



AS MERKO EHITUS

GROUP

2014 6 months and II quarter
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2014 – 31.12.2014
Reporting period:	01.01.2014 – 30.06.2014
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and on providing complete solutions in professional construction and real estate development in its home markets Estonia, Latvia and Lithuania. Long-term experience in various countries, a wide scope of construction services, flexibility, reliability and meeting the deadlines and primarily quality have helped group companies to achieve a strong position in the Baltics. Depending on the requirements of the contracting entities, the group companies perform both small-scale construction works as well as large scale, complicated and innovative projects, with a focus on general contracting and project management. Merko Ehitus is among the leading residential construction companies in the Baltic States.

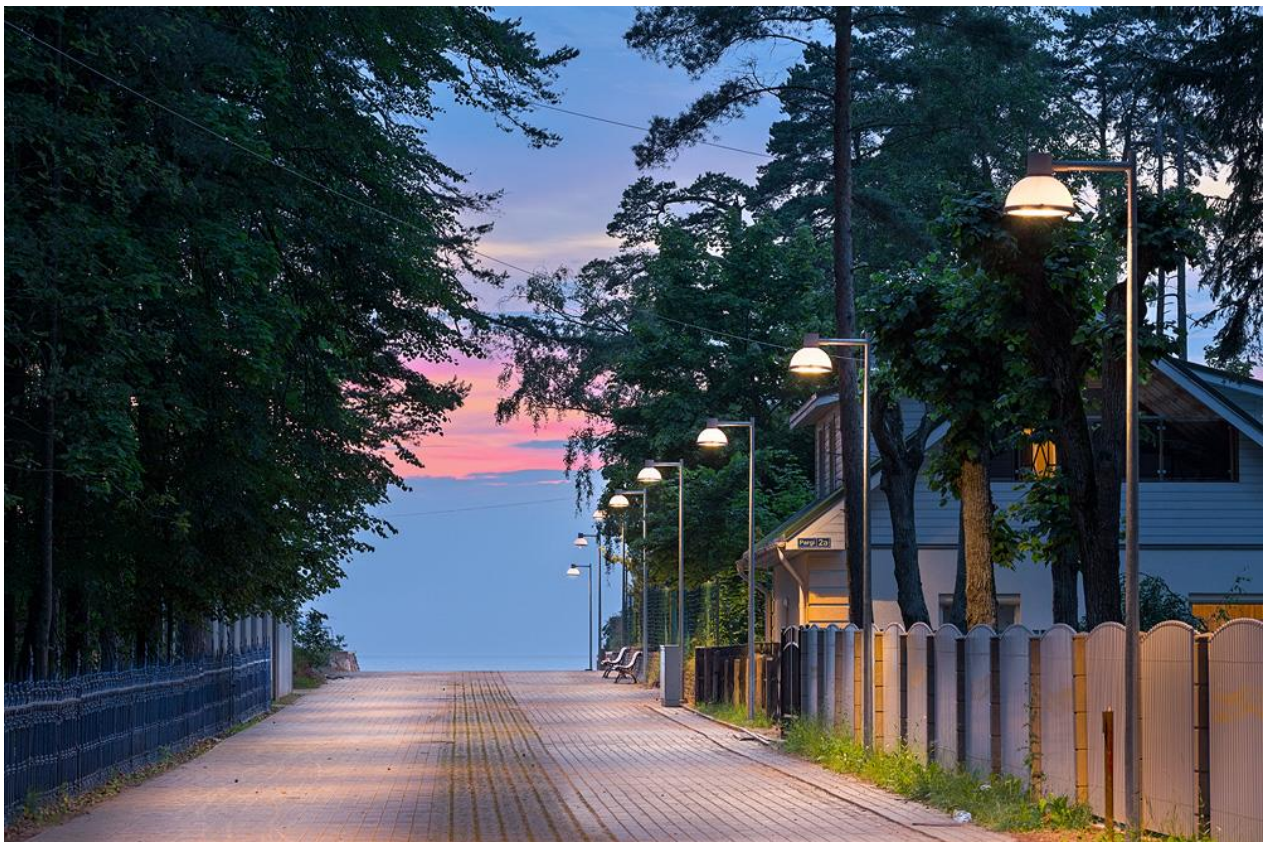
Holding company AS Merko Ehitus is responsible for the development and implementation of the strategies of various group companies primarily through allocation and long-term planning of resources. The shares of Merko have been listed on the Tallinn Stock Exchange since 1997. The group employs more than 850 people.

The group comprises construction and property development companies providing complete construction solutions in Estonia, Latvia and Lithuania, among which the group's largest construction sector companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

Merko Ehitus is the company with the highest owners' equity in the Estonian construction sector and is able to finance projects by itself in long-term. We are conservative in involving debt capital. We ensure that we would have sufficient necessary resources for continuously investing in attractive projects.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with about 6% of the total volume of the Estonian construction market as of the end of year 2013. In Latvia and Lithuania, Merko Ehitus operates through its subsidiaries SIA Merks and UAB Merko Statyba, focusing selectively on projects where the competitive advantage is perceivable as compared to other market players.

International quality, environmental protection and occupational safety certificates ISO 9001, ISO 14001 and OHSAS 18001 have been assigned to the group's larger construction companies.



NARVA-JÕESUU BEACH AREA DEVELOPMENT AND RECONDITIONING WORKS COMPLETED IN 2014

VISION

Our vision is reliable solutions and quality performance for your ideas.

VALUES

RESPONSIBILITY

We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.

KEEPING PROMISES

We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation, the keeping of one's promises is mutual.

COMPETENCE

We value quality and professionalism. We constantly develop our professional knowledge and skills.

INITIATIVE

We manage processes and we are result-oriented. We accept the challenges which presume more.

CREATIVITY

We are open, innovative and creative in working out and implementing the solutions. We have a will to carry out forward-looking ideas.

STRATEGY

The business strategy of AS Merko Ehitus subsidiaries is focussed on improving profitability and enhancing the efficiency of the cost base, offering general contracting services in the field of construction of buildings and infrastructure facilities and developing residential real estate in its home markets Estonia, Latvia and Lithuania.

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

In 2013, the Management Board and Supervisory Board reviewed the company's strategic development directions and approved long-term financial objectives until 2018.

average return on equity of the period 2013-2018 of at least
10%

dividend rate
50-70%
of annual profit

equity ratio
at least
40%

Considering the weak growth prospects of the Baltic construction and real estate market in the coming few years, the overall low interest rate environment, as well as the company's high equity base, the strategy and financial objectives are focused towards improving return on invested capital and on increasing the efficiency of the balance sheet.

The confirmed objectives were set based on the following assumptions regarding the external environment during the next five years:

- There will be no significant growth in the Baltic States during next two years.
- The high proportion of public procurements in construction orders will remain, however their volume from the second half of 2013 will temporarily decline with the current European Union (EU) financial framework period ending. The funding channelled into the economy as a whole will remain at the previous level in the new EU financial framework period (2014-2020), however their structure will change. The activity of private contracting entities developing and launching larger projects will recover slowly.
- Supply exceeds demand in the construction sector and excess capacity of fixed assets will continue. Increasing competition in the construction market will put the profit margins of construction companies under pressure.
- Moderate growth in the number of transactions and rise in prices in the apartment market of the Baltic States will continue, especially in capital cities.

The long-term financial objectives of AS Merko Ehitus relate to the period until 2018 and are reviewed annually based on the market situation, the financial condition and strategy of the company:

- average return on equity of the period of at least 10%
- dividend rate: 50-70% of annual profit
- equity ratio: at least 40%

MANAGEMENT REPORT

OVERVIEW OF THE 6 MONTHS AND II QUARTER RESULTS

REVENUE

Revenue in 6M 2014 was EUR 113.7 million (6M 2013: EUR 113.7 million), which is at the same level compared to the same period last year. Q2 revenue was EUR 64.8 million (Q2 2013: EUR 65.9 million). The share of revenue earned outside of Estonia has increased in 6M 2014 to 30.7% (6M 2013: 18.4%).

PROFITABILITY

Net profit in 6M was EUR 4.4 million (comparable figure in 6M 2013: EUR 4.0 million). Q2 net profit was EUR 3.6 million (Q2 2013: EUR 2.3 million). Gross margin in 6M was 8.9% (6M 2013: 8.6%), which has increased by 2.6% compared to the same period last year.

CASH POSITION

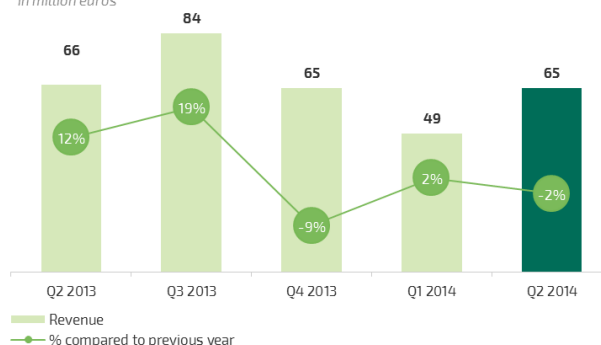
At the end of the reporting period, the group had EUR 43.4 million in cash and cash equivalents and equity EUR 119.0 million (48.8% of total assets). Comparable figures as at 30 June 2013 were accordingly EUR 33.8 million (incl EUR 2.5 million short-term deposits) and EUR 115.5 million (48.8% of total assets).

SECURED ORDER BOOK

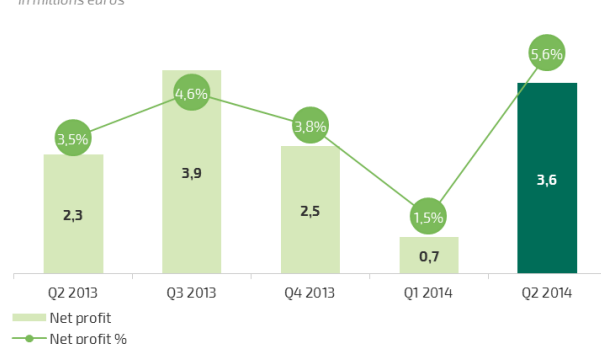
In Q2 2014, group companies signed new contracts in the amount of EUR 21.7 million (Q2 2013: EUR 51.3 million). 6M 2014 new contracts signed in amount of EUR 70.3 million (6M 2013: EUR 95.5 million). As at 30 June 2014, the group's secured order book stood at EUR 191.6 million (30 June 2013: EUR 184.4 million).

DIVIDEND PAYOUT TO THE SHAREHOLDERS 0,41 EURO PER SHARE

GROUP REVENUE
in million euros



GROUP NET PROFIT
in millions euros



		6M '14	6M '13	VARIANCE	Q2 '14	Q2 '13	VARIANCE	12M '13
Revenue	million EUR	113.7	113.7	0.0%	64.8	65.9	-1.6%	262.7
Gross profit	million EUR	10.1	9.8	+2.6%	6.1	5.6	+9.9%	22.7
Gross profit margin	%	8.9	8.6	+2.6%	9.5	8.5	+11.7%	8.6
Net profit (parent)	million EUR	4.4	4.0	+7.7%	3.6	2.3	+59.8%	10.4
Net profit margin	%	3.8	3.6	+7.7%	5.6	3.5	+62.4%	4.0
EPS	EUR	0.25	0.23	+7.7%	0.21	0.13	+59.8%	0.59

		30.06.14	30.06.13	VARIANCE	31.12.13
ROE (on yearly basis)	%	8.9	9.6	-7.4%	8.8
Equity ratio	%	48.8	48.8	-0.1%	50.9
Secured order book	million EUR	191.6	184.4	+3.9%	213.7
Total assets	million EUR	243.9	236.6	+3.1%	239.2
Number of employees	people	851	943	-9.8%	860

Ratio definitions are provided on page 32 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 6 MONTHS OF 2014

The company's prediction of the greatest contributors to the construction market in the upcoming quarters has not changed significantly compared to the 2014 3 months interim report.

The events in Ukraine in the first half of 2014 posed a continuing threat to the Baltic economy, including the outlook of the construction market, raising the risk level. Uncertainty over the escalation of the events in Ukraine is driven by the prospect of further mutual sanctions between Russia and the Western nations, as well as the economic relationship between the Baltic States and Russia. A direct link can be drawn from the Baltic export to Russia, and an indirect link from our trade partners' relationship with Russia. With small and open economies, the Baltic States are largely dependent on close economic ties and trade with the neighbouring countries. Therefore, any economic developments in the external environment will have a direct impact. Alongside the direct impact, uncertainties over the future may curb the outlook for economic growth in the Baltic States in 2014, with the possibility of suspension of investment projects.

For 2014, we are forecasting a 10-15% decline in the volume of Baltic construction contracts for general contractors, which is primarily related to the expected decrease in the volume of public procurement tenders resulting from the expiry of the previous European Unions (EU's) 2007-2013 budgeting period and the uncertainty regarding the allocation of funding of the new EU financial framework period 2014-2020 for construction market investments. In the EU's 2014-2020 multiannual financial framework, the amounts of structural funding allocated to the Baltic states from the EU budget will change compared to the previous EU budgetary period as follows: in Estonia, growth of EUR 2.5 billion to EUR 5.9 billion; in Latvia, contraction of EUR 0.1 billion to EUR 5.6 billion; and in Lithuania, growth of EUR 1.8 billion to EUR 8.4 billion. Although the amounts will stay the same or grow, the focuses have shifted somewhat based on the EU and the Baltic states' strategy and development – it is expected that during the new financial framework period, there will be less EU funds going to the construction market and there will also be fewer large-scale infrastructure projects. From the point of view of the development of the construction sector in the near term, it is paramount to start preparing for construction projects being financed as part of the new financial framework period and the call for tenders by the government in 2014. As new projects require extensive preparation, we estimate that there will gradually be more public procurements organised from 2015 and 2016.

In 2014, the launch of projects activated in 2013 by private contracting entities will continue as they hope to make investments in the commerce, logistics and other commercial space segment on favourable terms in light of general weakness in the construction market. The total number of projects launched by private contracting entities has significantly grown in the last year. Close to one-half of the construction contracts entered into by the group in 2013 were concluded with private contracting entities and we expected the trend to continue in the most recent two quarters; still, most of the contracts signed by the group in the first 6 months of 2014 are related to public procurements. In spite of this fact, we see a decrease of public sector orders and growth of private sector orders as a general trend on the market. Nevertheless, private contracting entities will not be able to make up in full for the reduction in government contracts in the construction market.

In 2014 the profitability of new contracts signed by general contractor companies will on average probably remain below the last year's level depending on price competition. Competition between general contractors within the Baltic construction market will continue to be tough and bidding for construction tenders will be aggressive. This will provide a competitive edge to construction companies in the market that are efficient and have flexible cost base. Since customers remain focused on the lowest construction cost, often also at the expense of quality, it is still difficult to stand out in the competition with other general contractors, as well as the increased risks related to the bids submitted below the actual cost price.

Considering the continued high customer demand with regard to guarantees and lengthy payment terms, the stress on construction companies' working capital continues to be high and capability for cash flow management is required to remain competitive. Merko companies use the group's strong financial position as a competitive advantage in negotiations over payment terms.

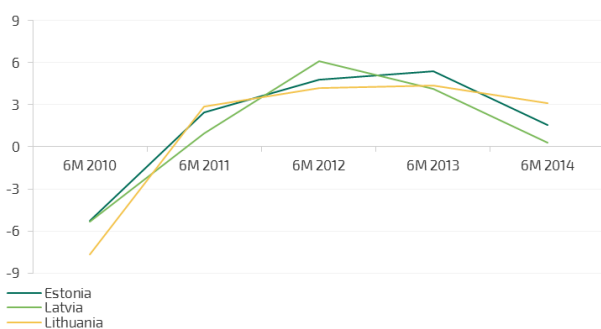
The situation in the apartment market in all three Baltic States continues to improve. Despite of consumers remaining price-sensitive, demand for new quality residential premises in good locations remains in the capitals of Baltic States. Developers are now starting new projects with more determination in all three Baltic States but above all in the capitals which increases the supply of new apartments. The big apartment price rally predicted by the market did not materialise in the first six months of 2014, when only prices of apartments in high-quality developments in the prime locations experienced marginal growth. Whereas in the second half of 2014 we see the demand to continue to remain strong, however a higher supply of apartments in the future may in turn result in a pressure on sale prices and a lengthening of selling periods. Apartment buyers are even more focused on construction quality (energy efficiency, sound insulation) and make their buying decisions based on infrastructure availability (parking, services, logistics) in the area. In addition, the customers are focusing more on the cultural and environmental value of a neighbourhood. Good availability of bank loans due to the strong capitalisation of banks and improved loans-to-deposits ratios is also continuously supported by a low Euribor level, at the same time customers in Latvia are less inclined to take loans than in Estonia and Lithuania. Apartment market demand is also positively impacted in addition to above by the lack of alternative investment opportunities, increase in incomes and a general improvement of the level of confidence. At the same time, it must be noted that although demand for loans has increased, the proportion of loans in buying real estate or construction is substantially lower than in the boom years, which means that more investments are made on equity.

Whereas in recent years the balance of loans granted by banks in Estonia for real estate development has continually declined, 2013 saw a stabilisation in the loan balance. The banks continue to be reluctant to finance residential development projects of smaller developers or require a large number of preliminary sales contracts (up to 50% of total project volume) and a higher own equity contribution. This trend gives Merko group a competitive advantage in launching new development projects in the market and supports the launch of new development projects in all the capitals of the Baltic States.

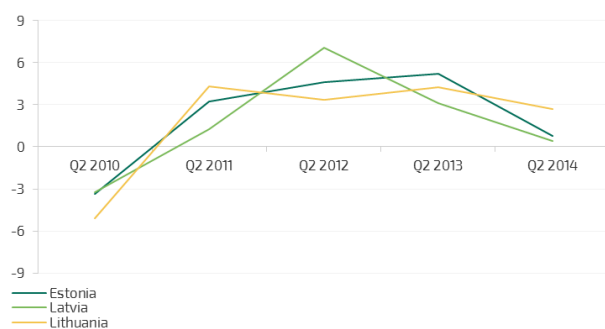
In the Latvian apartment market, the share of foreign investors who invest with the objective of acquiring a residence permit for the European Union continues to support the market, although their share in the new apartment market is not decisive. Additionally, the increased lending of banks to individual customers could improve the Latvian apartment market; so far the volume of new home loans has been modest. At the same time, legislative amendments have been passed in Latvia this year regarding the procedure for issuing residence permits. The amendments will enter into force on 1 September 2014 and make it harder for non-residents to gain residency through acquiring real estate - the cost of real estate in order to obtain a residence permit will rise to EUR 250 thousand. Since it is difficult to predict the precise impact this change will have on customer behaviour, it is uncertain how demand will be affected in future. The apartment market in Vilnius, the capital of Lithuania, continues to be active on both demand and supply side and above all in the cheapest price segment, where there is also a certain oversupply of new apartments, which may in turn lead to lengthening of selling periods; also the sale of apartments as so-called "grey box" remains a dominant feature. In Lithuania, individuals' investments in real estate may also be spurred by the planned adoption of the Euro from 2015.

Taking into account the relatively weak outlook for growth in the construction market, no significant wage pressure is anticipated; nor do we foresee major changes in the level of construction input prices, which is also reflected by the tapering off of growth in the Baltic states' construction price indices. Although one could assume that input prices decline due to the weakness in the construction market, as a result of the general price inflation and trends in the labour market, this is not to be expected. Depending on what the Scandinavian economic growth outcome is, in particular the development of construction sector, the corresponding effect could consequently influence the labor costs, most of all in Estonia. Subcontractors' prices have this far not seen a decline similar to the drop in general contractors prices, which means that general contractors margins are particularly under pressure – customers are exerting strong pressure for a price decrease in connection with the lower overall volumes on the construction market. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events.

6M CHANGE IN CONSTRUCTION PRICE INDEX
percentages



QUARTERLY CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: Local national statistical offices.

	6 MONTHS 2014			II QUARTER 2014		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
Construction price index annual change	+1.6%	+0.3%	+3.1%	+0.8%	+0.4%	+2.7%
Labour force	+2.7%	+2.7%	+7.0%	+2.5%	+3.6%	+6.2%
Construction machines	+2.8%	+0.4%	+1.3%	+3.5%	+1.1%	+1.0%
Building materials	+0.8%	-0.2%	+1.3%	-0.4%	-0.9%	+1.1%

Source: Local national statistical offices.

As the largest general contractor, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, is well positioned in the Estonian construction market and is capable of competing in all activity segments, although there are many general contractors in general construction market segment and there is a tight price competition, often at the expense of quality and contractual risks. In Latvia, SIA Merks, a subsidiary of AS Merko Ehitus, belongs to among the leading general contractors and we believe that we can improve our position, considering the volume of contracts won in 2013. In Lithuania, UAB Merko Statyba, a subsidiary of AS Merko Ehitus, has focused its construction activities mainly on apartment development and building (general construction) segment that continue to experience tough competition in tenders. In the Lithuanian market, the position of general contractors is also continuously impacted by the activities of the so-called advisers that represent contracting authorities and complicate the possibilities of general contractors to win favorable construction contracts.

OPERATING RESULTS

BUSINESS ACTIVITIES

Key financial indicators (in million euros)

	6 MONTHS 2014	6 MONTHS 2013	II QUARTER 2014	II QUARTER 2013	12 MONTHS 2013
Revenue					
Estonia	78.8	92.8	46.2	55.3	211.9
Latvia	29.2	17.5	15.2	9.2	44.4
Lithuania	5.7	3.4	3.4	1.4	6.4
Revenue total	113.7	113.7	64.8	65.9	262.7
Gross profit	10.1	9.8	6.1	5.6	22.7
EBITDA	6.1	6.3	4.3	3.4	15.1
Operating profit (EBIT)	5.0	5.1	3.7	2.8	12.3
Net profit					
attributable to equity holders of the parent	4.4	4.0	3.6	2.3	10.4
attributable to non-controlling interest	(0.2)	0.0	0.0	(0.1)	0.0
Net profit total	4.2	4.0	3.6	2.2	10.4
Earnings per share (EPS), euros	0.25	0.23	0.21	0.13	0.59
Cash and cash equivalents closing position	43.4	33.8*	43.4	33.8*	46.6

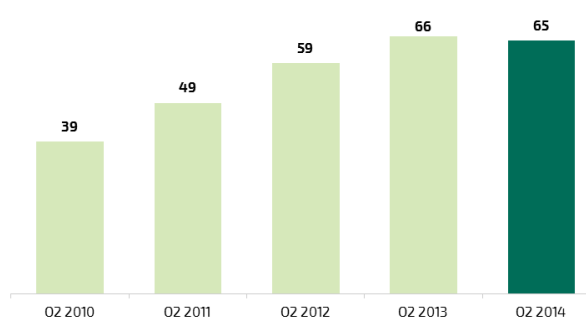
* incl short-term deposits in the amount of EUR 2.5 million

REVENUE AND GROSS PROFIT

GROUP REVENUE
in million euros

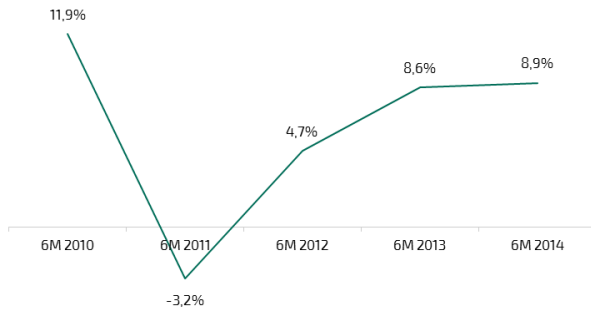


GROUP QUARTERLY REVENUE
in million euros

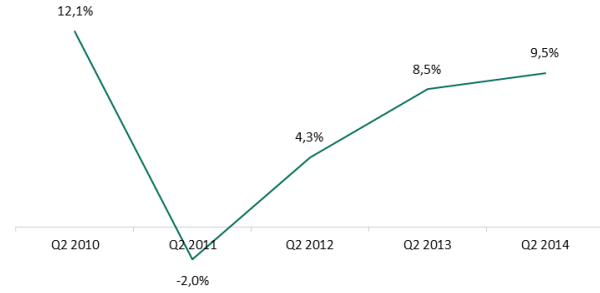


Merko Ehitus group generated a total of EUR 113.7 million in revenue in 6 months of 2014 (6 months of 2013: EUR 113.7 million). 69.3% of the revenue was generated in Estonia, 25.6% in Latvia and 5.1% in Lithuania (6 months of 2013: 81.6% in Estonia, 15.4% in Latvia and 3.0% in Lithuania). Compared to the first 6 months of 2013 the group revenue remained unchanged. In the 6 months of 2014 the share of Latvian revenue has increased from 15.4% to 25.6%, which is an ongoing trend in 2014. Revenue in Q2 2014 was EUR 64.8 million, which has decreased 1.6% compared to the previous year (Q2 2013: EUR 65.9 million). The main changes in the revenue structure compared to the same period last year, can be mainly attributed to projects pursued in the general construction and real estate development segment. At the same time there has been a significant reduction in sales revenue from engineering construction and road construction segments, which is primarily due to the end of major projects financed from EU structural funds and the reduced project volumes. A similar trend was already seen in the first quarter of 2014.

GROUP GROSS PROFIT MARGIN
percentages



GROUP QUARTERLY GROSS PROFIT MARGIN
percentages



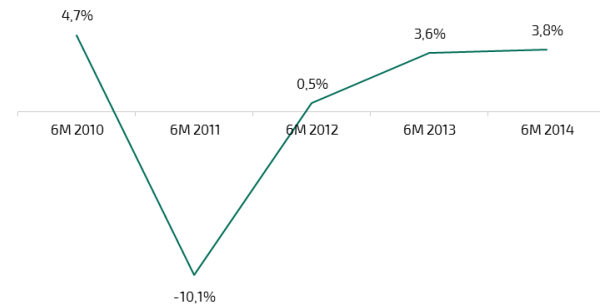
In 6 months of 2014 the group's gross profit from development and construction activities totalled EUR 10.1 million (6 months of 2013: EUR 9.8 million). The gross profit in Q2 2014 was EUR 6.1 million (Q2 2013: EUR 5.6 million). The 6 months gross profit margin (8.9%) has increased compared to the same period last year (6 months of 2013: 8.6%). The growth of the profit margin has been supported by growth - both on a semi-annual and quarterly basis - in the higher volumes and with the higher profitability of the real estate development segment. In addition, the growth of profit margins in civil engineering segment and stability of profit margins in the road construction segment have been significant. Profitability has been negatively impacted by a drop in the profitability of the general construction segment in conjunction with a simultaneous growth in volumes. The scarcity of projects and the ever-tightening competition in the construction sector poses a great challenge in the maintaining of the current gross profit margin for new procurements in all segments, but especially in general construction, where competition and the number of companies participating at the procurements is the highest

NET PROFIT

GROUP NET PROFIT
in million euros

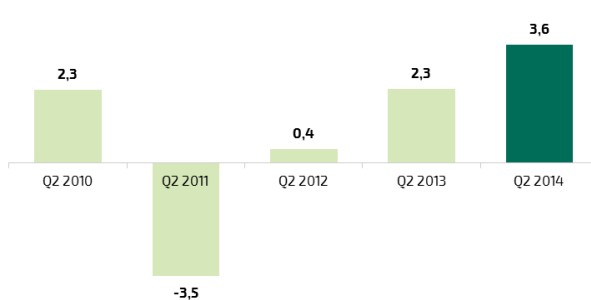


GROUP NET PROFIT MARGIN
percentages

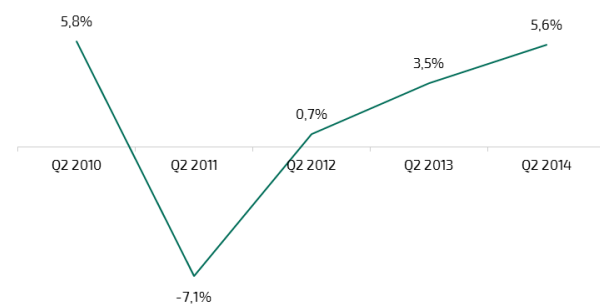


In 6 months of 2014, the group's profit before tax totalled EUR 4.7 million and net profit attributable to equity holders of the parent was EUR 4.4 million as compared to the pre-tax profit or EUR 4.5 million and net profit attributable to equity holders of the parent of EUR 4.0 million in 6 months of 2013. Group's net profit margin was 3.8% (6 months of 2013: 3.6%). The net profit for the 6 months of 2014 was affected by the income tax expenses paid on the dividends received from OÜ Gutsaf Tallinn in the amount of EUR 0.3 million. This increases the income tax expenses as extraordinary one-off item, compared to the 6 months of 2013.

GROUP QUARTERLY NET PROFIT
in million euros



GROUP QUARTERLY NET PROFIT MARGIN
percentages

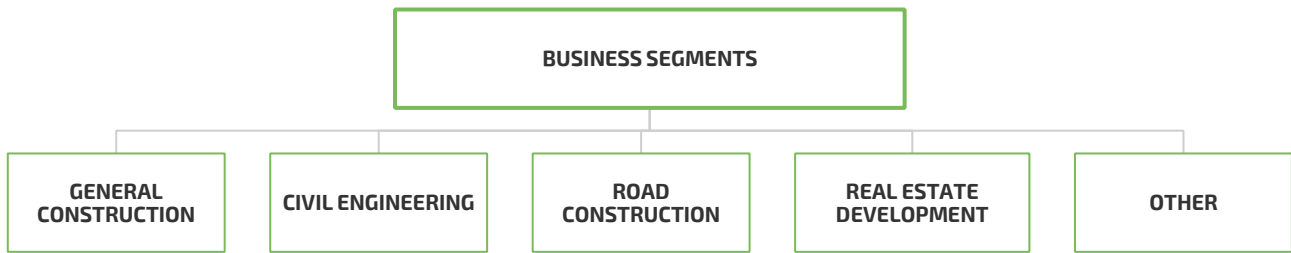


In Q2 of 2014, the group's pre-tax profit totalled EUR 3.6 million and net profit was EUR 3.6 million as compared to the pre-tax profit or EUR 2.6 million and net profit of EUR 2.3 million in Q2 of 2013. Both the group's quarterly net profit (EUR 3.6 million) and the net profit margin (5.6%) have increased compared to the same period last year (6 months of 2013: EUR 2.3 million and 3.5%, respectively).

In the second quarter of 2014, the group paid EUR 7.3 million in dividends, which incurred no additional income tax expense in connection with previously received and taxed distribution of profits from subsidiaries. The situation in the third quarter of 2013 was alike, when the group paid EUR 5.3 million in dividends.

BUSINESS SEGMENTS

The group operates mainly in Estonian, Latvian and Lithuanian market through its subsidiaries and depending on the country provide services across the following segments: general construction, civil engineering (including electrical and external networks), road construction, real estate development (including apartment development and sales, long-term real estate investments and commercial real estate projects) and other comprising sale of raw materials obtained from pit mining, equipment lease, consulting and construction supervision. The groups management structure is country based and is in turn divided by business segments. See also the management structure on page 26.



GROUP REVENUE AND GROSS PROFIT BY BUSINESS SEGMENTS



GENERAL CONSTRUCTION

General construction consists of the construction of different buildings, from commercial and office buildings, retail and entertainment centres to public sector and residential and specialised industrial buildings. Group companies provide strategic consulting and quality complete solutions as part of the general contracting service of construction according to the customer's requirements: preparation, design, construction, interior and warranty service.

million EUR

	6 MONTHS 2014	6 MONTHS 2013	CHANGE	II QUARTER 2014	II QUARTER 2013	CHANGE	12 MONTHS 2013
Revenue	56.9	33.5	+70.0%	31.1	20.9	+48.8%	86.6
% of total revenue	50.0%	29.4%	+70.1%	48.0%	31.7%	+51.2%	32.9%
Gross profit (loss)	1.5	1.2	+21.1%	1.3	0.8	+68.1%	(0.5)
Gross profit margin	2.6%	3.7%	-28.8%	4.1%	3.7%	+13.0%	-0.6%

In the 6 months of 2014, the revenue of the general construction segment was EUR 56.9 million (6 months of 2013: EUR 33.5 million), having increased by 70.0% from the same period last year. The segments gross profit has increased by 21.1% and the segments overall gross profit for the period is EUR 1.5 million (6 months of 2013: EUR 1.2 million). The segment continues to be mainly influenced by the pressure on the margins exerted by tightening competition. In the 6 months the revenue of the general construction segment formed the largest proportion in the group's revenue with a 50.0% share. This proportional increase was expected, especially given the knowledge that the volumes in the civil engineering and road construction segments were decreasing.

The tight competition in the general construction segment has left its mark on the segments gross margin (6 months of 2014: 2.6%), having decreased 28.8% compared to the same period last year. The sector is significantly impacted by even tighter competition and increasing price pressure on asking prices in a situation where input prices are generally continuing to see marginal growth. While we saw a rise in the proportion of private sector orders starting in 2013, unfortunately the same tendency has not continued for the group in the first half year of 2014. Nevertheless, with regard to projects in progress in the general construction segment, private sector orders still outstrip public procurements as at the end of the quarter.

Our major projects in the first quarter included the construction of Tondiraba ice arena and Hilton Tallinna Park hotel construction works in Tallinn, the reconstruction work at the North-Estonia Medical Centre in Mustamäe in Tallinn, the construction of Polipaks NT manufacturing and logistics centre in Marupe and the multifunctional concert hall in Liepaja.

Among the projects completed and delivered to the customer in 6 months of 2014 the one to highlight is the Nurmevälja logistics center.

CIVIL ENGINEERING

The civil engineering segment includes port, waste management and road structures (bridges, tunnels, overpasses, roads), electrical construction of up to 330 kV, various environmental protection structures, water treatment plants, both open-cut and trenchless construction of water and sewerage pipelines and other various engineering projects. Complex and unique engineering projects require specialised knowledge and a good partnership with the customer and local authorities.

million EUR

	6 MONTHS 2014	6 MONTHS 2013	CHANGE	II QUARTER 2014	II QUARTER 2013	CHANGE	12 MONTHS 2013
Revenue	24.3	45.5	-46.6%	14.9	24.8	-39.9%	94.5
% of total revenue	21.4%	40.0%	-46.6%	23.0%	37.6%	-38.9%	36.0%
Gross profit	3.2	3.9	-20.0%	2.1	1.6	+33.9%	12.5
Gross profit margin	13.0%	8.7%	+49.8%	14.3%	6.4%	+122.7%	13.2%

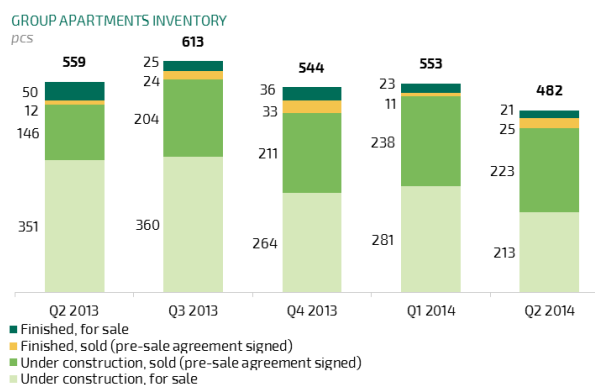
The revenue of the civil engineering segment amounted to EUR 24.3 million in the 6 months of 2014 (6 months of 2013: EUR 45.5 million), which is 46.6% less than in 2013. The decrease from the previous year is mainly due to a drop in the volume of pipeline projects. If the civil engineering segment revenues of 6 months of 2013 formed the largest proportion in the group's revenue (6 months of 2013: 40.0%), then during 6 months of the current year the segments revenues formed 21.4% of total revenue being down 46.6% compared to the previous year. The 6 month gross profit of the civil engineering segment amounted to EUR 3.2 million (6 months of 2013: EUR 3.9 million) and the gross profit margin was 13.0% (6 months of 2013: 8.7%), which increased by 49.8% compared to the same period previous year. We consider this a very good result, given that the volumes of the segment have decreased by nearly a half. We continue to closely monitor the changes in the volumes, to maintain an effective cost base.

In the second quarter of 2014, the main ongoing projects included were the design and renovation of the infrastructure of Tallinn tram line No. 4, the reconstruction of pipelines in Vääna-Jõesuu and Narva-Jõesuu and the closing of industrial waste and semi-coke landfill in Kohtla-Järve.

The civil engineering segment includes challenges, primarily in connection with the end of the 2007-2013 EU budgeting period and due to the fact that the pace of launching new projects has decreased, this applies particularly to water management projects.

At the end of the period, Merko Ehitus group's inventory comprised 21 completed but not yet sold apartments (11 in Estonia, 1 in Latvia and 9 in Lithuania) and 25 completed and pre-sold apartments (7 in Estonia, 7 in Latvia and 11 in Lithuania).

As at 30 June 2014, Merko Ehitus group had a total of 234 apartments for active sale (as at 30 June 2013: 401 apartments; as at 31 December 2013: 300 apartments), this comprises apartments for which no pre-sale agreements have been signed.



APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF APARTMENTS *
Pärna avenue 6	Tartu municipality, Estonia	Completed	1
Eha st. 4 / Paldiski road 17	Tallinn, Estonia	Completed	1
Pärna avenue 8	Tartu municipality, Estonia	Completed	1
Pärna avenue 7	Tartu municipality, Estonia	Completed	9
Tedre 55	Tallinn, Estonia	Completed	6
Skanstes virsotnes 4 tower	Riga, Latvia	Completed	6
Grostonas 17	Riga, Latvia	Completed	2
Mokslininku stage I	Vilnius, Lithuania	Completed	2
Mokslininku stage II	Vilnius, Lithuania	Completed	18
			46
Grostonas 19	Riga, Latvia	Autumn 2014	82
Vana-Kalamaja 31+Suur-Laagri 2 **	Tallinn, Estonia	Autumn 2014	12
Paepargi 17, 19, 21 **	Tallinn, Estonia	Autumn 2014	54
Kentmanni 6	Tallinn, Estonia	End of 2014	93
Pärna avenue 10 **	Tartu municipality, Estonia	End of 2014	42
Grostonas 21	Riga, Latvia	Spring 2015	125
			408
Started in Q2 2014			
Pärna avenue 9 **	Tartu municipality, Estonia	End of 2014	28
			28
Total			482

* The completed apartments indicate the number of apartments that are unsold and where possession has not been given to consumers.

** Project launched in 2014.

In 6 months of 2014, we launched the construction of a total of 136 new apartments in the Baltic States (6 months of 2013: 271 apartments). In 2013 we launched the construction of a total of 409 new apartments. We will continue to invest in residential real estate projects and depending on the apartment market developments in 2014, the group plans to launch the construction of approximately 500-550 new apartments in the Baltic States. The implementation of planned projects has been slightly delayed, primarily due to coordination of technical designs and obtaining building permits from local municipalities. In 2014, the group's planned investments in both development projects initiated in the previous years and new projects to be launched in 2014 will be in the range of EUR 45-50 million.

As at 30 June 2014, the group has 60 apartments in Tartu where the construction activity has been frozen (as at 30 June 2013, the respective number in Tallinn and Tartu was 158 apartments). During 2014, we have re-launched two development projects that were frozen in prior years:

- Development of Pärna avenue 10 in Tartu municipality in the 1st quarter (the number of apartments for sale is 42);
- Development of Pärna avenue 9 in Tartu municipality in the 2nd quarter (the number of apartments for sale is 28).

One of our objectives is to keep a moderate portfolio of land plots to ensure stable inventory of property development projects considering the market conditions. The group is searching for new land plots for real estate development purposes in Estonian and Lithuania. The real estate portfolio in Latvia is extensive enough, so in the short-term there are no plans for active portfolio expansion. In the first six months of 2014, the group has purchased new land plots at an acquisition cost of EUR 1.2 million (6 months of 2013: EUR 0.0 million). Also in the second quarter, the group realized an option agreement to acquire the Rāsta 18 land plot in Tallinn.

The real estate market has not changed significantly over the last 6 months, even though the events in Ukraine are likely to have somewhat slowed down customers' investment decisions. Customers have become more knowledgeable as to what they desire, and thus project location, development volume, design solutions and target consumer group play an important role for the group before launching each project and in the course of assessing the risks. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. The number of transactions and the average price per square meter are showing a marginal growth trend, especially in Estonia and Latvia. There is still room for new development projects in the Baltic capital cities, though one should proceed with care in Vilnius. An increased supply of apartments will influence the stabilisation of prices and lengthening of sales periods in the future.

OTHER

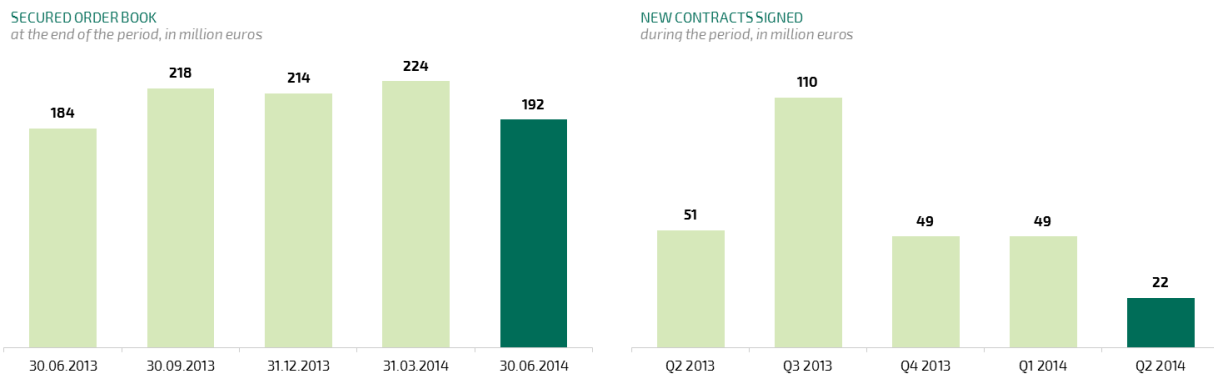
The segment other includes the sale of raw materials obtained from pit mining, equipment lease, consulting, construction supervision and other non-core activities.

million EUR

	6 MONTHS 2014	6 MONTHS 2013	CHANGE	II QUARTER 2014	II QUARTER 2013	CHANGE	12 MONTHS 2013
Revenue	0.7	0.5	+20.8%	0.4	0.2	+43.5%	1.1
% of total revenue	0.6%	0.5%	+20.9%	0.6%	0.5%	+45.9%	0.5%
Gross profit (loss)	0.1	0.1	+287.5%	0.1	(0.1)	+382.4%	(0.3)
Gross profit margin	9.1%	2.8%	+220.7%	20.6%	6.1%	+236.1%	-29.9%

SECURED ORDER BOOK

As at 30 June 2014, the group's secured order book (without own developments) amounted to EUR 191.6 million as compared to EUR 184.4 million as at 30 June 2013. The secured order book excludes the group's own residential development projects and work related to developing real estate investments.



In second quarter of 2014, EUR 21.7 million worth of new contracts were signed (without own developments) as compared to EUR 51.3 million in same period last year.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE SECOND QUARTER OF 2014

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Construction works of HVDC converter station in Klaipeda	Lithuania	December 2015	6.0

After the balance sheet date, a contract was concluded on 1 August 2014 between UAB Merko Statyba, which is a part of AS Merko Ehitus group, and Pro Kapital Bonum UAB, which is part of AS Pro Kapital Grupp group, to perform the design and construction works of an apartment building located in Lithuania Vilnius, at Saltiniu Namai residential building complex, in the amount of EUR 2.9 million.

Whereas the share of public procurements was still predominant among new construction contracts at the start of 2013, the private customer segment became more active in the construction markets of all three Baltic countries in the second half of 2013. Of the contracts signed in 2013, at 31 December close to half were connected to private contracting entities. The majority of the contracts signed in the first six months of the year were public tenders and the company did not manage to garner as much work from private sector customers as it had envisaged. It is the general construction segment that is seeing the stiffest competition and where competitors are making aggressive offers that the construction companies in the Merko Ehitus group have thus far not gone along with. As at 30 June 2014, the group's secured order book was dominated by public sector orders, which made up nearly two-thirds of the portfolio. Considering the end of the previous EU funding period and the beginning phase of the current EU funding period, one can forecast continued decline in the volume of public procurements for 2014. In this respect, it continues to be a great challenge to maintain the group's secured order book at the level of 2013 or growing it.

Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to continue to look for construction orders from outside Estonia. Thus, we are closely monitoring the development and opportunities in the neighbouring markets. AS Merko Ehitus Eesti has selectively and on project basis started to participate in public procurements in Finland, Sweden and Norway in order to gain experience and sufficient knowledge in the qualification conditions, requirements established and risks associated in these countries.

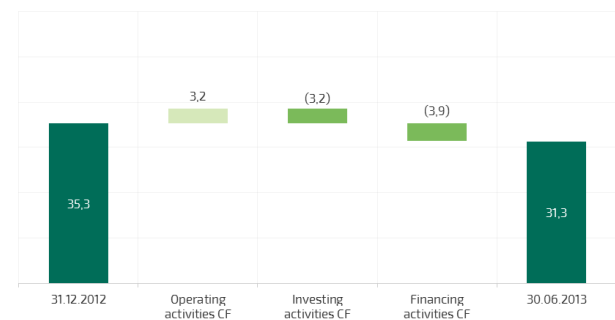
CASH FLOWS

The cash position of the group is stable. As at 30 June 2014 the group had cash equivalents in the amount of EUR 43.4 million (30.06.2013: EUR 31.3 million, and additionally EUR 2.5 million in short-term deposits with a maturity term of more than 3 months). Compared to the same period last year, the group's strategic cash level and investment capacity have strengthened.

6M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



6M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The 6-month cash flow from operating activity was positive at EUR 6.6 million (6 months of 2013: positive EUR 3.2 million), cash flow from investing activity was negative at EUR 0.9 million (6 months of 2013: negative EUR 3.2 million) and the cash flow from financing activity was negative at EUR 9.0 million (6 months of 2013: negative EUR 3.9 million).

The cash flow from operating activity was mostly influenced by the operating profit EUR 5.0 million (6 months of 2013: EUR 5.1 million), by the positive change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 6.0 million (6 months of 2013: positive change of EUR 4.1 million), by the negative change in provisions EUR 1.3 million (6 months of 2013: negative change of EUR 2.2 million), by the negative change in trade and other receivables related to operating activities EUR 3.9 million (6 months of 2013: negative change of EUR 16.2 million), by the negative change in inventory EUR 7.6 million (6 months of 2013: negative change of EUR 1.1 million), and by the positive change in trade and other payables related to operating activities EUR 8.0 million (6 months of 2013: positive change of EUR 13.1 million). The negative change in inventories is mainly due to the gradual completion of larger apartment developments (Grostonas 21 in Riga and Kentmanni 6 in Tallinnas), which is partially positively offset by prepayments received from pre-sales.

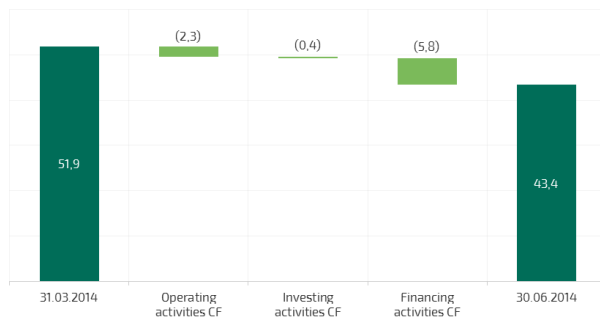
The group's cash flows from operating activities continue to have contracts (incl. both government and private sector) with long payment terms (by contract, an average of 56 days after registered delivery of the work) and there is an persistent burden on working capital, including optimal management of cash flows. This is especially true, considering the increase in Latvian construction volumes and the need for additional working capital. To support cash flows arising from operating activity, the group has been prudent in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (14.0% as at 30.06.2014; 13.9% as at 30.06.2013).

Cash flows from investment activities include negative cash flow from the cash balance excluded from the group in connection with the sale of subsidiary Gustaf Tallinn OÜ in the amount of EUR 0.4 million, while the balance of non-current asset acquisition was EUR 0.6 million (6 months of 2013: EUR 0.5 million). Cash flows from investment activities in 6 months of 2013 was negatively impacted by the acquisition of short-term deposit with a maturity term of more than 3 months in the amount of EUR 2.5 million and

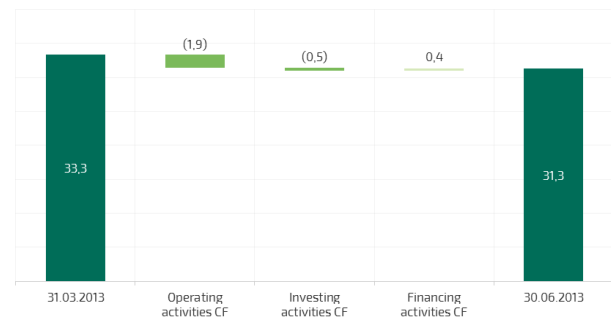
by EUR 0.3 million in other investments. The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment.

The largest single negative item in cash flows from financing was the dividend payment of EUR 7.3 million and the premature repayment of a working capital loan in the amount of EUR 3.5 million, instead of which the group entered into an overdraft contract with an overall limit of EUR 3.5 million. Project specific loans obtained using investment property as collateral were repaid in the amount of EUR 0.3 million (6 months of 2013: negative cash flow of EUR 0.2 million), net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 2.8 million (6 months of 2013: negative cash flow of EUR 2.2 million), factoring in the amount of EUR 0.0 million (6 months of 2013: negative cash flow of EUR 0.4 million) and finance lease principal repayments of EUR 0.5 million (6 months of 2013: EUR 0.6 million). The group has not used bank loans to finance all of the ongoing development projects – and this is the case particularly in Estonia, where many advance sales were agreed in the early phase of construction.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The Q2 2014 cash flow from operating activity was negative at EUR 2.3 million (Q2 2013: negative EUR 1.9 million), cash flow from investing activity was negative at EUR 0.4 million (Q2 2013: negative EUR 0.5 million) and the cash flow from financing activity was negative at EUR 5.8 million (Q2 2013: positive EUR 0.4 million).

The quarterly cash flows from operating activities were negative primarily as a result of the need for working capital to cover large-scale development projects. Cash flow from operating activities was also impacted negatively by the acquisition cost of land plots for development activity and the realization of an option agreement for Rästa 18 land plot in Tallinn total in the amount of EUR 2.5 million.

Cash flows from investment activities was negative primarily due to the acquisition of non-current asset in the amount of EUR 0.5 million, which is mainly related to the renewal of equipment in the road construction segment.

Cash flow from financing activities included the dividend payment of EUR 7.3 million as an one-time negative cash flow, which was offset by the net positive cash flow of EUR 2.2 million of loans received and loans repaid to finance the construction costs of development projects.

RATIOS

(attributable to equity holders of the parent)

		6M '14	6M '13	6M '12	Q2 '14	Q2 '13	Q2 '12	12M '13
Income statement summary								
Revenue	million EUR	113.7	113.7	106.9	64.8	65.9	59.1	262.7
Gross profit	million EUR	10.1	9.8	5.0	6.1	5.6	2.5	22.7
Gross profit margin	%	8.9	8.6	4.7	9.5	8.5	4.3	8.6
Operating profit	million EUR	5.0	5.1	1.1	3.7	2.8	0.5	12.3
Operating profit margin	%	4.4	4.5	1.0	5.7	4.3	0.9	4.7
Profit before tax	million EUR	4.7	4.5	0.8	3.6	2.6	0.4	11.1
EBT margin	%	4.1	4.0	0.8	5.5	3.9	0.7	4.2
Net profit	million EUR	4.2	4.0	0.5	3.6	2.2	0.4	10.4
attributable to equity holders of the parent	million EUR	4.4	4.0	0.6	3.6	2.3	0.4	10.4
attributable to non-controlling interest	million EUR	(0.2)	0.0	(0.1)	0.0	(0.1)	0.0	0.0
Net profit margin	%	3.8	3.6	0.5	5.6	3.5	0.7	4.0
Other income statement indicators								
EBITDA	million EUR	6.1	6.3	2.3	4.3	3.4	1.1	15.1
EBITDA margin	%	5.4	5.5	2.2	6.6	5.2	1.9	5.7
General expense ratio	%	5.1	5.0	4.6	4.4	4.7	4.2	4.7
Labour cost ratio	%	12.6	12.8	11.4	11.7	12.3	10.9	11.8
Revenue per employee	thousand EUR	144	130	118	82	75	65	308
Other significant indicators								
		30.06.2014	30.06.2013	30.06.2012	31.12.2013			
Return on equity	%	8.9	9.6	-5.3	8.8			
Return on assets	%	4.4	4.8	-2.7	4.4			
Return on invested capital	%	7.8	8.5	-3.3	8.0			
Equity ratio	%	48.8	48.8	48.5	50.9			
Debt ratio	%	14.0	13.9	17.6	14.8			
Current ratio	times	2.0	1.9	1.8	2.0			
Quick ratio	times	1.0	1.1	0.9	1.1			
Accounts receivable turnover	days	57	59	56	58			
Accounts payable turnover	days	38	46	48	43			
Average number of employees	people	791	878	903	853			
Secured order book	million EUR	191.6	184.4	233.2	213.7			

Calculation of ratios is provided on page 32 of the report.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial objectives. The company considers it important to assess aggregate group's risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. The following are deemed by the company to be the most significant risks: market risk, operational risk and financial risk, including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks.

Because of the group's balance sheet structure and the market position, none of these risks has a significant impact as at the date of this report.

“ “ The company manages risks so as to achieve its strategic and financial objectives.

Group risk management is coordinated by the management board who develops, implements and maintains processes covering group activities for the management of all material risks impacting the activity and results of Merko Ehitus. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been assigned. Risk-taking is a normal part of business but in doing so, one must be convinced that if the risk materializes, purposeful and sustainable activity is maintained with reference to the strategy of the company and business unit. The group assesses ongoing business risks and risks affecting development projects in a calculated manner.

Merko Ehitus divides risks into four main categories:



Business risk

The group takes calculated risks for the purpose of increasing revenue. The biggest business risks relate to the entry of Merko Ehitus to new markets and segments, the management of existing inventories and investments and the execution of awarded construction contracts. One of the peculiarities of construction activities is the fact that the execution of the contracts concluded is a long-term process, making the sector inert to changes in the economic environment. Due to this, both positive and negative changes in the economic environment reach the construction industry with a lag of approximately 12-18 months. This time lag enables the sector to arrange its activities to be prepared for potential setbacks as well as booms.

Operating in several different markets requires orientation in the environments of various countries. The main areas of attention are the different cyclicity attributes of different economies and legal, cultural and political differences. The main objective of Merko Ehitus is to expand into new segments in existing markets. When entering new markets, the company thoroughly studies local customs and peculiarities before making final investment decisions and makes sure that the environment is sufficiently stable and a competent team is assembled.

From the investments point of view, the main risks relate to the portfolio of properties and implementation of property development projects. Merko Ehitus carries out real estate development projects as an integrated process, comprising all activities from the acquisition of the property, proceedings related to the detailed plan, handling design and construction and finally sale of finished apartments to the customer and warranty service. The group uses standard policies for implementing real estate development projects in order to ensure the use of best practices that the entire group has accumulated over years. Merko Ehitus continuously analyses its existing inventory of land with development potential to ensure that the portfolio contains a sufficient number of properties to carry out developments suitable to the market. Investments in new properties of up to EUR 3 million are decided on the supervisory board level of subsidiaries and then further approved by the supervisory board of the group.

Market risk

Significantly more attention is being paid to potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability. Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

The residential development area is one of the main sources of market risk arising from the value of real estate for Merko Ehitus group. The real estate market has become more selective and in pre-launch risk assessment, consideration is given to such important aspects as the project's location, development volume, planning solutions and the target group. Taking into account low interest rates on loans and limited supply on the market of new apartments, in the last three years the demand and transaction activity on the apartment market has grown moderately. Due to the selectiveness of the real estate market, setting the right sale

price for new development projects in the given region have become very important. For hedging the area's price risk, price statistics collected by the group and available from other public sources is being constantly analysed.

Operational risk

Operational risks are risks caused by inadequate or ineffective processes, people, equipment, systems or external events. The main goal of operational risk management is to reduce the effect of unwanted events. In order to meet the objective, the group is developing internal processes and control systems. Development of processes and control systems is a significant area of focus for the group, particularly because of the materialization of unforeseen project management risks in the general construction segment in 2013 and the goal is to apply measures to avoid similar project management risks in the future. In order to ensure the group's high level of project management, project teams are continuously trained, business processes are improved and results are monitored.

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented ISO 9001/14001 management systems and Merko Ehitus Eesti, Merko Infra, Merko Tartu and Latvian and Lithuanian subsidiaries have implemented the occupational health and safety management system OHSAS 18001. The group employs full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 9.6 million. The risks of the projects which cost exceeds EUR 9.6 million or the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events.

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the company's warranty provision amounted to EUR 1.8 million (30.06.2013: EUR 1.7 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

Financial risk

Financial risks include risks related to adequate capitalisation level and financing, currency, interest rate and credit risk. Financial risks are managed through accounting and finance rules, as well as audit. The group's finance department is ultimately responsible for forecasting the cash flows of Merko Ehitus, continuously monitoring various subsidiaries' cash positions and forecasts. The group has enacted a regular budgeting procedure whereby the group's annual forecasts are updated as a minimum four times per year.

Credit risk

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, their financial position is analysed and if necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer. Free cash is mostly held in overnight deposits or term deposits at Swedbank, LHV, SEB and Nordea bank groups. The management estimates that the group is not exposed to significant credit risk.

Interest risk

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. The management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 30.06.2014, 14.0% of the balance sheet total; as at 30.06.2013, 13.9% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Currency risk

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia and Latvia and Lithuanian litas in Lithuania. From 1 January 2014, Latvia adopted the euro as its national currency. Lithuanian litas are pegged to the euro. The exchange rate of the Lithuanian litas is 1 EUR = LTL 3.4528 and currently it is assured that Lithuania is adopting the euro on 1 January 2015. In order to eliminate foreign exchange risk, the proportions of assets and

liabilities denominated in different currencies are monitored and the preferred currency for conclusion of long-term construction contracts is the euro. Estonia uses the euro, Latvia adopted the euro as at 1 January 2014 and the need and probability for devaluation of the Lithuanian national currency is low – the situation as a whole is stable in the Baltic States.

Liquidity risk

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 30.06.2014, the group's current ratio was 2.0 (30.06.2013: 1.9) and the quick ratio 1.0 (30.06.2013: 1.1). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 10.4 million, of which EUR 9.9 million was unused (30.06.2013: EUR 6.4 million, of which EUR 6,4 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (30.06.2013: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

The management estimates that the group's capital structure – a solid proportion of equity at 48.8% (30.06.2013: 48.8%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 14.0% (30.06.2013: 13.9%) of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk

Due to different interpretations of contracts, regulations and laws related to group's principal activities, there is a risk that some buyers, contractors or supervisory authorities evaluate the company's activities from the perspective of laws or contracts from a different position and dispute the legitimacy of the company's activities.

As at 30 June 2014, a provision has been set up at the group in the amount of EUR 0.2 million (30.06.2013: EUR 0.4 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2014 and ongoing as of 30.06.2014 is presented below:

Latvia

On 27 September 2013, SIA Merks submitted a Request for Arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce thereby commencing the arbitration proceedings against Tritan Group AS for failure to fulfil obligations, under Share Purchase Agreement and its annexes, in the joint venture SIA Zakusala Estates where Merko Ehitus group owns 50%.

The relief sought from Titan Group AS by SIA Merks with the claim is payment of compensation in the amount of EUR 1,400 thousand and late payment penalty of Euribor+1% from 10 January 2009. The claim has not been recognised on the balance sheet of the group based on the principle of conservatism.

SIA Merks has paid its share of arbitration costs whereas Tritan Group AS has only filed a brief summary of the circumstances of the action, however has not paid its share of the costs. In order to continue the arbitration proceedings, SIA Merks on 30 January 2014 paid an additional EUR 54 thousand, comprising the arbitration costs unpaid by Tritan Group AS.

Based on the preliminary schedule, the final deadline for the submission of evidence to the arbitration court is 5 August 2014. The date of the hearing following the submission of evidence is yet to be determined by the arbitration court.

According to the contract signed on 5 August 2014 between a subsidiary of AS Merko Ehitus group, SIA Merks, and Tritan Group AS for the transfer of 25% holding in the joint venture SIA Zakusala Estates and after the formal transfer of the 25% shares in SIA Zakusala Estates and the fulfillment of the additional conditions agreed by Tritan Group AS, SIA Merks will submit a Request to the Arbitration Institute of the Stockholm Chamber of Commerce to end the arbitration proceedings currently ongoing against Tritan Group AS. If Tritan Group AS fails to fulfill all the conditions agreed upon in the contract, then the arbitration proceedings will continue in previously prescribed form.

Lithuania

Vakarų

At 25 May 2012, RUAB Vakarų inžineriniai tinklai (hereinafter "Vakarų") filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of LTL 680 thousand (EUR 197 thousand), related to the repeal of the joint venture contract concerning the sewerage and wastewater pipeline project (project "Construction of Sewerage and Wastewater Pipelines in Seda, Plinkšiai and Bugeniai"). It is the view of AS Merko Ehitus that the joint venture agreement was terminated for cause due to breaches of the partner, not illegally.

In the end of 2012, bankruptcy proceedings were initiated against Vakarų. In relation to that, AS Merko Ehitus has filed creditor's claims (incl. claims for damages) in the bankruptcy proceedings totalling LTL 4,214 thousand (EUR 1,220 thousand). Said claim (incl. claim for damages) is not included on the group's balance sheet and claims that arose earlier were already provisioned in full in 2012. On 4 April 2014, District Court of Plungė, made the judgement in the litigation with regard to declaring invoices partially unjustified, which fully satisfied the claim of AS Merko Ehitus. On 5 May 2014, Vakarų appealed the court decision to Klaipėda District Court. AS Merko Ehitus filed an objection regarding the appeal and now we are waiting for the court hearing to be scheduled. The proceedings of the court of appeal are taking place in writing and will last for approximately one year. The future

court hearing in regard to invalidate the agreement on formation of joint venture was postponed once more due to the submission of supplementary documents to the court and is now planned for 9 September 2014.

Šiaulių Vandenys

At 10 October 2012, UAB Šiaulių Vandenys filed a claim against UAB Merko Statyba, because according to UAB Šiaulių Vandenys, UAB Merko Statyba failed to meet the deadline for works. The claim included a fine for delay, 7.75% interest and state property taxes in the amount of LTL 237 thousand (EUR 69 thousand). At 11 January 2013, UAB Merko Statyba filed a counterclaim in the amount of LTL 537 thousand (EUR 155 thousand) and extension of the deadline for works by 154 days. This is primarily due to the refusal by the counterparty to pay for the additional works contracted by UAB Šiaulių Vandenys and to extend the deadline for works. The pre-court institution – the Dispute Settlement Council – decided to satisfy the claim of UAB Merko Statyba regarding payment for additional works and extension of the deadline for works. The dispute will continue in the court. The hearings of the Court of First Instance started on 27 June 2013 and continued with a second hearing on 3 July 2013 and a third hearing on 10 September 2013. The court took the decision to request an expert evaluation in the case to further clarify the facts and at the end of 2013 appointed the performer of the expert evaluation. The expert evaluation may take two to six months to carry out and the next court hearing date will be scheduled within approximately one month of the filing of the expert evaluation report to the court.

EMPLOYEES AND LABOUR COSTS

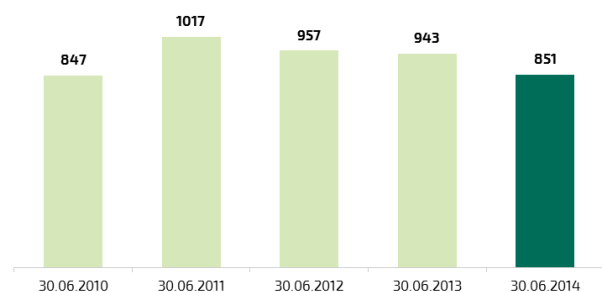
Compared to the same period last year, the number of group's employees decreased by 92 (-9.8%) and as at 30 June 2014, the group had a total of 851 employees (including fixed-term and part-time employees). Compared to the end of the previous financial year the number of employees has decreased by 9 (-1.0%).

In 2014, the number of employees mainly declined because of the sale of subsidiary Gustav Tallinn OÜ, the change of the principal area of activity of subsidiary AS Gustaf, but also due to the proportion of the civil engineering segment declined within the work volumes of the group. On the other hand the number of employees had increased at the expense of seasonal workers mainly in road construction segment. In 2014, the reduction in the number of employees will continue due to the streamlining of the group corporate structure and the decrease in ownership interest in immaterial subsidiaries, however not materially.

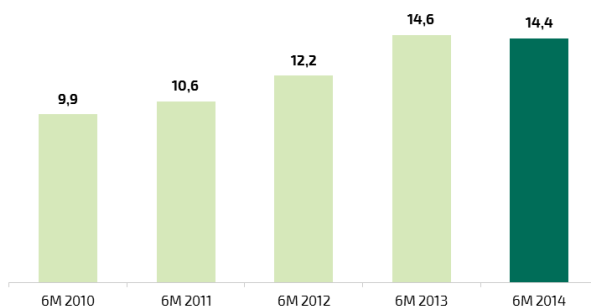
The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 6 months 2014, the labour cost was EUR 14.4 million (6 months 2013: EUR 14.6 million), down 1.3% from the previous year.

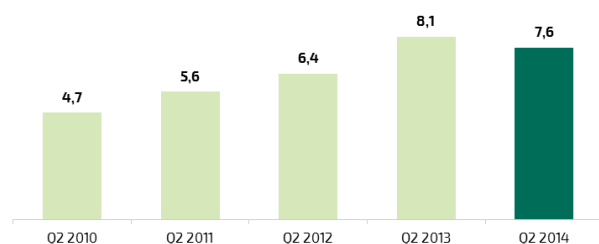
NUMBER OF EMPLOYEES
people



LABOUR COST
in million euros



QUARTERLY LABOUR COST
in million euros



RECOGNITIONS 2014

In 2014, the activities of AS Merko Ehituse have been recognised in the form of the following prizes:

CIVIL ENGINEER OF THE YEAR 2013

Tiit Joosti, project director with AS Merko Ehitus Eesti, was declared the winner of the Civil Engineer of the Year 2013 competition announced in the first quarter of 2014. The victory was an acknowledgement of Tiit Joosti's successful management of the construction of the Ülemiste junction as a civil engineer. The Civil Engineer of the Year competition was announced by the Estonian Association of Civil Engineers for the first time, with the aim of starting a new annual tradition. The competition aims at promoting the profession of a civil engineer, and acknowledging the engineers engaged in the field of construction for outstanding professional achievements.

BALTIC MARKET AWARD 2013

At an award gala held in the first quarter of 2014 – the Baltic Market Awards 2013 - NASDAQ OMX Baltic stock exchanges announced the companies of the year with the best investor relations. The goal of the competition was to raise the general level of investor relations among listed companies by recognizing the ones that stood out during the year with first-class investor relations. In 2013, the publicly listed companies received awards in five categories; in addition, the year's best stock exchange member was selected. AS Merko Ehitus received third place in the category "Most Visible Improvement over the Year" at raising quality of investor relations.

CHIEF FINANCIAL OFFICER OF THE YEAR 2014

Each year, under the auspices of Äripäev business daily, Estonia's best financial director is selected at the BIG4 finance conference. From several dozen candidates, the jury selected five nominees. 2014's candidates included AS Merko Ehitus Group CFO Signe Kukin. The jury consisted of the representatives of four major audit firms – AS PricewaterhouseCoopers, Deloitte Audit Eesti AS, KPMG Baltics OÜ and Ernst & Young Baltic AS, and a representative from Äripäev.

The jury credited Signe Kukin with a significant role in raising the quality of reporting of the consolidated group operating in Estonia, Latvia and Lithuania, resulting in a more substantive and efficient process of reporting to the management board and external consumers. Signe Kukin has also contributed in improving the Merko Ehitus group's structure and increasing the efficiency of internal controls.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

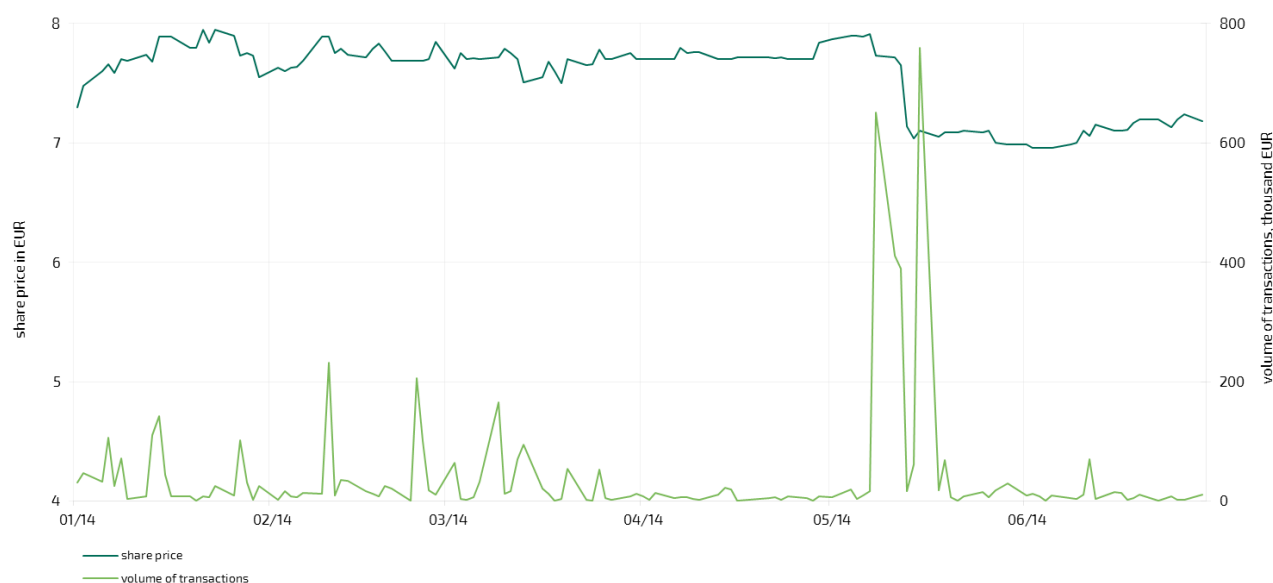
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ OMX Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR
Listing date	11.08.2008

The shares of Merko Ehitus are listed in the Main List of NASDAQ OMX Tallinn. As at 30 June 2014, the company has 17,700,000 shares. The number of shares has not changed during 2014.

A total of 1,098 transactions were conducted with the shares of Merko Ehitus in 6 months of 2014, with 0.68 million shares (3.8% of total shares) traded, generating a turnover of EUR 5.11 million (comparable figures in 6 months 2013 were accordingly: 1,051 transactions with 0.36 million shares traded (2.0% of total shares) and generating a turnover of EUR 2.45 million). The lowest share price amounted to EUR 6.96 and the highest to EUR 7.99 per share (6 months of 2013: EUR 5.71 and EUR 7.70). The closing price of the share was EUR 7.18 on 30 June 2014 (30.06.2013: EUR 6.44). As at 30 June 2014, the market value of AS Merko Ehitus amounted to EUR 127.1 million, which has risen 11.5% compared to the same period end last year (as at 30 June 2013: EUR 114.0 million).

	30.06.2014	30.06.2013	30.06.2012
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.25	0.23	0.03
Equity per share, euros	6.82	6.55	6.27
P/B ratio	1.05	0.98	0.99
P/E ratio	11.87	8.86	-18.68
Market value, million EUR	127.1	114.0	110.4

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ OMX TALLINN STOCK EXCHANGE IN 2014



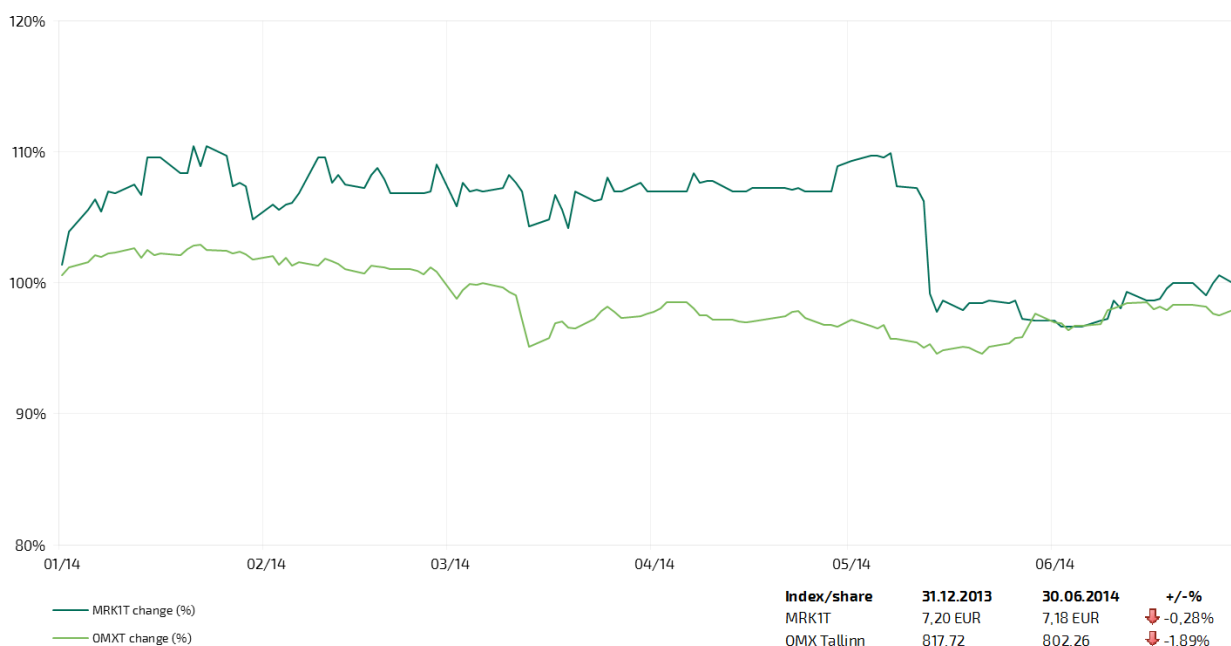
STRUCTURE OF SHAREHOLDERS AS AT 30.06.2014

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.07%	12,742,686	71.99%
100,001 – 1,000,000	10	0.70%	2,938,675	16.60%
10,001 – 100,000	33	2.31%	994,872	5.62%
1,001-10,000	232	16.25%	692,322	3.91%
101-1,000	742	51.96%	309,324	1.75%
1-100	410	28.71%	22,121	0.13%
Total	1,428	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.06.2014 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.06.2014	% OF TOTAL 31.03.2014	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Skandinaviska Enskilda Banken S.A.	479,527	2.71%	2.72%	-1,852
Skandinaviska Enskilda Banken AB, Swedish customers	305,060	1.72%	1.72%	-
Firebird Republics Fund Ltd	302,395	1.71%	1.71%	-
Firebird Aurora Fund Ltd	170,000	0.96%	0.32%	+114,226
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,020	0.84%	0.84%	-
Clearstream Banking Luxembourg S.A. customers	143,652	0.81%	0.80%	+2,600
Skandinaviska Enskilda Banken AB, Finnish customers	131,692	0.74%	0.75%	-705
Total largest shareholders	15,550,176	87.84%	87.21%	+114,269
Total other shareholders	2,149,824	12.16%	12.79%	-114,269
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2014



DIVIDENDS AND DIVIDEND POLICY

The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

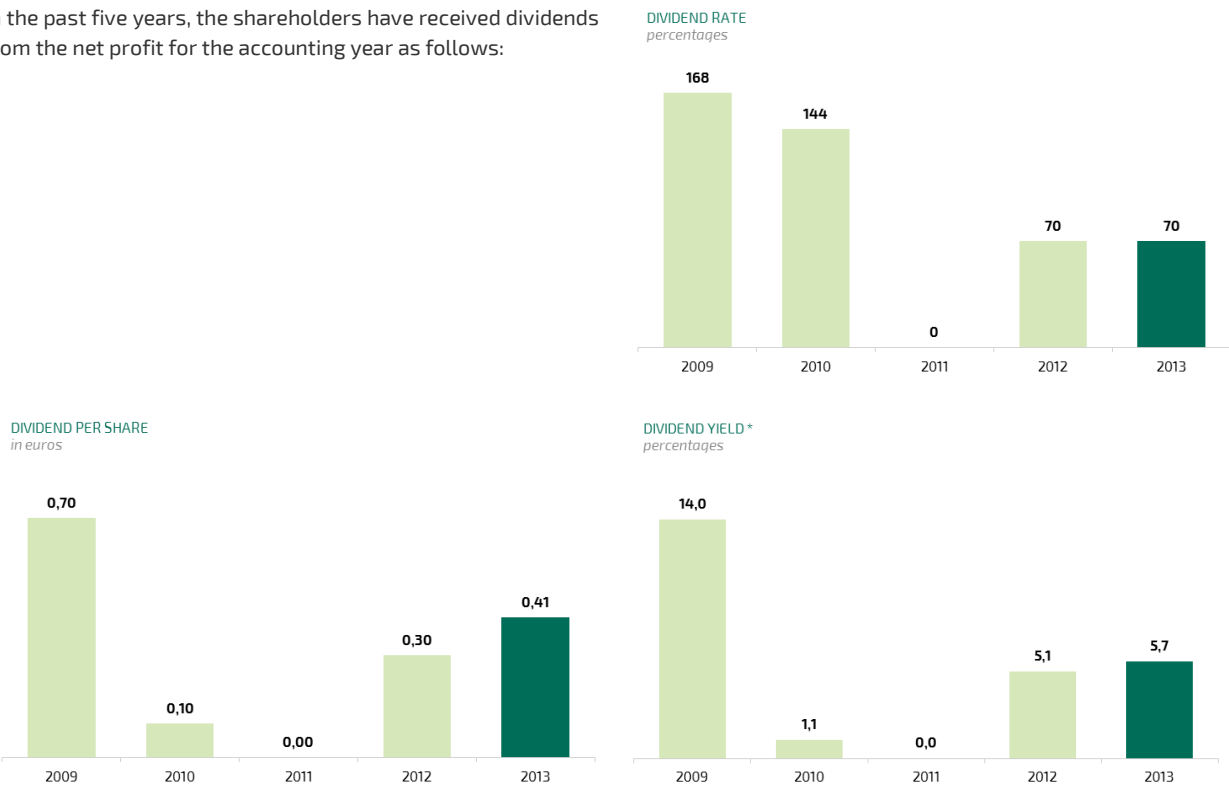
At the meeting held on 8 April 2013, the Management Board and Supervisory Board of AS Merko Ehitus reviewed the company's strategic development trends and approved the long-term financial objectives until 2018, under which a new objective of paying the shareholders 50-70% of the annual profit as dividends was established. The achievement of this objective is an important priority for the group.

The annual general meeting of shareholders of AS Merko Ehitus held at 30 April 2014 approved the Supervisory Boards proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 70% dividend rate and a 5.7% dividend yield for the year 2013 (using the share price as at 31 December 2013).

According to the Estonian Income Tax Law §50 section 11 AS Merko Ehitus can pay these dividends without any additional income tax expense and liabilities occurring due to previously received and taxed distribution of profits from subsidiaries. The dividend payment to the shareholders took place on 20 May 2014.

In 2013 the total amount of EUR 5.3 million (EUR 0.30 per share) was paid to shareholders as dividends, which is equivalent to a 70% dividend rate and a 5.1% dividend yield for the year 2012 (using the share price as at 31 December 2012).

In the past five years, the shareholders have received dividends from the net profit for the accounting year as follows:



* Using share price as at 31.12

Dividend payments are carried out in the next fiscal year in accordance with the decisions of the general meeting of the shareholders, regarding the previous fiscal year.

CORPORATE GOVERNANCE

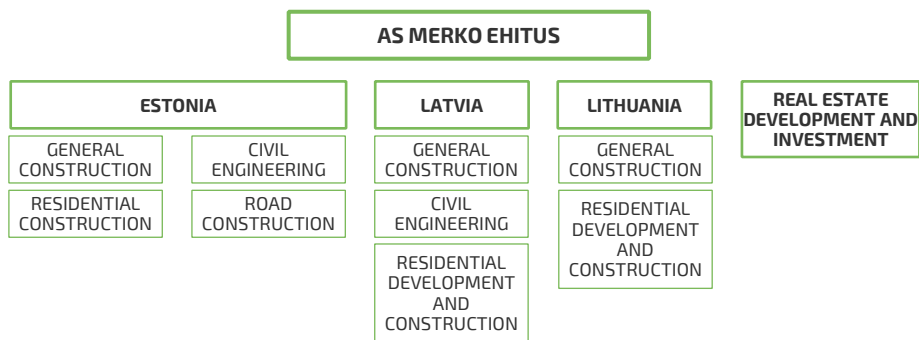
CORPORATE GOVERNANCE AND STRUCTURE

AS Merko Ehitus operates as a holding company whose companies in Estonia, Latvia and Lithuania offer complete solutions in the field of construction and real estate development. In the construction sector, the group's largest companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

The main activity of the holding company is development and implementation of the strategies of Merko Ehitus group's separate business areas primarily through long-term planning of resources. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 28-30 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. The groups management is carried out on a country basis. The groups country and business area management structure as at 30 June 2014 is the following:



GROUP'S LEGAL STRUCTURE

As at 30 June 2014, the group comprises 46 companies (30.06.2013: 46; 31.12.2013: 46). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

In 2014, AS Merko Ehitus has decided to streamline its group companies' structure to improve management effectiveness and produce administrative cost savings. As part of the action plan, ownership interests of insignificant subsidiaries are reviewed and potential mergers or disposals are decided. The action plan does not concern material subsidiaries of the group and does not have a material near-term effect on the group's financial results. First changes are under way and the implementation of the action plan will continue in 2014.

On 20 December 2013, AS Merko Ehitus initiated a process to merge its fully owned subsidiaries OÜ Woody, OÜ Metsailu and OÜ Käibevara, all engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is OÜ Metsailu. The companies being acquired will be merged into OÜ Metsailu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and OÜ Metsailu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus will remain the sole shareholder in OÜ Metsailu, the acquiring company. The closing date of the merger was 1 January 2014 after which all transactions of the acquirees have been deemed to have been made on account of the acquirer. The final merger entry was made in the Commercial Register on 6 June 2014.

On 15 January 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, signed an agreement for the transfer of its entire 80% holding in the subsidiary Gustaf Tallinn OÜ to the current co-shareholder and member of the management board Tiit Pomerants. The share capital of Gustaf Tallinn OÜ is EUR 23,967 of which the holding of AS Merko Ehitus Eesti with a nominal value of EUR 19,174 comprises 80% and the holding of Tiit Pomerants with a nominal value of EUR 4,793 made up 20%. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant subsidiaries. The principal area of activity of the construction company Gustaf Tallinn OÜ is construction and finishing work and the company offers prime contractor service for smaller renovations and repair jobs, which are not one of the strategically

significant principal areas of activity of the AS Merko Ehitus group. On 15 January 2014, the buyer paid the seller EUR 20,000. The final sales price was 17,201 euros, which was calculated in accordance with the audited 2013 annual report of Gustaf Tallinn OÜ on the basis of the share of equity held by AS Merko Ehitus Eesti, adjusted by dividend payment of EUR 960 000 paid to the seller before transfer of the share as well as by the income tax expense of EUR 255 190 related to the paid dividend. On 2 May 2014, the seller returned the adjusted part of the sales price EUR 2,799 to the buyer's bank account.

As a result of the sale of the ownership interest and the subsequent deconsolidation of Gustaf Tallinn OÜ, the estimated impact on the consolidated profit of AS Merko Ehitus group is EUR 0, the negative impact on assets and liabilities is EUR 967 thousand and EUR 945 thousand, respectively.

On 22 January 2014, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas, formed a fully owned subsidiary in Lithuania, UAB VPSP 1 with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was initially formed to participate in public-private partnership (PPP) procurements organised by the Lithuanian government and later changed to acquiring registered immovables for development purposes in Lithuania.

On 13 June 2014, fully owned subsidiary of AS Merko Ehitus, AS Merko Ehitus Eesti formed a 50% joint venture in Estonia, Kivimäe 32 OÜ with a share capital of EUR 2,600. The joint venture was formed to acquire a property for development in Tallinn, Estonia.

On 31 July 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, signed an agreement for the transfer of 7,5% holding in the subsidiary AS Gustaf from the current co-shareholders and members of the management board Raigo Jaanuste and Ago Randorg. After the acquisition of the minority share, AS Gustaf became a 100% subsidiary of AS Merko Ehitus Eesti. The holding was acquired with the purpose of re-arranging the structure of the group companies. The principal area of activity of the construction company AS Gustaf was general contracting of construction, mainly in the western and southern regions of Estonia. Following the acquisition of 100% shares in AS Gustaf, the principal area of activity of the company will be changed to real estate development. On 1 August 2014, AS Merko Ehitus Eesti paid the sellers 95% of the shares sales price of EUR 89,058. The final sales price will be calculated in accordance with the audited 2015 annual report of AS Gustaf, on the basis of the designated equity. AS Merko Ehitus Group considers the additional influence of adjustments of the sales price to be immaterial.

On 5 August 2014, a subsidiary of AS Merko Ehitus group, SIA Merks, signed an agreement for the transfer of 25% holding (275 thousand shares) in the joint venture SIA Zakusala Estates from the current co-shareholder Tritan Group AS. After the acquisition of the majority share, SIA Zakusala Estates will become a 75% subsidiary of SIA Merks. The additional 25% holding was acquired with the purpose of gaining a greater control over the assets and the management of SIA Zakusala Estates. The principal area of activity of the real estate company SIA Zakusala Estates is the development of approximately 126 thousand square meters land located on the island Zakusala on Daugava river in Riga. With the increased control the group will be better positioned to lead the overall future development of the project. This is a long term investment for AS Merko Ehitus group. According to the agreement SIA Merks will pay for the additional 25% holding the purchase prices of EUR 696,273, by assigning the corresponding part of a loan given by SIA Merks to SIA Zakusala Estates, to AS Tritan Group.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company.

The general meeting of the shareholders was held on 30 April 2014. The general meeting resolved to approve the annual report and the profit allocation proposal for 2013. The dividends in the sum of EUR 7.3 million (EUR 0.40 per share) were paid out to shareholders on 20 May 2014.

In addition, the annual general meeting resolved to extend the terms of office of members of the Supervisory Board Toomas Annus, Teet Roopalu, Indrek Neivelt and Olari Taal until April 30th 2017, i.e. for a period of three years from the decision for the extension. The remuneration of members of the Supervisory Board did not change and will continue based on terms and conditions approved at general meeting of shareholders of AS Merko Ehitus, held on October 31st 2008.

In addition the general meeting of shareholders decided to appoint AS PricewaterhouseCoopers the auditor of AS Merko Ehitus for the financial year of 2014 and to pay to the auditing company for auditing the financial year of 2014 as per contract to be entered into with AS PricewaterhouseCoopers.

The Management Board made a presentation on the company's financial results and future prospects.

In accordance with the Commercial Code, its Articles of Association and Good Governance Code, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through the Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper at least 3 weeks in advance. The general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

Before their publication, agendas at annual and extraordinary general meetings of the company's shareholders are approved by the Supervisory Board that shall also present to the general meeting subjects for discussion and voting. Agenda items of the general meeting, recommendations of the Supervisory Board with relevant explanations, procedural guidance for participation in the general meeting and how and when new agenda items can be proposed are published together with the notice on calling the general meeting.

General meetings can be attended by any shareholder or his or her authorised representative. AS Merko Ehitus does not allow participation in general meetings by electronic means of communication equipment since the deployment of reliable solutions for the identification of shareholders some of whom live abroad, while ensuring the privacy of participating shareholders, would be too complicated and costly. No picture taking or filming is allowed at the general meeting, because it may disturb the privacy of shareholders.

Annual and extraordinary general meeting of shareholders shall be chaired by an independent person. In 2014, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

On behalf of the company, usually the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. If necessary, the company's auditor shall participate.

The annual general meeting of shareholders of AS Merko Ehitus held in 2014 was attended by Toomas Annus (Chairman of the Supervisory Board), Andres Trink (Chairman of the Management Board), Signe Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

SUPERVISORY BOARD

The Supervisory Board shall plan the activities of the company, organise the management of the company and supervise the activities of the Management Board. The Supervisory Board shall notify the general meeting of shareholders of the results of a review. The Chairman of the Supervisory Board organises the work of the Supervisory Board. The main duties of the Supervisory Board are to approve the group's material strategic and tactical decisions and to supervise the activities of the group's Management Board. The Supervisory Board's actions are guided by the company's articles of association, guidelines of the general meeting and law.

According to the Articles of Association of Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

At the annual general meeting of shareholders held at 30 April 2014, it was decided to extend the term of office of Supervisory Board members Toomas Annus, Teet Roopalu, Indrek Neivelt and Olari Taal until 30 April 2017, i.e. for three years from the decision of the extension.

The Supervisory Board of AS Merko Ehitus has four members of whom, in accordance with the requirements of the Good Governance Code, two - Indrek Neivelt and Olari Taal - are independent members:



Toomas Annus (53) *Chairman of the Supervisory Board*

Positions held:

2011-... AS Merko Ehitus, Chairman of the Supervisory Board
 2014-... E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
 2009-2014 E.L.L. Kinnisvara AS, Member of the Management Board
 2008-... AS Järvevana, Chairman of the Management Board
 1999-2009 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
 1997-2008 AS Merko Ehitus, Chairman of the Supervisory Board
 1996-... AS Riverito, Chairman of the Management Board
 1991-1996 AS EKE Merko, Chairman of the Management Board
 1989-1991 EKE MRK, director of the company

Education:

Tallinn University of Technology, industrial and civil engineering
 Tallinn Technical School of Building and Mechanics, industrial and civil engineering

Number of shares: 8,322,914 (AS Riverito)



Teet Roopalu (64) *Member of the Supervisory Board*

Positions held:

2004-... AS Merko Ehitu, Member of the Supervisory Board
 2010-... AS Riverito, Member of the Management Board
 2003-... E.L.L. Kinnisvara AS, Member of the Supervisory Board
 2008-... AS Järvevana, Member of the Supervisory Board
 2002-2004 AS Merko Ehitus, Adviser to the Management Board
 Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.
 Member of Supervisory Boards of subsidiaries and associated companies.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -



Indrek Neivelt (47) *Member of the Supervisory Board*

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
 2005-2014 Bank Saint Petersburg, Chairman of the Supervisory Board
 1999-2005 Hansapank, Director General of the Group, Chairman of the Management Board
 1991-1999 Hansapank, various positions
 Belongs to Supervisory Boards of various companies.

Education:

Tallinn University of Technology, civil engineering economics and management.

Stockholm University, banking and finance, MBA

Number of shares: 31,635 (Trust IN OÜ)



Olari Taal (60) *Member of the Supervisory Board*

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
 2014-... AS Eesti Energia, Member of the Supervisory Board
 Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).
 Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).
 Belongs to Supervisory Boards of various companies.

Education:

Tallinn University of Technology, civil engineering.

Number of shares: 2,500 (Eggera OÜ)

MANAGEMENT BOARD

The Management Board is a governing body which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of all shareholders and ensures the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. At least once a month, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

Pursuant to the Articles of Association approved at the general meeting of shareholders in 2012, the Management Board may have up to three members.

The Management Board AS of AS Merko Ehitus has two members: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).



Andres Trink (47) *Chairman of the Management Board*
Appointed: 1 January 2012
Term ends: 31 December 2014

Positions held:

2012-... AS Merko Ehitus, Chairman of the Management Board
Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks and UAB Merko Statyba
Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a Member of the Management Board of Baltic banking at Hansapank (now Swedbank).

Education:

Tallinn University of Technology, automated management systems specialty (summa cum laude).
Estonian Business School, international business administration.
Graduate of the INSEAD University (France), executive management programme.

Number of shares: -



Tõnu Toomik (53) *Member of the Management Board*
Appointed: 6 June 2013
Term ends: 5 June 2016

Positions held:

2013-... AS Merko Ehitus, Member of the Management Board
2014-... E.L.L. Kinnisvara AS, Member of the Supervisory Board
2011-2013 AS Merko Ehitus, Member of the Supervisory Board
2009-2014 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
2008-2011 AS Merko Ehitus, Chairman of the Supervisory Board
2008-... AS Järvevana, Chairman of the Supervisory Board
1999-2009 E.L.L. Kinnisvara AS, Member of the Supervisory Board
1997-1999 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
1997-2008 AS Merko Ehitus, Chairman of the Management Board
1996-... AS Riverito, Member of the Management Board
1993-1996 AS EME Merko, Estonian Regional Director
1993-1993 AS EKE Merko, Project Manager
Member of Supervisory Boards of subsidiaries and associated companies.

Education:

Tallinn University of Technology, industrial and civil engineering

Number of shares: 1,607,185 (AS Riverito)

The responsibilities of Andres Trink, Chairman of the Management Board, include, among others, fulfilling daily obligations of the CEO of AS Merko Ehitus, managing and representing the company, ensuring compliance with the Articles of Association, legal acts, organising the work of the Management Board and supervisory boards of the more important subsidiaries, coordinating the development of strategies and providing for their implementation, being responsible for business development and finance. Tõnu Toomik is responsible for the management of the portfolio of properties and coordination of construction segment development activities across the whole group.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

Authorisation and responsibility of supervisory boards of subsidiaries of AS Merko Ehitus are based on their Articles of Association and intergroup rules. Generally, Supervisory Boards of subsidiaries consist of members of the Management Board and Supervisory Board of the company that is the main shareholder of the specific subsidiary. Supervisory Board meetings of the most significant subsidiaries are held usually once a month, otherwise according to the group's needs, Articles of Association of subsidiaries and legal provisions. Generally, no separate fee is paid to members of the Supervisory Board of subsidiaries. Members of the Supervisory Board will also receive no termination benefit in case their contract of service is terminated before due date or not extended

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 30 June 2014:

COMPANY	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Taavi Ojala	Tiit Roben (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra	Tiit Roben (Chairman), Veljo Viitmann, Mihkel Mugur	Arno Elias (Chairman), Tarmo Pohlak, Boris Tehnikov
Tallinna Teede AS	Tiit Roben (Chairman), Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments	-	Andres Trink, Signe Kukin
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Oskars Ozoliņš (Chairman), Jānis Šperbergs
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Metsailu	-	Tiit Kuusik, Ines Prual

In conjunction with a streamlining of the management structure, there was a change on 7 March 2014 in the composition of the Management Board of AS Merko Ehitus Eesti, a 100% subsidiary of AS Merko Ehitus. Andres Agukas, the Member of the Management Board was recalled. The Management Board will continue with four members: Tiit Roben (The Chairman), Jaan Mäe, Veljo Viitmann and Alar Lagus.

As a result of the departure of Andres Agukas, the composition of the Supervisory Boards of AS Merko Infra and Tallinna Teede AS, subsidiaries of the AS Merko Ehitus Eesti group, was changed. Effective 7 March 2014, Tiit Roben was appointed as Chairman of the Supervisory Board of AS Merko Infra to replace Andres Agukas. The Supervisory Board will continue with three members: Tiit Roben (Chairman), Veljo Viitmann and Mihkel Mugur. The Supervisory Board of Tallinna Teede AS will continue with three members after the departure of Andres Agukas: Tiit Roben (The Chairman), Alar Lagus and Veljo Viitmann.

The Supervisory Board of AS Merko Infra, a 100% subsidiary AS Merko Ehitus Eesti and with ultimate parent AS Merko Ehitus, decided to appoint Boris Tehnikov as an additional member of the Management Board and to elect the current member, Arno Elias, as the Chairman of the Management Board of AS Merko Infra as of 2 April 2014. The Management Board of AS Merko Infra will continue with three members: Arno Elias (The Chairman), Tarmo Pohlak and Boris Tehnikov.

AS Merko Ehitus board decided to recall a member of the Supervisory Board of UAB Merko Statyba Jaan Mäe and appoint Signe Kukin as the new member of the Supervisory Board as of 2 April 2014. The Supervisory Board will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

OÜ Merko Investments, part of AS Merko Ehitus group, which has 100% holding in SIA Merks, board decided to recall a member of the Supervisory Board of SIA Merks Jaan Mäe and appoint Signe Kukin as the new member of the Supervisory Board as of 2 April 2014. The Supervisory Board will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

On 30 July 2014, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Chairman of the Management Board, Jüri Läll for three years, i.e. till 30 July 2017. The Management Board of Tallinna Teede AS will continue with two members: Jüri Läll (The Chairman) and Jüri Helila.

On 31 July 2014, the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Alar Lagus for three years, i.e. till 31 July 2017. The Management Board of AS Merko Ehitus Eesti will continue with four members: Tiit Roben (The Chairman), Jaan Mäe, Veljo Viitmann and Alar Lagus.

DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest income} - \text{foreign exchange gain(loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 30.06}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.06}}{\text{Equity per share (average of the current 4 quarters)}}$
Market capitalisation	=	Share price 30.06 x Number of shares

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

The Management Board of AS Merko Ehitus declares and confirms that the interim financial statements provide, to the best of the knowledge of the Management Board, a true and fair view of the development, results and financial position of the company and the consolidated undertakings as a whole, include a description of the principal risks and uncertainties, and reflect transactions with related parties.

Andres Trink

Chairman of the Management Board



07.08.2014

Tõnu Toomik

Member of the Management Board



07.08.2014

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2014 6 months	2013 6 months	2014 II quarter	2013 II quarter	2013 12 months
Revenue	2	113,701	113,743	64,833	65,884	262,719
Cost of goods sold	3	(103,622)	(103,918)	(58,690)	(60,294)	(239,996)
Gross profit		10,079	9,825	6,143	5,590	22,723
Marketing expenses		(1,509)	(1,391)	(655)	(735)	(3,041)
General and administrative expenses		(4,292)	(4,339)	(2,172)	(2,383)	(9,260)
Other operating income		837	1,218	431	510	2,264
Other operating expenses		(83)	(186)	(33)	(142)	(425)
Operating profit		5,032	5,127	3,714	2,840	12,261
Finance income/costs		(337)	(614)	(157)	(281)	(1,116)
incl. finance income/costs from joint ventures		(70)	(70)	(36)	(36)	(138)
finance income/costs from other long-term investments	1	23	23	1	10	2
interest expense		(333)	(416)	(155)	(206)	(814)
foreign exchange gain (loss)		(1)	(167)	-	(57)	(202)
other financial income (expenses)		66	16	33	8	36
Profit before tax		4,695	4,513	3,557	2,559	11,145
Corporate income tax expense		(482)	(521)	40	(327)	(791)
Net profit for financial year		4,213	3,992	3,597	2,232	10,354
incl. net profit attributable to equity holders of the parent		4,360	4,050	3,649	2,284	10,399
net profit attributable to non-controlling interest		(147)	(58)	(52)	(52)	(45)
Other comprehensive income						
Currency translation differences of foreign entities		-	(148)	-	(7)	(157)
Comprehensive income for the period		4,213	3,844	3,597	2,225	10,197
incl. net profit attributable to equity holders of the parent		4,360	3,902	3,649	2,277	10,242
net profit attributable to non-controlling interest		(147)	(58)	(52)	(52)	(45)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.25	0.23	0.21	0.13	0.59

The notes set out on pages 38-50 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.06.2014	30.06.2013	31.12.2013
ASSETS				
Current assets				
Cash and cash equivalents	5	43,434	31,329	46,633
Short-term deposits		-	2,500	-
Trade and other receivables	6	63,850	71,853	57,172
Prepaid corporate income tax		26	33	19
Inventories	7	95,223	83,844	87,451
		202,533	189,559	191,275
Non-current assets				
Long-term financial assets	8	20,890	25,949	27,415
Deferred income tax assets		1,592	1,817	1,592
Investment property	9	4,556	3,418	4,672
Property, plant and equipment	10	13,242	14,624	13,117
Intangible assets	11	1,095	1,276	1,167
		41,375	47,084	47,963
TOTAL ASSETS		243,908	236,643	239,238
LIABILITIES				
Current liabilities				
Borrowings	12	15,298	12,854	18,916
Payables and prepayments	13	82,043	80,777	72,162
Income tax liability		54	115	62
Short-term provisions	14	5,457	4,053	5,906
		102,852	97,799	97,046
Non-current liabilities				
Long-term borrowings	12	18,904	19,992	16,469
Deferred income tax liability		614	406	505
Other long-term payables	15	1,770	1,743	2,162
		21,288	22,141	19,136
TOTAL LIABILITIES		124,140	119,940	116,182
EQUITY				
Non-controlling interests		802	1,180	1,193
Equity attributable to equity holders of the parent				
Share capital		12,000	12,000	12,000
Statutory reserve capital		1,200	1,200	1,200
Currency translation differences		(669)	(660)	(669)
Retained earnings		106,435	102,983	109,332
		118,966	115,523	121,863
TOTAL EQUITY		119,768	116,703	123,056
TOTAL LIABILITIES AND EQUITY		243,908	236,643	239,238

The notes set out on pages 38-50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non- control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/ accumu- lated losses			
Balance as at 31.12.2012	12,000	1,200	(512)	104,237	116,925	1,342	118,267
Profit (loss) for the reporting period	-	-	-	4,050	4,050	(58)	3,992
Other comprehensive income	-	-	(148)	-	(148)	-	(148)
Total comprehensive income (loss) for the reporting period	-	-	(148)	4,050	3,902	(58)	3,844
Purchase of minority share	-	-	-	6	6	(104)	(98)
Dividends	-	-	-	(5,310)	(5,310)	-	(5,310)
Total transactions with owners	-	-	-	(5,304)	(5,304)	(104)	(5,408)
Balance as at 30.06.2013	12,000	1,200	(660)	102,983	115,523	1,180	116,703
Balance as at 31.12.2013	12,000	1,200	(669)	109,332	121,863	1,193	123,056
Profit (loss) for the reporting period	-	-	-	4,360	4,360	(147)	4,213
Minority share of sold subsidiary	-	-	-	-	-	(244)	(244)
Dividends	-	-	-	(7,257)	(7,257)	-	(7,257)
Total transactions with owners	-	-	-	(7,257)	(7,257)	(244)	(7,501)
Balance as at 30.06.2014	12,000	1,200	(669)	106,435	118,966	802	119,768

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

The notes set out on pages 38-50 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2014 6 months	2013 6 months	2013 12 months
Cash flows from (used in) operating activities				
Operating profit		5,032	5,127	12,261
Adjustments:				
Depreciation		1,090	1,184	2,880
(Profit)/loss from sale of non-current assets		2	(82)	(214)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		6,003	4,137	4,717
Interest income from operating activities		(719)	(740)	(1,479)
Change in provisions		(1,344)	(2,204)	1,634
Change in trade and other receivables related to operating activities		(3,888)	(16,247)	(6,155)
Change in inventories		(7,599)	(1,116)	(4,943)
Change in trade and other payables related to operating activities		7,986	13,064	10,171
Interest received		661	560	1,803
Interest paid		(463)	(443)	(841)
Other finance income and costs		(51)	(61)	(165)
Corporate income tax (paid)/reclaimed		(70)	(4)	(12)
Total cash flows from (used in) operating activities		6,640	3,175	19,657
Cash flows from investing activities				
Proceeds from sale of subsidiary	16	(353)	-	-
Acquisition of joint venture		(1)	(350)	(350)
Purchase/proceeds from deposits with maturities greater than 3 months		-	(2,500)	-
Purchase of investment property		-	(29)	(1,080)
Purchase of property, plant and equipment		(617)	(473)	(784)
Proceeds from sale of property, plant and equipment		50	113	900
Purchase of intangible assets		(18)	(4)	(29)
Interest received		88	42	41
Total cash flows from investing activities		(851)	(3,201)	(1,302)
Cash flows from (used in) financing activities				
Proceeds from borrowings		8,644	1,688	12,862
Repayments of borrowings		(9,897)	(4,593)	(11,810)
Factoring		-	(403)	(1,544)
Finance lease principal payments		(476)	(600)	(1,165)
Dividends paid		(7,257)	-	(5,310)
Total cash flows from (used in) financing activities		(8,986)	(3,908)	(6,967)
Net increase/decrease in cash and cash equivalents				
		(3,197)	(3,934)	11,388
Change in deposits with maturities greater than 3 months		-	2,500	-
Total change		(3,197)	(1,434)	11,388
Cash and cash equivalents at the beginning of the period	5	46,633	35,316	35,316
Effect of exchange rate changes		(2)	(53)	(71)
Cash and cash equivalents at the end of the period	5	43,434	31,329	46,633
Deposits with maturities greater than 3 months at the beginning of period		-	2,500	-
Total at the end of the period		43,434	33,829	46,633

The notes set out on pages 38-50 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 6 months and II quarter 2014 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2013 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2013 audited annual report and 2013 6 months and II quarter unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 6 months and II quarter 2014 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

The chief operating decision-maker, i.e. the Management Board of parent AS Merko Ehitus, monitors the business of the group by countries and operating segments. The performance of the business is assessed by the chief operating decision-maker based on segment revenue derived from outside the group and pre-tax profit. Pre-tax profit of segments is made up of income and expenses directly related to them. Other income and expenses not directly related to segments cannot be allocated and they are monitored together at the group level.

Based on internal management information, the group's Management Board monitors activities by the following segments:

- general construction,
- civil engineering,
- road construction,
- real estate development,
- other.

The first three segments are engaged in provision of construction services. The real estate segment is primarily engaged in the group's own real estate development – construction and sale, to a lesser degree, it also includes real estate maintenance and leasing. Other operating areas (management services, supervision service, etc.) are insignificant to the group and they are not monitored as separate segments. The amount of each cost item in segment reporting is a figure presented to management for making decision about allocation of resources to segments and valuation of segment operating results. The costs that come after the profit of reporting segments are recognised in segment reporting using the same principles as in the financial statements and they are not used for evaluation of the results of operating segments by the company's management.

In segment reporting, all intra-group transactions with income, expenses and assets and unrealised gains and losses between reportable segments have been eliminated unless the loss is due to impairment.

2014 6 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	56,905	26,643	11,186	33,580	696	129,010
Inter-segment revenue	-	(2,359)	-	(12,933)	(17)	(15,309)
Revenue from external clients	56,905	24,284	11,186	20,647	679	113,701
Gross profit (-loss)	1,502	3,158	1,620	3,737	62	10,079
Segment pre-tax profit (loss)	1,496	3,149	1,657	4,236	83	10,621
incl. interest income from operating activities	-	-	-	719	-	719
depreciation (Note 3)	(31)	(294)	(431)	(119)	(33)	(908)
setting up of provisions (Note 3)	(217)	(164)	(515)	(501)	-	(1,397)
loss on joint ventures	-	-	-	(70)	-	(70)
other finance income (costs)	-	(8)	(23)	(151)	-	(182)
incl. interest income	-	-	-	13	-	13
interest expenses	-	(8)	(23)	(163)	-	(194)
Segment assets 30.06.2014	32,383	28,346	13,173	133,827	1,234	208,963
incl. joint ventures (Note 8)	-	18	-	7,263	-	7,281
2013 6 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	33,606	45,956	22,552	17,368	576	120,058
Inter-segment revenue	(142)	(456)	-	(5,703)	(14)	(6,315)
Revenue from external clients	33,464	45,500	22,552	11,665	562	113,743
Gross profit (-loss)	1,240	3,949	2,747	1,873	16	9,825
Segment pre-tax profit (loss)	1,228	3,981	2,675	2,378	16	10,278
incl. interest income from operating activities	-	-	-	734	-	734
depreciation (Note 3)	(43)	(290)	(515)	(93)	(58)	(999)
setting up of provisions (Note 3)	(161)	(150)	(62)	(64)	-	(437)
loss on joint ventures	-	-	-	(70)	-	(70)
other finance income (costs)	(8)	(11)	(30)	(159)	-	(208)
incl. interest expenses	(8)	(11)	(30)	(159)	-	(208)
Segment assets 31.03.2013	22,145	32,552	28,884	119,839	1,413	204,833
incl. joint ventures (Note 8)	-	18	-	7,404	-	7,422
2014 II quarter	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	31,092	16,131	8,094	17,433	406	73,156
Inter-segment revenue	-	(1,237)	-	(7,079)	(7)	(8,323)
Revenue from external clients	31,092	14,894	8,094	10,354	399	64,833
Gross profit (-loss)	1,288	2,129	1,147	1,497	82	6,143
Segment pre-tax profit (loss)	1,289	2,124	1,197	1,750	103	6,463
incl. interest income from operating activities	-	-	-	359	-	359
depreciation (Note 3)	(16)	(148)	(218)	(60)	(16)	(458)

2014 II quarter	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
setting up of provisions (Note 3)	(119)	(136)	(512)	(392)	-	(1,159)
loss on joint ventures	-	-	-	(36)	-	(36)
other finance income (costs)	-	(4)	(11)	(70)	-	(85)
incl. interest income	-	-	-	6	-	6
interest expenses	-	(4)	(11)	(75)	-	(90)
Segment asset change in II quarter	4,655	6,550	2,287	2,313	47	15,852
incl. joint ventures	-	-	-	(34)	-	(34)
2013 II quarter	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	20,908	25,021	14,769	8,186	282	69,166
Inter-segment revenue	(11)	(250)	-	(3,017)	(4)	(3,282)
Revenue from external clients	20,897	24,771	14,769	5,169	278	65,884
Gross profit (-loss)	766	1,590	2,252	965	17	5,590
Segment pre-tax profit (loss)	761	1,630	2,185	1,219	17	5,812
incl. interest income from operating activities	-	-	-	363	-	363
depreciation (Note 3)	(22)	(146)	(249)	(47)	(34)	(498)
setting up of provisions (Note 3)	(76)	(74)	(40)	(51)	-	(241)
loss on joint ventures	-	-	-	(36)	-	(36)
other finance income (costs)	(2)	(6)	(14)	(74)	-	(96)
incl. interest income	-	-	-	-	-	-
interest expenses	(2)	(6)	(14)	(75)	-	(97)
Segment asset change in II quarter	6,687	2,940	4,519	3,573	220	17,939
incl. joint ventures	-	-	-	307	-	307
2013 12 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	86,686	98,151	49,476	46,098	1,253	281,664
Inter-segment revenue	(122)	(3,616)	-	(15,104)	(103)	(18,945)
Revenue from external clients	86,564	94,535	49,476	30,994	1,150	262,719
Gross profit (-loss)	(503)	12,512	5,937	5,121	(344)	22,723
Segment pre-tax profit (loss)	(542)	12,565	5,839	6,122	(340)	23,644
incl. interest income from operating activities	-	-	-	1,472	-	1,472
depreciation (Note 3)	(88)	(592)	(1,080)	(186)	(515)	(2,461)
impairment of inventories (Note 3)	-	-	-	(330)	-	(330)
reversal of impairment of inventories (Note 3)	-	-	-	337	-	337
setting up of provisions (Note 3)	(2,557)	(376)	(81)	(329)	-	(3,343)
loss on joint ventures	-	-	-	(138)	-	(138)
other finance income (costs)	(9)	(20)	(57)	(322)	-	(408)
incl. interest income	-	-	-	39	-	39
interest expenses	(9)	(20)	(57)	(321)	-	(407)
Segment assets 31.12.2013	29,513	24,899	10,577	138,189	1,143	204,321
incl. joint ventures (Note 8)	-	18	-	7,331	-	7,349

In addition to the segment assets, as at 30.06.2014 the group holds assets in the amount of EUR 34,945 thousand (30.06.2013: EUR 31,810 thousand; 31.12.2013: EUR 34,917 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 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

in thousand euros

	2014 6 months	2013 6 months	2014 II quarter	2013 II quarter	2013 12 months
Pre-tax profit from reporting segments	10,621	10,278	6,463	5,812	23,644
Unallocated income (expense)					
marketing expenses	(1,509)	(1,391)	(655)	(735)	(3,041)
general and administrative expenses	(4,292)	(4,339)	(2,172)	(2,383)	(9,260)
incl. setting up of provisions	(86)	-	(86)	-	(27)
other operating income (expense)	(40)	301	(43)	14	372
incl. interest income from operating activities	-	6	-	2	7
finance income (costs)	(85)	(336)	(36)	(149)	(570)
incl. interest income	60	44	34	21	45
interest expenses	(139)	(208)	(65)	(110)	(407)
Total profit before tax	4,695	4,513	3,557	2,559	11,145

Unallocated finance costs and income include income from bank deposits, foreign exchange gains (losses), uncapitalised loan interest expenses and other finance income and costs.

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2014 6 months		2013 6 months		2014 II quarter		2013 II quarter		2013 12 months	
Estonia	78,686	69%	92,825	82%	46,132	72%	55,315	84%	211,958	81%
Latvia	29,164	26%	17,550	15%	15,193	23%	9,207	14%	44,378	17%
Lithuania	5,765	5%	3,368	3%	3,422	5%	1,362	2%	6,383	2%
Finland	86	0%	-	-	86	0%	-	-	-	-
Total	113,701	100%	113,743	100%	64,833	100%	65,884	100%	262,719	100%

NON-CURRENT ASSETS (EXCEPT FOR FINANCIAL ASSETS AND DEFERRED INCOME TAX ASSETS) BY LOCATION OF ASSETS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Estonia	18,427	18,824	18,473
Latvia	411	412	413
Lithuania	55	82	70
Total	18,893	19,318	18,956

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2014 6 months	2013 6 months	2014 II quarter	2013 II quarter	2013 12 months
Construction services	49,359	58,304	26,984	34,488	133,251
Materials	20,076	16,591	12,033	10,358	40,585
Properties purchased for resale	8,953	6,182	4,660	2,256	14,355
Labour costs	10,672	10,742	5,830	5,955	22,636
Construction mechanisms and transport	3,814	5,839	2,372	3,702	12,409
Design	2,346	868	1,582	629	1,838
Real estate management costs	112	139	40	65	219
Depreciation	908	999	458	498	2,461
Impairment of inventories	-	-	-	-	330
Reversal of impairment of inventories	-	-	-	-	(337)
Provisions	1,397	437	1,159	241	3,343
Other expenses	5,985	3,817	3,572	2,102	8,906
Total cost of goods sold	103,622	103,918	58,690	60,294	239,996

NOTE 4 EARNINGS AND DIVIDENDS 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.

	2014 6 months	2013 6 months	2014 II quarter	2013 II quarter	2013 12 months
Net profit(-loss) attributable to shareholders (in thousand EUR)	4,360	4,050	3,649	2,284	10,399
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.25	0.23	0.21	0.13	0.59

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends paid by parent company AS Merko Ehitus in Q2 2014 totalled EUR 7,257 thousand, i.e. EUR 0.41 per share, and the accompanying maximum income tax liability would amount to 21/79 on the amount paid out, i.e. EUR 1,929.1 thousand, which was covered by the income tax withheld on taxed dividends received from subsidiaries and by the income tax withheld on foreign income and consequently AS Merko Ehitus did not have to pay any additional income tax.

In 2013 the parent company AS Merko Ehitus distributed dividends in the amount of EUR 5,310 thousand, i.e. EUR 0.30 per share. AS Merko Ehitus did not have to pay corporate income tax due to the dividends received from subsidiaries and taxed in prior periods.

As at 30.06.2014, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 84,013 thousand (30.06.2013: EUR 83,571 thousand; 31.12.2013: EUR 87,464 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 580 thousand (30.06.2012: EUR 3,463 thousand; 31.12.2012: EUR 2,051 thousand), the corresponding income tax on dividends would amount to EUR 21,753 thousand (30.06.2012: EUR 18,752 thousand; 31.12.2013: EUR 21,199 thousand).

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Cash on hand	9	20	12
Bank accounts	15,082	4,633	18,749
Overnight deposits	28,343	26,676	26,372
Term deposits with maturities of 3 months or less	-	-	1,500
Total cash and cash equivalents	43,434	31,329	46,633

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Trade receivables			
Accounts receivable	44,031	50,679	38,202
Allowance for doubtful receivables	(742)	(818)	(742)
	43,289	49,861	37,460
Tax prepayments excluding corporate income tax			
Value added tax	1,327	489	657
Other taxes	14	9	17
	1,341	498	674
Amounts due from customers of contract works	9,370	15,519	12,940
Other short-term receivables			
Short-term loans	1,429	1,492	1,399
Interest receivables	712	601	656
Other short-term receivables	1,668	1,216	51
	3,809	3,309	2,106
Prepayments for services			
Prepayments for construction services	5,263	1,791	3,153
Prepaid insurance	296	459	359
Other prepaid expenses	482	416	480
	6,041	2,666	3,992
Total trade and other receivables	63,850	71,853	57,172
incl. short-term loan receivables from related parties (Note 16)	1,407	1,391	1,399
other short-term receivables and prepayments to related parties (Note 16)	813	810	1,094

NOTE 7 INVENTORIES

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Materials	798	752	731
Work-in-progress	40,742	29,076	28,614
Finished goods	11,467	13,320	16,625
Goods for resale			
Registered immovables purchased for resale	38,106	38,131	39,055
Other goods purchased for resale	962	987	978
	39,068	39,118	40,033
Prepayments for inventories			
Prepayments for real estate properties	1,086	1,086	1,086
Prepayments for other inventories	2,062	492	362
	3,148	1,578	1,448
Total inventories	95,223	83,844	87,451

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Investments joint ventures	7,281	7,422	7,349
Long-term loans	3,636	3,645	3,633
Long-term bank deposit	37	49	49
Long-term receivables from customers of construction services	9,936	14,833	16,384
Total other long-term loans and receivables	20,890	25,949	27,415
incl. short-term loan receivables from related parties (Note 16)	3,636	3,589	3,611

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Land	51	51	51
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(10)	(9)	(9)
	19	20	20
Buildings at carrying amount			
Cost	5,067	3,688	5,067
Accumulated depreciation	(581)	(341)	(466)
	4,486	3,347	4,601
Total investment property	4,556	3,418	4,672

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Land	824	825	824
Buildings at carrying amount			
Cost	5,726	5,788	5,784
Accumulated depreciation	(1,535)	(1,363)	(1,454)
	4,191	4,425	4,330
Machinery and equipment at carrying amount			
Cost	16,342	17,262	15,723
Accumulated depreciation	(9,702)	(9,948)	(9,263)
	6,640	7,314	6,460
Other fixtures at carrying amount			
Cost	5,416	5,532	5,445
Accumulated depreciation	(3,991)	(3,472)	(3,942)
	1,425	2,060	1,503
Prepayments for property, plant and equipment	162	-	-
Total property, plant and equipment	13,242	14,624	13,117

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Goodwill			
Cost	891	891	891
Impairment	(134)	-	(89)
	757	891	802
Software at carrying amount			
Cost	1,270	1,230	1,252
Accumulated depreciation	(932)	(845)	(887)
	338	385	365
Total intangible assets	1,095	1,276	1,167

NOTE 12 BORROWINGS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Finance lease payables			
Present value of lease payments	2,943	3,141	2,872
incl. current portion	1,015	943	928
non-current portion 1...4 years	1,928	2,198	1,944
Bank loans			
Loan balance	22,294	19,962	23,953
incl. current portion	5,420	2,270	9,530
non-current portion 1...5 years	16,874	17,692	14,423
Factoring liability			
Factoring balance	-	1,141	-
incl. current portion	-	1,141	-
Loans from entities under common control			
Loan balance	8,145	8,145	8,145
incl. current portion	8,145	8,145	8,145
Loans from management members	102	102	102
incl. non-current portion 1...5 years	102	102	102
Loans from other entities			
Loan balance	718	355	313
incl. current portion	718	355	313
Total loans			
Loans balance	31,259	29,705	32,513
incl. current portion	14,283	11,911	17,988
non-current portion 1...5 years	16,976	17,794	14,525
Total borrowings	34,202	32,846	35,385
incl. current portion	15,298	12,854	18,916
non-current portion 1...5 years	18,904	19,992	16,469

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Trade payables	26,345	36,495	18,753
Payables to employees	6,704	5,638	7,465
Tax liabilities, except for corporate income tax			
Value added tax	1,392	1,763	1,721
Personal income tax	534	543	524
Social security tax	995	991	994
Unemployment insurance tax	72	74	65
Contributions to mandatory funded pension	46	42	40
Other taxes	60	139	50
	3,099	3,552	3,394
Amounts due to customers for contract works	13,952	13,225	11,226
Other liabilities			
Interest liabilities	125	113	120
Payable for registered immovables from demerger	4,026	5,380	5,288
	-	5,310	-
Other liabilities	1,261	1,441	1,499
	5,412	12,244	6,907
Prepayments received	26,531	9,623	24,417
Total payables and prepayments	82,043	80,777	72,162
incl. payables to related parties (Note 16)	5,590	9,229	6,903

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Provision for warranty obligation for construction	1,776	1,704	1,810
Provision for onerous construction contracts	2,456	1,208	2,752
Provision for legal costs and claims filed	172	396	192
Other provisions	1,053	745	1,152
Total short-term provisions	5,457	4,053	5,906

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Trade payables	1,749	1,727	2,123
Long-term Interest liabilities	11	6	8
Other long-term liabilities	10	10	31
Other long-term payables total	1,770	1,743	2,162

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

In compiling group 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 (supervisory and management board), 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.

The parent of AS Merko Ehitus is AS Riverito. As at 30.06.2014, 30.06.2013 and 31.12.2013, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.06.2014	30.06.2013	31.12.2013		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
OÜ Tevener	100	100	100	Estonia, Tallinn	Mining
AS Vooremaa Teed	100	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Gustaf *	92.5	92.5	92.5	Estonia, Pärnu	Construction
OÜ Gustaf Tallinn	-	80	80	Estonia, Tallinn	Construction
AS Merko Tartu	66	66	66	Estonia, Tartu	Construction
OÜ Raadi Kortermaja	100	100	100	Estonia, Tartu	Real estate
OÜ Fort Ehitus	75	75	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	51	-	51	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Merko Inžinerija	100	100	100	Lithuania, Vilnius	Construction
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	100	Lithuania, Vilnius	Real estate
UAB Kražiu Projektas	100	-	100	Lithuania, Vilnius	Real estate
UAB VPSP 1	100	-	-	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	100	100	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	100	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	100	Estonia, Tallinn	Real estate
OÜ Woody	-	100	100	Estonia, Tallinn	Real estate
OÜ Maryplus	100	100	100	Estonia, Tallinn	Real estate
OÜ Constancia	100	100	100	Estonia, Tallinn	Real estate
OÜ Paepargi 57	-	100	-	Estonia, Tallinn	Real estate
OÜ Käibevara	-	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	30.06.2014	30.06.2013	31.12.2013		
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industrijas Parks	100	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
SIA Skanstes Virsotnes	100	100	100	Latvia, Riga	Real estate
SIA Polystar **	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
Merko Ukraine LLC	-	100	-	Ukraine, Kharkiv	Construction
Merko Finland OY	100	100	100	Finland, Helsinki	Construction
Lenko Stroi LLC	100	100	100	Russia, St. Petersburg	Construction
Joint ventures					
OÜ Unigate	50	50	50	Estonia, Tallinn	Real estate
Poolkoksimäe Sulgemise OÜ	50	50	50	Estonia, Tallinn	Construction
OÜ Kortermaja	50	50	50	Estonia, Tartu	Real estate
Kivimäe 32 OÜ	50	-	-	Estonia, Tallinn	Real estate
SIA Zakusala Estates ***	50	50	50	Latvia, Riga	Real estate

On 20 December 2013, AS Merko Ehitus initiated a merger of its fully owned subsidiaries OÜ Woody, OÜ Metsailu and OÜ Käibevara, all engaged in real estate development, in order to generate administrative cost savings related to company management. The final merger entry will be made in the Commercial Register during the first half of 2014.

On 15 January 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, sold its 80% ownership interest in the subsidiary Gustaf Tallinn OÜ. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant subsidiaries.

On 22 January 2014, UAB Merko Bustas formed a fully owned subsidiary in Lithuania, UAB VPSP 1 with a share capital of LTL 10 thousand (EUR 2,896) initially to participate in public-private partnership (PPP) procurements organised by the Lithuanian government but was later changed to acquiring registered immovables for development purposes in Lithuania.

On 13 June 2014, AS Merko Ehitus Eesti formed a 50% joint venture in Estonia, Kivimäe 32 OÜ with a share capital of EUR 2,600 to acquire a property for development in Tallinn, Estonia.

* After the balance sheet date, on 31 July 2014, a subsidiary AS Merko Ehitus Eesti acquired a 7.5% share in the subsidiary AS Gustaf from the current co-shareholders for the purchase price of EUR 94 thousand. After the transaction, AS Merko Ehitus Eesti holds 100% of the shares of the subsidiary AS Gustaf.

** In the second quarter of 2014, SIA Merks initiated the liquidation of its 100% subsidiary SIA Polystar.

*** After the balance sheet date, on 5 August 2014, a subsidiary SIA Merks acquired a 25% share in the joint venture SIA Zakusala Estates from the former co-shareholder for the purchase price of EUR 696 thousand. After the transaction, SIA Merks holds 75% of the shares of the subsidiary SIA Zakusala Estates.

SALE OF SUBSIDIARY

in thousand euros

	Gustaf Tallinn OÜ
Sold holding	80%
Sales price	17
Profit (loss) from sale	-
Cash received	17
Subsidiary's cash and cash equivalent at sale	(370)
Group cash flow from the sale	(353)

GOODS AND SERVICES

in thousand euros

	2014 6 months	2013 6 months	2013 12 months
Provided services			
Parent company	5	7	12
Joint ventures	173	151	262
Entities under common control	1,237	430	1,594

	2014 6 months	2013 6 months	2013 12 months
Members of the management	54	-	68
Other related parties	-	1	1
Total services provided	1,469	589	1,937
Interest income			
Joint ventures	56	56	114
Purchased services and materials			
Parent company	45	58	102
Entities under common control	58	68	160
Other related parties	-	-	1
Total purchased services and materials	103	126	263
Interest expense			
Entities under common control	62	79	146
Members of the management	3	3	5
Total interest expense	65	82	151

BALANCES WITH RELATED PARTIES

in thousand euros

	30.06.2014	30.06.2013	31.12.2013
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	5,043	4,980	5,010
Receivables and prepayments (Note 6)			
Parent company	3	5	3
Joint ventures	809	626	692
Entities under common control	1	178	399
Other related parties	-	1	-
Total receivables and prepayments	813	810	1,094
Total receivables from related parties	5,856	5,790	6,104
Payables to related parties			
Loans received (Note 12)			
Entities under common control	8,145	8,145	8,145
Members of the management	102	102	102
Total loans received	8,247	8,247	8,247
Payables and prepayments (Note 13)			
Parent company	9	3,835	9
Entities under common control	4,051	5,394	5,364
Members of the management	1,530	-	1,530
Total payables and prepayments	5,590	9,229	6,903
Total payables to related parties	13,837	17,476	15,150

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 6 months of 2014 was EUR 1,183 thousand (6 months of 2013: EUR 1,002 thousand; 12 months of 2013: EUR 2,227 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 6 months of 2014, the Management Board members of major subsidiaries received EUR 23 thousand in compensation (6 months of 2013: EUR 25 thousand; 12 months of 2013: EUR 50 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30 June 2014

		AKTSIATE ARV	OSAKAAL
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8,322,914	47.02%
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	-	0.00%
		8,357,049	47.21%

The Management Board of the holding company AS Merko Ehitus has two members: Andres Trink and Tõnu Toomik.

Shares held by members of the Management Board of AS Merko Ehitus as at 30 June 2014

		AKTSIATE ARV	OSAKAAL
Andres Trink	Chairman of the Management Board	-	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,185	9.08%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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.

	30.06.2014	30.06.2013	31.12.2013
Performance period's warranty to the customer	26,319	29,681	29,549
Tender warranty	757	1,594	1,251
Guarantee warranty period	13,615	10,743	12,629
Prepayment guarantee	8,786	9,095	6,780
Contracts of surety	1,541	1,819	1,705
Payment guarantee	150	-	-
Total contingent liabilities	51,168	52,932	51,914

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

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

Guarantee for warranty period – warranty provider guarantees to the customer that the construction defects discovered during the warranty period will be eliminated.

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 AS Merko Ehitus has prepared the consolidated interim financial statements for the 6 months of 2014, which are set out on pages 5-50.

The Management Board confirms that to the best of its knowledge:

- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and cash flows;
- the parent company and the group companies are going concerns.

Andres Trink Chairman of the Management Board



07.08.2014

Tõnu Toomik Member of the Management Board



07.08.2014