

The logo consists of a green stylized 'M' symbol above the text 'merko' and '2015' in a bold, black, sans-serif font.

merko
2015

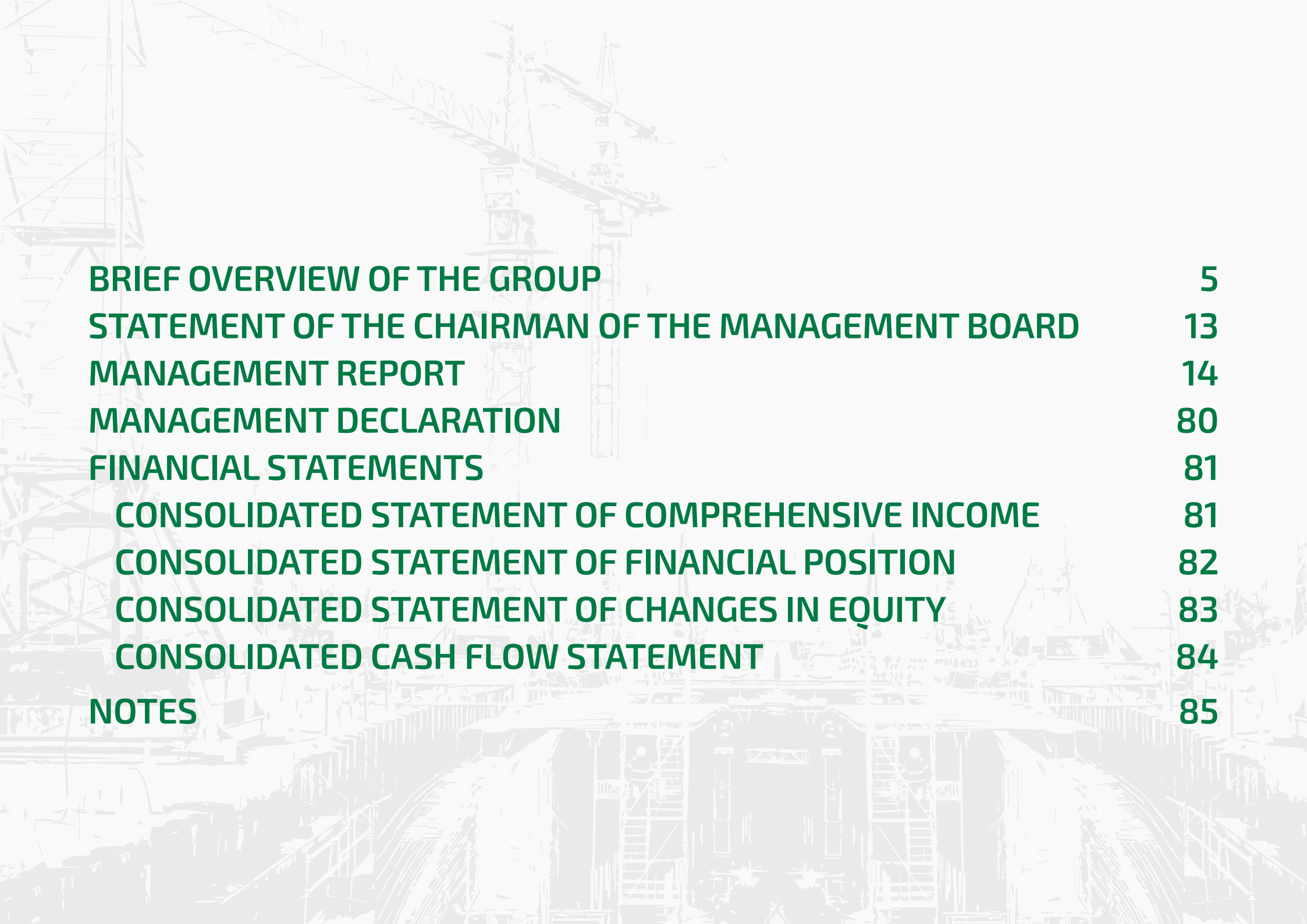




AS MERKO EHITUS GROUP

Consolidated Annual Report
01.01.2015 - 31.12.2015

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



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AS Merko Ehitus consists of Estonia's leading construction company AS Merko Ehitus Eesti, the Latvian-market-oriented SIA Merks, UAB Merko Statyba that is operating on the Lithuanian market and the real estate development business unit along with real estate holding companies. Merko Ehitus focuses on general contracting of construction and on providing complete solutions in professional construction and real estate development. 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.

Wide scope of construction services: general construction, civil engineering, road construction and real estate projects.



The largest listed construction company in the Baltics

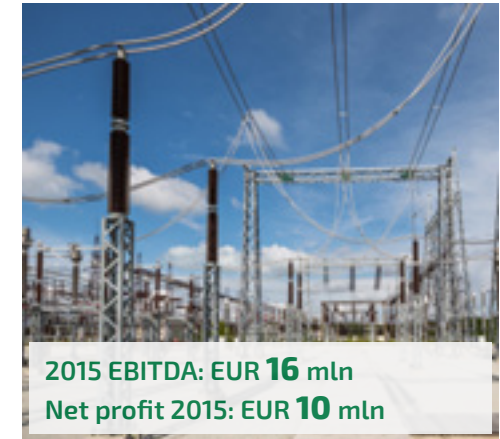


2015 revenue: EUR **251** mln



MERKO'S COMPETITIVE ADVANTAGES:

- Broad range of construction services and products, and comprehensive solutions offered to clients
- Experienced project managers and engineers
- Longstanding experience on the subcontractors and suppliers market
- Innovative technological approaches and construction solutions
- Strong financial capability
- Inventory of residential development projects



2015 EBITDA: EUR **16** mln
Net profit 2015: EUR **10** mln

31.12.2015: **791** employees



2015 NEW CONTRACTS SIGNED: EUR **247** mln



OUR VALUE OFFERING

AS PRIME CONTRACTOR, WE OVERSEE THE ENTIRE CONSTRUCTION PROCESS AND ARE RESPONSIBLE FOR THE COMPLETION OF THE CONSTRUCTION PROJECT AS A WHOLE:

- Integrated project management and construction service and provision of strategic consultation to the contracting entity throughout the process
- As needed, combined use of subcontractors and Merko workforce (concrete works, road construction, electrical constructions both indoor and outdoor)
- Real estate investments and development, managing the entire apartment development process: development, construction and sales
- Co-investing, risk distribution and participation in PPP (public-private partnership) projects

MAIN EVENTS IN 2015

JANUARY

- AS Merko Ehitus launches the first phase of construction in the Tartu road 52 apartment development project in central Tallinn. In this phase, 103 apartments in three of an eventual five apartment buildings will be built, along with the underground parking garage that will connect all of the buildings. Completion of the first phase is scheduled for the end of 2016.
- One of the most prestigious residential properties in Tallinn is completed at Kentmanni 6. The lower two aboveground storeys of the 14-storey building house commercial spaces, while the upstairs storeys have 92 exclusive apartments.
- SIA Merks delivers the completed Polipaks factory building. The construction works were performed on an area of 67,000 m² and many complicated engineering solutions were used in construction of the building.



- The Nasdaq Baltic Markets name AS Merko Ehitus as the company with the third-best investor relations in the Baltic states and the company with the region's second-best e-relations with investors.

FEBRUARY

- The operation to close the Kohtla-Järve industrial waste and semi-coke dump in north-eastern Estonia is completed. In the process, a hill of mine waste amounting to



6 million m³ was relocated, 84 hectares were replanted, a rainwater collection system more than 8 km long was installed, and 2.5-hectare lakes containing liquid oil shale mining residues were closed.

- SIA Merks and SIA Vastint Latvia enter into a construction contract for a six-storey multifunctional building at Antonijas iela 17A, Riga. The works include the construction of two apartment buildings connected to each other via the ground floor. The contract is valued at approximately EUR 11.4 million.

MARCH

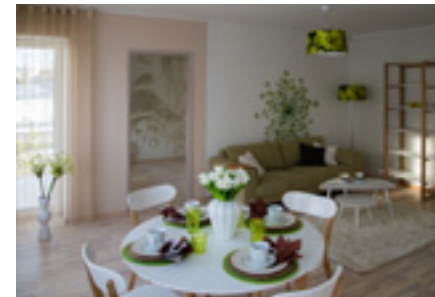


- The Estonian Concrete Association announces the winner of the Concrete Building of the Year 2014 award – the multifunctional Tondiraba Ice Arena, built in the space of 14 months by AS Merko Ehitus Eesti.

APRIL

- Kalaranna Arenduse OÜ (now Kodusadam OÜ), part of the AS Merko Ehitus Group and BLRT Grupp Aktsiaselts enter into an agreement for the purpose of acquiring

commercial and residential real estate at Staaplist. 3, 4, 8 and 12 in Tallinn and transport land at Staapli st. T1 and T2. The Noblessneri Quarter, which has a distinguished history, is to be site of an apartment development unique in Estonia. Four apartment buildings with nearly 200 apartments and commercial space will go up on the shoreline next to the Noblessneri Marina.



- AS Merko Ehitus launches the fifth stage of the Paepargi residential development in the Lasnamäe district of Tallinn, encompassing three 4-storey buildings at Paepargi 29, 31 and 33, each one with 19 apartments.
- OÜ Fort Ehitus AS, a subsidiary of Merko Ehitus group company AS Merko Ehitus Eesti enters into a contract for services with Keski-Suomen Betonirakenne OY for pile foundation work on the Tripla development project in Helsinki, Finland. The contract is for construction of a pile wall and is valued at approximately EUR 3.0 million.
- The general meeting of shareholders approves the 2014 annual report, with net profit of EUR 12.4 million, and decides to pay shareholders dividends of EUR 0.41 per share. It is also decided to reduce share capital by EUR 0.23 per share and confirm AS Pricewaterhouse Coopers as AS Merko Ehitus' auditor for FY 2015–2017.

MAY

- AS Merko Ehitus releases its financial results for Q1: Three-month revenue stands at EUR 45.6 million and net profit is EUR 0.8 million.
- AS Merko Ehitus launches the development of an apartment building at Jahu st. 1A in the Kalamaja district of Tallinn. Featuring distinctive architecture, the 37-unit building is scheduled for completion by summer 2016.
- AS Merko Ehitus Eesti and OÜ T6A enter into a contract for project management services for design and construction of a residential/commercial building at Tatari st. 6a in Tallinn. The contract covers design and construction of a seven-storey, 40-apartment building including infrastructure works. The contract is valued at approximately EUR 6 million.



- AS Merko Ehitus Eesti and a 93% subsidiary of the OÜ Pro Kapital Grupp Invest, AS Tallinna Moekombinaat, enter into a contract for design and construction of the T1 shopping and entertainment centre located at Peterburi road 2, Tallinn. The building's gross area is about 130,000 m². The estimated cost of the centre is EUR 70 million.

MAIN EVENTS IN 2015

JUNE

- Merko Ehitus enters into a five-year cooperation agreement with the Estonian Union of Architects, which each year will hand out an award to a deserving architect. Peeter Pere is the first architect to be chosen for the honour.
- AS Merko Ehitus Eesti and OÜ Poordi 1, which is managed by the Trigon Capital team, enter into a contract for design and construction of a residential/commercial building at Poordi 1, Tallinn. The contract covers construction of the building along with infrastructure works. The contract is valued at approximately EUR 5 million.



- UAB Merko Bustas starts construction of an apartment building in downtown Vilnius at Krokuvos 73. The six-storey building with 98 apartments is being built in a commercial district near Konstitucijos street, where various office buildings are also being built, creating thousands of new working places.

JULY

- UAB Merko Statyba and GE Wind Energy GmbH enter into a contract for performance of construction work at Šilute wind farm in Lithuania. Under the contract, UAB Merko Statyba will build 24 reinforced concrete wind generator foundations. The contract is valued at EUR 6.5 million.

- AS Merko Ehitus Eesti subsidiary AS Merko Tartu launches the Kaupmehe apartment development, including three apartment buildings with a total of 90 apartments. The company launches construction of the first building.

AUGUST

- AS Vooremaa Teed, which is part of the AS Merko Ehitus group, enters into an agreement with the Road Administration to perform road maintenance on state roads in Viljandi County from 2016–2020.
- AS Merko Ehitus releases its H1 and Q2 results: the sales revenue for the first half of the year is EUR 116.2 million and net profit is 2.4 million, while the Q2 figures are EUR 70.6 million and 1.6 million, respectively.

SEPTEMBER

- The modern Meriküla waste water treatment plant is completed in Muraste, Harku County, ensuring the households in the growing area with the required level of service. Thanks to the new plant, the water routed into Kakumäe Bay is significantly cleaner and meets the requirements of efflux set forth in the permit for special use of water.
- Merko Ehitus signs a three-year cooperation agreement with the Estonian Tennis Association. Merko is focusing on support for Estonian pro tennis and international tournaments, including investing into the development of the top men's tennis player, Jürgen Zopp, and the Merko Estonian Open held in Pärnu.
- Merko is continuing to support Estonian skiing and skiers, becoming the first major sponsor of Team Haanja, a non-profit foundation founded by eight Estonian skiers.

- AS Merko Ehitus launches the development of an apartment building at Sõpruse avenue 33 in the Kristiine district of Tallinn. The building has 51 spacious family apartments, complete with balconies and terraces.
- The world's leading business and investment magazine, Euromoney, names Merko as Estonia's best real estate developer. Merko also gets top spot in the Latvian residential real estate developer category.



- The Dzintaru II apartment buildings in Jurmala are completed. Park Residences, a complex of buildings on Dzintaru avenue, consists of three 4-storey buildings with a total of 66 apartments.

OCTOBER

- AS Merko Ehitus wins the award for Estonia's most competitive large company, and for the fourth year in a row, the Estonia's most competitive construction company.
- The Tallinn tram line no. 4 infrastructure refit is completed. This is a major project aimed at modernizing tram traffic and the city's infrastructure and making it faster and more environmentally friendly to get from Tondi and Lasnamäe districts to the city centre. The work was performed by a consortium of AS Merko Ehitus Eesti, KMG Inseneriehituse AS and Ratatek OY.
- The B energy class apartment building at Rästa 18 in Tallinn is completed, with 47

apartments and 4 commercial spaces.

- SIA Merks and SIA LMH enter into a contract for performing construction on a school complex in Pinki near Riga. The construction encompasses a 2-storey school building and 3-storey preschool complex connected to each other by a walkway. The contract is valued at approximately EUR 6.0 million.
- AS Merko Ehitus Eesti and EKEREPO OÜ, part of the EKE Invest AS group, enter into a contract for design and construction of a residential/commercial building at Mustamäe tee 3 and 3A, Tallinn. Telecom company Telia Eesti AS becomes the anchor tenant of the 14-storey building. The gross area of the office building constructed and the parking garage is 16,000 m². The contract is valued at approximately EUR 10.6 million.



- The city of Narva's water treatment plant is completed, ensuring quality drinking water to close to 60,000 Narva residents. Merko performed the general construction in renovating the Mustajõe water intake and building the new treatment plant; Denmark's Krüger AS was responsible for the technology.
- SIA Merks launches the Skanstes Parks apartment development in Riga's Skanstes neighbourhood. It consists of three buildings with around 140 apartments. The company launches construction of the first building, which has 52 apartments, at the address Grostonas 12.

MAIN EVENTS IN 2015

- SIA Merks completes engineering works in the Mežaparks part of the city, including construction of a noise barrier and technical networks, roads and landscaping.



- Liepājas Dzintars, a multifunctional centre built by SIA Merks, is completed. The complex architectural design won acclaim throughout the Baltics and elsewhere. The core of the eight-storey concert hall is a concert hall seating 1,200.
- In the first stage of the Fizikų Namai apartment development in Vilnius, 38 apartments are completed in a 5-storey building. The apartments are characterized by a heat-exchanger ventilation – a system that has seen little use up to now by developers of Lithuanian apartment buildings – wood-frame windows, open floor plans and balconies with ample natural light.

NOVEMBER

- Merko celebrates its 25th anniversary on 5th November. A look back at the activities and most complex projects is published in the book.
- A consortium consisting of AS Merko Ehitus Eesti and KMG Inseneriehituse AS and Tallinna Linnatranspordi AS signs a contract for performing design and construction of the Tallinn airport tram line. Under the contract, a tunnel underneath the railway

and Suur-Sõjamäe street to Keevise street is built from the tram turnaround loop near Ülemiste railway station. A new tram line extension will be built along Keevise street to the airport area, where a new tram turnaround loop will be built. The contract is valued at approximately EUR 11.5 million.

- Merko Ehitus Eesti and Tallinn University of Technology Development Fund issue their scholarships for 2015.
- AS Merko Ehitus releases its 9-month and Q3 results: the sales revenue for the first nine months is EUR 184.6 million and net profit is 5.6 million, while the Q3 figures are EUR 68.4 million and 3.1 million, respectively.
- AS Merko Ehitus launches the development of the Kivimäe 32 apartment development in Nõmme district of Tallinn. Two 3-storey buildings will be built. The two buildings will have a total 24 light-filled apartments.
- AS Merko Tartu launches construction of the second apartment building in the Kaupmehe development. The project consists of three buildings and 90 apartments.



- AS Merko Ehitus launches the second phase of construction in the Tartu road 52 apartment development project in central Tallinn. In this phase, two apartment buildings with 82 apartments will be built on the Lastekodu street side of the complex. The full project will be completed in 2017.



- AS Merko Ehitus Eesti and Maakri Kvartal OÜ enter into a design and construction contract for the Maakri Kvartal office building complex in the heart of Tallinn, on Maakri st. 19/21. The complex consists of a total of seven buildings: a 30-storey high-rise, a 10-storey and a 4-storey building. Four 3-4-storey architectural monuments from the early 20th century will also be renovated. Maakri Kvartal has a total of almost 36,000 m² of gross space. The construction contract is valued at close to EUR 30 million.
- AS Merko Infra completes work on the Jõhvi-Ida 35/6 regional substation along with switchgear facility and roads and lots, commissioned by Elektrilevi, the distribution grid company.



- NordBalt's HVDC Connection is completed in Lithuania – a converter substation in Klaipeda where UAB Merko Statyba was engaged in general construction on a Lithuanian transformer substation. The objective of the NordBalt project is to establish a connection between the Lithuanian and Swedish energy transmission systems. The connection is rated at 700 MW and the length is 450 km. The connector consists of high voltage direct current cables running undersea and

underground, and Lithuanian and Swedish transformer substations.

DECEMBER

- UAB Merko Statyba and E.L.L. Kinnisvara AS subsidiary UAB E.L.L. Nekilnojamās Turtas conclude a construction contract for building an office building at Narbuto 5, Vilnius. The class A energy performance building has more than 4600 m² space to lease. The building has six aboveground storeys and two underground parking levels. The office building is seeking BREEAM certification. The contract is valued at approximately EUR 8.5 million.
- SIA Merks and Riga International Airport enter into a contract for performing the second phase of construction in the Riga International Airport passenger terminal. The contract covers interior and exterior finishing in the passenger terminal currently in progress. In addition, the construction works include hooking up the site to infrastructure and purchase and installation of equipment in the terminal. The contract is valued at approximately EUR 8.9 million.



- The fourth stage of the Paepargi apartment development project is completed – the first of three high-rises at Paepargi 49. The 14-storey building has 60 apartments with scenic views.

*Construction contract figures do not include VAT.



THE MULTIFUNCTIONAL CENTRE "LIEPĀJAS DZINTARS" WITH AN INTERESTING ARCHITECTURE AND THE MOST CONTEMPORARY CONCERT HALL SOLUTIONS IN EUROPE, CONSTRUCTED BY SIA MERKS IN LIEPĀJA, WAS OPENED IN NOVEMBER 2015. THE CONCERT HALL WITH 1,200 SEATS CAN BE USED FOR BOTH CLASSICAL MUSIC CONCERTS AS WELL AS FOR DANCE EVENTS; CORPORATE CELEBRATIONS, ROCK AND POP CONCERTS. THE CONCEPT OF THE CONCERT HALL INVOLVES A SO-CALLED „EGG WITHIN AN EGG" DESIGN SOLUTION – THE CONCERT HALL IS SUSPENDED TO THE ENTIRE FRAMEWORK OF THE BUILDING AND THE BEARING FRAMEWORK IS MADE OF STRUCTURE STEEL FRAMING, CREATING THE IMPRESSION THAT ONE BUILDING HAS BEEN INSERTED INTO ANOTHER.

BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and in residential real estate development and on providing complete solutions in professional construction and real estate development in its home markets Estonia, Latvia and Lithuania. Long-term experience in various countries, a wide scope of construction services, flexibility, reliability and meeting the deadlines and primarily quality have helped group companies to achieve a strong position in the Baltics. Depending on the requirements of the contracting entities, the group companies perform both large scale, complicated and innovative projects as well as small-scale construction works, with a focus on general contracting and project management. Merko Ehitus is among the leading residential construction companies in the Baltic States.

Holding company AS Merko Ehitus is responsible for the development and implementation of the strategies of various group companies primarily through allocation and long-term planning of resources. The shares of Merko have been listed on the Tallinn Stock Exchange since 1997. The group employs 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 about 4% of the total volume of the Estonian construction market as of the end of year 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.



OUR MISSION IS TO ESTABLISH AN INTEGRAL ENVIRONMENT. WE ARE PROUD OF THE FACT THAT WE HAVE BUILT HOMES FOR THOUSANDS OF FAMILIES IN THE BALTIC COUNTRIES. PHOTO: THE APARTMENT BUILDING AT KENTMANNI 6.

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 FOCUSED 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 of AS Merko Ehitus 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.



DURING THE TWO YEARS OF THE CONSTRUCTION OF THE TRAM TRACKS OF TALLINN TRAM LINE NO. 4, THE TRAM TRACKS AND THE DEPOT SIDINGS ON THE PÄRNU HIGHWAY WERE RECONSTRUCTED ALONG WITH THE TRANSFER OF THE TRACKS ONTO A CONCRETE FOUNDATION; THE POWER TRANSMISSION GRID FROM TONDI TO ÜLEMISTE AND KADRIORG WAS REPLACED AND SIX TRACTION SUBSTATIONS WERE RECONSTRUCTED. IN ADDITION, AN EXTENSION TO THE TRAM LINE, INCLUDING A U-TURN CIRCUIT FOR TRAMS WAS ADDED TO THE REGISTERED IMMOVABLE AT 2 PETERBURI ROAD. DURING RECONSTRUCTION WORK, ABOUT 30 KM OF OVERHEAD TRANSMISSION LINES WITH AMORTISED POLES OF THE POWER TRANSMISSION GRID WERE REPLACED. A TOTAL OF ABOUT 11 KM OF EXISTING RAILS WERE RECONSTRUCTED, 54 NEW TRACK POINTS WERE ADDED, 12 OF WHICH ARE CONTROLLED AUTOMATICALLY. AS A RESULT OF OUR WORK, NEW TRAMS ARE SERVING LINE NO. 4 THROUGH CENTRAL TALLINN, ENSURING A MORE ATTRACTIVE CITYSCAPE AND MORE CONVENIENT TRANSPORT FOR RIDERS.

In 2015, the Group fulfilled two out of the three set long-term financial objectives:

average return
on equity
8.0%

dividend rate
90%
of annual profit

equity ratio
59,5%

In 2015, the group's return on equity was 8.0% (2014: 10.1%). Due to the declining volume of orders on the construction market and the prevalent ultracompetitive situation – at a time when the contracts for projects funded in the EU's current financial framework have not yet reached the market – our return on equity fell short of the long-term target.

In 2015, the Group achieved the other two long-term financial goal: the dividend rate was 90% (2015: 58%) and the equity ratio was 59.5% (2014: 51.0%).

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD



ANDRES TRINK
AS MERKO EHITUS
CHAIRMAN OF THE
MANAGEMENT BOARD

Dear shareholders,

2015 was a busy and productive year for Merko. A number of significant construction sites were completed – a new concert hall in Liepāja, new infrastructure for Tallinn’s tram line no. 4, the Narva water treatment plant, Eesti Energia’s 300 MW Eesti power plant in Auvere, the NordBalt converter substation in Klaipeda, and the Polipaks plant in Mārupe, to name just a few. As a company that builds large-scale and complicated projects, Merko continues to be among the Baltic states’ leading construction companies. But in fact every customer and every project is just as important to us, regardless of size. We want to offer our customers effective project management service, the finest engineering solutions, quality, adherence to deadlines and good cooperation in the name of a result all parties can be proud of.

Developments on the Baltic construction market in 2015 were in line with our expectations – the apartment market was stable, moderate investments were made into commercial buildings by private-sector customers and there were less government contracts for infrastructure. Indeed, the Estonian, Latvian and Lithuanian construction market has been supported in recent years largely by residential construction, while infrastructure and road construction contracts have been declining and investment into commercial real estate is limited by

the small size of the market. In our case as well, we have invested more into development of residential real estate and housing construction during these years. Last year, the share of real estate development in our group’s revenue reached 28%:

we sold more than 400 new apartments throughout the Baltics and launched construction of around 600 new units. We want to create a good living environment, and will continue to invest into construction quality and modern materials and technological solutions.

We are pleased that we have succeeded in securing our position as the prime contractor of choice on the private customer market and that we have entered into many construction contracts for prestigious buildings. The share of private customers in our secured order book has grown to 80%. In addition to the Estonian market, where we have retained our position as a leading construction company for many years, we have established a firmer foothold in the Latvian and Lithuanian market, where our share in the group’s sales revenue amounted to approximately 40% last year. Although we do want to grow our income on the Latvian and

Lithuanian market, Estonia continues to be our biggest home market. We’re pleased over being recognised as Estonia’s most competitive construction company for yet another consecutive year. This year the honour was complemented by the title of Estonia’s most competitive large company.

We have to admit that the outlook for construction companies in the near future is still tempered by continued unstable conditions on the construction market and in the economy as a whole. Many state investments into infrastructure are only in the preparatory phase pending EU funding. Investments into business real estate have been supported in the last couple of years by low interest rates and strong internal demand, yet the small scale of the Baltic economies, middling economic growth and the low level of investments into better productivity all curtail demand for new commercial and office space. The growth potential for residential construction in the near future is undercut by the increased supply on the apartment market, above all in Vilnius and Tallinn. The construction market still features extremely high price competition, and rapid consolidation of the market is not anticipated. In such a situation, it is imperative to adapt rapidly, listen to customers, field the best possible team, act in an effective manner – and innovate. We strive to do that, and believe that the construction sector’s longer-term outlook on our home markets is promising.

In 2015, Merko celebrated its 25th anniversary. During our quarter century of activity, we have had the honour to build a noteworthy number of different buildings and infrastructure all over the Baltic states, and we’re proud that many are now local landmarks and a part of our daily lives. We have established comfortable and high-quality homes for thousands of families in the Baltics. We’ve also offered good job security to our employees. A brief retrospective of our 25 years of history can be found in a special section of our website, <http://merko.ee/25-anniversary>.

On behalf of the group’s management, I would like to thank all of our customers, partners, subcontractors and suppliers of materials and equipment, in cooperation with whom we have created better living environments and modern infrastructure. I also thank the personnel and business leaders at all of our group companies for their efforts toward achieving our common goals.

Wishing you all the best in cooperation for the future,
Andres Trink

“OUR CONTINUED GOAL IS TO BE A RELIABLE REAL ESTATE DEVELOPER TO HOMEBUYERS AND A PROFESSIONAL PARTNER TO CLIENTS OF CONSTRUCTION WORKS.”

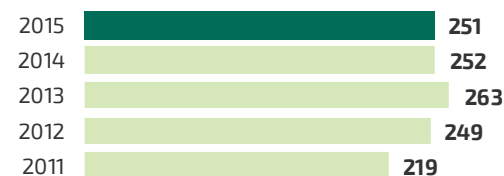
MANAGEMENT REPORT

BRIEF OVERVIEW OF 2015

NET PROFIT in million euros



REVENUE in million euros



PROFITABILITY

Profit before tax in 2015 was EUR 11.7 million (2014: EUR 13.3 million), which is equivalent to a profit before tax margin of 4.7% (2014: 5.3%). Gross profit margin in 2015 was 9.1% (2014: 9.8%), which has decreased by 6.6% compared to the same period last year. Net profit in 2015 was EUR 10.0 million (2014: EUR 12.4 million), down 19.5% from the previous year. Net margin decreased by 19.0% to 4.0% (2014: 4.9%).

REVENUE

Revenue in 2015 was EUR 251.0 million (2014: EUR 252.3 million), which has decreased by 0.5% compared to the same period last year. The share of construction service revenue earned outside of Estonia has increased in 2015 to 28.7% (2014: 25.8%), The number of apartments sold in 2015 (403 pcs, revenues of EUR 61.4 million) has increased by 2.0% and the revenue from apartment sales by 55.8% (2014: 395 apartments, 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).

ORDER BOOK

In 2015, group companies signed new contracts in the amount of EUR 247.0 million (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.

		2015	2014	VARIANCE
Revenue	million EUR	251.0	252.3	-0.5%
Gross profit	million EUR	23.0	24.7	-7.1%
Gross margin	%	9.1	9.8	-6.6%
EBITDA	million EUR	15.5	16.4	-5.7%
EBITDA margin	%	6.2	6.5	-5.2%
Profit before tax	million EUR	11.7	13.3	-12.1%
PBT margin	%	4.7	5.3	-11.7%
Net profit attributable to equity holders of the parent	million EUR	10.0	12.4	-19.5%
Net margin	%	4.0	4.9	-19.0%
Earnings per share	EUR	0.56	0.70	-19.5%
Dividends per share	EUR	0.51*	0.41	+24.4%

* Pursuant to the Management Board's proposal

		31.12.2015	31.12.2014	VARIANCE
Return on equity (annual)	%	8.0	10.1	-20.5%
Equity ratio	%	59.5	51.0	+16.8%
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%

Calculation of ratios is provided on page 136 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN 2015

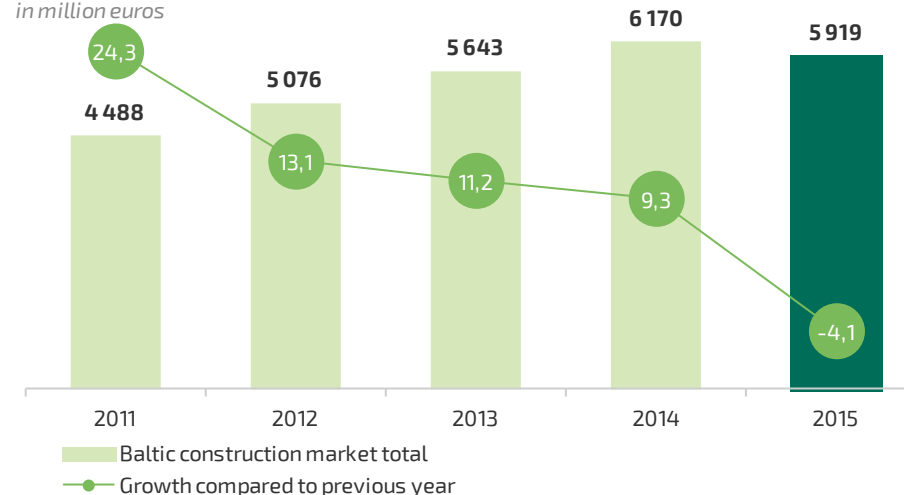
CONSTRUCTION SERVICES

	2015			2014		
	Estonia	Latvia	Lithuania	Estonia	Latvia	Lithuania
GDP annual change in current prices	+1.1%	+2.7%	+1.6%	+2.9%	+2.4%	+2.9%
Construction price index annual change	+0.5%	+0.1%	+1.7%	+0.5%	+0.3%	+2.4%
Labour force	+2.9%	+6.7%	+5.0%	+1.3%	+3.0%	+5.8%
Construction machines	-0.8%	+0.0%	+0.4%	+2.2%	+0.4%	+1.1%
Building materials	-0.7%	-1.9%	-0.2%	-0.0%	-0.4%	+0.8%

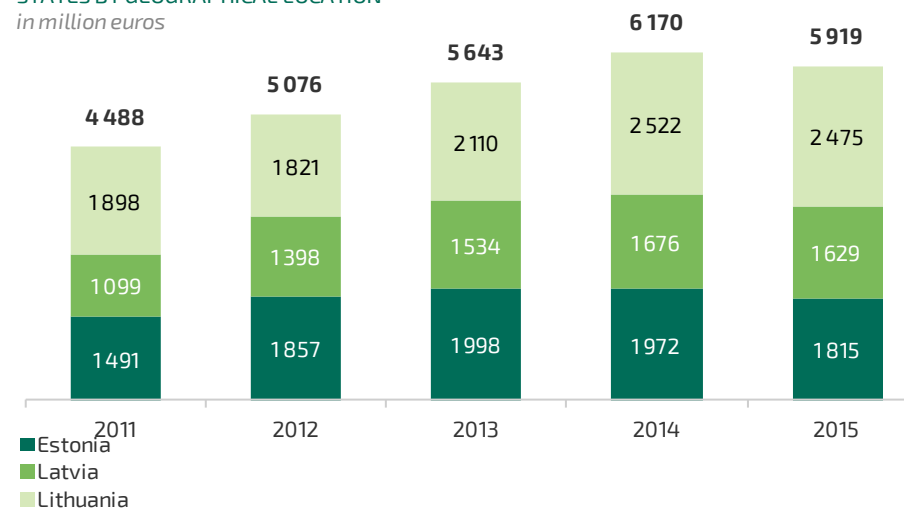
Source: Local national statistical offices.

The Baltic economy experienced growth in 2015, but at different rates in different counties – if the rate of GDP growth increased in Latvia then it slowed in Estonia and Lithuania. Estonia’s 2015 GDP growth was among the lowest in the European Union, with only Austria, Italy and Greece turning in lower figures. The biggest influence on GDP growth in all three Baltic states was growth in consumer spending backed by increased purchasing power. The main reasons for the slowdown in growth vary by country. In late 2014, it was feared that Latvian and Lithuanian economic growth would drop somewhat because their economies are more connected to Russia’s and would thus be susceptible to repercussions of the increased geopolitical risks and the sanctions imposed by Russia and EU against each other. However, as it turned out, these risks manifested more sharply for Estonia, where the value added generated by transport and warehousing dropped more than in the other two Baltics. Amidst the unstable conditions with regard to Russia, it has been mainly Latvia, and then Lithuania, that has managed to re-orient its economy more rapidly and increase export to other destinations (including the EU and the US). Government investments declined mainly due to lower external financing, due to a delay in opening of funding in the EU’s current budgetary period. The companies’ investments did grow, but not to the degree expected. In the construction sector the existing capacities are underused and the general sense of security is low, above all due to the external environment. 2015 was a year of continuing adaptation to a new market reality whereby the proportion of new large government contracts was very low compared to the already declined level of 2014 and the companies had to actively search for new opportunities to improve efficiency and find new sources of revenue.

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



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



Source: Local statistical services.

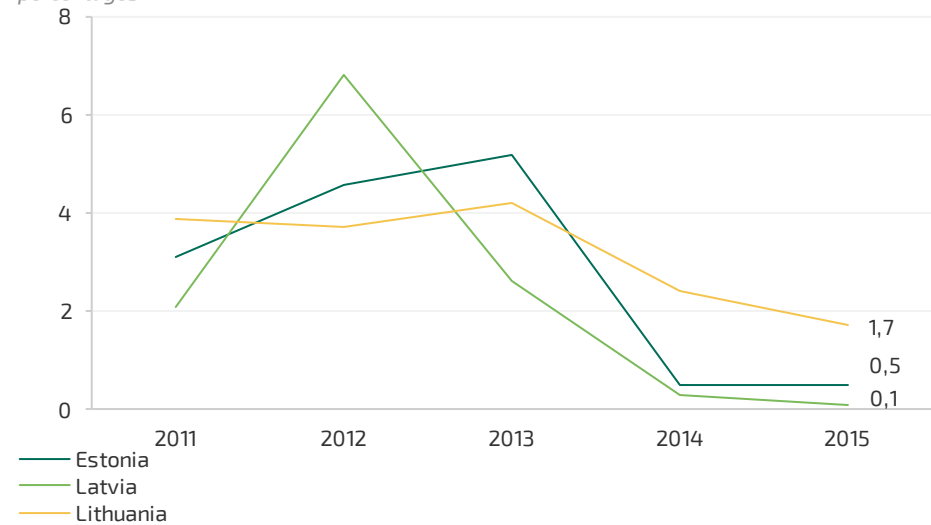
In 2015, construction with own resources was performed in the Baltic region for EUR 5,919 million which is EUR 251 million lower than in 2014. In 2015, the Baltic construction market decreased by 4.1 in current prices (2014: grew by 9.3%). 2015 was the first year since the continuous post-2010 growth period in which volumes on the construction market declined. The Baltic construction markets do not still reach the boom-era peak levels in 2007-2008 – down by approximately 20% in Estonia and by approximately 30% in Latvia and Lithuania. In 2015, for the second year in the row the Estonian construction market showed the highest decrease in the Baltics at -7,9% (2014: decrease 1.3%); at the same time the Latvian construction market decreased by 2.8% (2014: increase 9.2%) and the Lithuanian construction market by 1,9% (2014: increase 19.5%). In 2015, construction with own resources was performed in Lithuania in current prices for EUR 2,475 million (2014: EUR 2,522 million), in Estonia for EUR 1,815 million (2014: EUR 1,972 million) and in Latvia for EUR 1,629 million (2014: EUR 1,676 million). In 2015, the Lithuanian construction market continued to make up the largest share of the Baltic construction market with 41.8% (2014: 40.9%), followed by Estonia with 30.7% (2014: 31.9%) and the Latvian market still makes up the smallest share of the Baltic construction market with 27.5% (2014: 27.2%).

In contrast to the national conjuncture, changes took place in the volume of construction work performed by Baltic companies in foreign countries at current prices. Volumes grew in all three Baltic states, with Estonian export demonstrating the highest growth at 29.5% (2014: decreased by 11.3%), followed by Latvian and Lithuanian companies' export, which grew 27.2% and 19.1%, respectively (2014: decreased by 9.8% and increased by 15.1%, respectively). The construction work performed by Estonian companies in foreign countries amounted to EUR 232 million in 2015 (2014: EUR 179 million) being the highest aggregate result in the Baltics, followed by Lithuanian companies with EUR 200 million (2014: EUR 168 million) and Latvian companies with EUR 114 million (2014: EUR 90 million).

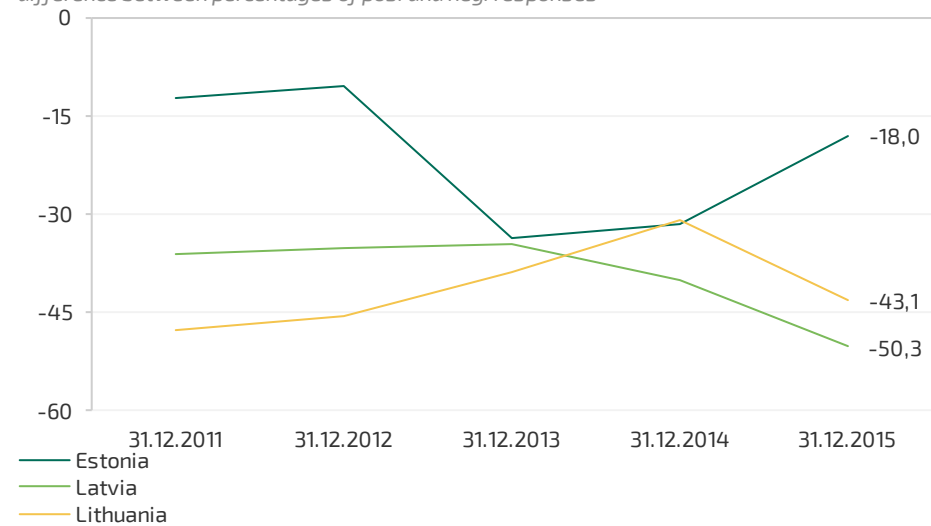
In line with the general decrease in construction work volumes, changes also took place in the per capita amount of construction work performed. In 2015, construction works per capita were performed for EUR 1,381 in Estonia, EUR 817 in Latvia and EUR 852 in Lithuania (in 2014, in Estonia, Latvia and Lithuania for EUR 1,500, EUR 841 and EUR 860, respectively).

The construction price index rose in 2015 in all three Baltic states with respect to the 2014 average – the greatest increase (1.7%) was in Lithuania, followed by Estonia with 0.5% growth. The Latvian construction price index basically stayed at the same level as the previous year, rising only by 0.1%. Of the construction price components, the workforce component continued rising most rapidly, with Latvian and Lithuanian figures being somewhat higher than Estonian. Construction material price components dropped in all Baltic states,

CHANGE IN CONSTRUCTION PRICE INDEX
percentages



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



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

while construction machinery price components moved in different directions, decreasing in Estonia, staying the same in Latvia and rising in Lithuania.

The level of indicators of confidence in the construction industry continues to be unfavourable in all three Baltic states. The confidence indicator level for the construction industry was lower both in Latvia and Lithuania than it was in the same period a year ago. At the same time the confidence indicator in Estonia moved in the opposite direction. Confidence is kept negative by the lack of demand – caused in turn primarily 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.

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.

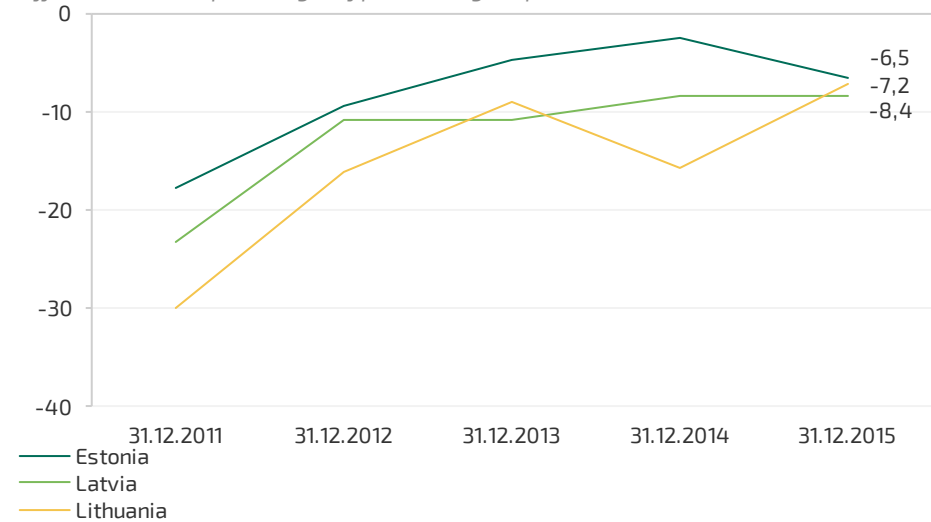
APARTMENT DEVELOPMENT

In 2015, the situation in the apartment market in all three Baltic states has stabilised. We do not forecast a long-term and steep drop in prices; the sale prices of new apartments will likely remain stable, or grow at the same pace with inflation, and the sale periods will become longer.

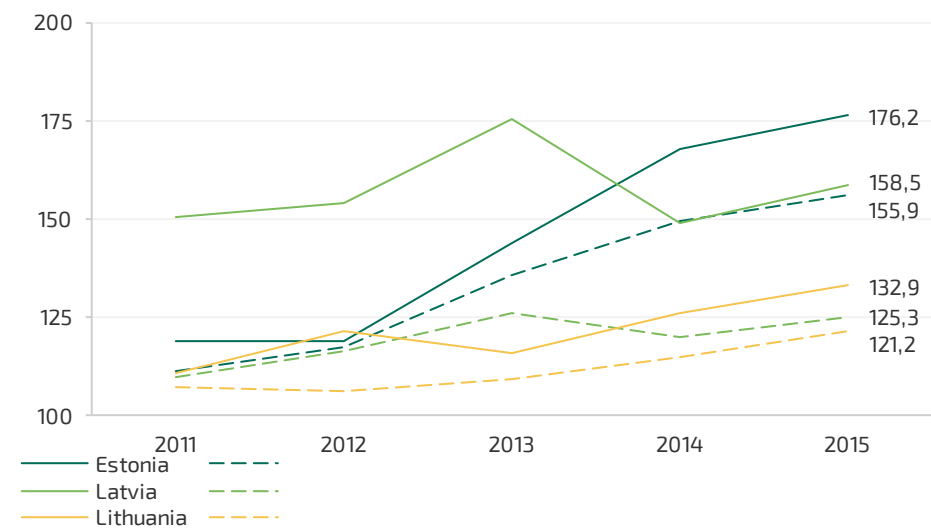
Many developers are now starting new projects with more determination in all three Baltic states but above all in the capitals which has increased the supply of new apartments. The increase in risks for some developers who may not make good on their business plans could quietly begin to create expectations on the market for lower prices. None of the Baltic capital cities saw a significant rise in the price of apartments in 2015. Yet the prices of apartments have risen, which is reflected by the corresponding price index curves for new dwellings in the respective countries (see previous graph). Contrary to the forecasted stabilisation of apartment prices growth in connection with Lithuania's changeover to the euro did not materialise; prices rose marginally also in 2015. It is also important to emphasize that the rise in prices of new developments in the Baltics in 2015 was somewhat greater (approximately 6%) than the rise in prices on the apartment market in general (approximately 5%).

CONSUMER CONFIDENCE INDICATOR

difference between percentages of pos. and neg. responses



NEW AND ALL (dotted line) DWELLINGS HOUSE PRICE INDEX (2010=100)



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

Whereas in previous years the balance of loans granted by banks in Estonia for real estate development has been on a uniformly flat downward trend, then in 2015 the loan balance has decreased by approximately 50%. This trend reflects the market situation, where the larger developers often finance the construction on new projects from their own funds and pre-payments made by customers. As in the current market situation 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. The trend also gives the Merko group, being a real estate developer with a long history and extensive references, a competitive edge in launching new development projects to market.

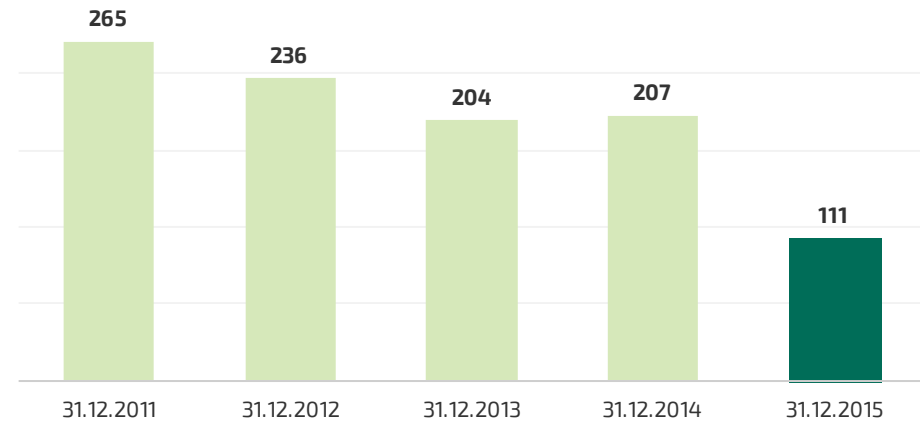
A new trend that has become popular in Estonia is raising capital through crowdfunding. This is because there are few alternative investment alternatives and the yields on crowdfunded projects are relatively aggressive. This funding scheme is novel and it is possible that investors who join it do not 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.

In 2015, the balance of housing loans in the Baltics as a whole increase for the first time after 2008, increasing by EUR 209 million in a year (2014: decrease EUR 71 million) to EUR 16,993 million. The increase is mainly attributable to the housing loan balances in Estonia and Lithuania, which continued the upswing that started in 2013, respectively EUR 259 million in Estonia (2014: EUR 168 million) and EUR 171 million in Lithuania (2014: EUR 99 million). The housing loan balance in Latvia continued its decline, by total of EUR 220 million (2014: EUR 339 million). The growth in the housing loan balance can be largely attributed to the fact that the reference interest rates used for bank loans have fallen well below zero and people are taking loans with increasing confidence because of the low interest rates. People's confidence in the economy in general remains stable. At the same time, it must be noted that although demand for loans has increased, the proportion of loans in buying real estate or construction is substantially lower than in the boom years, which means that more investments are made on equity.

Positive developments on the Baltic real estate markets provided confirmation that the decisions of Merko Ehitus to launch new apartment developments in all three capitals of the Baltics have been correct.

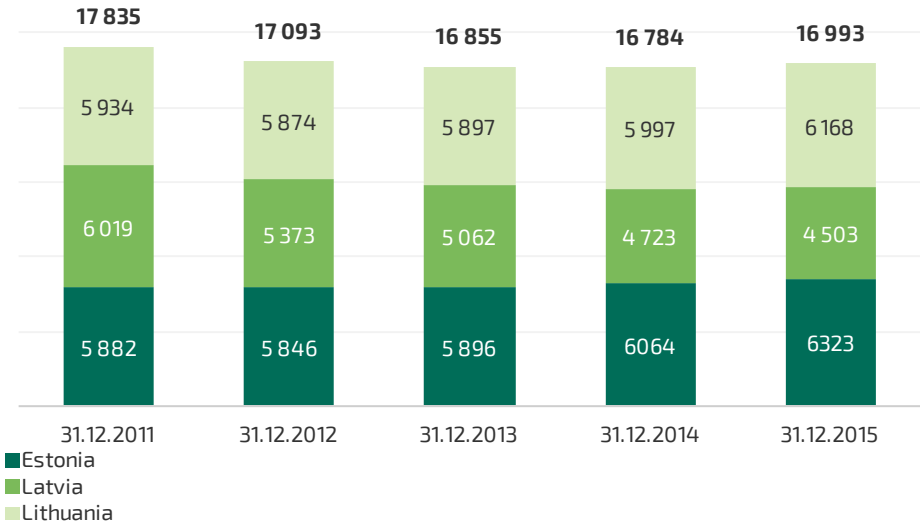
STOCK OF LOANS GRANTED TO HOUSING DEVELOPMENT PROJECTS IN ESTONIA

in million euros



STOCK OF HOUSING LOANS

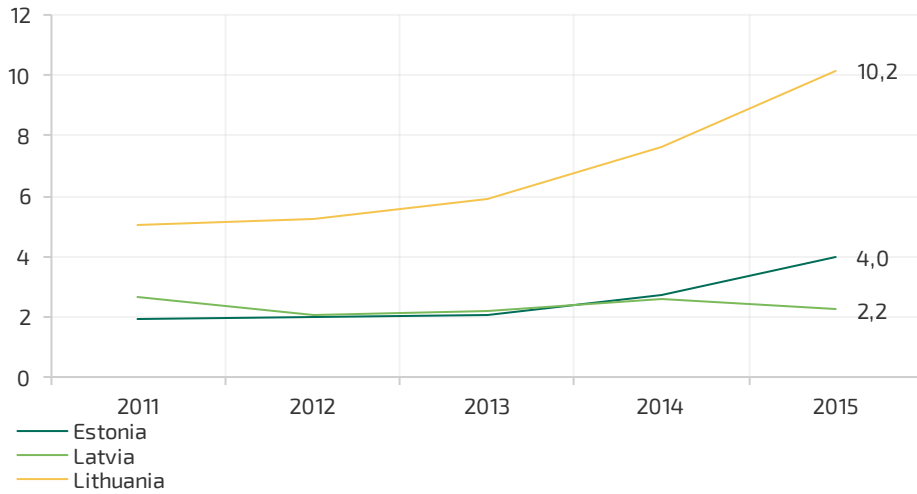
in million euros



Source: Local central banks.

THE NUMBER OF AUTHORISATIONS FOR USE ISSUED FOR NEW RESIDENTIAL PREMISES

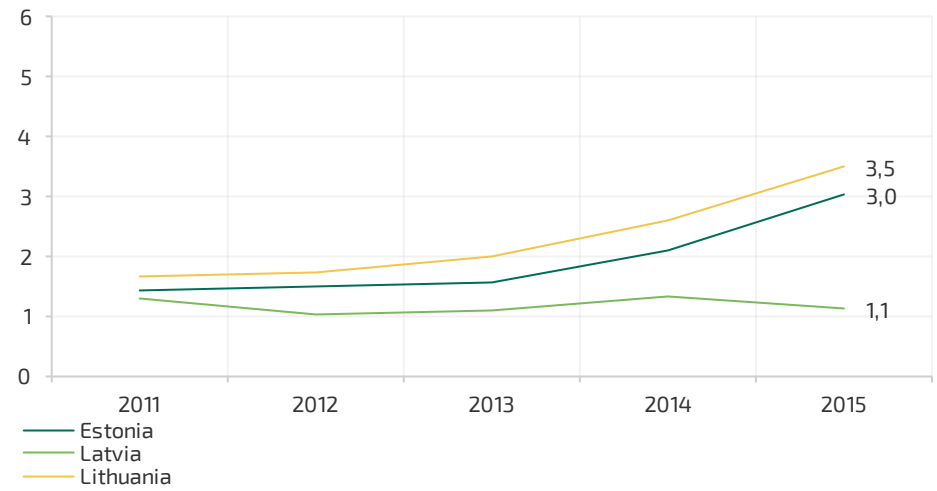
thousand pcs



Source: Local statistical services.

THE NUMBER OF AUTHORISATIONS FOR USE ISSUED FOR NEW RESIDENTIAL PREMISES

per thousand person, pcs



OUTLOOK FOR 2016

CONSTRUCTION SERVICES

In 2016, the economies of the three Baltic countries are forecast to grow 2-3% (average) and also the economic growth in Scandinavia, except in Sweden, will continue at low gear. The Finnish economy is generally sluggish and the prospect of a return to growth keeps on receding into the future. The level of confidence in the Swedish economy is higher than the long-term average due to the strong economic growth expected in 2016, supported by increased private sector investment (largely into housing sector) and higher export and state investments as a result of the large number of refugees that have arrived in the country. As a result of the continuing rise in real estate prices, the Swedish economy will remain exposed to risks. As a result of which, in case of negative scenarios, potential risks could be posed to the Baltic credit market as well due to the greater integration between the largest banks in the region with their Swedish parents. The low price of oil and gas have the greatest impact on the Norwegian economy, but the real estate market with its high loan burden and high prices will also exert an influence. To ease the situation, the Norwegian government has increased spending on infrastructure, but in spite of that, the private sector still looks likely to have a more complicated period ahead for it. The Baltic construction market is expected to post no growth next year. Euro base rates remain low, although we continue to believe that there are still inflationary risks in the longer term. The outlook of the Russian economy is mainly related to the oil price, economic sanctions and political uncertainty. Assuming that 2016 oil prices will remain at the levels of previous years and the situation in crisis hotspots with Russian participation do not resolve, Russia will see a continued recession, weakening of the rouble and higher than average inflation. As the Baltic States all have small and open economies and are largely dependent on our close economic ties and trade with neighbouring countries, the economic developments in both Scandinavia and Russia have a direct effect on us. Besides direct impact, insecurity about the future could curtail economic growth expectations for 2016 in the Baltics, as investment projects may be frozen.

For 2016, we are forecasting a continued decline in the volume of Baltic construction contracts. 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, whose developments often compete in this field with their potential customers. 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 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 potential risks which existence must be acknowledged. At the same time,

we see that the savvier 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 below 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 during the last year. 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 labour costs. Subcontractors' prices have this far not seen a decline similar to the drop in general contractors prices, which means that general contractors margins are particularly under pressure – customers are exerting strong pressure for a price decrease in connection with the lower overall volumes on the construction market. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events.

Because the road construction sector suffers from excess capacity of fixed assets,

profitability requires continued reduction of machinery and the efficiency of the cost base. In road investments carried out by the Estonian Road Administration, we expect more small-scale construction and repair work.

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

As 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. The increased supply of apartments has been accompanied by moderate pressure on sales prices, expressed above all in clients' desire invariably to bargain down prices, and a certain amount of lengthening of sales periods in some projects. In Vilnius's bedroom communities the supply has now clearly exceeded demand and due to that we are expecting a lengthening of sales periods there. Still, we anticipate that despite the active supply on the apartment housing market, demand will stay strong for the high-quality apartments developed by the Merko Group, in all three capitals of the Baltic states, and also in Tartu.

In the environment of increased supply and greater general awareness apartment buyers are even more focused on reliability (experience and reputation of the developer and contractor), construction quality (energy efficiency, sound insulation) and make their buying decisions based on

infrastructure of the area (parking, services, logistics). In addition, the customers are focusing more on the living environment of a neighbourhood as a whole.

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

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.



ONE OF THE GROUP'S LARGEST APARTMENT DEVELOPMENT PROJECTS IS THE TARTU MNT 52 RESIDENTIAL BLOCK IN THE HEART OF TALLINN. IN THE FIRST PHASE, THREE BUILDINGS WILL BE COMPLETED BY THE END OF 2016. THE EIGHT-STOREY BUILDING A ON TARTU ROAD, AND THE 13-STOREY HIGH-RISE BUILDING B AND FIVE-STOREY BUILDING C FACING THE INTERNAL STREET. THEN, IN THE SECOND PHASE, TWO BUILDINGS WILL BE COMPLETED IN LATE 2017: A FIVE-STOREY L23 BUILDING ON LASTEKODU STREET AND SEVEN-STOREY BUILDING D ALONG THE INTERNAL STREET.

OPERATING RESULTS

REVENUE AND PROFIT

In 2015, the revenue of Merko Ehitus was EUR 251.0 million. (2014: EUR 252.3 million). 61.6% of the period's revenue was generated in Estonia, 26.0% in Latvia, 11.2% in Lithuania and 1.1% in Finland (2014: 67.7% in Estonia, 27.2% in Latvia and 5.1% in Lithuania). As compared to 2014, the group's revenue decreased by 0.5%, including a 9.3% decline in Estonia and 5.0% in Latvia and a 117.2% increase in Lithuania and by the initial revenue from Finland. It is one of the group's strategic objectives to increase the proportion of revenue generated in Latvia and Lithuania and selectively in Scandinavia.

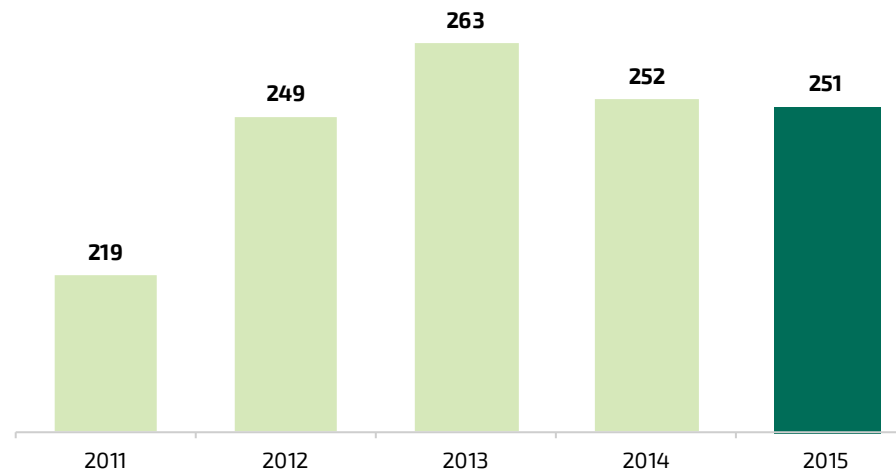
The main changes in the revenue structure compared to the same period last year, can mainly be attributed to increase in revenue of projects pursued in the Latvian and Lithuanian construction service and real estate development segments. At the same time there has been a reduction in sales revenue from 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.

Estonian construction service segment contributed 43% (2014: 56%), Latvian and Lithuanian construction service segment 29% (2014: 26%), real estate development segment was 28% (2014: 18%) of the group's revenue. 81% of the revenue from construction activities was related to new construction and 19% to renovation and reconstruction works (2014: 75% and 25% respectively).

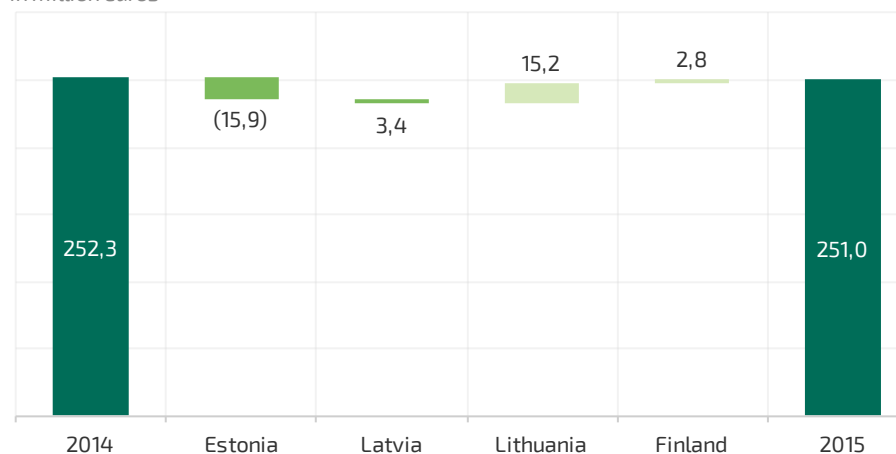
By country, Estonian sales continued to account for the largest share of revenue – 62% (2014: 68%) – but the group has been able to maintain, and increase to 38%, the percentage of revenue from outside Estonia, even in the declining market situation (2014: 32%).

In 2015, the total number of projects launched by private sector clients has increased, but at the same time the number of planned projects has stabilised - the trend is clearly visible in both the revenues of Merko Ehitus and in the signed order book. While in recent years, the share of government contracts had the greatest impact on the health of the construction sector, this has changed in 2015. The share of public sector in construction will start increasing again when projects funded in the new EU financial framework come to market, as a result of which we can expect the state to continue to dominate on the construction market in years ahead, albeit to a lesser extent than in the past.

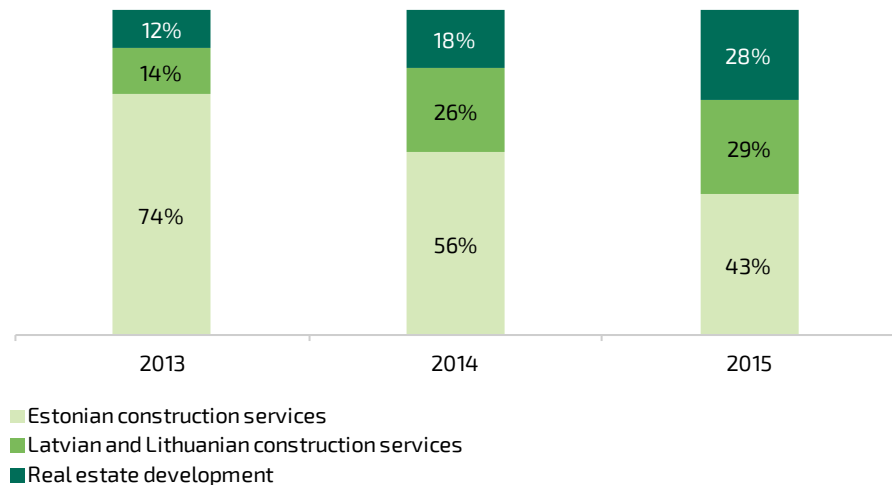
GROUP REVENUE
in million euros



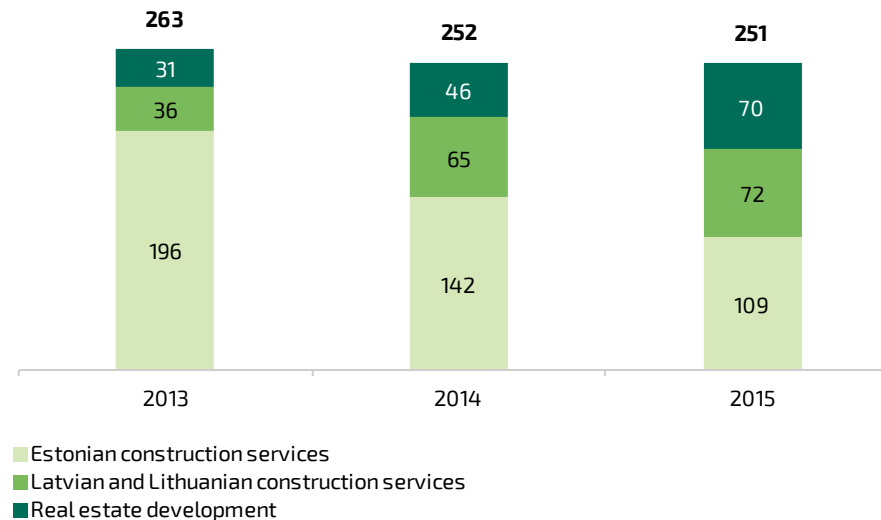
GROUP REVENUE
in million euros



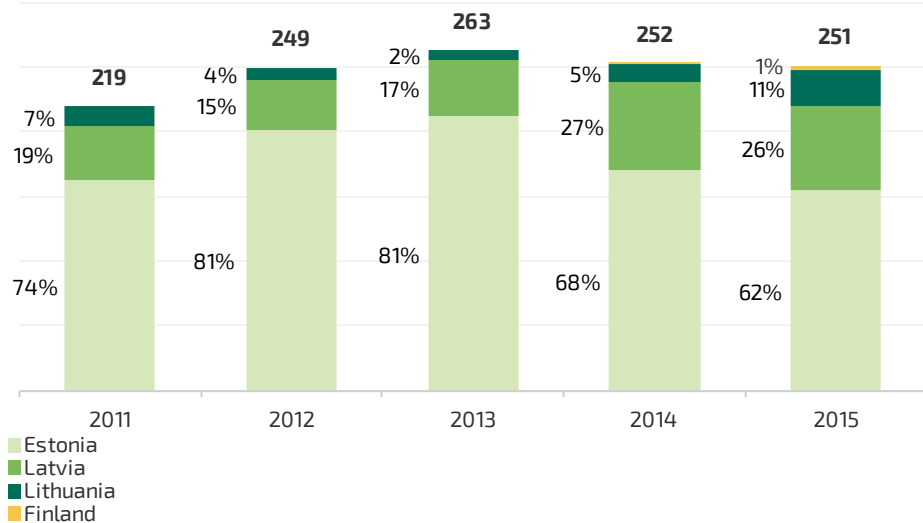
DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
percentages



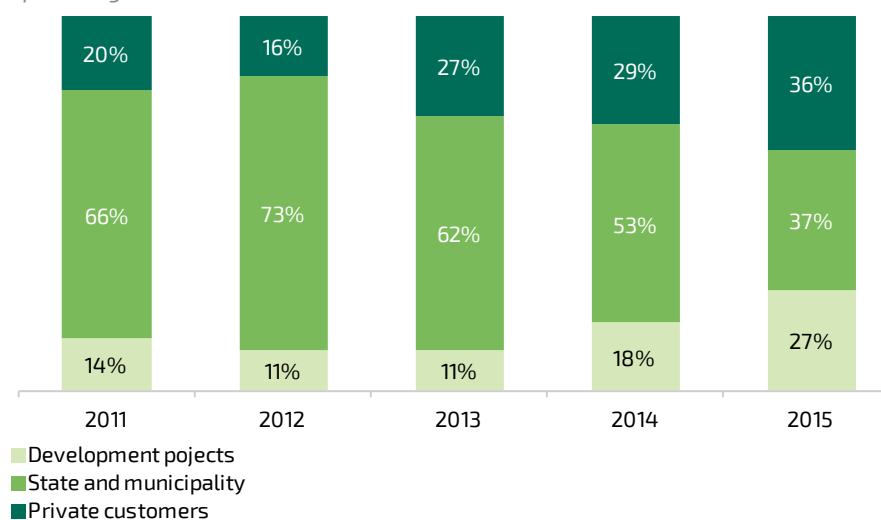
DISTRIBUTION OF GROUP REVENUE ACCORDING TO SEGMENTS
in million euros



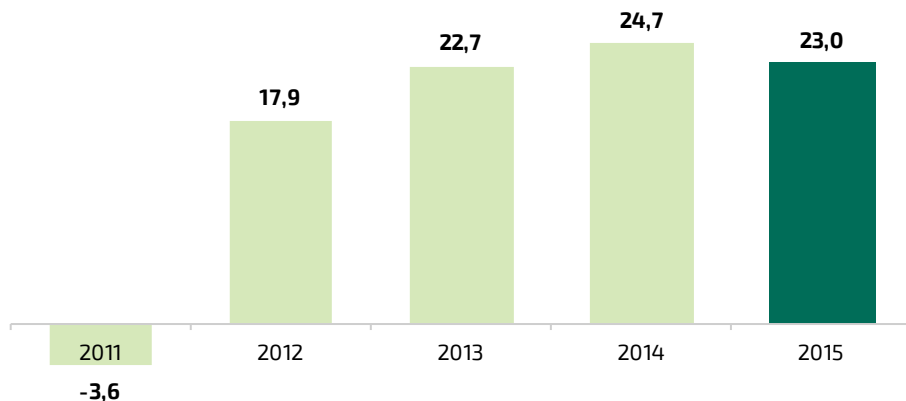
DISTRIBUTION OF GROUP REVENUE BY GEOGRAPHICAL LOCATION
in million euros



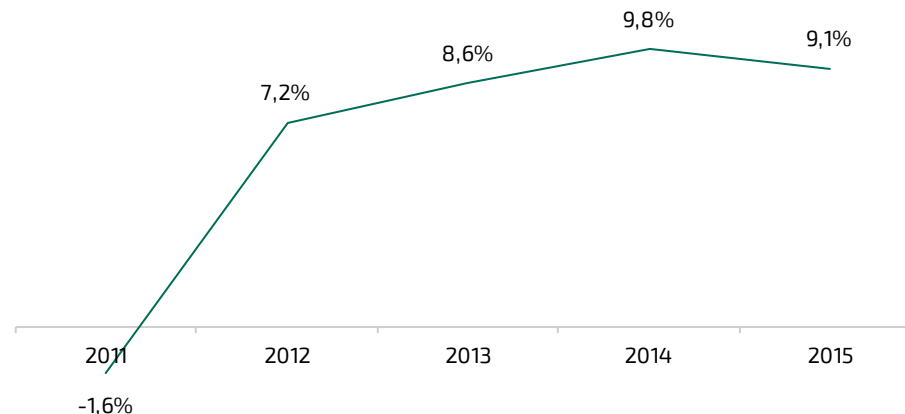
DISTRIBUTION OF GROUP REVENUE ACCORDING TO CUSTOMERS
percentages



GROUP GROSS PROFIT
in million euros



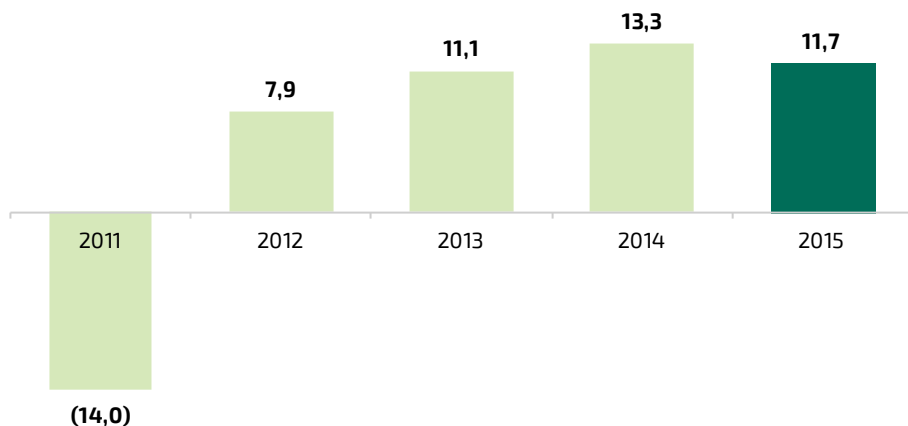
GROUP GROSS PROFIT MARGIN
percentages



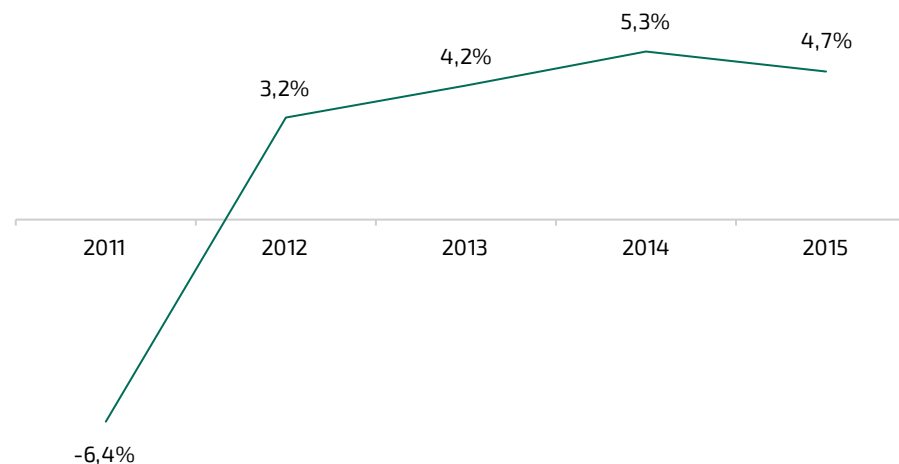
In 2015, the group's gross profit from development and construction activities totalled EUR 23.0 million (2014: EUR 24.7 million). The gross profit margin in 2015 (9.1%) is down by 0.7 pp compared the same period last year (2014: 9.8%). In 2015, maintaining the stability of profit margins in the Estonian 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.

GROUP PROFIT BEFORE TAX
in million euros



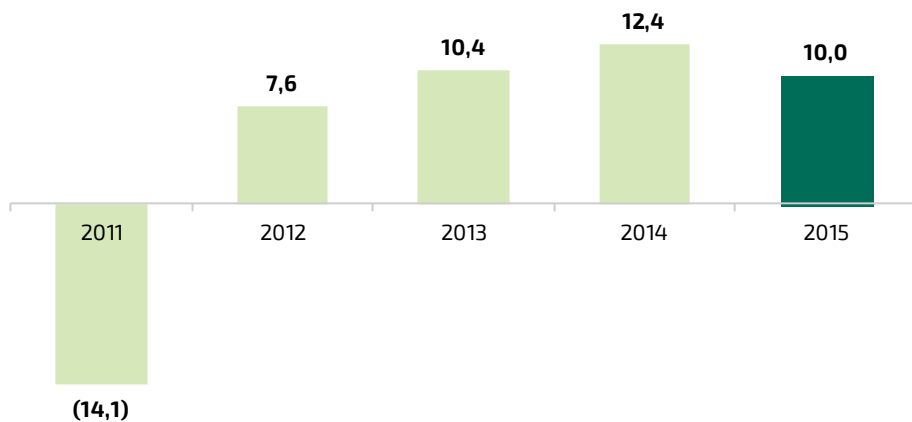
GROUP PROFIT BEFORE TAX MARGIN
percentages



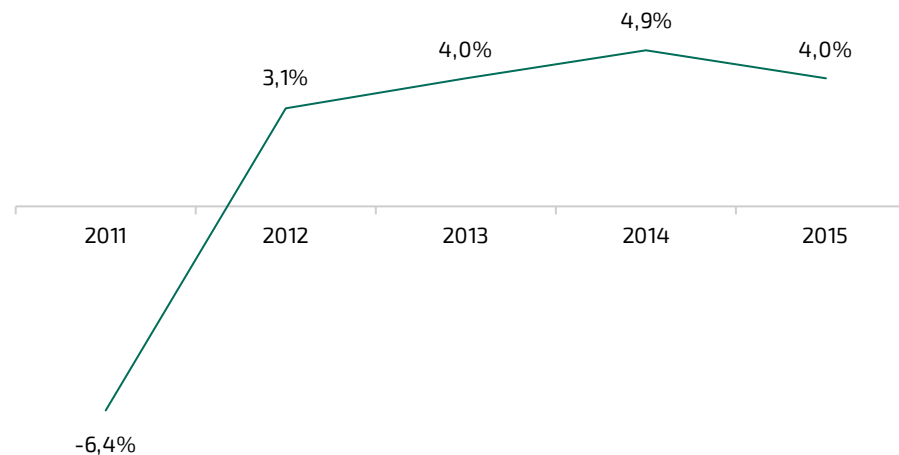
In 2015, the group's pre-tax profit totalled EUR 11.7 million and the net profit attributable to owners of the parent company was EUR 10.0 million as compared to the pre-tax profit of EUR 13.3 million and net profit attributable to owners of the parent company of EUR 12.4 million in 2014. The group's profit before tax margin was 4.7% (2014: 5.3%) and net margin was 4.0% (2014: 4.9%).

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.

KONTSERNI PUHASKASUM
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BUSINESS SEGMENTS

		
<p>ESTONIAN CONSTRUCTION SERVICE</p> 	<p>LATVIAN AND LITHUANIAN CONSTRUCTION SERVICE</p> 	<p>REAL ESTATE DEVELOPMENT</p> 

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 on project basis 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 68.

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 start submitting segment reporting from 2015 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 on project basis 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 or 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.

One of the keys to the success of Merko is the wide scale of its operations – if a certain business segment has more or less work, it is possible to re-assign staff and manage risks. Another competitive advantage is the professional team of project managers and engineers and experience in implementing complex projects using contemporary engineering solutions. The strength of Merko is also to simultaneously complete various complex and long-term projects and provide quality construction services to customers with different requests.

One of the keys to our success in the field of civil engineering is the skills and know-how in linking the skills of separate units in carrying out complex engineering projects through skilled and professional project management. In addition to enhancing our project management capacity, in recent years we have been improving our technical capacity in performance of works. Among others, we have at our disposal several different no-dig technologies for building water and sewerage pipelines in different soils. As the current 2014-2020 EU budget period will see significantly less funding for public water supply and sewerage

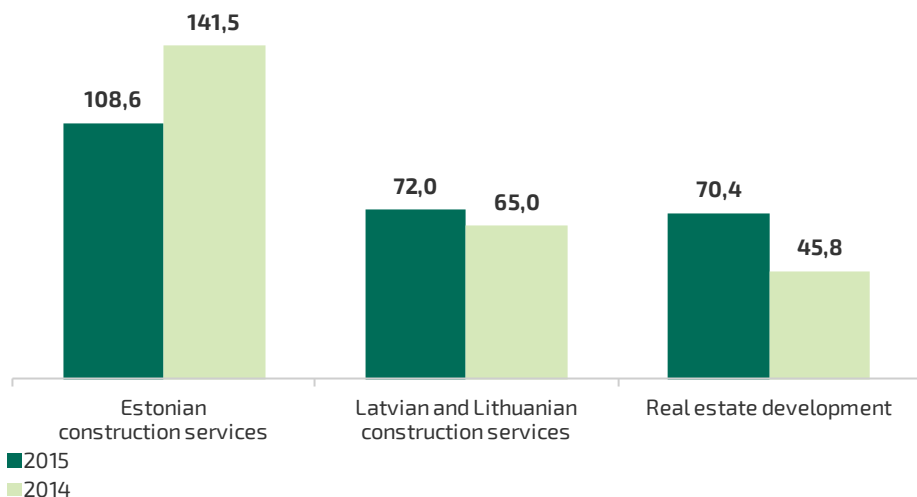
investments than in the last period, next years will likely see volumes continue to decrease in this segment.

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

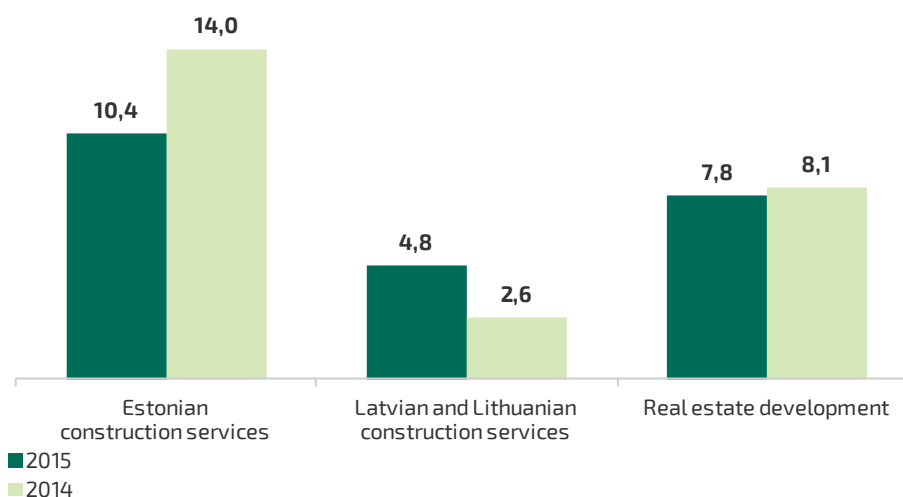
With the goal of offering customers more integral and higher quality service and bolstering the effectiveness of cooperation between different parties, Merko has adopted BIM – building information modelling. This modern discipline leads to a better understanding of an existing building and its shape and structure, enabling to check for conflicts in project documentation, calculate structural volumes of a project and produce 3D visuals. Within the group, the goal of BIM is currently recognised as simplifying the work of site teams by generating building models that are as detailed as possible. To achieve this, the entirety of the design coordination process on selected projects (architecture, construction and technical systems) follows one master model, to which all parties have access and which contains all of the latest detailed information on the project.

CHANGE IN GROUP REVENUE AND GROSS PROFIT ACROSS BUSINESS SEGMENTS

GROUP REVENUE BY SEGMENT
in million euros



GROUP GROSS PROFIT BY SEGMENT
in million euros



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

	2015	2014	CHANGE
Revenue	108.6	141.5	-23.3%
% of total revenue	43.3%	56.1%	-22.9%
Gross profit	10.4	14.0	-25.9%
Gross profit margin	9.6%	9.9%	-3.4%

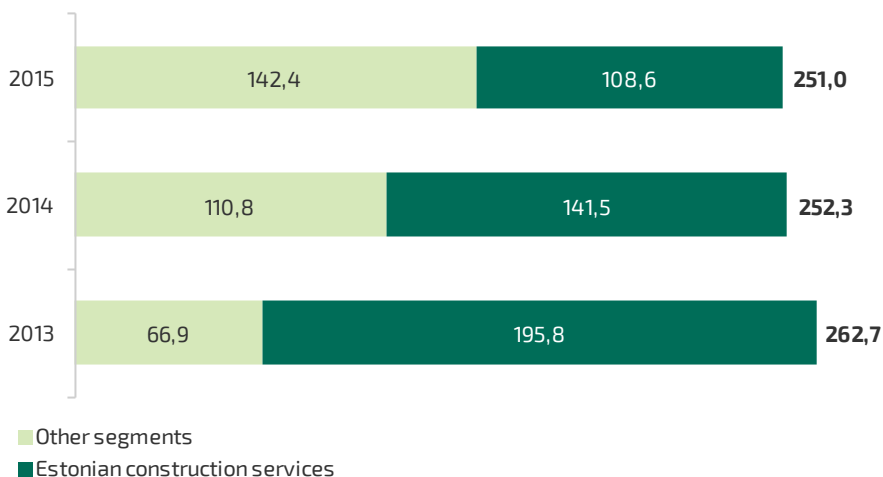
In 2015, the revenue of the Estonian construction service segment was EUR 108.6 million (2014: EUR 141.5 million), which also includes revenue from Finnish projects in the amount of EUR 2.8 million, having decreased by 23.3% from the same period last year. The revenues have clearly decreased in the field 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 projects launched in 2015 also include design works, with the main construction activities of these projects commencing in 2016.

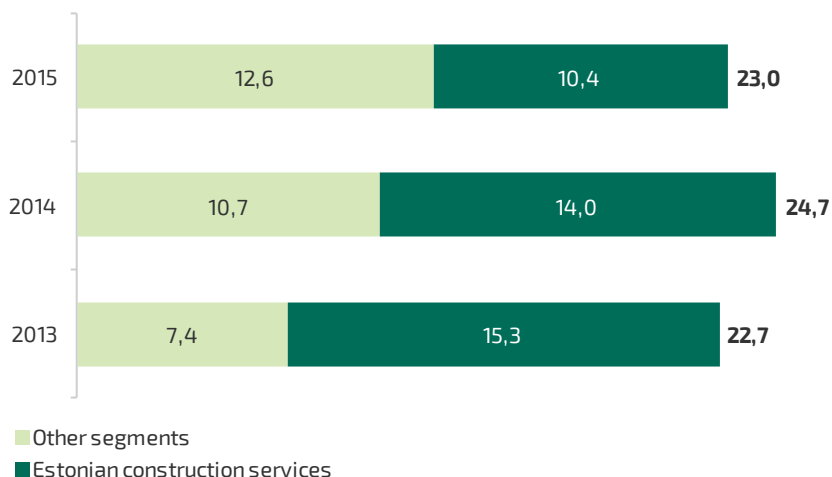
The Estonian construction service segment revenues for 2015 were 43.3% of the group's revenue, forming the largest proportion in the group's revenue, but still having decreased by 22.9% in annual comparison.

In 2015, the group earned a gross profit of EUR 10.4 million from this segment (2014: EUR 14.0 million). In 2015, the gross margin of the Estonian construction service segment was 9.6%, which decreased by 3.4% compared to 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 bigger 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.

REVENUE
in million euros



GROSS PROFIT
in million euros



We have seen a rise in the proportion of private sector orders starting from 2013, and the same tendency has continued in 2015. With regard to projects in progress in the Estonian construction service segment as at the end of year, private sector orders constitute approximately 80%.

Among the substantial projects in process that started in 2015 and earlier and will continue in 2016 are the construction works of Hilton Tallinn Park hotel, the design and construction works of Öpik Office Building in Tallinn, the design and construction works of T1 shopping centre in Tallinn, the design and construction works of Maakri Kvartal business complex in Tallinn city centre. Also the long-term maintenance works done under the service agreement with Tallinna and Viljandi County will continue.

Among the large projects completed and handed over to customers in 2015 in the Estonian construction service segment, the largest ones to highlight are the renovation of the Mustamäe blocks of the North Estonia Medical Centre and the design and renovation of the infrastructure of tram line No. 4 in Tallinn, the design and construction works of Tallink logistics centre in Maardu, the reconstruction works of Narva water treatment plant, the reconstruction works of Läsna-Kodasoo sections of Tallinn-Narva main road and the reconstruction works of Suur-Sõjamäe street in Tallinn.

KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2015

PROJECT NAME *		LOCATION
North-Estonia Medical Centre in Mustamäe blocks	rec	Sütiste road 19, Tallinn
Infrastructure of Tallinn tram line No 4 (11.5 km tram tracks; 22.8 km overhead lines; 6 traction substations)	rec	Tallinn
Tallinki logistics centre	new	Vana-Narva road 5B, Maardu
Water treatment plant of Narva	rec	Kulgu 1, Narva
ECCUA production and storage building	new	Angerja road 40, Hüüru village, Saue municipality, Harju county
Water treatment plant of Meriküla	rec	Muraste village, Harku municipality, Harju county
Passengers' walkway and vehicular loading ramps of quays 14, 15 and 16 of the Vanasadam harbour (length and width of the gallery 403 m and 4.5 m respectively)	new	Lootsi st. 13/14, Sadama st. 21/25, Uus-Sadama st. 19, Tallinn
Puhja 110 kV switchgear	rec	Vihavu village, Puhja municipality, Tartu county
Jõhvi-Ida 35/6 kV substation	rec	Malmi st. 10, Jõhvi
Connecting the Roheline Elekter AS wind farm at the Estonia 330kV substation	rec	Auvere village, Vaivara municipality, Ida-Viru county
Imavere rock crushing plant 15/0,4 kV transformer and cable line	rec	Kadastiku road 8, Imavere village, Imavere municipality, Järva county
National highway No 1 Tallinn-Narva (200,000 m ² asphalt concrete pavement, 53,000 m ³ earth-moving works, 5,500 m collision barriers, renovated roads 16 km, 55,000 m ² overing secondary roads with cold-planed asphalt)	rec	Kodasoo-Läsna (Harju and Lääne-Viru county)
Suur-Sõjamäe st. reconstruction works (47,000 m ² asphalt concrete pavement)	rec	Suur-Sõjamäe st., Tallinn
Support highway No 12 Kose-Jägala repair works (10.13 km renovated roads; 75,000 m ² asphalt concrete pavement)	rec	Harju county
Suru road and firing range (7 km in access roads; 20,000 m ³ background embankment; 250 m shooting range backstop; 100,000 m ³ earth-moving works; two reinforced concrete bridges)	new	Suru road, Kuusalu municipality, Harju county

* Indicators characterizing the project are provided in brackets.

MERIKÜLA WASTEWATER TREATMENT PLANT

Address: Muraste, Harku County

Customer: Strantum OÜ

Construction period: 2014–2015

The new and modern Meriküla wastewater treatment plant ensures the service that area's increasing numbers of households need. Thanks to the new plant, the water reaching Kakumäe Bay is much cleaner and meets the requirements for efflux set forth in the special water use permit for BOD7, total N, total P, COD and suspended solids. In the course of the work, the consortium of AS Merko Ehitus Eesti and AS Merko Infra demolished the old plant and built a new plant with a capacity of 4000 IE (human equivalent), which can later be expanded to 6,000 IE.



CITY OF NARVA WATER TREATMENT PLANT

Address: Kulgu 1, Narva, Ida-Viru County

Customer: AS Narva Vesi

Construction period: 2013–2015

The consortium of AS Merko Ehitus and Krüger A/S (Denmark) designed and renovated the city of Narva's water treatment plant and the Mustajõe catchment's pump station. In the course of the work, a completely new water treatment plant was built, ensuring quality drinking water for close to 60,000 inhabitants of Narva. Krüger A/S designed and built to completion the technological part of the water treatment. The rest of the work related to the plant were performed, and the Mustajõe pump station renovated, by AS Merko Ehitus Eesti.

In terms of construction technology, the water treatment plant with a capacity of 20,500 m³/d was complicated – both in terms of a concrete structure and technological system; the international dimension was an additional challenge. Incoming water is pumped into the plant from a distance of close to 26 km, from Mustajõe River, and the water flows downhill through the rest of the seven-level treatment process until it ends up as clean water in reservoirs (3 of them, each approx. 6,000 m³).



NORTH ESTONIA MEDICAL CENTRE C-BLOCK

Address: Sütiste road 19, Tallinn

Customer: SA Põhja-Eesti Regionaalhaigla

Construction period: 2012–2015

The North Estonia Medical Centre C-block renovation project is a part of the largest acute medical care provider to be renovated in the independent Republic of Estonia. The completed C-block allows the medical centre to accommodate activities related to cardiologic treatment, and laboratory facilities needed for run tests on individuals and pharmaceutical preparations, which have become the basis for providing contemporary care. Day outpatient operating wing, outpatient appointments with specialists, and services related to the administrative and business side of the medical centre have been placed in the building complex's basement.



INFRASTRUCTURE FOR TRAM LINE NO. 4

Address: Tallinn

Customer: Tallinna Linnatranspordi AS

Construction period: 2014–2015

The consortium of AS Merko Ehitus Eesti, KMG Inseneriehituse AS and Ratatek OY performed the renovation of the tram tracks on line No. 4 and the Pärnu maantee depot tracks along with transferring the rails on to a concrete foundation. In addition, the overhead catenary lines were replaced from Tondi to Ülemiste and Kadriorg, six traction substations were renovated, a new tram line extension was constructed to the Peterburi tee 2 property along with a turnabout for the trams, this being an introduction to the extension of the tram line all the way to Tallinn Airport. A total of about 30 km of overhead catenary network was rebuilt together with power cables, the outdated posts were replaced or existing paint coating was improved on the segments from Tondi to Kadriorg and Ülemiste/Peterburi road, and close to 11 km of existing track was established and renovated on concrete foundations. In total, 54 new switches were replaced or additionally installed, including 12 automatically controlled switches.



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

	2015	2014	CHANGE
Revenue	72.0	65.0	+10.8%
% of total revenue	28.7%	25.8%	+11.3%
Gross profit	4.8	2.6	+85.2%
Gross profit margin	6.7%	4.0%	+67.3%

The revenue of the Latvian and Lithuanian construction service segment amounted to EUR 72.0 million in 2015 (2014: EUR 65.0 million), which is 10.8% more than in 2014. If the Latvian and Lithuanian construction service segment revenues of 2014 formed 25.8% of the group's revenue, then during 2015 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.

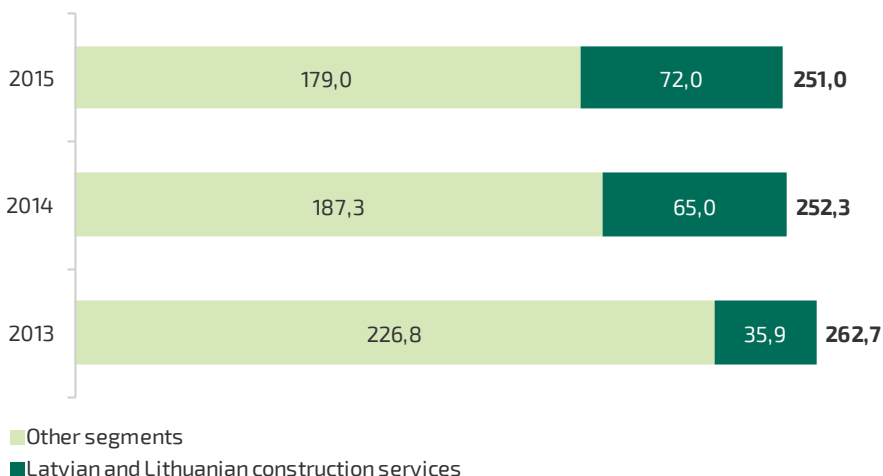
The gross profit of the Latvian and Lithuanian construction service segment

in 2015 amounted to EUR 4.8 million (2014: EUR 2.6 million) and the gross profit margin was 6.7% (2014: 4.0%), which increased by 67.3% compared to the previous year. The gross margin improved especially, along with an improvement in the results of projects successfully completed at the end of the year in Latvia and Lithuania, compared to initial estimations. We continue to closely monitor the changes in the volumes of the segment, to maintain an effective as possible cost base (particularly at the expense of labour costs).

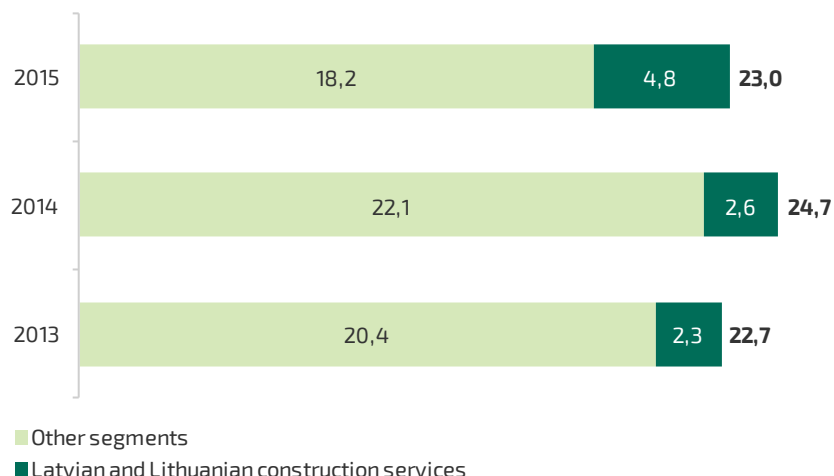
The largest projects completed in 2015, by SIA Merks, Latvian subsidiary of Merko Ehitus, ones that primarily deserve to be highlighted are the construction of multifunctional concert hall in Liepaja, the construction of Dzintaru 28 apartment building in Jurmala and the re-cultivation and construction works of waste recycling site at A. Deglava Street in Riga. Among the projects completed in 2015, by UAB Merko Statyba, Lithuanian subsidiary of Merko Ehitus, certainly the most prestigious are the general construction works of the ABB HVDC transformer substation in Klaipeda and the construction of concrete foundations for wind turbine generators in Šilute wind farm.

Among the substantial projects in process that started in 2015 and continue in 2016 are the construction works of Kauno/Algirdo residential complex with office premises in Vilnius and the construction works of Narbuto 5 office building in Vilnius, the construction works of kindergarten and school buildings complex in Pinki, the second phase construction works of the passenger terminal in Riga International Airport and the construction works of apartment building Magdalēnas nami in Riga.

REVENUE
in million euros



GROSS PROFIT
in million euros



KEY DATA OF THE LARGEST PROJECTS COMPLETED IN 2015

PROJECT NAME *		LOCATION	COUNTRY
Multifunctional centre Liepājas Dzintars	new	Radio st. 8, Liepaja	Latvia
Polipaks manufacturing and logistics centre	new	Mālkalni, Mārupe county	Latvia
Dzintaru 28 apartment buildings	new	Dzintaru avenue 28, Jūrmala	Latvia
Valmiera vocational education competence centre	new/rec	Vadu st. 3, Valmiera	Latvia
Riga State Technical School	rec	Dārzciema st. 64A, Riga	Latvia
Sigulda bobsled and luge track	rec	Šveices st. 13, Sigulda	Latvia
Re-cultivation and construction works of Augusta Deglava street waste recycling site	rec	Lielvārdes st. 140, Riga	Latvia
Construction of the water and sewerage pipelines in Marupe (8,000 m of water and sewerage pipes including branches; 4 waste water pump stations)	new	Mārupe county	Latvia
Infrastructure works of Mežaparks area	new	Kokneses avenue 1a, Riga	Latvia
NORDBALT HVDC substation	new	Kiškēnai village, Dovilai subdistrict, Klaipēda district	Lithuania
Construction of Šilute wind farm foundations (13,220 m ³ of concrete; 1,423.2 tons of rebar; 6 moths)	new	Usėnai village, Šilutė district	Lithuania
Sports hall of The American International School	new	Subačiaus st. 14, Vilnius	Lithuania
Indoor tennis court grounds in Vilnius	new	Telsiu st. 17, Vilnius	Lithuania

* Indicators characterizing the project are provided in brackets.

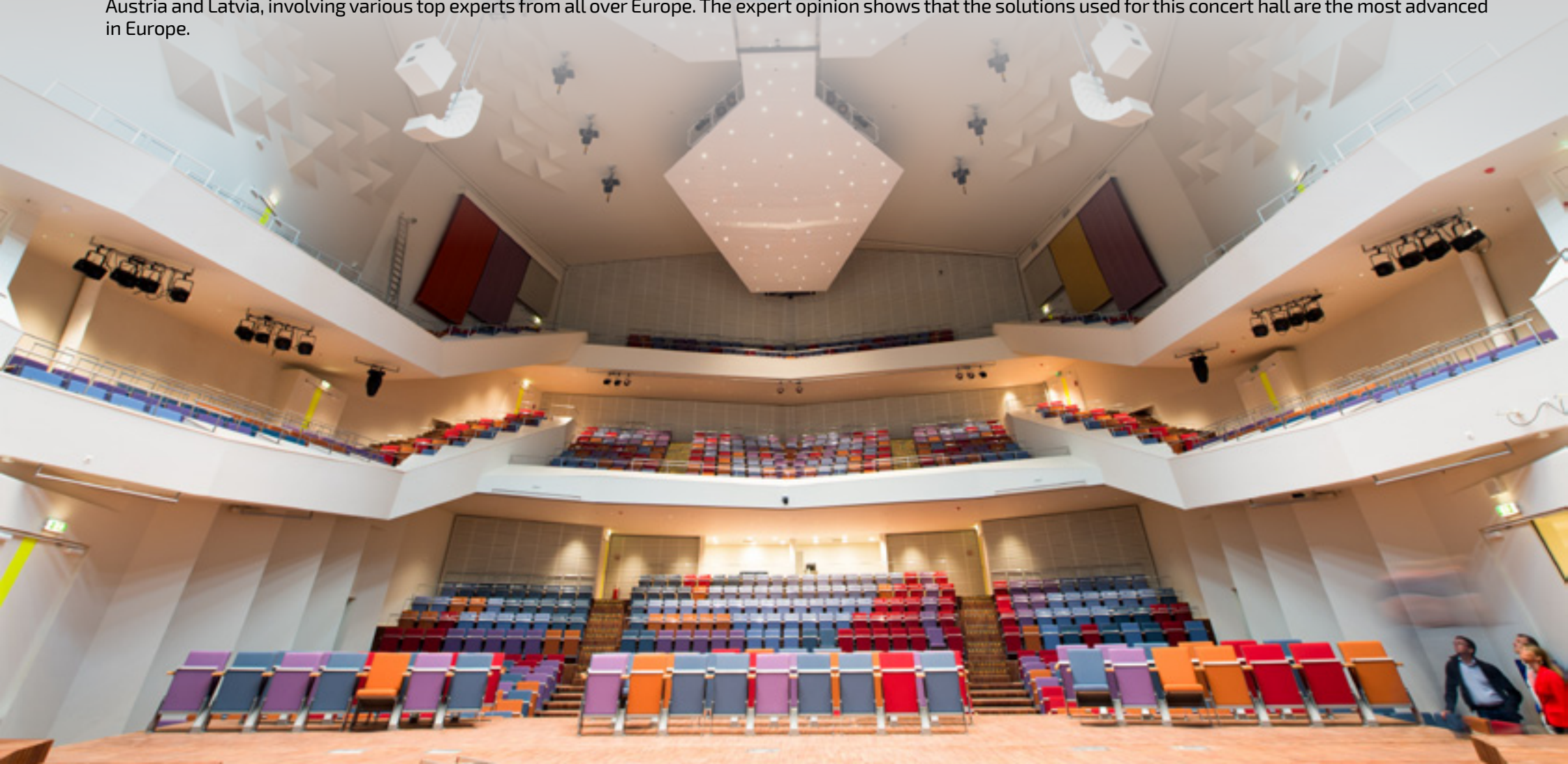


POLIPAKS PLANT IN MĀRUPE DISTRICT IN LATVIA WAS COMPLETED IN 2015.

MULTIFUNCTIONAL CENTRE LIEPAJAS DZINTARS

Address: Radio tn 8, Liepāja
Client: Liepāja City Council
Construction period: 2013-2015

Liepāja concert hall is the new home of Liepāja Symphony Orchestra. In addition to that, the multifunctional hall can be used for dance events, corporate celebrations, rock and pop concerts. The 8-storey complex includes concert hall with 1200 seats, rehearsal rooms; the entrance area can be used for public functions and exhibitions. Connected to the main building there is a commercial and administrative wing. Between the main building and the commercial wing of the building, there is a public square. The design of the Liepāja concert hall was developed by an international team; the technical solutions of the design were also developed in Austria and Latvia, involving various top experts from all over Europe. The expert opinion shows that the solutions used for this concert hall are the most advanced in Europe.



NORDBALT KLAIPEDA STATION

Address: Kiškėnai Village, Dovilai Subdistrict, Klaipėda District

Client: LITGRID AB / ABB AB

Construction period: 2014-2015

In the strategic project Nordbalt, there was built a power link between Lithuania and Sweden, which enables Lithuania to purchase electricity from Northern European countries that are rich in hydro energy resources. The length of the 700 MW link is about 450 km. The link consists of high-voltage direct-current undersea and underground cables and of current converter stations in Lithuania and Sweden. The strategic power project was implemented by Litgrid, the Lithuanian transmission system operator, and Svenska Kraftnät, the Swedish transmission system operator.

As part of the project, Merko Statyba UAB performed the construction of a transformer substation in Lithuania. The construction works included a transformer building, administrative building, diesel generator, transformer field, 330kV AC equipment field, cooling equipment, modular transformer plants. The rest of the territory saw the construction of access roads, utility networks, and other infrastructure. The area of the built-up part of the immovable is close to 13,900 m².



POLIPAKS PLANT

Address: Mālkalni, Marupe County
Client: SIA Polipaks NT
Construction period: 2013-2015

The total land area where construction works were performed was close to 67,000 m² with the total buildings area of over 35,000 m². The production area consists of three workshops: in the first, polythene is produced; the second hosts a printing unit, and the third is the processing unit. In packaging material warehouse and wholesale unit, the largest exhibit in Latvia displaying the offered packaging materials is also available. Various engineering-technical solutions were employed in the project implementation.



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

	2015	2014	CHANGE
Revenue	70.4	45.8	+53.8%
% of total revenue	28.0%	18.1%	+54.6%
Gross profit	7.8	8.1	-4.4%
Gross profit margin	11.0%	17.7%	-37.8%

The real estate market continued to stabilise in 2015, which was reflected in the decreased growth in the number of transactions as well as the prices. Managing such a large and valuable portfolio of properties requires careful and detailed planning of the whole process: the development of apartment buildings starts by organising details, detailed planning, designing and construction and ends with the sale of completed production and warranty service.

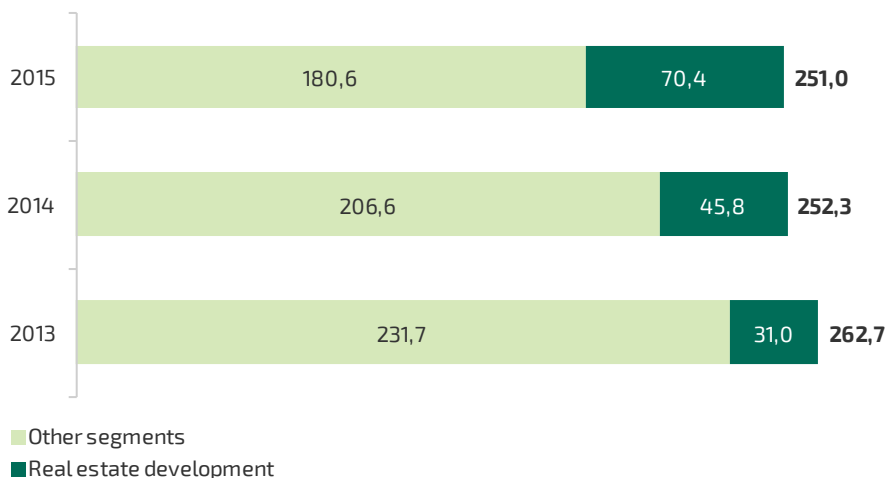
The underlying idea of our development activities is to value land through detailed planning and building development, to find customers for the property and sell the property as developed real estate.

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

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

A total of 403 apartments were sold in 2015 at the total value of EUR 61.4 million (excl. VAT), compared to 395 apartments and EUR 39.4 million in 2014. Of the 403 apartments sold 245 were located in Estonia, 111 in Latvia and 47 in Lithuania. In 2015, the group has earned EUR 6.6 million of revenue from the sale of properties (2014: EUR 1.4 million). 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 in 2015 to 28.0% of the group's total revenue (2014: 18.1%), which has been planned and occasioned by the strategic decisions made in 2012 to increase the segment's investments into various new real estate development projects.

REVENUE
in million euros



GROSS PROFIT
in million euros



In 2015, the gross profit of the segment amounted to EUR 7.8 million (2014: EUR 8.1 million) and the gross profit margin was 11.0% (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.

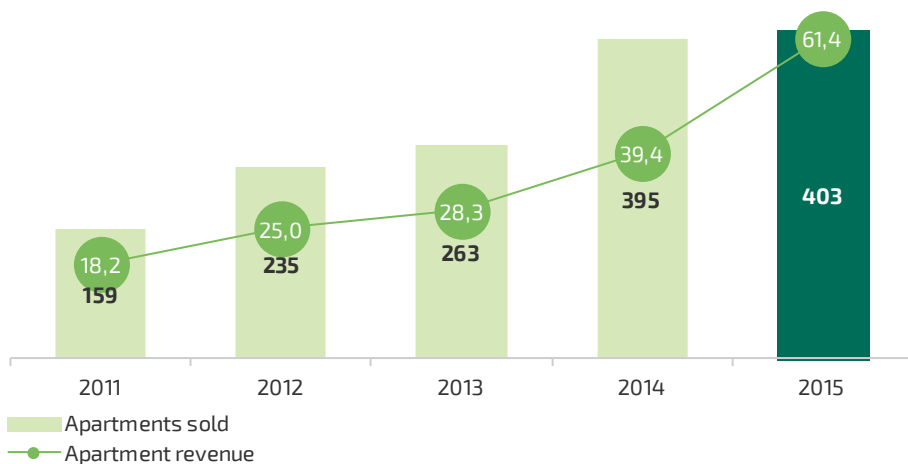
The 2015 profitability of the segment was negatively impacted by the impairment of development projects and immovable properties in the amount of EUR 1.1 million (2014: positively impacted by a net change in impairments amounting to EUR 0.5 million).

At the end of the period, Merko Ehitus group's inventory comprised 37 completed (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),

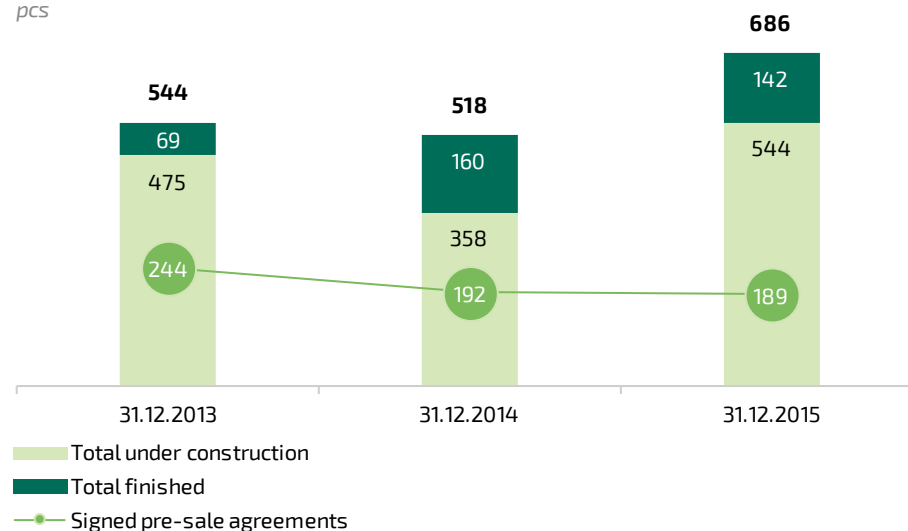
where a preliminary agreement had been signed but where the sale had not yet been finalised and delivered to customers. The reasoning is that the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 December 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 Latvia, 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 last quarter of 2015: launch of construction of 188 new apartments, compared to the 60 new apartments in the same period of 2014.

APARTMENTS SOLD / APARTMENT REVENUE
pcs / in million euros



GROUP APARTMENTS INVENTORY
pcs



APARTMENT PROJECTS IN PROGRESS AND INDICATIVE DATE OF COMPLETION

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Grostonas 17	Riga, Latvia	Completed	1	-
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
Fiziku 8	Vilnius, Lithuania	Completed	20	-
Kraziu 9	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	-
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 2017	82	-
			544	152
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 2015, we launched the construction of a total of 574 new apartments in the Baltic States (2014: 369 apartments) – including the first stage of Tartu mnt 52 development project, the preparation works of which took place in 2014. In 2015, the group has invested a total of EUR 42.4 million (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 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 AS AT 31.12

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 2015, the group has purchased new land plots at an acquisition cost of EUR 11.7 million (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 Rinktimes 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 1.2 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.

In 2015, the group sold off strategically non-essential immovable property at a sale price of EUR 6.6 million (2014: EUR 1.4 million), including for EUR 5.4 million in Estonia and EUR 1.2 million in Lithuania. In Q1 of 2016, the group sold Karevälja tn. 3 and the Rannamõisa tee 4c and 4d properties in Estonia at a sale price of EUR 4.7 million.

THE SPECIFICATIONS OF PROJECTS COMPLETED IN 2015

PROJECT		LOCATION	SIZE
Kentmanni 6	new	Tallinn, Estonia	9,211 m ² , 93 apartments
Rästa 18	new	Tallinn, Estonia	3,110 m ² , 47 apartments
Paepargi 49	new	Tallinn, Estonia	3,702 m ² , 60 apartments
Pärna avenue 12	new	Tartu municipality, Estonia	1,950 m ² , 36 apartments
Pärna avenue 11	new	Tartu municipality, Estonia	1,218 m ² , 24 apartments
Kaupmehe 7	new	Tartu municipality, Estonia	1,760 m ² , 30 apartments
Grostonas 21	new	Riga, Latvia	9,760 m ² , 125 apartments
Fizikų 8	new	Vilnius, Lithuania	2,379 m ² , 38 apartments
Krazių 9	new	Vilnius, Lithuania	1,720 m ² , 28 apartments

Projects completed in 2015 had a total of 481 apartments, of which 125 have not been sold by the year-end and of which 34 apartments had a preliminary agreement signed but where the sale had not yet been finalised and delivered to customers.

COMMERCIAL AND RESIDENTIAL BUILDING AT KENTMANNI 6

Address: Kentmanni st. 6, Tallinn
Customer: OÜ Metsailu
Construction period: 2012-2015

The commercial spaces are located on the two lowest above-ground levels of this 14-storey residential and commercial building, one of Tallinn's most prestigious. The upper levels house 92 exclusive apartments. The building has three main entrances, which meet the requirements of the surrounding neighbourhood in terms of prestige factor. The building's main structure is raised using 16-metre composite posts, allowing the avenue Rävala puiestee to run through the building.



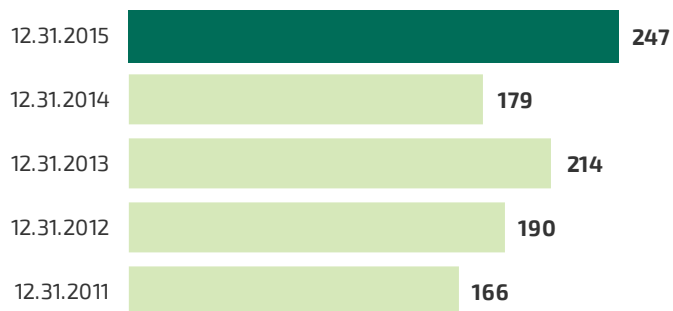
SECURED ORDER BOOK

As at 31 December 2015, the group's secured order book (excluding property 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

proprietary residential development projects and work related to developing real estate investments. In 2015, new construction contracts worth EUR 247.0 million were signed (excludes property developments) as compared to EUR 170.4 million in the prior year.

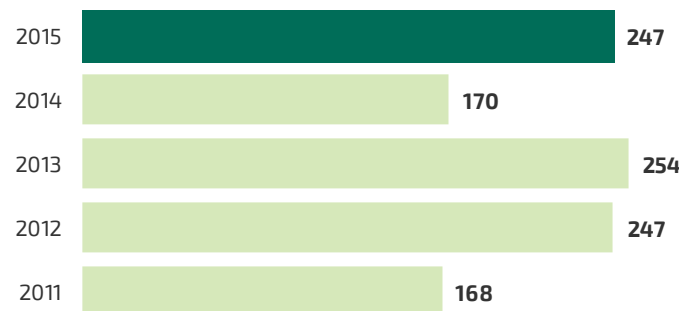
SECURED ORDER BOOK

in million euros



NEW CONTRACTS SIGNED

in million euros



LARGEST CONSTRUCTION CONTRACTS SIGNED IN 2015

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION DATE	COST MILLION EUR
Design and construction works of a 7-storey residential and commercial building at Tatari 6A, Tallinn	Estonia	July 2016	6.0
Design and construction works of shopping and entertainment centre T1 at Peterburi mnt. 2, Tallinn	Estonia	November 2017	70.0
Design and construction works of a 6-storey residential and commercial building at Poordi 1, Tallinn	Estonia	November 2016	5.0
Long-term contract for the maintenance works of main roads in Viljandi county	Estonia	December 2020*	9.0*
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
			142.1
Construction works of a six-storey multifunctional building in Riga	Latvia	July 2016	11.4
Construction works of kindergarten and school buildings complex near Riga in Pinki	Latvia	October 2016	6.0
The second phase construction works of the passenger terminal in Riga International Airport	Latvia	September 2016	8.9
			26.3
Construction works of 24 reinforced concrete foundations for wind turbine generators in Šilute wind farm in Lithuania	Lithuania	November 2015	6.5
Construction works of an office building with 6 storeys and 2 underground parking floors, located at Narbuto 5, Vilnius	Lithuania	Winter 2017	8.5
			15.0
Pile works at Tripla development project in Helsinki, Finland**	Finland	November 2015	3.0
			3.0
Total			186.4

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

** First major construction contract in Finland.

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

- 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 Eesti 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.
- On 8 March 2016 a contract between, AS Merko Ehitus Eesti, 100% subsidiary of AS Merko Ehitus and Rannamõisa tee Kinnisvarahaldus OÜ came into force to perform the design and construction works of BAUHAUS DIY store, located at Kaeravälja st 3, Rannamõisa road 4c and 4d, Haabersti district, Tallinn, Estonia. The value of the contract is approximately EUR 7.6 million. The construction start in March 2016 and are scheduled for completion in April 2017.

The secured order book (excluding property developments) as at the end of the year was distributed according to customers as follows: 21.1% public sector orders and 78.9% private sector orders (31.12.2014: 46.5% public sector and 53.5% private sector). Of the contracts signed in 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 2015 has been modest. The group continues to focus on comprehensive design and construction contracts. In this regard, several important contracts were signed in Estonia in 2015, 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, we forecast the volume of public procurements to stay at the previous year's 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 group's 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

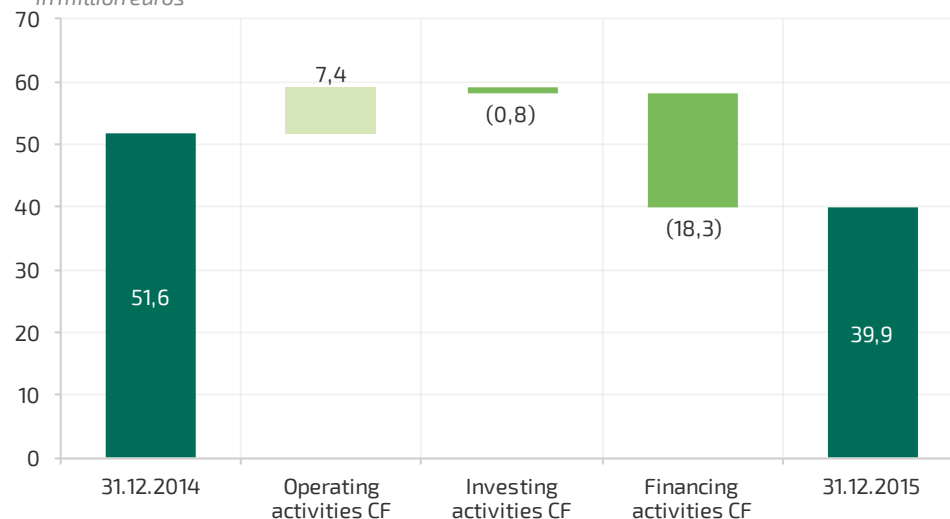
The change in short-term investments and cash equivalents in 2015 of Merko Ehitus group was negative by EUR 11.7 million and as at 31 December 2015 the group had cash equivalents in the amount of EUR 39.9 million (31.12.2014: EUR 51.6 million). The group's cash level is lower compared to the same period 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.

The operating cash flows of 2015 were positive by EUR 7.4 million (2014: positive by EUR 14.5 million), the cash flows from investment activities were negative by EUR 0.8 million (2014: negative by EUR 1.9 million) and cash flows from financing activities were negative by EUR 18.3 million (2014: negative by EUR 7.6 million).

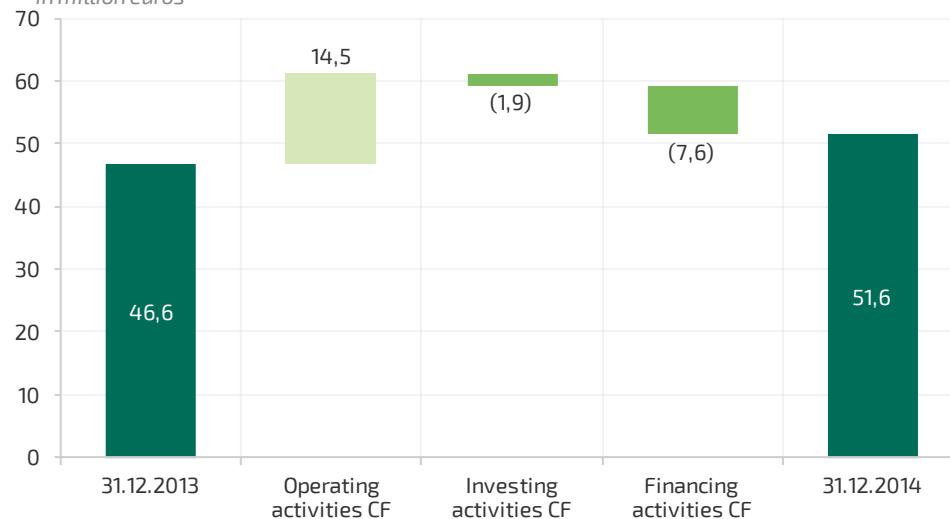
The cash flow from operating activity was mostly influenced by the EBITDA (operating profit adjusted with depreciation and amortisation) EUR 15.5 million (2014: EUR 16.4 million), by the positive change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 2.2 million (2014: negative change of EUR 0.2 million), by the negative change in provisions EUR 1.5 million (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 (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 (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), and 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 (2014: positive change of EUR 0.3 million), interest received EUR 1.8 million (2014: EUR 1.4 million) and by the corporate income tax paid EUR 1.8 million (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.

CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



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 (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 (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 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 was the dividend payment of EUR 7.3 million (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 (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 (2014: positive cash flow of EUR 4.9 million) and finance lease principal repayments of EUR 2.2 million (2014: EUR 1.1 million). All of the new land plots acquired by the group both in 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 of 2014 was negatively impacted by the premature repayment of a working capital loan in the amount of EUR 3.5 million, instead of which the group entered into an overdraft contract with an overall limit of EUR 3.5 million.

RATIOS

(attributable to equity holders of the parent)

		2015	2014	2013
Income statement summary				
Revenue	million EUR	251.0	252.3	262.7
Gross profit	million EUR	23.0	24.7	22.7
Gross margin	%	9.1	9.8	8.6
Operating profit	million EUR	12.5	14.0	12.3
Operating profit margin	%	5.0	5.5	4.7
Profit before tax	million EUR	11.7	13.3	11.1
EBT margin	%	4.7	5.3	4.2
Net profit	million EUR	9.8	12.3	10.4
attributable to equity holders of the parent	million EUR	10.0	12.4	10.4
attributable to non-controlling interest	million EUR	(0.2)	(0.1)	0.0
Net margin	%	4.0	4.9	4.0
Other income statement indicators				
EBITDA	million EUR	15.5	16.4	15.1
EBITDA margin	%	6.2	6.5	5.7
General expense ratio	%	4.8	4.9	4.7
Labour cost ratio	%	12.2	11.9	11.8
Revenue per employee	thousand EUR	322	319	308
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 (total group)	people	779	790	853
Order book	million EUR	246.9	179.1	213.7

Calculation of ratios is provided on page 136 of the report.

RISK MANAGEMENT

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

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

Group risk management is coordinated by the management board who develops, implements and maintains processes covering group activities for the management of all material risks impacting the activity and results of Merko Ehitus. Each group company and business unit must ensure that risks are managed on an ongoing basis with reference to the objectives it has been

“ THE COMPANY MANAGES RISKS SO AS TO ACHIEVE ITS STRATEGIC AND FINANCIAL OBJECTIVES.

assigned. Risk-taking is a normal part of business but in doing so, one must be convinced that if the risk materializes, purposeful and sustainable activity is maintained with reference to the strategy of the company and business unit. The group assesses ongoing business risks and risks affecting development projects in a calculated manner.

MERKO EHITUS DIVIDES RISKS INTO FOUR MAIN CATEGORIES:



BUSINESS RISK

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

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

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

MARKET RISK

Significantly more attention is being paid to potentially major volatility of input prices in the construction sector that could complicate the budgeting process, completion of projects at planned costs, cause additional risks in carrying out fixed-price construction contracts and weaken projects' profitability.

Therefore, the overall economic development is being closely monitored and taking excessive price risks already in the bidding phase is avoided.

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

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

FINANCIAL RISK

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

The analysis on **CREDIT, LIQUIDITY AND LEGAL RISKS** is provided in Note 35 of the financial statements.

OPERATIONAL RISK

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

Considering the group's field of business, it is essential in operational risk management that the improvement and application of safety standards and regulations continues and that supervision of compliance with environmental requirements is increased. One measure for managing operational risks is the implementation of quality and environmental management systems. Risks related to occupational health and safety in construction are assessed and managed in all units and process stages of the group. The largest construction companies of the group have implemented ISO 9001/14001 management systems and Merko Ehitus Eesti, Merko Infra, Merko Tartu and Latvian and Lithuanian subsidiaries have implemented the occupational health and safety management system OHSAS 18001. The group employs 9 (2014: 10) full-time quality specialists who are responsible for developing quality, safety and management systems and ensuring their functioning.

Insurance is used as additional mitigation of operational risks, especially for risks that cannot otherwise be mitigated. The group concludes total risk insurance contracts with insurance companies in order to hedge the risk of unanticipated loss events occurring in the construction process. The general policy is entered into for one year and it compensates the customer, subcontractors and third parties for any losses caused by Merko Ehitus or its subcontractor for up to EUR 9.6 million. The risks of the projects which cost exceeds EUR 9.6 million or the annual policy does not cover (water construction, railroad construction, bridges, etc.) are additionally mapped out and an insurance contract is concluded separately for each object taking into consideration its peculiarities. In concluding contracts for services involving design work, an insurance contract for professional liability is required from subcontractors or an insurance contract at own expense is concluded, covering the damage arising from design, erroneous measurement, advice and instructions. The services of insurance brokers are used in mapping out risks, concluding insurance contracts and handling loss events. In 2015, indemnity applications submitted to insurance companies totalled EUR 0.87 million (2014: EUR 0.85 million), and insurance benefits were received in the amount of EUR 0.86 million (2014: EUR 0.83 million).

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. In 2014, warranty provisions were set up at the group in the total amount of EUR 1.00 million (2014: EUR 1.09 million) and disbursements amounted to EUR 0.71 million (2014: EUR 0.76 million). As at the year-end, the company's warranty provision amounted to EUR 2.38 million (31.12.2014: EUR 2.10 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of

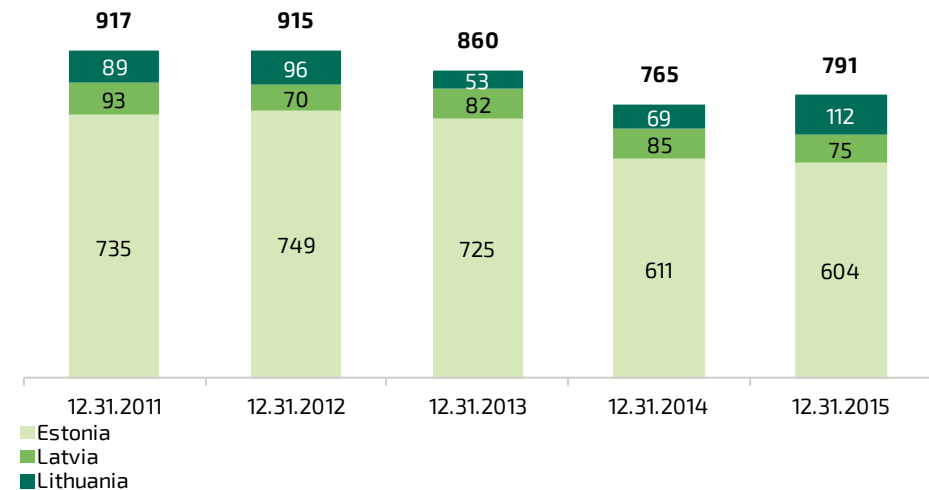
contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

EMPLOYEES

Compared to the same period last year, the number of the group's employees 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).

In 2015, the number of employees has increased mainly due to the growth of construction volumes in Lithuania.

NO OF EMPLOYEES
people



PERSONNEL POLICY

As at 31 December 2015 Merko Ehitus employed a total of 791 people in Estonia, Latvia, Lithuania and Finland, including office staff, project managers and on-site team members. Experienced professionals are the company's key strength. The group's personnel policy supports achievement of the company's goals, ensuring sustainability of the organisation and management, staying competitive, maintaining and increasing the value of the organisation and constant development of competence.

We develop responsible management throughout the organisation, guided by company strategy, management system, applicable law, ethical values and good organisation management practice. We treat employees as partners, involving them in the decision-making process and perceiving that the right to make decisions includes responsibility.

We support people's achievement of their professional goals and the advancement of their career in the company by encouraging existing employees to apply for vacant or new positions within the company. We ensure an adequate, fair and competitive salary that complies with the contribution of the employee and a motivation package.

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

HEALTH AND SAFETY

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

Periodic health inspection provided by the occupational health partner to assess work-related risk factors helps to prevent employee health problems, plan

safer working environments or, with the partial support of the company, to allow employees to use the necessary health rehabilitation measures. Additionally, the company organises for its employees free vaccinations and, naturally, provides its on-site personnel with comfortable compliant work clothes and footwear

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

PERSONNEL DEVELOPMENT AND RECOGNITION

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

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

In order to recognise the most prominent employees of the company and the best business partners, employees annually elect AS Merko Ehitus Eesti Achievers of the Year. In 2015, the following employees, team and business partner were elected as Achievers of the Year:

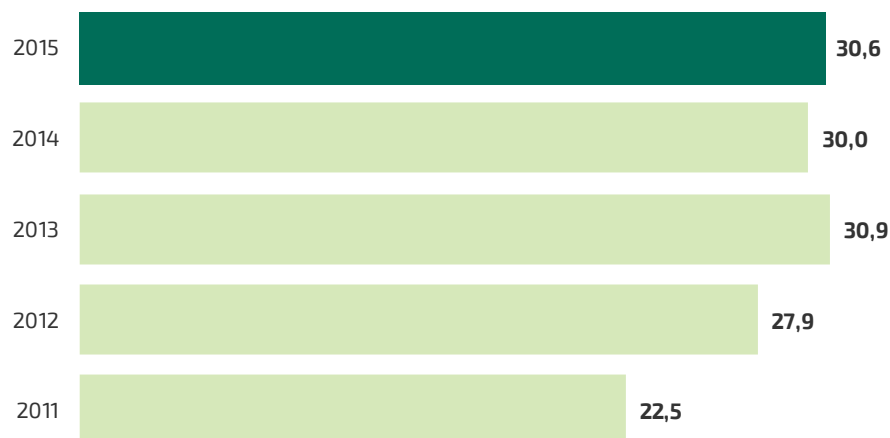
New Talent of the Year	Kristo Paumets	Site manager, external networks department
Office Employee of the Year	Hannes Rohlin	Quantity surveyor, quantity surveying department
Civil Engineer of the Year	Andres Peterson	Site manager, civil engineering division
Electrical Engineer of the Year	Ivar Kukk	Project manager, electrical works department
Residential Contractor of the Year	Taavi Lipp	Project manager, residential construction division
General Contractor of the Year	Risto Sappinen	Project manager, concrete works department
Great Feat of the Year in Estonia	Director of residential construction division Tiit Kuusik and the residential construction division managed by him	
Great Feat of the Year in Latvia	Team: Harry Riibe, Allar Keerme, Arne Treier, Ain Kurvits, Irina Mutli, Almar Otter, Priit Past, Janek Jõgi, Marek Kenk, Taavi Kotkas, Mikk Kruusmaa, Reimo Mäesalu, Silver Tampuu, Relica Virunurm, Helena Maide, Madis Nurm, Indrek Hansen, Jaanus Kruus, Taavi Lipp, Kalev Luiga, Mart Paas, Ahti Suppi, Raigo Tõnisalu, Helen Mai, Tõnis Rohula and Simar Selezov Construction of Liepaja concert hall and the project managers Ivo Brālēns and Sergejs Periņecs	
-Great Feat of the Year in Lithuania	Team: Artis Šmits, Jānis Straupenieks-Brancis, Arturs Tavkiņš, Mikus Valters, Dzintars Šnepsts and Uldis Šteinbergs General construction works of Nordbalt HDVC converter station in Klaipėdas and the project manager Artūras Pranas Karazija Team: Donatas Dapkūnas, Andrius Birulynas, Aidas Katkauskas, Mindaugas Šimkevičius and Algis Gužauskas	
Business Partner of the Year	Civen OÜ	Partnership in the construction of the Tondiraba ice arena

REMUNERATION

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

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 2015, the labour cost was EUR 30.6 million (2014: EUR 30.0 million), up 2.0% from the previous year.

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

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

The topic of business ethics has been thoroughly covered on the group's website <http://group.merko.ee/en/corporate-governance-2/responsibility/ethical-business-practices/>. As a new feature in 2014 all employees, partners and customers can report clear or potential unethical conduct via various anonymous channels, to which the <http://group.merko.ee/en/corporate-governance-2/responsibility/reporting-channels/> website provides an overview. The reporting and information analysis system implemented in AS Merko Ehitus ensures security, confidentiality and, if so desired, anonymity at every stage of the process. Each reported misconduct will be investigated by an independent cooperation partner – AS Merko Ehitus's contractual cooperation partner Ernst & Young – and will lead to appropriate action.

The reports forwarded via the report form, the reporting hotline or e-mail will not be forwarded to Merko – Ernst & Young will only give Merko a summary of the content of reports that need investigation, without any reference to the source of the information. Information will also be kept confidential and used solely for the purposes of solving the relevant incidents by Merko's managers and the audit committee to whom a report has been made. In 2015, the group received one tip which led to an internal investigation (2014: 0 tips).



REPORT FORM



E-MAIL



HOTLINE



DIRECT COMMUNICATION

ENVIRONMENT

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

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

SOCIAL RESPONSIBILITY

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

In 2015, Merko Ehitus continued its long-term sponsorship projects in the same fields:

- We support sports and recreational sport projects that help create ways for entire communities to participate in sports and recreation.
- We support education in order to develop specialised education and plant the seeds for a new generation of professionals.
- We support keeping art and culture vital and make them available to more people, focusing on sites that are nationally important and have broad appeal.

During the year, the group supported sports, culture and education and made charitable donations total in the amount of EUR 0.25 million (2014: EUR 0.22 million).



NÖMME-HARKU, PART OF THE ESTONIAN HEALTH TRAILS NETWORK, HAS 15 KM OF ILLUMINATED, MARKED AND MAINTAINED TRAILS. SKI TRAILS – 1, 2, 3, 5, 15 KM IN LENGTH – ARE OPEN IN WINTER.

The company's largest sponsored project is the Estonian Health Trails (www.terviserajad.ee) project founded in 2005 in collaboration with Swedbank and Eesti Energia. The aim of the project is to adjust and develop the exercise and sports tracks of Estonia to ensure the availability of the year-round and free of charge possibility for active exercise in nature for all interested people and popularise the sporty lifestyle.

From 2005 to 2015, SA Eesti Terviserajad (Estonian Health Trails Foundation) invested, with its founders' support, a total of EUR 3.9 million into developing recreational trails. The investments were made into all Estonian counties, with the biggest ones in Harju County, Tartu County and Ida-Viru County. Based on the preferences of the population in the respective locations of the trails and level of active use, the biggest investments were made into the facilities and tracks at Piritä and Nõmme-Harku in Tallinn, and Kõrvemäe and Jõulumäe.

The total investment made in 2014-2015 period (includes not only the SA Eesti Terviserajad's investments but state and local government investments and support from the European Union) into the development of the Estonian recreational trails network is around EUR 34.5 million. Of the counties, Harju County, Ida-Viru County, Põlva County and Viljandi County have received the most investments.

As a result of the ten years of work, Estonia now has 101 health trails all over the country and 1,000 km of paths and exercise tracks, of which soft-surfaced tracks make up 800 km, hard-surfaced paths account for 200 km and illuminated paths or tracks make up around 200 km. Estonia has an average of 59.8 km of maintained tracks and 15.4 km of illuminated tracks per 100,000 people. They are visited approximately four million times per year.

To simplify navigation for the trail users, 56 large-format maps were installed and 52 trails use markings designed and installed by the foundation. All over Estonia 28 stretching walls have been installed for warm-up and cool-down stretching after exercise. As of the present date, the foundation has also produced about 50 Estonian and Russian language instructional videos. The first four indoor recreational trails were established this year in buildings used by various Estonian companies and organizations. The objective of the indoor tracks is to emphasize the importance of regular exercise and to promote such activity indoors as well.

For many years, Merko has supported Estonian skiing with the goal of contributing to development of top athletes and, on their example, to encourage more people in Estonia to engage in sport and exercise. Merko

was the cooperation partner for the Estonian Ski Association for 10 years, supporting the national Nordic skiing team and youth team.

In 2015, Merko became the first major sponsor of the non-profit Team Haanja, founded at the initiative of eight skiers. The goal is to take new athletes to the top of the international rankings and keep veteran skiers competitive, contributing to fostering conditions for training in line with contemporary requirements. Team Haanja is made up of eight athletes: national team members Triin Ojaste, Algo Kärp, Raido Ränkel, Aivar Rehemaa and Karel Tammjärv and the U23/youth team members Marko Kilp, Alvar Johannes Alev and Andreas Veerpalu.

From 2015, Merko is again supporting Estonian tennis. As a gold sponsor of the Estonian Tennis Association, Merko is focusing on support for organizing top tennis and international tournaments, including investing into the development of the top men's tennis player, Jürgen Zopp, and the Merko Estonian Open held in Pärnu in the summertime.

In Latvia, SIA Merks, a subsidiary of the group, has supported the Rīga Stradiņš university women's basketball team since 2001.

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

To support the field of architecture, Merko entered into a five-year cooperation agreement with the Estonian Union of Architects, which each year hands out the annual prize to an architect to recognise one outstanding work of architecture and the architect responsible for it. The EUR 5,000 award is contributed by AS Merko Ehitus. To ensure that the winning work is not just extraordinary in the Estonian cultural context but also strike international audiences as distinctive and innovative, the competition entries are judged by an international jury. At this year's gala held at the Culture Hub in Tallinn, Peeter Pere was named the winner of the first instalment of this annual award for his work in designing a private home and outbuildings in Tartu County. As a company that carries out the work of architects on a daily basis, it's an honour for Merko to contribute to recognizing their work.

In Lithuania, the group's subsidiary UAB Merko Statyba supported various projects to improve social infrastructure in the city of Vilnius, as part of which construction and maintenance of nursery schools and preschools was supported and public transport was developed. In addition, UAB Merko Statyba also contributed to supporting the field of architecture.

Merko has a successful partnership since 2007 with Tallinn University of Technology for the objective of developing education in the field and train the next generation. In November 2013, AS Merko Ehitus Eesti signed a new cooperation agreement with the Development Fund of Tallinn University of Technology until 2016 for sponsoring TUT students and academic staff with eponymous scholarships. A EUR 3,300 scholarship is awarded in construction specialities to a young lecturer/scientist up to 40 years of age, possessing a Doctoral level degree, in TUT and there is also another scholarship for EUR 2,000 awarded to a successful student of the third, fourth or fifth year in the Faculty of Civil Engineering, in TUT. In 2015, the scientist's scholarship was awarded to TUT Faculty of Civil Engineering doctoral student Raido Puust professor Hendrik Voll, Head of the heat and ventilation Department at TUT and the engineering scholarship was awarded to Kristel Tamm, a fifth year student of the heat and ventilation department at TUT.



RODE RETABLE CONSERVATION PROJECT WILL END IN 2016.

RECOGNITIONS 2015

In 2015, the activities of AS Merko Ehitus were 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

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.

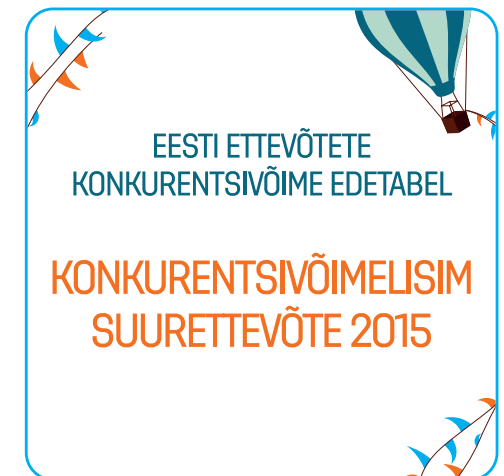
The Real Estate Survey 2015 is the eleventh survey conducted by Euromoney, a financial magazine published from 1969, with the aim of ranking the best in real estate on the basis of the market data, as well on the evaluations by other market participants and specialists in the field – participants and 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

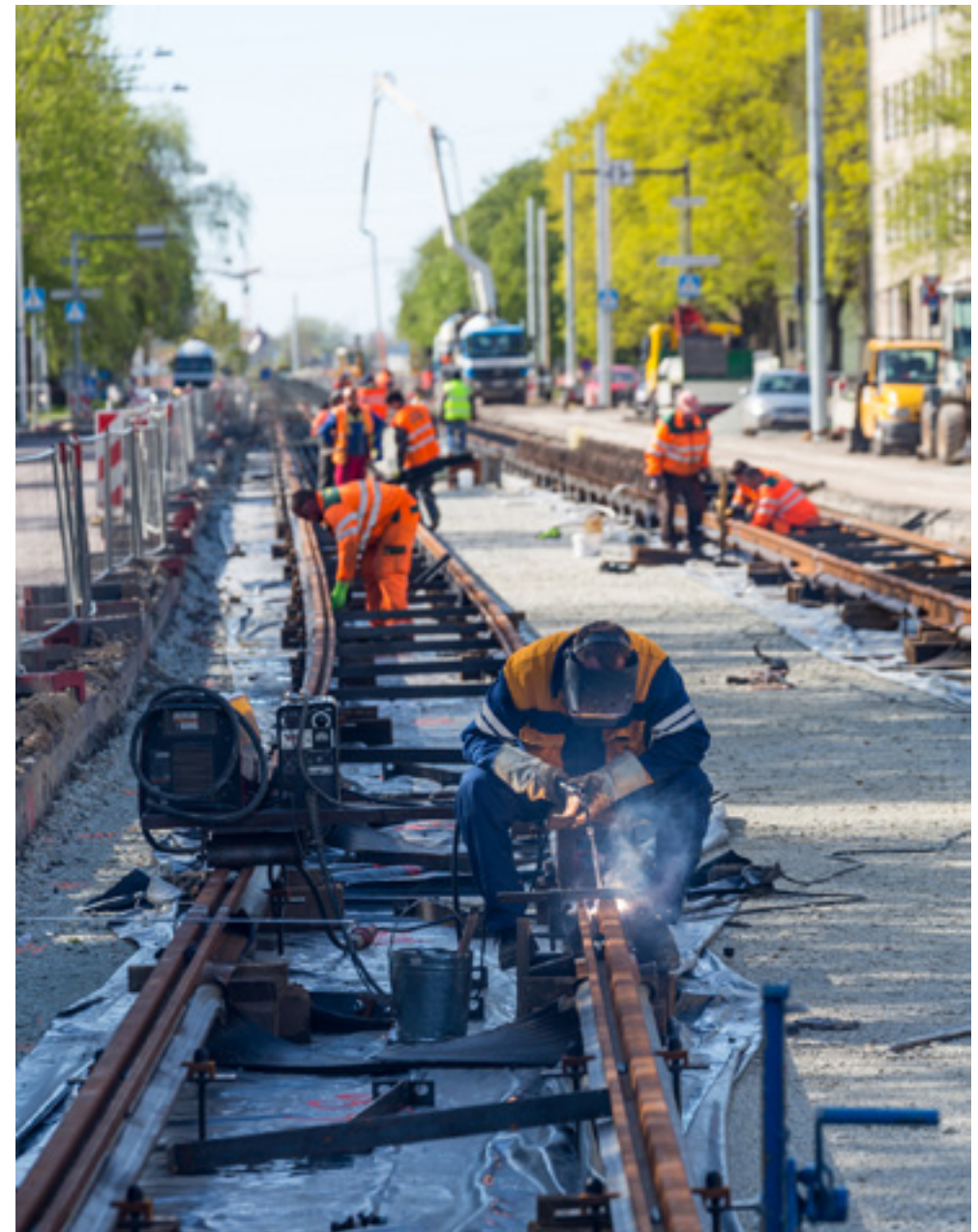
Best Investor Relations in the Baltic Market
3RD PLACE

THE BIGGEST PAYER OF WORKFORCE TAXES IN THE CONSTRUCTION SECTOR IN 2015

At a ceremony held in February 2016 at Stenbock House, the seat of national government, Estonian Prime Minister Taavi Rõivas and Tax and Customs Board director general Marek Helm thanked the largest taxpayers and exporters among the private business community. One of the criteria for selection was exemplary tax adherence. AS Merko Ehitus Eesti, subsidiary of AS Merko Ehitus, won recognition for having paid the most workforce taxes of any company in the construction sector.

A HIGH POSITION IN THE COUNTRY'S MOST ATTRACTIVE EMPLOYER RANKINGS

CV Keskus's annual survey drew on nearly 6,000 respondents all over Estonia to compile its rankings of the country's best employers. The company job-seekers most want to work for was Eesti Energia. AS Merko Ehitus Eesti rose from the 27th in 2014 to 17th in 2015.



DESIGN AND RENOVATION WORKS OF THE INFRASTRUCTURE OF TALLINN TRAM LINE NO. 4 COMPLETED IN 2015.

SHARE AND SHAREHOLDERS

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 did not change during 2015.

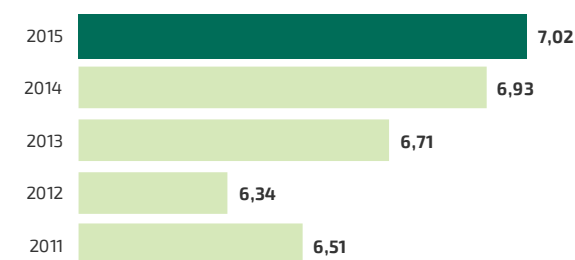
In 2015, 2,829 transactions were conducted with the shares of Merko Ehitus in the course of which 0.90 million shares were traded (5.1% of shares outstanding) and the total monetary value of transactions was EUR 7.71 million (comparative data for 2014: 1,699 transactions, in the course of which 1.03 million shares were traded (5.8% of shares outstanding) and the total monetary value of transactions was EUR 7.62 million). The lowest share price was EUR 7.06 and the highest share price was EUR 10.50 (2014: EUR 6.70 and EUR 7.99 respectively). The closing price of the share as at 31.12.2015 was EUR 8.48 (31.12.2014: EUR 7.14). As at 31.12.2015, the market capitalisation of AS Merko Ehitus was EUR 150.1 million, up 18.8% compared to the end of the equivalent period in the prior year (31.12.2014: EUR 126.4 million).

The number of shares that belong to the members of Supervisory Board and Management Board as at 31 December 2015 was 9,964,334 shares (31 December 2014: 9,964,234 shares) that accounted for 56.3% of the number of shares (31 December 2014: 56.3%). A more detailed presentation of the members of the Supervisory Board and Management Board and the number of shares they own are provided in the Report on Good Corporate Governance.

EARNINGS PER SHARE (EPS)
euros



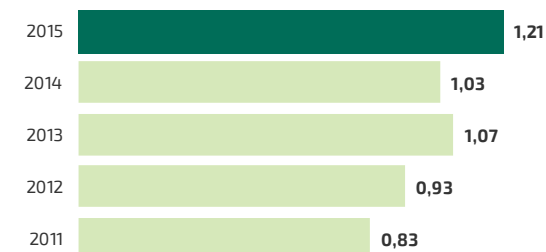
EQUITY PER SHARE
euros



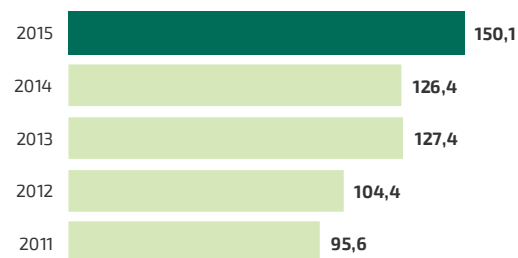
P/E RATIO
times



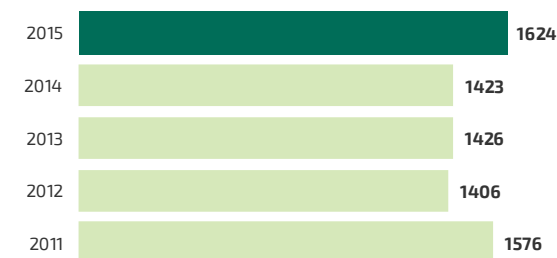
P/B RATIO
times



MARKET VALUE
in million euros



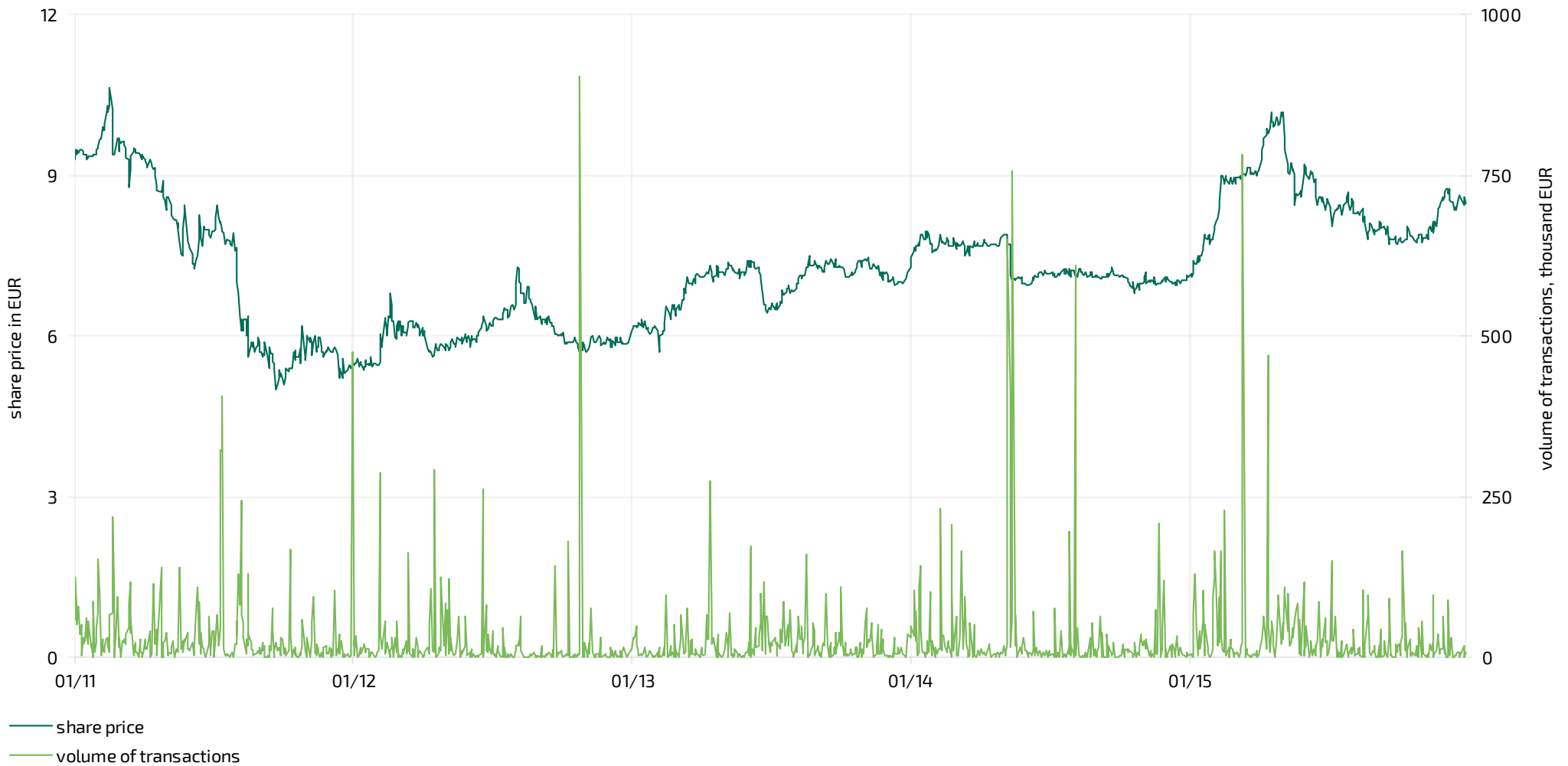
NUMBER OF SHAREHOLDERS AT YEAR-END
pcs



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

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



TRADING HISTORY OF SECURITY, IN EUROS

	2015	2014	2013
Highest	10.50	7.99	7.70
Lowest	7.06	6.70	5.71
Closing at 31.12	8.48	7.14	7.20
Average	8.47	7.33	6.96
Change at 31.12, %	+18.77	-0.83	+22.03
Traded shares, pcs	897,409	1,030,681	726,690
Turnover, million EUR	7.71	7.62	5.08
Market value at 31.12, million EUR	150.1	126.4	127.4

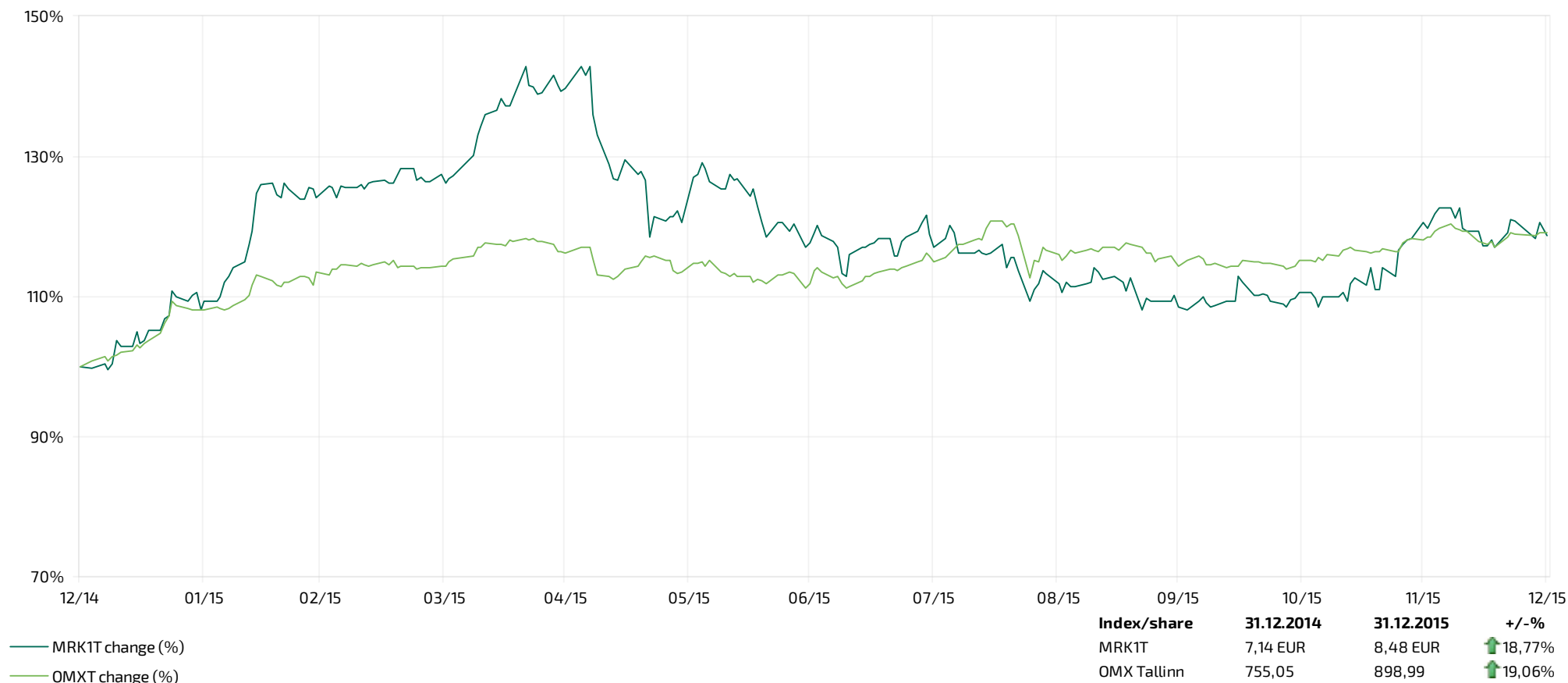
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2015

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%
1001-10,000	258	15.89%	714,329	4.04%
101-1000	815	50.18%	328,773	1.86%
1-100	504	31.03%	27,038	0.15%
Total	1,624	100%	17,700,000	100%

STRUCTURE OF SHAREHOLDERS ACCORDING TO HOLDER CATEGORIES AS AT 31.12.2015

CATEGORY	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
Insurance corporation	1	0.06%	145,020	0.82%
Other investment fund	5	0.31%	756,672	4.28%
Pension fund	6	0.37%	14,300	0.08%
Credit institution	28	1.73%	2,409,761	13.62%
Other financial institution	39	2.40%	310,502	1.75%
Other non-financial corporation	204	12.56%	13,215,589	74.66%
Household	1,341	82.57%	848,156	4.79%
Total	1,624	100%	17,700,000	100%

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



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

	NUMBER OF SHARES	% OF TOTAL 31.12.2015	% OF TOTAL 31.12.2014	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	974,126	5.50%	5.50%	-
Firebird Republics Fund Ltd	395,704	2.24%	2.12%	+20,000
Skandinaviska Enskilda Banken S.A.	261,222	1.48%	2.35%	-155,041
Skandinaviska Enskilda Banken AB, Swedish customers	256,653	1.45%	1.66%	-37,007
Firebird Aurora Fund Ltd	220,519	1.25%	1.25%	-
Skandinaviska Enskilda Banken AB, Finnish customers	167,966	0.95%	1.04%	-16,016
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%	-3,000
Clearstream Banking Luxembourg S.A. customers	141,709	0.80%	0.81%	-1,943
Total largest shareholders	15,458,623	87.34%	88.42%	-193,007
Total other shareholders	2,241,377	12.66%	11.58%	+193,007
Total	17,700,000	100%	100%	

DIVIDENDS AND DIVIDEND POLICY

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

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

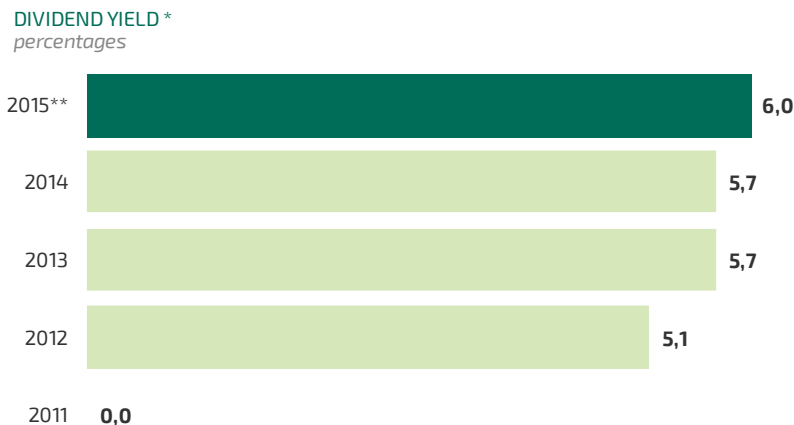
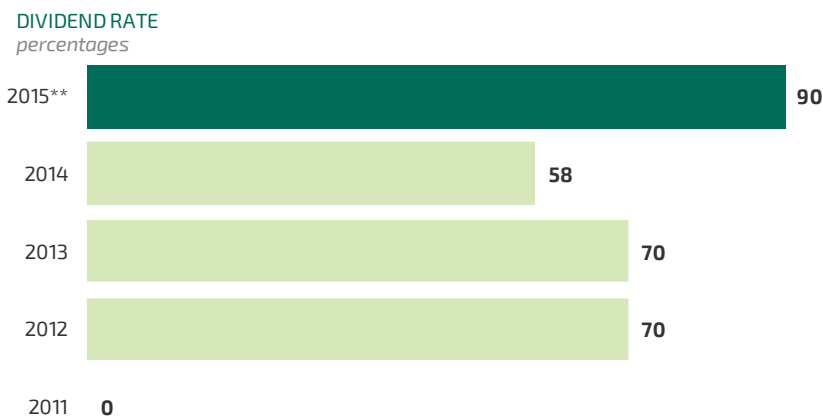
The annual general meeting of shareholders of AS Merko Ehitus held at 29 April 2015 approved the Supervisory Boards proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 58% dividend rate and a 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 for the year 2013 (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.

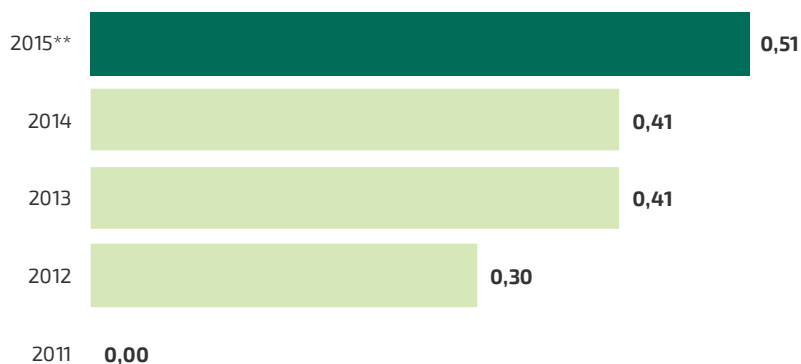
The Management Board proposes to pay the shareholders EUR 9.0 million as dividends from net profits brought forward (EUR 0.51 per share) in 2016, which is equivalent to a 90% dividend rate and a 6.0% dividend yield for the year 2015 (using the share price as at 31 December 2015). Taking into account 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 2015 (2014: EUR 0.9 million) in Estonia in connection with disbursement of dividends.

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



Dividend 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.

DIVIDEND PER SHARE
euro



* Using share price as at 31.12

** 2015 figures based on Management Board proposal regarding dividend payment.

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 existing amount and the requirements that legislation imposes on share capital are also met 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 was made on 16 November 2015. Shareholders, that were entered into the share register of AS Merko Ehitus on 22 May 2015, at 23.59, were entitled to the monetary payments from the reduction of share capital.

Considering the resolutions of the general meeting of the shareholders to pay EUR 7.3 million from retained earnings to shareholders as dividends (EUR 0.41 per share) and to reduce share capital by EUR 4.1 million (EUR 0.23 per share), and considering the share price as at 31 December 2014, return on the investment in 2014 was 9.0% and the payout ratio of 91% from 2014 profit.



ECCUA
PRODUCTION
AND STORAGE
BUILDING IN
HARJU COUNTY.

SHAREHOLDER INFORMATION

GENERAL MEETING OF SHAREHOLDERS

The annual general meeting of shareholders of AS Merko Ehitus will be held on Wednesday, 27 April 2016 at 10.00 a.m. at the Arcturus conference room of Nordic Hotel Forum (Viru väljak 3, Tallinn).

AGENDA

1. Approval of the annual report of the year 2015 and providing an overview of the financial results and the prospects of the year;
2. Proposal on distribution of profits and statutory reserve capital;
3. Proposal on approval of a new wording of the articles of association.

RIGHT OF PARTICIPATION

The shareholders with the right to participate in the general meeting of shareholders will be determined 7 days before the general meeting of shareholders is held, i.e. 20 April 2016 at 11.59 p.m.

REGISTRATION

Registration of participants of the meeting will open on April 27th 2016 at 9.30 a.m.

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

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

A shareholder may notify AS Merko Ehitus of appointing a representative and having withdrawn a proxy before the general meeting, by supplying a digitally signed proxy and other required documents by e-mail to the following address: group@merko.ee or delivering the written and signed documents on paper (proxy and other required documents) to the office of AS Merko Ehitus at Pärnu mnt 141 Delta Plaza 7th floor, Tallinn (on working days from 10.00 a.m. through 4.00 p.m.) by April 26th 2016, at 4.00 p.m., at latest, using the forms published by AS Merko Ehitus on its website at <http://group.merko.ee>. It is not possible to vote electronically or by mail at the general meeting.

DOCUMENTS

The annual report of AS Merko Ehitus for 2015 and the chartered auditor's report are available for inspection on the website of NASDAQ Tallinn Stock Exchange at <http://www.nasdaqomxbaltic.com> or the group's website at <http://group.merko.ee>.

Documents related to the annual general meeting of shareholders of AS Merko Ehitus, including draft resolutions, annual report for the financial year 2015, chartered auditor's report and proposals for distribution of profits along with the articles of association and written report, drawn up for the annual report by the Supervisory Board, are available for inspection as of April 6th 2016 on the website of AS Merko Ehitus at <http://group.merko.ee> or on working days between 10.00 a.m. and 4.00 p.m. at Pärnu mnt 141 Delta Plaza 7th floor, Tallinn. Questions concerning the agenda of the regular meeting can be asked by sending them to the e-mail address group@merko.ee. Questions and answers will be disclosed at the website of AS Merko Ehitus.

SHAREHOLDER RIGHTS

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

Shareholders, holding shares representing at least 1/20 of the share capital of AS Merko Ehitus may submit a draft resolution of each item on the agenda to

the public limited company no later than 3 days prior to the general meeting, that is, until April 24th 2016, submitting it in writing to the following address: AS Merko Ehitus, Pärnu mnt 141 Delta Plaza 7th floor, 11314 Tallinn.

Shareholders, holding shares representing at least 1/20 of the share capital of AS Merko Ehitus, may demand that additional items are added to the agenda of the general meeting, provided that such a request has been submitted in writing at least 15 days prior to the general meeting, that is, until April 12th 2016, to the following address: AS Merko Ehitus, Pärnu mnt 141 Delta Plaza 7th floor, 11314 Tallinn.

IMPORTANT DATES RELATED TO GENERAL SHAREHOLDERS MEETING

EVENT	DATE
The shareholders with the right to participate in the general meeting are determined	20 April 2016 at 11.59 p.m.
Registration of participants in the meeting	27 April 2016 at 9.30 a.m.
General meeting of shareholders	27 April 2016 at 10.00 a.m.
Dividend ex-date	16 May 2016
Dividend record date	18 May 2016 at 11.59 p.m.
Dividend payment date	20 May 2016

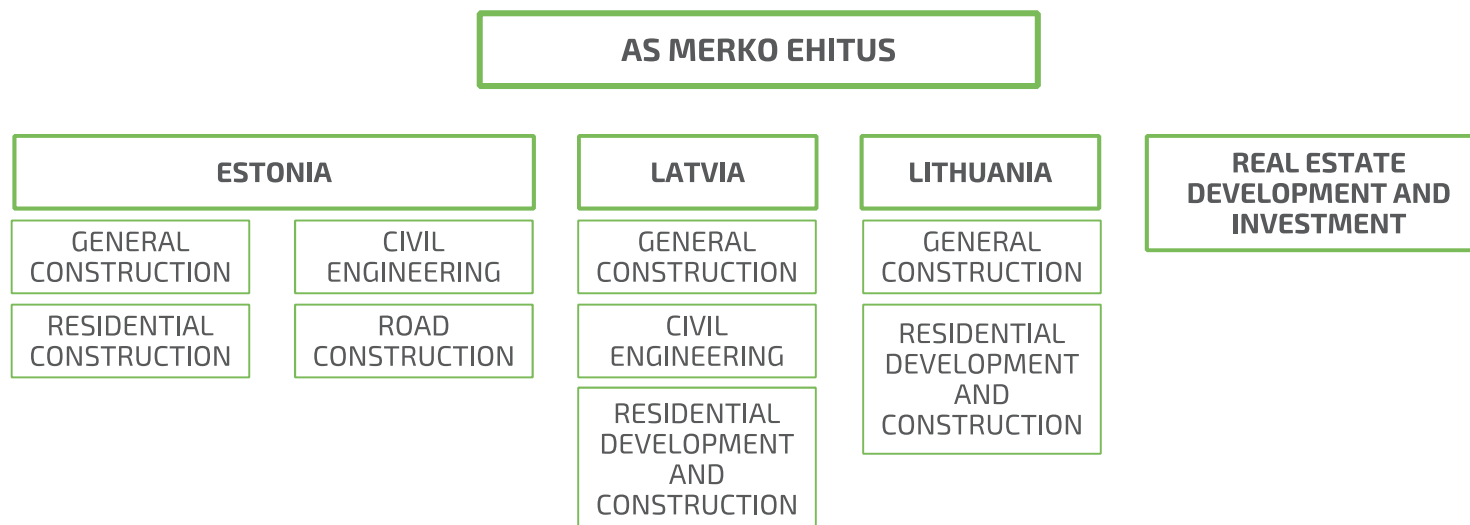
REPORT ON GOOD CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

Adherence to the principles of Good Corporate Governance is part of the management of AS Merko Ehitus. Generally, this system is regulated by relevant legislation, the company's articles of association and the company's internal policies. Starting from 1 January 2006, issuers of shares listed on the NASDAQ Tallinn Stock Exchange are recommended to adhere to the principles of Good Corporate Governance approved by the Financial Supervisory Authority that covers good practices of enterprise management and treatment of shareholders. AS Merko Ehitus has followed these principles throughout 2015.

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

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



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

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum effectiveness in group management, we in some cases differentiate the management structure and legal structure. The group's 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 18 and 19 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 Constančia, 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 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 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. The 100% subsidiary in the Kingdom of Norway, Merko Investments AS (registry code 916 750 323) was founded in February 2016 and, on 17 February, entered into the register. The share capital of the new subsidiary is NOK 30,000 (about EUR 3,200). This is a technical step aimed at creating the legal platform for launching operations in Norway.

On 7 March 2016, Merko Investments AS, part of AS Merko Ehitus group, signed contracts with Norwegian companies SDV Holding AS and Aucon AS to acquire 56% stake in Norwegian construction company Peritus Entreprenør AS. Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. Peritus Entreprenør AS (www.peritus-entreprenor.no) is a Norwegian construction company, offering general construction services, with the sales turnover of approximately 7 million euros in 2015. The former owners will

continue to participate in the daily management of the company and they keep their 44% stake. The aim of the acquisition is to start offering construction services on Norwegian market.

GENERAL MEETING OF SHAREHOLDERS

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

The general meeting of the shareholders was held on 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 0.40 per share) were paid out to 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 was 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 Vöhma 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.



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)



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
Has held various executive positions in Hansapank (now Swedbank), incl. Director General of the Group, Chairman of the Management Board and also in Bank Saint Petersburg as the Chairman of the Supervisory Board.

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)



TEET ROOPALU (66)
MEMBER OF THE
SUPERVISORY BOARD

Positions held:

2004-... AS Merko Ehitus, Member of the Supervisory Board
2010-... AS Riverito, Member of the Management Board
2003-... E.L.L. Kinnisvara AS, Member of the Supervisory Board
2008-... AS Järvevana, Member of the Supervisory Board
2002-2004 AS Merko Ehitus, Adviser to the Management Board

Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.

Member of Supervisory Boards of subsidiaries.

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -



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)

The meetings of the Supervisory Board generally take place once a month, except in summer months. In 2015, the Supervisory Board held 12 regular meetings. No extraordinary Supervisory Board meetings were held. Participation of members of the Supervisory Board at meetings:

NAME	PARTICIPATION IN MEETINGS	PARTICIPATION %
Toomas Annus	12	100%
Teet Roopalu	12	100%
Indrek Neivelt	10	83%
Olari Taal	12	100%

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

No termination benefits are paid to the members of the Supervisory Board upon the termination or non-extension of the contract. In the 2015 and 2014 financial years, the members of the Supervisory Board were remunerated as follows (in euros):

NAME	2015	2014
Toomas Annus	42,182	42,182
Teet Roopalu	38,347	38,347
Indrek Neivelt	38,347	38,347
Olari Taal	38,347	38,347
TOTAL	157,223	157,223

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



AS A RESULT OF THE DESIGN AND RENOVATION OF THE INFRASTRUCTURE OF TALLINN TRAM LINE NO.4, THE PEOPLE IN TALLINN ARE SERVED BY THE NEW TRAMS.

MANAGEMENT BOARD

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

Pursuant to the Articles of Association approved at the general meeting of shareholders in 2012, the Management Board may have up to three members. AS Merko Ehitus has a two-member Management Board: Andres Trink (Chairman of the Management Board) and Tõnu Toomik (Member of the Management Board).

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

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



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 engineering (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 members of the Management Board are paid bonuses once a year based on the fulfilment of the targets of the previous financial year.

Gross service fees calculated to the members of the Management Board in the financial year 2015 totalled EUR 549 thousand (financial year 2014: EUR 538 thousand).

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

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

COMPANY *	SUPERVISORY BOARD	MANAGEMENT BOARD
AS Merko Ehitus Eesti (29,005,283 euros)	Andres Trink (Chairman), Teet Roopalu, Tõnu Toomik, Toomas Aak	Tiit Roben (Chairman), Jaan Mäe, Alar Lagus, Veljo Viitmann
AS Merko Infra (7,762,908 euros)	Tiit Roben (Chairman), Veljo Viitmann, Mihkel Mugur	Arno Elias (Chairman), Tarmo Pohlak, Boris Tehnikov
Tallinna Teede AS (12,856,529 euros)	Tiit Roben (Chairman), Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments (21,582,191 euros)	-	Andres Trink, Signe Kukin
SIA Merks (19,812,602 euros)	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments (41,214,716 euros)	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba (3,120,088 euros)	Andres Trink (Chairman), Tõnu Toomik, Signe Kukin	Saulius Putrimas (Chairman), Jaanus Rästas
OÜ Metsailu (5,695,407 euros)	-	Tiit Kuusik, Ines Prual

* The figure in brackets indicates the amount of equity held by the parent company's owners in significant subsidiaries as at 31 December 2015.

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.

On 10 March 2016, the Management Board of AS Merko Ehitus decided to change the composition of the Supervisory Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group. Mr. Toomas Aak will leave the Supervisory Board of AS Merko Ehitus Eesti and the Supervisory Board will continue with three members: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Teet Roopalu.

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

AUDIT COMMITTEE

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

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

Members of the auditing committee are not separately remunerated.

REPORTING AND FINANCIAL AUDIT

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

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

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

Financial audits are conducted on the basis of International Standards on

Auditing. The auditor of AS Merko Ehitus is approved by the general meeting of shareholders. The selection process is managed by the Supervisory Board and its findings are presented to the general meeting for approval. As a result of the tender and with the resolution made by the general meeting in 2015, the financial auditor for annual reports of 2015-2017 is AS PricewaterhouseCoopers (PwC). Auditors authorised to sign the report differ, depending on the country of residence of the group company. Chartered auditor Ago Vilu is responsible for the consolidated audit report.

AS Merko Ehitus considers it important to ensure independence of the financial auditor and to avoid of conflicts of interest. In 2015, PwC did not perform to AS Merko Ehitus services that could have affected the independence of the auditor. We find that the financial audit was conducted in 2015 in compliance with regulative acts, international standards and expectations. PwC presented the results in two stages: a) as part of an interim audit and b) with regard to the final audit before the opinion is issued. Auditor's report is presented on page 130.

In 2015, the fees for financial audit of AS Merko Ehitus group amounted to EUR 97 thousand (2014: EUR 109 thousand) and for other counselling services (incl. tax advisory and IS consultations) to EUR 19 thousand (2014: EUR 7 thousand).

CONFLICT OF INTERESTS AND HANDLING OF INSIDER INFORMATION

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

The members of the Management and Supervisory Board of AS Merko Ehitus are users of insider information (so-called insiders). They have signed a relevant statement, are aware of insider information rules of AS Merko Ehitus and together with people connected with them are registered in the list of

the company's insiders. Moreover, the list of insiders includes the financial employees of the parent company who have access to the group's consolidated operating results as well as members of the Management and Supervisory Boards of the more important subsidiaries together with the employees who are responsible for preparing and presenting accounting information.

As at 31 December 2015, the company's insider register lists 60 persons with permanent access (31.12.2014: 46 persons). The group keeps records on insiders in accordance with requirements set forth in the Securities Market Act and NASDAQ Tallinn rules and regulations.

To the best of our knowledge, in the financial year 2015 there were no cases of any misuse of insider information or conflicts of interest. No transactions with related parties were made at other than market terms.

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

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

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

An overview of transactions with related parties in 2015 is provided in Note 33 of the financial statements.

DISCLOSURE OF INFORMATION

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

The group has adopted an information disclosure procedure that describes the main policies in communication with investors and the public. The objective of the information disclosure procedure is to ensure access to adequate and yet accurate information about the group and its operations that will form the basis for the price of the securities issued by the company.

Information will be disclosed without undue delay and impartially. The main principles of information disclosure of Merko Ehitus are consistency, impartiality, transparency, truthfulness and preventive approach.

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

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

Stock exchange releases are always published regarding the following subjects:

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

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

Important information shall be disclosed through the stock exchange system and on the company's website. In 2015, AS Merko Ehitus published 42 stock exchange releases through the stock exchange system.

NUMBER OF RELEASES	CONTENT OF RELEASE
14	New construction contracts
10	New development projects
5	Operating results
2	Acquisition of new properties
5	Changes in structure and management
2	General meeting
4	Other releases

We will publish 2016 consolidated interim reports as follows:

DATE	EVENT
05/05/2016	2016 3 months and I quarter unaudited interim report
04/08/2016	2016 6 months and II quarter unaudited interim report
03/11/2016	2016 9 months and III quarter unaudited interim report
09/02/2017	2016 12 months and IV quarter unaudited interim report

In 2016, reports will be published before the start of the trading day, at 8 am local Estonian time (EET). Annual accounts of subsidiaries are not generally published, but they can be obtained, if necessary, from AS Merko Ehitus or the local Commercial Registries.

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

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

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

The investor calendar published on the AS Merko Ehitus website <http://group.merko.ee/en/investors/investor-calendar/2016-01/> provides an overview of investor meetings both past and upcoming. Current shareholders can request their participation in planned meetings shown on the investor calendar. Requests should be made in a timely fashion. In addition to the investor meeting date, time and names of participants, Merko's website has a section with the presentations used at the meetings. In 2015, AS Merko Ehitus organised 23 investor meetings (2014: 22) including 2 investor tours (2014: 3).

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

The main analysts who cover AS Merko Ehitus are:

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

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

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

DECLARATION OF CONFORMITY TO RECOMMENDATIONS OF GOOD CORPORATE GOVERNANCE CODE

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

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

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

MANAGEMENT DECLARATION

The Management Board declares and confirms that according to their best knowledge, the year 2015 annual accounts, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a correct and fair view of the assets, liabilities, financial situation and profit or loss of AS Merko Ehitus and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Merko Ehitus and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Andres Trink

Chairman of the Management board

31.03.2016

Tõnu Toomik

Member of the Management Board

31.03.2016

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in thousands of euros

	Note	2015	2014
Revenue	3	251,012	252,323
Cost of goods sold	4	(228,044)	(227,591)
Gross profit		22,968	24,732
Marketing expenses	5	(3,230)	(3,190)
General and administrative expenses	6	(8,907)	(9,128)
Other operating income	7	1,943	1,901
Other operating expenses	8	(278)	(340)
Operating profit		12,496	13,975
Finance income	9	120	143
Finance costs	10	(786)	(680)
Loss from joint ventures	19	(138)	(130)
Profit before tax		11,692	13,308
Corporate income tax expense	11	(1,857)	(1,055)
Net profit for financial year		9,835	12,253
incl. net profit attributable to equity holders of the parent		10,000	12,417
net profit attributable to non-controlling interest		(165)	(164)
Other comprehensive income, which can subsequently be classified in the income statement			
Currency translation differences of foreign entities		2	4
Comprehensive income for the period		9,837	12,257
incl. net profit attributable to equity holders of the parent		10,002	12,421
net profit attributable to non-controlling interest		(165)	(164)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	12	0.56	0.70

The notes set out on pages 85-128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	Note	31.12.2015	31.12.2014
ASSETS			
Current assets			
Cash and cash equivalents	14	39,905	51,583
Trade and other receivables	15	24,854	46,382
Prepaid corporate income tax		421	3
Inventories	17	109,090	117,638
		174,270	215,606
Non-current assets			
Investments in joint ventures	19	284	67
Other long-term loans and receivables	20	16,419	11,409
Deferred income tax assets	21	1,423	1,535
Investment property	22	4,371	4,619
Property, plant and equipment	23	13,442	15,003
Intangible assets	24	879	1,011
		36,818	33,644
TOTAL ASSETS		211,088	249,250
LIABILITIES			
Current liabilities			
Borrowings	26	5,525	14,287
Payables and prepayments	27	43,266	71,122
Income tax liability		711	352
Short-term provisions	28	5,013	6,239
		54,515	92,000
Non-current liabilities			
Long-term borrowings	26	25,660	23,359
Deferred income tax liability	21	788	738
Other long-term payables	29	1,159	1,671
		27,607	25,768
TOTAL LIABILITIES		82,122	117,768
EQUITY			
Non-controlling interests	18	3,268	4,455
Equity attributable to equity holders of the parent			
Share capital	31	7,929	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 85-128 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

	Equity attributable to equity holders of the parent				Total	Noncontrolling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings/accumulated losses			
Balance as at 31.12.2013	12,000	1,200	(669)	109,332	121,863	1,193	123,056
Profit (loss) for the financial year	-	-	-	12,417	12,417	(164)	12,253
Other comprehensive income	-	-	4	-	4	-	4
Total comprehensive income (loss) for the financial year	-	-	4	12,417	12,421	(164)	12,257
Purchase of non-controlling interest	-	-	-	-	-	(95)	(95)
Minority share of purchased subsidiary (Note 18)	-	-	-	-	-	2,618	2 618
Minority share of sold subsidiary (Note 18)	-	-	-	-	-	(244)	(244)
Issuance of additional share capital (Note 18)	-	-	-	-	-	1,147	1,147
Dividends (Note 13)	-	-	-	(7,257)	(7,257)	-	(7,257)
Total transactions with owners	-	-	-	(7,257)	(7,257)	3,426	(3,831)
Balance as at 31.12.2014	12,000	1,200	(665)	114,492	127,027	4,455	131,482
Balance as at 31.12.2014	12,000	1,200	(665)	114,492	127,027	4,455	131,482
Profit (loss) for the financial year	-	-	-	10,000	10,000	(165)	9,835
Other comprehensive income	-	-	2	-	2	-	2
Total comprehensive income (loss) for the financial year	-	-	2	10,000	10,002	(165)	9,837
Issuance of additional share capital (Note 18)	-	-	-	-	-	1	1
Net assets transferred by division (Note 18)	-	-	-	(3)	(3)	(1,023)	(1,026)
Share capital reduction (Note 31)	(4,071)	-	-	-	(4,071)	-	(4,071)
Dividends (Note 13)	-	-	-	(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 notes set out on pages 85-128 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	Note	2015	2014
Cash flows from (used in) operating activities			
Operating profit		12,496	13,975
Adjustments:			
Depreciation	22-24	3,004	2,459
(Profit)/loss from sale of non-current assets	7	(114)	(12)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method	32	2,229	(180)
Interest income from operating activities	7	(1,592)	(1,571)
Change in provisions	28	(1,487)	1,298
Change in trade and other receivables related to operating activities		9,985	12,742
Change in inventories	17	10,936	(14,823)
Change in trade and other payables related to operating activities		(27,234)	316
Interest received	7, 9, 15	1,793	1,429
Interest paid	10, 27	(857)	(938)
Other finance income and costs	9, 10	(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	18	-	(407)
Proceeds from sale of subsidiary	18	-	(353)
Acquisition of joint venture	19	-	(6)
Increase of equity in joint venture	19	(355)	-
Purchase of investment property	22	-	(2)
Purchase of property, plant and equipment	23, 26	(699)	(1,458)
Proceeds from sale of property, plant and equipment	7, 23	311	95
Purchase of intangible assets	24	(116)	(25)
Repayments of loans granted	16, 18	-	40
Interest received	9, 15	97	177
Total cash flows from investing activities		(762)	(1,939)
Cash flows from (used in) financing activities			
Proceeds from borrowings	26	17,115	16,742
Repayments of borrowings	26	(21,846)	(16,043)
Finance lease principal payments	26	(2,186)	(1,076)
Contributions to the subsidiary's share capital from minority shareholder	18	1	38
Share capital reduction	31	(4,071)	-
Non-controlling interest buyout	18	(41)	-
Dividends paid	13	(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	14	51,583	46,633
Effect of exchange rate changes		-	(7)
Total at the end of the period	14	39,905	51,583

The notes set out on pages 85-128 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

The consolidated financial statements of AS Merko Ehitus (hereinafter the parent) and its subsidiaries (hereinafter collectively the group) for the financial year ended 31 December 2015 were signed by the Management Board at 31 March 2016.

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

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

From 22 July 1997, the shares of AS Merko Ehitus are listed on NASDAQ Tallinn Stock Exchange. As at 31 December 2015, the majority shareholder AS Riverito owned 71.99% of the Company's shares through which the ultimate controlling person is Toomas Annus.

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

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

1.2. BASES FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The new or revised standards or interpretations, which became effective in the financial year starting 1 January 2015, are not expected to have a material impact on the group.

NEW ACCOUNTING PRONOUNCEMENTS

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2016, and which the Group has not early adopted.

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

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11, (effective for annual periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers, (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014, (effective for annual periods beginning on or after 1 January 2016). The improvements consist of changes to four standards, of which one applies to the Group. IAS 34 will require a cross reference from the interim financial statements to the location of "information

disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative – Amendments to IAS 1, (effective for annual periods beginning on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16, Leases, (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7, (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

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

1.4. CONSOLIDATION

Subsidiaries include all entities under the control of the group. The group

controls the entity if it receives or is entitled to variable profits arising from its role in the entity and the group can influence the amount of profit by exerting influence over the entity.

Subsidiaries are consolidated in the financial statements from the date of acquiring control until the date at which control ceases. The financial figures of the parent company and the subsidiaries have been consolidated on a line-by-line basis in the consolidated annual financial statements. Upon consolidation, intra-group transactions, balances and unrealised profits arising from intra-group transactions have been eliminated. Unrealised losses have also been eliminated, unless a loss is caused by impairment.

Group entities use uniform accounting policies.

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

1.5. BUSINESS COMBINATIONS

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

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

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

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

TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

1.6. ASSOCIATES

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

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

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

1.7. JOINT VENTURES

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

1.8. JOINTLY CONTROLLED OPERATIONS

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

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

1.9. FOREIGN CURRENCY

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

The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into euros for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the European Central Bank prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes

in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity item Currency translation differences and in the consolidated comprehensive income item Currency translation differences of foreign entities.

1.10. FINANCIAL ASSETS

The purchases and sales of financial assets are recognised at the trade date.

Depending on the purpose for which financial assets were acquired, financial assets are classified into the following categories at the group:

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

Management determines the classification of its financial assets at initial recognition.

The Company does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The group does not have any derivatives either.

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

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

1.11. IMPAIRMENT OF ASSETS

FINANCIAL ASSETS AT AMORTISED COST

The group assesses at each balance sheet date whether there is any indication that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred

only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (loss events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that is available to the group regarding the following events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- probability that the debtor will enter bankruptcy;
- disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial asset or a group of financial assets, although the decrease cannot yet be measured reliably.

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

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

NON-FINANCIAL ASSETS

Assets that have indefinite useful lives are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and compared with the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are

grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets that suffered an impairment loss are reviewed at each reporting date and if necessary, the impairment loss is reversed except for impairment of goodwill.

1.12. INVENTORIES

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

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

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

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

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

1.13. INVESTMENT PROPERTY

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

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

1.14. PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated on a straight-line basis over the following useful lives:

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

Land is not depreciated.

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

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

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

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

1.15. INTANGIBLE ASSETS

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

SOFTWARE AND INFORMATION SYSTEMS

The costs related to the development of information systems and software which are reported as intangible assets, are depreciated under a straight-line method over their estimated useful lives (2-10 years).

1.16. FINANCE AND OPERATING LEASES

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

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

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

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

1.17. FINANCIAL LIABILITIES

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

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

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

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

FACTORING

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

1.18. INCOME TAX

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

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

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

Legal entities in Latvia, Lithuania, Ukraine, Finland and Russia that are part of the group calculate taxable income and corporate income tax in accordance with the legislation of the Republic of Latvia, the Republic of Lithuania, the Republic of Ukraine, the Republic of Finland and the Russian Federation. The profits of entities located in the Republic of Latvia are taxed at the rate of 15% (2014: 15%), in the Republic of Lithuania at the rate of 15% (2014: 15%), in the Republic of Finland at the rate of 20% (2014: 20%) and in Russian Federation at the rate of 20% (2014: 20%).

1.19. EMPLOYEE BENEFITS

TERMINATION BENEFITS

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

PROFIT-SHARING AND BONUS PLANS

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

1.20. PROVISIONS

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

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

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

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

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

1.21. REVENUE

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

Revenue from the provision of construction services is recognised as revenue by reference to the stage of completion of the contract (see Note 1.22) in

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

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

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

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

1.22. CONSTRUCTION CONTRACTS IN PROGRESS

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

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

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

1.23. CASH AND CASH EQUIVALENTS

In the statement of financial position and the cash flow statement, cash and cash

equivalents comprise highly liquid funds with low variation in value, such as cash on hand, cash in bank accounts and term deposits with maturities of three months or less. Management regards deposits with maturities greater than 3 months as investments and hence does not include them in cash and cash equivalents.

The indirect method has been used for the preparation of the cash flow statement.

1.24. LOANS GRANTED

Loans granted are recognised in the group based on business principles and the loans are issued to companies with whom contracts are in place for the purpose of co-financing development projects. Real estate developers are granted loans on condition that the group receives an opportunity to provide construction service in the developments being financed. Due to the direct link between the loans and the group's business activity, the said loans and the related interests received are recognised in the cash flow statement under cash flows from operating activities (Note 16).

1.25. CONTINGENT LIABILITIES

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

1.26. STATUTORY RESERVE CAPITAL

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

1.27. EVENTS AFTER THE BALANCE SHEET DATE

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

but they are disclosed in the notes to the financial statements.

1.28. DIVIDENDS

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

1.29. SEGMENT REPORTING

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

1.30. 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 3 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 consolidated 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 MANAGEMENT ESTIMATES

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

REVENUE UNDER THE STAGE OF COMPLETION METHOD

Revenue from construction in progress is recognised under the stage of completion method (Note 1.22), which also assumes that the stage of completion of construction contracts can be determined reliably. A precise, systematic calculation and estimation of costs, forecasting and reporting of income and expenses has been introduced for determining the stage of completion. The estimated final result to be derived from each construction project is being constantly monitored, deviations from the budget are analysed and if necessary, the profit estimate is adjusted. As at 31.12.2015, the amount of the provision for onerous contracts was EUR 392 thousand (2014: EUR 2,079 thousand), which was determined after the evaluation of the stage of completion of construction contracts (Note 28). The risk analysis showed that a change in the estimated costs of construction projects in the range of +/-5% would result in a change in the net profit between EUR -19,364/+5,251 thousand (2014: EUR -27,758/+12,052 thousand).

INVENTORY WRITE-DOWN

Inventories are valued separately by individual properties (registered immovable or building). A business plan is prepared for each property based on its nature (intended use and building rights currently effective or being effected) and the project's costs are compared with expected income. If the property's costs exceed the expected revenue to be generated from the realisation of the project (net realisable value), the group shall write down assets in the amount by which the costs exceed income. Due to the volatility of the construction market and low liquidity of the real estate market, determination of the net

realisable value of the assets depends largely on management estimates. The sensitivity analysis of inventories showed that had the net realisable value been overestimated by 10% (i.e. income would be 10% lower upon the disposal of assets), the company's write-down of inventories (work-in-progress, finished goods, acquisition of real estate properties for sale) would have been EUR 1,541 thousand higher in 2015 (2014: EUR 3,731 thousand higher), incl. real estate properties for sale in the amount of EUR 463 thousand (2014: EUR 0 thousand), work-in-progress in the amount of EUR 1,065 thousand (2014: EUR 2,079 thousand) and finished goods in the amount of EUR 13 thousand (2014: EUR 1,652 thousand). Had the value been underestimated by 10% (income would be 10% higher upon the disposal of assets), the write-down of inventories for the year 2015 would have been EUR 781 thousand lower (2014: EUR 276 thousand), incl. real estate properties for sale in the amount of EUR 310 thousand (2014: EUR 134 thousand), work-in-progress in the amount of EUR 0 thousand (2014: EUR 142 thousand) and finished goods in the amount of EUR 471 thousand (2014: EUR 0 thousand).

VALUATION OF RECEIVABLES

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

PROVISION FOR WARRANTY OBLIGATIONS

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

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

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

VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

At each balance sheet date, an impairment test is performed for the intangible assets with indefinite useful lives including goodwill, and the carrying amount is written down to its recoverable amount if it is lower than the carrying amount. An impairment test is also carried out for property, plant and equipment and intangibles when an event or change in circumstances indicates that impairment may have occurred. As at 31.12.2015, the carrying amount of property, plant and equipment was EUR 13,442 thousand euros (31.12.2014: EUR 15,003 thousand) and the carrying amount of intangible assets was EUR 879 thousand (31.12.2014: EUR 1,011 thousand) (Note 23, 24).

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

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

VALUATION OF INVESTMENT PROPERTY

Investment properties are recognised at cost, less any accumulated depreciation and any impairment losses. Management estimates that the carrying amount of investment properties as at 31.12.2015 does not significantly differ from their fair value. Management's estimate regarding the fair value of investment properties is based on the existing market value of the assets. The estimated amount for which the asset can be exchanged in a transaction between independent parties at the date of estimation is considered to be its market value. External experts were not involved in the estimation of the fair value of investment properties. Market value estimates are mostly based

on market transactions, with the exception of real estate that is estimated using discounted cash flow method. As at 31.12.2015, the carrying amount of investment property was EUR 4,371 thousand (31.12.2014: EUR 4,619 thousand) (Note 22).

BORROWING COSTS

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

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

In 2015, a total of EUR 92 thousand (2014: EUR 295 thousand) of the borrowing costs was capitalised (Note 26).

NOTE 3 OPERATING SEGMENTS

in thousands of euros

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

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

- 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	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 (Note 7)	-	-	1,516	1,516
depreciation (Note 4)	(2,010)	(31)	(302)	(2,343)
impairment of inventories (Note 4)	-	-	(1,058)	(1,058)
recognition of provisions (Notes 4, 28)	(919)	(1,326)	(876)	(3,121)
profit (loss) on joint ventures (Note 19)	(19)	-	(119)	(138)
other finance income (costs) (Notes 9, 10)	(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 19)	-	-	284	284

2014	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 (Note 7)	8	-	1,563	1,571
depreciation (Note 4)	(1,734)	(33)	(258)	(2,025)
impairment of inventories (Note 4)	-	-	(400)	(400)
reversal of impairment of inventories (Note 4)	-	-	850	850
recognition of provisions (Notes 4, 28)	(2,156)	(1,412)	(896)	(4,464)
profit (loss) on joint ventures (Note 19)	1	-	(131)	(130)
other finance income (costs) (Notes 9, 10)	(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 19)	19	-	48	67

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

	2015	2014
Pre-tax profit from reporting segments	24,097	25,812
Unallocated income (expense)		
marketing expenses (Note 5)	(3,230)	(3,190)
general and administrative expenses (Note 6)	(8,907)	(9,128)
incl. recognition of provisions (Notes 6, 28)	(115)	(56)
cancellation of provisions (Notes 6, 28)	172	-
other operating income (expense)	82	-
incl. interest income from operating activities (Note 7)	76	-
finance income (costs) (Notes 9, 10)	(350)	(186)
incl. interest income	118	126
interest expense	(441)	(294)
Total profit before tax	11,692	13,308

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 thousands of euros and percentage

	2015		2014	
Estonia	154,809	62%	170,649	68%
Latvia	65,226	26%	68,632	27%
Lithuania	28,134	11%	12,956	5%
Finland	2,843	1%	86	0%
Total	251,012	100%	252,323	100%

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

in thousands of euros

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

NOTE 4 COST OF GOODS SOLD

in thousands of euros

	2015	2014
Construction services and properties purchased for resale	142,961	132,207
Materials	35,382	44,214
Staff costs	22,514	21,804
Construction mechanisms and transport	9,079	9,228
Design	2,158	2,974
Real estate management costs	227	181
Depreciation (Note 3)	2,343	2,025
Impairment of inventories (Notes 3, 17)	1,058	400
Reversal of impairment of inventories (Notes 3, 17)	-	(850)
Provisions (Notes 3, 28)	3,121	4,464
Other expenses	9,201	10,944
Total cost of goods sold	228,044	227,591

NOTE 5 MARKETING EXPENSES

in thousands of euros

	2015	2014
Staff costs	2,336	2,169
Advertising, sponsorship	456	372
Transport	183	192
Depreciation	90	40
Other expenses	165	417
Total marketing expenses	3,230	3,190

NOTE 6 GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of euros

	2015	2014
Staff costs	5,754	6,040
Office expenses, communication services	498	514
Consulting, legal, auditing	581	609
Transport	227	317
Computer equipment and software	456	371
Depreciation	559	391
Provisions (Notes 3, 28)	(57)	56
Other expenses	889	830
Total general and administrative expenses	8,907	9,128

NOTE 7 OTHER OPERATING INCOME

in thousands of euros

	2015	2014
Interest income from operating activities	1,592	1,571
Profit from sale of non-current assets	114	12
Fines and penalties for delay received	13	19
Collection of doubtful receivables	2	20
Other income	222	279
Total other operating income	1,943	1,901

NOTE 8 OTHER OPERATING EXPENSES

in thousands of euros

	2015	2014
Fines, penalties	9	8
Gifts, donations	207	155
Doubtful receivables expense (Notes 15, 35)	31	143
Other expenses	31	34
Total other operating expenses	278	340

NOTE 9 FINANCE INCOME

in thousands of euros

	2015	2014
Interest income	120	143
Total finance income	120	143

NOTE 10 FINANCE COSTS

in thousands of euros

	2015	2014
Interest expense	756	662
Foreign exchange losses	3	11
Other finance costs	27	7
Total finance costs	786	680

NOTE 11 CORPORATE INCOME TAX

in thousands of euros

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

2015	Latvia	Lithuania	Other countries	Estonia	Total
Profit (loss) before tax	3,069	3,592	(11)	5,042	11,692
Tax rate applicable to profits	15%	15%	20%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(460)	(539)	2	-	(999)
Tax calculated on expenses not deductible for tax purposes	(56)	(370)	-	-	(426)
Tax effect of income not subject to tax	-	531	-	-	531
Tax losses of previous periods recognised in the reporting period	-	(41)	-	-	(41)
Income tax withheld on share capital reduction	-	-	-	(18)	(18)
Income tax withheld on dividends	-	-	-	(906)	(906)
Total income tax expense	(516)	(419)	2	(924)	(1,857)
incl. income tax expense	(572)	(199)	-	(924)	(1,695)
deferred income tax expense (Note 21)	56	(220)	2	-	(162)
2014	Latvia	Lithuania	Other countries	Estonia	Total
Profit (loss) before tax	1,742	1,312	(14)	10,268	13,308
Tax rate applicable to profits	15%	15%	20%	0%	
Tax calculated at domestic tax rates applicable to profits in the respective countries	(261)	(197)	3	-	(455)
Tax calculated on expenses not deductible for tax purposes	(24)	(210)	-	-	(234)
Tax effect of income not subject to tax	-	(26)	-	-	(26)
Tax losses of previous periods recognised in the reporting period	-	(21)	-	-	(21)
Income tax withheld on dividends	-	-	-	(319)	(319)
Total income tax expense	(285)	(454)	3	(319)	(1,055)
incl. income tax expense	(427)	(21)	-	(319)	(767)
deferred income tax expense (Note 21)	142	(433)	3	-	(288)

As at 31 December 2015, the company has no previously taxed dividends and income received from abroad on which income tax has been withheld (31.12.2014: EUR 2,181 thousand).

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 of the amount paid as net dividends. The income tax related to disbursement of dividends is recognised as a liability and income tax expense upon the announcement of dividends.

NOTE 12 EARNINGS PER SHARE

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

	2015	2014
Net profit(-loss) attributable to shareholders (in thousand EUR)	10,000	12,417
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700
Earnings (loss) per share (in euros)	0,56	0.70

In 2015 and 2014, the group did not have any potential ordinary shares to be issued; therefore the diluted earnings per share equal the basic earnings per share.

NOTE 13 DIVIDENDS PER SHARE

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation proposal, dividends payable in parent company AS Merko Ehitus in 2016 will total EUR 9,027 thousand, incl. EUR 0.51 per share, and the accompanying maximum income tax liability would amount to 20/80 on the amount paid out, i.e. EUR 2,256.7 thousand, which shall be covered by the income tax withheld on taxed dividends received from subsidiaries and by the income tax withheld on foreign income (Note 11). The additional income tax expenses in connection with disbursement of dividends will be approximately EUR 1.0 million.

In 2015, the parent company AS Merko Ehitus paid EUR 7,257 thousand in dividends, i.e. EUR 0.41 per share, incurring an income tax obligation of 20/80 of the amount disbursed, i.e. EUR 1,814 thousand, which was covered in part from income tax withheld on taxed dividends received from subsidiaries in previous periods. In Q2 2015, the group incurred an additional income tax expense of EUR 906 thousand related to 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.

NOTE 14 CASH AND CASH EQUIVALENTS

in thousands of 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 (Note 35)	39,905	51,583

As at 31.12.2015, the weighted average interest on overnight deposits was 1% (31.12.2014: 1%).

NOTE 15 TRADE AND OTHER RECEIVABLES

in thousands of euros

	31.12.2015	31.12.2014
Trade receivables (Note 35)		
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 construction contract works (Notes 32, 35)	3,948	10,291
Other short-term receivables		
Short-term loans (Notes 16, 35)	1,432	2,178
Interest receivables (Note 35)	200	394
Other short-term receivables (Note 35)	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 33)	541	415

In 2015, the payment discipline of customers improved slightly compared to last year. The share of overdue receivables decreased from 17.4% to 14.0% of total receivables, and as at the balance sheet date, the amount of overdue receivables was EUR 2,126 thousand (31.12.2014: 4,821 thousand). By 13 March 2016, overdue receivables had been collected in the amount of EUR 866 thousand. In 2015, the average collection period of trade receivables was 56 days (2014: 56 days). In 2015, the group's balance sheet included doubtful receivables in the amount of EUR 326 thousand (2014: EUR 728 thousand) and it wrote off uncollectible receivables in the amount of EUR 31 thousand (2014: 39 thousand), incl. no irrecoverable receivables (2014: no irrecoverable receivables). The management estimates that there are sufficient reasons to conclude that the trade receivables reported in the financial statements will be collected from the buyers.

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

NOTE 16 LOANS GRANTED

in thousands of euros

	Joint ventures (Note 33)	Unrelated legal entities	Unrelated individuals	Total
2015				
Loan balance at beginning of the year	1,775	753	10	2,538
Granted	2,113	1,500	-	3,613
Collected	-	(753)	(10)	(763)
Loan balance at end of the year	3,888	1,500	-	5,388
incl. current portion (Notes 15, 35)	1,432	-	-	1,432
non-current portion 1...5 years (Notes 20, 35)	2,456	1,500	-	3,956
Average effective interest rate	6,7%	8,0%	5,0%	
2014				
Loan balance at beginning of the year	5,010	-	22	5,032
Granted	401	753	-	1,154
Collected	(3,636)	40	-	(3,596)
Elimination of a loan granted to a joint venture in connection with the acquisition of control and the start of consolidation	-	(40)	(12)	(52)
Loan balance at end of the year	1,775	753	10	2,538
incl. current portion (Notes 15, 35)	1,415	753	10	2,178
non-current portion 1...5 years (Notes 20, 35)	360	-	-	360
Average effective interest rate	7,0%	5,0%	5,0%	

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

The loan granted to an unrelated legal person in 2015 is secured by a mortgage on the registered immovable property at Tatari st. 6a, Tallinn, amounting to EUR 1,650 thousand (Note 20).

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

NOTE 17 INVENTORIES

in thousands of euros

	31.12.2015	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 incl. registered immovables located on nature preserve areas*	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 December 2015, OÜ Rannamõisa Kinnisvara land is recognised as registered immovables purchased for resale in the amount of EUR 3,261 thousand (Note 18).

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

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

The value of an immovable, other than a forest immovable, is determined using the transaction comparison method. In determining the value of an immovable, the real rights which due to their nature cannot be deleted from the land register are considered (e.g. servitudes, neighbourhood rights) as well as those arising from laws other than the restrictions on an immovable property arising from the protection procedure which forms a basis for the acquisition of an immovable.

In 2015, OÜ Metsailu, a 100% subsidiary of AS Merko Ehitus, transferred to the Republic of Estonia, registered immovable properties located on nature preserve areas at Kiviaia tee 9a, Kiviaia tee 11b, Kiviaia tee 16, Kõrkja tee 24, 24a and Kõrkja tee 26.

The inventories pledged as collateral as at 31.12.2015 for loans total EUR 42,577 thousand (2014: EUR 37,649 thousand) (Note 30).

In 2015, inventories have been written down to their net realisable value by EUR 1,058 thousand (2014: EUR 400 thousand) and previously made write-downs have been reversed in the amount of EUR 0 thousand (2014: EUR 850 thousand) (Notes 2, 4, 35).

	Carrying amount before write-down	Write-down	Reversal of write-down	Carrying amount after write-down
31.12.2015				
Finished goods	20,173	(570)	-	19,603
Land purchased for resale	58,517	(488)	-	58,029
Total	78,690	(1,058)	-	77,632
31.12.2014				
Work-in-progress	21,447	(142)	-	21,305
Finished goods	36,996	-	850	37,846
Land purchased for resale	55,444	(258)	-	55,186
Total	113,887	(400)	850	114,337

NOTE 18 SHARES IN SUBSIDIARIES

	Ownership and voting rights %		Location	Area of operation
	31.12.2015	31.12.2014		
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	Riga, Latvia	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Riga, Latvia	Construction
SIA SK Viesturdarzs	100	100	Riga, Latvia	Real estate
SIA Merks Investicijas	100	100	Riga, Latvia	Real estate
SIA Industrialas Parks	100	100	Riga, Latvia	Real estate
SIA Elniko	100	100	Riga, Latvia	Real estate
SIA Ropažu Priedes	100	100	Riga, Latvia	Real estate
PS Merko-Merks	100	100	Riga, Latvia	Construction
SIA Zakusala Estates	75	75	Riga, Latvia	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

2015

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 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, which will not materialise due to sale of the OÜ Rannamõisa Kinnisvara registered immovable properties after the balance sheet date. 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 17).

On 19 May 2015, the shareholders of the AS Merko Ehitus Eesti, part of AS Merko Ehitus group, subsidiary AS Merko Tartu, decided to approve a notarized

division plan signed on 14 May 2015, under which the division of AS Merko Tartu will be accomplished by way of demerge. According to the division plan approved by the shareholders the transfer of EUR 1,026 thousand in net assets of AS Merko Tartu to the acquiring company OÜ Ignatsi (foundation in progress) and decrease of the minority interest of EUR 1,023 thousand were recognised in the II quarter of 2015. 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 31 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.

PURCHASE OF SUBSIDIARIES

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 the year	(129)	
Net loss following the acquisition	(116)	

FINANCIAL INFORMATION REGARDING SIGNIFICANT SUBSIDIARY WITH A NON-CONTROLLING INTEREST

in thousand euros

	SIA Zakusala Estates	
	31.12.2015	31.12.2014
Statement of financial position		
Cash	102	165
Trade and other receivables	2	
Inventories	14,883	14,873
Total short-term assets	14,987	15,038
Short-term liabilities	0	1
Net assets	14,987	15,037
Equity	14,987	15,037
Non-controlling interest %	25%	25%
Non-controlling interest	3,747	3,759
Statement of comprehensive income		
	01.01-31.12.2015	05.08-31.12.2014
Other expenses	(6)	(1)
Land tax	(45)	(19)
Net loss for the period	(51)	(20)
Comprehensive loss for the period	(51)	(20)
incl. net loss attributable to equity holders of the parent	(39)	(15)
net loss attributable to non-controlling interest	(12)	(5)
Cash flow statement		
	01.01-31.12.2015	05.08-31.12.2014
Operating profit	(51)	(20)
Change in receivables and payables related to operating activities	(2)	(7)
Change in inventories	(10)	-
Total cash flow from operating activities	(63)	(27)
Repayment of loans granted	-	40
Total cash flow from investing activities	-	40
Issue of share capital	-	150
Total cash flow from financing activities	-	150
Change in cash and cash equivalents	(63)	163
Cash and cash equivalents in the beginning of the period	165	2
Cash and cash equivalents at the end of the period	102	165

As at 31 December 2015, the group's non-controlling interest in equity is EUR 3,268 thousand (31.12.2014: EUR 4,455 thousand), including ZIA Zakusala Estates non-controlling interest in the amount of EUR 3,747 thousand (31.12.2014: EUR 3,759 thousand). The other companies with a non-controlling interest – totalling at EUR (479) thousand (31.12.2014: EUR 696 thousand) – do not separately constitute a significant item for the group.

2014

On 20 December 2013, AS Merko Ehitus initiated a merger of its fully owned subsidiaries OÜ Woody, OÜ Metsailu and OÜ Käibevara, all engaged in real estate development, in order to generate administrative cost savings related to company management. The final merger entry in the Commercial Register was made on 6 June 2014.

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

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

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

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

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

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

On 5 August 2014, a subsidiary SIA Merks acquired an additional 25% share in the joint venture SIA Zakusala Estates from the current co-shareholder for the purchase price of EUR 696 thousand. After the transaction, SIA Merks holds 75% of the shares of the subsidiary SIA Zakusala Estates. Acquisition of the subsidiary is 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 17). The value of non-controlling interest is calculated

proportionally from the fair value of the net assets of SIA Zakusala Estates (EUR 10,473 thousand). At the moment of purchase, the group developed an additional non-controlling interest in the amount EUR 2,618 thousand. After acquisition, a minority shareholder contribution to equity of EUR 38 thousand and a conversion of loan to equity of EUR 1,109 thousand was made. As at 31 December 2014, the non-controlling interest in SIA Zakusala Estates amounts to EUR 3,759 thousand.

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

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

On 16 September 2014, AS Merko Ehitus acquired a 100% shareholding in the subsidiary SIA Merko Investments (prev. SIA Skanstes Virsotnes) from the subsidiary SIA Merks in an intra-group transaction, with the purpose of re-arranging the structure of the group companies. In November 2014, AS Merko Ehitus made additional contributions to increase the equity of SIA Merko Investments in the amount of EUR 35,266 thousand.

On 22 December 2014 AS Merko Ehitus initiated a process to merge real estate development companies in which it has a 100% holding – OÜ Metsailu, OÜ Ringtee Tehnopark, OÜ Maryplus and OÜ Constancia – specifically for the purpose of reducing the administrative costs of managing the companies. The final merger entry in the Commercial Register was made on 3 July 2015.

SALE OF SUBSIDIARY

in thousand euros

	Gustaf Tallinn OÜ
Disposed holding	80%
Non-controlling interest at the time of sale	20%
Sales price	17
Profit (loss) from sale	-
Net assets at the time of sale	21
Non-controlling interest net assets at the time of sale	4
Cash received	17
Subsidiary's cash and cash equivalent at sale	(370)
Group cash flow from the sale	(353)

PURCHASE OF SUBSIDIARIES

in thousand euros

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

TRANSACTIONS INVOLVING SUBSIDIARIES AFTER THE BALANCE SHEET DATE

The 100% subsidiary in the Kingdom of Norway, Merko Investments AS (registry code 916 750 323) was founded in February 2016 and, on 17 February, entered into the register. The share capital of the new subsidiary is NOK 30,000 (about EUR 3,200). This is a technical step aimed at creating the legal platform for launching operations in Norway.

On 7 March 2016, Merko Investments AS, part of AS Merko Ehitus group, signed contracts with Norwegian companies SDV Holding AS and Aucon AS to acquire 56% stake in Norwegian construction company Peritus Entreprenør AS for a purchase price of NOK 4,000 thousand (EUR 426 thousand). Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. Peritus Entreprenør AS (www.peritus-entreprenor.no) is a Norwegian construction company, offering general construction services, with the sales turnover of approximately 7 million euros in 2015. The former owners will continue to participate in the daily management of the company and they will keep their 44% stake. The aim of the acquisition is to start offering construction services on Norwegian market. As the business combination took place immediately before the annual report was completed, the group lacks detailed information on the fair values of the acquired assets and liabilities, the non-controlling stake and possible goodwill.

NOTE 19 INVESTMENT IN JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2015	31.12.2014		
Joint ventures				
OÜ Unigate	50	50	Estonia, Tallinn	real estate
Poolkoksimäe Sulgemise OÜ	50	50	Estonia, Tallinn	construction
OÜ Korteremaja	-	50	Estonia, Tartu	real estate
Kivimäe 32 OÜ	50	50	Estonia, Tallinn	real estate
Kodusadam OÜ	50	50	Estonia, Tallinn	real estate

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 remaining portion as share premium.

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 Korteremaja 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.

2014

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

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

On 5 August 2014, a subsidiary SIA Merks acquired an additional 25% share in the joint venture SIA Zakusala Estates from the current co-shareholder. After the transaction, SIA Merks holds 75% of the shares of the subsidiary SIA Zakusala Estates (Note 18).

in thousands of euros

	Investment at 31.12.2014	Changes in 2015		Investment at 31.12.2015
		acquisition (sale)	profit (loss) on entities	
Joint ventures				
OÜ Unigate	40	355	(116)	279
Poolkoksimäe	19	-	(19)	0
Sulgemise OÜ				
OÜ Kortermaja	2	0	(2)	-
Kivimäe 32 OÜ	1	-	(1)	0
Kodusadam OÜ	5	-	0	5
Total joint ventures	67	355	(138)	284

The difference between the investment value and the equity of the investment as at 31 December 2015 of Kivimäe 32 OÜ EUR 30 thousand (31.12.2014: EUR 8 thousand) and of Kodusadam OÜ EUR 88 thousand – comes from the difference in recognition of International Financial Reporting Standards (IFRS) and Estonian accounting standards (Estonian GAAP) accounting policies with regard to capitalization of borrowing costs. Pursuant to IAS 28, the negative part of the Poolkoksimäe Sulgemise OÜ equity investment in the amount of EUR 3,000 was recognised at zero value.

JOINT VENTURES

in thousands of euros

	Assets 31.12.		Liabilities 31.12		Equity 31.12.	Income	Expenses	Net profit (loss)
	Current assets	Non-current assets	Current liabilities	Non-current liabilities				
2015								
OÜ Unigate	3,708	-	3,151	-	557	-	(233)	(233)
Poolkoksimäe Sulgemise OÜ	10	-	15	-	(5)	-	(42)	(42)
Kivimäe 32 OÜ	916	-	195	781	(60)	-	(45)	(45)
Kodusadam OÜ	4,359	-	4,525	-	(166)	-	(176)	(176)
Total	8,993	-	7,886	781	326	-	(496)	(496)
2014								
OÜ Unigate	3,677	-	3,597	-	80	-	(230)	(230)
Poolkoksimäe Sulgemise OÜ	96	-	44	15	37	2,682	(2,681)	1
SIA Zakusala Estates *	-	-	-	-	-	-	(29)	(29)
OÜ Kortermaja	1	4	-	-	5	-	(1)	(1)
Kivimäe 32 OÜ	748	-	26	737	(15)	-	(17)	(17)
Kodusadam OÜ	50	-	40	-	10	-	(0)	0
Total	4,572	4	3,707	752	117	2,682	(2,958)	(276)

* SIA Zakusala Estates net loss as at 04.08.2014.

in thousands of euros

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

Interest expenses for the following companies are recognised in the joint venture's expenses: OÜ Unigate EUR 231 thousand (2014: EUR 229 thousand), Kivimäe 32 OÜ EUR 44 thousand (2014: EUR 17 thousand) and Kodusadam OÜ EUR 176 thousand.

In connection with the joint venture, the group has contractual obligations to finance, as needed, the joint ventures' activities with loans totalling EUR 4,292 thousand (31.12.2014: EUR 6,860 thousand), of which the group has paid EUR 3,888 thousand in total (31.12.2014: EUR 1,775 thousand).

NOTE 20 OTHER LONG-TERM LOANS AND RECEIVABLES

in thousands of euros

	31.12.2015	31.12.2014
Long-term loans (Notes 16, 35)	3,956	360
Long-term bank deposit (Note 35)*	37	37
Long-term interest	7	4
Long-term trade receivables (Note 35)**	12,419	11,008
Total other long-term loans and receivables	16,419	11,409
incl. long-term loan receivables from related parties (Note 16, 33)	2,456	360
other long-term receivables and prepayments from related parties (Note 16, 33)	7	4

* incl. a deposit in the amount of EUR 35 thousand with the due date of 27 June 2018 and interest rate of 5.35%, a deposit in the amount of EUR 2 thousand with the due date 23 July 2017 and interest rate of 0.66%.

** incl. long-term receivables to buyer of Balsiu School in amount of EUR 11,199 thousand (31.12.2014: EUR 10,990 thousand), including overdue short-term accounts receivable that have been reclassified by the management as long-term, amounting to EUR 527 thousand, for which no provisions have been made as the counterparty is a local government and the management considers minimal the risk that these receivables will not be collected.

The fair value of trade receivables related to Balsiu School – other receivables and amounts receivable from invoices issued (including VAT) – equals their carrying amount, as the impact of discounting is not significant.

The loan granted to an unrelated legal person in 2015 is secured by a mortgage of EUR 1,650 thousand on the registered immovable property at Tatari 6a, Tallinn (Note 16). Long-term accounts receivable of EUR 1,145 thousand are secured by a mortgage of EUR 6,500 thousand on the registered immovable property at Peterburi tee 2, Tallinn.

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

NOTE 21 DEFERRED INCOME TAX ASSETS AND LIABILITIES

in thousands of euros

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

	Latvia	Lithuania	Other foreign countries	Total
31.12.2015				
Deferred income tax liability				
effect of other payables	-	(788)	-	(788)
Deferred income tax assets				
incl. tax loss carryforwards	-	39	5	44
effect of carrying amount of property, plant and equipment	(12)	-	-	(12)
effect of stage of completion method	43	47	-	90
effect of write-down of receivables	32	17	-	49
effect of write-down of inventories	800	-	-	800
effect of provisions	-	17	-	17
other effects	435	-	-	435
Deferred income tax assets	1,298	120	5	1,423
Deferred income tax expense (-charge) of the financial year (Note 11)	56	(220)	2	(162)

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

NOTE 22 INVESTMENT PROPERTY

in thousands of euros

	Land	Right of superficies	Buildings	Total
Cost at 31.12.2013	51	29	5,067	5,147
Accumulated depreciation 31.12.2013	-	(9)	(466)	(475)
Carrying amount at 31.12.2013	51	20	4,601	4,672
Acquisition	-	-	2	2
Reclassification	-	-	176	176
Depreciation	-	(1)	(230)	(231)
Carrying amount at 31.12.2014	51	19	4,549	4,619
Cost at 31.12.2014	51	29	5,245	5,325
Accumulated depreciation 31.12.2014	-	(10)	(696)	(706)
Carrying amount at 31.12.2014	51	19	4,549	4,619
Depreciation	-	-	(248)	(248)
Carrying amount at 31.12.2015	51	19	4,301	4,371
Cost at 31.12.2015	51	29	5,245	5,325
Accumulated depreciation 31.12.2015	-	(10)	(944)	(954)
Carrying amount at 31.12.2015	51	19	4,301	4,371

As at 31.12.2015, the carrying amounts of investment properties do not significantly differ from their fair values (31.12.2014: the carrying amounts of investment properties did not significantly differ from their fair values). Fair values have mainly been estimated based on comparable transactions, with the exception of investment property to the extent of EUR 2,162 thousand (31.12.2014: EUR 2,294 thousand) in carrying amount that has been measured using the discounted cash flow method. Fair value measurement was carried out using Level 3 inputs of the fair value hierarchy.

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

In the fourth quarter of 2014, the expenses related to parking solution built on the properties at J. Dikmaņa 8-10 in Riga for the purpose of earning rental income in the amount of EUR 176 thousand, were reclassified from inventories to investment property.

Investment properties pledged as collateral as at 31.12.2015 for loans total EUR 3,899 thousand (31.12.2014: EUR 4,110 thousand) (Note 30). The Pärna avenue properties in Tartu and the court and police building in Jõgeva have been pledged as collateral to bank loans.

NOTE 23 PROPERTY, PLANT AND EQUIPMENT

in thousands of euros

	Land	Buildings	Machinery and equipment	Other fixtures	Construction in progress and prepayments	Total
Cost at 31.12.2013	824	5,784	15,723	5,445	-	27,776
Accumulated depreciation at 31.12.2013	-	(1,454)	(9,263)	(3,942)	-	(14,659)
Carrying amount at 31.12.2013	824	4,330	6,460	1,503	-	13,117
Acquisition	-	-	3,445	124	558	4,127
Disposals	-	(45)	(32)	(12)	-	(89)
Sale in business combination	-	-	(95)	(6)	-	(101)
Reclassification	-	-	526	3	(533)	(4)
Write-offs	-	-	(15)	(6)	-	(21)
Depreciation	-	(187)	(1,443)	(396)	-	(2,026)
Carrying amount at 31.12.2014	824	4,098	8,846	1,210	25	15,003
Cost at 31.12.2014	824	5,726	18,888	5,270	25	30,733
Accumulated depreciation at 31.12.2014	-	(1,628)	(10,042)	(4,060)	-	(15,730)
Carrying amount at 31.12.2014	824	4,098	8,846	1,210	25	15,003
Acquisition	-	6	1,040	129	58	1,233
Disposals	-	-	(275)	-	-	(275)
Division by way of demerger	-	-	(10)	-	-	(10)
Reclassification	-	-	21	4	(27)	(2)
Write-offs	-	-	(71)	(2)	-	(73)
Depreciation	-	(185)	(1,955)	(294)	-	(2,434)
Carrying amount at 31.12.2015	824	3,919	7,596	1,047	56	13,442
Cost at 31.12.2015	824	5,725	18,910	5,141	56	30,656
Accumulated depreciation at 31.12.2015	-	(1,806)	(11,314)	(4,094)	-	(17,214)
Carrying amount at 31.12.2015	824	3,919	7,596	1,047	56	13,442

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

Property, plant and equipment pledged as collateral as at 31.12.2015 for the loan total EUR 4,239 thousand (31.12.2014: EUR 4,414 thousand) (Note 30). The group's most significant item of property, plant and equipment pledged as collateral to the loans is the Järvevana tee 9G property and the office building thereon.

NOTE 24 INTANGIBLE ASSETS

in thousands of euros

	Goodwill*	Software	Prepayments	Total
Cost at 31.12.2013	891	1,252	-	2,143
Accumulated amortisation and impairment at 31.12.2013	(89)	(887)	-	(976)
Carrying amount at 31.12.2013	802	365	-	1,167
Acquisitions	-	25	-	25
Amortisation and impairment	(89)	(92)	-	(181)
Carrying amount at 31.12.2014	713	298	-	1,011
Cost at 31.12.2014	891	1,155	-	2,046
Accumulated amortisation and impairment at 31.12.2014	(178)	(857)	-	(1,035)
Carrying amount at 31.12.2014	713	298	-	1,011
Acquisitions	-	17	100	117
Write-offs	-	(69)	-	(69)
Amortisation and impairment	(89)	(91)	-	(180)
Carrying amount at 31.12.2015	624	155	100	879
Cost at 31.12.2015	891	1,075	100	2,066
Accumulated amortisation and impairment at 31.12.2015	(267)	(920)	-	(1,187)
Carrying amount at 31.12.2015	624	155	100	879

* As at the balance sheet date, an impairment test was performed for the cash-generating unit AS Vooremaa Teed which goodwill is attributable to. The impairment test was performed based on the principles of conservatism. In the reporting period, a goodwill impairment loss of EUR 89 thousand was recognised (2014: EUR 89 thousand) because the recoverable amount of the cash-generating unit did not exceed the carrying amount of the non-current assets and goodwill of the cash-generating unit. The recoverable amount of the assets is determined as its value in use, using management-approved cash flow projections for the next 5 years. Post-projection period cash flows

are extrapolated using reasonable growth rates. The management has re-evaluated the near-term outlook for road construction and therefore, it has used 0% as the long-term growth rate of income and expenses, 2% (2014: 2%) as the average sales growth and 10% (2014: 13%) as the average EBITDA margin. The average weighted cost of capital of 9.5% (2014: 10%) is used as the discount rate, which takes account of the company's area of activity and risk level. For determining the budgeted gross margin, the management used previous periods' business experience and competitive situation.

NOTE 25 LEASED ASSETS

in thousands of euros

	31.12.2015	31.12.2014
Assets acquired under finance lease terms		
Registered immovables purchased for resale		
Cost	929	929
Machinery and equipment		
Cost	7,557	7,890
Accumulated depreciation	(3,080)	(2,562)
Carrying amount	4,477	5,328
Assets leased under non-cancellable operating lease terms	2015	2014
Land lease agreements		
Payments in the reporting period	2	2
Payments in subsequent periods:	14	16
Payable next year	2	2
Payable in 1...5 years	7	7
Payables after 5 years	5	7

On the basis of cancellable lease agreements, operating lease payments totalling EUR 208 thousand were paid for passenger cars in 2015 (2014: EUR 607 thousand). The Company does not intend to use a bargain purchase option for the assets leased under the operating lease terms in the reporting period.

Lease agreements does not set any limits to groups' dividend or financing policies. Rented assets have not been re-rented.

INVESTMENT PROPERTY LEASED OUT UNDER NON-CANCELLABLE OPERATING LEASE TERMS

	31.12.2015	31.12.2014
Cost	5,296	5,296
Accumulated depreciation	(944)	(696)
Carrying amount	4,352	4,600
	2015	2014
Operating lease income received for investment properties (Note 22)	503	444
Future operating lease income:	2,723	3,050
Next year	491	460
In 1...5 years	1,846	1,889
Later than 5 years	386	701

NOTE 26 BORROWINGS

in thousands of euros

	Finance lease liabilities at present value	banks	entities under common control (Note 33)	Loans from related parties (Note 33)	other entities	total	Total borrowings (Note 35)
2015							
Balance at beginning of the year	4,434	24,049	8,145	102	916	33,212	37,646
Received	534	8,953	8,000	-	162	17,115	17,649
Paid	(2,186)	(13,599)	(8,145)	(102)	-	(21,846)	(24,032)
Sale to lessor	(78)	-	-	-	-	-	(78)
Loan balance at end of the year	2,704	19,403	8,000	-	1,078	28,481	31,185
incl. current portion	912	2,535	1,000	-	1,078	4,613	5,525
non-current portion 1...5 years	1,792	16,868	7,000	-	-	23,868	25,660
Interest cost of reporting period	114	521	193	2	18	734	848
incl. capitalised interest cost	29	57	6	-	-	63	92
Average effective interest rate	3,7%	2,4%	1,9%	4,8%	5,5%		
Base currencies	EUR	EUR	EUR	EUR	EUR		
2014							
Balance at beginning of the year	2,872	23,953	8,145	102	313	32,513	35,385
Received	2,693	14,939	1,200	-	603	16,742	19,435
Paid	(1,076)	(14,843)	(1,200)	-	-	(16,043)	(17,119)
Sale to lessor	(6)	-	-	-	-	-	(6)
Write-off	(49)	-	-	-	-	-	(49)
Loan balance at end of the year	4,434	24,049	8,145	102	916	33,212	37,646
incl. current portion	1,660	3,566	8,145	-	916	12,627	14,287
non-current portion 1...5 years	2,774	20,483		102	-	20,585	23,359
Interest cost of reporting period	113	692	124	5	18	839	952
incl. capitalised interest cost	39	238	18	-	-	256	295
Average effective interest rate	3,7%	2,6%	1,3%	4,8%	5,5%		
Base currencies	EUR	EUR	EUR	EUR	EUR		

	2015	2014
Minimum future payments under finance lease	2,793	4,588
incl. current portion	964	1,739
non-current portion with the term of 1...4 years	1,829	2,849

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

	2015	2014
Finance lease liabilities		
1-5 months	559	322
6-12 months	1,628	2,788
Bank loans		
1-5 months	3,635	9,812
6-12 months	15,768	14,238
Loans from entities under common control		
6-12 months	8,000	8,145
Loans from management members		
6-12 months	-	102
Total	29,590	35,407

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

	2015	2014
Finance lease liabilities	517	1,323
Loans from other entities	1,078	916
Total	1,595	2,239

Although different risk factors prevailed in global financial markets throughout the year, it was generally a relatively stable year. The risk margins on loans did not significantly change as compared to last year because EURIBOR was stable and other risk margins have not changed significantly since the loans were taken. Therefore, we can state that the fair value of bank loans to a material extent equals their carrying amount. The fair value of loans is measured using the discounted cash flow method and on the basis of Level 3 inputs of the fair value hierarchy.

Among the loans from entities under common control, there is a loan from AS Järvevana, the interest of which is 6-month EURIBOR + 2.65%.

Loan collaterals and pledged assets are presented in Note 30.

NOTE 27 PAYABLES AND PREPAYMENTS

in thousands of euros

	31.12.2015	31.12.2014
Trade payables (Note 35)	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 construction contract works (Notes 32, 35)	4,575	8,690
Other liabilities (Note 35)		
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 33)	3,891	5,859

NOTE 28 PROVISIONS

in thousands of euros

	Provision for warranty obligation for construction	Provision for onerous construction contracts	Provision for legal costs and claims filed (Note 35)*	Provision for costs of projects sold	Other provisions	Total provisions
2015						
Residual value at beginning of the year	2,096	2,079	172	1,838	54	6,239
Recognised (Notes 3, 4, 6)	996	164	100	1,949	27	3,236
Used during the year	(714)	(1,851)	-	(1,667)	(58)	(4,290)
Reversed (Notes 3, 6)	-	-	(172)	-	-	(172)
Balance at end of the year	2,378	392	100	2,120	23	5,013
incl. current portion	2,378	392	100	2,120	23	5,013
2014						
Residual value at beginning of the year	1,810	2,752	192	1,132	20	5,906
Set up (Notes 3, 4, 6)	1,087	2,021	-	1,352	60	4,520
Used during the year	(760)	(2,694)	(20)	(646)	(26)	(4,146)
Sale in business combination	(41)	-	-	-	-	(41)
Balance at end of the year	2,096	2,079	172	1,838	54	6,239
incl. current portion	2,096	2,079	172	1,838	54	6,239

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

NOTE 29 OTHER LONG-TERM PAYABLES

in thousands of euros

	31.12.2015	31.12.2014
Trade payables (Note 35)	1,159	1,644
Long-term interest payables	-	13
Other long-term payables	-	14
Total other long-term payables	1,159	1,671

NOTE 30 LOAN COLLATERALS AND PLEDGED ASSETS

in thousands of euros

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

Commercial pledges	31.12.2015	31.12.2014
Movable property	40,074	51,412
Term deposit	37	37
Financial assets*	13,500	14,166
Total	53,611	65,615

* The financial assets of UAB Balsiu mokyklos SPV which OÜ Merko Property has pledged to secure the investment loan in the amount of EUR 6,019 thousand for the benefit of Nordea Bank AB Lithuania Branch.

Mortgages	31.12.2015	31.12.2014
Inventories (Note 17)	42,577	37,649
Land and buildings (Note 23)	3,584	3,714
Other non-current assets (Note 23)	655	700
Investment properties (Note 22)	3,899	4,110
Total	50,715	46,173

Pledges of shares

In addition to the commercial pledge for financial assets, OÜ Merko Property has pledged the shares of its wholly-owned subsidiary UAB Balsiu mokyklos SPV for the benefit of Nordea Bank AB Lithuania Branch. An investment loan in the amount of EUR 6,019 is secured by the pledge.

UAB Merko Bustas has pledged its shares of the (100%) subsidiary UAB MN Projektas to Swedbank AB. The pledge secures an investment loan with a EUR 1,900 thousand line of credit.

NOTE 31 SHARE CAPITAL

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

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

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

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

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 thousand (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 thousand (EUR 0.23 per share), from the amount EUR 12,000 thousand to EUR 7,929 thousand. 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.

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 existing amount and the requirements that legislation imposes on share capital are also met 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 thousand (EUR 0.23 per share), related to the reduction of share capital was made on 16 November 2015. Shareholders, that were entered into the share register of AS Merko Ehitus on 22 May 2015, at 23.59, were entitled to the monetary payments from the reduction of share capital.

As at 31.12.2015, the consolidated net assets of AS Merko Ehitus were EUR 125,698 thousand, therefore the Company's equity and share capital were in compliance with the requirements established in the Republic of Estonia.

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

NOTE 32 CONSTRUCTION CONTRACTS IN PROGRESS

in thousands of euros

	31.12.2015	31.12.2014
Costs incurred for construction contracts in progress and corresponding profit*	496,969	483,735
Progress billings submitted	(497,596)	(482,134)
Revenue recorded from construction services during the period	178,523	205,033
Amounts due from customers for construction contract works (Notes 15, 35)	3,948	10,291
Amounts due to customers for construction contract works (Notes 27, 35)	(4,575)	(8,690)
Advance payments received for construction contract works	1,455	5,540

* Costs incurred for construction contracts in progress and corresponding profit have been presented for contracts in effect, including those entered into in 2015 and 2014.

** The difference in sales revenue from construction service with respect to the amount recognised in Note 3, EUR 2,104 thousand (2014: EUR 1,535 thousand) stems from sales revenue from other segments, including extraction of filler sand for road construction.

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

NOTE 33 RELATED PARTY TRANSACTIONS

in thousands of euros

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

- parent company AS Riverito;
- shareholders of AS Riverito with significant influence over AS Merko Ehitus through AS Riverito;

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2015 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.

GOODS AND SERVICES

in thousands of euros

	2015	2014
Provided services and goods sold		
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 and goods sold	2 428	1,730
Interest income		
Joint ventures	171	118
Purchased services and goods		
Parent company	90	90
Entities under common control	125	123
Other related parties	6	-
Total purchased services and goods	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 thousands of euros

	31.12.2015	31.12.2014
Receivables from related parties		
Loans granted (Note 15, 16, 20)		
Joint ventures	3,888	1,775
Receivables and prepayments (Note 15)		
Parent company	4	3
Joint ventures	536	405
Entities under common control	1	7
Total receivables and prepayments	541	415
Other long-term receivables (Note 20)		
Joint ventures	7	4
Total receivables from related parties	4,436	2,194
Payables to related parties		
Short-term loans received (Note 26)		
Entities under common control	1,000	8,145
Other related parties	-	102
Total short-term loans received	1,000	8,247
Payables and prepayments (Note 27)		
Parent company	9	9
Entities under common control	3,264	4,039
Members of the management	-	1,811
Other related parties	618	-
Total payables and prepayments	3,891	5,859
Long-term loans received (Note 26)		
Entities under common control	7,000	-
Total payables to related parties	11,891	14,106

With regard to receivables from related parties, no impairments were performed in either 2015 or 2014.

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 are payable by 30 April 2015.

Additionally, AS Järvevana and AS Merko Ehitus on 16 March 2015 entered into an overdraft contract worth EUR 8,000 thousand, with an interest rate of the 6-month EURIBOR + 2.65% and a term of 30 April 2021. As at 31 December 2015 the overdraft limit in the amount of EUR 8,000 thousand had been withdrawn in full. The overdraft limit will decrease each year by EUR 1,000 thousand. AS Merko Ehitus also undertook to pay by 30 April 2015 all loan obligations against AS Järvevana outstanding on the basis of earlier loan agreements, in the total amount of EUR 8,145 thousand.

On 25 March 2015, a 100% subsidiary of AS Merko Ehitus group, AS Merko Ehitus Eesti acquired a 100% holding in OÜ Rannamõisa Kinnisvara from a related party E.L.L. Kinnisvara AS for a purchase price of EUR 3,261 thousand to be paid to the seller after the transfer of immovable properties belonging to OÜ Rannamõisa Kinnisvara to third parties but no later than 30 June 2016. In addition, the Parties have entered into an agreement on an option to resell the 100% holding, with an expiration date of 29 June 2016, which in connection with the 8 March 2016 sale of OÜ Rannamõisa Kinnisvara registered immovable properties after the balance-sheet date will not materialise. The registered immovable properties were sold for the purpose of entering into a design and construction agreement between AS Merko Ehitus group's 100% subsidiary AS Merko Ehitus Eesti and Rannamõisa tee Kinnisvarahalduse OÜ to build the BAUHAUS department store in the Haabersti district of Tallinn. The transaction entered into force on 8 March 2016.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

In 2015, the members of the Supervisory and Management Boards of AS Merko Ehitus and Management Boards of its significant subsidiaries were paid gross fees totalling EUR 2,191 thousand (2014: EUR 2,072 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorisation agreements have been entered into with the members of the Supervisory Board according to which no termination benefits are paid to them upon the termination of the contract. Upon premature removal or termination of authority of the members of the Supervisory and Management Boards, the group has the obligation to pay compensation totalling EUR 795 thousand (2014: EUR 766 thousand). In 2015, compensation was paid to the management board members in the amount of EUR 18 thousand (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 in the management report and on AS Merko Ehitus website at: group.merko.ee.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31 December 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 December 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 34 CONTINGENT LIABILITIES

in thousands of euros

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

	31.12.2015	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. To secure the customer's contractual obligations, a first-ranking mortgage of EUR 36,600 thousand with the financing institution as the beneficiary has been established on the registered immovable property of the building to be constructed in the framework of the construction agreement. To secure the group's payment guarantee, a second-ranking mortgage of EUR 8,500 thousand with the group as the beneficiary has been established.

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 – guarantor guarantees repayments of the customer's/ developer's loan.

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.

As at 31 December 2015 the group has recognised a provision (Note 28) with regards to the guarantee for warranty period which is based upon historical experience and contractual volumes.

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

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

NOTE 35 RISK MANAGEMENT

FINANCIAL RISKS MANAGEMENT

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

1. CREDIT RISK

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

FINANCIAL ASSETS EXPOSED TO CREDIT RISK

in thousands of euros

	Allocation by due dates		Carrying amount	Collateral
	1-12 months	2-5 years		
31.12.2015				
Cash and cash equivalents (Note 14)	39,905	-	39,905	-
Term deposits (Notes 20)	-	37	37	-
Trade receivables (Notes 15, 20)	15,105	12,419	27,524	6,500
Amounts due from customers for construction contract works (Notes 15, 32)	3,948	-	3,948	-
Loans granted (Notes 15, 16, 20)	1,432	3,956	5,388	1,650
Interest receivables (Notes 15, 20)	200	7	207	-
Other short-term receivables (Note 15)	617	-	617	-
Total	61,207	16,419	77,626	8,150
31.12.2014				
Cash and cash equivalents (Note 14)	51,583	-	51,583	-
Term deposits (Notes 20)	-	37	37	-
Trade receivables (Notes 15, 20)	27,656	11,008	38,664	-
Amounts due from customers for construction contract works (Notes 15, 32)	10,291	-	10,291	-
Loans granted (Notes 15, 16, 20)	2,178	360	2,538	1,130
Interest receivables (Notes 15, 20)	394	4	398	-
Other short-term receivables (Note 15)	729	-	729	-
Total	92,831	11,409	104,240	1,130

The group's customers are primarily large local entities or public sector entities (as at 31.12.2015, the public sector proportion in accounts receivable amounted to 15.5% (as at 31.12.2014: 41.8%)) with well-known and sufficient creditworthiness.

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

	31.12.2015		31.12.2014	
Not overdue	12,979	86.0%	22,834	82.6%
1-30 days overdue	1,397	9.3%	2,586	9.4%
31-60 days overdue	50	0.3%	278	1.0%
61-90 days overdue	475	3.1%	581	2.1%
91-120 days overdue	4	0.0%	81	0.3%
121-180 days overdue	94	0.6%	372	1.3%
More than 180 days overdue	106	0.7%	924	3.3%
Total trade receivables (Note 15)	15,105	100%	27,656	100%

As at the balance sheet date, the amount of overdue short-term receivables was EUR 2,126 thousand (31.12.2014: EUR 4,821 thousand), of which EUR 866 thousand has been collected by 13 March 2016. In a year, the share of overdue short-term receivables in total receivables decreased from 17.4% to 14.0%. The group keeps running track of payment history for all customers separately for each receivable. The management estimates that there are sufficient reasons to conclude that the receivables reported in the financial statement will be paid off by the buyers. Trade receivables and receivables from customers of construction works under the stage of completion method have not been guaranteed with additional collateral as is customary in the industry.

As at balance sheet date, the loans granted to joint ventures, the economic activities of which the group has a good overview of, totalled EUR 3,888 thousand (31.12.2014: 1,775 thousand) and therefore, no additional collateral is required. As at 31.12.2015, loans granted to unrelated legal entities amounted to EUR 1,500 thousand (Note 16) (31.12.2014: 753 thousand) and the outstanding loan balance granted to unrelated individuals was EUR 0 thousand (31.12.2014: 10 thousand), which in management's opinion is not exposed to material credit risk. As at the year-end, the management expects to collect these loans on time.

2. MARKET RISK

INTEREST RISK

Interest risk arises from interest rate changes in the financial markets as

a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor or the interbank rates of the countries of incorporation of the entities. In 2015, the share of interest-bearing liabilities in the group's capital structure decreased and management considers this share to be moderate (as at 31.12.2015, 14.8% and 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 months.

EFFECT OF CHANGES IN INTEREST RATE RISK ON FINANCE COSTS

As at 31.12.2015, the group's interest-bearing liabilities totalled EUR 31,185 thousand, of which short-term loans and repayments of long-term liabilities totalled EUR 5,525 thousand and long-term loans and finance lease liabilities totalled EUR 25,660 thousand. Loan interest depended on interbank 1-12 month loan base interest in the entity's domicile and Euribor. As at 31.12.2015, the break-down of interest-bearing borrowings was as follows:

	31.12.2015	31.12.2014
Fixed rate liabilities	1,595	2,239
Variable rate liabilities 1-5 months	4,194	10,134
Variable rate liabilities 6-12 months	25,396	25,273
Total interest-bearing borrowings	31,185	37,646

The management does not expect big changes in base interest rates, the market is stable and base interest rates remain low. Assuming that average EURIBOR is 10 pp higher over the next 12 months as compared to the beginning of the year and there is no change in the position of liabilities, interest expenses would increase by EUR 30 thousand.

In addition to risk arising from changes in Euribor, there is risk due to changes in the risk margin attributable to the changes in the economic environment related refinancing of liabilities. This is most directly manifested in a possible need to extend overdraft credit contracts. As at the year-end, group entities had entered in overdraft contracts with banks and other unrelated third parties in the total limit amount of EUR 23,901 thousand, of which EUR 765 thousand was withdrawn (incl. an overdraft contract to finance development projects in the amount of EUR 14.5 million, which has not been withdrawn). In 2016, contracts in the total amount of EUR 4,339 thousand will expire, the extension of which is currently under consideration.

3. 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 year, the group entities had concluded overdraft contracts with banks and other unrelated third parties in the total amount of EUR 23,901 thousand, of which EUR 23,136 thousand 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 10,590 thousand, of which EUR 9,988 was

unused). In addition to the overdraft facility, the Company has a current loan facility with the limit of EUR 3,500 thousand (31.12.2014: EUR 3,500 thousand) from AS Riverito, which had not been withdrawn in full as at the end of current and previous financial years.

The management estimates that the group's capital structure – 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.

FINANCIAL ASSETS/LIABILITIES

in thousands of euros

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2015					
Assets					
Cash and overnight deposits (Note 14)	39,905	-	-	39,905	39,905
Term deposits (Notes 20)	-	-	37	37	37
Trade receivables (Notes 15, 20)	14,157	948	12,419	27,524	27,524
Amounts due from customers of construction contract works (Notes 15, 32)	3,948	-	-	3,948	3,948
Loans and interest (Notes 15, 16, 20)	1,631	1	3,963	5,595	5,595
Other short-term receivables (Note 15)	87	530	-	617	617
Total	59,728	1,479	16,419	77,626	77,626
Liabilities					
Trade payables (Notes 27, 29)	12,793	3,532	1,159	17,484	17,484
Amounts due to customers of construction contract works (Notes 27, 32)	4,575	-	-	4,575	4,575
Loan and finance lease liabilities (Note 26)*	2,150	3,375	25,660	31,185	31,185
Other liabilities (Note 27, 29)	45	3,625	-	3,670	3,670
Total	19,563	10,532	26,819	56,914	56,914
Net assets / liabilities	40,165	(9,053)	(10,400)	20,712	20,712

	Allocation by due date			Total	Carrying amount
	1-3 months	4-12 months	2-5 years		
31.12.2014					
Assets					
Cash and overnight deposits (Note 14)	51,583	-	-	51,583	51,583
Term deposits (Notes 20)	-	-	37	37	37
Trade receivables (Notes 15, 20)	19,799	7,857	11,008	38,664	38,664
Amounts due from customers of construction contract works (Notes 15, 32)	10,291	-	-	10,291	10,291
Loans and interest (Notes 15, 16, 20)	19	2,553	364	2,936	2,936
Other short-term receivables (Note 15)	121	608	-	729	729
Total	81,813	11,018	11,409	104,240	104,240
Liabilities					
Trade payables (Notes 27, 29)	12,793	8,510	1,644	22,947	22,947
Amounts due to customers of construction contract works (Notes 27, 32)	8,690	-	-	8,690	8,690
Loan and finance lease liabilities (Note 26)*	2,033	12,254	23,359	37,646	37,646
Other liabilities (Note 27, 29)	352	4,304	27	4,683	4,683
Total	23,868	25,068	25,030	73,966	73,966
Net assets/ liabilities	57,945	(14,050)	(13,621)	30,274	30,274

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

CAPITAL MANAGEMENT

The group considers borrowings and total equity as capital. As at 31.12.2015, the total equity attributable to equity owners of the parent was EUR 125,698 thousand (31.12.2014: EUR 127,027 thousand). The group's principle is to maintain a strong equity base for the purpose of retaining its trustworthiness among its shareholders, creditors and the market, and to ensure the group's sustainable development. Over the long term, the group's goal is to increase income for its shareholders and ensure its ability to pay dividends.

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

The group considers it important to ensure an optimal capital structure. Therefore, it monitors that the group's equity to assets ratio should be at least 40% (31.12.2015: 59.5%, 31.12.2014: 51.0%) and interest-bearing debt to assets ratio would not exceed 25% (31.12.2015: 14.8%, 31.12.2014: 15.1%).

The requirement laid down in the overdraft contract entered into with Nordea Bank AB Estonia branch specifies that the share of the company's consolidated equity from total assets would not fall below 35% and the group has complied with this requirement.

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

	31.12.2015	31.12.2014
Borrowings	31,185	37,646
Less: cash and cash equivalents and short-term deposits	(39,905)	(51,583)
Net debt	(8,720)	(13,937)
Total equity attributable to owners of the parent	125,698	127,027
Total net debt and equity attributable to equity owners of the parent	116,978	113,090
Share of net borrowings	-7.5%	-12.3%

The group's net debt at 31.12.2015 stood at negative EUR 8.7 million (31.12.2014: negative EUR 13.9 million).

MANAGEMENT OF OTHER RISKS

LEGAL RISK

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

As at 31 December 2015, a provision has been set up at the group in the amount of EUR 100 thousand for covering potential claims and legal costs (31 December 2014: EUR 172 thousand), (Note 28).

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 following court hearing is scheduled for 7 April 2016.

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, which was not admitted to proceedings under the Supreme Court decision of 7 February 2016 and thus the original decision in favour of Vakarų took effect.

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 recognised most of the claims of UAB Merko Statyba and gave up most of its claims against UAB Merko Statyba.

VALUE OF ASSETS

Although the economic environment has attained certain stability, the effect of the real estate market risk was material for assessing the company's activities.

In 2015, the group recognised EUR 1,178 thousand (2014: EUR 632 thousand) in impairment losses on assets and inventories, incl. impairment loss of EUR 570 thousand (2014: EUR 0 thousand) on finished goods and EUR 488 thousand (2014: EUR 400 thousand) on developments under properties acquired for sale, EUR 89 thousand (2014: EUR 89 thousand) on goodwill impairment under intangible assets and EUR 31 thousand (2014: EUR 143 thousand) on the write-off of doubtful and irrecoverable receivables. In 2015, no prior period impairment losses on inventories were reversed (2014: on finished goods EUR 850 thousand). In 2015, receivables expensed in prior periods of EUR 0 thousand were collected (2014: EUR 20 thousand). Notes 15, 17 and 24.

NOTE 36 SUPPLEMENTARY DISCLOSURES ON THE PARENT

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

INCOME STATEMENT

in thousands of euros

	2015	2014
Revenue	13,691	20,317
Cost of goods sold	(12,986)	(19,590)
Gross profit	705	727
Marketing expenses	(236)	(139)
General and administrative expenses	(1,705)	(1,618)
Other operating income	640	1,845
Other operating expenses	(141)	(104)
Operating profit (loss)	(737)	711
Finance costs	(113)	(33)
Finance income from investments in subsidiaries	5,076	1,721
Profit before tax	4,226	2,399
Deferred income tax expense	(18)	-
Net profit for the year	4,208	2,399

STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2015	31.12.2014
ASSETS		
Current assets		
Cash and cash equivalents	9,742	13,923
Receivables and prepayments	7,747	4,073
Inventories	16,379	10,122
	33,868	28,118
Non-current assets		
Investments in subsidiaries	123,375	131,895
Investments in joint ventures	764	409
Other long-term financial assets	2,096	9,019
Investment property	18	19
Property, plant and equipment	155	216
Intangible assets	38	-
	126,446	141,558
TOTAL ASSETS	160,314	169,676
LIABILITIES		
Current liabilities		
Borrowings	1,332	8,476
Trade and other payables	8,560	11,382
Short-term provisions	513	197
	10,405	20,055
Non-current liabilities		
Long-term borrowings	7,071	100
Other long-term trade payables	437	-
	7,508	100
TOTAL LIABILITIES	17,913	20,155
EQUITY		
Share capital	7,929	12,000
Statutory reserve capital	1,200	1,200
Retained earnings	133,272	136,321
TOTAL EQUITY	142,401	149,521
TOTAL LIABILITIES AND EQUITY	160,314	169,676

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2013	12,000	1,200	141,179	154,379
Net profit for financial year	-	-	2,399	2,399
Dividends	-	-	(7,257)	(7,257)
Balance as at 31.12.2014	12,000	1,200	136,321	149,521
Carrying amount of holdings under control or significant influence				(132,304)
Value of holdings under control or significant influence under the equity method				109,810
Adjusted unconsolidated equity 31.12.2014				127,027
Net profit for financial year	-	-	4,208	4,208
Share capital reduction	(4,071)	-	-	(4,071)
Dividends	-	-	(7,257)	(7,257)
Balance as at 31.12.2015	7,929	1,200	133,272	142,401
Carrying amount of holdings under control or significant influence				(124,139)
Value of holdings under control or significant influence under the equity method				107,436
Adjusted unconsolidated equity 31.12.2015				125,698

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

CASH FLOW STATEMENT

in thousands of euros

	2015	2014
Cash flows from operating activities		
Operating profit (loss)	(737)	711
Adjustments:		
Depreciation and impairment charge	65	48
Profit/(loss) from sale of non-current assets	(4)	-
Adjustment of revenue from construction contracts under stage of completion method	(716)	435
Interest income from business activities	(636)	(1,825)
Change in provisions	345	(258)
Change in trade and other receivables related to operating activities	3,088	28,163
Change in inventories	(6,251)	3,542
Change in trade and other payables related to operating activities	(1,662)	(3,482)
Interest received	767	8,352
Interest paid	(216)	(174)
	(18)	-
	(5,975)	35,512
Cash flows from investing activities		
Investments in subsidiaries	(5,688)	(35,269)
Reduction of equity in subsidiary	14,208	4,875
Increase of equity in joint venture	(355)	(5)
Purchase of property, plant and equipment	(2)	(5)
Proceeds from sale of property, plant and equipment	4	-
Purchase of intangible assets	(38)	-
Interest received	90	99
Dividends received	5,076	1,721
	13,295	(28,584)
Cash flows from financing activities		
Proceeds from borrowings	8,007	1,204
Loan repayments received	(8,152)	(1,958)
Finance lease principal payments	(28)	(8)
Share capital reduction	(4,071)	-
Dividends paid	(7,257)	(7,257)
	(11,501)	(8,019)
Net increase/decrease in cash and cash equivalents	(4,181)	(1,091)
Cash and cash equivalents in the beginning of period	13,923	15,014
Cash and cash equivalents at end of the period	9,742	13,923

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2015 ANNUAL REPORT

The Management Board of AS Merko Ehitus has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2015.

Andres Trink Chairman of the Management board 31.03.2016



Tõnu Toomik Member of the Management Board 31.03.2016



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

Toomas Annus Chairman of the Supervisory Board 05.04.2016



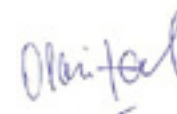
Teet Roopalu Member of the Supervisory Board 05.04.2016



Indrek Neivelt Member of the Supervisory Board 05.04.2016



Olari Taal Member of the Supervisory Board 05.04.2016





INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Merko Ehitus

We have audited the accompanying consolidated financial statements of AS Merko Ehitus and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the

auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Merko Ehitus and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers
Ago Vilu

Auditor's Certificate No.325
31 March 2016

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

PROFIT ALLOCATION PROPOSAL

in euros

Total retained earnings as at 31.12.2015	117 231 886
incl. net profit for 2015	9 999 830
The Management Board proposes profit allocation as follows:	
Dividends (EUR 0.51 per share)	9,027,000
Retained earnings after profit allocation	108,204,886

Andres Trink

Chairman of the Management Board

31.03.2016

Tõnu Toomik

Member of the Management Board

31.03.2016

KEY FINANCIAL INDICATORS IN 2011-2015

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	2015	2014	2013	2012	2011
Revenue	251,012	252,323	262,719	249,131	219,322
Cost of goods sold	(228,044)	(227,591)	(239,996)	(231,220)	(222,928)
Gross profit (loss)	22,968	24,732	22,723	17,911	(3,606)
<i>% of revenue</i>	9.2%	9.8%	8.6%	7.2%	-1.6%
Marketing expenses	(3,230)	(3,190)	(3,041)	(2,107)	(2,104)
General and administrative expenses	(8,907)	(9,128)	(9,260)	(9,173)	(7,910)
Other operating income	1,943	1,901	2,264	2,961	2,580
Other operating expenses	(278)	(340)	(425)	(834)	(1,308)
Operating profit (loss)	12,496	13,975	12,261	8,758	(12,348)
<i>% of revenue</i>	5.0%	5.5%	4.7%	3.5%	-5.6%
Finance income	120	143	84	184	594
Finance costs	(786)	(680)	(1,062)	(1,203)	(1,161)
Profit (loss) from associates and joint ventures	(138)	(130)	(138)	163	(1,120)
Profit (loss) before tax	11,692	13,308	11,145	7,902	(14,035)
<i>% of revenue</i>	4.7%	5.3%	4.2%	3.2%	-6.4%
Corporate income tax expense	(1,857)	(1,055)	(791)	(289)	(121)
Net profit (loss) for the financial year	9,835	12,253	10,354	7,613	(14,156)
incl. attributable to equity holders of the parent	10,000	12,417	10,399	7,627	(14,084)
<i>% of revenue</i>	4.0%	4.9%	4.0%	3.1%	-6.4%
Attributable to non-controlling interests	(165)	(164)	(45)	(14)	(72)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of euros

	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
ASSETS					
Current assets					
Cash and cash equivalents	39,905	51,583	46,633	35,316	18,510
Short-term deposits	-	-	-	-	140
Trade and other receivable	24,854	46,382	57,172	60,343	64,449
Prepaid corporate income tax	421	3	19	478	686
Inventories	109,090	117,638	87,451	82,830	87,834
	174,270	215,606	191,275	178,967	171,619
Non-current assets					
Investments in joint ventures	284	67	7,349	7,190	9,986
Other long-term loans and receivables	16,419	11,409	20,066	17,188	17,065
Deferred income tax assets	1,423	1,535	1,592	1,919	1,870
Investment property	4,371	4,619	4,672	3,566	2,313
Property, plant and equipment	13,442	15,003	13,117	14,853	16,057
Intangible assets	879	1,011	1,167	1,365	1,427
	36,818	33,644	47,963	46,081	48,718
TOTAL ASSETS	211,088	249,250	239,238	225,048	220,337
LIABILITIES					
Current liabilities					
Borrowings	5,525	14,287	18,916	16,299	16,574
Payables and prepayments	43,266	71,122	72,162	63,209	61,635
Corporate income tax liability	711	352	62	-	-
Short-term provisions	5,013	6,239	5,906	6,165	6,781
	54,515	92,000	97,046	85,673	84,990
Non-current liabilities					
Long-term borrowings	25,660	23,359	16,469	19,205	23,764
Deferred income tax liability	788	738	505	327	131
Other long-term payables	1,159	1,671	2,162	1,576	856
	27,607	25,768	19,136	21,108	24,751
TOTAL LIABILITIES	82,122	117,768	116,182	106,781	109,741
EQUITY					
Non-controlling interests	3,268	4,455	1,193	1,342	1,356
Equity attributable to equity holders of the parent					
Share capital	7,929	12,000	12,000	12,000	12,000
Statutory reserve capital	1,200	1,200	1,200	1,200	1,131
Currency translation differences	(663)	(665)	(669)	(512)	(570)
Retained earnings	117,232	114,492	109,332	104,237	96,679
	125,698	127,027	121,863	116,925	109,240
TOTAL EQUITY	128,966	131,482	123,056	118,267	110,596
TOTAL LIABILITIES AND EQUITY	211,088	249,250	239,238	225,048	220,337

OTHER KEY FIGURES

attributable to equity holders of the parent

		2015	2014	2013	2012	2011
EBITDA	million EUR	15.5	16.4	15.1	11.4	-10.1
EBITDA margin	%	6.2	6.5	5.7	4.6	-4.6
General expense ratio	%	4.8	4.9	4.7	4.5	4.6
Staff costs ratio	%	12.2	11.9	11.8	11.2	10.2
Revenue per employee	thousand EUR	322	319	308	278	235
ROE	%	8.0	10.1	8.8	6.8	-12.2
ROA	%	4.4	5.0	4.4	3.4	-6.6
ROIC	%	7.9	8.8	8.0	6.0	-9.0
Equity ratio	%	59.5	51.0	50.9	52.0	49.6
Debt ratio	%	14.8	15.1	14.8	15.8	18.3
Current ratio	times	3.2	2.3	2.0	2.1	2.0
Quick ratio	times	1.2	1.1	1.1	1.1	1.0
Accounts receivable turnover	days	39	56	58	58	56
Accounts payable turnover	days	39	39	43	47	45
Number of employees 31.12	people	791	765	860	915	917
Average number of employees	people	779	790	853	895	934
Secured order book	million EUR	247	179	214	190	166
New contracts signed	million EUR	247	170	254	247	168

SHARE-RELATED KEY FIGURES

attributable to equity holders of the parent

		2015	2014	2013	2012	2011
Earnings per share (EPS)	EUR	0.56	0.70	0.59	0.43	-0.80
Equity per share	EUR	7.02	6.93	6.71	6.34	6.51
Dividend per share	EUR	0.51*	0.41	0.41	0.30	0.00
Dividend rate	%	90*	58	70	70	0
Dividend yield	%	6.0*	5.7	5.7	5.1	0.0
P/E ratio	times	15.01	10.18	12.25	13.69	-6.79
P/B ratio	times	1.21	1.03	1.07	0.93	0.83
Share price trend						
Average	EUR	8.47	7.33	6.96	6.04	7.49
Highest	EUR	10.50	7.99	7.70	7.30	10.65
Lowest	EUR	7.06	6.70	5.71	5.37	4.90
Share price 31.12	EUR	8.48	7.14	7.20	5.90	5.40
Market value 31.12	million EUR	150.1	126.4	127.4	104.40	95.60
Share turnover trend						
Share turnover	million EUR	7.71	7.62	5.08	5.47	8.02
Share turnover of shares outstanding	%	43.5	43.0	28.7	30.9	45.3
Transactions	pcs	2,829	1,699	2,183	1,662	3,719
Shares traded	million pcs	0.90	1.03	0.73	0.94	1.06
Number of shares	million EUR	17.70	17.70	17.70	17.70	17.70
Number of shareholders 31.12	pcs	1,624	1,423	1,425	1,406	1,576

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

DEFINITIONS OF RATIOS

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

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

Revenue break-down of the parent of AS Merko Ehitus for the year 2015 is presented according to Estonian Classifications of Economic Activities (EMTAK 2008), as required under the Commercial Code § 4 p.6:

in thousands of euros

EMTAK code		2015	2014
	Rendering of construction services		
4221	construction of utility projects for fluids	5,997	10,851
	Real estate activities		
6810	sales of own real estate	7,609	9,454
6820	renting and operating of own or leased real estate	85	12
		7,694	9,466
	Total revenue	13,691	20,317

