



AS MERKO EHITUS

GROUP

2016 12 months and IV quarter
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Financial year:	01.01.2016 – 31.12.2016
Reporting period:	01.01.2016 – 31.12.2016
Supervisory Board:	Toomas Annus, Teet Roopalu, Indrek Neivelt, Olari Taal
Management Board:	Andres Trink, Tõnu Toomik
Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

Merko Ehitus is active in offering general contracting services in the field of construction and in residential real estate development and on providing complete solutions in professional construction and real estate development in its home markets Estonia, Latvia and Lithuania. In Q1 2016, the group entered the Norwegian market as well through acquisition of a stake in a local construction company. 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 Baltic construction market. 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, as well as coordinating partner relations. The shares of Merko have been listed on the NASDAQ Tallinn Stock Exchange since 1997. The group employs 797 people.

The group comprises construction and property development companies providing complete construction solutions in Estonia, Latvia, Lithuania and Norway, among which the group's largest construction sector companies are AS Merko Ehitus Eesti (100%), SIA Merks (100%), UAB Merko Statyba (100%) and the companies belonging to the AS Merko Ehitus Eesti group: Tallinna Teede AS (100%) and AS Merko Infra (100%).

Merko Ehitus is the company with the highest owners' equity in the Estonian construction sector and is able to finance projects by itself in long-term. We are conservative in involving debt capital. We ensure that we would have sufficient necessary resources for continuously investing in attractive projects.

Merko Ehitus Eesti group is the market leader of the Estonian construction sector with approximately 4% of the total volume of the Estonian construction market as of the end of third quarter 2016. In Latvia, Lithuania and Norway, Merko Ehitus operates through its subsidiaries SIA Merks, UAB Merko Statyba and Peritus Entreprenør AS 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.



COMPLETED IN Q4, TALLINK TENNIS CENTRE IN LASNAMÄE DISTRICT OF TALLINN INCLUDES 14 TENNIS COURTS, 10 BADMINTON COURTS, GYM, FITNESS HALLS AND ADMINISTRATION ROOMS.

VISION

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

VALUES

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

STRATEGY

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

LONG-TERM FINANCIAL OBJECTIVES UNTIL 2018

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

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

dividend rate
50-70%
of annual profit

equity ratio
at least
40%

Considering the weak growth prospects of the Baltic construction and real estate market in the coming few years, the 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.

In 2016, the Group achieved the dividend rate and equity ratio as set in the long-term financial objectives, but remained below in terms of average return on equity objective:

average return on equity
5.0%

dividend rate
119%
of annual profit

equity ratio
51.6%

FULFILLMENT OF LONG-TERM FINANCIAL OBJECTIVES 2013-2016

	2016	2015	2014	2013	AVERAGE
Return on equity, ROE (on yearly basis)	5.0%	8.0%	10.1%	8.8%	8.0%
Dividend rate	119%	90%	58%	70%	84%
Equity ratio 31.12	51.6%	59.5%	51.0%	50.9%	53.3%

MANAGEMENT REPORT

COMMENTARY OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Merko Ehitus posted revenue of EUR 252 million in 2016, remaining on par with the last year; the net profit amounted to EUR 6.1 million. The group continued to implement its long-term apartment-building strategy, investing a total of EUR 73 million in residential development. The company's Management Board proposes to pay 119% of retained earnings – EUR 0.41 per share – in dividends to shareholders.

The group's management considers the last year complicated, in which despite active residential construction in the Baltic capitals, the construction market as a whole failed to show any growth. Public investments in infrastructure objects have also remained in a slump for several years. The group's infrastructure construction volumes were lagging behind expectations in 2016. The management estimates that to cover the expenditure, the prices bid in procurements are very low in the current market situation, and do not endorse any growth in the construction capacity of civil engineering projects on the construction market in general. The growth in residential development and private sector orders allowed Merko Ehitus to maintain revenue on last year's level, but at the same time the management is not satisfied with the profitability on the construction service segment. Price competition in buildings construction procurements is extremely tight, slimming down the margins and forcing both main contractors and contracting entities to take huge risks. The management considers that efficiency and management of contractual risks is becoming increasingly important. The group's results for 2016 were also affected by the delay in the launch of construction on several major objects. We were only able to actively continue with these projects at the end of the year.

2016
PROFIT BEFORE TAX
7.3 MILLION EUROS
REVENUE
252 MILLION EUROS

The group's management confirms to make an effort to maintain lead position in Estonia in terms of both main contracting and apartment development, and we see opportunities to boost profit by enhancing internal efficiency. The strategy of growing beyond Estonian borders will also continue to be pursued – while nearly one-third of our business is currently carried out abroad, we have set our sights on the corresponding target of 50%. Even though the construction service revenue posted in the Latvian and Lithuanian market in 2016 has decreased to some extent, compared to the previous period – a circumstance attributable to the completion of several major projects at the end of 2015 – we have gradually enhanced our capacity and improved our position on the main contracting markets of these countries. In Latvia, we remain competitive in most private and public sector procurements. In Lithuania, we hold the biggest market share among international orders, and are planning active participation in public procurements. In Norway, our long-term objective is to develop the capacity for major construction projects and gain the clients' trust as a company operating on the local market.

In 2016, the group posted revenue of EUR 252.0 million, net profit of EUR 6.1 million and profit before taxes of EUR 7.3 million. The revenue for Q4 2016 amounted to EUR 78.6 million, net profit to EUR 1.4 million and profit before taxes to EUR 1.6 million. In 2016, the group signed new construction contracts in the total amount of EUR 202.4 million, of which EUR 61.9 million in Q4. As at 31 December 2016, the group's secured order book amounted to EUR 269.6 million. Major objects still in progress in Q4 included T1 shopping centre, Maakri Quarter, Telia's head office in WoHo Quarter and the Tallinn Airport tramway in Tallinn, passenger terminal of Riga International Airport in Riga and Kauno/Algirdo residential and office complex in Vilnius.

Real estate development remains a key business area for the group, generating nearly 30% of the group's revenue in 2016. In 2016, we invested a total of nearly EUR 73 million in residential development, including EUR 53.6 million in apartment construction and EUR 19.1 million in new land plots in order to secure our long-term apartment-building strategy. We acquired new land plots in the heart of Tallinn and Vilnius in Q4. The apartment markets of Tallinn and Vilnius continue to be in a good shape. Riga has yet to achieve the expected potential, but Merko remains relatively well-positioned for any growth in demand. In general, the management is very pleased with the results of apartment sales, having gained the apartment buyers trust and demonstrated the value of the Merko brand as the developer, builder and seller of living environments and apartments. Depending on the market dynamics, Merko is planning to launch the construction of 650–700 new apartments in the Baltic countries this year, investing nearly EUR 45 million in work-in-progress and new development projects.

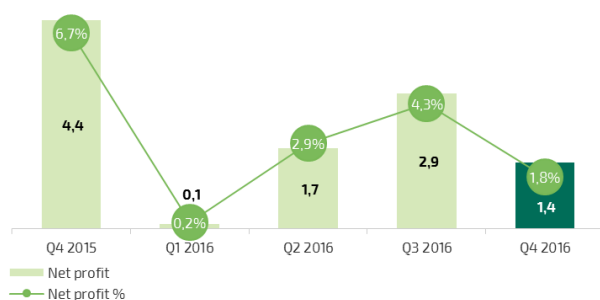
PROPOSAL FOR 2016
DIVIDENDS
0.41 EUROS PER SHARE

In 2016, the group sold 493 apartments for a total of EUR 56.6 million (w/o VAT), compared to the 403 apartments and EUR 61.4 million (w/o VAT) in 2015. In Q4, 225 apartments were sold in the total amount of EUR 27.0 million (w/o VAT). Merko launched the construction of 344 apartments in 2016, plus the Galiezers and Rinktines projects launched at the beginning of 2017, with a total of 216 apartments. Major development projects currently under construction by Merko include Tartu mnt 52, Noblessner Homeport and Paepargi apartment buildings in Tallinn, Skanstes Parks and Gaiļezers in Riga and the Rinktines Urban in Vilnius.

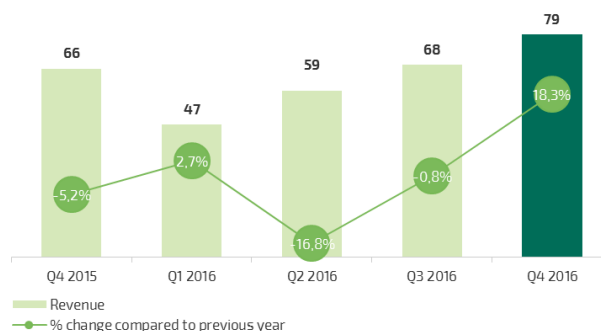
The Management Board of AS Merko Ehitus proposes to pay EUR 7.3 million (EUR 0.41 per share) in dividends to shareholders at the expense of retained earnings, with the dividend rate for 2016 thus amounting to 119%. The group's management has made the proposal to pay dividends to shareholders above the current dividend policy rate, considering the return on equity posted in 2016, the group's investment capacity and the outlook for growth of the construction market. The management remains hopeful that the engineering construction volumes will continue to grow, even though the projects will not be actually launched before the second half of 2017, or later.

OVERVIEW OF THE 12 MONTHS AND IV QUARTER RESULTS

GROUP NET PROFIT
in millions euros



GROUP REVENUE
in million euros



PROFITABILITY

Net profit in 12M 2016 was EUR 6.1 million (12M 2015: EUR 10.0 million), having decreased by 38.8% compared to the same period last year and net profit margin decreased to 2.4% (12M 2015: 4.0%). Q4 net profit was EUR 1.4 million (Q4 2015: EUR 4.4 million), having decreased by 68.3% in the annual comparison. Profit before tax in 12M 2016 was EUR 7.3 million (12M 2015: EUR 11.7 million), which is equivalent to a profit before tax margin of 2.9% (12M 2015: 4.7%). Q4 profit before tax was EUR 1.6 million (Q4 2015: EUR 4.7 million).

REVENUE

Revenue in 12M 2016 was EUR 252.0 million (12M 2015: EUR 251.0 million), which has increased by 0.4% compared to last year. Q4 revenue was EUR 78.6 million (Q4 2015: EUR 66.4 million). The share of revenue earned outside Estonia has decreased in 12M 2016 amounted to 32% (12M 2015: 38%) and the share of revenue earned in Estonia has increased to 68% (12M 2015: 62%). The number of apartments (493 units, incl. 21 apartments in joint ventures) sold in 12 months of 2016 has increased by 22.3% and the revenue from apartment sales (EUR 56.6 million) has decreased by 7.8% (12 months of 2015: 403 units, revenues of EUR 61.4 million).

CASH POSITION

At the end of the reporting period, the group had EUR 33.5 million in cash and cash equivalents and equity EUR 122.8 million (51.6% of total assets). Comparable figures as at 31 December 2015 were accordingly EUR 39.9 million and EUR 125.7 million (59.5% of total assets). As at 31 December 2016 the group had net debt of EUR 12.5 million (31 December 2015: negative EUR 8.7 million).

SECURED ORDER BOOK

As at 31 December 2016, the group's secured order book had grown to EUR 269.6 million (31 December 2015: EUR 246.9 million). In 12M 2016, group companies signed new contracts in the amount of EUR 202.4 million (12M 2015: EUR 247.0 million). Q4 2016 new contracts signed in amount of EUR 61.9 million (Q4 2015: EUR 94.8 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

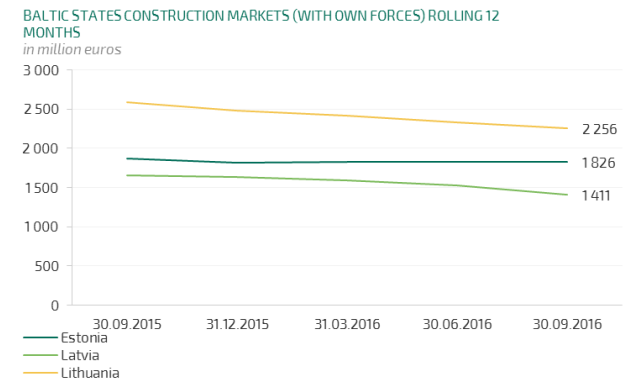
The Management Board proposes to distribute to shareholders EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings in 2017. This is equivalent to a 119% dividend rate for 2016.

		12M 2016	12M 2015	VARIANCE	Q4 2016	Q4 2015	VARIANCE
Revenue	million EUR	252.0	251.0	+0.4%	78.6	66.4	+18.3%
EBITDA	million EUR	11.2	15.5	-27.7%	2.8	5.6	-49.8%
EBITDA margin	%	4.4	6.2	-28.0%	3.6	8.4	-57.5%
EBIT	%	7.7	12.5	-38.2%	1.6	4.9	-66.2%
EBIT margin	%	3.1	5.0	-38.5%	2.1	7.3	-71.4%
Profit before tax	million EUR	7.3	11.7	-37.7%	1.6	4.7	-66.5%
PBT margin	%	2.9	4.7	-38.0%	2.0	7.0	-71.6%
Net profit (parent)	million EUR	6.1	10.0	-38.8%	1.4	4.4	-68.3%
Net profit margin	%	2.4	4.0	-39.0%	1.8	6.7	-73.2%
EPS	EUR	0.35	0.56	-38.8%	0.08	0.25	-68.3%
		31.12.2016	31.12.2015	VARIANCE			
ROE (on yearly basis)	%	5.0	8.0	-37.7%			
Equity ratio	%	51.6	59.5	-13.3%			
Secured order book	million EUR	269.6	246.9	+9.2%			
Total assets	million EUR	237.8	211.1	+12.7%			
Number of employees	people	797	791	+0.8%			

Ratio definitions are provided on page 37 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 12 MONTHS OF 2016

2016 was a complicated year for the Baltic construction sector. Despite active residential development in the Baltic capitals, the volumes of new construction orders of general contractors remained low, in terms of both infrastructure and commercial and public buildings. The market volume balanced off mainly at the expense of active residential development in Tallinn and Vilnius, but this doesn't mean significantly more work for large general contractors, whose developments often compete in this field with their potential customers. Developments in the construction sector in the near future will be influenced by the activity level of public sector contracts, as it is clear that there is no growth in private sector order volumes. On the other hand, we can detect the first signs suggesting that the sluggish preparation of construction projects funded within the framework of the EU budget period and the announcement of public sector procurements is beginning to pick up pace.



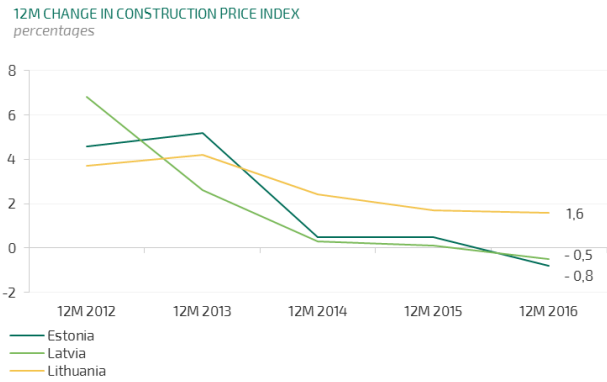
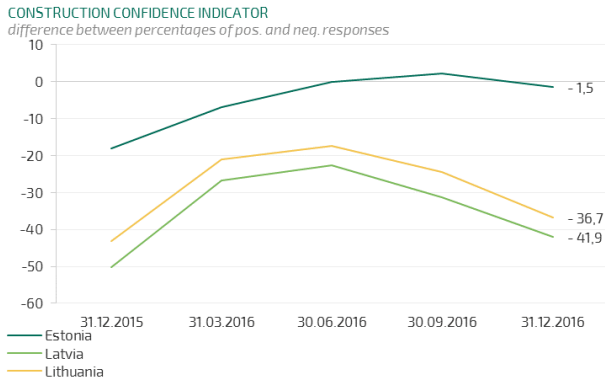
Source: Local national statistical offices.

In this market situation, Merko is making a greater contribution to private capital investments in the field of production, logistics and other commercial real estate, although this does not compensate for the shortfall due to the lack of state orders on the construction market as a whole. Based on plans made by public sector contracting entities, we forecast that early 2017 will start to see an increase in the number of new public procurements, including projects financed by EU funds, and that these will reach the construction phase starting from the second half of 2017 or the beginning of 2018. At the same time, plans to launch procurements have been constantly postponed in recent years. Public sector contracts would help to counterbalance the major fluctuation in construction market order volumes and support investments into the development of the construction sector – both into human resources and technologies. Today the priority of the group in all three Baltic countries is to cooperate more with private clients, 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.

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. 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 the market competitors are continuing to submit aggressive offers, anticipating that the input prices will decrease or to changes to project design solution, however which may not materialise. As a result from the above the direct and indirect risks (incl. risks like receiving a building that doesn't meet the expectations, contractor's financial difficulties and project completion delays deriving from that, disputes between the parties arising from possible changes to the project and compensation of additional works) have increased for the customers that are sometimes not perceived in the light of the favourable prices. As a positive trend we can bring out that more and more private sector clients 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. The continuing expansion of the area of application of building information modelling (BIM) in the construction process is also a positive trend.

Taking into account the relatively weak outlook for growth in the construction market of Baltic states and the economic environment as a whole, we do not foresee major changes in the level of construction input prices. Input prices may come under temporary pressure in a situation where multiple major construction sites are in progress simultaneously. Nonetheless, sudden fluctuations in input prices cannot be ruled out against the backdrop of global economic events. The construction price index continued to fall in 9 months of 2016 with respect to the average of the same period last year both in Estonia (-0.8%) and Latvia (-0.5%), while in Lithuania the construction price index turned to growth (+1.6%). Of the construction price components, the workforce continued rising in all Baltic states, with Estonian and Latvian figures being somewhat higher than Lithuanian. Construction material price components dropped in all Baltic states, while construction machinery price components moved in different directions, decreasing in Estonia, staying the same in Lithuania and rising in Latvia.

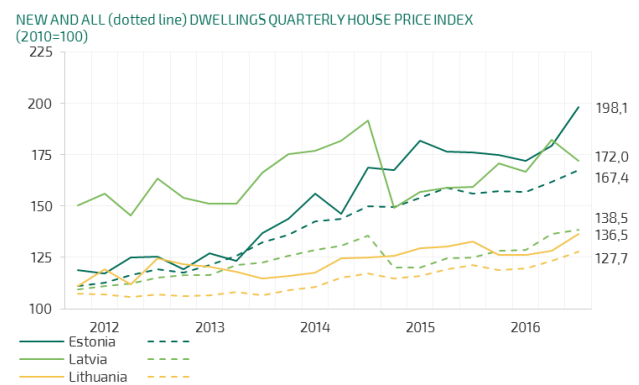
The level of indicators of confidence in the construction industry continues to be unfavourable in all three Baltic states. While the situation in Estonia is moderately less favourable than at the end of Q3 2016, the situation in Latvia and Lithuania worsened slightly over the quarter. Confidence is curtailed primarily by the seasonal factor that winter is low season in the construction sector. On a larger scale, confidence is kept negative by the lack of demand, which is largely related to lack of investments in infrastructure. At the same time some positive influence on sector confidence comes from construction of buildings, including the construction of apartment buildings, where today construction companies have presently more work ahead. Recent quarters show that the lack of qualified labour in Estonia is slowly starting to chip away confidence. Compared to the same period last year, confidence in the construction sector in the Baltic countries in December 2016 improved: in Estonia the most by 16.5 points to -1.5 points (December 2015: -18.0 points), in Latvia 8.4 points from -50.3 points to -41.9 points and in Lithuania 6.4 points from -43.1 points to -36.7 points.



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

In Tallinn and Vilnius, the situation in the apartment market has continued to stabilise. In Riga the apartment market continues to be relatively less active, even though some indicators suggest enhanced activity. The increased supply of apartments mainly in Tallinn and Vilnius has been expressed above all in clients' desire for discounts, and a certain amount of lengthening of sales periods in some projects.

Apartment developers are continually starting new development projects in all three Baltic capitals (though relatively less in Riga), which has increased the supply of new apartments. The apartment prices of new dwellings, mainly in Estonia but also in Lithuania, have stabilised, which is reflected by the corresponding price index curves for new dwellings in the respective countries (see graph). It is also important to emphasise that the volatility in prices of new developments in the Baltics has been somewhat greater and often fluctuated in opposite directions than the change in prices on the apartment market in general, as the change in the price of apartments depends directly on the time at which individual development projects were completed and delivered to customers as well as on their price level.



Source: Eurostat.

The Norwegian construction market as a whole continues to be active. Demand remains stable in the residential real estate market, yet we have to consider the high level of regional disparity – the main construction activity as regards to new residential dwellings is concentrated in the capital Oslo region, where demand remains strong but supply is thwarted by the long period of preparation of new projects. In the field of public building construction, the market is good and for commercial building construction, the market is moderately stable, but the outlook is negative due to lower employment level and decreased consumption. The share of civil engineering projects with respect to all construction sector projects continues to grow, above all due to large public investments into infrastructure projects.



"GAIĻEZERA NAMI" RESIDENTIAL DEVELOPMENT PROJECT AT MEŽCIEMS DISTRICT IN RIGA INCLUDES SIX APARTMENT BUILDINGS WITH 192 APARTMENTS LOCATED BETWEEN LĪDUMA, GAIĻEZERA AND HIPOKRĀTA STREETS.

OPERATING RESULTS

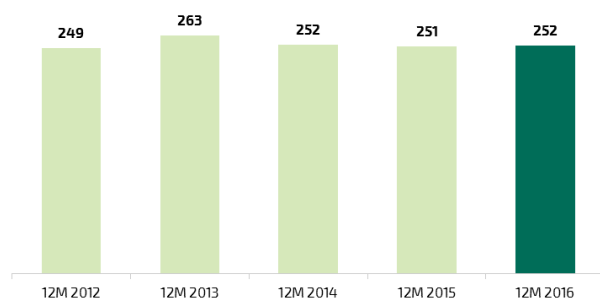
BUSINESS ACTIVITIES

Key financial indicators (in million euros)

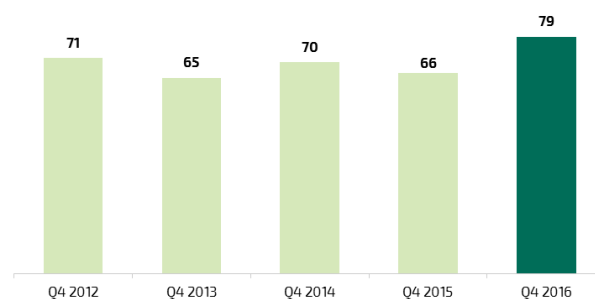
	12M 2016	12M 2015	Q4 2016	Q4 2015
Revenue				
Estonian construction service	122.4	108.6	34.2	28.6
Other home markets construction service	52.7	72.0	12.5	13.1
Real estate development	76.9	70.4	31.9	24.7
Revenue total	252.0	251.0	78.6	66.4
EBITDA	11.2	15.5	2.8	5.6
Operating profit (EBIT)	7.7	12.5	1.6	4.9
Profit before tax (PBT)	7.3	11.7	1.6	4.7
Net profit				
attributable to equity holders of the parent	6.1	10.0	1.4	4.4
attributable to non-controlling interest	(0.1)	(0.2)	(0.1)	(0.1)
Net profit total	6.0	9.8	1.3	4.3
Earnings per share (EPS), euros	0.35	0.56	0.08	0.25
Cash and cash equivalents closing position	33.5	39.9	33.5	39.9

REVENUE AND OPERATING PROFIT

GROUP REVENUE
in million euros

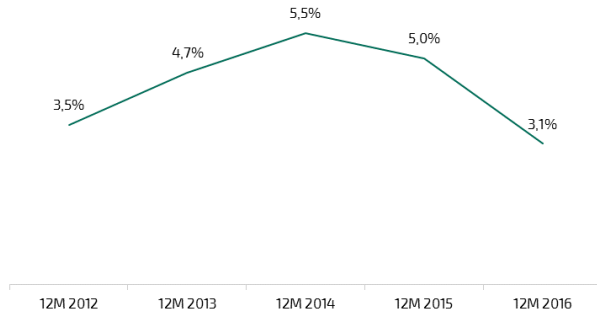


GROUP QUARTERLY REVENUE
in million euros

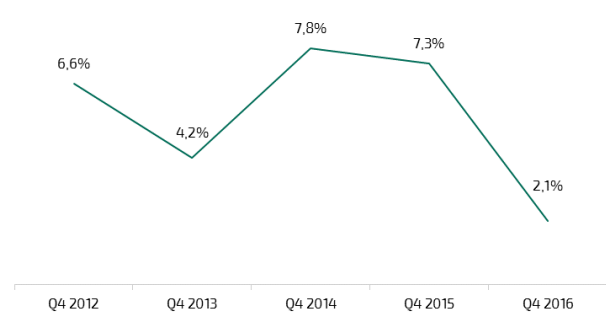


Merko Ehitus group generated a total of EUR 252.0 million in revenue in 12 months of 2016 (12 months of 2015: EUR 251.0 million). 48.6% of the revenue was generated in Estonian construction service, 20.9% in other home markets construction service and 30.5% in and real estate development segment (12 months of 2015: 43.3% in Estonian construction service, 28.7% in other home markets construction service and 28.0% in real estate development segment). Compared to the 12 months of 2015 the group revenue has remained essentially on the same level. The revenue was slightly below management's expectations mainly due to a somewhat slower than expected launch of several large-scale projects in the first half of the year. This is above all due to circumstances on the customer side as the design work and obtaining related approvals has kept construction from being launched at the expected rate in a number of projects across the Baltics. Another factor is the generally lower number of large-scale projects with respect to the comparison period. Compared to the 12 months of the previous year in the 12 months of 2016 the share of other home markets construction service revenue in the group's revenue has decreased from 28.7% to 20.9% and the share of Estonian construction service has increased from 43.3% to 48.6%. Revenue in Q4 2016 was EUR 78.6 million, in spite of the continuing general downtrend in the Baltic construction market, which has increased by 18.3% compared to the previous year (Q4 2015: EUR 66.4 million). The main changes in the revenue structure compared to the same period last year lie in the growth in revenue from Estonian construction services' general construction projects and in the increase in the sales revenue of construction services from joint venture projects and a one-off increase in revenues from immovable properties in the real estate development segment. At the same time, revenue is down from Estonian construction services' civil engineering projects and in the other home markets constructions service segment. This trend has been in line with the group's expectations, considering the distribution of the secured order book as at the end of 2015 and the slump in new construction orders in Latvia and Lithuania. The sales revenue earned in Norway is a new component in the group's turnover this year.

GROUP OPERATING PROFIT MARGIN
percentages



GROUP QUARTERLY OPERATING PROFIT MARGIN
percentages

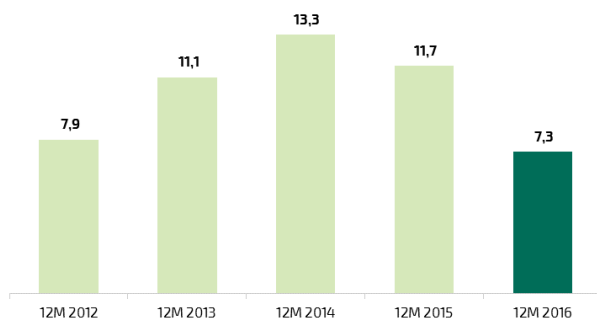


In 12 months of 2016 the group's operating profit from development and construction activities totalled EUR 7.7 million (12 months of 2015: EUR 12.5 million) and in Q4 2016 EUR 1.6 million (Q4 2015: EUR 4.9 million). The 12 months operating profit margin (3.1%) has decreased by 1.9 pp compared to the same period last year (12 months of 2015: 5.0%). The group's aim is to preserve the profitability both in the Estonian but also other home markets construction service domain in spite of the prevailing competition situation on the construction market and the decrease in sales volumes in regard to previously higher-margin civil engineering projects, which was supported by somewhat of a drop in input prices, but which may not continue. Considering the small size of the Estonian market, the current situation – where 4-6 large-scale building construction projects have been launched simultaneously – means occasionally limited capability for subcontractors to carry out work or to do so under reasonable conditions, which in turn puts pressure on the general contractors' margins. Operating profit margin has also been impacted to some extent by the recovery in 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 level of operating profit compared to that of last year was additionally influenced by higher marketing, general and administrative expenses, mainly due to the additional activity in Norway, where the group is investing into capability to build a project management system in order to solidify prospects of concluding larger general contracting agreements in the years ahead. The increase in marketing and general administrative expenses in Latvia can be attributed to the costs incurred on maintaining the team against the drop in project volumes, and the corresponding expenses in Lithuania to the change in classification of certain expenditure items.

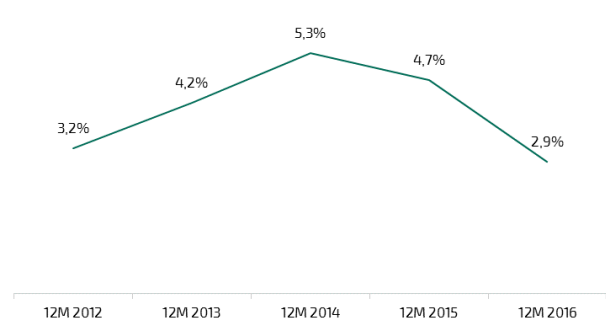
The scarcity of projects and the ever-tightening competition in the construction sector poses a great challenge in the maintaining of the current level of operating profit in all segments. The number of companies participating in tenders and the risk of low pricing bids is high in all three Baltic states.

PROFIT BEFORE TAX AND NET PROFIT

GROUP PROFIT BEFORE TAX
in million euros

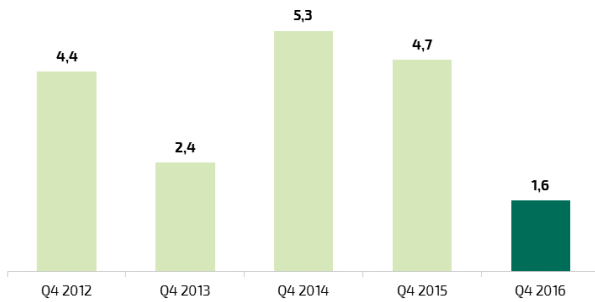


GROUP PROFIT BEFORE TAX MARGIN
percentages

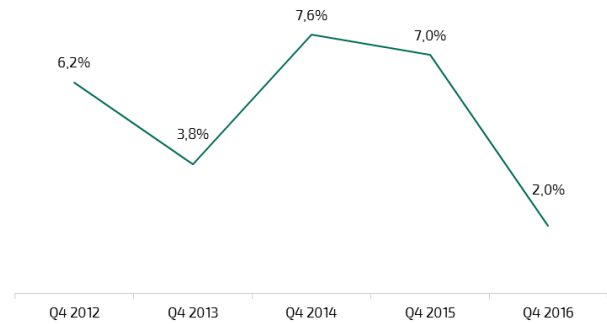


In 12 months of 2016, the group's profit before tax totalled EUR 7.3 million (12 months of 2015: EUR 11.7 million) and net profit attributable to equity holders of the parent was EUR 6.1 million (12 months of 2015: EUR 10.0 million). Group's profit before tax margin was 2.9% (12 months of 2015: 4.7%) and the net profit margin was 2.4% (12 months of 2015: 4.0%). Both the group's profit before tax (EUR 7.3 million) and the profit before tax margin (2.9%) have decreased compared to the same period last year (12 months of 2015: EUR 11.7 million and 4.7%, respectively).

GROUP QUARTERLY PROFIT BEFORE TAX
in million euros



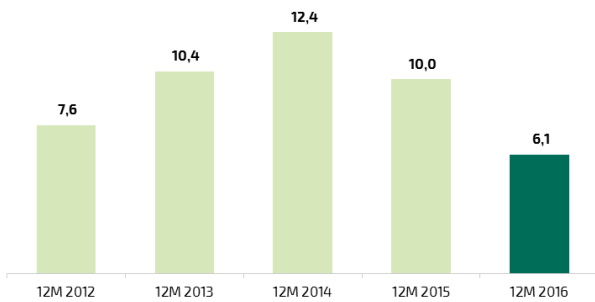
GROUP QUARTERLY PROFIT BEFORE TAX MARGIN
percentages



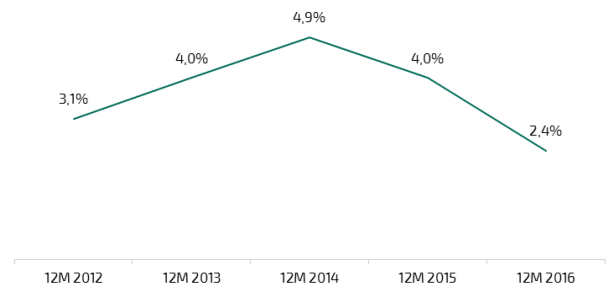
In Q4 of 2016, the group's pre-tax profit totalled EUR 1.6 million and net profit was EUR 1.4 million as compared to the pre-tax profit of EUR 4.7 million and net profit of EUR 4.4 million in Q4 of 2015. Similarly to the 12 months of 2016 group's quarterly profit before tax (EUR 1.6 million) and the quarterly profit before tax margin (2.0%) have decreased compared to the same period last year (Q4 2015: EUR 4.7 million and 7.0%).

In the second quarter of 2016, the group paid EUR 9.0 million in dividends, which incurred additional income tax expense in the amount of EUR 0.6 million. The situation in the second quarter of 2015 was alike, when the group paid EUR 7.3 million in dividends, with the exception that then the group incurred additional income tax expense in the amount of EUR 0.9 million.

GROUP NET PROFIT
in million euros



GROUP NET PROFIT MARGIN
percentages



BUSINESS SEGMENTS

The group operates mainly in Estonian, Latvian and Lithuanian market through its subsidiaries. By purchasing a majority shareholding the group has formed the basis for entering the Norwegian market starting from Q1 2016. Depending on the country the group provides construction services and real estate development services across the following business segments: Estonian construction service (incl. construction services on project basis in Finland), other home markets construction service (incl. construction services in Latvia, Lithuania and Norway) and real estate development. The group's segment structure is aligned with group's management structure, see additionally the detailed management structure on page 31.



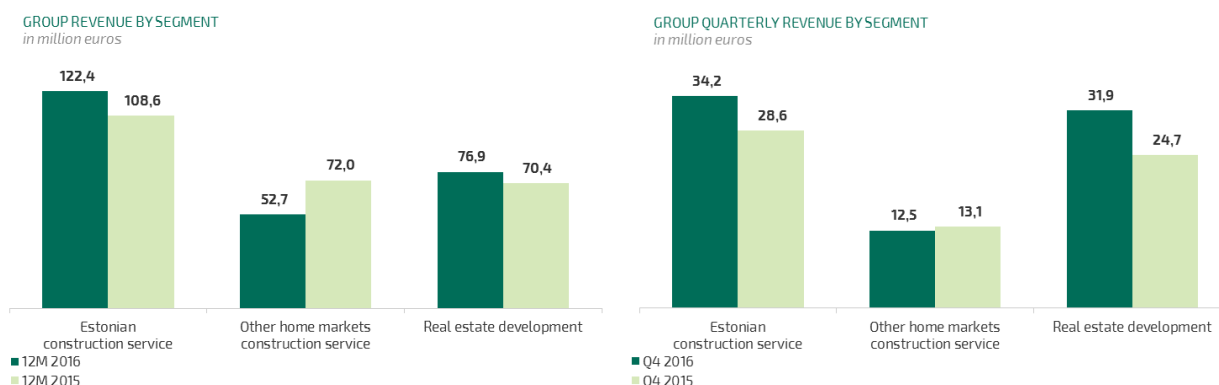
Estonian construction service (incl. construction services on project basis in Finland) and other home markets construction service (incl. construction services in Latvia, Lithuania and Norway) segments include all projects of the respective countries pertaining to construction services:

- 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 and starting from Q1 2016 also in Norway.

- The civil engineering projects the group constructs include port, waste management and road structures (bridges, tunnels, overpasses, roads), electrical construction of up to 330 kV, various environmental protection structures, water treatment plants, both open-cut and trenchless construction of water and sewerage pipelines and other various engineering projects. Complex and unique engineering projects require specialised knowledge and a good partnership with the customer and local authorities. In this area the group operates in Estonia and Latvia.
- In the road construction division, the group carries out road construction and builds the associated infrastructure, road maintenance and maintenance repair. In the area of road construction the group operates only in Estonia.

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

GROUP REVENUE AND GROSS PROFIT BY BUSINESS SEGMENTS



ESTONIAN CONSTRUCTION SERVICE

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

million EUR

	12M 2016	12M 2015	VARIANCE	Q4 2016	Q4 2015	VARIANCE
Revenue	122.4	108.6	+12.7%	34.2	28.6	+19.6%
% of total revenue	48.6%	43.3%	+12.2%	43.5%	43.0%	+1.2%
Gross profit	7.6	10.4	-26.6%	0.5	2.7	-82.7%
Gross profit margin	6.2%	9.6%	-34.8%	1.4%	9.5%	-85.6%

In the 12 months of 2016, the revenue of the Estonian construction service segment was EUR 122.4 million (12 months of 2015: EUR 108.6 million), having increased by 12.7% from the same period last year. The 12 months revenue includes revenue from Finnish projects in the amount of EUR 0.6 million (12 months of 2015: EUR 2.8 million). The revenues have clearly decreased in the field of civil engineering and increased in the field of general construction. The increase in revenue in the segment is primarily influenced by the fact that several large-scale general construction projects launched in 2015. The Estonian construction service segment revenues for 12 months 2016 were 48.6% of the group's revenue, forming the largest proportion in the group's revenue, having increased by 12.2% in the yearly comparison.

In this segment, the group earned a gross profit of EUR 7.6 million for 12 months (12 months of 2015: EUR 10.4 million). In 12 months of 2016, the gross margin of the Estonian construction service segment was 6.2%, which decreased by approximately 1/3 compared to the 12 months of 2015 (9.6%), mainly due to the scarcity of projects in the field of civil engineering. We do not consider this as a satisfactory result, despite the close competition on the Estonian construction services market, in a situation where new contracts have not been concluded in the desired level at new procurements, especially at public procurements, and where the construction market volumes have decreased. We are continually critically monitoring any changes in the volume of work-in-progress and also constantly improving the efficiencies of internal project management processes. We have reduced and re-allocated staff within the group and, in order to maintain the efficiency of the cost base, made preparations with the aim for responding to further market changes.

Our major projects in the fourth quarter in Tallinn included the design and construction works of office building located at Mustamäe tee 3, Maakri Kvartal business complex, Tallink Tennis Centre, BAUHAUS DIY store, T1 shopping centre and Poordi st 1 residential and commercial building, construction of the airport tram line infrastructure, construction work on the passenger walkway at Vanasadama Harbour quay no. 5 and the renovation of quays 6 and 7 at Vene-Balti Harbour. Additionally the construction works of Viru Infantry Battalion technology park buildings and facilities, Juuliku road junction and road section at Tallinn roundabout and the road maintenance works done under the service agreement with Tallinn had a significant impact.

OTHER HOME MARKETS CONSTRUCTION SERVICE

The Other home markets construction service segment consists of general construction work in Latvia, Lithuania and starting from the first quarter of 2016 also in Norway and provision of civil engineering services in Latvia.

million EUR

	12M 2016	12M 2015	VARIANCE	Q4 2016	Q4 2015	VARIANCE
Revenue	52.7	72.0	-26.8%	12.5	13.1	-4.4%
% of total revenue	20.9%	28.7%	-27.1%	16.0%	19.8%	-19.2%
Gross profit	2.2	4.8	-55.0%	0.3	2.3	-86.9%
Gross profit margin	4.1%	6.7%	-38.5%	2.4%	17.4%	-86.3%

The revenue of the other home markets construction service segment amounted to EUR 52.7 million in the 12 months of 2016 (12 months of 2015: EUR 72.0 million), which is 26.8% less than in the 12 months of 2015. If the other home markets construction service segment revenues of 12 months of 2015 formed 28.7% of the group's revenue, then during 12 months of the current year the segments revenues have decreased to 20.9%. The change in this percentage was in line with expectations, considering the lower level of new contracts signed in Latvia and Lithuania during 2015 and the 2015 comparison base, where large-scale projects were finished in Latvia, such as Liepaja Concert Hall and Polipaks NT manufacturing and logistics centre.

The 12 month gross profit of the other home markets construction service segment amounted to EUR 2.2 million (12 months of 2015: EUR 4.8 million) and the gross profit margin was 4.1% (12 months of 2015: 6.7%), which decreased by 38.5% compared to the same period previous year. Merko's strategic position in Latvia is currently strong, as we are now among the leading general contractors there and see opportunities for growing our business volumes. In Lithuania, we are continuing on our strategic plan to focus first and foremost on external customers who make up the predominant part of the group's Lithuanian construction contracts portfolio. In Norway, the group is performing smaller-scale agreements, but we are actively working on building project management capability and systems to conclude larger general contracting agreements in the years ahead. The group's continued focus is on increasing the revenues outside Estonia.

In the fourth quarter of 2016, the main ongoing projects included in the other home markets construction service segment were the construction works of Kauno/Algirdo residential complex with office premises in Vilnius, the construction works of the second phase of the passenger terminal in Riga International Airport, the construction works of apartment building Magdalēnas nami and Kaļķu 20 apartment building in Riga.

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

	12M 2016	12M 2015	VARIANCE	Q4 2016	Q4 2015	VARIANCE
Revenue	76.9	70.4	+9.2%	31.9	24.7	+28.7%
% of total revenue	30.5%	28.0%	+8.8%	40.5%	37.2%	+8.9%
Gross profit	9.2	7.8	+18.8%	4.2	2.7	+58.5%
Gross profit margin	12.0%	11.0%	+8.8%	13.4%	10.9%	+23.1%

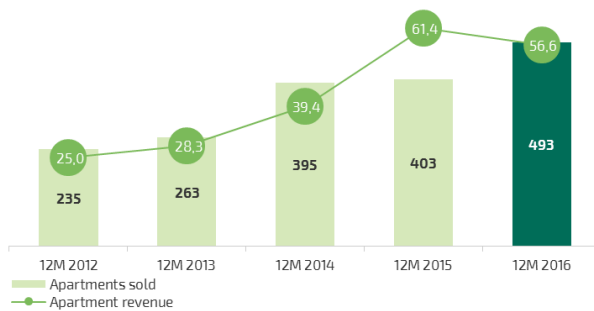
The group sold a total of 493 apartments (incl. 21 apartments in joint ventures) in 12 months of 2016 at the total value of EUR 56.6 million (excl. VAT), compared to 403 apartments and EUR 61.4 million in 12 months of 2015. In Q4 of 2016 a total of 225 apartments (incl. 21 apartments in joint ventures) were sold at the total value of EUR 27.0 million (excl. VAT), (Q4 2015: 155 apartments and EUR 18.8 million). In 12 months of 2016, the group has earned EUR 9.2 million of revenue from the sale of immovable properties (12 months of 2015: EUR 6.6 million). Q4 2016 revenue from the sale of immovable properties was EUR 0.5 million (Q4 2015: EUR 4.4 million). The construction service revenue from projects developed by joint ventures in 12 months of 2016 was EUR 7.7 million (12 months of 2015: EUR 0.5 million). Q4 2016 revenue from the sale of construction service to projects developed by a joint ventures was EUR 2.4 million (Q4 2015: EUR 0.3 million).

Although in 12 months of 2016 real estate development segment revenues have increased by 9.2% compared to the same period last year, then despite approximately a 1/5 of more apartments sold, the revenues from apartment sales have decreased by approximately 10%. The decline is primarily influenced by sales of apartments in a more exclusive development in the reference period where the sales price per apartment was higher than the apartments sold during 2016. The group's apartment sales were in line with the expectations. By the end of the year, we succeeded in eliminating all administrative hindrances related to the issue of permits of use in Latvia and Lithuania, allowing to deliver to the buyers more apartments than forecasted at the end of Q3.

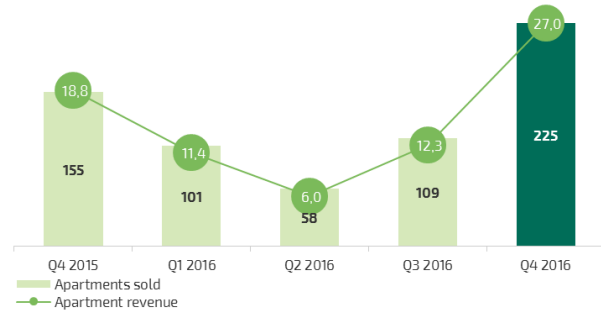
In the 12 months of 2016 the share of revenue from the real estate development segment formed as anticipated 30.5% of the group's total revenue (12 months of 2015: 28.0%), having increased in a year by 8.8%.

The 12-month gross profit of the real estate development segment amounted to EUR 9.2 million (12 months of 2015: EUR 7.8 million) and the gross profit margin was 12.0% (12 months of 2015: 11.0%), which increased by 8.8% 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 profitability of the apartments sold in the 12 months of 2016 was higher than in the reference period, but on the other hand the sector's gross profit of the 12 months was also significantly influenced by the fact that the one-time effect of revenues from the sale of immovable properties that are strategically not needed by the group, the profitability of which is not comparable with a situation where the value of land is increased by passing through all phases of the development process. In the 12 months of 2016, the gross profit margin has also been reduced, in comparison with 2015, by the significant growth in the volume of construction service projects developed by joint ventures, where the profit from construction has been generated in the course of construction and the profit from development is realised at a later stage, upon sale of apartments to the final customer, based on the equity method.

APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



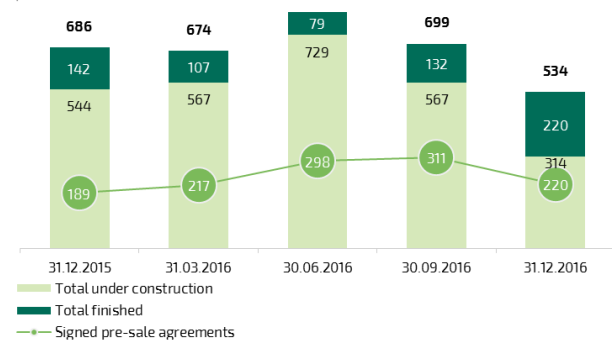
APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



At the end of the period, group's inventory comprised 220 apartments where a preliminary agreement had been signed: 62 completed apartments (42 in Estonia, 10 in Latvia and 10 in Lithuania) and 158 apartments under construction (140 in Estonia and 18 in Latvia). The sale of these apartments had not yet been finalised and delivered to customers, because the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.

As at 31 December 2016, the group had a total of 314 apartments for active sale (as at 31 December 2015: 497 apartments), for which there are no pre-sale agreements and of which 158 have been completed (95 in Estonia, 30 in Latvia and 33 in Lithuania) and 156 are under construction (88 in Estonia and 68 in Latvia). The slight decrease in the number of apartments on active sale as at 31 December 2016, compared to 31 December 2015 is mainly due to the lower volume of projects launched in the current year.

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	3	2
Grostonas 21	Riga, Latvia	Completed	4	-
Fizikų 8	Vilnius, Lithuania	Completed	7	-
Krazių 9	Vilnius, Lithuania	Completed	1	-

PROJECT	MUNICIPALITY/COUNTRY	COMPLETION DATE	NO OF UNSOLD APARTMENTS *	INCL. PRE-SOLD APARTMENTS
Tartu road 52 stage I & II	Tallinn, Estonia	Completed	103	25
Jahu 1a	Tallinn, Estonia	Completed	1	-
Kivimäe 32 ***	Tallinn, Estonia	Completed	1	-
Kaupmehe 9 **	Tartu municipality, Estonia	Completed	8	4
Sõpruse avenue 33	Tallinn, Estonia	Completed	24	13
Krokuvos 73	Vilnius, Lithuania	Completed	35	10
Grostonas 12 stage I (Skanstes Parks)	Riga, Latvia	Completed	32	8
			220	62
Paepargi 51 (Paepargi towers) **	Tallinn, Estonia	Beginning of 2017	60	52
Grostonas 12 stage II (Skanstes Parks) **	Riga, Latvia	Summer of 2017	86	18
Staapli 4 (Noblessner Homeport) *** / **	Tallinn, Estonia	End of 2017	66	21
Paepargi 35, 37 (Perepargi) **	Tallinn, Estonia	Spring of 2017	42	38
			254	129
Paepargi 53 (Paepargi towers) **	Tallinn, Estonia	End of 2017	60	29
			60	29
Total			534	220

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

** Project launched in 2016.

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

In 12 months of 2016, we launched the construction of a total of 344 new apartments in the Baltic states (12 months of 2015: 574 apartments).

After the balance sheet date, the Group has also launched two apartment development projects:

- in Latvia the construction of Gaiļezera nami residential development with 96 apartments at Mežciems district in Riga, located between Līduma, Gaiļezera and Hipokrāta streets;
- In Lithuania the construction of Rinktinės Urban residential development project with 120 apartments in the city centre of Vilnius, located at the corner of Rinktinės and Ceikiniu streets.

In the 12 months of this year, the group has invested a total of EUR 53.6 million (12 months of 2015: EUR 42.4 million) in new development projects launched in 2016 as well as projects already in progress from previous year.

We will continue to invest in residential real estate projects and in 2017, the group plans to launch the construction of approximately 650-700 (incl. 60-160 apartments in joint ventures) new apartments in the Baltic states. In 2016, construction was started on 344 apartments, which is about 150 units less than the level planned in early 2016 (500-550 new apartments) mainly due to the delay in receiving building permits for projects. The investment level in 2017 in both development projects initiated in the previous years and new projects to be launched in 2017 is in the range of EUR 45 million (2016: EUR 53.6 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 2016, the group's inventories included land plots with the development potential, where the construction works have not started, of EUR 63.2 million (31.12.2015: EUR 58.0 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.12.2016	31.12.2015
Estonia	26.6	14.0
Latvia	28.1	34.8
Lithuania	8.5	9.2
Total	63.2	58.0

In the 12 months of 2016, the group has purchased new land plots at an acquisition cost of EUR 19.1 million purposes (12 months of 2015: acquired different new land plots in Tallinn, Estonia at an acquisition cost of EUR 6.6 million and in Vilnius, Lithuania at an

acquisition cost of EUR 5.1 million). In Q4 of 2016, the group acquired the Pakraščio street immovable property in the city centre of Vilnius, Lithuania at an acquisition cost of EUR 2.3 million, where nearly 200 apartments will be developed in the years ahead; in the area located between Veerenni, Tehnika and Vana-Lõuna streets in Tallinn a development area of approximately 12 hectares at an acquisition cost of EUR 16.8 million, which allows the construction of approximately 1,600 apartments. The purchase of the Veerenni land plot constitutes one of the group's biggest investments in the last 5 years, and serves to reinforce the group's long-term strategy in Estonia. The construction of the first buildings on the site is scheduled to be launched at the end of 2017. Depending on the apartment market dynamics, the entire development area can be built up within 10-15 years.

The comparison period development activities investments additionally include the signing of a notarised contract of sale of registered immovable in Q1 2015, under which all of the real estate governed by an option agreement in Tallinn were realised for total of EUR 4.0 million. In Q2 2015 AS Merko Ehitus group 50% joint venture Kodusadam OÜ additionally 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 first apartment building in the development project, Staapli 4, is now under construction and will be completed by the end of 2017.

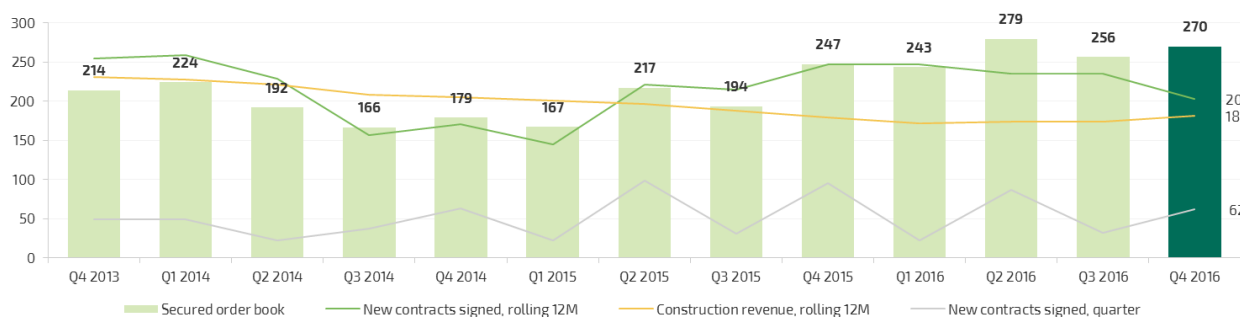
Based on its long-term strategy, the group will continue investing in land plots, and is searching for new land plots with development potential, in 2017 above all, in Estonia and Lithuania.

In the second quarter of 2016, the group completed the competition for an international development and architectural concept for the Latvian Zakusala development area (close to 1,500 apartments). A total of eleven entries came in from Estonia, Norway, Poland and Latvia. The competition was organised based on the regulations handed down by the Latvian Architects Union. Six entries from among the works submitted met the qualifications. A five-member jury picked an entry by RUUME arhitekti (<https://ruumearhitekti.wordpress.com/>), a practice of young Latvian architects, as the winner. The group will continue preparations in order to launch construction in the development area in 3-5 years' time.

SECURED ORDER BOOK

As at 31 December 2016, the group's secured order book (without own developments) amounted to EUR 269.6 million as compared to EUR 246.9 million as at 31 December 2015, having increased by approximately 10% in the annual comparison. The secured order book excludes the group's own residential development projects and construction work related to developing real estate investments.

SECURED ORDER BOOK
in million euros



In 12 months of 2016, EUR 202.4 million worth of new contracts were signed (without own developments) as compared to EUR 247.0 million in same period last year. The value of new contracts signed (without own developments) in the fourth quarter of 2016 amounted to EUR 61.9 million (Q4 2015: EUR 94.8 million).

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FORTH QUARTER OF 2016

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Contract to perform construction works of music school and concert hall located in Ventspils	Latvia	December of 2018	25.6
Contract to perform the reconstruction and extension construction works of a plant in Klaipeda	Lithuania	January of 2018	11.0
Contract to perform construction works of barracks in military campus depot in Tapa	Estonia	October of 2017	7.0
Contract to perform construction works of a residential apartment building in Riga	Latvia	December of 2017	5.0

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

- On 11 January 2016, AS Merko Ehitus group company UAB Merko Statyba and PK INVEST UAB, part of AS Pro Kapital Grupp group, entered into a contract to perform the design and construction works of the residential complex in Šaltiniu Namai

quarter, located at 10 Aguonui street, Vilnius. The contract value is EUR 10.8 million. The works are scheduled for completion by January of 2019.

- On 24 January 2016, AS Merko Ehitus Eesti – a subsidiary of AS Merko Ehitus – signed a contract with AS Mainor Ülemiste, the developer of Ülemiste City, to perform the design and construction works of Õpiku maja second office building, located at Sepise 9/Valukoja 8, Tallinn, Estonia. The value of the contract is approximately EUR 15.5 million. The works are scheduled for completion in the second half of 2018.

Of the contracts signed in the 12 months of 2016, private sector orders accounted for the majority proportion, which is also represented in the group's secured order book as at the end of the reporting period, where private sector orders from projects in progress constitute approximately 70% (31.12.2015: approximately 80%). Apart from a few large-scale procurements where Merko companies were not as optimistic as our competitors in bidding at a low price, the share of government contracts in the 12 months of 2016 has been very modest. The group continues to focus on comprehensive design and construction contracts. In this regard, five important contracts were signed in the 12 months of 2016 (incl. none in Q4 2016).

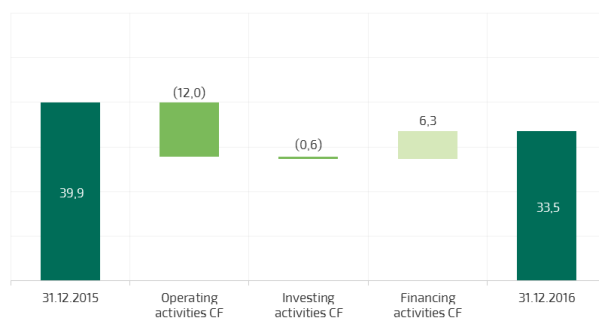
The portfolio of contracts stands relatively strong compared to the same period of the last few years (31.12.2015: EUR 246.9 million; 31.12.2014: EUR 179.1 million). Yet aside from individual larger-scale agreements in Estonia, the secured order book balance is not satisfactory. This is particularly the case in regard to public procurements in Estonia. Considering the beginning phase of the current EU funding period, the volume of public procurements has stayed at the previous year's level and at the moment we predict that the volume of public procurements will start to increase in 2017.

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 and strengthen the groups competitive advantages and are closely monitoring the development and opportunities both in the Baltic states and the Nordic countries. In the last few years, the group has taken part in various individual Finnish, Swedish and Norwegian construction procurements in a selective and project-based manner in order to gain experience and regarding the conditions and requirements set out in these countries for qualifying for construction company procurements, as well as assess the risks so as to evaluate potential competitive advantages for entering these markets. In March 2016, the group concluded a transaction through which it acquired a controlling holding in Peritus Entreprenør AS, a Norwegian construction company that provides general construction services. In 2016, the group will continue implementing its chosen strategy with the goal of increasing revenue earned on new markets, focusing above all on the Norwegian market and taking part in a project-based manner in Finnish and Swedish construction procurements as well.

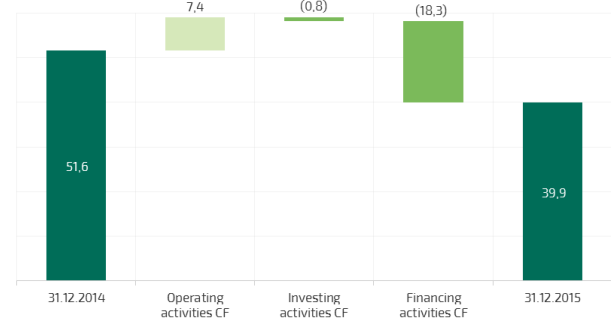
CASH FLOWS

As at 31 December 2016 the group had cash equivalents in the amount of EUR 33.5 million (31.12.2015: EUR 39.9 million). The group's cash level is lower compared to the same period last year; still, the financial position is continually strong, as the group has not utilised its credit lines of existing overdrafts and loan agreements.

12M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



12M CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The 12-month cash flow from operating activity was negative at EUR 12.0 million (12 months of 2015: positive EUR 7.4 million), cash flow from investing activity was negative at EUR 0.6 million (12 months of 2015: negative EUR 0.8 million) and the cash flow from financing activity was positive at EUR 6.3 million (12 months of 2015: negative EUR 18.3 million).

The cash flow from operating activity was mostly influenced by the EBITDA (operating profit adjusted with depreciation and amortisation) EUR 11.2 million (12 months of 2015: EUR 15.5 million), by the positive change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 3.7 million (12 months of 2015: positive change of EUR 2.2 million), by the negative change in the provisions EUR 0.5 million (12 months of 2015: negative change of EUR 1.5 million), by the negative change in trade and other receivables related to operating activities EUR 18.0 million, incl. a net change in financing co-financed projects of EUR 0.0 million and VAT prepayment related to Veerenni development area acquisition in the amount of EUR 3.4 million, which was returned in January of 2017 (12 months of 2015: positive change of EUR 10.0 million, incl. a negative change in financing co-financed projects of EUR 4.2 million), by the negative change in inventory EUR 14.1 million, incl. negative cash flow

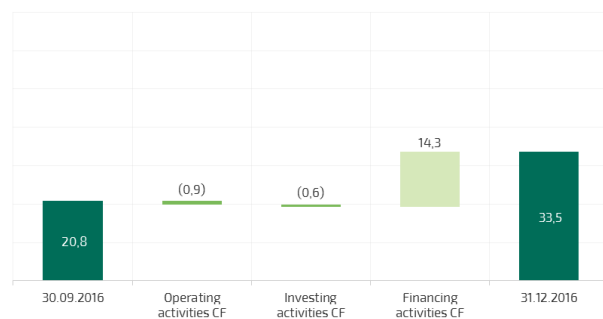
from purchase of new land plots in the amount of EUR 19.1 million and positive cash flow from sale of immovable properties in the amount of EUR 8.7 million (12 months of 2015: positive change of EUR 10.9 million, incl. negative cash flow from purchase of new land plots in the amount of EUR 11.7 million and positive cash flow from sale of immovable properties in the amount of EUR 5.4 million), by the positive change in trade and other payables related to operating activities EUR 8.9 million (12 months of 2015: negative change of 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), interest received EUR 1.5 million (12 months of 2015: EUR 1.8 million), interest paid EUR 0.7 million (12 months of 2015: EUR 0.9 million) and by the corporate income tax paid EUR 1.7 million (12 months of 2015: EUR 1.8 million).

To support cash flows arising from operating activity, the group has been cautious in raising additional external capital, including factoring. At the same time, the debt ratio has remained at a moderate level (19.3% as at 31.12.2016; 14.8% as at 31.12.2015).

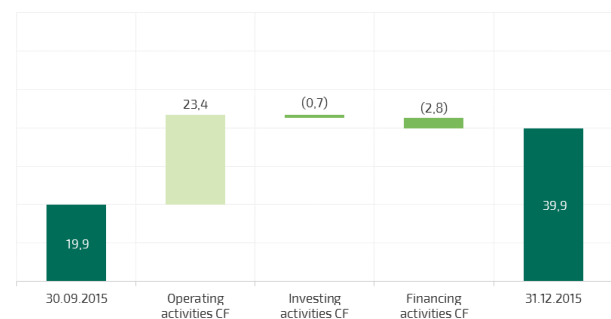
Cash flows from investment activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 3.0 million (12 months of 2015: EUR 0.8 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 1.1 million (12 months of 2015: EUR 0.3 million). The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment. Cash flows from investment activities in 12 months of 2015 was also positively impacted by the acquisition of majority shareholding in subsidiary Peritus Entreprenør AS (related to the offering of construction services on Norwegian market) in the amount of EUR 1.2 million. 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.

The largest single negative item in cash flows from financing was the dividend payment of EUR 9.0 million (12 months of 2015: EUR 7.3 million). Cash flows from financing activities in 2015 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 amount of EUR 0.6 million (12 months of 2015: positive cash flow in the net amount of EUR 0.6 million, incl. refinancing of an investment loan in the amount of EUR 1.2 million). Net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 3.9 million (12 months of 2015: net negative cash flow of EUR 4.6 million) and finance lease principal repayments of EUR 0.9 million (12 months of 2015: EUR 2.2 million). In addition, over the 12 months of 2016, the group made repayments in the amount of EUR 2.0 million to related party Järvevana OÜ pursuant to the terms and conditions of an overdraft agreement between the parties. 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. If all of the new land plots acquired by the group both in the 12 months of 2015 were financed in full from the group's resources without drawing on external funding, then at the end of 2016 EUR 12.5 million was engaged in short-term loan from the parent company AS Riverito to purchase the Veerenni development area. The loan was refinanced at the beginning of 2017 with long-term loans from various credit institutions.

QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



QUARTERLY CHANGE IN CASH AND CASH EQUIVALENTS
in million euros



The Q4 2016 cash flow from operating activity was negative at EUR 0.9 million (Q4 2015: positive EUR 23.4 million), cash flow from investing activity was negative at EUR 0.6 million (Q4 2015: negative EUR 0.7 million) and the cash flow from financing activity was positive at EUR 14.3 million (Q4 2015: negative EUR 2.8 million).

The quarterly cash flows from operating activities were negative primarily as a result of the EUR 16.8 million investment into Veerenni development area and short-term VAT prepayment related to the investment in the amount of EUR 3.4 million (which was refunded in January 2017). On the negative side the quarterly cash flows was additionally influenced by investments into ongoing apartment development projects in the amount of EUR 8.8 million, which was partially offset by a slightly higher than usual positive cash flow from the sale of apartments.

The third quarter cash flows from investment activities included a negative cash flow from the purchase of non-current asset in the amount of EUR 1.1 million and a positive cash flow in the amount of EUR 0.5 million from the sale of non-current assets, which were both mainly related to the renewal of equipment in the road construction segment.

The quarterly cash flow from financing activities was positive mainly due to short-term loan received from parent company AS Riverito to finance the acquisition of Veerenni development area in the amount of EUR 12.5 million.

RATIOS

(attributable to equity holders of the parent)

		12M 2016	12M 2015	12M 2014	Q4 2016	Q4 2015	Q4 2014
Income statement summary							
Revenue	million EUR	252.0	251.0	252.3	78.6	66.4	70.1
Gross profit	million EUR	19.0	23.0	24.7	5.0	7.7	8.5
Gross profit margin	%	7.5	9.1	9.8	6.4	11.6	12.1
Operating profit	million EUR	7.7	12.5	14.0	1.6	4.9	5.5
Operating profit margin	%	3.1	5.0	5.5	2.1	7.3	7.8
Profit before tax	million EUR	7.3	11.7	13.3	1.6	4.7	5.3
PBT margin	%	2.9	4.7	5.3	2.0	7.0	7.6
Net profit	million EUR	6.0	9.8	12.3	1.3	4.3	4.8
attributable to equity holders of the parent	million EUR	6.1	10.0	12.4	1.4	4.4	4.8
attributable to non-controlling interest	million EUR	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	0.0
Net profit margin	%	2.4	4.0	4.9	1.8	6.7	6.8
Other income statement indicators							
EBITDA	million EUR	11.2	15.5	16.4	2.8	5.6	6.2
EBITDA margin	%	4.4	6.2	6.5	3.6	8.4	8.9
General expense ratio	%	5.3	4.8	4.9	4.9	5.1	4.9
Labour cost ratio	%	11.7	12.2	11.9	9.6	12.4	11.3
Revenue per employee	thousand EUR	325	322	319	101	85	89

Other significant indicators		31.12.2016	31.12.2015	31.12.2014
Return on equity	%	5.0	8.0	10.1
Return on assets	%	2.8	4.4	5.0
Return on invested capital	%	5.1	7.9	8.8
Equity ratio	%	51.6	59.5	51.0
Debt ratio	%	19.3	14.8	15.1
Current ratio *	times	2.9	3.2	2.3
Quick ratio *	times	1.1	1.2	1.1
Accounts receivable turnover	days	37	39	56
Accounts payable turnover	days	38	39	39
Average number of employees	people	776	779	790
Secured order book	million EUR	269.6	246.9	179.1

Ratio definitions are provided on page 37 of the report.

* As at 31 December 2016, in the formula for calculating the current ratio and the quick ratio, the amount of current liabilities has been reduced by EUR 12.5 million as a result of refinancing of the short-term loan received from the parent company AS Riverito at the end of 2016 with long-term bank loans at the beginning of 2017. Additional information has been disclosed in Note 16.

RISK MANAGEMENT

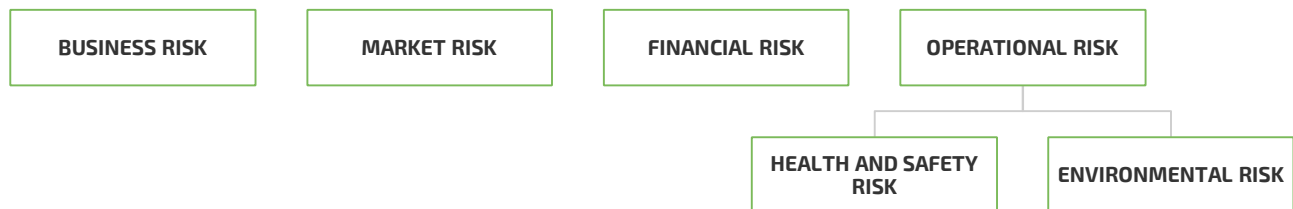
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial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

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

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

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

Merko Ehitus divides risks into four main categories:



Business risk

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

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

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

Market risk

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

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

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

Operational risk

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

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

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

A warranty provision has been provided at the company to cover for the construction errors which have become evident during the warranty period. As at the period-end, the company's warranty provision amounted to EUR 2.5 million (31.12.2015: EUR 2.4 million). With regard to work performed by subcontractors, the subcontractors are responsible for elimination of defects that became evident during the warranty period. With regard to critically significant contracts, the performance of contractual obligations of the contractor arising from contracts of services is guaranteed with bank guarantees to be paid upon first demand.

Financial risk

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

Credit risk

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

Interest risk

Interest risk arises from interest rate changes in the financial markets as a result of which it may be necessary to revalue the group's financial assets and take into consideration higher financing costs in the future. Most of the group's bank loans have floating interest rates based on either Euribor. The management considers the share of interest-bearing liabilities in the group's capital structure to be moderate (as at 31.12.2016, 19.3% of the balance sheet total; as at 31.12.2015, 14.8% of the balance sheet total) and effect of changes in the interest rate environment to be insignificant for the group's results over the next 12-month.

Currency risk

The group's economic activities are conducted mainly in the currencies of the countries of location of the companies: euros in Estonia, Latvia and Lithuania and kroons in Norway. Transactions within the group are conducted in euros as a rule. To eliminate foreign currency risks, close track is kept of the proportions of the company's assets and liabilities held in different currencies and, when it comes to entering into long-term construction contracts, the euro is the preferred currency in the Baltics, and, in Norway, the krone. Considering the fact that the materials and services used in construction are generally from the local market or supplied from within the EU, the currency risk in the group is currently minimal.

Liquidity risk

The company's liquidity or solvency represents its ability to settle its liabilities to creditors on time. As at 31.12.2016, the group's current ratio was 2.9 (31.12.2015: 3.2) and the quick ratio 1.1 (31.12.2015: 1.2). To complement available current assets, and to ensure liquidity and better management of cash flows, the group has concluded overdraft agreements with banks. As at end of the period, the group entities had concluded overdraft contracts with banks in the total amount of EUR 11.2 million, of which EUR 8.2 was unused (31.12.2015: EUR 9.4 million, of which EUR 8.6 was unused). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (31.12.2015: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

The management estimates that the group's capital structure – a solid proportion of equity at 51.6% (31.12.2015: 59.5%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 19.3% (31.12.2015: 14.8%) of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

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 2016, a provision has been set up at the group in the amount of EUR 0.3 million (31.12.2015: EUR 0.1 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2016 and ongoing as of 31.12.2016 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 October 2016, Harju County Court proclaimed a court decision satisfying AS Merko Infra's action in full with regard to a claim for principal (EUR 84 thousand) and late interest EUR 12 thousand; the defendant was also ordered to pay AS Merko Infra procedural expenses totalling EUR 37 thousand. The court also upheld the impoundment of Maksim Vihharev's assets and bank accounts until the execution of the court judgment. Maksim Vihharev has 30 days to appeal.

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. On 30 January 2017, Harju County Court dismissed the case filed by Maksim Vihharev against AS Merko Infra (civil matter No 2-15-6047), seeking compensation for health damage.

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. By decision of 16 September 2016, Tallinn Administrative Court turned down the appeal. The appellants did not appeal the said decision.

On 2 February 2016, AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ filed a complaint in Tallinn Administrative Court for compensation of damage. The plaintiffs are seeking a ruling ordering that the state pay damages of approximately EUR 3.2 million to Suur-Paekalda OÜ (amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (amount to be determined) as well as late interest at the rate specified in subsection 113 (1) of the Law of Obligations Act starting from 2 February 2016 until due compliance with the demand for compensation. The claims consist of direct patrimonial damage (reduction in the value of immovable property and expenditures made on development activity) and claims for revenue foregone (failed development activity in 2005-2007). The possible positive impact of the claim submitted has not been recognized by the group in its financial statements.

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 Rolands 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 6 April 2016 the case was transferred to Ogre District Court in order to expedite the reviewing of the case. The following court hearing is scheduled for 11 April 2017.

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. At a court hearing held on 23 August 2016, the court decided to satisfy the action brought by SIA Merks against Rolands Mēnesis to terminate the employment contract, reject the counter-action filed by Rolands Mēnesis against SIA Merks to have his removal from work declared unlawful and for compensating him for average remuneration, and to order Rolands Mēnesis to pay procedural expenses totalling EUR 1 thousand. To the knowledge of SIA Merks, Rolands Mēnesis has appealed the decision made. Furthermore, Rolands Mēnesis has submitted an application for extra-judicial adjudication, and now has until 3 February 2017 to present his own proposal for a compromise solution. The proceeding of the matter has been suspended until the above date.

Maschinenbau

On 29 February 2016, SIA Merks filed a claim in Ogre Circuit Court against MS-Maschinenbau und Vertriebs GmbH (hereinafter "Maschinenbau") seeking EUR 228 thousand to compensate the value of defective equipment supplied by Maschinenbau and direct expenses incurred by Merks. The potential positive outcome of this court case is not recognised in the group's financial reporting. On 27 January 2017, the parties reached a mutual settlement, according to which Maschinenbau will buy back the previously delivered device by making a payment of EUR 75 thousand by 30 May 2017 at the latest. Upon receipt of the payment, SIA Merks will be obliged, on its behalf, to waive any future claims against Maschinenbau and withdraw the action.

Lithuania

Vakaru

At 25 May 2012, BUAB Vakaru inžineriniai tinklai (hereinafter "Vakaru") filed a claim against the Lithuanian branch of AS Merko Ehitus in the amount of EUR 197 thousand, related to the repeal of the joint venture contract concerning the sewerage and wastewater pipeline project (project "Construction of Sewerage and Wastewater Pipelines in Seda, Plinkšiai and Bugeniai"). Although it was the view of AS Merko Ehitus that the joint venture agreement was terminated for cause due to breaches of the partner, not illegally the court ruled in the matter in favour of Vakaru on its decision from 29 April 2015. The said decision took effect on 7 February 2016 when the Lithuanian Supreme Court decided not to admit to proceedings the cassation appeal filed by AS Merko Ehitus.

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

On 4 April 2014, District Court of Plungė, made the judgement in the litigation with regard to declaring invoices partially unjustified, which fully satisfied the claim of AS Merko Ehitus. On 5 May 2014, Vakaru 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. After rigorous negotiations between the parties, the Lithuanian branch of AS Merko Ehitus and BUAB Vakaru inžineriniai tinklai signed a settlement agreement, finalising all ongoing court cases and outstanding balances between the companies, on 17 June 2016. The court decision approving the conditions of the settlement agreement came into force on 12 July 2016. Due to AS Merko Ehitus having more unpaid invoices and other request to the counterparty than BUAB Vakaru inžineriniai tinklai, the parties agreed in the final payment by AS Merko Ehitus in the amount of EUR 49 thousand.

Vilniaus vandenys

On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys (hereinafter "Vilniaus vandenys") in the total amount of EUR 183 thousand, encompassing the acceptance of additional works and the compensation of direct expenses incurred, interest on unpaid sums and the extension of the contract term of the sewerage and wastewater pipeline project carried out in Avižieniai region (project "Extension of water supply and waste water networks in Avižieniai Subdistrict"). The plaintiffs maintain that due to the actions of Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. The potential positive outcome of this claim is not recognised in the group's financial reporting. The next hearing is scheduled to take place on 2 February 2017.

Krokuvos

On 9 March 2016 State territorial planning and construction inspectorate under the Ministry of environment (hereinafter „the Inspectorate“) based on the complaint of the owners of the neighbouring land plot filed an action against UAB VPSP 1 and Administration of Vilnius city municipality regarding inadequate distance of the building (Krokuvos 73 apartment building under construction) from the neighbouring land plot (from 1 m to 3 m). The validity of the construction permit and the construction works have not been stopped. On 30 August 2016 the Inspectorate, Administration of Vilnius city municipality and UAB VPSP 1 signed a

peace agreement according to which the Inspectorate recognised that there is no breach and all construction works are performed according to the valid legal acts. On 28 October 2016 the court took decision to approve the signed peace agreement. On 4 November 2016, owners of the neighbouring immovable filed an appeal against the verdict, to which UAB VPSP 1 submitted its explanations on 23 November 2016. The owners of the neighbouring immovable consequently withdrew their complaint. On 7 December 2016, the court approved the settlement and the case was dismissed.

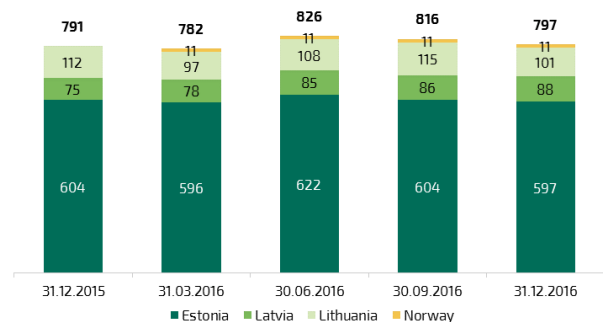
EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of group's employees increased by 6 (+0.8%) and as at 31 December 2016, the group had a total of 797 employees (including fixed-term and part-time employees). The number of employees has increased mainly due to the acquisition of a 56% subsidiary Peritus Entreprenør AS in Norway with 11 employees, but also in anticipation of an increase in volumes in Latvia. At the same time the number of employees has decrease in Estonia due to the decrease of civil engineering volumes and at the expense of seasonal workers in Lithuania.

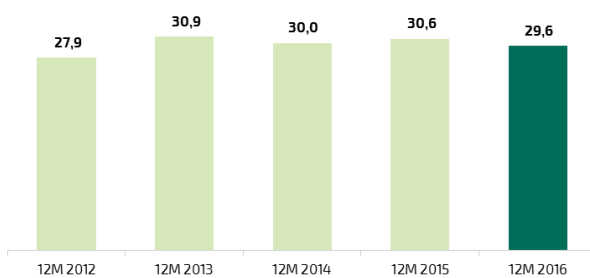
The group's objective is to pay its employees competitive salary. The interests of employees and the company are balanced by performance-based remuneration.

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 12 months 2016, the labour cost was EUR 29.6 million (12 months 2015: EUR 30.6 million), which has decreased by 3.3% compared to the same period previous year.

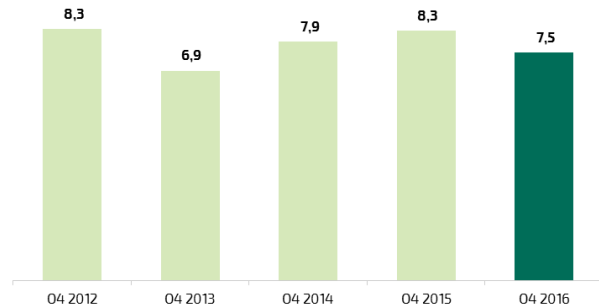
NUMBER OF EMPLOYEES BY COUNTRY
people



LABOUR COST
in million euros



QUARTERLY LABOUR COST
in million euros



ETHICAL BUSINESS PRACTICES

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

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

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

RECOGNITIONS IN 2016

In 2016, the activities of AS Merko Ehituse have been recognised in the form of the following prizes:

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

CHIEF FINANCIAL OFFICER OF THE YEAR 2016

Each year, under the auspices of Äripäev business daily, Estonia's best financial director is selected at the BIG4 finance conference. From several dozen candidates, the jury selected five nominees. 2016's candidates included also AS Merko Ehitus Group CFO Signe Kukin. The jury consisted of the representatives of four major audit firms – AS PricewaterhouseCoopers, Deloitte Audit Eesti AS, KPMG Baltics OÜ and Ernst & Young Baltic AS, and a representative from Äripäev.

The jury credited Signe Kukin for her key role in making Merko's reporting system more effective, speeding up significantly the availability of financial information both for regulative purposes and management reports. Signe Kukin has also led the introduction of many changes in the group's structure, making it more tax-efficient.

CIVIL ENGINEER OF THE YEAR 2015

Roland Vaikmäe, project manager with AS Merko Ehitus Eesti, was declared the winner of the Civil Engineer of the Year 2015 competition held announced by the Estonian Association of Civil Engineers in the first quarter of 2016. The victory was an acknowledgement of Roland Vaikmäe's successful management of the reconstruction of the large-scale and complex Water treatment plant of City of Narva as a civil engineer. The competition is aimed at promoting the profession of a civil engineer, and acknowledging the engineers engaged in the field of construction for outstanding professional achievements.

BEST INSTALLER OF ASPHALT PAVEMENT 2015

At the Road Administration annual conference held in Q2 2016, the work of Tallinna Teede AS was recognised with the first awarding of the title "Best Installer of Asphalt Pavements 2015". The winner was elected based on adherence to deadlines, the quality achieved, deductions made, communication with the customer, timely and complete submission of documents and supervision decision.

LIEPĀJA CONCERT HALL WINS POPULAR CHOICE AWARD AT ARCHITIZER A+ AWARDS

Liepaja Concert Hall, the biggest concert hall in the Baltics, opened in November 2015 and boasting more than 1,000 seats, won the Popular Choice award at the prestigious architecture competition Architizer A+ Awards in the hall/theatre category. The building architect is Volker Giencke and the general contractor is SIA Merks, which is part of the Merko Ehitus Group. A+ Award is one of the most prestigious architecture competitions, with projects submitted from more than 100 countries. Liepaja Concert Hall was one of the nominees in the hall/theatre category and went up against four projects from China, Norway and Poland.

For more information about the competition and the winners, see: <http://awards.architizer.com/winners/list/>

More information and photographs of the project and its unique architecture: <http://architizer.com/projects/great-amber-concert-hall-liepajalatvia/>

THE ENTREPRENEURSHIP AWARD 2016

AS Merko Ehitus was granted The Most Competitive Construction Enterprise award for the tenth time and the last five years in a row, 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 2016' is available in Estonian at http://issuu.com/kaubanduskoda/docs/eesti_parimad_ettev_2016. 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.

BUILDER OF THE YEAR 2016

The Builder of the Year 2016 award, given by the Estonian Association of Construction Entrepreneurs (EEEL), went to AS Merko Ehitus Eesti's project manager Tarmo Pohlak. This high honour was the result of Tarmo Pohlak's commitment to the management of the Hilton Tallinn Park Hotel construction project. Indeed, it is the second Builder of the Year award for Tarmo Pohlak, who was also recognised in 2009 for the management of the construction of the Tallink office building. The jury deemed the Hilton Tallinn Park Hotel to be a complicated construction project. Nonetheless, Pohlak made no concessions with regard to construction quality, while also successfully managing the team and setting a personal example in terms of work culture.

The winner of the Builder of the Year 2016 award was selected amongst seven candidates from five companies. The purpose of the Builder of the Year award is to honour the best construction manager, whose work has received recognition by the contracting entity, the architect, the designer as well as by the party conducting owner supervision. EEEL held the best builder competition for the seventh year in a row, honouring the profession and recognising the top professionals in the business.

BEST RESIDENTIAL DEVELOPMENT PROJECT 2016

In Q4 2016, the "Kražių namai" project developed and built by UAB Merko Statyba received the Best Residential Development Project 2016 award at the "Sustainable development" competition organised by the Lithuanian Real Estate Development Association (LNTPA).

This year, the winner was elected amongst 16 different projects in Lithuania. The Sustainable Development prize is awarded to a project which is most in line with the requirements established for a sustainable living environment in urban space, is a testament to best practice in architecture, urban planning and construction quality, and results in a perfect combination of functionality and energy efficiency.

Merko has also received recognition within the framework of the same competition on previous occasions: the Balsiai School, developed and built by Merko, won the Best Public Project award in 2012 and the Panorama shopping centre, built by Merko, won the Best Commercial Project award in 2008.

More information about the competition: <http://lntpa.lt/darnios-pletros-akademija/konkursai-uz-darnia-pletra-ir-darni-aplinka/>

LITHUANIAN PRODUCT OF THE YEAR 2016

Two projects built by UAB Merko Statyba received the grand prize - gold medal - in the "Construction and construction material industry" category of the "Lithuanian Product of the Year" award issued by the Lithuanian Confederation of Industrialists (LPK): the gym of American International School and the NORDBALT HVDC converter substation. The popular annual "Lithuanian Product of the Year" competition accepts nominations from any company registered in Lithuania, with regard to any product (including a construction object) which has been manufactured in Lithuania and has been available on the market for a period of at least 6 months. The main purpose of the "Lithuanian Product of the Year" competition is to enhance production quality and strengthen competitiveness by introducing the country's industrial product, goods and services to both local and international consumers, thus endorsing the development of Lithuanian companies.



Merko has also received recognition at the same competition in previous years: gold medal for the Balsiai School developed and built by Merko in 2012 and the Panorama shopping centre built by Merko in 2008, and silver medal for the Šiauliai landfill in 2007 and the private medical centre in Vilnius in 2006.

Additional information about the competition and winners: <http://www.lpk.lt/apdovanojimai/lietuvos-metu-gaminys/>

A HIGH POSITION IN THE COUNTRY'S MOST ATTRACTIVE EMPLOYER RANKINGS 2016

The annual survey conducted by CV Keskus where more than 6,000 people of different age groups in Estonia polled, revealed Estonia's most valuable employers, i.e. companies for which the Estonian people wish to work the most. Eesti Energia, which has ranked first for four years out of the last five, retained its position. AS Merko Ehitus Eesti gained one position – from 17th in 2015 to 16th in 2016.

The survey revealed that the companies considered as the most desirable by Estonian people are those with a competitive wage level, development and career opportunities, and a transparent, honest management style. Management errors and job instability have the greatest negative impact on a company's reputation. The employer's good reputation also helps recruitment – any company with a poor reputation is forced to offer a significantly higher salary to recruit a talent; yet this is still no guarantee that the talent actually wishes to work for such a company.

BALTIC MARKET AWARD 2016

At an award gala held in the first quarter of 2017 – the Baltic Market Awards 2016 - 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 2016, 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 third year in a row and third place in the category "The Best Annual and Corporate Governance Report".



MERKO EHITUS
Best Reporting Company
3RD PLACE
Best Investor Relations
In Baltics
3RD PLACE

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

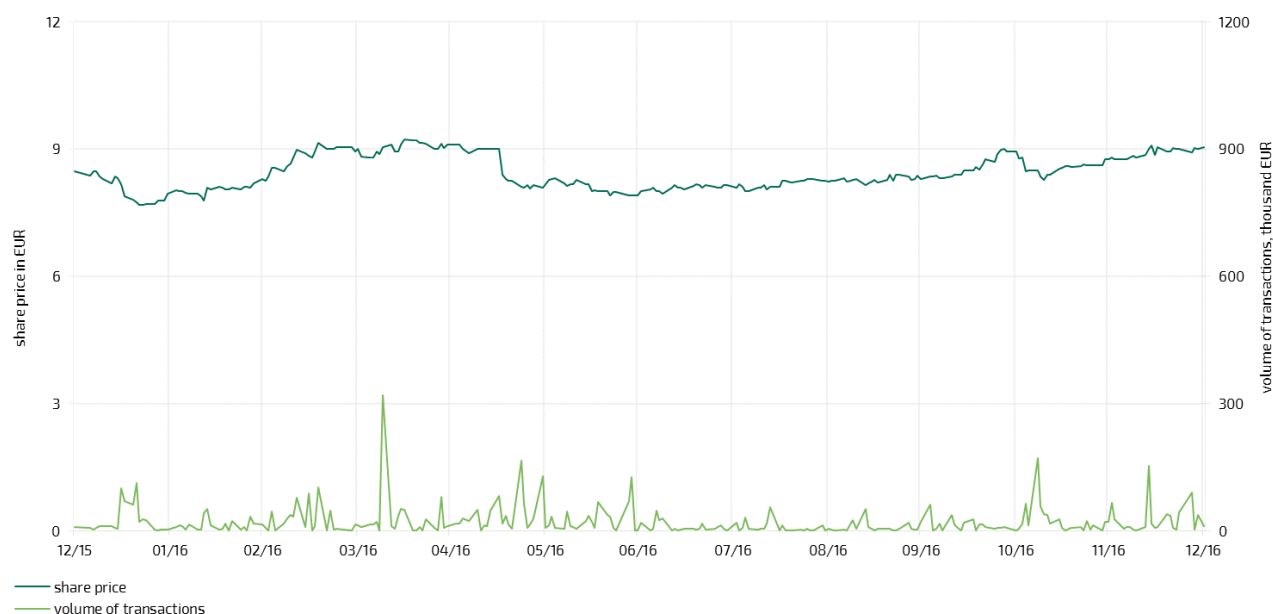
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRKIT
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 31 December 2016, the company has 17,700,000 shares. The number of shares has not changed during 2016.

A total of 2,312 transactions were conducted with the shares of Merko Ehitus in 12 months of 2016, with 0.63 million shares (3.6% of total shares) traded, generating a turnover of EUR 5.35 million (comparable figures in 12 months 2015 were accordingly: 2,829 transactions with 0.90 million shares traded (5.1% of total shares) and generating a turnover of EUR 7.71 million). The lowest share price amounted to EUR 7.60 and the highest to EUR 9.22 per share (12 months of 2015: EUR 7.06 and EUR 10.50). The closing price of the share was EUR 9.05 on 31 December 2016 (31.12.2015: EUR 8.48). As at 31 December 2016, the market value of AS Merko Ehitus amounted to EUR 160.2 million, which has increased by 6.7% compared to the same period end last year (31.12.2015: EUR 150.1 million).

	31.12.2016	31.12.2015	31.12.2014
Number of shares	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.35	0.53	0.70
Equity per share, euros	6.90	7.02	6.93
P/B ratio	1.31	1.21	1.03
P/E ratio	26.17	15.01	10.18
Market value, million EUR	160.2	150.1	126.4

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2016



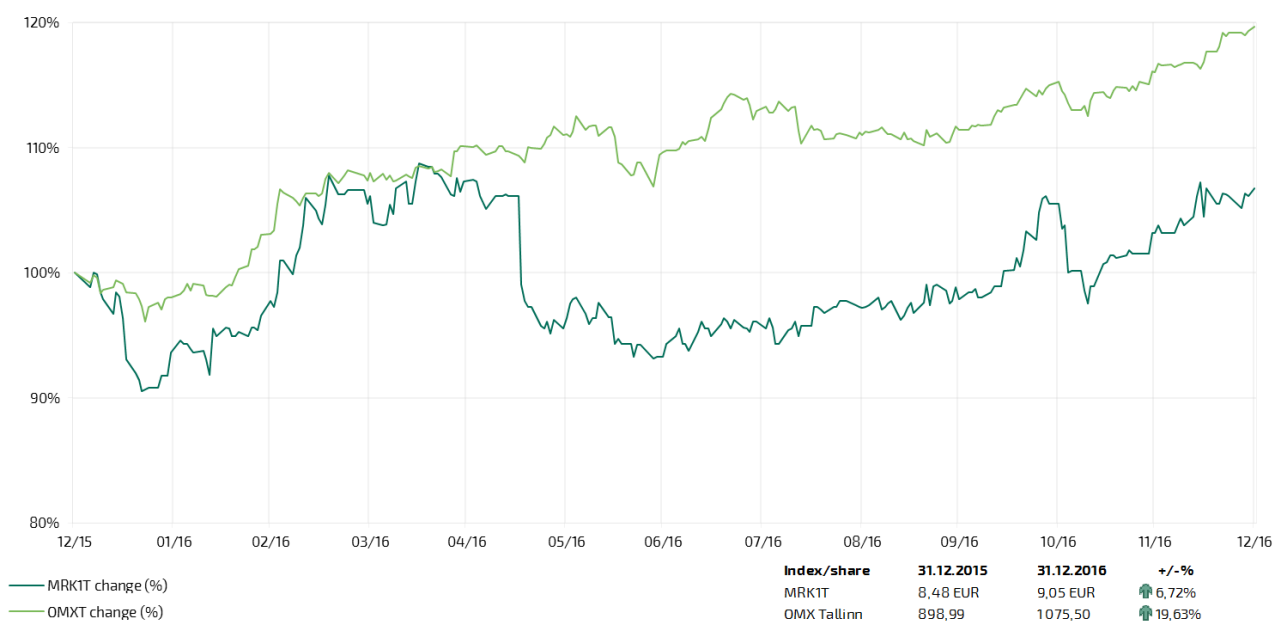
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.12.2016

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	11	0.61%	2,896,859	16.37%
10,001 – 100,000	33	1.82%	946,350	5.35%
1,001-10,000	252	13.90%	721,440	4.08%
101-1,000	931	51.35%	362,112	2.04%
1-100	585	32.26%	30,553	0.17%
Total	1,813	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.12.2016 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.12.2016	% OF TOTAL 30.09.2016	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	389,432	2.20%	2.40%	(35,020)
Skandinaviska Enskilda Banken AB, Swedish customers	260,813	1.47%	1.57%	(17,850)
SEB S.A. UCITS client assets	232,222	1.31%	1.31%	-
Firebird Avrora Fund Ltd	220,519	1.25%	1.25%	-
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.86%	0.86%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Clearstream Banking Luxembourg S.A. customers	143,054	0.81%	0.81%	-
OÜ Midas Invest	138,185	0.78%	0.47%	+55,043
Total largest shareholders	15,397,942	86.98%	86.97%	+2,173
Total other shareholders	2,302,058	13.02%	13.03%	(2,173)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2016



DIVIDENDS AND DIVIDEND POLICY

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

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

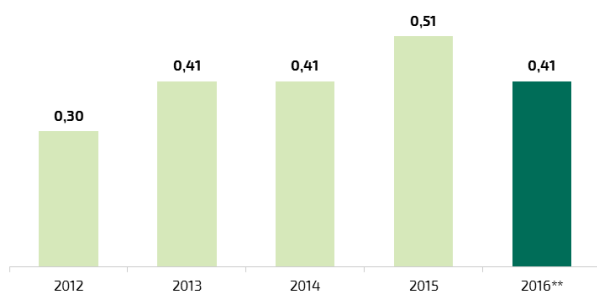
The annual general meeting of shareholders of AS Merko Ehitus held at 27 April 2016 approved the Supervisory Board's proposal to pay the shareholders the total amount of EUR 9.0 million (EUR 0.51 per share) as dividends from net profit brought forward, which is equivalent to a 90% dividend rate and a 6.0% dividend yield for the year 2015 (using the share price as at 31 December 2015), (comparable figures in 2015 were accordingly: EUR 7.3 million (EUR 0.41 per share) as dividends, which is equivalent to a 58% dividend rate and a 5.7% dividend yield (using the share price as at 31 December 2014)).

According to the Estonian Income Tax Law §50 section 1¹ AS Merko Ehitus can pay certain portion of 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 during 2016, the group incurred additional income tax expense in connection with the disbursement of dividends of EUR 0.6 million (Q2 2015: EUR 0.9 million) in Estonia in the second quarter of 2016. The dividend payment to the shareholders took place on 20 May 2016.

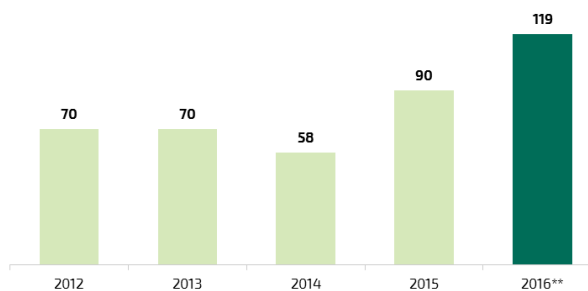
The Management Board proposes to pay the shareholders EUR 7.3 million as dividends from net profits brought forward (EUR 0.41 per share) in 2017, which is equivalent to a 119% dividend rate and a 4.5% dividend yield for the year 2016 (using the share price as at 31 December 2016). The proposal to pay dividends beyond the established dividend policy rate is based on the return on equity posted in 2016, the group's strong liquidity position, which has ensured investment capability and the prospects of the construction market, where the volumes of civil engineering procurements are expected to rise in the near future but projects will not be actually started until the end of 2017 or later. Taking into account the dividends already paid to the parent company and planned to be paid by foreign subsidiaries in early 2017, the group will incur income tax expenses of approximately EUR 0.9 million in 2017 in Estonia in connection with disbursement of dividends.

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

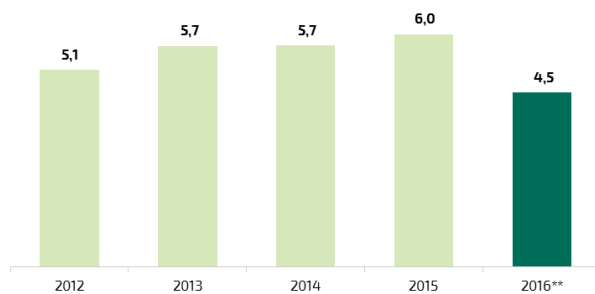
DIVIDEND PER SHARE
in euros



DIVIDEND RATE
percentages



DIVIDEND YIELD*
percentages



* Using share price as at 31.12

** 2016 figures based on Management Board proposal.

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

CORPORATE GOVERNANCE

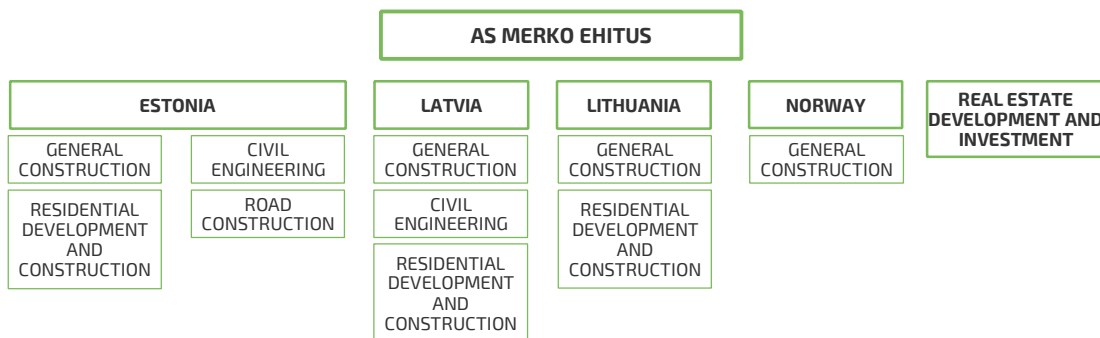
CORPORATE GOVERNANCE AND STRUCTURE

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

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

The profiles of the members of the Management Board and Supervisory Board have been presented in pages 33-35 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. The groups management is carried out on a country basis. The groups country and business area detailed management structure as at 31 December 2016 is the following:



GROUP'S LEGAL STRUCTURE

As at 31 December 2016, the group comprises 46 companies (31.12.2015: 43). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

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. Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. The first contribution of NOK 30 thousand was made to the new subsidiary's share capital on 3 February; the second contribution, of NOK 4,700 thousand, was made on 3 March (totalling approximately EUR 502 thousand). 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. The total purchase price was NOK 4,000 thousand (EUR 425 thousand). At the moment of purchase, the group developed an additional non-controlling stake in the amount NOK 2,572 thousand (EUR 286 thousand; as at 31.12.2016 EUR 283 thousand). 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 objective of the acquisition is to start offering construction services on Norwegian market.

On 7 March 2016, Merko Ehitus group subsidiary UAB Merko Bustas entered into an agreement with the company Venturecorp Property Holdings Ltd for acquiring a 100% ownership in the Lithuanian real estate developer UAB Rinktinės projektai with a total purchase price of EUR 2 thousand.

On 30 March 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti made a non-monetary contribution into subsidiary OÜ Fort Ehitus. The object of the non-monetary contribution was the ceding of claims arising from a loan agreement to OÜ Fort Ehitus totalling EUR 1,880 thousand. Among other things, AS Merko Ehitus ceded claims worth EUR 1,429 thousand and the non-

controlling interest in the amount of EUR 451 thousand. After executing the transaction, AS Merko Ehitus Eesti's stake in the subsidiary OÜ Fort Ehitus increased by 1% percentage to 76%.

On 8 November 2016, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. In accordance with the restructuring plan, UAB Merko Bustas's 100% subsidiary UAB VPSP1 will be merged with parent company UAB Merko Bustas. The restructuring will be completed and the final merger entry in the Commercial Register will be done during the first quarter of 2017.

On 5 December 2016, AS Merko Ehitus' 100% subsidiaries SIA Merks and SIA Ostas celtnieks established a general partnership PS Merks-Ostas-celtnieks for the performance of the consortium agreement entered into for the construction of the Venspils Music School and concert hall. SIA Merks holds a 65% stake and SIA Ostas celtnieks a 35% stake in the consortium.

On 28 December 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti initiated a process to merge its fully owned subsidiaries AS Merko Tartu, AS Gustaf, OÜ Rannamõisa Kinnisvara and OÜ Heamaja, all 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 companies being acquired will be merged into AS Merko Tartu and as a result of the merger the companies being acquired will wind up without liquidation proceedings and AS Merko Tartu will become the legal successor of the companies being acquired. As a result of the merger, AS Merko Ehitus Eesti will remain the sole shareholder in AS Merko Tartu, the acquiring company. The closing date of the merger was 1 January 2017 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 will be made in the first half of 2017.

GENERAL MEETING OF SHAREHOLDERS

The Company's highest governing body is the General Meeting of Shareholders, the authorities of which are regulated by legislation and the articles of association of the Company.

The general meeting of the shareholders was held on 27 April 2016. The general meeting resolved to approve the annual report and the profit allocation proposal for 2015. The dividends in the sum of EUR 9.0 million (EUR 0.51 per share) will be paid out to the shareholders on 20 May 2016.

In addition, it was decided at the general meeting of the shareholders to amend the articles of association. The articles of association were amended to enable electronic voting and web transmission of the general meeting, as well as for better organisation of management of AS Merko Ehitus.

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 2016, the general meeting was chaired by attorney-at-law Vesse Võhma who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board and Supervisory Board about the company's activities.

On behalf of the company, usually the Chairman of the Management Board and the Chairman of the Supervisory Board shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. If necessary, the company's auditor shall participate.

The annual general meeting of shareholders of AS Merko Ehitus held in 2016 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Signe Kukin (Group Chief Financial Officer) and Ago Vilu (Auditor).

SUPERVISORY BOARD

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

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

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

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



Toomas Annus (56) *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-... Järvevana OÜ, Member of the Management Board
 1999-2009 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board
 1997-2008 AS Merko Ehitus, Chairman of the Supervisory Board
 1996-... AS Riverito, Chairman of the Management Board
 1991-1996 AS EKE Merko, Chairman of the Management Board
 1989-1991 EKE MRK, director of the company

Education:

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

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



Teet Roopalu (67) *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
 2015-... Järvevana OÜ, Member of the Member Board
 2002-2004 AS Merko Ehitus, Adviser to the Management Board
 Has worked for different construction companies, including as a director of finance. Has been in charge of economic activities in the EKE system as a chief economist; worked as a bank director; and has also worked in building design.
 Member of Supervisory Boards of group subsidiaries

Education:

Tallinn University of Technology, construction economics and organisation

Number of shares: -



Indrek Neivelt (49) *Member of the Supervisory Board*

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
 2015-... AS Pocopay, Member of the Management Board
 2016-... OÜ Poco Holding, 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)



Olari Taal (63) *Member of the Supervisory Board*

Positions held:

2008-... AS Merko Ehitus, Member of the Supervisory Board
 Has been the head of the Tartu Elamuehituskombinaat (Tartu Housing Plant; Tartu Maja) and Eesti Hoiupank (Estonian Savings Bank).

Has served the Republic of Estonia as Minister of Construction, Minister of Economic Affairs, Minister of the Interior and as a Member of the 10th Riigikogu (Parliament of Estonia).

Belongs to Supervisory Boards of various companies.

Education:

Tallinn University of Technology, civil engineering.

Number of shares: 2,500 (Eggera OÜ)

MANAGEMENT BOARD

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

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

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



Andres Trink (49) 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
2016-... Swedbank Investeerimisfondid AS, Member of the Supervisory Board

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

Has held various executive positions in the private and public sector. Before being hired at Merko Ehitus, worked for 15 years in the financial sector, including as a Member of the Management Board of Baltic banking at Hansapank (now Swedbank).

Education:

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

Number of shares: 500



Tõnu Toomik (55) Member of the Management Board

Appointed: 6 June 2013
Term ends: 6 June 2019

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
1999-2009 E.L.L. Kinnisvara AS, Member of the Supervisory Board
1997-1999 E.L.L. Kinnisvara AS, Chairman of the Supervisory Board

1997-2008 AS Merko Ehitus, Chairman of the Management Board

1996-... AS Riverito, Member of the Management Board

1993-1996 AS EME Merko, Estonian Regional Director

1993-1993 AS EKE Merko, Project Manager

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

Education:

Tallinn University of Technology, industrial and civil engineering

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

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

Changes in the management of AS Merko Ehitus

On 3 May 2016, the Supervisory Board of AS Merko Ehitus decided to extend the powers of the Member of the Management Board, Mr. Tõnu Toomik for three years, i.e. from 6 June 2016 until 6 June 2019. The Management Board of AS Merko Ehitus will continue with current two members: Mr. Andres Trink (The Chairman) and Mr. Tõnu Toomik.

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 2016:

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

Changes in the management of group subsidiaries

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.

On 14 October 2016, the Management Board of AS Merko Ehitus decided to extend the powers of the group's subsidiary company OÜ Metsailu management board members: Mr. Tiit Kuusik and Ms. Ines Prual for three years, i.e. from 28 October 2016 till 27 October 2019. The Management Board of OÜ Metsailu will continue in a former two-member panel.

On 3 November 2016, the Supervisory Board of AS Merko Ehitus Eesti – part of AS Merko Ehitus group – decided to change the Management Board of AS Merko Ehitus Eesti as of 14 November 2016. Instead of Tiit Roben, Keit Paal will become the Chairman of the Management Board of AS Merko Ehitus Eesti. The Management Board of the AS Merko Ehitus Eesti will continue with four members: Keit Paal (the Chairman), Jaan Mäe, Alar Lagus and Veljo Viitmann.

On 14 November 2016, the Management Board of AS Merko Ehitus Eesti decided to make changes to the composition of the Supervisory Boards of AS Merko Infra and Tallinna Teede AS, both subsidiaries of AS Merko Ehitus Eesti, part of AS Merko Ehitus group.

Keit Paal will become the Chairman of the Supervisory Board of AS Merko Infra as of 14 November 2016. The Supervisory Board will continue with three members: Keit Paal (the Chairman), Veljo Viitmann and Mihkel Mugur. There was also decided to extend the powers of the Members of the Supervisory Board of AS Merko Infra, Veljo Viitmann and Mihkel Mugur according to the statutes for the three years tenure, i.e. until 13 November 2019.

Tõnu Toomik will become the Chairman and Keit Paal will join as an additional member of the Supervisory Board of Tallinna Teede AS as of 14 November 2016. Alar Lagus and Veljo Viitmann will continue as the Members of the Supervisory Board of Tallinna Teede AS.

On 17 January 2017, the Supervisory Board of AS Merko Infra, Estonian subsidiary, part of AS Merko Ehitus group, decided to extend the powers of the Chairman of the Management Board, Mr. Arno Elias and the Member of the Management Board, Mr. Boris Tehnikov for three years, i.e. from 23 January 2017 until 22 January 2020. The Board appointed Mr. Marek Hergauk as a new member of the Management Board from 23 January 2017 until 22 January 2020. Mr. Tarmo Pohlak's mandate as a Member of the Management Board was not renewed and will expire on 22 January 2017. The Management Board of AS Merko Infra will continue with three members: Arno Elias (The Chairman), Boris Tehnikov and Marek Hergauk.

DEFINITION OF RATIOS

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

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

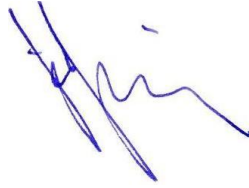
Chairman of the Management Board



09.02.2017

Tõnu Toomik

Member of the Management Board



09.02.2017

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2016 12 months	2015 12 months	2016 IV quarter	2015 IV quarter
Revenue	2	251,970	251,012	78,593	66,448
Cost of goods sold	3	(232,961)	(228,044)	(73,555)	(58,749)
Gross profit		19,009	22,968	5,038	7,699
Marketing expenses		(3,281)	(3,230)	(904)	(883)
General and administrative expenses		(10,076)	(8,907)	(2,960)	(2,478)
Other operating income		2,466	1,943	668	595
Other operating expenses		(399)	(278)	(201)	(77)
Operating profit		7,719	12,496	1,641	4,856
Finance income/costs		(440)	(804)	(79)	(199)
incl. finance income/costs from joint ventures		163	(138)	97	(32)
finance income/costs from other long-term investments		2	3	1	2
interest expense		(610)	(756)	(172)	(181)
foreign exchange gain (loss)		(6)	(3)	1	(2)
other financial income (expenses)		11	90	(6)	14
Profit before tax		7,279	11,692	1,562	4,657
Corporate income tax expense		(1,275)	(1,857)	(241)	(386)
Net profit for financial year		6,004	9,835	1,321	4,271
incl. net profit attributable to equity holders of the parent		6,122	10,000	1,408	4,445
net profit attributable to non-controlling interest		(118)	(165)	(87)	(174)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities		19	2	(11)	1
incl. net profit attributable to equity holders of the parent		18	1	(9)	1
net profit attributable to non-controlling interest		1	-	(2)	-
Comprehensive income for the period		6,023	9,837	1,310	4,272
incl. net profit attributable to equity holders of the parent		6,140	10,002	1,399	4,446
net profit attributable to non-controlling interest		(117)	(165)	(89)	(174)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.35	0.56	0.08	0.25

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.12.2016	31.12.2015
ASSETS			
Current assets			
Cash and cash equivalents	5	33,544	39,905
Trade and other receivables	6	45,566	24,854
Prepaid corporate income tax		617	421
Inventories	7	123,364	109,090
		203,091	174,270
Non-current assets			
Long-term financial assets	8	15,805	16,703
Deferred income tax assets		1,325	1,423
Investment property	9	4,108	4,371
Property, plant and equipment	10	12,838	13,442
Intangible assets	11	673	879
		34,749	36,818
TOTAL ASSETS		237,840	211,088
LIABILITIES			
Current liabilities			
Borrowings	12	21,485	5,525
Payables and prepayments	13	56,259	43,266
Income tax liability		278	711
Short-term provisions	14	5,637	5,013
		83,659	54,515
Non-current liabilities			
Long-term borrowings	12	24,516	25,660
Deferred income tax liability		1,122	788
Other long-term payables	15	2,061	1,159
		27,699	27,607
TOTAL LIABILITIES		111,358	82,122
EQUITY			
Non-controlling interests		3,692	3,268
Equity attributable to equity holders of the parent			
Share capital		7,929	7,929
Statutory reserve capital		793	1,200
Currency translation differences		(645)	(663)
Retained earnings		114,713	117,232
		122,790	125,698
TOTAL EQUITY		126,482	128,966
TOTAL LIABILITIES AND EQUITY		237,840	211,088

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited

in thousand euros

	Equity attributable to equity holders of the parent				Total	Non-controlling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings			
Balance as at 31.12.2014	12,000	1,200	(665)	114,492	127,027	4,455	131,482
Profit (loss) for the reporting period	-	-	-	10,000	10,000	(165)	9,835
Other comprehensive income	-	-	2	-	2	-	2
Total comprehensive income (loss) for the reporting period	-	-	2	10,000	10,002	(165)	9,837
Issuance of additional share capital	-	-	-	-	-	1	1
Net assets transferred by division (Note 16)	-	-	-	(3)	(3)	(1,023)	(1,026)
Share capital reduction	(4,071)	-	-	-	(4,071)	-	(4,071)
Dividends (Note 4)	-	-	-	(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
Balance as at 31.12.2015	7,929	1,200	(663)	117,232	125,698	3,268	128,966
Profit (loss) for the reporting period	-	-	-	6,122	6,122	(118)	6,004
Other comprehensive income	-	-	18	-	18	1	19
Total comprehensive income (loss) for the reporting period	-	-	18	6,122	6,140	(117)	6,023
Issuance of additional share capital	-	-	-	-	-	108	108
Increase of share capital by non-monetary contribution and acquisition of minority interest (Note 16)	-	-	-	(21)	(21)	472	451
Minority interest of acquired subsidiary (Note 16)	-	-	-	-	-	283	283
Redemption option of minority holding (Note 16)	-	-	-	-	-	(322)	(322)
Reserve capital reduction	-	(407)	-	407	-	-	-
Dividends (Note 4)	-	-	-	(9,027)	(9,027)	-	(9,027)
Total transactions with owners	-	(407)	-	(8,641)	(9,048)	541	(8,507)
Balance as at 31.12.2016	7,929	793	(645)	114,713	122,790	3,692	126,482

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

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

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2016 12 months	2015 12 months
Cash flows from (used in) operating activities			
Operating profit		7,719	12,496
Adjustments:			
Depreciation		3,488	3,004
(Profit)/loss from sale of non-current assets		(444)	(114)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		3,711	2,229
Interest income from operating activities		(1,856)	(1,592)
Change in provisions		(520)	(1,487)
Change in trade and other receivables related to operating activities		(17,954)	9,985
Change in inventories		(14,128,)	10,936
Change in trade and other payables related to operating activities		8,945	(27,234)
Interest received		1,515	1,793
Interest paid		(732)	(857)
Other finance income and costs		(32)	(36)
Corporate income tax (paid)/reclaimed		(1,733)	(1,754)
Total cash flows from (used in) operating activities		(12,021)	7,369
Cash flows from investing activities			
Acquisition of subsidiaries	16	1,276	-
Increase of equity in joint venture		-	(355)
Purchase of property, plant and equipment		(2,834)	(699)
Proceeds from sale of property, plant and equipment		1,098	311
Purchase of intangible assets		(191)	(116)
Interest received		47	97
Total cash flows from investing activities		(604)	(762)
Cash flows from (used in) financing activities			
Proceeds from borrowings		36,839	17,115
Repayments of borrowings		(20,807)	(21,846)
Finance lease principal payments		(855)	(2,186)
Proceeds from issues of shares of subsidiaries to non-controlling interest		108	1
Share capital reduction		-	(4,071)
Non-controlling interest buyout		-	(41)
Dividends paid		(9,027)	(7,257)
Total cash flows from (used in) financing activities		6,258	(18,285)
Net increase/decrease in cash and cash equivalents		(6,367)	(11,678)
Cash and cash equivalents at the beginning of the period	5	39,905	51,583
Effect of exchange rate changes		6	-
Cash and cash equivalents at the end of the period	5	33,544	39,905

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

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 12 months and IV quarter 2016 were prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" for condensed interim financial statements. The interim financial statements follow the same accounting principles and methods used in the 2015 financial statements. The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as they were adopted by the European Union. 2015 audited annual report and 2015 12 months and IV quarter unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 12 months and IV quarter 2016 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 2 OPERATING SEGMENTS

in thousand euros

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

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

- Estonian construction service,
- Other home markets construction service,
- Real estate development.

Estonian construction service and other home markets construction service segments include all projects of the home markets 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. For more information about the segments, see the chapter in the Management report entitled Business segments.

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.

2016 12 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Segment revenue	122,566	52,993	108,199	283,758
Inter-segment revenue	(191)	(262)	(31,335)	(31,788)
Revenue from external clients	122,375	52,731	76,864	251,970
Gross profit (-loss)	7,629	2,175	9,205	19,009
Segment pre-tax profit (loss)	7,946	2,168	10,729	20,843
incl. interest income from operating activities	-	-	1,675	1,675
depreciation (Note 3)	(2,629)	(40)	(293)	(2,962)
impairment of inventories (Note 3)	-	-	(37)	(37)
setting up of provisions (Note 3)	(687)	(527)	(1,860)	(3,074)
cancellation of provisions (Note 3)	166	23	-	189
profit on joint ventures	-	-	163	163
other finance income (costs)	(35)	(3)	(280)	(318)
incl. interest income	-	-	1	1
interest expenses	(35)	(3)	(262)	(300)
Segment assets 31.12.2016	32,636	12,137	158,128	202,901
incl. joint ventures (Note 8)	-	-	434	434
2015 12 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Segment revenue	117,983	72,155	95,528	285,666
Inter-segment revenue	(9,377)	(134)	(25,143)	(34,654)
Revenue from external clients	108,606	72,021	70,385	251,012
Gross profit (-loss)	10,389	4,831	7,748	22,968
Segment pre-tax profit (loss)	10,381	4,830	8,886	24,097
incl. interest income from operating activities	-	-	1,516	1,516
depreciation (Note 3)	(2,010)	(31)	(302)	(2,343)
impairment of inventories (Note 3)	-	-	(1,058)	(1,058)
setting up of provisions (Note 3)	(919)	(1,326)	(876)	(3,121)
loss on joint ventures	(19)	-	(119)	(138)
other finance income (costs)	(63)	-	(253)	(316)
incl. interest income	-	-	3	3
interest expenses	(63)	-	(252)	(315)
Segment assets 31.12.2015	31,971	8,834	133,202	174,007
incl. joint ventures (Note 8)	-	-	284	284

2016 IV quarter	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Segment revenue	34,241	12,720	40,320	87,281
Inter-segment revenue	(60)	(166)	(8,462)	(8,688)
Revenue from external clients	34,181	12,554	31,858	78,593
Gross profit (-loss)	469	300	4,269	5,038
Segment pre-tax profit (loss)	538	290	4,643	5,471
incl. interest income from operating activities	-	-	396	396
depreciation (Note 3)	(951)	(10)	(71)	(1,032)
impairment of inventories (Note 3)	-	-	110	110
setting up of provisions (Note 3)	(411)	(298)	(1,382)	(2,091)
cancellation of provisions (Note 3)	166	23	-	189
profit on joint ventures	-	-	97	97
other finance income (costs)	(8)	(1)	(92)	(101)
incl. interest expenses	(8)	(1)	(79)	(88)
Segment assets change in IV quarter	(6,803)	(1,676)	15,241	6,762
incl. joint ventures	-	-	97	97
2015 IV quarter	Estonian construction service	Latvian and Lithuanian construction service	Real estate development	Total segments
Segment revenue	29,495	13,173	30,937	73,605
Inter-segment revenue	(927)	(38)	(6,192)	(7,157)
Revenue from external clients	28,568	13,135	24,745	66,448
Gross profit (-loss)	2,715	2,291	2,693	7,699
Segment pre-tax profit (loss)	2,715	2,290	3,023	8,028
incl. interest income from operating activities	-	-	355	355
depreciation (Note 3)	(488)	(6)	(79)	(573)
impairment of inventories (Note 3)	-	-	(1,058)	(1,058)
setting up of provisions (Note 3)	(353)	(860)	(770)	(1,983)
loss on joint ventures	1	-	(33)	(32)
other finance income (costs)	(11)	-	(2)	(13)
incl. interest income	-	-	1	1
interest expenses	(11)	-	-	(11)
Segment assets change in IV quarter	(13,611)	(12,094)	(6,831)	(32,536)
incl. joint ventures	-	-	276	276

In addition to the segment assets, as at 31.12.2016 the group holds assets in the amount of EUR 34,939 thousand (31.12.2015: EUR 37,081 thousand) that cannot be associated with a specific segment or the allocation of which to segments would be impracticable. The unallocated assets of the group comprise cash and cash equivalents, deposits, loans receivable excluding loans to joint ventures, tax prepayments, other receivables and an unallocated portion of property, plant and equipment.

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

in thousand euros

	2016 12 months	2015 12 months	2016 IV quarter	2015 IV quarter
Pre-tax profit from reporting segments	20,843	24,097	5,471	8,028
Unallocated income (expense)				
marketing expenses	(3,281)	(3,230)	(904)	(883)
general and administrative expenses	(10,076)	(8,907)	(2,960)	(2,478)
incl. setting up of provisions	(76)	(115)	(76)	(115)
cancellation of provisions	-	172	-	172
other operating income (expense)	78	82	30	144
incl. interest income from operating activities	180	76	34	32
finance income (costs)	(285)	(350)	(75)	(154)
incl. interest income	44	118	11	19
interest expenses	(310)	(441)	(83)	(170)
Total profit before tax	7,279	11,692	1,562	4,657

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

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2016 12 months		2015 12 months		2016 IV quarter		2015 IV quarter	
Estonia	172,656	68%	154,809	62%	53,175	68%	45,706	69%
Latvia	44,924	18%	65,226	26%	12,141	15%	9,437	14%
Lithuania	24,801	10%	28,134	11%	10,256	13%	10,927	16%
Finland	5,110	2%	2,843	1%	1,975	3%	378	1%
Norway	4,479	2%	-	-	1,046	1%	-	-
Total	251,970	100%	251,012	100%	78,593	100%	66,448	100%

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

in thousand euros

	31.12.2016	31.12.2015
Estonia	17,054	18,200
Latvia	443	473
Lithuania	10	19
Norway	112	-
Total	17,619	18,692

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2016 12 months	2015 12 months	2016 IV quarter	2015 IV quarter
Construction services and properties purchased for resale	145,079	142,961	49,793	37,524
Materials	40,911	35,382	10,194	6,790
Labour costs	20,703	22,514	5,024	5,963
Construction mechanisms and transport	8,161	9,079	1,916	2,092
Design	2,987	2,158	1,070	660
Real estate management costs	221	227	58	61
Depreciation	2,962	2,343	1,032	573
Impairment of inventories	37	1,058	(110)	1,058
Provisions	2885	3,121	1,902	1,983
Other expenses	9,015	9,201	2,676	2,045
Total cost of goods sold	232,961	228,044	73,555	58,749

NOTE 4 EARNINGS AND DIVIDENDS PER SHARE

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

	2016 12 months	2015 12 months	2016 IV quarter	2015 IV quarter
Net profit(-loss) attributable to shareholders (in thousand EUR)	6,122	10,000	1,408	4,445
Weighted average number of ordinary shares (thousand pcs)	17,700	17,700	17,700	17,700
Earnings (loss) per share (in euros)	0,35	0.56	0,08	0.25

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends were paid by parent company AS Merko Ehitus in Q2 2016 in the amount of EUR 9,027 thousand, i.e. EUR 0.51 per share, and the accompanying income tax liability would amount to 20/80 on the amount to be paid out, i.e. EUR 2,257 thousand, which will be partially covered by the income tax withheld on taxed dividends received from subsidiaries in the previous periods. In the second quarter of 2016 the group incurred additional income tax expenses of EUR 566 thousand in Estonia in connection with disbursement of dividends.

In 2015 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 had to pay additional corporate income tax in Estonia in connection with the disbursement of dividends of EUR 906 thousand.

As at 31 December 2015, the parent company AS Merko Ehitus has no previously taxed dividends and income received from abroad on which income tax has been withheld (31.12.2015: EUR 0 thousand).

As at 31.12.2016, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 91,255 thousand (31.12.2015: EUR 93,255 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 0 thousand (31.12.2015: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 22,813 thousand (31.12.2015: EUR 23,314 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2016 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 5 CASH AND CASH EQUIVALENTS

in thousand euros

	31.12.2016	31.12.2015
Cash on hand	2	4
Bank accounts	33,291	32,667
Overnight deposits	251	7,234
Total cash and cash equivalents	33,544	39,905

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.12.2016	31.12.2015
Trade receivables		
Accounts receivable	31,735	15,431
Allowance for doubtful receivables	(265)	(326)
	31,470	15,105
Tax prepayments excluding corporate income tax		
Value added tax	3,318	887
Other taxes	-	35
	3,318	922
Amounts due from customers of contract works	4,606	3,948
Other short-term receivables		
Short-term loans	1,560	1,432
Interest receivables	218	200
Other short-term receivables	347	617
	2,125	2,249
Prepayments for services		
Prepayments for construction services	3,155	2,036
Prepaid insurance	348	275
Other prepaid expenses	544	319
	4,047	2,630
Total trade and other receivables	45,566	24,854
incl. short-term loan receivables from related parties (Note 16)	-	1,432
other short-term receivables and prepayments to related parties (Note 16)	4,333	541

NOTE 7 INVENTORIES

in thousand euros

	31.12.2016	31.12.2015
Materials	422	600
Work-in-progress	39,537	28,397
Finished goods	18,918	19,603
Goods for resale		
Registered immovables purchased for resale	63,150	58,029
Other goods purchased for resale	746	790
	63,896	58,819
Prepayments for inventories		
Prepayments for real estate properties	-	1,086
Prepayments for other inventories	591	585
	591	1,671
Total inventories	123,364	109,090

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.12.2016	31.12.2015
Investments joint ventures	434	284
Long-term loans	3,952	3,956
Long-term bank deposit	36	37
Long-term interest	261	7
Long-term receivables from customers of construction services	11,122	12,419
Total other long-term loans and receivables	15,805	16,703
incl. long-term loan receivables from related parties (Note 16)	3,952	2,456
other long-term receivables from related parties (Note 16)	261	7

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.12.2016	31.12.2015
Land	51	51
Right of superficies at carrying amount		
Cost	29	29
Accumulated depreciation	(11)	(10)
	18	19
Buildings at carrying amount		
Cost	5,245	5,245
Accumulated depreciation	(1,206)	(944)
	4,039	4,301
Total investment property	4,108	4,471

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.12.2016	31.12.2015
Land	821	824
Buildings at carrying amount		
Cost	5,650	5,725
Accumulated depreciation	(1,948)	(1,806)
	3,702	3,919
Machinery and equipment at carrying amount		
Cost	17,625	18,910
Accumulated depreciation	(11,164)	(11,314)
	6,461	7,596
Other fixtures at carrying amount		
Cost	5,190	5,141
Accumulated depreciation	(4,429)	(4,094)
	761	1,047
Prepayments for property, plant and equipment	1,093	56
Total property, plant and equipment	12,838	13,442

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.12.2016	31.12.2015
Goodwill		
Cost	970	891
Impairment	(656)	(267)
	314	624
Software at carrying amount		
Cost	1,137	1 075
Accumulated depreciation	(991)	(920)
	146	155
Prepayments for intangible assets	213	100
Total intangible assets	673	879

NOTE 12 BORROWINGS

in thousand euros

	31.12.2016	31.12.2015
Finance lease payables		
Present value of lease payments	1,769	2,704
incl. current portion	1,282	912
non-current portion 1...4 years	487	1,792
Bank loans		
Loan balance	25,703	19,403
incl. current portion	7,696	2,535
non-current portion 1...5 years	18,007	16,868
Loan from parent company		
Loan balance	12,500	-
incl. current portion (Note 16)	12,500	-
Loans from entities under common control		
Loan balance	6,000	8,000
incl. current portion (Note 16)	-	1,000
non-current portion 1...5 years (Note 16)	6,000	7,000
Loans from other entities		
Loan balance	29	1,078
incl. current portion	7	1,078
non-current portion 1...5 years	22	-
Total loans		
Loans balance	44,232	28,481
incl. current portion	20,203	4,613
non-current portion 1...5 years	24,029	23,868
Total borrowings	46,001	31,185
incl. current portion	21,485	5,525
non-current portion 1...5 years	24,516	25,660

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.12.2016	31.12.2015
Trade payables	25,035	16,325
Payables to employees	7,106	8,122
Tax liabilities, except for corporate income tax		
Value added tax	4,122	2,005
Personal income tax	513	490
Social security tax	993	908
Unemployment insurance tax	55	56
Contributions to mandatory funded pension	46	45
Other taxes	122	96
	5,851	3,600
Amounts due to customers for contract works	8,943	4,575
Other liabilities		
Interest liabilities	21	143
Other liabilities	508	3,527
	529	3,670
Prepayments received	8,795	6,974
Total payables and prepayments	56,259	43,266
incl. payables to related parties (Note 16)	38	3,273

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.12.2016	31.12.2015
Provision for warranty obligation for construction	2,476	2,378
Provision for costs of projects sold	2,788	2,120
Provision for onerous construction contracts	79	392
Provision for legal costs and claims filed	273	100
Other provisions	21	23
Total short-term provisions	5,637	5,013

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.12.2016	31.12.2015
Trade payables	1,317	1,159
Other long-term liabilities	744	-
Other long-term payables total	2,061	1,159
incl. other long-term payables to related parties (Note 16)	322	-

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

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

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

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.12.2016 and 31.12.2015, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %		Location	Area of operation
	31.12.2016	31.12.2015		
Subsidiaries				
AS Merko Ehitus Eesti	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	Estonia, Tallinn	Road construction
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	100	Estonia, Tartu	Construction
OÜ Fort Ehitus	76	75	Estonia, Viimsi	Construction
OÜ Mineraal	100	100	Estonia, Tallinn	Mining
OÜ Heamaja	100	100	Estonia, Tallinn	Real estate
OÜ Rannamõisa Kinnisvara	100	100	Estonia, Tallinn	Real estate
UAB Merko Statyba	100	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	Lithuania, Vilnius	Real estate
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 VPSP1	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	100	-	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	Latvia, Riga	Real estate
SIA Industrialas Parks	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	Latvia, Riga	Real estate

	Ownership and voting rights %		Location	Area of operation
	31.12.2016	31.12.2015		
PS Merks-Ostas celtnieks	65	-	Latvia, Riga	Construction
Merko Finland Oy	100	100	Finland, Helsinki	Construction
Hartian Oy	75	75	Finland, Helsinki	Real estate
As.Oy Helsingin Pestikuja 1	-	100	Finland, Helsinki	Real estate
Lenko Stroi LLC	100	100	Russia, St. Petersburg	Holding
Merko Investments AS	100	-	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	-	Norway, Sofiemyr	Construction
Joint ventures				
OÜ Unigate	50	50	Estonia, Tallinn	Real estate
Poolkoksimäe Sulgemise OÜ	50	50	Estonia, Tallinn	Construction
Kivimäe 32 OÜ	50	50	Estonia, Tallinn	Real estate
Kodusadam OÜ	50	50	Estonia, Tallinn	Real estate

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. Merko Investments AS, registered in Norway, is 100% subsidiary of AS Merko Ehitus. The first contribution of NOK 30 thousand was made to the new subsidiary's share capital on 3 February; the second contribution, of NOK 4,700 thousand, was made on 3 March (totalling approximately EUR 502 thousand). 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. The total purchase price was NOK 4,000 thousand (EUR 425 thousand). At the moment of purchase, the group developed an additional non-controlling stake in the amount NOK 2,572 thousand (EUR 273 thousand; as at 31.12.2016 EUR 283 thousand), which due to contractual conditions is recognised in the group as a redemption option of minority holding as a liability under other debts to related parties. The liabilities related to the minority interest buyout option also include the profit attributable to the non-controlling interest in the amount of EUR 39 thousand. The due date for the option is 7 March 2021. 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.

On 7 March 2016, Merko Ehitus group subsidiary UAB Merko Bustas entered into an agreement with the company Venturecorp Property Holdings Ltd for acquiring a 100% ownership in the Lithuanian real estate developer UAB Rinktinės projektai with a total purchase price of EUR 2 thousand.

On 30 March 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti made a non-monetary contribution into subsidiary OÜ Fort Ehitus. The object of the non-monetary contribution was the ceding of claims arising from a loan agreement to OÜ Fort Ehitus totalling EUR 1,880 thousand. Among other things, AS Merko Ehitus ceded claims worth EUR 1,429 thousand and the non-controlling interest in the amount of EUR 451 thousand. After executing the transaction, AS Merko Ehitus Eesti's stake in the subsidiary OÜ Fort Ehitus increased by 1% percentage to 76%.

On 8 November 2016, AS Merko Ehitus launched a process for restructuring its 100% subsidiary in Lithuania, UAB Merko Bustas. In accordance with the restructuring plan, UAB Merko Bustas's 100% subsidiary UAB VPSP1 will be merged with parent company UAB Merko Bustas. The restructuring will be completed and the final merger entry in the Commercial Register will be done during the first quarter of 2017.

On 5 December 2016, AS Merko Ehitus' 100% subsidiaries SIA Merks and SIA Ostas celtnieks established a general partnership PS Merks-Ostas-celtnieks for the performance of the consortium agreement entered into for the construction of the Venspils Music School and concert hall. SIA Merks holds a 65% stake and SIA Ostas celtnieks a 35% stake in the consortium.

On 28 December 2016, AS Merko Ehitus's 100% subsidiary AS Merko Ehitus Eesti initiated a process to merge its fully owned subsidiaries AS Merko Tartu, AS Gustaf, OÜ Rannamõisa Kinnisvara and OÜ Heamaja, all 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 will be made in the first half of 2017.

ACQUISITION OF SUBSIDIARY

in thousand euros

	Peritus Entreprenør AS	UAB Rinktinės projektai
	Fair value	Fair value
Cash	1,682	2
Short-term receivables	642	-
Inventories	5	-
Property, plant and equipment	47	-

	Peritus Entreprenor AS	UAB Rinktinės projektai
	Fair value	Fair value
Short-term liabilities	1 730	-
Long-term liabilities	25	-
Net assets	621	2
Non-controlling interest	(273)	-
Acquired ownership interest	56%	100%
Goodwill	77	-
Net assets aquired	425	2
Acquisition cost	425	2
Subsidiary's cash and cash equivalent on acquisition	1,368	2
Paid on acquisition	(126)	-
Cash flow from acquisition of subsidiary	1,242	2
Net profit for the period	86	-
Comprehensive income for the period	88	-
incl. net profit attributable to equity holders of the parent	49	-
net profit attributable to non-controlling interest	39	-

GOODS AND SERVICES

in thousand euros

	2016 12 months	2015 12 months
Provided services and goods sold		
Parent company	15	12
Joint ventures	7,471	530
Entities under common control	5,641	49
Members of the management	108	1,837
Other related parties	617	-
Total services provided and goods sold	13,852	2,428
Interest income		
Joint ventures	280	171
Purchased services and goods		
Parent company	90	90
Joint ventures	20	
Entities under common control	126	125
Other related parties	-	6
Total purchased services and goods	236	221
Interest expense		
Parent company	38	
Entities under common control	177	201
Members of the management	-	2
Total interest expense	215	203

BALANCES WITH RELATED PARTIES

in thousand euros

	31.12.2016	31.12.2015
Receivables from related parties		
Loans granted (Notes 6, 8)		
Joint ventures	3 952	3,888

	31.12.2016	31.12.2015
Receivables and prepayments (Note 6)		
Parent company	4	4
Joint ventures	3 896	536
Entities under common control	433	1
Total receivables and prepayments	4 333	541
Other long-term receivables (Note 8)		
Joint ventures	261	7
Total receivables from related parties	8 546	4,436
Payables to related parties		
Short-term loans received (Note 12)		
Parent company	12,500	-
Entities under common control	-	1,000
Total short-term loans received	12,500	1,000
Payables and prepayments (Note 13)		
Parent company	9	9
Entities under common control	29	3,264
Other related parties	-	618
Total payables and prepayments	38	3,891
Long-term loans received (Note 12)		
Entities under common control	6,000	7,000
Other long-term payables (Note 12)		
Other related parties	322	-
Total payables to related parties	18,860	11,891

TRANSACTIONS INVOLVING RELATED PARTIES (ADDITIONAL INFORMATION)

On 17 February 2016, AS Merko Ehitus's 100% subsidiary SIA Merks realised immovable properties located at Dikmana 8, Dikmana 10 and Grostonas 15 in Riga to 100% subsidiaries SIA SBC 08, SIA SBC 10 and SIA SBC 15 of a related party E.L.L. Kinnisvara AS at the sale price in the total amount of EUR 2,600 thousand.

On 14 December 2016, AS Merko Ehitus signed a short-term (due date 31 of January 2017) loan agreement in the amount of EUR 12,500 thousand with parent company AS Riverito, to partially finance the acquisition of Veerenni land plots (purchase price EUR 16,800 thousand). The loan from AS Riverito has been repaid after the balance sheet date and before the due date and refinanced with long-term loans from different credit institutions.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 12 months of 2016 was EUR 2,221 thousand (12 months of 2015: EUR 2,191 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 12 months of 2016, the Management and Supervisory Board members of major subsidiaries received EUR 65 thousand in compensation (12 months of 2015: EUR 18 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.12.2016:

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

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.12.2016:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	500	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,685	9.08%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	31.12.2016	31.12.2015
Performance period's warranty to the customer	21,036	9,174
Tender warranty	767	745
Guarantee warranty period	20,470	23,988
Prepayment guarantee	4,411	2,336
Payment guarantee	30,500	30,500
Contracts of surety	3,902	654
Letter of credit	-	2,000
Total contingent liabilities	81,086	69,397

As at 31.12.2016 and 31.12.2015 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 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 and/or warranty provider guarantees to the customer payment for goods or services.

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


MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 12 months and IV quarter of 2016, which are set out on pages 5-56.

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


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

Andres Trink Chairman of the Management Board



09.02.2017

Tõnu Toomik Member of the Management Board



09.02.2017