



AS MERKO EHITUS

GROUP

2015 12 months and IV quarter
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2015 – 31.12.2015
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

TABLE OF CONTENTS

BRIEF OVERVIEW OF THE GROUP.....	3
MANAGEMENT REPORT	5
MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT	39
CONSOLIDATED FINANCIAL STATEMENT	40
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	40
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	41
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	42
CONSOLIDATED CASH FLOW STATEMENT.....	43
NOTES	44
NOTE 1 ACCOUNTING POLICIES USED.....	44
NOTE 1.1 CHANGES IN THE PRESENTATION OF INFORMATION	44
NOTE 2 OPERATING SEGMENTS	44
NOTE 3 COST OF GOODS SOLD	47
NOTE 4 EARNINGS AND DIVIDENDS PER SHARE	48
NOTE 5 CASH AND CASH EQUIVALENTS.....	48
NOTE 6 TRADE AND OTHER RECEIVABLES.....	49
NOTE 7 INVENTORIES	49
NOTE 8 LONG-TERM FINANCIAL ASSETS	50
NOTE 9 INVESTMENT PROPERTY.....	50
NOTE 10 PROPERTY, PLANT AND EQUIPMENT	50
NOTE 11 INTANGIBLE ASSETS	51
NOTE 12 BORROWINGS	51
NOTE 13 PAYABLES AND PREPAYMENTS	52
NOTE 14 SHORT-TERM PROVISIONS	52
NOTE 15 OTHER LONG-TERM PAYABLES	52
NOTE 16 RELATED PARTY TRANSACTIONS	53
NOTE 17 CONTINGENT LIABILITIES.....	57
MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT	58

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 791 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 third 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.



THE MULTIFUNCTIONAL CENTRE "LIEPĀJAS DZINTARS" WITH THE MOST CONTEMPORARY CONCERT HALL SOLUTIONS IN EUROPE, CONSTRUCTED BY SIA MERKS IN LIEPĀJA. THE CONCERT HALL CAN BE USED FOR BOTH CLASSICAL MUSIC CONCERTS, AS WELL AS DANCE EVENTS AND CORPORATE CELEBRATIONS, ROCK AND POP CONCERTS. THE CONCEPT OF THE CONCERT HALL INVOLVES A SO-CALLED "EGG WITHIN AN EGG" – THE CONCERT HALLS STRUCTURE IS SUSPENDED TO THE ENTIRE FRAMEWORK OF THE BUILDING AND THE BEARING FRAMEWORK BEING MADE OF STRUCTURE STEEL FRAMING, CREATING THE IMPRESSION THAT ONE BUILDING HAS BEEN INSERTED INTO ANOTHER.

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 2015, the Group achieved the dividend rate and equity ratio as set in the financial objectives, but remained below in terms of average return on equity objective:

average return on equity
8.0%

dividend rate
90%
of annual profit

equity ratio
59.5%

MANAGEMENT REPORT

COMMENTARY OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Merko Ehitus posted revenue of EUR 66 million in Q4 2015 and a 12-month figure of EUR 251 million, thus remaining on par with 2014. The group earned a net profit of EUR 4.4 million in Q4, with a figure of EUR 10 million for the entire year. Profit before taxes made up EUR 11.7 million. The drop in government contracts for infrastructure has been compensated by private sector orders in the field of buildings and real estate development projects. The share of revenue earned outside Estonia grew to 38% and real estate development revenue increased to 28%. The Management Board of Merko Ehitus proposes to pay shareholders 90% of last year's profit in dividends, which amounts to 0.51 euros per share.

With the slump in the Baltic construction market, the group's result for the year, and particularly the Q4 profit, exceeded the group's management expectations to some extent. The management considers the growth of sales revenue and profit in Lithuania as positive, as well as the results of the real estate development sector. Considering the slump in government contracts, the share of public sector orders in the secured order book has dropped below 20% and we continue to focus on the comprehensive supply of design and construction contracts to private sector customers, including to international companies. Last year, the group was able to strengthen our secured order book as a whole, above all in Estonia, where noteworthy orders accrued in the last quarter as well. In Latvia, we weren't able to conclude contracts in a volume comparable to the large projects that have been in progress in the past few years, yet we continue to be active on the Latvian market.

12 MONTHS 2015
PROFIT BEFORE TAX
11.7 MILLION EUROS

REVENUE
251 MILLION EUROS

The volume of construction orders has clearly dropped in the field of civil engineering construction, as a result of which we have scaled down our workforce in the field of external networks. At the same time, the total number of the group's employees has grown, above all on the account of additional personnel in Lithuania. We have kept sales revenue at last year's levels primarily with the support of general construction and apartment development. The sales revenue in the real estate development sector has grown by 54%, making up 28% of the group's sales revenue. We have invested EUR 42 million into new and ongoing development projects in 2015 and we will continue investments in 2016 as well.

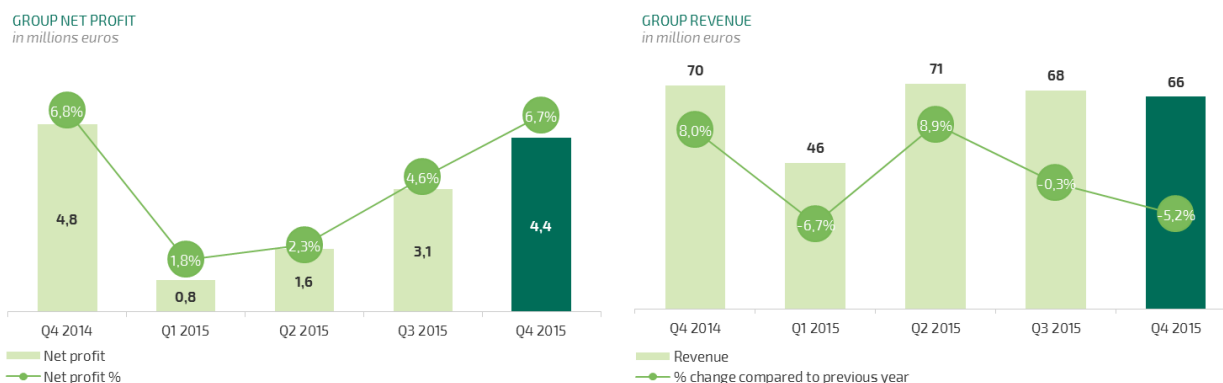
In the fourth quarter of 2015, group companies signed new contracts worth EUR 95 million and the total volume of new contracts during the year was EUR 247 million. As at 31 December 2015, the group had a secured order book balance of EUR 247 million. The group's gross profit margin for the 12-month period was 9.1% and the net profit margin was 4.0%; the 2015 profit before taxes was EUR 11.7 million and in the fourth quarter alone, EUR 4.7 million. In 2015, the group sold 403 apartments at the total value of EUR 61 million compared to the 395 apartments sold in 2014 for EUR 39 million (excl. VAT). In Q4, 155 apartments were sold at the total value of EUR 19 million (excl. VAT).

The Management Board of Merko Ehitus proposes to pay shareholders 9 million euros (0.51 euros per share) in dividends in 2016 from retained earnings of previous periods, which translates into a dividend rate of 90% for the year 2015. The management proposes to pay shareholders dividends over the company's 50-70% target level as the orders on the Baltic construction market continue to be in a slump, with the prices down while the supply is also increasing on the apartment market. In this market situation, it will be complicated to improve profitability.

PROPOSAL FOR 2015
DIVIDENDS
0.51 EUROS PER SHARE

Major projects in progress for Merko in Q4 included the construction of Hilton Tallinn Park in Tallinn, the design and construction of the T1 shopping centre and the Õpiku Office Building, the renovation of the Mustamäe blocks of the North Estonia Medical Centre in Tallinn, and the design and renovation of tram line No. 4 in Tallinn. Projects completed in Latvia in Q4 were the Liepāja concert hall and Dzintaru 28 apartment buildings and, in Lithuania, the foundations of Šilute wind farm and general construction works of Nordbalt's Klaipėda transformer substation.

OVERVIEW OF THE 12 MONTHS AND IV QUARTER RESULTS



PROFITABILITY

Profit before tax in 12M 2015 was EUR 11.7 million (12M 2014: EUR 13.3 million), which is equivalent to a profit before tax margin of 4.7% (12M 2014: 5.3%). Gross margin in 12M was 9.1% (12M 2014: 9.8%). Net margin in 12M 2015 decreased to 4.0% (12M 2014: 4.9%) and net profit was EUR 10.0 million (12M 2014: EUR 12.4 million), having decreased by 19.5% compared to the same period last year. Q4 2015 profit before tax was EUR 4.7 million (Q4 2014: EUR 5.3 million). Q4 net profit was EUR 4.4 million (Q4 2014: EUR 4.8 million).

REVENUE

Revenue in 12M 2015 was EUR 215.0 million (12M 2014: EUR 252.3 million), which has decreased by 0.5% compared to last year. Q4 revenue was EUR 66.4 million (Q4 2014: EUR 70.1 million). The share of construction service revenue earned outside of Estonia has increased in 12M 2015 to 28.7% (12M 2014: 25.8%). The number of apartments sold in 12 months of 2015 (403 units, revenues of EUR 61.4 million) has increased by 2.0% and the revenue from apartment sales has increased by 55.8% (12 months of 2014: 395 units, revenues of EUR 39.4 million).

CASH POSITION

At the end of the reporting period, the group had EUR 39.9 million in cash and cash equivalents and equity EUR 125.7 million (59.5% of total assets). Comparable figures as at 31 December 2014 were accordingly EUR 51.6 million and EUR 127.0 million (51.0% of total assets). As at 31 December 2015 the group had net debt of negative EUR 8.7 million (31 December 2014: negative EUR 13.9 million).

SECURED ORDER BOOK

In Q4 2015, group companies signed new contracts in the amount of EUR 94.8 million (Q4 2014: EUR 62.9 million). 12M 2015 new contracts signed in amount of EUR 247.0 million (12M 2014: EUR 170.4 million). As at 31 December 2015, the group's secured order book stood at EUR 246.9 million (31 December 2014: EUR 179.1 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

The Management Board proposes to distribute to shareholders EUR 9.0 million (EUR 0.51 per share) in dividends from retained earnings in 2016. This is equivalent to a 90% dividend rate for 2015.

		12M '15	12M '14	VARIANCE	Q4 '15	Q4 '14	VARIANCE
Revenue	million EUR	251.0	252.3	-0.5%	66.4	70.1	-5.2%
Gross profit	million EUR	23.0	24.7	-7.1%	7.7	8.5	-9.1%
Gross profit margin	%	9.1	9.8	-6.6%	11.6	12.1	-4.2%
EBITDA	million EUR	15.5	16.4	-5.7%	5.6	6.2	-11.0%
EBITDA margin	%	6.2	6.5	-5.2%	8.4	8.9	-6.1%
Profit before tax	million EUR	11.7	13.3	-12.1%	4.7	5.3	-12.3%
PBT margin	%	4.7	5.3	-11.7%	7.0	7.6	-7.5%
Net profit (parent)	million EUR	10.0	12.4	-19.5%	4.4	4.8	-7.3%
Net profit margin	%	4.0	4.9	-19.0%	6.7	6.8	-2.3%
EPS	EUR	0.56	0.70	-19.5%	0.25	0.27	-7.3%
		31.12.2015			31.12.2014		VARIANCE
ROE (on yearly basis)	%	8.0			10.1		-20.5%
Equity ratio	%	59.5			51.0		+16.8%
Secured order book	million EUR	246.9			179.1		+37.9%
Total assets	million EUR	211.1			249.3		-15.3%
Number of employees	people	791			765		+3.4%

Ratio definitions are provided on page 38 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 12 MONTHS OF 2015

CONSTRUCTION SERVICES

We have been forecasting a drop in the volume of construction orders in the Baltic States since the beginning of 2015. The year 2015 was a year of stabilisation in the volume of construction orders of general contractors in the Baltic States. As indicated in the reports of previous periods, this can mainly be attributed to the decrease in EU-funded public procurements, especially with regard to civil engineering work. The outlook on the construction market has also been impacted by the overall slump in investor confidence, a large number of completed projects or construction-in-progress (e.g. office buildings in Tallinn), 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 Tallinn 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 EU financial framework period and the call for tenders by the government. The current EU budgetary period measures, through which funds will be allocated, start to open gradually – expectations that procurements will become more active in 2015 did not materialise. As new projects require thorough preparation, we estimate that the number of new public procurements will start gradually growing from the second half of 2016. We therefore forecast EU-funded public works procurements to be launched from 2017 onwards.

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 2015, yet we do not anticipate continued growth but rather a stabilisation in the volume of private orders. It is important for the state to resume its orders so as to avoid huge fluctuations on the construction market.

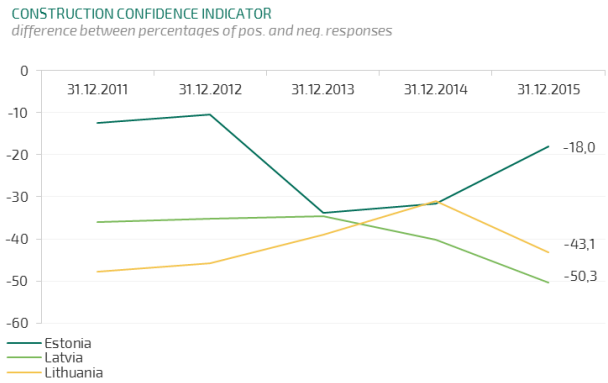
An overall decrease in construction volumes and a tightening price competition has put pressure on the general contractors tender pricing and forced to take bigger risks. Merko Ehitus has historically been a valued partner in the private sector market and a number of large new contracts with private customers have been concluded in 2015, especially in Estonia. In Latvia, the group has not managed, due to the small number of procurements on the market, to conclude as many new contracts as during the last few years. We have observed that the price competition in the tenders has tightened even more and which has led to increased risks for both, the general contractors as the customers. In today's market competitors are submitting aggressive offers, anticipating that the input prices will decrease, however which may not materialise. As a result from the above the direct and indirect risks have increased for the customers, that are sometimes not perceived in the light of the favourable prices. Risks like receiving a building that doesn't meet the expectations, contractor's financial difficulties and project completion delays disputes between the parties arising from possible changes to the project and additional works etc. are all such risks which existence must be acknowledged. At the same time, we see that the more savvy private sector clients on the market are increasingly opting to sign design-build contracts instead of mere construction contracts, as the end result a building that meets the expectations is more likely with a professional partner who is responsible for the whole.

In 2015 the average profitability of new contracts signed by general contractor companies remained probably at the last year's level depending on price competition and the continuation of the same trend is also visible in 2016. 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.

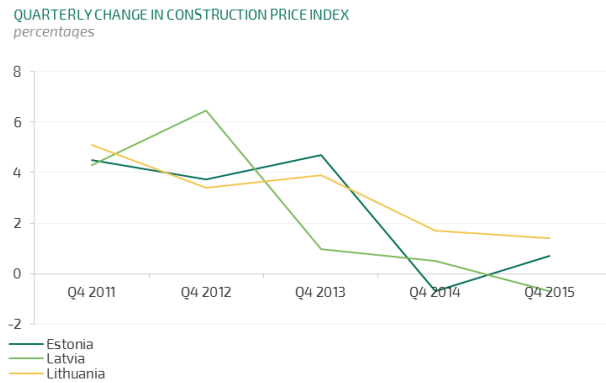
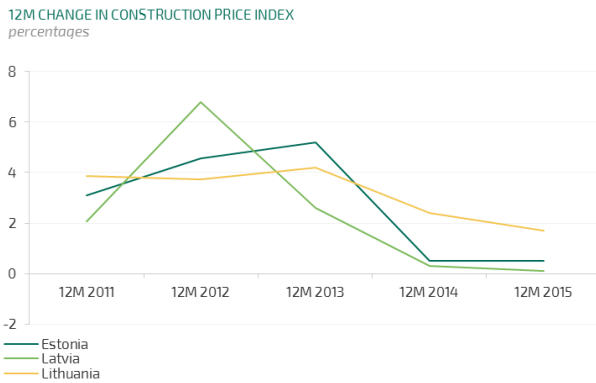
Taking into account the relatively weak outlook for growth in the construction market, we do not foresee major changes in the level of construction input prices, despite some wage pressure. Input prices may come under temporary pressure in a situation where multiple major construction sites are in progress 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 Q4, the confidence indicator level for the construction industry was lower in Latvia and Lithuania than it was in the previous quarter and also remained lower than in the same period a year ago. At the same time the confidence indicator in Estonia moved in the opposite direction regarding both comparisons. Confidence is curtailed primarily by the seasonal factor that winter is low season in the construction sector. On a larger scale, confidence is kept negative by the lack of demand – caused in turn by the expectation of reduced EU funds available for future construction market investments, 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.



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 December 2015 fell in Lithuania (down 12.1 points from -31.0 points to -43.1 points) and in Latvian (down 10.2 points from -40.1 points to -50.3 points). In December 2015, the Estonian level of construction confidence indicators was -18.0 points (December 2014: -31.6 points), being the only one in the Baltic countries to have risen (by 13.6 points) in the year.



Source: Local national statistical offices.

	12 MONTHS 2015			IV QUARTER 2015		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
Construction price index annual change	+0.5%	+0.1%	+1.7%	+0.7%	-0.7%	+1.4%
Labour force	+2.9%	+6.7%	+5.0%	+3.7%	+6.5%	+4.7%
Construction machines	-0.8%	+0.0%	+0.4%	-1.9%	-0.7%	+0.3%
Building materials	-0.7%	-1.9%	-0.2%	-0.8%	-3.0%	-0.5%

Source: Local national statistical offices.

As one of the largest general contractors, 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. 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.

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 stabilising. 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 lead 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

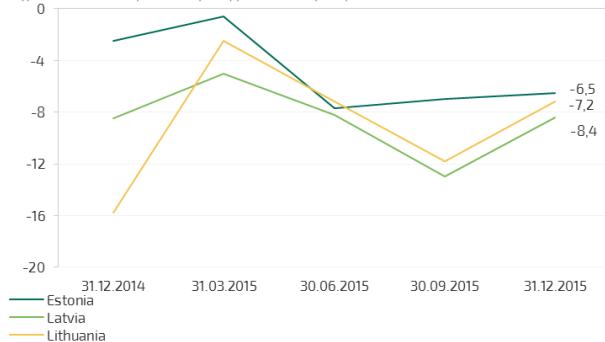
will stay strong for the high-quality apartments developed by the Merko Group, in all three capitals of the Baltic states, and also in Tartu.

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 constructor), 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.

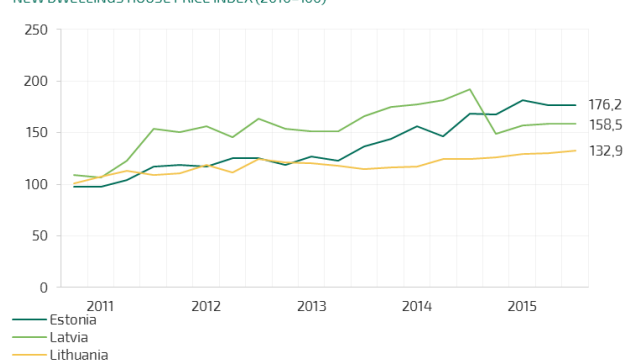
Good availability of bank loans due to the strong capitalisation of banks and loans-to-deposits ratios is also continuously supported by a low Euribor level, at the same time customers in Latvia and Lithuania are less inclined to take loans than in Estonia. Apartment market demand is also positively 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.

CONSUMER CONFIDENCE INDICATOR

difference between percentages of pos. and neg. responses



NEW DWELLINGS HOUSE PRICE INDEX (2010=100)



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 the cheaper price segments where there is a certain amount of oversupply, which has already led to longer sales periods. 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 approved the new terms of housing loans issued by commercial banks to individuals, which will 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.



APARTMENT DEVELOPMENT PROJECT FINISHED IN THE FOURTH QUARTER – THE CONSTRUCTION OF PAEPARGI ST. 49 IN LASNAMÄE DISTRICT IN TALLINN. THE 14-STOREY TOWER IS DESIGNED BY ARCHITECTURAL BUREAU LUHSE & TUHAL AND THE INTERIOR SOLUTIONS ARE THE WORK OF EERIK OLLE AND AHTI PETERSOO FROM FONDALINK.

OPERATING RESULTS

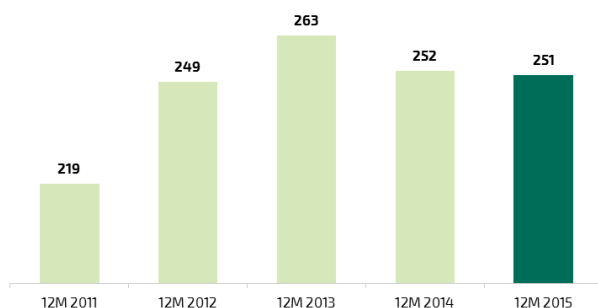
BUSINESS ACTIVITIES

Key financial indicators (in million euros)

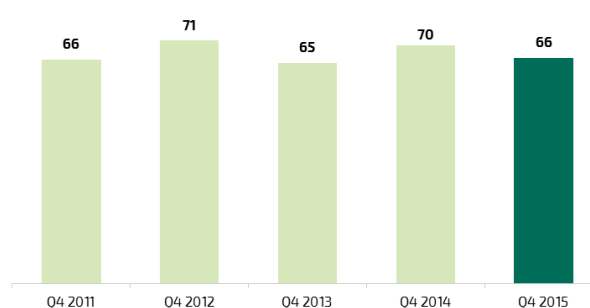
	12 MONTHS 2015	12 MONTHS 2014	IV QUARTER 2015	IV QUARTER 2014
Revenue				
Estonian construction service	108.6	141.5	28.6	32.6
Latvian and Lithuanian construction service	72.0	65.0	13.1	18.2
Real estate development	70.4	45.8	24.7	19.3
Revenue total	251.0	252.3	66.4	70.1
Gross profit	23.0	24.7	7.7	8.5
EBITDA	15.5	16.4	5.6	6.2
Operating profit (EBIT)	12.5	14.0	4.9	5.5
Profit before tax (PBT)	11.7	13.3	4.7	5.3
Net profit				
attributable to equity holders of the parent	10.0	12.4	4.4	4.8
attributable to non-controlling interest	(0.2)	(0.1)	(0.1)	0.0
Net profit total	9.8	12.3	4.3	4.8
Earnings per share (EPS), euros	0.56	0.70	0.25	0.27
Cash and cash equivalents closing position	39.9	51.6	39.9	51.6

REVENUE AND GROSS PROFIT

GROUP REVENUE
in million euros

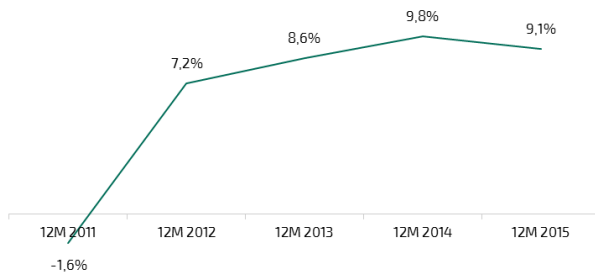


GROUP QUARTERLY REVENUE
in million euros

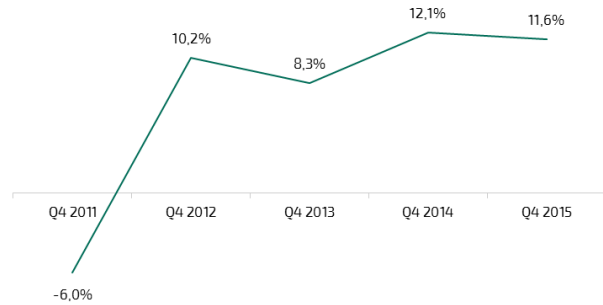


Merko Ehitus group generated a total of EUR 251.0 million in revenue in 12 months of 2015 (12 months of 2014: EUR 252.3 million). 43.3% of the revenue was generated in Estonian construction service, 28.7% in Latvian and Lithuanian construction service and 28.0% in and real estate development segment (12 months of 2014: 56.1% in Estonian construction service, 25.8% in Latvian and Lithuanian construction service and 18.1% in real estate development segment). Compared to the 12 months of 2014 the group revenue has decreased by 0.5%. Compared to the 12 months of the previous year in the 12 months of 2015 the share of Latvian and Lithuanian construction service revenue in the group's revenue has increased from 25.8% to 28.7%. Revenue in Q4 2015 was EUR 66.4 million, which has decreased by 5.2% compared to the previous year (Q4 2014: EUR 70.1 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



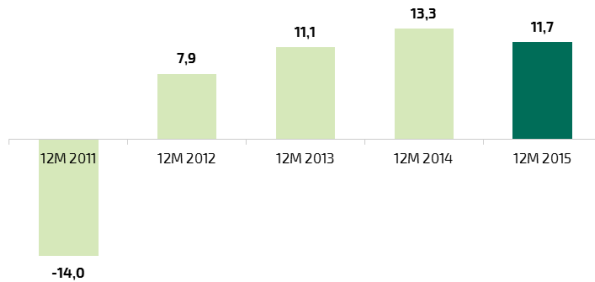
GROUP QUARTERLY GROSS PROFIT MARGIN
percentages



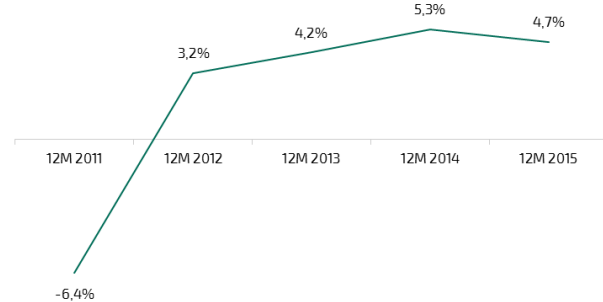
In 12 months of 2015 the group's gross profit from development and construction activities totalled EUR 23.0 million (12 months of 2014: EUR 24.7 million) and in Q4 2015 EUR 7.7 million (Q4 2014: EUR 8.5 million). The 12 months gross profit margin (9.1%) has decreased by 0.7 pp compared to the same period last year (12 months of 2014: 9.8%). Maintaining the stability of profit margins during the 12 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 during 2016. 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

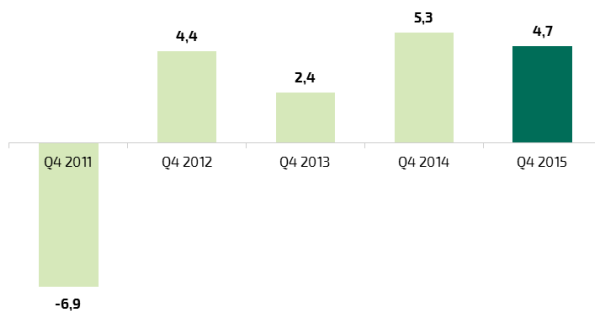


GROUP PROFIT BEFORE TAX MARGIN
percentages

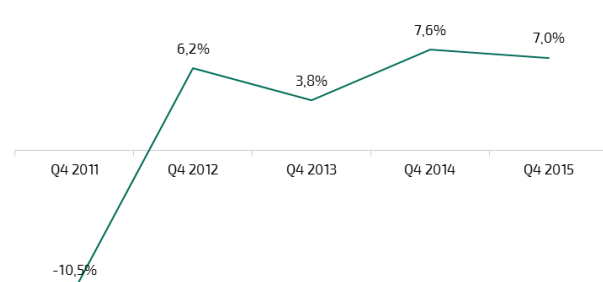


In 12 months of 2015, the group's profit before tax totalled EUR 11.7 million and net profit attributable to equity holders of the parent was EUR 10.0 million as compared to the pre-tax profit or EUR 13.3 million and net profit attributable to equity holders of the parent of EUR 12.4 million in 12 months of 2014. 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. Moreover, profit growth in Latvia and Lithuania has raised the income tax expense for 2015, compared to last year. Group's profit before tax margin was 4.7% (12 months of 2014: 5.3%) and the net profit margin was 4.0% (12 months of 2014: 4.9%). Both the group's profit before tax (EUR 11.7 million) and the profit before tax margin (4.7%) have decreased compared to the same period last year (12 months of 2014: EUR 13.3 million and 5.3%, respectively).

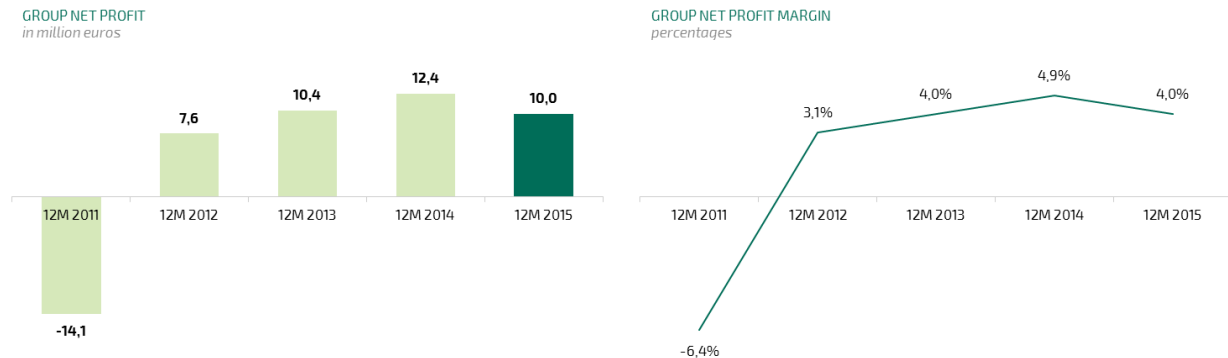
GROUP QUARTERLY PROFIT BEFORE TAX
in million euros



GROUP QUARTERLY PROFIT BEFORE TAX MARGIN
percentages



In Q4 of 2015, the group's pre-tax profit totalled EUR 4.7 million and net profit was EUR 4.4 million as compared to the pre-tax profit of EUR 5.3 million and net profit of EUR 4.8 million in Q4 of 2014. Similarly to the 12 months of 2015, both the group's quarterly profit before tax (EUR 4.7 million) and the quarterly profit before tax margin (7.0%) have decreased compared to the same period last year (Q4 2014: EUR 5.3 million and 7.6%, respectively).



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 32.

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 is submitting segment reporting 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).

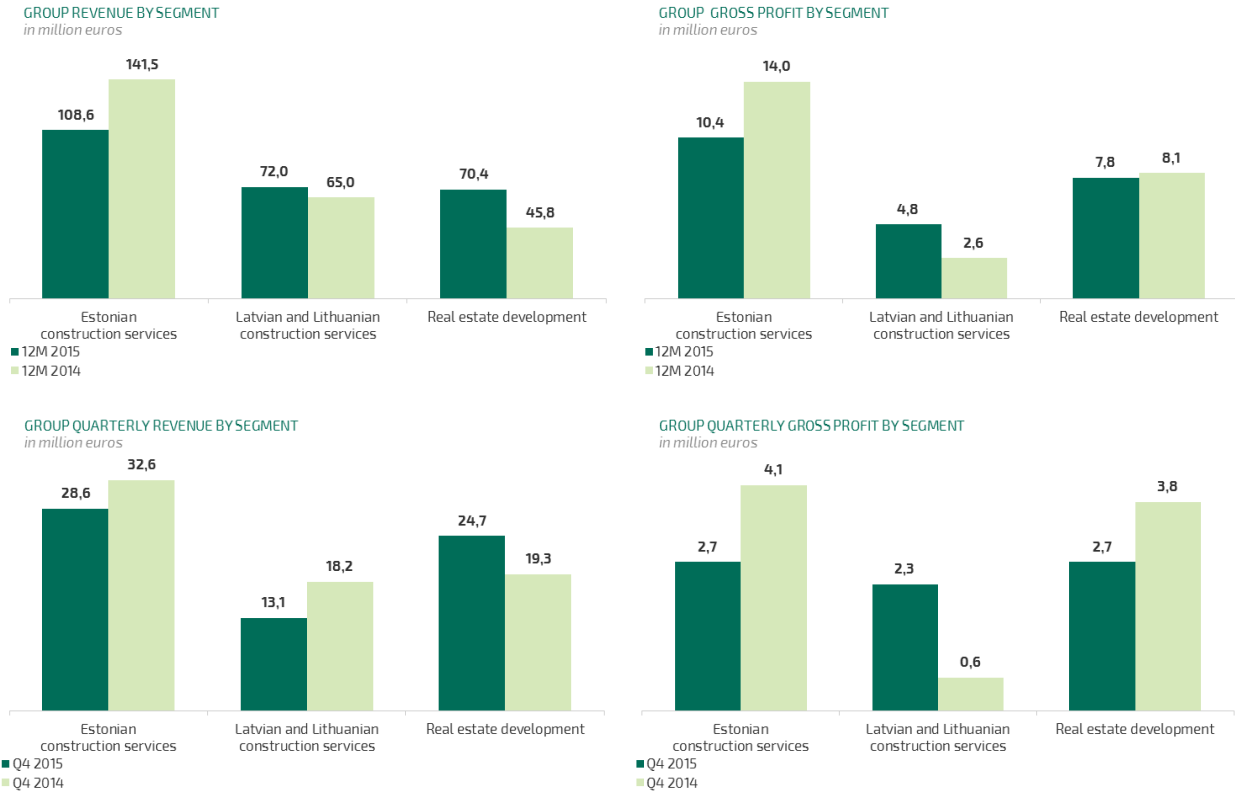
Estonian construction service (incl. construction services in Finland) and Latvian and Lithuanian construction service segments include all projects of the respective countries pertaining to construction services:

- 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

	12 MONTHS 2015	12 MONTHS 2014	CHANGE	IV QUARTER 2015	IV QUARTER 2014	CHANGE
Revenue	108.6	141.5	-23.3%	28.6	32.6	-12.3%
% of total revenue	43.3%	56.1%	-22.9%	43.0%	46.5%	-7.5%
Gross profit	10.4	14.0	-25.9%	2.7	4.1	-34.6%
Gross profit margin	9.6%	9.9%	-3.4%	9.5%	9.6%	-25.4%

In the 12 months of 2015, the revenue of the Estonian construction service segment was EUR 108.6 million (12 months of 2014: EUR 141.5 million), having decreased by 23.3% from the same period last year. The 12 months revenue also includes revenue from Finnish projects in the amount of EUR 2.8 million. The revenues have clearly decreased in the field of civil engineering. Additionally the decrease of revenues is largely due to the fact that in 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). A number of general construction and design projects were launched in 2015, with the main construction of these projects commencing in 2016.

In this segment, the group earned a gross profit of EUR 10.4 million for 12 months (12 months of 2014: EUR 14.0 million). The Estonian construction service segment revenues for 12 months 2015 were 43.3% of the group's revenue, forming the largest proportion in the group's revenue, but still having decreased by 22.9%.

In 12 months of 2015, the gross margin of the Estonian construction service segment was 9.6%, which decreased by 3.4% compared to the 12 months of 2014 (9.9%). 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 the volume of public procurements, above all, with regard to external networks in civil engineering construction, we are critically monitoring any changes in the volume of work-in-progress. We have scaled down external networks and, in order to maintain the efficiency of the cost base, made preparations for responding to further market changes.

Our major projects in the fourth quarter included the construction works of Hilton Tallinn Park hotel, the design and construction works of Õpik Office Building in Tallinn, the design and construction works of logistics centre in Maardu, the design and construction works of T1 shopping centre in Tallinn, the reconstruction work at the North-Estonia Medical Centre in Mustamäe and the design and renovation of the infrastructure of tram line No. 4 in Tallinn.

LATVIAN AND LITHUANIAN CONSTRUCTION SERVICE

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

million EUR

	12 MONTHS 2015	12 MONTHS 2014	CHANGE	IV QUARTER 2015	IV QUARTER 2014	CHANGE
Revenue	72.0	65.0	+10.8%	13.1	18.2	-27.7%
% of total revenue	28.7%	25.8%	+11.3%	19.8%	25.9%	-23.7%
Gross profit	4.8	2.6	+85.2%	2.3	0.6	+305.5%
Gross profit margin	6.7%	4.0%	+67.3%	17.4%	4.3%	+460.8%

The revenue of the Latvian and Lithuanian construction service segment amounted to EUR 72.0 million in the 12 months of 2015 (12 months of 2014: EUR 65.0 million), which is 10.8% more than in the 12 months of 2014. If the Latvian and Lithuanian construction service segment revenues of 12 months of 2014 formed 25.8% of the group's revenue, then during 12 months of the current year the segments revenues have increased to 28.7%. 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 12 month gross profit of the Latvian and Lithuanian construction service segment amounted to EUR 4.8 million (12 months of 2014: EUR 2.6 million) and the gross profit margin was 6.7% (12 months of 2014: 4.0%), which increased by 67.3% compared to the same period previous year.

The gross margin improved especially in the fourth quarter, along with an improvement in the results of projects successfully completed in Latvia and Lithuania, compared to initial estimations.

In the fourth quarter of 2015, the main ongoing projects included were the construction of Dzintaru 28 apartment building in Jurmala, the construction of multifunctional concert hall in Liepaja, the construction of BLRT warehouse and office in Riga, the re-cultivation and construction works of waste recycling site at A. Deglava Street in Riga, the construction works of Kauno/Algirdo residential complex with office premises in Vilnius, the construction of concrete foundations for wind turbine generators in Šilute wind farm 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

	12 MONTHS 2015	12 MONTHS 2014	CHANGE	IV QUARTER 2015	IV QUARTER 2014	CHANGE
Revenue	70.4	45.8	+53.8%	24.7	19.3	+28.0%
% of total revenue	28.0%	18.1%	+54.6%	37.2%	27.6%	+35.0%
Gross profit	7.8	8.1	-4.4%	2.7	3.8	-28.4%
Gross profit margin	11.0%	17.7%	-37.8%	10.9%	11.1%	-44.0%

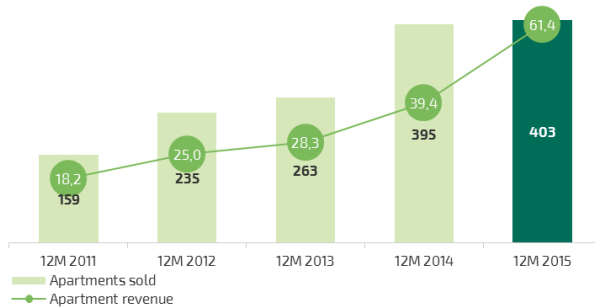
The group sold a total of 403 apartments in 12 months of 2015 at the total value of EUR 61.4 million (excl. VAT), compared to 395 apartments and EUR 39.4 million in 12 months of 2014. In Q4 of 2015 a total of 155 apartments were sold at the total value of EUR 18.8 million (excl. VAT), (Q4 2014: 160 apartments and EUR 16.0 million). In 12 months of 2015, the group has earned EUR 6.6 million of revenue from the sale of immovable properties (12 months of 2014: EUR 1.4 million). Q4 revenue from the sale of immovable properties was EUR 4.4 million (Q4 2014: EUR 0.0 million). In 12 months of 2015 real estate development segment revenues have increased 53.8% 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 12 months to 28.0% of the group's total revenue (12 months of 2014: 18.1%).

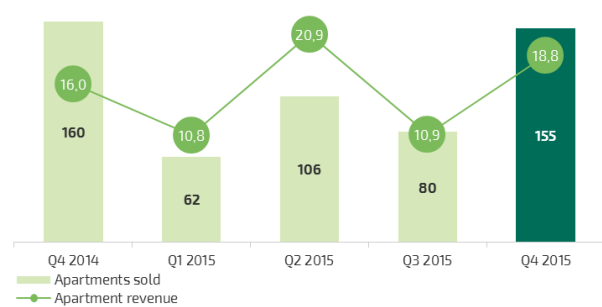
The 12 month gross profit of the segment amounted to EUR 7.8 million (12 months of 2014: EUR 8.1 million) and the gross profit margin was 11.0% (12 months of 2014: 17.7%), which decreased by 37.8% compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price.

The Q4 2015 profitability of the segment was negatively impacted by impairment of development projects and immovable properties in the amount of EUR 1.1 million (Q4 2014: positively by a net change in impairments amounting to EUR 0.5 million).

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros

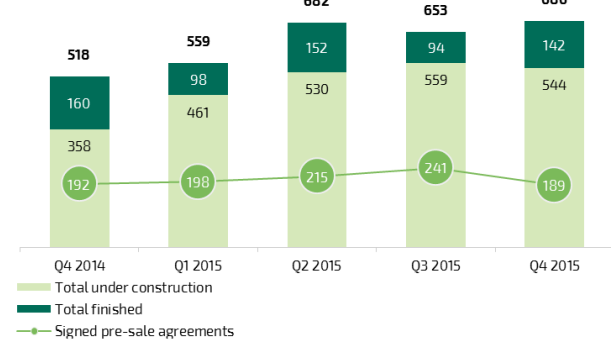


APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



At the end of the period, Merko Ehitus group's inventory comprised 189 apartments where a preliminary agreement had been signed: 37 completed apartments (22 in Estonia, 13 in Latvia and 2 in Lithuania) and 152 apartments under construction (127 in Estonia, 1 in Latvia, 21 in Lithuania and 3 in Finland). 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 31 December 2015, Merko Ehitus group had a total of 497 apartments for active sale (as at 31 December 2014: 326 apartments), for which there are no pre-sale agreements and of which 105 have been completed (41 in Estonia, 41 in Latvia and 23 in Lithuania) and 392 are under construction (257 in Estonia, 51 in Lithuania, 77 in Lithuania and 7 in Finland). The number of apartments on sale as at 31 December 2015 has increased, compared to 31 December 2014, mainly due to the volume of projects launched in the fourth quarter of 2015: launch of construction of 188 new apartments, compared to the 60 new apartments in the fourth quarter of 2014.

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	-
Grostonas 19	Riga, Latvia	Completed	15	3
Kentmanni 6	Tallinn, Estonia	Completed	2	1
Pärna avenue 9	Tartu municipality, Estonia	Completed	1	-
Grostonas 21	Riga, Latvia	Completed	38	10
Pärna avenue 12	Tartu municipality, Estonia	Completed	5	-
Pärna avenue 11	Tartu municipality, Estonia	Completed	4	1
Rästa 18	Tallinn, Estonia	Completed	8	4
Paepargi 49	Tallinn, Estonia	Completed	14	1
Kaupmehe 7 **	Tartu municipality, Estonia	Completed	29	15
Fizikų	Vilnius, Lithuania	Completed	20	-

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Kraziu	Vilnius, Lithuania	Completed	5	2
			142	37
Tartu mnt 52 stage I **	Tallinn, Estonia	End of 2016	103	60
Paepargi 29, 31, 33 **	Tallinn, Estonia	Beginning of 2016	57	38
Jahu 1a **	Tallinn, Estonia	Autumn of 2016	37	26
Krokuvos 73 **	Vilnius, Lithuania	Summer of 2016	98	21
Pestikuja 1 **	Helsinki, Finland	Beginning of 2016	10	3
Sõpruse pst 33 **	Tallinn, Estonia	End of 2016	51	-
			356	148
Started in Q4 2015				
Grostonas 12 stage I **	Riga, Latvia	Beginning of 2017	52	1
Kivimäe 32 ** / ***	Tallinn, Estonia	Summer of 2016	24	-
Kaupmehe 5 **	Tartu municipality, Estonia	Summer of 2016	30	3
Tartu mnt 52 stage II **	Tallinn, Estonia	Autumn of 2016	82	-
			188	4
Total			686	189

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

** Project launched in 2015.

*** A project developed by a joint venture. Group revenue generated through provision of construction services and profit recognised based on the equity method.

In 12 months of 2015, we launched the construction of a total of 574 new apartments in the Baltic states (12 months of 2014: 369 apartments) – including the first stage of Tartu mnt 52 development project, the preparation works of which took place in 2014. In the 12 months of this year, the group has invested a total of EUR 42.4 million (12 months of 2014: EUR 46.9 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 2016, the group will launch the construction of approximately 500-550 new apartments in the Baltic states (2015: construction of 574 new apartments launched). In 2016, the group's investments in both development projects initiated in the previous years and new projects to be launched in 2016 will be in the range of EUR 40-45 million (2015: EUR 42.4 million invested).

One of our objectives is to keep a moderate portfolio of land plots to ensure stable inventory of property development projects considering the market conditions. At 31 December 2015, the group's inventories included land plots with the development potential, where the construction works have not started, of EUR 58.0 million (31.12.2014: EUR 55.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2015	31.12.2014
Estonia	14.0	14.2
Latvia	34.8	36.8
Lithuania	9.2	4.2
Total	58.0	55.2

In the 12 months of 2015, the group has purchased new land plots at an acquisition cost of EUR 11.7 million (12 months of 2014: at an acquisition cost of EUR 3.2 million), which allocated by country is following: in Estonia EUR 6.6 million and in Lithuania EUR 5.1 million. Whereas in Estonia the group bought different smaller land plots than in Lithuania, in 2015, the group acquired an approximately 1.3-hectare Rinkines development area in the city centre of Vilnius, where up to 350 apartments can be constructed.

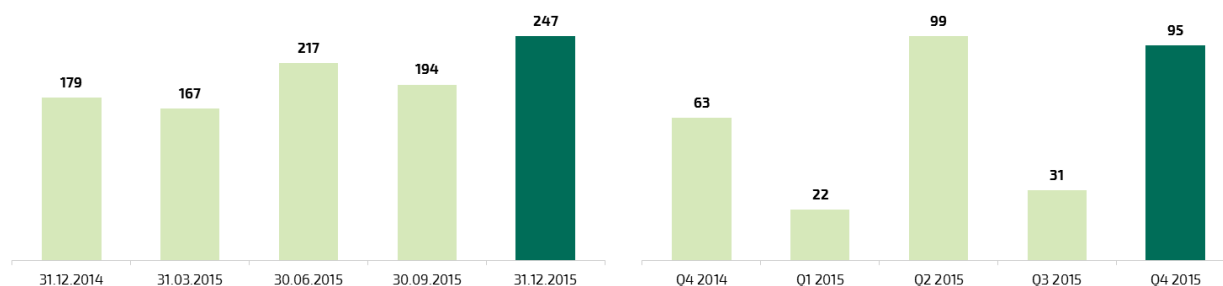
Also the group signed a notarised contract of sale of registered immovables, under which all of the real estate governed by an option agreement in Tallinn were realised for total of EUR 4.0 million. Similarly in 2014, the group realized an option agreement to acquire a land plot in Tallinn for total of EUR 1.8 million. In addition AS Merko Ehitus group 50% joint venture Kodusadam OÜ (ex. Kalaranna Arenduse OÜ) signed a contract for the acquisition of approximately 1.7 hectares of land in the Noblessner quarter, an historically prestigious industrial area in Tallinn with great potential, for development purpose to build approximately 200 apartments. The group is searching for new land plots for real estate development purposes primarily in Estonian and Lithuania.

SECURED ORDER BOOK

As at 31 December 2015, the group's secured order book (without own developments) amounted to EUR 246.9 million as compared to EUR 179.1 million as at 31 December 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 fourth quarter of 2015, EUR 94.8 million worth of new contracts were signed (without own developments) as compared to EUR 62.9 million in same period last year. The value of new contracts signed (without own developments) in the 12 months of 2015 amounted to EUR 247.0 million (12 months of 2014: EUR 170.4 million).

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE THIRD QUARTER OF 2015

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Construction works of kindergarten and school buildings complex near Riga in Pinki	Latvia	October 2016	6.0
Construction works of an 14-storey office building, located at Mustamäe tee 3 ja 3A, Tallinn	Estonia	Winter 2016	10.6
The design and construction works on the infrastructure of Tallinn airport tram line	Estonia	December 2017	11.5
Design and construction works of Maakri Kvartal business complex in Tallinna city centre	Estonia	Spring 2018	30.0
Construction works of an office building with 6 storeys and 2 underground parking floors, located at Narbuto 5, Vilnius	Lithuania	Winter 2017	8.5
The second phase construction works of the passenger terminal in Riga International Airport	Latvia	September 2016	8.9

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

- On 27 January 2016 a contract between, AS Merko Ehitus Eesti, 100% owned subsidiary part of AS Merko Ehitus group and Inf Maja OÜ came into force. AS Merko Ehitus is to perform the design and construction works of Tallink Tennis Centre first stage, located at Punane 76, Tallinn, Estonia. The value of the contract is approximately EUR 7.0 million. The works are scheduled for completion by the end of 2016.

Of the contracts signed in the 12 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 nearly 80% (as at 31.12.2014 approximately 50%). 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 12 months of 2015 has been modest. The group continues to focus on comprehensive design and construction contracts. In this regard, two 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.

The portfolio of contracts stands strong, especially in Estonia. At the same time, the group has not managed to conclude new contracts in the estimated volume, especially in Latvia and Lithuania. This is due to a lower-than-estimated number of orders on the market, which is also liable to affect the volumes for 2016.

Considering the beginning phase of the current EU funding period, one can forecast the volume of public procurements to stay at the previous years level. We forecast that the volume of public procurements will start to increase in the second half of 2016. In this respect, it will not be easy to maintain the secured order book at the level of 2015 or growing it.

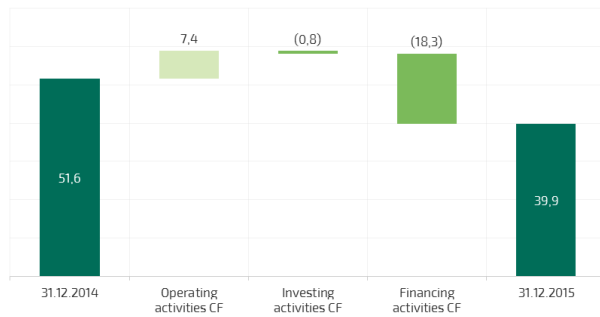
Traditionally the share of Estonian construction activity has been the highest in the group's revenues. Given the weak growth outlook of the Estonian construction market, the group's goal is to increase the volume of construction orders from outside Estonia. Thus, we will continue to identify the groups 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 participated 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. As a result, the group completed the first projects in Finland in 2015 and will continue to pursue revenue from new markets in 2016.

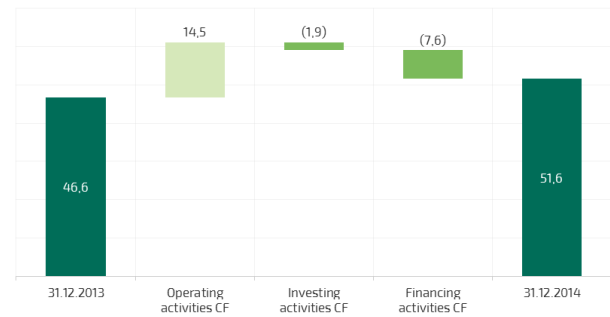
CASH FLOWS

As at 31 December 2015 the group had cash equivalents in the amount of EUR 39.9 million (31.12.2014: EUR 51.6 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.

12M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



12M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The 12-month cash flow from operating activity was positive at EUR 7.4 million (12 months of 2014: positive EUR 14.5 million), cash flow from investing activity was negative at EUR 0.8 million (12 months of 2014: negative EUR 1.9 million) and the cash flow from financing activity was negative at EUR 18.3 million (12 months of 2014: negative EUR 7.6 million).

The cash flow from operating activity was mostly influenced by the EBITDA (operating profit adjusted with depreciation and amortisation) EUR 15.5 million (12 months of 2014: EUR 16.4 million), by the positive change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 2.2 million (12 months of 2014: negative change of EUR 0.2 million), by the negative change in the provisions EUR 1.5 million (12 months of 2014: positive change of EUR 1.3 million), by the positive change in trade and other receivables related to operating activities EUR 10.0 million, incl. a negative change in financing co-financed projects of EUR 4.2 million (12 months of 2014: positive change of EUR 12.7 million, incl. a negative change in financing co-financed projects of EUR 0.4 million), by the positive change in inventory EUR 10.9 million, incl. negative cash flow from purchase of new land plots in the amount of EUR 11.7 million (12 months of 2014: negative change of EUR 14.8 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 27.2 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 (12 months of 2014: positive change of EUR 0.3 million) interest received EUR 1.8 million (12 months of 2014: EUR 1.4 million) and by the corporate income tax paid EUR 1.8 million (12 months of 2014: EUR 0.1 million).

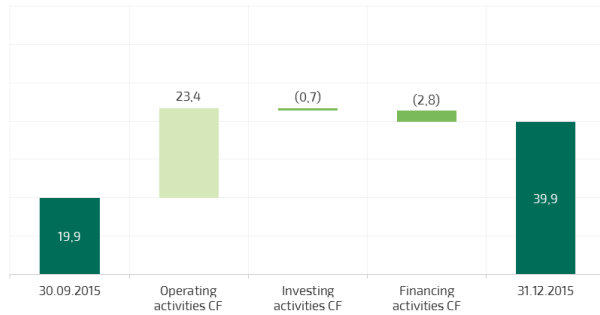
The group's cash flows from operating activities continue to have contracts (incl. both government and private sector) with long payment terms (by contract, an average of 56 days after registered delivery of the work) and there is an persistent burden on working capital, including optimal management 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 (14.8% as at 31.12.2015; 15.1% as at 31.12.2014).

Cash flows from investment activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 0.8 million (12 months of 2014: EUR 1.5 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.3 million (12 months of 2014: EUR 0.1 million). The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment. Cash flows from investing activities in 2015 also include an additional contribution to the share capital of the joint venture OÜ Unigate in the amount of EUR 0.4 million. Cash flows from investment activities in 12 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.

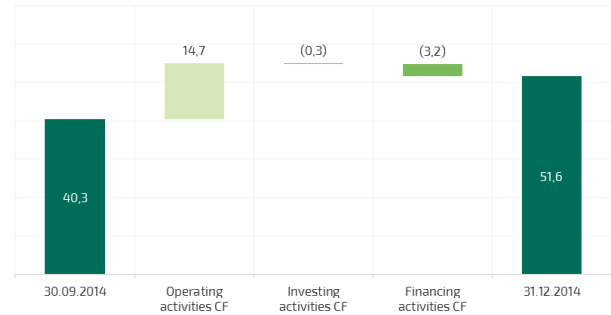
The largest single negative item in cash flows from financing activities was the dividend payment of EUR 7.3 million (12 months of 2014: EUR 7.3 million) and also a one-time share capital reduction payment to the shareholders in the amount of EUR 4.1 million. Project specific loans obtained using investment property as collateral were repaid in the net amount of EUR 0.6 million, incl. refinancing of an investment loan in the amount of EUR 1.2 million (12 months of 2014: negative cash flow in net amount of EUR 0.6 million). Net of loans received and loans repaid in connection with development projects amounted to negative cash flow of EUR

4.6 million (12 months of 2014: positive cash flow of EUR 4.9 million) and finance lease principal repayments of EUR 2.2 million (12 months of 2014: EUR 1.1 million). All of the new land plots acquired by the group both in the 12 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 12 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 Q4 2015 cash flow from operating activity was positive at EUR 23.4 million (Q4 2014: positive EUR 14.7 million), cash flow from investing activity was negative at EUR 0.7 million (Q4 2014: negative EUR 0.3 million) and the cash flow from financing activity was negative at EUR 2.8 million (Q4 2014: negative EUR 3.2 million).

The quarterly cash flows from operating activities were positive primarily as a result of the positive change in trade and other receivables in the amount of EUR 22.6 million, incl. the extraordinary positive impact of the transfer of registered immovables in the amount of EUR 4.4 million. On the negative side cash flow from operating activities was impacted by the increase of receivables and decrease of liabilities calculated using the percentage of completion method in the total amount of EUR 4.8 million and by the negative change in trade and other payables in the amount of EUR 11.1 million.

Cash flows from investment activities was negative primarily due to the additional equity contribution in joint venture OÜ Unigate in the amount of EUR 0.4 million and the purchase of non-current asset in the amount of EUR 0.3 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 to the share capital reduction payment of EUR 4.1 million. The net positive cash flow of loans received and loans repaid to finance the construction costs of both investment property and development projects amounted to EUR 1.9 million, which was supplemented by the finance lease principal repayments in the amount of EUR 0.6 million.

RATIOS

(attributable to equity holders of the parent)

		12M '15	12M '14	12M '13	Q4 '15	Q4 '14	Q4 '13
Income statement summary							
Revenue	million EUR	251.0	252.3	262.7	66.4	70.1	64.9
Gross profit	million EUR	23.0	24.7	22.7	7.7	8.5	5.4
Gross profit margin	%	9.1	9.8	8.6	11.6	12.1	8.3
Operating profit	million EUR	12.5	14.0	12.3	4.9	5.5	2.7
Operating profit margin	%	5.0	5.5	4.7	7.3	7.8	4.2
Profit before tax	million EUR	11.7	13.3	11.1	4.7	5.3	2.4
PBT margin	%	4.7	5.3	4.2	7.0	7.6	3.8
Net profit	million EUR	9.8	12.3	10.4	4.3	4.8	2.5
attributable to equity holders of the parent	million EUR	10.0	12.4	10.4	4.4	4.8	2.5
attributable to non-controlling interest	million EUR	(0.2)	(0.1)	0.0	(0.1)	0.0	0.0
Net profit margin	%	4.0	4.9	4.0	6.7	6.8	3.8
Other income statement indicators							
EBITDA	million EUR	15.5	16.4	15.1	5.6	6.2	3.5
EBITDA margin	%	6.2	6.5	5.7	8.4	8.9	5.4
General expense ratio	%	4.8	4.9	4.7	5.1	4.9	4.7
Labour cost ratio	%	12.2	11.9	11.8	12.4	11.3	10.7
Revenue per employee	thousand EUR	322	319	308	85	89	76
Other significant indicators							
		31.12.2015	31.12.2014	31.12.2013			
Return on equity	%	8.0	10.1	8.8			
Return on assets	%	4.4	5.0	4.4			
Return on invested capital	%	7.9	8.8	8.0			
Equity ratio	%	59.5	51.0	50.9			
Debt ratio	%	14.8	15.1	14.8			
Current ratio	times	3.2	2.3	2.0			
Quick ratio	times	1.2	1.1	1.1			
Accounts receivable turnover	days	39	56	58			
Accounts payable turnover	days	39	39	43			
Average number of employees	people	779	790	853			
Secured order book	million EUR	246.9	179.1	213.7			

Calculation of ratios is provided on page 38 of the report.

RISK MANAGEMENT

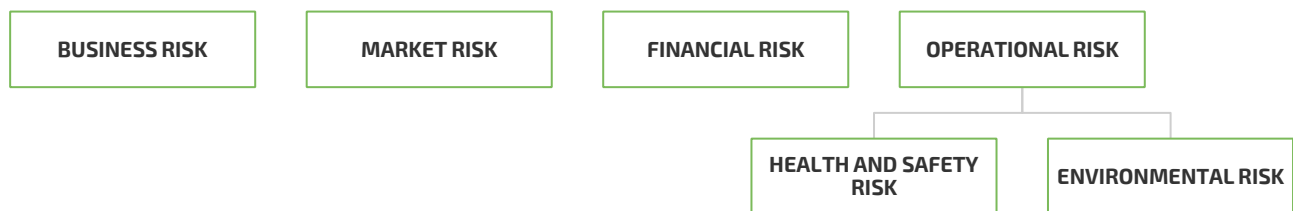
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial 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 potential 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 2.4 million (31.12.2014: EUR 2.1 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

Financial risk

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

Credit risk

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

Interest risk

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor. The management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 31.12.2015, 14.8% of the balance sheet total; as at 31.12.2014, 15.1% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Currency risk

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

Liquidity risk

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2015, the group's current ratio was 3.2 (31.12.2014: 2.3) and the quick ratio 1.2 (31.12.2014: 1.1). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the period,

the group entities had concluded overdraft contracts with banks in the total amount of EUR 24.7 million, of which EUR 23.9 million was unused (incl. an overdraft contract to finance development projects in the amount of EUR 14.5 million, which has not been withdrawn), (31.12.2014: EUR 10.6 million, of which EUR 10.0 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (31.12.2014: 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 59.5% (31.12.2014: 51.0%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 14.8% (31.12.2014: 15.1%) of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk

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

As at 31 December 2015, a provision has been set up at the group in the amount of EUR 0.1 million (31.12.2014: EUR 0.2 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2015 and ongoing as of 31.12.2015 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. On 22 January 2016, Harju County Court refused to hear the action filed by Maksim Vihharev against AS Merko Infra (civil matter No 2-15-6047), in which Maksim Vihharev accused AS Merko Infra of defamation and of causing damage thereof.

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. The appeal is in progress.

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.

On 18 June 2015, SIA Merks filed an action against Rolands Mēnesis for termination of the employment contract due to entry into transactions and conduct of operations causing damage to SIA Merks as described above in accordance with the Latvian law, which provides for the corresponding procedure in cases where the trade union objects to the dismissal of an employee. The statement of claim has been accepted. On 12 January 2016, Rolands Mēnesis filed a counterclaim against SIA Merks, asking the court to declare unlawful the removal from work and order SIA Merks to pay damages in the amount of average remuneration, starting from the initial suspension of the employment contract (7 January 2015), as well as non-patrimonial damage in the amount of 12-month average remuneration. The next hearing is scheduled to take place on 18 March 2016.

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.

The court has accepted the action, with the hearing scheduled for 26 September 2016. Subsequent to the acceptance of the statement of claim by the court, SIA Merks has reached an out-of-court settlement with the defendants and filed a petition to discontinue the action. The court is likely to review the date of the hearing and terminate the proceeding in the first quarter of 2016.

Lithuania

Vakarų

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

In the end of 2012, bankruptcy proceedings were initiated against Vakarų. In relation to that, AS Merko Ehitus has filed creditor's claims (incl. claims for damages) in the bankruptcy proceedings totalling EUR 1,220 thousand. Said claim (incl. claim for damages) is not included on the group's balance sheet and claims that arose earlier were already provisioned in full in 2012.

On 4 April 2014, District Court of Plungė, made the judgement in the litigation with regard to declaring invoices partially unjustified, which fully satisfied the claim of AS Merko Ehitus. On 5 May 2014, Vakarų appealed the court decision to Klaipėda District Court, which decided to return the case back to District Court of Plungė. On 22 of April 2015 the court took the decision to commission expert analysis to establish whether the disputed work had been performed or not. The judicial proceedings on the action are suspended until completion of the expert analysis. The court hearing regarding the litigation to declaring invoices partially unjustified took place on 10 November 2015, where the court decided to appoint another expert to analyse the new matters raised. 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.

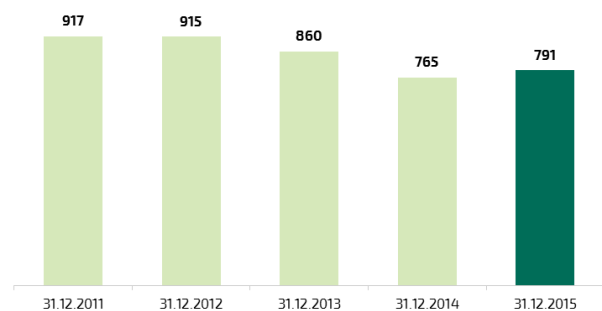
EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of group's employees increased by 26 (+3.4%) and as at 31 December 2015, the group had a total of 791 employees (including fixed-term and part-time employees). The number of employees has increased mainly due to the growth of construction volumes in Lithuania.

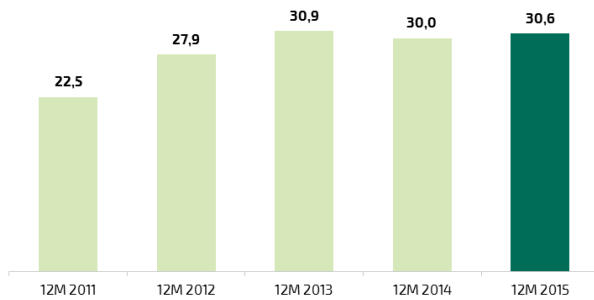
The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 12 months 2015, the labour cost was EUR 30.6 million (12 months 2014: EUR 30.0 million), which has increased by 2.0% compared to the same period previous year.

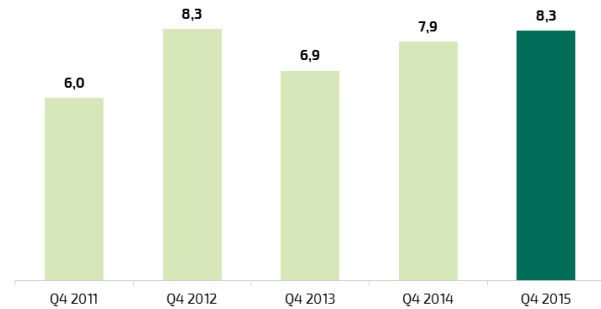
NUMBER OF EMPLOYEES
people



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.

BALTIC MARKET AWARD 2015

At an award gala held in the first quarter of 2016 – the Baltic Market Awards 2015 - 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 2015, 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" for the second year in a row and second place in the category "The Best Annual and Corporate Governance Report".



MERKO EHITUS
Best Annual and Corporate
Governance Report
2ND PLACE
Best Investor Relations
in the Baltic Market
3RD PLACE

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

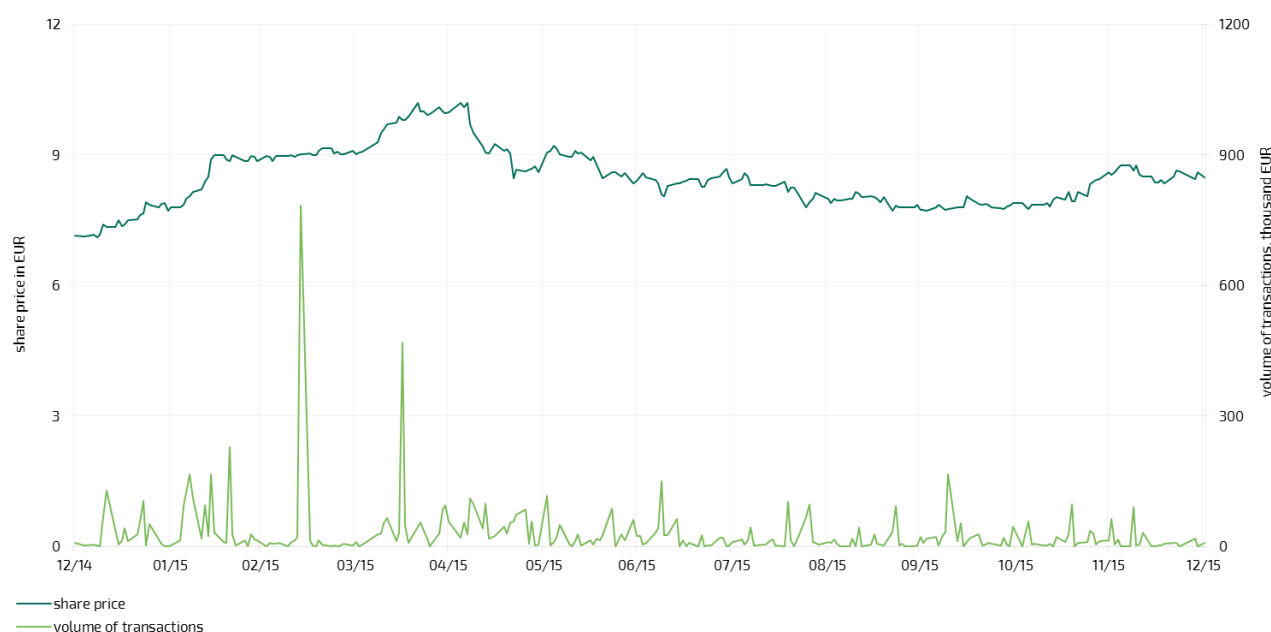
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRK1T
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

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

A total of 2,829 transactions were conducted with the shares of Merko Ehitus in 12 months of 2015, with 0.90 million shares (5.1% of total shares) traded, generating a turnover of EUR 7.71 million (comparable figures in 12 months 2014 were accordingly: 1,699 transactions with 1.03 million shares traded (5.8% of total shares) and generating a turnover of EUR 7.62 million). The lowest share price amounted to EUR 7.06 and the highest to EUR 10.50 per share (12 months of 2014: EUR 6.70 and EUR 7.99). The closing price of the share was EUR 8.48 on 31 December 2015 (31.12.2014: EUR 7.14). As at 31 December 2015, the market value of AS Merko Ehitus amounted to EUR 150.1 million, which has increased by 18.8% compared to the same period end last year (as at 31.12.2014: EUR 126.4 million).

	31.12.2015	31.12.2014	31.12.2013
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.53	0.70	0.59
Equity per share, euros	7.02	6.93	6.71
P/B ratio	1.21	1.03	1.07
P/E ratio	15.01	10.18	12.25
Market value, million EUR	150.1	126.4	127.4

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 31.12.2015

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	0.62%	2,817,098	15.92%
10,001 – 100,000	36	2.22%	1,070,076	6.04%
1,001-10,000	258	15.89%	714,329	4.04%
101-1,000	815	50.18%	328,773	1.86%
1-100	504	31.03%	27,038	0.15%
Total	1,624	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2015 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2015	% OF TOTAL 30.09.2015	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.	261,222	1.48%	1.52%	-7,900
Skandinaviska Enskilda Banken AB, Swedish customers	256,653	1.45%	1.33%	+20,432
Firebird Aurora Fund Ltd	220,519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Finnish customers	167,966	0.95%	0.96%	-2,676
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	145,020	0.82%	0.84%	-4,000
Clearstream Banking Luxembourg S.A. customers	141,709	0.80%	0.81%	-1,078
Total largest shareholders	15,458,623	87.34%	87.30%	+4,778
Total other shareholders	2,241,377	12.66%	12.70%	-4,778
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.

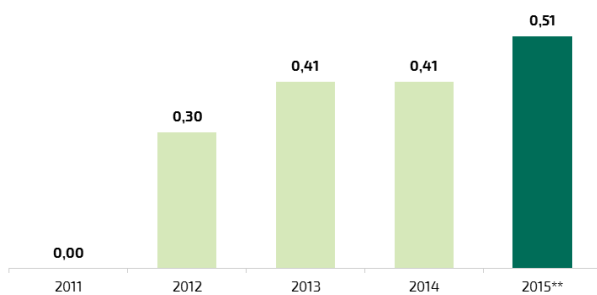
The annual general meeting of shareholders of AS Merko Ehitus held at 29 April 2015 approved the Supervisory Boards proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 58% dividend rate and a 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.

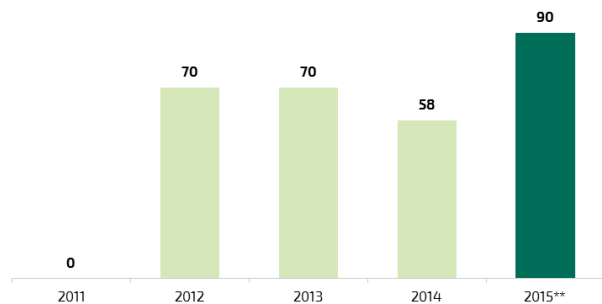
The Management Board proposes to pay the shareholders EUR 9.0 million as dividends from net profits brought forward (EUR 0.51 per share) in 2016, which is equivalent to a 90% dividend rate and a 6.0% dividend yield for the year 2015 (using the share price as at 31 December 2015). Taking into account the dividends already paid to the parent company and planned to be paid by foreign subsidiaries in early 2016, the group will incur income tax expenses of approximately EUR 1.0 million in 2016 in Estonia in connection with disbursement of dividends.

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

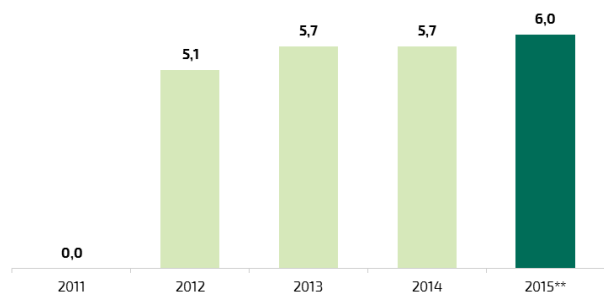
DIVIDEND PER SHARE
in euros



DIVIDEND RATE
percentages



DIVIDEND YIELD*
percentages



* Using share price as at 31.12

** 2015 figures based on Management Board proposal.

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

SHARE CAPITAL REDUCTION

The 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 was 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 was reduced by way of reducing the book value of the shares and as a result of the reduction the book value of one share was reduced from EUR 0.677966 to EUR 0.447966; the number of shares remained 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 amounts 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 was reduced in order to improve the group's capital structure and support return on equity. AS Merko Ehitus lacked the need to possess share capital in the previous amount and the requirements that legislation imposes on share capital are also 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 were 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 kapital.

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% and the payout ratio of 91% from 2014 profit.

CORPORATE GOVERNANCE

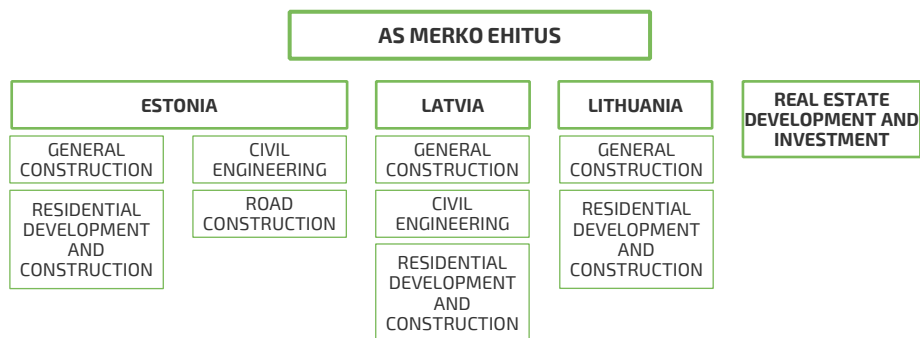
CORPORATE GOVERNANCE AND STRUCTURE

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 34-36 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee.

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



GROUP'S LEGAL STRUCTURE

As at 31 December 2015, the group comprises 43 companies (31.12.2014: 47). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

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. Post completion a monetary payment in the amount of EUR 41 thousand was processed according to the division plan.

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.

On 11 December 2015, the shareholders of OÜ Unigate, a 50%-owned joint venture of AS Merko Ehitus, resolved to increase the nominal value of the share of the joint venture by EUR 2 to EUR 6 thousand with the aim of bringing the company's share capital into line with the requirements arising from the Commercial Code. A monetary contribution of EUR 355 thousand was made by both shareholders, with the nominal value of the share capital amounting to EUR 1 and the share premium to EUR 354,9 thousand.

On 22 December 2015, AS Merko Tartu, a 100% subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, signed an agreement for the transfer of its entire 50% holding in the joint venture Kortermaja OÜ for the sales price of EUR 0,4 thousand and

earning a loss of EUR 2 thousand. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant companies.

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 (55) *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 group subsidiaries

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
 2015-... AS Pocopay, Member of the Management 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 speciality (summa cum laude).
Estonian Business School, international business administration.
Graduate of the INSEAD University (France), executive management programme.

Number of shares: 100



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 the Supervisory Board of Merko Ehitus Eesti AS, SIA Merks and UAB Merko Statyba

Education:

Tallinn University of Technology, industrial and civil engineering

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

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

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

Authorisation and responsibility of supervisory boards of subsidiaries of AS Merko Ehitus are based on their Articles of Association and intergroup rules. Generally, Supervisory Boards of subsidiaries consist of members of the Management Board and Supervisory

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

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

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

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

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

On 9 December 2015, the Supervisory Board of Tallinna Teede AS – the subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group – decided to extend the powers of the Member of the Management Board, Mr. Jüri Helila for three years, i.e. from 5 January 2016 till 4 January 2019. The Management Board of Tallinna Teede AS will continue in a former two-member panel: Mr. Jüri Läll (The Chairman) and Mr. Jüri Helila.

On 21 January 2016, the Supervisory Board of SIA Merks – part of AS Merko Ehitus group – decided to extend the powers of the Members of the Management Board, Mr. Oskars Ozoliņš and Mr. Janis Šperbergs for three years, i.e. from 2 February 2016 till 1 February 2019. The Management Board of SIA Merks will continue in a former two-member panel: Mr. Oskars Ozoliņš (The Chairman) and Mr. Janis Šperbergs.

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

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

Chairman of the Management Board



11.02.2016

Tõnu Toomik

Member of the Management Board



11.02.2016

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2015 12 months	2014 12 months	2015 IV quarter	2014 IV quarter
Revenue	2	251,012	252,323	66,448	70,086
Cost of goods sold	3	(228,044)	(227,591)	(58,749)	(61,612)
Gross profit		22,968	24,732	7,699	8,474
Marketing expenses		(3,230)	(3,190)	(883)	(900)
General and administrative expenses		(8,907)	(9,128)	(2,478)	(2,551)
Other operating income		1,943	1,901	595	636
Other operating expenses		(278)	(340)	(77)	(184)
Operating profit		12,496	13,975	4,856	5,475
Finance income/costs		(804)	(667)	(199)	(165)
incl. finance income/costs from joint ventures		(138)	(130)	(32)	(27)
finance income/costs from other long-term investments	3	2	2	2	1
interest expense		(756)	(662)	(181)	(180)
foreign exchange gain (loss)		(3)	(12)	(2)	(7)
other financial income (expenses)		90	135	14	48
Profit before tax		11,692	13,308	4,657	5,310
Corporate income tax expense		(1,857)	(1,055)	(386)	(497)
Net profit for financial year		9,835	12,253	4,271	4,813
incl. net profit attributable to equity holders of the parent		10,000	12,417	4,445	4,796
net profit attributable to non-controlling interest		(165)	(164)	(174)	17
Other comprehensive income					
Currency translation differences of foreign entities	2	4	4	1	4
Comprehensive income for the period		9,837	12,257	4,272	4,817
incl. net profit attributable to equity holders of the parent		10,002	12,421	4,446	4,800
net profit attributable to non-controlling interest		(165)	(164)	(174)	17
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.56	0.70	0.25	0.27

The notes set out on pages 44-57 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2015	31.12.2014
ASSETS			
Current assets			
Cash and cash equivalents	5	39,905	51,583
Trade and other receivables	6	24,854	46,382
Prepaid corporate income tax		421	3
Inventories	7	109,090	117,638
		174,270	215,606
Non-current assets			
Long-term financial assets	8	16,703	11,476
Deferred income tax assets		1,423	1,535
Investment property	9	4,371	4,619
Property, plant and equipment	10	13,442	15,003
Intangible assets	11	879	1,011
		36,818	33,644
TOTAL ASSETS		211,088	249,250
LIABILITIES			
Current liabilities			
Borrowings	12	5,525	14,287
Payables and prepayments	13	43,266	71,122
Income tax liability		711	352
Short-term provisions	14	5,013	6,239
		54,515	92,000
Non-current liabilities			
Long-term borrowings	12	25,660	23,359
Deferred income tax liability		788	738
Other long-term payables	15	1,159	1,671
		27,607	25,768
TOTAL LIABILITIES		82,122	117,768
EQUITY			
Non-controlling interests		3,268	4,455
Equity attributable to equity holders of the parent			
Share capital		7929	12,000
Statutory reserve capital		1,200	1,200
Currency translation differences		(663)	(665)
Retained earnings		117,232	114,492
		125,698	127,027
TOTAL EQUITY		128,966	131,482
TOTAL LIABILITIES AND EQUITY		211,088	249,250

The notes set out on pages 44-57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
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	-	-	-	12,417	12,417	(164)	12,253
Other comprehensive income	-	-	4	-	4	-	4
Total comprehensive income (loss) for the reporting period	-	-	4	12,417	12,421	(164)	12,257
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 31.12.2014	12,000	1,200	(665)	114,492	127,027	4,455	131,482
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	-	-	-	10,000	10,000	(165)	9,835
Other comprehensive income	-	-	2	-	2	-	2
Total comprehensive income (loss) for the reporting period	-	-	2	10,000	10,002	(165)	9,837
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 31.12.2015	7,929	1,200	(663)	117,232	125,698	3,268	128,966

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

The notes set out on pages 44-57 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2015 12 months	2014 12 months
Cash flows from (used in) operating activities			
Operating profit		12,496	13,975
Adjustments:			
Depreciation		3,004	2,459
(Profit)/loss from sale of non-current assets		(114)	(12)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		2,229	(180)
Interest income from operating activities		(1,592)	(1,571)
Change in provisions		(1,487)	1,298
Change in trade and other receivables related to operating activities		9,985	12,742
Change in inventories		10,936	(14,823)
Change in trade and other payables related to operating activities		(27,234)	316
Interest received		1,793	1,429
Interest paid		(857)	(938)
Other finance income and costs		(36)	(62)
Corporate income tax (paid)/reclaimed		(1,754)	(141)
Total cash flows from (used in) operating activities		7,369	14,492
Cash flows from investing activities			
Acquisition of subsidiaries	16	-	(407)
Proceeds from sale of subsidiary	16	-	(353)
Acquisition of joint venture		-	(6)
Increase of equity in joint venture		(355)	-
Purchase of investment property		-	(2)
Purchase of property, plant and equipment		(699)	(1,458)
Proceeds from sale of property, plant and equipment		311	95
Purchase of intangible assets		(116)	(25)
Repayments of loans granted		-	40
Interest received		97	177
Total cash flows from investing activities		(762)	(1,939)
Cash flows from (used in) financing activities			
Proceeds from borrowings		17,115	16,742
Repayments of borrowings		(21,846)	(16,043)
Finance lease principal payments		(2,186)	(1,076)
Proceeds from issues of shares of subsidiaries to non-controlling interest		1	38
Share capital reduction		(4,071)	-
Non-controlling interest buyout		(41)	-
Dividends paid		(7,257)	(7,257)
Total cash flows from (used in) financing activities		(18,285)	(7,596)
Net increase/decrease in cash and cash equivalents		(11,678)	4,957
Cash and cash equivalents at the beginning of the period	5	51,583	46,633
Effect of exchange rate changes		-	(7)
Cash and cash equivalents at the end of the period	5	39,905	51,583

The notes set out on pages 44-57 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months and IV quarter 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 12 months and IV quarter unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months and IV quarter 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 12-month and IV 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 12 months	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	117,983	72,155	95,528	285,666
Inter-segment revenue	(9,377)	(134)	(25,143)	(34,654)
Revenue from external clients	108,606	72,021	70,385	251,012
Gross profit (-loss)	10,389	4,831	7,748	22,968
Segment pre-tax profit (loss)	10,381	4,830	8,886	24,097
incl. interest income from operating activities	-	-	1,516	1,516
depreciation (Note 3)	(2,010)	(31)	(302)	(2,343)
impairment of inventories (Note 3)	-	-	(1,058)	(1,058)
setting up of provisions (Note 3)	(919)	(1,326)	(876)	(3,121)
loss on joint ventures	(19)	-	(119)	(138)
other finance income (costs)	(63)	-	(253)	(316)
incl. interest income	-	-	3	3
interest expenses	(63)	-	(252)	(315)
Segment assets 31.12.2015	31,971	8,834	133,202	174,007
incl. joint ventures (Note 8)	-	-	284	284
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
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

2015 IV quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	29,495	13,173	30,937	73,605
Inter-segment revenue	(927)	(38)	(6,192)	(7,157)
Revenue from external clients	28,568	13,135	24,745	66,448
Gross profit (-loss)	2,715	2,291	2,693	7,699
Segment pre-tax profit (loss)	2,715	2,290	3,023	8,028
incl. interest income from operating activities	-	-	355	355
depreciation (Note 3)	(488)	(6)	(79)	(573)
impairment of inventories (Note 3)	-	-	(1,058)	(1,058)
setting up of provisions (Note 3)	(353)	(860)	(770)	(1,983)
loss on joint ventures	1	-	(33)	(32)
other finance income (costs)	(11)	-	(2)	(13)
incl. interest income	-	-	1	1
interest expenses	(11)	-	-	(11)
Segment assets change in IV quarter	(13,611)	(12,094)	(6,831)	(32,536)
incl. joint ventures	-	-	276	276
2014 IV quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	34,265	18,190	27,105	79,560
Inter-segment revenue	(1,678)	(23)	(7,773)	(9,474)
Revenue from external clients	32,587	18,167	19,332	70,086
Gross profit (-loss)	4,149	565	3,760	8,474
Segment pre-tax profit (loss)	4,053	565	4,130	8,748
incl. interest income from operating activities	8	-	482	490
depreciation (Note 3)	(549)	(8)	(75)	(632)
impairment of inventories (Note 3)	-	-	(400)	(400)
reversal of impairment of inventories (Note 3)	-	-	850	850
setting up of provisions (Note 3)	702	(1,259)	(260)	(817)
loss on joint ventures	1	-	(28)	(27)
other finance income (costs)	(18)	-	(69)	(87)
incl. interest income	-	-	2	2
interest expenses	(18)	-	(72)	(90)
Segment assets change in IV quarter	(12,236)	(5,333)	(2,460)	(20,029)
incl. joint ventures	1	-	(23)	(22)

In addition to the segment assets, as at 31.12.2015 the group holds assets in the amount of EUR 37,081 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 12 months	2014 12 months	2015 IV quarter	2014 IV quarter
Pre-tax profit from reporting segments	24,097	25,812	8,028	5,587
Unallocated income (expense)				
marketing expenses	(3,230)	(3,190)	(883)	(812)
general and administrative expenses	(8,907)	(9,128)	(2,478)	(2,219)
incl. setting up of provisions	(115)	(56)	(115)	(27)
cancellation of provisions	172	-	172	-
other operating income (expense)	82	-	144	23
incl. interest income from operating activities	76	-	32	-
finance income (costs)	(350)	(186)	(154)	(130)
incl. interest income	118	126	19	(16)
interest expenses	(441)	(294)	(170)	(196)
Total profit before tax	11,692	13,308	4,657	2,449

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2015 12 months		2014 12 months		2015 IV quarter		2014 IV quarter	
Estonia	154,809	62%	170,649	68%	45,706	69%	45,950	65%
Latvia	65,226	26%	68,632	27%	9,437	14%	20,839	30%
Lithuania	28,134	11%	12,956	5%	10,927	16%	3,297	5%
Finland	2,843	1%	86	0%	378	1%	-	0%
Total	251,012	100%	252,323	100%	66,448	100%	70,086	100%

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

in thousand euros

	31.12.2015	31.12.2014
Estonia	18,200	20,045
Latvia	473	556
Lithuania	19	32
Total	18,692	20,633

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2015 12 months	2014 12 months	2015 IV quarter	2014 IV quarter
Construction services and properties purchased for resale	142,961	132,207	37,524	40,933
Materials	35,382	44,214	6,790	9,030
Labour costs	22,514	21,804	5,963	5,554
Construction mechanisms and transport	9,079	9,228	2,092	2,552
Design	2,158	2,974	660	325
Real estate management costs	227	181	61	31
Depreciation	2,343	2,025	573	632
Impairment of inventories	1,058	400	1,058	400
Reversal of impairment of inventories	-	(850)	-	(850)
Provisions	3,121	4,464	1,983	817
Other expenses	9,201	10,944	2,045	2,188
Total cost of goods sold	228,044	227,591	58,749	61,612

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 12 months	2014 12 months	2015 IV quarter	2014 IV quarter
Net profit(-loss) attributable to shareholders (in thousand EUR)	10,000	12,417	4,445	4,796
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0.56	0.70	0.25	0.27

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 31.12.2015, the parent company AS Merko Ehitus has EUR 0 thousand (31.12.2014: EUR 2,181 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.12.2015, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 93,255 thousand (31.12.2014: EUR 91,498 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 0 thousand (31.12.2014: EUR 545 thousand), the corresponding income tax on dividends would amount to EUR 23,314 thousand (31.12.2014: EUR 22,329 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2015 was used, which is 20/80 (it was 21/79 in 2014) of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2015	31.12.2014
Cash on hand	4	8
Bank accounts	32,667	41,588
Overnight deposits	7,234	9,987
Total cash and cash equivalents	39,905	51,583

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2015	31.12.2014
Trade receivables		
Accounts receivable	15,431	28,384
Allowance for doubtful receivables	(326)	(728)
	15,105	27,656
Tax prepayments excluding corporate income tax		
Value added tax	887	629
Other taxes	35	19
	922	648
Amounts due from customers of contract works	3,948	10,291
Other short-term receivables		
Short-term loans	1,432	2,178
Interest receivables	200	394
Other short-term receivables	617	729
	2,249	3,301
Prepayments for services		
Prepayments for construction services	2,036	3,946
Prepaid insurance	275	213
Other prepaid expenses	319	327
	2,630	4,486
Total trade and other receivables	24,854	46,382
incl. short-term loan receivables from related parties (Note 16)	1,432	1,415
other short-term receivables and prepayments to related parties (Note 16)	541	415

NOTE 7 INVENTORIES

in thousand euros

	31.12.2015	31.12.2014
Materials	600	681
Work-in-progress	28,397	21,305
Finished goods	19,603	37,846
Goods for resale		
Registered immovables purchased for resale	58,029	55,186
Other goods purchased for resale	790	837
	58,819	56,023
Prepayments for inventories		
Prepayments for real estate properties	1,086	1,086
Prepayments for other inventories	585	697
	1,671	1,783
Total inventories	109,090	117,638

As at 31.12.2015, OÜ Rannamõisa Kinnisvara land is recognised at fair value as registered immovables purchased for resale in the amount EUR 3,261 thousand (Note 16).

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.12.2015	31.12.2014
Investments joint ventures	284	67
Long-term loans	3,956	360
Long-term bank deposit	37	37
Long-term interest	7	4
Long-term receivables from customers of construction services	12,419	11,008
Total other long-term loans and receivables	16,703	11,476
incl. long-term loan receivables from related parties (Note 16)	2,456	364
other long-term receivables from related parties (Note 16)	7	4

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2015	31.12.2014
Land	51	51
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(10)	(10)
	19	19
Buildings at carrying amount		
Cost	5,245	5,245
Accumulated depreciation	(944)	(696)
	4,301	4,549
Total investment property	4,471	4,619

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2015	31.12.2014
Land	824	824
Buildings at carrying amount		
Cost	5,725	5,726
Accumulated depreciation	(1,806)	(1,628)
	3,919	4,098
Machinery and equipment at carrying amount		
Cost	18,910	18,888
Accumulated depreciation	(11,314)	(10,042)
	7,596	8,846
Other fixtures at carrying amount		
Cost	5,141	5,270
Accumulated depreciation	(4,094)	(4,060)
	1,047	1,210
Prepayments for property, plant and equipment	56	25
Total property, plant and equipment	13,442	15,003

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2015	31.12.2014
Goodwill		
Cost	891	891
Impairment	(267)	(178)
	624	713
Software at carrying amount		
Cost	1 075	1,155
Accumulated depreciation	(920)	(857)
	155	298
Prepayments for intangible assets	100	-
Total intangible assets	879	1,011

NOTE 12 BORROWINGS

in thousand euros

	31.12.2015	31.12.2014
Finance lease payables		
Present value of lease payments	2,704	4,434
incl. current portion	912	1,660
non-current portion 1...4 years	1,792	2,774
Bank loans		
Loan balance	19,403	24,049
incl. current portion	2,535	3,566
non-current portion 1...5 years	16,868	20,483
Loans from entities under common control		
Loan balance	8,000	8,145
incl. current portion (Note 16)	1,000	8,145
non-current portion 1...5 years (Note 16)	7,000	
Loans from management members	-	102
incl. non-current portion 1...5 years (Note 16)	-	102
Loans from other entities		
Loan balance	1,078	916
incl. current portion	1,078	916
Total loans		
Loans balance	28,481	33,212
incl. current portion	4,613	12,627
non-current portion 1...5 years	23,868	20,585
Total borrowings	31,185	37,646
incl. current portion	5,525	14,287
non-current portion 1...5 years	25,660	23,359

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2015	31.12.2014
Trade payables	16,325	21,303
Payables to employees	8,122	8,359
Tax liabilities, except for corporate income tax		
Value added tax	2,005	1,457
Personal income tax	490	468
Social security tax	908	902
Unemployment insurance tax	56	59
Contributions to mandatory funded pension	45	42
Other taxes	96	106
	3,600	3,034
Amounts due to customers for contract works	4,575	8,690
Other liabilities		
Interest liabilities	143	136
Payable for registered immovables from demerger	-	4,026
Other liabilities	3,527	494
	3,670	4,656
Prepayments received	6,974	25,080
Total payables and prepayments	43,266	71,122
incl. payables to related parties (Note 16)	3,273	5,859

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2015	31.12.2014
Provision for warranty obligation for construction	2,378	2,096
Provision for costs of projects sold	2,120	1,838
Provision for onerous construction contracts	392	2,079
Provision for legal costs and claims filed	100	172
Other provisions	23	54
Total short-term provisions	5,013	6,239

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2015	31.12.2014
Trade payables	1,159	1,644
Long-term Interest liabilities	-	13
Other long-term liabilities	-	14
Other long-term payables total	1,159	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 31.12.2015 and 31.12.2014, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2015	31.12.2014		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
OÜ Tevener	-	100	Estonia, Tallinn	Mining
AS Vooremaa Teed	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	Estonia, Tallinn	Construction
AS Gustaf	100	100	Estonia, Pärnu	Construction
AS Merko Tartu	100	66	Estonia, Tartu	Construction
OÜ Raadi Kortermaja	-	100	Estonia, Tartu	Real estate
OÜ Fort Ehitus	75	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	100	100	Estonia, Tallinn	Real estate
OÜ Rannamõisa Kinnisvara	100	-	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas (ex. UAB Merko Inžinerija)	100	100	Lithuania, Vilnius	Construction
OÜ Merko Property	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	Lithuania, Vilnius	Real estate
UAB Kražiu Projektas	-	100	Lithuania, Vilnius	Real estate
UAB VPSP1	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	Lithuania, Vilnius	Real estate
Ringtee Tehnopark OÜ	-	100	Estonia, Tallinn	Construction
OÜ Jõgeva Haldus	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	Estonia, Tallinn	Real estate
OÜ Maryplus	-	100	Estonia, Tallinn	Real estate
OÜ Constancia	-	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %		Location	Area of operation
	31.12.2015	31.12.2014		
SIA Industrijas Parks	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	Latvia, Riga	Real estate
Merko Finland Oy	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	Russia, St. Petersburg	Construction
Joint ventures				
OÜ Unigate	50	50	Estonia, Tallinn	Real estate
Poolkoksimee Sulgemise OÜ	50	50	Estonia, Tallinn	Construction
OÜ Kortermaja	-	50	Estonia, Tartu	Real estate
SIA Zakusala Estates	-	-	Latvia, Riga	Real estate
Kivimee 32 OÜ	50	50	Estonia, Tallinn	Real estate
Kodusadam OÜ (ex. Kalaranna Arendus 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 demerger. 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. Post completion a monetary payment in the amount of EUR 41 thousand was processed according to the division plan.

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.

On 11 December 2015, the shareholders of OÜ Unigate, a 50%-owned joint venture of AS Merko Ehitus, resolved to increase the nominal value of the share of the joint venture by EUR 2 to EUR 6 thousand with the aim of bringing the company's share capital into line with the requirements arising from the Commercial Code. A monetary contribution of EUR 355 thousand was made by both shareholders, with the nominal value of the share capital amounting to EUR 1 and the share premium to EUR 354,9 thousand.

On 22 December 2015, AS Merko Tartu, a 100% subsidiary of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, signed an agreement for the transfer of its entire 50% holding in the joint venture Kortermaja OÜ for the sales price of EUR 0,4 thousand and earning a loss of EUR 2 thousand. The holding was transferred with the purpose of re-arranging the structure of the group companies and reducing holdings in non-significant companies.

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	(129)	
Net loss after the acquisition	(116)	

GOODS AND SERVICES

in thousand euros

	2015 12 months	2014 12 months
Provided services		
Parent company	12	10
Joint ventures	530	297
Entities under common control	49	1,293
Members of the management	1,837	130
Total services provided	2,428	1,730
Interest income		
Joint ventures	171	118
Purchased services and materials		
Parent company	90	90
Entities under common control	125	123
Other related parties	6	-
Total purchased services and materials	221	213
Interest expense		
Entities under common control	201	124
Members of the management	2	5
Total interest expense	203	129

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2015	31.12.2014
Receivables from related parties		
Loans granted (Notes 6, 8)		
Joint ventures	3,888	1,775
Receivables and prepayments (Note 6)		
Parent company	4	3
Joint ventures	536	409
Entities under common control	1	7
Total receivables and prepayments	541	419
Other long-term receivables (Note 8)		
Joint ventures	7	4
Total receivables from related parties	4,436	2,194
Payables to related parties		
Loans received (Note 12)		
Entities under common control	1,000	8,145
Other related parties	-	102
Total loans received	1,000	8,247
Payables and prepayments (Note 13)		
Parent company	9	9
Entities under common control	3,264	4,039
Members of the management	-	1,811
Total payables and prepayments	3,273	5,859
Other long-term payables (Note 12)		
Entities under common control	7,000	-
Total payables to related parties	11,273	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 12 months of 2015 was EUR 2,191 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 12 months of 2015, the Management Board members of major subsidiaries received EUR 18 thousand in compensation (12 months of 2014: EUR 58 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.12.2015:

		NO OF SHARES	% OF SHARES
Toomas Annus (AS Riverito)	Chairman of the Supervisory Board	8,322,914	47.02%
Indrek Neivelt (OÜ Trust IN)	Member of the Supervisory Board	31,635	0.18%
Olari Taal (OÜ Eggera)	Member of the Supervisory Board	2,500	0.01%
Teet Roopalu	Member of the Supervisory Board	-	0.00%
		8,357,049	47.21%

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.12.2015:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	100	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,285	9.08%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.12.2015	31.12.2014
Performance period's warranty to the customer	9,174	17,439
Tender warranty	745	401
Guarantee warranty period	23,988	19,110
Prepayment guarantee	2,336	7,711
Payment guarantee	30,500	-
Contracts of surety	654	311
Letter of credit	2,000	1,710
Total contingent liabilities	69,397	46,682

The "Payment guarantee" entry includes a payment guarantee for the benefit of a financial institution, issued within the framework of a contract for construction entered into in the fourth quarter of 2015, in order to secure the customer's contractual payment obligations in the total amount of up to EUR 30,500 thousand. The realisation of the payment guarantee is not considered likely by the group. In order to secure the payment guarantee, a second-rank mortgage on the registered immovable accommodating the building to be constructed within the framework of the contract for construction has been established for the benefit of the group in the total amount of EUR 8,500 thousand.

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

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

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

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

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

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

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 12 months and IV quarter of 2015, which are set out on pages 5-57.

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



11.02.2016

Tõnu Toomik

Member of the Management Board



11.02.2016