AS MERKO EHITUS

GROUP

Consolidated Annual Report

01.01.2014 – 31.12.2014

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
Commercial Register No.:	11520257
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Web site:	group.merko.ee
Auditor:	AS PricewaterhouseCoopers
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik

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BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and in residential real estate development 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.

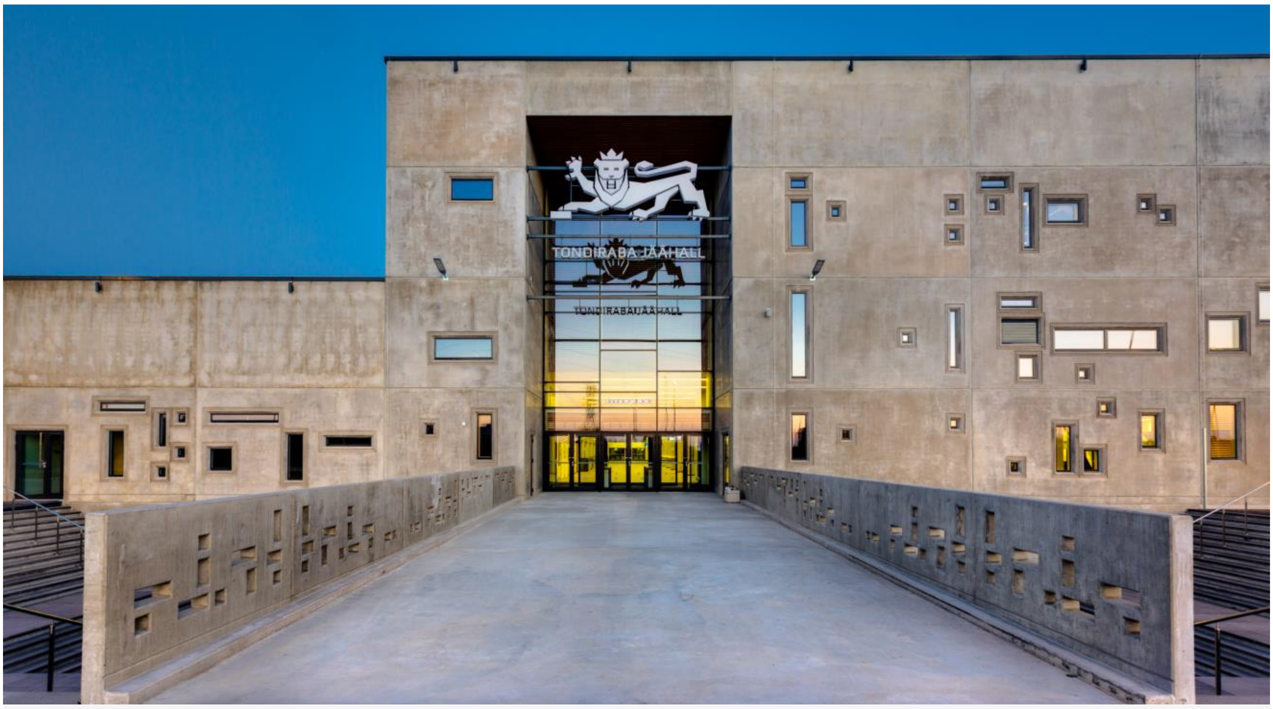
Holding company AS Merko Ehitus is responsible for the development and implementation of the strategies of various group companies primarily through allocation and long-term planning of resources. The shares of Merko have been listed on the Tallinn Stock Exchange since 1997. The group employs 765 people.

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 year 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.



CONCRETE CONSTRUCTION OF THE YEAR 2014 TONDIRABA ICE ARENA IS FULL OF SPECIAL SOLUTIONS: 4,500 REINFORCED CONCRETE ELEMENTS, 9,400 M³ OF CONCRETE, 2,000 M² SEAMLESS CONCRETE FLOOR AND THE IMPOSING 62-METRE SPAN WOODEN TRUSSES.

VISION

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

VALUES

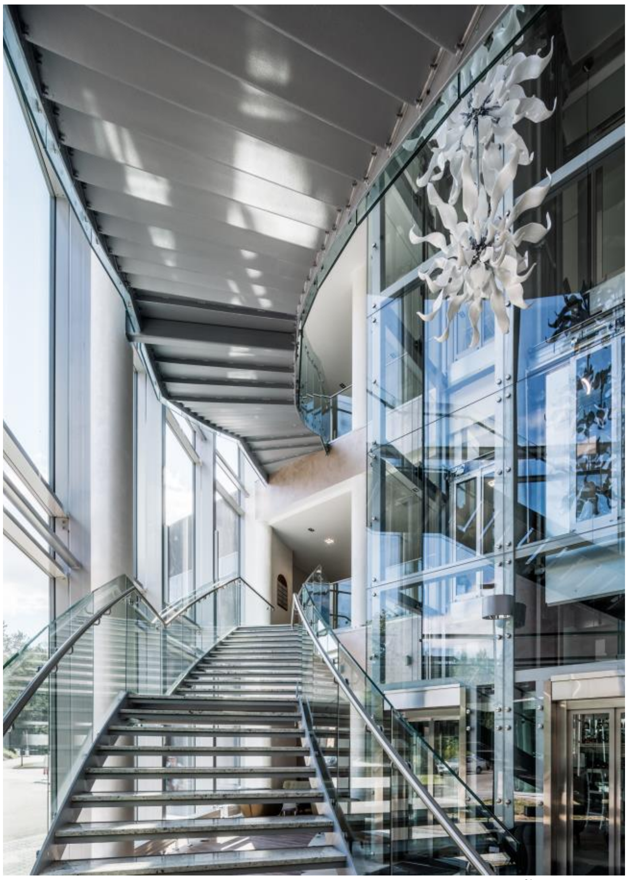
RESPONSIBILITY
We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.

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

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

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

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



NOORUS SPA HOTEL, COMPLETED IN NARVA JÕESUU IN SEPTEMBER 2014, OFFERS HOSPITALITY SERVICES WORTHY OF ITS FOUR STARS.

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.

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%

In 2014, the Group fulfilled all the set long-term financial objectives:

average return on equity
10.1%

dividend rate
58%
of annual profit

equity ratio
51,0%

In 2014, the group's return on equity was 10.1% (2013: 8.8%). Based on 2014 results, the group can be satisfied with the results of all the major subsidiaries, as well the fact that materialisation of major construction risks were avoided as opposed to 2013.

Additionally to the average return on equity goal, the Group achieved also the rest of the long-term financial goals in 2014: the dividend rate was 58% (2013: 70%) and the equity ratio was 51,.0% (2013: 50.9%).

DURING THE FIVE-YEAR OPERATION TO CLOSE THE INDUSTRIAL WASTE AND SEMI-COKE LANDFILL IN KOHTLA-JÄRVE A HILL OF MINE WASTE AMOUNTING TO 6 MILLION M³ WAS RELOCATED, A RAINWATER COLLECTION SYSTEM MORE THAN 8 KM LONG WAS INSTALLED AND 2.5 HECTARE LAKES CONTAINING LIQUID OIL SHALE MINING RESIDUES WERE CLOSED.

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders,

ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Another financial year is behind us and it's time to take stock of the results posted by Merko Ehitus and how we see the company's market position and opportunities in the years ahead.

The unstable economic environment in the Baltics and other regional countries in 2014 posed a number of challenges for construction companies. The modest economic growth and decline in investor confidence as a result of the international situation have started exerting an increasingly clear negative effect on the amount of new construction ordered by the private sector. Due to the start of the new EU financial framework period the new orders from the public sector remained at the modest level with regard to water/sewerage networks and road construction projects last year. As a result, the volume of new construction contracts signed by us as a whole fell short of the financial year 2013 levels. We have responded to the changing market situation by implementing more effective risk management and increasing efficiency and cutting costs in fields where construction orders are not expected to grow in the near future.

We were pleased, however, that we have been able to take advantage of a favourable development on the Baltic states' apartment market and select the proper timing for launching apartment project developments, as a result of which sales revenue from the residential construction segment grew nearly 50%. Although the growth rate will level off somewhat in the Baltic capitals in the next few years, we want to continue to be among the leading residential construction companies on the home markets. We invested over EUR 40 million into the apartment development field last year, and we plan to continue investments. Our goal is to create a quality and modern living environment for Estonian, Latvian and Lithuanian home buyers, doing so in an energy efficient manner using the latest technologies. Our competitive edge – and a source of assurance for home buyers – is the fact that we are in charge of all of the stages of the apartment development: planning, design development, construction, sales and service during the warranty period.

As to Merko's economic results, plusses are the 50% increase in sales revenue in Latvia and the 100% growth on the Lithuanian market. Summing up the year, the share of Latvian and Lithuanian sales revenue makes up nearly one-third of the group's sales revenues. Considering the weak growth outlook on the Estonian market in the coming years, increasing revenue outside Estonia is a strategic priority for Merko.

In spite of the unstable market situation, we were able to increase the group's net profit by nearly 19% at a revenue level comparable to the year before during last year. The increased efficiency of the group and reorganization of working processes are largely behind the improved profitability. The managers and staff of our subsidiaries have contributed to achieving this result, and I'd like to acknowledge them here.

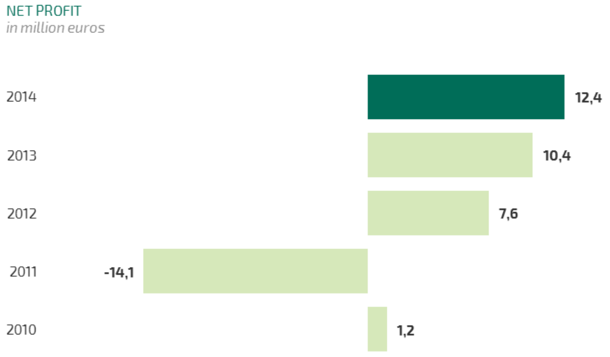
> Our continued goal is to be a reliable real estate developer to homebuyers and a professional partner to clients of construction works.

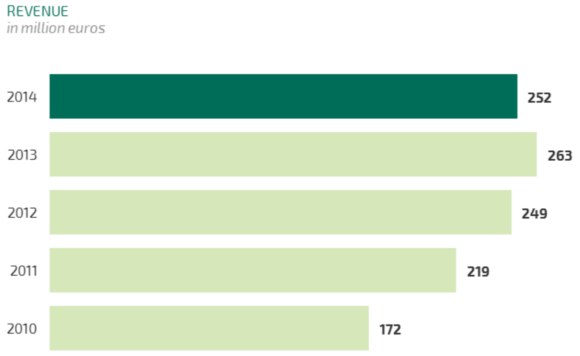
I would also like to thank all of our customers. We want to remain a trustworthy, professional partner for them, offering quality construction solutions and effective construction process to make their ideas happen.

Sincerely,
Andres Trink

MANAGEMENT REPORT

BRIEF OVERVIEW OF 2014





PROFITABILITY

Profit before tax in 2014 was EUR 13.3 million (2013: EUR 11.1 million), which is equivalent to a profit before tax margin of 5.3% (2013: 4.2%). Net profit in 2014 was EUR 12.4 million (2013: EUR 10.4 million), up 19.4% from the previous year. Net margin increased by 24.3% to 4.9% (2013: 4.0%).

REVENUE

Revenue in 2014 was EUR 252.3 million (2013: EUR 262.7 million), which has decreased by 4.0% compared to the same period last year. The share of revenue earned outside of Estonia has incresed in 2014 to 32.3% (2013: 19.3%), The number of apartments sold in 2014 (395 pcs, revenues of EUR 39.4 million) has increased by 50.2% (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 121.9 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).

ORDER BOOK

In 2014, group companies signed new contracts in the amount of EUR 170.4 million (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.

		2014	**2013**	**VARIANCE**
Revenue	million EUR	252.3	262.7	-4.0%
Gross profit	million EUR	24.7	22.7	+8.8%
Gross margin	%	9.8	8.6	+13.3%
EBITDA	million EUR	16.4	15.1	+8.9%
EBITDA margin	%	6.5	5.7	+13.4%
Profit before tax	million EUR	13.3	11.1	+19.4%
PBT margin	%	5.3	4.2	+24.3%
Net profit attributable to equity holders of the parent	million EUR	12.4	10.4	+19.4%
Net margin	%	4.9	4.0	+24.3%
Earnings per share	EUR	0.70	0.59	+19.4%
Dividends per share	EUR	0.41*	0.41	0.0%

** pursuant to the Management Board's proposal*

		31.12.2014	31.12.2013	VARIANCE
Return on equity (annual)	%	10.1	8.8	+15.6%
Equity ratio	%	51.0	50.9	+0.1%
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%

Calculation of ratios is provided on page 111 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN 2014

THE MOST IMPORTANT INDICATORS INFLUENCING THE CONSTRUCTION MARKET

	2014			2013		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
GDP annual change in current prices	+2.1%	+2.4%	+2.9%	+1.6%	+4.2%	+3.3%
Construction price index annual change	+0.5%	+0.3%	+2.4%	+5.2%	+2.6%	+4.2%
Labour force	+1.3%	+3.0%	+5.8%	+13.4%	+5.9%	+7.5%
Construction machines	+2.2%	+0.4%	+1.1%	+4.7%	+2.2%	+1.8%
Building materials	-0.0%	-0.4%	+0.8%	+1.2%	+0.9%	+2.9%

Source: Local national statistical offices.

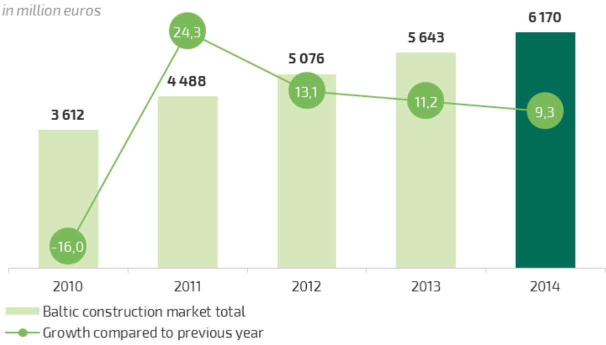
The Baltic economy experienced growth in 2014, but at different rates in different counties – if the rate of GDP growth increased in Estonia then it slowed in Latvia and Lithuania. The main reasons for the slowdown in growth in Latvia and Lithuania were the greater ties between their economies and Russia, the higher geopolitical risks in the region due to the developments in Ukraine and also the trade sanctions established between Russia and the European Union (EU) have left their mark. Government investments declined mainly due to lower external financing, due to a delay in opening of funding in the EU's new budgetary period. The companies' investments did grow, but not to the degree expected, as the existing capacities are underused and the general sense of security is low, above all due to the external environment. 2014 was a year of continuing adaptadion to a new market reality whereby the proportion of new large government contracts declined and the company had to actively search for new opportunities to improve efficiency and find new sources of revenue.

In 2014, construction with own resources was performed in the Baltic region for EUR 6,170 million which is EUR 527 million higher than in 2013. In 2014, the Baltic construction market grew by 9.3 in current prices (2013: 11.2%). In spite of the growth in volumes on the construction market for the fourth year in a row, the Baltic construction markets do not still reach the boom-era peak levels in 2007-2008 – down by approximately 15% in Estonia and by approximately 25% in Latvia and Lithuania. In 2014, for the second year in a row the Lithuanian construction market showed the highest increase in the Baltics at 19.5% (2013: 15.9%), whereas the Latvian construction market grew by 9.2% (2013: 9.8%). The Estonian construction market was the only one in the Baltic states to contract by -1.3% in 2014 (2013: increased 7.6%). In 2014, construction with own resources was performed in Lithuania in current prices for EUR 2,522 million (2013: EUR 2,110 million), in Estonia for EUR 1,972 million (2013: EUR 1,998 million) and in Latvia for EUR 1,676 million (2013: EUR 1,544 million). In 2014, the Lithuanian construction market made up the largest share of the Baltic construction market with 40.9% (2013: 37.4%), followed by Estonia with 31.9% (2013: 35.4%) and the Latvian market still makes up the smallest share of the Baltic construction market with 27.2% (2013: 27.2%).

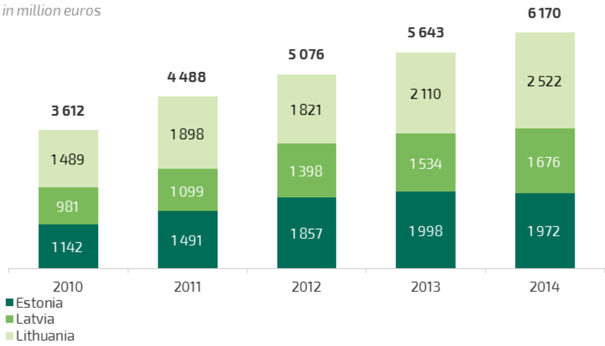
Almost analogous changes to the national conjuncture took place in the volume of construction performed by Baltic companies in foreign countries in current prices – Lithuanian exports increased by 15.1%, Latvian and Estonian exports decreased by 9.8% and 11.3%, respectively.

In line with the general change in construction work volumes, changes also took place in the per capita amount of construction work performed. In 2014, construction works per capita were performed for EUR 1,496 in Estonia, EUR 824 in Latvia and EUR 853 in Lithuania (in 2013, in Estonia, Latvia and Lithuania for EUR 1,516, EUR 754 and EUR 713, respectively).

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

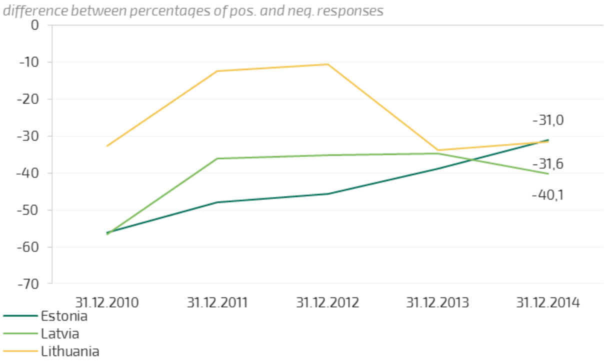


CONSTRUCTION MARKET VOLUMES (WITH OWN FORCES) IN THE BALTIC STATES BY GEOGRAPHICAL LOCATION
in million euros



Source: Local statistical services.

CONSTRUCTION CONFIDENCE INDICATOR
difference between percentages of pos. and neg. responses



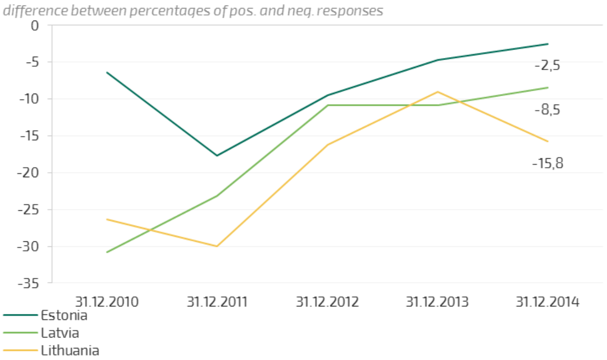
SOURCE: European Comission Directorate-General for Economic and Financial Affairs.

The level of indicators of confidence in the construction industry continues to be unfavourable in all three Baltic states. Confidence is curtailed by the seasonal factor that winter is low season in the construction sector, and the expectation of reduced funding in the new EU financial framework period for future construction market investments; both of these factors are more expressed in infrastructure and civil engineering construction. Some positive influence on sector confidence comes from construction of buildings, where today construction companies have presently more work ahead.

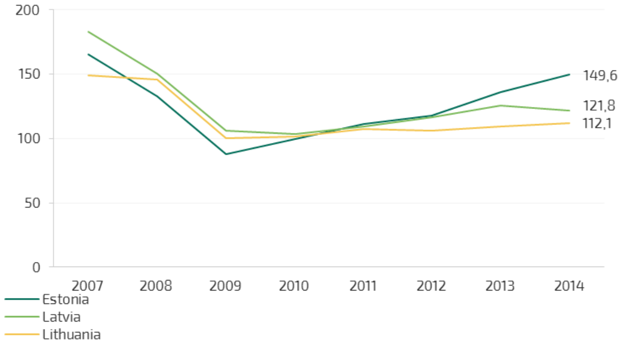
Compared to December 2013, confidence in the construction sector grew most in Estonia in December 2014 (up 7.9 points from -38.9 to -31.0 points) and Lithuania (up 2.2 points from -33.8 points to -31.6 points). In December 2014, Latvian confidence indicator declined by 5.5 points, from -34.6 points in December 2013 to -40.1.

Activity in the real estate market continued to grow moderately in the beginning of 2014, but at the end of the year the apartment markets in all three Baltic States showed signs of calming. We do not forecast a long-term and steep drop in prices; the sale prices of new apartments will likely remain stable however the sale periods will become longer.

CONSUMER CONFIDENCE INDICATOR
difference between percentages of pos. and neg. responses

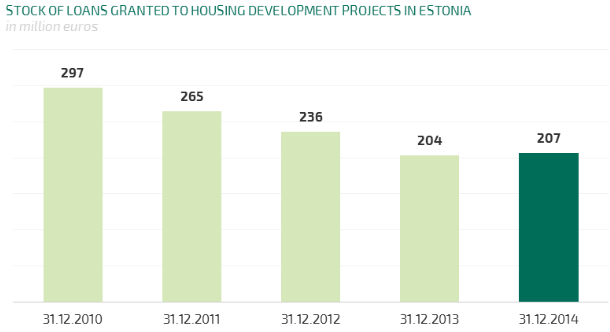


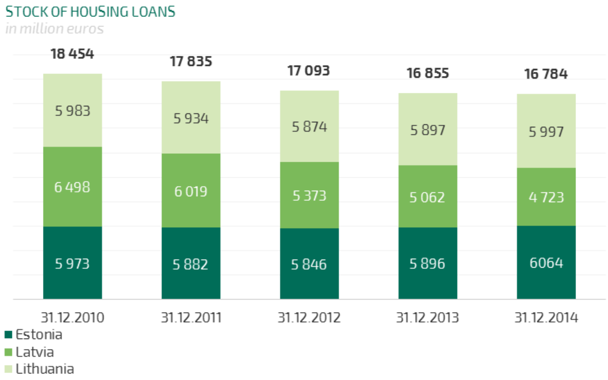
HOUSE PRICE INDEX (2010=100)



Source: European Comission Directorate-General for Economic and Financial Affairs / Local statistical services.

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.



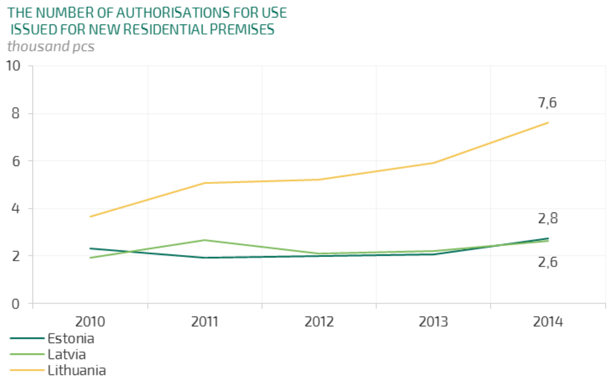


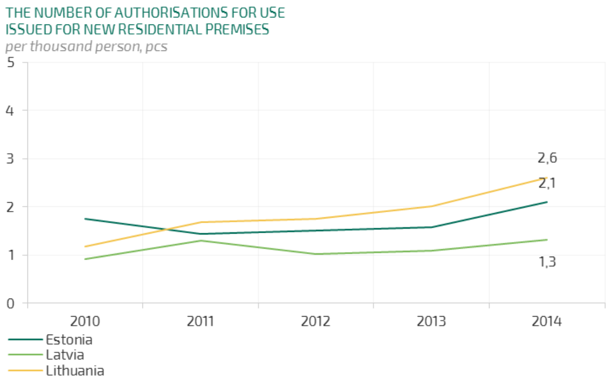
Source: Local central banks.

Whereas in previous years the balance of loans granted by banks in Estonia for real estate development has been on a downward trend, then in the last two years the loan balance has stabilised. The banks continue to be reluctant to finance residential development projects of smaller developers or require a large number of preliminary sales contracts (up to 50% of total project volume) and a higher own contribution. This trend gives Merko group a competitive advantage in launching new development projects in the market.

The balance of housing loans in the Baltics as a whole in 2014 has continued to drop, declining by EUR 71 million in a year (2013: EUR 238 million) to EUR 16,784 million. The decline continues to be attributable to Latvia where the loan balance declined by EUR 339 million (2013: EUR 312 million). At the same time, the housing loan balances in Estonia and Lithuania continued the upswing that started in 2013, respectively EUR 168 million in Estonia (2013: EUR 50 million) and EUR 99 million in Lithuania (2013: EUR 24 million). People's confidence in the economy is stable and the willingness to lend is returning. At the same time, it must be noted that although demand for loans has increased, the proportion of loans in buying real estate or construction is substantially lower than in the boom years, which means that more investments are made on equity.

Positive developments on the Baltic real estate markets provided confirmation that the decisions of Merko Ehitus in 2012 to launch new apartment developments in all three capitals of the Baltics have been correct. Based on Ober-Haus Baltic real estate market report the estimated average price increase of apartments in new developments in the Baltic States in 2014 was *ca* 9% in Estonia, *ca* 5% in Lithuania and *ca* 2% in Latvia.





Source: Local statistical services.

OUTLOOK FOR 2015

CONSTRUCTION SERVICES

In 2015, the economies of the three Baltic countries are forecast to grow 2-3% (average). Economic growth in Scandinavia will continue at low gear and this is reflected by the falling economic confidence indices. The Finnish economy is experiencing a continued general standstill and the Swedish real estate sector has become more uncertain, as a result of which negative scenarios would mean potential risks could be posed to the Baltic credit market as well due to greater integration between the largest banks in the region with their Swedish parents. The Baltic construction market is expected to post no growth next year. Euro base rates remain low, although we continue to believe that there are still inflationary risks in the longer term. The outlook of the Russian economy is mainly related to the oil price, economic sanctions and political uncertainty. Assuming that 2015 oil prices will remain at the levels of previous years and the situation in Ukraine does not resolve, Russia will see a continued recession, weakening of the rouble and higher than average inflation. 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. As the Baltic States all have small and open economies and are largely dependent on our close economic ties and trade with neighbouring countries, the economic developments in both Scandinavia and Russia have a direct effect on us. Besides direct impact, insecurity about the future could curtail economic growth expectations for 2015 in the Baltics, as investment projects may be frozen.

For 2015, we are forecasting a decline in the volume of Baltic construction contracts. In 2014 the volume of Baltic construction contracts for general contractors continued to decline, which as outlined in the previous reports is primarily related to the decrease in the volume of public procurement tenders resulting from the expiry of the previous 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 has also been impacted by the overall slump in investor confidence. In the EU's new multiannual financial framework, the amounts of direct and 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 end 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 beginning of 2016.

For 2015, we are forecasting 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 todays 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 receiveing 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 building that meets the expectations – is more likely when the client has a competent partner with whom to discuss and analyse all details of a project.

In 2014 the profitability of new contracts signed by general contractor companies remained on average probably 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.

Taking into account the relatively weak outlook for growth in the construction market, no significant wage pressure is anticipated in 2015; 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 consecuently influence the labor costs. 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.

Because the road construction sector suffers from excess capacity of fixed assets, profitability requires continued reduction of machinery and the efficiency of the cost base. In road maintenance, several long-term maintenance tenders will be carried out in 2015, which may result in certain re-distribution of market shares. In road investments carried out by the Estonian Road Administration, we expect more small-scale construction and repair work.

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

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 generel conractors 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.

APARTMENT DEVELOPMENT

The situation in the apartment market in all three Baltic States is calming down. Whereas in 2014 we saw the demand to continue to remain relatively strong, however a higher supply of apartments will lead to pressure on sale prices and a lengthening of selling periods in 2015. 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 Rigas apartment market is less active.

In the environment of increased supply and greater general awareness 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.

IN EARLY 2015, THE DEVELOPMENT OF THE TARTU MNT 52 RESIDENTIAL QUARTER IN CENTRAL TALLINN WAS LAUNCHED. DURING THE FIRST STAGE, AN UNDERGROUND PARKING GARAGE CONNECTING FIVE APARTMENT BUILDINGS WILL BE BUILT ALONG WITH THREE OF THE BUILDINGS ACCOMMODATING A TOTAL OF 100 APARTMENTS. BETWEEN THE BUILDINGS WILL BE A PRIVATE INTERIOR COURTYARD WITH RECREATIONAL AND PLAY AREAS AND VARIED LANDSCAPING.

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 and Lithuania are less inclined to take loans than in Estonia. Apartment market demand is also positively impacted in addition to above by the lack of alternative investment opportunities and an increase in incomes.

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. In the beginning of 2015, the Act was amended with a possibility for borrowers to be able to decide at the conclusion of a loan agreement from the credit institution whether the loan they are taking includes the option of returning the home or not, which in turn will determine the down payment terms of the loan. Although the impact of the amendment on the loan market is difficult to predict, it will presumably have no material affect as the banks will retain the possibility to issue loans on previously existing conditions. The changes to the Bankruptcy Act entered into force for home loans issued starting 1 March 2015.

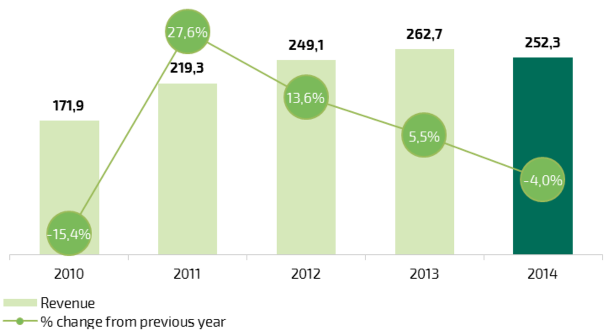
The Lithuanian capital Vilnius has seen rapid growth in the supply of apartments, above all in cheaper price segments and bedroom communities where there is a certain amount of oversupply, which has already led to risks where the sales periods are longer. Also the sale of apartments as so-called "grey box" remains a dominant feature. 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. However, although the programme's effect on prices is marginal, in the long term, prices will preausambly start rising due to the greater supply of money.

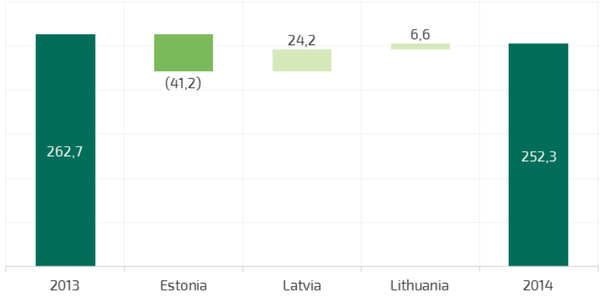
OPERATING RESULTS

REVENUE AND PROFIT

GROUP REVENUE
in million euros



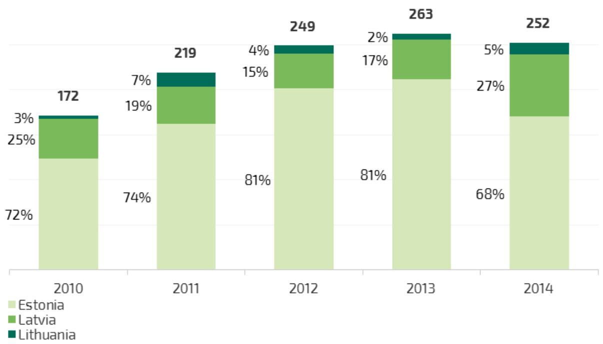
GROUP REVENUE
in million euros



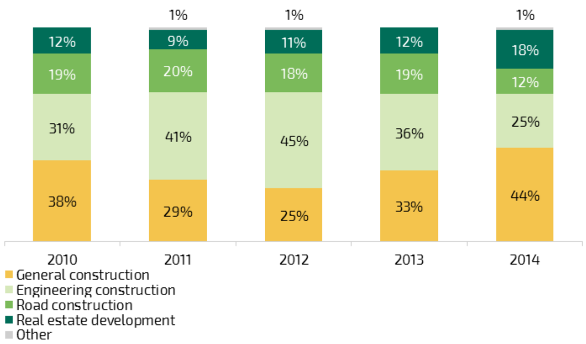
In 2014, the revenue of Merko Ehitus was EUR 252.3 million. (2013: EUR 262.7 million). 67.7% of the period's revenue was generated in Estonia, 27.2% in Latvia and 5.1% in Lithuania (2013: 80.7% in Estonia, 16.9% in Latvia and 2.4% in Lithuania). As compared to 2013, the group's revenue decreased by 4.0%, including a 19.4% decline in Estonia and a 54.7% increase in Latvia and a 103.0% increase in Lithuania. It is one of the group's strategic objectives to increase the proportion of revenue generated in Latvia and Lithuania.

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.

REVENUE OF MERKO EHITUS GROUP
in million euros

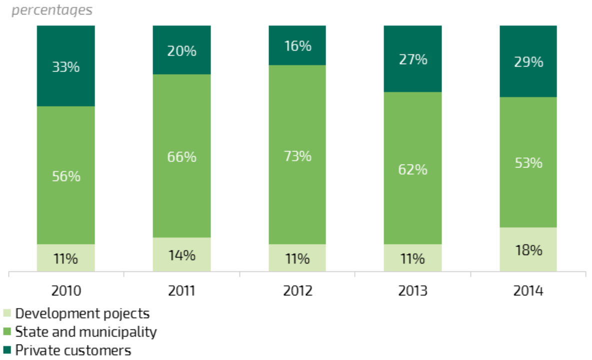


DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
percentages



General construction contributed 44% (2013: 33%), civil engineering 25% (2013: 36%), real estate development 18% (2013: 12%), road construction 12% (2013: 19%) and other segment revenue was 1% (2013: 0%) of the group's revenue. 75% related to new construction and 25% renovation and reconstruction works of the construction activities (2013: 67% and 33% respectively).

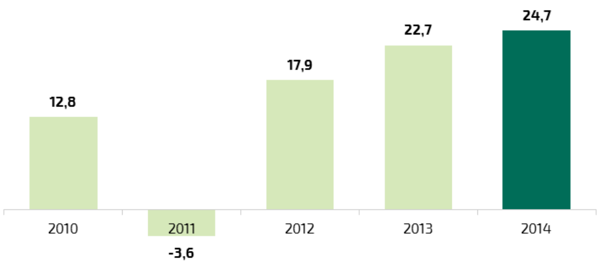
DISTRIBUTION OF GROUP REVENUE ACCORDING TO CUSTOMERS
percentages



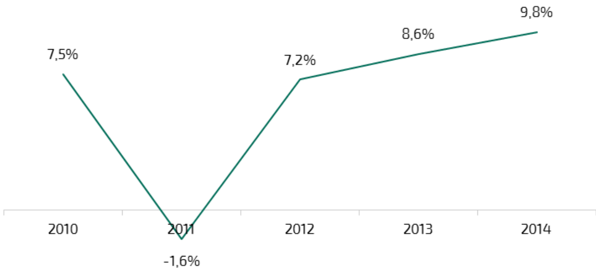
In 2014, the total number of projects launched and planned by private sector clients has increased - the trend is clearly visible in both the revenues of Merko Ehitus and in the signed order book. At the same time, the condition of the construction sector is most significantly affected by the large proportion of government contracts that will continue to dominate the construction market in the near-term, albeit at a lower level.

In 2014, the group's gross profit from development and construction activities totalled EUR 24.7 million (2013: EUR 22.7 million). The gross profit margin in 2014 (9.8%) is up from the same period last year (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 prices, 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.

GROUP GROSS PROFIT
in million euros

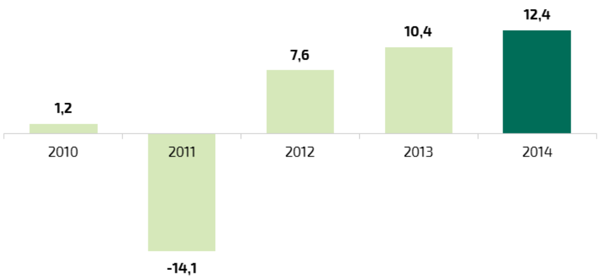


GROUP GROSS PROFIT MARGIN
percentages

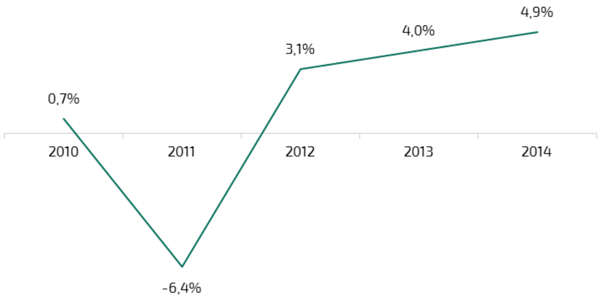


In 2014, the group's pre-tax profit totalled EUR 13.3 million and the net profit attributable to owners of the parent company was EUR 12.4 million as compared to the pre-tax profit of EUR 11.1 million and net profit attributable to owners of the parent company of EUR 10.4 million in 2013. The group's net margin was 4.9%, up 0.9 percentage points from last year.

GROUP NET PROFIT
in million euros

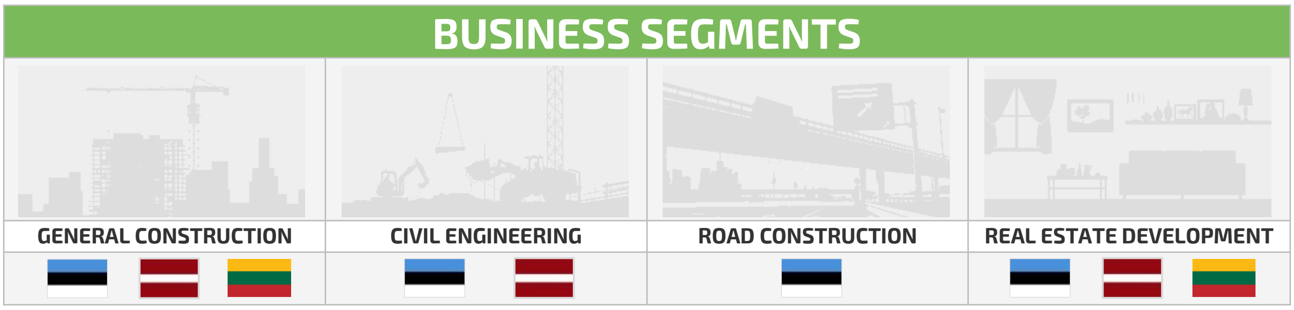


GROUP NET PROFIT MARGIN
percentages



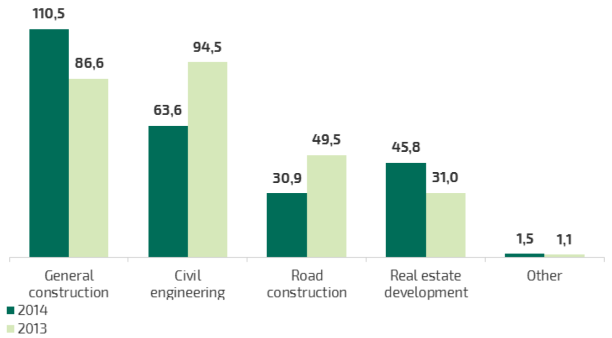
BUSINESS SEGMENTS

The group operates mainly in Estonian, Latvian and Lithuanian market through its subsidiaries and depending on the country provides 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 42.

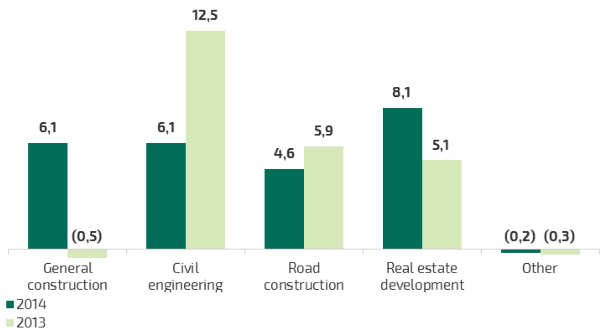


CHANGE IN GROUP REVENUE AND GROSS PROFIT ACROSS BUSINESS SEGMENTS

GROUP REVENUE BY SEGMENT
in million euros



GROUP GROSS PROFIT BY SEGMENT
in million euros



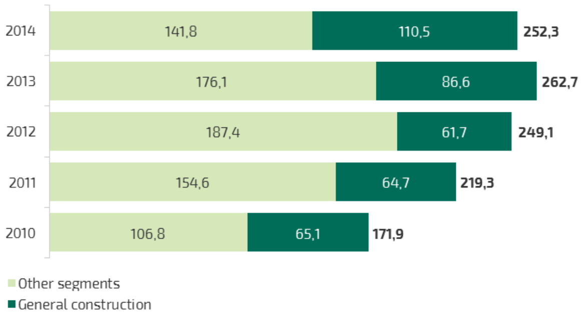
GENERAL CONSTRUCTION

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

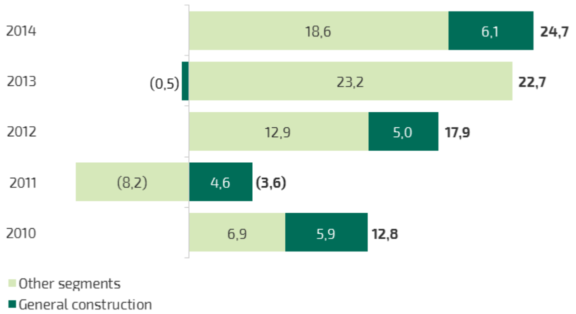
million EUR

	2014	2013	CHANGE
Revenue	110.5	86.6	+27.7%
% of total revenue	43.8%	32.9%	+32.9%
Gross profit (loss)	6.1	(0.5)	+1,315.9%
Gross profit margin	5.5%	-0.6%	+1,052.3%

REVENUE
in million euros



GROSS PROFIT
in million euros



In 2014, the revenue of the general construction segment was EUR 110.5 million (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 2014 (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 2014 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 2014 was 5.5% (2013: -0.6%), which was supported by the fact that the previously forecasted risks did not materialise in projects nearly or fully completed in the reporting peroiod, having exerted a one-time effect on the results. 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 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.

Among the substantial projects in process that started in 2013 and continue in 2015 are the renovation of the Mustamäe blocks of the North Estonia Medical Center, construction of the hotel and entertainment complex Hilton Tallinn Park Hotel, construction of the Polipaks NT manufacturing and logistics centre in Marupe and construction of a multifunctional concert hall in Liepaja

Among the large projects completed in 2014, the largest ones to highlight are the multifunctional Tondiraba ice arena completed in 14 months under the leadership of AS Merko Ehitus Eesti, Nurmevälja logistics centre and Eesti Energia 300MW Narva power plant general construction works. In addition, Narva-Jõesuu hotel and water park, Narva Konsum and Paepargi Maxima supermarkets were completed in 2014. The projects completed by SIA Merks, Latvian subsidiary of Merko Ehitus, ones that deserve to be highlighted are Dizintaru 36 ja Gipsa fabrika apartement buidlings and Riga Airport fire station construction works.

The strength of Merko Ehitus is to simultaneously complete various complex and long-term projects and provide quality construction services to customers with different requests.

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

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2014

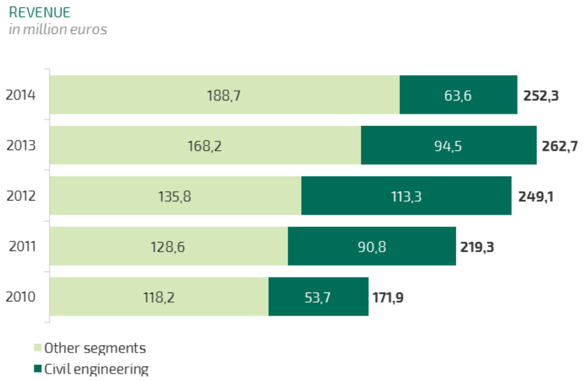
PROJECT NAME		LOCATION	COUNTRY
Tondiraba ice arena	new	Varraku 14, Tallinn	Estonia
Eesti Energia 300MW Narva power plant general construction works	new	Auvere village, Vaivara municipality, Ida-Virumaa	Estonia
Narva-Jõesuu hotel and water park	new	L. Koidula 19, Narva-Jõesuu	Estonia
Nurmevälja logistics centre	new	Välja road 1, Iru village, Jõelähtme municipality, Harjumaa	Estonia
Narva Konsum supermarket	new	Tallinna road. 30a, Narva	Estonia
Paepargi Maxima supermarket	new	Paepargi 57, Tallinn	Estonia
Apartment building Dzintaru 36	new	Dzintaru prospekts 36, Jūrmala	Latvia
Ģipša fabrika apartement building	new	Balasta dambis 72, Rīga	Latvia
Riga Airport fire station	new	Lidosta "Rīga" 10/1, Mārupes novads	Latvia

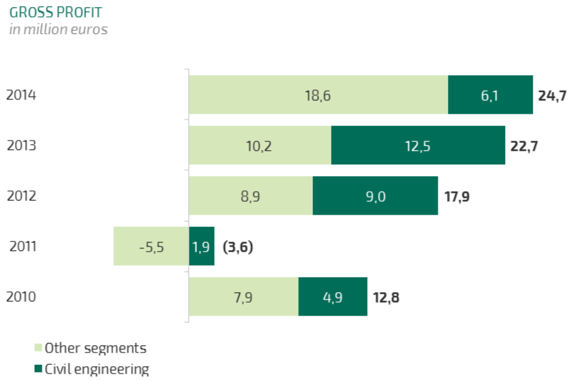
CIVIL ENGINEERING

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

	2014	2013	CHANGE
Revenue	63.6	94.5	-32.7%
% of total revenue	25.2%	36.0%	-30.0%
Gross profit	6.1	12.5	-51.3%
Gross profit margin	9.6%	13.2%	-27.7%





In 2014, civil engineering revenue was EUR 63.6 million (2013: EUR 94.5 million), down 32.7% from 2013. The decline in revenue is mainly attributable to the reduction in external pipeline projects construction.

If the civil engineering segment revenues of 2013 formed the largest proportion in the group's revenue (2013: 36.0%), then during 2014 the segments revenues formed 25.2% of total revenue being down 30.0% compared to the previous year.

In 2014, the gross profit of the civil engineering segment amounted to EUR 6.1 million (2013: EUR 12.5 million) and the gross profit margin was 9.6% (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 as possible cost base (particularly at the expense of labour costs).

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

In addition to enhancing our project management capacity, in recent years we have been improving our technical capacity in performance of works. Among others, we have at our disposal several different no-dig technologies for building water and sewerage pipelines in different soils. As the 2014-2020 EU budget period will see significantly less funding for public water supply and sewerage investments than in the last period, next years will likely see volumes continue to decrease in this segment.

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

Among the projects completed in 2014, the one to highlight is the five-year operation to close the industrial waste and semi-coke landfill in Kohtla-Järve on a more than 100-hectare area, as a result of which the semi-coke hills, long an environmental liability for Ida-Viru County, no longer pose an environmental risk. Among the works done a hill of mine waste amounting to 6 million m^3 was relocated, 84 hectares were replanted, a rainwater collection system more than 8 km long was installed, and 2.5 hectare lakes containing liquid oil shale mining residues were closed. In the second undersea direct current power cable between Estonia and Finland, Estlink 2, Merko performed the laying of the ends of the sea cable on land, transport and installation of the land cables and clearance construction, as well as all general construction and auxiliary work on the cables' transition sleeves.

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2014

PROJECT NAME		LOCATION	COUNTRY
Closure of industrial waste and semi-coke landfills in Kohtla-Järvel	new	Kohtla-Järve, Ida-Virumaa	Estonia
Sillamäe water and sewerage pipelines and bore wells stage II	new	Sillamäe	Estonia
Elva wastewater treatment facility reconstruction	new	Elva	Estonia
Vääna-Jõesuu water and sewerage pipelines stage IV	new	Vääna-Jõesuu village, Harku municipality, Harjumaa	Estonia
Narva-Jõesuu promenade	new	Aia st. area, Narva-Jõesuu	Estonia
Valga water and sewerage pipelines and pavement restoration Works	rec	Valga	Estonia
Estlink 2 land cable	new	Aseri-Püssi, Ida-Virumaa	Estonia
Kilingi-Nõmme 110kV substation reconstruction	new	Kilingi-Nõmme	Estonia

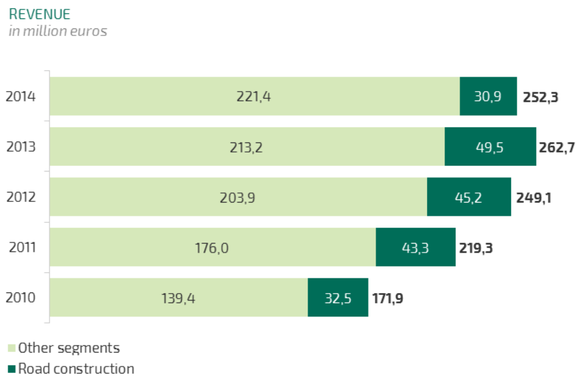
PROJECT NAME		LOCATION	COUNTRY
Estonian Power Plant 330kV overhead line	new	Auvere village, Vaivara municipality, Ida-Virumaa	Estonia
Sillamäe thermoelectric power station connection	new	Sillamäe	Estonia
Electrical construction of Estonian Power Plant biofuels and oil-shale supply systems	new	Auvere village, Vaivara municipality, Ida-Virumaa	Estonia
Paldiski 6kV substation	new	Paldiski	Estonia
Water and sewerage pipelines in Mārupe	new	Mārupes novads	Latvia

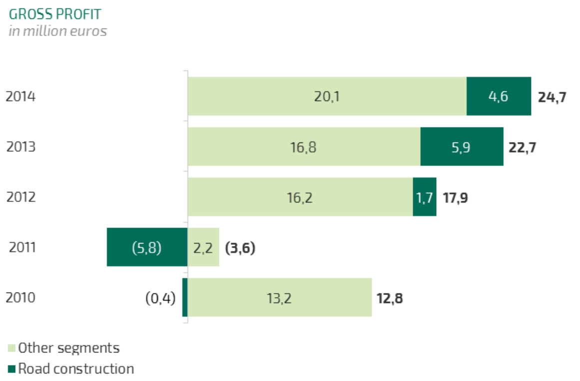
ROAD CONSTRUCTION

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

million EUR

	2014	2013	CHANGE
Revenue	30.9	49.5	-37.5%
% of total revenue	12.3%	18.8%	-34.9%
Gross profit	4.6	5.9	-21.9%
Gross profit margin	15.0%	12.0%	+25.0%





The revenue of the road construction segment amounted to EUR 30.9 million in 2014 (2013: EUR 49.5 million), which means a 37.5% decrease from the same period 2013. Gross profit earned in 2014 of EUR 4.6 million (2013: EUR 5.9 million).

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.

The largest projects of the segment in 2014 were the maintenance works done under the service agreement with Tallinn and Jõgeva County, the surfacing works on the roads of Harju and Rapla County and Road No 17 Keila-Haapsalu, the reconstruction works of Pärnu-Jaagupi-Kalli road, but also the reconstruction works of Suur-Sõjamäe street in Tallinn and the construction works of Suru road and firing range in Kuusalu County that will continue in 2015.

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2014

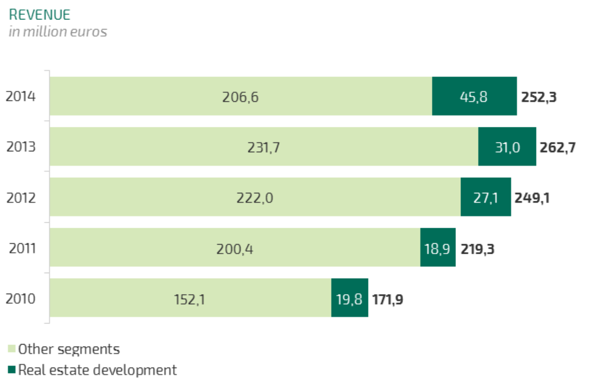
PROJECT NAME		LOCATION	SIZE	COUNTRY
Road No 17 Keila-Haapsalu	rec	Keila-Haapsalu	5 km of renovated roads	Estonia
Harju-Rapla surfacing works	rec	Harju ja Rapla county	970,000 m^2 a of asphalt concrete pavement	Estonia
Pärnu-Jaagupi-Kalli road	rec	Pärnu-Jaagupi-Kalli, Pärnu county	7.35 km of renovated roads	Estonia
Punane st.	rec	Punane st., Tallinn	26,000 m^2 (double-layer asphalt concrete, leveling), 3,000 m curbstones, 10,000 m^2 landscaping	Estonia
National highway No 4 Tallinn-Pärnu-Ikla	rec	Tallinn-Pärnu-Ikla	48,000 m^2 of asphalt concrete pavement	Estonia
Valukoja 7, Sepapaja 12, Suur-Sõjamäe 14c	new	Valukoja, Sepapaja ja Suur-Sõjamäe st., Tallinn	8,000 m^2 of asphalt concrete pavement	Estonia

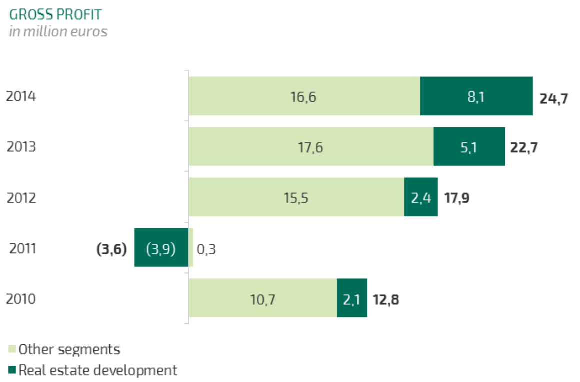
REAL ESTATE DEVELOPMENT

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

	2014	2013	CHANGE
Revenue	45.8	31.0	+47.6%
% of total revenue	18.1%	11.8%	+53.7%
Gross profit	8.1	5.1	+58.3%
Gross profit margin	17.7%	16.5%	+7.2%





Over the past 25 years, Merko has built homes for several thousand families in the Baltics, became the leading apartment building developer in Estonia and strengthened its position in Latvia and Lithuania. Every experience gained has been implemented in new residential construction projects; positive experience obtained from different countries shared within the group and learning from one another have given our project managers invaluable know-how and expertise.

The real estate market continued a balanced recovery in 2014, which was reflected in the moderate growth in the number of transactions as well as the prices. Managing such a large and valuable portfolio of properties requires careful and detailed planning of the whole process: the development of apartment buildings starts by organising details, detailed planning, designing and construction and ends with the sale of completed production and warranty service.

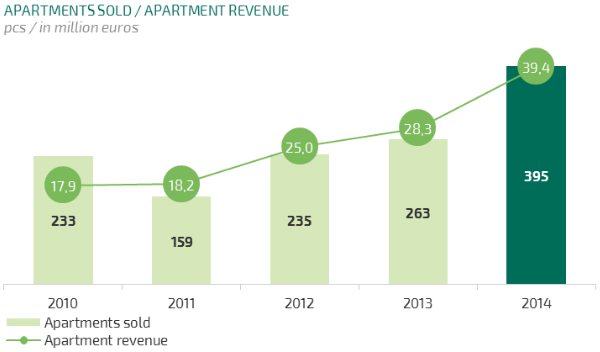
The underlying idea of our development activities is to value land through detailed planning and building development, to find customers for the property and sell the property as developed real estate.

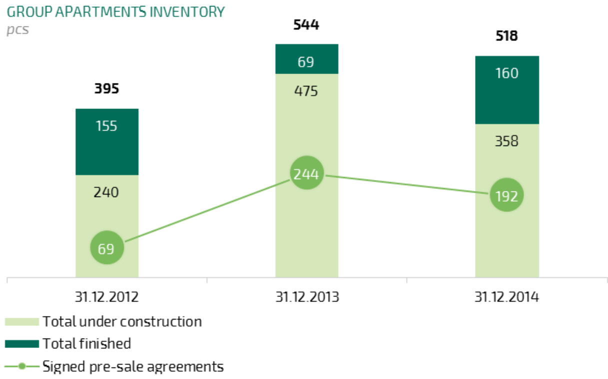
Merko manages all development phases of new housing – planning, designing, building and sales. Homes developed and built by Merko are characterised by integrated living environments, high energy efficiency, good sound insulation from indoor and outdoor noise as well as healthy interior climate.

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

A total of 395 apartments were sold in 2014 at the total value of EUR 39.4 million (excl. VAT), compared to 263 apartments and EUR 28.3 million in 2013. Of the 395 apartments sold 261 were located in Estonia, 79 in Latvia and 55 in Lithuania. In 2014, the group has earned EUR 1.4 million of revenue from the sale of properties (12 months of 2013: EUR 0.3 million). 2014 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 2014 to 18.1% of the group's total revenue (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.

The 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.





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).

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	-
			160	**110**
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
Kraziu **	Vilnius, Lithuania	End of 2015	28	7
Paepargi 49 **	Tallinn, Estonia	End of 2015	60	13
Pärna avenue 11 **	Tartu municipality, Estonia	Summer of 2014	24	-
Pärna avenue 12 **	Tartu municipality, Estonia	Summer of 2014	36	-
			358	**82**
Total			**518**	**192**

** The completed apartments indicate the number of apartments that are unsold and where possession has not been given to consumers.*
*** Project launched in 2014.*
**** A partial authorization for use was received for the project in late 2014, and the final permit of use was received in Q1 of 2015.*

In 2014, we launched the construction of a total of 369 new apartments in the Baltic States (2013: 409 apartments). Right at the beginning of 2015, we launched the first stage of Tartu mnt 52 development project (103 apartments), the preparation works of which took place in 2014 and which gives the total combined number of apartments started 472. In 2014, 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 450-500 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.

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. At 31 December 2014, the group's inventories included land with development potential of EUR 55.2 million (31.12.2013: EUR 39.1 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY AS AT 31.12

million EUR

	31.12.2014	31.12.2013
Estonia	14.2	15.7
Latvia	36.8	21.8
Lithuania	4.2	1.6
Total	**55.2**	**39.1**

In connection with the acquisition of a 25% holding in the joint venture SIA Zakusala Estates in 2014, after which fact SIA Zakusala Estates became a 75% subsidiary, land at the fair value of EUR 14.9 million is recognized under inventories starting from 2014 (Note 18). In 2014, the group has purchased new land plots in Lithuania at an acquisition cost of EUR 3.2 million (2013: EUR 2.1 million). Also in 2014, 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. In the 1st quarter of 2015, the group acquired two registered immovables in Tallinn at Pärnu road 328 and 328a for the purposes of real estat development at an acquisition cost of EUR 1.9 million.

THE SPECIFICATIONS OF PROJECTS COMPLETED IN 2014

PROJECT		LOCATION	SIZE
Tedre 55	new	Tallinn, Estonia	3,115 m^2, 47 apartments
Vana-Kalamaja 31/Suur-Laagri 2	new	Tallinn, Estonia	873 m^2, 12 apartments
Pallasti 48, 50	new	Tallinn, Estonia	2,573 m^2, 46 apartments
Paepargi 17, 19, 21	new	Tallinn, Estonia	3,103 m^2, 54 apartments
Pärna allee 7	new	Tartu municipality, Estonia	1,680 m^2, 28 apartments
Pärna allee 9	new	Tartu municipality, Estonia	1,681 m^2, 28 apartments
Pärna allee 10	new	Tartu municipality, Estonia	2,538 m^2, 42 apartments
Grostonas 19	new	Riga, Latvia	6,286 m^2, 82 apartments
Mokslininku stage II	new	Vilnius, Lithuania	3,066 m^2, 54 apartments

Projects completed in 2014 had a total of 393 apartments, of which 320 had been sold by the year-end and which is supplemented by 25 apartments , where a preliminary agreement had been signed but where the sale had not yet been finalised and delivered to customers.

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

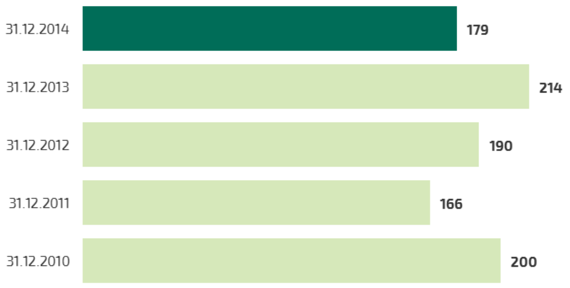
	2014	2013	CHANGE
Revenue	1.5	1.1	+33.4%
% of total revenue	0.6%	0.5%	+38.9%
Gross profit (loss)	(0.2)	(0.3)	-37.8%
Gross profit margin	-14.0%	-29.9%	-53.4%

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.

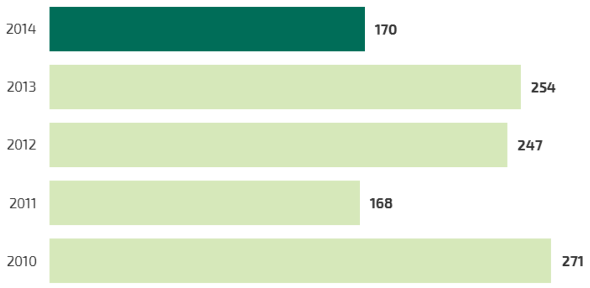
SECURED ORDER BOOK

As at 31 December 2014, the group's secured order book (excluding property 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 proprietary residential development projects and work related to developing real estate investments.

SECURED ORDER BOOK
in million euros



NEW CONTRACTS SIGNED
in million euros



In 2014, new construction contracts worth EUR 170.4 million were signed (excludes property developments) as compared to EUR 254.4 million in the prior year.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2014

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST MILLION EUR
Design and renovation of the infrastructure of Tallinn tram line No. 4	Estonia	December 2015	26.0
Reconstruction of E20 main road Tallinn-Narva Kodasoo-Läsna sections	Estonia	September 2015	5.7
Reconstruction of Suur-Sõjamäe Street in Tallinn	Estonia	June 2015	2.9
Design and construction works of a 13-storey office building located in Tallinn Estonia, at the Ülemiste City	Estonia	Summer 2016	17.4
Design and construction works of a logistics centre, located in Maardu	Estonia	February 2016	6.0
			58.0
Riga State Technical School school campus construction works	Latvia	June 2015	4.8
Re-cultivation and construction works of a waste recycling site in Riga	Latvia	January 2016	6.5
Territory engineering preparation works for private house development area in Riga	Latvia	October 2015	4.1
			15.4
Construction works of HVDC converter station in Klaipeda	Lithuania	December 2015	6.0
Design and construction works of apartment building in Saltiniu Namai residential building complex	Lithuania	December 2015	2.9
Construction works of sports hall of The American International School of Vilnius	Lithuania	August 2015	2.2
Construction of a nine-building residential complex with office premises in Vilnius	Lithuania	January 2017	15.0
			26.1
Total			**99.5**

After the balance sheet date, the group concluded one large construction contract:

- On 17 February 2015, SIA Merks, the Latvian subsidiary of AS Merko Ehitus, signed a contract with SIA Vastint Latvia to perform the construction works of a six-storey multifunctional building at 17A Antonijas street, Riga, Latvia. The value of the contract is EUR 11.4 million. The works are to start in February 2015 and scheduled for completion in July 2016.

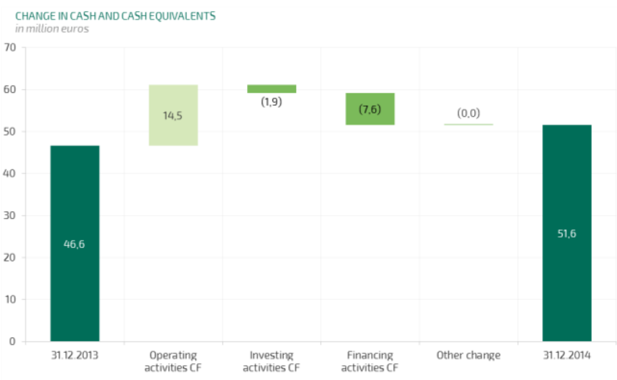
The secured order book (excluding property developments) as at the end of the year included 46.5% public sector orders and 53.5% private sector orders (31.12.2013: 57.7% public sector and 42.3% private sector). Of the contracts signed in 2014, public and private sector orders accounted for an equal proportion, 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 and these projects will reach the construction phase in 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 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 change in short-term investments and cash equivalents in 2014 of Merko Ehitus group was positive by EUR +5.0 million and 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). In a year, the group's strategic cash level and investment capacity have strengthened.

The operating cash flows of 2014 were positive by EUR 14.5 million (2013: positive by EUR 19.7 million), the cash flows from investment activities were negative by EUR 1.9 million (2013: negative by EUR 1.3 million) and cash flows from financing activities were negative by EUR 7.6 million (2013: negative by EUR 7.0 million).



The cash flow from operating activity was mostly influenced by the operating profit EUR 14.0 million (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 (2013: positive change of EUR 4.7 million), by the positive change in provisions EUR 1.3 million (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 (2013: negative change of EUR 6.2 million), by the negative change in inventory EUR 14.8 million (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 (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 and other payables, 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 and Lithuanian 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 (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 (2013: EUR 0.9 million). Cash flows from investment activities in 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 (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. Net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 4.9 million (2013: negative cash flow of EUR 1.0 million), project specific loans obtained using long term investment property as collateral were repaid in the amount of EUR 0.6 million (2013: positive cash flow in net amount of EUR 1.9 million), factoring in the amount of EUR 0.0 million (2013: negative cash flow of EUR 1.5 million) and finance lease principal repayments of EUR 1.1 million (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.

RATIOS

(attributable to equity holders of the parent)

		2014	2013	2012
Income statement summary				
Revenue	million EUR	252.3	262.7	249.1
Gross profit	million EUR	24.7	22.7	17.9
Gross margin	%	9.8	8.6	7.2
Operating profit	million EUR	14.0	12.3	8.8
Operating profit margin	%	5.5	4.7	3.5
Profit before tax	million EUR	13.3	11.1	7.9
EBT margin	%	5.3	4.2	3.2
Net profit	million EUR	12.3	10.4	7.6
attributable to equity holders of the parent	million EUR	12.4	10.4	7.6
attributable to non-controlling interest	million EUR	(0.1)	0.0	0.0
Net margin	%	4.9	4.0	3.1
Other income statement indicators				
EBITDA	million EUR	16.4	15.1	11.4
EBITDA margin	%	6.5	5.7	4.6
General expense ratio	%	4.9	4.7	4.5
Labour cost ratio	%	11.9	11.8	11.2
Revenue per employee	thousand EUR	319	308	278

OTHER SIGNIFICANT INDICATORS		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 (total group)	people	790	853	895
Order book	million EUR	179.1	213.7	189.9

Calculation of ratios is provided on page 111 of the report.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial objectives. The company considers it important to assess aggregate group's risks, instead of the impact factors of individual risks. Turning constant attention to risk management enables to exclude or minimise a possible financial loss. The following are deemed by the company to be the most significant risks: market risk, operational risk and financial risk, including interest rate risk, foreign currency risk, credit risk, liquidity risk, equity risk and legal risks. Detailed description of financial risks is provided in Note 35 of the financial statements.

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

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

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

Merko Ehitus divides risks into four main categories:

BUSINESS RISK

MARKET RISK

FINANCIAL RISK

OPERATIONAL RISK

HEALTH AND SAFETY RISK

ENVIRONMENTAL SAFETY RISK

Business risk

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

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

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

Market risk

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

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

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

Financial risk

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

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

Operational risk

Operational risks are risks caused by inadequate or ineffective processes, people, equipment, systems or external events. The main goal of operational risk management is to reduce the effect of unwanted events. In order to meet the objective, the group is developing internal processes and control systems. In order to ensure the group's high level of project management, project teams are continuously trained, business processes are improved and results are monitored.

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented ISO 9001/14001 management systems and Merko Ehitus Eesti, Merko Infra, Merko Tartu and Latvian and Lithuanian subsidiaries have implemented the occupational health and safety management system OHSAS 18001. The group employs 10 (2013: 10) 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. In 2014, indemnity applications submitted to insurance companies totalled EUR 0.85 million (2013: EUR 0.90 million), and insurance benefits were received in the amount of EUR 0.83 million (2013: EUR 0.08 million).

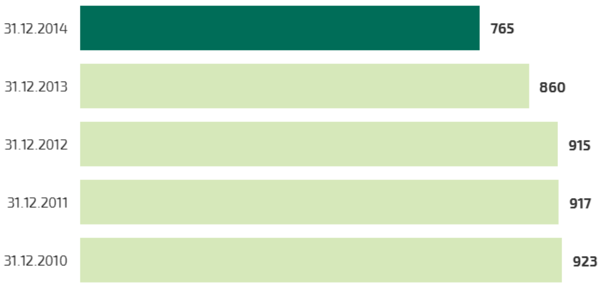
A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. In 2014, warranty provisions were set up at the group in the total amount of EUR 1.09 million (2013: EUR 0.82 million) and disbursements amounted to EUR 0.76 million (2013: EUR 0.62 million). As at the year-end, the company's warranty provision amounted to EUR 2.10 million (31.12.2013: EUR 1.81 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.

EMPLOYEES

Compared to the same period last year, the number of the 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 increased in Lithuania mainly due to the growth of construction volumes.

NO OF EMPLOYEES
people



PERSONNEL POLICY

Merko Ehitus employs a total of 765 people in Estonia, Latvia and Lithuania, including office staff, project managers and on-site team members. Experienced professionals are the company's key strength.

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

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

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

ESTLINK 2 CONSTRUCTION WORKS COMPLETED IN 2014.

HEALTH AND SAFETY

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

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

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

PERSONNEL DEVELOPMENT AND RECOGNITION

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

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

In order to recognise the most prominent employees of the company and the best business partners, employees annually elect AS Merko Ehitus Eesti Achievers of the Year. In 2014, the following employees, team and business partner were elected as Achievers of the Year:

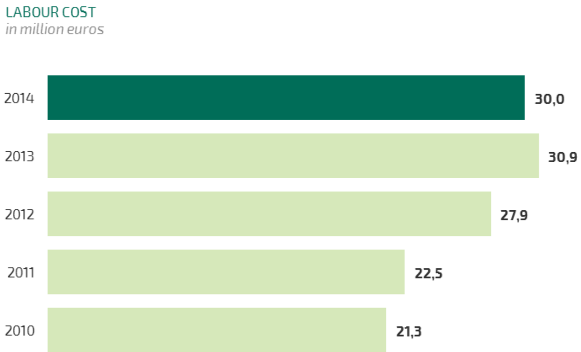
New Talent of the Year	Areenika Tammissaar	Warranty works specialist, residential construction division
Office Employee of the Year	Marek Sõrmus	Project manager, quantity surveying group
Civil Engineer of the Year	Peeter Laidma	Project manager, civil engineering division
Electrical Engineer of the Year	Juri Marenkov	Installation project manager, department of electrical works
Residential Contractor of the Year	Ahti Suppi	Project manager, residential construction division
General Contractor of the Year	Ahto Aruväli	Project manager, general construction division
Great Feat of the Year	Eesti Energia 300 MW Narva power plant general construction works	
	Team:	
	Indrek Moorats	Project manager, general construction division
	Maido Puks	Site manager, general construction division
	Viktor Stepanenko	Site manager, general construction division
	Margus Kana	Site engineer, general construction division
	Kermo Kaen	Site engineer, general construction division
	Janno Otsmaa	Site engineer, general construction division
	Rasmus Raamat	Site engineer, general construction division
	Jüri Šuhhalov	Expert of electrical works, general construction divisjon
	Andres Aldoja	Expert of mechanical works, general construction division
	Kai Vähi	Design manager, general construction division
	Haide Pertel	Site secretary, general construction division
	Marti Russak	Site engineer, general construction division
Business Partner of the Year	AS Windoor	Partnership in the construction of the hotel and entertainment complex Hilton Tallinn and the apartment building Kentmanni 6

We celebrate together with our employees their personal events and company events for employees welcome everybody together with their spouses or guests and family events welcome the whole family. We offer additional benefits in the form of holiday days to our long-time employees. We highly value teamwork and a strong sense of team identity.

REMUNERATION

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

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2014, the labour cost was EUR 30.0 million (2013: EUR 30.9 million), down 2.9% from the previous year.



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 code of business ethics includes, among other things, guidelines on the following matters:

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

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 in 2014 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. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual cooperation partner Ernst & Young – and will lead to appropriate action.

The reports forwarded via the report form, the reporting hotline or e-mail will not be forwarded to Merko – Ernst & Young will only give Merko a summary of the content of reports that need investigation, without any reference to the source of the information. Information will also be kept confidential and used solely for the purposes of solving the relevant incidents by Merko's managers and the audit committee to whom a report has been made.

REPORT FORM	E-MAIL	HOTLINE	DIRECT COMMUNICATION

ENVIRONMENT

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

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

SOCIAL RESPONSIBILITY

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

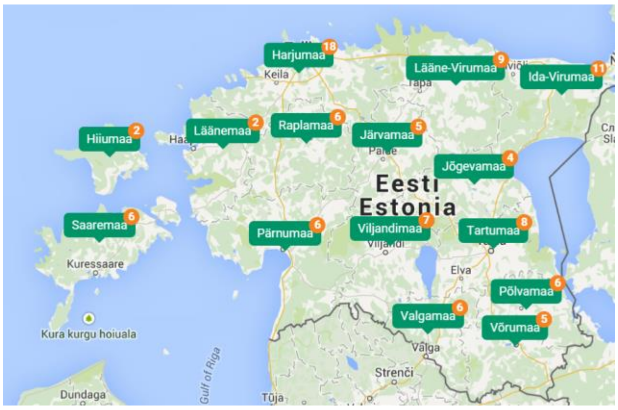
In 2014, Merko Ehitus continued its long-term sponsorship projects in the same fields:

- We support sports and recreational sport projects that help create ways for entire communities to participate in sports and recreation.
- We support education in order to develop specialised education and plant the seeds for a new generation of professionals.

- We support keeping art and culture vital and make them available to more people, focusing on sites that are nationally important and have broad appeal.

During the year, the group supported sports, culture and education and made charitable donations total in the amount of EUR 0.22 million (2013: EUR 0.34 million).

The company's largest sponsored project is the Estonian Health Trails (www.terviserajad.ee) project founded in 2004 in collaboration with Swedbank and Eesti Energia. The aim of the project is to adjust and develop the exercise and sports tracks of Estonia to ensure the availability of the year-round and free of charge possibility for active exercise in nature for all interested people and popularise the sporty lifestyle. Today, both pro athletes and sports-minded people can choose from among more than 100 recreational trails all over Estonia with a total length of 1000 km, of which 200 km is illuminated and 200 km is black top.



10 YEARS AFTER THE PROJECT STARTED, ALL OF ESTONIA'S COUNTIES HAVE RECREATIONAL TRAILS. ESTONIANS CAN ENJOY OVER 100 TRAILS STRETCHING OVER 1000 KILOMETRES.

In 2014, the foundation provided support for various design, construction and maintenance work and the purchase of necessary maintenance equipment for trails and recreational centres. The foundation also continued marking and blazing trails, installing trail maps and displays with the goal of making it easier for trail users to navigate. The foundation has also produced about 50 Estonian- and Russian-language instructional videos.

In the field of sport, the company continued cooperation it launched in 2005 with the Estonian Ski Association, the goal of which is to support the national cross-country skiing team and provide for a new generation of skiers. In 2014, Merko Ehitus and the Estonian Ski Association signed a new agreement that will give future hopefuls the U23 Merko Team assurance in preparing to contend for titles this upcoming season. The U23 Merko Team in the 2014/2015 season consists of Kati Tammjärv (Tartu Ski Club), Marko Kilp (Nõmme Sport Club), Alvar-Johannes Alev (Jõulu Ski Club) and Andreas Veerpalu (Karupesa Team).

In 2014, Merko continued the sponsoring of Estonian racing driver Martin Rump, who is participating in the prestigious Formula Renaul 2.0 Eurocup Series in the ranks of team Fortec.

In Latvia, SIA Merks has supported the women's basketball team at Riga's Stradiņš University since 2001. This year, it also supported the international competitive dance competition Baltic Grand Prix 2014. This is one of the largest events of its kind in the Baltics and Europe. This year, the Merks Cup trophy was awarded to adults in the category of Latin American dance.

In the field of culture, Merko Ehitus has sponsored Estonian Art Museum since the year 2005. Since 2014, we have provided support for the major project at the St. Nicholas Museum, "Rode Altarpiece in Closeup", focusing on the conservation of the grand late medieval retable of the high altar. This is one of the grandest and best-preserved late medieval northern German cabinet altars anywhere in Europe. It came to Tallinn in 1481 and has been in its position for over 500 years. Over 6 metres wide and close to 3.5 metres high when fully open, the conservation work can be witnessed on the spot at the museum. The project runs from 2014-2016.

In 2014, Merko also supported a gala concert organized by the Italian Embassy and the publishing of a prestigious book marking the 10th anniversary of Estonia's accession to the EU and Italy's assuming the presidency of the Council of the European Union. The opera gala held in the Estonia Concert Hall featured soloists from one of Italy's most influential opera houses, Bergamo's Donizetti Theatre, accompanied by the Estonian National Symphony Orchestra conducted by Anu Tali.

In Latvia, the group supported two projects in the field of culture. Subsidiary SIA Merks supported the Liepāja Symphony Amber Sound Orchestra, which performed 11 concerts on an Asia tour lasting several weeks. Among other things, the orchestra performed at the opening ceremony of the Latvian Embassy in India. SIA Merks also supported the Valmiera Drama Theatre performance, *Vienādas asinis*.

Merko has a successful partnership since 2007 with Tallinn University of Technology for the objective of developing education in the field and train the next generation. In November 2013, AS Merko Ehitus Eesti signed a new cooperation agreement with the Development Fund of Tallinn University of Technology until 2016 for sponsoring TUT students and academic staff with eponymous scholarships. A EUR 3,200 scholarship is awarded in construction specialities to a young lecturer/scientist up to 40 years of age, possessing a Doctoral level degree, in TUT and there is also another scholarship for EUR 1,920 awarded to a successful student of the third, fourth or fifth year in the Faculty of Civil Engineering, in TUT. In 2014, for the second year a scholarship was awarded. The scientist's scholarship was awarded to professor Hendrik Voll, Head of the heat and ventilation Department at TUT and the engineering scholarship was awarded to Jakov Ivanov, a fourth year student of the same speciality.

RECOGNITIONS 2014

In 2014, the activities of AS Merko Ehitus were 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 webpage 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.

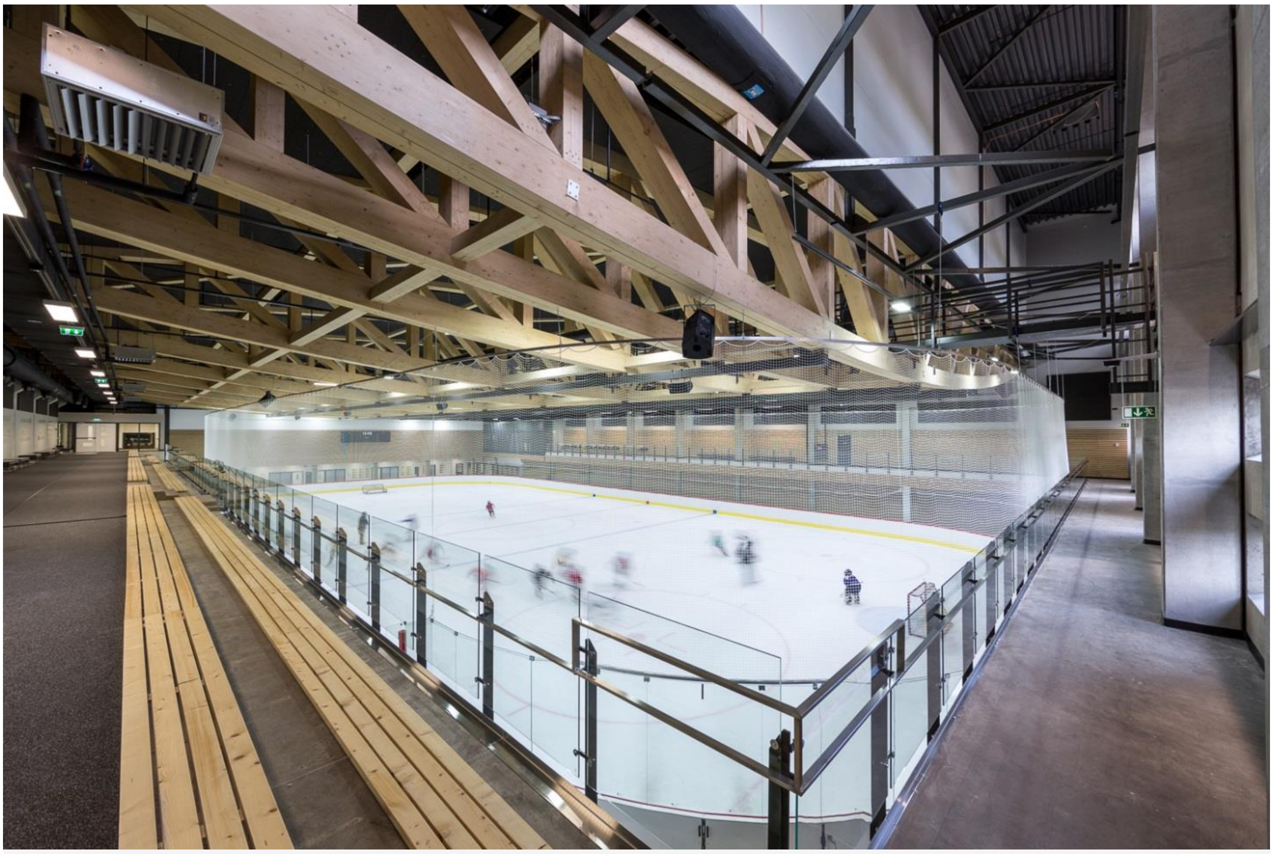
BALTIC MARKET AWARD 2014

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".

CONCRETE CONSTRUCTION OF THE YEAR 2014

AS Merko Ehitus Eesti was awarded the constructor prize for the second year in a row at the esteemed Concrete Construction of the Year 2014 contest – a recognision for the construction and concrete works of Tondiraba ice arena. The contest is organised annually by the Estonian Concrete Association and the Association of Construction Material Producers of Estonia.

The Concrete Construction of the Year competition, this year held for the 15th time, was launched to inform the wider public of the many uses of concrete and to recognise those who have used this domestic building material – versatile and mouldable concrete – to bring their ideas to life. This year, thirteen entries were submitted to the competition. Concrete constructions as well as structures and processes utilised in them delivered to the contracting party in 2014 were eligible for entry in the competition.



2014 COMPLETED MULTIFUNCTIONAL TONDIRABA ICE ARENA BUILT IN 14 MONTHS UNDER THE LEADERSHIP OF MERKO'S PROJECT MANAGER AHTO ARUVÄLI, WHICH INCLUDES THE MAIN ARENA, TWO TRAINING COURTS AND A CURLING ARENA. THE IMPRESSIVE WOODEN TRUSSES WITH UP TO 62 METER SPAN SHOWN ON THE PHOTO.

SHARE AND SHAREHOLDERS

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 did not change during 2014.

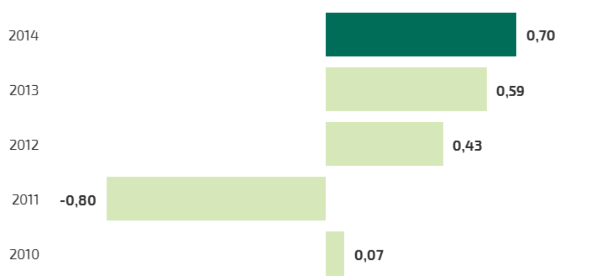
In 2014, 1,699 transactions were conducted with the shares of Merko Ehitus in the course of which 1.03 million shares were traded (5.8% of shares outstanding) and the total monetary value of transactions was EUR 7.62 million (comparative data for 2013: 2,183 transactions, in the course of which 0.73 million shares were traded (4.1% of shares outstanding) and the total monetary value of transactions was EUR 5.08 million). The lowest share price was EUR 6.70 and the highest share price was EUR 7.99 (2013: EUR 5.71 and EUR 7.70 respectively). The closing price of the share as at 31.12.2014 was EUR 7.14 (31.12.2013: EUR 7.20). As at 31.12.2014, the market capitalisation of AS Merko Ehitus was EUR 126.4 million, down 0.8% compared to the end of the equivalent period in the prior year (31.12.2013: EUR 127.4 million).

The number of shares that belong to the members of Supervisory Board and Management Board as at 31 December 2014 was 9,964,234 shares (31 December 2013: 9,964,234 shares) that accounted for 56.3% of the number of shares (31 December 2013: 56.3%). A more detailed presentation of the members of the Supervisory Board and Management Board and the number of shares they own are provided in the Report on Good Corporate Governance.

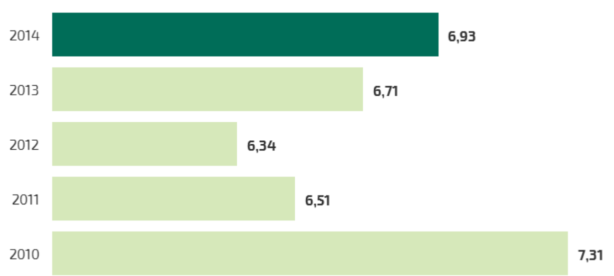
INFORMATION ON SECURITY

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

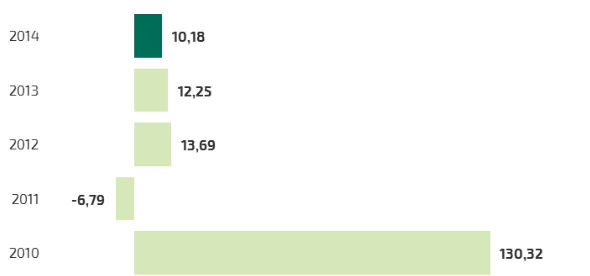
EARNINGS PER SHARE (EPS)
euros



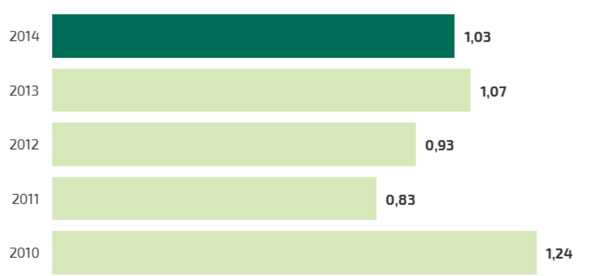
EQUITY PER SHARE
euros



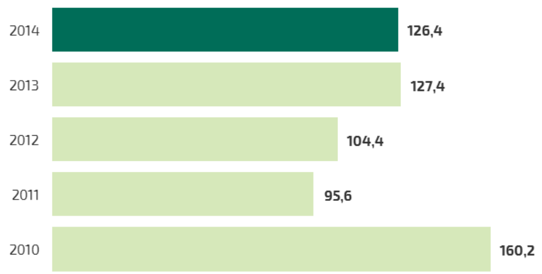
P/E RATIO
times



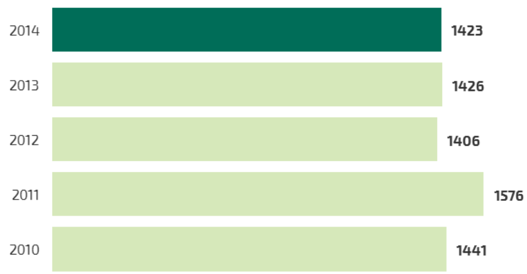
P/B RATIO
times



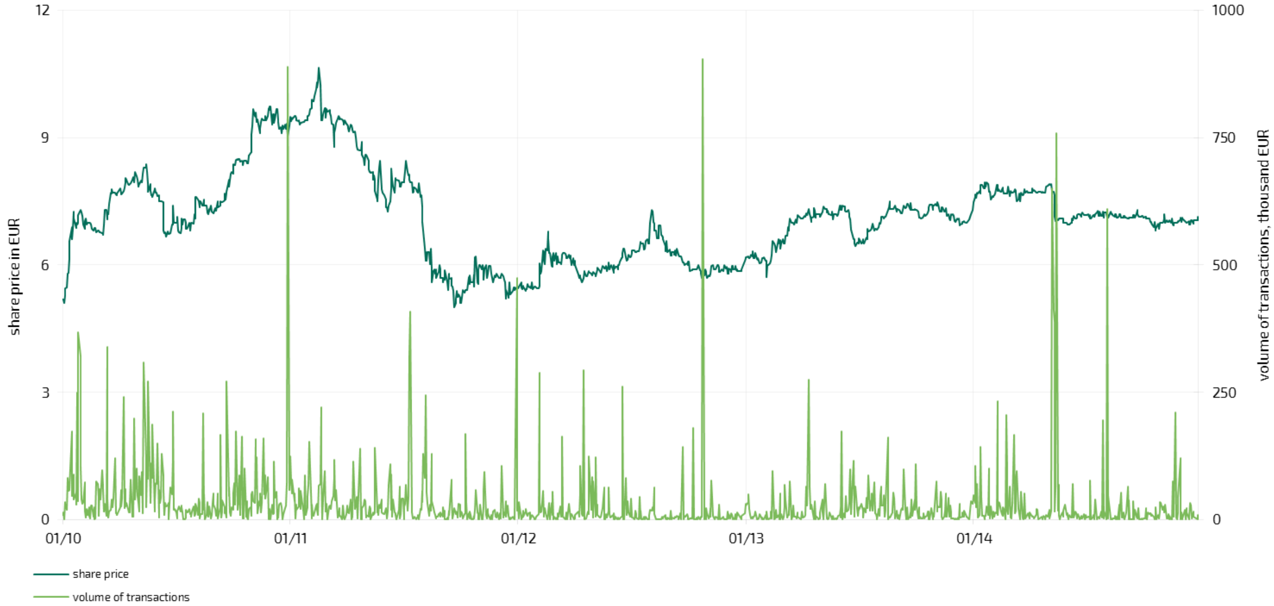
MARKET VALUE
in million euros



NUMBER OF SHAREHOLDERS AT YEAR-END
pcs



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



TRADING HISTORY OF SECURITY, IN EUROS

	2014	2013	2012
Highest	7.99	7.70	7.30
Lowest	6.70	5.71	5.37
Closing at 31.12	7.14	7.20	5.90
Average	7.33	6.96	6.04
Change at 31.12, %	-0.83	+22.03	+9.26
Traded shares, pcs	1,030,681	726,690	935,891
Turnover, million EUR	7.62	5.08	5.47
Market value at 31.12, million EUR	126.4	127.4	104.4

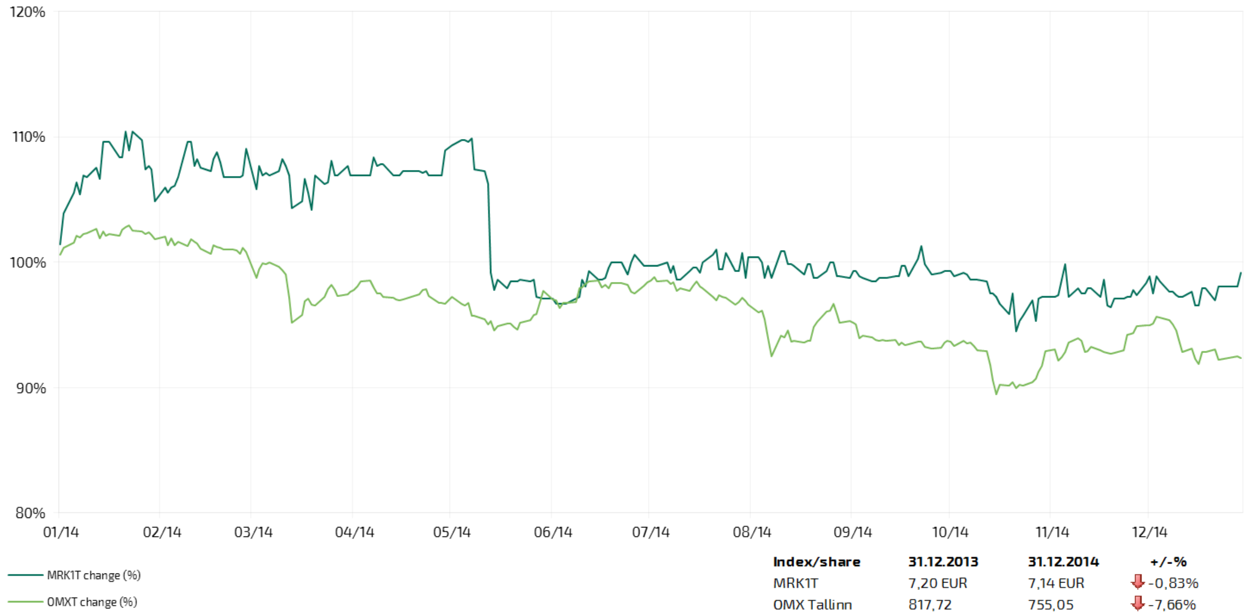
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2014

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%
1001-10,000	229	16.09%	670,363	3.79%
101-1000	744	52.29%	303,178	1.71%
1-100	408	28.67%	21,980	0.12%
Total	**1,423**	**100%**	**17,700,000**	**100%**

STRUCTURE OF SHAREHOLDERS ACCORDING TO HOLDER CATEGORIES AS AT 31.12.2014

CATEGORY	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
Non-profit institution serving households	1	0.07%	5,000	0.03%
Insurance corporation	1	0.07%	148,020	0.84%
Credit institution	28	1.97%	2,720,975	15.37%
Other financial institution	47	3.30%	888,853	5.02%
Other non-financial corporation	192	13.49%	13,204,811	74.60%
Household	1,154	81.10%	732,341	4.14%
Total	**1,423**	**100%**	**17,700,000**	**100%**

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



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

	NUMBER OF SHARES	% OF TOTAL 31.12.2014	% OF TOTAL 31.12.2013	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Skandinaviska Enskilda Banken S.A.	416,263	2.35%	2.72%	-65,116
Firebird Republics Fund Ltd	375,704	2.12%	1.71%	+73,309
Skandinaviska Enskilda Banken AB, Swedish customers	293,660	1.66%	1.86%	-36,400
Firebird Avrora Fund Ltd	220,519	1.25%	0.00%	+220,519
Skandinaviska Enskilda Banken AB, Finnish customers	183,982	1.04%	0.76%	+49,000
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,020	0.84%	0.72%	+20,000
Clearstream Banking Luxembourg S.A. customers	143,652	0.81%	0.80%	+2,390
Total largest shareholders	**15,651,630**	**88.42%**	**86.92%**	**+263,702**
Total other shareholders	2,048,370	11.58%	13.08%	-263,702
Total	**17,700,000**	**100%**	**100%**	

DIVIDENDS AND DIVIDEND POLICY

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

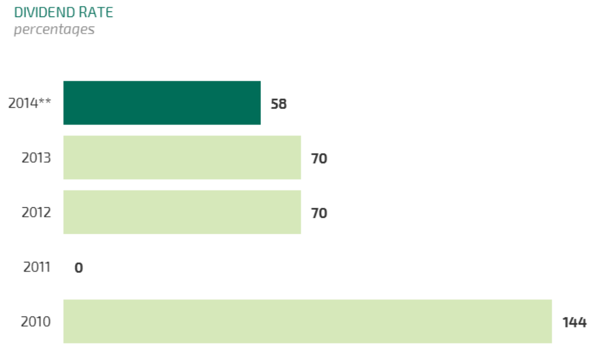
At its meeting held on 8 April 2013, the Management Board and Supervisory Board reviewed the company's strategic direction and confirmed the long-term financial objectives until 2018, as a part of this a new objective was set to pay out 50-70% of the annual profit as dividends to shareholders. The group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

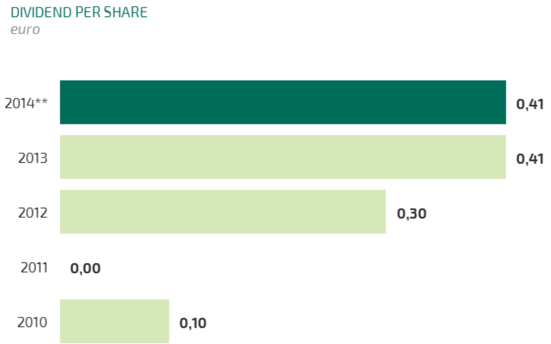
The annual general meeting of shareholders of AS Merko Ehitus held at 30 April 2014 approved the Supervisory Boards proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 70% dividend rate and a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

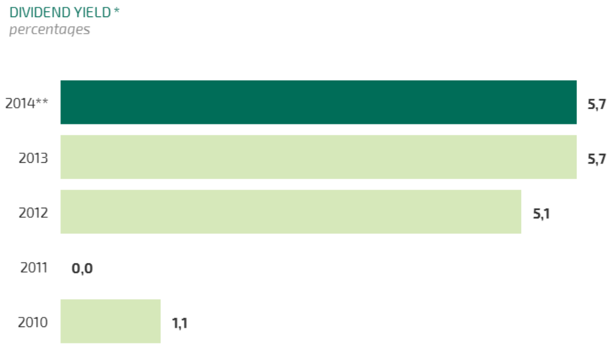
According to the Estonian Income Tax Law §50 section 1[1] AS Merko Ehitus could pay these dividends without any additional income tax expense and liabilities occurring due to previously received and taxed distribution of profits from subsidiaries. The dividend payment to the shareholders took place on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







** Using share price as at 31.12*
*** 2014 figures based on Management Board proposal regarding dividend payment.*

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

In April 2015, at the annual general meeting of shareholders 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 0.447966; 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.

Considering the Management Board's proposals to pay EUR 7.3 million from retained earnings to shareholders as dividends (EUR 0.41 per share) and to reduce share capital by EUR 4.7 million (EUR 0.23 per share), and considering the share price as at 31 December 2014, return on the investment in 2014 was 9.0%.

SHAREHOLDER INFORMATION

GENERAL MEETING OF SHAREHOLDERS

The annual general meeting of shareholders of AS Merko Ehitus will be held on Wednesday, 29 April 2015 at 10.00 a.m. at the Arcturus conference room of Nordic Hotel Forum (Viru väljak 3, Tallinn).

AGENDA

1. Approval of the annual report of the year 2014 and providing an overview of the financial results and the prospects of the year;
2. Proposal on distribution of profits;
3. Proposal on reduction of share capital;
4. Appointment of auditor for the financial year of 2015-2017.

RIGHT OF PARTICIPATION

The shareholders with the right to participate in the general meeting of shareholders will be determined 7 days before the general meeting of shareholders is held, i.e. 22 April 2015 at 11.59 p.m.

REGISTRATION

Registration of participants of the meeting will open on April 29th 2015 at 9.30 a.m.

You are asked to submit the following for the registration of participants of the general meeting:

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

A shareholder may notify AS Merko Ehitus of appointing a representative and having withdrawn a proxy before the general meeting, by supplying a digitally signed proxy and other required documents by e-mail to the following address: group@merko.ee or delivering the written and signed documents on paper (proxy and other required documents) to the office of AS Merko Ehitus at Pärnu mnt 141 Delta Plaza 7th floor, Tallinn (on working days from 10.00 a.m. through 4.00 p.m.) by April 28th 2015, at 4.00 p.m., at latest, using the forms published by AS Merko Ehitus on its website at http://group.merko.ee. It is not possible to vote electronically or by mail at the general meeting.

DOCUMENTS

The annual report of AS Merko Ehitus for 2014 and the chartered auditor's report are available for inspection on the website of NASDAQ Tallinn Stock Exchange at http://www.nasdaqomxbaltic.com or the group's website at http://group.merko.ee.

Documents related to the annual general meeting of shareholders of AS Merko Ehitus, including draft resolutions, annual report for the financial year 2014, chartered auditor's report and proposals for distribution of profits on reduction of share capital and written report, drawn up for the annual report by the Supervisory Board, are available for inspection as of 8 April 2015 on the website of AS Merko Ehitus at http://group.merko.ee or on working days between 10.00 a.m. and 4.00 p.m. at Pärnu mnt 141 Delta Plaza 7th floor, Tallinn. Questions concerning the agenda of the regular meeting can be asked by sending them to the e-mail address group@merko.ee. Questions and answers will be disclosed at the website of AS Merko Ehitus.

SHAREHOLDER RIGHTS

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

Shareholders, holding shares representing at least 1/20 of the share capital of AS Merko Ehitus may submit a draft resolution of each item on the agenda to the public limited company no later than 3 days prior to the general meeting, that is, until April 26th 2015, submitting it in writing to the following address: AS Merko Ehitus, Pärnu mnt 141 Delta Plaza 7th floor, 11314 Tallinn.

Shareholders, holding shares representing at least 1/20 of the share capital of AS Merko Ehitus, may demand that additional items are added to the agenda of the general meeting, provided that such a request has been submitted in writing at least 15 days prior to the general meeting, that is, until April 14th 2015, to the following address: AS Merko Ehitus, Pärnu mnt 141 Delta Plaza 7th floor, 11314 Tallinn.

IMPORTANT DATES RELATED TO GENERAL SHAREHOLDERS MEETING

EVENT	**DATE**
The shareholders with the right to participate in the general meeting are determined	22 April 2015 at 11.59 p.m.
Registration of participants in the meeting	29 April 2015 at 9.30 a.m.
General meeting of shareholders	29 April 2015 at 10.00 a.m.
Dividend ex-date	20 May 2015
Dividend record date	22 May 2015 at 11.59 p.m.
Dividend payment date	26 May 2015

REPORT ON GOOD CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

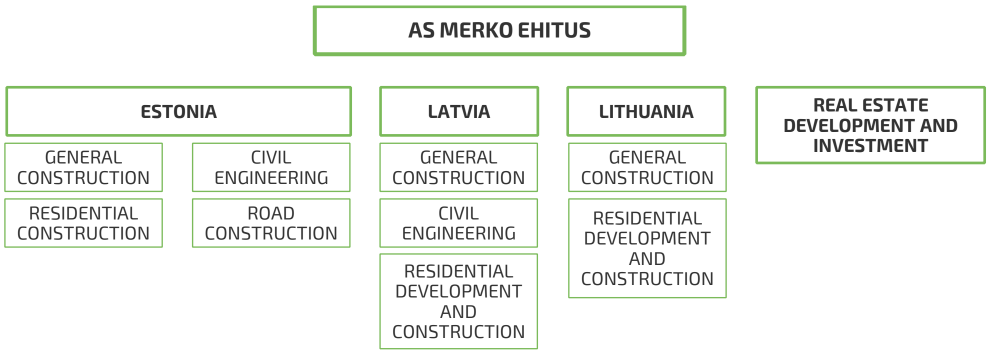
Adherence to the principles of Good Corporate Governance is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the NASDAX Tallinn Stock Exchange are recommended to adhere to the principles of Good Corporate Governance approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2014.

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

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

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

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum effectiveness in group management, we in some cases differentiate the management structure and legal structure. Management structure of group's business areas as at 31 December 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 18 and 19 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 Gustav, 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. 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 residentia quarter, construction rights for 10 private houses, in Pestikuja 1, Helsinki.

On 4 March 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a process to merge its 66% subsidiary AS Merko Tartu, engaged in construction, and Raadi Kortermaja OÜ, fully owned subsidiary of AS Merko Tartu engaged in real estate development, in order to have savings in administrative cost related to company management. The acquiring company is AS Merko Tartu. The company being acquired will be merged into AS Merko Tartu and as a result of the merger the company being acquired will wind up without liquidation proceedings and AS Merko Tartu will become the legal successor of the company being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain a 66% shareholder in AS Merko Tartu, the acquiring company. The closing date of the merger will be 1 April 2015 after which all transactions of the acquiree 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 second quarter of 2015.

On 25 March 2015, a 100% subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti and E.L.L. Kinnisvara AS entered into an agreement on the acquisition of a 100% holding in OÜ Rannamõisa Kinnisvara with a share capital of EUR 2,556. E.L.L. Kinnisvara AS is a company controlled by AS Riverito. 71.99% of the shares of AS Merko Ehitus are owned by AS Riverito. OÜ Rannamõisa Kinnisvara is a company engaged in development of real estate, which owns registered immovable properties in Tallinn at Rannamõisa Road and Kaeravälja Street with a total area of approximately 35 thousand m^2. The purpose of the acquisition of the holding by AS Merko Ehitus Eesti is to develop the properties in question and sell them to a third party. The price of the 100% holding is EUR 3,261,350, which is to be paid to the seller after the transfer of immovable properties belonging to OÜ Rannamõisa Kinnisvara to the third parties but no later than 30 June 2016. In addition, the Parties have entered into an agreement on an option to resell the 100% holding, which gives AS Merko Ehitus Eesti the right to resell the holding for the price that has been paid by the moment of the resale, plus the cost of acquisition of immovable properties acquired by OÜ Rannamõisa Kinnisvara during the time it was held by AS Merko Ehitus Eesti, in case such immovable properties are acquired. The expiration date of the put option is 29 June 2016.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company. The general meeting of shareholders decides, among others, the appointment and recall of members of the Supervisory Board, appointment of the auditor and approval of the results of the financial year, the payment of dividends. The annual general meeting of shareholders is held at least once a year and shall approve the annual report within six months of the end of the financial year.

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 Andres Trink (Chairman of the Management Board), Toomas Annus (Chairman of the Supervisory 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 Corporate 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)

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2014, the Supervisory Board held 12 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	12	100%
Teet Roopalu	12	100%
Indrek Neivelt	11	92%
Olari Taal	12	100%

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

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2014 and 2013 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2014	2013
Toomas Annus	42,182	42,182
Teet Roopalu	38,347	38,347
Tõnu Toomik *	-	15,978
Indrek Neivelt	38,347	38,347
Olari Taal	38,347	38,347
TOTAL	**157,223**	**173,201**

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

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

MANAGEMENT BOARD

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

Pursuant to the Articles of Association approved at the general meeting of shareholders in 2012, the Management Board may have up to three members. AS Merko Ehitus has a two-member Management Board: 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 engineering (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.

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

Gross service fees calculated to the members of the Management Board in the financial year 2014 totalled EUR 538 thousand (financial year 2013: EUR 285 thousand).

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 *(35,353,155 euros)*	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Taavi Ojala	Tiit Roben (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra *(11,884,210 euros)*	Tiit Roben (Chairman), Veljo Viitmann, Mihkel Mugur	Arno Elias (Chairman), Tarmo Pohlak, Boris Tehnikov
Tallinna Teede AS *(11,269,185 euros)*	Tiit Roben (Chairman), Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments *(21,583,411 euros)*	-	Andres Trink, Signe Kukin
SIA Merks *(20,176,843 euros)*	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments *(35,455,476 euros)*	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba *(997,825 euros)*	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Metsailu *(5,025,120 euros)*	-	Tiit Kuusik, Ines Prual

** The figure in brackets indicates the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2014.*

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 of UAB Merko Statyba 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 of SIA Merks 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.

On 17 March 2015, the Management Board of AS Merko Ehitus decided to extend the powers of the Members of the Supervisory Board of UAB Merko Statyba, Andres Trink, Tõnu Toomik and Signe Kukin for three years, i.e. from 13 April 2015 until 12 April 2018. The Supervisory Board of UAB Merko Statyba will continue with three members: Andres Trink (The Chairman), Tõnu Toomik and Signe Kukin.

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

AUDIT COMMITTEE

The Supervisory Board of AS Merko Ehitus has formed an audit committee as its work body. The responsibility of the audit committee is advising the Supervisory Board in supervision related issues. The Committee executes supervision over the whole group (incl. subsidiaries): a) arrangement of accounting, b) preparation and approval of the financial budget and reports, c) management of financial risks, d) performance of external audit, e) functioning of an internal control system and f) legality of the activities. Subsidiaries have not formed audit committees.

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

Members of the auditing committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

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

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

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

Financial audits are conducted on the basis of International Standards on Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. As a result of the tender and with the resolution made by the general meeting in 2013, the financial auditor for annual report of 2014 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Ago Vilu is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid of conflicts of interest. In 2014, PwC did not perform to AS Merko Ehitus services that could have affected the independence of the auditor. We find that the financial audit was conducted in 2014 in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the opinion is issued.

In 2014, the fees for financial audit and other counseling services of AS Merko Ehitus group amounted to EUR 116 thousand (2013: EUR 93 thousand).

CONFLICT OF INTERESTS AND HANDLING OF INSIDER INFORMATION

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

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

As at 31 December 2014, the company's insider register lists 46 persons with permanent access (31.12.2013: 49 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act and NASDAQ Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2014 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms.

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

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

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

An overview of transactions with related parties in 2014 is provided in Note 33 of the financial statements.

DISCLOSURE OF INFORMATION

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

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

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

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

Stock exchange releases are always published regarding the following subjects:

- financial statements, interim reports;
- amendment to previously published strategies and financial objectives;
- profit warnings;
- major projects and construction contracts;
- major investments and financial arrangements;
- significant corporate reorganisations and partnership agreements;
- significant reorganization, streamlining or discontinuation of functions or operations;
- management board's proposals to the annual general meeting and resolutions adopted in the annual meeting;
- significant legal actions, legal proceedings or actions of the authorities.

From 13 March 2014, information about projects is disclosed in the form of stock exchange notice if contract value exceeds EUR 3 million excluding VAT (until 12.03.2014: for contracts valued over EUR 5 million) and in case of public procurements without the customer's reserve (price limit subjected to construction contracts by Merko). Generally, Merko will only make disclosures about awarded contracts, i.e. information is disclosed after the contract is signed. We emphasize the fact that the said EUR 3 million limit is not absolute but a criterion for making it easier for investors to understand which projects Merko covers in its press releases sent via the stock exchange information system. In certain cases, there may be a need to send out press releases via the stock exchange information system on contracts smaller than that amount, if these exert a significant influence on the price of the company's securities or are relevant to current and prospective investors.

Important information shall be disclosed through the stock exchange system and on the company's website. In 2014, we published 40 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
13	New construction contracts
5	New development projects
5	Operating results
12	Changes in structure and management
2	General meeting
3	Other releases

We will publish 2015 consolidated interim reports as follows:

DATE	EVENT
07/05/2015	2015 3 months and I quarter unaudited interim report
06/08/2015	2015 6 months and II quarter unaudited interim report
05/11/2015	2015 9 months and III quarter unaudited interim report
11/02/2016	2015 12 months and IV quarter unaudited interim report

In 2015, reports will be published before the start of the trading day, at 8 am local Estonian time (EET). Annual accounts of subsidiaries are not generally published, but they can be obtained, if necessary, from AS Merko Ehitus or the local Commercial Registries.

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

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

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

The investor calendar published on the AS Merko Ehitus website http://group.merko.ee/en/investors/investor-calendar/2015-01/ provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2014, AS Merko Ehitus organized 22 investor meetings (2013: 24) including three investor tours (2013: 1).

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

The main analysts who cover AS Merko Ehitus are:

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

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

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

DECLARATION OF CONFORMITY TO RECOMMENDATIONS OF GOOD CORPORATE GOVERNANCE CODE

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

We have assessed the structure and functions of the management of AS Merko Ehitus on the basis of Good Governance Code. Above we have described significant components of corporate governance. Having assessed the compliance of the structure and functioning of the company's management system, we find that our organisation and activities are in significant part in compliance with the Good Governance Code. Also, our activities comply with the Estonian legislation that regulates several principles provided in the code in more detail. We hereby declare, that AS Merko Ehitus has followed all the recommendations of CGC, with exception of Section 2.2.7, that is provided below with the explanation why the company is not following it at the present:

CORPORATE GOVERNANCE RECOMMENDATIONS	EXPLANATIONS BY MANAGEMENT AND SUPERVISORY BOARDS
2.2.7 Basic wages, performance pay, severance packages, other benefits payable and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the issuer and in the Corporate Governance Recommendations report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.	AS Merko Ehitus publishes in its annual report the total amount of remuneration and bonuses paid to member of the Management Board, as it believes that public disclosure of personal income does not create value added for shareholders but does violate the privacy of members of the Management Board.

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2014 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a correct and fair view of the assets, liabilities, financial situation and profit or loss of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Andres Trink	Chairman of the Management Board	27.03.2014
Tõnu Toomik	Member of the Management Board	27.03.2014

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2014	2013
Revenue	3	252,323	262,719
Cost of goods sold	4	(227,591)	(239,996)
Gross profit		**24,732**	**22,723**
Marketing expenses	5	(3,190)	(3,041)
General and administrative expenses	6	(9,128)	(9,260)
Other operating income	7	1,901	2,264
Other operating expenses	8	(340)	(425)
Operating profit		**13,975**	**12,261**
Finance income	9	143	84
Finance costs	10	(680)	(1,062)
Loss from joint ventures	19	(130)	(138)
Profit before tax		**13,308**	**11,145**
Corporate income tax expense	11	(1,055)	(791)
Net profit for financial year		**12,253**	**10,354**
incl. net profit attributable to equity holders of the parent		12,417	10,399
net profit attributable to non-controlling interest		(164)	(45)
Other comprehensive income, which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		4	(157)
Comprehensive income for the period		**12,257**	**10,197**
incl. net profit attributable to equity holders of the parent		12,421	10,242
net profit attributable to non-controlling interest		(164)	(45)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	0.70	0.59

The notes set out on pages 59-104 are an integral part of these consolidated financial statements.

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Kuupäev/date 27.03.15
PricewaterhouseCoopers, Tallinn

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2014	31.12.2013
ASSETS			
Current assets			
Cash and cash equivalents	14	51,583	46,633
Trade and other receivables	15	46,382	57,172
Prepaid corporate income tax		3	19
Inventories	17	117,638	87,451
		215,606	**191,275**
Non-current assets			
Investments in joint ventures	19	67	7,349
Other long-term loans and receivables	20	11,409	20,066
Deferred income tax assets	21	1,535	1,592
Investment property	22	4,619	4,672
Property, plant and equipment	23	15,003	13,117
Intangible assets	24	1,011	1,167
		33,644	**47,963**
TOTAL ASSETS		**249,250**	**239,238**
LIABILITIES			
Current liabilities			
Borrowings	26	14,287	18,916
Payables and prepayments	27	71,122	72,162
Income tax liability		352	62
Short-term provisions	28	6,239	5,906
		92,000	**97,046**
Non-current liabilities			
Long-term borrowings	26	23,359	16,469
Deferred income tax liability	21	738	505
Other long-term payables	29	1,671	2,162
		25,768	**19,136**
TOTAL LIABILITIES		**117,768**	**116,182**
EQUITY			
Non-controlling interests		4,455	1,193
Equity attributable to equity holders of the parent			
Share capital	31	12,000	12,000
Statutory reserve capital		1,200	1,200
Currency translation differences		(665)	(669)
Retained earnings		114,492	109,332
		127,027	**121,863**
TOTAL EQUITY		**131,482**	**123,056**
TOTAL LIABILITIES AND EQUITY		**249,250**	**239,238**

The notes set out on pages 59-104 are an integral part of these consolidated financial statements.

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PricewaterhouseCoopers, Tallinn

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	**Statutory reserve capital**	**Currency translation differences**	**Retained earnings/ accumulated losses**	**Total**		
Balance as at 31.12.2012	**12,000**	**1,200**	**(512)**	**104,237**	**116,925**	**1,342**	**118,267**
Profit (loss) for the financial year	-	-	-	10,399	10,399	(45)	10,354
Other comprehensive income	-	-	(157)	-	(157)	-	(157)
Total comprehensive income (loss) for the financial year	**-**	**-**	**(157)**	**10,399**	**10,242**	**(45)**	**10,197**
Purchase of non-controlling interest	-	-	-	6	6	(104)	(98)
Dividends	-	-	-	(5,310)	(5,310)	-	(5,310)
Total transactions with owners	**-**	**-**	**-**	**(5,304)**	**(5,304)**	**(104)**	**(5,408)**
Balance as at 31.12.2013	**12,000**	**1,200**	**(669)**	**109,332**	**121,863**	**1,193**	**123,056**
Balance as at 31.12.2013	**12,000**	**1,200**	**(669)**	**109,332**	**121,863**	**1,193**	**123,056**
Profit (loss) for the financial year	-	-	-	12,417	12,417	(164)	12,253
Other comprehensive income	-	-	4	-	4	-	4
Total comprehensive income (loss) for the financial year	**-**	**-**	**4**	**12,417**	**12,421**	**(164)**	**12,257**
Purchase of non-controlling interest	-	-	-	-	-	(95)	(95)
Minority share of purchased subsidiary (Note 18)			-	-	-	2,618	2 618
Minority share of sold subsidiary (Note 18)			-	-	-	(244)	(244)
Issuance of additional share capital (Note 18)			-	-	-	1,147	1,147
Dividends	-	-	-	(7,257)	(7,257)	-	(7,257)
Total transactions with owners	**-**	**-**	**-**	**(7,257)**	**(7,257)**	**3,426**	**(3,831)**
Balance as at 31.12.2014	**12,000**	**1,200**	**(665)**	**114,492**	**127,027**	**4,455**	**131,482**

The notes set out on pages 59-104 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2014	2013
Cash flows from (used in) operating activities			
Operating profit		13,975	12,261
Adjustments:			
Depreciation	22-24	2,459	2,880
(Profit)/loss from sale of non-current assets	7	(12)	(214)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method	32	(180)	4,717
Interest income from operating activities	7	(1,571)	(1,479)
Change in provisions	28	1,298	1,634
Change in trade and other receivables related to operating activities		12,742	(6,155)
Change in inventories	17	(14,823)	(4,943)
Change in trade and other payables related to operating activities		316	10,171
Interest received	7, 9, 15	1,429	1,803
Interest paid	10, 27	(938)	(841)
Other finance income and costs	9, 10	(62)	(165)
Corporate income tax (paid)/reclaimed		(141)	(12)
Total cash flows from (used in) operating activities		**14,492**	**19,657**
Cash flows from investing activities			
Acquisition of subsidiaries	18	(407)	-
Proceeds from sale of subsidiary	18	(353)	-
Acquisition of joint venture	19	(6)	(350)
Purchase of investment property	22	(2)	(1,080)
Purchase of property, plant and equipment	23, 26	(1,458)	(784)
Proceeds from sale of property, plant and equipment	7, 23	95	900
Purchase of intangible assets	24	(25)	(29)
Repayments of loans granted	16, 18	40	-
Interest received	9, 15	177	41
Total cash flows from investing activities		**(1,939)**	**(1,302)**
Cash flows from (used in) financing activities			
Proceeds from borrowings	26	16 742	12,862
Repayments of borrowings	26	(16 043)	(11,810)
Factoring	26	-	(1,544)
Finance lease principal payments	26	(1 076)	(1,165)
Contributions to the subsidiary's share capital from minority shareholder		38	-
Dividends paid	13	(7 257)	(5,310)
Total cash flows from (used in) financing activities		**(7 596)**	**(6,967)**
Net increase/decrease in cash and cash equivalents		**4,957**	**11,388**
Cash and cash equivalents at the beginning of the period	14	**46,633**	**35,316**
Effect of exchange rate changes		**(7)**	**(71)**
Total at the end of the period	14	**51,583**	**46,633**

The notes set out on pages 59-104 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2014 were signed by the Management Board at 27 March 2015.

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

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

From 22 July 1997, the shares of AS Merko Ehitus are listed on NASDAQ Tallinn Stock Exchange. As at 31 December 2014, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

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

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

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Items included in the financial statements of Merko Ehitus group entities are measured using the currency of their primary economic environment (the functional currency): the euro and the Lithuanian litas. The consolidated financial statements are presented in euros. The primary financial statements and notes are presented in thousands of euros. From 1 January 2015, the Republic of Lithuania will be part of the Eurozone countries, Lithuania will adopt the euro instead of the lit based on the exchange rate 3.4528 lits/euro.

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

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards and interpretations became effective for the group from 1 January 2014:

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

The other new or revised standards or interpretations, which became effective in the financial year starting 1 January 2014, are not expected to have a material impact on the group.

NEW ACCOUNTING PRONOUNCEMENTS

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2015, and which the Group has not early adopted.

IFRIC 21, Levies, effective for annual periods beginning on or after 17 June 2014. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

Annual Improvements to IFRSs 2012, effective for annual periods beginning on or after 1 February 2015. The improvements consist of changes to seven standards, of which one applies to the Group.
IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

Annual Improvements to IFRSs 2013, effective for annual periods beginning on or after 1 February 2015. The improvements consist of changes to four standards, of which one applies to the Group.
The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

The other new or revised standards or interpretations, which are not yet effective, are not expected to have a material impact on the group.

1.4. CONSOLIDATION

Subsidiaries include all entities under the control of the group. The group controls the entity if it receives or is entitled to variable profits arising from its role in the entity and the group can influence the amount of profit by exerting influence over the entity.
Subsidiaries are consolidated in the financial statements from the date of acquiring control until the date at which control ceases. The financial figures of the parent company and the subsidiaries have been consolidated on a line-by-line basis in the consolidated annual financial statements. Upon consolidation, intra-group transactions, balances and unrealised profits arising from intra-group transactions have been eliminated. Unrealised losses have also been eliminated, unless a loss is caused by impairment.
Group entities use uniform accounting policies.

Investments are recognized in the parent company's unconsolidated financial statements at acquisition cost, less any accumulated impairment losses due to a drop in value of the asset.

1.5. BUSINESS COMBINATIONS

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

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

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

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

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1.6. ASSOCIATES

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

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

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

1.7. JOINT VENTURES

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

1.8. JOINTLY CONTROLLED OPERATIONS

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

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

1.9. FOREIGN CURRENCY

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

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

1.10. FINANCIAL ASSETS

The purchases and sales of financial assets are recognised at the trade date.
Depending on the purpose for which financial assets were acquired, financial assets are classified into the following categories at the group:

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

Management determines the classification of its financial assets at initial recognition.
The Company does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The group does not have any derivatives either.

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

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

1.11. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- probability that the debtor will enter bankruptcy;
- disappearance of an active market for that financial asset because of financial difficulties;

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

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

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

NON-FINANCIAL ASSETS

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

1.12. INVENTORIES

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

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

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

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

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

1.13. INVESTMENT PROPERTY

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

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

1.14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Land is not depreciated.

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

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

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

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

1.15. INTANGIBLE ASSETS

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

SOFTWARE AND INFORMATION SYSTEMS

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

1.16. FINANCE AND OPERATING LEASES

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

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

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

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

1.17. FINANCIAL LIABILITIES

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

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

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had a contractual right at the balance sheet date to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

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

FACTORING

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

1.18. INCOME TAX

According to the Income Tax Act of the Republic of Estonia, legal entities are not subject to income tax on profits earned. Corporate income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not related to business operations. Thus, in Estonia there are no differences between the tax bases and the carrying amounts of assets which would give rise to a deferred income tax asset or liability. From 1 January 2015, the tax rate on dividends payable is 20/80 of the amount paid out as net dividends (the tax rate in force in 2014 and 2013 was 21/79 of the amount paid out as net dividends). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared.

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

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

Legal entities in Latvia, Lithuania, Ukraine, Finland and Russia that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania, the Republic of Ukraine, the Republic of Finland and the Russian Federation. The profits of entities located in the Republic of Latvia are taxed at the rate of 15% (2013: 15%), in the Republic of Lithuania at the rate of 15% (2013: 15%), in the Republic of Finland at the rate of 20% (2013: 24.5%) and in Russian Federation at the rate of 20% (2013: 20%).

1.19. EMPLOYEE BENEFITS

TERMINATION BENEFITS

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

PROFIT-SHARING AND BONUS PLANS

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

1.20. PROVISIONS

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

Provisions are recognised in the statement of financial position based on the best estimate of the management board at the present value of the expenditure expected to be sufficient to settle the obligation. A pre-tax rate of discount is used, which reflects current market valuations of the time value of money and the risks associated with liabilities that are not already included in the best estimate of the related expenses.

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

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

A provision for expenses yet to be incurred and invoices not yet received is formed for sold apartment projects, which is recognized in the income statement as an expense and in the balance sheet as a liability.

1.21. REVENUE

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

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

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

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

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

1.22. CONSTRUCTION CONTRACTS IN PROGRESS

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

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

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

1.23. CASH AND CASH EQUIVALENTS

In the statement of financial position and the cash flow statement, cash and cash equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less. Management regards deposits with maturities greater than 3 months as investments and hence does not include them in cash and cash equivalents.
The indirect method has been used for the preparation of the cash flow statement.

1.24. CONTINGENT LIABILITIES

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

1.25. STATUTORY RESERVE CAPITAL

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

1.26. EVENTS AFTER THE BALANCE SHEET DATE

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

1.27. DIVIDENDS

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

1.28. SEGMENT REPORTING

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

NOTE 2 MANAGEMENT ESTIMATES

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

REVENUE UNDER THE STAGE OF COMPLETION METHOD

Revenue from construction in progress is recognised under the stage of completion method (Note 1.22), which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31.12.2014, the amount of the provision for onerous contracts was EUR 2,079 thousand (2013: EUR 2,752 thousand), which was determined after the evaluation of the stage of completion of construction contracts (Note 28). The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR -27,758/+12,052 thousand (2013: EUR -26,032/+14,725 thousand).

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the company's write-down of inventories (work-in-progress, finished goods, acquisition of real estate properties for sale) would have been EUR 3,731 thousand higher in 2014 (2013: EUR 5,774 thousand higher), incl. real estate properties for sale in the amount of EUR 0 thousand (2013: EUR 2,337 thousand), work-in-progress in the amount of EUR 2,079 thousand (2013: EUR 3,473 thousand) and finished goods in the amount of EUR 1,652 thousand (2013: EUR 0 thousand). Had the value been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories for the year 2014 would have been EUR 168 thousand thousand lower (2013: EUR 64 thousand), incl. real estate properties for sale in the amount of EUR 168 thousand (2013: EUR 64 thousand).

VALUATION OF RECEIVABLES

For valuation of receivables, each receivable is analysed separately. For determining the need for a complete or partial write-down of receivables, the debtor's financial position, the guarantees provided, the solutions offered to pay off the loan and the previous payment behaviour of the debtor are considered (Note 15).

PROVISION FOR WARRANTY OBLIGATIONS

For determining the provision for warranty obligations, the statistical cost of the Company's warranty works is considered (Note 28).

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

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

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

At each balance sheet date, an impairment test is performed for the intangible assets with indefinite useful lives including goodwill, and the carrying amount is written down to its recoverable amount if it is lower than the carrying amount. An impairment test is also carried out for property, plant and equipment and intangibles when an event or change in circumstances indicates that impairment may have occurred. As at 31.12.2014 ,the carrying amount of property, plant and equipment was EUR 15,003 thousand eurot (31.12.2013: EUR 13,117 thousand) and the carrying amount of intangiable assets was EUR 1,011 thousand (31.12.2013:EUR 1,167 thousand) (Note 23, 24).

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

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

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31.12.2014 does not significantly differ from their fair value. Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered to be its market value. External experts were not involved in the estimation of the fair value of investment properties. Market value estimates are mostly based on market transactions, with the exception of real estate that is estimated using discounted cash flow method. As at 31.12.2014 ,the carrying amount of investment property was EUR 4,619 thousand (31.12.2013 EUR 4,672 thousand) (Note 22).

BORROWING COSTS

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

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

In 2014, a total of EUR 295 thousand (2013: EUR 113 thousand) of the borrowing costs was capitalised (Note 26).

NOTE 3 OPERATING SEGMENTS

in thousands of euros

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

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

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

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

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

2014	**General construction**	**Civil engineering**	**Road construction**	**Real estate development**	**Other**	**Total segments**
Segment revenue	110,528	69,897	30,913	73,152	1,667	286,157
Inter-segment revenue	-	(6,304)	-	(27,397)	(133)	(33,834)
Revenue from external clients	**110,528**	**63,593**	**30,913**	**45,755**	**1,534**	**252,323**
Gross profit (-loss)	**6,116**	**6,089**	**4,637**	**8,104**	**(214)**	**24,732**
Segment pre-tax profit (loss)	**6,026**	**6,067**	**4,673**	**9,240**	**(194)**	**25,812**
incl. interest income from operating activities (Note 7)	-	8	-	1,563	-	1,571
depreciation (Note 4)	(97)	(604)	(904)	(258)	(162)	(2,025)
impairment of inventories (Note 4)	-	-	-	(400)	-	(400)
reversal of impairment of inventories (Note 4)	-	-	-	850	-	850
setting up of provisions (Notes 4, 28)	(2,623)	(895)	(50)	(896)	-	(4,464)
loss on joint ventures (Note 19)	-	1	-	(131)	-	(130)
other finance income (costs) (Notes 9, 10)	(4)	(20)	(41)	(286)	-	(351)

2014	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
incl. interest income	-	-	-	17	-	17
interest expenses	(4)	(20)	(41)	(303)	-	(368)
Segment assets 31.12.2014	**23,876**	**24,611**	**11,068**	**142,203**	**1,182**	**202,940**
incl. joint ventures (Note 19)	-	19	-	48	-	67

2013	General construction	Civil engineering	Road construction	Real estate development	Other	Total segments
Segment revenue	86,686	98,151	49,476	46,098	1,253	281,664
Inter-segment revenue	(122)	(3,616)	-	(15,104)	(103)	(18,945)
Revenue from external clients	**86,564**	**94,535**	**49,476**	**30,994**	**1,150**	**262,719**
Gross profit (-loss)	**(503)**	**12,512**	**5,937**	**5,121**	**(344)**	**22,723**
Segment pre-tax profit (loss)	**(542)**	**12,565**	**5,839**	**6,122**	**(340)**	**23,644**
incl. interest income from operating activities (Note 7)	-	-	-	1,472	-	1,472
depreciation (Note 4)	(88)	(592)	(1,080)	(186)	(515)	(2,461)
impairment of inventories (Note 4)	-	-	-	(330)	-	(330)
reversal of impairment of inventories (Note 4)	-	-	-	337	-	337
setting up of provisions (Notes 4, 28)	(2,557)	(376)	(81)	(329)	-	(3,343)
loss on joint ventures (Note 19)	-	-	-	(138)	-	(138)
other finance income (costs) (Notes 9, 10)	(9)	(20)	(57)	(322)	-	(408)
incl. interest income	-	-	-	39	-	39
interest expenses	(9)	(20)	(57)	(321)	-	(407)
Segment assets 31.12.2013	**29,513**	**24,899**	**10,577**	**138,189**	**1,143**	**204,321**
incl. joint ventures (Note 19)	-	18	-	7,331	-	7,349

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

	2014	2013
Pre-tax profit from reporting segments	25,812	23,644
Unallocated income (expense)		
marketing expenses (Note 5)	(3,190)	(3,041)
general and administrative expenses (Note 6)	(9,128)	(9,260)
incl. setting up of provisions (Note 28)	(56)	(27)
other operating income (expense)	-	372
incl. interest income from operating activities (Note 7)	-	7
finance income (costs) (Note 9,10)	(186)	(570)
incl. interest income	126	45
interest expense	(294)	(407)
Total profit before tax	**13,308**	**11,145**

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

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REVENUE BY CLIENT LOCATION
in thousands of euros and percentage

	2014		2013	
Estonia	170,649	68%	211,958	81%
Latvia	68,632	27%	44,378	17%
Lithuania	12,956	5%	6,383	2%
Finland	86	0%	-	-
Total	**252,323**	**100%**	**262,719**	**100%**

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

	31.12.2014	31.12.2013
Estonia	20,045	18,473
Latvia	556	413
Lithuania	32	70
Total	**20,633**	**18,956**

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2014	2013
Construction services and properties purchased for resale	132,207	147,606
Materials	44,214	40,585
Staff costs	21,804	22,636
Construction mechanisms and transport	9,228	12,409
Design	2,974	1,838
Real estate management costs	181	219
Depreciation	2,025	2,461
Impairment of inventories (Note 17)	400	330
Reversal of impairment of inventories (Note 17)	(850)	(337)
Provisions (Note 28)	4,464	3,343
Other expenses	10,944	8,906
Total cost of goods sold	**227,591**	**239,996**

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2014	2013
Staff costs	2,169	2,138
Advertising, sponsorship	372	389
Transport	192	204
Construction tender	46	69
Depreciation	40	18
Other expenses	371	223
Total marketing expenses	**3,190**	**3,041**

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2014	2013
Staff costs	6,040	6,139
Office expenses, communication services	514	548
Consulting, legal, auditing	609	658
Transport	317	438
Computer equipment and software	371	377
Depreciation	391	348
Provisions (Note 28)	56	27
Other expenses	830	725
Total general and administrative expenses	**9,128**	**9,260**

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2014	2013
Interest income from operating activities	1,571	1,479
Profit from sale of non-current assets	12	214
Fines and penalties for delay received	19	128
Collection of doubtful receivables	20	49
Other income	279	394
Total other operating income	**1,901**	**2,264**

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2014	2013
Loss on write-off of intangible assets	-	52
Fines, penalties	8	47
Gifts, donations	155	188
Doubtful receivables expense (Note 35)	143	39
Other expenses	34	99
Total other operating expenses	**340**	**425**

NOTE 9 FINANCE INCOME

in thousands of euros

	2014	2013
Interest income	143	84
Total finance income	**143**	**84**

NOTE 10 FINANCE COSTS

in thousands of euros

	2014	2013
Interest expense	662	814
Foreign exchange losses	11	202
Other finance costs	7	46
Total finance costs	**680**	**1,062**

NOTE 11 CORPORATE INCOME TAX

in thousands of euros

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

2014	**Latvia**	**Lithuania**	**Other countries**	**Estonia**	**Total**
Profit (loss) before tax	1,742	1,312	(14)	10,268	13,308
Tax rate applicable to profits	15%	15%	20%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(261)	(197)	3	-	(455)
Tax calculated on expenses not deductible for tax purposes	(24)	(210)	-	-	(234)
Tax effect of income not subject to tax	-	(26)	-	-	(26)
Tax losses of previous periods recognised in the reporting period	-	(21)	-	-	(21)
Income tax withheld on dividends	-	-	-	(319)	(319)
Total income tax expense	**(285)**	**(454)**	**3**	**(319)**	**(1,055)**
incl. income tax expense	(427)	(21)	-	(319)	(767)
deferred income tax expense (Note 21)	142	(433)	3	-	(288)

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

As at 31 December 2014, the parent company AS Merko Ehitus has EUR 2,181 thousand (31.12.2013: EUR 7,717 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 12 EARNINGS PER SHARE

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

	2014	2013
Net profit(-loss) attributable to shareholders (in thousand EUR)	12,417	10,399
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700
Earnings (loss) per share (in euros)	**0.70**	**0.59**

In 2013 and 2014, the group did not have any potential ordinary shares to be issued; therefore the diluted earnings per share equal the basic earnings per share.

NOTE 13 DIVIDENDS PER SHARE

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation proposal, dividends payable in parent company AS Merko Ehitus in 2015 will total EUR 7,257 thousand, incl. EUR 0.41 per share, and the accompanying maximum income tax liability would amount to 20/80 on the amount paid out, i.e. EUR 1,814.2 thousand, which shall be covered by the the income tax withheld on taxed dividends received from subsidiaries and by the income tax withheld on foreign income (Note 11). The additional income tax expenses in connection with disbursement of dividends will be approximately EUR 0.9 million.

In 2014 the parent company AS Merko Ehitus distributed dividends in the amount of EUR 7,257 thousand, i.e. EUR 0.41 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. In 2013 dividends in the amount of EUR 5,310 thousand were distributed, i.e. EUR 0.30 per share.

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of 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 of less	-	1,500
Total cash and cash equivalents (Note 35)	**51,583**	**46,633**

As at 31.12.2014, the weighted average interest on overnight deposits was 1% (31.12.2013: 0.38%). Deposits with maturity less than 3 months were not used in 2014. The weighted average interest on bank deposits with maturities of 3 months or less was 0.32% and the average duration as at 31.12.2013 was 37 days.

NOTE 15 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2014	31.12.2013
Trade receivables (Note 35)		
Accounts receivable	28,384	38,202
Allowance for doubtful receivables	(728)	(742)
	27,656	**37,460**
Tax prepayments excluding corporate income tax		
Value added tax	629	657
Other taxes	19	17
	648	**674**
Amounts due from customers of contract works (Notes 32, 35)	10,291	12,940
Other short-term receivables		
Short-term loans (Notes 16, 35)	2,178	1,399
Interest receivables (Note 35)	394	656
Other short-term receivables (Note 35)	729	51
	3,301	**2,106**
Prepayments for services		
Prepayments for construction services	3,946	3,153
Prepaid insurance	213	359
Other prepaid expenses	327	480
	4,486	**3,992**
Total trade and other receivables	**46,382**	**57,172**
incl. short-term loan receivables from related parties (Note 16)	1,415	1,399
other short-term receivables and prepayments to related parties (Note 33)	419	1,094

In 2014, the payment discipline of customers deteriorated slightly compared to last year. The share of overdue receivables increased from 9.2% to 17.4% of total receivables, and as at the balance sheet date, the amount of overdue receivables was EUR 4,821 thousand (31.12.2013: 3,464 thousand). By 15 March 2015, overdue receivables had been collected in the amount of EUR 3,176 thousand. In 2014, the average age of trade receivables was 56 days (2013: 58 days). In 2014, the group's balance sheet included doubtful receivables in the amount of EUR 728 thousand (2013: EUR 742 thousand) and it wrote off uncollectible receivables in the amount of EUR 39 thousand (2013: 16 thousand), incl. irrecoverable receivables in the amount of EUR 0 thousand (2013: EUR 1 thousand). The management estimates that there are sufficient reasons to conclude that the trade receivables reported in the financial statements will be paid off by buyers.

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

NOTE 16 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 33)	**Unrelated legal entities**	**Unrelated individuals**	**Total**
2014				
Loan balance at beginning of the year	5,010	-	22	5,032
Granted	401	753	-	1,154
Elimination of a loan granted to a joint venture in connection with the acquisition of control and the start of consolidation	(3,636)	40	-	(3,596)
Collected	-	(40)	(12)	(52)
Loan balance at end of the year	**1,775**	**753**	**10**	**2,538**
incl. current portion (Notes 15, 35)	1,415	753	10	2,178
non-current portion 1...5 years (Notes 20, 35)	360	-	-	360
Average effective interest rate	7,0%	5,0%	5,0%	
2013				
Loan balance at beginning of the year	4,992	475	86	5,553
Granted	44	-	-	44
Collected	-	(458)	(64)	(522)
Impaired loan receivable (Note 8)	-	(15)	-	(15)
Exchange rate difference	(26)	(2)	-	(28)
Loan balance at end of the year	**5,010**	**-**	**22**	**5,032**
incl. current portion (Notes 15, 35)	1,399	-	-	1,399
non-current portion 1...5 years (Notes 20, 35)	3,611	-	22	3,633
Average effective interest rate	4.8%	7.3%	5.0%	

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

The loan granted to an unrelated legal person in 2014 is secured by a mortgage on the registered immovable property at Smelio 31, Vilnius, amounting to EUR 1,130 thousand.

NOTE 17 INVENTORIES

in thousands of 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
*incl. registered immovables located on nature preserve areas**	*3,235*	*3,272*
Other goods purchased for resale	837	978
	56,023	**40,033**
Prepayments for inventories		
Prepayments for real estate properties	1,086	1,086
Prepayments for other inventories	697	362
	1,783	**1,448**
Total inventories	**117,638**	**87,451**

As at 31 December 2014, the SIA Zakusala Estates land is recognized at fair value as registered immovables purchased for resale in the amount EUR 14,873 thousand (Note 18). SIA Zakusala Estates owns approximately 126 thousand square meters land located on the island Zakusala on Daugava river in Riga.

* There are strict building restrictions on immovables located on nature preserve areas and their use for development purposes, either directly or indirectly, is not permitted. According to the Nature Conservation Act in force, an immovable which is located within the territory of a protected area may only transferred to the state by land purchase and the state is obligated to apply only the acquisition of registered immovables for money as a compensatory mechanism.

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

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

The inventories pledged as collateral as at 31.12.2014 for loans total EUR 37,649 thousand (2013: EUR 50,699 thousand) (Note 30). In 2014, inventories have been written down to their net realisable value by EUR 400 thousand (2013: EUR 330 thousand) and previously made write-downs have been reversed in the amount of EUR 850 thousand (2013: EUR 337 thousand) (Notes 2, 4, 35).

	Carrying amount before write-down	Write-down	Reversal of write-down	Carrying amount after write-down
31.12.2014				
Work-in-progress	21,447	(142)	-	21,305
Finished goods	36,996	-	850	37,846
Land purchased for resale	55,444	(258)	-	55,186
Total	**113,887**	**(400)**	**850**	**114,337**
31.12.2013				
Work-in-progress	28,277	-	337	28,614
Land purchased for resale	39,385	(330)	-	39,055
Total	**67,662**	**(330)**	**337**	**67,669**

NOTE 18 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		Location	Area of operation
	31.12.2014	**31.12.2013**		
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 Kortermaja	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

	Ownership and voting rights %		Location	Area of operation
	31.12.2014	31.12.2013		
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 VPSP1	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	Riga, Latvia	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Riga, Latvia	Construction
SIA SK Viesturdarzs	100	100	Riga, Latvia	Real estate
SIA Merks Investicijas	100	100	Riga, Latvia	Real estate
SIA Industrialas Parks	100	100	Riga, Latvia	Real estate
SIA Elniko	100	100	Riga, Latvia	Real estate
SIA Ropažu Priedes	100	100	Riga, Latvia	Real estate
SIA Polystar	-	100	Riga, Latvia	Real estate
PS Merko-Merks	100	100	Riga, Latvia	Construction
SIA Zakusala Estates	75	-	Riga, Latvia	Real estate
Merko Finland OY	100	100	Finland, Helsinki	Construction
Lenko Stroi LLC	100	100	Russia,St. Petersburg	Construction

2014

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 June 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 30 May 2014, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, repaid to its parent from its equity the reserve of EUR 3,557 thousand established in 2012.

On 10 June 2014, OÜ Merko Investments, subsidiary of AS Merko Ehitus, repaid to its parent from its equity the reserve of EUR 1,318 thousand established in 2013.

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. Acquisition of the subsidiary is recognized in the group as an acquisition of land and is recorded under inventories from the time of acquisition as registered immovables purchased for resale (Note 17). The value of non-controlling interest is calculated proportionally from the fair value of the net assets of SIA Zakusala Estates (EUR 10,473 thousand). At the moment of purchase, the group developed an additional non-controlling interest in the amount EUR 2,618 thousand. After acquisition, a minority shareholder contribution to equity of EUR 38 thousand and a conversion of loan to equity of EUR 1,109 thousand was made. As at 31 December 2014, the non-controlling interest in ZIA Zakusala Estates amounts to EUR 3,759 thousand.

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

On 15 August 2014, a subsidiary AS Merko Ehitus Eesti increased it's 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 intra-group transaction, with the purpose of re-arranging the structure of the group companies. In November 2014, AS Merko Ehitus made additional contributions to increase the equity of SIA Merko Investments in the amount of EUR 35,266 thousand.

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%
Non-controlling interest at the time of sale	20%
Sales price	17
Profit (loss) from sale	-
Net assets at the time of sale	21
Non-controlling interest net assets at the time of sale	4
Cash received	17
Subsidiary's cash and cash eqiuivalent at sale	(370)
Group cash flow from the sale	(353)

PURCHASE OF SUBSIDIARIES

in thousand euros

	UAB Timana	
	Book value	Fair value
Cash	0	0
Inventories	145	464
Short-term liabilities	145	145
Net assets	0	319
Acquired ownership interest	100%	
Value of acquired net assets	0	319
Acquisition cost		319
Subsidiary's cash and cash eqiuivalent on acquisition		0
Paid on acquisition		(319)
Cash flow from acquisition of subsidiary		(319)
Net loss from the beginning of the year	(3)	

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FINANCIAL INFORMATSION REGARDING SIGNIFICANT SUBSIDIARY WITH A NON-CONROLLING INTEREST
in thousand euros

	SIA Zakusala Estates
Statement of financial position 31.12.2014	
Cash	165
Inventories	14,873
Total short-term assets	15,038
Short-term liabilities	1
Net assets	15,037
Equity 31.12.2014	15,037
Non-controlling interest %	25%
Non-controlling interest 31.12.2014	3,759
Statement of comprehensive income 05.08-31.12.2014	
Other expenses	(1)
Land tax	(19)
Net loss for the period	(20)
Comprehensive loss for the period	(20)
incl. net loss attributable to equity holders of the parent	(15)
net loss attributable to non-controlling interest	(5)
Cash flow statement	
Operating profit	(20)
Change in receivables and payables related to operating activities	(7)
Total cash flow from operating activities	(27)
Repayment of loans granted	40
Total cash flow from investing activities	40
Issue of share capital	150
Total cash flow from financing activities	150
Change in cash and cash equivalents	163
Cash and cash equivalents in the beginning of the period	2
Cash and cash equivalents at the end of the period	165

As at 31 December 2014, the group's non-controlling interest in equity is EUR 4,455 thousand, including ZIA Zakusala Estates non-controlling interest in the amount EUR 3,759 thousand. The other companies with a non-controlling interest – totalling at EUR 696 thousand – do not separately constitute a significant item for the group.

2013

On 16 January 2013, subsidiary AS Merko Ehitus Eesti acquired a 7.5% ownership interest in its subsidiary AS Gustaf from its non-controlling shareholders at the price of EUR 98 thousand.
On 18 February 2013, AS Merko Ehitus formed a fully owned subsidiary OÜ Paepargi 57 with share capital of EUR 2.5 thousand, which was sold on 16 August of the same year to Capital Mill OÜ for the price of EUR 2.5 thousand.
On 29 May 2013, the demerger of SIA Polystar that began in 2012 was completed.
In the second quarter of 2013, subsidiary OÜ Baltic Electricity Engineering was renamed as OÜ Merko Investments. On 22 May 2013, as an internal transaction, AS Merko Ehitus sold its full ownership of SIA Merks, a subsidiary engaging in construction, to its subsidiary OÜ Merko Investments. AS Merko Ehitus made additional contributions to increase the equity of OÜ Merko Investments - on 4 June 2013, equity was increased by EUR 8 thousand and on 20 June 2013, reserve capital was increased by EUR 21,572 thousand.
In the second quarter of 2013, the liquidation of Merko Ukraine LLC, a fully owned subsidiary of AS Merko Ehitus in the Ukraine, was completed. The company was removed from the commercial register on 4 July 2013.
On 17 July 2013, fully owned subsidiary of AS Merko Ehitus, UAB Merko Bustas, formed a fully owned subsidiary in Lithuania, UAB Kražiu Projektas with a share capital of LTL 10 thousand (EUR 2.9 thousand). The subsidiary was formed to acquire properties for development in Lithuania.
During the period of September to November of 2013, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, repaid to its parent from its equity the provision established in 2012 of EUR 6,200 thousand.

On 3 October 2013, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, formed a 51%-owned subsidiary OÜ Heamaja. The company was formed to participate in the construction concession contract procurement for Suur-Ameerika 1, Tallinn, organised by AS Riigi Kinnisvara.
On 20 December 2013, AS Merko Ehitus initiated a merger of its fully owned subsidiaries OÜ Woody, OÜ Metsailu and OÜ Käibevara, all engaged in real estate development, in order to generate administrative cost savings related to company management. The final merger entry will be made in the Commercial Register during the first half of 2014.

TRANSACTIONS INVOLVING SUBSIDIARIES AFTER THE BALANCE SHEET DATE

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 the share capital of a 75% subsidiary Hartian OY. The share capital of the subsidiary is EUR 3,000. The company was established with the aim of acquiring a residentia quarter, construction rights for 10 private houses, in Pestikuja 1, Helsinki.
On 4 March 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a merger of its 66% subsidiary AS Merko Tartu, engaged in construction, and Raadi Kortermaja OÜ, fully owned subsidiary of AS Merko Tartu engaged in real estate development, in order to have savings in administrative cost related to company management. The final merger entry will be made in the Commercial Register during the second quarter of 2015.
On 25 March 2015, a 100% subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti acquired a 100% holding in OÜ Rannamõisa Kinnisvara from a related party E.L.L. Kinnisvara AS, with a share capital of EUR 2,556 and for a purchase price of EUR 3,261 thousand. The purchase price is to be paid to the seller after the transfer of immovable properties belonging to OÜ Rannamõisa Kinnisvara to third parties but no later than 30 June 2016. In addition, the Parties have entered into an agreement on an option to resell the 100% holding, with an expiration date of 29 June 2016.

NOTE 19 INVESTMENT IN JOINT VENTURES

	Ownership and voting rights %		**Location**	**Area of operation**
	31.12.2014	**31.12.2013**		
Joint ventures				
OÜ Unigate	50	50	Estonia, Tallinn	real estate
Poolkoksimäe Sulgemise OÜ	50	50	Estonia, Tallinn	construction
SIA Zakusala Estates	-	50	Latvia,Riga	real estate
OÜ Kortermaja	50	50	Estonia, Tartu	real estate
Kivimäe 32 OÜ	50	-	Estonia, Tallinn	real estate
Kalaranna Arenduse OÜ	50	-	Estonia, Tallinn	real estate

2014

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 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 5 August 2014, a subsidiary 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 (Note 18).

2013

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

in thousands of euros

	Investment at 31.12.2013	Changes in 2014			Investment at 31.12.2014
		acquisition (sale)	elimination of investment in connection with the acquisition of control and the start of consolidation	profit (loss) on entities	
Joint ventures					
OÜ Unigate	155	-	-	(115)	40
Poolkoksimäe Sulgemise OÜ	18	-	-	1	19
SIA Zakusala Estates	7,173	-	(7,158)	(15)	-
OÜ Kortermaja	3	-	-	(1)	2
Kivimäe 32 OÜ	-	1	-	0	1
Kalaranna Arenduse OÜ	-	5	-	0	5
Total joint ventures	**7,349**	**6**	**(7,158)**	**(130)**	**67**

in thousands of euros

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

The difference between the Kivimäe 32 OÜ investment value and the equity of the investment as at 31 December 2014 – EUR 8 thousand – comes from the difference in recognition of International Financial Reporting Standards (IFRS) and Estonian accounting standards (Estonian GAAP) accounting policies with regard to capitalization of borrowing costs.

As at 31.12.2013, the difference between the value of the investment in SIA Zakusala Estates and the equity of the investee in the amount of EUR 7,341 thousand is attributable to the difference between the cost and market value of the 126 thousand square meter registered immovable located on Zakusala island in the centre of Riga that was privatised in December 2010 by the joint venture. SIA Zakusala Estates had previously held a lease agreement with the City of Riga regarding the aforenamed registered immovable until 2 June 2051, pursuant to which SIA Zakusala Estates had the right to use the land and which was not included in the statement of financial position of the joint venture. Information regarding the legal dispute ended in 2014 with the company Tritan Group AS which held a 50% ownership interest in the company SIA Zakusala Estates as at 31.12.2013, is detailed in Note 35.

JOINT VENTURES

in thousands of euros

	Assets 31.12.		Current and non-current liabilities 31.12	Equity 31.12.	Income	Expenses	Net profit/ (loss)
	Current assets	Non-current assets					
2014							
OÜ Unigate	3,677	-	3,597	80	-	(230)	(230)
Poolkoksimäe Sulgemise OÜ	96	-	59	37	2,682	(2,681)	1
SIA Zakusala Estates	-	-	-	-	-	(29)	(29)
OÜ Kortermaja	1	4	-	5	-	(1)	(1)
Kivimäe 32 OÜ	748	-	763	(15)	-	(17)	(17)
Kalaranna Arenduse OÜ	50	-	40	10	-	(0)	0
Total	**4,572**	**4**	**4,459**	**117**	**2,682**	**(2,958)**	**(276)**

	Assets 31.12.		Current and non-current liabilities 31.12	Equity 31.12.	Income	Expenses	Net profit/ (loss)
	Current assets	Non-current assets					
2013							
OÜ Unigate	3,646	-	3,336	310	-	227	(227)
Poolkoksimäe Sulgemise OÜ	391	-	355	36	5,581	5,581	0
SIA Zakusala Estates	42	4,034	4,412	(336)	-	52	(52)
OÜ Kortermaja	1	5	-	6	3	-	3
Total	**4,080**	**4,039**	**8,103**	**16**	**5,584**	**5,860**	**(276)**

** SIA Zakusala Estates net loss as at 04.08.2014.*

Interest expenses for the following companies are recognized in the joint venture's expenses: OÜ Unigate EUR 229 thousand (2013: EUR 226 thousand) and Kivimäe 32 OÜ EUR 17 thousand.

In connection with the joint venture, the group has contractual obligations to finance, as needed, the joint ventures' activities with loans totalling EUR 6,860 thousand (31.12.2013: EUR 9,991 thousand), of which the group has paid EUR 1,775 thousand in total (31.12.2013: EUR 5,010 thousand).

NOTE 20 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2014	31.12.2013
Long-term loans (Notes 16, 35)	360	3,633
Long-term bank deposit (Note 35)*	37	49
Long-term interest	4	-
Long-term trade receivables (Note 35)**	11,008	16,384
Total other long-term loans and receivables	**11,409**	**20,066**

* incl. a deposit in the amount of EUR 35 thousand with the due date of 27 June 2018 and interest rate of 5.35%, a deposit in the amount of EUR 2 thousand with the due date 23 July 2017 and interest rate of 0.66%.
** incl. long-term receivables to buyer of Balsiu School in amount of EUR 10,990 thousand (31.12.2013: EUR 11,399 thousand).

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

NOTE 21 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

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

	Latvia	Lithuania	Other foreign countries	Total
31.12.2014				
Deferred income tax liability				
effect of other payables	-	(738)	-	(738)
Deferred income tax assets				
incl. tax loss carryforwards	-	209	3	212
effect of carrying amount of property, plant and equipment	(12)	-	-	(12)
effect of stage of completion method	43	47	-	90
effect of write-down of receivables	32	17	-	49
effect of write-down of inventories	800	-	-	800
effect of provisions	-	17	-	17
other effects	379	-	-	379
Deferred income tax assets	**1,242**	**290**	**3**	**1,535**
Deferred income tax expense (-charge) of the financial year (Note 11)	142	(433)	3	(288)
31.12.2013				
Deferred income tax liability				
effect of other payables	-	(505)	-	(505)
Deferred income tax assets				
incl. tax loss carryforwards	-	409	2	411
effect of carrying amount of property, plant and equipment	(12)	-	-	(12)
effect of stage of completion method	43	47	-	90
effect of write-down of receivables	32	17	-	49
effect of write-down of inventories	800	-	-	800
effect of provisions	-	17	-	17
other effects	237	-	-	237
Deferred income tax assets	**1,100**	**490**	**2**	**1,592**
Deferred income tax expense (-charge) of the financial year (Note 11)	(26)	(473)	2	(497)

NOTE 22 INVESTMENT PROPERTY

in thousands of euros

	Land	Right of superficies	Buildings	Total
Cost at 31.12.2012	136	29	3,662	3,827
Accumulated depreciation 31.12.2012	-	(9)	(252)	(261)
Carrying amount at 31.12.2012	**136**	**20**	**3,410**	**3,566**
Currency translation differences	(1)	-	(1)	(2)
Acquisition	-	-	1,080	1,080
Disposals	(84)	-	-	(84)
Reclassification	-	-	293	293
Depreciation	-	-	(181)	(181)
Carrying amount at 31.12.2013	**51**	**20**	**4,601**	**4,672**
Cost at 31.12.2013	51	29	5,067	5,147
Accumulated depreciation 31.12.2013	-	(9)	(466)	(475)
Carrying amount at 31.12.2013	**51**	**20**	**4,601**	**4,672**
Acquisition	-	-	2	2
Reclassification	-	-	176	176
Depreciation	-	(1)	(230)	(231)
Carrying amount at 31.12.2014	**51**	**19**	**4,549**	**4,619**
Cost at 31.12.2014	51	29	5,245	5,325
Accumulated depreciation 31.12.2014	-	(10)	(696)	(706)
Carrying amount at 31.12.2014	**51**	**19**	**4,549**	**4,619**

As at 31.12.2014, the carrying amounts of investment properties do not significantly differ from their fair values (31.12.2013: the carrying amounts of investment properties did not significantly differ from their fair values). Fair values have mainly been estimated based on comparable transactions, with the exception of investment property to the extent of EUR 2,294 thousand (31.12.2013: EUR 3,690 thousand) in carrying amount that has been measured using the discounted cash flow method. Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

Investment properties have been acquired for the purpose of earning rental income as well as for capital appreciation or development in the future. Buildings located on the plot of land have temporarily been leased out under the operating lease terms. Information about leased investment properties is disclosed in Note 25. Maintenance costs incurred and improvement expenses are immaterial.

In the fourth quarter of 2014, the expenses related to parking solution built on the properties at J. Dikmaņa 8-10 in Riga for the purpose of earning rental income in the amount of EUR 176 thousand, were reclassified from inventories to investment property.
In the fourth quarter of 2013, the Pärna avenue 8 development project totalling EUR 1,267 thousand was acquired and reclassified from inventories to investment property for the lease of children's daycare space to the Tartu municipality.

Investment properties pledged as collateral as at 31.12.2014 for loans total EUR 4,110 thousand (31.12.2013: EUR 4,319 thousand) (Note 30). The Pärna avenue properties in Tartu and the court and police building in Jõgeva have been pledged as collateral to bank loans taken in 2013.

NOTE 23 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	Buildings	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2012	825	5,788	16,963	5,518	11	29,105
Accumulated depreciation at 31.12.2012	-	(1,268)	(9,624)	(3,360)	-	(14,252)
Carrying amount at 31.12.2012	**825**	**4,520**	**7,339**	**2,158**	**11**	**14,853**
Acquisition	-	-	1,269	144	-	1,413
Disposals	(1)	(1)	(673)	-	-	(675)
Reclassification	-	-	9	1	(11)	(1)
Write-offs	-	-	(10)	(7)	-	(17)
Depreciation	-	(189)	(1,474)	(793)	-	(2,456)
Carrying amount at 31.12.2013	**824**	**4,330**	**6,460**	**1,503**	**-**	**13,117**
Cost at 31.12.2013	824	5,784	15,723	5,445	-	27,776
Accumulated depreciation at 31.12.2013	-	(1,454)	(9,263)	(3,942)	-	(14,659)
Carrying amount at 31.12.2013	**824**	**4,330**	**6,460**	**1,503**	**-**	**13,117**
Acquisition	-	-	3,445	124	558	4,127
Disposals	-	(45)	(32)	(12)	-	(89)
Sale in business combination	-	-	(95)	(6)	-	(101)
Reclassification	-	-	526	3	(533)	(4)
Write-offs	-	-	(15)	(6)	-	(21)
Depreciation	-	(187)	(1,443)	(396)	-	(2,026)
Carrying amount at 31.12.2014	**824**	**4,098**	**8,846**	**1,210**	**25**	**15,003**
Cost at 31.12.2014	824	5,726	18,888	5,270	25	30,733
Accumulated depreciation at 31.12.2014	-	(1,628)	(10,042)	(4,060)	-	(15,730)
Carrying amount at 31.12.2014	**824**	**4,098**	**8,846**	**1,210**	**25**	**15,003**

Information on leased assets is provided in Note 25 and on lease payments in Note 26.

Property, plant and equipment pledged as collateral as at 31.12.2014 for the loan total EUR 4,414 thousand (31.12.2013: EUR 3,851 thousand) (Note 30). The group's most significant item of property, plant and equipment pledged as collateral to the loans is the Järvevana tee 9G property and the office building thereon.

NOTE 24 INTANGIBLE ASSETS

in thousands of euros

	Goodwill*	Software	Prepayments	Total
Cost at 31.12.2012	891	1,231	52	2,174
Accumulated amortisation at 31.12.2012	-	(809)	-	(809)
Carrying amount at 31.12.2012	**891**	**422**	**52**	**1,365**
Acquisitions	-	28	-	28
Write-offs	-	-	(52)	(52)
Amortisation and impairment	(89)	(85)	-	(174)
Carrying amount at 31.12.2013	**802**	**365**	**-**	**1,167**
Cost at 31.12.2013	891	1,252	-	2,143
Accumulated amortisation at 31.12.2013	(89)	(887)	-	(976)
Carrying amount at 31.12.2013	**802**	**365**	**-**	**1,167**
Acquisitions	-	25	-	25
Amortisation and impairment	(89)	(92)	-	(181)
Carrying amount at 31.12.2014	**713**	**298**	**-**	**1,011**
Cost at 31.12.2014	891	1,155	-	2,046
Accumulated amortisation at 31.12.2014	(178)	(857)	-	(1,035)
Carrying amount at 31.12.2014	**713**	**298**	**-**	**1,011**

* As at the balance sheet date, an impairment test was performed for the cash-generating unit AS Vooremaa Teed which goodwill is attributable to. The impairment test was performed based on the principles of conservatism. In the reporting period, a goodwill impairment loss of EUR 89 thousand was recognised (2013: EUR 89 thousand) because the recoverable amount of the cash-generating unit did not exceed the carrying amount of the non-current assets and goodwill of the cash-generating unit. The recoverable amount of the assets is determined as its value in use, using management-approved cash flow projections for the next 5 years. Post-projection period cash flows are extrapolated using reasonable growth rates. The management has re-evaluated the near-term outlook for road construction and therefore, it has used 0% as the long-term growth rate of income and expenses, 2% (2013: -1%) as the average sales growth and 13% (2013: 14%) as the average EBITDA margin. The average weighted cost of capital of 10% (2013: 9%) is used as the discount rate, which takes account of the company's area of activity and risk level. For determining the budgeted gross margin, the management used previous periods' business experience and competitive situation.

NOTE 25 LEASED ASSETS

in thousands of euros

	31.12.2014	31.12.2013
Assets acquired under finance lease terms		
Registered immovables purchased for resale		
Cost	929	929
Machinery and equipment		
Cost	7,890	6,025
Accumulated depreciation	(2,562)	(2,362)
Carrying amount	5,328	3,663

Assets leased under non-cancellable operating lease terms	2014	2013
Land lease agreements		
Payments in the reporting period	2	2
Payments in subsequent periods:	16	17
Payable next year	2	2
Payable in 1…5 years	7	7
Payables after 5 years	7	8

On the basis of cancellable lease agreements, operating lease payments totalling EUR 607 thousand were paid for passenger cars in 2014 (2013: EUR 780 thousand). The Company does not intend to use a bargain purchase option for the assets leased under the operating lease terms in the reporting period.
Lease agreements does not set any limits to groups' dividend or financing policies. Rented assets have not been re-rented.

INVESTMENT PROPERTY LEASED OUT UNDER NON-CANCELLABLE OPERATING LEASE TERMS

	31.12.2014	31.12.2013
Cost	5,296	5,118
Accumulated depreciation	(696)	(466)
Carrying amount	4,600	4,652

	2014	2013
Operating lease income received for investment properties	444	312
Future operating lease income:	3,050	3,356
Next year	460	443
In 1…5 years	1,889	2,018
Later than 5 years	701	895

NOTE 26 BORROWINGS

in thousands of euros

	Finance lease liabilities at present value	Loans from						Total borrowings (Note 35)
		banks	entities under common control (Note 33)	related parties (Note 33)	other entities	factoring	total	
2014								
Balance at beginning of the year	2,872	23,953	8,145	102	313	-	32,513	35,385
Received	2,693	14,939	1,200	-	603	-	16,742	19,435
Paid	(1,076)	(14,843)	(1,200)	-	-	-	(16,043)	(17,119)
Sale to lessor	(6)	-	-	-	-	-	-	(6)
Write-off	(49)	-	-	-	-	-	-	(49)
Loan balance at end of the year	**4,434**	**24,049**	**8,145**	**102**	**916**	-	**33,212**	**37,646**
incl. current portion	1,660	3,566	8,145	-	916	-	12,627	14,287
non-current portion 1…5 years	2,774	20,483		102	-	-	20,585	23,359
Interest cost of reporting period	113	692	124	5	18		839	952
incl. capitalised interest cost	39	238	18	-	-		256	295
Average effective interest rate	3.7%	2.6%	1.3%	4.8%	5.5%	-		
Base currencies	EUR	EUR	EUR	EUR	EUR	-		
2013								
Balance at beginning of the year	2,441	22,957	8,145	102	315	1,544	33,063	35,504
Received	1,644	12,862	-	-	-	-	12,862	14,506
Paid	(1,165)	(11,808)	-	-	(2)	(1,544)	(13,354)	(14,519)
VAT paid on principal	(47)	-	-	-	-	-	-	(47)
Exchange rate difference	(1)	(58)	-	-	-	-	(58)	(59)
Loan balance at end of the year	**2,872**	**23,953**	**8,145**	**102**	**313**	-	**32,513**	**35,385**
incl. current portion	928	9,530	8,145	-	313	-	17,988	18,916
non-current portion 1…5 years	1,944	14,423	-	102	-		14,525	16,469
Interest cost of reporting period	111	636	146	5	20	9	816	927
incl. capitalised interest cost	-	92	21	-	-	-	113	113
Average effective interest rate	4.6%	2.4%	1.9%	5.0%	5.5%	2.6%		
Base currencies	EUR	EUR	EUR	EUR	EUR	EUR		

	2014	2013
Minimum future payments under finance lease	4,588	3,067
incl. current portion	1,739	1,022
non-current portion with the term of 1...4 years	2,849	2,045

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

	2014	2013
Finance lease liabilities		
1-5 months	322	440
6-12 months	2,788	1,411
Bank loans		
1-5 months	9,812	4,195
6-12 months	14,238	19,758
Loans from entities under common control		
6-12 months	8,145	8,145
Loans from management members		
6-12 months	102	102
Total	**35,407**	**34,051**

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

	2014	2013
Finance lease liabilities	1,323	1,021
Loans from other entities	916	313
Total	**2,239**	**1,334**

Although different risk factors prevailed in global financial markets throughout the year, it was generally a relatively stable year. The risk margins on loans did not significantly change as compared to last year because EURIBOR was stable and other risk margins have not changed significantly since the loans were taken. Therefore, we can state that the fair value of bank loans to a material extent equals their carrying amount. The fair value of loans is measured using the discounted cash flow method and on the basis of Level 3 inputs of the fair value hierarchy.
Among the loans from entities under common control, there is a loan from AS Järvevana originating from the demerger, the interest of which after the first 12 months is 12 month Euribor + 1%.

Loan collaterals and pledged assets are presented in Note 30.

NOTE 27 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2014	31.12.2013
Trade payables (Note 35)	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
	3,034	**3,394**
Amounts due to customers for contract works (Notes 32, 35)	8,690	11,226
Other liabilities (Note 35)		
interest liabilities	136	120
payable for registered immovables from demerger	4,026	5,288
other liabilities	494	1,499
	4,656	**6,907**
Prepayments received	25,080	24,417
Total payables and prepayments	**71,122**	**72,162**
incl. payables to related parties (Note 33)	5,859	6,903

NOTE 28 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	**Provision for onerous construction contracts**	**Provision for legal costs and claims filed** (Note 35)*	**Provision for costs of projects sold**	**Other provisions**	**Total provisions**
2014						
Residual value at beginning of the year	1,810	2,752	192	1,132	20	5,906
Set up (Notes 3, 4, 6)	1,087	2,021	-	1,352	60	4,520
Used during the year	(760)	(2,694)	(20)	(646)	(26)	(4,146)
Sale in business combination	(41)	-	-	-	-	(41)
Balance at end of the year	**2,096**	**2,079**	**172**	**1,838**	**54**	**6,239**
incl. current portion	2,096	2,079	172	1,838	54	6,239
2013						
Residual value at beginning of the year	1,619	2,067	1,342	1,136	21	6,185
Set up (Notes 3, 4, 6)	819	2,202	-	322	27	3,370
Used during the year	(626)	(1,517)	(1,150)	(322)	(28)	(3,643)
Exchange rate difference	(2)	-	-	(4)	-	(6)
Balance at end of the year	**1,810**	**2,752**	**192**	**1,132**	**20**	**5,906**
incl. current portion	1,810	2,752	192	1,132	20	5,906

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

NOTE 29 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2014	31.12.2013
Trade payables (Note 35)	1,644	2,123
Long-term interest payables	13	8
Other long-term payables	14	31
Total other long-term payables	**1,671**	**2,162**

NOTE 30 LOAN COLLATERALS AND PLEDGED ASSETS

in thousands of euros

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

Commercial pledges	31.12.2014	31.12.2013
Movable property	51,412	54,638
Term deposit	37	1
Financial assets*	14,166	13,154
Total	**65,615**	**67,793**

* The financial assets of UAB Balsiu mokyklos SPV which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,373 thousand for the benefit of Nordea Bank AB Lithuania Branch.

Mortgages	31.12.2014	31.12.2013
Inventories (Note 17)	37,649	50,699
Land and buildings (Note 23)	3,714	3,851
Other non-current assets (Note 23)	700	-
Investment properties (Note 22)	4,110	4,319
Total	**46,173**	**58,869**

Pledges of shares

In addition to the commercial pledge for financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu mokyklos SPV for the benefit of Nordea Bank AB Lithuania Branch. An investment loan in the amount of EUR 6,373 is secured by the pledge.

NOTE 31 SHARE CAPITAL

In 2014 and 2013, no changes were made to the share capital.

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

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

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

According to the current articles of association of AS Merko Ehitus, the Company's share capital consists of 17,700 thousand registered ordinary shares without nominal value which have been fully paid for and without amending the articles of association of the public limited company, changes can be made to the Company's share capital within the range of EUR 6,000 – 24,000 thousand. As at 31.12.2014, the share capital of AS Merko Ehitus was EUR 12,000 thousand and the net assets were EUR

127,027 thousand, therefore the Company's equity and share capital were in compliance with the requirements established in the Republic of Estonia. The book value of the share has not canged in 2014 and is EUR 0.67797 as at 31.12.2014.

NOTE 32 CONSTRUCTION CONTRACTS IN PROGRESS

in thousands of euros

	31.12.2014	31.12.2013
Costs incurred for construction contracts in progress and corresponding profit*	483,735	579,287
Progress billings submitted	(482,134)	(577,573)
Revenue recorded from construction services during the period	205,033	230,575
Amounts due from customers for contract works (Notes 15, 35)	10,291	12,940
Amounts due to customers for contract works (Notes 27, 35)	(8,690)	(11,226)
Advance payments received for contract works	5,540	5,781

* Costs incurred for construction contracts in progress and corresponding profit have been presented for contracts in effect, including those entered into in 2014 and 2013.

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

NOTE 33 RELATED PARTY TRANSACTIONS

in thousands of euros

In compiling the Annual Report, the following entities have been considered as related parties:

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2014 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.

GOODS AND SERVICES

in thousands of euros

	2014	2013
Provided services		
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
Total services provided	**1,730**	**1,937**
Interest income		
Joint ventures	118	114
Purchased services and materials		
Parent company	90	102
Entities under common control	123	160

	2014	2013
Other related parties	-	1
Total purchased services and materials	**213**	**263**
Interest expense		
Entities under common control	124	146
Members of the management	5	5
Total interest expense	**129**	**151**

BALANCES WITH RELATED PARTIES

in thousands of euros

	31.12.2014	31.12.2013
Receivables from related parties		
Loans granted (Note 16)		
Joint ventures	1,775	5,010
Receivables and prepayments (Note 15)		
Parent company	3	3
Joint ventures	409	692
Entities under common control	7	399
Total receivables and prepayments	419	1,094
Total receivables from related parties	**2,194**	**6,104**
Payables to related parties		
Loans received (Note 26)		
Entities under common control	8,145	8,145
Members of the management	-	102
Other related parties	102	-
Total loans received	8,247	8,247
Payables and prepayments (Note 27)		
Parent company	9	9
Entities under common control	4,039	5,364
Members of the management	1,811	1,530
Total payables and prepayments	**5,859**	**6,903**
Total payables to related parties	**14,106**	**15,150**

With regard to receivables from related parties, no impairments were performed in either 2014 or 2013.

TRANSACTIONS INVOLVING RELATED PARTIES AFTER THE BALANCE SHEET DATE

On 13 March 2015, AS Järvevana and AS Merko Ehitus signed a notarized contract of sale of registered immovables, under which all of the real estate governed by an option agreement between the parties were realized for EUR 4,026 thousand. Pursuant to the additional agreement between the parties, the purchase prices of the immovables are payable by 30 April 2015.
Additionally, AS Järvevana and AS Merko Ehitus on 16 March 2015 entered into an overdraft contract worth EUR 8,000 thousand, with an interest rate of the 6-month EURIBOR + 2.65% and a term of 30 April 2021. After signing the overdraft limit will decrease each year by EUR 1,000 thousand. AS Merko Ehitus also undertook to pay by 30 April 2015 all loan obligations against AS Järvevana outstanding on the basis of earlier loan agreements, in the total amount of EUR 8,145 thousand.
On 25 March 2015, a 100% subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti acquired a 100% holding in OÜ Rannamõisa Kinnisvara from a related party E.L.L. Kinnisvara AS for a purchase price of EUR 3,261 thousand to be paid to the seller after the transfer of immovable properties belonging to OÜ Rannamõisa Kinnisvara to third parties but no later than 30 June 2016. In addition, the Parties have entered into an agreement on an option to resell the 100% holding, with an expiration date of 29 June 2016.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

In 2014, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid gross fees totalling EUR 2,072 thousand (2013: EUR 2,227 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, the group has the obligation to pay compensation totalling EUR 766 thousand (2013: EUR 810 thousand). In 2014, compensation was paid to the management board members in the amount of EUR 58 thousand (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 in the management report and on AS Merko Ehitus website at: 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%
Teet Roopalu	Member of the Supervisory Board	-	0.00%
		8,357,049	**47.21%**

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31 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%
		1,607,185	**9.08%**

NOTE 34 CONTINGENT LIABILITIES

in thousands of euros

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

	31.12.2014	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	-
Total contingent liabilities	**46,682**	**51,914**

Performance period's warranty to the customer – warranty provider guarantees to the customer that the contractor's obligations arising from construction contract will be adequately completed.
Tender warranty – warranty provider guarantees to the customer arranging the tender process that the tenderer will sign a contract as per tender conditions.
Guarantee for warranty period – warranty provider guarantees to the customer that the construction defects discovered during the warranty period will be eliminated.
Prepayment guarantee – warranty provider guarantees to the customer that advances will be reimbursed, if contractor fails to deliver goods or services agreed.
Payment guarantee – warranty provider guarantees to the customer payment for goods or services.

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.
Tax authorities have the right to review the group's tax records within 5 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The group's management estimates that there are no circumstances which might lead the tax authorities to impose additional significant taxes on the group.

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

NOTE 35 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

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

1. CREDIT RISK

Credit risk relates to a potential damage which would occur if the parties to the contract are unable to fulfil their contractual obligations. For mitigating credit risk, the payment behaviour of clients is constantly monitored, their financial position is analysed and if necessary, third persons are engaged as a guarantor in transactions. Construction activities are partially financed by customer prepayments. As a rule, a precondition for receiving a prepayment is a bank guarantee for the prepayment submitted to the customer. Free cash is mostly held in overnight deposits or term deposits at Swedbank, LHV, SEB and Nordea bank groups. Swedbank AS, AS LHV Pank and SEB Pank AS do not have separate ratings by Moody's. The parent company of Swedbank AS - Swedbank AB and the parent company of SEB Pank AS - Skandinaviska Enskilda Banken AB have respectively rating A1 by Moody. Nordea Bank AB has rating Aa3. The management estimates that the group is not exposed to significant credit risk.

FINANCIAL ASSETS EXPOSED TO CREDIT RISK
in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2014				
Cash and cash equivalents (Note 14)	51,583	-	51,583	-
Term deposits (Notes 20)	-	37	37	-
Trade receivables (Notes 15, 20)	27,656	11,008	38,664	-
Amounts due from customers for contract works (Notes 15, 32)	10,291	-	10,291	-
Loans granted (Notes 15, 16, 20)	2,178	360	2,538	1,130
Interest receivables (Notes 15, 20)	394	4	398	-
Other short-term receivables (Note 15)	729	-	729	-
Total	**92,831**	**11,409**	**104,240**	**1,130**
31.12.2013				
Cash and cash equivalents (Note 14)	46,633	-	46,633	-
Term deposits (Notes 20)	-	49	49	-
Trade receivables (Notes 15, 20)	37,460	16,384	53,844	-
Amounts due from customers for contract works (Notes 15, 32)	12,940	-	12,940	-
Loans granted (Notes 15, 16, 20)	1,399	3,633	5,032	4,983
Interest receivables (Notes 15, 20)	656	-	656	-
Other short-term receivables (Note 15)	51	-	51	-
Total	**99,139**	**20,066**	**119,205**	**4,983**

The group's customers are primarily large local entities or public sector entities (as at 31.12.2014, the public sector proportion in accounts receivable amounted to 41.8% (as at 31.12.2013: 57.7%)) with well-known and sufficient creditworthiness.

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

	31.12.2014		31.12.2013	
Not overdue	22,834	82.6%	33,996	90.8%
1-30 days overdue	2,586	9.4%	2,261	6.0%
31-60 days overdue	278	1.0%	352	0.9%
61-90 days overdue	581	2.1%	460	1.2%
91-120 days overdue	81	0.3%	22	0.1%
121-180 days overdue	372	1.3%	282	0.8%
More than 180 days overdue	924	3.3%	87	0.2%
Total trade receivables (Note 15)	**27,656**	**100%**	**37,460**	**100%**

As at the balance sheet date, the amount of overdue receivables was EUR 4,821 thousand (31.12.2013: EUR 3,464 thousand), of which EUR 3,176 thousand has been collected by 15 March 2015. In a year, the share of overdue receivables in total receivables increased from 9.2% to 17.4%. The group keeps running track of payment history for all customers separately for each receivable. The management estimates that there are sufficient reasons to conclude that the receivables reported in the financial statement will be paid off by the buyers. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 1,775 thousand (31.12.2013: 5,010 thousand) and therefore, no additional collateral is required. As at 31.12.2014, loans granted to unrelated legal entities amounted to EUR 753 thousand (31.12.2013: 0 thousand) and the outstanding loan balance granted to unrelated individuals was EUR 10 thousand (31.12.2013: 22 thousand), which in management's opinion is not exposed to material credit risk. As at the year-end, the management expects to collect these loans on time.

2. MARKET RISK

INTEREST RISK

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. In 2014, the share of interest-bearing liabilities in the group's capital structure increased and management considers this share to be moderate (as at 31.12.2014, 15,1% and 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.

EFFECT OF CHANGES IN INTEREST RATE RISK ON FINANCE COSTS

As at 31.12.2014, the group's interest-bearing liabilities totalled EUR 37,646 thousand, of which short-term loans and repayments of long-term liabilities totalled EUR 14,287 thousand and long-term loans and finance lease liabilities totalled EUR 23,359 thousand. Loan interest depended on interbank 1-12 month loan base interest in the entity's domicile and Euribor. As at 31.12.2014, the break-down of interest-bearing borrowings was as follows:

	31.12.2014	31.12.2013
Fixed rate liabilities	2,239	1,334
Variable rate liabilities 1-5 months	10,134	4,635
Variable rate liabilities 6-12 months	25,273	29,416
Total interest-bearing borrowings	**37,646**	**35,385**

The management does not expect big changes in base interest rates, the market is stable and base interest rates remain low. Assuming that average EURIBOR is 10 bp higher over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 35 thousand.

In addition to risk arising from changes in Euribor, there is risk due to changes in the risk margin attributable to the changes in the economic environment related refinancing of liabilities. This is most directly manifested in a possible need to extend overdraft credit contracts. As at the year-end, group entities had entered in overdraft contracts with banks and other unrelated third parties in the total limit amount of EUR 10,590 thousand, of which EUR 602 thousand was withdrawn. In 2015, contracts in the total amount of EUR 7,996 thousand will expire, the extension of which is currently under consideration.

FOREIGN EXCHANGE RISK

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia and Latvia and Lithuanian litas in Lithuania. From 1 January 2015, Lithuania adopted the euro as its national currency. In order to eliminate foreign exchange risk, the proportions of assets and liabilities denominated in different currencies are monitored and the preferred currency for conclusion of long-term construction contracts is the euro. The break-down of assets and liabilities in local currencies as at the balance sheet date is as follows:

	In EUR	In LVL	In LTL
31.12.2014			
Assets	88.4%	-	11.6%
Liabilities	97.0%	-	3.0%
31.12.2013			
Assets	67.0%	23.4%	9.6%
Liabilities	78.9%	12.5%	8.6%

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.

3. 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 year, the group entities had concluded overdraft contracts with banks and other unrelated third parties in the total amount of EUR 10,590 thousand, of which EUR 9,988 thousand was unused (31.12.2013: EUR 6,488 thousand, of which EUR 6,288 was unused). In addition to the overdraft facility, the Company has a current loan facility with the limit of EUR 3,500 thousand (31.12.2013: EUR 3,500 thousand) from AS Riverito, which had not been withdrawn in full as at the end of current and previous financial years.

The management estimates that the group's capital structure – a solid proportion of equity at 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.

FINANCIAL ASSETS/LIABILITIES

in thousands of euros

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2014					
Assets					
Cash and overnight deposits (Note 14)	51,583	-	-	51,583	51,583
Term deposits (Notes 20)	-	-	37	37	37
Trade receivables (Notes 15, 20)	19,799	7,857	11,008	38,664	38,664
Due from customers of construction works (Notes 15, 32)	10,291	-	-	10,291	10,291
Loans and interest (Notes 15, 16, 20)	19	2,553	364	2,936	2,936
Other short-term receivables (Note 15)	121	608	-	729	729
Total	**81,813**	**11,018**	**11,409**	**104,240**	**104,240**
Liabilities					
Trade payables (Notes 27, 29)	12,793	8,510	1,644	22,947	22,947
Due to customers of construction works (Notes 27, 32)	8,690	-	-	8,690	8,690
Loan and finance lease liabilities (Note 26)*	2,033	12,254	23,359	37,646	37,646
Other liabilities (Note 27, 29)	352	4,304	27	4,683	4,683
Total	**23,868**	**25,068**	**25,030**	**73,966**	**73,966**
Net assets / liabilities	**57,715**	**(13,820)**	**(13,621)**	**30,274**	**30,274**

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

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

CAPITAL MANAGEMENT

The group considers borrowings and total equity as capital. As at 31.12.2014, the total equity attributable to equity owners of the parent was EUR 127,027 thousand (31.12.2013: EUR 121,863 thousand). The group's principle is to maintain a strong equity base for the purpose of retaining its trustworthiness among its shareholders, creditors and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to increase income for its shareholders and ensure its ability to pay dividends.

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

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio should be at least 40% (31.12.2014: 51.0%, 31.12.2013: 50.9%) and interest-bearing debt to assets ratio would not exceed 25% (31.12.2014: 15.1%, 31.12.2013: 14.8%). The requirement laid down in the overdraft contract entered into with Nordea Bank AB Estonia branch specifies that the share of the company's consolidated equity from total assets would not fall below 35% and the group has complied with this requirement.

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

	31.12.2014	31.12.2013
Borrowings	37,646	35,385
Less: cash and cash equivalents and short-term deposits	(51,583)	(46,633)
Net debt	(13,937)	(11,248)
Total equity attributable to owners of the parent	127,027	121,863
Total net debt and equity attributable to equity owners of the parent	113,090	110,615
Share of net borrowings	-12.3%	-10.2%

The group's net debt at 31.12.2014 stood at negative EUR 13.9 million (31.12.2013: negative EUR 11.2 million).

MANAGEMENT OF OTHER RISKS

LEGAL RISK

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

As at 31 December 2014, a provision has been set up at the group in the amount of EUR 172 thousand for covering potential claims and legal costs (31 December 2013: EUR 192 thousand), (Note 28).

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

Lawsuit against Tritan Group AS

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 "Vakaru") filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of 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 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 Klaipeda District Court, which decided to return the case back to District Court of Plungė and a new hearing is scheduled on 13 April 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 EUR 69 thousand. At 11 January 2013, UAB Merko Statyba filed a counterclaim in the amount of 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.

VALUE OF ASSETS

Although the economic environment has attained certain stability, the effect of the real estate market risk was material for assessing the company's activities. In 2014, the group recognised EUR 632 thousand (2013: EUR 458 thousand) in impairment losses on assets and inventories, incl. impairment loss of EUR 400 thousand (2013: EUR 330 thousand) on developments under properties acquired for sale, EUR 89 thousand (2013: EUR 89 thousand) on goodwill impairment under intangible assets and EUR 143 thousand (2013: EUR 39 thousand) on the write-off of doubtful and irrecoverable receivables. In 2014, prior period impairment losses on finished goods under inventories were reversed in the amount of EUR 850 thousand (2013: on work-in-progress EUR 337 thousand). In 2014, receivables expensed in prior periods of EUR 20 thousand were collected (2013: EUR 49 thousand).

NOTE 36 SUPPLEMENTARY DISCLOSURES ON THE PARENT

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

INCOME STATEMENT

in thousands of euros

	2014	2013
Revenue	20,317	14,393
Cost of goods sold	(19,590)	(13,485)
Gross profit	**727**	**908**
Marketing expenses	(139)	(203)
General and administrative expenses	(1,618)	(1,468)
Other operating income	1,845	2,272
Other operating expenses	(104)	(156)
Operating profit	**711**	**1,353**
Finance costs	(33)	(285)
Finance income from investments in subsidiaries	1,721	5,303
Profit before tax	**2,399**	**6,371**
Deferred income tax expense	-	(232)
Net profit for the year	**2,399**	**6,139**

STATEMENT OF FINANCIAL POSITION
in thousands of euros

	31.12.2014	31.12.2013
ASSETS		
Current assets		
Cash and cash equivalents	13,923	15,014
Receivables and prepayments	4,073	42,393
Inventories	10,122	13,646
	28,118	**71,053**
Non-current assets		
Investments in subsidiaries	131,895	101,501
Investments in joint ventures	409	404
Other long-term financial assets	9,019	5,415
Investment property	19	20
Property, plant and equipment	216	108
	141,558	**107,448**
TOTAL ASSETS	**169,676**	**178,501**
LIABILITIES		
Current liabilities		
Borrowings	8,476	8,439
Trade and other payables	11,382	13,493
Short-term provisions	197	584
	20,055	**22,516**
Non-current liabilities		
Long-term borrowings	100	749
Other long-term trade payables	-	857
	100	**1,606**
TOTAL LIABILITIES	**20,155**	**24,122**
EQUITY		
Share capital	12,000	12,000
Statutory reserve capital	1,200	1,200
Retained earnings	136,321	141,179
TOTAL EQUITY	**149,521**	**154,379**
TOTAL LIABILITIES AND EQUITY	**169,676**	**178,501**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2012	12,000	1,200	140,350	153,550
Net profit for financial year	-	-	6,139	6,139
Dividends	-	-	(5,310)	(5,310)
Balance as at 31.12.2013	12,000	1,200	141,179	154,379
Carrying amount of holdings under dominant or significant influence				(101,905)
Value of holdings under dominant or significant influence under the equity method				69,389
Adjusted unconsolidated equity 31.12.2013				**121,863**
Net profit for financial year	-	-	2,399	2,399
Dividends	-	-	(7,257)	(7,257)
Balance as at 31.12.2014	12,000	1,200	136,321	149,521
Carrying amount of holdings under dominant or significant influence				(132,304)
Value of holdings under dominant or significant influence under the equity method				109,810
Adjusted unconsolidated equity 31.12.2014				**127,027**

Adjusted unconsolidated equity is used as the basis for verifying compliance with equity requirements set forth in the Commercial Code.

CASH FLOW STATEMENT

in thousands of euros

	2014	2013
Cash flows from operating activities		
Operating profit	711	1,353
Adjustments:		
Depreciation and impairment charge	48	40
Adjustment of revenue from construction contracts under stage of completion method	435	382
Interest income from business activities	(1,825)	(2,144)
Change in provisions	(258)	(181)
Change in trade and other receivables related to operating activities	28,163	984
Change in inventories	3,542	2,316
Change in trade and other payables related to operating activities	(3,482)	4,443
Interest received	8,352	773
Interest paid	(174)	(178)
	35,512	**7,788**
Cash flows from investing activities		
Investments in subsidiaries	(35,269)	(25,142)
Liquidation of subsidiary	-	2
Reduction of equity in subsidiary	4,875	6,200
Increase of equity in joint venture	(5)	(350)
Purchase of property, plant and equipment	(5)	(4)
Repayments of loans granted	-	21,580
Interest received	99	32
Dividends received	1,721	5,357
	(28,584)	**7,675**
Cash flows from financing activities		
Proceeds from borrowings	1,204	815
Loan repayments received	(1,958)	(4,248)
Finance lease principal payments	(8)	-
Dividends paid	(7,257)	(5,310)
	(8,019)	**(8,743)**
Net increase/decrease in cash and cash equivalents	**(1,091)**	**6,720**
Cash and cash equivalents in the beginning of period	15,014	8,313
Effects of changes in foreign exchange rates	-	(19)
Cash and cash equivalents at end of the period	13,923	15,014

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2014 ANNUAL REPORT

The Management Board of AS Merko Ehitus has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2014.

Andres Trink	Chairman of the Management board	27.03.2015
Tõnu Toomik	Member of the Management Board	27.03.2015

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

Toomas Annus	Chairman of the Supervisory Board	07.04.2015
Teet Roopalu	Member of the Supervisory Board	07.04.2015
Indrek Neivelt	Member of the Supervisory Board	07.04.2015
Olari Taal	Member of the Supervisory Board	07.04.2015

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Merko Ehitus

We have audited the accompanying consolidated financial statements of AS Merko Ehitus and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Merko Ehitus and its subsidiaries as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu	Märten Padu
Auditor's Certificate No.325	Auditor's Certificate No.513

27 March 2015

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

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2014	**114,491,832**
incl. net profit for 2014	12,416,623

The Management Board proposes profit allocation as follows:

Dividends (EUR 0.41 per share)	7,257,000
Retained earnings after profit allocation	**107,234,832**

Andres Trink	Chairman of the Management Board	27.03.2015
Tõnu Toomik	Member of the Management Board	27.03.2015

KEY FINANCIAL INDICATORS IN 2010-2014

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2014	2013	2012	2011	2010
Revenue	252,323	262,719	249,131	219,322	171,919
Cost of goods sold	(227,591)	(239,996)	(231,220)	(222,928)	(159,105)
Gross profit	**24,732**	**22,723**	**17,911**	**(3,606)**	**12,814**
% of revenue	*9.8%*	*8.6%*	*7.2%*	*-1.6%*	*7.5%*
Marketing expenses	(3,190)	(3,041)	(2,107)	(2,104)	(2,193)
General and administrative expenses	(9,128)	(9,260)	(9,173)	(7,910)	(8,724)
Other operating income	1,901	2,264	2,961	2,580	961
Other operating expenses	(340)	(425)	(834)	(1,308)	(478)
Operating profit	**13,975**	**12,261**	**8,758**	**(12,348)**	**2,380**
% of revenue	*5.5%*	*4.7%*	*3.5%*	*-5.6%*	*1.4%*
Finance income	143	84	184	594	696
Finance costs	(680)	(1,062)	(1,203)	(1,161)	(908)
Profit (loss) from associates and joint ventures	(130)	(138)	163	(1,120)	(398)
Profit before tax	**13,308**	**11,145**	**7,902**	**(14,035)**	**1,770**
% of revenue	*5.3%*	*4.2%*	*3.2%*	*-6.4%*	*1.0%*
Corporate income tax expense	(1,055)	(791)	(289)	(121)	(710)
Net profit for the financial year	**12,253**	**10,354**	**7,613**	**(14,156)**	**1,060**
Incl. attributable to equity holders of the parent	12,417	10,399	7,627	(14,084)	1,229
% of revenue	*4.9%*	*4.0%*	*3.1%*	*-6.4%*	*0.7%*
Attributable to non-controlling interests	(164)	(45)	(14)	(72)	(169)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010
ASSETS					
Current assests					
Cash and cash equivalents	51,583	46,633	35,316	18,510	9,856
Short-term deposits	-	-	-	140	2,651
Trade and other receivable	46,382	57,172	60,343	64,449	44,938
Prepaid corporate income tax	3	19	478	686	1,366
Inventories	117,638	87,451	82,830	87,834	93,048
	215,606	**191,275**	**178,967**	**171,619**	**151,859**
Non-current assets					
Investments in joint ventures	67	7,349	7,190	9,986	11,053
Other long-term loans and receivables	11,409	20,066	17,188	17,065	8,258
Deferred income tax assets	1,535	1,592	1,919	1,870	1,571
Investment property	4,619	4,672	3,566	2,313	3,585
Property, plant and equipement	15,003	13,117	14,853	16,057	17,747
Intangible assets	1,011	1,167	1,365	1,427	1,508
	33,644	**47,963**	**46,081**	**48,718**	**43,722**
TOTAL ASSETS	**249,250**	**239,238**	**225,048**	**220,337**	**195,581**
LIABILITIES					
Current liabilities					
Borrowings	14,287	18,916	16,299	16,574	12,554
Payables and prepayments	71,122	72,162	63,209	61,635	39,154
Corporate income tax liability	352	62	-	-	-
Short-term provisions	6,239	5,906	6,165	6,781	3,674
	92,000	**97,046**	**85,673**	**84,990**	**55,382**
Non-current liabilities					
Long-term borrowings	23,359	16,469	19,205	23,764	13,185
Deferred income tax liability	738	505	327	131	-
Other long-term payables	1,671	2,162	1,576	856	846
	25,768	**19,136**	**21,108**	**24,751**	**14,031**
TOTAL LIABILITIES	**117,768**	**116,182**	**106,781**	**109,741**	**69,413**
EQUITY					
Non-controlling interests	4,455	1,193	1,342	1,356	1,428
Equity attributable to equity holders of the parent					
Share capital	12,000	12,000	12,000	12,000	11,312
Statutory reserve capital	1,200	1,200	1,200	1,131	1,131
Currency translation differences	(665)	(669)	(512)	(570)	(924)
Retained earnings	114,492	109,332	104,237	96,679	113,221
	127,027	**121,863**	**116,925**	**109,240**	**124,740**
TOTAL EQUITY	**131,482**	**123,056**	**118,267**	**110,596**	**126,168**
TOTAL LIABILITIES AND EQUITY	**249,250**	**239,238**	**225,048**	**220,337**	**195,581**

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OTHER KEY FIGURES

attributable to equity holders of the parent

		2014	2013	2012	2011	2010
EBITDA	million EUR	16.4	15.1	11.4	-10.1	4.8
EBITDA margin	%	6.5	5.7	4.6	-4.6	2.8
General expense ratio	%	4.9	4.7	4.5	4.6	6.4
Staff costs ratio	%	11.9	11.8	11.2	10.2	12.4
Revenue per employee	thousand EUR	319	308	278	235	208
ROE	%	10.1	8.8	6.8	-12.2	1.0
ROA	%	5.0	4.4	3.4	-6.6	0.6
ROIC	%	8.8	8.0	6.0	-9.0	1.6
Equity ratio	%	51.0	50.9	52.0	49.6	63.8
Debt ratio	%	15.1	14.8	15.8	18.3	13.2
Current ratio	times	2.3	2.0	2.1	2.0	2.7
Quick ratio	times	1.1	1.1	1.1	1.0	1.1
Accounts receivable turnover	days	56	58	58	56	46
Accounts payable turnover	days	39	43	47	45	40
Number of employees 31.12	people	765	860	915	917	923
Average number of employees	people	790	853	895	934	825
Secured order book	million EUR	179	214	190	166	200
New contracts signed	million EUR	170	254	247	168	271

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2014	2013	2012	2011	2010
Earnings per share (EPS)	EUR	0.70	0.59	0.43	-0.80	0.07
Equity per share	EUR	6.93	6.71	6.34	6.51	7.31
Dividend per share	EUR	0.41*	0.41	0.30	0.00	0.10
Dividend rate	%	58*	70	70	0	144
Dividend yield	%	5.7*	5.7	5.1	0.0	1.1
P/E ratio	times	10.18	12.25	13.69	-6.79	130.32
P/B ratio	times	1.03	1.07	0.93	0.83	1.24
Share price trend						
Average	EUR	7.33	6.96	6.04	7.49	7.72
Highest	EUR	7.99	7.70	7.30	10.65	9.89
Lowest	EUR	6.70	5.71	5.37	4.90	5.05
Share price 31.12	EUR	7.14	7.20	5.90	5.40	9.05
Market value 31.12	million EUR	126.4	127.4	104.40	95.60	160.20
Share turnover trend						
Share turnover	million EUR	7.62	5.08	5.47	8.02	13.09
Share turnover of shares outstanding	%	43.0	28.7	30.9	45.3	74.0
Transactions	pcs	1,699	2,183	1,662	3,719	4,490
Shares traded	million pcs	1.03	0.73	0.94	1.06	1.70
Number of shares	million EUR	17.70	17.70	17.70	17.70	17.70
Number of shareholders 31.12	pcs	1,423	1,425	1,406	1,576	1,441

** pursuant to the Management Board's proposal regarding dividend payment.*

DEFINITIONS OF RATIOS

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

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

Revenue break-down of the parent of AS Merko Ehitus for the year 2014 is presented according to Estonian Classifications of Economic Activities (EMTAK 2008), as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		2014	2013
	Rendering of construction services		
4110	development of building projects	-	-
4221	construction of utility projects for fluids	10,851	4,034
4299	construction of other civil engineering projects n.e.c.	-	25
			4,059
	Real estate activities		
6810	sales of own real estate	9,454	10,296
6820	renting and operating of own or leased real estate	12	38
		9,466	**10,334**
	Total revenue	**20,317**	**14,393**