merko

2013

AS MERKO EHITUS
GROUP

Consolidated Annual Report
01/01/2013 - 31/12/2013

Business name:	AS Merko Ehitus
Main activities:	Holding companies
	General contracting of construction
	Real estate development
Commercial Register No.:	11520257
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Postal address:	Pärnu mnt 141, 11314 Tallinn
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E-mail:	merko@merko.ee
Web site:	www.merko.ee
Auditor:	AS PricewaterhouseCoopers
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik

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Merko Ehitus focuses on general contracting of construction and on providing complete solutions in professional construction and real estate development. 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.

Wide scope of construction services: general construction, civil engineering, road construction and real estate project

Operates in Estonia (**81%** of revenue), Latvia (**17%**) and Lithuania (**2%**)

Revenue 2013: **€262.7** mln

The largest listed construction company in the Baltics

Share quoted on NASDAQ OMX Tallinn since 1997

MERKO'S COMPETITIVE ADVANTAGES:

- Broad range of construction services and products, and comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects

EBITDA 2013: **€15.1** mln,
Net Profit 2013 **€10.4** mln

31.12.2013: **860** employees

2013: new contracts in the amount of **€254.4** mln

OUR VALUE OFFERING

AS PRIME CONTRACTOR, WE OVERSEE THE ENTIRE CONSTRUCTION PROCESS AND ARE RESPONSIBLE FOR THE COMPLETION OF THE CONSTRUCTION PROJECT AS A WHOLE:

- Integrated project management and construction service and provision of strategic consultation to the contracting entity throughout the process
- As needed, combined use of subcontractors and Merko workforce (concrete works, road construction, electrical constructions both indoor and outdoor)
- Real estate investments and development, managing the entire apartment development process: development, construction and sales
- Co-investing, risk distribution and participation in PPP (public-private partnership) projects

MAIN EVENTS IN 2013

FEBRUARY

- AS Merko Ehitus Eesti Eesti enters into an agreement for construction work on the Noorus spa hotel and recreational aquatic centre in Narva-Jõesuu, Estonia (10.6 million euros). In Latvia, SIA Merks enters into an agreement for the construction of two three-storey apartment buildings (41 apartments total) in Jurmala (7.9 million euros).

- On 24 February, National Independence Day, the recreational trails foundation SA Eesti Terviserajad established by Merko Ehitus, Swedbank and Eesti Energia launch a countrywide action "Let's make trail story together" where 11,249 participants covered 112,040 kilometres, which would circle the Earth over two times. The goal of the undertaking is to provide advice for the development of a nationwide Estonian recreational and sports trail system, coordinate the development activities and contribute to the financing.

APRIL

- AS Merko Infra enters into an agreement for construction work on the Tondiraba ice rink in the Lasnamäe district of Tallinn (22.5 million euros), and AS Merko Ehitus Eesti enters into an agreement for construction work on the 24,000 m² Nurmevälja logistics centre in Jõelähtme municipality (7 to 8 million euros). In April, AS Merko Ehitus Eesti Eesti continues constructing an exclusive 14-storey commercial and apartment building on one of Tallinn's marquee plots of land, Kentmanni 6. The building, designed by architect Indrek Allmann, will be finished in late 2014.

- At a meeting held in April, AS Merko Ehitus Eesti's management board and supervisory board review the company's strategic development areas and approve the long-range financial goals up to 2018. The goals are reviewed annually based on the market situation, the company's financial status and strategy. An average ROE of at least 10% from 2013-2018, dividend rate: 50-70% of annual profit, equity ratio: at least 40%.
- The Corporate Band 2013 competition held at Rock Cafe club is won by AS Merko Ehitus Eesti employees' band "Ma Sulle Ehitan" (I'll Build for You).

MAY

- A change is made to SIA Merks's supervisory board – Ivars Geidāns is recalled and the supervisory board becomes a three-member board: Andres Trink (chairman), Tõnu Toomik and Jaan Mäe.
- AS Merko Ehitus releases its financial results for Q1: sales revenue of 47.9 million euros and net profit of 1.8 million euros.

JUNE

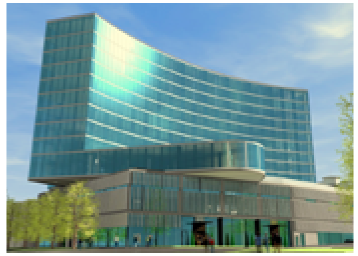
- At an annual general shareholders' meeting of AS Merko Ehitus Eesti, the consolidated annual report for FY2012 is approved. Resolutions are taken on distribution of earnings and recalling a supervisory board member. The management board delivers the keynote on the company's economic results and outlook.
- In Estonia, a waste to energy (WTE) unit is opened at Eesti Energia's Iru power plant; the general construction and specialized work is performed by AS Merko Ehitus Eesti on the basis of a contract from a French company considered an expert in the area of WTE plants, CNIM. The waste incineration plant's boiler unit – with a three-dimensional steel structure consisting of over 10,000 components and weighing nearly 1,000 tonnes – was designed in cooperation between companies from three countries and assembled to the precision of a millimetre amidst mammoth

equipment.

- AS Merko Ehitus Eesti supervisory board member Tõnu Toomik is elected management board member. Toomik's area of responsibility is managing the real estate portfolio and coordinating the development activity in the construction field across all of the Group's companies. Management board chairman Andres Trink is responsible for corporate strategy, business development and finances.

JULY

- Shareholders are paid dividends totalling 5.3 million euros (0.30 euros per share). The dividend payment made in 2013 meant that the dividend rate was 70% in 2012 and the dividend yield was 5.1%.
- AS Merko Ehitus Eesti Eesti enters into an agreement on construction of a hotel and entertainment complex in Tallinn, which will be operated by the international hotel chain Hilton Worldwide. The contract is valued at 31 million euros.



- One of Estonia's few energy class A apartment buildings is finished at Räägu 9 in Tallinn, developed and built by AS Merko Ehitus Eesti Eesti.

MAIN EVENTS IN 2013

AUGUST

- SIA Merks enters into three agreements in Latvia: for the construction of a 10-storey, multifunctional centre called Lielais Dzintars accommodating 1,000 visitors, in Liepāja (28.3 million euros); construction of a manufacturing and logistics centre and office building in Mārupe (17.8 million euros); and finishing work in a 45-apartment building in Riga (5.3 million euros).
- AS Merko Ehitus Eesti releases financial results for Q2: sales revenue was 65.9 million for the quarter and, for 6 months, 113.7 million euros. Net profit in the second quarter was 2.3 million and 6-month net profit was 4.0 million euros.
- In August, renovation of Riga's Spīķeri quarter and Daugava's riverside promenade are finished. As a result, SIA Merks developed a modern public space that is appealing both for locals and for tourists.

SEPTEMBER

- In Estonia, Narva water treatment plant gets a cornerstone, with 63,000 Narva residents assured of quality drinking water by spring 2015. Besides construction of the new water treatment plant, the Mustajõe water intake will be renovated and brought into conformity with contemporary requirements. Construction work is being performed at the behest of AS Narva Vesi utility by AS Merko Ehitus Eesti, in cooperation with the Danish company Krüger A/S.
- The Merko Ehitus supported exhibition "When the Artist Met Clio. Historical Scenes from the 19th Century" is opened at the Kadriorg Art Museum of Estonia, which brought together for the first time historical scenes created and collected in Estonia and Latvia in the 18th and 19th century.
- The renovation and addition to Tallegg's Tabasalu plant in Estonia are completed by AS Merko Infra.

- Work on the Laurenč recreational and sport complex winds up in Riga – SIA Merks established a 1,480-metre ski trail that allows snow making machines to be used. It also built the sport sand recreational centre's main building, renovated an outbuilding and established and landscaped a 3.75-hectare area including parking lot. A four-lane, 100-metre running track was also built.

OCTOBER

- The supervisory board of UAB Merko Statyba implements membership changes. Gediminas Tursa is recalled and the supervisory board continues as a three-member board: Andres Trink (chairman), Tõnu Toomik and Jaan Mäe.
- Estonia's most competitive enterprises for 2013 are announced, with AS Merko Ehitus Eesti earns top place in the category of construction companies for the second year in a row.
- The AS Merko Ehitus Eesti led consortium delivers one of Estonia's most complex infrastructure projects, Ülemiste junction traffic interchange in Tallinn. The junction includes a 680-metre-long dual-carriageway tunnel, three tunnels for bike paths and a 150-metre flyover, 8.7 km of roadways and 7 km of bicycle paths. In the deepest spot, construction was performed 16 metres below the surface of Lake Ülemiste.
- AS Merko Infra wins recognition from the Labour Inspectorate's occupational environment best practices competition for conceiving and using the idea of an excavation trough in the construction of the city of Tõrva's water and sewerage mains.
- Construction performed by SIA Merks is completed at Riga University of Technology's energy and electronics department. The modern and energy-efficient six-storey building has 250 rooms for lectures, hands-on work and study.

NOVEMBER

- AS Merko Ehitus Eesti releases its financial results for Q3: sales revenue was 84.1 million for the third quarter and, for nine months, 197.8 million euros. Net profit in the third quarter was 3.9 million and the nine-month figure was 7.9 million euros.
- AS Merko Ehitus Eesti Eesti and Tallinn University of Technology's Development Fund sign a new cooperation agreement under which Merko will provide eponymous scholarships for Tallinn University of Technology students and stipends for faculty.
- The Peetri shopping centre with Selver supermarket as the anchor tenant is opened. Construction was performed by AS Merko Ehitus Eesti Eesti.

DECEMBER

- Tallinna Teede AS signs an agreement to continue performing maintenance repair for the streets of Tallinn in the new contract period from 2014–2018. The contract is valued at 17.5 million euros. The winner of the contract was chosen at a public procurement organized by the contracting authority, entitled "Performing maintenance repair of Tallinn streets and infrastructure."
- SIA Merks enters into an agreement for construction work on the Valmiera Vocational School (5.9 million euros) and four apartment buildings at Dzintaru 28 (93 units total; 13.7 million euros).
- AS Merko Ehitus Eesti Eesti wins honours from the city of Tallinn for the Tedre 55 apartment building/ commercial building construction site: the construction company with the best and most orderly construction lot.

MERKO EMPLOYEES ON SITE

BRIEF OVERVIEW OF THE GROUP

Merko Ehitus focuses on general contracting of construction and on providing complete solutions in professional construction and real estate development. 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.

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.

VISIOON

> 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.

A LARGE PROJECT IN PROGRESS, DUE TO BE COMPLETED IN 2014: CONSTRUCTION OF POWER SYSTEMS WITH NECESSARY EQUIPMENT FOR OIL SHALE AND BIOFUEL HANDLING SYSTEMS IN THE TERRITORY OF ESTONIAN POWER PLANT.

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

At the meeting held on 8 April 2013, the Management Board and Supervisory Board reviewed the company's strategic development directions and approved long-term financial objectives until 2018.

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.

COMPLICATED CONSTRUCTION PROCESS OF THE TUNNEL OF ÜLEMISTE TRAFFIC JUNCTION

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%

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%**

The group's return on equity was 8.8% in 2013. The objective of return on equity achieved was lower than the long-term goal due to project management risks that materialized on one general construction segment project in the last quarter of the year, thus the profit from that segment was below the target. At the same time, the profitability and the return on equity were better than in the previous year in 2013.

The rest of the financial goals were achieved: the dividend rate was 70% and the equity ratio was 50.9%.

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

“THE AWARD OF ESTONIA’S MOST COMPETITIVE CONSTRUCTION COMPANY WAS THE RESULT OF OUR EMPLOYEES’ DEVOTION AND WORK, AS WELL AS OUR GOOD RELATIONSHIP WITH CUSTOMERS.

Dear shareholders,

Reviewing the last financial year, I am pleased to say that we managed to continue to improve our financial results in 2013 despite the difficult situation in the construction market in the Baltic States. The net profit of Merko Ehitus increased by 36% compared to the previous year, which received a significant contribution from our civil engineering and road construction segments and also the residential construction business in all three Baltic States.

Despite the significant decline in state construction contracts due to the change to the new multiannual financial framework of the European Union, our subsidiaries as a whole managed to maintain the volume of construction contracts at the same level as the previous year, which will continue to support our leading position in the Baltic construction market in 2014. The proportion of private contracting entities in our total construction volume has continued to increase in the last few years. I am pleased about the latter as Merko has historically been a reliable partner to private contracting entities for whom we have built quality office buildings, shopping centres, hotels, logistics centres and other large and small buildings across the Baltics.

Developments in the apartment market of the Baltic States can also be considered positive as improved demand enabled us to launch various new apartment development projects. This progress was expected. Homes built by Merko continue to be characterised by their high construction quality, good living environment and reasonable price level. Our goal for the next few years is to continue to offer new contemporary homes to our customers in Tallinn, Riga and Vilnius.

The general construction segment was a disappointment for us in the last year. The project management risks materialised for one of the large project, thus the overall profitability of the general construction segment was materially below expectations. As a result, the group failed to meet its long-term return on equity goal last year. On the level of material subsidiaries, we have implemented several changes to avoid similar risks from materializing in the future and we continue to work on that in the future.

Last year, we continued our efficiency improvement programme whereby we reviewed the management structure of the group companies and decided to exit from subsidiaries that are strategically immaterial. We will continue to carefully monitor the company’s cost base, in consideration of declining margins and persistently increasing pressure on construction companies’ profitability.

In evaluating the near-term prospects of the Baltic construction market, we continue to expect that state construction contracts will temporarily decline. This forces us to adjust, be efficient and continue to look for new investment opportunities. Last year, we decided to enter the electrical construction market in Latvia and made several investments in residential development. We will continue to look for good investment opportunities.

Merko Ehitus won Estonia’s most competitive construction company title second year in a row last year. We do not take this title for granted, it was the result of our employees’ devotion and daily work. A contributing factor was a good relationship with our customers, to whom we want to continue to be reliable and professional partners.

Sincerely,

Andres Trink

MANAGEMENT REPORT

BRIEF OVERVIEW OF 2013

PROFITABILITY

Net profit was EUR 10.4 million (2012: EUR 7.6 million), up 36.3% from the previous year in 2013.

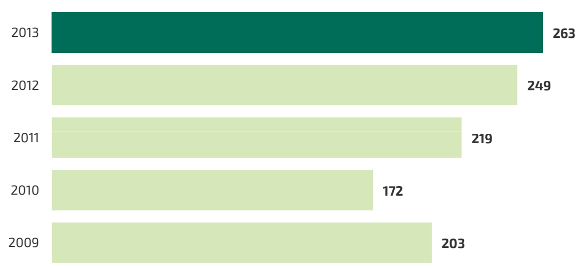
REVENUE IS UP

In 2013, the revenue was EUR 262.7 million (2012: EUR 249.1 million), up 5.5% from the previous year.

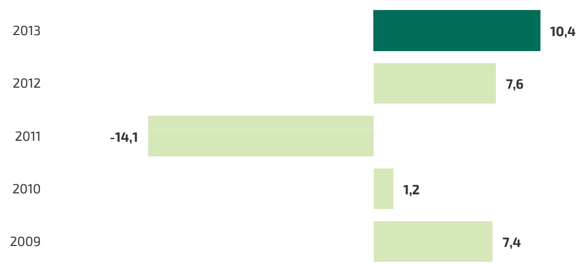
STRONG CASH POSITION

At the end of the period, the group had cash equivalents of EUR 46.6 million and equity of EUR 121.9 million (50.9% of the balance sheet total). Comparative data at the end of 2012 were EUR 35.3 million and EUR 116.9 million (52.0% of the balance sheet total), respectively.

REVENUE
in million euros



NET PROFIT
in million euros



ORDER BOOK

In 2013, group companies signed new contracts in the amount of EUR 254.4 million (2012: EUR 247.4 million) and as at 31 December 2013, the group's order book stood at EUR 213.7 million (31 December 2012: EUR 189.9 million).

GROUP STRUCTURE

Streamlining of the corporate structure for the purposes of more effective management and lower administrative expenses. First changes are under way and the implementation of the action plan will continue in 2014. The action plan does not concern material subsidiaries and does not have a material near-term effect on the group's financial results.

		2013	2012	CHANGE
Revenue	million EUR	262.7	249.1	+5.5%
Gross profit	million EUR	22.7	17.9	+26.9%
Gross margin	%	8.6	7.2	+20.3%
Parent company's net profit	million EUR	10.4	7.6	+36.3%
Net margin	%	4.0	3.1	+29.3%
Earnings per share	EUR	0.59	0.43	+36.3%
Dividends per share	EUR	0.41*	0.30	+36.7%

** pursuant to the Management Board's proposal*

2013 DIVIDEND RATE 70%
OR 0.41 EUROS PER SHARE

DIVIDEND PROPOSAL

The Management Board proposes to distribute to shareholders EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings in 2014. This is equivalent to a 70% dividend rate for 2013.

		31/12/2013	31/12/2012	CHANGE
Return on equity (annual)	%	8.8	6.8	+28.7%
Equity ratio	%	50.9	52.0	-2.0%
Order book	million EUR	213.7	189.9	+12.5%
Total assets	million EUR	239.2	225.0	+6.3%
Number of employees	people	860	915	-6.0%

*Calculation of ratios is provided on page **127** of the report.*

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN 2013

THE MOST IMPORTANT INDICATORS INFLUENCING THE CONSTRUCTION MARKET

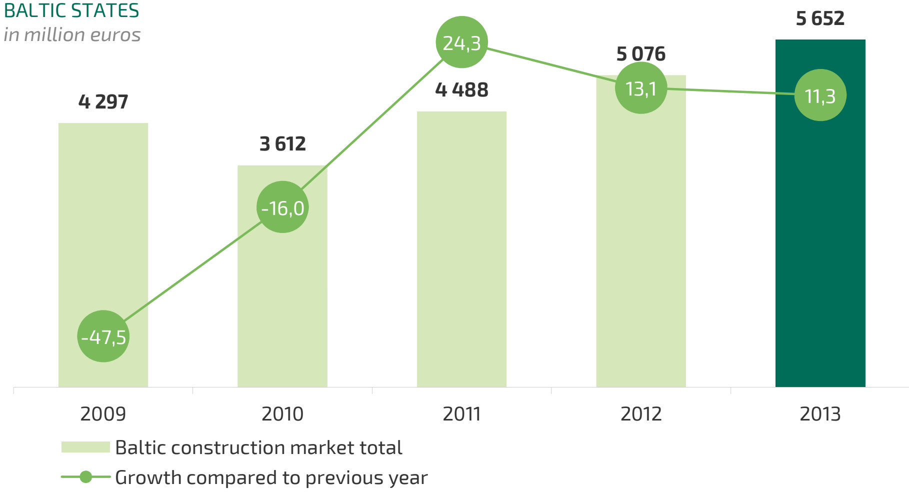
	2013			2012		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
GDP annual change in current prices	+0.8%	+4.1%	+3.3%	+3.9%	+5.2%	+3.7%
Construction price index annual change	+5.2%	+2.6%	+4.2%	+4.6%	+6.8%	+3.7%
Labour force	+13.4%	+5.9%	+7.5%	+6.3%	+15.8%	+4.2%
Construction machines	+4.7%	+2.2%	+1.8%	+7.2%	+12.2%	+2.9%
Building materials	+1.2%	+0.9%	+2.9%	+3.7%	+0.7%	+3.6%

Source: Local national statistical offices.

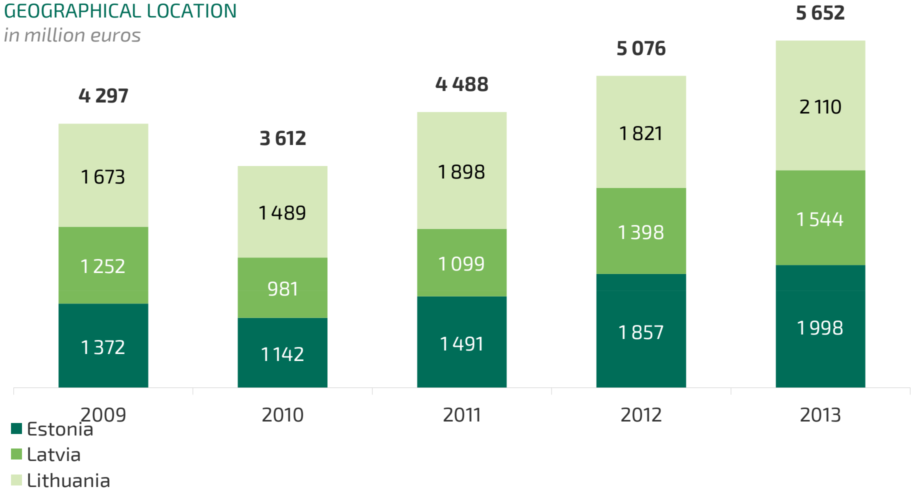
The Baltic economy experienced growth in 2013, but the rate of GDP growth slowed in all three countries. The growth was slowed by reduced export and smaller investments. Government investments declined due to lower external financing. Companies' investments grew only slightly because existing capacity is underutilised. 2013 was a year of adaptadion to market reality whereby the proportion of new large government contracts declined and the company had to actively search for new opportunities to improve efficiency and find new sources of revenue.

Despite the overall slower economic growth, construction volumes grew in all three Baltic States, but remain substantially lower than the level experienced during the boom years of 2007 and 2008. In 2013, construction with own resources was performed in the Baltic region for EUR 5,652 million which is EUR 576 million higher than in 2012. In 2013, the Baltic construction market grew by 11.3% in current prices (2012: 13.1%). Although the Lithuanian construction market declined by 4.1% in 2012, in 2013, the Lithuanian construction market showed the highest increase in the Baltics at 15.9%, whereas the Estonian construction market grew by 7.6% (2012: 24.5%) and the Latvian construction market grew by 10.4% (2012: 27.2%). In 2013, construction with own resources was performed in Lithuania in current prices for EUR 2,110 million (2012: EUR 1,821 million), in Estonia for EUR 1,998 million (2012: EUR 1,857 million) and in Latvia for EUR 1,544 million (2012: EUR 1,398 million). Whereas in 2012, Estonia was temporarily the largest construction market of the Baltic States, in 2013 Lithuania was once again the largest. The Lithuanian construction market made up the largest share of the Baltic construction market with 37.3% (2012: 35.9%), followed by Estonia with 35.4% (2012: 36.6%) and the Latvian market still makes up the smallest share of the Baltic construction market with 27.3% (2012: 27.5%).

CONSTRUCTION MARKET VOLUME (WITH OWN FORCES) AND GROWTH IN THE BALTIC STATES
in million euros



CONSTRUCTION MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES BY GEOGRAPHICAL LOCATION
in million euros



Source: Local statistical services.

In a year, the volume of construction performed by Estonian companies in foreign countries increased by 18.5%% in current prices, Lithuanian exports increased by 34.6% and Latvian exports decreased by 7.3%. While year-over-year, the construction market has been growing, quarterly comparison within a year shows that construction volumes have been declining in all Baltic States, a trend deteriorated by the end of the current European Union financing framework and overall decline in number of public procurements.

In 2013, construction works per capita were performed for EUR 1,511 in Estonia, EUR 759 in Latvia and EUR 713 in Lithuania (in 2012, in Estonia, Latvia and Lithuania for EUR 1,404, EUR 687 and EUR 610, respectively).

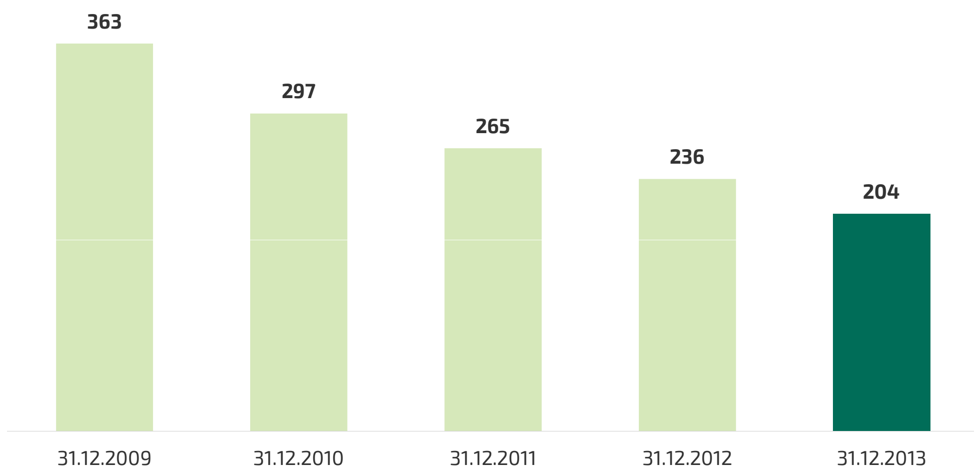
Activity in the real estate market continued to grow moderately in 2013, mainly due to continued low base interest rates and limited supply in the apartment market in recent years. Both the number of transactions and the average price per square meter increased.

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 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.

The balance of housing loans in the Baltics as a whole in 2013 has continued to drop, declining by EUR 238 million in a year (2012: EUR 743 million) to EUR 16,855 million. The decline continues to be attributable to Latvia where the loan balance declined by EUR 312 million (2012: EUR 646 million). The housing loan balances in Estonia and Lithuania, however, saw a small upturn in 2013 by EUR 50 million in Estonia (2012: decline of EUR 36 million) and EUR 24 million in Lithuania (2012: decline of EUR 60 million). People's confidence in the economy is recovering and the willingness to lend is returning. 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.

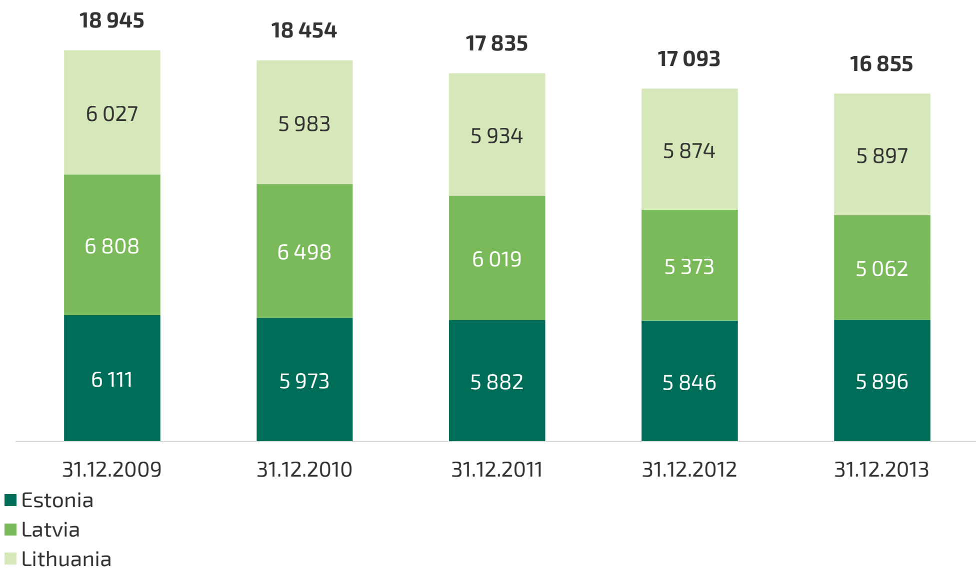
Positive developments on the Baltic real estate markets provided confirmation that the decisions of Merko Ehitus in 2013 to launch new apartment developments in greater volume than recent years in all three capitals of the Baltics were correct. The estimated average price increase of apartments in new developments in the Baltic States in 2013 was ca 20% in Estonia, ca 5% in Latvia and ca 3% in Lithuania.

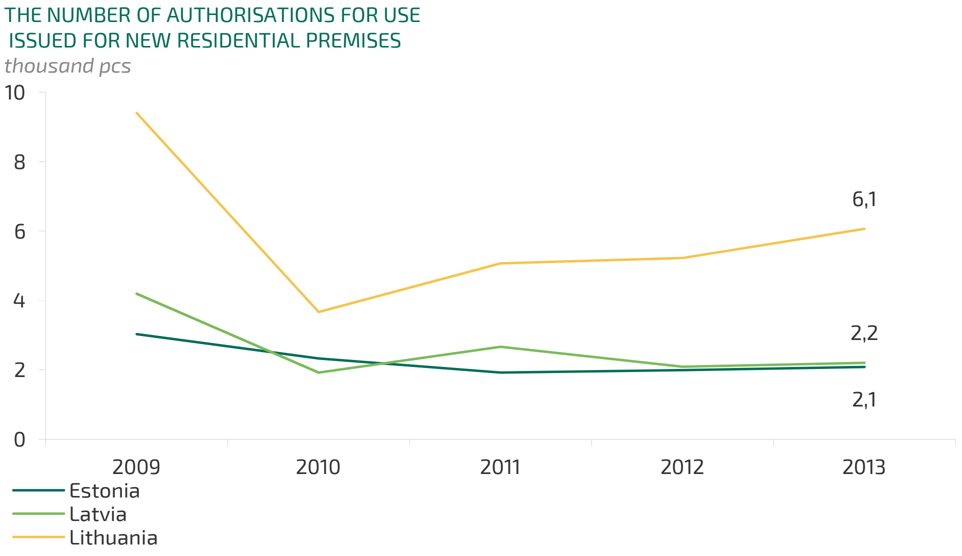
STOCK OF LOANS GRANTED TO HOUSING DEVELOPMENT PROJECTS IN ESTONIA
in million euros

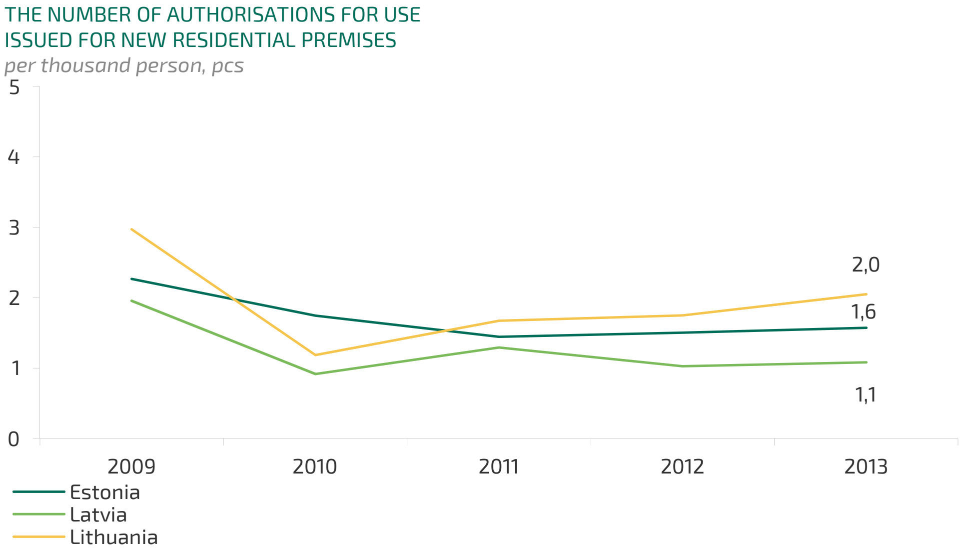


Source: Local central banks.

STOCK OF HOUSING LOANS
in million euros







Source: Local statistical services.

OUTLOOK FOR 2014

In 2014, the economies of the three Baltic countries are forecast to grow 3-4% (average). Economic growth in Scandinavia will slow and this is reflected by the worsening economic confidence indices. The Finnish economy is experiencing a general standstill and Sweden and Norway are experiencing a cooling of the real estate sector, which may impact the credit markets in 2014. The Scandinavian construction market is expected to post no growth next year. Euro base rates remain low, although we continue to believe that there are still inflationary risks in the longer term. The outlook of the Russian economy is mainly related to the oil price. Russia's economic growth rate has decreased recently, however Russia's inflation rate has remained higher and there is pressure for the weakening of the rouble. Real estate market in the large cities of Russia continues to be supported by strong internal demand and a growing middle class who wants to improve their living conditions. On the other hand, potential mutual sanctions between Russia and the western countries in relation to events in the Ukraine have increased the uncertainty with regard to future developments. As the Baltic States all have small and open economies and are largely dependent on our close economic ties and trade with neighbouring countries, the economic developments in both Scandinavia and Russia have a direct effect on us.

For 2014, we are forecasting a 10-15% decline in the volume of Baltic construction contracts, which is primarily related to the expected decrease in the volume of public procurement tenders resulting from the expiry of 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. During the new EU financial framework period (2014-2020), the amounts made available to all Baltic States from the EU's budget will increase but at the same time the focus has somewhat shifted due to the strategy and development of both the EU and the Baltic States.

In 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. The purpose for the use of grants in the new financial framework period in Estonia, Latvia and Lithuania will be to become free of dependence on European funds, to provide a development impetus for the future and carry out reforms ensuring development that would also ensure the sustainability of public finances. In the new financial framework period, greater focus in making investments will be on the sustainability of investments made even without EU grants. It is monitored that investments made have an overall positive effect on the economy and society and do not exert undue stress on the state budget in the form of subsequent high fixed costs. In addition to EU structural funding, the Baltic States will have an additional opportunity during the new financial framework period to raise funds from the Connecting Europe Facility, on the account of which of the large projects it would be possible to fund, for example, the construction of Rail Baltica if Baltic States can reach an agreement regarding construction of the railroad, as well as to construct a new high voltage power line between Estonia and Latvia. 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 once again be more public procurements from 2015 and 2016.

In 2014, the launch of projects activated in 2013 by private contracting entities will continue as they will see opportunities for making 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. Of the construction contracts signed in 2013, at 31 December close to half are connected to private contracting entities. However, private contracting entities will certainly not be able to make up in full for the reduction in government contracts, especially in regard to water management projects.

The profitability of construction companies will on average probably remain below the last year's level depending on price competition. This will provide a competitive edge to construction companies in the market that are efficient and have flexible cost base. Competition on the Baltic construction market will continue to be tough and bidding for construction tenders will be aggressive. Since customers remain focused on the lowest construction cost, it is still difficult to stand out in the competition with other general contractors.

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. As a result, we maintain a stable equity base and use our group's strong financial position as a competitive advantage in negotiations over payment terms.

Taking into consideration the weak growth outlook of the construction sector, the wage pressure is likely to remain modest in 2014. Moreover, we are not forecasting input prices in construction to change significantly. 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 looks like, in particular in the construction sector, it could most of all in Estonia cause an increase in employees heading abroad and thus put pressure on construction labour costs. Subcontractors' prices have not declined in step with general contractors in 2013, which means that it is above all the profitability of general contractors that is under pressure.

> **THE PROFITABILITY OF CONSTRUCTION COMPANIES WILL ON AVERAGE PROBABLY REMAIN BELOW THE LAST YEAR'S LEVEL DEPENDING ON PRICE COMPETITION. THIS WILL PROVIDE A COMPETITIVE EDGE TO CONSTRUCTION COMPANIES IN THE MARKET THAT ARE EFFICIENT AND HAVE FLEXIBLE COST BASE.**

Because the road construction sector suffers from excess capacity of fixed assets, profitability requires continued reduction of machinery and the efficiency of the cost base. In road maintenance, several long-term maintenance tenders will be carried out in 2014, which may result in certain re-distribution of market shares. In road investments, we expect more small-scale construction and repair work.

In the field of electrical construction, investments and orders for modernisation and development of main and distribution grids are ongoing in all three Baltic countries, where there is close competition between a limited number of companies.

The activity level of the apartment market in all three Baltic States continues to improve. Despite of consumers remaining price-sensitive, demand for quality residential premises in good locations remains high 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.

Whereas in 2014 we see continued demand, a higher supply of apartments in the future may in turn result in pressure on sale prices and a lengthening of selling periods. Apartment buyers are increasingly more focused on construction quality (energy efficiency, sound insulation) and make their buying decisions based on infrastructure availability (parking, services, logistics) in the area.

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.

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 of new apartments although this segment is not dominant in the apartment market. 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. The apartment market in Vilnius, the capital of Lithuania, continues to be active, above all in the cheapest price segment that has seen a surge in supply in recent years; 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.

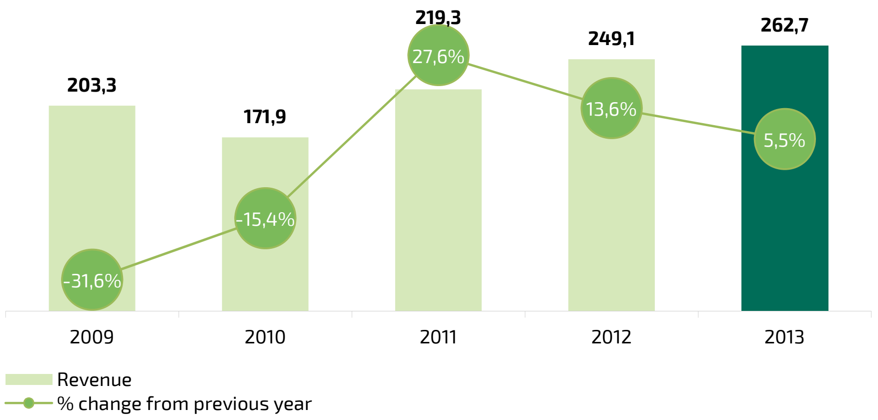
As the largest general contractor, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, is well positioned in the Estonian construction market and is capable of competing in all activity segments. In Latvia, SIA Merks, a subsidiary of AS Merko Ehitus, belongs to among four to five leading general contractors 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.

THE APARTMENT BUILDING AT TARTU MNT 50A, TALLINN, ALL OF THE APARTMENTS IN WHICH HAVE NOW BEEN SOLD.

OPERATING RESULTS

REVENUE AND PROFIT

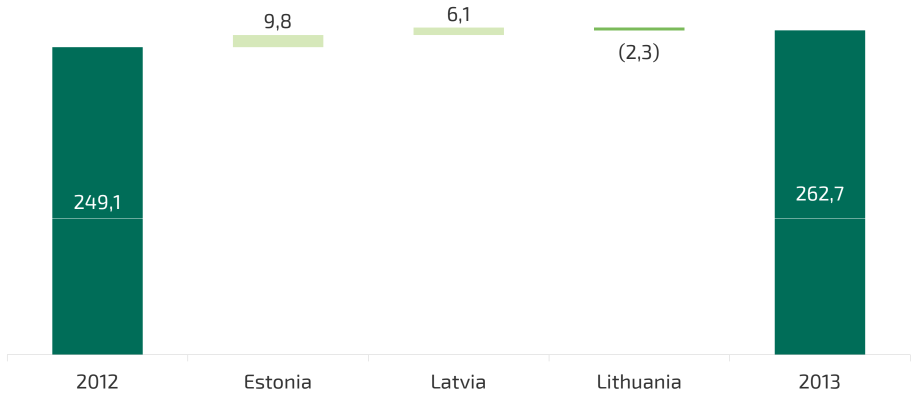
GROUP REVENUE
in million euros



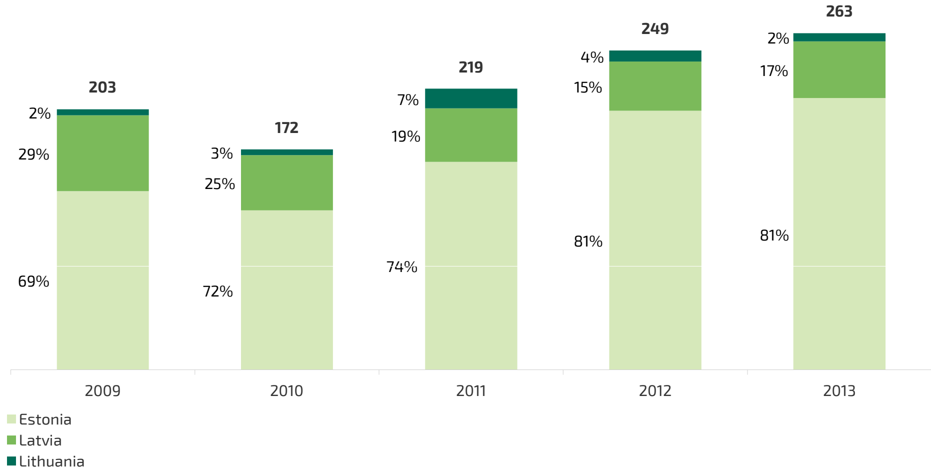
In 2013, the revenue of Merko Ehitus was EUR 262.7 million. (2012: EUR 249.1 million). 80.7% of the period's revenue was generated in Estonia, 16.9% in Latvia and 2.4% in Lithuania (2012: 81.1% in Estonia, 15.4% in Latvia and 3.5% in Lithuania). As compared to 2012, the group's revenue increased by 5.5%, including a 4.9% increase in Estonia and 15.9% increase in Latvia and a 26.4% decline in Lithuania. It is one of the group's strategic objectives to increase the proportion of revenue generated in Latvia and Lithuania.

The group's revenue growth compared to the previous year can be mainly attributed to projects of the general construction, real estate development and road construction segments while revenue in the civil engineering segment has substantially declined, mainly due to the completion of large-scale projects financed from EU structural funds and reduction of volumes. As a continuing trend, private sector contracts became more active during the period but the majority of revenues remains tied to projects financed from EU structural funds, i.e. government contracts. In light of the 11.3% growth in the Baltic construction market, it must be noted that for the first time in the last three years the group's revenue growth lagged the growth of the construction market. However, the external environment has improved in the last few years and strengthened the recovery in volumes of the group, which are nevertheless lower compared to the pre-crisis years.

GROUP REVENUE
in million euros



REVENUE OF MERKO EHITUS GROUP
in million euros

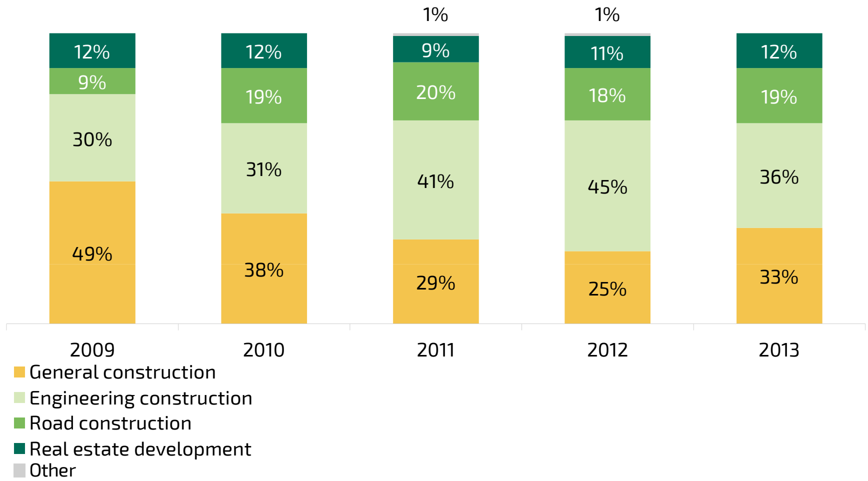


Civil engineering contributed 36%, general construction 33%, road construction 19% and real estate development revenue was 12% of the group's revenue. 67% related to new construction and 33% renovation and reconstruction works of the construction activities.

In 2013, the company saw a significant increase in private sector contracts who see the general weakness in the construction market as an opportunity to make investments - the trend is clearly visible in both the revenues of Merko Ehitus and in the signed order book. At the same time, the condition of the construction sector is most significantly affected by the large proportion of government contracts that will continue to dominate the construction market in the near-term, albeit at a lower level.

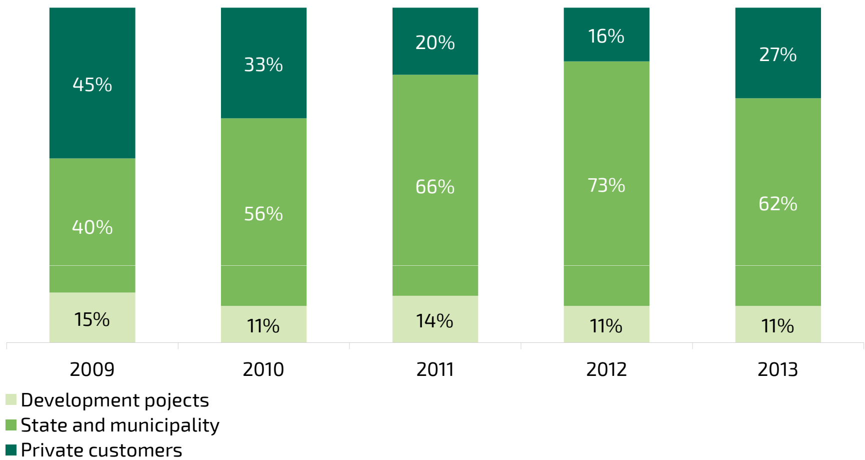
DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS

percentages



DISTRIBUTION OF GROUP REVENUE ACCORDING TO CUSTOMERS

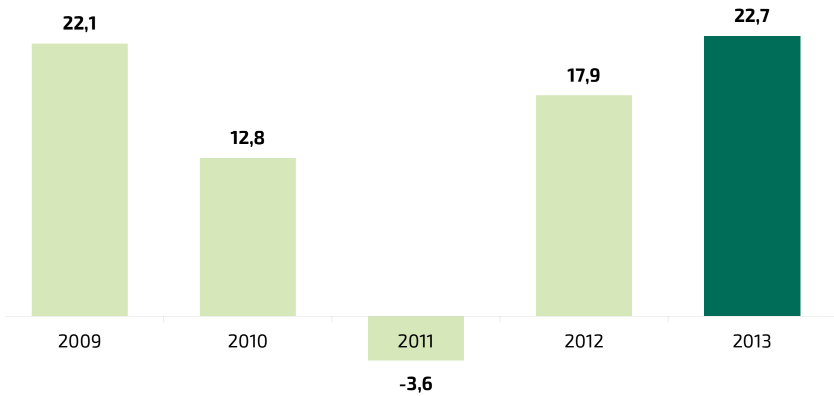
percentages



In 2013, the group's gross profit from development and construction activities totalled EUR 22.7 million (2012: EUR 17.9 million). The gross profit margin in 2013 (8.6%) is up from the same period last year (2012: 7.2%). The increase in gross profit margin is mainly attributable to the road construction segment and the real estate development segment. The decline in profitability in the general construction segment negatively impacted the margin. The lack of construction projects and increasingly tougher competitive situation are a great challenge in maintaining the existing gross profit margin level in new procurements. Maintaining profitability is a challenge in all segments but most of all in general construction where competition and the number of companies participating in bidding is the greatest.

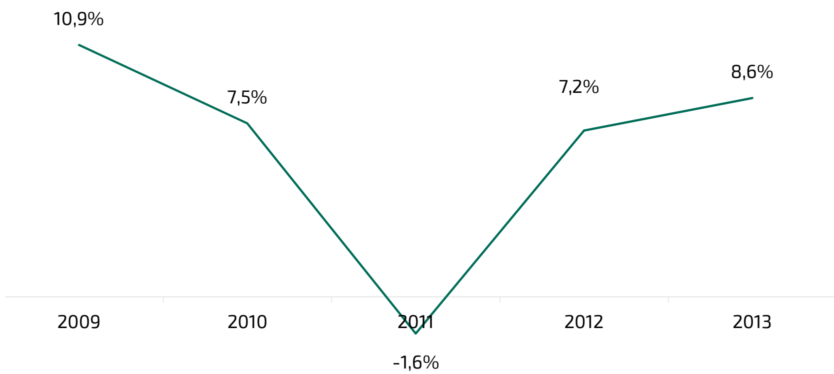
GROUP GROSS PROFIT

in million euros



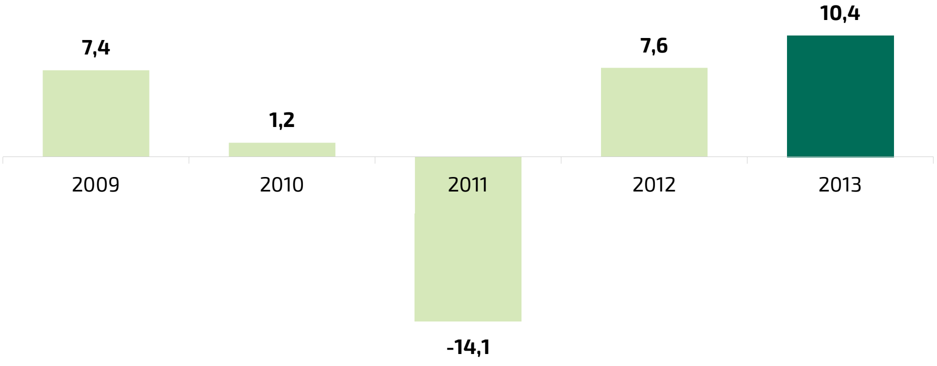
GROUP GROSS PROFIT MARGIN

percentages

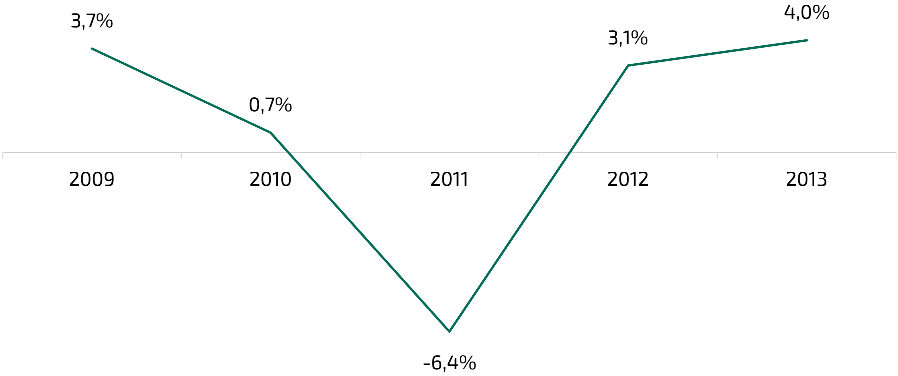


In 2013, the group's pre-tax profit totalled EUR 11.1 million and the net profit attributable to owners of the parent company was EUR 10.4 million as compared to the pre-tax profit of EUR 7.9 million and net profit attributable to owners of the parent company of EUR 7.6 million in 2012. The group's net margin was 4.0%, up 0.9 percentage points from last year.

GROUP NET PROFIT
in million euros



GROUP NET PROFIT MARGIN
percentages



BUSINESS SEGMENTS

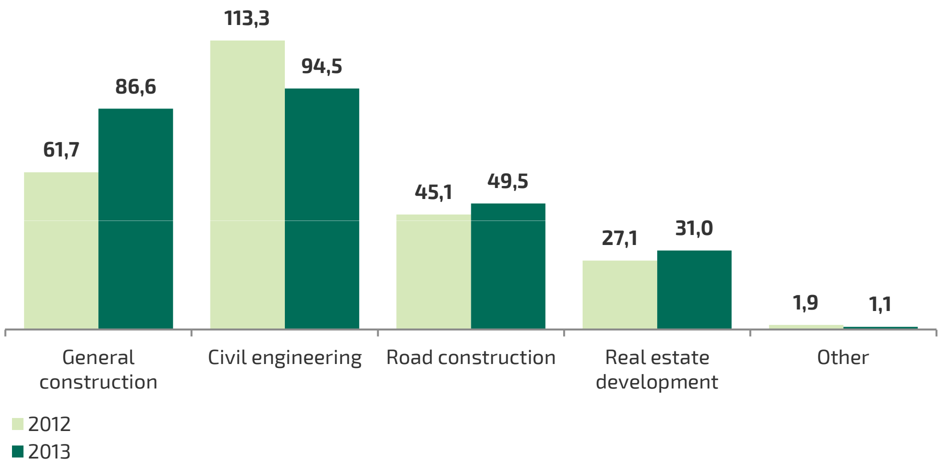
The group companies operate mainly in Estonian, Latvian and Lithuanian market and provide provide services across the following segments: general construction, civil engineering (including electrical and external networks), road construction, real estate development (including apartment development and 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. See also the management structure on page 62.

BUSINESS SEGMENTS

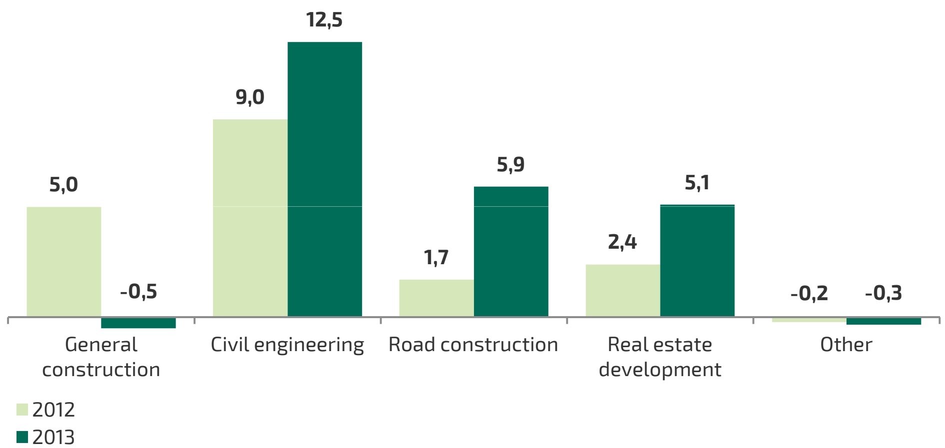
- GENERAL CONSTRUCTION
- CIVIL ENGINEERING
- ROAD CONSTRUCTION
- REAL ESTATE DEVELOPMENT
- OTHER

CHANGE IN GROUP REVENUE AND GROSS PROFIT ACROSS BUSINESS SEGMENTS

GROUP REVENUE BY SEGMENT
in million euros



GROUP GROSS PROFIT BY SEGMENT
in million euros



GENERAL CONSTRUCTION

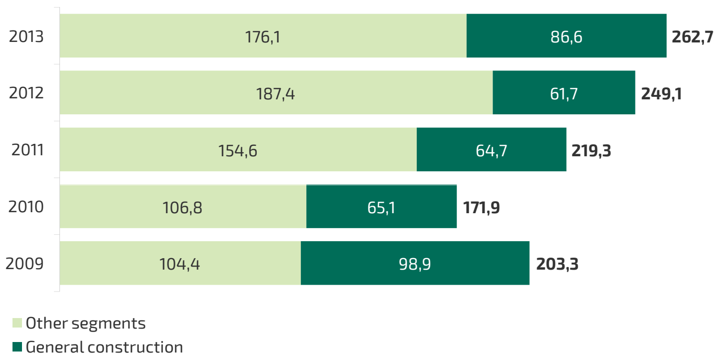
General construction consists of the construction of different buildings, from commercial and office buildings, retail and entertainment centres to public sector and residential and specialised industrial buildings. Group companies provide strategic consulting and quality complete solutions as part of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

million EUR

	2013	2012	CHANGE
Revenue	86.6	61.7	+40.3%
% of total revenue	32.9%	24.8%	+33.1%
Gross profit (loss)	(0.5)	5.0	-110.0%
Gross profit margin	-0.6%	8.1%	-107.1%

In 2013, general construction segment revenue amounted to EUR 86.6 million, up 40.3% from the same period last year. At the same time, segment gross profit declined 110.0% and the segment recorded a gross loss of EUR 0.5 million for the year. The segment continues to suffer from tough competition and the resulting margin pressure. At the end of the year, the group was forced to recognise a loss in the general construction segment mainly because project management risks that were unforeseeable in earlier stages of the project materialised with respect to one renovation project. On the basis of an estimate of the materialisation of said risks, the group has recognised the entire loss of the project in the current period. Group subsidiaries are implementing measures to avoid similar project management risks and losses in the future.

REVENUE
in million euros



Whereas in 2012 the market mainly consisted of government-tenderd projects, in 2013 we have noted an increase in the proportion of private sector contracts and in the proportion of projects in progress in the general construction segment as of the end of the year private contracts are already in the majority.

Among the substantial projects in process that started in 2013 and continue in 2014 are the renovation of the Mustamäe blocks of the North Estonia Medical Center, construction of the hotel and entertainment complex Hilton Tallinn, construction of the Polipaks NT manufacturing and logistics centre in Marupe, construction of a multifunctional concert hall in Liepaja and construction of the Tondiraba ice arena in Tallinn.

Among the large projects completed in 2013, the largest ones to highlight are the waste-to-energy unit of the Iru power plant of Eesti Energia where AS Merko Ehitus Eesti performed general construction and specialised work under contract from Constructions Industrialles De La Mediterranee, a French company that specialises in international incinerator plants. Additionally, in 2013 the renovation and extension of Tallegg's Tabasalu factory, Peetri Selver and Nurmevälja logistics centre were completed. Among the projects completed by Merko Ehitus subsidiary SIA Merks, the largest ones to highlight are renovation of the Riga University children's hospital block and construction of the electronics faculty building of Riga Technical University. The strength of Merko Ehitus is to simultaneously complete various complex and long-term projects and provide quality construction services to customers with different requests.

The key to the success of Merko is the wide scale of its operations – if a certain business segment has more or less work, it is possible to re-assign staff and manage risks. Another competitive advantage is the professional team of project managers and engineers and experience in implementing complex projects using contemporary engineering solutions.

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2013:

PROJECT NAME		LOCATION	COUNTRY
Iru waste-to-energy unit (WTE)	new	Peterburi road 105, Maardu	Estonia
AS Tallegg manufacturing building	new	Sütemetsa road 56, Tabasalu	Estonia
KTN Logistics centre	new	Klauske road 1-10, Uusküla, Jõelähtme municipality	Estonia
Peetri Selver supermarket	new	Veesaare road 2, Peetri, Rae municipality	Estonia
Riga University children's hospital block	rec	Vienības st. 45, Rīga	Latvia
Norupe sawmill	new	Norupe	Latvia
Building of the Faculty of Power and Electrical Engineering of Riga Technical University	new	Āzenes avenue 12, Rīga	Latvia

IRU WASTE-TO-ENERGY POWER UNIT

Client: **Constructions industrielles de la Méditerranée (CNIM)**

Construction period: **2010-2013**

Address: **Peterburi road 105, Maardu**

Construction cost: **16.42 million euros**

Project manager: **Priit Pullerits**

The general construction and specialized work on Eesti Energia's Iru WTE unit, which opened today, was performed by AS Merko Ehitus Eesti on the basis of a contract with the international waste incineration plant expert, the French firm CNIM. The Iru waste-to-energy unit's boiler plant facility's nearly 1,000-tonne three-dimensional steel structure made up of over 10,000 parts was engineered in cooperation between companies from three countries and assembled to a millimetre's precision in a space occupied by large-scale machinery.

The entirety of the technology needed for WTE operations was designed, supplied and installed by the prime contractor, the French company Constructions industrielles de la Méditerranée (CNIM), which is a valued expert in the field of waste incineration and one of the largest builders of waste incineration plants worldwide. Merko performed the general construction and specialised work along with all of the necessary design work.

In total, it took 7,000 cubic metres of reinforced concrete and over 3,000 tonnes of construction steel to complete the plant. Besides jobs Merko is accustomed to doing, a number of specific systems auxiliary to equipment and technology were built, such as pressurized air system and an industrial wastewater cleaning system. Merko's contract also included design of the high- and medium-voltage parts and installation work. Among other things, Merko also built a truck scale and access system, all fire alarm systems and an access road from the brand-new road interchange on Saha-Loo road.

Iru waste-to-energy plant is a complicated and extraordinary project from the construction aspect already for the fact alone that it is only the second waste-to-energy plant in the three Baltic states. As the heart of the plant is its waste incineration and energy production buildings, the design and construction of the buildings stemmed mainly from the technological needs, measurements, loads and the schedule for installation. The building's bulk is densely filled with various industrial machinery that made the 3D design – carried out in collaboration with CNIM – critical.

One of the most complicated challenges was the design and assembly of the steel frame of the boiler plant, which had to fit between and around massive pieces of machinery with literally only a millimetre to spare in many places. The design of the ventilation systems required special attention, as an unusually high amount of heat is emitted into the building, occasioning the need for large amount of air exchange. Ventilation of the Merko-designed waste hopper and the Merko-installed active air filters are extremely important for normal functioning of the building, ensuring that the air released into the atmosphere is at the required level of cleanliness.

The biggest challenge, technologically speaking, was the construction of the base for the steam turbine, where the permissible amount of deviation was extraordinarily small. The geometric shape was also very complicated and a number of assembled components had to be encased in concrete within it.

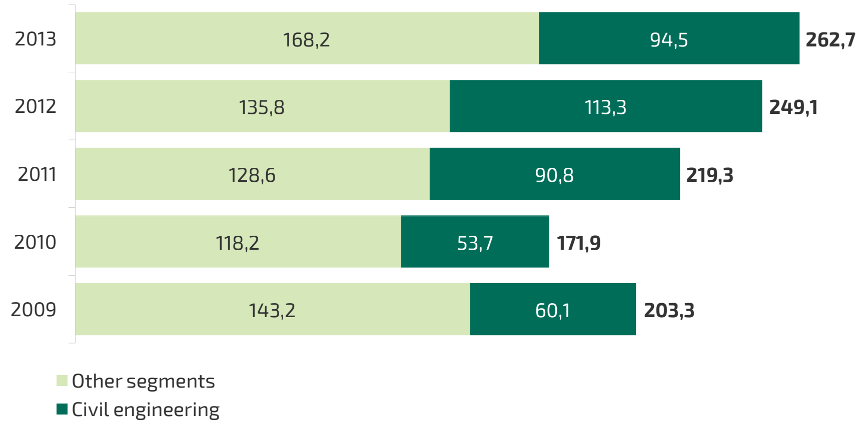
CIVIL ENGINEERING

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

	2013	2012	CHANGE
Revenue	94.5	113.3	-16.6%
% of total revenue	36.0%	45.5%	-20.9%
Gross profit	12.5	9.0	+39.1%
Gross profit margin	13.2%	7.9%	+66.7%

REVENUE
in million euros



In 2013, civil engineering revenue was EUR 94.5 million (2012: EUR 113.3 million), down 16.6% from 2012. The decline in revenue is mainly attributable to the reduction in external networks construction.

The civil engineering segment continues to account for the largest proportion (36.0%) of group revenue, however volume declines in this segment have been greatest in the past year (-16.6%).

In 2013, civil engineering segment gross profit was EUR 12.5 million (2012: EUR 9.0 million) and gross profit margin of 13.2% (2012: 7.9%), both have increased since last year. A significant part is related to effective project management. Certain stages of the Vääna-Jõesuu water and sewerage pipelines renovation project have been completed 18 months ahead of the contractual deadline. Merko Ehitus Eesti and Merko Infra built in Vääna-Jõesuu 70 kilometres of water and 72 kilometres of sewerage pipelines and a supply point for more than 2400 properties, significantly improving the quality of life of the residents in the region. Merko is also working on a Narva water treatment facility that received a cornerstone in September 2013, ensuring that 63,000 residents of Narva have access to quality drinking water starting from the spring of 2015. In addition to the construction of a new water treatment facility, the Mustajõe catchment will be renovated and modernised. AS Merko Ehitus Eesti performs construction work in partnership with the Danish company Krüger A/S.

One of the keys to our success in the segment of civil engineering is the skills and know-how in linking the skills of separate units in carrying out complex engineering projects through skilled and professional project management.

In addition to enhancing our project management capacity, in recent years we have been improving our technical capacity in performance of works. Among others, we have at our disposal several different no-dig technologies for building water and sewerage pipelines in different soils. Since most public water system renovation projects that were co-financed by the EU Structural Funds and coordinated by the Environmental Investment Centre were completed in 2013, the volume in this segment will decline several times in the following few years.

In the electrical construction field, Merko primarily focuses on the design, configuration and construction of mid and high voltage substations and power lines. Merko has a competitive advantage over competitors because the company is not affiliated with any specific manufacturer, enabling to provide the customer with the best possible solution in partnership with various manufacturers. Merko also has an excellent team spanning the entire construction cycle - starting from designers to the final configuration and also professional project managers keeping the process together and managing it.

The civil engineering segment presents challenges which is mainly due to the end of the EU financial framework period 2007-2013 and the fact that new projects are being added slower than before. This is particularly the case with water management projects where 2013 was the final year of the previous EU financial framework period through which public investments of this field were financed.

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2013

PROJECT NAME		LOCATION	COUNTRY
Vääna-Jõesuu water and sewerage pipelines	new	Vääna-Jõesuu village, Harku municipality, Harju county	Estonia
Water management project of central Pärnu	new	Side st. area, Pärnu	Estonia
Water and sewerage pipelines in Leppneeme village	new	Leppneeme village, Viimsi municipality	Estonia
Kiisa 330/220/110/35/10 kV substation (3 contracts)	new	Kiisa, Saku municipality	Estonia
Paide 330/110/35/10 kV substation 330 kV switchgear	rec	Pärnu road 126, Paide, Järva county	Estonia
Tamsalu 35/10 kV substation 35 kV switchgear	rec	Tamsalu, Lääne- Viru county	Estonia
Iru waste incineration plant HV/MV	new	Peterburi road 105, Maardu	Estonia
Electrical heating of the condensation area of EE Oil industry	new	Vaivara municipality, Auvere village	Estonia
Rīgas Satiksme water and sewerage pipelines	rec	Brīvības avenue, Rīga	Latvia
Renovation of the Spiker warehousing area and Daugava embankment	rec	Spīķeru kvartāla, Rīga	Latvia

AT THE CONSTRUCTION OF THE VÄÄNA-JÕESUU WATER SUPPLY AND SEWERAGE SYSTEM, OVER 20 KM OF PIPE WAS LAID PER MONTH AT PEAK INTERVALS.

SPĪĶERI QUARTER AND DAUGAVA EMBANKMENT RECONSTRUCTION

Address: **territory between Maskavas, Krasta, Turgeņeva Streets, Riga**
Client: **Riga City Council City Development Department**
Designer: **SIA Arplan**
Architect: **Rolands Bruzgulis**
Total area: **36 350 m²**
Construction period: **September 2012 – August 2013**
Construction cost: **3.7 million LVL (5.26 million EUR)**
Project manager: **Jānis Doniņš**

The aim of the project "Revitalization of the degraded territory between Maskava, Krasta and Turgeņeva streets" was to turn the street block into a publicly accessible, cultural and educational quarter, of interest to both locals and tourists. The territory is attractive for both locals and tourists as the warehouse block is located in the historical centre, which is included on the Unesco World Cultural Heritage list.

Previously the area was characterized by old garages, cracked asphalt covered in scattered garbage, a widely spaced plank fence, graffiti on old concrete slabs, a rusty handrail on the embankment, and a littered pedestrian tunnel, closed with a grid on one end.

Now Riga has a new and progressively arranged recreation place at the very shoreline, providing many opportunities. Within the framework of the project, the entire block of buildings and the Daugava embankment were revitalised and the underground pedestrian tunnel reconstructed, through which one can go from city centre to the riverside promenade and take advantage of the beautiful views of the city seem from scenic river banks.

The area is now characterized by cobbled passages, benches, flower pots, trees, playgrounds, a skate park, a place for performances and events, a wide promenade near the Daugava, viewing areas and a quayside – all instead of the desolation that was.

During the project, three buildings and 43 used garages were demolished, 6.5 kilometres of power cables and more than a kilometre of water piping were replaced, 94 lampposts and 75 benches were installed and a children's playground was built. A 1.3 km long bikeway and a square on the Daugava embankment, including a special support structure for a Christmas tree, were created. An area of around 30,000 square kilometres was paved; car and bicycle parking lots were established and a completely new lighting system as well as underground waste containers, equipped with above-ground chutes for waste disposal, was installed.

The works had to be carried out in a very intense zone that is also very important for urban life – Krasta Street – and due to the heavy planning and organization, it was possible to carry out the project with minimum inconvenience to city residents.

ROAD CONSTRUCTION

In the road construction segment, the company carries out road construction and builds the associated infrastructure, road maintenance and maintenance repair.

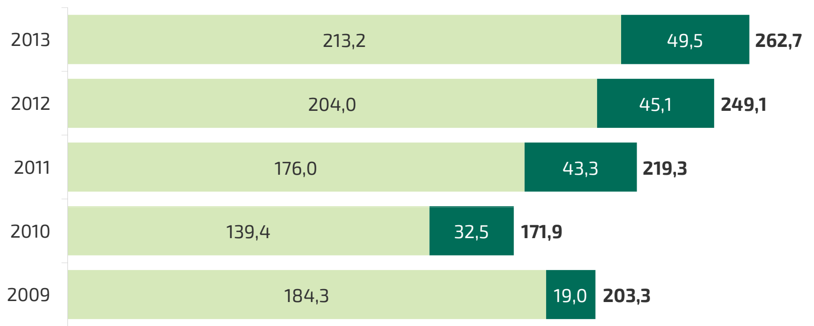
million EUR

	2013	2012	CHANGE
Revenue	49.5	45.1	+9.6%
% of total revenue	18.8%	18.1%	+3.9%
Gross profit	5.9	1.7	+246.4%
Gross profit margin	12.0%	3.8%	+216.1%

In 2013, road construction revenue was EUR 49.5 million, up 9.6% from 2012. Gross profit earned in 2013 of EUR 5.9 million resulted in a gross profit margin of 12.0%. The growth in both revenue and profit was contributed by the growth in the volume of road repair and maintenance, as well as the addition of smaller profitable road construction projects in the second and third quarter of 2013.

The largest projects of the segment in 2013 were the construction of the Ülemiste traffic junction and the renovation of the Tartu road in Tallinn and also work related to the Tallinn maintenance contract. In October 2013, we completed the construction of the Ülemiste traffic junction, the largest project of the year in this segment. The traffic junction comprises a 680-meter road tunnel, three foot and bycycle tunnels and a 150-meter overpass. High groundwater levels due to the proximity of the Ülemiste lake, working in an uninterrupted flow of traffic in an area with train traffic and operational utility lines added complexity to the large-scale construction process.

REVENUE
in million euros



AT THE CONSTRUCTION OF ÜLEMISTE TRAFFIC JUNCTION, 8.7 KM OF CARRIAGEWAY AND 7 KM OF NON-MOTORISED CYCLE AND PEDESTRIAN TRACKS WERE BUILT AND 155,000 SQUARE METRES PAVED WITH ASPHALT.

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2013

ROJECT NAME		LOCATION	SIZE	COUNTRY
Ülemiste traffic junction	rec	Tallinn	7.5 km of new and 1.2 km of renovated roads, 2 road tunnels and 3 foot and bycycle tunnels, a 150-meter overpass, 5.35 km of new and 1.65 km of renovated foot and cycle paths, 155,000 m² of asphalt concrete pavement.	Estonia
Soo st.	rec	Soo st., Tallinn	4,907 m² of road and 5,529 m² of sidewalk asphalt concrete pavement, 1,164 m of water and 1,256 m of sewerage pipelines	Estonia
KTN Logistics centre	new	Klauske road 1-10, Uusküla, Jõelähtme municipality	16,400 m² of asphalt concrete pavement	Estonia
Roads of the Veesaare and Lepassaare immovables and in the vicinity	new	Veesaare road, Mõigu road, Aruheina road	9,879 m² of asphalt concrete pavement	Estonia
Tabivbere-Uhmardu pavement construction	rec	Road 14209 Tabivere, Jõgeva county (km 0.0-5.9)	5.35 km of renovated roads	Estonia

ÜLEMISTE LIIKLUSSÕLM

Client: Tallinn Municipal Engineering Services Department
Construction period: **2010-2013**
Address: **Tallinn, Estonia**
Construction cost: **37.93 million euros**
Project manager: **Tiit Joosti**
The construction of the Ülemiste junction was carried out by the consortium consisting of AS Merko Ehitus Eesti, AS Merko Infra, Tallinna Teede AS and AS Ehitusfirma Rand & Tuulberg.

Ülemiste traffic junction is one of Estonia's most complex integrated infrastructure projects. The junction consists of a 680-metre-long tunnel for automotive traffic, three tunnels for cyclist and pedestrian use, and a 150-metre overpass. The large-scale construction project was made more complicated by the high water table in the vicinity of Lake Ülemiste and the fact that work took place in an area with heavy traffic flow, an operating train service and live utility lines. The junction has 8.7 km of carriageway and 7 km of non-motorised cycle and pedestrian track, with a total of 155,000 square metres paved with asphalt. At its deepest point, the construction work took place 16 metres below the surface of Lake Ülemiste.

As part of the procurement for the preliminary work for the junction back in 2010-2011, AS Merko Ehitus Eesti established a storm drain system with a total length of 2.5 kilometres, situated up to 16 metres below ground. These lines route runoff from Järvevana road, Tehnika street and Filtri road from underneath Zelluloosi street via Lasnamäe street into open concrete channels running through Kadriorg Park. In addition, in the same period and likewise as part of the procurement, AS Merko Infra established a transition between 110 kV overhead electrical lines to buried cable. This was required for building the Tartu highway overpass and the cycle and pedestrian paths.

From a construction aspect, the most complicated part of the junction was the 680-metre tunnel segment of the project, of which the actual underground tunnel section makes up 320 metres. The tunnel construction required constant work in a high water-table zone and the deepest part was 16 metres below the surface of Lake Ülemiste. The second important part of the junction is the 150-metre overpass that routes the flow of traffic from Peterburi road over Tartu highway to Järvevana road. Each direction of traffic uses a separate span structure. The bridge was erected on variable height reinforced concrete beams with a rectangular cross-section, with post-tension reinforcement.

The tunnels for the carriageways in either direction are 8 metres wide and 4.6 metres high and connect Järvevana road with Peterburi road, passing underneath the railway. Each direction has its own structure – two reinforced concrete structures have been built for the tunnels, connected to each other by emergency exit routes. The tunnel is anchored to the ground; the ramps have anchors for the upward force exerted by water.

First an underlying drainage layer was built, then technical concrete, on top of which was established hydro insulation and concrete structures. The tunnel itself is completely covered by hydro insulation underneath, on top and on the sides, and the sides have drainage mats so that the tunnel would not disrupt normal water circulation in the area – water moves to the tunnel, passes through the mat, goes underneath the tunnel and, based on the principle of communicating vessels, rises up on the other side. To lower the water table during tunnel construction, an up to 17 metre long trench surrounded by sealed wall elements was established and submersible pumps and needle filters were used to remove the water, which constantly sucked up the water from the sand.

The influx of water from below and above continues in the case of the finished tunnel; and in order to collect rain and snowmelt into storm drains, the pavement is built at a lateral and longitudinal angle toward drains connected to storm sewers. From there, the water flows downhill to the sea via underground storm sewers and the open concrete canals through Kadriorg Park.

To ensure safety, the situation in the tunnel is monitored by an electronic safety system, which detects any hasardous situations - fire, accidents, or other problems and regulates the situation using traffic signs with an electronic readout. The human supervisor then checks the real situation on the video recording and decides whether to close the tunnel. The tunnel has emergency exits – at intervals of less than 90 metres and equipped with fire doors – for the purpose of ensuring human safety. In addition, the tunnel also has a smoke exhaust system. The tunnels have smoke removal fans, which are switched on by the arriving rescue teams manager at the scene in case of accident. There are also evacuation routes for people, which have illuminated markings and lead people out of one structure to the other and then out of the tunnel.

The safety of pedestrians and other non-motorised road users is ensured by the Ülemiste junction bicycle/footpaths and tunnels, which connect to the rest of the Tallinn bicycle path system. They can be used to get between Järvevana road – Veerenni street and Järvevana road – Filtri road and Tehnika street without crossing a road used by motorised traffic. The Järvevana bicycle/footpath connects Järve recreational path and the Haabersti bicycle path network with the Tartu highway area. The Tehnika street bicycle/footpaths provide a connection to the city centre from Veerenni street and the bus station.

FACTS ABOUT ÜLEMISTE JUNCTION:

- 7.5 km of new roads and paths, and 1.2 km of rebuilt roads and paths, total area of asphalt pavement laid – 155,000 m^2
- Two 680-meter road tunnels for motorised traffic, of which the underground section makes up 320-meters
- 150-metre-long overpass
- Three tunnels for bicycle and foot traffic, built using a technical design similar to the one for the carriageways
- 5.35 km of new non-motorised routes for bicycles and pedestrians, 1.65 km rebuilt, width ranging from 2m to 4.5 m
- The dedicated site crew was 20 strong. There were also many pipe layers, utility line and concrete pouring crews, with 250 workers on site on peak days.
- 12 hectares of green space established as part of the project, with hundreds of trees and thousands of shrubs planted
- As part of the procurement for the groundwork for the junction project, the following was built:

  a storm drain system and close to 2.5 km of underground water drainage canals and mains ranging up to 16 metres below ground in places, leading from Ülemiste to Kadriorg

  a 110 kV overhead line was connected to buried line, which was required for building the Tartu highway overpass and cycle and pedestrian paths
- Concrete Construction of the Year 2013

REAL ESTATE DEVELOPMENT

The real estate development segment includes residential construction, the development of apartment projects, long-term real estate investments and commercial real estate projects.

Since 1992, Merko has built homes for several thousand families in the Baltics, became the leading apartment building developer in Estonia and strengthened its position in Latvia and Lithuania. Every experience gained has been implemented in new residential construction projects; positive experience obtained from different countries shared within the group and learning from one another have given our project managers invaluable know-how and expertise.

The real estate market continued its recovery in 2013, which was reflected both in the growth of the number of transactions as well as prices. Managing such a large and valuable portfolio of properties requires careful and detailed planning of the whole process: the development of apartment buildings starts by organising details, detailed planning, designing and construction and ends with the sale of completed production and warranty service.

The underlying idea of our development activities is to value land through detailed planning and building development, to find customers for the property and sell the property as developed real estate.

Merko manages all development phases of new housing – planning, designing, building and sales. Homes developed and built by Merko are characterised by integrated living environments, high energy efficiency, good sound insulation from indoor and outdoor noise as well as healthy interior climate.

Our objective is always to create homes that architecturally fit the specific region, have an attractive living environment, functional design solutions, quality interior design materials, optimal construction cost and energy efficiency. A home that is being offered for customers must be of quality and maintain its value in years to come.

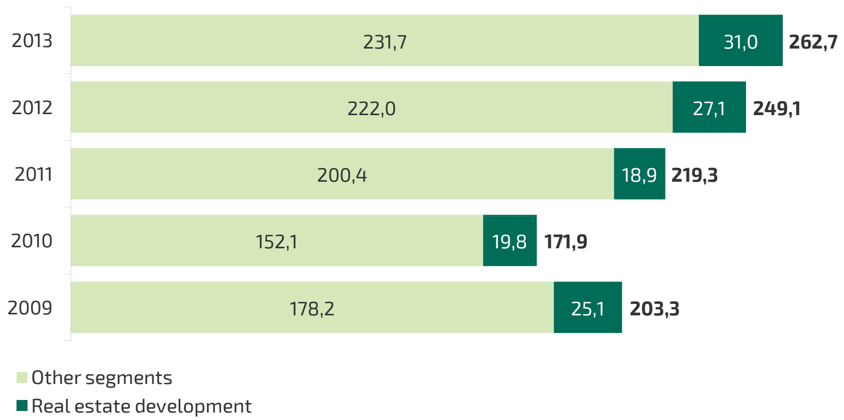
million EUR

	2013	2012	CHANGE
Revenue	31.0	27.1	+14.3%
% of total revenue	11.8%	10.9%	+8.4%
Gross profit	5.1	2.4	+113.3%
Gross profit margin	16.5%	8.9%	+86.5%

THE RÄÄGU 9 APARTMENT BUILDING IN TALLINN HAS A CATEGORY A ENERGY LABEL. COMPARED TO APARTMENT BUILDINGS COMPLETED IN THE PAST, THIS ONE HAS THICKER INSULATION IN THE EXTERIOR WALLS AND ROOF, ALSO TRIPLE PANE WINDOWS.

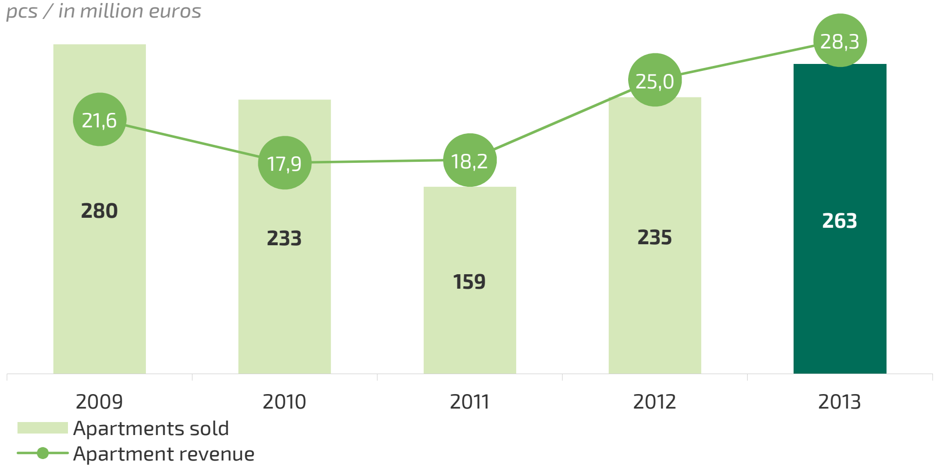
A total of 263 apartments were sold in 12 months of 2013 at the total value of EUR 28.3 million (excl. VAT), (2012: 235 apartments and EUR 25.0 million, respectively). 142 were located in Estonia, 75 in Latvia and 46 in Lithuania from the total of 263 apartments sold.

REVENUE
in million euros



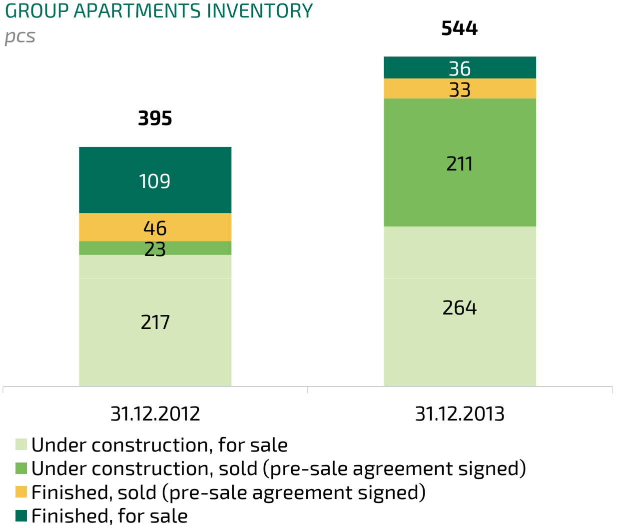
APARTMENTS SOLD / APARTMENT REVENUE

pcs / in million euros



GROUP APARTMENTS INVENTORY

pcs



At the end of the period, Merko Ehitus group's inventories included 36 completed but not yet sold apartments (23 in Estonia, 7 in Latvia and 6 in Lithuania) and 33 completed apartments with pre-sale agreements signed (two in Estonia, 30 in Latvia and one in Lithuania).

At 31 December 2013, Merko Ehitus group had a total of 300 apartments for sale (31 December 2012: 326 apartments), this comprises apartments for which no pre-sale agreements have been signed with buyers.

KENTMANNI 6 RESIDENTIAL AND COMMERCIAL BUILDING, COMPLETED IN THE END OF 2014, IS DISTINGUISHED BY EXCLUSIVE LOCATION IN THE CITY CENTRE OF TALLINN, WONDERFUL VIEWS TO THE TOWN AND APARTMENTS EQUIPPED WITH SMART HOME CONCEPT.

In 2013, we launched the construction of a total of 409 apartments in the Baltic States (2012: 308 apartments).

At 31 December 2013, the group has 130 apartments in Tartu where the construction activity has been frozen (at 31 December 2012, the respective number in Tallinn and Tartu was 311 apartments). In 2013, we re-launched a total of three development projects that were frozen in prior years: in the 2nd quarter the construction of the Kentmanni 6 residential and commercial building in Tallinn (the number of apartments according to the adjusted project is 93) and the development of Pärna avenue 8 in Tartu municipality (the number of apartments according to the adjusted project is 27) and in the 4th quarter the development of Pärna avenue 7 in Tartu municipality (the number of apartments according to the adjusted project is 28).

> IN 2013, MERKO LAUNCHED THE CONSTRUCTION OF A TOTAL OF 409 APARTMENTS IN THE BALTIC STATES.

One of our objectives is to keep a moderate portfolio of land plots to ensure stable implementation of property development projects considering the market conditions. At the same time the real estate market has become more selective – key aspects considered in the evaluation of risks prior to the launch of each project are the location, scale of development, design solutions and the target consumer 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.

At 31 December 2013, the group's inventories included land with development potential of EUR 39.1 million (31.12.2012: EUR 39.5 million). In 2013, new land with development potential was acquired for a total of EUR 2.2 million (2012: EUR 0.2 million, including land added through business combination). The group is actively looking for new land plots to acquire for development purposes both in Estonia and Lithuania. The portfolio of land plots in Latvia is of adequate development potential and therefore no active portfolio enlargement is undertaken.

APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	MUNICIPALITY/ COUNTRY	COMPLETION DATE	NUMBER OF APARTMENTS*
Pärna avenue 5 and 6	Tartu municipality, Estonia	Completed	8
Eha st. 4 / Paldiski road 17	Tallinn, Estonia	Completed	8
Pärna avenue 8	Tartu municipality, Estonia	Completed	9
Skanstes virsotnes 4 tower	Riga, Latvia	Completed	6
Grostonas 17	Riga, Latvia	Completed	31
Mokslininku stage I	Vilnius, Lithuania	Completed	7
			69
Pallasti 48	Tallinn, Estonia	Start of 2014	23
Pallasti 50	Tallinn, Estonia	Spring 2014	23
Tedre 55	Tallinn, Estonia	Spring 2014	47
Grostonas 19	Riga, Latvia	Autumn 2014	82
Mokslininku II stage	Vilnius, Lithuania	Autumn 2014	54
Pärna avenue 7	Tartu municipality, Estonia	Autumn 2014	28
Kentmanni 6	Tallinn, Estonia	End of 2014	93
Grostonas 21	Riga, Latvia	Spring 2015	125
			475
Total			**544**

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

THE SPECIFICATIONS OF PROJECTS COMPLETED IN 2013

Projects completed in 2013 had a total of 176 apartments, of which 128 had been sold by the year-end.

PROJECT		LOCATION	SIZE
Vaarika 5	new	Tartu, Estonia	833 m², 15 apartments
Pallasti 46	new	Tallinn, Estonia	1,287 m², 23 apartments
Räägu st. 9	new	Tallinn, Estonia	1,628 m², 20 apartments
Eha st 4 / Paldiski road 17	new	Tallinn, Estonia	2,013 m², 27 apartments
Pärna avenue 8	new	Tartu municipality, Estonia	1,659 m², 27 apartments
Grostonas 17	new	Riga, Latvia	4,935 m², 64 apartments

OTHER

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

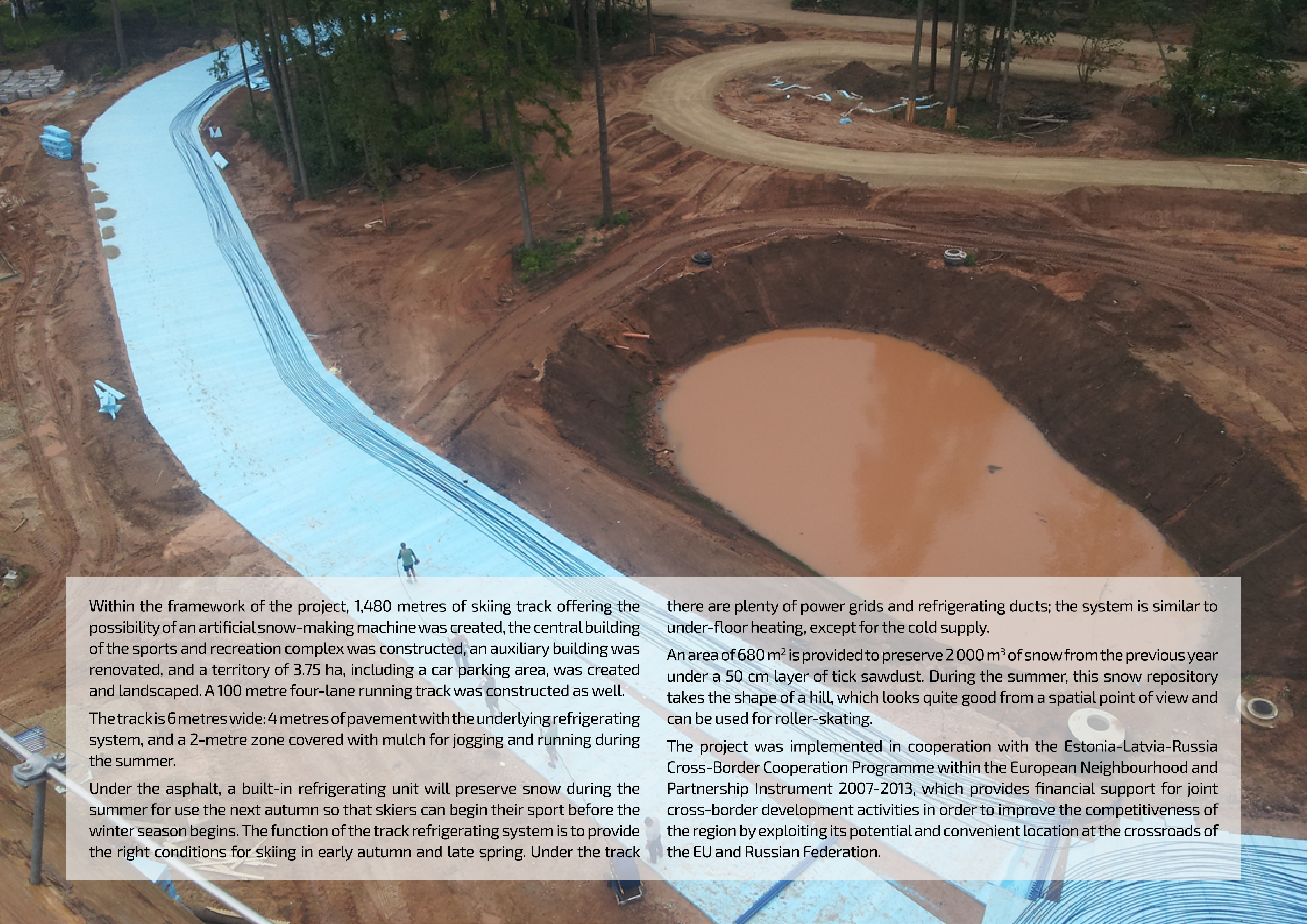
million EUR

	2013	2012	CHANGE
Revenue	1.1	1.9	-39.1%
% of total revenue	0.5%	0.7%	-42.3%
Gross profit (loss)	(0.3)	(0.2)	+59.3%
Gross profit margin	-29.9%	-11.4%	+161.6%

In 2013, revenue in the other segment was EUR 1.1 million, down 39.1% from 2012. This segment concluded the year 2013 with a gross loss of EUR 0.3 million, mainly attributable to impairment losses on mined inventories.

RECREATION AND SPORTS COMPLEX „LAURENČI”

Address: **Sigulda district, Laurenči**
Client: **Sigulda District Council**
Designer: **SIA Arhitektes I. Kalveles birojs**
Architect: **Ilze Kalvele**
Total construction area: **443.2 m²**
Construction period: **September 2012 – September 2013**
Construction cost: **approx. 1.13 million LVL. (1.6 million EUR)**
Project manager: **Zigmunds Urtāns**



Within the framework of the project, 1,480 metres of skiing track offering the possibility of an artificial snow-making machine was created, the central building of the sports and recreation complex was constructed, an auxiliary building was renovated, and a territory of 3.75 ha, including a car parking area, was created and landscaped. A 100 metre four-lane running track was constructed as well.

The track is 6 metres wide: 4 metres of pavement with the underlying refrigerating system, and a 2-metre zone covered with mulch for jogging and running during the summer.

Under the asphalt, a built-in refrigerating unit will preserve snow during the summer for use the next autumn so that skiers can begin their sport before the winter season begins. The function of the track refrigerating system is to provide the right conditions for skiing in early autumn and late spring. Under the track there are plenty of power grids and refrigerating ducts; the system is similar to under-floor heating, except for the cold supply.

An area of 680 m^2 is provided to preserve 2 000 m^3 of snow from the previous year under a 50 cm layer of tick sawdust. During the summer, this snow repository takes the shape of a hill, which looks quite good from a spatial point of view and can be used for roller-skating.

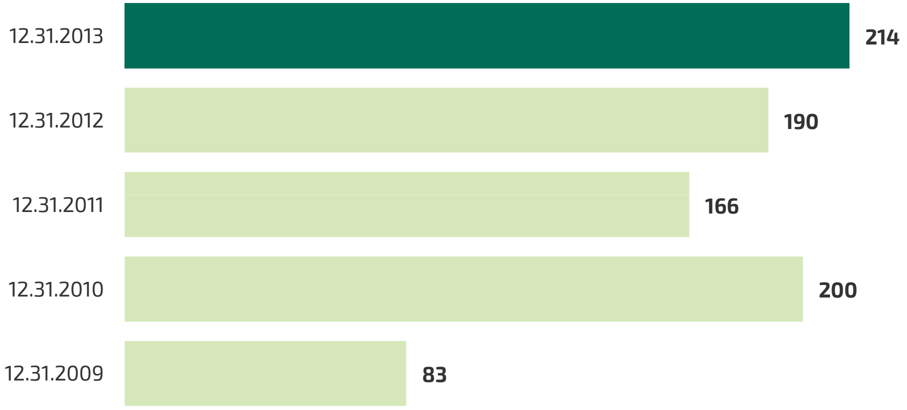
The project was implemented in cooperation with the Estonia-Latvia-Russia Cross-Border Cooperation Programme within the European Neighbourhood and Partnership Instrument 2007-2013, which provides financial support for joint cross-border development activities in order to improve the competitiveness of the region by exploiting its potential and convenient location at the crossroads of the EU and Russian Federation.

SECURED ORDER BOOK

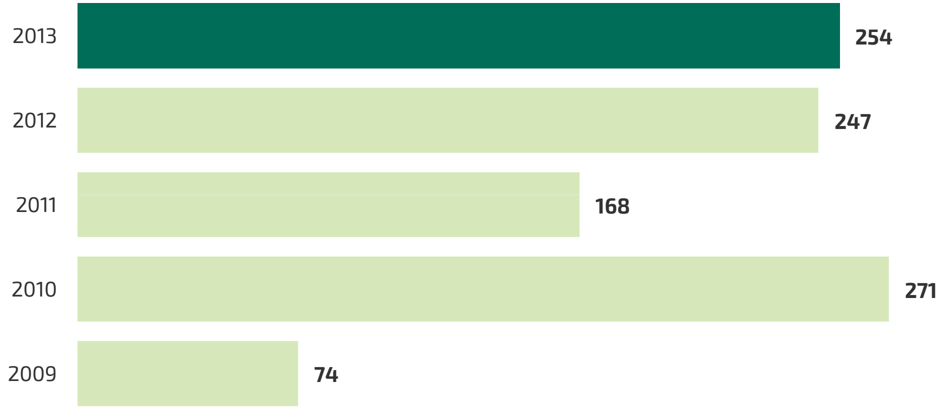
As at 31 December 2013, the group's secured order book (excluding property developments) amounted to EUR 213.7 million as compared to EUR 189.9 million as at 31 December 2012. The secured order book excludes the group's proprietary residential development projects and work related to developing real estate investments.

In 2013, new construction contracts worth EUR 254.4 million were signed (excludes property developments) as compared to EUR 247.4 million in the prior year.

SECURED ORDER BOOK
in million euros



NEW CONTRACTS SIGNED
in million euros



LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2013

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST MILLION EUR
Narva-Jõesuu SPA hotel Noorus	Estonia	May 2014	10.6
KTN Tallinn logistics centre, 2nd construction stage, 1st phase	Estonia	September 2013	7-8
Peetri Selver	Estonia	October 2013	3.8
Reconstruction of Elva sewage treatment plant	Estonia	July 2013	2.3
Tondiraba ice arena	Estonia	June 2014	22.5
Nurmevälja logistics centre	Estonia	1st quarter 2014	7-8
Narva Konsum	Estonia	May 2014	3.1
OEG/Hilton hotel and entertainment complex Hilton Tallinn	Estonia	December 2015	31.0
Long-term contract for the maintenance repair of the roads and streets of Tallinn	Estonia	October 2018*	17.5*
			104.8-106.8
Jurmala apartment buildings, Dzintaru 36	Latvia	February 2014	7.9
Liepaja multifunctional centre "Lielais Dzintars"	Latvia	July 2015	28.3
Polipaks NT manufacturing and logistics centre	Latvia	February 2015	17.8
Building completion work on Gipša Fabrika apartment building	Latvia	August 2014	5.3
Construction of Valmiera school complex	Latvia	April 2015	5.9
Construction of Dzintaru 28, Jurmala apartment buildings	Latvia	July 2015	13.7
			78.9
Total			**183.7-185.7**

** The volume of work is ca EUR 3.5 million per year*

After the balance sheet date, the group concluded three large construction contracts:

- On 23 January 2014, a contract for the design and renovation of the infrastructure of Tallinn tram line No. 4 was signed by the companies AS Merko Ehitus Eesti, part of the AS Merko Ehitus group, KMG Insenerehituse AS, Ratatek OY and Tallinna Linnatranspordi AS. The value of the contract is EUR 26.0 million. All work will be performed during 2014 and 2015.
- On 7 February 2014, SIA Merks, the Latvian subsidiary of AS Merko Ehitus, signed a contract with the Riga State Technical School to construct several buildings on the school campus. The value of the contract is EUR 4.8 million. The works are to start in February 2014 and scheduled for completion in June 2015.
- On 10 February 2014, SIA Merks additionally signed a contract with the Riga City Council City Development Department to perform the re-cultivation and construction works of a waste recycling site in Riga. The value of the contract is EUR 6.5 million. The works are to start in February 2014 and scheduled for completion in January 2016.

The secured order book (excluding property developments) as at the end of the year included 57.7% public sector orders and 42.3% private sector orders. At 31 December 2013, the government contracts still make up the majority of the order book, however they are showing a clear declining trend compared to private sector orders. Whereas the share of public procurements was still predominant among new construction contracts at the start of 2013, the private customer segment has 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 are connected to private contracting entities. Considering the end of the current EU funding period, one can forecast continued decline in the volume of public procurements for 2014. As a result, it continues to be a challenge to maintain new construction contract volume at a similar level during the next year.

CASH FLOWS

The change in short-term investments and cash equivalents in 2013 of Merko Ehitus group was positive by EUR +11.3 million and as at 31 December 2013 the group had cash equivalents in the amount of EUR 46.6 million (31.12.2012: EUR 35.3 million). In a year, the group's strategic cash level and investment capacity have strengthened.

The operating cash flows of 2013 were positive by EUR 19.7 million (2012: positive by EUR 21.0 million), the cash flows from investment activities were negative by EUR 1.3 million (2012: positive by EUR 0.9 million) and cash flows from financing activities were negative by EUR 7.0 million (2012: negative by EUR 5.0 million).

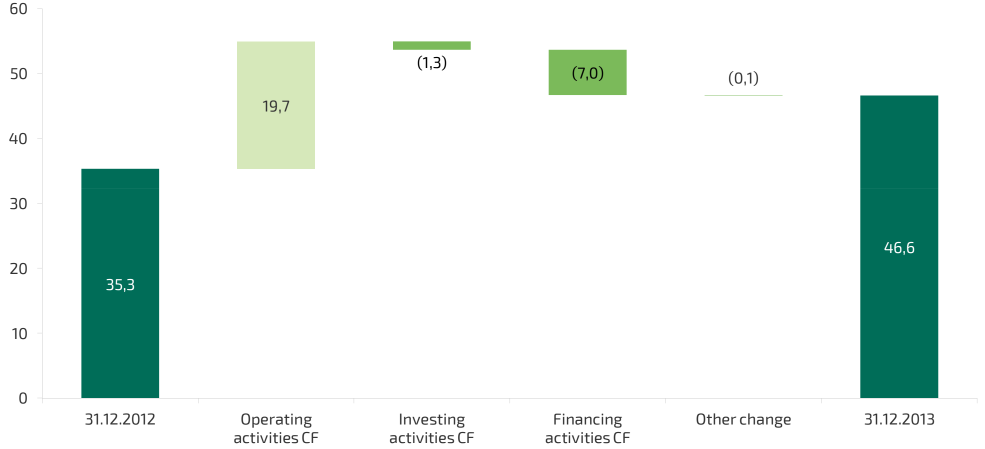
Cash flows from operating activities were most influenced by the operating profit of EUR 12.3 million (2012: EUR 8.8 million) negative change in trade and other receivables related to operating activities of EUR 6.2 million (2012: positive change of EUR 7.3 million), negative change in inventories of EUR 4.9 million (2012: positive change of EUR 5.4 million) and positive change in receivables and prepayments related to operating activities of EUR 10.2 million (incl. significant contribution from the collection of prepayments from consumers under pre-sale agreements of apartment developments), (2012: negative change of EUR 3.0 million).

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. 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 (14.8% as at 31.12.2013, 15.8% as at 31.12.2012).

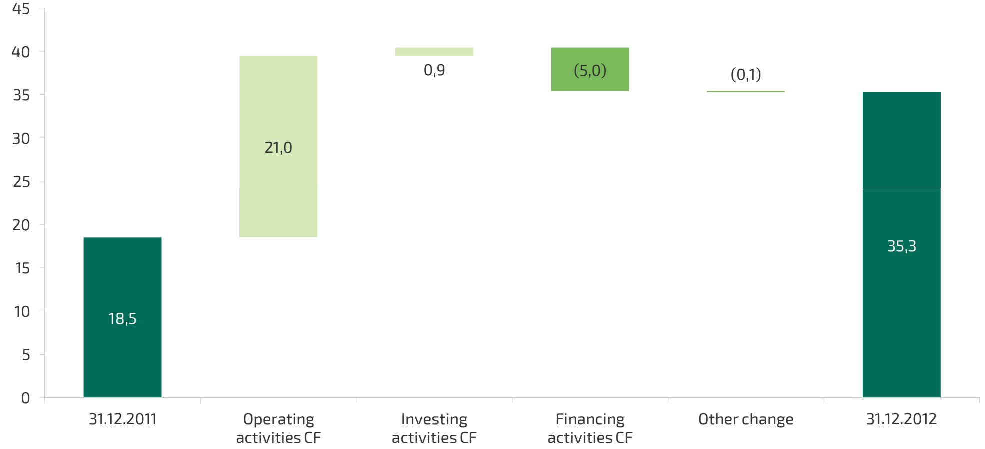
Cash flows from investment activities include as negative cash flow the balance of real estate investment acquisitions and improvements of EUR 1.1 million (2012: EUR 1.5 million), the balance of other investments acquisition was EUR 0.3 million, the balance of non-current asset acquisition was EUR 0.8 million (2012: EUR 0.9 million), and as a positive balance the disposal of non-current assets of EUR 0.9 million (2012: EUR 0.2 million). Cash flows from investment activities in 2012 were positively impacted by the sale of a 25% interest in the associate AS TMB for EUR 2.8 million. The balance of investment property acquired is mainly attributable to apartments at the Pärna avenue 8 development that have been leased to the Tartu municipality for children's daycare, additional explanations can be found in Note 22 of the financial statements. The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment. In 2013, the group sold an old asphalt factory for EUR 0.6 million.

The largest negative component of the cash flows from financing activities was the dividend payment of EUR 5.3 million in 2013. Additionally, financing cash flows were mostly impacted by the change in the project specific loan balance obtained using investment property as collateral that were a net positive at EUR 1.9 million and on the negative side the loan movement related to development projects obtained and repaid in the net amount of EUR 1.0 million (2012: negative cash flow in the net amount of EUR 5.6 million), factoring of EUR 1.5 million (2012: positive cash flow of EUR 1.5 million) and finance lease principal repayments of EUR 1.2 million (2012: EUR 0.9 million).

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



RATIOS

(attributable to equity holders of the parent)

		2013	2012	2011
Income statement summary				
Revenue	million EUR	262.7	249.1	219.3
Gross profit	million EUR	22.7	17.9	(3.6)
Gross margin	%	8.6	7.2	-1.6
Operating profit	million EUR	12.3	8.8	(12.3)
Operating profit margin	%	4.7	3.5	-5.6
Profit before tax	million EUR	11.1	7.9	(14.0)
EBT margin	%	4.2	3.2	-6.4
Net profit	million EUR	10.4	7.6	(14.2)
attributable to equity holders of the parent	million EUR	10.4	7.6	(14.1)
attributable to non-controlling interest	million EUR	0.0	0.0	(0.1)
Net margin	%	4.0	3.1	-6.4
Other income statement indicators				
EBITDA	million EUR	15.1	11.4	(10.1)
EBITDA margin	%	5.7	4.6	-4.6
General expense ratio	%	4.7	4.5	4.6
Labour cost ratio	%	11.8	11.2	10.2
Revenue per employee	thousand EUR	308	278	235

Other significant indicators		31/12/2013	31/12/2012	31/12/2011
Return on equity	%	8.8	6.8	-12.2
Return on assets	%	4.4	3.4	-6.6
Return on invested capital	%	8.0	6.0	-9.0
Equity ratio	%	50.9	52.0	49.6
Debt ratio	%	14.8	15.8	18.3
Current ratio	times	2.0	2.1	2.0
Quick ratio	times	1.1	1.1	1.0
Accounts receivable turnover	days	58	58	56
Accounts payable turnover	days	43	47	45
Average number of employees (total group)	people	853	895	934
Order book	million EUR	213.7	189.9	166.5

Calculation of ratios is provided on page ***127*** *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. Detailed description of financial risks is provided in Note 35 of the financial statements.

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.

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.

THE COMPANY MANAGES RISKS SO AS TO ACHIEVE ITS STRATEGIC AND FINANCIAL OBJECTIVES.

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 cyclicality 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.

Market risk that is partially related to financial risks also includes ***currency risk and interest rate risk***. The analysis of these risks is provided in Note 35 of the financial statements.

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.

The analysis on ***credit, liquidity and legal risks*** is provided in Note 35 of the financial statements.

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.

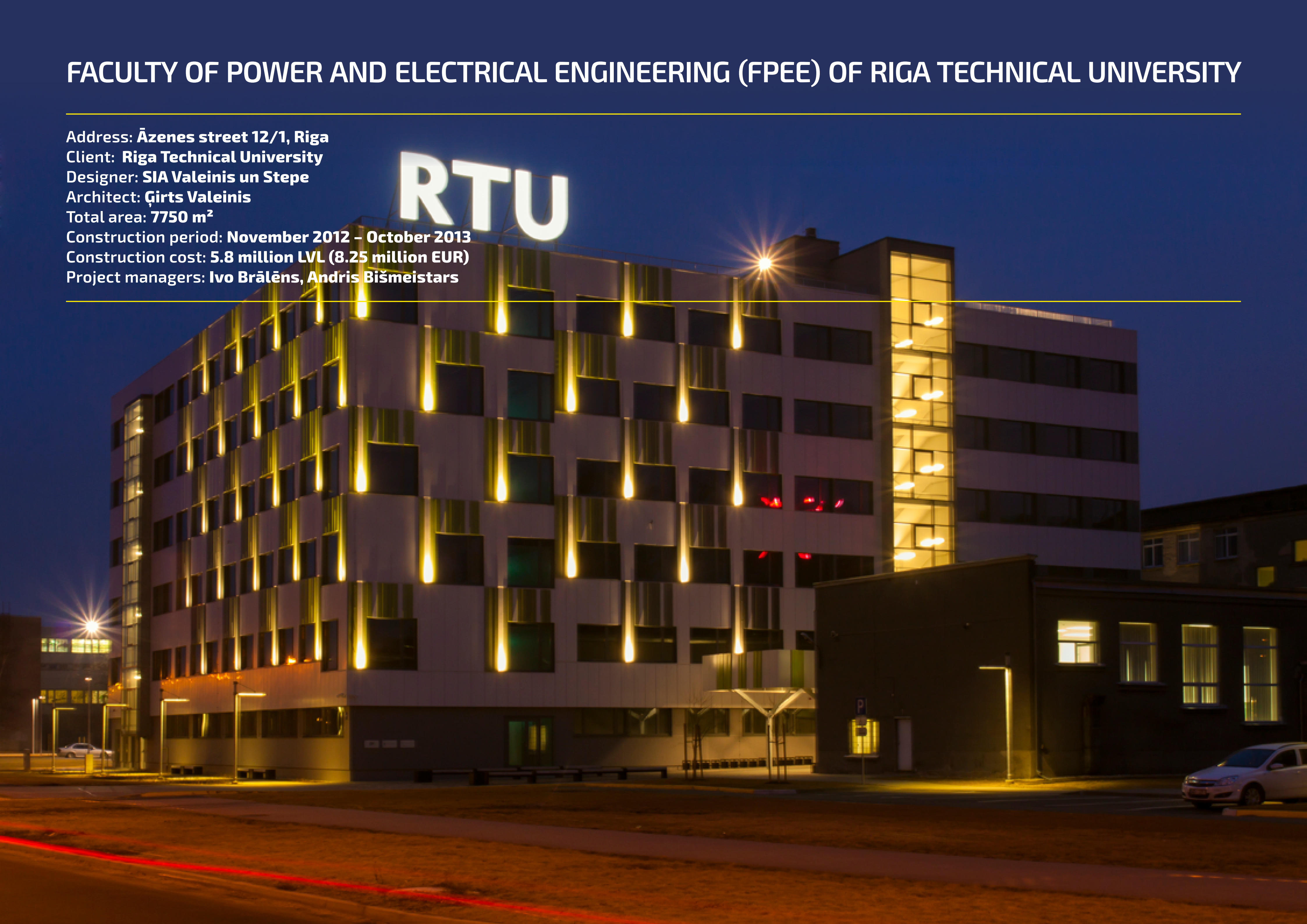
Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the 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 10 (2012: 16) 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 customers, 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. In 2013, indemnity applications submitted to insurance companies totalled EUR 0.90 million (2012: EUR 0.98 million), and insurance benefits were received in the amount of EUR 0.08 million (2012: EUR 0.17 million).

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. In 2013, warranty provisions were set up at the group in the total amount of EUR 0.82 million (2012: EUR 0.81 million) and disbursements amounted to EUR 0.62 million (2012: EUR 0.56 million). As at the year-end, the company's warranty provision amounted to EUR 1.8 million (31.12.2012: EUR 1.62 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.

FACULTY OF POWER AND ELECTRICAL ENGINEERING (FPEE) OF RIGA TECHNICAL UNIVERSITY

Address: **Āzenes street 12/1, Riga**
Client: **Riga Technical University**
Designer: **SIA Valeinis un Stepe**
Architect: **Ģirts Valeinis**
Total area: **7750 m²**
Construction period: **November 2012 – October 2013**
Construction cost: **5.8 million LVL (8.25 million EUR)**
Project managers: **Ivo Brālēns, Andris Bišmeistars**



The new Faculty of Power and Electrical Engineering (FPEE) of Riga Technical University is hosted in a modern and energy-efficient building. It is a six-storey building with 250 rooms intended for lectures, practical work and studies. The roof structure was made in the form of a reverse roof to accommodate laboratory works.

The new FPEE building is unique as it is a fully automated so-called electronic building in which ventilation, heating and lighting systems are controlled through a single control panel. The FPEE is fully adapted for people with special needs; it has specific door widths, adapted elevators and built-in ramps.

The construction of the Faculty was carried out within the framework of the project "RTU – A City within the City". The design of the building provided for a completely new, contemporary concept. It includes measures to increase the energy efficiency of the building, such as heat recovery from refrigeration unit compressors for heating the water and motorised outer window-blinds on the southern and westerns sides of the building to block out the direct sunlight, which operate fully automatically depending on weather conditions.

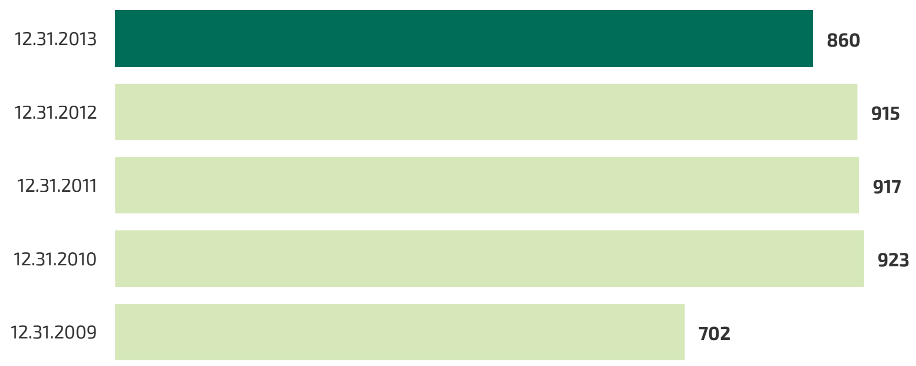
THE 860 EMPLOYEES OF MERKO EHITUS IN THE BALTICS INCLUDE OFFICE STAFF, PROJECT MANAGERS AND ON-SITE TEAM MEMBERS. EXPERIENCED PROFESSIONALS ARE THE COMPANY'S KEY STRENGTH.

EMPLOYEES

Compared to the same period last year, the number of the group's employees decreased by 55 (-6.0%) and as at 31 December 2013, the group had a total of 860 employees (including fixed-term and part-time employees).

In 2013, the number of employees mainly declined because the proportion of the civil engineering segment declined within the volumes of the group. 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.

NO OF EMPLOYEES
people



PERSONNEL POLICY

Merko Ehitus employs a total of 860 people in Estonia, Latvia and Lithuania, including office staff, project managers and on-site team members. Experienced professionals are the company's key strength.

The group's personnel policy supports achievement of the company's goals, ensuring sustainability of the organisation and management, staying competitive, maintaining and increasing the value of the organisation and constant development of competence.

We develop responsible management throughout the organisation, guided by company strategy, management system, applicable law, ethical values and good organisation management practice. We treat employees as partners, involving them in the decision-making process and perceiving that the right to make decisions includes responsibility. We support people's achievement of their professional goals and the advancement of their career in the company by encouraging existing employees to apply for vacant or new positions within the company. We ensure an adequate, fair and competitive salary that complies with the contribution of the employee and a motivation package.

We provide employees with conditions for professional development and career opportunities by supporting studies and acquisition of professional knowledge and experience. We support our employees for developing their competence and skills.

HEALTH AND SAFETY

Creating a safe working environment for well trained, healthy and motivated employees, both in offices and on construction sites, has always been an important aspect in the operations of the group's construction companies. Pre-construction risk analysis remains constantly in focus, aimed at identifying common protection needs of site workers, measures and requirements for use of personal protection equipment. Basic and supplementary training in the field of occupational health and safety forms part of our personnel policy. Training provides knowhow and skills that enables to prevent risks, analyse them and find the most suitable technical and economic solutions. The management system for occupational health and safety that was certified in 2004 and complies with the OHSAS 18001 standard allows to effectively monitor working environment in construction sites and offices. Basic and supplementary training has always been available for inspectors to guarantee their competence.

Periodic health inspection provided by the occupational health partner to assess work-related risk factors helps to prevent employee health problems, plan safer working environments or, with the partial support of the company, to allow employees to use the necessary health rehabilitation measures. Additionally, the company organises for its employees free vaccinations and, naturally, provides its on-site personnel with comfortable compliant work clothes and footwear

A balanced personal life and a healthy way of living provide a counterbalance to stressful work. In order to promote recreational sports and to maintain working ability we pay our employees sports and health allowance. Additionally, Merko has for more than ten years contributed to the development of Estonian health trails - today a hundred health trails all across Estonia are available for use free of charge for all Merko employees as well as everyone else.

PERSONNEL DEVELOPMENT AND RECOGNITION

Work at Merko demands great responsibility but also offers variety, new challenges and opportunities for study and development. We value and support employees' personal development, offer various training courses internally and externally both as team training and individual study.

We fully support employees' studies and recognise graduation and completion of a diploma.

In order to recognise the most prominent employees of the company and the best business partners, employees annually elect AS Merko Ehitus Eesti Achievers of the Year. In 2013, the following employees and business partner were elected as Achievers of the Year:

Site Operator of the Year or "The Bull"	Siim Õispalu	Project manager, department of electrical works
Site Team Member of the Year or "Little Bull"	Reet Hein	Site engineer, residential construction division
Manager of the Year or "The Ram"	Tiit Joosti	Project director, civil engineering division
Office Employee of the Year or "The Rat"	Holger Tilk	lawyer
Newcomer of the Year or "The Fox"	Karit Roolaan	accountant
Business Partner of the Year or "The Horse"	Peetri Puit OÜ	Partnership in the construction of Tondiraba Ice Arena

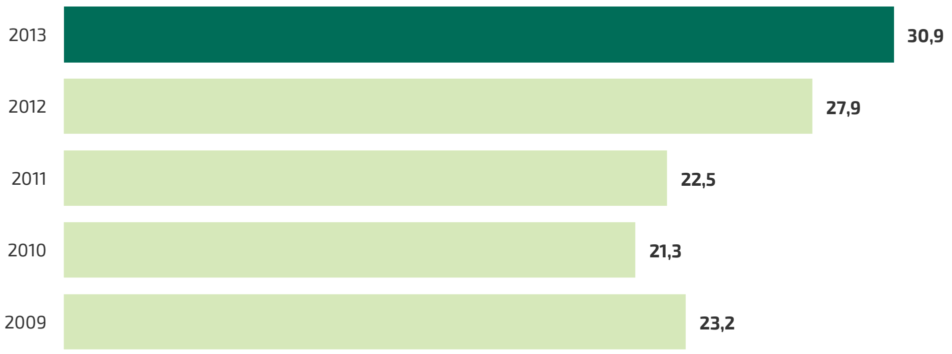
We celebrate together with our employees their personal events and company events welcome the employees together with their spouses or guests and family events welcome the whole family. We offer additional benefits in the form of holiday days to our long-time employees. We highly value teamwork and a strong sense of team identity. In 2013, AS Merko Ehitus Eesti employees successfully represented the company at the "Corporate Band 2013" contest. In April, Merko employee band "Ma sulle ehitan" was chosen as the best of the best. The winners competed with eight groups, including Sorainen Law Firm, Tele2, Skype, Microsoft and Saarionen. The contest is primarily for those who are not employed in music.

REMUNERATION

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 2013, the labour cost was EUR 30.9 million (2012: EUR 27.9 million), up 10.8% from the previous year. This increase is mainly caused by the bonuses triggered by the higher profitability environment and to a smaller extent selective increases in fixed salaries.

LABOUR COST
in million euros



ETHICAL BUSINESS PRACTICES

Ethical business is the cornerstone of our success. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders and support fair competition and equal treatment. Unethical business practices, however, carry serious consequences - including hindering the functioning of a fair market and distorting competition.

The AS Merko Ehitus group does not tolerate any form of corruption. We have undertaken the obligation to engage in honest business, which means avoiding all forms of corruption, incl. bribery, and compliance with anti-corruption laws in each country where we operate. The group has undertaken the obligation to do business and act so as not to be involved in any form of corruption or to contribute to it in any manner.

In each country and in the entire organisation we are guided by ethical principles in our actions. We require that our employees know these principles and guidelines and adhere to them in their work. In order to facilitate this, the group has enacted a Code of Business Ethics that each group employee must review and comply with. The code of business ethics includes, among other things, guidelines on the following matters:

- conflicts of interests;
- confidentiality obligation;
- handling of insider information and insider transactions;
- bribery and corruption;
- hospitality and gifts;
- competition rules;
- equal treatment;
- protection and proper use of assets.

If an employee observes any misconduct, then he/she should first report it to a management board member of the relevant entity, who has the responsibility to report the misconduct to the AS Merko Ehitus Audit Committee. If a management board member has engaged in misconduct, the employee must directly notify the AS Merko Ehitus Audit Committee.

Each suspected misconduct will be investigated carefully and without delay, and will lead to appropriate action.

ENVIRONMENT

The environmental management system that complies with ISO 14001 standard continues to focus on waste handling issues of construction sites, highlighting the need to sort waste in the most appropriate location and handing waste over only to such service providers that are licensed to handle such waste. In cooperating with such companies we have often discovered polluted soil and waste containing hazardous substances. For years, the company has been recording the quantities of waste created in construction sites and submitted respective annual reports to the Environmental Authority.

In environmentally sensitive tenders, we have always considered the requirements to the environmental impact assessment of projects, carried out preliminary research if necessary or conducted replacement planting, if it has been inevitable to fell trees when preparing the construction site.

SOCIAL RESPONSIBILITY

The group is responsible for its decisions and activities that have an impact on our employees, customers and partners and, more broadly, on local communities.

In 2013, Merko Ehitus continued its long-term sponsorship projects in the same fields: we invest in sports and create recreational sports opportunities, promote education and the next generation, value culture and arts and continued our long-term social project. During the year, the group supported sports, culture and education and made charitable donations total in the amount of EUR 0.34 million (2012: EUR 0.27 million).

The company's largest sponsored project is the Estonian Health Trails project founded in 2004 in collaboration with Swedbank and Eesti Energia. The aim of the project is to adjust and develop the exercise and sports tracks of Estonia to ensure the availability of the year-round and free possibility for active exercise in nature for all interested people and popularise the sporty lifestyle. Across Estonia, pro and amateur sportsmen and - women have today a hundred trails – over 950 kilometres worth of maintained and mostly illuminated trails.

In the field of sports, the company continued to work with Estonian Ski Association, sponsoring both the adults, as well as the youth team. In 2013, Merko sponsored Estonian racing driver Kevin Korjus who is participating in the GP3 Series and the Kalev Yacht Club with over 500 members. In Latvia, SIA Merks sponsored the "Baltic Grand Prix 2013" sports dance competition and the women's basketball team of the Rīga Stradiņš university.

In the field of culture, Merko Ehitus has sponsored Estonian Art Museum since the year 2005 and in 2013 the partnership focused on the exhibition "When an Artist Met Kleio. Historical Scenes from the 19th Century". It is the first art event that brought together historical photographs created in Estonia and Latvia in the 18th to 19th centuries.

Merko has a successful partnership since 2007 with Tallinn University of Technology for the objective of developing education in the field and train the next generation. In November, AS Merko Ehitus Eesti signed a new cooperation agreement with the Development Fund of Tallinn University of Technology until 2016 for sponsoring TUT students and academic staff with eponymous scholarships. A EUR 3,200 scholarship is awarded in construction specialities to a young lecturer/scientist up to 40 years of age, possessing a Doctoral level degree, in TUT and there is also another scholarship for EUR 1,920 to a successful TUT construction faculty third, fourth or fifth year student. The first young scientist's scholarship was awarded to Andrus Räämet, Ph.D. in civil and environmental engineering at TUT and the engineering scholarship was awarded to Alan Väli, a construction economics and management student. In addition, Merko sponsored the interdisciplinary innovation centre MEKTORY of Tallinn University of Technology, opened in the autumn. In Latvia, the company in 2013 sponsored the Development Fund of the Riga Technical University, helping organise a scholarship contest.

In the sphere of social affairs, the company has for years sponsored the Tilsi Children's Home, located in Põlvamaa. The home provides shelter for 65 children primarily from Southern Estonia.

MERKO EHITUS HAS CONTRIBUTED TO THE RECREATIONAL TRAILS FOUNDATION EESTI TERVISERAJAD FOR A LONG TIME. CURRENTLY THERE ARE MORE THAN 100 MAINTAINED AND ILLUMINATED HEALTH TRAILS OVER ESTONIA.

RECOGNITIONS 2013

In 2013, the activities of AS Merko Ehitus were recognised in the form of the following prizes:

THE ENTREPRENEURSHIP AWARD 2013

AS Merko Ehitus was granted the most competitive company's award in the field of construction for the second year in a row at the annual Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.

CONSTRUCTION COMPANY WITH THE FINEST AND TIDIEST CONSTRUCTION SITE IN TALLINN

In December, AS Merko Ehitus Eesti was recognised for its construction site of the Tedre tn 55 apartment/commercial building by the city of Tallinn as the company with the finest and tidiest construction site. The purpose of the evaluation committee in determining the finest and tidiest construction site is to inspect the condition of construction sites, draw builders' attention on violations of laws and regulations for the goal of ensuring citizens have a secure and well-maintained living environment. The committee comprises specialists from Municipal Engineering Services Department, Tallinn Municipal Police Department and Northern Police Prefecture.

LABOUR INSPECTORATE'S BEST PRACTICES AWARD FOR WORKING ENVIRONMENT

AS Merko Infra was recognised by the Labour Inspectorate, within the framework of the best working environment practice competition, for the design and implementation of the excavation trough during construction of the Tõrva municipal water and sewerage pipeline. The special-purpose troughs were designed and built with the aim of enhancing the safety and quality of work in the installation of pipes in limited drainage conditions. A total of 57 examples of best working environment practice participated in the competition.

BUILDER OF THE YEAR COMPETITION

One of the nominees for the title of the Builder of the Year 2013 was Siim Õispalu, project manager with the electrical works department of AS Merko Ehitus Eesti, who has successfully managed the complicated construction of the Aruküla substation and, previously, the construction of the runway lighting of the NATO airfield in Ämari, and the electrical works on the Puurmani multi-level interchange on the Tallinn-Tartu road. The Builder of the Year competition is organised by the Estonian Association of Construction Entrepreneurs with the purpose of promoting the profession of a builder and recognising the best specialists in the field.

IN THE CONSTRUCTION OF THE CONCRETE CONSTRUCTION OF THE YEAR 2013, THE ÜLEMISTE JUNCTION, 42,000 M³ OF CONCRETE WAS USED.

SHARE AND SHAREHOLDERS

The shares of Merko Ehitus are listed in the Main List of NASDAQ OMX Tallinn. As at 31 December 2013, the company has 17,700,000 shares. The number of shares did not change during 2013.

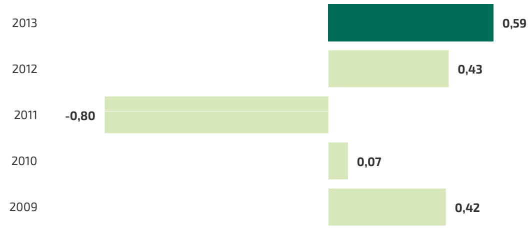
In 2013, 2,183 transactions were conducted with the shares of Merko Ehitus in the course of which 0.73 million shares were traded (4.1% of shares outstanding) and the total monetary value of transactions was EUR 5.08 million (comparative data for 2012: 1,662 transactions, in the course of which 0.94 million shares were traded (5.3% of shares outstanding) and the total monetary value of transactions was EUR 5.47 million). The lowest share price was EUR 5.71 and the highest share price was EUR 7.70 (2012: EUR 5.37 and EUR 7.30, respectively). The closing price of the share as at 31.12.2013 was EUR 7.20 (31.12.2012: EUR 5.90). As at 31.12.2013, the market capitalisation of AS Merko Ehitus was EUR 127.4 million, up 22.0% compared to the end of the equivalent period in the prior year (31.12.2012: EUR 104.4 million).

The number of shares that belong to the members of Supervisory Board and Management Board as at 31 December 2013 was 9,964,234 shares (31 December 2012: 11,067,968 shares) that accounted for 56.3% of the number of shares (31 December 2012: 62.5%). A more detailed presentation of the members of the Supervisory Board and Management Board and the number of shares they own are provided in the Report on Good Corporate Governance.

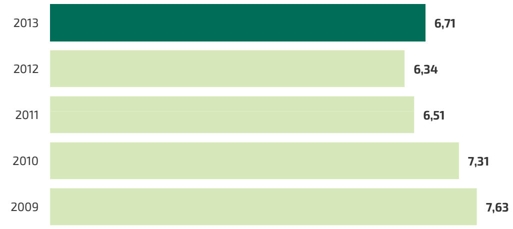
INFORMATION ON SECURITY

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

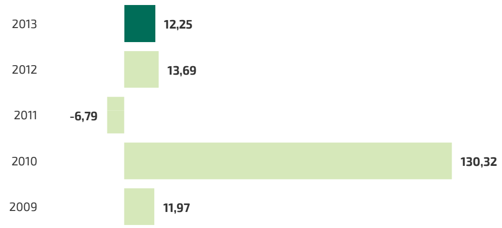
EARNINGS PER SHARE (EPS)
euros



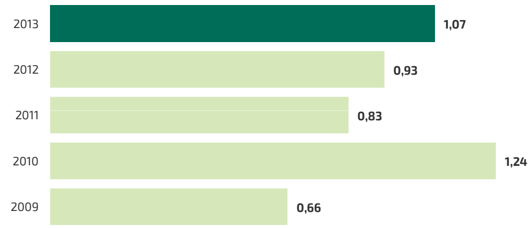
EQUITY PER SHARE
euros



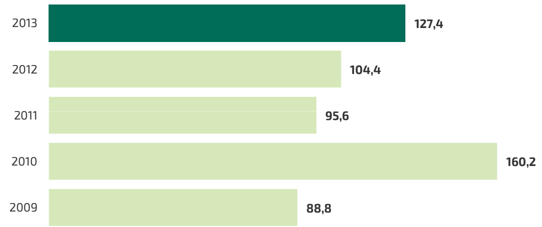
P/E RATIO
times



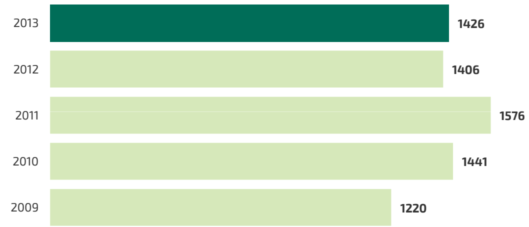
P/B RATIO
times



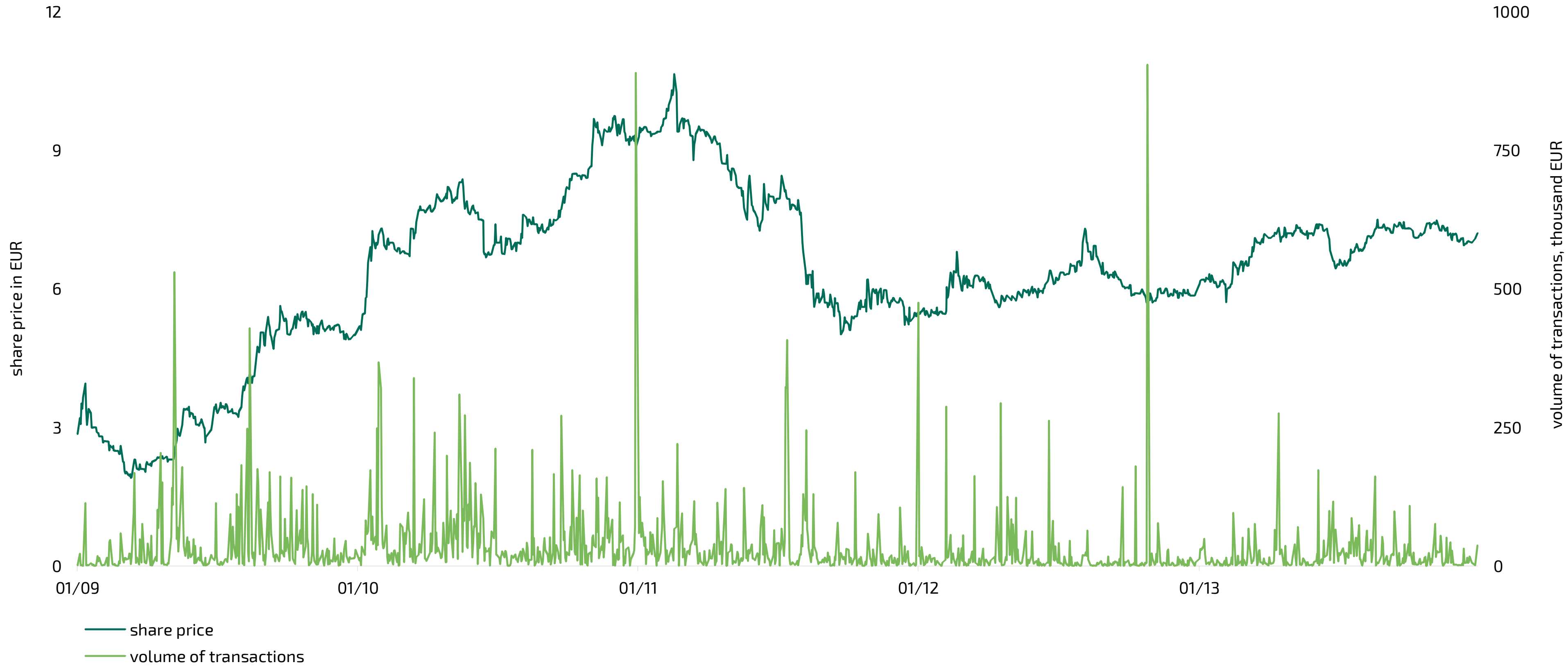
MARKET VALUE
in million euros



NUMBER OF SHAREHOLDERS AT YEAR-END
pcs



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



TRADING HISTORY OF SECURITY, IN EUROS

	31/12/2013	31/12/2012	31/12/2011
Highest	7.70	7.30	10.65
Lowest	5.71	5.37	4.90
Closing	7.20	5.90	5.40
Average	6.96	6.04	7.49
Change, %	+22.03	+9.26	-40.33
Traded shares, pcs	726,690	935,891	1,057,616
Turnover, million EUR	5.08	5.47	8.02
Market value at 31.12, million EUR	127.4	104.4	95.6

STRUCTURE OF SHAREHOLDERS AS AT 31.12.2013

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%	2,965,189	16.75%
10,001 – 100,000	31	2.18%	959,085	5.42%
1001-10,000	253	17.75%	708,793	4.01%
101-1000	732	51.37%	302,775	1.71%
1-100	398	27.93%	21,472	0.12%
Total	**1,425**	**100%**	**17,700,000**	**100%**

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2013

Index/share	31/12/2012	31/12/2013	+/-%
MRK1T	5,90 EUR	7,20 EUR	22,03%
OMX Tallinn	734,20	817,72	11,38%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2013 AND CHANGE COMPARED TO THE PREVIOUS YEAR

	NUMBER OF SHARES	% OF TOTAL 31/12/2013	% OF TOTAL 31/12/2012	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.	481,379	2.72%	0.00%	+481,379
Skandinaviska Enskilda Banken AB, Swedish customers	330,060	1.86%	5.07%	-566,804
Firebird Republics Fund Ltd	302,395	1.71%	1.71%	-
Gamma Holding OÜ	188,762	1.07%	0.92%	+25,506
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
Clearstream Banking Luxembourg S.A. customers	141,262	0.80%	0.58%	+38,765
Skandinaviska Enskilda Banken AB, Finnish customers	134,982	0.76%	0.71%	+9,791
OÜ Midas Invest	131,185	0.74%	0.66%	+14,130
Total largest shareholders	**15,579,855**	**88.01%**	**88.00%**	**+2,767**
Total other shareholders	2,120,145	11.99%	12.00%	-2,767
Total	**17,700,000**	**100%**	**100%**	

DIVIDENDS AND DIVIDEND POLICY

The distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

At its meeting held on 8 April 2013, the Management Board and Supervisory Board reviewed the company's strategic direction and confirmed the long-term financial objectives until 2018, as a part of this a new objective was set to pay out 50-70% of the annual profit as dividends to shareholders. The group considers meeting this objective a significant priority.

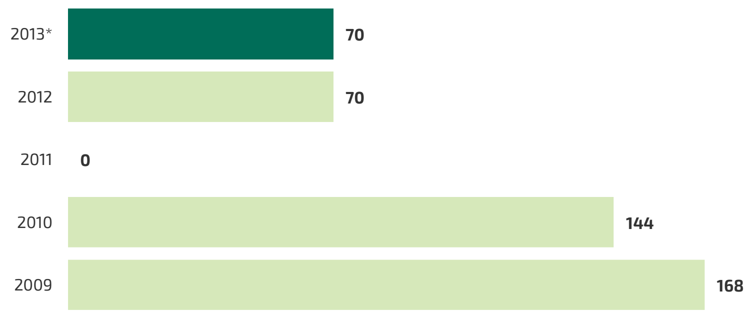
On 5 July 2013, dividends totalling EUR 5.3 million were paid to shareholders (EUR 0.30 per share). Said dividend payment made in 2013 was equivalent to a 70% dividend rate for 2012 and 5.1% as the dividend yield. AS Merko Ehitus did not have to pay corporate income tax on the dividend payment due to the distribution of profits received from subsidiaries and taxed in prior periods. No dividends were paid in 2012.

The Management Board proposes to distribute to shareholders EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings in 2014, which is equivalent to a 70% dividend rate for 2013. Pursuant to § 50 (11) of the effective Income Tax Act in Estonia, AS Merko Ehitus may pay out said dividends without incurring additional income tax expense or liability as a result of distribution of previously taxed profits received from subsidiaries.

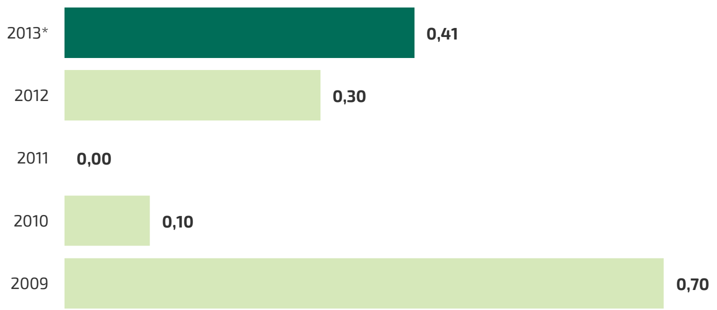
Over the last five years, the dividends have been paid to the shareholders as follows:

THE COMPANY'S LONG-TERM FINANCIAL OBJECTIVES SETS TO PAY OUT 50-70% OF THE ANNUAL PROFIT AS DIVIDENDS TO SHAREHOLDERS.

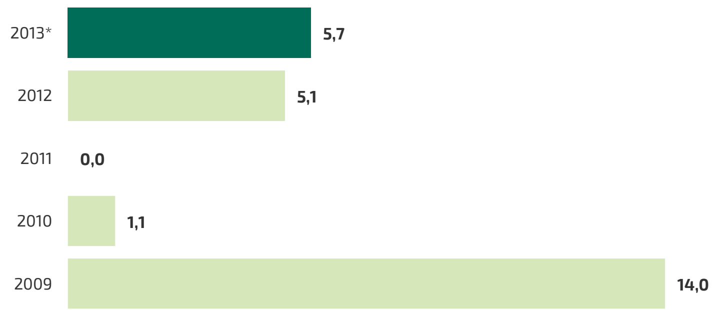
DIVIDEND RATE
percentages



DIVIDEND PER SHARE
euro



DIVIDEND YIELD
percentages



** 2013 numbers are based on the proposal of the Management Board.*

Dividends payouts have been performed pursuant to decisions of the general meeting of shareholders in the next reporting year.

SHAREHOLDER INFORMATION

GENERAL MEETING OF SHAREHOLDERS

The annual general meeting of shareholders of AS Merko Ehitus will be held on Wednesday, 30 April 2014 at 10.00 a.m. at the Arcturus conference room of Nordic Hotel Forum (Viru väljak 3, Tallinn).

AGENDA

1. Approval of the annual report of the year 2013 and providing an overview of the financial results and the prospects of the year;
2. Proposal on distribution of profits;
3. Extension of powers of members of the Supervisory Board;
4. Appointment of auditor for the financial year of 2014.

RIGHT OF PARTICIPATION

The shareholders with the right to participate in the general meeting of shareholders will be determined 7 days before the general meeting of shareholders is held, i.e. 23 April 2013 at 11.59 p.m.

REGISTRATION

Registration of participants of the meeting will open on April 30th 2014 at 9.30 a.m. You are asked to submit the following for the registration of participants of the general meeting:

- Passport or ID document is required to identify shareholders who are natural persons; a suitably prepared Proxy is also required of representatives;
- Representatives of a legal person-shareholders are required to provide an excerpt from an appropriate (business) register where the legal person is registered, which identifies the individual's right to represent the shareholder (legal representation) and passport or identification document of the representative; if the type of representation is other that legal representation, a suitably prepared Proxy must also be provided (authorities granted by transaction) and the representative's passport or identification document. You are kindly asked to legalise the registration documents of a legal person registered in a foreign country (with the exception of unattested proxy) or have them apostilled, if not provided otherwise by an international treaty. AS Merko Ehitus may register shareholders who are legal persons registered in a foreign country as participants of the general meeting when all the required information on the legal person and representative concerned are given in a notarised proxy, issued to the representative in a foreign country, and the proxy is acceptable in Estonia.

A shareholder may notify AS Merko Ehitus of appointing a representative and having withdrawn a proxy before the general meeting, by supplying a digitally signed proxy and other required documents by e-mail to the following address: tallinn@merko.ee or delivering the written and signed documents on paper (proxy and other required documents) to the office of AS Merko Ehitus at Pärnu mnt 141 Delta Plaza 7th floor, Tallinn (on working days from 10.00 a.m. through 4.00 p.m.) by April 29th 2014, at 4.00 p.m., at latest, using the forms published by AS Merko Ehitus on its website at http://www.merko.ee. It is not possible to vote electronically or by mail at the general meeting.

DIVIDEND

The Supervisory Board proposes to pay a total of EUR 7,257,000 of retained earnings in dividends to shareholders, amounting to EUR 0.41 per share. Shareholders entered in the share ledger of AS Merko Ehitus as of May 16 2014 at 11:59 p.m. are entitled to dividends. Dividends shall be paid to shareholders on May 20 2014 by remitting the respective amount to the current account tied to the shareholder's securities account.

DOCUMENTS

The annual report of AS Merko Ehitus for 2013 and the chartered auditor's report are available for inspection on the website of NASDAQ OMX Tallinn Stock Exchange at http://www.nasdaqomxbaltic.com.

Documents related to the annual general meeting of shareholders of AS Merko Ehitus, including draft resolutions, annual report for the financial year 2013, chartered auditor's report and proposal for distribution of profits and written report, drawn up for the annual report by the Supervisory Board, are available for inspection as of 9 April 2014 on the website of AS Merko Ehitus at http://www.merko.ee or on working days between 10.00 a.m. and 4.00 p.m. at Pärnu mnt 141 Delta Plaza 7th floor, Tallinn. Questions concerning the agenda of the regular meeting can be asked by sending them to the e-mail address tallinn@merko.ee. Questions and answers will be disclosed at the website of AS Merko Ehitus.

SHAREHOLDER RIGHTS

Shareholders are entitled to information concerning the business of AS Merko Ehitus from the Management Board at the general meeting. The Management Board may refuse to provide the information if there is a good reason to believe that this may cause material damage to the interests of the public limited company. Should the Management Board refuse to provide the information, the shareholder concerned may demand the general meeting to adopt a decision regarding the legitimacy of his/her demand or within two weeks of the general meeting occurrence file an application for proceedings on application to the court to demand the Management Board to supply the information.

Shareholders, holding shares representing at least 1/20 of the share capital of AS Merko Ehitus may submit a draft resolution of each item on the agenda to the public limited company no later than 3 days prior to the general meeting, that is, until April 28th 2014, submitting it in writing to the following address: AS Merko Ehitus, Pärnu mnt 141 Delta Plaza 7th floor, 11314 Tallinn.

Shareholders, holding shares representing at least 1/20 of the share capital of AS Merko Ehitus, may demand that additional items are added to the agenda of the general meeting, provided that such a request has been submitted in writing at least 15 days prior to the general meeting, that is, until April 15th 2014, to the following address: AS Merko Ehitus, Pärnu mnt 141 Delta Plaza 7th floor, 11314 Tallinn.

IMPORTANT DATES RELATED TO GENERAL SHAREHOLDERS MEETING

EVENT	DATE
The shareholders with the right to participate in the general meeting are determined	23 April 2014 at 11.59 p.m.
Registration of participants in the meeting	30 April 2014 at 9.30 a.m.
General meeting of shareholders	30 April 2014 at 10.00 a.m.
Dividend ex-date	13 May 2014
Dividend record date	16 May 2014 at 11.59 p.m.
Dividend payment date	20 May 2014

THE PAEPARGI BRIDGE COMPLETED IN 2013 PUT THE ACCENT ON ARCHITECTURE. LED STRIPS AND LED SPOTLIGHTS ALLOW THE STRUCTURE'S SILHOUETTE TO SHINE IN THE DARK HOURS.

REPORT ON GOOD CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Good Corporate Governance is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the NASDAX OMX Tallinn Stock Exchange are recommended to adhere to the principles of Good Corporate Governance approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2013.

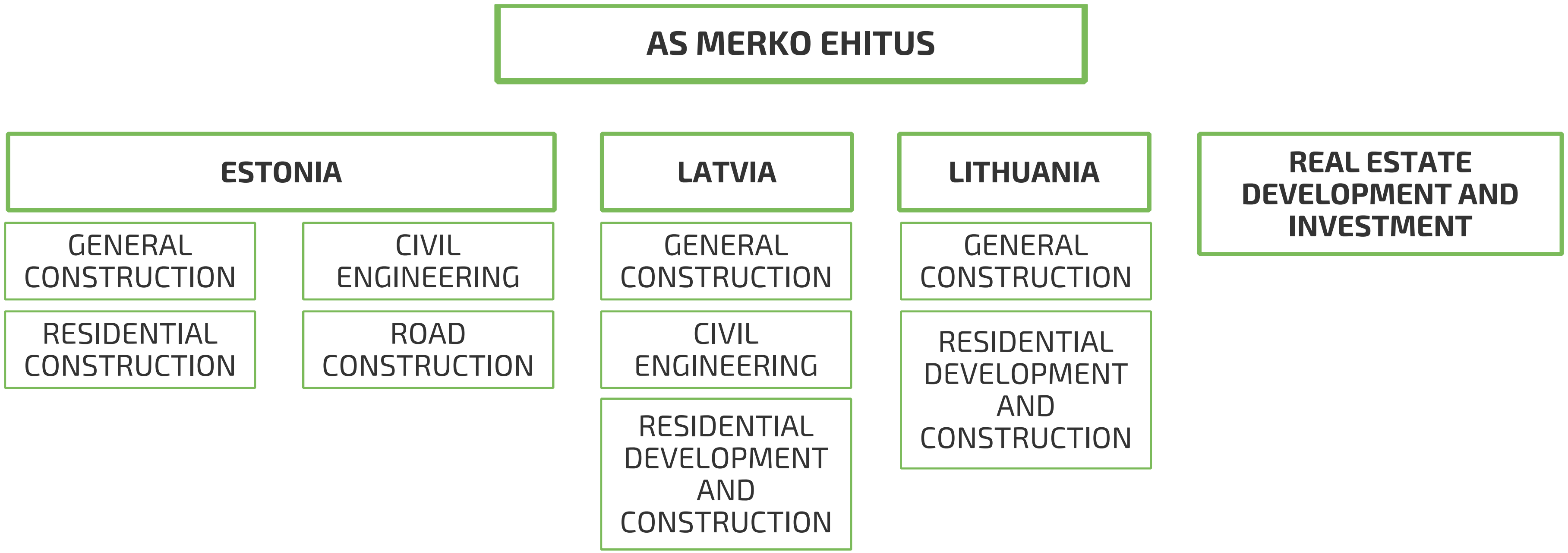
AS Merko Ehitus is dedicated to following high standards of corporate governance, for the implementation of which the Management Board and the Supervisory Board are responsible for shareholders. Our objective is to be transparent in our economic activity, in disclosing information and in relations with shareholders.

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.

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 effectiveness in group management, we in some cases differentiate the management structure and legal structure. Management structure of group's business areas as at 31 December 2013 is the following:

62



GROUP'S LEGAL STRUCTURE

As at 31 December 2013, the group comprises 47 companies (31.12.2012: 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 18 and 19 of the financial statements.

CHANGES IN THE LEGAL STRUCTURE OF THE GROUP

On 16 January 2013, AS Merko Ehitus' fully owned subsidiary AS Merko Ehitus Eesti acquired a 7.5% ownership interest in its subsidiary AS Gustaf from its minority shareholders for the price of EUR 98,260.

In the first quarter of 2013, the AS Merko Ehitus group formed a fully owned subsidiary OÜ Paepargi 57. The share capital of the company is EUR 2,500. The company was formed to ensure the accounting of a company-based development project.

In the second quarter of 2013, OÜ Baltic Electricity Engineering, fully owned subsidiary of AS Merko Ehitus was renamed as OÜ Merko Investments. The share capital of the company is EUR 10,000.

On 22 May 2013, as an internal transaction, AS Merko Ehitus sold its full ownership of SIA Merks, a subsidiary engaging in construction, to its fully owned subsidiary OÜ Merko Investments. Said transaction was of a technical nature and done for the purposes of streamlining the group's legal structure.

On 4 July 2013, the liquidation of Merko Ukraine LLC finished, which began in the autumn of 2012 and the company has been deregistered.

On 10 June 2013, shareholders of the 50% joint venture of AS Merko Ehitus, OÜ Unigate, decided to increase the nominal value of shares of the joint venture by EUR 887.07 to EUR 6,000 for the purposes of achieving compliance with the Commercial Code. Both shareholders paid in a monetary contribution of EUR 350,000, of which EUR 444 corresponded to the share capital at nominal value and EUR 349,556 was share premium.

On 17 July 2013, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas, formed a fully owned subsidiary in Lithuania, UAB Kražiu Projektas with a share capital of LTL 10,000 (EUR 2,896). The subsidiary was formed to acquire properties for development in Lithuania.

MERKO EHITUS MAKES CHANGES IN THE STRUCTURE OF THE GROUP COMPANIES IN 2014 FOR THE PURPOSE OF MORE EFFECTIVE MANAGEMENT AND SAVING ON ADMINISTRATIVE COSTS.

On 16 August 2013, OÜ Paepargi 57, fully owned subsidiary of OÜ Constancia, a fully owned subsidiary of AS Merko Ehitus, was sold to Capital Mill OÜ for the price of EUR 2,500.

On 10 September 2013, a branch office of AS Merko Infra was registered in Latvia in order to participate in large-scale infrastructure construction procurements and electrical construction procurements in order to supplement the competences and references of SIA Merks.

On 3 October 2013, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, formed a 51%-owned subsidiary OÜ Heamaja. The company was formed to participate in the construction concession contract procurement for Suur-Ameerika 1, Tallinn, organised by AS Riigi Kinnisvara.

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 produce administrative cost savings 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 is 1 January 2014 after which all transactions of the acquirees will have been deemed to have been made on account of the acquirer. 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, 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 will be 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 thousand paid to the seller before transfer of the share as well as by the income tax expense of EUR 255 thousand related to the paid dividend. AS Merko Ehitus Group considers the additional influence of adjustments of sales price to be immaterial. The buyer is obliged to pay the adjusted part of the sales price to the seller's bank account by 1 May 2014.

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 formed to participate in public-private partnership (PPP) procurements organised by the Lithuanian government.

CHANGES IN AS MERKO EHITUS MANAGEMENT STRUCTURE

The annual general meeting of shareholders was held on 5 June 2013. The general meeting of shareholders decided to recall Tõnu Toomik from the Supervisory Board with the objective to appoint Tõnu Toomik as a member of the Management Board of AS Merko Ehitus. The Supervisory Board of AS Merko Ehitus resolved to recall Member of the Management Board Viktor Mõisja from 5 June 2013, with Mr Mõisja continuing to serve in the engineering division of the company's subsidiary AS Merko Ehitus Eesti, and to appoint the former member of the Supervisory Board Tõnu Toomik as a new member of the Management Board. The company continues to have a two-member Management Board: Andres Trink and Tõnu Toomik. The members of the Supervisory Board of the company are Toomas Annus as Chairman of the Supervisory Board and Teet Roopalu, Indrek Neivelt and Olari Taal as members.

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 shareholders decides, among others, the appointment and recall of members of the Supervisory Board, appointment of the auditor and approval of the results of the financial year, the payment of dividends. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

In the general meeting of the shareholders of 5 June 2013, the consolidated annual report of 2012 was approved and the profit allocation and recall of a Supervisory Board member was decided. 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 2013, 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 2013 was attended by Andres Trink (Chairman of the Management Board), Toomas Annus (Chairman of the Supervisory Board) 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 28 June 2011, it was decided to extend the term of office of Supervisory Board members Tõnu Toomik, Teet Roopalu, Indrek Neivelt and Olari Taal until 28 June 2014, i.e. for three years and, in addition, to elect Toomas Annus as the additional member of the Supervisory Board of AS Merko Ehitus with a term of office until 28 June 2014.

The general meeting of shareholders held on 5 June 2013 decided to recall Tõnu Toomik from the Supervisory Board with the objective to appoint Tõnu Toomik as a member of the Management Board of AS Merko Ehitus. The mandate of Tõnu Toomik as a member of the Supervisory Board of AS Merko Ehitus expired on 5 June 2013.

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-...	Merko Ehitus AS, Chairman of the Supervisory Board
2009-...	E.L.L. Kinnisvara AS, Member of the Management Board
2008-...	Järvevana AS, Chairman of the Management Board
1999-2009	E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
1997-2008	Merko Ehitus AS, Chairman of the Supervisory Board
1996-...	Riverito AS, Chairman of the Management Board

1991-1996 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-...	Merko Ehitus AS, Member of the Supervisory Board
2010-...	Riverito AS, Member of the Management Board
2002-2004	Merko Ehitus AS, 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 (46)
MEMBER OF THE SUPERVISORY BOARD

Positions held:

2008-...	Merko Ehitus AS, Member of the Supervisory Board
2005-...	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-... Merko Ehitus AS, 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)

IN 2013, MERKO CONTINUED THE WORKS OF CLOSING THE INDUSTRIAL WASTE AND SEMI-COKE LANDFILL IN KOHTLA-JÄRVE, WHICH INCLUDES TRANSFER OF MOUNTAIN MASS 6 MILLION M^3.

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2013, the Supervisory Board held 11 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	11	100%
Teet Roopalu	11	100%
Tõnu Toomik*	5	100%
Indrek Neivelt	11	100%
Olari Taal	11	100%

** Tõnu Toomik was a member of the Supervisory Board until 5 June 2013.*

The Supervisory Board fulfilled all its obligations laid down in legal acts. The Supervisory Board has set up an audit committee as its work body. The Supervisory Board has not considered it necessary to set up a remuneration committee or appointment committee. Remuneration of the members of the Supervisory Board is approved by the general meeting of shareholders. The valid procedure for remuneration of Supervisory Board members was approved by the general meeting of shareholders held at 31 October 2008.

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2013 and 2012 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2013	2012
Toomas Annus	42,182	42,182
Teet Roopalu	38,347	38,347
Tõnu Toomik*	15,978	38,347
Indrek Neivelt	38,347	38,347
Olari Taal	38,347	38,347
TOTAL	**173,201**	**195,570**

** Tõnu Toomik was a member of the Supervisory Board until 5 June 2013.*

Remuneration, less the statutory taxes, to the members of the Supervisory Board is paid on a monthly basis.

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 Supervisory Board of AS Merko Ehitus resolved to recall Member of the Management Board Viktor Mõisja from 5 June 2013, with Mr Mõisja continuing to serve in the engineering division of the company's subsidiary AS Merko Ehitus Eesti, and to appoint the former member of the Supervisory Board Tõnu Toomik as a new member of the Management Board. AS Merko Ehitus continues with a two-member Management Board: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

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.

Members of the Management Board have entered into three-year contracts of service with the company. The procedure and principles of remuneration of Management Board members are approved by the Supervisory Board. The members of the Management Board are paid a fee for fulfilling their official duties. Bonuses payable to the Management Board depend on the fulfilment of the targets of the given financial year by the group and the Management Board. The members of the Management Board are paid bonuses once a year based on the fulfilment of the targets of the previous financial year.

Gross fees paid to the members of the Management Board in the financial year 2013 totalled EUR 285 thousand (financial year 2012: EUR 186 thousand). Pursuant to agreement, AS Merko Ehitus did not pay any compensation upon termination of employment to Viktor Mõisja who left during the financial year.

ANDRES TRINK (46) *CHAIRMAN OF THE MANAGEMENT BOARD*

APPOINTED: 1 JANUARY 2012

TERM ENDS: 31 DECEMBER 2014

Positions held:

2012-… Merko Ehitus AS, 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 engineering (summa cum laude).

Estonian Business School, international business administration.

Graduate of the INSEAD University (France), executive management programme.

Number of shares: -

TÕNU TOOMIK (52) *MEMBER OF THE MANAGEMENT BOARD*

APPOINTED: 6 JUNE 2013

TERM ENDS: 5 JUNE 2016

Positions held:

2013-… Merko Ehitus AS, Member of the Management Board

2011-2013 Merko Ehitus AS, Member of the Supervisory Board

2008-2011 Merko Ehitus AS, Chairman of the Supervisory Board

1997-2008 Merko Ehitus AS, Chairman of the Management Board

1993-1997 Merko Ehitus AS, 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)

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 31 December 2013:

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

The mandate of the Management Board Member of Tallinna Teede AS, Richard Viies, expired from 5 January 2013 as a result of the expiry of a fixed-term contract of service. The mandate of Richard Viies as Management Board Member was not extended. Tallinna Teede AS continues with a two-member Management Board: Jüri Läll (Chairman) and Jüri Helila.

On 22 May 2013, the Supervisory Board of OÜ Merko Investments resolved to recall members of the Management Board Jaanus Ojangu and Boris Tehnikov, and appoint Andres Trink and Signe Kukin as new members of the Management Board from 23 May 2013 onwards.

In conjunction with a review of the management structure, there was a change on 1 October 2013 in the composition of the Supervisory Board of UAB Merko Statyba, a 100% subsidiary of AS Merko Ehitus. Gediminas Tursa, the Chairman of the Supervisory Board was recalled. The Supervisory Board will continue with three members: Andres Trink (Chairman), Tõnu Toomik and Jaan Mäe.

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 (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, will change. 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 (Chairman), Alar Lagus and Veljo Viitmann.

Remuneration paid to the members of the Management Boards of significant subsidiaries is provided in Note 33 of the financial statements.

AUDIT COMMITTEE

The Supervisory Board of AS Merko Ehitus has formed an audit committee as its work body. The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision over the whole group (incl. subsidiaries): a) arrangement of accounting, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities.

As at 10 January 2011, the company's Supervisory Board set up a 3-member audit committee and appointed Indrek Neivelt and Olari Taal as its members and Teet Roopalu as its Chairman. A member of the committee is elected for a term of three years, but at the decision of the Supervisory Board, a member of the committee may be recalled before the expiration of their term of office.

Members of the auditing committee are not separately remunerated.

CONFLICT OF INTERESTS AND HANDLING OF INSIDER INFORMATION

It is important to appropriately handle insider information in order to protect shareholders' interest and ensure honest and fair trading of shares. Significant information about AS Merko Ehitus and its subsidiaries must be available in a timely, consistent and equal manner for all shareholders and potential new shareholders. It is inevitable that persons related to AS Merko Ehitus and its subsidiaries have, because of their job, at certain times and in certain cases more information about the group than investors and the public. To prevent the misuse of such information, we have adopted internal rules in the group's companies on maintaining and publication of insider information and on making transactions on the basis of insider information (hereinafter: insider information rules). Insider information rules include a reporting system under which employees who may develop a conflict of interest when fulfilling their job duties are required to disclose their economic interests and confirm their independence by self-assessment.

The members of the Management and Supervisory Board of AS Merko Ehitus are users of insider information (so-called insiders). They have signed a relevant statement, are aware of insider information rules of AS Merko Ehitus and together with people connected with them are registered in the list of the company's insiders. Moreover, the list of insiders includes the financial employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

To the best of our knowledge, in the financial year 2013 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms.

OWNERSHIP INTERESTS OF AS MERKO EHITUS MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD (OVER 5%) IN OTHER COMPANIES

NAME	RELATED COMPANY
Toomas Annus	AS Riverito, Kardispordi Arendamise OÜ, Kemtal OÜ
Teet Roopalu	Teet Konsult OÜ
Indrek Neivelt	Trust IN OÜ, Admirali Investeeringute OÜ
Olari Taal	Eggera OÜ
Andres Trink	None
Tõnu Toomik	AS Riverito

No members of the company's supervisory or management board hold shares in an entity that operates in the core business area of AS Merko Ehitus – construction sector.

An overview of transactions with related parties in 2013 is provided in Note 33 of the financial statements.

DISCLOSURE OF INFORMATION

In disclosing information, AS Merko Ehitus shall follow Estonian law, the rules and regulations of NASDAQ OMX Tallinn Stock Exchange and guidelines of the Financial Supervision Authority of Estonia and immediately disclose important information regarding the company's activities to the shareholders after obtaining reasonable assurance as to its correctness and that the disclosure of such information shall not harm the interests of the company and its business partners.

The group has adopted an information disclosure procedure that describes the main policies in communication with investors and the public. The objective of the information disclosure procedure is to ensure access to adequate and yet accurate information about the group and its operations that will form the basis for the price of the securities issued by the company. Information will be disclosed without undue delay and impartially. The main principles of information disclosure of Merko Ehitus are consistency, impartiality, transparency, truthfulness and preventive approach.

The group discloses information about its financial condition and strategy in its financial statements, annual report and interim reports pursuant to the schedule that has been set. The disclosure dates of each next financial year will be announced before the end of the previous financial year.

Merko immediately discloses all decisions, issues and events that in the company's view may significantly change the price of the securities issued by the company and that are to be discloses pursuant to laws and regulations. Stock exchange releases are published in Estonian and English.

Stock exchange releases are always published regarding the following subjects:

- financial statements, interim reports;
- amendment to previously published strategies and financial objectives;
- profit warnings;

- major projects and construction contracts;
- major investments and financial arrangements;
- significant corporate reorganisations and partnership agreements;
- significant reorganization, streamlining or discontinuation of functions or operatsions;
- management board's proposals to the annual general meeting and resolutions adopted in the annual meeting;
- significant legal actions, legal proceedings or actions of the authorities.

From 13 March 2014, information about projects is disclosed in the form of stock exchange notice if contract value exceeds EUR 3 million excluding VAT (until 12.03.2014: for contracts valued over EUR 5 million) and in case of public procurements without the customer's reserve (price limit subjected to construction contracts by Merko). Generally, Merko will only make disclosures about awarded contracts, i.e. information is disclosed after the contract is signed.

Important information shall be disclosed through the stock exchange system and on the company's website. In 2013, we published 34 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
11	New construction contracts
6	Operating results
4	Changes in structure and management
2	General meeting
2	Releases about the court judgment in criminal matter No. 1-09-20251
4	Preliminary notices regarding time of publication of financial results
5	Other releases

We will publish 2014 consolidated interim reports as follows:

DATE	EVENT
08/05/2014	2014 3 months and I quarter unaudited interim report
07/08/2014	2014 6 months and II quarter unaudited interim report
06/11/2014	2014 9 months and III quarter unaudited interim report
12/02/2015	2014 12 months and IV quarter unaudited interim report

Reports are published after the end of the trading day. Annual accounts of subsidiaries are not generally published, but they can be obtained, if necessary, from AS Merko Ehitus or the local Commercial Registries.

Our objective is to support fair pricing of Merko shares through constant and continued distribution of information to all market operators. Moreover, our objective is to maintain the loyalty of existing shareholders towards the company and to create interest in new shareholders and analysts.

It is our responsibility to prepare quarterly and annual reports, stock exchange releases and presentation and to plan and organise investor meetings with shareholders and analysts. We also collect and analyse feedback from investors and analysts in order to increase the value of information to be disclosed.

The company shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting (interim reports, annual report). AS Merko Ehitus communicates regularly with its larger shareholders and potential investors and, if requested, holds meetings. The information presented in these meetings is public, i.e. available from the company's reports, website or other public sources. We carefully monitor insider information rules during these meetings.

For informing the company's shareholders an annual general meeting of shareholders is called at least once a year where all shareholders can ask questions from members of the company's Management Board and Supervisory Board.

The main analysts who cover AS Merko Ehitus are:

SWEDBANK AS	SEB ENSKILDA	AS LHV PANK
Liivalaia 8, 15040 Tallinn, Estonia	Tornimäe 2, 15010 Tallinn, Estonia	Tartu mnt 2, 10145 Tallinn, Estonia
phone +372 631 0310	phone +372 665 5100	phone +372 680 0457
e-mail info@swedbank.ee	e-mail info@seb.ee	e-mail research@lhv.ee
www.swedbank.ee	www.seb.ee	www.lhv.ee

Information on investor relations of AS Merko Ehitus is available from:

ANDRES TRINK	SIGNE KUKIN	AS MERKO EHITUS
Chairman of the Management Board	Group Chief Financial Officer	Delta Plaza, 7th Floor
phone +372 650 1250	phone +372 650 1250	Pärnu mnt 141, 11314 Tallinn, Estonia
fax +372 650 1251	fax +372 650 1251	phone +372 650 1250
e-mail andres.trink@merko.ee	e-mail signe.kukin@merko.ee	www.merko.ee

REPORTING AND FINANCIAL AUDIT

Availability of adequate and timely information is the basis for obtaining quality management decisions. It is important to ensure that reporting is factual, but also forward-looking. This will enable to manage, to the best of one's knowledge, risks and, in competition with other market operators, turn them into opportunities. The company's reporting can be roughly divided into: a) financial reporting and b) management reporting.

Financial reporting consists of interim reports of consolidated economic indicators and annual reports of companies that belong to the AS Merko Ehitus group, that are made public through the stock exchange system of NASDAQ OMX Tallinn and that are available to all shareholders, potential investors and analysts covering the company.

On the other hand, management reporting is meant for the company's internal use. It is appropriate to separate reporting on various operating indicators that focuses on the performance of business segments and different group companies as well as return on equity. The refinement of reporting is a continuous process during which indicators affecting the achievement of agreed objectives are reviewed. Management reporting includes budgets and forecasts that AS Merko Ehitus does not disclose.

Financial audits are conducted on the basis of International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. As a result of the tender and with the resolution made by the general meeting in 2012, the financial auditor for annual reports 2012-2013 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Ago Vilu is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid of conflicts of interest. In 2013, PwC did not perform to AS Merko Ehitus services that could have affected the independence of the auditor. We find that the financial audit was conducted in 2013 in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the opinion is issued.

AS Merko Ehitus does not disclose the financial audit fee because in our estimation it may harm the results of future tenders.

DECLARATION OF CONFORMITY TO RECOMMENDATIONS OF GOOD CORPORATE GOVERNANCE CODE

The Corporate Governance Code principles are recommended to the publicly traded companies and the entities are free to decide whether to follow the main CGC principles or not. The Corporate Governance Code is based on the principle of follow or explain according to which an entity shall explain its standpoints and activities with regard to those CGC provisions which it does not follow.

We have assessed the structure and functions of the management of AS Merko Ehitus on the basis of Good Governance Code. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are in significant part in compliance with the Good Governance Code. Also, our activities comply with the Estonian legislation that regulates several principles provided in the code in more detail. AS Merko Ehitus has not followed some recommendations that are provided below with the explanation why the company is not following them at the present:

CORPORATE GOVERNANCE RECOMMENDATIONS	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
2.2.7 Basic wages, performance pay, severance packages, other benefits payable and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the Corporate Governance Recommendations report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.	AS Merko Ehitus publishes in its annual report the total amount of remuneration and bonuses paid to member of the Management Board, as it believes that public disclosure of personal income does not create value added for shareholders but does violate the privacy of members of the Management Board.
6.2.1 The Supervisory Board shall describe in its evaluation report regarding the auditor's activity, inter alia, the services (including advisory services) that the auditor has provided to the issuer during the preceding year or shall provide during the next year. Also the remuneration that the issuer has paid or shall pay to the auditor shall be disclosed.	AS Merko Ehitus does not publicly disclose the fee for performing financial audits, as we believe it could impair the results of tenders for audit services in future periods and thereby result in economic harm for the company.

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2013 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a correct and fair view of the assets, liabilities, financial situation and loss or profit of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Andres Trink	Chairman of the Management Board		31.03.2014
Tõnu Toomik	Member of the Management Board		31.03.2014

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2013	2012
Revenue	3	262,719	249,131
Cost of goods sold	4	(239,996)	(231,220)
Gross profit		**22,723**	**17,911**
Marketing expenses	5	(3,041)	(2,107)
General and administrative expenses	6	(9,260)	(9,173)
Other operating income	7	2,264	2,961
Other operating expenses	8	(425)	(834)
Operating profit		**12,261**	**8,758**
Finance income	9	84	184
Finance costs	10	(1,062)	(1,203)
Profit (-loss) from associates and joint ventures	19	(138)	163
Profit before tax		**11,145**	**7,902**
Corporate income tax expense	11	(791)	(289)
Net profit for financial year		**10,354**	**7,613**
incl. net profit attributable to equity holders of the parent		10,399	7,627
net profit attributable to non-controlling interest		(45)	(14)
Other comprehensive income			
Currency translation differences of foreign entities		(157)	58
Comprehensive income for the period		**10,197**	**7,671**
incl. net profit attributable to equity holders of the parent		10,242	7,685
net profit attributable to non-controlling interest		(45)	(14)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	0.59	0.43

*The notes set out on pages **78-119** are an integral part of these consolidated financial statements.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2013	31.12.2012
ASSETS			
Current assets			
Cash and cash equivalents	14	46,633	35,316
Trade and other receivables	15	57,172	60,343
Prepaid corporate income tax		19	478
Inventories	17	87,451	82,830
		191,275	**178,967**
Non-current assets			
Investments in joint ventures	19	7,349	7,190
Other long-term loans and receivables	20	20,066	17,188
Deferred income tax assets	21	1,592	1,919
Investment property	22	4,672	3,566
Property, plant and equipment	23	13,117	14,853
Intangible assets	24	1,167	1,365
		47,963	**46,081**
TOTAL ASSETS		**239,238**	**225,048**
LIABILITIES			
Current liabilities			
Borrowings	26	18,916	16,299
Payables and prepayments	27	72,162	63,209
Income tax liability		62	-
Short-term provisions	28	5,906	6,165
		97,046	**85,673**
Non-current liabilities			
Long-term borrowings	26	16,469	19,205
Deferred income tax liability	21	505	327
Other long-term payables	29	2,162	1,576
		19,136	**21,108**
TOTAL LIABILITIES		**116,182**	**106,781**
EQUITY			
Non-controlling interests		1,193	1,342
Equity attributable to equity holders of the parent			
Share capital	31	12,000	12,000
Statutory reserve capital		1,200	1,200
Currency translation differences		(669)	(512)
Retained earnings		109,332	104,237
		121,863	**116,925**
TOTAL EQUITY		**123,056**	**118,267**
TOTAL LIABILITIES AND EQUITY		**239,238**	**225,048**

*The notes set out on pages **78-119** are an integral part of these consolidated financial statements.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/ accumulated losses	Total		
Balance as at 31.12.2011	12,000	1,131	(570)	96,679	109,240	1,356	110,596
Profit (loss) for the financial year	-	-	-	7,627	7,627	(14)	7,613
Other comprehensive income	-	-	58	-	58	-	58
Total comprehensive income (loss) for the financial year	-	-	**58**	**7,627**	**7,685**	**(14)**	**7,671**
Transfer to statutory reserve capital	-	69	-	(69)	-	-	-
Balance as at 31.12.2012	**12,000**	**1,200**	**(512)**	**104,237**	**116,925**	**1,342**	**118,267**
Balance as at 31.12.2012	12,000	1,200	(512)	104,237	116,925	1,342	118,267
Profit (loss) for the financial year	-	-	-	10,399	10,399	(45)	10,354
Other comprehensive income	-	-	(157)	-	(157)	-	(157)
Total comprehensive income (loss) for the financial year	-	-	**(157)**	**10,399**	**10,242**	**(45)**	**10,197**
Purchase of non-controlling interest	-	-	-	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 31.12.2013	**12,000**	**1,200**	**(669)**	**109,332**	**121,863**	**1,193**	**123,056**

The notes set out on pages *78-119* *are an integral part of these consolidated financial statements.*

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2013	2012
Cash flows from (used in) operating activities			
Operating profit		12,261	8,758
Adjustments:			
Depreciation	22-24	2,880	2,608
(Profit)/loss from sale of non-current assets	7	(214)	(123)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method	32	4,717	(729)
Interest income from operating activities	7	(1,479)	(2,173)
Change in provisions	28,29	1,634	1,974
Change in trade and other receivables related to operating activities		(6,155)	7,334
Change in inventories	17	(4,943)	5,420
Change in trade and other payables related to operating activities		10,171	(3,039)
Interest received	7,9,15	1,803	1,953
Interest paid	10,27	(841)	(1,281)
Other finance income and costs	9,10	(165)	90
Corporate income tax (paid)/reclaimed		(12)	209
Total cash flows from (used in) operating activities		**19,657**	**21,001**
Cash flows from investing activities			
Acquisition of joint venture	19	(350)	-
Proceeds from sale of associates	19	-	2,750
Purchase/proceeds from deposits with maturities greater than 3 months		-	140
Purchase and receipt of long-term deposits	20	-	131
Purchase of investment property	22	(1,080)	(1,463)
Purchase of property, plant and equipment	23,27	(784)	(890)
Proceeds from sale of property, plant and equipment	7,23	900	186
Purchase of intangible assets	24	(29)	(23)
Interest received	9,15	41	14
Dividends received	19	-	88
Total cash flows from investing activities		**(1,302)**	**933**
Cash flows from (used in) financing activities			
Proceeds from borrowings	26	12,862	12,974
Repayments of borrowings	26	(11,810)	(18,640)
Factoring	26	(1,544)	1,544
Finance lease principal payments	26	(1,165)	(902)
Dividends paid	13	(5,310)	-
Total cash flows from (used in) financing activities		**(6,967)**	**(5,024)**
Net increase/decrease in cash and cash equivalents		**11,388**	**16,910**
Change in deposits with maturities greater than 3 months		-	(140)
Total change		11,388	16,770
Cash and cash equivalents at the beginning of the period	**14**	**35,316**	**18,510**
Deposits with maturities greater than 3 months at the beginning of the period		-	140
Total at the beginning of the period		35,316	18,650
Effect of exchange rate changes		**(71)**	**(104)**
Total at the end of the period	**14**	**46,633**	**35,316**

*The notes set out on pages **78-119** are an integral part of these consolidated financial statements.*

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2013 were signed by the Management Board at 28 March 2014.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board and which also includes the consolidated financial statements shall be approved at the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and presented by the Management Board and require preparation of a new annual report.

AS Merko Ehitus is a corporation registered in the Republic of Estonia (Commercial Register No.: 11520257, address: Järvevana tee 9G, Tallinn) and it operates mainly in Estonia, Latvia and Lithuania. Its main activities are construction and real estate development.

From 22 July 1997, the shares of AS Merko Ehitus are listed on NASDAQ OMX Tallinn Stock Exchange. As at 31 December 2013, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

AS Merko Ehitus was established in 2008 in the demerger of the former AS Merko Ehitus, currently AS Järvevana, as a result of which all operating areas, i.e. all assets and liabilities other than the liabilities related to the criminal proceeding, were transferred to the new entity.

From 1 January 2012, the group's construction operations in Estonia were transferred to AS Merko Ehitus Eesti. Thereafter, AS Merko Ehitus operates as a holding entity with no independent production activities. It has 100% ownership interests in construction entities in Estonia, Latvia and Lithuania and a real estate development unit consisting of entities holding real estate properties.

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Merko Ehitus group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention.

Several financial figures are based on management's estimates, including for example, assessment of profitability of construction contracts using the stage of completion method, assessment of the useful lives of items of property, plant and equipment, estimation of allowances for receivables and inventories, recognition of provisions for warranty obligations. Management's estimates have been made to the best of its knowledge, but they may not be accurate. The effect of changes in accounting estimates is reported in the financial statements of the period in which the change occurred.

Assets and liabilities are classified as current and non-current in the statement of financial position. Current assets include assets that are expected to be used within the next financial year. Current liabilities include liabilities the due date of which is within 12 months after the balance sheet date. The remaining assets and liabilities are classified as non-current.

Expenses are classified according to their function in the income statement.

Items included in the financial statements of Merko Ehitus group entities are measured using the currency of their primary economic environment (the functional currency): the euro, Latvian lats and the Lithuanian litas. The consolidated financial statements are presented in euros. The primary financial statements and notes are presented in thousands of euros. From 1 January 2014, the Republic of Latvia will be part of the Eurozone countries, Latvia will adopt the euro instead of the lat based on the exchange rate 0.702804 lats/euro.

1.3. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS, AMENDMENTS TO PUBLISHED STANDARDS AND INTERPRETATIONS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards and interpretations became effective for the group from 1 January 2013:

IFRS 13, Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013. The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. Additional information was disclosed in this annual report as a result of the standard.

NEW ACCOUNTING PRONOUNCEMENTS

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2014, and which the Group has not early adopted.

IFRS 11 Joint Arrangements, effective for annual periods beginning on or after 1 January 2013. The standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of Interest in Other Entities, effective for annual periods beginning on or after 1 January 2014. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The group is assessing the impact of the standard on the financial statements.

The other new or revised standards or interpretations, which became effective in the financial year starting 1 January 2013 or are not yet effective, are not expected to have a material impact on the group.

1.4. CONSOLIDATION

Subsidiaries, i.e. entities that are either directly or indirectly controlled by the parent AS Merko Ehitus through fellow subsidiaries, have been consolidated on a line-by-line basis in the consolidated financial statements. Control exists when the parent owns more than one half of the voting power of the subsidiary or otherwise has power to govern the operating and financial policies of the other entity. Subsidiaries are fully consolidated in the financial statements of the group from the date of acquiring control until the date at which control ceases.

Upon consolidation, intra-group receivables and liabilities, income and expenses as well as unrealised profits and losses arising from intra-group transactions have been eliminated unless a loss is caused by impairment. Group entities use uniform accounting policies.

1.5. BUSINESS COMBINATIONS

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group makes an election whether to recognise any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. From the date of acquisition, the revenue and expenses of the acquired entity are reported in the income statement of the group and goodwill is reported in the statement of financial position of the group.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Goodwill is subsequently measured at its cost less any impairment losses. Goodwill arising in a business combination is not amortised. Instead, an impairment test is carried out once a year. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable (Note 1.11).

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

1.6. ASSOCIATES

Associates are all entities in which the group has significant influence but not control over their operating and financial policies. Significant influence is presumed to exist when the parent owns between 20% and 50% of the voting rights. Investments in associates are initially recognised at cost and subsequently measured using the equity method of accounting. Investments in associates include goodwill identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the group's income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, the group will not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1.7. JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to common control. Joint ventures are accounted for under the equity method. A holding in a jointly controlled entity is initially recognised at cost and subsequently adjusted for the post-acquisition changes that have occurred in the group's share of the net assets under common control. The income statement of the group includes the group's share in the profits or losses of the entity under common control. Unrealised gains and losses from transactions between the group and its joint ventures are eliminated similarly to transactions with associates (Note 1.6).

1.8. JOINTLY CONTROLLED OPERATIONS

Under IAS 31 Interests in Joint Ventures, jointly controlled operations are joint operations with third parties, whereby the assets and other resources of venturers are used without the establishment of a new entity or another unit or creation of a separate financial structure. Each venturer uses its own property, plant and equipment and carries its own inventories in the statement of financial position. The venturer also incurs its own expenses and liabilities and raises its own funds which represent its own obligations. In respect of its interest in jointly controlled operations, a venturer recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs;
- the expenses that it incurs and its share of revenue that it earns from the sale of goods or services of the jointly controlled operation.

1.9. FOREIGN CURRENCY

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the balance sheet date are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period.

The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into euros for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the European Central Bank prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity item Currency translation differences and in the consolidated comprehensive income item Currency translation differences of foreign entities.

1.10. FINANCIAL ASSETS

The purchases and sales of financial assets are recognised at the trade date.

Depending on the purpose for which financial assets were acquired, financial assets are classified into the following categories at the group:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition.

The Company does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The group does not have any derivatives either.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets except for maturities greater than 12 months after the balance sheet date. Such assets are classified as non-current assets. Loans and receivables are initially recognised at their fair value less transaction costs. After initial recognition, the group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the following periods using the effective interest rate method.

Receivables are assessed based on the collectible amounts. Each receivable is assessed separately considering all known information about the solvency of the party to the transaction. Receivables whose collection is improbable are written down during the reporting period (see also 1.11).

1.11. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

The group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (loss events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the group regarding the following events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- probability that the debtor will enter bankruptcy;
- disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

If there is objective evidence that an impairment loss has incurred for loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have already been recognised), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can objectively be related to an event occurring after impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

NON-FINANCIAL ASSETS

Assets that have indefinite useful lives are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and compared with the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets that suffered an impairment loss are reviewed at each reporting date and if necessary, the impairment loss is reversed except for impairment of goodwill.

1.12. INVENTORIES

Inventories are recorded in the statement of financial position at cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

In case of separately identifiable inventory items, their cost is determined based on expenditure incurred specifically for the acquisition of each asset. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used.

Inventories are recognised in the statement of financial position at the lower of cost and net realisable value. The net realisable value is the sales price less estimated costs to sell.

Expenditure incurred for real estate development is reported either as work-in-progress or finished goods, depending on the stage of completion in the line Inventories in the statement of financial position. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. Borrowing costs incurred during the period of construction are capitalised until a permit for use is obtained for the project. Expenses associated with maintenance or usage of the property are not capitalised.

A completed real estate property is sold either in parts (by houses, apartments, office spaces, etc.) or as a whole. Revenue is recognised as income from the sale of goods (Note 1.21). Upon the sale of real estate properties, the group and the acquirer enter into a notarised agreement for transferring the property, and a respective entry is made in the land register.

1.13. INVESTMENT PROPERTY

Investment property is real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both, but not for the production of goods or services, administrative purposes or sale in the ordinary course of business. Investment property is measured using the cost method, i.e. at cost less any accumulated depreciation and any accumulated impairment losses.

Buildings included in investment properties are depreciated on a straight-line basis over the period of 12.5 to 33.3 years. Land is not depreciated.

1.14. PROPERTY, PLANT AND EQUIPMENT

An item of property, plant and equipment is an asset used for production, provision of services or administrative purposes over a period longer than one year.

An item of property, plant and equipment is carried in the statement of financial position at its cost less any accumulated depreciation. The cost consists of the purchase price and other costs directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent expenditure incurred for items of property, plant and equipment is recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they are incurred. Items of property, plant and equipment leased under the finance lease terms are accounted for similarly to purchased property, plant and equipment.

Depreciation is calculated on a straight-line basis over the following useful lives:

- buildings 10-33.3 years;
- machinery and equipment 2-20 years;
- other items of property, plant and equipment 2.5-5 years;
- right of superficies 50 years.

Land is not depreciated.

At each balance sheet date, the validity of applied depreciation rates, the depreciation method and the residual values applicable to assets are assessed.

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Non-current assets are written down to their recoverable amount if the latter is lower than their carrying amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

1.15. INTANGIBLE ASSETS

Intangible assets are recognised in the statement of financial position when the asset can be controlled by the Company, the expected future benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. The cost of an intangible asset consists of its purchase price and other expenditure directly related to the purchase. Intangible assets are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill is not amortised.

SOFTWARE AND INFORMATION SYSTEMS

The costs related to the development of information systems and software which are reported as intangible assets, are depreciated under a straight-line method over their estimated useful lives (2-20 years).

1.16. FINANCE AND OPERATING LEASES

Leases of property, plant and equipment which transfer all significant risks and rewards of ownership to the lessee are classified as finance leases. All other leases are recognised as operating leases.

Assets and liabilities leased under the finance lease terms are reported in the statement of financial position at the lower of fair value of the leased asset and the present value of minimum rental payments. Items of property, plant and equipment leased under the finance lease terms are depreciated over the shorter of the lease term and the useful life.

Finance lease liabilities are reduced by principal payments; interest expenses on lease payments are included within finance costs in the income statement. Finance costs are allocated to the rental period so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are reported in the income statement as expenses on a straight-line basis over the lease term.

1.17. FINANCIAL LIABILITIES

All financial liabilities of the group belong to the category "other financial liabilities at amortised cost".

All financial liabilities (trade payables, borrowings, and other short and long-term borrowings) are initially recorded at their fair value and are subsequently stated at amortised cost, using the effective interest rate method. The amortised cost of current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the statement of financial position at their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are recognised as current ones.

Also, borrowings are classified as current if the lender had a contractual right at the balance sheet date to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs directly related to the construction of a real estate property until the property is ready for use or sale, are capitalised. In other cases, borrowing costs are recognised as an expense in the period in which they are incurred.

FACTORING

Recognition of the amounts received for resale of receivables that arose in the ordinary course of business (factoring) depends on whether in case it is not collected, the buyer of the receivable (factor) has the right to transfer it back to the buyer (factoring with recourse) or not (factoring without recourse). For factoring without recourse, the amounts collected are recognised as a reduction of the receivable. The difference between the book value of the receivable and the amount collected is recognised within period expenses. Factoring with recourse is accounted for as a financial liability assumed using receivables as collateral. Until collection of the receivable by the factor, the amounts collected from the sale of receivables are recognised as interest-bearing liabilities. The difference between the book value of the receivable and the proceeds received is recognised within period finance costs.

1.18. INCOME TAX

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. Thus, in Estonia there are no differences between the tax bases and the carrying amounts of assets which would give rise to a deferred income tax asset or liability. In 2014, the tax rate on dividends payable is 21/79 (in 2013 and 2012 also 21/79) of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared.

Corporate income tax on profits and deferred income tax expense or income of the subsidiaries located in Latvia and Lithuania as well as corporate income tax on dividends and deferred income tax cost on dividends of Estonian entities are reported in the consolidated income statement.

Deferred income tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised in the group's statement of financial position if their future realisation is probable.

Legal entities in Latvia, Lithuania, Ukraine and Russia that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania, the Republic of Ukraine and the Russian Federation. The profits of entities located in the Republic of Latvia are taxed at the rate of 15% (2012: 15%), in the Republic of Lithuania at the rate of 15% (2012: 15%), in the Republic of Ukraine at the rate of 19% (2012: 21%), the Republic of Finland at the rate of 24.5% (2012: 24.5%) and in Russian Federation at the rate of 20% (2012: 20%).

1.19. EMPLOYEE BENEFITS

TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without a possibility of withdrawal; or providing termination benefits as a result of another offer made to encourage voluntary redundancy. Termination benefits are discounted to their present value.

PROFIT-SHARING AND BONUS PLANS

The Company recognises a liability and an expense for bonuses and profit-sharing plans, based on a formula that takes into consideration the profit attributable to the parent's owners after certain adjustments. The group recognises a provision where contractually obliged or when there is past practice that has created a constructive obligation.

1.20. PROVISIONS

Provisions are constructive or legal obligations which arise as a result of events occurring before the balance sheet date. Setting up of provisions or increasing existing provisions is recognised as an expense in the income statement of the reporting period.

Provisions are recognised in the statement of financial position based on the best estimate of the management board at the present value of the expenditure expected to be sufficient to settle the obligation.

A pre-tax rate of discount is used, which reflects current market valuations of the time value of money and the risks associated with liabilities that are not already included in the best estimate of the related expenses.

Pursuant to respective building acts, the construction companies of the group provide 2-year warranties on their buildings. The calculation of warranty provisions is based on management estimates and previous periods' experience with regard to actual warranty expenses.

The expected loss arising from construction contracts must be immediately recognised as an expense. A provision is recognised for onerous construction contracts which have not yet been completed (Note 1.22).

1.21. REVENUE

Revenue is recognised at the fair value of the consideration received or receivable.

Revenue from the provision of construction services is recognised as revenue by reference to the stage of completion of the contract (see Note 1.22) in accordance with IAS 11 Construction Contracts. Proceeds from the sale of own real estate development projects (private houses, apartments, office premises, etc. that have been built on the registered immovables owned by entities of Merko Ehitus group) is recognised as revenue in accordance with IAS 18 Revenue when significant risks and rewards of ownership of the goods are transferred to the buyer, the receipt of payment is probable and the costs incurred in respect of the transaction can be measured reliably.

When goods are sold or swapped in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. Revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents received or paid. When the fair value of the goods or services received cannot be measured reliably, revenue is measured at the fair value of the goods or services exchanged, adjusted by the amount of any cash or cash equivalents received or paid.

Revenue from the provision of services is recognised based on the stage of completion of the service at the balance sheet date.

Revenue arising from interest and dividends is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

1.22. CONSTRUCTION CONTRACTS IN PROGRESS

Income and expenses of construction contracts in progress have been matched under the stage of completion method. The stage of completion is determined on the basis of the relationship between the actual costs incurred by the balance sheet date and the estimated costs of the contract. The actual costs of the contract consist of direct and overhead costs of the construction contact.

If invoices submitted to the customer by the balance sheet date are either higher or lower than the income calculated under the stage of completion method, then the difference is recognised as a liability or as a receivable in the statement of financial position.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and in full.

1.23. CASH AND CASH EQUIVALENTS

In the statement of financial position and the cash flow statement, cash and cash equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less. Management regards deposits with maturities greater than 3 months as investments and hence does not include them in cash and cash equivalents. In addition to changes in cash and its equivalents, the consolidated cash flow statement also includes changes in short-term bank deposits with maturities greater than 3 months due to the possibility of using these deposits immediately as the need arises without a significant effect on the group's financial position.

The indirect method has been used for the preparation of the cash flow statement.

1.24. CONTINGENT LIABILITIES

Contingent liabilities are those liabilities the realisation of which is less probable than non-realisation and the amount of which cannot be determined reliably. Contingent liabilities are not recognised in the statement of financial position, but they are disclosed in the notes to the financial statements.

1.25. STATUTORY RESERVE CAPITAL

Reserve capital is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

1.26. EVENTS AFTER THE BALANCE SHEET DATE

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities which became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods. Material events after the balance sheet date not related to transactions in the reporting period or previous periods are not reported in the statement of financial position but they are disclosed in the notes to the financial statements.

1.27. DIVIDENDS

The distribution of dividends to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

1.28. SEGMENT REPORTING

According to IFRS 8 Operating Segments, segment reporting is applicable to operating segments whose results are regularly reviewed by the entity's chief operating decision maker to make business-related decisions. Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance.

NOTE 2 MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. However, it can be stated that seasonality and cyclicality do not have a significant effect on the group's activities within a year. The areas involving a higher degree of judgement or complexity, or the areas where assumptions and estimates are relevant to the consolidated financial statements of Merko Ehitus group, are disclosed below. Changes in management's estimates are reported in the income statement of the period of the change.

VALUATION OF RECEIVABLES

For valuation of receivables, each receivable is analysed separately. For determining the need for a complete or partial write-down of receivables, the debtor's financial position, the guarantees provided, the solutions offered to pay off the loan and the previous payment behaviour of the debtor are considered.

PROVISION FOR WARRANTY OBLIGATIONS

For determining the provision for warranty obligations, the statistical cost of the Company's warranty works is considered.

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the company's write-down of inventories (construction in progress, finished buildings, acquisition of real estate properties for sale) would have been EUR 5,774 thousand higher in 2013 (2012: EUR 3,344 thousand higher), incl. real estate properties for sale in the amount of EUR 2,337 thousand (2012: EUR 2,573 thousand), construction in progress in the amount of EUR 3,437 thousand (2012: EUR 673 thousand) and finished buildings in the amount of EUR 0 thousand (2012: EUR 97 thousand). Had the value been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories for the year 2013 would have been EUR 64 thousand lower, incl. real estate properties for sale in the amount of EUR 64 thousand. This sensitivity test is of no importance in 2012, because no inventories were written down and thus, impairment losses of inventories would have no impact on inventories.

REVENUE UNDER THE STAGE OF COMPLETION METHOD

Revenue from construction in progress is recognised under the stage of completion method (Note 1.22), which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31.12.2013, the amount of the provision for onerous contracts was EUR 2,752 thousand (2012: EUR 2,067 thousand), which was determined after the evaluation of the stage of completion of construction contracts (Note 28). The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR -26,032/+14,725 thousand (2012: EUR -30,702/+13,430 thousand).

DETERMINATION OF THE USEFUL LIVES OF ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Management has estimated the useful lives of items of property, plant and equipment, taking into consideration conditions and volumes of business activities, historical experience in this area and future outlook. Management estimates that the useful lives of buildings and facilities are between 10 and 33.3 years depending on their structure and the purpose of use. The average useful lives of machinery and equipment are on average between 3 and 5 years and those of other fixtures between 2.5 to 5 years depending on the purpose of use of the asset.

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

At each balance sheet date, an impairment test is performed for the intangible assets with indefinite useful lives including goodwill, and the carrying amount is written down to its recoverable amount if it is lower than the carrying amount. An impairment test is also carried out for property, plant and equipment and intangibles when an event or change in circumstances indicates that impairment may have occurred.

The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use. Evaluation of fair value is based on reliable information regarding the proceeds from a sale to an informed, interested and independent party, less costs of disposal. The test is used both for single assets and for a cash-generating unit. Assets, intangible assets included, which have no autonomous (independent from other assets) capacity to earn revenue, are treated as cash-generating units and valuation of their recoverable amount is based on their value in use.

For the purpose of the test, in order to assess the value in use, management prepares a realistic forecast for the cash flows to be earned in subsequent periods by the business unit and calculates the present value of these cash flows. For determining the present value, the discount rate is used which according to management objectively reflects the risk level of the respective business unit and its expected rate of return. If the recoverable amount determined in such a way exceeds the carrying amount of non-current assets and goodwill of the business unit subject to testing, goodwill is not written down.

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31.12.2013 does not significantly differ from their fair value. Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered to be its market value. External experts were not involved in the estimation of the fair value of investment properties. Market value estimates are mostly based on market transactions.

BORROWING COSTS

Borrowing costs that are related to a qualifying asset (one that necessarily takes a substantial period of time to get ready for its intended use or sale) are recognised in the cost of inventory. Interest expenses related to holding and later use of assets are recorded under finance costs as period costs. Most of the interest expense incurred at the group is related to the acquisition of immovables and construction of residential properties. The decision regarding capitalisation or expensing of borrowing costs is made by the management. The management uses the following considerations for decision-making purposes:

- Upon acquisition of immovables which are ready for intended use or sale, the borrowing costs related to holding such assets are not capitalised;
- Borrowing costs related to a specific development project are capitalised during the construction period until obtaining the permit for use. If, depending on the market situation, the management temporarily suspends the construction of an object, the capitalisation of borrowing costs is ceased at the same time and the borrowing costs incurred during the period of suspended development are expensed.

In 2013, a total of EUR 113 thousand (2012: EUR 180 thousand) of the borrowing costs was capitalised (Note 26).

NOTE 3 OPERATING SEGMENTS

in thousands of 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.

2013	General construction	Civilengineering	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 (Note 7)	-	-	-	1,472	-	1,472
depreciation (Note 4)	(88)	(592)	(1,080)	(186)	(515)	(2,461)
impairment of inventories (Note 4)	-	-	-	(330)	-	(330)
reversal of impairment of inventories (Note 4)	-	-	-	337	-	337
setting up of provisions (Notes 4, 28)	(2,557)	(376)	(81)	(329)	-	(3,343)
loss on joint ventures (Note 19)	-	-	-	(138)	-	(138)
other finance income (costs) (Notes 9, 10)	(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 19)	-	18	-	7,331	-	7,349

2012	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	61,953	113,586	45,152	37,493	2,527	260,711
Inter-segment revenue	(263)	(293)	-	(10,386)	(638)	(11,580)
Revenue from external clients	**61,690**	**113,293**	**45,152**	**27,107**	**1,889**	**249,131**
Gross profit (-loss)	**5,017**	**8,995**	**1,714**	**2,401**	**(216)**	**17,911**
Segment pre-tax profit (loss)	**5,040**	**8,569**	**1,671**	**3,404**	**21**	**18,705**
incl. interest income from operating activities (Note 7)	4	-	-	1,357	-	1,361
depreciation (Note 4)	(76)	(502)	(1,035)	(131)	(491)	(2,235)
setting up of provisions (Notes 4, 28)	(422)	(926)	(148)	(374)	(1)	(1,871)
profit (loss) on associates and joint ventures (Note 19)	-	-	-	(71)	234	163
other finance income (costs) (Notes 9, 10)	(38)	(27)	(87)	(263)	(2)	(417)
incl. interest income	-	-	-	51	-	51
interest expenses	(38)	(27)	(87)	(314)	(2)	(468)
Segment assets 31.12.2012	**13,092**	**27,091**	**24,651**	**120,248**	**1,572**	**186,654**
incl. joint ventures (Note 20)	-	18	-	7,172	-	7,190

In addition to the segment assets, as at 31.12.2013 the group holds assets in the amount of EUR 34,917 thousand (2012: EUR 38,394 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

	2013	2012
Pre-tax profit from reporting segments	23,644	18,705
Unallocated income (expense)		
marketing expenses (Note 5)	(3,041)	(2,107)
general and administrative expenses (Note 6)	(9,260)	(9,173)
incl. setting up of provisions (Note 28)	(27)	(32)
other operating income (expense)	372	1,079
incl. interest income from operating activities (Note 7)	7	812
finance income (costs) (Note 9,10)	(570)	(602)
incl. interest income	45	39
interest expense	(407)	(688)
Total profit before tax	**11,145**	**7,902**

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 thousands of euros and percentage

	2013		2012	
Estonia	211,958	81%	202,149	81%
Latvia	44,378	17%	38,305	15%
Lithuania	6,383	2%	8,677	4%
Total	**262,719**	**100%**	**249,131**	**100%**

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

in thousands of euros

	31.12.2013	31.12.2012
Estonia	18,473	19,168
Latvia	413	523
Lithuania	70	93
Total	**18,956**	**19,784**

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2013	2012
Construction services	133,251	130,456
Materials	40,585	38,266
Properties purchased for resale	14,355	14,392
Staff costs	22,636	20,770
Construction mechanisms and transport	12,409	11,871
Design	1,838	1,273
Real estate management costs	219	193
Depreciation	2,461	2,235
Impairment of inventories (Note 17)	330	-
Reversal of impairment of inventories (Note 17)	(337)	-
Provisions (Note 28)	3,343	1,871
Other expenses	8,906	9,893
Total cost of goods sold	**239,996**	**231,220**

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2013	2012
Staff costs	2,138	1,355
Advertising, sponsorship	389	340
Transport	204	136
Construction tender	69	88
Depreciation	18	17
Other expenses	223	171
Total marketing expenses	**3,041**	**2,107**

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2013	2012
Staff costs	6,139	5,763
Office expenses, communication services	548	649
Consulting, legal, auditing	658	690
Transport	438	493
Computer equipment and software	377	401
Depreciation	348	347
Provisions (Note 28)	27	32
Other expenses	725	798
Total general and administrative expenses	**9,260**	**9,173**

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2013	2012
Interest income from operating activities	1,479	2,173
Profit from sale of non-current assets	214	123
Fines and penalties for delay received	128	98
Collection of doubtful receivables	49	7
Other income	394	560
Total other operating income	**2,264**	**2,961**

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2013	2012
Loss on write-off of intangible assets	52	-
Fines, penalties	47	95
Gifts, donations	188	243
Doubtful receivables expense (Note 35)	39	439
Other expenses	99	57
Total other operating expenses	**425**	**834**

NOTE 9 FINANCE INCOME

in thousands of euros

	2013	2012
Interest income	84	90
Other finance income	-	94
Total finance income	**84**	**184**

NOTE 10 FINANCE COSTS

in thousands of euros

	2013	2012
Interest expense	814	1,156
Foreign exchange losses	202	44
Other finance costs	46	3
Total finance costs	**1,062**	**1,203**

NOTE 11 CORPORATE INCOME TAX

in thousands of euros

The income tax on the group's profit before tax differs from the theoretical amount that would arise using the statutory tax rates applicable to profits of the consolidated entities for the following reasons:

2013	Latvia	Lithuania	Other countries	Estonia	Total
Profit (loss) before tax	1,377	318	(14)	9,464	11,145
Tax rate applicable to profits	15%	15%	20–24.5%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(206)	(47)	3	-	(250)
Tax calculated on expenses not deductible for tax purposes	(28)	(180)	-	-	(208)
Tax effect of income not subject to tax	28	6	-	-	34
Tax losses of previous periods recognised in the reporting period	118	-	-	-	118
Tax losses not recognised in the reporting period	-	(252)	(1)	-	(253)
Income tax withheld on intra-group transactions	-	-	-	(232)	(232)
Total income tax expense	**(88)**	**(473)**	**2**	**(232)**	**(791)**
incl. income tax expense	(62)	-	-	-	(62)
deferred income tax expense (Note 21)	(26)	(473)	2	-	(497)
income tax withheld on intra-group transactions	-	-	-	(232)	(232)

2012	Latvia	Lithuania	Ukraine	Estonia	Total
Profit (loss) before tax	1,667	3,918	(21)	2,338	7,902
Tax rate applicable to profits	15%	15%	21%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(249)	(588)	4	-	(833)
Tax calculated on expenses not deductible for tax purposes	(136)	(1,440)	-	-	(1,576)
Tax effect of income not subject to tax	26	1,629	-	-	1,655
Tax losses of previous periods recognised in the reporting period	389	250	-	-	639
Tax losses not recognised in the reporting period	-	(33)	(4)	-	(37)
Income tax withheld on intra-group transactions	-	-	-	(137)	(137)
Total income tax expense	**30**	**(182)**	**-**	**(137)**	**(289)**
incl. income tax expense	-	(449)	-	-	(449)
deferred income tax expense (Note 21)	30	267	-	-	297
income tax withheld on intra-group transactions	-	-	-	(137)	(137)

As at 31.12.2013, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 87,464 thousand (31.12.2012: EUR 83,558 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 2,051 thousand (31.12.2012: EUR 2,045 thousand), the corresponding income tax on dividends would amount to EUR 21,199 thousand (31.12.2012: EUR 20,167 thousand).

NOTE 12 EARNINGS PER SHARE

Basic earnings per share for profit attributable to equity holders of the parent have been derived by dividing the net profit attributable to shareholders by the weighted average number of shares.

	2013	2012
Net profit(-loss) attributable to shareholders (in thousand EUR)	10,399	7,627
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700
Earnings (loss) per share (in euros)	**0.59**	**0.43**

In 2012 and 2013, the group did not have any potential ordinary shares to be issued; therefore the diluted earnings per share equal the basic earnings per share.

NOTE 13 DIVIDENDS PER SHARE

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation proposal, dividends payable in parent company AS Merko Ehitus in 2014 will total EUR 7,257 thousand, incl. 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 shall be covered by the the income tax withheld on taxed dividends received from subsidiaries and by the income tax withheld on foreign income (Note 11).

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. No dividends were paid in 2012.

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of euros

	31.12.2013	31.12.2012
Cash on hand	12	16
Bank accounts	18,749	5,808
Overnight deposits	26,372	17,492
Term deposits with maturities of 3 months of less	1,500	12,000
Total cash and cash equivalents (Note 36)	**46,633**	**35,316**

As at 31.12.2013, the weighted average interest on overnight deposits was 0.38% (31.12.2012: 0.06%). The weighted average interest on bank deposits with maturities of 3 months or less was 0.32% and the average duration as at 31.12.2013 was 37 days.

NOTE 15 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2013	31.12.2012
Trade receivables (Note 35)		
Accounts receivable	38,202	34,967
Allowance for doubtful receivables	(742)	(864)
	37,460	**34,103**
Tax prepayments excluding corporate income tax		
Value added tax	657	791
Other taxes	17	10
	674	**801**
Amounts due from customers of contract works (Notes 32, 35)	12,940	18,981
Other short-term receivables		
Short-term loans (Notes 16, 35)	1,399	1,887
Interest receivables (Note 35)	656	948
Other short-term receivables (Note 35)	51	1,256
Short-term receivable from the buyer of subsidiary (Note 35)	-	96
	2,106	**4,187**
Prepayments for services		
Prepayments for construction services	3,153	1,388
Prepaid insurance	359	416
Other prepaid expenses	480	467
	3,992	**2,271**
Total trade and other receivables	**57,172**	**60,343**
incl. short-term loan receivables from related parties (Note 16)	1,399	1,382
other short-term receivables and prepayments to related parties (Note 33)	1,094	943

In 2013, the payment discipline of customers improved compared to last year. The share of overdue receivables decreased from 22.1% to 9.2% of total receivables, and as at the balance sheet date, the amount of overdue receivables was EUR 3,464 thousand. By 15 March 2014, overdue receivables had been collected in the amount of EUR 2,200 thousand. In 2013, the average age of trade receivables was 58 days (2012: 58 days). In 2013, the group's balance sheet included doubtful receivables in the amount of EUR 742 thousand (2012: EUR 864 thousand) and it wrote off uncollectible receivables in the amount of EUR 16 thousand (2012: 439 thousand), incl. irrecoverable receivables in the amount of EUR 1 thousand (2012: EUR 98 thousand). The management estimates that there are sufficient reasons to conclude that the trade receivables reported in the financial statements will be paid off by buyers.

A more detailed overview of the Company's credit risk is provided in Note 35.

NOTE 16 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 33)	Unrelated legal entities	Unrelated individuals	Total
2013				
Loan balance at beginning of the year	4,992	475	86	5,553
Granted	44	-	-	44
Collected	-	(458)	(64)	(522)
Impaired loan receivable (Note 8)	-	(15)	-	(15)
Exchange rate difference	(26)	(2)	-	(28)
Loan balance at end of the year	**5,010**	-	**22**	**5,032**
incl. current portion (Notes 15, 36)	1,399	-	-	1,399
non-current portion 1...5 years (Notes 20, 35)	3,611	-	22	3,633
Average effective interest rate	4.8%	7.3%	5.0%	
2012				
Loan balance at beginning of the year	4,930	7,732	107	12,769
Granted	54	2,658	-	2,712
Collected	-	(9,912)	(21)	(9,933)
Exchange rate difference	8	(3)	-	5
Loan balance at end of the year	**4,992**	**475**	**86**	**5,553**
incl. current portion (Notes 15, 35)	1,382	475	30	1,887
non-current portion 1...5 years (Notes 20, 35)	3,610	-	56	3,666
Average effective interest rate	4.9%	7.3%	4.9%	

All issued loans reported as at the balance sheet date had not yet fallen due.

NOTE 17 INVENTORIES

in thousands of euros

	31.12.2013	31.12.2012
Materials	731	563
Work-in-progress	28,614	18,528
Finished goods	16,625	21,499
Goods for resale		
Registered immovables purchased for resale	39,055	39,548
incl. registered immovables located on nature preserve areas*	3,272	3,272
Other goods purchased for resale	978	1,000
	40,033	**40,548**
Prepayments for inventories		
Prepayments for real estate properties	1,086	1,097
Prepayments for other inventories	362	595
	1,448	**1,692**
Total inventories	**87,451**	**82,830**

* There are strict building restrictions on immovables located on nature preserve areas and their use for development purposes, either directly or indirectly, is not permitted. According to the Nature Conservation Act of the Republic of Estonia, an immovable which is located within the territory of a protected area, special conservation area or species protection site and the use of which for intended purposes is significantly hindered by the protection procedure, may be transferred to the state by an agreement between the state and the owner of land for a consideration equivalent to the usual value of the immovable (§20 of Nature Conservation Act). Until the entry into force of the new version of the Act, an older version was in force until 01.08.2008 which only laid down the exchange of nature preserve areas with the state. At 31 January 2013, the Government of the Republic of Estonia approved the amendment to the Nature Conservation Act, terminating land swapping of nature conservation plots and replacing them by their purchase by the state. The amendment to the act took effect on 1 June 2013. According to the Act, the state is obligated to apply only the acquisition of registered immovables for money as a compensatory mechanism.

The value of an immovable, other than a forest immovable, is determined using the transaction comparison method. In determining the value of an immovable, the real rights which due to their nature cannot be deleted from the land register are considered (e.g. servitudes, neighbourhood rights) as well as those arising from laws other than the restrictions on an immovable property arising from the protection procedure which forms a basis for the acquisition of an immovable. The Management Board has accounted for nature conservation land as land without restrictions.

Due to the overall economic environment and a tense state budget situation, the transfer of the registered immovables is unlikely in the near term.

The inventories pledged as collateral as at 31.12.2013 for loans total EUR 50,699 thousand (2012: EUR 38,942 thousand) (Note 30).

As at 31.12.2013, inventories have been written down to their net realisable value by EUR 330 thousand and previously made write-downs have been reversed in the amount of EUR 337 thousand (Notes 2, 4, 35). In 2012, no impairment losses were recognised for inventories and previous impairment losses have not been reversed.

31.12.2013	Carrying amount before write-down	Write-down	Reversal of write-down	Carrying amount after write-down
Work-in-progress	28,277	-	337	28,614
Land purchased for resale	39,385	(330)		39,055
Total	**67,662**	**(330)**	**337**	**67,669**

NOTE 18 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		Location	Area of operation
	31.12.2013	31.12.2012		
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
OÜ Tevener	100	100	Estonia, Tallinn	Mining
AS Vooremaa Teed	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
AS Gustaf	92.5	85	Estonia, Pärnu	Construction
OÜ Gustaf Tallinn	80	80	Estonia, Tallinn	Construction
AS Merko Tartu	66	66	Estonia, Tartu	Construction
OÜ Raadi Kortermaja	100	100	Estonia, Tartu	Real estate
OÜ Fort Ehitus	75	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	51	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Merko Inžinerija	100	100	Lithuania, Vilnius	Construction
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	Lithuania, Vilnius	Real estate
UAB Kražiu Projektas	100	-	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	100	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	Estonia, Tallinn	Real estate
OÜ Woody	100	100	Estonia, Tallinn	Real estate
OÜ Maryplus	100	100	Estonia, Tallinn	Real estate
OÜ Constancia	100	100	Estonia, Tallinn	Real estate
OÜ Käibevara	100	100	Estonia, Tallinn	Real estate
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate
SIA Industrialas Parks	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
SIA Skanstes Virsotnes	100	100	Latvia, Riga	Real estate
SIA Polystar	100	99.96	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
Merko Ukraine LLC	-	100	Ukraine, Kharkiv	Construction
Merko Finland OY	100	100	Finland, Helsinki	Construction
Lenko Stroi LLC	100	100	Russia,St. Petersburg	Construction

2013

On 16 January 2013, subsidiary AS Merko Ehitus Eesti acquired a 7.5% ownership interest in its subsidiary AS Gustaf from its non-controlling shareholders at the price of EUR 98 thousand.

On 18 February 2013, AS Merko Ehitus formed a fully owned subsidiary OÜ Paepargi 57 with share capital of EUR 2.5 thousand, which was sold on 16 August of the same year to Capital Mill OÜ for the price of EUR 2.5 thousand.

On 29 May 2013, the demerger of SIA Polystar that began in 2012 was completed.

In the second quarter of 2013, subsidiary OÜ Baltic Electricity Engineering was renamed as OÜ Merko Investments. On 22 May 2013, as an internal transaction, AS Merko Ehitus sold its full ownership of SIA Merks, a subsidiary engaging in construction, to its subsidiary OÜ Merko Investments. AS Merko Ehitus made additional contributions to increase the equity of OÜ Merko Investments - on 4 June 2013, equity was increased by EUR 8 thousand and on 20 June 2013, reserve capital was increased by EUR 21,572 thousand.

In the second quarter of 2013, the liquidation of Merko Ukraine LLC, a fully owned subsidiary of AS Merko Ehitus in the Ukraine, was completed. The company was removed from the commercial register on 4 July 2013.

On 17 July 2013, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas, formed a fully owned subsidiary in Lithuania, UAB Kražiu Projektas with a share capital of LTL 10 thousand (EUR 2.9 thousand). The subsidiary was formed to acquire properties for development in Lithuania.

During the period of September to November of 2013, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, repaid to its parent from its equity the provision established in 2012 of EUR 6,200 thousand.

On 3 October 2013, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, formed a 51%-owned subsidiary OÜ Heamaja. The company was formed to participate in the construction concession contract procurement for Suur-Ameerika 1, Tallinn, organised by AS Riigi Kinnisvara.

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.

2012

As at 1 January 2012, the entire construction activity in Estonia was transferred from AS Merko Ehitus to the subsidiary AS Merko Ehitus Eesti that was established during the internal restructuring in November 2011. According to the restructuring plan, the ownership interests of another seven Estonian subsidiaries were also transferred as a non-monetary equity contribution as at 1 January 2012. These entities were: AS Merko Infra, AS Gustaf, AS Merko Tartu, Tallinna Teede AS, OÜ Gustaf Tallinn, OÜ Fort Ehitus and OÜ Mineraal. In addition, contributions were made to the equity reserve of AS Merko Ehitus Eesti in the amount of up to EUR 56,000 thousand during 2012.

At 13 March 2012, AS Merko Ehitus established a wholly-owned subsidiary Merko Finland OY registered in Finland with the share capital of EUR 2,500 for the purpose of creating technical capabilities for launching possible construction projects in Russia. At 11 October 2012, Merko Finland OY established a subsidiary Lenko Stroi LLC in St. Petersburg, Russia, with the share capital of EUR 5 thousand.

In intra-group transactions at 30 March 2012, AS Merko Ehitus acquired a 100% ownership interest from its subsidiary UAB Merko Statyba in the latter's subsidiary UAB Merko Bustas that is engaged in real estate development and the subsidiary of AS Merko Ehitus, OÜ Merko Property, acquired a 100% ownership interest of UAB Merko Statyba in the latter's subsidiary UAB Balsiu Mokyklos SPV that is engaged in real estate management.

At 25 July 2012, SIA Merks acquired a 99.96% ownership interest in SIA Polystar, an entity that was part of the group of E.L.L. Kinnisvara AS under common control with AS Merko Ehitus. The transaction was not accounted for as a business combination but as acquisition of a one-asset entity. For acquisition of the registered immovable included within inventories, the share capital of SIA Polystar was increased by the prepayment in the amount of EUR 6,455 thousand made by SIA Merks to SIA Polystar in previous years. In the consolidated statement of financial position, the acquired registered immovable is carried in the amount of EUR 3,810 thousand after recognition of impairment losses in the amount of EUR 2,645 thousand for the prepayment made by SIA Merks in previous years.

According to the decision of the Supervisory Board of AS Merko Ehitus made at 4 September 2012, liquidation proceedings were launched for the subsidiary Merko Ukraine LLC which continued in 2013. Due to this, the share capital of the subsidiary was increased by EUR 56 thousand in 2012.

At 19 November 2012, AS Merko Ehitus established two wholly-owned subsidiaries Väike-Paekalda OÜ and

Suur-Paekalda OÜ, where a non-monetary contribution was made in the form of registered immovables received through the division of the joint venture OÜ Unigate in the amount of EUR 36 and 104 thousand, respectively.

At 19 December 2012, a contribution was made to the equity reserve of OÜ Jõgeva Haldus in the amount of EUR 750 thousand.

TRANSACTIONS INVOLVING SUBSIDIARIES AFTER THE BALANCE SHEET DATE

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) to participate in public-private partnership (PPP) procurements organised by the Lithuanian government.

NOTE 19 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2013	31.12.2012		
Joint ventures				
OÜ Unigate	50	50	Estonia, Tallinn	real estate
Poolkoksimäe Sulgemise OÜ	50	50	Estonia, Tallinn	construction
SIA Zakusala Estates	50	50	Latvia,Riga	real estate
OÜ Kortermaja	50	50	Estonia, Tartu	real estate

2013

On 10 June 2013, shareholders of the 50% joint venture of AS Merko Ehitus, OÜ Unigate, decided to increase the nominal value of shares of the joint venture by EUR 887.07 to EUR 6 thousand for the purposes of achieving compliance with the Commercial Code. Both shareholders paid in a monetary contribution of EUR 350 thousand, of which EUR 0.4 corresponded to the share capital at nominal value and EUR 349.6 thousand was share premium.

2012

At 29 June 2012, AS Merko Ehitus sold its ownership interest in its associate AS TMB at the sale price of EUR 2,750 thousand. As at 31.12.2012, the receivable had been collected in full.

At 5 October 2012, the shareholders of OÜ Unigate concluded a notarial division plan, under which registered immovables with nature conservation restrictions were split off from OÜ Unigate and were redistributed equally among the shareholders. In November 2012, AS Merko Ehitus established subsidiaries Väike-Paekalda OÜ and Suur-Paekalda OÜ to receive the five split off registered immovables with the carrying amount of EUR 140 thousand.

in thousands of euros

	Investment at 31.12.2012	Changes in 2013			Investment at 31.12.2013
		acquisition (sale)	profit (loss) on entities	exchange rate differences	
Joint ventures					
OÜ Unigate	(81)	350	(114)	-	155
Poolkoksimäe Sulgemise OÜ	18	-	0	-	18
SIA Zakusala Estates	7,252	-	(26)	(53)	7,173
OÜ Kortermaja	1	-	2	-	3
Total joint ventures	**7,190**	**350**	**(138)**	**(53)**	**7,349**

in thousands of euros	Investment at 31.12.2011	Changes in 2012					Investment at 31.12.2012
		acquisition (sale)	net assets-split off in division	profit (loss) on entities	dividends	exchange rate differeces	
Associate							
AS TMB	2,601	(2,750)	-	234	(85)	-	-
Joint ventures							
OÜ Unigate	60	-	(140)	(1)	-	-	(81)
Poolkoksimäe Sulgemise OÜ	18	-	-	0	-	-	18
SIA Zakusala Estates	7,280	-	-	(47)	-	19	7,252
OÜ Kortermaja	27	-	-	(23)	(3)	-	1
Total joint ventures	**7,385**	**-**	**(140)**	**(71)**	**(3)**	**19**	**7,190**
Total associates and joint ventures	**9,986**	**(2,750)**	**(140)**	**163**	**(88)**	**19**	**7,190**

As at 31.12.2013, the difference between the value of the investment in SIA Zakusala Estates and the equity of the investee in the amount of EUR 7,341 thousand is attributable to the difference between the cost and market value of the 126 thousand square meter registered immovable located on Zakusala island in the centre of Riga that was privatised in December 2010 by the joint venture. SIA Zakusala Estates had previously held a lease agreement with the City of Riga regarding the aforenamed registered immovable until 2 June 2051, pursuant to which SIA Zakusala Estates had the right to use the land and which was not included in the statement of financial position of the joint venture. A legal dispute with the company Tritan Group AS which holds a 50% ownership interest in the company SIA Zakusala Estates, is detailed in Note 35.

JOINT VENTURES

in thousands of euros

	Assets 31.12.		Current liabilities 31.12	Equity 31.12.	Income	Expenses	Net profit/ (loss)
	Current assets	Non-current assets					
2013							
OÜ Unigate	3,646	-	3,336	310	-	227	(227)
Poolkoksimäe Sulgemise OÜ	391	-	355	36	5,581	5,581	0
SIA Zakusala Estates	42	4,034	4,412	(336)	-	52	(52)
OÜ Kortermaja	1	5	-	6	3	-	3
Total	**4,080**	**4,039**	**8,103**	**16**	**5,584**	**5,860**	**(276)**
2012							
OÜ Unigate	3,615	-	3,777	(162)	-	2	(2)
Poolkoksimäe Sulgemise OÜ	416	75	455	36	6,146	6,146	0
SIA Zakusala Estates	45	4,064	4,395	(286)	-	94	(94)
OÜ Kortermaja	6	-	3	3	51	97	(46)
Total	**4,082**	**4,139**	**8,630**	**(409)**	**6,197**	**6,339**	**(142)**

NOTE 20 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2013	31.12.2012
Long-term loans (Notes 16, 35)	3,633	3,666
Long-term bank deposit (Note 35)*	49	49
Long-term receivables from customers of construction services (Note 35)**	16,384	13,473
Total other long-term loans and receivables	**20,066**	**17,188**

* incl. a deposit in the amount of EUR 35 thousand with the due date of 27 June 2018 and interest rate of 5.35%, a deposit in the amount of EUR 2 thousand with the due date 23 July 2017 and interest rate of 0.66% and a deposit in the amount of EUR 12 thousand with the due date of 12 January 2016 and interest rate of 2.0%.

** incl. long-term receivables to buyer of Balsiu School in amount of EUR 11,399 thousand (31.12.2012: EUR 10,459 thousand).

The Management Board estimates that the fair value of long-term receivables does not materially differ from their carrying amount because no material changes have occurred in risk margins. The fair value of receivables is measured using the discounted cash flow method in accordance with IFRS 7 on the basis of Level 3 inputs of the fair value hierarchy.

NOTE 21 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

Break-down of deferred income tax assets and liabilities in Latvian and Lithuanian subsidiaries:

31.12.2013	Latvia	Lithuania	Russia	Total
Deferred income tax liability				
effect of other payables	-	(505)	-	(505)
Deferred income tax assets				
tax loss carryforwards	-	409	2	411
effect of carrying amount of property, plant and equipment	(12)	-	-	(12)
effect of stage of completion method	43	47	-	90
effect of write-down of receivables	32	17	-	49
effect of write-down of inventories	800	-	-	800
effect of provisions	-	17	-	17
other effects	237	-	-	237
Deferred income tax assets	**1,100**	**490**	**2**	**1,592**
Deferred income tax charge of the financial year (Note 11)	(26)	(473)	2	(497)

31.12.2012	Latvia	Lithuania	Russia	Total
Deferred income tax liability				
effect of other payables	-	(327)	-	(327)
Deferred income tax assets				
incl. tax loss carryforwards	-	704	-	704
effect of carrying amount of property, plant and equipment	(12)	-	-	(12)
effect of stage of completion method	43	47	-	90
effect of write-down of receivables	32	17	-	49
effect of write-down of inventories	806	-	-	806
effect of provisions	-	17	-	17
other effects	265	-	-	265
Deferred income tax assets	**1,134**	**785**	**-**	**1,919**
Deferred income tax expense(-charge) of the financial year (Note 11)	(30)	(267)	-	(297)

NOTE 22 INVESTMENT PROPERTY

in thousands of euros

	Land	Right of superficies	Buildings	Construction in progress	Total
Cost at 31.12.2011	136	29	1,215	1,112	2,492
Accumulated depreciation 31.12.2011	-	(8)	(171)	-	(179)
Carrying amount at 31.12.2011	**136**	**21**	**1,044**	**1,112**	**2,313**
Acquisition	-	-	-	1,463	1,463
Reclassification	-	-	2,491	(2,575)	(84)
Depreciation	-	(1)	(125)	-	(126)
Carrying amount at 31.12.2012	**136**	**20**	**3,410**	-	**3,566**
Cost at 31.12.2012	136	29	3,662	-	3,827
Accumulated depreciation 31.12.2012	-	(9)	(252)	-	(261)
Carrying amount at 31.12.2012	**136**	**20**	**3,410**	-	**3,566**
Currency translation differences	(1)	-	(1)	-	(2)
Acquisition	-	-	1,080	-	1,080
Disposals	(84)	-	-	-	(84)
Reclassification	-	-	293	-	293
Depreciation	-	-	(181)	-	(181)
Carrying amount at 31.12.2013	**51**	**20**	**4,601**	-	**4,672**
Cost at 31.12.2013	51	29	5,067	-	5,147
Accumulated depreciation 31.12.2013	-	(9)	(466)	-	(475)
Carrying amount at 31.12.2013	**51**	**20**	**4,601**	-	**4,672**

As at 31.12.2013, the carrying amounts of investment properties do not significantly differ from their fair values (31.12.2012: the carrying amounts of investment properties did not significantly differ from their fair values). Fair values have mainly been estimated based on comparable transactions, with the exception of investment property to the extent of EUR 3,690 thousand in carrying amount that has been measured using the discounted cash flow method. Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

Investment properties have been acquired for the purpose of earning rental income as well as for capital appreciation or development in the future. Buildings located on the plot of land have temporarily been leased out under the operating lease terms. Information about leased investment properties is disclosed in Note 26. Maintenance costs incurred and improvement expenses are immaterial.

In the fourth quarter of 2013, the Pärna avenue 8 development project totalling EUR 1,267 thousand was acquired and reclassified from inventories to investment property for the lease of children's daycare space to the Tartu municipality.

Investment properties pledged as collateral as at 31.12.2013 for loans total EUR 4,319 thousand (2012: EUR 607 thousand) (Note 30). The Pärna avenue properties in Tartu and the court and police building in Jõgeva have been pledged as collateral to bank loans taken in 2013.

NOTE 23 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	Buildings	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2011	825	5,726	16,947	5,169	-	28,667
Accumulated depreciation at 31.12.2011	-	(1,080)	(8,733)	(2,797)	-	(12,610)
Carrying amount at 31.12.2011	**825**	**4,646**	**8,214**	**2,372**	**-**	**16,057**
Currency translation differences	-	-	(1)	-	-	(1)
Acquisition	-	62	793	450	11	1,316
Disposals	-	-	(109)	(4)	-	(113)
Reclassification	-	-	(7)	(2)	-	(9)
Write-offs	-	-	-	(6)	-	(6)
Depreciation	-	(188)	(1,551)	(652)	-	(2,391)
Carrying amount at 31.12.2012	**825**	**4,520**	**7,339**	**2,158**	**11**	**14,853**
Cost at 31.12.2012	825	5,788	16,963	5,518	11	29,105
Accumulated depreciation at 31.12.2012	-	(1,268)	(9,624)	(3,360)	-	(14,252)
Carrying amount at 31.12.2012	**825**	**4,520**	**7,339**	**2,158**	**11**	**14,853**
Acquisition	-	-	1,269	144	-	1,413
Disposals	(1)	(1)	(673)	-	-	(675)
Reclassification	-	-	9	1	(11)	(1)
Write-offs	-	-	(10)	(7)	-	(17)
Depreciation	-	(189)	(1,474)	(793)	-	(2,456)
Carrying amount at 31.12.2013	**824**	**4,330**	**6,460**	**1,503**	**-**	**13,117**
Cost at 31.12.2013	824	5,784	15,723	5,445	-	27,776
Accumulated depreciation at 31.12.2013	-	(1,454)	(9,263)	(3,942)	-	(14,659)
Carrying amount at 31.12.2013	**824**	**4,330**	**6,460**	**1,503**	**-**	**13,117**

Information on leased assets is provided in Note 26 and on lease payments in Note 27.

Property, plant and equipment pledged as collateral as at 31.12.2013 for the loan total EUR 3,851 thousand (2012: EUR 5,271 thousand) (Note 30). The group's most significant item of property, plant and equipment pledged as collateral to the loans is the Järvevana tee 9G property and the office building thereon.

NOTE 24 INTANGIBLE ASSETS

in thousands of euros

	Goodwill*	Software	Prepayments	Total
Cost at 31.12.2011	891	1,209	52	2,152
Accumulated amortisation at 31.12.2011	-	(725)	-	(725)
Carrying amount at 31.12.2011	**891**	**484**	**52**	**1,427**
Acquisitions	-	23	-	23
Amortisation	-	(85)	-	(85)
Carrying amount at 31.12.2012	**891**	**422**	**52**	**1,365**
Cost at 31.12.2012	891	1,231	52	2,174
Accumulated amortisation at 31.12.2012	-	(809)	-	(809)
Carrying amount at 31.12.2012	**891**	**422**	**52**	**1,365**
Acquisitions	-	28	-	28
Write-offs	-	-	(52)	(52)
Amortisation and impairment	(89)	(85)	-	(174)
Carrying amount at 31.12.2013	**802**	**365**	**-**	**1,167**
Cost at 31.12.2013	891	1,252	-	2,143
Accumulated amortisation at 31.12.2013	(89)	(887)	-	(976)
Carrying amount at 31.12.2013	**802**	**365**	**-**	**1,167**

* As at the balance sheet date, an impairment test was performed for the cash-generating unit AS Vooremaa Teed which goodwill is attributable to. The impairment test was performed based on the principles of conservatism. In the reporting period, a goodwill impairment loss of EUR 89 thousand was recognised (2012: goodwill was not written down) because the recoverable amount of the cash-generating unit did not exceed the carrying amount of the non-current assets and goodwill of the cash-generating unit. The recoverable amount of the assets is determined as its value in use, using management-approved cash flow projections for the next 5 years. Post-projection period cash flows are extrapolated using reasonable growth rates. The management has re-evaluated the near-term outlook for road construction and therefore, it has used 0.0% as the long-term growth rate of income and expenses, 1% (2012: 3% growth) as the average sales decline and 14% (2012: 12%) as the average EBITDA margin. The average weighted cost of capital of 9% is used as the discount rate, which takes account of the company's area of activity and risk level. For determining the budgeted gross margin, the management used previous periods' business experience and competitive situation.

NOTE 25 LEASED ASSETS

in thousands of euros

	31.12.2013	31.12.2012
Assets acquired under finance lease terms		
Registered immovables purchased for resale		
Cost	929	-
Machinery and equipment		
Cost	6,025	6,378
Accumulated depreciation	(2,362)	(2,489)
Carrying amount	**3,663**	**3,889**

Assets leased under non-cancellable operating lease terms	**2013**	**2012**
Land lease agreements		
Payments in the reporting period	2	2
Payments in subsequent periods:	17	18
Payable next year	2	2
Payable in 1…5 years	7	7
Payables after 5 years	8	9

On the basis of cancellable lease agreements, operating lease payments totalling EUR 780 thousand were paid for passenger cars in 2013 (2012: EUR 867 thousand). The Company does not intend to use a bargain purchase option for the assets leased under the operating lease terms in the reporting period.

Lease agreements does not set any limits to groups' dividend or financing policies. Rented assets have not been re-rented.

INVESTMENT PROPERTY LEASED OUT UNDER NON-CANCELLABLE OPERATING LEASE TERMS

	31.12.2013	31.12.2012
Cost	5,118	3,798
Accumulated depreciation	(466)	(252)
Carrying amount	4,652	3,546

	2013	2012
Operating lease income received for investment properties	312	212
Future operating lease income:	3,356	2,303
next year	443	312
In 1…5 years	2,018	1,112

NOTE 26 BORROWINGS

in thousands of euros

	Finance lease liabilities at present value	Loans from						Total borrowings (Note 35)
		banks	entities under common control (Note 33)	manage-ment members (Note 33)	other entities	factoring	total	
2013								
Balance at beginning of the year	2,441	22,957	8,145	102	315	1,544	33,063	35,504
Received	1,644	12,862	-	-	-	-	12,862	14,506
Paid	(1,165)	(11,808)	-	-	(2)	(1,544)	(13,354)	(14,519)
VAT paid on principal	(47)	-	-	-	-	-	-	(47)
Exchange rate difference	(1)	(58)	-	-	-	-	(58)	(59)
Loan balance at end of the year	**2,872**	**23,953**	**8,145**	**102**	**313**	-	**32,513**	**35,385**
incl. current portion	928	9,530	8,145	-	313	-	17,988	18,916
non-current portion 1…5 years	1,944	14,423	-	102	-		14,525	16,469
Interest cost of reporting period	111	636	146	5	20	9	816	927
incl. capitalised interest cost	-	92	21	-	-	-	113	113
Average effective interest rate	4.6%	2.4%	1.9%	5.0%	5.5%	2.6%		
Base currencies	EUR	EUR	EUR	EUR	EUR	EUR		
2012								
Balance at beginning of the year	2,974	29,909	6,945	-	510	-	37,364	40,338
Received	412	11,668	1,200	102	4	1,544	14,518	14,930
Paid	(902)	(18,638)	-	-	(2)	-	(18,640)	(19,542)
VAT paid on principal	(43)	-	-	-	-	-	-	(43)
Reclassification of loan to other payables	-	-	-	-	(197)	-	(197)	(197)
Exchange rate difference	-	18	-	-	-	-	18	18
Loan balance at end of the year	**2,441**	**22,957**	**8,145**	**102**	**315**	**1,544**	**33,063**	**35,504**
incl. current portion	782	5,513	8,145	-	315	1,544	15,517	16,299
non-current portion 1…5 years	1,659	17,444	-	102	-	-	17,546	19,205
Interest cost of reporting period	114	807	188	3	18	47	1,063	1,177
incl. capitalised interest cost	-	180	-	-	-	-	180	180
Average effective interest rate	3.7%	2.5%	1.9%	5.0%	5.5%	1.9%		
Base currencies	EUR	EUR, LTL	EUR	EUR	EUR	EUR		

	2013	2012
Minimum future payments under finance lease	3,067	2,580
incl. current portion	1,022	851
non-current portion with the term of 1…4 years	2,045	1,729

AS Merko Ehitus has decided to prematurely repay the bank loan taken from AS Swedbank with a balance of EUR 3,473 thousand on 28 February 2014 (the loan was contractually due 28 August 2015) and to replace it with an overdraft facility with a limit of EUR 3,500 thousand.

Borrowings with floating interest rates related to Euribor are divided by the interest rate changes and the contractual repricing dates as follows:

	2013	2012
Finance lease liabilities		
1-5 months	440	-
6-12 months	1,411	1,910
Bank loans		
1-5 months	4,195	1,719
6-12 months	19,758	21,238
Loans from entities under common control		
6-12 months	8,145	8,145
Loans from management members		
6-12 months	102	102
Factoring		
6-12 months	-	1,544
Total	**34,051**	**34,658**

Borrowings with the contractual fixed interest rate are divided as follows:

	2013	2012
Finance lease liabilities	1,021	531
Loans from other entities	313	315
Total	**1,334**	**846**

Although different risk factors prevailed in global financial markets throughout the year, it was generally a relatively stable year. The risk margins on loans did not significantly change as compared to last year because EURIBOR was stable and other risk margins have not changed significantly since the loans were taken. Therefore, we can state that the fair value of bank loans to a material extent equals their carrying amount. The fair value of loans is measured using the discounted cash flow method and on the basis of Level 3 inputs of the fair value hierarchy.

Among the loans from entities under common control, there is a loan from AS Järvevana originating from the demerger, the interest of which after the first 12 months is 12 month Euribor + 1%.

Loan collaterals and pledged assets are presented in Note 30.

NOTE 27 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2013	31.12.2012
Trade payables (Note 35)	18,753	21,602
Payables to employees	7,465	5,541
Tax liabilities, except for corporate income tax		
value added tax	1,721	2,186
personal income tax	524	533
social security tax	994	989
unemployment insurance tax	65	88
contributions to mandatory funded pension	40	40
other taxes	50	240
	3,394	**4,076**
Amounts due to customers for contract works (Notes 32, 35)	11,226	12,550
Other liabilities (Note 35)		
interest liabilities	120	113
payable for registered immovables from demerger	5,288	5,380
other liabilities	1,499	2,639
	6,907	**8,132**
Prepayments received	24,417	11,308
Total payables and prepayments	**72,162**	**63,209**
incl. payables to related parties (Note 33)	6,903	5,412

NOTE 28 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	Provision for onerous construction contracts	Provision for legal costs and claims filed (Note 35)*	Other provisions	Total provisions
2013					
Residual value at beginning of the year	1,619	2,067	1,342	1,157	6,185
Set up (Notes 3, 4, 6)	819	2,202	-	349	3,370
Used during the year	(626)	(1,517)	(1,150)	(350)	(3,643)
Exchange rate difference	(2)	-	-	(4)	(6)
Balance at end of the year	**1,810**	**2,752**	**192**	**1,152**	**5,906**
incl. current portion	1,810	2,752	192	1,152	5,906
2012					
Residual value at beginning of the year	1,367	3,526	1,326	628	6,847
Set up (Notes 3, 4, 6)	814	173	15	901	1,903
Used during the year	(563)	(1,632)	-	(372)	(2,567)
Exchange rate difference	1	-	1	-	2
Balance at end of the year	**1,619**	**2,067**	**1,342**	**1,157**	**6,185**
incl. current portion	1,619	2,067	1,342	1,137	6,165
non-current portion (Note 29)	-	-	-	20	20

* Additional information is provided in subsection "Legal risk" in Note 35.

NOTE 29 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2013	31.12.2012
Trade payables (Note 35)	2,123	1,553
Long-term interest payables	8	3
Other long-term payables	31	-
Long-term provision (Note 28)	-	20
Total other long-term payables	**2,162**	**1,576**

NOTE 30 LOAN COLLATERALS AND PLEDGED ASSETS

in thousands of euros

The group has entered into commercial pledge contracts to secure loans and other liabilities, set mortgages on assets and pledged the shares of its subsidiaries:

Commercial pledges	31.12.2013	31.12.2012
Movable property	54,638	53,897
Term deposit	1	1
Financial assets*	13,154	13,179
Total	**67,793**	**67,077**

* The financial assets of UAB Balsiu mokyklos SPV which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,727 thousand for the benefit of Nordea Bank Finland Plc.

Mortgages	31.12.2013	31.12.2012
Inventories (Note 17)	50,699	38,942
Land and buildings (Note 23)	3,851	4,016
Other non-current assets (Note 23)	-	1,255
Investment properties (Note 22)	4,319	607
Total	**58,869**	**44,820**

PLEDGES OF SHARES

In addition to the commercial pledge for financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu mokyklos SPV for the benefit of Nordea Bank Finland Plc. An investment loan in the amount of EUR 6,727 is secured by the pledge.

UAB Merko Bustas has pledged the shares of its wholly-owned subsidiary UAB MN Projektas for the benefit of Swedbank AB. An investment loan in the amount of EUR 2,056 thousand is secured by the pledge.

NOTE 31 SHARE CAPITAL

In 2013 and 2012, no changes were made to the share capital.

The Commercial Code of the Republic of Estonia specifies the following requirements for the share capital of the entities registered in Estonia:

- the minimum share capital of a public limited company shall be at least EUR 25 thousand;
- the net assets of a public limited company shall be at least one half of the Company's share capital but not less than EUR 25 thousand.

The size of share capital or its minimum and maximum limits are set out in the articles of association of a public limited company whereas the minimum share capital shall equal at least ¼ of maximum share capital.

According to the current articles of association of AS Merko Ehitus, the Company's share capital consists of 17,700 thousand registered ordinary shares without nominal value which have been fully paid for and without amending the articles of association of the public limited company, changes can be made to the Company's share capital within the range of EUR 6,000 – 24,000 thousand. As at 31.12.2013, the share capital of AS Merko Ehitus was EUR 12,000 thousand and the net assets were EUR 121,863 thousand, therefore the Company's equity and share capital were in compliance with the requirements established in the Republic of Estonia. The book value of the share is EUR 0.67797.

NOTE 32 CONSTRUCTION CONTRACTS IN PROGRESS

in thousands of euros

	31.12.2013	31.12.2012
Costs incurred for construction contracts in progress and corresponding profit*	579,287	583,046
Progress billings submitted	(577,573)	(576,615)
Revenue recorded from construction services during the period	230,575	220,135
Amounts due from customers for contract works (Notes 15, 35)	12,940	18,981
Amounts due to customers for contract works (Notes 27, 35)	(11,226)	(12,550)
Advance payments received for contract works	5,781	11,188

* Costs incurred for construction contracts in progress and corresponding profit have been presented for contracts in effect, including those entered into in 2013 and 2012.

Amounts due from customers for contract works are included in the statement of financial position line Trade and other receivables. Amounts due to customers for contract work are included in the statement of financial position line Trade and other payables.

NOTE 33 RELATED PARTY TRANSACTIONS

in thousands of euros

In compiling the Annual 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 31.12.2013 and 31.12.2012, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

GOODS AND SERVICES

in thousands of euros

	2013	2012
Provided services		
Parent company	12	6
Joint ventures	262	251
Entities under common control	1,594	29
Members of the management	68	2
Other related parties	1	668
Total services provided	**1,937**	**956**
Interest income		
Joint ventures	114	111
Purchased services and materials		
Parent company	102	115
Entities under common control	160	153
Other related parties	1	126
Total purchased services and materials	**263**	**394**
Interest expense		
Parent company	-	79
Entities under common control	146	188
Members of the management	5	3
Total interest expense	**151**	**270**

BALANCES WITH RELATED PARTIES

in thousands of euros

	31.12.2013	31.12.2012
Receivables from related parties		
Loans granted (Note 16)		
Joint ventures	5,010	4,992
Receivables and prepayments (Note 15)		
Parent company	3	9
Joint ventures	692	920
Entities under common control	399	13
Other related parties	-	1
Total receivables and prepayments	1,094	943
Total receivables from related parties	**6,104**	**5,935**
Payables to related parties		
Loans received (Note 26)		
Entities under common control	8,145	8,145
Members of the management	102	102
Total loans received	8,247	8,247
Payables and prepayments (Note 27)		
Parent company	9	12
Entities under common control	5,364	5,397
Members of the management	1,530	3
Total payables and prepayments	6,903	5,412
Total payables to related parties	**15,150**	**13,659**

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

In 2013, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid remuneration totalling EUR 2,227 thousand (2012: EUR 1,821 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, the group has the obligation to pay compensation totalling EUR 810 thousand (2012: EUR 731 thousand). In 2013, compensation was paid to the management members in the amount of EUR 50 thousand (2012: EUR 157 thousand).

EVENTS AFTER THE BALANCE SHEET DATE

The Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to recall Andres Agukas, responsible for the construction segment, from the company's Management Board, effective 7 March 2014. The change is part of the company's streamlining of the management structure whereby it improves the efficiency of management in both general contracting and engineering construction segments. The member of the Management Board will be paid termination benefits within the next 12 months pursuant to their service agreement.

NOTE 34 CONTINGENT LIABILITIES

in thousands of 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.

	31.12.2013	31.12.2012
Performance period's warranty to the customer	29,549	26,731
Tender warranty	1,251	1,929
Guarantee warranty period	12,629	11,627
Prepayment guarantee	6,780	10,020
Contracts of surety	1,705	1,507
Total contingent liabilities	**51,914**	**51,814**

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.

Tax authorities have the right to review the group's tax records within 6 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The group's management estimates that there are no circumstances which might lead the tax authorities to impose additional significant taxes on the group.

For legal risks, please refer to the respective paragraph of Note 35.

NOTE 35 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

In its daily activities, the group needs to consider various financial risks. The key risks include: market risk (incl. interest rate risk and foreign currency risk), credit risk, liquidity risk and equity risk. Based on the group's balance sheet structure and position in the market, none of these risks have a significant impact as at the date of preparation of the financial statements. The group's risk management is based on laws, regulations, requirements and regulations arising from International Financial Reporting Standards, as well as the group's internal regulations and good business practices. The group's finance department is responsible for management of financial risks.

1. 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. Swedbank AS, AS LHV Pank and SEB Pank AS do not have separate ratings by Moody's. The parent company of Swedbank AS - Swedbank AB and the parent company of SEB Pank AS - Skandinaviska Enskilda Banken AB have respectively rating A1 by Moody. Nordea Bank Finland has rating Aa3. The management estimates that the group is not exposed to significant credit risk.

FINANCIAL ASSETS EXPOSED TO CREDIT RISK

in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2013				
Cash and cash equivalents (Note 14)	46,633	-	46,633	-
Term deposits (Notes 20)	-	49	49	-
Trade receivables (Notes 15, 20)	37,460	16,384	53,844	-
Amounts due from customers for contract works (Notes 15, 32)	12,940	-	12,940	-
Loans granted (Notes 15, 16, 20)	1,399	3,633	5,032	4,983
Interest receivables (Notes 15, 20)	656	-	656	-
Other short-term receivables (Note 15)	51	-	51	-
Total	**99,139**	**20,066**	**119,205**	**4,983**
31.12.2012				
Cash and cash equivalents (Note 14)	35,316	-	35,316	-
Term deposits (Notes 20)	-	49	49	-
Trade receivables (Notes 15, 20)	34,103	13,473	47,576	-
Amounts due from customers for contract works (Notes 15, 32)	18,981	-	18,981	-
Loans granted (Notes 15, 16, 20)	1,887	3,666	5,553	5,452
Interest receivables (Notes 15, 20)	948	-	948	-
Other short-term receivables (Note 15)	1,352	-	1,352	-
Total	**92,587**	**17,188**	**109,775**	**5,452**

The group's customers are primarily large local entities or public sector entities (as at 31.12.2013, the public sector proportion in accounts receivable amounted to 57.7% (as at 31.12.2012: 37.4%)) with well-known and sufficient creditworthiness.

Trade receivables by due date (excluding long-term receivables):

	31.12.2013		31.12.2012	
Not overdue	33,996	90.8%	26,556	77.9%
1-30 days overdue	2,261	6.0%	4,988	14.6%
31-60 days overdue	352	0.9%	1,008	3.0%
61-90 days overdue	460	1.2%	245	0.7%
91-120 days overdue	22	0.1%	876	2.6%
121-180 days overdue	282	0.8%	321	0.9%
More than 180 days overdue	87	0.2%	109	0.3%
Total trade receivables (Note 15)	**37,460**	**100%**	**34,103**	**100%**

As at the balance sheet date, the amount of overdue receivables was EUR 3,464 thousand (31.12.2012: EUR 7,547 thousand), of which EUR 2,200 thousand has been collected by 15 March 2014. In a year, the share of overdue receivables in total receivables decreased from 22.1% to 9.2%. The management estimates that there are sufficient reasons to conclude that the receivables reported in the financial statement will be paid off by the buyers. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 5,010 thousand (31.12.2012: 4,992 thousand) and therefore, no additional collateral is required. As at 31.12.2013, loans granted to unrelated legal entities had been collected and a loan of EUR 15 thousand had been reclassified as a doubtful receivable (31.12.2012: EUR 475 thousand). Outstanding loan balance granted to unrelated individuals was EUR 22 thousand (31.12.2012: 86 thousand), which in management's opinion is not exposed to material credit risk. As at the year-end, the management expects to collect these loans on time.

2. MARKET 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. In 2013, the share of interest-bearing liabilities in the group's capital structure decreased and management considers this share to be moderate (as at 31.12.2013, 14,8% and as at 31.12.2012, 15.8% 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.

EFFECT OF CHANGES IN INTEREST RATE RISK ON FINANCE COSTS

As at 31.12.2013, the group's interest-bearing liabilities totalled EUR 35,385 thousand, of which short-term loans and repayments of long-term liabilities totalled EUR 18,916 thousand and long-term loans and finance lease liabilities totalled EUR 16,469 thousand. Loan interest depended on interbank 1-12 month loan base interest in the entity's domicile and Euribor. As at 31.12.2013, the break-down of interest-bearing borrowings was as follows:

	31.12.2013	31.12.2012
Fixed rate liabilities	1,334	846
Variable rate liabilities 1-5 months	4,635	1,719
Variable rate liabilities 6-12 months	29,416	32,939
Total interest-bearing borrowings	**35,385**	**35,504**

The management does not expect big changes in base interest rates, the market is stable and base interest rates remain low. Assuming that average EURIBOR is 10 bp higher over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 34 thousand.

In addition to risk arising from changes in Euribor, there is risk due to changes in the risk margin attributable to the changes in the economic environment related refinancing of liabilities. This is most directly manifested in a possible need to extend overdraft credit contracts. As at the year-end, group entities had entered in overdraft contracts with banks in the total limit amount of EUR 6,488 thousand, of which EUR 200 thousand was withdrawn. In 2013, contracts in the total amount of EUR 3,895 thousand will expire, the extension of which is currently under consideration.

FOREIGN EXCHANGE RISK

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvian lats in 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 Lithuania is expected to adopt 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. The break-down of assets and liabilities in local currencies as at the balance sheet date is as follows:

	In EUR	In LVL	In LTL
31.12.2013			
Assets	67.0%	23.4%	9.6%
Liabilities	78.7%	12.5%	8.8%
31.12.2012			
Assets	63.5%	25.8%	10.7%
Liabilities	79.8%	14.5%	5.7%

If as at the year-end, the national currencies of Latvia and Lithuania had been devalued by 25%, the Group would have incurred additional finance costs in the amount of EUR 9,120 thousand, incl. EUR 6,317 thousand on Latvian and EUR 2,803 thousand on Lithuanian position. 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.

3. LIQUIDITY RISK

The Company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2013, the group´s current ratio was 2.0 (31.12.2012: 2.1) and the quick ratio 1.1 (31.12.2012: 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 year, the group entities had concluded overdraft contracts with banks in the total amount of EUR 6,488 thousand, of which EUR 6,288 thousand was unused (31.12.2012: EUR 6,489 thousand, of which EUR 6,294 was unused). In addition to the overdraft facility, the Company has a current loan facility with the limit of EUR 3,500 thousand (31.12.2012: EUR 3,500 thousand) from AS Riverito, which had not been withdrawn in full as at the end of current and previous financial years.

The management estimates that the group's capital structure – a solid proportion of equity at 50.9% of the balance sheet total and a moderate proportion of interest bearing liabilities at 14.8% 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.

FINANCIAL ASSETS/LIABILITIES

in thousands of euros

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2013					
Assets					
Cash and overnight deposits (Note 14)	46,633	-	-	46,633	46,633
Term deposits (Notes 20)	-	-	49	49	49
Trade receivables (Notes 15, 20)	27,346	10,114	16,384	53,844	53,844
Due from customers of construction works (Notes 15, 32)	12,940	-	-	12,940	12,940
Loans and interest (Notes 15, 16, 20)	1,669	386	3,633	5,688	5,688
Other short-term receivables (Note 15)	51	-	-	51	51
Total	**88,639**	**10,500**	**20,066**	**119,205**	**119,205**
Liabilities					
Trade payables (Notes 27, 29)	16,208	2,545	2,123	20,876	20,876
Due to customers of construction works (Notes 27, 32)	11,226	-	-	11,226	11,226
Loan and finance lease liabilities (Note 26)*	4,024	14,892	16,469	35,385	35,385
Other liabilities (Note 27, 29)	1,360	5,547	39	6,946	6,946
Total	**32,818**	**22,984**	**18,631**	**74,433**	**74,433**
Net assets / liabilities	**55,821**	**(12,484)**	**1,435**	**44,772**	**44,772**

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2012					
Assets					
Cash and overnight deposits (Note 14)	35,316	-	-	35,316	35,316
Term deposits (Notes 20)	-	-	49	49	49
Trade receivables (Notes 15, 20)	29,055	5,048	13,473	47,576	45,576
Due from customers of construction works (Notes 15, 32)	18,981	-	-	18,981	18,981
Loans and interest (Notes 15, 16, 20)	1,915	920	3,666	6,501	6,501
Other short-term receivables (Note 15)	1,320	32	-	1,352	1,352
Total	**86,587**	**6,000**	**17,188**	**109,775**	**109,775**
Liabilities					
Trade payables (Notes 27, 29)	15,937	5,665	1,553	23,155	23,155
Due to customers of construction works (Notes 27, 32)	12,550	-	-	12,550	12,550
Loan and finance lease liabilities (Note 26)*	8,916	7,383	19,205	35,504	35,504
Other liabilities (Note 27, 29)	5,431	2,701	3	8,135	8,135
Total	**42,834**	**15,749**	**20,761**	**79,344**	**79,344**
Net assets/ liabilities	**43,753**	**(9,749)**	**(3,573)**	**30,431**	**30,431**

* The schedule of expected interest payments cannot be determined with reasonable accuracy. In line with the best practice of property development, the loan obligations to acquire land plots have been assumed with open-end maturities. The repayment of these loan obligations depends on the progress of related development projects and on the timing of cash flows generated from those projects after their completion. Consequently, the management is of opinion that even its best estimate of the timing of expected interest payments would not be sufficiently accurate for the users of these financial statements and this information has not been disclosed.

CAPITAL MANAGEMENT

The group considers debt and total equity as capital. As at 31.12.2013, the total equity attributable to equity owners of the parent was EUR 121,863 thousand (31.12.2012: EUR 116,925 thousand). The group's principle is to maintain a strong equity base for the purpose retaining its trustworthiness among its shareholders, creditors and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to generate income for its shareholders and ensure its ability to pay dividends.

The group's equity is currently greatly related to the land plots portfolio invested for the purpose of real estate development, which the group has either increased or decreased according to the changes in the market primarily through its own developments. The group can additionally regulate the equity structure through dividends payable to shareholders or repayments of paid in share capital.

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio should be at least 40% (31.12.2013: 50.9%, 31.12.2012: 52.0%) and interest-bearing debt to assets ratio would not exceed 25% (31.12.2013: 14.8%, 31.12.2012: 15.8%). The requirement laid down in the overdraft contract entered into with Nordea Bank Finland Plc Estonia branch specifies that the share of the company's consolidation equity in total assets would not fall below 35% and the group has complied with this requirement.

According to the good market practice, the group uses the ratio of net debt to total capital to monitor its capital:

	31.12.2013	31.12.2012
Borrowings	35,385	35,504
Less: cash and cash equivalents and short-term deposits	(46,633)	(35,316)
Net debt	(11,248)	188
Total equity attributable to owners of the parent	121,863	116,925
Total net debt and equity attributable to equity owners of the parent	110,615	117,113
Share of net borrowings	-10.2%	0.2%

The group's net debt at 31.12.2013 stood at negative EUR 11.2 million (31.12.2012: positive EUR 0.2 million).

MANAGEMENT OF OTHER RISKS

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 31 December 2013, a provision has been set up at the group in the amount of EUR 192 thousand for covering potential claims and legal costs (31 December 2012: EUR 1,342 thousand), (Note 28).

An overview of the key legal disputes of group entities ended during 2013 and ongoing as of 31.12.2013 is presented below.

ESTONIA

On 30 March 2012, Harju County Court pronounced the judgment in criminal matter No. 1-09-20251. According to said judgment, AS Merko Ehitus, OÜ Metsailu, OÜ Woody, OÜ Constancia were convicted based on Penal Code section 297 subsection 3 (granting or promising a gratuity by a legal person) imposing a pecuniary punishment to AS Merko Ehitus in the amount of EUR 300 thousand, to OÜ Woody and OÜ Constancia each in the amount of EUR 200 thousand and to OÜ Metsailu in the amount of EUR 100 thousand. Said amounts were subject to further corporate income tax at the 21/79 rate pursuant to law.

At 21 January 2013, Tallinna District Court upheld the judgement of Harju County Court and dismissed the appeals of AS Merko Ehitus, OÜ Metsailu, OÜ Woody and OÜ Constancia. On 8 May 2013, the Supreme Court resolved not to accept the appeal in cassation submitted by OÜ Metsailu, OÜ Woody, AS Merko Ehitus and OÜ Constancia in criminal matter No 1-09-20251. This means that the judgement of Tallinn District Court of 21 January 2013, by which the judgment of conviction by Harju County Court of 30 March 2012 was not amended, entered into force.

AS Merko Ehitus and the convicted subsidiaries paid the fines ordered in the amount of EUR 800 thousand, as well as taxes thereon, in the second quarter of 2013.

AS Merko Tartu

On 23 August 2013, Harju County Court made the judgement, which partially satisfied the claim of OÜ Sanitex IM (in liquidation) and ordered AS Merko Tartu to pay principal debt in the amount of EUR 96 thousand, interest of EUR 1 thousand

and starting from 1 June 2011 interest on principal debt of 15% per annum until the payment of the principal debt (the accruing interest charge was EUR 33 thousand as at 27 September 2013). The claim resulted from disputes held over the quality and deadline of construction works performed in Ringtee Selver Tartu in the year 2008. AS Merko Tartu did not appeal the judgment and the judgement entered into force on 24 September 2013. The total claim of EUR 130 thousand was paid in September 2013 by AS Merko Tartu.

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.

LITHUANIA

Vakarų

At 25 May 2012, RUAB Vakarų inžineriniai tinklai (hereinafter "Vakaru") 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. A judgement in the litigation with regard to declaring invoices partially unjustified is expected in April 2014. The future court hearing regarding the invalidation of the joint venture agreement is scheduled for 31 March 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.

VALUE OF ASSETS

Although the economic environment has attained certain stability, the effect of the real estate market risk was material for assessing the company's activities. In 2013, the group recognised EUR 458 thousand in impairment losses on assets and inventories, incl. impairment loss of EUR 330 thousand on developments under acquired properties for sale, EUR 89 thousand on goodwill impairment under intangible assets and EUR 39 thousand on the write-off of doubtful and irrecoverable receivables (2012: EUR 448 thousand). In 2013, prior period impairment losses on work-in-progress under inventories were reversed in the amount of EUR 337 thousand. In 2012, no impairment losses were recognised on inventories and previous impairment losses were not reversed. In 2013, receivables expensed in prior periods of EUR 49 thousand were collected (2012: EUR 7 thousand).

NOTE 36 SUPPLEMENTARY DISCLOSURES ON THE PARENT

The financial information of the parent comprises separate primary statements of the parent (income statement, statement of financial position, cash flow statement and statement of changes in equity), the disclosure of which is required by the Estonian Accounting Act. The primary financial statements of the parent have been prepared using the same accounting methods and measurement bases as those used for the preparation of the consolidated financial statements, except for subsidiaries, associates and joint ventures which are reported at cost in the separate primary financial statements of the parent.

INCOME STATEMENT

in thousands of euros

	2013	2012
Revenue	14,393	13,815
Cost of goods sold	(13,485)	(14,357)
Gross profit	**908**	**(542)**
Marketing expenses	(203)	(102)
General and administrative expenses	(1,468)	(1,393)
Other operating income	2,272	46,540
Other operating expenses	(156)	(512)
Operating profit	**1,353**	**43,991**
Finance costs	(285)	(440)
Finance income from investments in subsidiaries	5,303	-
Finance income from investments in associates	-	2,771
Profit (loss) before tax	**6,371**	**46,322**
Deferred income tax expense	(232)	(137)
Net profit(loss) for the year	**6,139**	**46,185**

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2013	31.12.2012
ASSETS		
Current assets		
Cash and cash equivalents	15,014	8,313
Receivables and prepayments	42,393	14,194
Prepaid corporate income tax	-	406
Inventories	13,646	15,940
	71,053	**38,853**
Non-current assets		
Investments in subsidiaries	101,501	104,195
Investments in joint ventures	404	54
Other long-term financial assets	5,415	33,284
Investment property	20	20
Property, plant and equipment	108	145
	107,448	**137,698**
TOTAL ASSETS	**178,501**	**176,551**
LIABILITIES		
Current liabilities		
Borrowings	8,439	12,519
Trade and other payables	13,493	9,432
Short-term provisions	584	946
	22,516	**22,897**
Non-current liabilities		
Long-term borrowings	749	104
Other long-term trade payables	857	-
	1,606	**104**
TOTAL LIABILITIES	**24,122**	**23,001**
EQUITY		
Share capital	12,000	12,000
Statutory reserve capital	1,200	1,200
Retained earnings	141,179	140,350
TOTAL EQUITY	**154,379**	**153,550**
TOTAL LIABILITIES AND EQUITY	**178,501**	**176,551**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2011	12,000	1,131	94,234	107,365
Net profit for financial year	-	-	46,185	46,185
Increase of statutory reserve capital	-	69	(69)	-
Balance as at 31.12.2012	12,000	1,200	140,350	153,550
Carrying amount of holdings under dominant or significant influence				(104,249)
Value of holdings under dominant or significant influence under the equity method				67,624
Adjusted unconsolidated equity 31.12.2012				**116,925**
Net profit for financial year	-	-	6,139	6,139
Dividends	-	-	(5,310)	(5,310)
Balance as at 31.12.2013	12,000	1,200	141,179	154,379
Carrying amount of holdings under dominant or significant influence				(101,905)
Value of holdings under dominant or significant influence under the equity method				69,389
Adjusted unconsolidated equity 31.12.2013				**121,863**

Adjusted unconsolidated retained earnings represent the amount that is available for distribution to the shareholders according to the Estonian Accounting Act.

CASH FLOW STATEMENT

in thousands of euros

	2013	2012
Cash flows from operating activities		
Operating profit	1,353	43,991
Adjustments:		
Depreciation and impairment charge	40	14
(Profit)/loss from sale of a business unit	-	(43,111)
Adjustment of revenue from construction contracts under stage of completion method	382	3,772
Interest income from business activities	(2,144)	(3,424)
Change in provisions	(181)	(2,332)
Change in trade and other receivables related to operating activities	984	43,523
Change in inventories	2,316	5,409
Change in trade and other payables related to operating activities	4,443	(21,227)
Interest received	773	658
Interest paid	(178)	(416)
	7,788	**26,857**
Cash flows from investing activities		
Investments in subsidiaries	(25,142)	(57,696)
Liquidation of subsidiary	2	-
Reduction of equity in subsidiary	6,200	-
Increase of equity in joint venture	(350)	-
Acquisition of associates	-	2,750
Sale of other financial investments	-	144
Purchase of property, plant and equipment	(4)	(134)
Proceeds from sale of property, plant and equipment	-	52
Sale of a business unit	-	43,111
Repayments of loans granted	21,580	-
Interest received	32	12
Dividends received	5,357	85
	7,675	**(11,676)**
Cash flows from financing activities		
Proceeds from borrowings	815	3,996
Loan repayments received	(4,248)	(16,523)
Finance lease principal payments	-	(4)
Dividends paid	(5,310)	-
	(8,743)	**(12,531)**
Net increase/decrease in cash and cash equivalents	**6,720**	**2,650**
Cash and cash equivalents in the beginning of period	8,313	5,665
Effects of changes in foreign exchange rates	(19)	(2)
Cash and cash equivalents at end of the period	15,014	8,313

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2013 ANNUAL REPORT

The Management Board of AS Merko Ehitus has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2013.

Andres Trink	Chairman of the Management board	28.03.2014
Tõnu Toomik	Member of the Management Board	28.03.2014

The Supervisory Board has reviewed the Annual Report which consists of the management report and the financial statements prepared by the Management Board, and which also includes the auditor's report and the profit allocation proposal, and approved it for presentation at the General Meeting of Shareholders.

Toomas Annus	Chairman of the Supervisory Board	07.04.2014
Teet Roopalu	Member of the Supervisory Board	07.04.2014
Indrek Neivelt	Member of the Supervisory Board	07.04.2014
Olari Taal	Member of the Supervisory Board	07.04.2014

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Merko Ehitus

We have audited the accompanying consolidated financial statements of AS Merko Ehitus and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Merko Ehitus and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325
31 March 2014

Märten Padu
Auditor's Certificate No.513

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2013	**109,332,209**
incl. net profit for 2013	10,399,101
The Management Board proposes profit allocation as follows:	
Dividends (EUR 0.41 per share)	7,257,000
Retained earnings after profit allocation	**102,075,209**

Andres Trink	Chairman of the Management Board	31.03.2014
Tõnu Toomik	Member of the Management Board	31.03.2014

KEY FINANCIAL INDICATORS IN 2009-2013

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2013	2012	2011	2010	2009
Revenue	262,719	249,131	219,322	171,919	203,316
Cost of goods sold	(239,996)	(231,220)	(222,928)	(159,105)	(181,200)
Gross profit	**22,723**	**17,911**	**(3,606)**	**12,814**	**22,116**
% of revenue	8.6%	7.2%	-1.6%	7.5%	10.9%
Marketing expenses	(3,041)	(2,107)	(2,104)	(2,193)	(3,009)
General and administrative expenses	(9,260)	(9,173)	(7,910)	(8,724)	(9,842)
Other operating income	2,264	2,961	2,580	961	921
Other operating expenses	(425)	(834)	(1,308)	(478)	(1,746)
Operating profit	**12,261**	**8,758**	**(12,348)**	**2,380**	**8,440**
% of revenue	4.7%	3.5%	-5.6%	1.4%	4.2%
Finance income	84	184	594	696	2,525
Finance costs	(1,062)	(1,203)	(1,161)	(908)	(1,573)
Profit (loss) from associates and joint ventures	(138)	163	(1,120)	(398)	(1,731)
Profit before tax	**11,145**	**7,902**	**(14,035)**	**1,770**	**7,661**
% of revenue	4.2%	3.2%	-6.4%	1.0%	3.8%
Corporate income tax expense	(791)	(289)	(121)	(710)	(543)
Net profit for the financial year	**10,354**	**7,613**	**(14,156)**	**1,060**	**7,118**
Incl. attributable to equity holders of the parent	10,399	7,627	(14,084)	1,229	7,424
% of revenue	4.0%	3.1%	-6.4%	0.7%	3.7%
Attributable to non-controlling interests	(45)	(14)	(72)	(169)	(306)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
ASSETS					
Current assests					
Cash and cash equivalents	46,633	35,316	18,510	9,856	22,991
Short-term deposits	-	-	140	2,651	25,623
Trade and other receivable	57,172	60,343	64,449	44,938	42,306
Prepaid corporate income tax	19	478	686	1,366	248
Inventories	87,451	82,830	87,834	93,048	98,199
	191,275	**178,967**	**171,619**	**151,859**	**189,367**
Non-current assets					
Investments in joint ventures	7,349	7,190	9,986	11,053	11,467
Other long-term loans and receivables	20,066	17,188	17,065	8,258	2,075
Deferred income tax assets	1,592	1,919	1,870	1,571	2,050
Investment property	4,672	3,566	2,313	3,585	1,058
Property, plant and equipement	13,117	14,853	16,057	17,747	17,018
Intangible assets	1,167	1,365	1,427	1,508	1,549
	47,963	**46,081**	**48,718**	**43,722**	**35,217**
TOTAL ASSETS	**239,238**	**225,048**	**220,337**	**195,581**	**224,584**
LIABILITIES					
Current liabilities					
Borrowings	18,916	16,299	16,574	12,554	28,605
Payables and prepayments	72,162	63,209	61,635	39,154	50,009
Corporate income tax liability	62	-	-	-	335
Short-term provisions	5,906	6,165	6,781	3,674	2,410
	97,046	**85,673**	**84,990**	**55,382**	**81,359**
Non-current liabilities					
Long-term borrowings	16,469	19,205	23,764	13,185	4,878
Deferred income tax liability	505	327	131	-	-
Other long-term payables	2,162	1,576	856	846	681
	19,136	**21,108**	**24,751**	**14,031**	**5,559**
TOTAL LIABILITIES	**116,182**	**106,781**	**109,741**	**69,413**	**86,918**
EQUITY					
Non-controlling interests	1,193	1,342	1,356	1,428	1,734
Equity attributable to equity holders of the parent					
Share capital	12,000	12,000	12,000	11,312	11,312
Statutory reserve capital	1,200	1,200	1,131	1,131	1,131
Currency translation differences	(669)	(512)	(570)	(924)	(947)
Retained earnings	109,332	104,237	96,679	113,221	124,436
	121,863	**116,925**	**109,240**	**124,740**	**135,932**
TOTAL EQUITY	**123,056**	**118,267**	**110,596**	**126,168**	**137,666**
TOTAL LIABILITIES AND EQUITY	**239,238**	**225,048**	**220,337**	**195,581**	**224,584**

OTHER KEY FIGURES

attributable to equity holders of the parent

		2013	2012	2011	2010	2009
EBITDA	million EUR	15.1	11.4	-10.1	4.8	10.8
EBITDA margin	%	5.7	4.6	-4.6	2.8	5.3
General expense ratio	%	4.7	4.5	4.6	6.4	6.3
Staff costs ratio	%	11.8	11.2	10.2	12.4	11.4
Revenue per employee	thousand EUR	308	278	235	208	253
ROE	%	8.8	6.8	-12.2	1.0	5.5
ROA	%	4.4	3.4	-6.6	0.6	3.2
ROIC	%	8.0	6.0	-9.0	1.6	5.3
Equity ratio	%	50.9	52.0	49.6	63.8	60.5
Debt ratio	%	14.8	15.8	18.3	13.2	14.9
Current ratio	times	2.0	2.1	2.0	2.7	2.3
Quick ratio	times	1.1	1.1	1.0	1.1	1.1
Accounts receivable turnover	days	58	58	56	46	58
Accounts payable turnover	days	43	47	45	40	35
Number of employees 31.12	people	860	915	917	923	702
Average number of employees	people	853	895	934	825	805
Secured order book	million EUR	214	190	166	200	83
New contracts signed	million EUR	254	247	168	271	74

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2013	2012	2011	2010	2009
Earnings per share (EPS)	EUR	0.59	0.43	-0.80	0.07	0.42
Equity per share	EUR	6.71	6.34	6.51	7.31	7.63
Dividend per share	EUR	0.41*	0.30	0.00	0.10	0.70
Dividend rate	%	70*	70	0	144	168
Dividend yield	%	5.7*	5.1	0.0	1.1	14.0
P/E ratio	times	12.25	13.69	-6.79	130.32	11.97
P/B ratio	times	1.07	0.93	0.83	1.24	0.66
Share price trend						
Average	EUR	6.96	6.04	7.49	7.72	3.71
Highest	EUR	7.70	7.30	10.65	9.89	5.78
Lowest	EUR	5.71	5.37	4.90	5.05	1.85
Share price 31.12	EUR	7.20	5.90	5.40	9.05	5.02
Market value 31.12	million EUR	127.4	104.40	95.60	160.20	88.80
Share turnover trend						
Share turnover	million EUR	5.08	5.47	8.02	13.09	9.38
Share turnover of shares outstanding	%	28.7	30.9	45.3	74.0	53.0
Transactions	pcs	2,183	1,662	3,719	4,490	3,862
Shares traded	million pcs	0.73	0.94	1.06	1.70	2.78
Number of shares	million EUR	17.70	17.70	17.70	17.70	17.70
Number of shareholders 31.12	pcs	1,425	1,406	1,576	1,441	1,220

DEFINITIONS OF RATIOS

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

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REVENUE BREAK-DOWN OF THE PARENT PRESENTED ACCORDING TO THE ESTONIAN CLASSIFICATIONS OF ECONOMIC ACTIVITIES

Revenue break-down of the parent of AS Merko Ehitus for the year 2013 is presented according to Estonian Classifications of Economic Activities (EMTAK 2008), as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		2013	2012
	Rendering of construction services		
4110	development of building projects	-	1,610
4221	construction of utility projects for fluids	4,034	241
4299	construction of other civil engineering projects n.e.c.	25	11
		4,059	**1,862**
	Real estate activities		
6810	sales of own real estate	10,296	11,918
6820	renting and operating of own or leased real estate	38	35
		10,334	**11,953**
	Total revenue	**14,393**	**13,815**

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2013

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