



AS MERKO EHITUS

GROUP

2015 3 months
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2015 – 31.03.2015
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and 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.

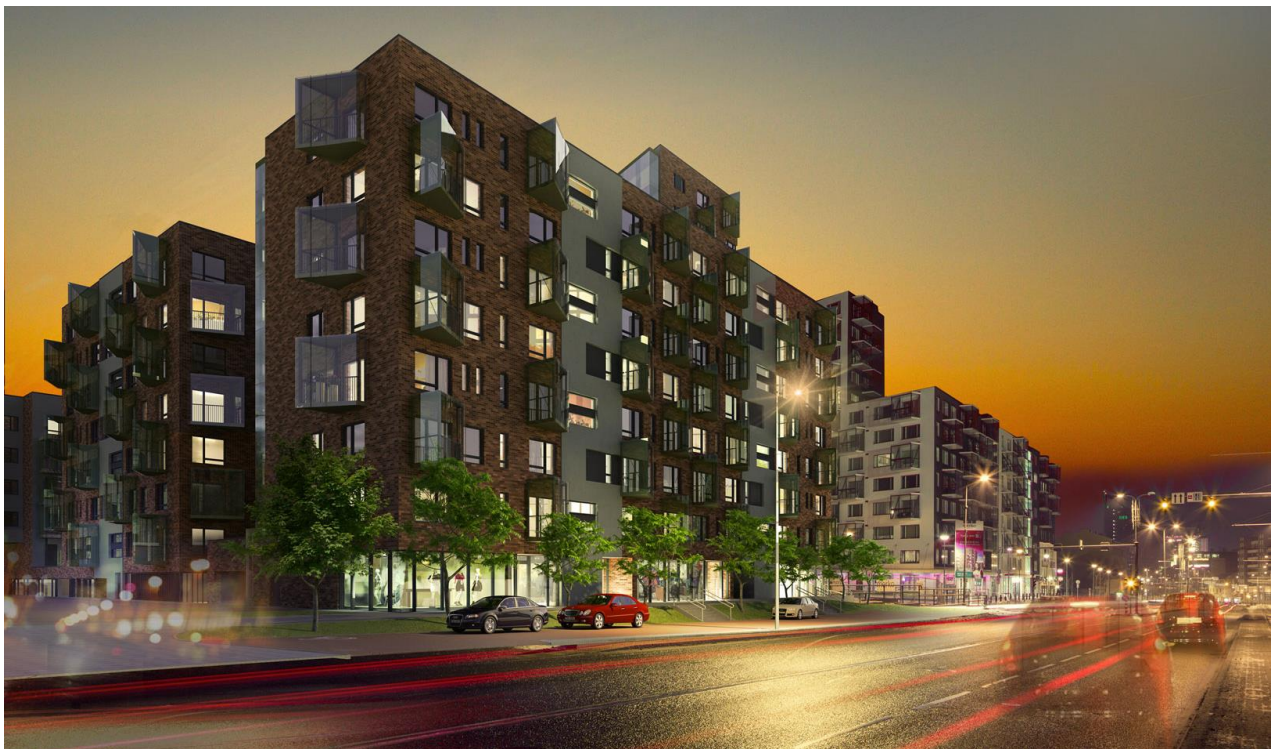
Holding company AS Merko Ehitus is responsible for the development and implementation of the strategies of various group companies primarily through allocation and long-term planning of resources. The shares of Merko have been listed on the NASDAQ Tallinn Stock Exchange since 1997. The group employs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



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.

VISION

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

VALUES

RESPONSIBILITY	We decide based on business thinking, awareness and ethical beliefs. We offer enduring and environmentally friendly solutions.
KEEPING PROMISES	We give realistic promises to the shareholders, contracting entities, cooperation partners, employees and we keep our promises. Good solutions are born in cooperation, the keeping of one's promises is mutual.
COMPETENCE	We value quality and professionalism. We constantly develop our professional knowledge and skills.
INITIATIVE	We manage processes and we are result-oriented. We accept the challenges which presume more.
CREATIVITY	We are open, innovative and creative in working out and implementing the solutions. We have a will to carry out forward-looking ideas.

STRATEGY

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

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

The Management Board and Supervisory Board have approved the company's strategic development directions and long-term financial objectives for the period 2013 to 2018, which are:

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

dividend rate
50-70%
of annual profit

equity ratio
at least
40%

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

As at the end of 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%

MANAGEMENT REPORT

COMMENTARY OF THE CHAIRMAN OF THE MANAGEMENT BOARD

The results posted by the Merko Ehitus group in the first quarter of 2015 are in line with expectations and reflect developments on the Baltic construction market in 2014 – a lower volume of orders and pressure on margins from price competition – which will continue to have an effect in 2015 and likely in 2016 as well. The management of the group sees 2015 as challenging for construction companies as regards securing new orders, as growth is not forecasted in the near future on the construction market, preparation of new procurements takes a long time and companies are taking major risks in bidding for construction contracts. Growth prospects on the construction market may start improving from 2016, and thus flexibility and efficiency are very important for construction companies in the near future.

In the first quarter of 2015, Merko Ehitus had sales revenue of EUR 45.6 million (first 3 months of 2014: EUR 48.9 million), of which 41.8% was earned outside Estonia. We are satisfied with the growth of sales revenue from construction services in Latvia; in the 3 months of 2015 the share of Latvian revenue in the group's revenue has increased to almost 37%. Lithuanian revenue from construction services stayed on par with the figure for the first quarter last year. The volume of new construction contracts cannot be considered satisfactory – in the first quarter, Merko Ehitus signed EUR 22.4 million in new construction contracts compared to EUR 48.6 million in the same period in 2014. Above all due to the interim period in announcement of public procurements funded by the EU and the uncertainty among private customers with regard to launching new developments, it is a great challenge for the group to maintain and grow its secured order book. The group continues to be focused on good cooperation and experience in the field of design services as well as comprehensive supply of design-build services to private customers.

3 MONTHS 2015
PROFIT BEFORE TAX
0.8 MILLION EUROS
REVENUE 45.6
MILLION EUROS

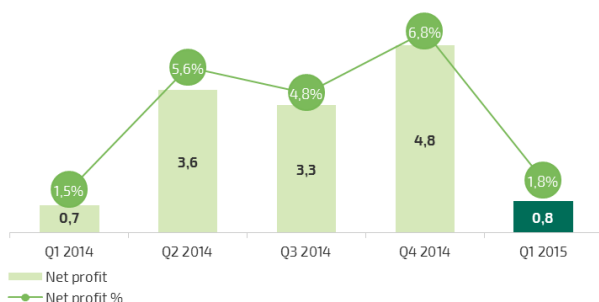
The low number of new orders has led to a bidding war on the market, which is putting pressure on margins and due to which greater risks are being taken in construction contracts by both builders and customers. Merko Ehitus's gross margin for the first quarter was 7.8% (3 months of 2014: 8.1%) and profit before taxes was EUR 0.8 million (3 months of 2014: EUR 1.1 million). Net profit margin grew to 1.8% (3 months of 2014: 1.5%) and net profit for the first quarter of 2015 was EUR 0.8 million (3 months of 2014: EUR 0.7 million).

The share of the real estate development segment increased in the first quarter of 2015 to make up 24.3% of the group's total revenue (3 months of 2014: 21.1%). In the first quarter of this year, the group has invested EUR 10.7 million into new and ongoing development projects, and the total investment planned for 2015 into apartment development projects in the Baltic states amounts to EUR 45-50 million, depending on the performance of the Baltic apartment market, currently supported by low interest rates. In 2015, the group is prepared to launch the construction of 450-500 new apartments in the Baltic states.

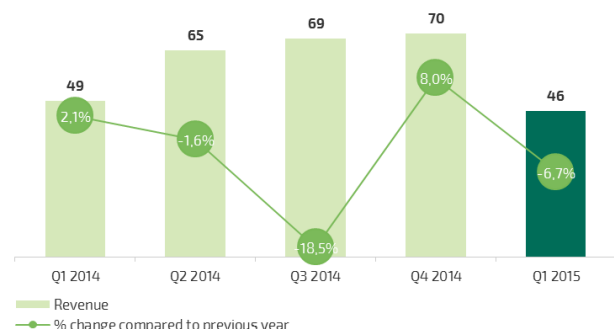
In the first quarter, the group sold 62 apartments compared to 99 in the same period last year. Apartments are recognised in the quarterly sales revenue in relation to the project completion deadline and the date on which possession is transferred to home buyers. As we delivered a greater number of apartments to buyers in Latvia back in the first quarter of 2014, the comparison base is high. We can be content with the level of the pre-sale agreements signed by the end of the last quarter – demand for Merko-developed and Merko-built apartments remains strong.

OVERVIEW OF THE 3 MONTHS RESULTS

GROUP NET PROFIT
in millions euros



GROUP REVENUE
in million euros



PROFITABILITY

Gross margin in 3M was 7.8% (3M 2014: 8.1%), which has decreased by 3.0% compared to the same period last year. Profit before tax in 3M 2015 was EUR 0.8 million (3M 2014: EUR 1.1 million), which is equivalent to a profit before tax margin of 1.8% (3M 2014: 2.3%). Net margin increased to 1.8% (3M 2014: 1.5%) and net profit in 3M was EUR 0.8 million (3M 2014: EUR 0.7 million), having increased by 13.9% compared to the same period last year.

REVENUE

Revenue in 3M 2015 was EUR 45.6 million (3M 2014: EUR 48.9 million), which has decreased by 6.7% compared to the same period last year. The share of revenue earned outside of Estonia has increased in 3M 2015 to 41.8% (3M 2014: 33.4%) and the number of apartments sold in 3 months of 2015 (62 pcs, revenues of EUR 10.8 million) has decreased by 61.3% (3 months of 2014: 99 apartments, revenues of EUR 9.0 million).

CASH POSITION

At the end of the reporting period, the group had EUR 40.9 million in cash and cash equivalents and equity EUR 127.8 million (53.1% of total assets). Comparable figures as at 31 March 2014 were accordingly EUR 51.9 million and EUR 122.6 million (51.0% of total assets). As at 31 March 2015 the group had net debt of negative EUR 5.8 million (31 March 2014: negative EUR 19.8 million).

SECURED ORDER BOOK

In Q1 2015, group companies signed new contracts in the amount of EUR 22.4 million (Q1 2014: EUR 48.6 million). As at 31 March 2015, the group's secured order book stood at EUR 167.2 million (31 March 2014: EUR 224.0 million).

DISTRIBUTION OF PROFITS AND REDUCTION OF SHARE CAPITAL

The general meeting of shareholders held on 29 April 2015 resolved to approve the profit allocation proposal for 2014 and distribute EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings. This is equivalent to a 58% dividend rate for 2014. Additionally the general meeting of shareholders decided to approve to reduce the share capital by total of EUR 4.1 million (EUR 0,23 per share) by way of reducing the book value of shares.

		3M 2015	3M 2014	VARIANCE	12M 2014
Revenue	million EUR	45.6	48.9	-6.7%	252.3
Gross profit	million EUR	3.6	3.9	-9.5%	24.7
Gross profit margin	%	7.8	8.1	-3.0%	9.8
EBITDA	million EUR	1.9	1.9	+0.7%	16.4
EBITDA margin	%	4.1	3.8	+8.0%	6.5
Profit before tax	million EUR	0.8	1.1	-26.5%	13.3
PBT margin	%	1.8	2.3	-21.2%	5.3
Net profit (parent)	million EUR	0.8	0.7	+13.9%	12.4
Net profit margin	%	1.8	1.5	+22.0%	4.9
EPS	EUR	0.05	0.04	+13.9%	0.70
		31.03.2015	31.03.2014	VARIANCE	31.12.2014
ROE (on yearly basis)	%	10.1	7.8	+29.4%	10.1
Equity ratio	%	53.1	51.0	+4.2%	51.0
Secured order book	million EUR	167.2	224.0	-25.4%	179.1
Total assets	million EUR	240.8	240.5	+0.1%	249.3
Number of employees	people	776	824	-5.8%	765

Ratio definitions are provided on page 34 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 3 MONTHS OF 2015

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 has not experienced any positive developments and the Swedish real estate sector risks remain due to long-term price increase. Although the banks' loan quality has not directly degraded, still negative scenarios would mean potential risks which 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.

CONSTRUCTION SERVICES

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. 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 today's market competitors are submitting aggressive offers, anticipating that the input prices will decrease, however which may not materialise. As a result from the above the direct and indirect risks have increased for the customers, that are sometimes not perceived in the light of the favourable prices. Risks like receiving a building that doesn't meet the expectations, contractor's financial difficulties and project completion delays disputes between the parties arising from possible changes to the project and additional works etc. are all such risks which existence must be acknowledged. At the same time, we see that the more savvy private sector clients on the market are increasingly opting to sign design-build contracts instead of mere construction contracts, as the end result a building that meets the expectations is more likely with a professional partner who is responsible for the whole.

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.

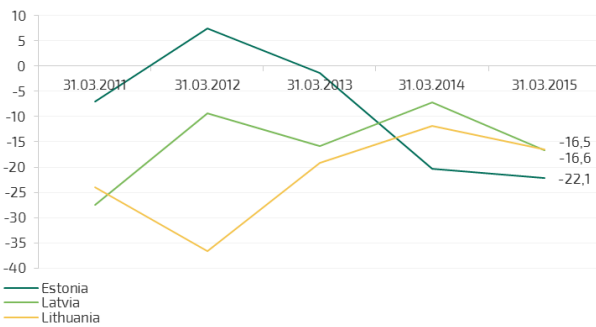
Considering the customers demand with regard to guarantees and lengthy payment terms, the stress on construction companies' working capital continues to be high and capability for cash flow management is required to remain competitive. Merko companies use the group's strong financial position as a competitive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

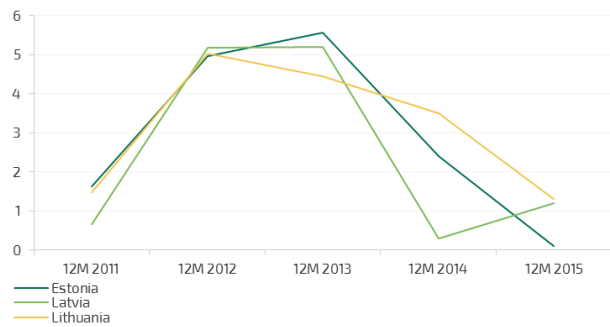
The level of indicators of confidence in the construction industry continues to be unfavourable in all three Baltic states, but is nevertheless moderately favorable than at the end of the four quarter 2014 due to the start of the construction season. Confidence is curtailed by the expectation of reduced funding in the new EU financial framework period for future construction market investments; which has a greater impact 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 and also seasonal preconditions.

Compared to the same period last year, confidence in the construction sector fell all the Baltic countries in March 2015: in Estonia (down 1.8 points from -20.3 to -22.1 points), in Lithuania (down 4.7 points from -11.8 points to -16.5 points) and in Latvian the level of construction confidence indicators was -16.6 points (March 2014: -7.2 points), having decreased the most (by 9.4 points) in the year.

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



3M CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: European Commission Directorate-General for Economic and Financial Affairs / Local national statistical offices.

	3 MONTHS 2015		
	Estonia	Latvia	Lithuania
Construction price index annual change	+0.1%	+1.2%	+1.3%
Labour force	+2.9%	+7.2%	+3.5%
Construction machines	+2.2%	+1.1%	+0.6%
Building materials	-1.5%	-0.4%	+0.1%

Source: Local national statistical offices.

As the largest general contractor, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, is well positioned in the Estonian construction market and is capable of competing in all activity segments, although there are many general contractors in general construction market segment and there is a tight price competition, often at the expense of quality and contractual risks. In Latvia, SIA Merks, a subsidiary of AS Merko Ehitus, belongs to among the leading general contractors and we believe that we can maintain our position, considering the secured order book as at the end of 2014. In Lithuania, UAB Merko Statyba, a subsidiary of AS Merko Ehitus, has focused its construction activities mainly on apartment development and building (general construction) segment that continue to experience tough competition in tenders. In the Lithuanian market, the position of general contractors is also continuously impacted by the activities of the so-called advisers that represent contracting authorities and complicate the possibilities of general contractors to win construction contracts. In 2015, considering the volume of agreements concluded in Lithuania in late 2014, we hope to increase our market share in Lithuania.

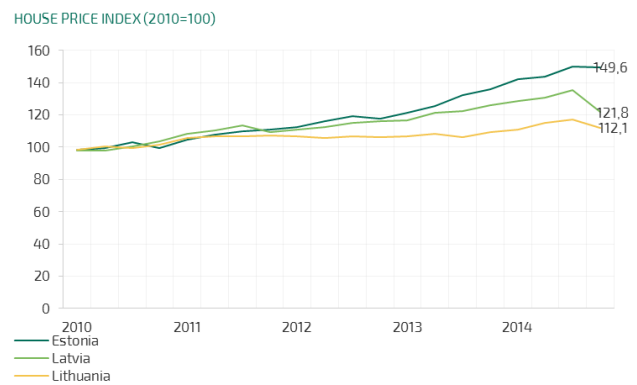
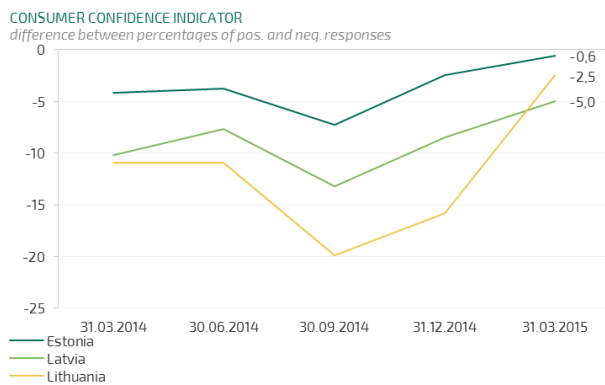
APARTMENT DEVELOPMENT

After the last three years of fast growth, the situation in the apartment market in all three Baltic States is calming down. At this point it is also important to note that the price rise of new developments in the previous years has not been as high as the

general increase of prices on the apartment market. We do not forecast a long-term and steep change in prices. 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. At the same time the prices of apartments in high-quality developments in the prime locations may experience a marginal growth, which due to the small size of the markets, can have a fairly significant effect on the average market price in periods shorter than a year. In Vilnius's bedroom communities the supply has now clearly exceeded demand and due to that we are expecting a price correction in there and a definite lengthening of sales periods. 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 reliability (experience and reputation of the developer and contractor), construction quality (energy efficiency, sound insulation) and make their buying decisions based on infrastructure of the area (parking, services, logistics). In addition, the customers are focusing more on the living environment of a neighbourhood as a whole.

Good availability of bank loans due to the strong capitalisation of banks and improved loans-to-deposits ratios is also continuously supported by a low Euribor level, at the same time customers in Latvia 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, an increase in incomes and a general improvement of the level of consumer confidence. Although the demand for loans has increased, the proportion of loans in buying real estate or construction is substantially lower than in the boom years, which means that more investments are made on equity.



Source: European Commission 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 increase in risks for some developers who may not make good on their business plans could quietly begin to create expectations on the market for lower prices. At the same time the banks continue to be reluctant to finance residential development projects of smaller developers without a proven track record or require a large number of preliminary sales contracts (up to 50% of total project volume) and a higher own equity contribution. This trend gives Merko group a competitive advantage in launching new development projects in the market and supports the launch of new development projects in all the capitals of the Baltic States.

Although the new Estonian government has taken office after the parliamentary elections in the sprint, there is still no clarity on what constitutes the state-funded rental housing program that reached the coalition agreement and what will be the as yet unforeseeable impacts of it on the apartment market and the construction market as well in the coming years.

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. Furthermore, the Latvian real estate market is influenced more than those of the other Baltic states by the economic downturn in Russia and the weaker rouble, as to this point a majority of the people buying real estate for the purpose of gaining an EU residence permit are from Russia.

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 located 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 presumably start rising due to the greater supply of money.

OPERATING RESULTS

BUSINESS ACTIVITIES

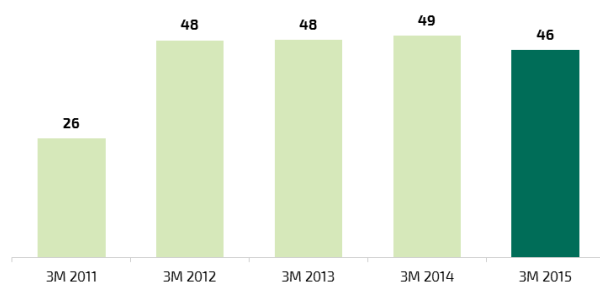
Key financial indicators (in million euros)

	3 MONTHS 2015	3 MONTHS 2014	12 MONTHS 2014
Revenue			
Estonia	26.5	32.6	170.7
Latvia	16.8	14.0	68.6
Lithuania	2.3	2.3	13.0
Revenue total	45.6	48.9	252.3
Gross profit	3.6	3.9	24.7
EBITDA	1.9	1.9	16.4
Operating profit (EBIT)	1.0	1.3	14.0
Profit before tax (PBT)	0.8	1.1	13.3
Net profit			
attributable to equity holders of the parent	0.8	0.7	12.4
attributable to non-controlling interest	(0.1)	(0.1)	(0.1)
Net profit total	0.7	0.6	12.3
Earnings per share (EPS), euros	0.05	0.04	0.70
Cash and cash equivalents closing position	40.9	51.9	51.6

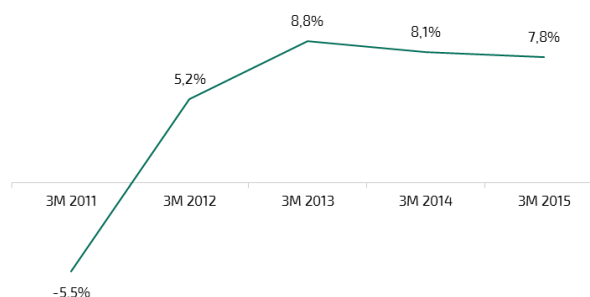
REVENUE AND GROSS PROFIT

Merko Ehitus group generated a total of EUR 45.6 million in revenue in 3 months of 2015 (3 months of 2014: EUR 48.9 million). 58.2% of the revenue was generated in Estonia, 36.8% in Latvia and 5.0% in Lithuania (3 months of 2014: 66.6% in Estonia, 28.6% in Latvia and 4.8% in Lithuania). Compared to the 3 months of 2014 the group revenue has decreased by 6.7%. Compared to the 3 months of the previous year in the 3 months of 2015 the share of Latvian revenue in the group's revenue has increased from 28.6% to 36.8%. The main changes in the revenue structure compared to the same period last year, can be mainly attributed to increase in revenue of projects pursued in the Latvian and Lithuanian construction service and real estate development segments. At the same time there has been a reduction in sales revenue from Estonian construction service segment, which is primarily due to the end of major projects financed from EU structural funds and the reduced project volumes. This trend has been similar since the beginning of 2014.

GROUP REVENUE
in million euros



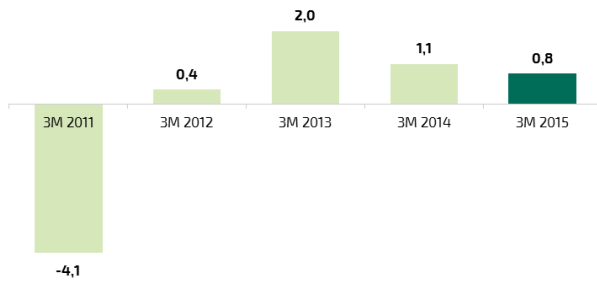
GROUP GROSS PROFIT MARGIN
percentages



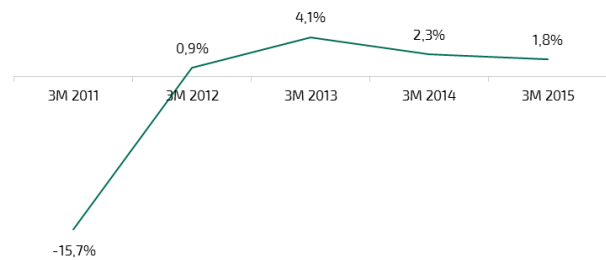
In 3 months of 2015 the group's gross profit from development and construction activities totalled EUR 3.6 million (3 months of 2014: EUR 3.9 million). The 3 months gross profit margin (7.8%) has decreased marginally compared to the same period last year (3 months of 2014: 8.1%). Maintaining the stability of profit margins during the 3 months of 2015 in the Estonian construction service segment has been important, despite the decline in sales volumes, that has been supported by the slight decrease in input prices, which may not necessarily continue over the whole of 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. The number of companies participating in tenders and the risk of low pricing bids is high in all three Baltic states.

PROFIT BEFORE TAX AND NET PROFIT

GROUP PROFIT BEFORE TAX
in million euros

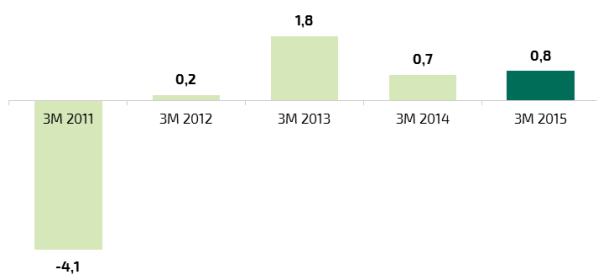


GROUP PROFIT BEFORE TAX MARGIN
percentages

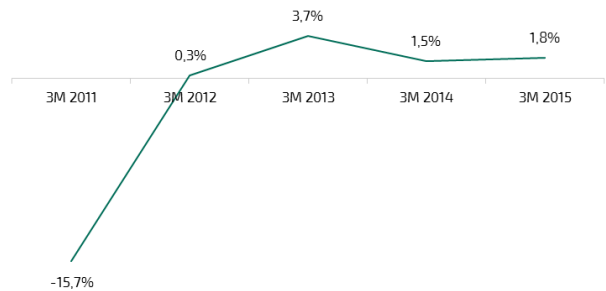


In 3 months of 2015, the group's profit before tax totalled EUR 0.8 million and net profit attributable to equity holders of the parent was EUR 0.8 million as compared to the pre-tax profit of EUR 1.1 million and net profit attributable to equity holders of the parent of EUR 0.7 million in 3 months of 2014. The 3 months of 2014 higher tax expense was affected besides the ordinary Latvian and Lithuanian income tax by the income tax expenses on the dividends received from OÜ Gutsaf Tallinn in the amount of EUR 0.3 million, which increased the comparison base as an extraordinary one-off item. Group's profit before tax margin was 1.8% (3 months of 2014: 2.3%) and the net profit margin was 1.8% (3 months of 2014: 1.5%). Both the group's net profit (EUR 0.8 million) and the net profit margin (1.8%) have increased compared to the same period last year (3 months of 2014: EUR 0.7 million and 1.5%, respectively).

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 provide construction services and real estate development services across the following business segments: Estonian construction service, Latvian and Lithuanian construction service and Real estate development. The group's segment structure is aligned with group's management structure, see additionally the detailed management structure on page 28.

As of 21 April 2015, the management board of AS Merko Ehitus decided to change the segment reporting structure in the group's financial reports and harmonise it with the group's new internal reporting structure, which corresponds to the group's country-based management structure and takes into account the changes in the operational volumes of business segments.

As a result of the change, instead of the previous five segments presented (general construction, civil engineering, road construction, real estate development and other segments), the group will start submitting segment reporting from the current period in the following three segments:



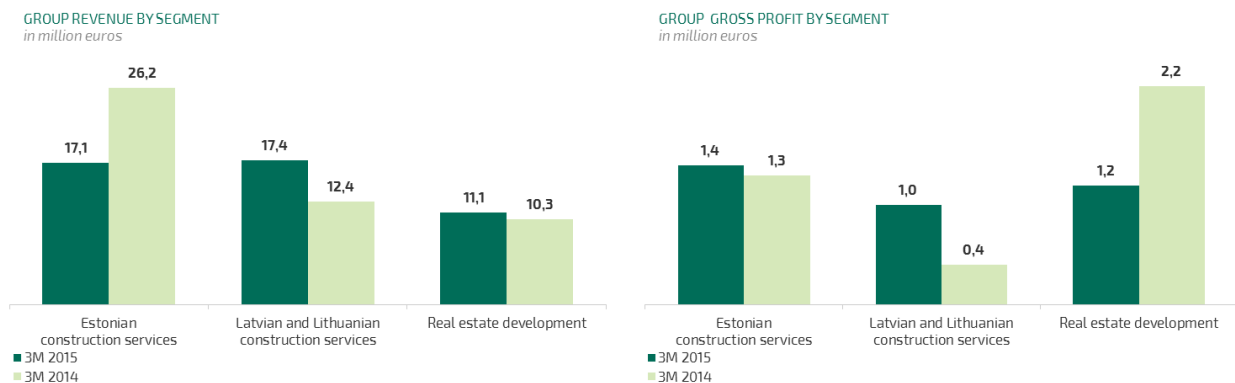
As a result of the change the operating segments presented in the group's external financial reporting structure are grouped together according to the requirements applicable to disclosure of operating segments pursuant to the conditions specified in the International Financial Reporting Standards (IFRS 8).

Estonian construction service and Latvian and Lithuanian construction service segments include all projects of the respective countries pertaining to construction services:

- 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. In the field of general construction the group operates in all three Baltic countries.
- The civil engineering projects the group constructs include 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. In this area the group operates in Estonia and Latvia.
- In the road construction division, the group carries out road construction and builds the associated infrastructure, road maintenance and maintenance repair. In the area of road construction the group operates only in Estonia.

Real estate development is based on the development of real estate in the ownership of the group, encompassing development of apartment projects, long-term investments into real estate and real estate projects executed for business purposes, and to a minor extent also real estate maintenance and lease. In this segment, similarly to before, the group recognises projects being developed in all of the different countries.

GROUP REVENUE AND GROSS PROFIT BY BUSINESS SEGMENTS



ESTONIAN CONSTRUCTION SERVICE

The Estonian construction services segment consists of various services in the field of general construction, civil engineering (including construction of electrical and external networks) and road construction.

million EUR

	3 MONTHS 2015	3 MONTHS 2014	CHANGE	12 MONTHS 2014
Revenue	17.1	26.2	-34.7%	141.5
% of total revenue	37.5%	53.5%	-30.1%	56.1%
Gross profit	1.4	1.3	+6.9%	14.0
Gross profit margin	8.2%	5.0%	+63.8%	9.9%

In the 3 months of 2015, the revenue of the Estonian construction service segment was EUR 17.1 million (3 months of 2014: EUR 26.2 million), having decreased by 34.7% from the same period last year. The decrease is largely due to the fact that in the first three months of 2015, the group did not have large-scale projects in progress as it did in the same period of the previous year (such as the Tondiraba Ice Arena and the Vääna-Jõesuu and Narva-Jõesuu water supply and sewerage system renovation projects). In this segment, the group earned a gross profit of EUR 1.4 million for 3 months of 2014: EUR 1.3 million). If the revenue of the Estonian construction service segment have formed the largest proportion in the group's revenue in the previous periods, then in the 3 months of 2015 the Estonian construction service segment revenues formed a 37.5% share.

In 3 months of 2015, the gross margin of the Estonian construction service segment was 8.2%, which increased by 63.8% compared to the 3 months of 2014. In light of the close competition on the Estonian construction services market and the drop in volumes of work for nearly all market participants, we consider this as a very good result. Due to the decrease in public procurement volumes, above all in civil engineering, we continue to closely monitor the changes in volumes of all projects in progress, in order to maintain as effective cost base as possible for the purpose of responding to additional market changes.

Our major projects in the first quarter included the construction works of Hilton Tallinna Park hotel, the reconstruction work at the North-Estonia Medical Centre in Mustamäe in Tallinn, the design and renovation of the infrastructure of Tallinn tram line No. 4, the construction works of Narva water purification station, the design and construction works of the passengers' walkway and vehicular loading ramps of quays 14, 15 and 16 of the Vanasadam Harbour, the road maintenance works done under the service agreement with Tallinn and the reconstruction works of Suur-Sõjamäe street in Tallinn.

LATVIAN AND LITHUANIAN CONSTRUCTION SERVICE

The Latvian and Lithuanian construction service segment consists of general construction work in both of these countries and provision of civil engineering services in Latvia.

million EUR

	3 MONTHS 2015	3 MONTHS 2014	CHANGE	12 MONTHS 2014
Revenue	17.4	12.4	+40.7%	65.0
% of total revenue	38.2%	25.4%	+50.8%	25.8%
Gross profit	1.0	0.4	+156.7%	2.6
Gross profit margin	5.7%	3.1%	+82.4%	4.0%

The revenue of the Latvian and Lithuanian construction service segment amounted to EUR 17.4 million in the 3 months of 2015 (3 months of 2014: EUR 12.4 million), which is 40.7% more than in the 3 months of 2014. If the Latvian and Lithuanian construction service segment revenues of 3 months of 2014 formed 25.4% of the group's revenue, then during 3 months of the current year the segments revenues have increased to 38.2%, forming the the largest proportion in the group's revenue having increased by 50.8%. This proportional increase was expected, especially given the knowledge that group's continued focus has been on increasing the revenues outside Estonia. The 3 month gross profit of the Latvian and Lithuanian construction service segment amounted to EUR 1.0 million (3 months of 2014: EUR 0.4 million) and the gross profit margin was 5.7% (3 months of 2014: 3.1%), which increased by 82.4% compared to the same period previous year.

In the first quarter of 2014, the main ongoing projects included were the construction of multifunctional concert hall in Liepaja, the construction of Dzintaru 36 apartment buildings in Jurmala, the construction of Polipaks NT manufacturing and logistics centre in Marupe, the re-cultivation and construction works of waste recycling site at A. Deglava Street in Riga and the general construction works of the ABB HVDC transformer substation in Kļaipeida.

REAL ESTATE DEVELOPMENT

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

million EUR

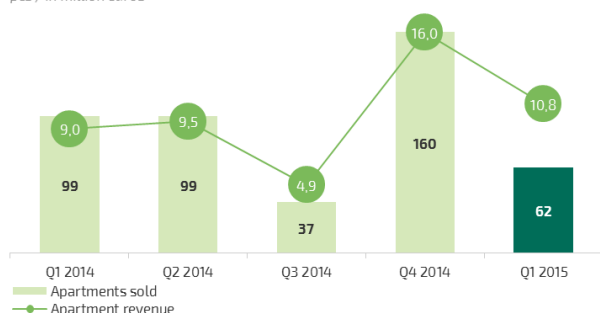
	3 MONTHS 2015	3 MONTHS 2014	CHANGE	12 MONTHS 2014
Revenue	11.1	10.3	+7.6%	45.8
% of total revenue	24.3%	21.1%	+15.3%	18.1%
Gross profit	1.2	2.2	-48.0%	8.1
Gross profit margin	10.5%	21.8%	-51.7%	17.7%

A total of 62 apartments were sold in 3 months of 2015 at the total value of EUR 10.8 million (excl. VAT), compared to 99 apartments and EUR 9.0 million in 3 months of 2014. In 3 months of 2015, the group has earned EUR 0.0 million of revenue from the sale of immovable properties (3 months of 2014: EUR 1.0 million). Despite a lower number of apartments sold and the absence of the sale of immovable properties, 3 months real estate development segment revenues have increased 7.6% compared to the same period last. The growth is primarily influenced by sales of apartments in more exclusive developments where the sales price per apartment is higher than the apartments sold last year during the same period. The share of revenue from the real estate development segment also increased in the 3 months to 24.3% of the group's total revenue (3 months of 2014: 21.1%). The overall increase in the real estate development segment volumes has been planned and occasioned by the strategic decisions made already in 2012 to increase the segment's investments into various new real estate development projects.

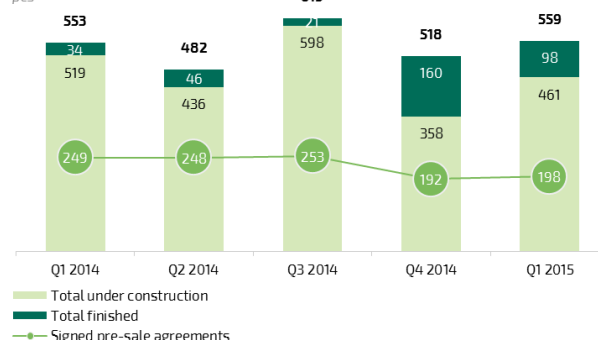
The 3 month gross profit of the segment amounted to EUR 1.2 million (3 months of 2014: EUR 2.2 million) and the gross profit margin was 10.5% (3 months of 2014: 21.8%), which decreased by 48.0% compared to the same period previous year. The

profitability of the apartment development projects varies by project and depends greatly on the land acquisition price and the size of the project. In addition, the gross profit obtained from sales of the immovable property makes up an important part of the 3-month comparison base of 2014.

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



GROUP APARTMENTS INVENTORY
pcs



At the end of the period, Merko Ehitus group's inventory comprised 198 apartments where a preliminary agreement had been signed: 64 completed apartments (57 in Estonia and 7 in Latvia) and 134 apartments under construction (72 in Estonia, 49 in Latvia and 13 in Lithuania). The sale of these apartments had not yet been finalised and delivered to customers, because 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 March 2015, Merko Ehitus group had a total of 361 apartments for active sale (as at 31 March 2014: 304 apartments), for which there are no pre-sale agreements and of which 34 have been completed (7 in Estonia, 23 in Latvia and 4 in Lithuania) and 327 are under construction (198 in Estonia, 76 in Latvia and 53 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 II	Vilnius, Lithuania	Completed	4	-
Vana-Kalamaja 31	Tallinn, Estonia	Completed	1	-
Grostonas 19	Riga, Latvia	Completed	29	7
Paepargi 17, 19, 21	Tallinn, Estonia	Completed	4	1
Kentmanni 6 ***	Tallinn, Estonia	Completed	57	56
Pärna avenue 9	Tartu municipality, Estonia	Completed	2	-
			98	64
Grostonas 21	Riga, Latvia	Spring 2015	125	49
Rästa 18	Tallinn, Estonia	End of 2015	47	32
Fiziku	Vilnius, Lithuania	End of 2015	38	-
Kraziu	Vilnius, Lithuania	End of 2015	28	13
Paepargi 49	Tallinn, Estonia	End of 2015	60	15
Pärna avenue 11	Tartu municipality, Estonia	Summer of 2015	24	4
Pärna avenue 12	Tartu municipality, Estonia	Summer of 2015	36	14
			358	127
Started in Q1 2015				
Tartu mnt 52 stage I **	Tallinn, Estonia	End of 2016	103	7
			103	7
Total			559	198

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

** Project launched in 2015.

*** 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 3 months of 2015, we launched the construction of a total of 103 new apartments in the Baltic States (3 months of 2014: 108 apartments) – the first stage of Tartu mnt 52 development project, the preparation works of which took place in 2014. In the 3 months of this year, the group has invested a total of EUR 10.7 million in new development projects launched in 2015 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 (2014: construction of 369 new apartments launched). 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 (2014: EUR 46.9 million invested).

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 March 2015, the group's inventories included land with development potential of EUR 59.5 million (31.03.2014: EUR 39.1 million; 31.12.2014: EUR 55.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

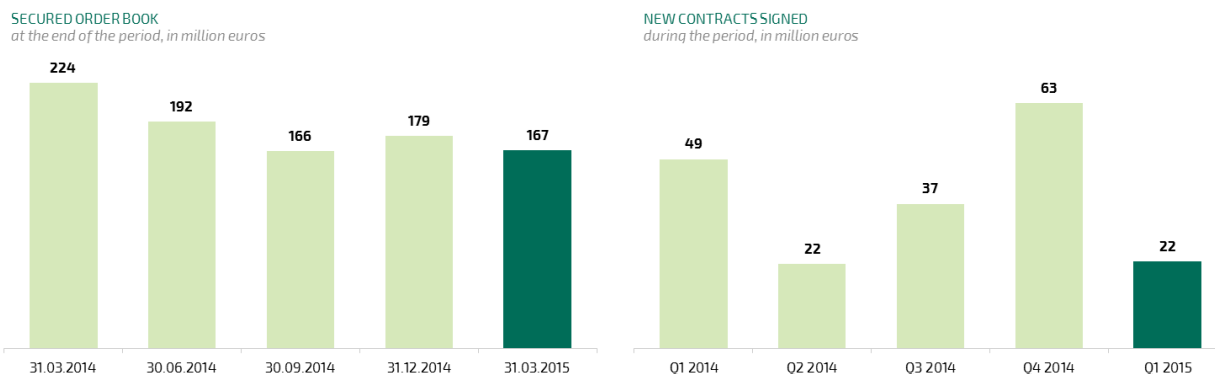
million EUR

	31.03.2015	31.03.2014	31.12.2014
Estonia	18.4	15.15	14,2
Latvia	36.9	22.0	36,8
Lithuania	4.2	1.6	4,2
Total	59.5	39.1	55,2

In the 3 months of 2015, the group has purchased new land plots in Estonia at an acquisition cost of EUR 5.1 million (3 months of 2014: EUR 0.0 million). Also in the first quarter, the group signed a notarised contract of sale of registered immovables, under which all of the real estate governed by an option agreement were realised for total of EUR 4,0 million. The group is searching for new land plots for real estate development purposes primarily in Estonian and Lithuania. On 23 April 2015, AS Merko Ehitus group 50% joint venture Kalaranna Arenduse OÜ additionally signed a contract for the acquisition of approximately 1.7 hectares of land in the Noblessner quarter, an historically prestigious industrial area with great potential, for development purpose.

SECURED ORDER BOOK

As at 31 March 2015, the group's secured order book (without own developments) amounted to EUR 167.2 million as compared to EUR 224.0 million as at 31 March 2014. The secured order book excludes the group's own residential development projects and construction work related to developing real estate investments.



In first quarter of 2015, EUR 22.4 million worth of new contracts were signed (without own developments) as compared to EUR 48.6 million in same period last year. The volume of contracts signed in 3 months 2014 were impacted significantly by the large-scale contract entered into in Estonia for the design and renovation of the infrastructure of Tallinn tram line No. 4. No contracts of this volume were entered into in Estonia in 3 months of 2015.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2014

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Construction works of a six-storey multifunctional building in Riga	Latvia	July 2016	11.4

After the balance sheet date, on 2 April 2015, OÜ Fort Ehitus – a subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – signed a contract with Keski-Soumen Betonirakenne OY to perform the pile works at Tripla development project in Helsinki, Finland. The value of the contract is approximately EUR 3.0 million. The works are scheduled for completion in autumn 2015.

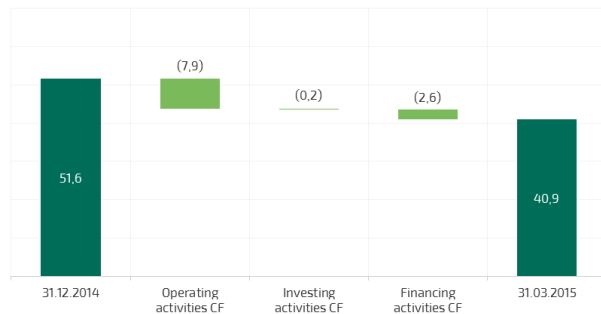
Of the contracts signed in the 3 months of 2015, private sector orders accounted for the majority proportion, which is also represented in the group's secured order book as at the end of the reporting period, where private sector orders from projects in progress constitute approximately 3/5. Nevertheless, in the beginning of the year the company did not manage to garner as much work from private sector customers as it had envisaged. In particular, the buildings 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 even a slight decline for 2015. We forecast that the volume of public procurements will start to increase at the end of 2015 or at the beginning of 2016. In this respect, it continues to be a great challenge to maintain the group's secured order book at the level of 2014 or growing it.

Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to increase the volume of construction orders from outside Estonia. Thus, we will continue to identify the groups competitive advantages and are closely monitoring the development and opportunities both in the Baltic States and the Nordic countries. Starting from 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. The group has set the goal of earning real sales revenue from new markets starting in 2015-2016.

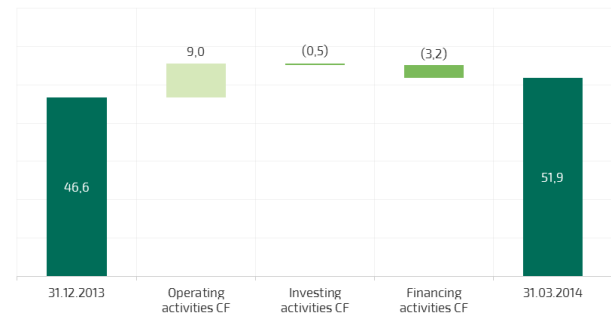
CASH FLOWS

The liquidity of the group is strong and the cash position is stable. As at 31 March 2015 the group had cash equivalents in the amount of EUR 40.9 million (31.03.2014: EUR 51.9 million). The group's cash level is lower compared to the same period last year.

3M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



3M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The 3-month cash flow from operating activity was negative at EUR 7.9 million (3 months of 2014: positive EUR 9.0 million), cash flow from investing activity was negative at EUR 0.2 million (3 months of 2014: negative EUR 0.5 million) and the cash flow from financing activity was negative at EUR 2.6 million (3 months of 2014: negative EUR 3.2 million).

The cash flow from operating activity was mostly influenced by the operating profit EUR 1.0 million (3 months of 2014: EUR 1.3 million), by the negative change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 4.6 million (3 months of 2014: positive change of EUR 5.3 million), by the negative change in the provisions EUR 4.2 million (3 months of 2014: negative change of EUR 2.0 million), by the positive change in trade and other receivables related to operating activities EUR 5.0 million (3 months of 2014: positive change of EUR 2.7 million), by the negative change in inventory EUR 2.3 million (3 months of 2014: negative change of EUR 1.2 million), and by the negative change in trade and other payables related to operating activities EUR 3.5 million, incl. significant negative outflow from the advances for real estate development projects (3 months of 2014: positive change of EUR 2.6 million).

The group's cash flows from operating activities continue to have contracts (incl. both government and private sector) with long payment terms (by contract, an average of 56 days after registered delivery of the work) and there is an persistent burden on working capital, including optimal management of cash flows. This is especially true, considering the increase in Latvian construction volumes and the need for additional working capital. To support cash flows arising from operating activity, the group has been prudent in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (14.6% as at 31.03.2015; 13.4% as at 31.03.2014).

Cash flows from investment activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 0.3 million (3 months of 2014: EUR 0.1 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.1 million (3 months of 2014: EUR 0.0 million). Cash flows from investment activities in 3 months of 2014 was negatively impacted by 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. The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment.

Project specific loans obtained using investment property as collateral, included in cash flows from financing, were repaid in the amount of EUR 0.1 million (3 months of 2014: negative cash flow in net amount of EUR 0.1 million), net of loans received and loans repaid in connection with development projects amounted to negative cash flow of EUR 2.1 million (3 months of 2014: positive cash flow of EUR 0.6 million) and finance lease principal repayments of EUR 0.4 million (3 months of 2014: EUR 0.2 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. Cash flows from financing activities in 3 months of 2014 was negatively impacted by 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

RATIOS

(attributable to equity holders of the parent)

		3M 2015	3M 2014	3M 2013	12M 2014
Income statement summary					
Revenue	million EUR	45.6	48.9	47.9	252.3
Gross profit	million EUR	3.6	3.9	4.2	24.7
Gross profit margin	%	7.8	8.1	8.8	9.8
Operating profit	million EUR	1.0	1.3	2.3	14.0
Operating profit margin	%	2.2	2.7	4.8	5.5
Profit before tax	million EUR	0.8	1.1	2.0	13.3
PBT margin	%	1.8	2.3	4.1	5.3
Net profit	million EUR	0.7	0.6	1.8	12.3
attributable to equity holders of the parent	million EUR	0.8	0.7	1.8	12.4
attributable to non-controlling interest	million EUR	(0.1)	(0.1)	0.0	(0.1)
Net profit margin	%	1.8	1.5	3.7	4.9
Other income statement indicators					
EBITDA	million EUR	1.9	1.9	2.9	16.4
EBITDA margin	%	4.1	3.8	6.0	6.5
General expense ratio	%	6.5	6.1	5.5	4.9
Labour cost ratio	%	13.7	13.9	13.6	11.9
Revenue per employee	thousand EUR	62	61	57	319
Other significant indicators					
		31.03.2015	31.03.2014	31.03.2013	31.12.2014
Return on equity	%	10.1	7.8	8.1	10.1
Return on assets	%	5.0	3.9	4.1	5.0
Return on invested capital	%	8.5	7.3	7.0	8.8
Equity ratio	%	53.1	51.0	52.9	51.0
Debt ratio	%	14.6	13.4	14.5	15.1
Current ratio	times	2.6	2.0	2.2	2.3
Quick ratio	times	1.1	1.1	1.2	1.1
Accounts receivable turnover	days	51	59	58	56
Accounts payable turnover	days	41	41	46	39
Average number of employees	people	742	800	839	790
Secured order book	million EUR	167.2	224.0	193.4	179.1

Calculation of ratios is provided on page 34 of the report.

RISK MANAGEMENT

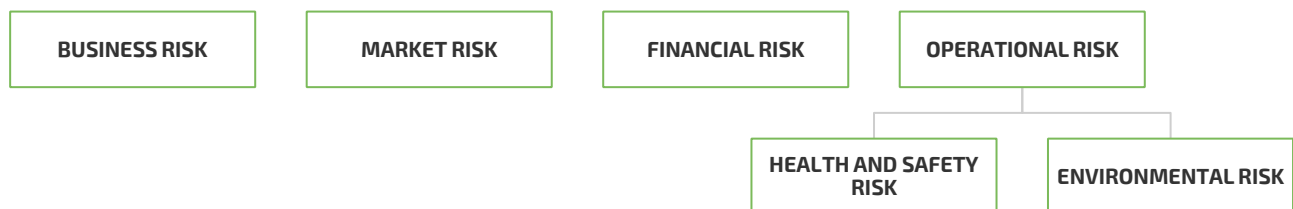
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial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

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

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

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

Merko Ehitus divides risks into four main categories:



Business risk

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

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

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

Market risk

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

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

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

Operational risk

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

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

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

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the company's warranty provision amounted to EUR 2.1 million (31.03.2014: EUR 1.8 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

Financial risk

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

Credit risk

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

Interest risk

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor. The management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 31.03.2015, 14.6% of the balance sheet total; as at 31.03.2014, 13.4% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Currency risk

All Merko Ehitus group companies engaged in providing construction services and development operate today in countries that use the euros. Considering the fact that the materials and services used in construction are generally from the local market or supplied from within the EU, the currency risk in the group is currently minimal.

Liquidity risk

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.03.2015, the group's current ratio was 2.6 (31.03.2014: 2.0) and the quick ratio 1.1 (31.03.2014: 1.1). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the

period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 9.4 million, of which EUR 8.8 million was unused (31.03.2014: EUR 10.1 million, of which EUR 9.9 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (31.03.2014: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

The management estimates that the group's capital structure – a solid proportion of equity at 53.1% (31.03.2014: 51.0%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 14.6% (31.03.2014: 13.4%) of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk

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

As at 31 March 2015, a provision has been set up at the group in the amount of EUR 0.2 million (31.03.2014: EUR 0.2 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2015 and ongoing as of 31.03.2015 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.

Appeal for the revocation of the order of the Minister of the Environment

On 7 April 2015, Suur-Paekalda OÜ and Väike-Paekalda OÜ, which are the subsidiaries of AS Merko Ehitus, filed an appeal to the Tallinn Administrative Court for the revocation of the Order of the Minister of the Environment No. 22 of 27 March 2015, by which the boundaries of the permanent habitat of protected plants, which were established by the Minister of the Environment Order No. 9 of 3 February 2006, were amended so that the disputed registered immovable properties at Paekalda St were excluded from protected area. With the appeal, the appellants submitted to the court an application for initial legal protection. The primary objective of the appeal is to prevent the order of the Minister of the Environment from taking effect and to prevent the release of the immovable properties from nature conservation restrictions, which would justify the refusal to acquire the immovable properties by the state.

Lithuania

Vakarų

At 25 May 2012, RUAB Vakarų inžineriniai tinklai (hereinafter "Vakarų") filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of 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 Klaipėda District Court, which decided to return the case back to District Court of Plungė. On 22 of April 2015 the court took the decision to commission expert analysis to establish whether the disputed work had been performed or not. The judicial proceedings on the action are suspended until completion of the expert analysis. 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

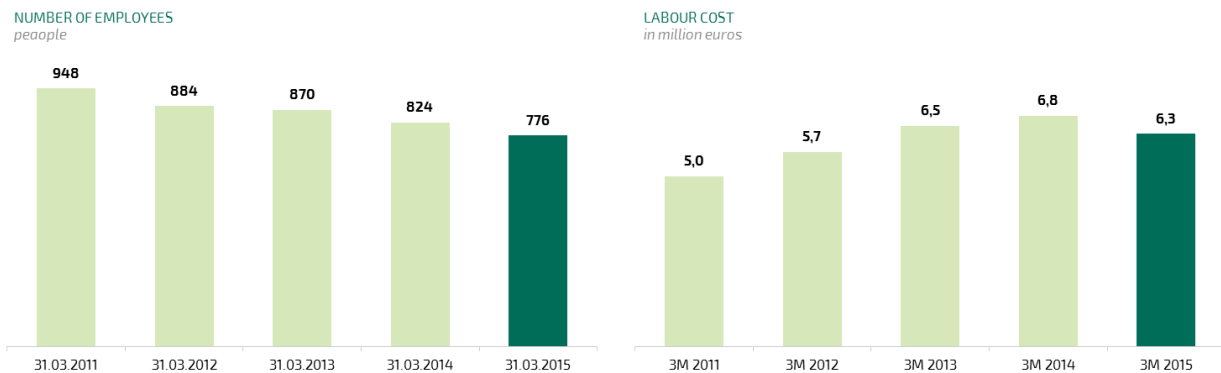
evaluation. At a court hearing held on 23 January 2015, it turned out that the person originally appointed to provide expert evaluation had not performed the work or submitted it to court. In this connection, the court made a ruling on 26 January 2015 to appoint a new expert for performing the work;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

EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of group's employees decreased by 48 (-5.8%) and as at 31 March 2015, the group had a total of 776 employees (including fixed-term and part-time employees). Compared to the end of the previous financial year the number of employees has increased by 11 (+1.4%). In 2015, the number of employees has increased mainly due to the growth of construction volumes in Lithuania.

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

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 3 months 2015, the labour cost was EUR 6.3 million (3 months 2014: EUR 6.8 million; 12 months 2014: EUR 30.0 million), down 7.8% 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 topic of business ethics has been thoroughly covered on the group's website <http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>. As a new feature all employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, to which the <http://group.merko.ee/en/corporate-governance-2/responsibility/reporting-channels/> website provides an overview. Each reported misconduct will be investigated by an independent cooperation partner, and will lead to appropriate action.

RECOGNITIONS 2015

In 2015, the activities of AS Merko Ehituse have been recognised in the form of the following prizes:

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".

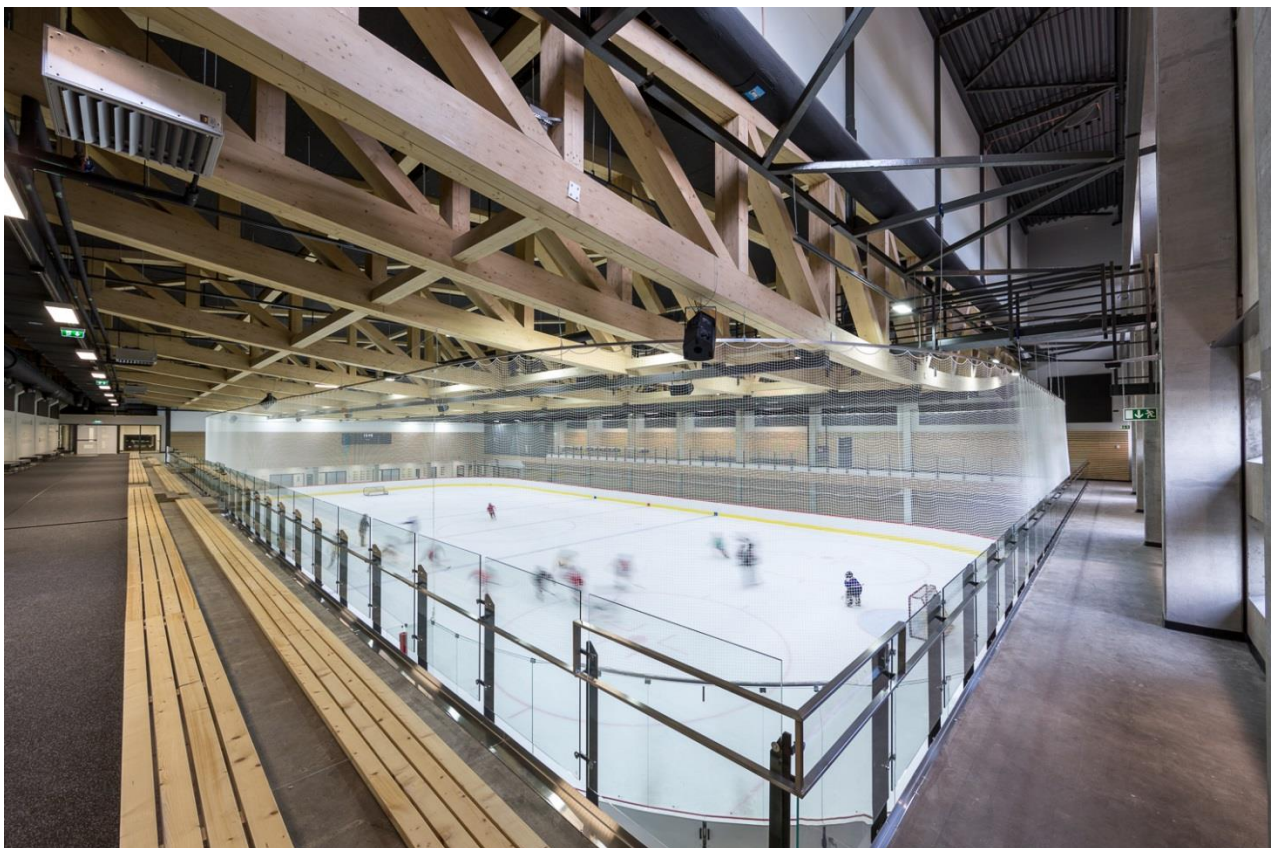


MERKO EHITUS
Best Interactive
Investor Relations
2ND PLACE
Best Investor Relations
In the Baltic Market
3RD PLACE

CONCRETE CONSTRUCTION OF THE YEAR 2014

In the first quarter of 2015, 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 recognition 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

INFORMATION ON SECURITY

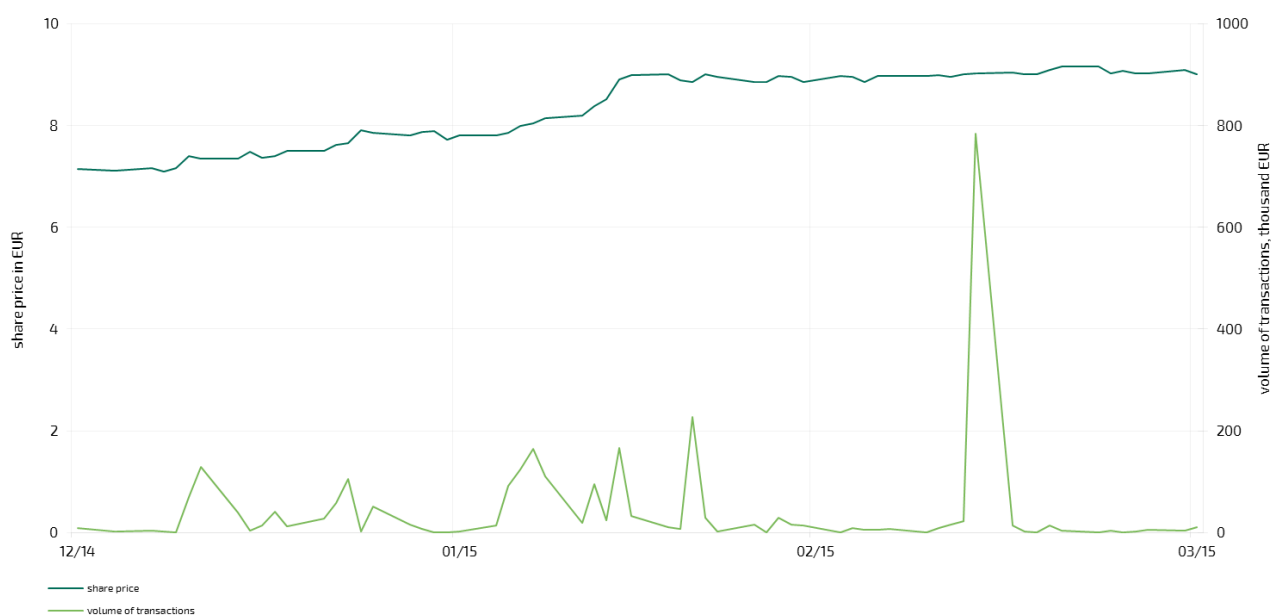
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 31 March 2015, the company has 17,700,000 shares. The number of shares has not changed during 2015.

A total of 668 transactions were conducted with the shares of Merko Ehitus in 3 months of 2015, with 0.32 million shares (1.8% of total shares) traded, generating a turnover of EUR 2.71 million (comparable figures in 3 months 2014 were accordingly: 613 transactions with 0.29 million shares traded (1.7% of total shares) and generating a turnover of EUR 2.26 million). The lowest share price amounted to EUR 7.06 and the highest to EUR 9.39 per share (3 months of 2014: EUR 7.20 and EUR 7.9). The closing price of the share was EUR 9.01 on 31 March 2015 (31.03.2014: EUR 7.75). As at 31 March 2015, the market value of AS Merko Ehitus amounted to EUR 159.5 million, which has increased by 16.3% compared to the same period end last year (as at 31.03.2014: EUR 137.2 million).

	31.03.2015	31.03.2014	31.03.2013
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.05	0.04	0.10
Equity per share, euros	7.01	6.77	6.47
P/B ratio	1.29	1.14	1.11
P/E ratio	12.74	14.68	13.76
Market value, million EUR	159.5	137.2	127.1

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2015



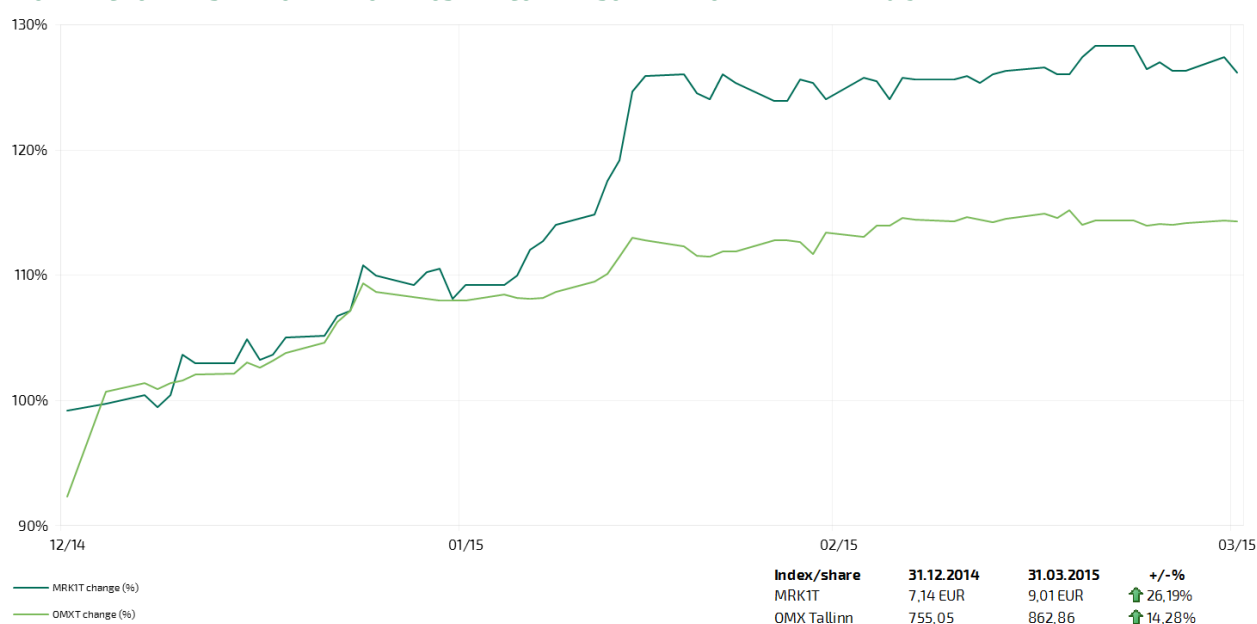
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.03.2015

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	0.68%	2,922,630	16.51%
10,001 – 100,000	35	2.39%	1,061,678	6.00%
1,001-10,000	222	15.15%	638,753	3.61%
101-1,000	765	52.22%	311,208	1.76%
1-100	432	29.49%	23,045	0.13%
Total	1,465	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2015 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2015	% OF TOTAL 31.12.2014	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Firebird Republics Fund Ltd	395,704	2.24%	2.12%	+20,000
Skandinaviska Enskilda Banken S.A.	314,074	1.77%	2.35%	-102,189
Skandinaviska Enskilda Banken AB, Swedish customers	251,272	1.42%	1.66%	-42,388
Firebird Aurora Fund Ltd	220,519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Finnish customers	192,869	1.09%	1.04%	+8,887
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	148,020	0.84%	0.84%	-
Clearstream Banking Luxembourg S.A. customers	143,137	0.81%	0.81%	-515
Total largest shareholders	15,535,425	87.77%	88.42%	-116,205
Total other shareholders	2,164,575	12.23%	11.58%	+116,205
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2015



DIVIDENDS AND DIVIDEND POLICY

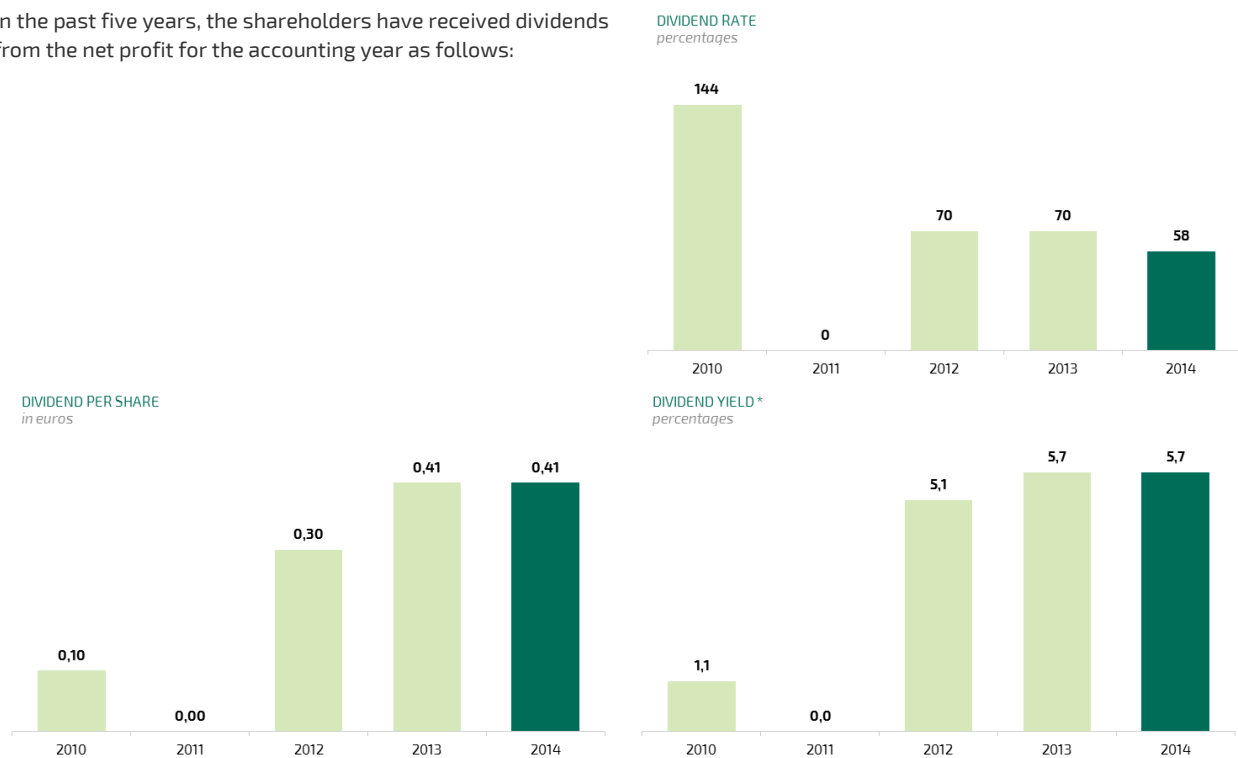
The distribution of dividends to the shareholders of the company is recorded as a liability in the financial statements as of the moment when the payment of dividends is approved by the company's shareholders.

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

The annual general meeting of shareholders of AS Merko Ehitus held at 29 April 2015 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 58% dividend rate and a 5.7% dividend yield for the year 2014 (using the share price as at 31 December 2014), (comparable figures in 2014 were accordingly: EUR 7.3 million (EUR 0.41 per share) as dividends, which is equivalent to a 70% dividend rate and a 5.7% dividend yield (using the share price as at 31 December 2013)).

According to the Estonian Income Tax Law §50 section 1¹ AS Merko Ehitus can pay dividends without any additional income tax expense and liabilities occurring due to previously received and taxed distribution of profits from subsidiaries. Taking into account the dividends already paid to the parent company by the subsidiaries, the group will incur income tax expense in connection with the disbursement of dividends of approximately EUR 0.9 million (2014: EUR 0.0 million) in Estonia in the second quarter of 2015. The dividend payment to the shareholders will take place on 26 May 2015.

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



* Using share price as at 31.12

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

SHARE CAPITAL REDUCTION

The general meeting of the shareholders held on 29 April 2015 resolved to approve the Supervisory Boards proposal 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 resolution of the general meeting of the shareholders, share capital will 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 monetary payments to the shareholders in the amount of EUR 4,071,000, related to the reduction of share capital shall be made within the period prescribed by law, i.e. latest within 3 (three) months after the registration of the reduction of share capital in the Commercial Register.

Considering the resolutions of the general meeting of the shareholders 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%.

CORPORATE GOVERNANCE

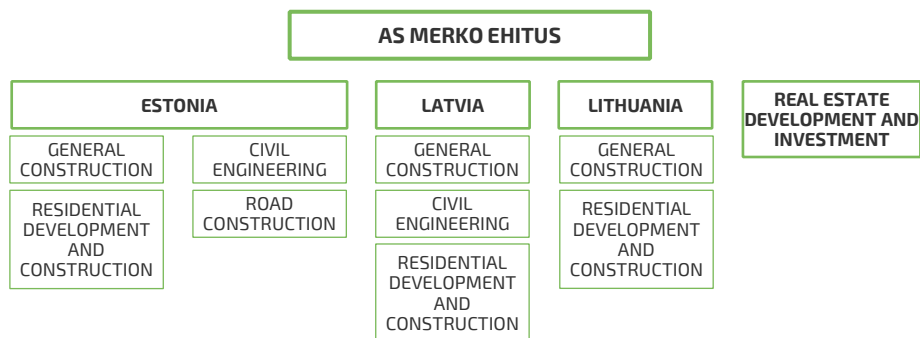
CORPORATE GOVERNANCE AND STRUCTURE

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

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

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 30-32 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. The groups management is carried out on a country basis. The groups country and business area detailed management structure as at 31 March 2015 is the following:



GROUP'S LEGAL STRUCTURE

As at 31 March 2015, the group comprises 47 companies (31.03.2014: 45). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

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 total share capital of the subsidiary is EUR 3,000. The company was formed with the aim of acquiring a residential 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 4 March 2015, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas, in the course of which a 100% subsidiary UAB Kražiu Projektas will be split from the company for the purpose of later merging it with AS Merko Ehitus's 100% subsidiary UAB Merko Statyba.

On 20 March 2015, Hartian OY, a 75%-owned subsidiary of OY Merko Finland, fully owned subsidiary of AS Merko Ehitus, made a monetary contribution in amount of EUR 2,500 into the share capital of a newly formed 100%-owned subsidiary Asunto OY Helsingin Pestikuja 1, which will develop and maintain the residential quarter in Pestikuja 1.

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 m². 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 the shareholders was held on 29 April 2015. The general meeting resolved to approve the annual report and the profit allocation proposal for 2014. The dividends in the sum of EUR 7.3 million (EUR 0.41 per share) will be paid out to the shareholders on 26 May 2015.

In addition, the annual general meeting resolved to reduce the share capital by EUR 4 071 000 (EUR 0.23 per share). The monetary payments to the shareholders in the amount of EUR 4.1 million (EUR 0.23 per share), related to the reduction of share capital shall be made within the period prescribed by law, i.e. latest within 3 (three) months after the registration of the reduction of share capital in the Commercial Register.

In addition the general meeting of shareholders decided to appoint AS PricewaterhouseCoopers the auditor of AS Merko Ehitus for the financial years of 2015 through 2017 and to pay to the auditing company for auditing 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 2015, 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 2015 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Signe Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

SUPERVISORY BOARD

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

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

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

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



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

Positions held:

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

Education:

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

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



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

Positions held:

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

Member of Supervisory Boards of subsidiaries and associated companies.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -



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

Positions held:

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

Education:

Tallinn University of Technology, civil engineering economics and management.

Stockholm University, banking and finance, MBA

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



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

Positions held:

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

Education:

Tallinn University of Technology, civil engineering.

Number of shares: 2,500 (Eggera OÜ)

MANAGEMENT BOARD

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

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

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



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

Positions held:

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

Education:

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

Number of shares: -



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

Positions held:

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

Education:

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

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 March 2015:

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

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.

On 20 April 2015, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Members of the Supervisory Board of subsidiary Tallinna Teede AS, Mr. Tiit Roben, Mr. Veljo Viitmann and Mr. Alar Lagus according to the statutes for the three years tenure, i.e. till 15 April 2018. The Supervisory Board of Tallinna Teede AS will continue with three members: Mr. Tiit Roben (The Chairman), Mr. Veljo Viitmann and Mr. Alar Lagus.

DEFINITION OF RATIOS

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

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

Chairman of the Management Board



07.05.2015

Tõnu Toomik

Member of the Management Board



07.05.2015

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2015 3 months	2014 3 months	2014 12 months
Revenue	2	45,599	48,868	252,323
Cost of goods sold	3	(42,038)	(44,932)	(227,591)
Gross profit		3,561	3,936	24,732
Marketing expenses		(779)	(854)	(3,190)
General and administrative expenses		(2,193)	(2,120)	(9,128)
Other operating income		428	406	1,901
Other operating expenses		(17)	(50)	(340)
Operating profit		1,000	1,318	13,975
Finance income/costs		(164)	(180)	(667)
incl. finance income/costs from joint ventures		(44)	(34)	(130)
finance income/costs from other long-term investments		-	-	2
interest expense		(150)	(178)	(662)
foreign exchange gain (loss)		3	(1)	(12)
other financial income (expenses)		27	33	135
Profit before tax		836	1,138	13,308
Corporate income tax expense		(95)	(522)	(1,055)
Net profit for financial year		741	616	12,253
incl. net profit attributable to equity holders of the parent		809	711	12,417
net profit attributable to non-controlling interest		(68)	(95)	(164)
Other comprehensive income				
Currency translation differences of foreign entities		(2)	-	4
Comprehensive income for the period		739	616	12,257
incl. net profit attributable to equity holders of the parent		807	711	12,421
net profit attributable to non-controlling interest		(68)	(95)	(164)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.05	0.04	0.70

The notes set out on pages 40-52 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2015	31.03.2014	31.12.2014
ASSETS				
Current assets				
Cash and cash equivalents	5	40,912	51,917	51,583
Trade and other receivables	6	43,587	58,204	46,382
Prepaid corporate income tax		26	21	3
Inventories	7	123,222	88,734	117,638
		207,747	198,876	215,606
Non-current assets				
Long-term financial assets	8	11,425	21,601	11,476
Deferred income tax assets		1,580	1,592	1,535
Investment property	9	4,557	4,615	4,619
Property, plant and equipment	10	14,614	12,704	15,003
Intangible assets	11	907	1,139	1,011
		33,083	41,651	33,644
TOTAL ASSETS		240,830	240,527	249,250
LIABILITIES				
Current liabilities				
Borrowings	12	11,516	15,836	14,287
Payables and prepayments	13	62,932	77,352	71,122
Income tax liability		478	197	352
Short-term provisions	14	4,889	5,152	6,239
		79,815	98,537	92,000
Non-current liabilities				
Long-term borrowings	12	23,600	16,321	23,359
Deferred income tax liability		751	574	738
Other long-term payables	15	4,442	1,667	1,671
		28,793	18,562	25,768
TOTAL LIABILITIES		108,608	117,099	117,768
EQUITY				
Non-controlling interests		4,388	854	4,455
Equity attributable to equity holders of the parent				
Share capital		12,000	12,000	12,000
Statutory reserve capital		1,200	1,200	1,200
Currency translation differences		(667)	(669)	(665)
Retained earnings		115,301	110,043	114,492
		127,834	122,574	127,027
TOTAL EQUITY		132,222	123,428	131,482
TOTAL LIABILITIES AND EQUITY		240,830	240,527	249,250

The notes set out on pages 40-52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2013	12,000	1,200	(669)	109,332	121,863	1,193	123,056
Profit (loss) for the reporting period	-	-	-	711	711	(95)	616
Minority share of sold subsidiary	-	-	-	-	-	(244)	(244)
Balance as at 31.03.2014	12,000	1,200	(669)	110,043	122,574	854	123,428
Balance as at 31.12.2014	12,000	1,200	(665)	114,492	127,027	4,455	131,482
Profit (loss) for the reporting period	-	-	-	809	809	(68)	741
Other comprehensive income	-	-	(2)	-	(2)	-	(2)
Total comprehensive income (loss) for the reporting period	-	-	(2)	809	807	(68)	739
Issuance of additional share capital	-	-	-	-	-	1	1
Total transactions with owners	-	-	-	-	-	1	1
Balance as at 31.03.2015	12,000	1,200	(667)	115,301	127,834	4,388	132,222

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

The notes set out on pages 40-52 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2015 3 months	2014 3 months	2014 12 months
Cash flows from (used in) operating activities				
Operating profit		1,000	1,318	13,975
Adjustments:				
Depreciation		868	538	2,459
(Profit)/loss from sale of non-current assets		(19)	(4)	(12)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(4,552)	5,309	(180)
Interest income from operating activities		(389)	(360)	(1,571)
Change in provisions		(4,150)	(2,047)	1,298
Change in trade and other receivables related to operating activities		4,989	2,705	12,742
Change in inventories		(2,303)	(1,212)	(14,823)
Change in trade and other payables related to operating activities		(3,473)	2,642	316
Interest received		357	347	1,429
Interest paid		(171)	(234)	(938)
Other finance income and costs		(7)	(22)	(62)
Corporate income tax (paid)/reclaimed		(24)	(2)	(141)
Total cash flows from (used in) operating activities		(7,874)	8,978	14,492
Cash flows from investing activities				
Acquisition of subsidiaries	16	-	(353)	(407)
Proceeds from sale of subsidiary	16	-	-	(353)
Acquisition of joint venture		-	-	(6)
Purchase of investment property		-	-	(2)
Purchase of property, plant and equipment		(268)	(129)	(1,458)
Proceeds from sale of property, plant and equipment		56	7	95
Purchase of intangible assets		(13)	(16)	(25)
Repayments of loans granted		-	-	40
Interest received		27	27	177
Total cash flows from investing activities		(198)	(464)	(1,939)
Cash flows from (used in) financing activities				
Proceeds from borrowings		876	3,161	16,742
Repayments of borrowings		(3,086)	(6,144)	(16,043)
Finance lease principal payments		(390)	(246)	(1,076)
Non-controlling interest buyout		1	-	38
Dividends paid		-	-	(7,257)
Total cash flows from (used in) financing activities		(2,599)	(3,229)	(7,596)
Net increase/decrease in cash and cash equivalents		(10,671)	5,285	4,957
Cash and cash equivalents at the beginning of the period	5	51,583	46,633	46,633
Effect of exchange rate changes		-	(1)	(7)
Cash and cash equivalents at the end of the period	5	40,912	51,917	51,583

The notes set out on pages 40-52 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2015 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2014 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2014 audited annual report and 2014 3 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 3 months 2015 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 CHANGES IN THE PRESENTATION OF INFORMATION

In the previous reporting periods, the AS Merko Ehitus group presented financial information by the following segments: general construction, civil engineering, road construction, real estate development and other. Based on the resolution of the AS Merko Ehitus management board to bring the segment reporting into conformity with the group's updated internal reporting structure – based on the country-based management structure and taking into account the changed activity volumes in each business areas, starting on 1 January 2015 business segments are being presented pursuant to the segment reporting structure shown in Note 2 as three segments: Estonian construction service; Latvian and Lithuanian construction service; and real estate development. The comparative data for the segment reporting presented in the 3-month consolidated interim report of 2015 have been brought into conformity with the new presentation principles, whereas the recognition of the real estate development segment has not changed and comparative data for this segment have not been adjusted.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

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

- Estonian construction service,
- Latvian and Lithuanian construction service,
- real estate development.

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.

2015 3 months	General construction	Civil engineering	Real estate development	Total segments
Segment revenue	18,224	17,472	16,708	52,404
Inter-segment revenue	(1,137)	(34)	(5,634)	(6,805)
Revenue from external clients	17,087	17,438	11,074	45,599
Gross profit (-loss)	1,396	1,001	1,164	3,561
Segment pre-tax profit (loss)	1,374	1,000	1,463	3,837
incl. interest income from operating activities	-	-	388	388
depreciation (Note 3)	(530)	(8)	(76)	(614)
setting up of provisions (Note 3)	(109)	(59)	(256)	(424)
loss on joint ventures	(16)	-	(28)	(44)
other finance income (costs)	(18)	-	(61)	(79)
incl. interest expenses	(18)	-	(61)	(79)
Segment assets 31.03.2015	40,884	22,783	149,627	213,294
incl. joint ventures (Note 8)	3	-	20	23
2014 3 months	General construction	Civil engineering	Real estate development	Total segments
Segment revenue	27,311	12,396	16,147	55,854
Inter-segment revenue	(1,126)	(6)	(5,854)	(6,986)
Revenue from external clients	26,185	12,390	10,293	48,868
Gross profit (-loss)	1,306	390	2,240	3,936
Segment pre-tax profit (loss)	1,282	390	2,486	4,158
incl. interest income from operating activities	-	-	360	360
depreciation (Note 3)	(382)	(9)	(59)	(450)
setting up of provisions (Note 3)	(86)	(43)	(109)	(238)
loss on joint ventures	-	-	(34)	(34)
other finance income (costs)	(16)	-	(81)	(97)
incl. interest income	-	-	7	7
interest expenses	(16)	-	(88)	(104)
Segment assets 31.03.2014	48,712	12,885	131,514	193,111
incl. joint ventures (Note 8)	18	-	7,297	7,315

2014 12 months	General construction	Civil engineering	Real estate development	Total segments
Segment revenue	147,854	65,151	73,152	286,157
Inter-segment revenue	(6,315)	(122)	(27,397)	(33,834)
Revenue from external clients	141,539	65,029	45,755	252,323
Gross profit (-loss)	14,020	2,608	8,104	24,732
Segment pre-tax profit (loss)	13,965	2,607	9,240	25,812
incl. interest income from operating activities	8	-	1,563	1,571
depreciation (Note 3)	(1,734)	(33)	(258)	(2,025)
impairment of inventories (Note 3)	-	-	(400)	(400)
reversal of impairment of inventories (Note 3)	-	-	850	850
setting up of provisions (Note 3)	(2,156)	(1,412)	(896)	(4,464)
profit (loss) on joint ventures	1	-	(131)	(130)
other finance income (costs)	(65)	-	(286)	(351)
incl. interest income	-	-	17	17
interest expenses	(65)	-	(303)	(368)
Segment assets 31.12.2014	41,815	18,922	142,203	202,940
incl. joint ventures (Note 8)	19	-	48	67

In addition to the segment assets, as at 31.03.2015 the group holds assets in the amount of EUR 27,536 thousand (31.03.2014: EUR 47,416 thousand; 31.12.2014: EUR 46,310 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2015 3 months	2014 3 months	2014 12 months
Pre-tax profit from reporting segments	3,837	4,158	25,812
Unallocated income (expense)			
marketing expenses	(779)	(854)	(3,190)
general and administrative expenses	(2,193)	(2,120)	(9,128)
incl. setting up of provisions	-	-	(56)
other operating income (expense)	12	3	-
finance income (costs)	(41)	(49)	(186)
incl. interest income	36	26	126
interest expenses	(71)	(74)	(294)
Total profit before tax	836	1,138	13,308

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2015 3 months		2014 3 months		2014 12 months	
Estonia	26,534	58%	32,554	66%	170,649	68%
Latvia	16,784	37%	13,971	29%	68,632	27%
Lithuania	2,281	5%	2,343	5%	12,956	5%
Finland	-	-	-	-	86	0%
Total	45,599	100%	48,868	100%	252,323	100%

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

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Estonia	19,513	17,972	20,045
Latvia	539	424	556
Lithuania	26	62	32
Total	20,078	18,458	20,633

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2015 3 months	2014 3 months	2014 12 months
Construction services and properties purchased for resale	26,519	26,668	132,207
Materials	6,440	8,043	44,214
Labour costs	4,363	4,842	21,804
Construction mechanisms and transport	1,354	1,442	9,228
Design	430	764	2,974
Real estate management costs	65	72	181
Depreciation	614	450	2,025
Impairment of inventories	-	-	400
Reversal of impairment of inventories	-	-	(850)
Provisions	424	238	4,464
Other expenses	1,829	2,413	10,944
Total cost of goods sold	42,038	44,932	227,591

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2015 3 months	2014 3 months	2014 12 months
Net profit(-loss) attributable to shareholders (<i>in thousand EUR</i>)	809	711	12,417
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17,700	17,700	17,700
Earnings (loss) per share (<i>in euros</i>)	0.05	0.04	0.70

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends will be paid by parent company AS Merko Ehitus in Q2 2015 in the amount of EUR 7,257 thousand, i.e. 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 thousand, which will be partially covered by the income tax withheld on taxed dividends received from subsidiaries in the previous periods. In the second quarter of 2015 the group will incur additional income tax expenses of EUR 906 thousand in connection with disbursement of dividends.

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.

As at 31 March 2015, the parent company AS Merko Ehitus has EUR 2,384 thousand (31.03.2014: EUR 7,717 thousand; 31.12.2014: EUR 2,181 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.03.2015, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 92,185 thousand (31.03.2014: EUR 88,026 thousand; 31.12.2014: EUR 91,498 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 596 thousand (31.03.2014: EUR 2,051 thousand; 31.12.2014: EUR 545 thousand), the corresponding income tax on dividends would amount to EUR 22,450 thousand (31.03.2014: EUR 21,348 thousand; 31.12.2014: EUR 22,329 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) of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Cash on hand	9	12	8
Bank accounts	30,891	17,440	41,588
Overnight deposits	10,012	28,865	9,987
Term deposits with maturities of 3 months or less	-	5,600	-
Total cash and cash equivalents	40,912	51,917	51,583

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Trade receivables			
Accounts receivable	23,243	38,189	28,384
Allowance for doubtful receivables	(698)	(742)	(728)
	22,545	37,447	27,656
Tax prepayments excluding corporate income tax			
Value added tax	1,342	1,333	629
Other taxes	48	13	19
	1,390	1,346	648
Amounts due from customers of contract works	12,437	11,016	10,291
Other short-term receivables			
Short-term loans	2,211	1,407	2,178
Interest receivables	432	684	394
Other short-term receivables	835	1,503	729
	3,478	3,594	3,301
Prepayments for services			
Prepayments for construction services	3,125	3,992	3,946
Prepaid insurance	227	347	213
Other prepaid expenses	385	462	327
	3,737	4,801	4,486
Total trade and other receivables	43,587	58,204	46,382
incl. short-term loan receivables from related parties (Note 16)	1,448	1,407	1,415
other short-term receivables and prepayments to related parties (Note 16)	431	1,075	415

NOTE 7 INVENTORIES

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Materials	720	789	681
Work-in-progress	29,988	35,414	21,305
Finished goods	30,588	11,094	37,846
Goods for resale			
Registered immovables purchased for resale	59,486	39,066	55,186
Other goods purchased for resale	832	975	837
	60,318	40,041	56,023
Prepayments for inventories			
Prepayments for real estate properties	1,086	1,086	1,086
Prepayments for other inventories	522	310	697
	1,608	1,396	1,783
Total inventories	123,222	88,734	117,638

As at 31.03.2015, OÜ Rannamõisa Kinnisvara land is recognised at fair value as registered immovables purchased for resale in the amount EUR 3,261 thousand (Note 16).

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Investments joint ventures	23	7,315	67
Long-term loans	360	3,633	360
Long-term bank deposit	37	37	37
Long-term interest	7	-	4
Long-term receivables from customers of construction services	10,998	10,616	11,008
Total other long-term loans and receivables	11,425	21,601	11,476
incl. long-term loan receivables from related parties (Note 16)	360	3,611	364
other long-term receivables from related parties (Note 16)	7	-	4

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Land	51	51	51
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(10)	(9)	(10)
	19	20	19
Buildings at carrying amount			
Cost	5,245	5,067	5,245
Accumulated depreciation	(758)	(523)	(696)
	4,487	4,544	4,549
Total investment property	4,557	4,615	4,619

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Land	824	824	824
Buildings at carrying amount			
Cost	5,726	5,784	5,726
Accumulated depreciation	(1,674)	(1,501)	(1,628)
	4,052	4,283	4,098
Machinery and equipment at carrying amount			
Cost	18,903	15,500	18,888
Accumulated depreciation	(10,365)	(9,423)	(10,042)
	8,538	6,077	8,846
Other fixtures at carrying amount			
Cost	5,273	5,420	5,270
Accumulated depreciation	(4,094)	(3,945)	(4,060)
	1,179	1,475	1,210
Prepayments for property, plant and equipment	21	45	25
Total property, plant and equipment	14,614	12,704	15,003

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Goodwill			
Cost	891	891	891
Impairment	(201)	(111)	(178)
	690	780	713
Software at carrying amount			
Cost	1,071	1,268	1,155
Accumulated depreciation	(854)	(909)	(857)
	217	359	298
Total intangible assets	907	1,139	1,011

NOTE 12 BORROWINGS

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Finance lease payables			
Present value of lease payments	4,114	2,627	4,434
incl. current portion	1,557	908	1,660
non-current portion 1...4 years	2,557	1,719	2,774
Bank loans			
Loan balance	21,814	20,834	24,049
incl. current portion	873	6,334	3,566
non-current portion 1...5 years	20,941	14,500	20,483
Loans from entities under common control			
Loan balance	8,145	8,145	8,145
incl. current portion	8,145	8,145	8,145
Loans from management members	102	102	102
incl. non-current portion 1...5 years	102	102	102
Loans from other entities			
Loan balance	941	449	916
incl. current portion	941	449	916
Total loans			
Loans balance	31,002	29,530	33,212
incl. current portion	9,959	14,928	12,627
non-current portion 1...5 years	21,043	14,602	20,585
Total borrowings	35,116	32,157	37,646
incl. current portion	11,516	15,836	14,287
non-current portion 1...5 years	23,600	16,321	23,359

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Trade payables	25,681	20,333	21,303
Payables to employees	6,399	6,450	8,359
Tax liabilities, except for corporate income tax			
Value added tax	477	916	1,457
Personal income tax	716	667	468
Social security tax	1,366	1,217	902
Unemployment insurance tax	80	87	59
Contributions to mandatory funded pension	65	57	42
Other taxes	119	70	106
	2,823	3,014	3,034
Amounts due to customers for contract works	6,283	14,905	8,690
Other liabilities			
Interest liabilities	139	122	136
Payable for registered immovables from demerger	-	5,288	4,026
Other liabilities	184	921	494
	323	6,331	4,656
Prepayments received	21,423	26,319	25,080
Total payables and prepayments	62,932	77,352	71,122
incl. payables to related parties (Note 16)	5,466	6,838	5,859

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Provision for warranty obligation for construction	2,070	1,788	2,096
Provision for costs of projects sold	1,112	747	1,838
Provision for onerous construction contracts	1,519	2,443	2,079
Provision for legal costs and claims filed	172	172	172
Other provisions	16	2	54
Total short-term provisions	4,889	5,152	6,239

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Trade payables	1,160	1,648	1,644
Long-term Interest liabilities	15	9	13
Other long-term liabilities	3,267	10	14
Other long-term payables total	4,442	1,667	1,671
incl. other long-term payables to related parties (Note 16)	3,261	-	-

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.03.2015, 31.03.2014 and 31.12.2014, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2015	31.03.2014	31.12.2014		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
OÜ Tevener	100	100	100	Estonia, Tallinn	Mining
AS Vooremaa Teed	100	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Gustaf	100	92.5	100	Estonia, Pärnu	Construction
AS Merko Tartu	66	66	66	Estonia, Tartu	Construction
OÜ Raadi Kortermaja	100	100	100	Estonia, Tartu	Real estate
OÜ Fort Ehitus	75	75	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	100	51	100	Estonia, Tallinn	Real estate
OÜ Rannamõisa Kinnisvara	100	-	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	100	Lithuania, Vilnius	Construction
UAB Merko Inžinerija	100	100	100	Lithuania, Vilnius	Construction
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	100	Lithuania, Vilnius	Real estate
UAB Kražiu Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP1	100	-	100	Lithuania, Vilnius	Real estate
UAB Timana	100	-	100	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	-	100	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	100	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	100	Estonia, Tallinn	Real estate
OÜ Maryplus	-	100	100	Estonia, Tallinn	Real estate
OÜ Constancia	-	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	31.03.2015	31.03.2014	31.12.2014		
SIA Industrias Parks	100	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
SIA Polystar	-	100	-	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	-	75	Latvia, Riga	Real estate
Merko Finland OY	100	100	100	Finland, Helsinki	Construction
Harian OY	75	-	-	Finland, Helsinki	Real estate
AS OY Helsingin Pestikuja 1	100	-	-	Finland, Helsinki	Real estate
Lenko Stroi LLC	100	100	100	Russia, St. Petersburg	Construction
Joint ventures					
OÜ Unigate	50	50	50	Estonia, Tallinn	Real estate
Poolkoksimäe Sulgemise OÜ	50	50	50	Estonia, Tallinn	Construction
OÜ Kortermaja	50	50	50	Estonia, Tartu	Real estate
Kivimäe 32 OÜ	50	-	50	Estonia, Tallinn	Real estate
SIA Zakusala Estates	-	50	-	Latvia, Riga	Real estate
Kalaranna Arenduse OÜ	50	-	50	Estonia, Tallinn	Real estate

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.

On 6 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 residential 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 in the Commercial Register was made on 15 April 2015.

On 4 March 2015, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas, in the course of which a 100% subsidiary UAB Kražiu Projektas will be split from the company for the purpose of later merging it with AS Merko Ehitus's 100% subsidiary UAB Merko Statyba.

On 20 March 2015, Hartian OY, a 75%-owned subsidiary of OY Merko Finland, fully owned subsidiary of AS Merko Ehitus, made a monetary contribution in amount of EUR 2,500 into the share capital of a newly formed 100%-owned subsidiary Asunto OY Helsingin Pestikuja 1, which will develop and maintain the residential quarter in Pestikuja 1.

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. Acquisition of the subsidiary is recognised 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 7).

GOODS AND SERVICES

in thousand euros

	2015 3 months	2014 3 months	2014 12 months
Provided services			
Parent company	2	2	10
Joint ventures	102	62	297
Entities under common control	-	1,237	1,293
Members of the management	-	-	130
Total services provided	104	1,301	1,730
Interest income			
Joint ventures	31	28	118
Purchased services and materials			
Parent company	23	8	90
Entities under common control	31	22	123
Total purchased services and materials	54	30	213
Interest expense			
Entities under common control	30	31	124
Members of the management	1	1	5
Total interest expense	31	32	129

BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2015	31.03.2014	31.12.2014
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	1,808	5,018	1,775
Receivables and prepayments (Note 6)			
Parent company	3	5	3
Joint ventures	428	707	409
Entities under common control	-	363	7
Total receivables and prepayments	431	1,075	419
Other long-term receivables (Note 8)			
Joint ventures	7	-	4
Total receivables from related parties	2,246	6,093	2,194
Payables to related parties			
Loans received (Note 12)			
Entities under common control	8,145	8,145	8,145
Other related parties	102	102	102
Total loans received	8,247	8,247	8,247
Payables and prepayments (Note 13)			
Parent company	9	9	9
Entities under common control	4,097	5,299	4,039
Members of the management	1,360	1,530	1,811
Total payables and prepayments	5,466	6,838	5,859
Other long-term payables (Note 15)			
Entities under common control	3,261	-	-
Total payables to related parties	16,974	15,085	14,106

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 3 months of 2015 was EUR 491 thousand (3 months of 2015: EUR 593 thousand; 12 months of 2014: EUR 2,072 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 3 months of 2015, the Management Board members of major subsidiaries received EUR 14 thousand in compensation (3 months of 2014: EUR 6 thousand; 12 months of 2014: EUR 58 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.03.2015

		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 31.03.2015

		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 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.03.2015	31.03.2014	31.12.2014
Performance period's warranty to the customer	17,284	30,489	17,439
Tender warranty	824	1,049	401
Guarantee warranty period	18,696	12,748	19,110
Prepayment guarantee	8,714	8,717	7,711
Payment guarantee	278	-	-
Contracts of surety	338	1,642	311
Letter of credit	927	-	1,710
Total contingent liabilities	47,061	54,645	46,682

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

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

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

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

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

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

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 3 months of 2015, which are set out on pages 5-52.

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

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

Andres Trink Chairman of the Management Board



07.05.2015

Tõnu Toomik Member of the Management Board



07.05.2015