

AS MERKO EHITUS
GROUP

Consolidated interim report 9M 2006

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Primary activity: General contracting in construction sector

Auditor: AS PricewaterhouseCoopers

COMMENTARY TO 9M 2006 FINANCIAL RESULTS

Business operations

Sales proceeds of Merko Ehitus group during the first nine months of 2006 amounted to 3071.0 million kroons, and Group's net profit was 335.3 million kroons. As compared to the same period in 2005, Group's sales proceeds increased by 24.0 per cent and net profit by 10.7 per cent. 3.3 million kroons of the net profit originated from extraordinary operations which were gained from disposal of shareholdings in associated company and subsidiary. In the third quarter of the year, various large-scale housing development projects were completed, which increased the net profit margin in the third quarter from 9.8 per cent to 10.8 per cent.

Group's sales proceeds in the third quarter were 1358.3 million kroons and net profit amounted to 166.3 million kroons. The rapid growth of the construction sector in Latvia and Lithuania together with the progress of our subsidiaries in these countries has been extremely pleasing. Group's sales proceeds in the third quarter increased by 6.5 per cent in Estonia, and 113.6 per cent and 82.0 per cent in Latvia and Lithuania respectively as compared to the same period in 2005. The share of Group's construction work operations carried out outside Estonia increased from 25.3 percent to 37.2 per cent in the last twelve months. 62.8 per cent of the Group's sales proceeds were gained in Estonia, 25.6 per cent in Latvia and 11.6 per cent in Lithuania.

Most important companies of the Group 9M 2006 consolidated net sales (sales outside the Group) were:

in thousand kroons and euros

	2006 9 months		2005 9 months	
	EEK	EUR		EEK
Estonian companies				
Construction				
AS Merko Ehitus	1 310 319	83 745	1 389 298	88 792
AS Gustaf (75% partnership)	71 762	4 586	46 917	2 999
OÜ Gustaf Tallinn (80% partnership)	97 740	6 247	59 697	3 815
AS Merko Tartu (66% partnership)	172 451	11 022	155 764	9 955
Tallinna Teede AS (100% partnership)	206 762	13 214	153 460	9 808
OÜ Woody (100% partnership)	167 745	10 721	34 043	2 176
Latvian companies				
Construction				
SIA Merks (100% partnership)	713 260	45 586	453 874	29 008
Lithuanian companies				
Construction				
UAB Merko Statyba (100% partnership)	330 445	21 119	166 383	10 634

The prevailing trends such as good demand and rapid growth were characteristic to the construction sector in the Baltic countries also in the third quarter. In market prices, the growth of the construction sector during the last six months amounted to 41.3 per cent in Estonia, 35.6 per cent in Latvia and 31.7 per cent in Lithuania according to the Statistical Offices. Constantly increasing construction prices contributed significantly to this growth.

Rapidly increasing volumes have affected the availability of workforce and building materials, and have also boosted the rise of construction costs. As compared to the third quarter in 2005, construction costs increased by 26.5 per cent in Latvia, 11.2 per cent in Estonia and 10.0 per cent in Lithuania including the respective 20.4 per cent and 58.9 per cent increase in labour costs in Estonia and Latvia.

The restricted availability of workforce and building materials together with the rapid price increase provide a challenge to the future development of the construction sector as rapid growth contributes to the instability of the sector, increases uncertainty and the risk of extraordinary costs. In the medium to long term, increasing construction costs, which exceed the purchase and investment capacity, may have a negative effect on the demand and are likely to hinder sector's growth. However, in the short term demand will exceed supply and construction sector's growth will continue.

The ratios and calculation methods characterizing the operating activities of the Group were as follows:

	2006 9 months	2005 9 months
Net profit margin *	10,8 %	10,7 %
Operating profit margin	11,8 %	12,2 %
Return on equity per annum	36,5 %	48,1 %
Return on assets per annum	17,7 %	24,8 %

Current ratio	2,0	1,8
Equity ratio	47,5 %	47,9 %
General expenses to net sales	3,7 %	4,0 %
Staff costs to net sales	7,4 %	6,6 %
Average number of full-time employees	841	684

* less extraordinary profit

Net profit margin: Net profit / Sales

Operating profit margin: Operating profit / Sales

Return on equity: Net profit x 4/3* / Average equity during the period*

Return on assets: Net profit x 4/3* / Average assets during the period

Current ratio: Current assets / Current liabilities

Equity ratio: Owners equity* / Total assets

General expenses to net sales: General expenses / Sales

Staff costs to net sales: Staff costs / Sales

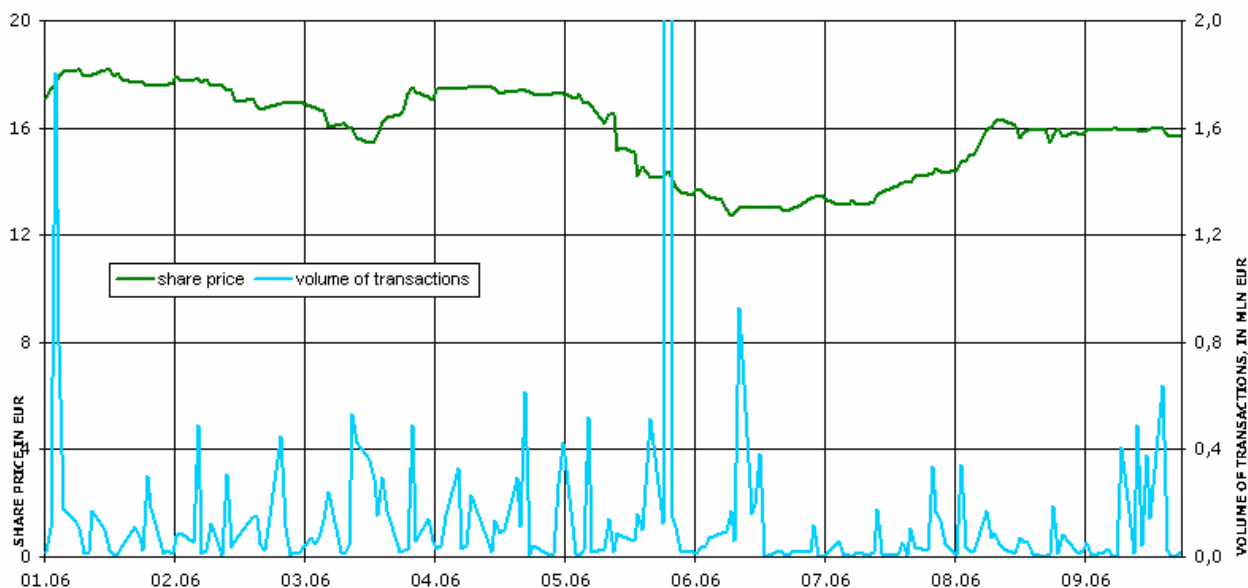
* calculated from the share of the parent company's shareholders

In 30.09.2006, the average number of full-time employees in the Group's service was 841, having increased by 10 employees in last quarter. The gross salaries paid to full-time personnel amounted to 190.8 million kroons.

Shares and shareholders

The shares of Merko Ehitus are listed in the main list of Tallinn Stock Exchange and as at 29.09.2006, the closing price of the share on Tallinn Stock Exchange was 245.65 kroons.

Performance of Merko Ehitus share at Tallinn Stock Exchange (9 months 2006)



The earnings per share in 9 months 2006 were 18.94 kroons, increasing by 10.7% in a year.

AS Merko Ehitus biggest shareholders as of 30.09.2006

	No of shares	Percentage
AS Merko Grupp	12 742 686	71,99%
ING Luxembourg S.A.	1 214 700	6,86%
Skandinaviska Enskilda Banken Ab, clients	863 365	4,88%
Nordea Bank Finland Plc, clients	518 311	2,93%
OKO Bank Plc, clients	269 000	1,52%
J.P. Morgan Bank Luxembourg S.A.	189 306	1,07%

INCOME STATEMENT
consolidated, unaudited

	Note	EEK		EUR	
		2006 9 months	2005 9 months	2006 9 months	2005 9 months
Sales	1	3 071 042	2 476 548	196 275	158 280
Cost of goods sold		(2 596 357)	(2 075 067)	(165 937)	(132 621)
Gross profit		474 685	401 481	30 338	25 659
Marketing expenses		(15 469)	(15 449)	(989)	(987)
Administrative and general expenses		(96 831)	(83 666)	(6 189)	(5 347)
Other operating income		14 659	5 987	937	382
Other operating expenses		(15 493)	(1 546)	(990)	(99)
Operating profit		361 551	306 807	23 107	19 608
Financial income and expenses		5 662	21 611	362	1 382
incl. financial income (expenses) from investments in subsidiaries		2 325	5 143	149	329
financial income (expenses) from investments in associate companies and joint ventures		12 116	14 358	774	918
financial income and expenses from other long-term financial investments		7	-	-	-
interest expense		(10 265)	(2 869)	(656)	(183)
foreign exchange gain		(3 766)	(584)	(241)	(37)
other financial income and expenses		5 245	5 563	336	355
Profit before tax		367 213	328 418	23 469	20 990
Corporate income tax expense		(25 650)	(23 035)	(1 639)	(1 472)
Net profit for current period		341 563	305 383	21 830	19 518
incl. net profit attributable to equity holders of the parent company		335 275	302 846	21 428	19 356
minority interest		6 288	2 537	402	162
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	2	18,94	17,11	1,21	1,09

INCOME STATEMENT
consolidated, unaudited

	EEK		EUR	
	2006 III quarter	2005 III quarter	2006 III quarter	2005 III quarter
Sales	1 358 336	1 023 758	86 813	65 430
Cost of goods sold	(1 140 620)	(840 328)	(72 899)	(53 707)
Gross profit	217 716	183 430	13 914	11 723
Marketing expenses	(4 196)	(5 080)	(268)	(325)
Administrative and general expenses	(34 178)	(28 985)	(2 184)	(1 852)
Other operating income	4 612	2 566	295	164
Other operating expenses	(1 919)	(322)	(123)	(20)
Operating profit	182 035	151 609	11 634	9 690
Financial income and expenses	3 188	7 192	204	459
incl. financial income (expenses) from investments in subsidiaries	2 324	5 143	149	329
financial income (expenses) from investments in associate companies and joint ventures	7 640	3 355	488	214
financial income and expenses from other long-term financial investments	2	(118)	-	(8)
interest expense	(7 562)	(1 776)	(483)	(113)
foreign exchange gain	(872)	(464)	(56)	(30)
other financial income and expenses	1 656	1 052	106	67
Profit before tax	185 223	158 801	11 838	10 149
Corporate income tax expense	(14 871)	(4 417)	(950)	(282)
Net profit for current period	170 352	154 384	10 888	9 867
incl. net profit attributable to equity holders of the parent company	166 314	153 067	10 630	9 783
minority interest	4 038	1 317	258	84
Earnings per share for profit attributable to the equity holders of the parent company (basic and diluted, in EEK and EUR)	9,40	8,65	0,60	0,55

BALANCE SHEET
consolidated, unaudited

	EEK		EUR	
	30.09.2006	31.12.2005	30.09.2006	31.12.2005
ASSETS				
Current assets				
Cash and cash equivalents	306 653	268 446	19 599	17 157
Receivables and prepayments				
Accounts receivable	432 710	296 281	27 655	18 936
Prepaid corporate income tax	3 046	2 471	195	158
Other prepayments and refunds of taxes	28 179	34 199	1 801	2 186
Due from customers	181 959	82 224	11 629	5 255
Other short-term receivables	47 235	57 353	3 019	3 666
Prepayments for services	72 293	72 053	4 620	4 605
	<u>765 422</u>	<u>544 581</u>	<u>48 919</u>	<u>34 806</u>
Inventories				
Raw materials and materials	4 619	1 845	295	118
Work-in-progress	293 260	98 202	18 743	6 276
Finished goods	38 378	4 461	2 453	285
Goods purchased for resale	874 714	855 080	55 904	54 650
Prepayments for inventories	30 121	4 500	1 925	288
	<u>1 241 092</u>	<u>964 088</u>	<u>79 320</u>	<u>61 617</u>
Total current assets	<u>2 313 167</u>	<u>1 777 115</u>	<u>147 838</u>	<u>113 580</u>
Non-current assets				
Long-term financial investments				
Shares in associated companies and joint ventures	190 131	179 609	12 152	11 479
Deferred income tax assets	31 972	8 753	2 043	559
Long-term receivables	14 457	8 524	924	545
	<u>236 560</u>	<u>196 886</u>	<u>15 119</u>	<u>12 583</u>
Investment property				
Land	19 517	35 634	1 247	2 277
Buildings	1 787	6 872	114	439
	<u>21 304</u>	<u>42 506</u>	<u>1 361</u>	<u>2 716</u>
Property, plant and equipment				
Land	145	145	9	9
Buildings	168 512	12 408	10 770	793
Right of superficies	375	382	24	24
Machinery and equipment	53 898	49 226	3 445	3 146
Other property, plant and equipment	36 625	18 175	2 341	1 162
Buildings in process and prepayments	466	118 668	30	7 584
	<u>260 021</u>	<u>199 004</u>	<u>16 619</u>	<u>12 718</u>
Intangible assets				
Development expenses	-	5	-	0
Other intangible assets	2 203	1 513	141	97
Prepayments for intangible assets	6 053	2 847	387	182
	<u>8 256</u>	<u>4 365</u>	<u>528</u>	<u>279</u>
Total non-currents assets	<u>526 141</u>	<u>442 761</u>	<u>33 627</u>	<u>28 296</u>
TOTAL ASSETS	<u>2 839 308</u>	<u>2 219 876</u>	<u>181 465</u>	<u>141 876</u>

	EEK		EUR	
	30.09.2006	31.12.2005	30.09.2006	31.12.2005
LIABILITIES AND EQUITY				
Current liabilities				
Borrowings				
Short-term loans and bonds	112 289	105 144	7 177	6 720
Long-term loans payable in the following period	11 940	9 697	763	620
	<u>124 229</u>	<u>114 841</u>	<u>7 940</u>	<u>7 340</u>
Trade payables				
Payables to suppliers	436 474	282 087	27 896	18 029
Payables to employees	40 925	37 688	2 616	2 409
Company income tax liability	20 030	950	1 280	61
Other tax liabilities	28 509	25 020	1 822	1 599
Due to customers	269 692	185 648	17 236	11 865
Other payables	12 661	19 637	809	1 255
Received prepayments	189 084	161 156	12 085	10 299
	<u>997 375</u>	<u>712 186</u>	<u>63 744</u>	<u>45 517</u>
Government grants	12 006	22 225	767	1 420
Current provisions	16 134	21 741	1 031	1 390
Total current liabilities	<u>1 149 744</u>	<u>870 993</u>	<u>73 482</u>	<u>55 667</u>
Non-current liabilities				
Loans, bonds and finance lease liabilities	285 496	202 824	18 246	12 963
Other long-term payables	39 690	22 726	2 537	1 452
Deferred income tax liability	-	11 385	-	728
Total non-current liabilities	<u>325 186</u>	<u>236 935</u>	<u>20 783</u>	<u>15 143</u>
Total liabilities	<u>1 474 930</u>	<u>1 107 928</u>	<u>94 265</u>	<u>70 810</u>
Equity				
Minority interests	16 239	10 552	1 038	674
Equity attributable to equity holders of the parent company				
Share capital	177 000	177 000	11 312	11 312
Statutory reserve capital	17 700	8 850	1 131	566
Currency translation adjustment	(5 091)	(5 059)	(325)	(323)
Retained earnings	1 158 530	920 605	74 044	58 837
	<u>1 348 139</u>	<u>1 101 396</u>	<u>86 162</u>	<u>70 392</u>
Total equity	<u>1 364 378</u>	<u>1 111 948</u>	<u>87 200</u>	<u>71 066</u>
TOTAL LIABILITIES AND EQUITY	<u>2 839 308</u>	<u>2 219 876</u>	<u>181 465</u>	<u>141 876</u>

STATEMENT OF CHANGES IN EQUITY

unaudited

EEK

	Equity attributable to equity holders of the parent company							Minority interest	Total
	Share capital	Share pre-mium	Statutory reserve capital	Currency translation adjustment	Retained earnings	Total			
Balance as at 31.12.2004	88 500	2 950	8 850	(4 663)	622 333	717 970	7 200	725 170	
Effect of exchange rate changes	-	-	-	(375)	-	(375)	-	(375)	
Net profit for current period	-	-	-	-	302 846	302 846	2 537	305 383	
Equity capitalisation	88 500	(2 950)	-	-	(85 550)	-	-	-	
Dividends	-	-	-	-	(57 525)	(57 525)	(2 600)	(60 125)	
Balance as at 30.09.2005	177 000	-	8 850	(5 038)	782 104	962 916	7 137	970 053	
Balance as at 31.12.2005	177 000	-	8 850	(5 059)	920 605	1 101 396	10 552	1 111 948	
Effect of exchange rate changes	-	-	-	(32)	-	(32)	-	(32)	
Net profit for current period	-	-	-	-	335 275	335 275	6 288	341 563	
Dividends	-	-	-	-	(88 500)	(88 500)	(3 400)	(91 900)	
Increase of reserve capital	-	-	8 850	-	(8 850)	-	-	-	
Business combinations	-	-	-	-	-	-	2 799	2 799	
Balance as at 30.09.2006	177 000	-	17 700	(5 091)	1 158 530	1 348 139	16 239	1 364 378	

EUR

	Equity attributable to equity holders of the parent company							Minority interest	Total
	Share capital	Share pre-mium	Statutory reserve capital	Currency translation adjustment	Re-tained earnings	Total			
Balance as at 31.12.2004	5 656	189	566	(298)	39 774	45 887	460	46 347	
Effect of exchange rate changes	-	-	-	(24)	-	(24)	-	(24)	
Net profit for current period	-	-	-	-	19 356	19 356	162	19 518	
Equity capitalisation	5 656	(189)	-	-	(5 467)	-	-	-	
Dividends	-	-	-	-	(3 677)	(3 677)	(166)	(3 843)	
Balance as at 30.09.2005	11 312	-	566	(322)	49 986	61 542	456	61 998	
Balance as at 31.12.2005	11 312	-	566	(323)	58 837	70 392	674	71 066	
Effect of exchange rate changes	-	-	-	(2)	-	(2)	-	(2)	
Net profit for current period	-	-	-	-	21 428	21 428	402	21 830	
Dividends	-	-	-	-	(5 656)	(5 656)	(217)	(5 873)	
Increase of reserve capital	-	-	565	-	(565)	-	-	-	
Business combinations	-	-	-	-	-	-	179	179	
Balance as at 30.09.2006	11 312	-	1 131	(325)	74 044	86 162	1 038	87 200	

The share capital of AS Merko Ehitus consists of 17 700 000 common shares with a nominal value of EEK 10 i.e. EUR 0.64.

CASH FLOW STATEMENT

consolidated, unaudited

	EEK		EUR	
	2006 9 months	2005 9 months	2006 9 months	2005 9 months
Cash flows from operating activities				
Operating profit	361 551	306 807	23 107	19 608
Adjustments:				
depreciation and amortisation	23 362	11 739	1 493	750
(profit) loss from sale of non-current assets	(391)	(327)	(25)	(21)
adjustments of revenue from construction contracts under stage of completion method	(15 862)	(171 601)	(1 014)	(10 967)
interest income from business activities	(1 677)	(4 275)	(107)	(273)
changes in provisions	(17 910)	(1 257)	(1 145)	(80)
Change in trade receivables related to operating activities	(46 221)	(111 376)	(2 954)	(7 118)
Change in inventories	(260 504)	(157 270)	(16 649)	(10 051)
Change in trade payables related to operating activities	127 282	291 334	8 135	18 620
Interests paid	(13 042)	(3 412)	(834)	(218)
Other financial income	5	3 689	0	236
Corporate income tax paid	(41 758)	(19 268)	(2 669)	(1 232)
	<u>114 835</u>	<u>144 783</u>	<u>7 338</u>	<u>9 254</u>
Cash flows from investing activities				
Investments into subsidiaries	(3 029)	(23 447)	(194)	(1 499)
Proceeds from sale of subsidiaries	(3)	4 534		290
Investments into associates and joint ventures	(5 620)	-	(359)	-
Proceeds from sale of associates and joint ventures	1 847	5 550	118	355
Investments into other financial investments	-	(10)	-	(1)
Proceeds from sale of other financial investments	3 004	-	192	-
Purchase of investment property	-	(63)	-	(4)
Disposal of investment property	-	13 065	-	835
Purchase of property, plant and equipment	(70 614)	(140 441)	(4 513)	(8 976)
Proceeds from sale of property, plant and equipment	1 311	1 347	84	86
Purchase of intangible assets	(4 490)	(1 959)	(287)	(125)
Loans granted	(232 266)	(233 749)	(14 845)	(14 939)
Loan repayments received	240 253	86 689	15 355	5 540
Interest received	4 749	4 345	304	278
Dividends received	3 000	3 323	192	212
	<u>(61 858)</u>	<u>(280 816)</u>	<u>(3 953)</u>	<u>(17 948)</u>
Cash flows from financing activities				
Proceeds from borrowings	229 427	155 818	14 663	9 959
Repayments of borrowings	(143 298)	(2 631)	(9 158)	(168)
Finance lease principal payments	(5 374)	(4 523)	(343)	(289)
Dividends paid	(91 900)	(60 128)	(5 873)	(3 843)
	<u>(11 145)</u>	<u>88 536</u>	<u>(711)</u>	<u>5 659</u>
Change in cash and cash equivalents	41 832	(47 497)	2 674	(3 035)
Cash and cash equivalent at beginning of period	268 446	141 812	17 157	9 063
Effect of exchange rate changes	(3 625)	(1 893)	(232)	(121)
Cash and cash equivalent at end of period	<u>306 653</u>	<u>92 422</u>	<u>19 599</u>	<u>5 907</u>

NOTES**Note 1 Business- and geographical segments****Business segments**

2006 9 months	Construc- tion	Road construction	Concrete elements	Group	
Sales	2 864 064	206 978	-	3 071 042	
Sales between segments	272 892	85 930	-	358 822	
Sales of the segment	3 136 956	292 908	-	3 429 864	
Segment's operating profit	332 951	28 600	-	361 551	
Financial income (expenses) incl. profit (loss) from associates and joint ventures	1 035	-	11 081	5 662 12 116	
Profit before tax				367 213	
Corporate income tax				25 650	
Net profit for the Group incl. attributable to equity owners of the parent company minority interest				341 563 335 275 6 288	
Segment's asset	2 375 325	196 198	-	2 571 523	
Associates and joint ventures	156 748	-	33 383	190 131	
Unallocated assets				77 654	
Total consolidated assets				2 839 308	
Segment's liabilities	927 401	89 264	-	1 016 665	
Unallocated liabilities				458 265	
Total consolidated liabilities				1 474 930	
Purchase of property, plant and equipment and intangible assets	72 825	2 279	-	75 104	
Depreciation and amortization	17 113	6 249	-	23 362	
2005 9 months	Construc- tion	Road construction	Concrete elements	Construction of commu- nication networks	Group
Sales	2 323 088	153 460	-	-	2 476 548
Sales between segments	2 248	17 768	-	-	20 016
Sales of the segment	2 325 336	171 228	-	-	2 496 564
Segment's operating profit	286 780	20 027	-	-	306 807
Financial income (expenses) incl. profit (loss) from associates and joint ventures	5 620	1 923	7 545	(730)	21 611 14 358
Profit before tax					328 418
Corporate income tax					(23 035)
Net profit for the Group incl. attributable to equity owners of the parent company minority interest					305 383 302 846 2 537
Segment's asset	1 815 765	135 916	-	-	1 951 681
Associates and joint ventures	2 732	-	22 187	3 852	28 771
Unallocated assets					29 745
Total consolidated assets					2 010 197
Segment's liabilities	784 567	68 973	-	-	853 540
Unallocated liabilities					186 604
Total consolidated liabilities					1 040 144
Purchase of investment property	4 934	-	-	-	4 934
Purchase of property, plant and equipment and intangible assets	139 996	8 374	-	-	148 370
Depreciation and amortization	3 717	8 022	-	-	11 739

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

In February 2006, AS Merko Ehitus sold a 12% holding in the associated company AS Telegrupp for 1847 thousand kroons (the gained sales profit amounted to 423 thousand kroons), and as a result of this the remaining 19% holding in AS Telegrupp and communication network construction operations are no longer considered an independent business segment. In June 2006, the remaining 19% holding in AS Telegrupp was sold for 3004 thousand kroons (the acquired sales profit amounted to 618 thousand kroons)

In July 2006, AS Merko Ehitus sold a 25% holding in the subsidiary AS Gustaf for 5125 thousand kroons (the gained sales profit amounted to 2324 thousand kroons).

Geographical segments

	Sales		Total assets		Purchase of investment property		Purchase of property, plant and equipment and intangible assets	
	2006 9 months	2005 9 months	30.09.2006	30.09.2005	2006 9 months	2005 9 months	2006 9 months	2005 9 months
Estonia	1 927 297	1 850 374	1 325 541	1 069 104	-	4 910	12 957	16 963
Latvia	787 303	458 891	1 272 866	732 201	-	24	61 713	131 054
Lithuania	356 442	167 283	240 901	208 892	-	-	434	353
Total	3 071 042	2 476 548	2 839 308	2 010 197	-	4 934	75 104	148 370

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

Note 2 Earnings (loss) per share

Ordinary net profit (-loss) per share is calculated on the basis of the relation between the net profit (-loss) attributed to parent company's shareholders and the weighted average number of ordinary shares excluding the shareholder's share.

	2006 9 months	2005 9 months
Net profit attributable to shareholders (in thousand kroons)	335 275	302 846
Weighted average number of ordinary shares (thousand pcs)	17 700	17 700
Earnings per share (in kroons)	18,94	17,11

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

MANAGEMENT DECLARATION

The Management Board of Merko Ehitus has prepared the consolidated 9M interim report 2006 as presented on pages 2 to 11.

The Management Board of Merko Ehitus confirms in its best knowledge, that:

- the accounting principles applied in preparing the interim financial statement are in accordance with International Financial Reporting Standards as adopted by the EU;
- the interim financial statement presents a true and fair view of the financial position, financial results and cash flows of the parent and its subsidiaries;
- AS Merko Ehitus and its subsidiaries are going concerns.

Tõnu Toomik	Chairman of the Board		10.11.2006
Alar Lagus	Member of the Board		10.11.2006
Veljo Viitmann	Member of the Board		10.11.2006
Andres Agukas	Member of the Board		10.11.2006
Tõnu Korts	Member of the Board		10.11.2006