



AS MERKO EHITUS

GROUP

2015 9 months and III quarter
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2015 – 30.09.2015
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 4% of the total volume of the Estonian construction market as of the end of second quarter 2015. 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.



DESIGN AND CONSTRUCTION OF A 13-STOUREY OFFICE BUIDLING NAMED AFTER ERNST ÕPIK AT THE ÜLEMISTE CITY CAMPUS IN TALLINN ESTONIA BY AS MERKO EHITUS EESTI.

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 sales revenue of Merko Ehitus in Q3 stood at 68.4 million euros and for the first 9 months at 184.6 million euros and has stayed at the level of the previous year. The net profit of the group for Q3 stood at 3.1 million euros and for the first 9 months at 5.6 million euros, and it includes the additional income tax expenses arising from the payment of dividends. The decrease in the sales revenue from construction services in Estonia has been compensated by the growth of the sales revenue in Latvia and Lithuania, and also by active real estate development, where the sales revenue has grown by 73% in the first 9 months and accounts for a quarter of the group's sales revenue.

In this challenging year, the group has managed to maintain the sales revenue at a level comparable to the previous year, which has not been easy, given the situation in the Baltic construction market and the relatively weak position of the group's secured order book at the beginning of the year. As expected, the volume of construction service in Estonia has decreased, because the number of orders by the government has decreased in civil engineering and the company has sought to avoid excess risks in price competitions within the general construction segment. Group-wide, the growth of sales revenue in Latvia and Lithuania and more active real estate development throughout the Baltic states has helped to balance the sales revenue.

9 MONTHS 2015
PROFIT BEFORE TAX
7.0 MILLION EUROS
REVENUE 184.6
MILLION EUROS

Even though the group's portfolio of new contracts has increased in comparison with the corresponding 9 months of the previous year, its volume cannot be deemed satisfying. As the public sector has recently placed only a few orders and only a few procurements have been large, the price war at these tenders is very fierce. The private customers have nevertheless had the courage to invest and several private customers have had trust in Merko – to date, the majority of new contracts in the portfolio have been entered into with private customers. Within the first 9 months of the year, the group has entered into new contracts to the value of 152.2 million euros. As of 30 September 2015, the group had a secured an order book balance of 193.6 million euros (30 September 2014: 166.4 million euros).

The management estimates that 2016 will definitely be challenging, particularly due to the fact that the launch of the projects co-funded by the EU has been postponed longer than expected and the growth in the Baltic states remains at only a few percentage points. In Latvia, the group has completed the construction of several large-scale projects, but this year has not succeeded in entering into new contracts in the same volume, which may affect the volume of construction work in Latvia next year. The results of the group are also substantially affected by the trends in the Baltic apartment market, where developments have so far been positive for us, although the rapid growth in the last three years has begun to stabilise. We believe that the long-term outlooks of the construction market will remain good in our home markets despite the current challenges as investments in infrastructure and housing construction are still essential, and the yield on commercial property remains at a competitive level for investors.

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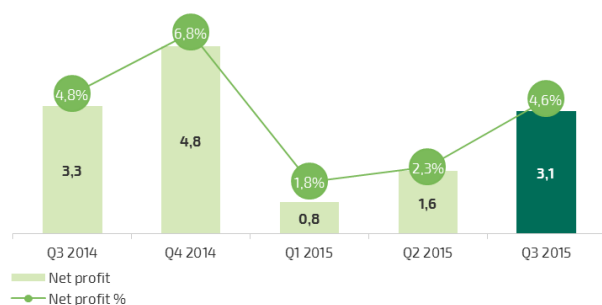
The sales revenue of Merko Ehitus in Q3 of 2015 stood at 68.4 million euros and for the first 9 months at 184.6 million euros (Q3 in 2014: 68.5 million euros and the first 9 months in 2014: 182.2 million euros). The Q3 gross margin of the group was 9.3% and the profit before taxes was 3.5 million euros; the performance for the first 9 months was 8.3% and 7.0 million euros, respectively. The net profit of the company in Q3 stood at 3.1 million euros and for the first 9 months at 5.6 million euros. The net profit for the first 9 months was influenced by additional income tax expenses in Estonia in the amount of 0.9 million euros, which resulted from the payment of dividends to the shareholders in Q2.

The real estate development projects launched by the group in this year have progressed as planned and although the apartment markets in Tallinn and Vilnius have begun to stabilise, potential customers are still interested in purchasing apartments developed by Merko. In order to maintain and strengthen our longstanding market position, the group has also acquired new land plots, the largest of these is the approximately 1.3-hectare Rinktines development area in the city centre of Vilnius, where more than 300 new apartments can be built. It is relevant to note that the group has purchased the new land plots for the company's own resources without drawing on external funding this year. Over the first 9 months, the group has invested 30.1 million euros into the construction of apartments and 11.7 million euros into the acquisition of different land plots. During the first 9 months, the share of the sales revenue from real estate development has increased to about 25% of the total revenues of the group (the first 9 months in 2014: 14.5%).

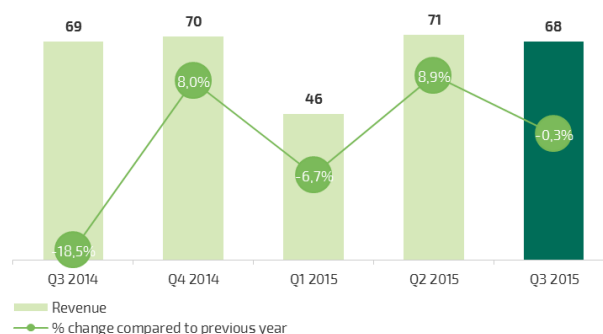
In the first 9 months, the group sold 248 apartments at the total cost of 42.6 million euros, and in Q3 it sold 80 apartments at the total cost of 10.9 million euros (figures exclusive of VAT), (the first 9 months in 2014: 235 apartments, sales revenue 23.5 million euros). The sales revenue from real estate development has increases by 72.7% over the first 9 months. This year, the company has launched the construction of a total of 386 apartments in the Baltic states (the first 9 months in 2014: 310 apartments), including apartment buildings in the city centre of Tallinn at 52 Tartu mnt (1 stage), at 33 Sõpruse pst in Kristiine district, at 1a Jahu Street in Kalamaja district, in Paepargi Perepark, Kaupmehe Street in Tartu rural municipality and at 73 Krokuvos Street in the city centre of Vilnius.

OVERVIEW OF THE 9 MONTHS AND III QUARTER RESULTS

GROUP NET PROFIT
in millions euros



GROUP REVENUE
in million euros



PROFITABILITY

Profit before tax in 9M 2015 was EUR 7.0 million (9M 2014: EUR 8.0 million), which is equivalent to a profit before tax margin of 3.8% (9M 2014: 4.4%). Gross margin in 9M was 8.3% (9M 2014: 8.9%), which has decreased by 7.3% compared to the same period last year. Q3 2015 profit before tax was EUR 3.5 million (Q3 2014: EUR 3.3 million). Net margin in 9M 2015 decreased to 3.0% (9M 2014: 4.2%) and net profit was EUR 5.6 million (9M 2014: EUR 7.6 million), having decreased by 27.1% compared to the same period last year. Q3 net profit was EUR 3.1 million (Q3 2014: EUR 3.3 million).

REVENUE

Revenue in 9M 2015 was EUR 184.6 million (9M 2014: EUR 182.2 million), which has increased by 1.3% compared to the same period last year. Q3 revenue was EUR 68.4 million (Q3 2014: EUR 68.5 million). The share of construction service revenue earned outside of Estonia has increased in 9M 2015 to 31.9% (9M 2014: 25.7%). The number of apartments sold in 9 months of 2015 (248 pcs, revenues of EUR 42.6 million) has increased by 5.5% and the revenue from apartment sales has increased by 81.5% (9 months of 2014: 235 apartments, revenues of EUR 23.5 million).

CASH POSITION

At the end of the reporting period, the group had EUR 19.9 million in cash and cash equivalents and equity EUR 121.3 million (53.4% of total assets). Comparable figures as at 30 September 2014 were accordingly EUR 40.3 million and EUR 122.2 million (47.5% of total assets). As at 30 September 2015 the group had net debt of positive EUR 10.0 million (30 September 2014: positive EUR 0.1 million).

SECURED ORDER BOOK

In Q3 2015, group companies signed new contracts in the amount of EUR 30.9 million (Q3 2014: EUR 37.2 million). 9M 2015 new contracts signed in amount of EUR 152.2 million (9M 2014: EUR 107.5 million). As at 30 September 2015, the group's secured order book stood at EUR 193.6 million (30 September 2014: EUR 166.4 million).

		9M '15	9M '14	VARIANCE	Q3 '15	Q3 '14	VARIANCE	12M '14
Revenue	million EUR	184.6	182.2	+1.3%	68.4	68.5	-0.3%	252.3
Gross profit	million EUR	15.3	16.3	-6.1%	6.3	6.2	+2.4%	24.7
Gross profit margin	%	8.3	8.9	-7.3%	9.3	9.0	+2.7%	9.8
EBITDA	million EUR	9.9	10.2	-2.5%	4.4	4.1	+7.8%	16.4
EBITDA margin	%	5.4	5.6	-3.7%	6.4	5.9	+8.1%	6.5
Profit before tax	million EUR	7.0	8.0	-12.0%	3.5	3.3	+4.9%	13.3
PBT margin	%	3.8	4.4	-13.1%	5.1	4.8	+5.1%	5.3
Net profit (parent)	million EUR	5.6	7.6	-27.1%	3.1	3.3	-3.8%	12.4
Net profit margin	%	3.0	4.2	-28.0%	4.6	4.8	-3.5%	4.9
EPS	EUR	0.31	0.43	-27.1%	0.18	0.18	-3.8%	0.70

		30.09.2015	30.09.2014	VARIANCE	31.12.2014
ROE (on yearly basis)	%	8.3	8.3	+0.2%	10.1
Equity ratio	%	53.4	47.5	+12.5%	51.0
Secured order book	million EUR	193.6	166.4	+16.3%	179.1
Total assets	million EUR	227.0	257.3	-11.8%	249.3
Number of employees	people	798	804	-0.7%	765

Ratio definitions are provided on page 37 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 9 MONTHS OF 2015

In 2015, the economies of the three Baltic countries are forecast to grow 2-3% (average), which is mainly supported by rising domestic demand. Households' consumption has been considerably increased by households' higher purchasing power, improved confidence and growth in real wages in the context of low interest rates. The construction market has remained in a slump for the last 9 months, and only in the residential housing construction sector has the market still been active. No dramatic growth is anticipated in the Baltics for the next year. Euro base rates remain low, although we continue to believe that there are still inflationary risks in the longer term.

Economic growth in Scandinavia, particularly in Finland, 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. Norwegian economic development and employment are negatively impacted by the oil price. Although the major Nordic 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 outlook of the Russian economy is mainly related to the oil price, economic sanctions and political uncertainty. The stagnation of Russian economy will continue to impact the Baltic economies – Lithuania's most profoundly. The direct ties between the economies of the Baltics and Russia will affect Baltic exports to Russia, but indirect ones that have even more important impact concern our trade partners' relations with Russia. The situation in Russia and Ukraine will remain complicated in the years ahead. Although tensions have eased off slightly this autumn, the main scenario is that the Russia-Ukraine conflict will be a long-term one and that in early 2016, the EU will once again extend the sanctions imposed on Russia. This shows, that the normalization of EU-Russian relations will take time and will not happen before the Ukraine conflict finds a more lasting solution. As the Baltic States all have small and open economies and are largely dependent on our close economic ties and trade with neighbouring countries, the economic developments in both Scandinavia and Russia have a direct effect on us. For the Baltics, the negative impact of risks related to the Russian market is much smaller than it was a year ago, as Russia now plays a less significant role in the export structure.

CONSTRUCTION SERVICES

For 2015, we are forecasting a slight 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 as well as the often insufficient equity. On the other hand the construction market volume as a whole has been supported by a relatively more active residential construction, especially in Tallinna and Vilnius, which partly offsets the decline in public investment in infrastructure, but doesn't mean significantly more work for general contractors. 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, start to open gradually – expectations that procurements will become more active in 2015 have not been met. As new projects require thorough preparation, we estimate that the number of new public procurements will start gradually growing 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 in the second half of 2016 or even later.

In the 9 months of 2015, the share of government contracts has been very low, and we do not foresee these volumes increasing in the three Baltic states before 2016. Due to the decrease of public sector orders it is a group priority for all three Baltic countries to cooperate with private customers, to whom we wish to offer comprehensive design and construction services, quality and optimal construction solutions, effective construction process and certainty regarding timely completion of 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, 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 somewhat 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.

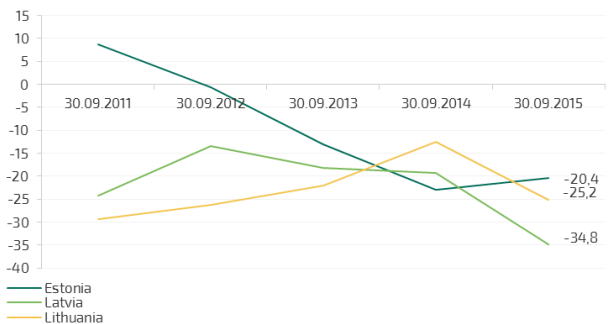
In 2014 the profitability of new contracts signed by general contractor companies remained on average probably below the last year's level depending on price competition and the continuation of the same trend is also visible in 2015. Competition between general contractors within the Baltic construction 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, especially with regard to simpler and smaller construction projects; also the risks related to bids submitted below the actual cost price have increased.

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, we do not foresee major changes in the level of construction input prices, despite some wage pressure. Input prices may come under temporary pressure in a situation where multiple major construction sites are in progress simultaneously. This could result in a rise in prices of certain inputs (such as concrete elements). Also the level of Baltic states' construction price indices have remained relatively stable. 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 thus 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. As of the end of Q3, the confidence indicator level for the construction industry was lower in all three Baltic states than it was in the previous quarter, and in Latvia and Lithuania also remained lower than in the same period a year ago. The drop in confidence compared to the last quarter comes from the seasonal decline in the status of contracts and the imminent drop in number of workers. On a larger scale, confidence is kept negative by the lack of demand – caused in turn by the expectation of reduced funds available for future construction market investments during the EU's next financing period, which will have a major impact on infrastructure construction. At the same time some positive influence on sector confidence comes from construction of buildings, where today construction companies have presently more work ahead and also seasonal preconditions.

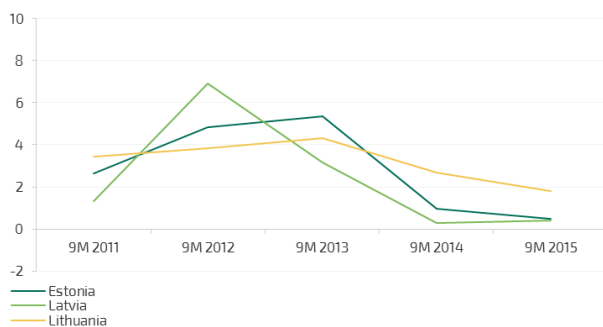
CONSTRUCTION CONFIDENCE INDICATOR
difference between percentages of pos. and neg. responses



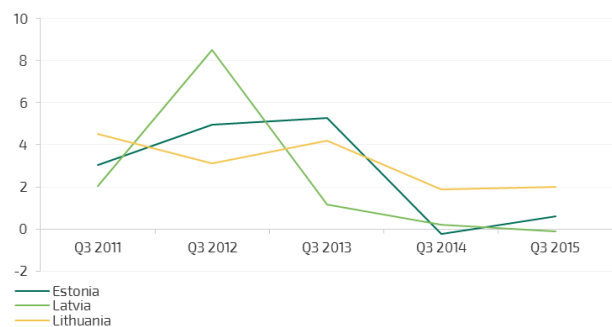
Source: European Commission Directorate-General for Economic and Financial Affairs

Compared to the same period last year, confidence in the construction sector in the Baltic countries in September 2015 fell in Lithuania (down 12.7 points from -12.5 points to -25.2 points) and in Latvian (down 15.5 points from -19.3 points to -34.8 points). In September 2015, the Estonian level of construction confidence indicators was -20.4 points (September 2014: -22.9 points), being the only one in the Baltic countries to have risen (by 2.5 points) in the year.

9M CHANGE IN CONSTRUCTION PRICE INDEX
percentages



QUARTERLY CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: Local national statistical offices.

	9 MONTHS 2015			III QUARTER 2015		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
Construction price index annual change	+0.5%	+0.4%	+1.8%	+0.6%	-0.1%	+2.0%
Labour force	+2.7%	+6.7%	+5.0%	+3.4%	+6.5%	+6.0%
Construction machines	-0.4%	+0.3%	+0.4%	-2.1%	-0.2%	+0.2%
Building materials	-0.6%	-1.5%	-0.1%	-0.7%	-2.1%	-0.3%

Source: Local national statistical offices.

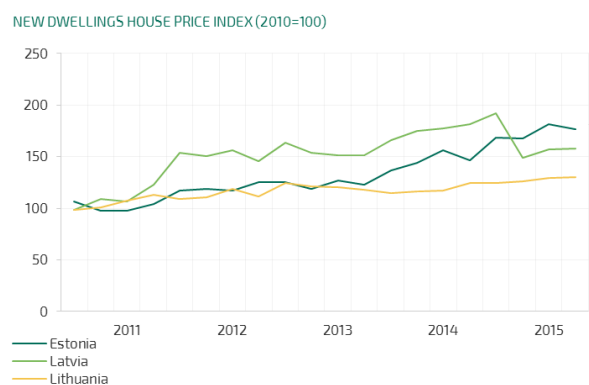
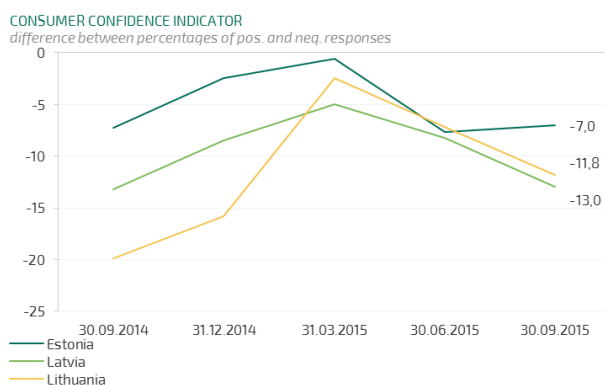
As the largest general contractor, AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, is well positioned in the Estonian construction market and is capable of competing in all activity segments, although there are many general contractors in general construction market segment and there is a tight 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 in 2015. 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 impacted by the activities of the so-called advisers that represent contracting authorities and complicate the possibilities of general contractors to win construction contracts. Considering the volume of agreements concluded in Lithuania, we hope to increase our revenues and market share in 2015.

APARTMENT DEVELOPMENT

After the last three years of fast growth, especially in Tallinn and Vilnius, the situation in the apartment market in all three Baltic States is calming down. We do not forecast a long-term and steep change in prices in the next 6-12 months. Whereas in 2014 we saw the demand to continue to remain relatively strong, then a higher supply of apartments has led to stabilisation of sale prices in 2015. In Vilnius's bedroom communities the supply has now clearly exceeded demand and due to that we are expecting a lengthening of sales periods there. Still, we anticipate that despite the active supply on the apartment housing market, demand will stay strong for the high-quality apartments developed by the Merko Group, in all three capitals of the Baltic States, and also in Tartu.

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 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 has increased 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, which increases the confidence that there will be no major fluctuations in the market. This trend gives the group a competitive advantage in launching new development projects in the market and supports the launch of new development projects.

A new trend that has become popular in Estonia is raising capital through crowdfunding. This is because there are few alternative investment alternatives and the yields on crowdfunded projects are relatively aggressive. This funding scheme is novel and it is possible that investors who join it do not have enough experience to assess risks related to the development projects, which is also reflected by the fact that to this point the funded projects have been filled up very rapidly. To sum up, this means of funding has given smaller developers better opportunities for entering the market, and launching such new projects has an impact on the market above all through increasing supply, which in turn impacts the general price level and expectations on the market.

The Latvian apartment market continues to be passive. In the recent years the Latvian apartment market has been supported by foreign investors who invest in real estate with the objective of acquiring a residence permit for the European Union. At the same time, legislative amendments passed in Latvia in 2014 regarding the procedure for issuing residence permits 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. As seen today, the effect of the change is that non-resident homebuyers have almost disappeared from Latvian real estate market, which has a particular impact on the high-end segment real estate and particularly in Jurmala. 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. In the Latvian capital Riga, Merko continues to focus on local homebuyers in the medium-priced segment.

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. On this backdrop, the bedroom community market has developed a new trend: apartments built by some developers have started to be leased out long-term, up to three years, with the obligation of later purchase. In addition, the Lithuanian central bank has decided to review the terms of housing loans issued by commercial banks to individuals. The process is expected to make loans harder to access for buyers with lower purchasing power. 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.



APARTMENT DEVELOPMENT PROJECT LAUNCHED IN THE THIRD QUARTER –THE CONSTRUCTION OF SÕPRUSE P5T. 33 IN KRISTIINE DISTRICT IN TALLINN. THE U-SHAPED BUILDING DESIGNED BY ARCHITECT VELLE KADALIPP IS CHARACTERISED BY DIFFERENT MATERIALS ON THE FACADE, GLASS ELEVATORS AND A PRIVATE PATIO WITH ABUNDANT LANDSCAPING IN THE COURTYARD.

OPERATING RESULTS

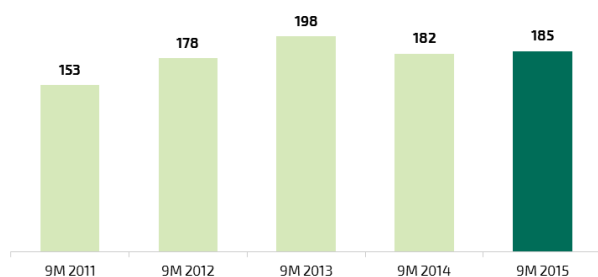
BUSINESS ACTIVITIES

Key financial indicators (in million euros)

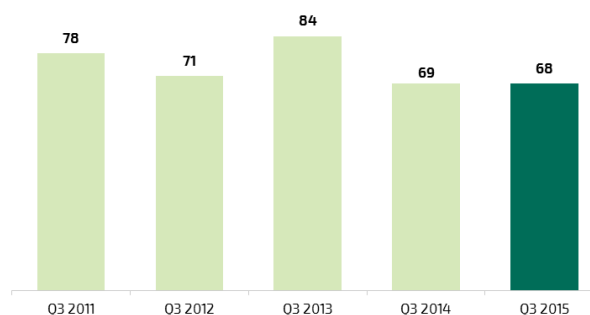
	9 MONTHS 2015	9 MONTHS 2014	III QUARTER 2015	III QUARTER 2014	12 MONTHS 2014
Revenue					
Estonian construction service	80.0	109.0	32.9	43.6	141.5
Latvian and Lithuanian construction service	58.9	46.8	22.4	19.1	65.0
Real estate development	45.7	26.4	13.1	5.8	45.8
Revenue total	184.6	182.2	68.4	68.5	252.3
Gross profit	15.3	16.3	6.3	6.2	24.7
EBITDA	9.9	10.2	4.4	4.1	16.4
Operating profit (EBIT)	7.6	8.5	3.7	3.5	14.0
Profit before tax (PBT)	7.0	8.0	3.5	3.3	13.3
Net profit					
attributable to equity holders of the parent	5.6	7.6	3.1	3.3	12.4
attributable to non-controlling interest	0.0	(0.2)	0.1	(0.1)	(0.1)
Net profit total	5.6	7.4	3.2	3.2	12.3
Earnings per share (EPS), euros	0.31	0.43	0.18	0.18	0.70
Cash and cash equivalents closing position	19.9	40.3	19.9	40.3	51.6

REVENUE AND GROSS PROFIT

GROUP REVENUE
in million euros

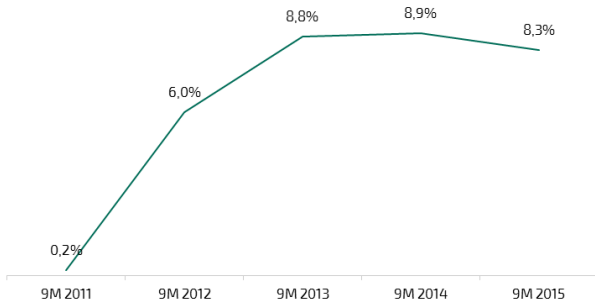


GROUP QUARTERLY REVENUE
in million euros

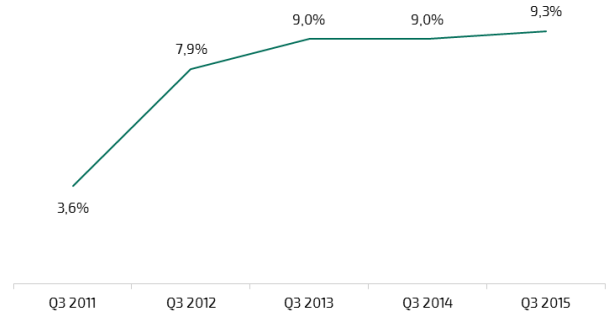


Merko Ehitus group generated a total of EUR 184.6 million in revenue in 9 months of 2015 (9 months of 2014: EUR 182.2 million). 43.4% of the revenue was generated in Estonian construction service, 31.9% in Latvian and Lithuanian construction service and 24.7% in and real estate development segment (9 months of 2014: 59.8% in Estonian construction service, 25.7% in Latvian and Lithuanian construction service and 14.5% in real estate development segment). Compared to the 9 months of 2014 the group revenue has increased by 1.3%. Compared to the 9 months of the previous year in the 9 months of 2015 the share of Latvian and Lithuanian construction service revenue in the group's revenue has increased from 25.7% to 31.9%. Revenue in Q3 2015 was EUR 68.4 million, which has decreased by 0.3% compared to the previous year (Q3 2014: EUR 68.5 million). The main changes in the revenue structure compared to the same period last year, can mainly be 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 and anticipated since the beginning of 2014.

GROUP GROSS PROFIT MARGIN
percentages



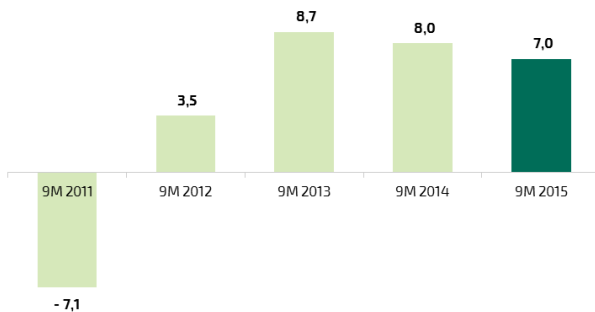
GROUP QUARTERLY GROSS PROFIT MARGIN
percentages



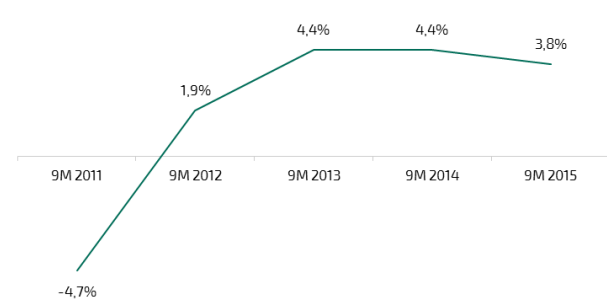
In 9 months of 2015 the group's gross profit from development and construction activities totalled EUR 15.3 million (9 months of 2014: EUR 16.3 million) and in Q3 2015 EUR 6.3 million (Q3 2014: EUR 6.2 million). The 9 months gross profit margin (8.3%) has decreased by 0.6 pp compared to the same period last year (9 months of 2014: 8.9%). Maintaining the stability of profit margins during the 9 months of 2015 in the Estonian construction service segment has been vital for the group, despite the decline in sales volumes, the profitability has been supported by the slight decrease in input prices, which may not necessarily continue over the whole of 2015. Gross profit margin has also been impacted by the reduced profitability in the real estate development segment, which depends largely on the price of the land as part of the total specific project expenses and is thus different on a project basis. 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

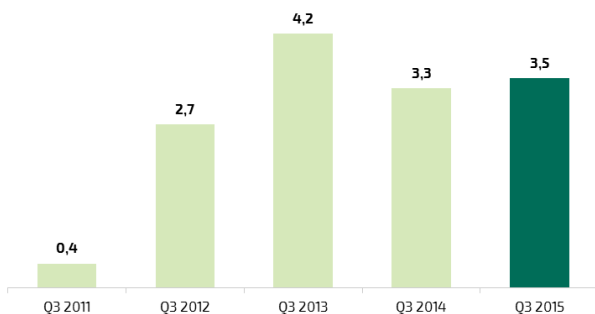


GROUP PROFIT BEFORE TAX MARGIN
percentages

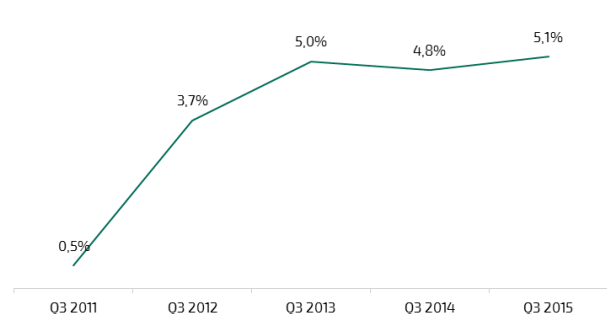


In 9 months of 2015, the group's profit before tax totalled EUR 7.0 million and net profit attributable to equity holders of the parent was EUR 5.6 million as compared to the pre-tax profit or EUR 8.0 million and net profit attributable to equity holders of the parent of EUR 7.6 million in 9 months of 2014. The 9 months of 2015 group's higher than usual additional income tax expense in the amount of EUR 0.9 million was incurred in connection with the announcement and disbursement of dividends. The 9 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 3.8% (9 months of 2014: 4.4%) and the net profit margin was 3.0% (9 months of 2014: 4.2%). Both the group's profit before tax (EUR 7.0 million) and the profit before tax margin (3.8%) have decreased compared to the same period last year (9 months of 2014: EUR 8.0 million and 4.2%, respectively).

GROUP QUARTERLY PROFIT BEFORE TAX
in million euros

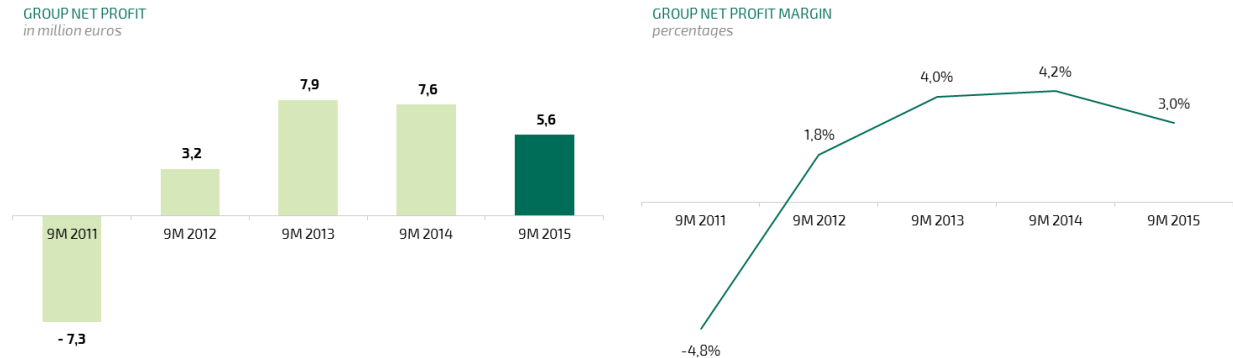


GROUP QUARTERLY PROFIT BEFORE TAX MARGIN
percentages



In Q3 of 2015, the group's pre-tax profit totalled EUR 3.5 million and net profit was EUR 3.1 million as compared to the pre-tax profit of EUR 3.3 million and net profit of EUR 3.3 million in Q3 of 2014. Contrary to the 9 months of 2015, both the group's quarterly profit before tax (EUR 3.5 million) and the quarterly profit before tax margin (5.1%) have increased compared to the same period last year (Q3 2014: EUR 3.3 million and 4.8%, respectively).

In the second quarter of 2015, the group paid EUR 7.3 million in dividends, which incurred additional income tax expense in the amount of EUR 0.9 million. The situation in the second quarter of 2014 was alike, when the group paid EUR 7.3 million in dividends, with the exception that then the group incurred no additional income tax expense in connection with previously received and taxed distribution of profits from subsidiaries.



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 (incl. construction services in Finland), 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 31.

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 (incl. construction services in Finland) and Latvian and Lithuanian construction service segments include all projects of the respective countries pertaining to construction services:

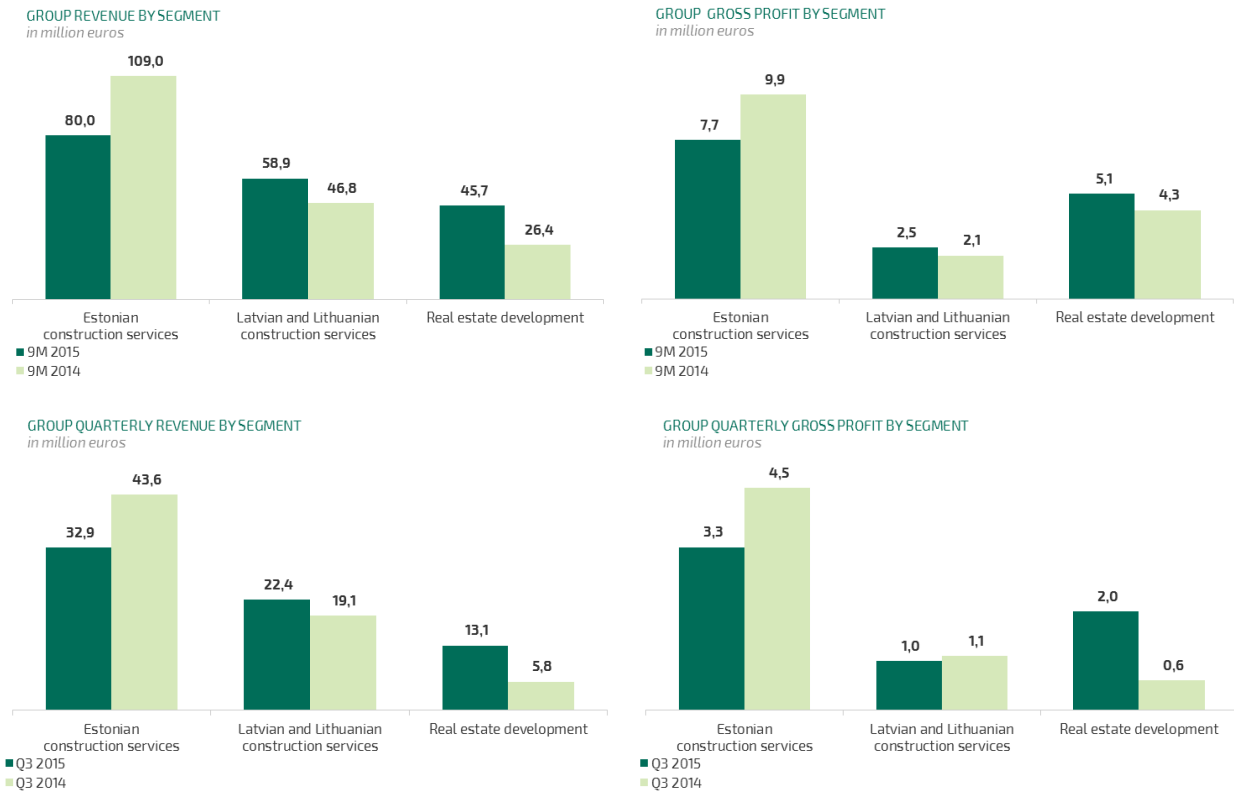
- General construction consists of the construction of different buildings, from commercial and office buildings, retail and entertainment centres to public sector and residential and specialised industrial buildings. Group companies provide strategic consulting and quality complete solutions as part 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

	9 MONTHS 2015	9 MONTHS 2014	CHANGE	III QUARTER 2015	III QUARTER 2014	CHANGE	12 MONTHS 2014
Revenue	80.0	109.0	-26.5%	32.9	43.6	-24.8%	141.5
% of total revenue	43.4%	59.8%	-27.5%	48.1%	63.7%	-24.6%	56.1%
Gross profit	7.7	9.9	-22.3%	3.3	4.5	-25.7%	14.0
Gross profit margin	9.6%	9.1%	+5.8%	10.2%	10.3%	-1.3%	9.9%

In the 9 months of 2015, the revenue of the Estonian construction service segment was EUR 80.0 million (9 months of 2014: EUR 109.0 million), having decreased by 26.5% from the same period last year. The 9 months revenue also includes revenue from the Finnish pile works project in the amount of EUR 2.5 million. The decrease of revenues is largely due to the fact that in the first 9 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). Also, part of the general construction projects have proceeded somewhat more slowly than originally planned; however, this will not result in changes in the final project deadlines. In this segment, the group earned a gross profit of EUR 7.7 million for 9 months (9

months of 2014: EUR 9.9 million). The Estonian construction service segment revenues for 9 months 2015 were 43.4% of the group's revenue, forming the largest proportion in the group's revenue, but still having decreased by 27.5%.

In 9 months of 2015, the gross margin of the Estonian construction service segment was 9.6%, which increased by 5.8% compared to the 9 months of 2014 (9.1%). 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 good result, which is mainly due to improvement of internal efficiencies in project management. Due to the decrease in public procurement volumes, above all in civil engineering, we continue to monitor closely 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 third quarter in Tallinn included the construction works of Hilton Tallinn Park hotel, the reconstruction work at the North-Estonia Medical Centre in Mustamäe, the design and construction works of logistics centre in Maardu, the design and renovation of the infrastructure of tram line No. 4, the design and construction works of Öpik Office Building and pile works in Tripla development are in Helsinki. Also the reconstruction works of Läsna-Kodasoo sections of Tallinn-Narva main road, the repair works of Kohtlase bridge, the reconstruction works of national highway No 12 Kose-Jägala and the road maintenance works done under the service agreement with Tallinn were in progress.

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

	9 MONTHS 2015	9 MONTHS 2014	CHANGE	III QUARTER 2015	III QUARTER 2014	CHANGE	12 MONTHS 2014
Revenue	58.9	46.8	+25.7%	22.4	19.1	+17.2%	65.0
% of total revenue	31.9%	25.7%	+24.1%	32.7%	27.9%	+17.5%	25.8%
Gross profit	2.5	2.1	+24.3%	1.0	1.1	-5.4%	2.6
Gross profit margin	4.3%	4.4%	-1.1%	4.5%	5.6%	-19.3%	4.0%

The revenue of the Latvian and Lithuanian construction service segment amounted to EUR 58.9 million in the 9 months of 2015 (9 months of 2014: EUR 46.8 million), which is 25.7% more than in the 9 months of 2014. If the Latvian and Lithuanian construction service segment revenues of 9 months of 2014 formed 25.7% of the group's revenue, then during 9 months of the current year the segments revenues have increased to 31.9%. This increase was expected considering the completion of large contracts signed in late 2013 in Latvia, such as the Liepaja Concert Hall and the Dzintaru 28 apartment building. The group's continued focus is on increasing the revenues outside Estonia. The 9 month gross profit of the Latvian and Lithuanian construction service segment amounted to EUR 2.5 million (9 months of 2014: EUR 2.1 million) and the gross profit margin was 4.3% (9 months of 2014: 4.4%), which decreased by 1.1% compared to the same period previous year.

In the third quarter of 2015, the main ongoing projects included were the construction of multifunctional concert hall in Liepaja, the construction of Dzintaru 28 apartment building in Jurmala, the construction of professional schools in Riga and Valmiera, the construction works of apartment building Magdalēnas nami in Riga, the re-cultivation and construction works of waste recycling site at A. Deglava Street in Riga, the engineering preparation works for Mežaparks development area in Riga, the construction of concrete foundations for wind turbine generators in Šilute wind farm, the construction works of Kauno/Algirdo residential complex with office premises in Vilnius and the general construction works of the ABB HVDC transformer substation in Klaipeda.

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

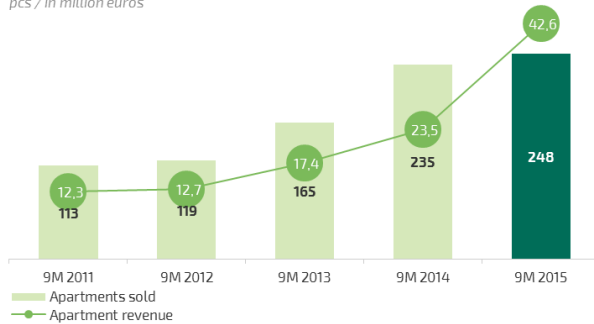
	9 MONTHS 2015	9 MONTHS 2014	CHANGE	III QUARTER 2015	III QUARTER 2014	CHANGE	12 MONTHS 2014
Revenue	45.7	26.4	+72.7%	13.1	5.8	+127.4%	45.8
% of total revenue	24.7%	14.5%	+70.6%	19.2%	8.4%	+128.0%	18.1%
Gross profit	5.1	4.3	+16.4%	2.0	0.6	+225.2%	8.1
Gross profit margin	11.1%	16.4%	-32.6%	15.0%	10.5%	+43.0%	17.7%

The group sold a total of 248 apartments in 9 months of 2015 at the total value of EUR 42.6 million (excl. VAT), compared to 235 apartments and EUR 23.5 million in 9 months of 2014. In Q3 of 2015 a total of 80 apartments were sold at the total value of EUR 10.9 million (excl. VAT), (Q3 2014: 37 apartments and EUR 4.9 million). In 9 months of 2015, the group has earned EUR 2.1 million of

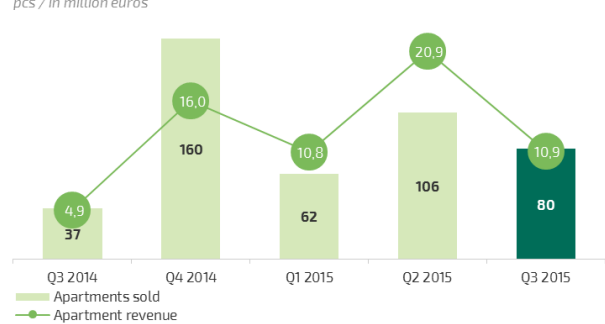
revenue from the sale of immovable properties (9 months of 2014: EUR 1.4 million). In 9 months of 2015 real estate development segment revenues have increased 72.7% compared to the same period last. The growth is primarily influenced by sales of apartments in more exclusive developments where the sales 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 as anticipated in the 9 months to 24.7% of the group's total revenue (9 months of 2014: 14.5%). 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 9 month gross profit of the segment amounted to EUR 5.1 million (9 months of 2014: EUR 4.3 million) and the gross profit margin was 11.1% (9 months of 2014: 16.4%), which decreased by 32.6% compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price.

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros

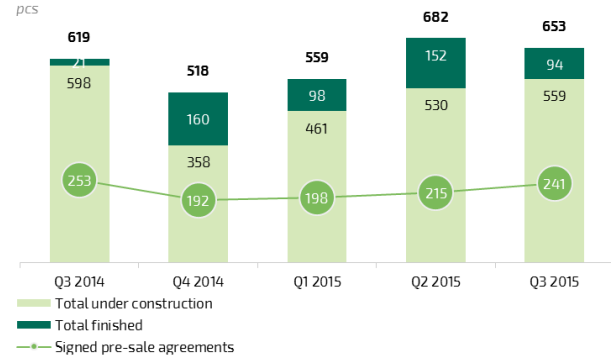


APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



At the end of the period, Merko Ehitus group's inventory comprised 241 apartments where a preliminary agreement had been signed: 22 completed apartments (3 in Estonia and 19 in Latvia) and 219 apartments under construction (175 in Estonia and 44 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.

GROUP APARTMENTS INVENTORY
pcs



As at 30 September 2015, Merko Ehitus group had a total of 412 apartments for active sale (as at 30 September 2014: 366 apartments), for which there are no pre-sale agreements and of which 72 have been completed (17 in Estonia, 54 in Latvia and 1 in Lithuania) and 340 are under construction (210 in Estonia, 120 in Lithuania and 10 in Finland).

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	1	-
Vana-Kalamaja 31	Tallinn, Estonia	Completed	1	-
Grostonas 19	Riga, Latvia	Completed	18	4
Paepargi 17, 19, 21	Tallinn, Estonia	Completed	1	-
Kentmanni 6	Tallinn, Estonia	Completed	4	3
Pärna avenue 9	Tartu municipality, Estonia	Completed	2	-
Grostonas 21	Riga, Latvia	Completed	54	15
Pärna avenue 12	Tartu municipality, Estonia	Completed	6	-
Pärna avenue 11	Tartu municipality, Estonia	Completed	6	-
			94	22
Rästa 18	Tallinn, Estonia	End of 2015	47	38
Fizikų	Vilnius, Lithuania	End of 2015	38	14
Kraziu	Vilnius, Lithuania	End of 2015	28	20

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Paepargi 49	Tallinn, Estonia	End of 2015	60	33
Tartu mnt 52 stage I **	Tallinn, Estonia	End of 2016	103	56
Paepargi 29, 31, 33 **	Tallinn, Estonia	Beginning of 2016	57	22
Jahu 1a **	Tallinn, Estonia	Autumn of 2016	37	19
Kaupmehe 7 **	Tartu municipality, Estonia	Summer of 2016	30	7
Krokovos 73 **	Vilnius, Lithuania	Summer of 2016	98	10
Pestikuja 1 **	Helsinki, Finland	Beginning of 2016	10	-
			508	219
Started in Q3 2015				
Sõpruse pst 33 **	Tallinn, Estonia	End of 2016	51	-
			51	-
Total			653	241

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

** Project launched in 2015.

In 9 months of 2015, we launched the construction of a total of 386 new apartments in the Baltic States (9 months of 2014: 310 apartments) – including the first stage of Tartu mnt 52 development project, the preparation works of which took place in 2014. After the balance sheet date, the group has launched an additional apartment developments with 55 apartments at Grostonas 12 in Riga, Latvia. In the 9 months of this year, the group has invested a total of EUR 30.1 million (9 months of 2014: EUR 32.3 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 will 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 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 30 September 2015, the group's inventories included land plots with the development potential of EUR 61.5 million (30.09.2014: EUR 55.6 million; 31.12.2014: EUR 55.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

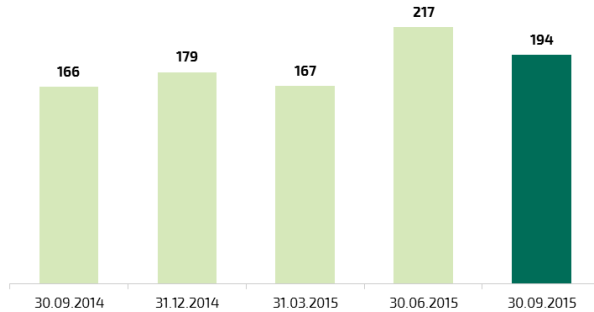
	30.09.2015	30.09.2014	31.12.2014
Estonia	17.1	14.5	14.2
Latvia	35.1	37.0	36.8
Lithuania	9.3	4.1	4.2
Total	61.5	55.6	55.2

In the 9 months of 2015, the group has purchased new land plots in Estonia at an acquisition cost of EUR 6.6 million and in Lithuania EUR 5.1 million (9 months of 2014: in Lithuania at an acquisition cost of EUR 3.2 million). In Lithuania, in Q3 2015, the group bought an approximately 1.3-hectare Rinkines development area in the city centre of Vilnius, where up to 350 apartments can be constructed. 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. Similarly in the second quarter of 2014, the group realized an option agreement to acquire the Rästa 18 land plot in Tallinn. 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 to build approximately 200 apartments.

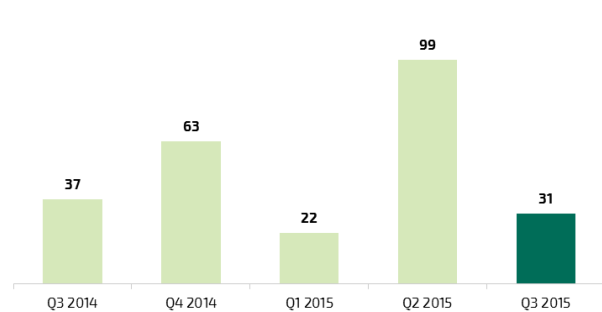
SECURED ORDER BOOK

As at 30 September 2015, the group's secured order book (without own developments) amounted to EUR 193.6 million as compared to EUR 166.4 million as at 30 September 2014. The secured order book excludes the group's own residential development projects and construction work related to developing real estate investments.

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



NEW CONTRACTS SIGNED
during the period, in million euros



In third quarter of 2015, EUR 30.9 million worth of new contracts were signed (without own developments) as compared to EUR 37.2 million in same period last year. The value of new contracts signed (without own developments) in the 9 months of 2015 amounted to EUR 152.2 million (9 months of 2014: EUR 107.5 million).

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE THIRD QUARTER OF 2015

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Construction works of 24 reinforced concrete foundations for wind turbine generators in Šilute wind farm in Lithuania	Lithuania	November 2015	6.5
Long-term contract for the maintenance works of main roads in Viljandi county	Estonia	December 2020 *	9.0 *

* The volume of works is approximately 1.8 million per year.

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

- On 9 October 2015, SIA Merks – a subsidiary of AS Merko Ehitus – signed a contract with SIA LMH to perform the construction works of kindergarten and school buildings complex near Riga in Pinki, in Latvia. The value of the contract is approximately EUR 6.0 million. The works are scheduled for completion in October 2016.
- On 16 October 2015, AS Merko Ehitus Eesti, 100% owned subsidiary part of AS Merko Ehitus group, and EKEREPOLOÜ, part of EKE Invest AS group, signed a contract to perform the construction works of an 14-storey office building, located at Mustamäe tee 3 ja 3A, Tallinn, Estonia. The contract value is approximately EUR 10.6 million. The works are scheduled to complete by the end of 2016.
- On 3 November 2015, AS Merko Ehitus group company AS Merko Ehitus Eesti and KMG Insenerihituse AS, and Tallinn's city's transport operator Tallinna Linnatranspordi AS entered into a contract to perform the design and construction work on the infrastructure of Tallinn airport tram line. The contract value is approximately EUR 11.5 million. The works will be performed during 2016 and 2017.

Of the contracts signed in the 9 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 already more than 4/5 (as at 31.12.2014 approximately 1/2). Apart from a few large-scale procurements where Merko companies were not as optimistic as our competitors in bidding at a low price, the share of government contracts in the first 9 months of 2015 has been modest. The group will continue to focus on comprehensive design and construction contracts. In this regard, three important contracts were signed in Estonia in the last quarter, although it should be noted that for the most part, the actual construction activity on these projects will largely start only in 2016.

Since a large proportion of new contracts signed since the beginning of the year is coming from one single contract, the total level of contracts signed with private customers is below expectations. 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 in 2016. In this respect, it continues to be a great challenge to maintain the group's secured order book at the level of 2014 or growing it.

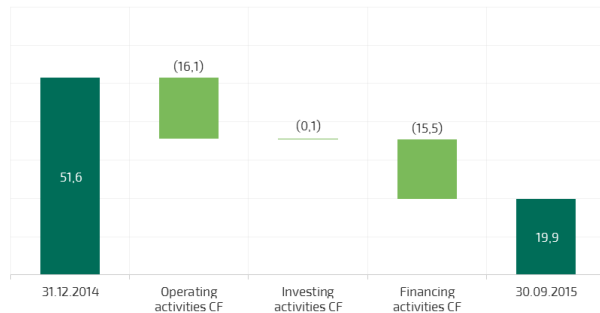
Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to increase the volume of construction orders from outside Estonia. Thus, we will continue to identify the groups 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.

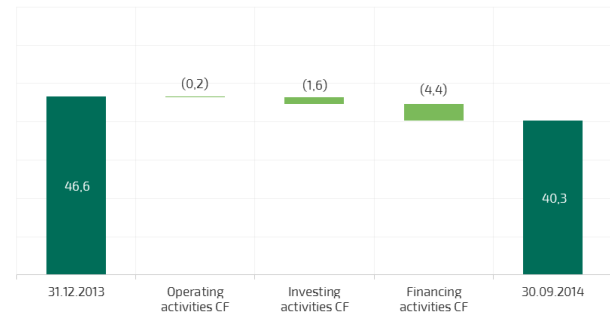
CASH FLOWS

As at 30 September 2015 the group had cash equivalents in the amount of EUR 19.9 million (30.09.2014: EUR 40.3 million). The group's cash level is lower compared to the same period last year; still, the financial position is strong, as the group has not utilized its credit lines of existing overdrafts and loan agreements and has not concluded loan agreements for financing all of the projects in development.

9M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



9M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The 9-month cash flow from operating activity was negative at EUR 16.1 million (9 months of 2014: negative EUR 0.2 million), cash flow from investing activity was negative at EUR 0.1 million (9 months of 2014: negative EUR 1.6 million) and the cash flow from financing activity was negative at EUR 15.5 million (9 months of 2014: negative EUR 4.4 million).

The cash flow from operating activity was mostly influenced by the operating profit EUR 7.6 million (9 months of 2014: EUR 8.5 million), by the positive change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 7.0 million (9 months of 2014: positive change of EUR 2.3 million), by the negative change in the provisions EUR 3.7 million (9 months of 2014: negative change of EUR 0.3 million), by the negative change in trade and other receivables related to operating activities EUR 12.6 million, incl. a negative change in financing co-financed projects of EUR 3.6 million (9 months of 2014: negative change of EUR 5.6 million, incl. a negative change in financing co-financed projects of EUR 0.4 million), by the positive change in inventory EUR 1.9 million, incl. negative cash flow from purchase of new land plots in the amount of EUR 11.7 million (9 months of 2014: negative change of EUR 16.0 million, incl. negative cash flow from purchase of new land plots in the amount of EUR 3.2 million), by the negative change in trade and other payables related to operating activities EUR 16.1 million, incl. significant negative outflow from the realization of an option agreement in the amount of EUR 4.0 million but also from the advances for real estate development projects (9 months of 2014: positive change of EUR 10.1 million) and by the corporate income tax paid EUR 1.6 million (9 months of 2014: EUR 0.1 million).

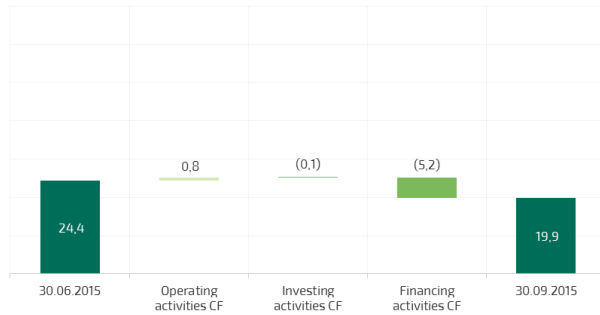
The group's cash flows from operating activities continue to have contracts (incl. both government and private sector) with long payment terms (by contract, an average of 56 days after registered delivery of the work) and there is an persistent burden on working capital, including optimal management of cash flows. This is especially true, considering the increase in Latvian and Lithuanian construction volumes and the need for additional working capital. To support cash flows arising from operating activity, the group has been prudent in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (13.2% as at 30.09.2015; 15.7% as at 30.09.2014).

Cash flows from investment activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 0.4 million (9 months of 2014: EUR 1.1 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.3 million (9 months of 2014: EUR 0.1 million). Cash flows from investment activities in 9 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, but also negative cash flow from the acquisition of minority shareholding in subsidiary AS Gustaf in the amount of EUR 0.1 million and the acquisition of subsidiary UAB Timana (related to the purchase of a new land plot in Lithuania) in the amount of EUR 0.3 million. The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment.

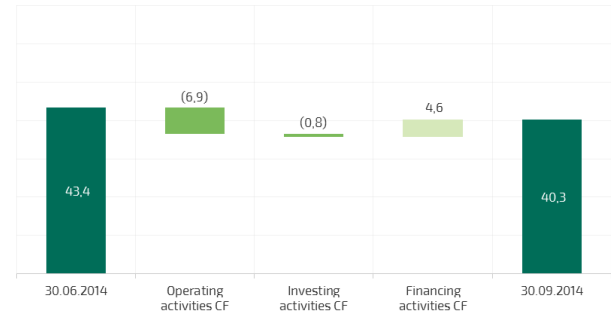
The largest single negative item in cash flows from financing activities was the dividend payment of EUR 7.3 million (9 months of 2014: EUR 7.3 million). Project specific loans obtained using investment property as collateral were repaid mainly in Estonia in the amount of EUR 1.6 million (9 months of 2014: negative cash flow in net amount of EUR 0.4 million), net of loans received and loans repaid in connection with development projects mainly in Latvia amounted to negative cash flow of EUR 4.9 million (9 months of 2014: positive cash flow of EUR 7.5 million) and finance lease principal repayments of EUR 1.6 million (9 months of 2014: EUR 0.7 million).

million). All of the new land plots acquired by the group both in the first 9 months of 2015 and 2014 were financed in full from the group's resources without drawing on external funding. The group has not used bank loans to finance all 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 9 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.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The Q3 2015 cash flow from operating activity was positive at EUR 0.8 million (Q3 2014: negative EUR 6.9 million), cash flow from investing activity was negative at EUR 0.1 million (Q3 2014: negative EUR 0.8 million) and the cash flow from financing activity was negative at EUR 5.2 million (Q3 2014: positive EUR 4.6 million).

The quarterly cash flows from operating activities were positive primarily as a result of the decrease receivables and increase of liabilities calculated using the percentage of completion method. On the negative side cash flow from operating activities was impacted by the acquisition cost of land plots for development activity in Lithuania for the total amount of EUR 5.1 million.

Cash flows from investment activities was negative primarily due to the purchase of non-current asset in the amount of EUR 0.1 million, which is mainly related to the renewal of equipment in the road construction segment.

The quarterly cash flow from financing activities was negative primarily due the net negative cash flow of EUR 4.4 million of loans received and loans repaid to finance the construction costs of both investment property and development projects mainly in Latvia but also in Estonia, which was supplemented by the finance lease principal repayments of EUR 0.7 million.

RATIOS

(attributable to equity holders of the parent)

		9M '15	9M '14	9M '13	Q3 '15	Q3 '14	Q3 '13	12M '14
Income statement summary								
Revenue	million EUR	184.6	182.2	197.8	68.4	68.5	84.1	252.3
Gross profit	million EUR	15.3	16.3	17.4	6.3	6.2	7.5	24.7
Gross profit margin	%	8.3	8.9	8.8	9.3	9.0	9.0	9.8
Operating profit	million EUR	7.6	8.5	9.5	3.7	3.5	4.4	14.0
Operating profit margin	%	4.1	4.7	4.8	5.4	5.1	5.3	5.5
Profit before tax	million EUR	7.0	8.0	8.7	3.5	3.3	4.2	13.3
PBT margin	%	3.8	4.4	4.4	5.1	4.8	5.0	5.3
Net profit	million EUR	5.6	7.4	7.9	3.2	3.2	3.9	12.3
attributable to equity holders of the parent	million EUR	5.6	7.6	7.9	3.1	3.3	3.9	12.4
attributable to non-controlling interest	million EUR	0.0	(0.2)	0.0	0.1	(0.1)	0.0	(0.1)
Net profit margin	%	3.0	4.2	4.0	4.6	4.8	4.6	4.9
Other income statement indicators								
EBITDA	million EUR	9.9	10.2	11.6	4.4	4.1	5.3	16.4
EBITDA margin	%	5.4	5.6	5.9	6.4	5.9	6.3	6.5
General expense ratio	%	4.8	4.9	4.7	4.4	4.5	4.2	4.9
Labour cost ratio	%	12.1	12.1	12.1	12.4	11.3	11.2	11.9
Revenue per employee	thousand EUR	239	230	226	89	87	96	319
Other significant indicators								
		30.09.2015	30.09.2014	30.09.2013	31.12.2014			
Return on equity	%	8.3	8.3	10.5	10.1			
Return on assets	%	4.4	4.1	5.3	5.0			
Return on invested capital	%	8.3	7.1	9.4	8.8			
Equity ratio	%	53.4	47.5	48.1	51.0			
Debt ratio	%	13.2	15.7	13.9	15.1			
Current ratio	times	2.4	2.2	2.0	2.3			
Quick ratio	times	0.9	1.0	1.1	1.1			
Accounts receivable turnover	days	43	61	55	56			
Accounts payable turnover	days	40	38	43	39			
Average number of employees	people	771	792	877	790			
Secured order book	million EUR	193.6	166.4	218.1	179.1			

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

RISK MANAGEMENT

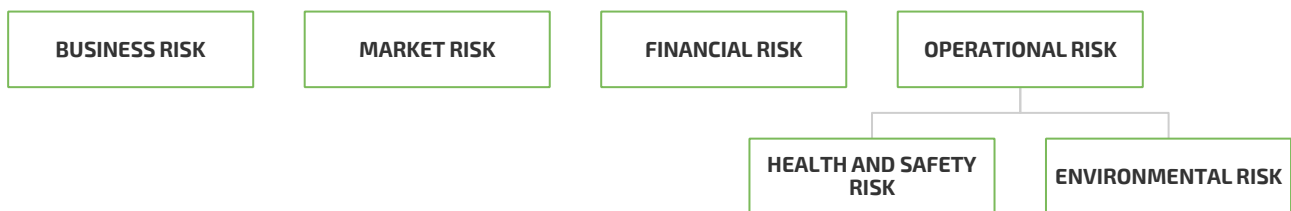
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial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

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

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

Group risk management is coordinated by the management board. In addition the management board of each subsidiary develops, implements and maintains processes covering subsidiarys activities for the management of all material risks impacting the activity and results of the group. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been assigned. Risk-taking is a normal part of business but in doing so, one must be convinced that if the risk 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 2.2 million (30.09.2014: 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 30.09.2015, 13.2% of the balance sheet total; as at 30.09.2014, 15.7% 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 30.09.2015, the group's current ratio was 2.4 (30.09.2014: 2.2) and the quick ratio 0.9 (30.09.2014: 1.0). 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 24.5 million, of which EUR 23.9 million was unused (30.06.2014: EUR 10.5 million, of which EUR 9.7 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (30.09.2014: 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 53.4% (30.09.2014: 47.5%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 13.2% (30.09.2014: 15.7%) 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 30 September 2015, a provision has been set up at the group in the amount of EUR 0.2 million (30.09.2014: 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 30.09.2015 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.

On 3 March 2015, Maksim Vihharev filed an action in Harju County Court against AS Merko Infra seeking compensation for alleged damage to his reputation. The plaintiff is seeking EUR 6,658 thousand in reparations plus damages in an undetermined amount due to alleged impairment of his health. The abovementioned legal formulation is legally opaque and unjustified, and as a result AS Merko Infra does not acknowledge the Maksim Vihharev's claim, deems the said demand to be without merit, and is petitioning the court to dismiss it.

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. The primary objective of the appeal is 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.

Latvia

Lawsuit against former employee

On 5 May 2015, SIA Merks filed suit in Riga District Court against former SIA Merks employee Rolands Mēnesis in a claim for the compensation of damage amounting to EUR 337 thousand. Previously, on 2 March 2015, SIA Merks had filed a petition to secure the action in the same amount, which was duly granted by the court. The object of the statement of claim is damage deliberately caused by project manager Roland Mēnesis by entering into fictitious transactions on behalf of SIA Merks and purchase of items not necessary for contractual work. The possible effect of the potential positive outcome of this suit has not been taken into account in the group's financial reporting.

Būvinženieru

On 2 October 2015, SIA Merks filed suit in Riga District Court against SIA Merks' SIA Būvinženieru Konsultāciju Birojs (hereinafter „BKB”) and the sole Member of the Management Board of BKB Aldis Grasmanis in a claim for the compensation of damages in the total amount of EUR 66 thousand. The object of the statement of claim is the execution of technical drawings of the Magdalēna nami apartment building done in a non-timely and substandard manner by BKB. The possible effect of the potential positive outcome of this suit has not been taken into account in the group's financial reporting.

Lithuania

Vakaru

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

In the end of 2012, bankruptcy proceedings were initiated against Vakaru. 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 future court hearing regarding the litigation to declaring invoices partially unjustified is scheduled for 10 November 2015. The court hearing with regard to invalidate the agreement on formation of joint venture was held on 9 September 2014, after which the court decided in the favour of Vakarų at the end of October. On 19 November 2014, AS Merko Ehitus appeal against this decision, after which the court ruled in favour of Vakarų on 29 April 2015. On 28 July 2015 AS Merko Ehitus filed a cassation appeal to the Supreme Court to overthrow the 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 conclusions of the expert analysis were sent to the court on 18 May 2015. After acquainting themselves with the conclusions, UAB Šiaulių Vandenys and UAB Merko Statyba signed a bilateral agreement on 18 June 2015 in which UAB Šiaulių Vandenys recognized most of the claims of UAB Merko Statyba and gave up most of its claims against UAB Merko Statyba.

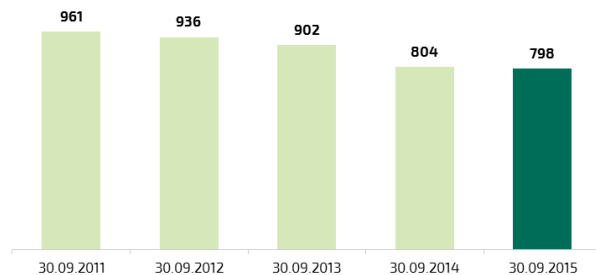
EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of group's employees decreased by 6 (-0.7%) and as at 30 September 2015, the group had a total of 798 employees (including fixed-term and part-time employees). Compared to the end of the previous financial year the number of employees has increased by 33 (+4.3%), mainly due to the growth of construction volumes in Lithuania and at the expense of seasonal workers in Estonia.

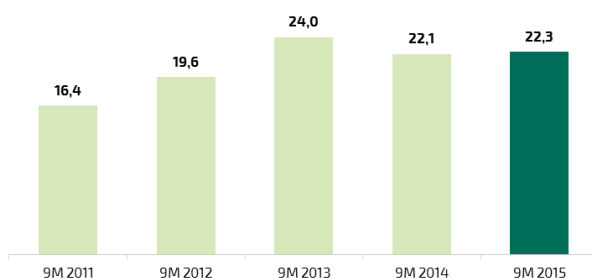
The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

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 9 months 2015, the labour cost was EUR 22.3 million (9 months 2014: EUR 22.1 million; 12 months 2014: EUR 30.0 million), which has increased by 1.0% compared to the same period previous year.

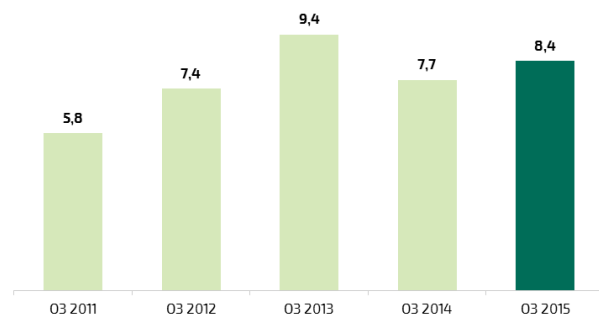
NUMBER OF EMPLOYEES
people



LABOUR COST
in million euros



QUARTERLY LABOUR COST
in million euros



ETHICAL BUSINESS PRACTICES

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

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

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

RECOGNITIONS 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.

EUROMONEY – REAL ESTATE SURVEY 2015

In its real estate market survey for 2015, Euromoney – the world's leading business and investment magazine – declared AS Merko Ehitus the best real estate developer in Estonia. Merko also received top spot in the category of residential real estate developers in Latvia. Merko Ehitus was awarded the Euromoney's Estonia's best real estate developer recognition also in 2012 and 2014.

The Real Estate Survey 2015 is the eleventh survey conducted by Euromoney, a financial magazine published from 1969, with the aim of ranking the best in real estate on the basis of the market data, as well on the evaluations by other market participants and specialists in the field – participants and evaluators include consultants, developers, investors, banks, business customers and end users from more than 60 countries. The respondents were asked which companies of the relevant market they see as standing out in the last 12 months as the best providers of products and services in the real estate sector.

THE ENTREPRENEURSHIP AWARD 2015

AS Merko Ehitus was granted The Most Competitive Construction Enterprise award for the fourth year in a row and additionally The Most Competitive Large-Scale Enterprise award at the annual Entrepreneurship Award competition organised by Enterprise Estonia, the Estonian Chamber of Commerce and the Estonian Employers' Confederation.

The webpage of the entrepreneurship competition at <http://www.ettevotluskonkurss.ee/en> contains an overview of the winners and a recording of the transmission of the award gala evening. The publication concerning the best companies that participated in the contest, 'Best Estonian Companies of the Year 2015' is available in Estonian at <https://www.fingler.com/mag/123446>. The book includes company introductions and interviews with managers.

The best of the Estonian Companies' Competitiveness Ranking compiled by the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation are determined among large enterprises, small and medium-sized enterprises and micro-enterprises. In addition, rankings are compiled in 11 areas: retail, wholesale, industry and energy, food industry, construction, communications and IT services, transport and logistics, architecture and real estate service, tourism, financial brokerage and business services.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

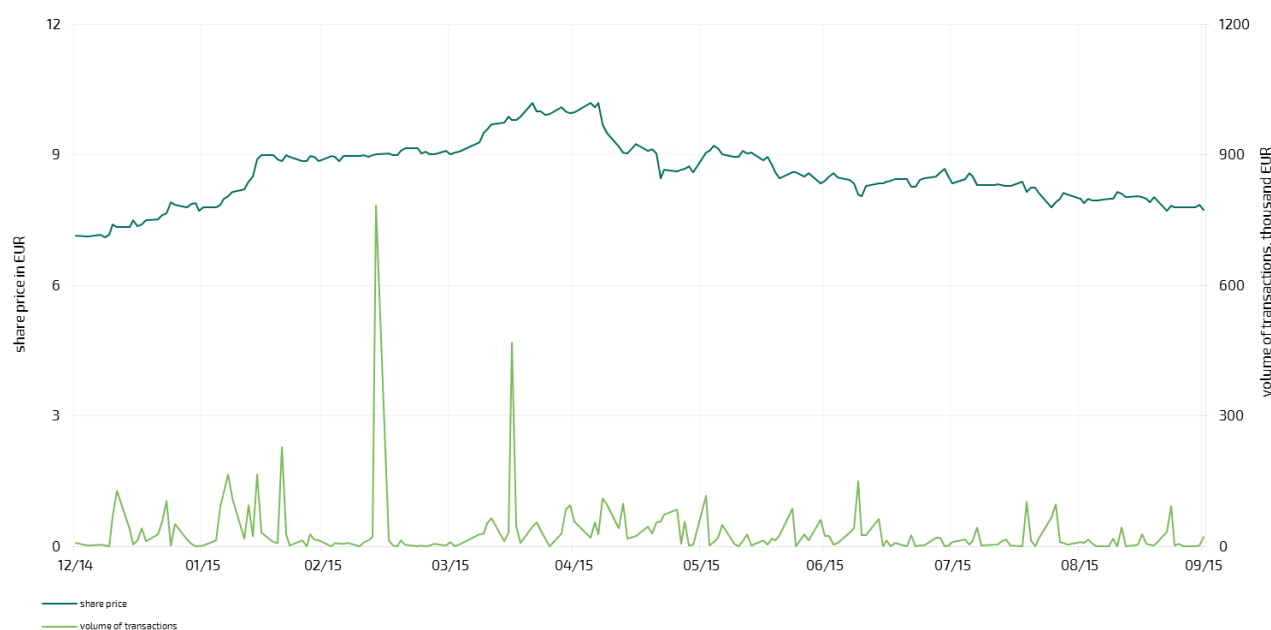
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 30 September 2015, the company has 17,700,000 shares. The number of shares has not changed during 2015.

A total of 2,395 transactions were conducted with the shares of Merko Ehitus in 9 months of 2015, with 0.76 million shares (4.3% of total shares) traded, generating a turnover of EUR 6.57 million (comparable figures in 9 months 2014 were accordingly: 1,351 transactions with 0.88 million shares traded (5.0% of total shares) and generating a turnover of EUR 6.57 million). The lowest share price amounted to EUR 7.06 and the highest to EUR 10.50 per share (9 months of 2014: EUR 6.96 and EUR 7.99). The closing price of the share was EUR 7.74 on 30 September 2015 (30.09.2014: EUR 7.15). As at 30 September 2015, the market value of AS Merko Ehitus amounted to EUR 137.0 million, which has increased by 8.3% compared to the same period end last year (as at 30.09.2014: EUR 126.6 million).

	30.09.2015	30.09.2014	30.09.2013	31.12.2014
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.31	0.43	0.45	0.70
Equity per share, euros	7.09	6.86	6.64	6.93
P/B ratio	1.10	1.04	1.10	1.03
P/E ratio	13.23	12.56	10.44	10.18
Market value, million EUR	137.0	126.6	129.2	126.4

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



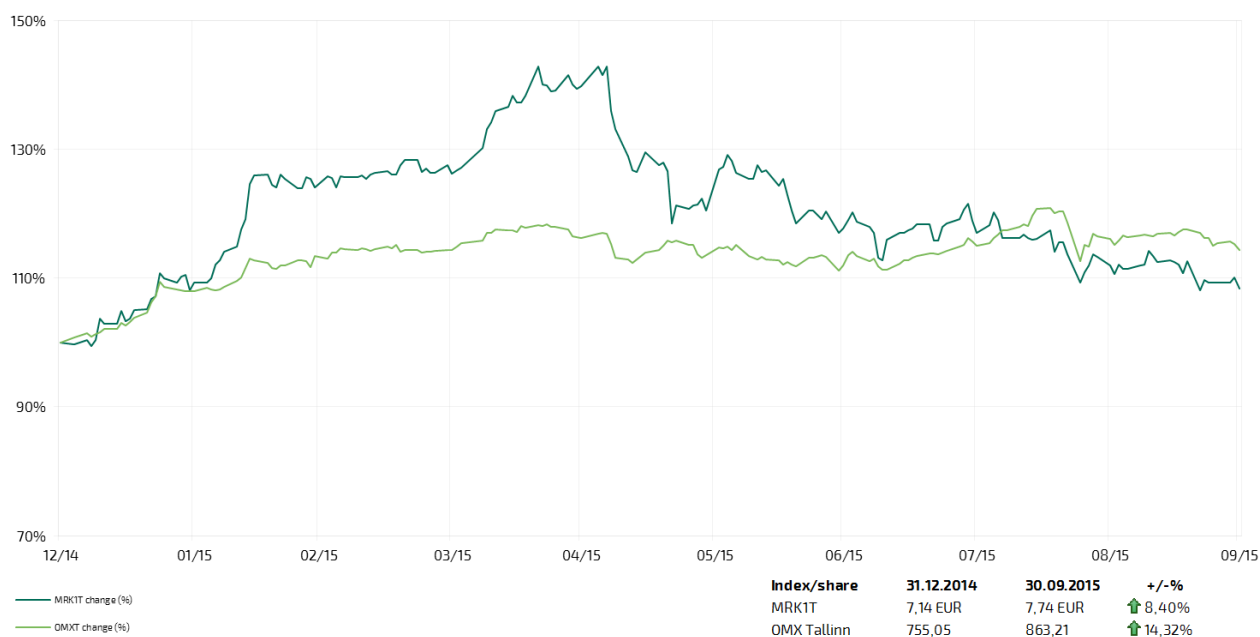
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 30.09.2015

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.06%	12,742,686	71.99%
100,001 – 1,000,000	10	0.64%	2,820,844	15.94%
10,001 – 100,000	37	2.36%	1,102,980	6.23%
1,001-10,000	251	16.00%	686,077	3.88%
101-1,000	800	50.99%	322,408	1.82%
1-100	470	29.95%	25,005	0.14%
Total	1,569	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.09.2015 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.09.2015	% OF TOTAL 30.06.2015	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%	2.24%	-
Skandinaviska Enskilda Banken S.A.	269,122	1.52%	1.52%	-
Skandinaviska Enskilda Banken AB, Swedish customers	236,221	1.33%	1.29%	+7,720
Firebird Aurora Fund Ltd	220,519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Finnish customers	170,642	0.96%	0.96%	-
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	149,020	0.84%	0.84%	+1,000
Clearstream Banking Luxembourg S.A. customers	142,787	0.81%	0.81%	+165
Total largest shareholders	15,453,845	87.30%	87.26%	+8,885
Total other shareholders	2,246,155	12.70%	12.74%	-8,885
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 incurred additional income tax expense in connection with the disbursement of dividends of EUR 0.9 million (2014: EUR 0.0 million) in Estonia in the second quarter of 2015. The dividend payment to the shareholders took place on 26 May 2015.

In the past five years, the shareholders have received dividends from the net profit of 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 reduction of share capital in the Commercial Register was made on 14 August 2015 and the monetary payments to the shareholders in the amount of EUR 4,071,000 (EUR 0.23 per share), related to the reduction of share capital will be made on 16 November 2015. Shareholders, that were entered into the share register of AS Merko Ehitus on 22 May 2015, at 23.59, are entitled to the monetary payments from the reduction of share capital.

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 4.1 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

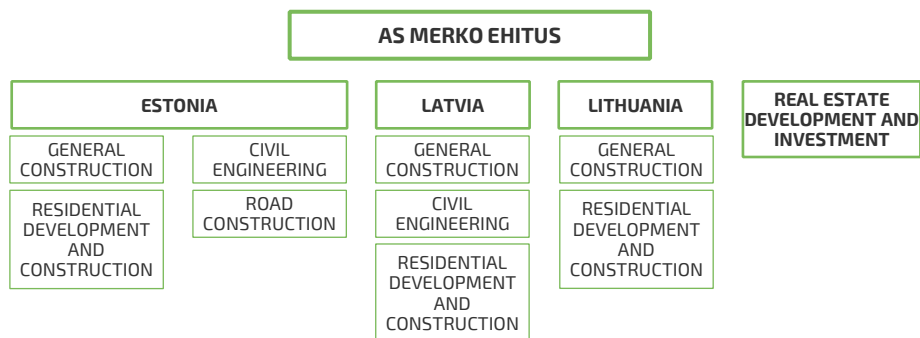
CORPORATE GOVERNANCE AND STRUCTURE

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 33-35 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 30 September 2015 is the following:



GROUP'S LEGAL STRUCTURE

As at 30 September 2015, the group comprises 44 companies (30.09.2014: 46). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

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 in the Commercial Register was made on 3 July 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 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 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.

On 19 May 2015, the shareholders of the AS Merko Ehitus Eesti, part of AS Merko Ehitus group, subsidiary AS Merko Tartu, decided to approve a notarized division plan signed on 14 May 2015, under which the division of AS Merko Tartu will be accomplished by way of demerge. In the course of the division, AS Merko Tartu will transfer EUR 1,026 thousand in net assets to the acquiring company OÜ Ignatsi (foundation in progress). The purpose of the division of AS Merko Tartu is re-arranging the structure of the group companies and ownership relations with AS Merko Tartu minority shareholder. The principal area of activity of the AS Merko Tartu is general contracting of construction in the southern part of Estonia, and real estate development in Tartu county and city, where the company owns various immovable properties with development potential. Following the separation of the minority holding in AS Merko Tartu by way of demerge, the principal area of activity of the company will be changed to only real estate development. Prior to the division, AS Merko Tartu is owned by AS Merko Ehitus Eesti and Margus Kull respectively 66% and 34%. As a result of the division, the 4,000 no-par-value shares of AS Merko Tartu held by Margus Kull will be cancelled and the share capital of AS Merko Tartu will accordingly be reduced by EUR 27 thousand under simplified procedure to EUR 53 thousand. After the reduction of the share capital of AS Merko Tartu, the share capital of AS Merko Tartu will be EUR 53 thousand and the sole shareholder of AS Merko Tartu will be AS Merko Ehitus Eesti. AS Merko Tartu shareholder Margus Kull will become the sole shareholder of OÜ Ignatsi and will receive, in exchange for the 4,000 no-par-value shares of AS Merko Tartu, a share in OÜ Ignatsi with a par value of EUR 2.5 thousand. AS Merko Tartu shareholder AS Merko Ehitus Eesti will not acquire a holding in OÜ Ignatsi as a result of the demerge. As a result of the division of AS Merko Tartu, the transaction will have an estimated EUR 3 thousand loss influence on the consolidated results of AS Merko Ehitus group, a decreasing influence on assets of EUR 987 thousand and an increasing influence on liabilities of EUR 39 thousand. The final division entry in the Commercial Register was made on 23 July 2015.

On 4 March 2015, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas, a process that was partially carried out in Q2 2015. In accordance with the restructuring plan, AS Merko Ehitus founded on 14 May 2015 a 100% subsidiary in Lithuania called UAB Kražiu valdymas with share capital of EUR 2,896, which under an instrument of delivery and receipt of assets signed on 18 May 2015 took control of the assets transferred from UAB Merko Bustas by division, including a 100% holding in UAB Kražiu Projektas. The restructuring was completed on 1 September 2015, when UAB Kražiu valdymas and UAB Kražiu Projektas were merged with AS Merko Ehitus's 100% subsidiary UAB Merko Statyba and the final merger entry in the Commercial Register was done.

On 31 July 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a process to merge its 100% subsidiary Tallinna Teede AS, engaged in road construction and maintenance, and Teverer OÜ, fully owned subsidiary of Tallinna Teede AS engaged in mining, in order to have savings in administrative cost related to company management. The acquiring company is Tallinna Teede AS. The company being acquired will be merged into Tallinna Teede AS and as a result of the merger the company being acquired will wind up without liquidation proceedings and Tallinna Teede AS will become the legal successor of the company being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain the sole shareholder in Tallinna Teede AS, the acquiring company. The closing date of the merger was 1 August 2015 after which all transactions of the acquiree have been deemed to have been made on account of the acquirer. The final merger entry in the Commercial Register was made on 14 September 2015.

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 will be made on 16 November 2015..

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 (66) *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 (48) *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 (62) *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 (48) *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 (54) *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 30 June 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), 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	=	$\frac{\text{Share price 30.09}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.09}}{\text{Equity per share (average of the current 4 quarters)}}$
Market capitalisation	=	Share price 30.09 x Number of shares

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

Chairman of the Management Board



05.11.2015

Tõnu Toomik

Member of the Management Board



05.11.2015

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2015 9 months	2014 9 months	2015 III quarter	2014 III quarter	2014 12 months
Revenue	2	184,564	182,237	68,360	68,536	252,323
Cost of goods sold	3	(169,295)	(165,979)	(62,030)	(62,357)	(227,591)
Gross profit		15,269	16,258	6,330	6,179	24,732
Marketing expenses		(2,347)	(2,290)	(826)	(781)	(3,190)
General and administrative expenses		(6,429)	(6,577)	(2,184)	(2,285)	(9,128)
Other operating income		1,348	1,265	345	428	1,901
Other operating expenses		(201)	(156)	12	(73)	(340)
Operating profit		7,640	8,500	3,677	3,468	13,975
Finance income/costs		(605)	(502)	(213)	(165)	(667)
incl. finance income/costs from joint ventures		(106)	(103)	(30)	(33)	(130)
finance income/costs from other long-term investments		1	1	-	-	2
interest expense		(575)	(482)	(209)	(149)	(662)
foreign exchange gain (loss)		(1)	(5)	(3)	(4)	(12)
other financial income (expenses)		76	87	29	21	135
Profit before tax		7,035	7,998	3,464	3,303	13,308
Corporate income tax expense		(1,471)	(558)	(265)	(76)	(1,055)
Net profit for financial year		5,564	7,440	3,199	3,227	12,253
incl. net profit attributable to equity holders of the parent		5,555	7,621	3,138	3,261	12,417
net profit attributable to non-controlling interest		9	(181)	61	(34)	(164)
Other comprehensive income						
Currency translation differences of foreign entities		1	-	2	-	4
Comprehensive income for the period		5,565	7,440	3,201	3,227	12,257
incl. net profit attributable to equity holders of the parent		5,556	7,621	3,140	3,261	12,421
net profit attributable to non-controlling interest		9	(181)	61	(34)	(164)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.31	0.43	0.18	0.18	0.70

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.09.2015	30.09.2014	31.12.2014
ASSETS				
Current assets				
Cash and cash equivalents	5	19,936	40,332	51,583
Trade and other receivables	6	52,669	67,277	46,382
Prepaid corporate income tax		296	58	3
Inventories	7	118,138	118,917	117,638
		191,039	226,584	215,606
Non-current assets				
Long-term financial assets	8	15,272	9,823	11,476
Deferred income tax assets		1,580	1,593	1,535
Investment property	9	4,433	4,498	4,619
Property, plant and equipment	10	13,818	13,774	15,003
Intangible assets	11	836	1,051	1,011
		35,939	30,739	33,644
TOTAL ASSETS		226,978	257,323	249,250
LIABILITIES				
Current liabilities				
Borrowings	12	7,856	15,655	14,287
Payables and prepayments	13	66,046	83,170	71,122
Income tax liability		533	93	352
Short-term provisions	14	3,840	5,770	6,239
		78,275	104,688	92,000
Non-current liabilities				
Long-term borrowings	12	22,072	24,740	23,359
Deferred income tax liability		788	651	738
Other long-term payables	15	1,149	1,688	1,671
		24,009	27,079	25,768
TOTAL LIABILITIES		102,284	131,767	117,768
EQUITY				
Non-controlling interests		3,442	3,329	4,455
Equity attributable to equity holders of the parent				
Share capital		7,929	12,000	12,000
Statutory reserve capital		1,200	1,200	1,200
Currency translation differences		(664)	(669)	(665)
Retained earnings		112,787	109,696	114,492
		121,252	122,227	127,027
TOTAL EQUITY		124,694	125,556	131,482
TOTAL LIABILITIES AND EQUITY		226,978	257,323	249,250

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
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	-	-	-	7,621	7,621	(181)	7,440
Purchase of minority share	-	-	-	-	-	(95)	(95)
Minority share of purchased subsidiary	-	-	-	-	-	2,618	2,618
Minority share of sold subsidiary	-	-	-	-	-	(244)	(244)
Issuance of additional share capital	-	-	-	-	-	38	38
Dividends	-	-	-	(7,257)	(7,257)	-	(7,257)
Total transactions with owners	-	-	-	(7,257)	(7,257)	2,317	(4,940)
Balance as at 30.09.2014	12,000	1,200	(669)	109,696	122,227	3,329	125,556
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	-	-	-	5,555	5,555	9	5,564
Other comprehensive income	-	-	1	-	1	-	1
Total comprehensive income (loss) for the reporting period	-	-	1	5,555	5,556	9	5,565
Issuance of additional share capital	-	-	-	-	-	1	1
Net assets transferred by division (Note 16)	-	-	-	(3)	(3)	(1,023)	(1,026)
Share capital reduction	(4,071)	-	-	-	(4,071)	-	(4,071)
Dividends	-	-	-	(7,257)	(7,257)	-	(7,257)
Total transactions with owners	(4,071)	-	-	(7,260)	(11,331)	(1,022)	(12,353)
Balance as at 30.09.2015	7,929	1,200	(664)	112,787	121,252	3,442	124,694

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

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

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2015 9 months	2014 9 months	2014 12 months
Cash flows from (used in) operating activities				
Operating profit		7,640	8,500	13,975
Adjustments:				
Depreciation		2,299	1,690	2,459
(Profit)/loss from sale of non-current assets		(110)	(3)	(12)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		7,002	2,330	(180)
Interest income from operating activities		(1,205)	(1,081)	(1,571)
Change in provisions		(3,666)	(307)	1,298
Change in trade and other receivables related to operating activities		(12,575)	(5,562)	12,742
Change in inventories		1,859	(15,998)	(14,823)
Change in trade and other payables related to operating activities		(16,141)	10,062	316
Interest received		1,096	998	1,429
Interest paid		(656)	(699)	(938)
Other finance income and costs		(29)	(61)	(62)
Corporate income tax (paid)/reclaimed		(1,567)	(102)	(141)
Total cash flows from (used in) operating activities		(16,053)	(233)	14,492
Cash flows from investing activities				
Acquisition of subsidiaries	16	-	(407)	(407)
Proceeds from sale of subsidiary	16	-	(353)	(353)
Acquisition of joint venture		-	(1)	(6)
Purchase of investment property		-	-	(2)
Purchase of property, plant and equipment		(440)	(1,070)	(1,458)
Proceeds from sale of property, plant and equipment		284	56	95
Purchase of intangible assets		(30)	(18)	(25)
Repayments of loans granted		-	40	40
Interest received		76	107	177
Total cash flows from investing activities		(110)	(1,646)	(1,939)
Cash flows from (used in) financing activities				
Proceeds from borrowings		12,268	14,196	16,742
Repayments of borrowings		(18,902)	(10,655)	(16,043)
Finance lease principal payments		(1,553)	(739)	(1,076)
Proceeds from issues of shares of subsidiaries to non-controlling interest		1	38	38
Non-controlling interest buyout		(41)	-	-
Dividends paid		(7,257)	(7,257)	(7,257)
Total cash flows from (used in) financing activities		(15,484)	(4,417)	(7,596)
Net increase/decrease in cash and cash equivalents		(31,647)	(6,296)	4,957
Cash and cash equivalents at the beginning of the period	5	51,583	46,633	46,633
Effect of exchange rate changes		-	(5)	(7)
Cash and cash equivalents at the end of the period	5	19,936	40,332	51,583

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

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 9 months and III quarter 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 9 months and III quarter unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 9 months and III quarter 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 9-month and III quarter 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.

Estonian construction service and Latvian and Lithuanian construction service segments include all projects of the respective countries pertaining to construction services both in general construction, civil engineering and road construction. Other operating areas (management services, supervision service, etc.) are insignificant to the group and they are not monitored as separate segments. 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. 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 9 months	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	88,488	58,982	64,591	212,061
Inter-segment revenue	(8,450)	(96)	(18,951)	(27,497)
Revenue from external clients	80,038	58,886	45,640	184,564
Gross profit (-loss)	7,674	2,540	5,055	15,269
Segment pre-tax profit (loss)	7,666	2,540	5,863	16,069
incl. interest income from operating activities	-	-	1,161	1,161
depreciation (Note 3)	(1,522)	(25)	(223)	(1,770)
setting up of provisions (Note 3)	(566)	(466)	(106)	(1,138)
loss on joint ventures	(20)	-	(86)	(106)
other finance income (costs)	(52)	-	(251)	(303)
incl. interest income	-	-	2	2
interest expenses	(52)	-	(252)	(304)
Segment assets 30.09.2015	45,582	20,928	140,033	206,543
incl. joint ventures (Note 8)	-	-	8	8
2014 9 months	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	113,589	46,961	46,047	206,597
Inter-segment revenue	(4,637)	(99)	(19,624)	(24,360)
Revenue from external clients	108,952	46,862	26,423	182,237
Gross profit (-loss)	9,871	2,043	4,344	16,258
Segment pre-tax profit (loss)	9,912	2,042	5,110	17,064
incl. interest income from operating activities	-	-	1,081	1,081
depreciation (Note 3)	(1,185)	(25)	(183)	(1,393)
setting up of provisions (Note 3)	(2,858)	(153)	(636)	(3,647)
loss on joint ventures	-	-	(103)	(103)
other finance income (costs)	(47)	-	(217)	(264)
incl. interest income	-	-	15	15
interest expenses	(47)	-	(231)	(278)
Segment assets 30.09.2014	54,051	24,255	144,663	222,969
incl. joint ventures (Note 8)	18	-	71	89
2015 III quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	38,316	22,393	20,325	81,034
Inter-segment revenue	(5,454)	(30)	(7,190)	(12,674)
Revenue from external clients	32,862	22,363	13,135	68,360
Gross profit (-loss)	3,347	1,009	1,974	6,330
Segment pre-tax profit (loss)	3,302	1,010	2,224	6,536

2015 III quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
incl. interest income from operating activities	-	-	387	387
depreciation (Note 3)	(489)	(9)	(72)	(570)
setting up of provisions (Note 3)	(164)	(238)	(215)	(187)
loss on joint ventures	(1)	-	(29)	(30)
other finance income (costs)	(15)	-	(96)	(111)
incl. interest income	-	-	1	1
interest expenses	(15)	-	(95)	(110)
Segment assets change in III quarter	(3,621)	1,351	1,325	(945)
incl. joint ventures	-	-	(1)	(1)
2014 III quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	45,950	19,170	12,467	77,587
Inter-segment revenue	(2,275)	(85)	(6,691)	(9,051)
Revenue from external clients	43,675	19,085	5,776	68,536
Gross profit (-loss)	4,505	1,067	607	6,179
Segment pre-tax profit (loss)	4,502	1,067	874	6,443
incl. interest income from operating activities	-	-	362	362
depreciation (Note 3)	(414)	(7)	(64)	(485)
setting up of provisions (Note 3)	(2,062)	(53)	(135)	(2,250)
loss on joint ventures	-	-	(33)	(33)
other finance income (costs)	(16)	-	(66)	(82)
incl. interest income	-	-	2	2
interest expenses	(16)	-	(68)	(84)
Segment assets change in III quarter	(2,745)	5,915	10,836	14,006
incl. joint ventures	-	-	(7,192)	(7,192)
2014 12 months	Estonian construction service	Latvian and Lithuanian construction service	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

2014 12 months	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
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 30.09.2015 the group holds assets in the amount of EUR 20,435 thousand (30.09.2014: EUR 34,354 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 9 months	2014 9 months	2015 III quarter	2014 III quarter	2014 12 months
Pre-tax profit from reporting segments	16,069	17,064	6,536	6,443	25,812
Unallocated income (expense)					
marketing expenses	(2,347)	(2,290)	(826)	(781)	(3,190)
general and administrative expenses	(6,429)	(6,577)	(2,184)	(2,285)	(9,128)
incl. setting up of provisions	-	(59)	-	27	(56)
other operating income (expense)	(62)	(64)	10	(24)	-
incl. interest income from operating activities	44	-	30	-	-
finance income (costs)	(196)	(135)	(72)	(50)	(186)
incl. interest income	99	79	30	19	126
interest expenses	(271)	(204)	(97)	(65)	(294)
Total profit before tax	7,035	7,998	3,464	3,303	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 9 months		2014 9 months		2015 III quarter		2014 III quarter		2014 12 months	
Estonia	109,103	60%	124,699	69%	36,467	53%	46,013	72%	170,649	68%
Latvia	55,789	30%	47,793	26%	19,171	28%	18,629	23%	68,632	27%
Lithuania	17,207	9%	9,659	5%	11,081	16%	3,894	5%	12,956	5%
Finland	2,465	1%	86	0%	1,641	3%	-	0%	86	0%
Total	184,564	100%	182,237	100%	68,360	100%	68,536	100%	252,323	100%

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

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Estonia	18,569	18,876	20,045
Latvia	495	399	556
Lithuania	23	48	32
Total	19,087	19,323	20,633

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2015 9 months	2014 9 months	2015 III quarter	2014 III quarter	2014 12 months
Construction services and properties purchased for resale	105,437	91,274	36,387	32,962	132,207
Materials	28,592	35,184	11,879	15,108	44,214
Labour costs	16,551	16,250	6,410	5,578	21,804

	2015 9 months	2014 9 months	2015 III quarter	2014 III quarter	2014 12 months
Construction mechanisms and transport	6,987	6,676	3,126	2,862	9,228
Design	1,498	2,649	502	303	2,974
Real estate management costs	166	150	41	38	181
Depreciation	1,770	1,393	570	485	2,025
Impairment of inventories	-	-	-	-	400
Reversal of impairment of inventories	-	-	-	-	(850)
Provisions	1,138	3,647	187	2,250	4,464
Other expenses	7,156	8,756	2,928	2,771	10,944
Total cost of goods sold	169,295	165,979	62,030	62,357	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 9 months	2014 9 months	2015 III quarter	2014 III quarter	2014 12 months
Net profit(-loss) attributable to shareholders (in thousand EUR)	5,555	7,621	3,138	3,261	12,417
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.31	0.43	0.18	0.18	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 paid by parent company AS Merko Ehitus in Q2 2015 totalled EUR 7,257 thousand, i.e. EUR 0.41 per share, and the accompanying income tax liability amounted to 20/80 on the amount paid out, i.e. EUR 1,814 thousand, which was 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 incurred 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 30.09.2015, the parent company AS Merko Ehitus has EUR 0 thousand (30.09.2014: EUR 2,181 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 30.09.2015, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 89,699 thousand (30.09.2014: EUR 86,589 thousand; 31.12.2014: EUR 91,498 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 0 thousand (30.09.2014: EUR 580 thousand; 31.12.2014: EUR 545 thousand), the corresponding income tax on dividends would amount to EUR 22,424 thousand (30.09.2014: EUR 22,438 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

	30.09.2015	30.09.2014	31.12.2014
Cash on hand	10	6	8
Bank accounts	11,940	30,866	41,588
Overnight deposits	7,986	9,460	9,987
Total cash and cash equivalents	19,936	40,332	51,583

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Trade receivables			
Accounts receivable	35,847	47,109	28,384
Allowance for doubtful receivables	(720)	(720)	(728)
	35,127	46,389	27,656
Tax prepayments excluding corporate income tax			
Value added tax	2,477	1,154	629
Other taxes	1,282	13	19
	3,759	1,167	648
Amounts due from customers of contract works	7,767	11,243	10,291
Other short-term receivables			
Short-term loans	1,384	1,427	2,178
Interest receivables	553	355	394
Other short-term receivables	517	1,899	729
	2,454	3,681	3,301
Prepayments for services			
Prepayments for construction services	2,943	4,168	3,946
Prepaid insurance	296	273	213
Other prepaid expenses	323	356	327
	3,562	4,797	4,486
Total trade and other receivables	52,669	67,277	46,382
incl. short-term loan receivables from related parties (Note 16)	1,384	1,407	1,415
other short-term receivables and prepayments to related parties (Note 16)	664	427	415

NOTE 7 INVENTORIES

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Materials	600	747	681
Work-in-progress	33,707	49,882	21,305
Finished goods	19,722	9,290	37,846
Goods for resale			
Registered immovables purchased for resale	61,508	55,639	55,186
Other goods purchased for resale	804	953	837
	62,312	56,592	56,023
Prepayments for inventories			
Prepayments for real estate properties	1,086	1,086	1,086
Prepayments for other inventories	711	1,320	697
	1,797	2,406	1,783
Total inventories	118,138	118,917	117,638

As at 30.09.2015, 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

	30.09.2015	30.09.2014	31.12.2014
Investments joint ventures	8	89	67
Long-term loans	3,928	360	360
Long-term bank deposit	37	37	37
Long-term interest	12	3	4
Long-term receivables from customers of construction services	11,287	9,334	11,008
Total other long-term loans and receivables	15,272	9,823	11,476
incl. long-term loan receivables from related parties (Note 16)	2,428	363	364
other long-term receivables from related parties (Note 16)	12	3	4

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Land	51	51	51
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(10)	(10)	(10)
	19	19	19
Buildings at carrying amount			
Cost	5,245	5,067	5,245
Accumulated depreciation	(882)	(639)	(696)
	4,363	4,428	4,549
Total investment property	4,433	4,498	4,619

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Land	824	824	824
Buildings at carrying amount			
Cost	5,726	5,726	5,726
Accumulated depreciation	(1,766)	(1,581)	(1,628)
	3,960	4,145	4,098
Machinery and equipment at carrying amount			
Cost	18,973	17,092	18,888
Accumulated depreciation	(11,052)	(9,990)	(10,042)
	7,921	7,102	8,846
Other fixtures at carrying amount			
Cost	5,272	5,428	5,270
Accumulated depreciation	(4,185)	(4,066)	(4,060)
	1,087	1,362	1,210
Prepayments for property, plant and equipment	26	341	25
Total property, plant and equipment	13,818	13,774	15,003

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Goodwill			
Cost	891	891	891
Impairment	(245)	(156)	(178)
	646	735	713
Software at carrying amount			
Cost	1,073	1,271	1,155
Accumulated depreciation	(898)	(955)	(857)
	175	316	298
Prepayments for intangible assets	15	-	-
Total intangible assets	836	1,051	1,011

NOTE 12 BORROWINGS

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Finance lease payables			
Present value of lease payments	3,350	3,232	4,434
incl. current portion	1,073	1,435	1,660
non-current portion 1...4 years	2,277	1,797	2,774
Bank loans			
Loan balance	17,692	26,959	24,049
incl. current portion	4,897	5,227	3,566
non-current portion 1...5 years	12,795	21,732	20,483
Loans from entities under common control			
Loan balance	8,000	8,145	8,145
incl. current portion (Note 16)	1,000	8,145	8,145
non-current portion 1...5 years (Note 16)	7,000	-	-
Loans from management members			
incl. non-current portion 1...5 years (Note 16)	-	1,211	102
Loans from other entities			
Loan balance	886	848	916
incl. current portion	886	848	916
Total loans			
Loans balance	26,578	37,163	33,212
incl. current portion	6,783	14,220	12,627
non-current portion 1...5 years	19,795	22,943	20,585
Total borrowings			
incl. current portion	29,928	40,395	37,646
non-current portion 1...5 years	7,856	15,655	14,287
	22,072	24,740	23,359

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Trade payables	27,661	28,790	21,303
Payables to employees	7,495	7,364	8,359
Tax liabilities, except for corporate income tax			
Value added tax	925	1,539	1,457
Personal income tax	537	517	468
Social security tax	1,089	961	902
Unemployment insurance tax	61	68	59
Contributions to mandatory funded pension	49	45	42
Other taxes	191	123	106
	2,852	3,253	3,034
Amounts due to customers for contract works	13,167	12,152	8,690
Other liabilities			
Interest liabilities	156	130	136
Payable for registered immovables from demerger	-	4,026	4,026
Other liabilities	7,545	918	494
	7,701	5,074	4,656
Prepayments received	7,170	26,537	25,080
Total payables and prepayments	66,046	83,170	71,122
incl. payables to related parties (Note 16)	7,136	5,570	5,859

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Provision for warranty obligation for construction	2,171	1,776	2,096
Provision for costs of projects sold	805	1,038	1,838
Provision for onerous construction contracts	587	2,725	2,079
Provision for legal costs and claims filed	172	172	172
Other provisions	105	59	54
Total short-term provisions	3,840	5,770	6,239

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Trade payables	1,149	1,660	1,644
Long-term Interest liabilities	-	12	13
Other long-term liabilities	-	16	14
Other long-term payables total	1,149	1,688	1,671

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 30.09.2015, 30.09.2014 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
	30.09.2015	30.09.2014	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	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	100	100	Estonia, Pärnu	Construction
AS Merko Tartu	100	66	66	Estonia, Tartu	Construction
OÜ Raadi Kortermaja	-	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	100	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	Lithuania, Vilnius	Real estate
UAB VPSP1	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	100	100	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	-	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	-	100	100	Estonia, Tallinn	Real estate
OÜ Maryplus	100	100	100	Estonia, Tallinn	Real estate
OÜ Constancia	100	100	100	Estonia, Tallinn	Real estate
OÜ 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
SIA Industrijas Parks	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	30.09.2015	30.09.2014	31.12.2014		
SIA Elniko	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate
Merko Finland OY	100	100	100	Finland, Helsinki	Construction
Hartian 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
Poolkoksimeä Sulgemise OÜ	50	50	50	Estonia, Tallinn	Construction
OÜ Kortermaja	50	50	50	Estonia, Tartu	Real estate
SIA Zakusala Estates	-	50	-	Latvia, Riga	Real estate
Kivimäe 32 OÜ	50	-	50	Estonia, Tallinn	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 in the Commercial Register was made on 3 July 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).

On 19 May 2015, the shareholders of the AS Merko Ehitus Eesti, part of AS Merko Ehitus group, subsidiary AS Merko Tartu, decided to approve a notarized division plan signed on 14 May 2015, under which the division of AS Merko Tartu will be accomplished by way of demerge. According to the division plan approved by the shareholders the transfer of EUR 1,026 thousand in net assets of AS Merko Tartu to the acquiring company OÜ Ignatsi (foundation in progress) and decrease of the minority interest of EUR 1,023 thousand were recognised in the II quarter. As a result of the division of AS Merko Tartu, the transaction will have an estimated EUR 3 thousand loss influence on the consolidated results of AS Merko Ehitus group, a decreasing influence on assets of EUR 987 thousand and an increasing influence on liabilities of EUR 39 thousand. Prior to the division, AS Merko Tartu is owned by AS Merko Ehitus Eesti and Margus Kull respectively 66% and 34%. As a result of the division, the 4,000 no-par-value shares of AS Merko Tartu held by Margus Kull will be cancelled and the share capital of AS Merko Tartu will accordingly be reduced by EUR 27 thousand under simplified procedure to EUR 53 thousand. After the reduction of the share capital of AS Merko Tartu, the share capital of AS Merko Tartu will be EUR 53 thousand and the sole shareholder of AS Merko Tartu will be AS Merko Ehitus Eesti. The final division entry in the Commercial Register was made on 23 July 2015.

On 4 March 2015, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas, a process that was partially carried out in Q2 2015. In accordance with the restructuring plan, AS Merko Ehitus founded on 14 May 2015 a 100% subsidiary in Lithuania called UAB Kražiu valdymas with share capital of EUR 2,896, which under an instrument of delivery and receipt of assets signed on 18 May 2015 took control of the assets transferred from UAB Merko Bustas by division, including a 100% holding in UAB Kražiu Projektas. The restructuring was completed on 1 September 2015, when UAB Kražiu valdymas and UAB Kražiu Projektas were merged with AS Merko Ehitus's 100% subsidiary UAB Merko Statyba and the final merger entry in the Commercial Register was done.

On 13 July 2015, AS Merko Ehitus Eesti, fully owned subsidiary of AS Merko Ehitus, initiated a merger of its 100% subsidiary Tallinna Teede AS, engaged in road construction and maintenance, and Tevener OÜ, fully owned subsidiary of Tallinna Teede AS engaged in mining, in order to have savings in administrative cost related to company management. The final merger entry in the Commercial Register was made on 14 September 2015.

ACQUISITION OF SUBSIDIARY

in thousand euros

	OÜ Rannamõisa Kinnisvara	
	Book value	Fair value
Cash	0	0
Inventories	848	3,261
Long-term liabilities	843	843
Net assets	5	2,418
Acquired ownership interest	100%	
Value of acquired net assets	5	2,418
Acquisition cost		2,418
Subsidiary's cash and cash equivalent on acquisition		0
Paid on acquisition		-
Cash flow from acquisition of subsidiary		-
Net loss from the beginning of year	(83)	
Net loss after the acquisition	(70)	

GOODS AND SERVICES

in thousand euros

	2015 9 months	2014 9 months	2014 12 months
Provided services			
Parent company	9	7	10
Joint ventures	234	253	297
Entities under common control	5	1,237	1,293
Members of the management	928	131	130
Total services provided	1,176	1,628	1,730
Interest income			
Joint ventures	152	88	118
Purchased services and materials			
Parent company	68	68	90
Entities under common control	94	87	123
Other related parties	6	-	-
Total purchased services and materials	168	155	213
Interest expense			
Entities under common control	136	93	124
Members of the management	2	4	5
Total interest expense	138	97	129

BALANCES WITH RELATED PARTIES

in thousand euros

	30.09.2015	30.09.2014	31.12.2014
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	3,812	1,767	1,775
Receivables and prepayments (Note 6)			
Parent company	4	3	3
Joint ventures	635	423	409
Entities under common control	25	4	7
Total receivables and prepayments	664	430	419
Other long-term receivables (Note 8)			
Joint ventures	12	-	4
Total receivables from related parties	4,488	2,197	2,194
Payables to related parties			
Loans received (Note 12)			
Entities under common control	1,000	8,145	8,145
Other related parties	-	1,211	102
Total loans received	1,000	9,356	8,247
Payables and prepayments (Note 13)			
Parent company	2,940	9	9
Entities under common control	3,280	4,039	4,039
Members of the management	916	1,522	1,811
Total payables and prepayments	7,136	5,570	5,859
Other long-term payables (Note 12)			
Entities under common control	7,000	-	-
Total payables to related parties	15,136	14,926	14,106

TRANSACTIONS INVOLVING RELATED PARTIES (ADDITIONAL INFORMATION)

On 13 March 2015, AS Järvevana and AS Merko Ehitus signed a notarized contract of sale of registered immovables, under which all of the real estate governed by an option agreement between the parties were realized for EUR 4,026 thousand. Pursuant to the additional agreement between the parties, the purchase prices of the immovables was paid on 30 April 2015.

Additionally, AS Järvevana and AS Merko Ehitus on 16 March 2015 entered into an overdraft contract worth EUR 8,000 thousand, with an interest rate of the 6-month EURIBOR + 2.65% and a term of 30 April 2021. After signing the overdraft limit will decrease each year by EUR 1,000 thousand. AS Merko Ehitus also undertook to pay all loan obligations against AS Järvevana outstanding on the basis of earlier loan agreements, in the total amount of EUR 8,145 thousand.

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 9 months of 2015 was EUR 1,556 thousand (9 months of 2015: EUR 1,540 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 9 months of 2015, the Management Board members of major subsidiaries received EUR 17 thousand in compensation (9 months of 2014: EUR 40 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 30.09.2015

		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 30.09.2015

		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.

	30.09.2015	30.09.2014	31.12.2014
Performance period's warranty to the customer	9,915	17,753	17,439
Tender warranty	1,352	605	401
Guarantee warranty period	21,850	18,301	19,110
Prepayment guarantee	3,607	7,806	7,711
Payment guarantee	-	171	-
Contracts of surety	1,210	861	311
Letter of credit	-	1,710	1,710
Total contingent liabilities	37,934	47,207	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 9 months and III quarter of 2015, which are set out on pages 5-56.

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

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

Andres Trink Chairman of the Management Board



05.11.2015

Tõnu Toomik Member of the Management Board



05.11.2015