



# AS MERKO EHITUS

## GROUP

2014 12 months and IV quarter  
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2014 – 31.12.2014
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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 large scale, complicated and innovative projects as well as small-scale construction works, 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 765 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 5% of the total volume of the Estonian construction market as of the end of third quarter 2014. 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 CLOSURE OF THE SEMI-COKE HILLS IN KOHTLA-JÄRVE WAS COMPLETED IN LATE 2014. AS A RESULT OF THE FIVE-YEAR OPERATION, THE SEMI-COKE HILLS, LONG AN ENVIRONMENTAL LIABILITY FOR IDA-VIRU COUNTY, HAVE BEEN CLOSED PURSUANT TO THE REQUIREMENTS AND NO LONGER POSE AN ENVIRONMENTAL RISK.

## VISION

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

## VALUES

<b>RESPONSIBILITY</b>	We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.
<b>KEEPING PROMISES</b>	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.
<b>COMPETENCE</b>	We value quality and professionalism. We constantly develop our professional knowledge and skills.
<b>INITIATIVE</b>	We manage processes and we are result-oriented. We accept the challenges which presume more.
<b>CREATIVITY</b>	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. AS Merko Ehitus aims to be a preferred partner to its clients for construction works.

## 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 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

## COMMENTARY OF THE CHAIRMAN OF THE MANAGEMENT BOARD

We can be satisfied with the 2014 results, which were achieved in what continues to be a complicated market situation. Above all, improved profit figures, growth in Latvia and Lithuania and apartment sales in Estonia are reason to cheer. As expected, the decline in construction volumes in the engineering and road construction sectors continued, due to the decreased amount of EU-funded projects, even though the profitability of these segments exceeded our expectations.

2015 will be a difficult year in terms of public sector orders, a certain pickup can be expected starting in 2016. For that reason, our priority in all three Baltic states is good cooperation with private sector customers, to whom we want to offer high-quality and optimum construction solutions and an efficient construction process. The overall weak economic growth and low investor confidence in the Baltic states and the region also leaves an imprint on the construction market. We see growth opportunities for Merko opening up in 2015 mainly on the Lithuanian construction market, and also in apartment development, where we plan to invest about EUR 45-55 million in the coming year. The volume of orders will presumably not decline in electrical construction either, which is an important sector for us.

The Q4 2014 sales revenue of Merko Ehitus was EUR 70.1 million, with a figure of EUR 252.3 million for the financial year. In 2014, Merko earned 32% of its sales revenue from outside Estonia – Lithuanian sales doubled and Latvian sales increased by more than half compared to 2013.

The Merko Ehitus group had a 12-month gross margin of 9.8% and net profit margin of 4.9%, which are both better than last year. 2014 profit before taxes was EUR 13.3 million; and EUR 5.3 million in the fourth quarter. The company's net profit for 2014 was EUR 12.4 million and EUR 4.8 million in the fourth quarter, representing growth of 19% and 99%, respectively, compared to the previous year.

In the fourth quarter, group companies signed new agreements worth EUR 62.9 million and the volume of new contracts in 2014 totalled at EUR 170.4 million. As of 31 December 2014, the group had a secured order book balance of EUR 179.1 million.

The Management Board of AS Merko Ehitus proposes to pay shareholders EUR 7.3 million (0.41 euros per share) in dividends from retained earnings of previous periods, resulting in a dividend rate of 58% in 2014. Considering the outlook for 2015 and to support the return on equity, the Management Board also proposes reducing share capital by a total EUR 4.1 million by way of reducing the book value of shares (0.23 euros per share). These proposals will be submitted to the annual general meeting of shareholders for approval to be held on 29 April 2015.

The growth of sales revenue in the real estate segment as well as the proportional growth went according to plan and is the result of the investments made into the segment in the past few years. In 2015, we expect the apartment market to maintain a stable price level, buyers will continue to be selective and focus on premium offers, where we consider our position to be strong. We also take into consideration the lengthening of apartments sale periods.

In 2014, Merko sold 395 apartments with a total price of EUR 39.4 million; including 160 apartments worth EUR 16.0 million in Q4 (both figures exclusive of VAT). The sales revenue in the real estate development segment has grown 48% compared to the same period last year and the share of the segment's sales revenue in the group's total revenue has increased to 18%.

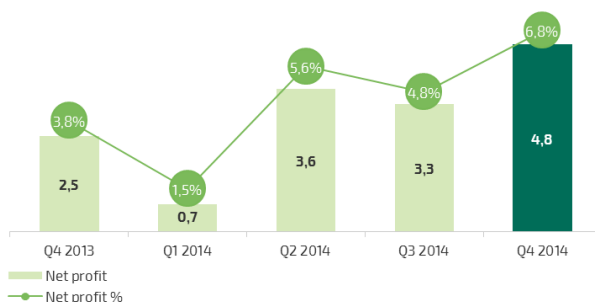
**2014**  
**NET PROFIT 12.4**  
MILLION EUROS

**REVENUE 252.4**  
MILLION EUROS

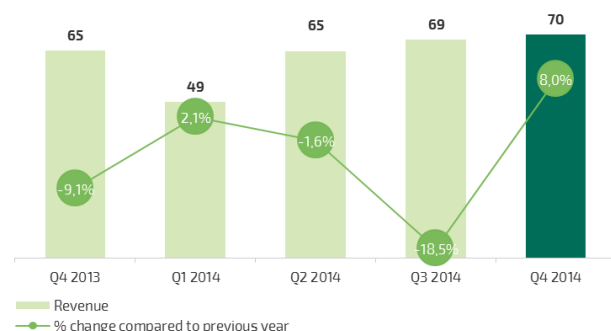
**PROPOSAL FOR 2014 DIVIDENDS**  
**0.41 EUROS**  
PER SHARE  
**AND SHARE CAPITAL RETURN**  
**0.23 EUROS PER SHARE**

## OVERVIEW OF THE 12 MONTHS AND IV QUARTER RESULTS

GROUP NET PROFIT  
in millions euros



GROUP REVENUE  
in million euros



### PROFITABILITY

Gross margin in 12M was 9.8% (12M 2013: 8.6%), which has increased by 13.3% compared to the same period last year. Profit before tax in 12M 2014 was EUR 13.3 million (12M 2013: EUR 11.1 million), which is equivalent to a profit before tax margin of 5.3% (12M 2013: 4.2%). Q4 profit before tax was EUR 5.3 million (Q4 2013: EUR 2.4 million). Net margin increased to 4.9% (12M 2013: 4.0%). Net profit in 12M was EUR 12.4 million (12M 2013: EUR 10.4 million). Q4 net profit was EUR 4.8 million (Q4 2013: EUR 2.5 million).

### REVENUE

Revenue in 12M 2014 was EUR 252.3 million (12M 2013: EUR 262.7 million), which has decreased by 4.0% compared to the same period last year. Q4 revenue was EUR 70.1 million (Q4 2013: EUR 64.9 million). The share of revenue earned outside of Estonia has increased in 12M 2014 to 32.3% (12M 2013: 19.3%) and the number of apartments sold in 12 months of 2014 (395 pcs, revenues of EUR 39.4 million) has increased by 50.2% (12 months of 2013: 263 apartments, revenues of EUR 28.3 million).

### CASH POSITION

At the end of the reporting period, the group had EUR 51.6 million in cash and cash equivalents and equity EUR 127.0 million (51.0% of total assets). Comparable figures as at 31 December 2013 were accordingly EUR 46.6 million and EUR 121.1 million (50.9% of total assets). As at 31 December 2014 the group had net debt of negative EUR 13.9 million (31 December 2013: negative EUR 11.2 million).

### SECURED ORDER BOOK

In Q4 2014, group companies signed new contracts in the amount of EUR 62.9 million (Q4 2013: EUR 48.6 million). 12M 2014 new contracts signed in amount of EUR 170.4 million (12M 2013: EUR 254.3 million). As at 31 December 2014, the group's secured order book stood at EUR 179.1 million (31 December 2013: EUR 213.7 million).

### PROPOSAL FOR DISTRIBUTION OF PROFITS AND REDUCTION OF SHARE CAPITAL

The Management Board proposes to distribute to shareholders EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings in 2015. This is equivalent to a 58% dividend rate for 2014. The Management Board also proposes to reduce the share capital by a total of EUR 4.1 million (EUR 0,23 per share) by way of reducing the book value of shares.

		12M '14	12M '13	VARIANCE	Q4 '14	Q4 '13	VARIANCE
Revenue	million EUR	252.3	262.7	-4.0%	70.1	64.9	+8.0%
Gross profit	million EUR	24.7	22.7	+8.8%	8.5	5.4	+58.1%
Gross profit margin	%	9.8	8.6	+13.3%	12.1	8.3	+46.4%
EBITDA	million EUR	16.4	15.1	+8.9%	6.2	3.5	+79.5%
EBITDA marginaal	%	6.5	5.7	+13.4%	8.9	5.4	+66.2%
Profit before tax	million EUR	13.3	11.1	+19.4%	5.3	2.4	+116.9%
PBT margin	%	5.3	4.2	+24.3%	7.6	3.8	+100.7%
Net profit (parent)	million EUR	12.4	10.4	+19.4%	4.8	2.5	+95.6%
Net profit margin	%	4.9	4.0	+24.3%	6.8	4.0	+81.1%
EPS	EUR	0.70	0.59	+19.4%	0.27	0.14	+95.6%
		<b>31.12.14</b>	<b>31.12.13</b>	<b>VARIANCE</b>			
ROE (on yearly basis)	%	10.1	8.8	+15.6%			
Equity ratio	%	51.0	50.9	+0.1%			
Secured order book	million EUR	179.1	213.7	-16.2%			
Total assets	million EUR	249.3	239.2	+4.2%			
Number of employees	people	765	860	-11.0%			

Ratio definitions are provided on page 37 of the report.

## THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 12 MONTHS OF 2014

The company's prediction of the main contributors to the construction market in the upcoming quarters has not changed significantly compared to the 2014 9 months interim report.

In 2014 the volume of Baltic construction contracts for general contractors continued to decline, 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. The outlook on the construction market was also impacted by the overall slump in investor confidence. In the EU's new multiannual financial framework, the amounts of structural funding allocated to the Baltic states from the EU budget will change compared to the previous EU budgetary period as follows: in Estonia, growth of EUR 2.5 billion to EUR 5.9 billion; in Latvia, contraction of EUR 0.1 billion to EUR 5.6 billion; and in Lithuania, growth of EUR 1.8 billion to EUR 8.4 billion. Although the amounts will stay the same or grow, the focuses have shifted somewhat based on the EU and the Baltic states' strategy and development – it is expected that during the new financial framework period, there will be less EU funds going to the construction market and there will also be fewer large-scale infrastructure projects. From the point of view of the development of the construction sector in the near term, it is paramount to start preparing for construction projects being financed as part of the new financial framework period and the call for tenders by the government. The new EU budgetary period measures, through which funds will be allocated, will be opened gradually as of the first quarter of 2015. That will be followed by the submission of project applications, decisions on approving or rejecting projects and, in the case of a positive decision, the announcement of a public procurement. As new projects require thorough preparation, we estimate that the number of new public procurements will start gradually growing from the second half of 2015 and from 2016. In connection with this we forecast that the first construction projects financed from the funds of the new EU budgetary period will commence at the end of 2015 or at the beginning of 2016.

We have forecasted from the beginning of 2014 and also for the next 12 months a continuing decrease of public sector orders, particularly in the field of civil engineering (external pipeline projects). The total number of projects launched and planned by private sector clients has grown somewhat in the last year, yet we do not anticipate continued growth but rather a stabilisation in the volume of private orders. In 2014, the private sector orders did not manage to compensate for the drop in public sector orders on the construction market, nor are they likely to do so in 2015.

An overall decrease in construction volumes and a tightening price competition has put pressure on the general contractors tender pricing and forced to take bigger risks. Merko Ehitus has historically been a valued partner in the private sector market, nevertheless the group has not been able to conclude the expected volume of new contracts with private customers during 2014, even though the share of private sector orders in the secured order book has increased to the highest level in recent years. We have observed that the price competition in the tenders has tightened even more and which has led to increased risks for both, the general contractors as the customers. In today's market competitors are submitting aggressive offers, anticipating that the input prices will decrease, however which may not materialise. As a result from the above the direct and indirect risks have increased for the customers, that are sometimes not perceived in the light of the favourable prices. Risks like receiving a building that doesn't meet the expectations, contractor's financial difficulties and project completion delays disputes between the parties arising from possible changes to the project and additional works etc. are all such risks which existence must be acknowledged. At the same time, we see that the more savvy private sector clients on the market are increasingly opting to sign design-build contracts instead of mere construction contracts, as the end result – a superior building – is more likely when the client has a competent partner with whom to discuss and analyse all details of a project.

In 2014 the Baltic economy, including the outlook of the construction market, has been negatively impacted by the increase of geopolitical risks due to the events in Ukraine. Uncertainty over the escalation of the events in Ukraine is driven by the prospect of 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. The possible extension of sanctions established by the EU in the first half of 2015 gives an initial indication as to which way developments will trend for the rest of the year. 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 2015, with the possibility of suspension of investment projects.

In 2014 the profitability of new contracts signed by general contractor companies remained on average probably remain below the last year's level depending on price competition and the continuation of the same trend is expected in 2015. 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 customers 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 is calming down. We do not forecast a long-term and steep drop in prices; the sale prices of new apartments will likely remain stable and sale periods will become longer. This is especially the case in Vilnius's bedroom communities where the supply has now exceeded demand. Despite the above mentioned, demand for new quality residential premises in good locations remains in the capitals of Baltic States, particularly in Tallinn and Vilnius, compared to which Riga's apartment market is less active. Many developers are now starting new projects with more determination in all three Baltic States but above all in the capitals which increases the supply of new apartments. The big apartment price increase predicted did not materialise in Tallinn and Riga in 2014, with the prices of apartments in high-quality developments in the prime locations experiencing only a marginal growth, which due to the small size of the markets, has had a fairly significant effect on the average market price in periods shorter than a year. At the same time, apartment prices have slightly grown in Vilnius, which is partly due to the transition to the euro from the beginning of 2015 and the price level will presumably stabilise in the first half of 2015. It is also important to note that the price rise of new developments has not been as high as the general increase of prices on the apartment market.

Whereas at the end of 2014 we saw the demand to continue to remain relatively strong, however a higher supply of apartments may in turn result in a pressure on sale prices and a lengthening of selling periods in 2015. Apartment buyers are even more focused on construction quality (energy efficiency, sound insulation) and make their buying decisions based on infrastructure of the area (parking, services, logistics). In addition, the customers are focusing more on the living environment of a neighbourhood as a whole. 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. Although the 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 previous years the balance of loans granted by banks in Estonia for real estate development has declined, the last two years saw a stabilisation in the loan balance. The banks continue to be reluctant to finance residential development projects of smaller developers without a proven track record or require a large number of preliminary sales contracts (up to 50% of total project volume) and a higher own equity contribution. This trend gives Merko group a competitive advantage in launching new development projects in the market and supports the launch of new development projects in all the capitals of the Baltic States.

Depending on the new government that will take office after Estonia's general elections in 2015 and the coalition agreements reached, this could have as yet unforeseeable impacts on the apartment market and the construction market as well, if the government should make state-funded rental housing programmes a priority.

In the recent years the Latvian apartment market has been supported by foreign investors who invest with the objective of acquiring a residence permit for the European Union. At the same time, legislative amendments have been passed in Latvia in 2014 regarding the procedure for issuing residence permits. The amendments entered into force on 1 September 2014 and made it harder for non-residents to gain residency through acquiring real estate - the cost of real estate in order to obtain a residence permit rose to EUR 250 thousand. Since it is difficult to predict the precise impact this change will have on customer behaviour, it is uncertain how demand will be affected in future. On the other hand, the amount of loans granted to private customers by Latvian banks may decrease in the future due to the amendments to the Bankruptcy Act that was adopted at the beginning of October 2014. Among other things, the amendments stipulate that private persons who have taken a mortgage can be released from their obligations if they return their home complete with keys to the credit institution that granted the loan. Although the impact of the amendment on the loan market is difficult to predict, it will presumably negatively affect the conditions for issuing new loans. It is estimated that the banks will be forced to increase the down payment as well as to raise the established risk margins, which in turn will make residential loans inaccessible for many Latvians in the future. The changes to the Bankruptcy Act were originally supposed to enter into force for home loans issued starting 1 January 2015, but due to the high public pressure, the entry into force has been postponed to 1 March 2015. It is also not ruled out that the Act will be supplemented with a possibility for borrowers to be able to decide at the conclusion of a loan agreement whether the loan they are taking includes the option of returning the home or not, which in turn will determine the terms of the loan - serious discussions are still under way with regard to this amendment. It can also be assumed that the stricter conditions for issuance of loans will also affect the real estate market and particularly the new developments where the apartment price level is generally higher than average.

The Lithuanian capital Vilnius has seen rapid growth in the supply of apartments, above all in cheaper price segments and bedroom communities where there is a certain amount of oversupply, which has already led to risks where the sales periods are longer; also the sale of apartments as so-called "grey box" remains a dominant feature. In Lithuania, individuals' investments in real estate is also supported by the adoption of the Euro from 2015 and the resulting price increase expectations. Merko group is focusing on the medium-range or more expensive segment in the city centre of Vilnius, as the supply is lower in this area and price segment.

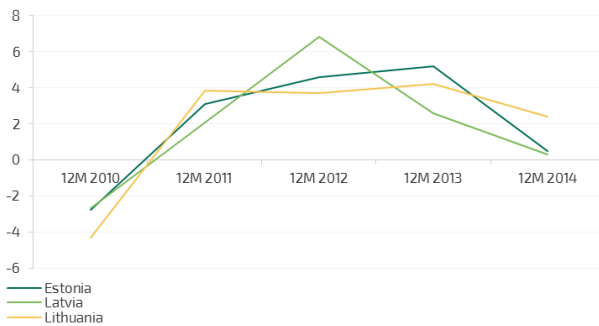
As an additional variable that will impact the real estate market in future is the quantitative easing programme announced by the European Central Bank in January 2015. It is still early to predict what the precise impact of the programme on real estate prices



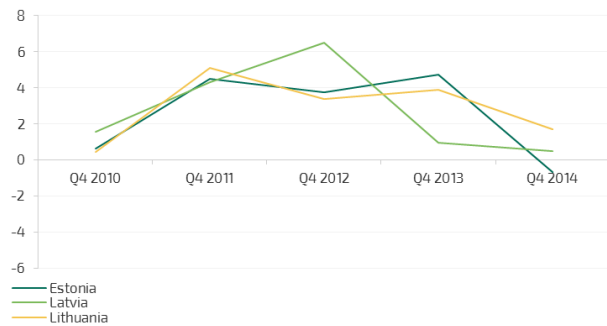
will be, but it is relatively certain that in the short term it will not impact prices as the programme's effect on prices is marginal. However, in the long term, prices will start rising due to the greater supply of money.

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

12M CHANGE IN CONSTRUCTION PRICE INDEX  
percentages



QUARTERLY CHANGE IN CONSTRUCTION PRICE INDEX  
percentages



Source: Local national statistical offices.

	12 MONTHS 2014			IV QUARTER 2014		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
Construction price index annual change	+0.5%	+0.3%	+2.4%	-0.7%	+0.5%	+1.7%
Labour force	+1.3%	+3.0%	+5.8%	-0.6%	+3.5%	+4.8%
Construction machines	+2.2%	+0.4%	+1.1%	+0.4%	+0.8%	+0.8%
Building materials	-0.0%	-0.4%	+0.8%	-0.8%	-0.6%	-0.1%

Source: Local national statistical offices.

As the largest general contractor, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, is well positioned in the Estonian construction market and is capable of competing in all activity segments, although there are many general contractors in general construction market segment and there is a tight price competition, often at the expense of quality and contractual risks. In Latvia, SIA Merks, a subsidiary of AS Merko Ehitus, belongs to among the leading general contractors and we believe that we can maintain our position, considering the secured order book as at the end of 2014. 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 construction contracts. Considering the volume of agreements concluded in Lithuania in late 2014, we hope to increase our market share in Lithuania.

## OPERATING RESULTS

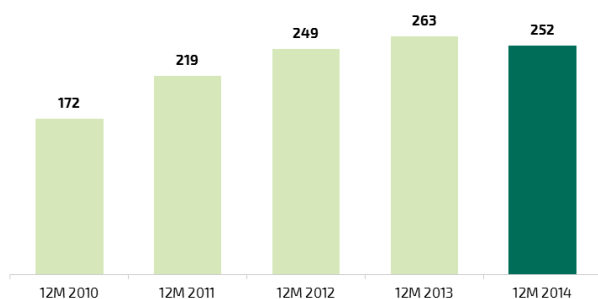
### BUSINESS ACTIVITIES

Key financial indicators (in million euros)

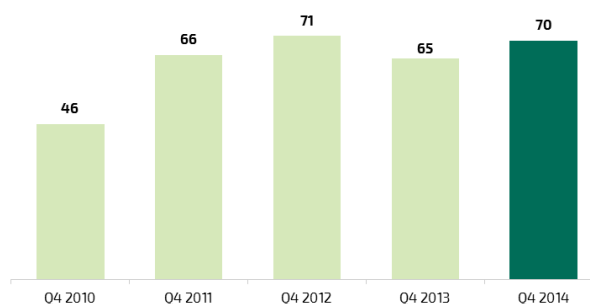
	12 MONTHS 2014	12 MONTHS 2013	IV QUARTER 2014	IV QUARTER 2013
<b>Revenue</b>				
Estonia	170.7	211.9	46.0	48.6
Latvia	68.6	44.4	20.8	14.9
Lithuania	13.0	6.4	3.3	1.4
<b>Revenue total</b>	<b>252.3</b>	<b>262.7</b>	<b>70.1</b>	<b>64.9</b>
<b>Gross profit</b>	<b>24.7</b>	<b>22.7</b>	<b>8.5</b>	<b>5.4</b>
<b>EBITDA</b>	<b>16.4</b>	<b>15.1</b>	<b>6.2</b>	<b>3.5</b>
<b>Operating profit (EBIT)</b>	<b>14.0</b>	<b>12.3</b>	<b>5.5</b>	<b>2.7</b>
<b>Profit before tax (PBT)</b>	<b>13.3</b>	<b>11.1</b>	<b>5.3</b>	<b>2.4</b>
<b>Net profit</b>				
attributable to equity holders of the parent	12.4	10.4	4.8	2.5
attributable to non-controlling interest	(0.1)	0.0	0.0	0.0
<b>Net profit total</b>	<b>12.3</b>	<b>10.4</b>	<b>4.8</b>	<b>2.5</b>
<b>Earnings per share (EPS), euros</b>	<b>0.70</b>	<b>0.59</b>	<b>0.27</b>	<b>0.14</b>
<b>Cash and cash equivalents closing position</b>	<b>51.6</b>	<b>46.6</b>	<b>51.6</b>	<b>46.6</b>

### REVENUE AND GROSS PROFIT

GROUP REVENUE  
in million euros

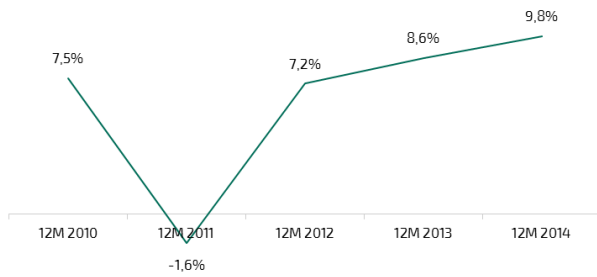


GROUP QUARTERLY REVENUE  
in million euros

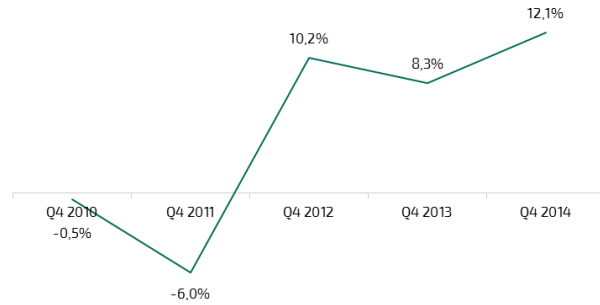


Merko Ehitus group generated a total of EUR 252.3 million in revenue in 12 months of 2014 (12 months of 2013: EUR 262.7 million). 67.7% of the revenue was generated in Estonia, 27.2% in Latvia and 5.1% in Lithuania (12 months of 2013: 80.7% in Estonia, 16.9% in Latvia and 2.4% in Lithuania). Compared to the 12 months of 2013 the group revenue has decreased by 4.0%. In the 12 months of 2014 the share of Latvian revenue has increased from 16.9% to 27.2%. Revenue in Q4 2014 was EUR 70.1 million, which has increased 8.0% compared to the previous year (Q4 2013: EUR 64.9 million). The main changes in the revenue structure compared to the same period last year, can be mainly attributed to projects pursued in the general construction and real estate development segment. At the same time there has been a significant reduction in sales revenue from engineering construction and road construction segments, which is primarily due to the end of major projects financed from EU structural funds and the reduced project volumes. This trend was similar throughout the whole year.

**GROUP GROSS PROFIT MARGIN**  
percentages



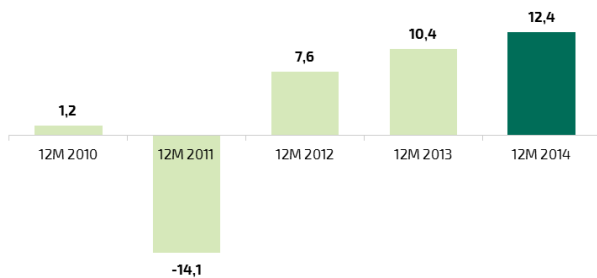
**GROUP QUARTERLY GROSS PROFIT MARGIN**  
percentages



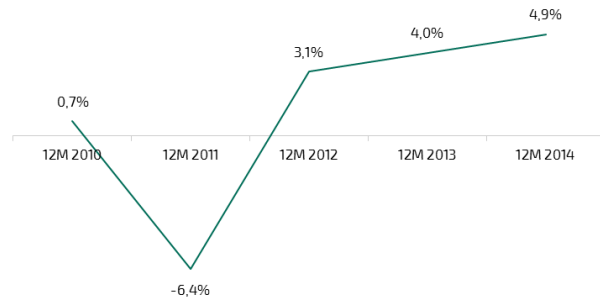
In 12 months of 2014 the group's gross profit from development and construction activities totalled EUR 24.7 million (12 months of 2013: EUR 22.7 million) and in Q4 2014 EUR 8.5 million (Q4 2013: EUR 5.4 million). The 12 months gross profit margin (9.8%) has increased compared to the same period last year (12 months of 2013: 8.6%). The growth of the profit margin has been supported by growth in the volumes of the real estate development segment. Simultaneously profitability has been negatively impacted by a growth in volumes in the lower-profitability general construction segment. Additionally maintaining the stability of profit margins during the 12 months of 2014 both in the road construction and civil engineering segments has been important, despite the decline in sales volumes, that has been supported by the decrease in input priced, which may not continue in 2015. The scarcity of projects and the ever-tightening competition in the construction sector poses a great challenge in the maintaining of the current gross profit margin for new procurements in all segments, but especially in general construction, where the number of companies participating in tenders and the risk of low pricing bids is high.

## PROFIT BEFORE TAX AND NET PROFIT

**GROUP NET PROFIT**  
in million euros

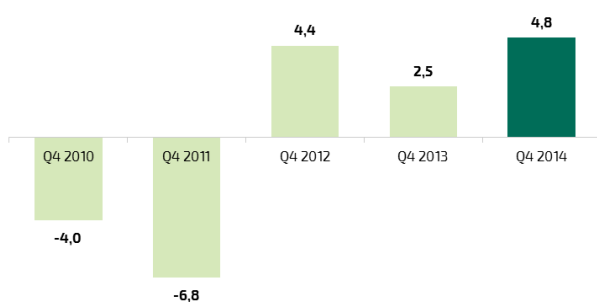


**GROUP NET PROFIT MARGIN**  
percentages



In 12 months of 2014, the group's profit before tax totalled EUR 13.3 million and net profit attributable to equity holders of the parent was EUR 12.4 million as compared to the pre-tax profit or EUR 11.1 million and net profit attributable to equity holders of the parent of EUR 10.4 million in 12 months of 2013. Group's net profit margin was 4.9% (12 months of 2013: 4.0%). The net profit for the 12 months of 2014 was affected by the income tax expenses paid in the first quarter of 2014 on the dividends received from OÜ Gutsaf Tallinn in the amount of EUR 0.3 million. This increases the income tax expenses as extraordinary one-off item, compared to the 12 months of 2013.

**GROUP QUARTERLY NET PROFIT**  
in million euros



**GROUP QUARTERLY NET PROFIT MARGIN**  
percentages



In Q4 of 2014, the group's pre-tax profit totalled EUR 5.3 million and net profit was EUR 4.8 million as compared to the pre-tax profit of EUR 2.4 million and net profit of EUR 2.5 million in Q4 of 2013. Both the group's quarterly net profit (EUR 4.8 million) and

the net profit margin (6.8%) have increased compared to the same period last year (12 months of 2013: EUR 2.5 million and 3.8%, respectively).

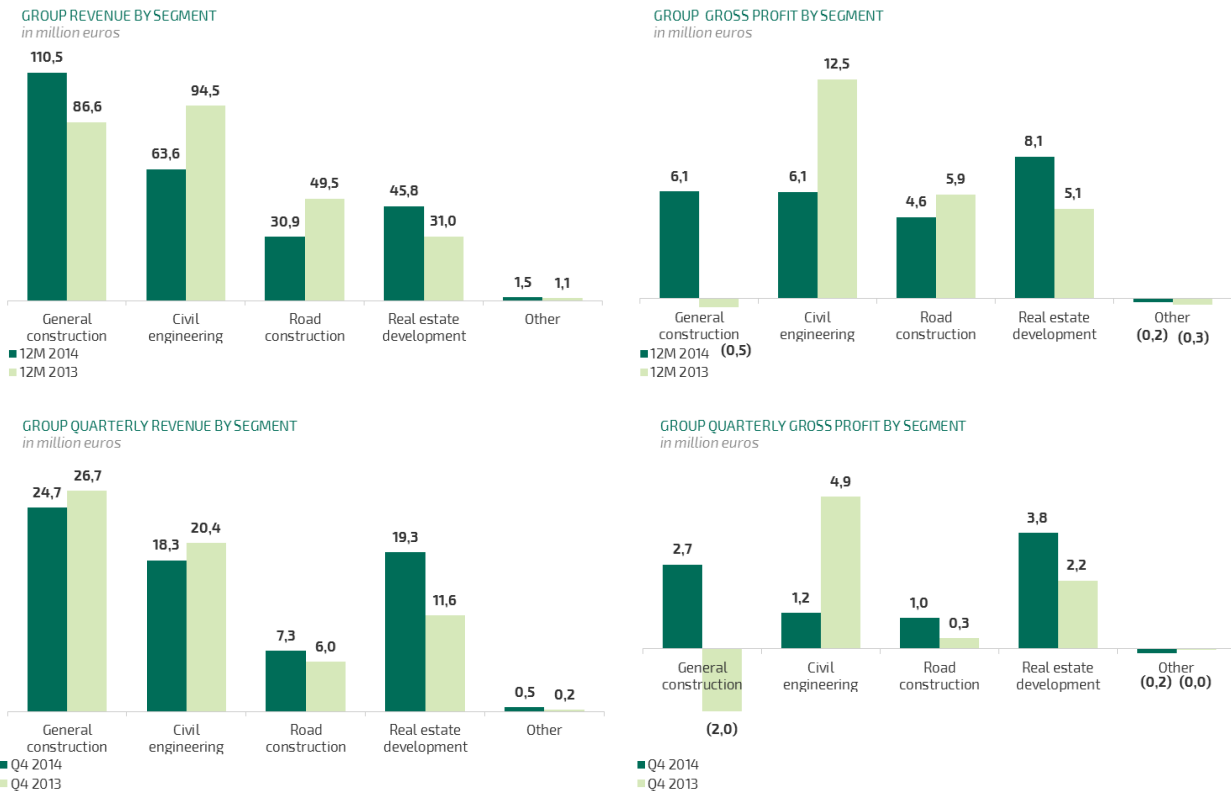
In the second quarter of 2014, the group paid EUR 7.3 million in dividends, which incurred no additional income tax expense in connection with previously received and taxed distribution of profits from subsidiaries. The situation in the third quarter of 2013 was alike, when the group paid EUR 5.3 million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

## BUSINESS SEGMENTS

The group operates mainly in Estonian, Latvian and Lithuanian market through its subsidiaries and depending on the country provide services across the following business segments: general construction, civil engineering (including electrical and external networks), road construction, real estate development (including apartment development and sales, long-term real estate investments and commercial real estate projects) and other comprising sale of raw materials obtained from pit mining, equipment lease, consulting and construction supervision. The groups management structure is country based and is in turn divided by business segments. See also the management structure on page 30.



### GROUP REVENUE AND GROSS PROFIT BY BUSINESS SEGMENTS



## GENERAL CONSTRUCTION

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

million EUR

	12 MONTHS 2014	12 MONTHS 2013	CHANGE	IV QUARTER 2014	IV QUARTER 2013	CHANGE
Revenue	110.5	86.6	+27.7%	24.7	26.7	-7.4%
% of total revenue	43.8%	32.9%	+32.9%	35.3%	41.1%	-14.3%
Gross profit (loss)	6.1	(0.5)	+1,315.9%	2.7	(2.0)	-234.4%
Gross profit margin	5.5%	-0.6%	+1,052.3%	11.0%	-7.6%	-245.1%

In the 12 months of 2014, the revenue of the general construction segment was EUR 110.5 million (12 months of 2013: EUR 86.6 million), having increased by 27.7% from the same period last year. In this segment, the group earned a gross profit of EUR 6.1 million for 12 months (12 months of 2013: EUR 0.5 million gross loss). The segment continues to be mainly influenced by the pressure on the margins exerted by tightening competition. In the 12 months the revenue of the general construction segment formed the largest proportion in the group's revenue with a 43.8% share. This proportional increase was expected, especially given the knowledge that the volumes in the civil engineering and road construction segments have decreased.

The gross margin of the general construction segment in 12 months of 2014 was 5.5%, which was supported by the fact that the previously forecasted risks did not materialise in projects nearly or fully completed in the reporting period. This exerted a one-time effect on the results, both in Q3 and Q4. The 2013 comparison base was also influenced by a major one-off loss from one renovation project in the year's last quarter. We have seen rise in the proportion of private sector orders starting from 2013, and the same tendency, although to a lesser extent than expected, has continued in the 12 months of 2014. With regard to projects in progress in the general construction segment as at the end of year, private sector orders constitute approximately 3/4.

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

Among the projects completed and delivered to the customer in 12 months of 2014 the ones to highlight are the Tondiraba ice arena completed in 14 months and the Nurmevälja logistics centre.

## 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

	12 MONTHS 2014	12 MONTHS 2013	CHANGE	IV QUARTER 2014	IV QUARTER 2013	CHANGE
Revenue	63.6	94.5	-32.7%	18.3	20.4	-10.7%
% of total revenue	25.2%	36.0%	-30.0%	26.0%	31.5%	-17.3%
Gross profit	6.1	12.5	-51.3%	1.2	4.9	-76.8%
Gross profit margin	9.6%	13.2%	-27.7%	6.3%	24.1%	-74.1%

The revenue of the civil engineering segment amounted to EUR 63.6 million in the 12 months of 2014 (12 months of 2013: EUR 94.5 million), which is 32.7% less than in 2013. The decrease from the previous year is mainly due to a drop in the volume of external pipeline projects. If the civil engineering segment revenues of 12 months of 2013 formed the largest proportion in the group's revenue (12 months of 2013: 36.0%), then during 12 months of the current year the segments revenues formed 25.2% of total revenue being down 30.0% compared to the previous year. The 12 month gross profit of the civil engineering segment amounted to EUR 6.1 million (12 months of 2013: EUR 12.5 million) and the gross profit margin was 9.6% (12 months of 2013: 13.2%), which decreased by 27.7% compared to the same period previous year. Considering the declining volumes in the segment we see this as a very good and strong outcome. We continue to closely monitor the changes in the volumes, to maintain an effective cost base.

In the fourth quarter of 2014, the main ongoing projects included were the design and renovation of the infrastructure of Tallinn tram line No. 4, the construction works of Narva water purification station, the design and construction works of the passengers'

walkway and vehicular loading ramps of quays 12 and 16 of the Vanasadam Harbour and the closing of industrial waste and semi-coke landfill in Kohtla-Järve and the re-cultivation and construction works of waste recycling site at A. Deglava Street in Riga.

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

	12 MONTHS 2014	12 MONTHS 2013	CHANGE	IV QUARTER 2014	IV QUARTER 2013	CHANGE
Revenue	30.9	49.5	-37.5%	7.3	6.0	+22.5%
% of total revenue	12.3%	18.8%	-34.9%	10.4%	9.2%	+13.4%
Gross profit	4.6	5.9	-21.9%	1.0	0.3	+193.0%
Gross profit margin	15.0%	12.0%	+25.0%	13.8%	5.7%	+139.2%

The revenue of the road construction segment amounted to EUR 30.9 million in the 12 months of 2014 (12 months of 2013: EUR 49.5 million), which means a 37.5% decrease from the same period 2013. In the 12 months of 2014, the segment earned a gross profit of EUR 4.6 million (12 months of 2013: EUR 5.9 million), which yields a gross profit margin of 15.0% (12 months of 2013: 12.0%). 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. In the 12 months of 2014, the growth of profitability in the road construction segment was supported largely by an increase in the volume of small-scale road construction and repair works with higher-than-average profitability compared to the same period last year when the number of similar contracts was smaller. In addition, the results of Q4 2014 were influenced by a relatively mild December compared to 2013.

The largest projects in work in the fourth quarter were the maintenance works done under the service agreement with Tallinn, the reconstruction works of Suur-Sõjamäe street in Tallinn and the construction works of Suru road and firing range in Kuusalu 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

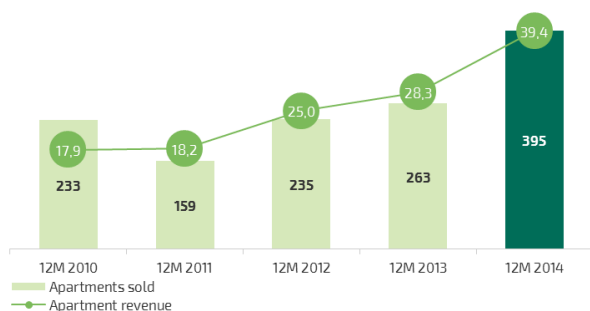
	12 MONTHS 2014	12 MONTHS 2013	CHANGE	IV QUARTER 2014	IV QUARTER 2013	CHANGE
Revenue	45.8	31.0	+47.6%	19.3	11.6	+66.6%
% of total revenue	18.1%	11.8%	+53.7%	27.6%	17.9%	+54.2%
Gross profit	8.1	5.1	+58.3%	3.8	2.2	+70.1%
Gross profit margin	17.7%	16.5%	+7.2%	19.4%	19.0%	+2.1%

A total of 395 apartments were sold in 12 months of 2014 at the total value of EUR 39.4 million (excl. VAT), compared to 263 apartments and EUR 28.3 million in 2013. In Q4 of 2014 a total of 160 apartments were sold at the total value of EUR 16.0 million (excl. VAT), (Q4 2013: 98 apartments and EUR 11.0 million). 12 months real estate development segment revenues have increased 47.6% compared to the same period last. The share of revenue from the real estate development segment also increased in the 12 months to 18.1% of the group's total revenue (12 months of 2013: 11.8%), which has been planned and occasioned by the strategic decisions made in 2012 to increase the segment's investments into various new real estate development projects.

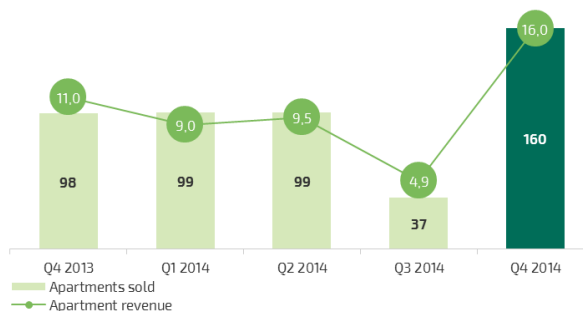
In 12 months of 2014, the group has earned EUR 1.4 million of revenue from the sale of properties (12 months of 2013: EUR 0.3 million). Q4 revenue from the sale of properties was EUR 0.0 million (Q4 2013: EUR 0.0 million).

The Q4 2014 profitability of the segment was positively impacted by a net change in impairments of development projects and immovable properties amounting to EUR 0.5 million, which has an one-off nature.

APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



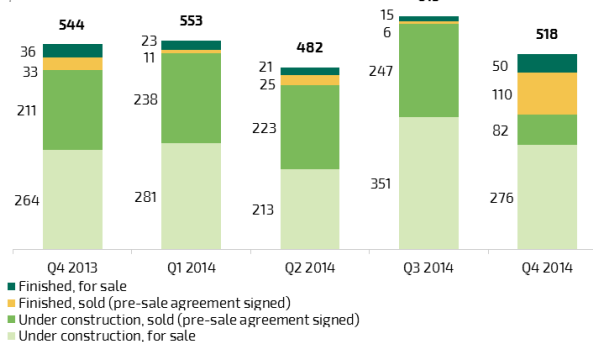
APARTMENTS SOLD AND APARTMENT REVENUE  
pcs / in million euros



At the end of the period, Merko Ehitus group's inventory comprised 110 completed (92 in Estonia, 16 in Latvia and 2 in Lithuania) and 82 apartments under construction (39 in Estonia, 34 in Latvia and 9 in Lithuania), where a preliminary agreement had been signed but where the sale had not yet been finalised and delivered to customers. The reasoning is that the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 December 2014, Merko Ehitus group had a total of 326 apartments for active sale (as at 31 December 2013: 300 apartments), for which there are no pre-sale agreements and of which 50 have been completed (22 in Estonia, 24 in Latvia and 4 in Lithuania) and 276 are under construction (128 in Estonia, 91 in Latvia and 57 in Lithuania).

GROUP APARTMENTS INVENTORY  
pcs



#### APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Grostonas 17	Riga, Latvia	Completed	1	-
Mokslininku stage I	Vilnius, Lithuania	Completed	2	2
Mokslininku stage II	Vilnius, Lithuania	Completed	4	-
Vana-Kalamaja 31 + Suur-Laagri 2 **	Tallinn, Estonia	Completed	2	1
Grostonas 19	Riga, Latvia	Completed	39	16
Paepargi 17, 19, 21 **	Tallinn, Estonia	Completed	13	8
Kentmanni 6	Tallinn, Estonia	Completed	84	83
Pärna avenue 10 **	Tartu municipality, Estonia	Completed	7	-
Pärna avenue 9 **	Tartu municipality, Estonia	Completed	8	-
			<b>160</b>	<b>110</b>
Grostonas 21	Riga, Latvia	Spring 2015	125	34
Rästa 18 **	Tallinn, Estonia	End of 2015	47	26
Fizikų **	Vilnius, Lithuania	End of 2015	38	2
Krazių **	Vilnius, Lithuania	End of 2015	28	7
Paepargi 49 **	Tallinn, Estonia	End of 2015	60	13
			<b>298</b>	<b>82</b>
<b>Started in Q4 2014</b>				
Pärna avenue 11 **	Tartu municipality, Estonia	Summer of 2014	24	-
Pärna avenue 12 **	Tartu municipality, Estonia	Summer of 2014	36	-
			<b>60</b>	<b>-</b>
<b>Total</b>			<b>518</b>	<b>192</b>

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

\*\* Project launched in 2014.

In 12 months of 2014, we launched the construction of a total of 369 new apartments in the Baltic States (12 months of 2013: 409 apartments). In the 12 months of this year, the group has invested a total of EUR 46.9 million in new development projects launched in 2014 as well as projects already in progress from previous year. We will continue to invest in residential real estate projects and depending on the apartment market developments in 2015, the group plans to launch the construction of approximately 500-550 new apartments in the Baltic States. In 2015, the group's planned investments in both development projects initiated in the previous years and new projects to be launched in 2015 will be in the range of EUR 45-50 million.

As at 31 December 2014, the group has 0 apartments where the construction activity has been frozen (as at 31 December 2013, the respective number was 130 apartments). During 2014, we have re-launched four development projects in Tartu that were frozen since 2007:

- Development of Pärna avenue 10 in Tartu municipality in the 1st quarter (the number of apartments for sale is 42);
- Development of Pärna avenue 9 in Tartu municipality in the 2nd quarter (the number of apartments for sale is 28);
- Development of Pärna avenue 11 in Tartu municipality in the 4th quarter (the number of apartments for sale is 24);
- Development of Pärna avenue 12 in Tartu municipality in the 4th quarter (the number of apartments for sale is 36).

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. In the 12 months of 2014, the group has purchased new land plots in Lithuania at an acquisition cost of EUR 3.2 million (12 months of 2013: EUR 2.1 million). Also in the second quarter, the group realized an option agreement to acquire the Rästa 18 land plot in Tallinn in the amount of EUR 1.2 million. The group is searching for new land plots for real estate development purposes primarily in Estonian and Lithuania.

## 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

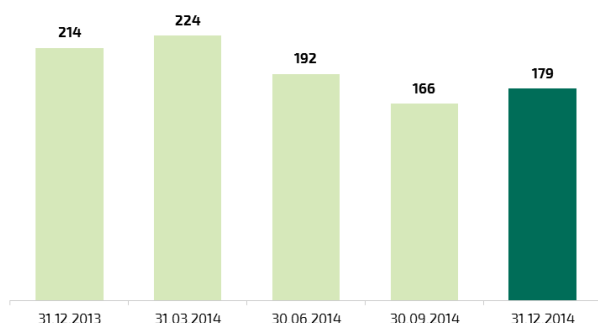
	12 MONTHS 2014	12 MONTHS 2013	CHANGE	IV QUARTER 2014	IV QUARTER 2013	CHANGE
Revenue	1,5	1,1	+33,4%	0,5	0,2	+154,4%
% of total revenue	0,6%	0,5%	+38,9%	0,7%	0,3%	+135,5%
Gross profit (loss)	(0,2)	(0,3)	-37,8%	(0,2)	(0,0)	+79,8%
Gross profit margin	-14,0%	-29,9%	-53,4%	-32,6%	-46,1%	-29,3%

In 2014, revenue in the other segment was EUR 1.5 million, up 33.4% from 2013. This segment concluded the year 2014 with a gross loss of EUR 0.2 million, mainly attributable to impairment losses on mined inventories.

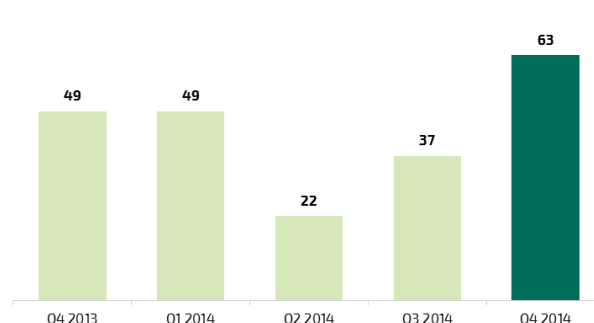
## SECURED ORDER BOOK

As at 31 December 2014, the group's secured order book (without own developments) amounted to EUR 179.1 million as compared to EUR 213.7 million as at 31 December 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 fourth quarter of 2014, EUR 62.9 million worth of new contracts were signed (without own developments) as compared to EUR 48.6 million in same period last year. The value of new contracts signed (without own developments) in the 12 months of 2014 amounted to EUR 170.4 million (12 months of 2013: EUR 254.3 million). The volume of contracts signed in 2013 were impacted significantly by the large-scale contracts entered into in Latvia in the second half-year of 2013 such as Polipaks NT manufacturing and logistics center and Liepaja concert hall, which are also reflected in the 2014 results. No contracts of this volume were entered into in Latvia in 2014.



## LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FOURTH QUARTER OF 2014

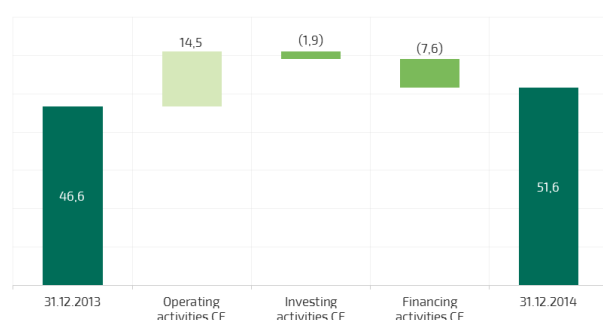
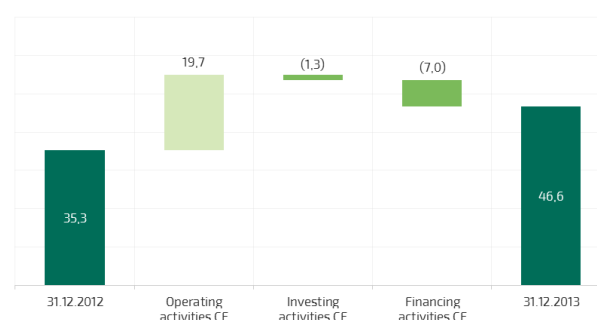
BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Design and construction works of a 13-storey office building located in Tallinn Estonia, at the Ülemiste City	Estonia	Summer 2016	17.4
Territory engineering preparation works for private house development area in Riga	Latvia	October 2015	4.1
Design and construction works of a logistics centre, located in Maardu	Estonia	February 2016	6,0
Construction of a nine-building residential complex with office premises in Vilnius	Lithuania	January 2017	15,0

Of the contracts signed in the 12 months of 2014, public and private sector orders accounted for an equal proportion, above all due to the volume of contracts signed with private clients in the last quarter. Nevertheless, in 2014 the company did not manage to garner as much work from private sector customers as it had envisaged. The general construction segment is seeing the stiffest competition, and is where competitors are making aggressive offers, incurring risks for both customers and contractors. Considering the end of the previous EU funding period and the beginning phase of the current EU funding period, one can forecast the volume of public procurements to stay at the previous years level or a slight decline for 2015. We forecast that the volume of public procurements will start to increase at the end of 2015 or at the beginning of 2016. In this respect, it continues to be a great challenge to maintain the group's secured order book at the level of 2014 or growing it.

Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to increase the volume of construction orders from outside Estonia. Thus, we are closely monitoring the development and opportunities both in the Baltic States and the Nordic countries. In 2014 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 liquidity of the group is strong and the cash position is stable. As at 31 December 2014 the group had cash equivalents in the amount of EUR 51.6 million (31.12.2013: EUR 46.6 million). The group's cash level has strengthened compared to the same period last year.

12M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros12M CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros

The 12-month cash flow from operating activity was positive at EUR 14.5 million (12 months of 2013: positive EUR 19.7 million), cash flow from investing activity was negative at EUR 1.9 million (12 months of 2013: negative EUR 1.3 million) and the cash flow from financing activity was negative at EUR 7.6 million (12 months of 2013: negative EUR 7.0 million).

The cash flow from operating activity was mostly influenced by the operating profit EUR 14.0 million (12 months of 2013: EUR 12.3 million), by the negative change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 0.2 million (12 months of 2013: positive change of EUR 4.7 million), by the positive change in provisions EUR 1.3 million (12 months of 2013: positive change of EUR 1.6 million), by the positive change in trade and other receivables related to operating activities EUR 12.7 million (12 months of 2013: negative change of EUR 6.2 million), by the negative change in inventory EUR 14.8 million (12 months of 2013: negative change of EUR 4.9 million), and by the positive change in trade and other payables related to operating activities EUR 0.3 million (12 months of 2013: positive change of EUR 10.2 million, incl. significant positive inflow from the advances for real estate development projects). The cash flows from operating activities of the reporting period were negatively influenced mainly by changes in inventories (EUR 14.8 million) which are due to group's increased apartment development volumes and the gradual completing thereof (Grostonas 21 in Riga and Kentmanni 6 in Tallinn) as well as from the

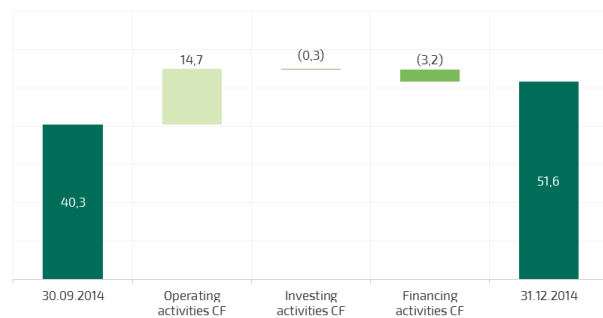
acquisition of new land plots. The negative impact is partly positively offset from the prepayments received from pre-sales of apartments and from construction service customers, which still remain EUR 9.9 million lower than in the same period last year.

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 (15.1% as at 31.12.2014; 14.8% as at 31.12.2013).

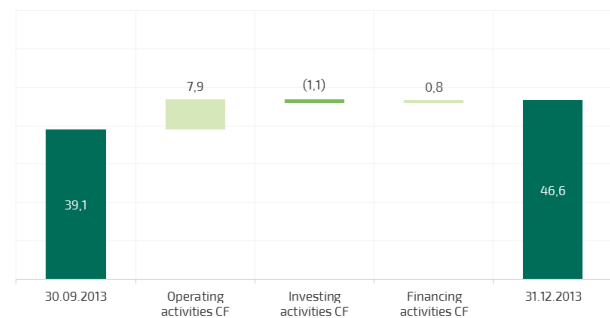
Cash flows from investment activities include negative cash flow from the cash balance excluded from the group in connection with the sale of subsidiary Gustaf Tallinn OÜ in the amount of EUR 0.4 million, but also negative cash flow from the acquisition of minority shareholding in subsidiary AS Gustaf in the amount of EUR 0.1 million and the acquisition of subsidiary UAB Timana (related to the purchase of a new land plot in Lithuania) in the amount of EUR 0.3 million. Cash flows from investment activities was additionally influenced by the negative cash flow from the acquisition of non-current asset in the amount of EUR 1.5 million (12 months of 2013: EUR 0.8 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.1 million (12 months of 2013: EUR 0.9 million). Cash flows from investment activities in 12 months of 2013 was negatively impacted by the acquisitions and improvements of real estate investment in the amount of EUR 1.1 million and by the acquisition of other investments in the amount of EUR 0.3 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 dividend payment of EUR 7.3 million (12 months of 2013: EUR 5.3 million) and the premature repayment of a working capital loan in the amount of EUR 3.5 million, instead of which the group entered into an overdraft contract with an overall limit of EUR 3.5 million. Project specific loans obtained using investment property as collateral were repaid in the amount of EUR 0.6 million (12 months of 2013: positive cash flow in net amount of EUR 1.9 million), net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 4.9 million (12 months of 2013: negative cash flow of EUR 1.0 million), factoring in the amount of EUR 0.0 million (12 months of 2013: negative cash flow of EUR 1.5 million) and finance lease principal repayments of EUR 1.1 million (12 months of 2013: EUR 1.2 million). The group has not used bank loans to finance all of the ongoing development projects – and this is the case particularly in Estonia, where many advance sales were agreed in the early phase of construction.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



The Q4 2014 cash flow from operating activity was positive at EUR 14.7 million (Q4 2013: positive EUR 7.9 million), cash flow from investing activity was negative at EUR 0.3 million (Q4 2013: negative EUR 1.1 million) and the cash flow from financing activity was negative at EUR 3.2 million (Q4 2013: positive EUR 0.8 million).

Due to the seasonal nature of construction activity, the quarterly cash flows from operating activities were positive primarily due to a drop in receivables from construction work customers, which on the other hand was negatively offset by the increase of payments to subcontractors and receivables calculated using the percentage of completion method.

The quarterly cash flow from investment activities was negative primarily due to the acquisition of non-current asset in the amount of EUR 0.4 million, which is mainly related to the renewal of equipment in the road construction segment as well as renewal of the car fleet.

The quarterly cash flow from financing activities was negative primarily due the net negative cash flow of EUR 2.8 million of loans received and loans repaid to finance the construction costs of development projects.

## RATIOS

(attributable to equity holders of the parent)

		12M '14	12M '13	12M '12	Q4 '14	Q4 '13	Q4 '12
<b>Income statement summary</b>							
Revenue	million EUR	252.3	262.7	249.1	70.1	64.9	71.4
Gross profit	million EUR	24.7	22.7	17.9	8.5	5.4	7.3
Gross profit margin	%	9.8	8.6	7.2	12.1	8.3	10.2
Operating profit	million EUR	14.0	12.3	8.8	5.5	2.7	4.7
Operating profit margin	%	5.5	4.7	3.5	7.8	4.2	6.6
Profit before tax	million EUR	13.3	11.1	7.9	5.3	2.4	4.4
PBT margin	%	5.3	4.2	3.2	7.6	3.8	6.2
Net profit	million EUR	12.3	10.4	7.6	4.8	2.5	4.5
attributable to equity holders of the parent	million EUR	12.4	10.4	7.6	4.8	2.5	4.4
attributable to non-controlling interest	million EUR	(0.1)	0.0	0.0	0.0	0.0	0.1
Net profit margin	%	4.9	4.0	3.1	6.8	3.8	6.2
<b>Other income statement indicators</b>							
EBITDA	million EUR	16.4	15.1	11.4	6.2	3.5	5.4
EBITDA margin	%	6.5	5.7	4.6	8.9	5.4	7.6
General expense ratio	%	4.9	4.7	4.5	4.9	4.7	4.5
Labour cost ratio	%	11.9	11.8	11.2	11.3	10.7	11.7
Revenue per employee	thousand EUR	319	308	278	89	76	80
<b>Other significant indicators</b>							
		31.12.2014	31.12.2013	31.12.2012			
Return on equity	%	10.1	8.8	6.8			
Return on assets	%	5.0	4.4	3.4			
Return on invested capital	%	8.8	8.0	6.0			
Equity ratio	%	51.0	50.9	52.0			
Debt ratio	%	15.1	14.8	15.8			
Current ratio	times	2.3	2.0	2.1			
Quick ratio	times	1.1	1.1	1.1			
Accounts receivable turnover	days	56	58	58			
Accounts payable turnover	days	39	43	47			
Average number of employees	people	790	853	895			
Secured order book	million EUR	179.1	213.7	189.9			

Calculation of ratios is provided on page 37 of the report.

## RISK MANAGEMENT

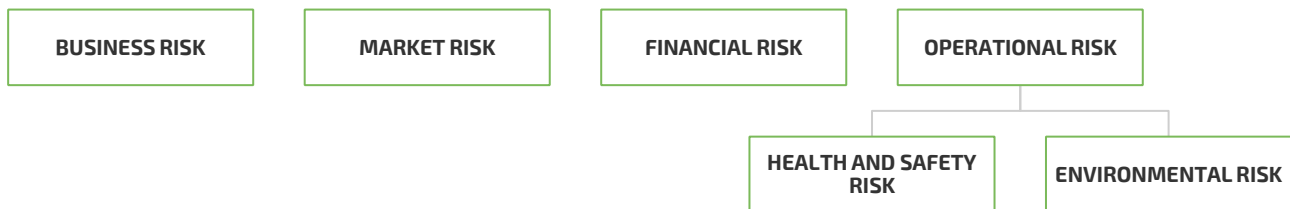
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial 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. In addition the management board of each subsidiary develops, implements and maintains processes covering subsidiarys activities for the management of all material risks impacting the activity and results of the group. 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. 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 2.1 million (31.12.2013: EUR 1.8 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 31.12.2014, 15.1% of the balance sheet total; as at 31.12.2013, 14.8% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

#### **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 2015, Lithuania adopted the euro as its national currency. Considering the fact that the materials and services used in construction are generally from the local market or supplied from within the EU, the currency risk in the group is currently minimal.

### **Liquidity risk**

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2014, the group's current ratio was 2.3 (31.12.2013: 2.0) and the quick ratio 1.1 (31.12.2013: 1.1). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 10.6 million, of which EUR 10.0 million was unused (31.12.2013: EUR 6.5 million, of which EUR 6.3 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (31.12.2013: 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% (31.12.2013: 50.9%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 15.1% (31.12.2013: 14.8%) of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

### **Legal risk**

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

As at 31 December 2014, a provision has been set up at the group in the amount of EUR 0.2 million (31.12.2013: EUR 0.2 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 31.12.2014 is presented below:

#### **Estonia**

##### Lawsuit against former employee

On 17 December 2014, AS Merko Infra filed a claim in Harju County Court against a former AS Merko Infra employee, Maksim Vihharev, seeking EUR 97 thousand in damages (EUR 84 thousand being the principal claim and EUR 13 thousand late interest) along with a petition to secure the action. The lawsuit relates to intentional damage caused by fictitious transactions concluded by Maksim Vihharev on behalf of AS Merko Infra while serving as electrical work project manager and purchase of items not necessary for contractual work. The potential positive outcome of this suit is not recognised in the group's financial reporting.

#### **Latvia**

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

The relief sought from Titan Group AS by SIA Merks with the claim was 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.

According to the contract signed on 5 August 2014 between a subsidiary of AS Merko Ehitus group, SIA Merks, and Tritan Group AS for the transfer of 25% holding in the joint venture SIA Zakusala Estates and after the formal transfer of the 25% shares in SIA Zakusala Estates and the fulfillment of the additional conditions agreed by Tritan Group AS, SIA Merks submitted a request to the Arbitration Institute of the Stockholm Chamber of Commerce to end the arbitration proceedings ongoing against Tritan Group AS. The request was granted, thereby ending the arbitration proceedings.

#### **Lithuania**

##### Vakarų

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

In the end of 2012, bankruptcy proceedings were initiated against Vakarų. In relation to that, AS Merko Ehitus has filed creditor's claims (incl. claims for damages) in the bankruptcy proceedings totalling LTL 4,214 thousand (EUR 1,220 thousand). Said claim (incl. claim for damages) is not included on the group's balance sheet and claims that arose earlier were already provisioned in full in 2012. On 4 April 2014, District Court of Plungė, made the judgement in the litigation with regard to declaring invoices partially unjustified, which fully satisfied the claim of AS Merko Ehitus. On 5 May 2014, Vakarų appealed the court decision to Klaipėda District Court, which decided to return the case back to District Court of Plungė and a new hearing is scheduled on 2 March 2015. The court hearing with regard to invalidate the agreement on formation of joint venture was held on 9 September 2014, after which the court decided in the favour of Vakarų at the end of October. On 19 November 2014, AS Merko Ehitus appeal against this decision.

### 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. At a court hearing held on 23 January 2015, it turned out that the person originally appointed to provide expert evaluation had not performed the work or submitted it to court. In this connection, the court made a ruling on 26 January 2015 to appoint a new expert for performing the work; this expert has 45 business days to perform the analysis from the day he has received the documents from the court. The next court hearing date will be scheduled within approximately one month of the filing of the expert evaluation report to the court.

## EMPLOYEES AND LABOUR COSTS

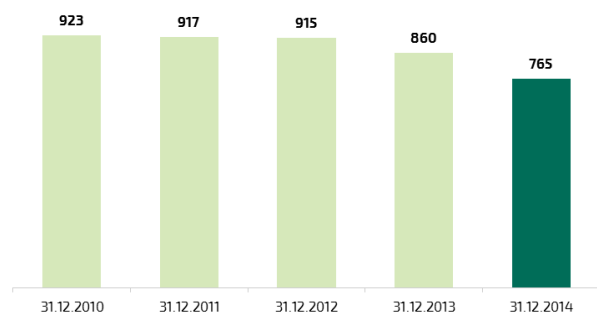
Compared to the same period last year, the number of group's employees decreased by 95 (-11.0%) and as at 31 December 2014, the group had a total of 765 employees (including fixed-term and part-time employees).

In 2014, the number of employees has declined because of the proportion of the civil engineering segment declined within the work volumes of the group, but also due to the sale of subsidiary Gustav Tallinn OÜ, the change of the principal area of activity of subsidiary AS Gustaf and the decrease of road maintenance works of subsidiary AS Vooremaa Teed. On the other hand the number of employees had increased in Lithuania mainly due to the growth of construction volumes.

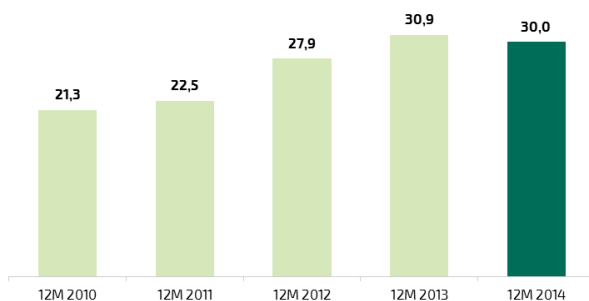
The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

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 12 months 2014, the labour cost was EUR 30.0 million (12 months 2013: EUR 30.9 million), down 2.9% from the previous year.

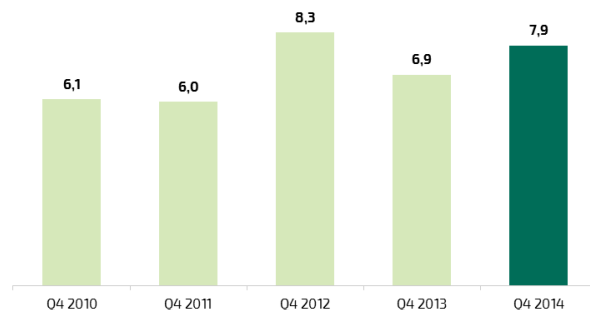
NUMBER OF EMPLOYEES  
people



LABOUR COST  
in million euros



QUARTERLY LABOUR COST  
in million euros



## ETHICAL BUSINESS PRACTICES

Merko's core values include ethical business practices, which is an important success factor in the long run. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders and support fair competition and equal treatment. Unethical business practices carry serious consequences - including hindering the functioning of a fair market and distorting competition.

The AS Merko Ehitus group does not tolerate any form of corruption. We have undertaken the obligation to engage in honest business and to be in compliance with anti-corruption laws in each country where we operate. We are guided by ethical principles in our actions. We make sure that our employees know these principles and adhere to them in their work. In order to facilitate this, the group has enacted a Code of Business Ethics.

The topic of business ethics has been thoroughly covered on the group's website <http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>. As a new feature all employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, to which the <http://group.merko.ee/en/corporate-governance-2/responsibility/reporting-channels/> website provides an overview. Each reported misconduct will be investigated by an independent cooperation partner, and will lead to appropriate action.

## RECOGNITIONS 2014

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

### CIVIL ENGINEER OF THE YEAR 2013

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

### BALTIC MARKET AWARD 2013

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

### CHIEF FINANCIAL OFFICER OF THE YEAR 2014

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

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

### EUROMONEY – REAL ESTATE SURVEY 2014

In its real estate market survey for 2014, Euromoney – the world's leading business and investment magazine – declared AS Merko Ehitus the best real estate developer in Estonia. Merko Ehitus triumphed in all five categories of the competition, including aggregate result, residential, commercial and industrial real estate. Merko Ehitus was awarded the Euromoney's best real estate developer recognition also in 2012.

The Real Estate Survey 2014 is the tenth survey conducted by Euromoney, a financial magazine published from 1969, with the aim of ranking the best in real estate on the basis of the market data, as well as the assessments of developers, counsellors, business customers, investors and banks, business and end users from more than 60 countries. The respondents assessed which companies of the relevant market offered to their opinion the best real estate products and services during the last 12 months.

### THE ENTREPRENEURSHIP AWARD 2014

AS Merko Ehitus was granted The Most Competitive Construction Enterprise award for the third year in a row and in addition Tallinna Teede AS, a subsidiary of AS Merko Ehitus group, was granted The Most Competitive Small and Medium-sized Enterprise award at the annual Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.

The homepage of the entrepreneurship competition at <http://www.ettevotluskonkurss.ee/en> contains an overview of the winners and a recording of the transmission of the award gala evening. The publication concerning the best companies that participated in



the contest, 'Best Estonian Companies of the Year 2014' is available in Estonian at <https://www.fingler.com/mag/122938>. The book includes company introductions and interviews with managers.

The best of the Estonian Companies' Competitiveness Ranking compiled by the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation are determined among large enterprises, small and medium-sized enterprises and micro-enterprises. In addition, rankings are compiled in 12 areas: retail, wholesale, industry and energy, food industry, construction, communications and IT services, transport and logistics, architecture and design, tourism, financial brokerage, business services and real estate, service. This year, 472 enterprises took part in the Competitiveness Ranking of Estonian Enterprises contest.

## CONSTRUCTION INDUSTRY AWARD 2014

An annual "Construction Industry Award" competition was organised by the Latvian Association of Civil Engineers in the third quarter of 2014. "The Young Engineer of the Year 2014" award went to Valdis Silnieks, construction engineer of SIA Merks, who was recognised for his work on the construction of buildings of the Faculty of Power and Electrical Engineering of Riga Technical University and the fire depo of Riga Airport.

## BUILDER OF THE YEAR 2014

Estonian Association of Construction Entrepreneurs (E.A.C.E.) awarded Ahto Aruväli, the Project Manager of AS Merko Ehitus Eesti with the Builder of the Year 2014 award for the construction of Tondiraba Ice Arena. The construction of Tondiraba Ice Rink features splendid management of the site team by Ahto Aruväli. Ahto Aruväli's professional project management ensured that the aesthetically pleasing building, with complicated engineering under the hood and multifunctional uses was built on schedule in 14 months.

This year there were 18 nominees, including AS Merko Ehitus Eesti Project Manager Peeter Laidma for the construction of Vääna-Jõesuu water supply and sewerage piping and AS Merko Ehitus Eesti Project Manager Tiit Joosti for the construction of Ülemiste traffic junction. The goal of the Builder of the Year competition is to find the construction project manager whose work has been recognized by the contracting entity as well as by the architect, structural engineer and person in charge of construction supervision. E.A.C.E. choose the builder of the year for the sixth consecutive year and the aim of the initiative is to promote the profession and recognize the best in the field.

## BALTIC MARKET AWARD 2014

At an award gala held in the first quarter of 2015 – the Baltic Market Awards 2014 - NASDAQ Baltic stock exchanges announced the companies of the year with the best investor relations. The goal of the competition was to raise the general level of investor relations among listed companies by recognizing the ones that stood out during the year with first-class investor relations. In 2014, the publicly listed companies received awards in five categories; in addition, the year's best stock exchange member was selected. AS Merko Ehitus received third place in the main category "The Best Investor Relations in the Baltic Countries" and second place in the category "The Best Interactive Investor Relations".

## SHARE AND SHAREHOLDERS

### INFORMATION ON SECURITY

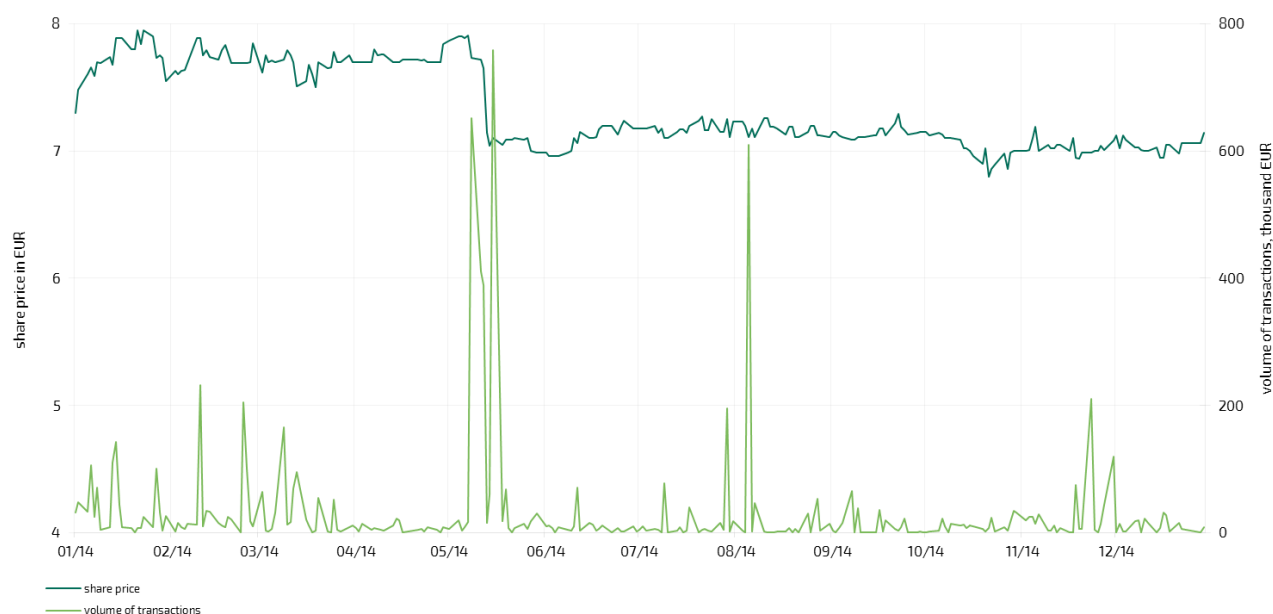
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

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

A total of 1,699 transactions were conducted with the shares of Merko Ehitus in 12 months of 2014, with 1.03 million shares (5.8% of total shares) traded, generating a turnover of EUR 7.62 million (comparable figures in 12 months 2013 were accordingly: 2,183 transactions with 0.73 million shares traded (4.1% of total shares) and generating a turnover of EUR 5.08 million). The lowest share price amounted to EUR 6.70 and the highest to EUR 7.99 per share (12 months of 2013: EUR 5.71 and EUR 7.70). The closing price of the share was EUR 7.14 on 31 December 2014 (31.12.2013: EUR 7.20). As at 31 December 2014, the market value of AS Merko Ehitus amounted to EUR 126.4 million, which has decreased by 0.8% compared to the same period end last year (as at 31 December 2013: EUR 127.4 million).

	31.12.2014	31.12.2013	31.12.2012
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.70	0.59	0.43
Equity per share, euros	6.93	6.71	6.34
P/B ratio	1.03	1.07	0.93
P/E ratio	10.18	12.25	13.69
Market value, million EUR	126.4	127.4	104.4

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



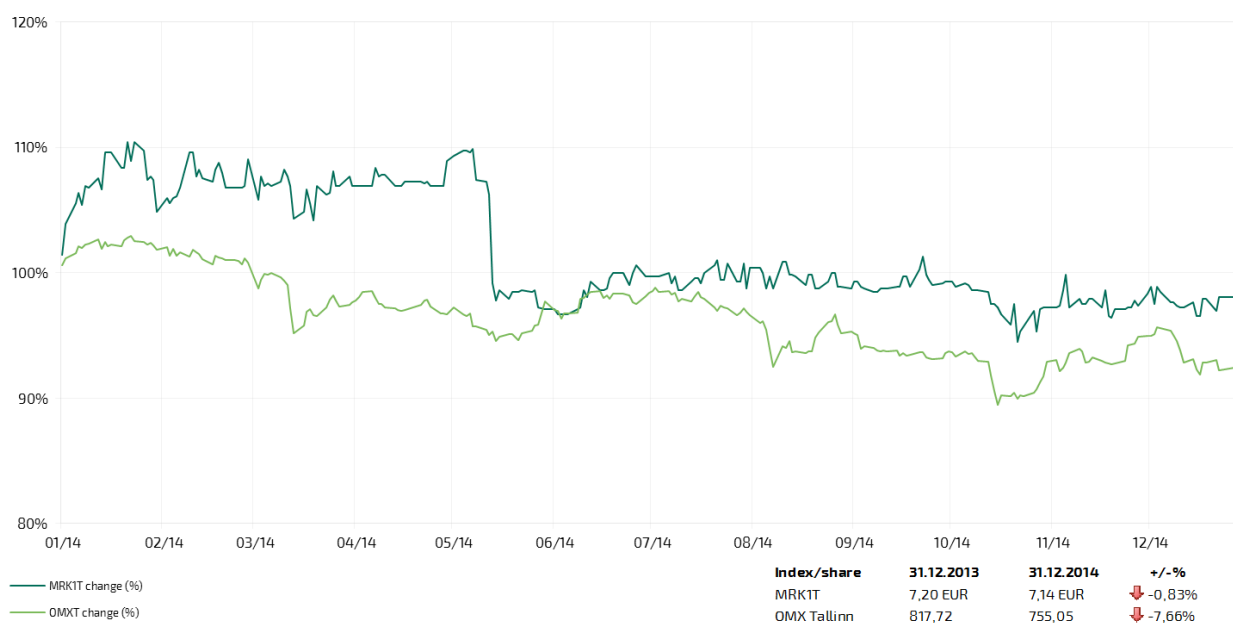
## STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2014

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%	3,036,820	17.16%
10,001 – 100,000	31	2.18%	924,973	5.23%
1,001-10,000	229	16.09%	670,363	3.79%
101-1,000	744	52.29%	303,178	1.71%
1-100	408	28.67%	21,980	0.12%
<b>Total</b>	<b>1,423</b>	<b>100%</b>	<b>17,700,000</b>	<b>100%</b>

## SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2014 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2014	% OF TOTAL 30.09.2014	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Skandinaviska Enskilda Banken S.A.	416,263	2.35%	2.65%	-53,115
Firebird Republics Fund Ltd	375,704	2.12%	2.12%	-
Skandinaviska Enskilda Banken AB, Swedish customers	293,660	1.66%	1.66%	-
Firebird Aurora Fund Ltd	220,519	1.25%	1.08%	+30,000
Skandinaviska Enskilda Banken AB, Finnish customers	183,982	1.04%	0.87%	+29,178
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,020	0.84%	0.84%	-
Clearstream Banking Luxembourg S.A. customers	143,652	0.81%	0.81%	-
<b>Total largest shareholders</b>	<b>15,651,630</b>	<b>88.42%</b>	<b>88.38%</b>	<b>+6,063</b>
Total other shareholders	2,048,370	11.58%	11.62%	-6,063
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## 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.

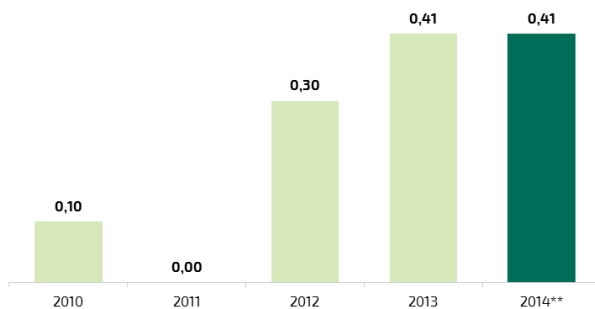
The annual general meeting of shareholders of AS Merko Ehitus held at 30 April 2014 approved the Supervisory Boards proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 70% dividend rate and a 5.7% dividend yield for the year 2013 (using the share price as at 31 December 2013), (comparable figures in 2013 were accordingly: EUR 5.3 million (EUR 0.30 per share) as dividends, which is equivalent to a 70% dividend rate and a 5.1% dividend yield (using the share price as at 31 December 2012)).

According to the Estonian Income Tax Law §50 section 1<sup>1</sup> AS Merko Ehitus could pay these dividends without any additional income tax expense and liabilities occurring due to previously received and taxed distribution of profits from subsidiaries. The dividend payment to the shareholders took place on 20 May 2014.

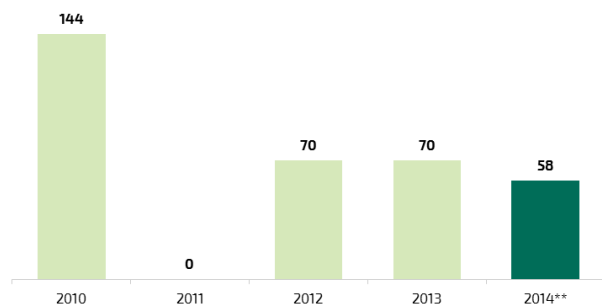
The Management Board proposes to pay the shareholders EUR 7.3 million as dividends from net profits brought forward (EUR 0.41 per share) in 2015, which is equivalent to a 58% dividend rate and a 5.7% dividend yield for the year 2014 (using the share price as at 31 December 2014). Taking into account the dividends already paid to the parent company and planned to be paid by foreign subsidiaries in early 2015, the group will incur income tax expenses of approximately EUR 0.9 million in 2015 in Estonia in connection with disbursement of dividends.

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

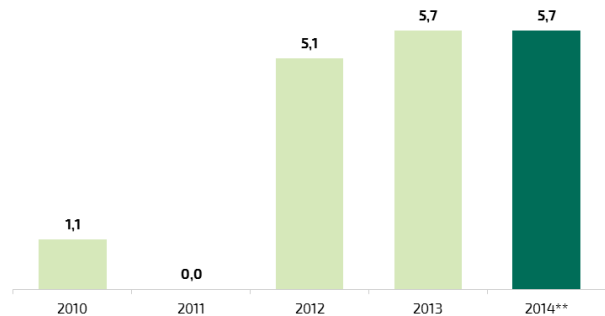
DIVIDEND PER SHARE  
in euros



DIVIDEND RATE  
percentages



DIVIDEND YIELD\*  
percentages



\* Using share price as at 31.12

\*\* 2014 figures based on Management Board proposal.

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

## SHARE CAPITAL REDUCTION

The Management Board proposes to reduce the share capital by EUR 4 071 000 (EUR 0.23 per share).

Pursuant to subsection §50 section 2 of the Income Tax Act in force in Estonia, income tax does not have to be paid on the portion of payments made from the equity upon reduction of the share capital or contributions, upon redemption of shares or contributions or in other cases, and on the portion of the paid liquidation distributions made by way of previous monetary contributions. About EUR 4.0 million in the said monetary contributions have been made in AS Merko Ehitus.

Based on the proposal of the management board, share capital would be reduced by EUR 4,071,000 (EUR 0.23 per share), from the amount EUR 12.0 million to EUR 7.9 million. Share capital is reduced by way of reducing the book value of the shares and as a result of the reduction the book value of one share will be reduced from EUR 0.677966 to EUR 0.447967; the number of shares will remain the same – 17,700,000 shares.

Pursuant to the articles of association of Merko Ehitus, the minimum share capital of the company is EUR 6.0 million and the maximum share capital is EUR 24.0 million. The new share capital will amount to EUR 7.9 million, which is in line with the company's articles of association.

Considering the perspectives of the Baltic construction market in the coming years and the related need for capital by the group, the share capital would be reduced in order to improve the group's capital structure and support return on equity. AS Merko Ehitus lacks the need to possess share capital in the existing amount and the requirements that legislation imposes on share capital will also be fulfilled in the case of the reduced share capital.

The proposal to reduce share capital will be submitted to the annual general meeting of shareholders for approval on 29 April 2015. If the decision is positive, the reduction of share capital – EUR 4,071,000 – will be paid to shareholders by the term specified by law, which would probably fall within the second half of 2015.

# CORPORATE GOVERNANCE

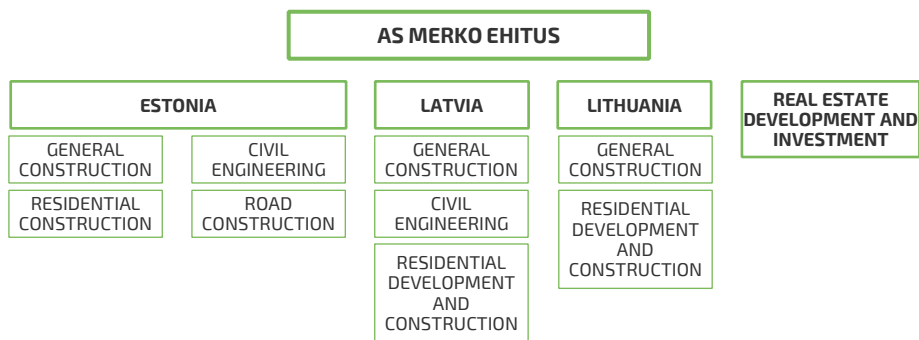
## CORPORATE GOVERNANCE AND STRUCTURE

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 32-34 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](http://group.merko.ee).

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. The groups management is carried out on a country basis. The groups country and business area management structure as at 31 December 2014 is the following:



## GROUP'S LEGAL STRUCTURE

As at 31 December 2014, the group comprises 47 companies (31.12.2013: 47). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

### *Changes in the legal structure of the group*

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

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

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

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

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

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

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

On July 30, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas acquired a 100% subsidiary UAB Timana in Lithuania, with a share capital of LTL 10,000 (EUR 2,896) and a purchase price of LTL 1,100,000 (EUR 318,582). The subsidiary was acquired with the aim of acquiring registered immovables for development purposes in Vilnius.

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

On 5 August 2014, a subsidiary of AS Merko Ehitus group, SIA Merks, signed an agreement for the transfer of 25% holding (275 thousand shares) in the joint venture SIA Zakusala Estates from the current co-shareholder Tritan Group AS. After the acquisition of the additional shareholding, SIA Zakusala Estates became a 75% subsidiary of SIA Merks and the group will consolidate SIA Zakusala Estates in its financial report on a line-by-line basis going forward (Note 16). The additional 25% holding was acquired with the purpose of gaining a greater control over the assets and the management of SIA Zakusala Estates. The principal area of activity of the real estate company SIA Zakusala Estates is the development of approximately 126 thousand square meters land located on the island Zakusala on Daugava river in Riga. With the increased control the group will be better positioned to lead the overall future development of the project. This is a long term investment for AS Merko Ehitus group. According to the agreement SIA Merks paid for the additional 25% holding the purchase prices of EUR 696,273, by assigning the corresponding part of a loan given by SIA Merks to SIA Zakusala Estates, to AS Tritan Group.

On 11 August 2014 the liquidation of SIA Merks's 100% subsidiary SIA Polystar, which started in the first half of 2014, was finalised and the company was deleted from the business register.

On 15 August 2014, a subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti, signed an agreement for the transfer of 49% holding in the subsidiary OÜ Heamaja from the former co-shareholder for the purchase price of EUR 1,225. After the acquisition of the minority share, OÜ Heamaja became a 100% subsidiary of AS Merko Ehitus Eesti.

On 16 September 2014, AS Merko Ehitus acquired a 100% shareholding in the subsidiary SIA Merko Investments (prev. SIA Skanstes Virsotnes) from the subsidiary SIA Merks in an intercompany transaction, with the purpose of re-arranging the structure of the group companies.

On 2 December 2014, AS Merko Ehitus formed a 50% joint venture in Estonia, Kalaranna Arenduse OÜ with a share capital of EUR 10,000. The joint venture was formed to acquire a property for development in Tallinn, Estonia.

On 22 December 2014, AS Merko Ehitus initiated a process to merge its fully owned subsidiaries OÜ Metsailu, OÜ Ringtee Tehnopark, OÜ Maryplus and OÜ Constancia, 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 2015 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 2015.

On 5 February 2015, OY Merko Finland, fully owned subsidiary of AS Merko Ehitus, made a monetary contribution in the amount of EUR 2,250 to form a 75%-owned subsidiary Hartian OY. The share capital of the subsidiary will be EUR 3,000. The company will be formed with the aim of acquiring a residential quarter, construction rights for 10 private houses, in Pestikuja 1, Helsinki.

## GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

## SUPERVISORY BOARD

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

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



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

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



**Toomas Annus (54)** *Chairman of the Supervisory Board*

**Positions held:**

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

**Education:**

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

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



**Teet Roopalu (65)** *Member of the Supervisory Board*

**Positions held:**

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

**Education:**

Tallinn University of Technology, construction economics and organisation

**Number of shares: -**



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

**Positions held:**

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

**Education:**

Tallinn University of Technology, civil engineering economics and management.

Stockholm University, banking and finance, MBA

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



**Olari Taal (61)** *Member of the Supervisory Board*

**Positions held:**

2008-... AS Merko Ehitus, Member of the Supervisory Board  
 2013-2014 AS Eesti Energia, Member of the Supervisory Board  
 Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).  
 Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).  
 Belongs to Supervisory Boards of various companies.

**Education:**

Tallinn University of Technology, civil engineering.

**Number of shares: 2,500** (Eggera OÜ)

## MANAGEMENT BOARD

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

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

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



**Andres Trink (47)** *Chairman of the Management Board*  
Appointed: 1 January 2012  
Term ends: 1 January 2018

**Positions held:**

2012-... AS Merko Ehitus, Chairman of the Management Board  
Chairman of the Supervisory Board of Merko Ehitus Eesti AS, SIA  
Merks and UAB Merko Statyba

Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a Member of the Management Board of Baltic banking at Hansapank (now Swedbank).

**Education:**

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

**Number of shares:** -



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

**Positions held:**

2013-... AS Merko Ehitus, Member of the Management Board  
2014-... E.L.L. Kinnisvara AS, Member of the Supervisory Board  
2011-2013 AS Merko Ehitus, Member of the Supervisory Board  
2009-2014 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board

2008-2011 AS Merko Ehitus, Chairman of the Supervisory Board  
2008-... AS Järvevana, Chairman of the Supervisory Board  
1999-2009 E.L.L. Kinnisvara AS, Member of the Supervisory Board  
1997-1999 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board

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

**Education:**

Tallinn University of Technology, industrial and civil engineering

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

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

## SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

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

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

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

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

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

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

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

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

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

On 8 September 2014, the Supervisory Board of AS Merko Ehitus decided to extend the powers of the Chairman of the Management Board, Andres Trink for three years, i.e. till 1 January 2018. The Management Board of AS Merko Ehitus will continue with two members: Andres Trink (The Chairman) and Tõnu Toomik.

On 15 December 2014, the Supervisory Board of AS Merko Ehitus Eesti – the subsidiary of AS Merko Ehitus – decided to extend the powers of the Chairman of the Management Board, Tiit Roben and the Members of the Management Board, Jaan Mäe and Veljo Viitman for three years, i.e. till 31 December 2017. The Management Board of AS Merko Ehitus Eesti will continue with four members: Tiit Roben (The Chairman), Jaan Mäe, Veljo Viitmann and Alar Lagus.

On 15 December 2014, the Management Board of AS Merko Ehitus decided to extend the powers of the Chairman of the Supervisory Board, Andres Trink and the Members of the Supervisory Board, Tõnu Toomik and Teet Roopalu of the subsidiary AS Merko Ehitus Eesti for three years, i.e. till 31 December 2017. The Management Board of AS Merko Ehitus appointed Mr. Toomas Aak as the new member of the Supervisory Board from 1 January 2015 until 31 December 2017. The former Supervisory Board member, Mr. Taavi Ojala's mandate expired from 31 December 2014 as a result of the expiry of a fixed-term contract of service. The Supervisory Board of AS Merko Ehitus Eesti will continue with four members: Andres Trink (The Chairman), Tõnu Toomik, Teet Roopalu and Toomas Aak.

## 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	=	$\frac{\text{Share price 31.12}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 31.12}}{\text{Equity per share (average of the current 4 quarters)}}$
Market capitalisation	=	Share price 31.12 x Number of shares

## MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

Chairman of the Management Board



12.02.2015

Tõnu Toomik

Member of the Management Board



12.02.2015

# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2014 12 months	2013 12 months	2014 IV quarter	2013 IV quarter
Revenue	2	252,323	262,719	70,086	64,875
Cost of goods sold	3	(227,591)	(239,996)	(61,612)	(59,517)
<b>Gross profit</b>		<b>24,732</b>	<b>22,723</b>	<b>8,474</b>	<b>5,358</b>
Marketing expenses		(3,190)	(3,041)	(900)	(812)
General and administrative expenses		(9,128)	(9,260)	(2,551)	(2,219)
Other operating income		1,901	2,264	636	493
Other operating expenses		(340)	(425)	(184)	(107)
<b>Operating profit</b>		<b>13,975</b>	<b>12,261</b>	<b>5,475</b>	<b>2,713</b>
Finance income/costs		(667)	(1,116)	(165)	(264)
incl. finance income/costs from joint ventures		(130)	(138)	(27)	(35)
finance income/costs from other long-term investments		2	2	1	(30)
interest expense		(662)	(814)	(180)	(199)
foreign exchange gain (loss)		(12)	(202)	(7)	(17)
other financial income (expenses)		135	36	48	17
<b>Profit before tax</b>		<b>13,308</b>	<b>11,145</b>	<b>5,310</b>	<b>2,449</b>
Corporate income tax expense		(1,055)	(791)	(497)	56
<b>Net profit for financial year</b>		<b>12,253</b>	<b>10,354</b>	<b>4,813</b>	<b>2,505</b>
incl. net profit attributable to equity holders of the parent		12,417	10,399	4,796	2,452
net profit attributable to non-controlling interest		(164)	(45)	17	53
<b>Other comprehensive income</b>					
Currency translation differences of foreign entities		4	(157)	4	(2)
<b>Comprehensive income for the period</b>		<b>12,257</b>	<b>10,197</b>	<b>4,817</b>	<b>2,503</b>
incl. net profit attributable to equity holders of the parent		12,421	10,242	4,800	2,450
net profit attributable to non-controlling interest		(164)	(45)	17	53
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.70	0.59	0.27	0.14

The notes set out on pages 43-56 are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2014	31.12.2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	51,583	46,633
Trade and other receivables	6	46,382	57,172
Prepaid corporate income tax		3	19
Inventories	7	117,638	87,451
		<b>215,606</b>	<b>191,275</b>
<b>Non-current assets</b>			
Long-term financial assets	8	11,476	27,415
Deferred income tax assets		1,535	1,592
Investment property	9	4,619	4,672
Property, plant and equipment	10	15,003	13,117
Intangible assets	11	1,011	1,167
		<b>33,644</b>	<b>47,963</b>
<b>TOTAL ASSETS</b>		<b>249,250</b>	<b>239,238</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	12	14,287	18,916
Payables and prepayments	13	71,122	72,162
Income tax liability		352	62
Short-term provisions	14	6,239	5,906
		<b>92,000</b>	<b>97,046</b>
<b>Non-current liabilities</b>			
Long-term borrowings	12	23,359	16,469
Deferred income tax liability		738	505
Other long-term payables	15	1,671	2,162
		<b>25,768</b>	<b>19,136</b>
<b>TOTAL LIABILITIES</b>		<b>117,768</b>	<b>116,182</b>
<b>EQUITY</b>			
Non-controlling interests		4,455	1,193
<b>Equity attributable to equity holders of the parent</b>			
Share capital		12,000	12,000
Statutory reserve capital		1,200	1,200
Currency translation differences		(665)	(669)
Retained earnings		114,492	109,332
		<b>127,027</b>	<b>121,863</b>
<b>TOTAL EQUITY</b>		<b>131,482</b>	<b>123,056</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>249,250</b>	<b>239,238</b>

The notes set out on pages 43-56 are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/ accumu- lated losses			
<b>Balance as at 31.12.2012</b>	<b>12,000</b>	<b>1,200</b>	<b>(512)</b>	<b>104,237</b>	<b>116,925</b>	<b>1,342</b>	<b>118,267</b>
Profit (loss) for the reporting period	-	-	-	10,399	10,399	(45)	10,354
Other comprehensive income	-	-	(157)	-	(157)	-	(157)
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>(157)</b>	<b>10,399</b>	<b>10,242</b>	<b>(45)</b>	<b>10,197</b>
Purchase of minority share	-	-	-	6	6	(104)	(98)
Dividends	-	-	-	(5,310)	(5,310)	-	(5,310)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,304)</b>	<b>(5,304)</b>	<b>(104)</b>	<b>(5,408)</b>
<b>Balance as at 31.12.2013</b>	<b>12,000</b>	<b>1,200</b>	<b>(669)</b>	<b>109,332</b>	<b>121,863</b>	<b>1,193</b>	<b>123,056</b>
<b>Balance as at 31.12.2013</b>	<b>12,000</b>	<b>1,200</b>	<b>(669)</b>	<b>109,332</b>	<b>121,863</b>	<b>1,193</b>	<b>123,056</b>
Profit (loss) for the reporting period	-	-	-	12,417	12,417	(164)	12,253
Other comprehensive income	-	-	4	-	4	-	4
<b>Total comprehensive income (loss) for the reporting period</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>12,417</b>	<b>12,421</b>	<b>(164)</b>	<b>12,257</b>
Purchase of minority share	-	-	-	-	-	(95)	(95)
Minority share of purchased subsidiary	-	-	-	-	-	2,618	2,618
Minority share of sold subsidiary	-	-	-	-	-	(244)	(244)
Issuance of additional share capital	-	-	-	-	-	1,147	1,147
Dividends	-	-	-	(7,257)	(7,257)	-	(7,257)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,257)</b>	<b>(7,257)</b>	<b>3,426</b>	<b>(3,831)</b>
<b>Balance as at 31.12.2014</b>	<b>12,000</b>	<b>1,200</b>	<b>(665)</b>	<b>114,492</b>	<b>127,027</b>	<b>4,455</b>	<b>131,482</b>

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

*The notes set out on pages 43-56 are an integral part of these consolidated financial statements.*

# CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2014 12 months	2013 12 months
<b>Cash flows from (used in) operating activities</b>			
Operating profit		13,975	12,261
Adjustments:			
Depreciation		2,459	2,880
(Profit)/loss from sale of non-current assets		(12)	(214)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(180)	4,717
Interest income from operating activities		(1,571)	(1,479)
Change in provisions		1,298	1,634
Change in trade and other receivables related to operating activities		12,742	(6,155)
Change in inventories		(14,823)	(4,943)
Change in trade and other payables related to operating activities		316	10,171
Interest received		1,429	1,803
Interest paid		(938)	(841)
Other finance income and costs		(62)	(165)
Corporate income tax (paid)/reclaimed		(141)	(12)
<b>Total cash flows from (used in) operating activities</b>		<b>14,492</b>	<b>19,657</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries	16	(407)	-
Proceeds from sale of subsidiary	16	(353)	-
Acquisition of joint venture		(6)	(350)
Purchase of investment property		(2)	(1,080)
Purchase of property, plant and equipment		(1,458)	(784)
Proceeds from sale of property, plant and equipment		95	900
Purchase of intangible assets		(25)	(29)
Repayments of loans granted		40	-
Interest received		177	41
<b>Total cash flows from investing activities</b>		<b>(1,939)</b>	<b>(1,302)</b>
<b>Cash flows from (used in) financing activities</b>			
Proceeds from borrowings		16,742	12,862
Repayments of borrowings		(16,043)	(11,810)
Factoring		-	(1,544)
Finance lease principal payments		(1,076)	(1,165)
Non-controlling interest buyout		38	-
Dividends paid		(7,257)	(5,310)
<b>Total cash flows from (used in) financing activities</b>		<b>(7,596)</b>	<b>(6,967)</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>4,957</b>	<b>11,388</b>
<b>Cash and cash equivalents at the beginning of the period</b>	5	<b>46,633</b>	<b>35,316</b>
<b>Effect of exchange rate changes</b>		<b>(7)</b>	<b>(71)</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>51,583</b>	<b>46,633</b>

The notes set out on pages 43-56 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 12 months and IV quarter 2014 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2013 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2013 audited annual report and 2013 12 months and IV quarter unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months and IV quarter 2014 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

## NOTE 2 OPERATING SEGMENTS

in thousand euros

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

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

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

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

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

<b>2014 12 months</b>	<b>General construction</b>	<b>Civil engineering</b>	<b>Road construction</b>	<b>Real estate development</b>	<b>Other</b>	<b>Total segments</b>
Segment revenue	110,528	69,897	30,913	73,152	1,667	286,157
Inter-segment revenue	-	(6,304)	-	(27,397)	(133)	(33,834)
<b>Revenue from external clients</b>	<b>110,528</b>	<b>63,593</b>	<b>30,913</b>	<b>45,755</b>	<b>1,534</b>	<b>252,323</b>
<b>Gross profit (-loss)</b>	<b>6,116</b>	<b>6,089</b>	<b>4,637</b>	<b>8,104</b>	<b>(214)</b>	<b>24,732</b>
<b>Segment pre-tax profit (loss)</b>	<b>6,026</b>	<b>6,067</b>	<b>4,673</b>	<b>9,240</b>	<b>(194)</b>	<b>25,812</b>
incl. interest income from operating activities	-	8	-	1,563	-	1,571
depreciation (Note 3)	(97)	(604)	(904)	(258)	(162)	(2,025)
impairment of inventories (Note 3)	-	-	-	(400)	-	(400)
reversal of impairment of inventories (Note 3)	-	-	-	850	-	850
setting up of provisions (Note 3)	(2,623)	(895)	(50)	(896)	-	(4,464)
loss on joint ventures	-	1	-	(131)	-	(130)
other finance income (costs)	(4)	(20)	(41)	(286)	-	(351)
incl. interest income	-	-	-	17	-	17
interest expenses	(4)	(20)	(41)	(303)	-	(368)
<b>Segment assets 31.12.2014</b>	<b>23,876</b>	<b>24,611</b>	<b>11,068</b>	<b>142,203</b>	<b>1,182</b>	<b>202,940</b>
incl. joint ventures (Note 8)	-	19	-	48	-	67
<b>2013 12 months</b>	<b>General construction</b>	<b>Civil engineering</b>	<b>Road construction</b>	<b>Real estate development</b>	<b>Other</b>	<b>Total segments</b>
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)
<b>Revenue from external clients</b>	<b>86,564</b>	<b>94,535</b>	<b>49,476</b>	<b>30,994</b>	<b>1,150</b>	<b>262,719</b>
<b>Gross profit (-loss)</b>	<b>(503)</b>	<b>12,512</b>	<b>5,937</b>	<b>5,121</b>	<b>(344)</b>	<b>22,723</b>
<b>Segment pre-tax profit (loss)</b>	<b>(542)</b>	<b>12,565</b>	<b>5,839</b>	<b>6,122</b>	<b>(340)</b>	<b>23,644</b>
incl. interest income from operating activities	-	-	-	1,472	-	1,472
depreciation (Note 3)	(88)	(592)	(1,080)	(186)	(515)	(2,461)
impairment of inventories (Note 3)	-	-	-	(330)	-	(330)
reversal of impairment of inventories (Note 3)	-	-	-	337	-	337
setting up of provisions (Note 3)	(2,557)	(376)	(81)	(329)	-	(3,343)
loss on joint ventures	-	-	-	(138)	-	(138)
other finance income (costs)	(9)	(20)	(57)	(322)	-	(408)
incl. interest income	-	-	-	39	-	39
interest expenses	(9)	(20)	(57)	(321)	-	(407)
<b>Segment assets 31.12.2013</b>	<b>29,513</b>	<b>24,899</b>	<b>10,577</b>	<b>138,189</b>	<b>1,143</b>	<b>204,321</b>
incl. joint ventures (Note 8)	-	18	-	7,331	-	7,349

<b>2014 IV quarter</b>	<b>General construction</b>	<b>Civil engineering</b>	<b>Road construction</b>	<b>Real estate development</b>	<b>Other</b>	<b>Total segments</b>
Segment revenue	24,719	19,910	7,307	27,105	519	79,560
Inter-segment revenue	-	(1,673)	-	(7,773)	(28)	(9,474)
<b>Revenue from external clients</b>	<b>24,719</b>	<b>18,237</b>	<b>7,307</b>	<b>19,332</b>	<b>491</b>	<b>70,086</b>
<b>Gross profit (-loss)</b>	<b>2,728</b>	<b>1,141</b>	<b>1,005</b>	<b>3,760</b>	<b>(160)</b>	<b>8,474</b>
<b>Segment pre-tax profit (loss)</b>	<b>2,627</b>	<b>1,142</b>	<b>1,008</b>	<b>4,130</b>	<b>(159)</b>	<b>8,748</b>
incl. interest income from operating activities	-	8	-	482	-	490
depreciation (Note 3)	(41)	(162)	(250)	(75)	(104)	(632)
impairment of inventories (Note 3)	-	-	-	(400)	-	(400)
reversal of impairment of inventories (Note 3)	-	-	-	850	-	850
setting up of provisions (Note 3)	(75)	(715)	233	(260)	-	(817)
loss on joint ventures	-	1	-	(28)	-	(27)
other finance income (costs)	(3)	(7)	(8)	(69)	-	(87)
incl. interest income	-	-	-	2	-	2
interest expenses	(3)	(7)	(8)	(72)	-	(90)
<b>Segment asset change in IV quarter</b>	<b>(11,351)</b>	<b>(3,333)</b>	<b>(2,818)</b>	<b>(2,460)</b>	<b>(67)</b>	<b>(20,029)</b>
incl. joint ventures	-	1	-	(23)	-	(22)
<b>2013 IV quarter</b>	<b>General construction</b>	<b>Civil engineering</b>	<b>Road construction</b>	<b>Real estate development</b>	<b>Other</b>	<b>Total segments</b>
Segment revenue	26,673	23,095	5,966	16,258	245	72,237
Inter-segment revenue	20	(2,675)	-	(4,655)	(52)	(7,362)
<b>Revenue from external clients</b>	<b>26,693</b>	<b>20,420</b>	<b>5,966</b>	<b>11,603</b>	<b>193</b>	<b>64,875</b>
<b>Gross profit (-loss)</b>	<b>(2,030)</b>	<b>4,924</b>	<b>343</b>	<b>2,210</b>	<b>(89)</b>	<b>5,358</b>
<b>Segment pre-tax profit (loss)</b>	<b>(2,033)</b>	<b>4,920</b>	<b>330</b>	<b>2,459</b>	<b>(89)</b>	<b>5,587</b>
incl. interest income from operating activities	-	-	-	366	-	366
depreciation (Note 3)	(22)	(158)	(310)	(46)	(136)	(672)
impairment of inventories (Note 3)	-	-	-	(330)	-	(330)
reversal of impairment of inventories (Note 3)	-	-	-	337	-	337
setting up of provisions (Note 3)	(2,008)	(133)	84	66	2	(1,989)
loss on joint ventures	-	-	-	(35)	-	(35)
other finance income (costs)	-	(4)	(13)	(82)	-	(99)
incl. interest income	-	-	-	39	-	39
interest expenses	-	(4)	(13)	(85)	-	(102)
<b>Segment asset change in IV quarter</b>	<b>8,140</b>	<b>(17,979)</b>	<b>(13,060)</b>	<b>1,336</b>	<b>(231)</b>	<b>(21,794)</b>
incl. joint ventures	-	-	-	(37)	-	(37)

In addition to the segment assets, as at 31.12.2014 the group holds assets in the amount of EUR 46,310 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 12 months	2013 12 months	2014 IV quarter	2013 IV quarter
Pre-tax profit from reporting segments	25,812	23,644	8,748	5,587
Unallocated income (expense)				
marketing expenses	(3,190)	(3,041)	(900)	(812)
general and administrative expenses	(9,128)	(9,260)	(2,551)	(2,219)
incl. setting up of provisions	(56)	(27)	3	(27)
other operating income (expense)	-	372	64	23
incl. interest income from operating activities	-	7	-	-
finance income (costs)	(186)	(570)	(51)	(130)
incl. interest income	126	45	47	(16)
interest expenses	(294)	(407)	(90)	(196)
<b>Total profit before tax</b>	<b>13,308</b>	<b>11,145</b>	<b>5,310</b>	<b>2,449</b>

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 12 months		2013 12 months		2014 IV quarter		2013 IV quarter	
Estonia	170,649	68%	211,958	81%	45,950	65%	48,555	75%
Latvia	68,632	27%	44,378	17%	20,839	30%	14,927	23%
Lithuania	12,956	5%	6,383	2%	3,297	5%	1,393	2%
Finland	86	0%	-	-	-	0%	-	-
<b>Total</b>	<b>252,323</b>	<b>100%</b>	<b>262,719</b>	<b>100%</b>	<b>70,086</b>	<b>100%</b>	<b>64,875</b>	<b>100%</b>

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

in thousand euros

	31.12.2014	31.12.2013
Estonia	20,045	18,473
Latvia	556	413
Lithuania	32	70
<b>Total</b>	<b>20,633</b>	<b>18,956</b>

## NOTE 3 COST OF GOODS SOLD

in thousand euros

	2014 12 months	2013 12 months	2014 IV quarter	2013 IV quarter
Construction services	112,064	133,251	32,948	30,209
Materials	44,214	40,585	9,030	10,376
Properties purchased for resale	20,143	14,355	7,985	5,685
Labour costs	21,804	22,636	5,554	5,062
Construction mechanisms and transport	9,228	12,409	2,552	2,531
Design	2,974	1,838	325	383
Real estate management costs	181	219	31	48
Depreciation	2,025	2,461	632	672
Impairment of inventories	400	330	400	330
Reversal of impairment of inventories	(850)	(337)	(850)	(337)
Provisions	4,464	3,343	817	1,989
Other expenses	10,944	8,906	2,188	2,569
<b>Total cost of goods sold</b>	<b>227,591</b>	<b>239,996</b>	<b>61,612</b>	<b>59,517</b>

## 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 12 months	2013 12 months	2014 IV quarter	2013 IV quarter
Net profit(-loss) attributable to shareholders <i>(in thousand EUR)</i>	12,417	10,399	4,796	2,452
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700	17,700
<b>Earnings (loss) per share <i>(in euros)</i></b>	<b>0.70</b>	<b>0.59</b>	<b>0.27</b>	<b>0.14</b>

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

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

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

As at 31 December 2014, the parent company AS Merko Ehitus has EUR 2,181 thousand (31.12.2013: EUR 5,295 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.12.2014, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 91,498 thousand (31.12.2013: EUR 87,464 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 545 thousand (31.12.2013: EUR 2,051 thousand), the corresponding income tax on dividends would amount to EUR 22,329 thousand (31.12.2013: EUR 21,199 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2015 was used, which is 20/80 (it was 21/79 in 2014 and 2013) of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

## NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2014	31.12.2013
Cash on hand	8	12
Bank accounts	41,588	18,749
Overnight deposits	9,987	26,372
Term deposits with maturities of 3 months or less	-	1,500
<b>Total cash and cash equivalents</b>	<b>51,583</b>	<b>46,633</b>

## NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2014	31.12.2013
Trade receivables		
Accounts receivable	28,384	38,202
Allowance for doubtful receivables	(728)	(742)
	<b>27,656</b>	<b>37,460</b>
Tax prepayments excluding corporate income tax		
Value added tax	629	657
Other taxes	19	17
	<b>648</b>	<b>674</b>
Amounts due from customers of contract works	10,291	12,940
Other short-term receivables		
Short-term loans	2,178	1,399
Interest receivables	394	656
Other short-term receivables	729	51
	<b>3,301</b>	<b>2,106</b>
Prepayments for services		
Prepayments for construction services	3,946	3,153
Prepaid insurance	213	359
Other prepaid expenses	327	480
	<b>4,486</b>	<b>3,992</b>
<b>Total trade and other receivables</b>	<b>46,382</b>	<b>57,172</b>
incl. short-term loan receivables from related parties (Note 16)	1,415	1,399
other short-term receivables and prepayments to related parties (Note 16)	415	1,094

## NOTE 7 INVENTORIES

in thousand euros

	31.12.2014	31.12.2013
Materials	681	731
Work-in-progress	21,305	28,614
Finished goods	37,846	16,625
Goods for resale		
Registered immovables purchased for resale	55,186	39,055
Other goods purchased for resale	837	978
	<b>56,023</b>	<b>40,033</b>
Prepayments for inventories		
Prepayments for real estate properties	1,086	1,086
Prepayments for other inventories	697	362
	<b>1,783</b>	<b>1,448</b>
<b>Total inventories</b>	<b>117,638</b>	<b>87,451</b>

In Q3 2014, a subsidiary of AS Merko Ehitus group, SIA Merks acquired an additional 25% share in the joint venture SIA Zakusala Estates from the current co-shareholder. After the transaction, SIA Merks holds 75% of the shares of the subsidiary SIA Zakusala Estates. The acquisition of the subsidiary is recognised in the group as acquisition of land, which is shown in inventories under registered immovable purchased for resale from the time of the acquisition (Note 16). SIA Zakusala Estates owns approximately 126 thousand square meters of land located on the island Zakusala on Daugava river in Riga.



## NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.12.2014	31.12.2013
Investments joint ventures	67	7,349
Long-term loans	360	3,633
Long-term bank deposit	37	49
Long-term interest	4	-
Long-term receivables from customers of construction services	11,008	16,384
<b>Total other long-term loans and receivables</b>	<b>11,476</b>	<b>27,415</b>
incl. long-term loan receivables from related parties (Note 16)	364	3,611

## NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2014	31.12.2013
Land	51	51
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(10)	(9)
	<b>19</b>	<b>20</b>
Buildings at carrying amount		
Cost	5,245	5,067
Accumulated depreciation	(696)	(466)
	<b>4,549</b>	<b>4,601</b>
<b>Total investment property</b>	<b>4,619</b>	<b>4,672</b>

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2014	31.12.2013
Land	824	824
Buildings at carrying amount		
Cost	5,726	5,784
Accumulated depreciation	(1,628)	(1,454)
	<b>4,098</b>	<b>4,330</b>
Machinery and equipment at carrying amount		
Cost	18,888	15,723
Accumulated depreciation	(10,042)	(9,263)
	<b>8,846</b>	<b>6,460</b>
Other fixtures at carrying amount		
Cost	5,270	5,445
Accumulated depreciation	(4,060)	(3,942)
	<b>1,210</b>	<b>1,503</b>
Prepayments for property, plant and equipment	25	-
<b>Total property, plant and equipment</b>	<b>15,003</b>	<b>13,117</b>

## NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2014	31.12.2013
<b>Goodwill</b>		
Cost	891	891
Impairment	(178)	(89)
	<b>713</b>	<b>802</b>
<b>Software at carrying amount</b>		
Cost	1,155	1,252
Accumulated depreciation	(857)	(887)
	<b>298</b>	<b>365</b>
<b>Total intangible assets</b>	<b>1,011</b>	<b>1,167</b>

## NOTE 12 BORROWINGS

in thousand euros

	31.12.2014	31.12.2013
<b>Finance lease payables</b>		
Present value of lease payments	<b>4,434</b>	<b>2,872</b>
incl. current portion	1,660	928
non-current portion 1...4 years	2,774	1,944
<b>Bank loans</b>		
Loan balance	<b>24,049</b>	<b>23,953</b>
incl. current portion	3,566	9,530
non-current portion 1...5 years	20,483	14,423
<b>Loans from entities under common control</b>		
Loan balance	<b>8,145</b>	<b>8,145</b>
incl. current portion	8,145	8,145
<b>Loans from management members</b>	<b>102</b>	<b>102</b>
incl. non-current portion 1...5 years	102	102
<b>Loans from other entities</b>		
Loan balance	<b>916</b>	<b>313</b>
incl. current portion	916	313
<b>Total loans</b>		
Loans balance	<b>33,212</b>	<b>32,513</b>
incl. current portion	12,627	17,988
non-current portion 1...5 years	20,585	14,525
<b>Total borrowings</b>	<b>37,646</b>	<b>35,385</b>
incl. current portion	14,287	18,916
non-current portion 1...5 years	23,359	16,469

## NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2014	31.12.2013
Trade payables	21,303	18,753
Payables to employees	8,359	7,465
Tax liabilities, except for corporate income tax		
Value added tax	1,457	1,721
Personal income tax	468	524
Social security tax	902	994
Unemployment insurance tax	59	65
Contributions to mandatory funded pension	42	40
Other taxes	106	50
	<b>3,034</b>	<b>3,394</b>
Amounts due to customers for contract works	8,690	11,226
Other liabilities		
Interest liabilities	136	120
Payable for registered immovables from demerger	4,026	5,288
Other liabilities	494	1,499
	<b>4,656</b>	<b>6,907</b>
Prepayments received	25,080	24,417
<b>Total payables and prepayments</b>	<b>71,122</b>	<b>72,162</b>
incl. payables to related parties (Note 16)	5,859	6,903

## NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2014	31.12.2013
Provision for warranty obligation for construction	2,096	1,810
Provision for onerous construction contracts	2,079	2,752
Provision for legal costs and claims filed	172	192
Other provisions	1,892	1,152
<b>Total short-term provisions</b>	<b>6,239</b>	<b>5,906</b>

## NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2014	31.12.2013
Trade payables	1,644	2,123
Long-term Interest liabilities	13	8
Other long-term liabilities	14	31
<b>Other long-term payables total</b>	<b>1,671</b>	<b>2,162</b>

## 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 31.12.2014 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
	31.12.2014	31.12.2013		
<b>Subsidiaries</b>				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
OÜ Tevener	100	100	Estonia, Tallinn	Mining
AS Vooremaa Teed	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
AS Gustaf	100	92.5	Estonia, Pärnu	Construction
OÜ Gustaf Tallinn	-	80	Estonia, Tallinn	Construction
AS Merko Tartu	66	66	Estonia, Tartu	Construction
OÜ Raadi Korteremaja	100	100	Estonia, Tartu	Real estate
OÜ Fort Ehitus	75	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	100	51	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Merko Inžinerija	100	100	Lithuania, Vilnius	Construction
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	Lithuania, Vilnius	Real estate
UAB Kražiu Projektas	100	100	Lithuania, Vilnius	Real estate
UAB VPSP 1	100	-	Lithuania, Vilnius	Real estate
UAB Timana	100	-	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	100	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	Estonia, Tallinn	Real estate
OÜ Woody	-	100	Estonia, Tallinn	Real estate
OÜ Maryplus	100	100	Estonia, Tallinn	Real estate
OÜ Constancia	100	100	Estonia, Tallinn	Real estate
OÜ Käibevara	-	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction

	Ownership and voting rights %		Location	Area of operation
	31.12.2014	31.12.2013		
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate
SIA Industrias Parks	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
SIA Polystar	-	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	-	Latvia, Riga	Real estate
Merko Finland OY	100	100	Finland, Helsinki	Construction
Lenko Stroi LLC	100	100	Russia, St. Petersburg	Construction
<b>Joint ventures</b>				
OÜ Unigate	50	50	Estonia, Tallinn	Real estate
Poolkoksimäe Sulgemise OÜ	50	50	Estonia, Tallinn	Construction
OÜ Kortermaja	50	50	Estonia, Tartu	Real estate
Kivimäe 32 OÜ	50	-	Estonia, Tallinn	Real estate
SIA Zakusala Estates	-	50	Latvia, Riga	Real estate
Kalaranna Arenduse OÜ	50	-	Estonia, Tallinn	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 in the Commercial Register was made on 6 July 2014.

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

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

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

On 30 July, UAB Merko Bustas acquired a 100% subsidiary UAB Timana in Lithuania, with a share capital of LTL 10,000 (EUR 2,896) and a purchase price of LTL 1,100 thousand (EUR 318,582). The subsidiary was established with the aim of acquiring registered immovables for development purposes in Vilnius.

On 31 July 2014, a subsidiary AS Merko Ehitus Eesti acquired a 7.5% share in the subsidiary AS Gustaf from the former co-shareholders for the purchase price of EUR 94 thousand, EUR 89 thousand of which was paid immediately. After the transaction, AS Merko Ehitus Eesti holds 100% of the shares of the subsidiary AS Gustaf.

On 5 August 2014, a subsidiary SIA Merks acquired an additional 25% share in the joint venture SIA Zakusala Estates from the current co-shareholder for the purchase price of EUR 696 thousand. After the transaction, SIA Merks holds 75% of the shares of the subsidiary SIA Zakusala Estates. The value of non-controlling holding is calculated proportionally from the fair value of the net assets of SIA Zakusala Estates.

The liquidation of SIA Merks 100% subsidiary SIA Polystar was finalised in the third quarter of 2014 and the company was deleted from the business register on 11 August 2014.

On 15 August 2014, a subsidiary AS Merko Ehitus Eesti increased its shareholding in the subsidiary OÜ Heamaja to 100% by acquiring the remaining 49% shares from the former co-shareholder for the purchase price of EUR 1,225.

On 16 September 2014, AS Merko Ehitus acquired a 100% shareholding in the subsidiary SIA Merko Investments (prev. SIA Skanstes Virsotnes) from the subsidiary SIA Merks in an intercompany transaction, with the purpose of re-arranging the structure of the group companies.

On 2 December 2014, AS Merko Ehitus Eesti formed a 50% joint venture in Estonia, Kalaranna Arenduse OÜ with a share capital of EUR 10,000 to acquire a property for development in Tallinn, Estonia.

On 22 December 2014 AS Merko Ehitus initiated a process to merge real estate development companies in which it has a 100% holding – OÜ Metsailu, OÜ Ringtee Tehnopark, OÜ Maryplus and OÜ Constancia – specifically for the purpose of reducing the administrative costs of managing the companies. The final merger entry will be made in the Commercial Register during the first half of 2015.

**SALE OF SUBSIDIARY**

in thousand euros

**Gustaf Tallinn OÜ**

Disposed 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)

**PURCHASE OF SUBSIDIARIES**

in thousand euros

	UAB Timana		SIA Zakusala Estates		Other *		Total	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Cash	0	0	2	2	1,196	1,196	1,198	1,198
Receivables	-	-	40	40	105	105	145	145
Inventories	145	464	4 035	14 873	233	233	4,413	15,570
Short-term liabilities	145	145	4 442	4 442	282	282	4,869	4,869
Net assets	0	319	(365)	10 473	1,252	1,252	887	12,044
Acquired ownership interest	100%		75%					
Value of acquired net assets	0	319	(274)	7 855	95	95	(179)	8,269
Acquisition cost		319		7 855		95		8,269
Subsidiary's cash and cash equivalent on acquisition		0		2		-		2
Paid on acquisition		(319)		-		(90)		(409)
Loan assignment for the acquired subsidiary in the benefit of the seller				(696)				(696)
The acquisition cost of the previous 50% shareholding				(7 159)				(7,159)
Cash flow from acquisition of subsidiary		(319)		2		(90)		(407)
Net profit (loss)								
- from the beginning of the year	(3)		(15)		(241)		(259)	
- post the acquisition			(3)		14		11	

\* Other includes the acquisition of non-significant minority shareholdings in AS Gustaf and OÜ Heamaja, 9.5% and 49% respectively.

**GOODS AND SERVICES**

in thousand euros

	2014 12 months	2013 12 months
<b>Provided services</b>		
Parent company	10	12
Joint ventures	297	262
Entities under common control	1,293	1,594
Members of the management	130	68
Other related parties	-	1
<b>Total services provided</b>	<b>1,730</b>	<b>1,937</b>
<b>Interest income</b>		
Joint ventures	118	114

	2014 12 months	2013 12 months
<b>Purchased services and materials</b>		
Parent company	90	102
Entities under common control	123	160
Other related parties	-	1
<b>Total purchased services and materials</b>	<b>213</b>	<b>263</b>
<b>Interest expense</b>		
Entities under common control	124	146
Members of the management	5	5
<b>Total interest expense</b>	<b>129</b>	<b>151</b>

### BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2014	31.12.2013
<b>Receivables from related parties</b>		
Loans granted (Notes 6, 8)		
Joint ventures	1,775	5,010
Receivables and prepayments (Note 6)		
Parent company	3	3
Joint ventures	409	692
Entities under common control	7	399
Total receivables and prepayments	<b>419</b>	<b>1,094</b>
<b>Total receivables from related parties</b>	<b>2,194</b>	<b>6,104</b>
<b>Payables to related parties</b>		
Loans received (Note 12)		
Entities under common control	8,145	8,145
Members of the management	-	102
Other related parties	102	-
Total loans received	<b>8,247</b>	<b>8,247</b>
Payables and prepayments (Note 13)		
Parent company	9	9
Entities under common control	4,039	5,364
Members of the management	1,811	1,530
Total payables and prepayments	<b>5,859</b>	<b>6,903</b>
<b>Total payables to related parties</b>	<b>14,106</b>	<b>15,150</b>

### 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 12 months of 2014 was EUR 2,072 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 12 months of 2014, the Management Board members of major subsidiaries received EUR 58 thousand in compensation (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](http://group.merko.ee).

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

		NO OF SHARES	% OF SHARES
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%
Tet Roopalu	Member of the Supervisory Board	-	0.00%
		<b>8,357,049</b>	<b>47.21%</b>

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 December 2014

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	-	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		<b>1,607,185</b>	<b>9.08%</b>

## 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.

	31.12.2014	31.12.2013
Performance period's warranty to the customer	17,439	29,549
Tender warranty	401	1,251
Guarantee warranty period	19,110	12,629
Prepayment guarantee	7,711	6,780
Contracts of surety	311	1,705
Letter of credit	1,710	-
<b>Total contingent liabilities</b>	<b>46,682</b>	<b>51,914</b>

**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.

**Letter of credit** – A letter of credit is the obligation of the buyer (i.e. the bank opening the letter of credit) to pay the seller (i.e. the receiver of the letter of credit) the amount of the letter of credit if the seller fulfils and presents documentation to the bank regarding the fulfilment of the conditions fixed with the letter of credit.



## 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 12 months and IV quarter of 2014, which are set out on pages 5-56.

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



12.02.2015

Tõnu Toomik

Member of the Management Board



12.02.2015