



AS MERKO EHITUS

GROUP

2014 3 months
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2014 – 31.12.2014
Reporting period:	01.01.2014 – 31.03.2014
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

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

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

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

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

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

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



THE CLOSING OF INDUSTRIAL WASTE AND SEMI-COKE LANDFILL IN KOHTLA-JÄRVE CONTINUES IN 2014

VISION

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

VALUES

RESPONSIBILITY

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

KEEPING PROMISES

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

COMPETENCE

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

INITIATIVE

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

CREATIVITY

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

STRATEGY

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

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

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

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

dividend rate
50-70%
of annual profit

equity ratio
at least
40%

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

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

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

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

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

MANAGEMENT REPORT

OVERVIEW OF THE 3 MONTHS RESULTS

REVENUE

Revenue in Q1 2014 was EUR 48.9 million (Q1 2013: EUR 47.9 million), which has increased 2.1% compared to the same period last year. The share of revenue earned outside of Estonia has increased in Q1 2014 to 33.4% (Q1 2013: EUR 21.6%).

PROFITABILITY

Net profit in Q1 was EUR 0.7 million (comparable figure in Q1 2013: EUR 1.8 million). Gross margin in Q1 was 8.1% (Q1 2013: 8.8%), which has decreased by 9.0% compared to the same period last year. Current period's net profit has been exceptionally effected by the dividend tax expense of Gustaf Tallinn OÜ in the amount of EUR 0.3 million.

CASH POSITION

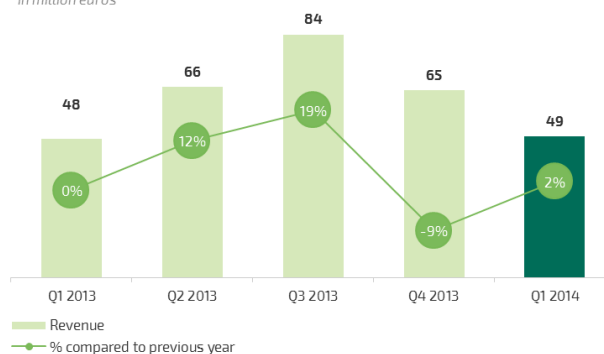
At the end of the reporting period, the group had EUR 51.9 million in cash and cash equivalents and equity EUR 122.6 million (51.0% of total assets). Comparable figures in 2013 were accordingly EUR 35.8 million and EUR 118.6 million (52.9% of total assets).

SECURED ORDER BOOK

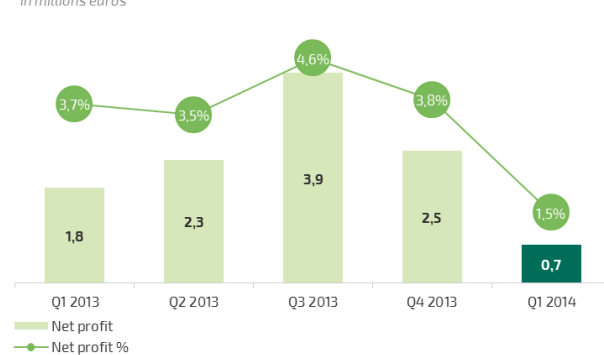
In Q1 2014, group companies signed new contracts in the amount of EUR 48.6 million (Q1 2013: EUR 44.6 million) and as at 31 March 2014, the group's secured order book stood at EUR 224.0 million (31 March 2013: EUR 193.4 million).

THE AGM OF SHAREOLDERS APPROVED THE DIVIDEND PAYOUT OF 0,41 EURO PER SHARE

GROUP REVENUE
in million euros



GROUP NET PROFIT
in millions euros



CHANGES IN GROUP STRUCTURE

In Q1 2014 the group sold its 80% share in subsidiary Gustaf Tallinn OÜ.

		Q1 '14	Q1 '13	VARIANCE	2013
Revenue	million EUR	48.9	47.9	+2.1%	262.7
Gross profit	million EUR	3.9	4.2	-7.1%	22.7
Gross profit margin	%	8.1	8.8	-9.0%	8.6
Net profit (parent)	million EUR	0.7	1.8	-59.8%	10.4
Net profit margin	%	1.5	3.7	-60.6%	4.0
EPS	EUR	0.04	0.10	-59.8%	0.59

		31.03.14	31.03.13	VARIANCE	31.12.13
ROE (on yearly basis)	%	7.8	8.1	-3.4%	8.8
Equity ratio	%	51.0	52.9	-3.7%	50.9
Secured order book	million EUR	224.0	193.4	+15.8%	213.7
Total assets	million EUR	240.5	224.0	+3.4%	239.2
Number of employees	people	824	870	-5.3%	860

Calculations of ratios are provided on page 29 of the report.

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

The company's prediction of the greatest contributors to the construction market in the upcoming quarters has not changed significantly compared to the 2013 annual report.

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

For 2014, we are forecasting a 10-15% decline in the volume of Baltic construction contracts, which is primarily related to the expected decrease in the volume of public procurement tenders resulting from the expiry of the previous European Unions (EU's) 2007-2013 budgeting period and the uncertainty regarding the allocation of funding of the new EU financial framework period 2014-2020 for construction market investments. 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 – it is expected that during the new financial framework period, there will be less EU funds going to the construction market and there will also be fewer large-scale infrastructure projects. From the point of view of the development of the construction sector in the near term, it is paramount to start preparing for construction projects being financed as part of the new financial framework period and the call for tenders by the government in 2014. As new projects require extensive preparation, we estimate that there will 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 hope to make investments in the commerce, logistics and other commercial space segment on favourable terms in light of general weakness in the construction market. The total number of projects launched by private contracting entities has significantly grown in the last year. Whilst nearly half of the construction contracts were concluded with private contracting entities in 2013, a majority of the contracts concluded by the group in the first 3 months of 2014 can be associated with public orders. However there is a trend towards a decrease in the share of public sector orders and an increase in the share of private sector orders. Nevertheless, private contracting entities will not be able to make up in full for the reduction in government contracts in the construction market.

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

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

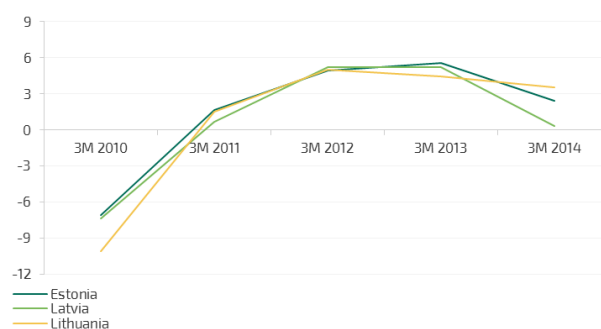
The situation in the apartment market in all three Baltic States continues to improve. Despite of consumers remaining price-sensitive, demand for new quality residential premises in good locations remains high in the capitals of Baltic States. Developers are now starting new projects with more determination in all three Baltic States but above all in the capitals which increases the supply of new apartments. Whereas in 2014 we see the demand to continue to remain relatively strong, 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. At the same time, it must be noted that although demand for loans has increased, the proportion of loans in buying real estate or construction is substantially lower than in the boom years, which means that more investments are made on equity.

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

In the Latvian apartment market, the share of foreign investors who invest with the objective of acquiring a residence permit for the European Union continues to support the market, although their share in the new apartment market is not decisive. Additionally, the increased lending of banks to individual customers could improve the Latvian apartment market; so far the volume of new home loans has been modest. After the government reshuffle at the end of 2013, Latvia has, once again, actively started to plan changes in the legislation for issuing residence permits. Scheduled to enter into force in 2015, these changes are bound to add some uncertainties with regard to the future demand. 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.

Taking into consideration the weak growth outlook of the construction sector, the wage pressure is likely to remain modest. 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 outcome is, in particular the development of construction sector, the corresponding effect could consequently influence the labor costs, most of all in Estonia. Subcontractors' prices have not declined in step with general contractors, which means that it is above all the profitability of general contractors that is under pressure. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events.

3M CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: Local national statistical offices.

	3 MONTHS 2014		
	Estonia	Latvia	Lithuania
Construction price index annual change	+2.4%	+0.3%	+3.5%
Labour force	+3.0%	+1.8%	+7.8%
Construction machines	+2.1%	-0.3%	+1.6%
Buildin materials	+1.9%	+0.4%	+1.5%

Source: Local national statistical offices.

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

OPERATING RESULTS

BUSINESS ACTIVITIES

Key financial indicators (in million euros)

	3M 2014	3M 2013	12M 2013
Revenue			
Estonia	32.6	37.5	211.9
Latvia	14.0	8.4	44.4
Lithuania	2.3	2.0	6.4
Revenue total	48.9	47.9	262.7
Gross profit	3.9	4.2	22.7
EBITDA	1,9	2,9	15.1
Operating profit (EBIT)	1.3	2.3	12.3
Net profit			
attributable to equity holders of the parent	0.7	1.8	10.4
attributable to non-controlling interest	(0.1)	0.0	0.0
Net profit total	0.6	1.8	10.4
Earnings per share (EPS), euros	0.04	0.10	0.59
Cash and cash equivalents closing position	51.9	35.8*	46.6

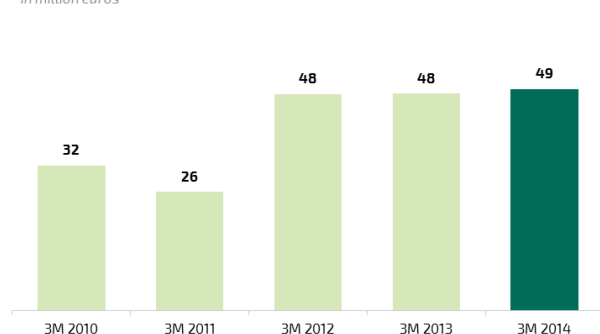
* incl short-term deposits in the amount of EUR 2.5 million

REVENUE AND GROSS PROFIT

Merko Ehitus group generated a total of EUR 48.9 million in revenue in 3 months of 2014 (3 months of 2013: EUR 47.9 million). 66.6% of the revenue was generated in Estonia, 28.6% in Latvia and 4.8% in Lithuania (3 months of 2013: 78.4% in Estonia, 17.4% in Latvia and 4.2% in Lithuania). Compared to the first 3 months of 2013 the group revenue increased by 2.1%. During the reporting period, orders from the private sector have increased as an ongoing trend. In the first quarter of 2014 the share of Latvian revenue has increased from 17.4% to 28.6%, which is an ongoing trend in 2014. The increase in revenue, compared to the same period last year, can be mainly attributed to projects pursued in the general construction, real estate development and road construction segment. At the same time there has been a significant reduction in sales revenue from engineering construction segment, which is primarily due to the end of major projects financed from EU structural funds and the reduced project volumes.

The group's objective is to increase the revenues outside Estonia. Therefore we are continually monitoring the development of and searching for opportunities in the neighbouring markets.

GROUP REVENUE
in million euros



GROUP GROSS PROFIT MARGIN
percentages



In 3 months of 2014 the group's gross profit from development and construction activities totalled EUR 3.9 million (3 months of 2013: EUR 4.2 million). The gross profit margin (8.1%) has decreased compared to the same period last year (3 months of 2013: 8.8%). The main impact is from the general construction segment and the decrease of civil engineering segment volumes. At the same time the margin has been supported by road construction segment and the higher profitability in real estate development segment. The scarcity of projects and the ever-tightening competition in the construction sector pose a huge challenge in the maintaining of the current gross profit margin for new procurements in all segments, but especially in general construction, where competition and the number of companies participating at the procurements is the highest

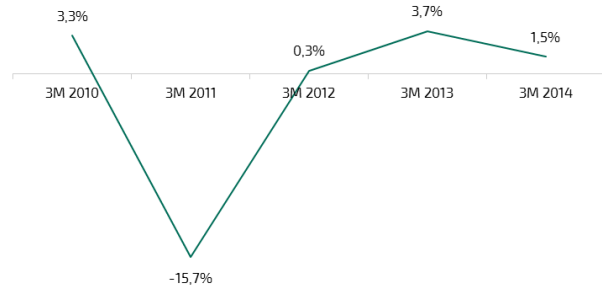
NET PROFIT

In 3 months of 2014, the group's profit before tax totalled EUR 1.1 million and net profit attributable to equity holders of the parent was EUR 0.7 million as compared to the pre-tax profit of EUR 2.0 million and net profit attributable to equity holders of the parent of EUR 1.8 million in 3 months of 2013. Group's net profit margin was 1.5% (3 months of 2013: 3.7%). The net profit for the first quarter of 2014 was affected by the income tax expenses paid on the dividends received from OÜ Gutsaf Tallinn in the amount of EUR 0.3 million. This will increase the income tax expenses as extraordinary one-off item, compared to the first quarter of 2013.

GROUP NET PROFIT
in million euros

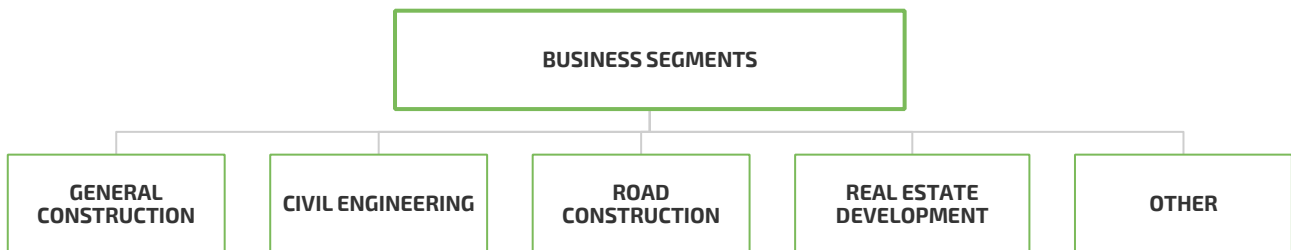


GROUP NET PROFIT MARGIN
percentages



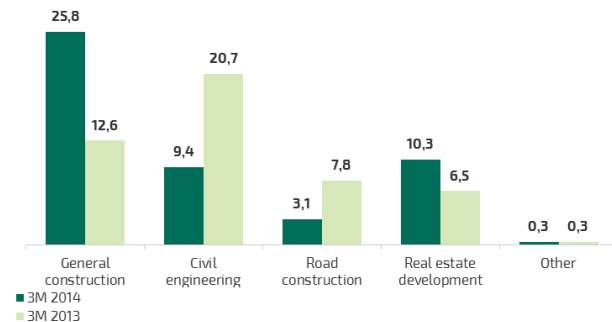
BUSINESS SEGMENTS

The group companies operate mainly in Estonian, Latvian and Lithuanian market and depending on the country provide services across the following segments: general construction, civil engineering (including electrical and external networks), road construction, real estate development (including apartment development and sales, long-term real estate investments and commercial real estate projects) and other comprising sale of raw materials obtained from pit mining, equipment lease, consulting and construction supervision. See also the management structure on page 23.

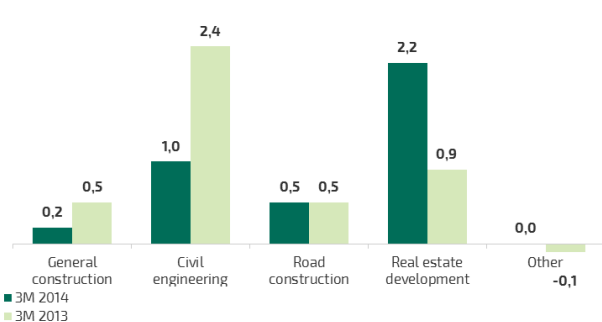


GROUP REVENUE AND GROSS PROFIT BY BUSINESS SEGMENTS

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

	3 MONTHS 2014	3 MONTHS 2013	CHANGE	12M 2013
Revenue	25.8	12.6	+105.4%	86.6
% of total revenue	52.8%	26.3%	+101.2%	32.9%
Gross profit (loss)	0.2	0.5	-54.9%	(0.5)
Gross profit margin	0.8%	3.8%	-78.0%	-0.6%

In the first 3 months of 2014, the revenue of the general construction segment increased by 105.4% from the same period last year. At the same time the segments gross profit has decreased by 54.9% and the segments overall gross profit for the period is EUR 0.2 million (3 months of 2013: EUR 0.5 million). The segment continues to be mainly influenced by the pressure on the margins exerted by tightening competition. In the first quarter the revenue of the general construction segment formed the largest proportion in the group's revenue with a 52.8% share. The tight competition in the general construction segment has left its mark on the segments gross margin (3 months of 2014: 0.8%), having decreased 78.0% compared to the same period last year.

While in 2013 the market saw an increase in private sector orders, then the trend has continued in the first 3 months of 2014. As at the end of the quarter the private sector projects make up more than half of general construction segment projects in work.

Our major projects in the first quarter included the construction of Tondiraba ice arena and Hilton Tallinna Park hotel construction works in Tallinn, the reconstruction work at the North-Estonia Medical Centre in Mustamäe, the construction of Polipaks NT manufacturing and logistics centre in Marupe and the multifunctional concert hall in Liepaja. Among the projects completed and delivered to the customer in Q1 2014 the one to highlight is the Nurmevälja logistics center.

CIVIL ENGINEERING

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

million EUR

	3 MONTHS 2014	3 MONTHS 2013	CHANGE	12M 2013
Revenue	9.4	20.7	-54.7%	94.5
% of total revenue	19.2%	43.3%	-55.6%	36.0%
Gross profit	1.0	2.4	-56.4%	12.5
Gross profit margin	11.0%	11.4%	-3.7%	13.2%

The revenue of the civil engineering segment amounted to EUR 9.4 million in the first 3 months of 2014 (3 months of 2013: EUR 20.7 million), which is 54.7% less than in 2013. The decrease from the previous year is mainly due to a drop in the volume of pipeline projects. If the civil engineering segment revenues of first 3 months of 2013 formed the largest proportion in the group's revenue (3 months of 2013: 43.3%), then during 3 months of the current year the segments revenues formed 19.2% of total revenue being down 55.6% compared to the previous year. The gross profit of the civil engineering segment amounted to EUR 1.0 million (3 months of 2013: EUR 2.4 million) and the gross profit margin was 11.0% (3 months of 2013: 11.4%), which has remained unchanged compared to the same period previous year. We consider this a very good result, given that the volumes of the segment have decreased by more than a half. We continue to closely monitor the changes in the volumes, to maintain an effective cost base.

In the first quarter of 2014, the main projects included were the reconstruction of pipelines in Vääna-Jõesuu and Narva-Jõesuu and the closing of industrial waste and semi-coke landfill in Kohtla-Järve.

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

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

	3 MONTHS 2014	3 MONTHS 2013	CHANGE	12M 2013
Revenue	3.1	7.8	-60.3%	49.5
% of total revenue	6.3%	16.3%	-61.1%	18.8%
Gross profit	0.5	0.5	-4.4%	5.9
Gross profit margin	15.3%	6.4%	+140.5%	12.0%

The revenue of the road construction segment amounted to EUR 3.1 million in the first 3 months of 2014 (3 months of 2013: EUR 7.8 million), which means a 60.3% decrease from the same period 2013. In the first 3 months of 2014, the segment earned a gross profit of EUR 0.5 million (3 months of 2013: EUR 0.5 million), which yields a gross profit margin of 15.3%. The drop in revenue has been affected the most by the lack of large-scale construction projects (such as the last year's Ülemiste junction in Tallinn) in the contracts portfolio of the group in 2014. On a positive note, the road construction segment was supported by a growth in the volume of road repair and maintenance work, compared to the same period last year. This was mostly due to favorable weather conditions, that allowed the seasonal road works to be started earlier compared to the last year.

The largest projects in work in the first quarter were the maintenance works done under the service agreement with Tallinn and Jõgeva county.

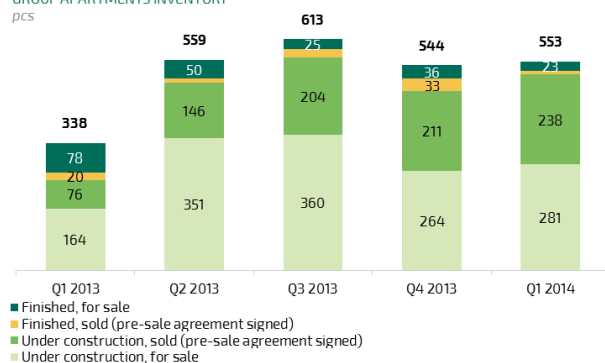
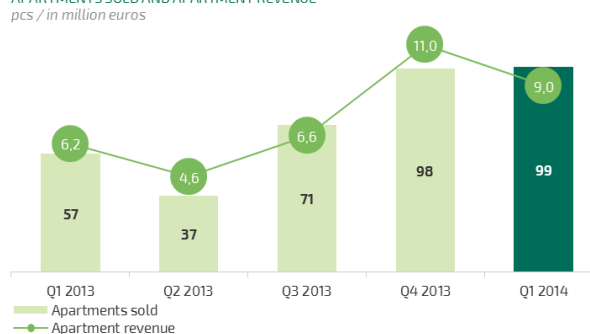
REAL ESTATE DEVELOPMENT

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

million EUR

	3 MONTHS 2014	3 MONTHS 2013	CHANGE	12M 2013
Revenue	10.3	6.5	+58.5%	31.0
% of total revenue	21.1%	13.6%	+55.2%	11.8%
Gross profit	2.2	0.9	+146.7%	5.1
Gross profit margin	21.8%	14.0%	+55.7%	16.5%

A total of 99 apartments were sold in 3 months of 2014 at the total value of EUR 9.0 million (excl. VAT), (3 months of 2013: 57 apartments and EUR 6.2 million, respectively). At the end of the period, Merko Ehitus group's inventory comprised 23 completed but not yet sold apartments (8 in Estonia, 7 in Latvia and 8 in Lithuania) and 11 completed and pre-sold apartments (all in Latvia).

GROUP APARTMENTS INVENTORY
pcsAPARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros

As at 31 March 2014, Merko Ehitus group had a total of 304 apartments for sale (as at 31 March 2013: 242 apartments; as at 31 December 2013: 300 apartments), this comprises apartments for which no pre-sale agreements have been signed with buyers.

APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF APARTMENTS *
Pärna avenue 6	Tartu municipality, Estonia	Completed	2
Eha st. 4 / Paldiski road 17	Tallinn, Estonia	Completed	2
Pärna avenue 8	Tartu municipality, Estonia	Completed	2
Pallasti 48, 50	Tallinn, Estonia	Completed	2
Skanstes virsotnes 4 tower	Riga, Latvia	Completed	6

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF APARTMENTS *
Grostonas 17	Riga, Latvia	Completed	12
Mokslininku stage I	Vilnius, Lithuania	Completed	2
Mokslininku stage II house 1	Vilnius, Lithuania	Completed	6
			34
Tedre 55	Tallinn, Estonia	Spring 2014	47
Grostonas 19	Riga, Latvia	Autumn 2014	82
Mokslininku stage II house 2	Vilnius, Lithuania	Summer 2014	36**
Pärna avenue 7	Tartu municipality, Estonia	Autumn 2014	28
Kentmanni 6	Tallinn, Estonia	End of 2014	93
Grostonas 21	Riga, Latvia	Spring 2015	125
			411
Started in Q1 2014			
Vana-Kalamaja 31+Suur-Laagri 2	Tallinn, Estonia	Autumn 2014	12
Paepargi 17, 19, 21	Tallinn, Estonia	Autumn 2014	54
Pärna avenue 10	Tartu municipality, Estonia	End of 2014	42
			108
Total			553

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

** The first house of the project with 18 apartments is completed (out of which 12 have been sold); the second house with 36 apartments is due to be completed in summer 2014.

In 3 months of 2014, we launched the construction of a total of 108 new apartments in the Baltic States (3 months of 2013: 93 apartments). In 2013 we launched the construction of a total of 409 new apartments. We will continue to invest in residential real estate projects and depending on the apartment market developments in 2014, the group plans to launch the construction of approximately 500-550 new apartments in the Baltic States. In 2014, the group's investments in both development projects initiated in the previous years and new projects to be launched in 2014 will be in the range of EUR 45-50 million.

As at 31 March 2014, the group has 88 apartments in Tartu where the construction activity has been frozen (as at 31 March 2013, the respective number in Tallinn and Tartu was 200 apartments). In the first quarter of 2014, we re-launched one development project that was frozen in prior years – the development of Pärna avenue 10 in Tartu municipality (the number of apartments for sale is 42).

One of our objectives is to keep a moderate portfolio of land plots to ensure stable inventory of property development projects considering the market conditions. The group is actively searching for new real estate development projects in Estonian and Lithuania. The real estate portfolio in Latvia is extensive enough, with no need for active portfolio expansion.

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. The number of transactions and the average price per square meter are showing a growth trend, especially in Estonia and Latvia. There is still room for new development projects in the Baltic capital cities, though one should proceed with care in Vilnius. An increased supply of apartments will influence the stabilisation of prices and lengthening of sales periods in the future.

OTHER

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

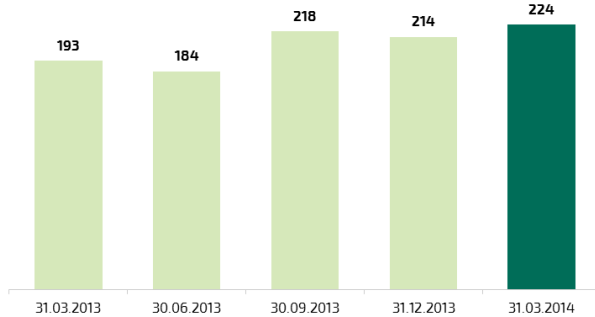
million EUR

	3 MONTHS 2014	3 MONTHS 2013	CHANGE	12M 2013
Revenue	0.3	0.3	-1.4%	1.1
% of total revenue	0.6%	0.5%	-3.4%	0.5%
Gross profit (loss)	0.0	(0.1)	+1,900.0%	(0.3)
Gross profit margin	-7.1%	-0.4%	+1,928.6%	-29.9%

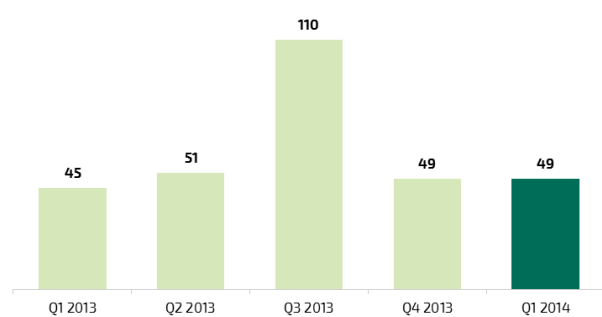
SECURED ORDER BOOK

As at 31 March 2014, the group's secured order book (excluding property developments) amounted to EUR 224.0 million as compared to EUR 193.4 million as at 31 March 2013. The secured order book excludes the group's own residential development projects and work related to developing real estate investments.

SECURED ORDER BOOK
at the end of the period, in million euros



NEW CONTRACTS SIGNED
during the period, in million euros



In first quarter of 2014, EUR 48.6 million worth of new contracts were signed (without own developments) as compared to EUR 44.6 million in same period last year.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2014

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Design and renovation of the infrastructure of Tallinn tram line No. 4	Estonia	December 2015	26.0
Riga State Technical School school campus construction works	Latvia	June 2015	4.8
Re-cultivation and construction works of a waste recycling site in Riga	Latvia	January 2016	6.5

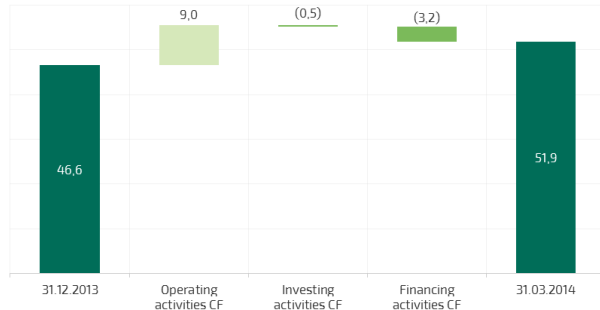
Whereas the share of public procurements was still predominant among new construction contracts at the start of 2013, the private customer segment became more active in the construction markets of all three Baltic countries in the second half of 2013. Of the contracts signed in 2013, at 31 December close to half were connected to private contracting entities. Public orders made up a bulk of the contracts concluded in the first three months of the year. As at 31 March 2014, the group's secured order book was dominated by public sector orders, which made up nearly two-thirds of the portfolio. Nonetheless, public sector orders are decreasing compared to private sector orders. Considering the end of the previous EU funding period and the beginning phase of the current EU funding period, one can forecast continued decline in the volume of public procurements for 2014.

It continues to be a challenge to maintain new construction contract volume at the level of 2013. Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to continue to look for construction orders from outside Estonia. Thus, we are closely monitoring the development and opportunities in the neighbouring markets. AS Merko Ehitus Eesti has selectively and on project basis started to participate in public procurements in Finland, Sweden and Norway in order to gain experience and sufficient knowledge in the qualification conditions, requirements established and risks associated in these countries.

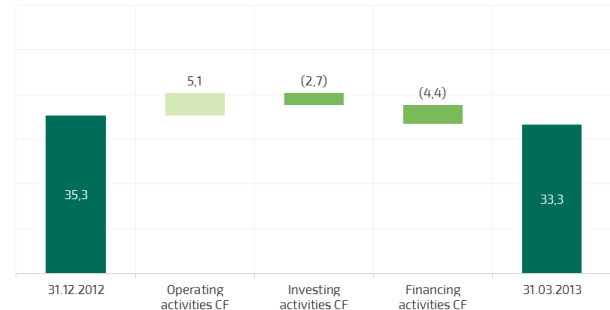
CASH FLOWS

The cash position of the group is stable. As at 31 March 2014 the group had cash equivalents in the amount of EUR 51.9 million (31.03.2013: EUR 33.3 million, and additionally EUR 2.5 million in short-term deposits with a maturity term of more than 3 months). Compared to the same period last year, the group's strategic cash level and investment capacity have strengthened.

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The 3-month cash flow from operating activity was positive at EUR 9.0 million (3 months of 2013: positive EUR 5.1 million), cash flow from investing activity was negative at EUR 0.5 million (3 months of 2013: negative EUR 2.7 million) and the cash flow from financing activity was negative at EUR 3.2 million (3 months of 2013: negative EUR 4.4 million). The cash flow from operating activity was mostly influenced by the operating profit EUR 1.3 million, by the positive change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 5.3 million, by the negative change in provisions EUR 2.0 million, by the positive change in trade and other receivables related to operating activities EUR 2.7 million, by the negative change in inventory EUR 1.2 million, and by the positive change in trade and other payables related to operating activities EUR 2.6 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. This is especially true, considering the increase in Latvian construction volumes and the need for additional working capital. To support cash flows arising from operating activity, the group has been prudent in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (13.4% as at 31.03.2014; 14.5% as at 31.03.2013).

Cash flows from investment activities include negative cash flow from the cash balance excluded from the group in connection with the sale of subsidiary Gustaf Tallinn OÜ, while the balance of non-current asset acquisition was EUR 0.1 million (3 months of 2013: EUR 0.2 million). Cash flows from investment activities in 3 months of 2013 was negatively impacted by the acquisition of short-term deposit with a maturity term of more than 3 months in the amount of EUR 2.5 million. The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment.

The largest single negative item in cash flows from financing was the premature repayment of a working capital loan in the amount of EUR 3.5 million, instead of which the group entered into an overdraft contract with an overall limit of EUR 3.5 million. Project specific loans obtained using investment property as collateral were repaid in the amount of EUR 0.1 million (3 months of 2013: EUR 0.1 million), net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 0.6 million (3 months of 2013: negative cash flow of EUR 3.2 million), factoring in the amount of EUR 0.0 million (3 months of 2013: negative cash flow of EUR 0.7 million) and finance lease principal repayments of EUR 0.2 million (3 months of 2013: EUR 0.3 million).

RATIOS

(attributable to equity holders of the parent)

		3M 2014	3M 2013	3M 2012	12M 2013
Income statement summary					
Revenue	million EUR	48.9	47.9	47.8	262.7
Gross profit	million EUR	3.9	4.2	2.5	22.7
Gross profit margin	%	8.1	8.8	5.2	8.6
Operating profit	million EUR	1.3	2.3	0.6	12.3
Operating profit margin	%	2.7	4.8	1.2	4.7
Profit before tax	million EUR	1.1	2.0	0.4	11.1
EBT margin	%	2.3	4.1	0.9	4.2
Net profit	million EUR	0.6	1.8	0.2	10.4
attributable to equity holders of the parent	million EUR	0.7	1.8	0.2	10.4
attributable to non-controlling interest	million EUR	(0.1)	0.0	0.0	0.0
Net profit margin	%	1.5	3.7	0.3	4.0
Other income statement indicators					
EBITDA	million EUR	1.9	2.9	1.2	15.1
EBITDA margin	%	3.8	6.0	2.4	5.7
General expense ratio	%	6.1	5.5	5.2	4.7
Labour cost ratio	%	13.9	13.6	12.0	11.8
Revenue per employee	thousand EUR	61	57	54	308
Other significant indicators					
		31.03.2014	31.03.2013	31.03.2012	31.12.2013
Return on equity	%	7.8	8.1	-8.7	8.8
Return on assets	%	3.9	4.1	-4.5	4.4
Return on invested capital	%	7.3	7.0	-5.9	8.0
Equity ratio	%	51.0	52.9	51.7	50.9
Debt ratio	%	13.4	14.5	17.4	14.8
Current ratio	times	2.0	2.2	2.0	2.0
Quick ratio	times	1.1	1.2	0.9	1.1
Accounts receivable turnover	days	59	58	55	58
Accounts payable turnover	days	41	46	47	43
Average number of employees	people	800	839	880	853
Secured order book	million EUR	224.0	193.4	189.4	213.7

Calculation of ratios is provided on page 29 of the report.

RISK MANAGEMENT

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

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

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

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

Merko Ehitus divides risks into four main categories:



Business risk

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

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

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

Market risk

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

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

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

Operational risk

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

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

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

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the company's warranty provision amounted to EUR 1.8 million (31.03.2013: EUR 1.7 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

Financial risk

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

Credit risk

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

Interest risk

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. The management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 31.03.2014, 13.4% of the balance sheet total; as at 31.03.2013, 14.5% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Currency risk

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia and Latvia and Lithuanian litas in Lithuania. From 1 January 2014, Latvia adopted the euro as its national currency. Lithuanian litas are pegged to the euro. The exchange rate of the Lithuanian litas is 1 EUR= LTL 3.4528 and 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. Estonia uses the euro, Latvia adopted the euro as at 1 January 2014 and the need and probability for devaluation of the Lithuanian national currency is low – the situation as a whole is stable in the Baltic States.

Liquidity risk

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.03.2014, the group's current ratio was 2.0 (31.03.2013: 2.2) and the quick ratio 1.1 (31.03.2013: 1.2). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 10.1 million, of which EUR 9.9 million was unused (31.03.2013: EUR 6.5 million, of which EUR 6,5 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (31.03.2013: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

The management estimates that the group's capital structure – a solid proportion of equity at 51.0% of the balance sheet total and a moderate proportion of interest bearing liabilities at 13.4% of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk

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

As at 31 March 2014, a provision has been set up at the group in the amount of EUR 0.2 million (31.03.2013: EUR 1.3 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2014 and ongoing as of 31.03.2014 is presented below:

Latvia

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

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

In the end of 2012, bankruptcy proceedings were initiated against Vakarų. In relation to that, AS Merko Ehitus has filed creditor's claims (incl. claims for damages) in the bankruptcy proceedings totalling LTL 4,214 thousand (EUR 1,220 thousand). Said claim (incl. claim for damages) is not included on the group's balance sheet and claims that arose earlier were already provisioned in full in 2012. On 4 April 2014, District Court of Plungė, made the judgement in the litigation with regard to declaring invoices partially unjustified, which fully satisfied the claim of AS Merko Ehitus. Vakarų has a right to appeal the court decision within 30 days from its decree. The future court hearing regarding the invalidation of the joint venture agreement was delayed and is scheduled for 13 May 2014.

Šiaulių Vandenys

At 10 October 2012, UAB Šiaulių Vandenys filed a claim against UAB Merko Statyba, because according to UAB Šiaulių Vandenys, UAB Merko Statyba failed to meet the deadline for works. The claim included a fine for delay, 7.75% interest and state property taxes in the amount of LTL 237 thousand (EUR 69 thousand). At 11 January 2013, UAB Merko Statyba filed a counterclaim in the amount of LTL 537 thousand (EUR 155 thousand) and extension of the deadline for works by 154 days. This is primarily due to the refusal by the counterparty to pay for the additional works contracted by UAB Šiaulių Vandenys and to extend the deadline for

works. The pre-court institution – the Dispute Settlement Council – decided to satisfy the claim of UAB Merko Statyba regarding payment for additional works and extension of the deadline for works. The dispute will continue in the court. The hearings of the Court of First Instance started on 27 June 2013 and continued with a second hearing on 3 July 2013 and a third hearing on 10 September 2013. The court took the decision to request an expert evaluation in the case to further clarify the facts and at the end of 2013 appointed the performer of the expert evaluation. The expert evaluation may take two to six months to carry out and the next court hearing date will be scheduled within approximately one month of the filing of the expert evaluation report to the court.

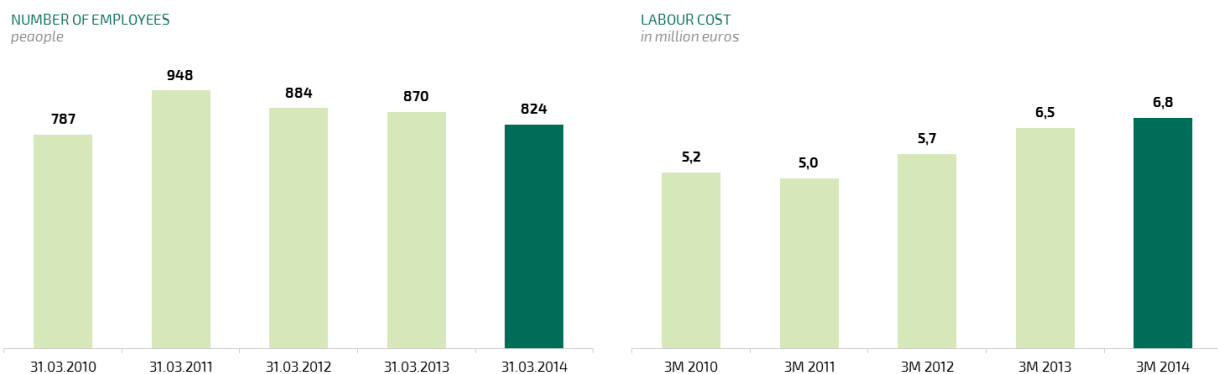
EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of the group's employees decreased by 46 (-5.3%) and as at 31 March 2014, the group had a total of 824 employees (including fixed-term and part-time employees). Compared to the end of the previous financial year the number of employees has decreased by 36 (-4.2%).

In 2014, the number of employees mainly declined because of the sale of subsidiary Gustav Tallinn OÜ but also due to the proportion of the civil engineering segment declined within the work 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.

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 3 months 2014, the labour cost was EUR 6.8 million (3 months 2012: EUR 6.5 million), up 4.4% from the previous year. This increase is mainly caused by accrued bonuses.



RECOGNITIONS 2014

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

CIVIL ENGINEER OF THE YEAR 2013

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

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

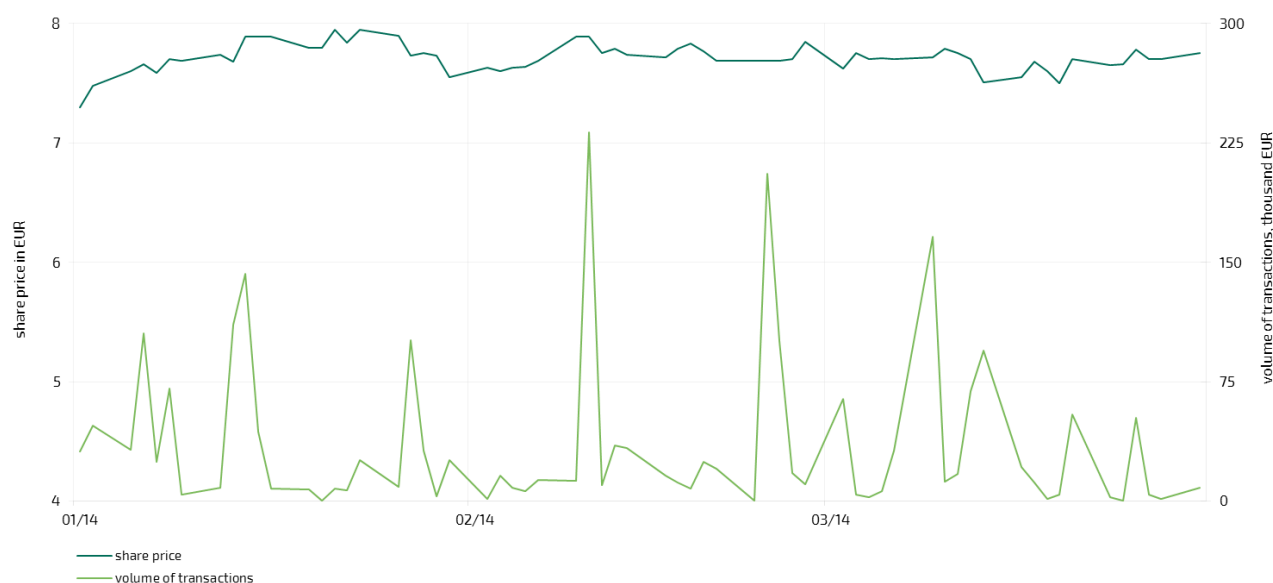
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ OMX Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency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

The shares of Merko Ehitus are listed in the Main List of NASDAQ OMX Tallinn. As at 31 March 2014, the company has 17,700,000 shares. The number of shares has not changed during 2014.

A total of 613 transactions were conducted with the shares of Merko Ehitus in 3 months of 2014, with 0.29 million shares (1.7% of total shares) traded, generating a turnover of EUR 2.26 million (comparable figures in 3 months 2013 were accordingly: 408 transactions with 0.13 million shares traded (0.7% of total shares) and generating a turnover of EUR 0.85 million). The lowest share price amounted to EUR 7.20 and the highest to EUR 7.99 per share (3 months of 2013: EUR 5.71 and EUR 7.48). The closing price of the share was EUR 7.75 on 31 March 2014 (31.03.2013: EUR 7.18). As at 31 March 2014, the market value of AS Merko Ehitus amounted to EUR 137.2 million, which has risen 7.9% compared to the same period end last year (as at 31 March 2013: EUR 127.1 million).

	31.03.2014	31.03.2013	31.03.2012
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.04	0.10	0.01
Equity per share, euros	6.77	6.47	6.35
P/B ratio	1.14	1.11	0.94
P/E ratio	14.68	13.76	-10.81
Market value, million EUR	137.2	127.1	106.2

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



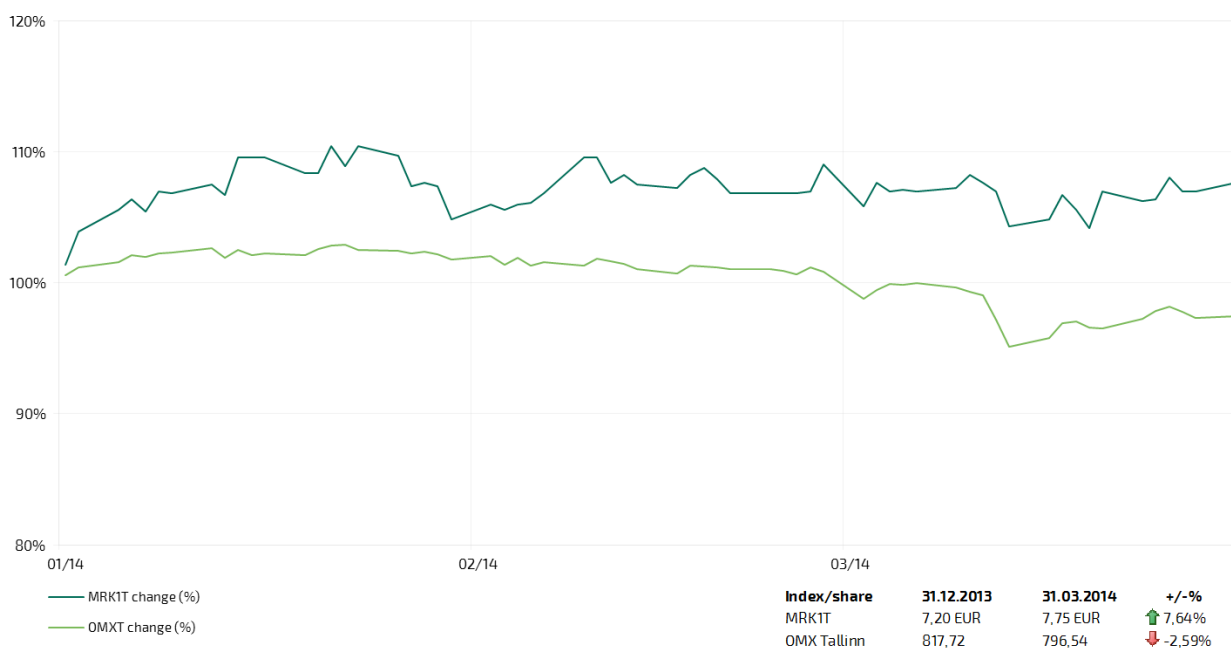
STRUCTURE OF SHAREHOLDERS AS AT 31.03.2014

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.07%	12,742,686	71.99%
100,001 – 1,000,000	10	0.70%	2,966,814	16.76%
10,001 – 100,000	31	2.18%	962,246	5.44%
1,001-10,000	235	16.54%	698,793	3.95%
101-1,000	740	52.08%	307,605	1.74%
1-100	404	28.43%	21,856	0.12%
Total	1,421	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2014 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2014	% OF TOTAL 31.12.2013	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%	2.72%	-
Skandinaviska Enskilda Banken AB, Swedish customers	305,060	1.72%	1.86%	-25,000
Firebird Republics Fund Ltd	302,395	1.71%	1.71%	-
Gamma Holding OÜ	198,182	1.12%	1.07%	+9,420
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,020	0.84%	0.72%	+20,000
Clearstream Banking Luxembourg S.A. customers	141,052	0.80%	0.80%	-210
Skandinaviska Enskilda Banken AB, Finnish customers	132,397	0.75%	0.76%	-2,585
Total largest shareholders	15,578,315	88.01%	87.99%	+1,625
Total other shareholders	2,121,685	11.99%	12.01%	-1,625
Total	17,700,000	100%	100%	-

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



DIVIDENDS AND DIVIDEND POLICY

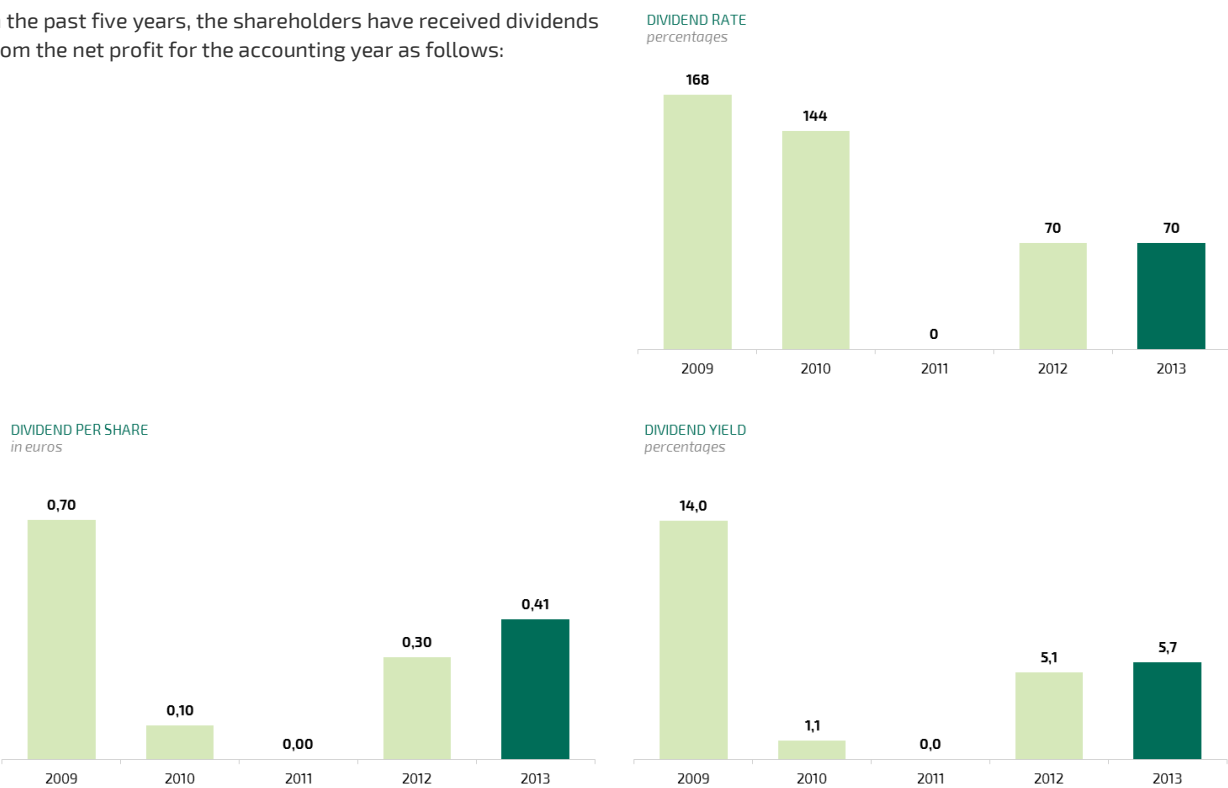
The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

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

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

According to the Estonian Income Tax Law §50 section 11 AS Merko Ehitus can pay these dividends without any additional income tax expense and liabilities accruing due to previously received and taxed distribution of profits from subsidiaries. The dividend payment to the shareholders will take place on 20 May 2014. In 2013 the total amount of EUR 5.3 million (EUR 0.30 per share) was paid to shareholders as dividends, which is equivalent to a 70% dividend rate and a 5.1% dividend yield for the year 2012 (using the share price as at 31 December 2012).

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



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

CORPORATE GOVERNANCE

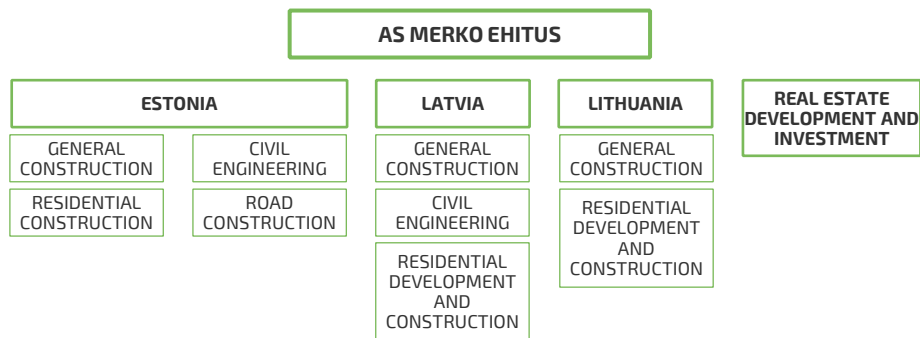
CORPORATE GOVERNANCE AND STRUCTURE

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

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

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 25-27 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. Management structure of group's business areas as at 31 March 2014 is the following:



GROUP'S LEGAL STRUCTURE

As at 31 March 2013, the group comprises 44 companies (31.03.2013: 46; 31.12.2013: 46). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

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

On 20 December 2013, AS Merko Ehitus initiated a process to merge its fully owned subsidiaries OÜ Woody, OÜ Metsailu and OÜ Käibevara, all engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is OÜ Metsailu. The companies being acquired will be merged into OÜ Metsailu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and OÜ Metsailu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus will remain the sole shareholder in OÜ Metsailu, the acquiring company. The closing date of the merger was 1 January 2014 after which all transactions of the acquirees have been deemed to have been made on account of the acquirer. The final merger entry 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 was 17,201 euros, which was calculated in accordance with the audited 2013 annual report of Gustaf Tallinn OÜ on the basis of the share of equity held by AS Merko Ehitus Eesti, adjusted by dividend payment of EUR 960 000 paid to the seller before transfer of the share as well as by the income tax expense of EUR 255 190 related to the paid dividend. On 2 May 2014, the seller returned the adjusted part of the sales price EUR 2,799 to the buyer's bank account.

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

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

GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

SUPERVISORY BOARD

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

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

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

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



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

Positions held:

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

Education:

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

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



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

Positions held:

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

Member of Supervisory Boards of subsidiaries and associated companies.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -



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

Positions held:

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

Education:

Tallinn University of Technology, civil engineering economics and management.

Stockholm University, banking and finance, MBA

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



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

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
 Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).

Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).

Belongs to Supervisory Boards of various companies.

Education:

Tallinn University of Technology, civil engineering.

Number of shares: 2,500 (Eggera OÜ)

MANAGEMENT BOARD

The Management Board is a governing body which represents and manages AS Merko Ehitus in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the most economically purposeful manner, taking into consideration the best interests of all shareholders and ensures the company's sustainable development in accordance with set objectives and strategy. To ensure that the company's interests are met in the best way possible, the Management and

Supervisory Boards shall extensively collaborate. At least once a month, a joint meeting of the members of the Supervisory and Management Boards shall take place, in which the Management Board shall inform the Supervisory Board of significant issues regarding the company's business operations, the fulfilment of the company's short and long-term goals and the risks impacting them. For every meeting of the Supervisory Board, the Management Board shall prepare a management report and submit it well in advance of the meeting so that the Supervisory Board can study it. The Management Board prepares reports for the Supervisory Board also in between the meetings, if it is considered necessary by the Supervisory Board or its Chairman.

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

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



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

Positions held:

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

Education:

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

Number of shares: -



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

Positions held:

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

Education:

Tallinn University of Technology, industrial and civil engineering
Number of shares: 1,607,185 (AS Riverito)

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 March 2014:

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

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

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

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

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

DEFINITION OF RATIOS

Gross profit margin (%)	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
Operating profit margin (%)	=	$\frac{\text{Operating profit}}{\text{Revenue}}$
EBT margin (%)	=	$\frac{\text{Earnings before tax}}{\text{Revenue}}$
Net profit margin (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Revenue}}$
Return on equity, ROE (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Shareholders equity (average of the current 4 quarters)}}$
Return on assets, ROA (%)	=	$\frac{\text{Net profit (attributable to equity holders of the parent) of the current 4 quarters}}{\text{Total assets (average of the current 4 quarters)}}$
Return on invested capital, ROIC (%)	=	$\frac{(\text{Profit before tax} + \text{interest income} - \text{foreign exchange gain(loss)} + \text{other financial income}) \text{ of the current 4 quarters}}{(\text{Shareholders equity (average)} + \text{interest-bearing liabilities (average)}) \text{ of the current 4 quarters}}$
Equity ratio (%)	=	$\frac{\text{Shareholders equity}}{\text{Total assets}}$
Debt ratio (%)	=	$\frac{\text{Interest-bearing liabilities}}{\text{Total assets}}$
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	=	$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
Accounts receivable turnover(days)	=	$\frac{\text{Trade receivables of the current 4 quarters (average)} \times 365}{\text{Revenue of the current 4 quarters}}$
Accounts payable turnover (days)	=	$\frac{\text{Payables to suppliers of the current 4 quarters (average)} \times 365}{\text{Cost of goods sold of the current 4 quarters}}$
EBITDA (million EUR)	=	Operating profit + depreciation
EBITDA margin (%)	=	$\frac{\text{Operating profit} + \text{depreciation}}{\text{Revenue}}$
General expense ratio (%)	=	$\frac{\text{Marketing expenses} + \text{General and administrative expenses}}{\text{Revenue}}$
Labour cost ratio (%)	=	$\frac{\text{Labour costs}}{\text{Revenue}}$
Revenue per employee (EUR)	=	$\frac{\text{Revenue}}{\text{Number of employees (average)}}$
Earnings per share, EPS (EUR)	=	$\frac{\text{Net profit (attributable to equity holders of the parent)}}{\text{Number of shares}}$
Equity/share (EUR)	=	$\frac{\text{Shareholders equity (average of the current 4 quarters)}}{\text{Number of shares}}$
Dividend per share (EUR)	=	$\frac{\text{Payable dividends}}{\text{Number of shares}}$
Dividend rate (%)	=	$\frac{\text{Payable dividends} \times 100}{\text{Net profit (attributable to equity holders of the parent)}}$
Dividend yield (%)	=	$\frac{\text{Dividends payable per share}}{\text{Share price 31.12}}$
P/E	=	$\frac{\text{Share price 31.03}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 31.03}}{\text{Equity per share (average of the current 4 quarters)}}$
Market capitalisation	=	Share price 31.03 × Number of shares

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

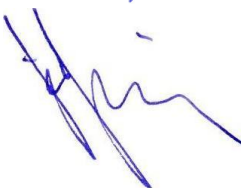
Chairman of the Management Board



08.05.2014

Tõnu Toomik

Member of the Management Board



08.05.2014

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2014 3 months	2013 3 months	2013 12 months
Revenue	2	48,868	47,859	262,719
Cost of goods sold	3	(44,932)	(43,624)	(239,996)
Gross profit		3,936	4,235	22,723
Marketing expenses		(854)	(656)	(3,041)
General and administrative expenses		(2,120)	(1,956)	(9,260)
Other operating income		406	708	2,264
Other operating expenses		(50)	(44)	(425)
Operating profit		1,318	2,287	12,261
Finance income/costs		(180)	(333)	(1,116)
incl. finance income/costs from joint ventures		(34)	(34)	(138)
finance income/costs from other long-term investments		-	13	2
interest expense		(178)	(210)	(814)
foreign exchange gain (loss)		(1)	(110)	(202)
other financial income (expenses)		33	8	36
Profit before tax		1,138	1,954	11,145
Corporate income tax expense		(522)	(194)	(791)
Net profit for financial year		616	1,760	10,354
incl. net profit attributable to equity holders of the parent		711	1,766	10,399
net profit attributable to non-controlling interest		(95)	(6)	(45)
Other comprehensive income				
Currency translation differences of foreign entities		-	(141)	(157)
Comprehensive income for the period		616	1,619	10,197
incl. net profit attributable to equity holders of the parent		711	1,625	10,242
net profit attributable to non-controlling interest		(95)	(6)	(45)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.04	0.10	0.59

The notes set out on pages 35-46 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2014	31.03.2013	31.12.2013
ASSETS				
Current assets				
Cash and cash equivalents	5	51,917	33,349	46,633
Short-term deposits		-	2,500	-
Trade and other receivables	6	58,204	58,853	57,172
Prepaid corporate income tax		21	480	19
Inventories	7	88,734	82,127	87,451
		198,876	177,309	191,275
Non-current assets				
Long-term financial assets	8	21,601	25,124	27,415
Deferred income tax assets		1,592	1,818	1,592
Investment property	9	4,615	3,546	4,672
Property, plant and equipment	10	12,704	14,826	13,117
Intangible assets	11	1,139	1,346	1,167
		41,651	46,660	47,963
TOTAL ASSETS		240,527	223,969	239,238
LIABILITIES				
Current liabilities				
Borrowings	12	15,836	12,590	18,916
Payables and prepayments	13	77,352	64,378	72,162
Income tax liability		197	47	62
Short-term provisions	14	5,152	5,268	5,906
		98,537	82,283	97,046
Non-current liabilities				
Long-term borrowings	12	16,321	19,813	16,469
Deferred income tax liability		574	380	505
Other long-term payables	15	1,667	1,705	2,162
		18,562	21,898	19,136
TOTAL LIABILITIES		117,099	104,181	116,182
EQUITY				
Non-controlling interests		854	1,232	1,193
Equity attributable to equity holders of the parent				
Share capital		12,000	12,000	12,000
Statutory reserve capital		1,200	1,200	1,200
Currency translation differences		(669)	(653)	(669)
Retained earnings		110,043	106,009	109,332
		122,574	118,556	121,863
TOTAL EQUITY		123,428	119,788	123,056
TOTAL LIABILITIES AND EQUITY		240,527	223,969	239,238

The notes set out on pages 35-46 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/accumulated losses			
Balance as at 31.12.2012	12,000	1,200	(512)	104,237	116,925	1,342	118,267
Profit (loss) for the reporting period	-	-	-	1,766	1,766	(6)	1,760
Other comprehensive income	-	-	(141)	-	(141)	-	(141)
Total comprehensive income (loss) for the reporting period	-	-	(141)	1,766	1,625	(6)	1,619
Purchase of minority share	-	-	-	6	6	(104)	(98)
Balance as at 31.03.2013	12,000	1,200	(653)	106,009	118,556	1,232	119,788
Balance as at 31.12.2013	12,000	1,200	(669)	109,332	121,863	1,193	123,056
Profit (loss) for the reporting period	-	-	-	711	711	(95)	616
Minority share of sold subsidiary	-	-	-	-	-	(244)	(244)
Balance as at 31.03.2014	12,000	1,200	(669)	110,043	122,574	854	123,428

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

The notes set out on pages 35-46 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2014 3 months	2013 3 months	2013 12 months
Cash flows from (used in) operating activities				
Operating profit		1,318	2,287	12,261
Adjustments:				
Depreciation		538	595	2,880
(Profit)/loss from sale of non-current assets		(4)	(38)	(214)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		5,309	733	4,717
Interest income from operating activities		(360)	(375)	(1,479)
Change in provisions		(2,047)	(1,743)	1,634
Change in trade and other receivables related to operating activities		2,705	567	(6,155)
Change in inventories		(1,212)	504	(4,943)
Change in trade and other payables related to operating activities		2,642	2,638	10,171
Interest received		347	151	1,803
Interest paid		(234)	(231)	(841)
Other finance income and costs		(22)	(9)	(165)
Corporate income tax (paid)/reclaimed		(2)	(2)	(12)
Total cash flows from (used in) operating activities		8,978	5,077	19,657
Cash flows from investing activities				
Proceeds from sale of subsidiary	16	(353)	-	-
Acquisition of joint venture		-	-	(350)
Purchase/proceeds from deposits with maturities greater than 3 months		-	(2,500)	-
Purchase of investment property		-	(26)	(1,080)
Purchase of property, plant and equipment		(129)	(269)	(784)
Proceeds from sale of property, plant and equipment		7	38	900
Purchase of intangible assets		(16)	(3)	(29)
Interest received		27	26	41
Total cash flows from investing activities		(464)	(2,734)	(1,302)
Cash flows from (used in) financing activities				
Proceeds from borrowings		3,161	488	12,862
Repayments of borrowings		(6,144)	(3,731)	(11,810)
Factoring		-	(696)	(1,544)
Finance lease principal payments		(246)	(333)	(1,165)
Dividends paid		-	-	(5,310)
Total cash flows from (used in) financing activities		(3,229)	(4,272)	(6,967)
Net increase/decrease in cash and cash equivalents				
		5,285	(1,929)	11,388
Change in deposits with maturities greater than 3 months		-	2,500	-
Total change		-	571	11,388
Cash and cash equivalents at the beginning of the period	5	46,633	35,316	35,316
Effect of exchange rate changes		(1)	(38)	(71)
Cash and cash equivalents at the end of the period	5	51,917	33,349	46,633
Deposits with maturities greater than 3 months at the beginning of period		-	2,500	-
Total at the end of the period		51,917	35,849	46,633

The notes set out on pages 35-46 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2013 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2013 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2013 audited annual report and 2013 3 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 3 months 2014 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

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

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

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

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

2014 3 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	25,813	10,512	3,092	16,147	290	55,854
Inter-segment revenue	-	(1,122)	-	(5,854)	(10)	(6,986)
Revenue from external clients	25,813	9,390	3,092	10,293	280	48,868
Gross profit (-loss)	214	1,029	473	2,240	(20)	3,936
Segment pre-tax profit (loss)	207	1,025	460	2,486	(20)	4,158
incl. interest income from operating activities	-	-	-	360	-	360
depreciation (Note 3)	(15)	(146)	(213)	(59)	(17)	(450)
setting up of provisions (Note 3)	(98)	(28)	(3)	(109)	-	(238)
loss on joint ventures	-	-	-	(34)	-	(34)
other finance income (costs)	-	(4)	(12)	(81)	-	(97)
incl. interest income	-	-	-	7	-	7
interest expenses	-	(4)	(12)	(88)	-	(104)
Segment assets 31.03.2014	27,728	21,796	10,886	131,514	1,187	193,111
incl. joint ventures (Note 8)	-	18	-	7,297	-	7,315
2013 3 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	12,698	20,935	7,783	9,182	294	50,892
Inter-segment revenue	(131)	(206)	-	(2,686)	(10)	(3,033)
Revenue from external clients	12,567	20,729	7,783	6,496	284	47,859
Gross profit (-loss)	474	2,359	495	908	(1)	4,235
Segment pre-tax profit (loss)	467	2,351	490	1,159	(1)	4,466
incl. interest income from operating activities	-	-	-	371	-	371
depreciation (Note 3)	(88)	(592)	(1,080)	(186)	(515)	(2,461)
setting up of provisions (Note 3)	(85)	(76)	(22)	(13)	-	(196)
loss on joint ventures	-	-	-	(34)	-	(34)
other finance income (costs)	(6)	(5)	(16)	(85)	-	(112)
incl. interest expenses	(6)	(5)	(16)	(84)	-	(111)
Segment assets 31.03.2013	15,458	29,612	24,365	116,266	1,193	186,894
incl. joint ventures (Note 8)	-	18	-	7,097	-	7,115
2013 12 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	86,686	98,151	49,476	46,098	1,253	281,664
Inter-segment revenue	(122)	(3,616)	-	(15,104)	(103)	(18,945)
Revenue from external clients	86,564	94,535	49,476	30,994	1,150	262,719
Gross profit (-loss)	(503)	12,512	5,937	5,121	(344)	22,723
Segment pre-tax profit (loss)	(542)	12,565	5,839	6,122	(340)	23,644
incl. interest income from operating activities	-	-	-	1,472	-	1,472
depreciation (Note 3)	(88)	(592)	(1,080)	(186)	(515)	(2,461)

2013 12 months	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
impairment of inventories (Note 3)	-	-	-	(330)	-	(330)
reversal of impairment of inventories (Note 3)	-	-	-	337	-	337
setting up of provisions (Note 3)	(2,557)	(376)	(81)	(329)	-	(3,343)
loss on joint ventures	-	-	-	(138)	-	(138)
other finance income (costs)	(9)	(20)	(57)	(322)	-	(408)
incl. interest income	-	-	-	39	-	39
interest expenses	(9)	(20)	(57)	(321)	-	(407)
Segment assets 31.12.2013	29,513	24,899	10,577	138,189	1,143	204,321
incl. joint ventures (Note 8)	-	18	-	7,331	-	7,349

In addition to the segment assets, as at 31.03.2014 the group holds assets in the amount of EUR 47,416 thousand (31.03.2013: EUR 37,075 thousand; 31.12.2013: EUR 34,917 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

RECONCILIATION OF THE PRE-TAX PROFIT OF SEGMENTS AND THE GROUP

in thousand euros

	2014 3 months	2013 3 months	2013 12 months
Pre-tax profit from reporting segments	4,158	4,466	23,644
Unallocated income (expense)			
marketing expenses	(854)	(656)	(3,041)
general and administrative expenses	(2,120)	(1,956)	(9,260)
incl. setting up of provisions	-	-	(27)
other operating income (expense)	3	287	372
incl. interest income from operating activities	-	4	7
finance income (costs)	(49)	(187)	(570)
incl. interest income	26	23	45
interest expenses	(74)	(98)	(407)
Total profit before tax	1,138	1,954	11,145

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2014 3 months		2013 3 months		2013 12 months	
Estonia	32,554	66%	37,510	78%	211,958	81%
Latvia	13,971	29%	8,343	18%	44,378	17%
Lithuania	2,343	5%	2,006	4%	6,383	2%
Total	48,868	100%	47,859	100%	262,719	100%

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

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Estonia	17,972	19,120	18,473
Latvia	424	510	413
Lithuania	62	88	70
Total	18,458	19,718	18,956

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2014 3 months	2013 3 months	2013 12 months
Construction services	22,375	23,816	133,251
Materials	8,043	6,233	40,585
Properties purchased for resale	4,293	3,926	14,355
Staff costs	4,842	4,787	22,636
Construction mechanisms and transport	1,442	2,137	12,409
Design	764	239	1,838
Real estate management costs	72	74	219
Depreciation	450	501	2,461
Impairment of inventories	-	-	330
Reversal of impairment of inventories	-	-	(337)
Provisions	238	196	3,343
Other expenses	2,413	1,715	8,906
Total cost of goods sold	44,932	43,624	239,996

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2014 3 months	2013 3 months	2013 12 months
Net profit(-loss) attributable to shareholders <i>(in thousand EUR)</i>	711	1,766	10,399
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0.04	0.10	0.59

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation proposal, dividends payable in parent company AS Merko Ehitus in 2014 will total EUR 7,257 thousand, i.e. EUR 0.41 per share, and the accompanying maximum income tax liability would amount to 21/79 on the amount paid out, i.e. EUR 1,929.1 thousand, which shall be covered by the the income tax withheld on taxed dividends received from subsidiaries and by the income tax withheld on foreign income.

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

As at 31.03.2014, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 88,026 thousand (31.03.2013: EUR 84,846 thousand; 31.12.2013: EUR 87,464 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 2,051 thousand (31.03.2012: EUR 2,045 thousand; 31.12.2012: EUR 2,051 thousand), the corresponding income tax on dividends would amount to EUR 21,348 thousand (31.03.2012: EUR 20,510 thousand; 31.12.2013: EUR 21,199 thousand).

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Cash on hand	12	19	12
Bank accounts	17,440	6,276	18,749
Overnight deposits	28,865	19,554	26,372
Term deposits with maturities of 3 months or less	5,600	7,500	1,500
Total cash and cash equivalents	51,917	33,349	46,633

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Trade receivables			
Accounts receivable	38,189	33,733	38,202
Allowance for doubtful receivables	(742)	(861)	(742)
	37,447	32,872	37,460
Tax prepayments excluding corporate income tax			
Value added tax	1,333	758	657
Other taxes	13	1	17
	1,346	759	674
Amounts due from customers of contract works	11,016	18,804	12,940
Other short-term receivables			
Short-term loans	1,407	1,785	1,399
Interest receivables	684	968	656
Other short-term receivables	1,503	1,267	51
	3,594	4,020	2,106
Prepayments for services			
Prepayments for construction services	3,992	1,545	3,153
Prepaid insurance	347	450	359
Other prepaid expenses	462	403	480
	4,801	2,398	3,992
Total trade and other receivables	58,204	58,853	57,172
incl. short-term loan receivables from related parties (Note 16)	1,407	1,391	1,399
other short-term receivables and prepayments to related parties (Note 16)	1,075	38	1,094

NOTE 7 INVENTORIES

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Materials	789	501	731
Work-in-progress	35,414	22,064	28,614
Finished goods	11,094	16,607	16,625
Goods for resale			
Registered immovables purchased for resale	39,066	40,429	39,055
Other goods purchased for resale	975	995	978
	40,041	41,424	40,033
Prepayments for inventories			
Prepayments for real estate properties	1,086	1,086	1,086
Prepayments for other inventories	310	445	362
	1,396	1,531	1,448
Total inventories	88,734	82,127	87,451

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Investments joint ventures	7,315	7,115	7,349
Long-term loans	3,633	3,645	3,633
Long-term bank deposit	37	49	49
Long-term receivables from customers of construction services	10,616	14,315	16,384
Total other long-term loans and receivables	21,601	25,124	27,415
incl. short-term loan receivables from related parties (Note 16)	3,611	3,590	3,611

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Land	51	136	51
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(9)	(9)	(9)
	20	20	20
Buildings at carrying amount			
Cost	5,067	3,687	5,067
Accumulated depreciation	(523)	(297)	(466)
	4,544	3,390	4,601
Total investment property	4,615	3,546	4,672

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Land	824	825	824
Buildings at carrying amount			
Cost	5,784	5,788	5,784
Accumulated depreciation	(1,501)	(1,315)	(1,454)
	4,283	4,473	4,330
Machinery and equipment at carrying amount			
Cost	15,500	17,049	15,723
Accumulated depreciation	(9,423)	(9,773)	(9,263)
	6,077	7,276	6,460
Other fixtures at carrying amount			
Cost	5,420	5,500	5,445
Accumulated depreciation	(3,945)	(3,393)	(3,942)
	1,475	2,107	1,503
Prepayments for property, plant and equipment	45	145	-
Total property, plant and equipment	12,704	14,826	13,117

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Goodwill			
Cost	891	891	891
Impairment	(111)	-	(89)
	780	891	802
Software at carrying amount			
Cost	1,268	1,227	1,252
Accumulated depreciation	(909)	(824)	(887)
	359	403	365
Prepayments for intangible assets	-	52	-
Total intangible assets	1,139	1,346	1,167

NOTE 12 BORROWINGS

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Finance lease payables			
Present value of lease payments	2,627	3,319	2,872
incl. current portion	908	993	928
non-current portion 1...4 years	1,719	2,326	1,944
Bank loans			
Loan balance	20,834	19,634	23,953
incl. current portion	6,334	2,249	9,530
non-current portion 1...5 years	14,500	17,385	14,423
Factoring liability			
Factoring balance	-	848	-
incl. current portion	-	848	-
Loans from entities under common control			
Loan balance	8,145	8,145	8,145
incl. current portion	8,145	8,145	8,145
Loans from management members	102	102	102
incl. non-current portion 1...5 years	102	102	102
Loans from other entities			
Loan balance	449	355	313
incl. current portion	449	355	313
Total loans			
Loans balance	29,530	29,084	32,513
incl. current portion	14,928	11,597	17,988
non-current portion 1...5 years	14,602	17,487	14,525
Total borrowings	32,157	32,403	35,385
incl. current portion	15,836	12,590	18,916
non-current portion 1...5 years	16,321	19,813	16,469

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Trade payables	20,333	23,794	18,753
Payables to employees	6,450	4,942	7,465
Tax liabilities, except for corporate income tax			
Value added tax	916	1,286	1,721
Personal income tax	667	513	524
Social security tax	1,217	942	994
Unemployment insurance tax	87	71	65
Contributions to mandatory funded pension	57	39	40
Other taxes	70	304	50
	3,014	3,155	3,394
Amounts due to customers for contract works	14,905	13,106	11,226
Other liabilities			
Interest liabilities	122	108	120
Payable for registered immovables from demerger	5,288	5,380	5,288
Other liabilities	921	2,938	1,499
	6,331	8,426	6,907
Prepayments received	26,319	10,955	24,417
Total payables and prepayments	77,352	64,378	72,162
incl. payables to related parties (Note 16)	6,838	5,392	6,903

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Provision for warranty obligation for construction	1,788	1,658	1,810
Provision for onerous construction contracts	2,443	1,612	2,752
Provision for legal costs and claims filed	172	1,276	192
Other provisions	749	722	1,152
Total short-term provisions	5,152	5,268	5,906

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2014	31.03.2013	31.12.2013
Trade payables	1,648	1,686	2,123
Long-term interest liabilities	9	4	8
Other long-term liabilities	10	15	31
Other long-term payables total	1,667	1,705	2,162

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.03.2014, 31.03.2013 and 31.12.2013, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2014	31.03.2013	31.12.2013		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
OÜ Tevener	100	100	100	Estonia, Tallinn	Mining
AS Vooremaa Teed	100	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Gustaf	92.5	92.5	92.5	Estonia, Pärnu	Construction
OÜ Gustaf Tallinn	-	80	80	Estonia, Tallinn	Construction
AS Merko Tartu	66	66	66	Estonia, Tartu	Construction
OÜ Raadi Korteremaja	100	100	100	Estonia, Tartu	Real estate
OÜ Fort Ehitus	75	75	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	51	-	51	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Merko Inžinerija	100	100	100	Lithuania, Vilnius	Construction
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	100	Lithuania, Vilnius	Real estate
UAB Kražiu Projektas	100	-	100	Lithuania, Vilnius	Real estate
UAB VPSP 1	100	-	-	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	100	100	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	100	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	100	Estonia, Tallinn	Real estate
OÜ Woody	-	100	100	Estonia, Tallinn	Real estate
OÜ Maryplus	100	100	100	Estonia, Tallinn	Real estate
OÜ Constancia	100	100	100	Estonia, Tallinn	Real estate
OÜ Paepargi 57	-	100	-	Estonia, Tallinn	Real estate
OÜ Käibevara	-	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	31.03.2014	31.03.2013	31.12.2013		
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industrijas Parks	100	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
SIA Skanstes Virsotnes	100	100	100	Latvia, Riga	Real estate
SIA Polystar	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
Merko Ukraine LLC	-	100	-	Ukraine, Kharkiv	Construction
Merko Finland OY	100	100	100	Finland, Helsinki	Construction
Lenko Stroi LLC	100	100	100	Russia, St. Petersburg	Construction
Joint ventures					
OÜ Unigate	50	50	50	Estonia, Tallinn	Real estate
Poolkoksimeä Sulgemise OÜ	50	50	50	Estonia, Tallinn	Construction
OÜ Kortermaja	50	50	50	Estonia, Tartu	Real estate
SIA Zakusala Estates	50	50	50	Latvia, Riga	Real estate

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

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

On 22 January 2014, UAB Merko Bustas formed a fully owned subsidiary in Lithuania, UAB VPSP 1 with a share capital of LTL 10 thousand (EUR 2,896) to participate in public-private partnership (PPP) procurements organised by the Lithuanian government.

SALE OF SUBSIDIARY

in thousand euros

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

GOODS AND SERVICES

in thousand euros

	2014 3 months	2013 3 months	2013 12 months
Provided services			
Parent company	2	4	12
Joint ventures	62	91	262
Entities under common control	1,237	279	1,594
Members of the management	-	-	68
Other related parties	-	-	1
Total services provided	1,301	374	1,937
Interest income			
Joint ventures	28	28	114
Purchased services and materials			
Parent company	8	29	102

	2014 3 months	2013 3 months	2013 12 months
Entities under common control	22	42	160
Other related parties	-	-	1
Total purchased services and materials	30	71	263
Interest expense			
Entities under common control	31	39	146
Members of the management	1	1	5
Total interest expense	32	40	151

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2014	31.03.2013	31.12.2013
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	5,018	4,981	5,010
Receivables and prepayments (Note 6)			
Parent company	5	6	3
Joint ventures	707	25	692
Entities under common control	363	6	399
Other related parties	-	1	-
Total receivables and prepayments	1,075	38	1,094
Total receivables from related parties	6,093	5,019	6,104
Payables to related parties			
Loans received (Note 12)			
Entities under common control	8,145	8,145	8,145
Members of the management	102	102	102
Total loans received	8,247	8,247	8,247
Payables and prepayments (Note 13)			
Parent company	9	12	9
Entities under common control	5,299	5,380	5,364
Members of the management	1,530	-	1,530
Total payables and prepayments	6,838	5,392	6,903
Total payables to related parties	15,085	13,639	15,150

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 3 months of 2014 was EUR 593 thousand (3 months of 2013: EUR 393 thousand; 12 months of 2013: EUR 2,227 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 3 months of 2014, the Management Board members of major subsidiaries received EUR 6 thousand in compensation (3 months of 2013: EUR 12 thousand; 12 months of 2013: EUR 50 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31 March 2014

		AKTSIATE ARV	OSAKAAL
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8,322,914	47.02%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31,635	0.18%
Olari Taal (OÜ Eggera)	Member of the Supervisory Board	2,500	0.01%
Teet Roopalu	Member of the Supervisory Board	-	0.00%
		8,357,049	47.21%

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 March 2014

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

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

The group has purchased the following guarantees from financial institutions to guarantee the group's obligations to third parties. These amounts represent the maximum right of claim by third persons against the group in case the group is unable to meet its contractual obligations. Management estimates that additional expenses related to these guarantees are unlikely.

	31.03.2014	31.03.2013	31.12.2013
Performance period's warranty to the customer	30,489	26,454	29,549
Tender warranty	1,049	2,381	1,251
Guarantee warranty period	12,748	11,136	12,629
Prepayment guarantee	8,717	11,005	6,780
Contracts of surety	1,642	1,647	1,705
Total contingent liabilities	54,645	52,623	51,914

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

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

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

Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.

Payment guarantee – warranty provider guarantees to the customer payment for goods or services.

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 3 months of 2014, which are set out on pages 5-46.

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

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

Andres Trink Chairman of the Management Board



08.05.2014

Tõnu Toomik Member of the Management Board



08.05.2014