half year the rapid increase of construction prices was borne only by contractors, then the second semester has brought the problem also into the attention of the contracting entities. More frequently, contracting entities cancel their procurement procedures due to the fact that the received offers fail to comply with budgets prepared in 2009/2010, and the funds allocated for project financing are insufficient.

Construction of new apartments in Tallinn and Vilnius that enjoyed a growth in the first semester has clearly shrunk in the second half of the year. Due to increasing insecurity in the overall economic environment, the buyers of apartments have taken on a passive role and do not rush into making buying decisions. Significant increase of input construction prices and the currently unchanged level of sales prices of apartments sets limits to the entry of new apartments into the market in the near future. The banks' willingness to finance development activities and final buyers of residence spaces is good in Lithuania and Estonia, and satisfactory in Latvia.

Insecurity in European and American financial markets has shaken the sense of security of investors, yielding to an expected global decrease in the demand for construction services. Due to decreased demand, the future may hold a decrease in the price of global inputs (steel, crude oil products) that may in turn lead to a short-term improvement of the profitability of such construction contracts that have already been entered into. At the same time, the continued insecurity complicates the medium and long term chances of development in the construction sector.

Share and shareholders

Share information

ISIN	EE3100098328
Short name of the security	MRK1T
Stock Exchange List	Baltic Main List
Nominal	no par value
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 2011 9 months 3184 transactions with the shares of Merko Ehitus were performed in the course of which 0.9 million shares were traded and the total monetary value of transactions was EUR 6.99 million. The lowest share price was EUR 4.90 and the highest price was EUR 10.65 per share. The closing share price as of 30.09.2011 was EUR 5.30. AS Merko Ehitus market value as of 30.09.2011 was EUR 94 million.

The main shareholders of AS Merko Ehitus as of 30.09.2011

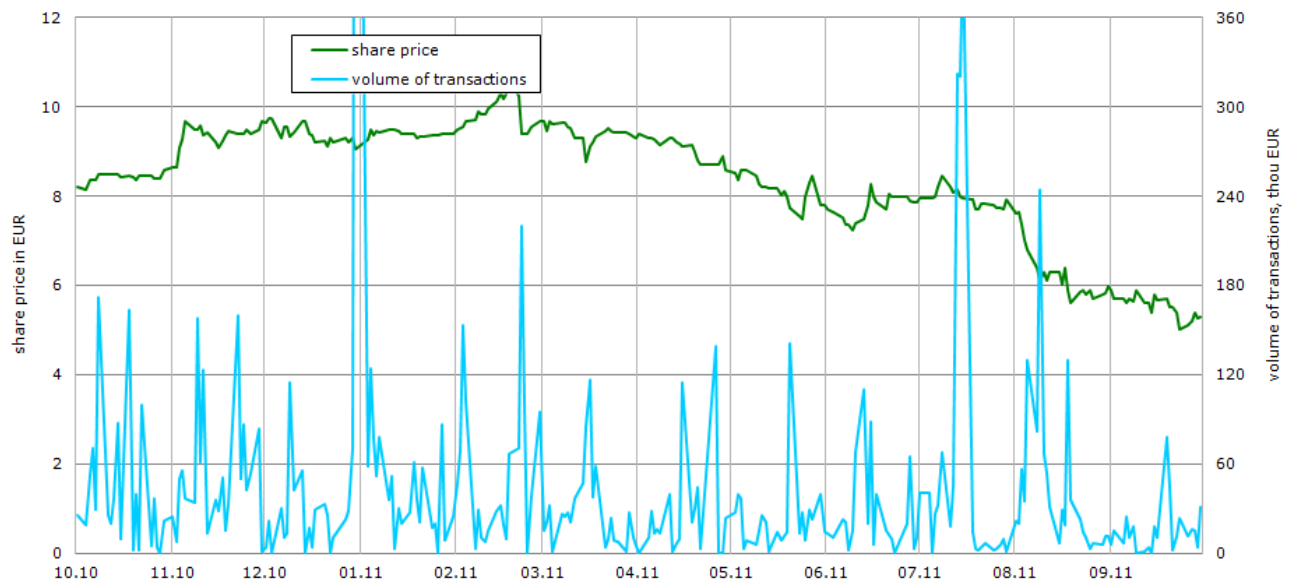
	Number of shares	Percentage of total
AS Riverito	12 742 686	71,99%
ING Luxembourg S.A., clients	974 126	5,50%
Skandinaviska Enskilda Banken Ab, clients	839 772	4,74%
Ergo Pensionifond 2P2	171 679	0,97%
State Street Bank and Trust Omnibus Account a Fund No OM01	156 718	0,89%
Gamma Holding OÜ	137 457	0,78%
SEB Elu- ja Pensionikindlustus AS	125 520	0,71%
Clearstream Banking Luxembourg S.A. clients	106 339	0,60%
AS Midas Invest	101 725	0,57%

	30.09.2011	30.09.2010	30.09.2009
No. of shares, thousand pcs	17 700	17 700	17 700
Earnings per share (EPS), in euros	-0,41	0,29	0,43
Equity per share, in euros	6,53	7,27	7,69
P/B (share price to equity per share)	0,81	1,12	0,70

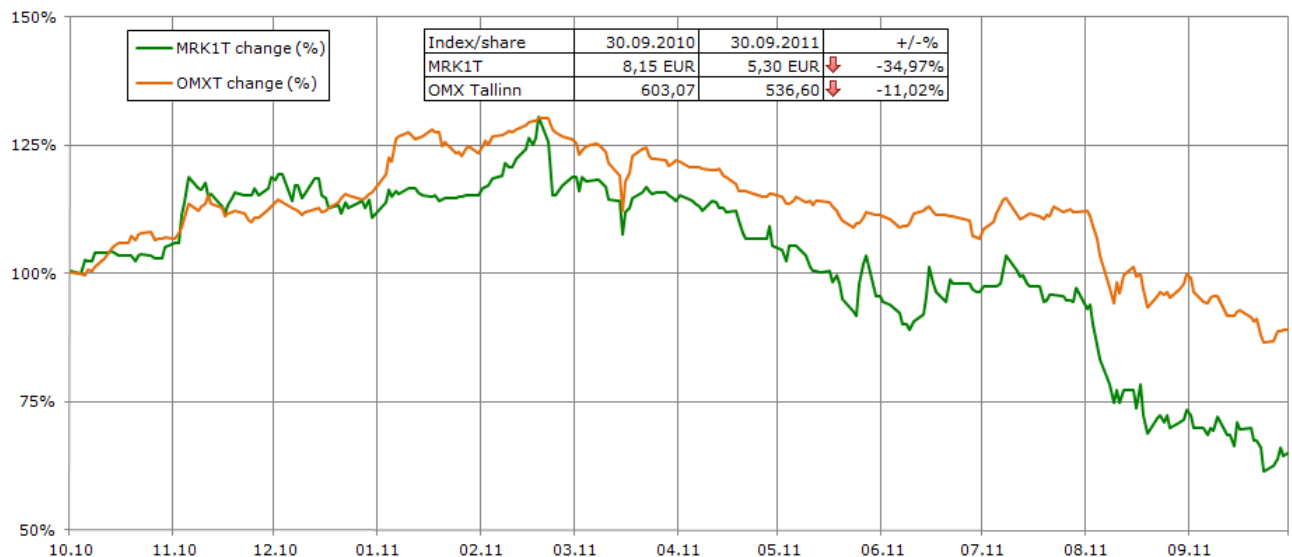
Structure of shareholders as of 30.09.2011

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1-100	421	26,17%	22 721	0,13%
101-1000	848	52,70%	356 671	2,02%
1001-10 000	297	18,46%	865 303	4,89%
10 001 – 100 000	34	2,11%	1 099 283	6,21%
100 001 – 1 000 000	8	0,50%	2 613 336	14,76%
1 000 001 - ...	1	0,06%	12 742 686	71,99%
Total	1609	100%	17 700 000	100%

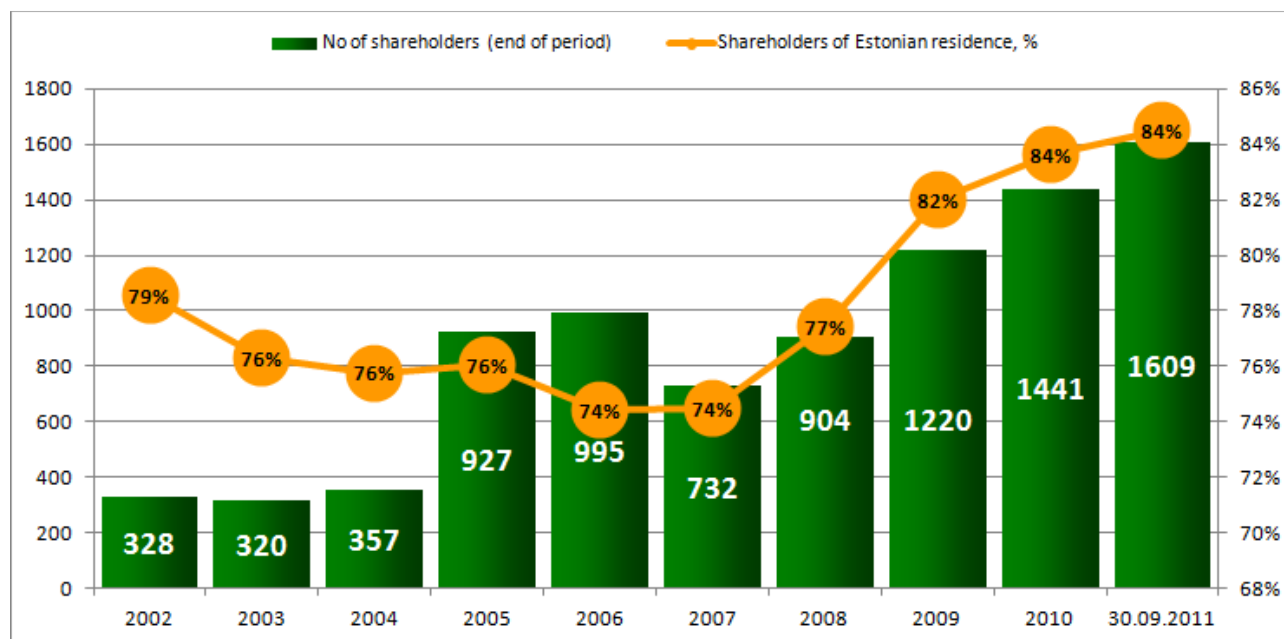
Performance of Merko Ehitus share at NASDAQ OMX Tallinn Stock Exchange (last 12 months)



Performance of the share of Merko Ehitus and comparison index OMX Tallinn (last 12 months)



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



Shares held by members of the Supervisory Board of AS Merko Ehitus as of 30.09.2011

		Number of shares	Percentage 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%

Shares held by members of the Management Board of AS Merko Ehitus as of 30.09.2011

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

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	<i>note</i>	2011 9 months	2010 9 months
Revenue	2,3	153 391	126 269
Cost of goods sold	4	<u>(153 036)</u>	<u>(113 210)</u>
Gross profit		355	13 059
Marketing expenses		(1 574)	(1 475)
Administrative and general expenses		(5 974)	(6 395)
Other operating income		587	1 216
Other operating expenses		<u>(101)</u>	<u>(261)</u>
Operating profit (loss)		(6 707)	6 144
Financial income and expenses		<u>(425)</u>	<u>(270)</u>
incl. financial income (expenses) from investments into subsidiaries		14	-
financial income (expenses) from investments into associates and joint ventures		157	(200)
interest expense		(756)	(658)
foreign exchange gain		104	96
other financial income (expenses)		<u>56</u>	<u>492</u>
Profit (loss) before tax		(7 132)	5 874
Corporate income tax expense		(238)	(734)
Net profit (loss) for current period		<u>(7 370)</u>	<u>5 140</u>
incl. equity holders of the parent		(7 329)	5 201
non-controlling interest		(41)	(61)
Other comprehensive income (loss)			
Currency translation differences of foreign entities		23	36
Comprehensive income (loss) for the period		<u>(7 347)</u>	<u>5 176</u>
incl. equity holders of the parent		(7 306)	5 237
non-controlling interest		(41)	(61)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	5	(0,41)	0,29

in thousand euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

	2011	2010
	III quarter	III quarter
Revenue	78 344	55 415
Cost of goods sold	(75 556)	(50 804)
Gross profit	2 788	4 611
Marketing expenses	(412)	(477)
Administrative and general expenses	(2 081)	(2 230)
Other operating income	267	202
Other operating expenses	(52)	(68)
Operating profit (loss)	510	2 038
Financial income and expenses	(104)	(70)
incl. financial income (expenses) from investments into subsidiaries	14	-
financial income (expenses) from investments into associates and joint ventures	132	84
interest expense	(342)	(248)
foreign exchange gain	77	1
other financial income (expenses)	15	93
Profit (loss) before tax	406	1 968
Corporate income tax expense	(238)	(124)
Net profit (loss) for current period	168	1 844
incl. equity holders of the parent	263	1 883
non-controlling interest	(95)	(39)
Other comprehensive income (loss)		
Currency translation differences of foreign entities	(3)	(28)
Comprehensive income (loss) for the period	165	1 816
incl. equity holders of the parent	260	1 855
non-controlling interest	(95)	(39)
Earnings per share for profit (loss) attributable to equity holders of the parent (basic and diluted, in euros)	0,01	0,11

in thousand euros

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

	note	30.09.2011	31.12.2010
ASSETS			
Current assets			
Cash and cash equivalents	6	5 395	9 856
Short-term deposits		140	2 651
Trade and other receivables	7	80 254	44 938
Prepaid corporate income tax		682	1 366
Inventories	8	91 886	93 048
Non-current assets held for sale		180	-
Total current assets		<u>178 537</u>	<u>151 859</u>
Non-current assets			
Long-term financial assets	9	17 794	19 311
Deferred income tax assets		1 571	1 571
Investment property	10	3 809	3 585
Property, plant and equipment	11	16 224	17 747
Intangible assets	12	1 445	1 508
Total non-current assets		<u>40 843</u>	<u>43 722</u>
TOTAL ASSETS		<u>219 380</u>	<u>195 581</u>
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	13	14 708	12 554
Trade and other payables	14	63 380	39 154
Corporate income tax liability		11	-
Provisions	15	5 229	3 674
Total current liabilities		<u>83 328</u>	<u>55 382</u>
Non-current liabilities			
Long-term borrowings	13	18 185	13 185
Long-term trade payables		816	845
Long-term customer prepayments		-	1
Total non-current liabilities		<u>19 001</u>	<u>14 031</u>
Total liabilities		<u>102 329</u>	<u>69 413</u>
Equity			
Non-controlling interest		1 387	1 428
Equity attributable to equity holders of the parent			
Share capital		12 000	11 312
Statutory reserve capital		1 131	1 131
Currency translation adjustment		(901)	(924)
Retained earnings		103 434	113 221
Total equity attributable to equity holders of parent		<u>115 664</u>	<u>124 740</u>
Total equity		<u>117 051</u>	<u>126 168</u>
TOTAL LIABILITIES AND EQUITY		<u>219 380</u>	<u>195 581</u>

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			
Balance as of 31.12.2009	11 312	1 131	(947)	124 436	135 932	1 734	137 666
Comprehensive income (loss)	-	-	36	5 201	5 237	(61)	5 176
Purchase of non-controlling interest	-	-	-	-	-	(137)	(137)
Dividends	-	-	-	(12 444)	(12 444)	-	(12 444)
Balance as of 30. 09.2010	11 312	1 131	(911)	117 193	128 725	1 536	130 261
Balance as of 31.12.2010	11 312	1 131	(924)	113 221	124 740	1 428	126 168
Comprehensive income (loss)	-	-	23	(7 329)	(7 306)	(41)	(7 347)
Equity financing	688	-	-	(688)	-	-	-
Dividends	-	-	-	(1 770)	(1 770)	-	(1 770)
Balance as of 30.09.2011	12 000	1 131	(901)	103 434	115 664	1 387	117 051

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

	2011	2010
	9 months	9 months
Cash flows from operating activities		
Operating profit (loss)	(6 707)	6 144
Adjustments:		
depreciation and impairment charge	1 610	1 794
(profit) loss from sales of non-current assets	(96)	(26)
change in receivables and liabilities related to construction contracts recognised under the stage of completion method	(1 416)	(19 205)
interest income from business activities	(263)	(457)
change in provisions	1 640	685
Change in trade and other receivables related to operating activities	(38 558)	(5 941)
Change in inventories	3 408	5 046
Change in trade and other payables related to operating activities	18 268	11 610
Interest paid	(755)	(646)
Other financial expenses (income)	(16)	(2)
Corporate income tax paid	686	(1 495)
Total cash flows from operating activities	(22 199)	(2 493)
Cash flows from investing activities		
Investment in subsidiary	-	(71)
Proceeds from sale of subsidiary	(214)	-
Investments in associate and joint venture	-	(1)
Proceeds from sale of associate and joint venture	-	2
Purchase/proceeds of/from shortterm deposits with maturities greater than 3m	2 511	18 123
Purchase of long-term deposits with maturities greater than 3 months	-	(320)
Purchase of investment property	(2 532)	(536)
Purchase of property, plant and equipment	(855)	(641)
Proceeds from sale of property, plant and equipment	1 353	176
Purchase of intangible assets	(26)	(23)
Proceeds from sale of intangible assets	3	-
Loans granted	(312)	(5 779)
Loan repayments received	5 456	2 699
Interest received	397	467
Dividends received	57	14
Total cash flows from investing activities	5 838	14 110
Cash flows from financing activities		
Proceeds from borrowings	20 167	1 858
Repayments of borrowings	(5 155)	(9 356)
Selling-leaseback on terms of capital lease	65	-
Finance lease principal payments	(1 509)	(1 145)
Dividends paid	(1 770)	(12 444)
Total cash flows from financing activities	11 798	(21 087)
Net increase/decrease in cash and cash equivalents	(4 563)	(9 470)
Change of deposits with maturities greater than 3 months	(2 511)	(18 123)
Total change	(7 074)	(27 593)
Cash and cash equivalents at the beginning of the period	9 856	22 991
Deposits with maturities greater than 3 months at the beginning of period	2 651	25 623
Total at the beginning of the period	12 507	48 614
Effect of exchange rate changes	102	137
Cash and cash equivalents at the end of the period	5 395	13 658
Deposits with maturities greater than 3 months at the end of the period	140	7 500
Total at the end of the period	5 535	21 158

NOTES

Note 1 Accounting policies

The interim report of Merko Ehitus group for the 2011 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 2010 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 Merko Ehitus AS for the 2011 9 months and III quarter reflects the economic results of the group true and fair and according to the principle of continuity. An increase in the proportion of the construction of infrastructure objects has in 2011 significantly increased the impact of seasonality on the group's revenue.

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.

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 and impairment charge	(54)	(103)	(845)	(53)	(238)	(1 293)
Setting up provisions	(477)	(483)	(2 216)	(23)	-	(3 199)
Annulment of inventory write-down (note 4)	-	-	-	238	-	238
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)
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
2010 9 months	Buildings	Facilities	Roads	Develop- ment of real estate	Other	Total segments
Segment revenue	51 218	46 082	26 848	18 006	1 311	143 465
Inter-segment revenue	(5 041)	(5 893)	(2 805)	(2 596)	(861)	(17 196)
Revenue from external clients	46 177	40 189	24 043	15 410	450	126 269

Depreciation and impairment charge	(86)	(487)	(766)	(24)	(62)	(1 425)
Setting up provisions	(672)	(958)	(1 229)	(18)	-	(2 877)
Profit (loss) from associates and joint ventures	-	-	-	(70)	(130)	(200)
Other finance income/costs	-	(2)	-	(25)	(15)	(42)
Profit (loss) before tax	5 755	5 009	86	2 445	96	13 391
Segment assets 30.09.2010	16 970	16 490	24 631	106 386	8 418	172 895

In addition to the segment assets, as of 30.09.2011 the group holds assets of EUR 21 151 thousand (30.09.2010: EUR 27 418 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

	2011 9 months	2010 9 months
Profit (loss) from reporting segments	379	13 391
Unallocated expense (income)		
marketing expenses	(1 574)	(1 475)
general and administrative expenses	(5 974)	(6 395)
other operating income (expense)	438	381
finance income (costs)	(401)	(28)
incl. interest income	67	490
interest expense	(558)	(617)
Total profit before tax	(7 132)	5 874

Unallocated finance costs and income mostly include income from deposits but also interest expense not capitalised and other immaterial finance costs.

Revenue by client location

	2011 9 months	2010 9 months
Estonia	107 050	91 135
Latvia	31 881	32 066
Lithuania	14 460	3 068
Total	153 391	126 269

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

	30.09.2011	30.09.2010
Estonia	20 789	19 744
Latvia	595	799
Lithuania	94	547
Total	21 478	21 090

Note 3 Revenue

in thousand euros

	2011 9 months	2010 9 months
Rendering of services	139 788	110 872
Sale of real estate and real estate development projects	12 381	14 938
Rental income	618	313
Sale of goods	604	146
Total revenue	153 391	126 269

Note 4 Cost of goods sold

in thousand euros

	2011 9 months	2010 9 months
Construction services	79 393	56 673
Materials	33 050	23 142
Properties purchased for resale	11 934	9 088
Staff costs	12 023	10 459
Construction mechanisms and transport	8 352	6 844
Design	1 569	976
Annulment of inventory write-down	(238)	-
Real estate management costs	176	214
Depreciation and impairment charge	1 293	1 425
Other expenses	5 484	4 389
Total cost of goods sold	153 036	113 210

Note 5 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.

	2011 9 months	2010 9 months
Net profit (loss) attributable to shareholders (<i>in thousands of euros</i>)	(7 329)	5 201
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17 700	17 700
Earnings per share (<i>in euros</i>)	(0,41)	0,29

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 6 Cash and cash equivalents

in thousand euros

	30.09.2011	31.12.2010
Cash on hand	10	8
Bank accounts	3 391	937
Overnight deposits	1 994	8 911
Total cash and cash equivalents	5 395	9 856

Note 7 Trade and other receivables*in thousand euros*

	30.09.2011	31.12.2010
Trade receivables		
accounts receivable	43 844	21 748
allowance for doubtful receivables	(1 139)	(1 159)
	<u>42 705</u>	<u>20 589</u>
Tax prepayments excluding corporate income tax		
value added tax	1 230	1 184
other taxes	11	17
	<u>1 241</u>	<u>1 201</u>
Amounts due from customers of contract works	21 915	13 557
Other short-term receivables		
short-term loans	9 398	6 500
interest receivables	1 417	808
other short-term receivables	249	190
	<u>11 064</u>	<u>7 498</u>
Prepayments for services		
prepayments for construction services	2 597	1 364
prepaid insurance	353	254
other prepaid expenses	379	475
	<u>3 329</u>	<u>2 093</u>
Total trade and other receivables	<u>80 254</u>	<u>44 938</u>

Note 8 Inventories*in thousand euros*

	30.09.2011	31.12.2010
Raw materials and materials	845	962
Work-in-progress	29 066	31 826
Finished goods	14 613	12 834
Goods for resale		
registered immovables purchased for resale	39 307	39 513
other goods purchased for resale	1 074	1 173
	<u>40 381</u>	<u>40 686</u>
Prepayments for inventories		
prepayments for real estate properties	6 644	6 641
prepayments for other inventories	337	99
	<u>6 981</u>	<u>6 740</u>
Total inventories	<u>91 886</u>	<u>93 048</u>

Note 9 Long-term financial assets*in thousand euros*

	30.09.2011	31.12.2010
Investments in associates and joint ventures	11 160	11 053
Other investments	29	-
Long-term loans	5 266	6 323
Long-term interest receivables	31	308
Long-term bank deposit	180	319
Long-term receivable from buyer of subsidiary	96	96
Long-term receivables from customers of construction services	1 032	1 212
Total long-term financial assets	17 794	19 311

Note 10 Investment property*in thousand euros*

	30.09.2011	31.12.2010
Land	134	134
Right of superficies at carrying amount		
cost	29	-
accumulated depreciation	(8)	-
	21	-
Buildings at carrying amount		
cost	3 337	1 152
accumulated depreciation	(167)	(119)
	3 170	1 033
Construction in progress	484	2 418
Total investment property	3 809	3 585

Note 11 Property, plant and equipment*in thousand euros*

	30.09.2011	31.12.2010
Land	825	825
Buildings at carrying amount		
cost	5 726	5 692
accumulated depreciation	(1 034)	(894)
	4 692	4 798
Right of superficies at carrying amount		
cost	-	29
accumulated depreciation	-	(8)
	-	21
Machinery and equipment at carrying amount		
cost	16 294	17 608
accumulated depreciation	(8 038)	(7 828)
	8 256	9 780
Other fixtures at carrying amount		
cost	5 231	4 985
accumulated depreciation	(2 793)	(2 662)
	2 438	2 323
Construction in progress and prepayments	13	-
Total property, plant and equipment	16 224	17 747

Note 12 Intangible assets*in thousand euros*

	30.09.2011	31.12.2010
Goodwill	891	891
Software at carrying amount		
cost	1 167	1 160
accumulated depreciation	(700)	(630)
	<u>467</u>	<u>530</u>
Prepayments for intangible assets	87	87
Total intangible assets	<u>1 445</u>	<u>1 508</u>

Note 13 Borrowings*in thousand euros*

	30.09.2011	31.12.2010
Finance lease payables		
Present value of lease payments	<u>3 061</u>	<u>3 949</u>
incl. current portion	809	1 055
non-current portion 1...4 years	2 252	2 894
Bank loans		
Loan balance	<u>18 555</u>	<u>14 488</u>
incl. current portion	2 798	4 373
non-current portion 1...5 years	15 757	10 115
Loans from parent		
Loan balance	<u>3 822</u>	-
incl. current portion	3 822	-
Loans from entities under common control		
Loan balance	<u>6 945</u>	<u>6 989</u>
incl. current portion	6 945	6 989
Loans from other entities		
Loan balance	<u>510</u>	<u>313</u>
incl. current portion	334	137
non-current portion 1...5 years	176	176
Total loans		
Loans balance	<u>29 832</u>	<u>21 790</u>
incl. current portion	13 899	11 499
non-current portion 1...5 years	15 933	10 291
Total borrowings	<u>32 893</u>	<u>25 739</u>
incl. current portion	14 708	12 554
non-current portion 1...5 years	18 185	13 185

Note 14 Trade and other payables*in thousand euros*

	30.09.2011	31.12.2010
Trade payables	34 339	15 362
Payables to employees	2 769	2 701
Tax liabilities, except for corporate income tax		
value added tax	1 245	730
personal income tax	429	442
social security tax	836	758
unemployment insurance tax	83	78
contributions to mandatory funded pension	24	18
other taxes	321	25
	<u>2 938</u>	<u>2 051</u>
Amounts due to customers for contract works	10 814	3 876
Other liabilities		
interest liabilities	108	88
payable for registered immovables from demerger	6 391	6 391
other liabilities	119	301
	<u>6 618</u>	<u>6 780</u>
Prepayments received	5 902	8 384
Total trade and other payables	<u>63 380</u>	<u>39 154</u>

Note 15 Short-term provisions*in thousand euros*

	30.09.2011	31.12.2010
Provision for warranty obligation for construction	1 066	1 112
Provision for onerous construction contracts	3 524	2 226
Provision for legal costs and claims filed	313	262
Other provisions	326	74
Total short-term provisions	<u>5 229</u>	<u>3 674</u>

Note 16 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 of 30.09.2011 and 31.12.2010, 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 euros

	2011 9 months	2010 9 months
Construction services rendered		
Associates and joint ventures	109	85
Entities under common control	1 302	103
Other related parties	2	-
Management members	6	833
Total construction services rendered	1 419	1 021
Purchased construction services		
Entities under common control	101	155
Purchased other services		
Parent company	86	-
Construction materials purchased		
Other related parties	108	2
Interest income		
Associates and joint ventures	80	64
Entities under common control	70	125
Total interest income	150	189
Interest expenses		
Parent company	64	23
Entities under common control	137	125
Total interest expenses	201	148

Balances with the related parties*in thousand euros*

	30.09.2011	31.12.2010
Trade and other receivables		
Trade receivables		
Parent company	3	5
Associates and joint ventures	14	18
Entities under common control	73	4
Other related parties	1	5
Short-term loans		
Associates and joint ventures	1 338	-
Entities under common control	3 446	1 557
Interest receivables		
Associates and joint ventures	751	383
Entities under common control	626	175
Other short-term receivables		
Associates and joint ventures	-	4
Prepayments for inventories		
Entities under common control	4 744	4 741
Other long-term loans and receivables		
Long-term loans		
Associates and joint ventures	3 537	4 755
Interest receivables		
Associates and joint ventures	-	288
Borrowings		
Short-term loans and bonds		
Parent company	3 822	-
Entities under common control	6 945	6 989
Trade and other payables		
Trade payables		
Parent company	12	12
Entities under common control	27	3
Other related parties	21	-
Interest liabilities		
Parent company	22	16
Entities under common control	18	15
Other short-term liabilities		
Entities under common control	6 391	6 391

Remuneration of the members of the Supervisory and Management Boards

In 9 months 2011, the members of the Supervisory and Management Boards of AS Merko Ehitus were paid remuneration totalling EUR 369 thousand (2010 9 months EUR 585 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 to them upon the termination of the contract. During the 9 months of 2011 benefits for the members of the Management Board were not paid.

Note 17 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>	30.09.2011	31.12.2010
Performance period's warranty to the customer	25 637	19 339
Tender warranty	3 412	3 276
Guarantee warranty period	8 152	9 771
Prepayment guarantee	12 324	10 295
Contracts of surety	986	53
Payment guarantee	685	171
Total contingent liabilities	51 196	42 905

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 consolidated 2011 9 months and III quarter interim report as presented on pages 3 to 26.

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.

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



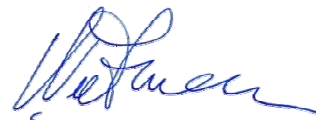
17.11.2011

Alar Lagus Member of the Management Board



17.11.2011

Veljo Viitmann Member of the Management Board



17.11.2011

Andres Agukas Member of the Management Board



17.11.2011

Jaan Mäe Member of the Management Board



17.11.2011

Viktor Mõisja Member of the Management Board



17.11.2011