



AS MERKO EHITUS

GROUP

2017 3 months
consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2017 – 31.03.2017
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, Lithuania and Norway. 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 799 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 7% of the total volume of the Estonian construction market as of the end of 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.



IN THE FIRST QUARTER, DESIGN AND CONSTRUCTION WORK ON THE INFRASTRUCTURE OF THE TALLINN AIRPORT TRAM LINE CONTINUED. AS PART OF THIS PROJECT, A TUNNEL IS BEING BUILT FROM THE TURNAROUND LOOP NEAR THE ÜLEMISTE RAILWAY STATION, UNDERNEATH SUUR-SÕJAMÄE STREET, WITH THE OTHER END OF THE TUNNEL BEING ON KEEVISE STREET.

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.

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

In Q1 of 2017, Merko Ehitus posted revenue of EUR 58 million and a net profit of EUR 1.0 million. Revenue grew both in Estonia and in other home markets, apartment sales picked up as well. The first quarter revenue generally met the managements expectations, yet profitability is still under pressure due to the thin margin on construction contracts. The management estimates, that to improve profitability, we need to come up with greater internal efficiency. The volume of new construction contracts signed in Q1 was close to EUR 60 million that can be considered an average figure and includes the first significant contract in Norway. In early April, we were able to add to our portfolio a EUR 100 million contract for building the Akropole Centre in Riga.

With regard to market demand, the management notes that the construction volumes of new commercial buildings in Tallinn and Vilnius are stabilising, and the past growth rate is also becoming calmer in residential construction. Road and infrastructure procurements are on the way in Estonia; in Lithuania we expect more public sector building procurements, which there have been surprisingly few so far. In Latvia, we see room for new commercial buildings and apartment development, but the economic growth rate as a whole remains a question.

2017 3M
PROFIT BEFORE TAX
1.1 MILLION EUROS
REVENUE
58 MILLION EUROS

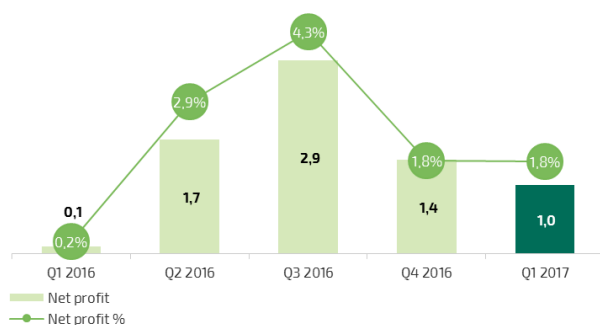
In Q1, the group sold 141 apartments with a total price of EUR 16 million (excluding VAT); compared to the 101 apartments sold in the first three months of 2016. In the apartment development sector, we will continue implementing our strategy – we plan to invest about EUR 45 million into real estate development this year and start construction of 650 new apartments. In Q1, Merko launched four apartment development projects in the Baltic capital cities: the Staapli 3 building in Noblessner in Tallinn, with 105 apartments, and two buildings in Paepargi with 66 apartments. In Riga, the first phase of the Gailezers development with 96 apartments was started, and in Vilnius, the Rinktines Urban project with 141 apartments, hotel and an underground parking garage connecting the whole development area. In the first quarter, we added to our development projects portfolio a development area on Rūpniecības street in immediate proximity to the city centre of Riga that will accommodate construction of around 350 apartments.

The group's Q1 2017 revenue was EUR 58.1 million, EBITDA was EUR 1.9 million, profit before taxes was EUR 1.1 million and net profit was EUR 1.0 million. In comparison, the group's revenue in Q1 2016 was EUR 46.8 million, EBITDA was EUR 1.2 million, profit before taxes was EUR 0.3 million and net profit was EUR 0.1 million. In Q1 2017, the group signed new construction contracts in the total amount of EUR 59 million, including the tower B of the Õpiku Maja office building, the Staapli 3 apartment building in the Noblessner development in Tallinn, the Šaltiniu Namai apartment building complex in Vilnius and Blakstad Hospital in Norway.

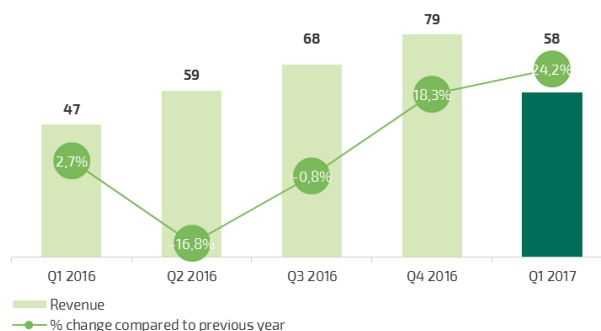
As at 31 March 2017, the group's secured order book amounted to EUR 288 million, compared to EUR 243 million in the same period in the previous year. Major projects in progress for Merko in Q1 included, in Tallinn, the construction of T1 shopping centre, Maakri Kvartal, Õpiku Maja office building's tower B, and the tram line that will serve the airport. In Latvia, the largest projects in progress are the Ventspils music school and concert hall; in Lithuania, Radisson Blu Hotel Lietuva, the Philip Morris plant and a hotel and residential building complex in the Rinktines Urban development project.

OVERVIEW OF THE 3 MONTHS RESULTS

GROUP NET PROFIT
in millions euros



GROUP REVENUE
in million euros



PROFITABILITY

Net profit in 3M 2017 was EUR 1.0 million (3M 2016: EUR 0.1 million), having increased by 822.8% compared to the same period last year and net profit margin increased to 1.8% (3M 2016: 0.2%). Profit before tax in 3M 2017 was EUR 1.1 million (3M 2016: EUR 0.3 million), which is equivalent to a profit before tax margin of 1.9% (3M 2016: 0.6%).

REVENUE

Revenue in 3M 2017 was EUR 58.1 million (3M 2016: EUR 46.8 million), which has increased by 24.2% compared to last year. The number of apartments (141 units, incl. 1 apartment in a joint venture) sold in 3 months of 2017 has increased by 39.6% compared to last year and the revenue from apartment sales (EUR 16.3 million) has increased by 43.6% (3 months of 2016: 101 units, revenues of EUR 11.4 million).

CASH POSITION

At the end of the reporting period, the group had EUR 33.8 million in cash and cash equivalents and equity EUR 123.8 million (53.6% of total assets). Comparable figures as at 31 March 2016 were accordingly EUR 34.4 million and EUR 125.8 million (62.3% of total assets). As at 31 March 2017 the group had net debt of EUR 6.9 million (31 March 2016: negative EUR 8.2 million).

SECURED ORDER BOOK

As at 31 March 2017, the group's secured order book had grown to EUR 287.7 million (31 March 2016: EUR 243.5 million). In 3M 2017, group companies signed new contracts in the amount of EUR 58.6 million (3M 2016: EUR 22.4 million).

DISTRIBUTION OF PROFITS

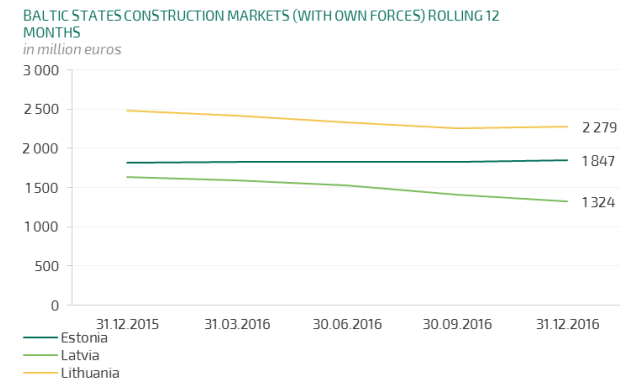
The general meeting of shareholders held on 28 April 2017 resolved to approve the profit allocation proposal for 2016 and to distribute EUR 7.3 million (EUR 0.41 per share) in dividends from retained earnings. This is equivalent to a 119% dividend rate for 2016.

		3M 2017	3M 2016	VARIANCE	12M 2016
Revenue	million EUR	58.1	46.8	+24.2%	252.0
EBITDA	million EUR	1.9	1.2	+60.8%	11.2
EBITDA margin	%	3.3	2.5	+29.5%	4.4
EBIT	%	1.3	0.5	+159.6%	7.7
EBIT margin	%	2.2	1.0	+109.0%	3.1
Profit before tax	million EUR	1.1	0.3	+261.7%	7.3
PBT margin	%	1.9	0.6	+191.2%	2.9
Net profit (parent)	million EUR	1.0	0.1	+822.8%	6.1
Net profit margin	%	1.8	0.2	+643.1%	2.4
EPS	EUR	0.06	0.01	+822.8%	0.35
		31.03.2017	31.03.2016	VARIANCE	31.12.2016
ROE (on yearly basis)	%	5.8	7.5	-23.0%	5.0
Equity ratio	%	53.6	62.3	-13.9%	51.6
Secured order book	million EUR	287.7	243.5	+18.2%	269.6
Total assets	million EUR	231.0	202.0	+14.4%	237.8
Number of employees	people	799	782	+2.2%	797

Ratio definitions are provided on page 31 of the report.

THE MAIN FACTORS INFLUENCING THE CONSTRUCTION MARKET IN THE 3 MONTHS OF 2017

For 2017, as whole we are forecasting a continued stagnation in the volume of Baltic construction contracts. 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 didn't grow, 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 smaller developers. Developments in the construction sector in the near future can significantly be influenced by the activity level of public sector contracts, as 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.



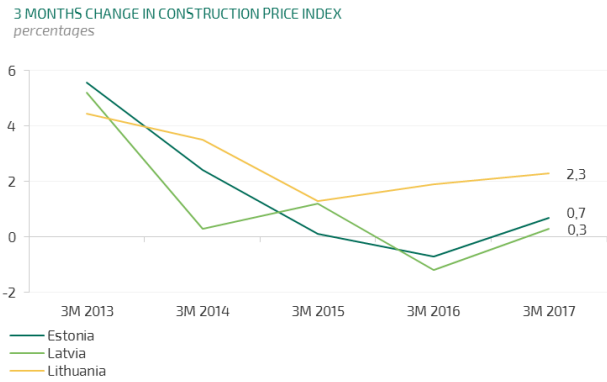
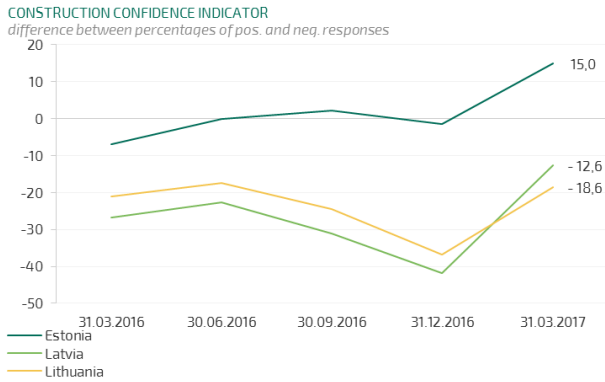
Source: Local national statistical offices.

In the described market situation, Merko is making a greater contribution to private sector investments in the field of production, logistics and other commercial real estate, and also residential development, while also being prepared for a growth of state orders with regards to infrastructure construction. 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 to a considerable extent 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 focus 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. 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 moderately optimistic outlook for growth in the construction market of Baltic states and the economic environment as a whole, we still do not foresee major changes in the level of construction input prices, although with regards to buildings construction the pressure on prices is rising. 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 turned to growth in 3 months of 2017 with respect to the average of the same period last year both in all three Baltic countries, incl. +2.3% in Lithuania, +0.7% in Estonia and +0.3% in Latvia. Of the construction price components, the workforce continued rising in all Baltic states, with Lithuanian and Latvian figures being somewhat higher than Estonian. Construction machinery price components grew in all Baltic states moderately. Construction material price components moved in different directions, rising in Estonia and Lithuania, while decreasing in Latvia.

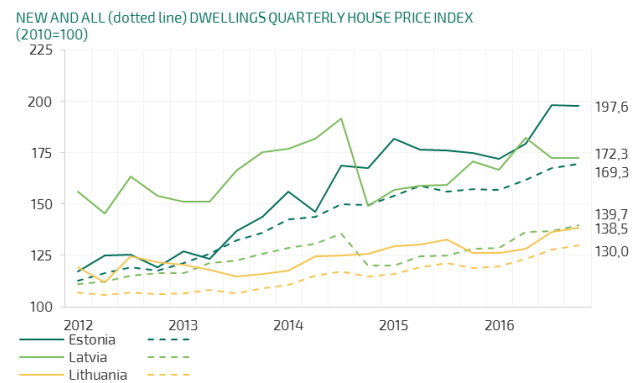
The level of indicators of confidence in the construction industry continues to be moderately favorable than at the end of the fourth quarter 2016 due to the start of the construction season. On a larger scale, confidence is kept negative by the lack of demand, which is largely related to lack of investments 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 March 2017 improved: in Estonia the most by 22.0 points to 15.0 points (March 2016: -7.0 points), in Latvia 14.1 points from -26.7 points to -12.6 points and in Lithuania 2.4 points from -21.0 points to -18.6 points.



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

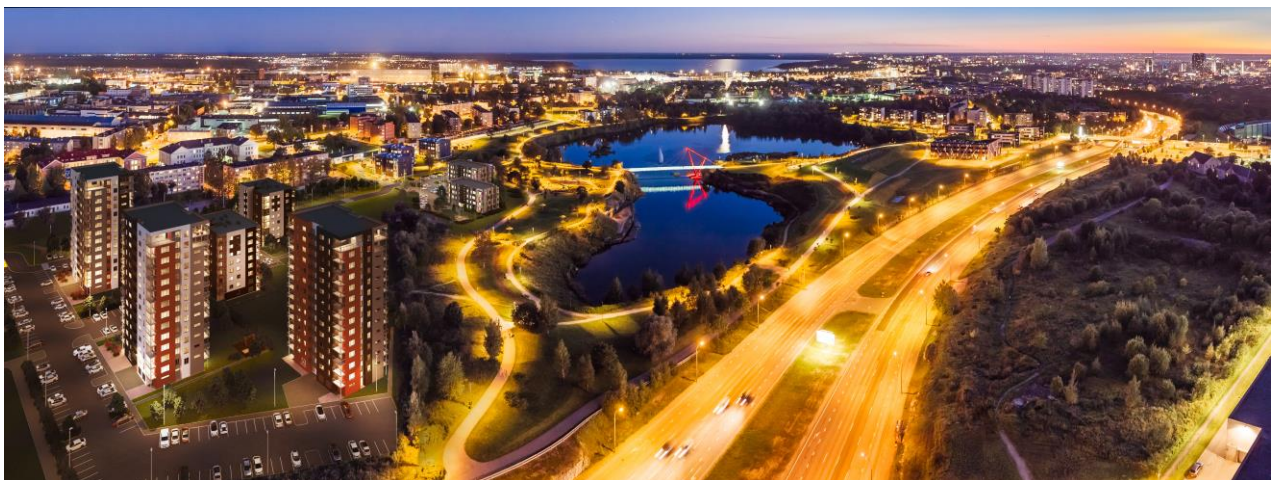
In Tallinn and Vilnius, the situation in the apartment market continued to stabilise in 2016 and the persistence of this trend is expected to continue. In Riga the apartment market continues to be relatively less active, even though some indicators suggest increasing demand potential. The increased supply 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 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 relatively active. In larger cities demand remains strong in the residential real estate market, yet we have to consider the high level of regional disparity and volumes have decreased in Southern and Western Norway. 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 addition the regulators have introduced stricter requirements for banks with regard to home loan issuance. In the field of public building construction, the market is relatively active and for commercial building construction and renovation, the market remains 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 which, in turn, has tightened competition in the sector.



MERKO HAS BUILT A MODERN LIVING ENVIRONMENT IN THE PAEPARGI AREA IN THE IMMEDIATE PROXIMITY TO THE TALLINN CITY CENTRE AND THE KADRIORG DISTRICT. HUNDREDS OF FAMILIES HAVE MOVED INTO BUILDINGS BUILT IN PREVIOUS PHASES OF THE PROJECT. IN THE NEW DEVELOPMENT PHASE LAUNCHED IN THE FIRST QUARTER OF THIS YEAR, TWO 8-STOUREY APARTMENT BUILDINGS WILL BE COMPLETED BY SUMMER 2018.

OPERATING RESULTS

BUSINESS ACTIVITIES

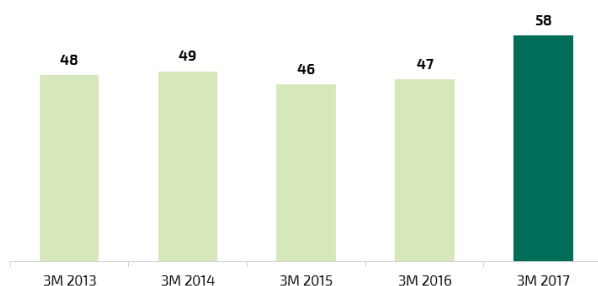
Key financial indicators (in million euros)

	3M 2017	3M 2016	12M 2016
Revenue			
Estonian construction service	26.7	19.0	122.4
Other home markets construction service	11.2	8.0	52.7
Real estate development	20.2	19.8	76.9
Revenue total	58.1	46.8	252.0
EBITDA	1.9	1.2	11.2
Operating profit (EBIT)	1.3	0.5	7.7
Profit before tax (PBT)	1.1	0.3	7.3
Net profit			
attributable to equity holders of the parent	1.0	0.1	6.1
attributable to non-controlling interest	(0.0)	(0.1)	(0.1)
Net profit total	1.0	0.0	6.0
Earnings per share (EPS), euros	0.06	0.01	0.35
Cash and cash equivalents closing position	33.8	34.4	33.5

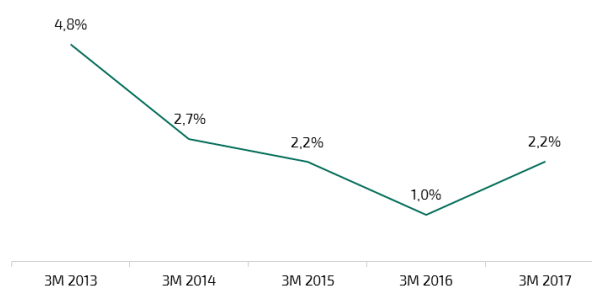
REVENUE AND OPERATING PROFIT

Merko Ehitus group generated a total of EUR 58.1 million in revenue in 3 months of 2017 (3 months of 2016: EUR 46.8 million). 46.0% of the revenue was generated in Estonian construction service, 19.2% in other home markets construction service and 34.8% in real estate development segment (3 months of 2016: 40.7% in Estonian construction service, 17.0% in other home markets construction service and 42.3% in real estate development segment). Compared to the 3 months of 2016 the group revenue has increased by nearly a quarter. The revenue growth was boosted as several large-scale projects that lagged in the last year gained momentum in the first quarter of the year, as well by the increase of apartments sales. Compared to the 3 months of the previous year in the 3 months of 2017 the share of other home markets construction service revenue in the group's revenue has increased from 17.0% to 19.2% and the share of Estonian construction service from 40.7% to 46.0%. 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, in the increase in the sales revenue of construction services from joint venture projects and the increase in revenues from apartment sales in the real estate development 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 2016.

GROUP REVENUE
in million euros



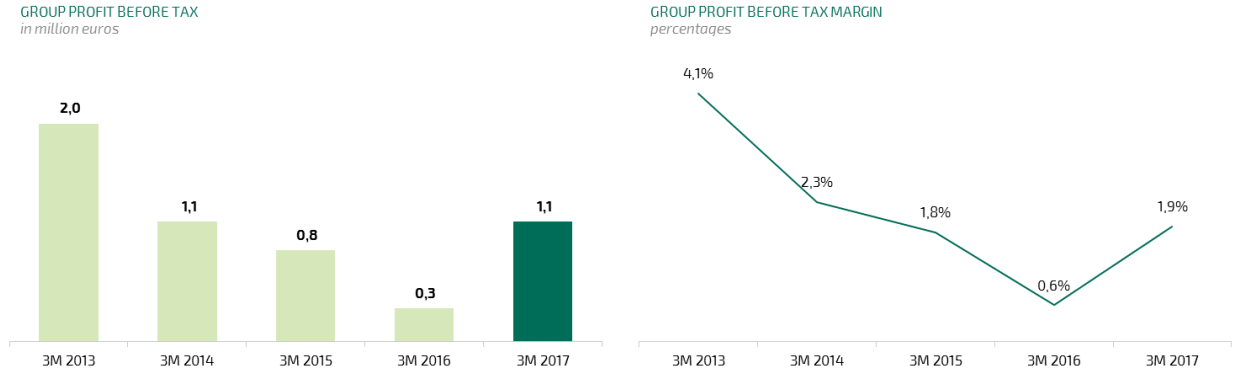
GROUP OPERATING PROFIT MARGIN
percentages



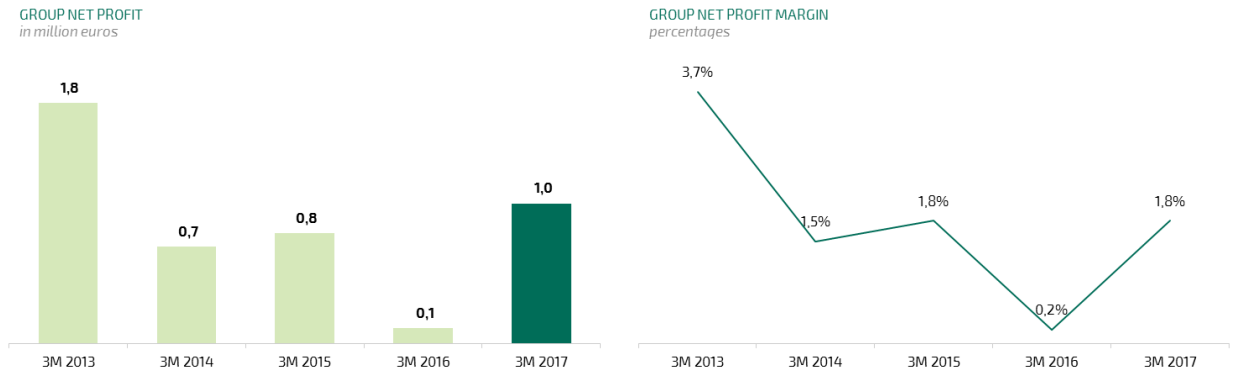
In 3 months of 2017 the group's operating profit from development and construction activities totalled EUR 1.3 million (3 months of 2016: EUR 0.5 million). The 3 months operating profit margin (2.2%) has increased by 1.2 pp compared to the same period last year (3 months of 2016: 1.0%). The group's aim 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 so far been supported by stable input prices, but which in on an upward trend in the medium time horizon. Considering the small size of the Estonian market, the current situation – where several large-scale building construction projects are simultaneously in works – 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 increase in the labour cost bonuses. 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

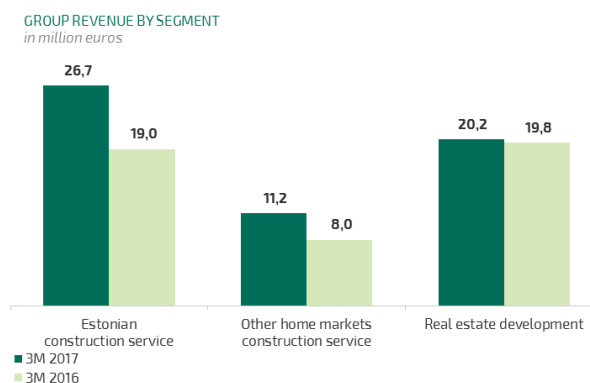


In 3 months of 2017, the group's profit before tax totalled EUR 1.1 million (3 months of 2016: EUR 0.3 million) and net profit attributable to equity holders of the parent was EUR 1.0 million (3 months of 2016: EUR 0.1 million). Group's profit before tax margin was 1.9% (3 months of 2016: 0.6%) and the net profit margin was 1.8% (3 months of 2016: 0.2%). Both the group's profit before tax (EUR 1.1 million) and the profit before tax margin (1.9%) have increased compared to the same period last year (3 months of 2016: EUR 0.3 million and 0.6%, respectively).



BUSINESS SEGMENTS

The group operates in Estonian, Latvian, Lithuanian and Norwegian market through its subsidiaries, the reporting of which is divided into 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 26.



ESTONIAN CONSTRUCTION SERVICE

The Estonian construction services segment consists of various services in the field of general construction, civil engineering, electricity and road construction and construction services on project basis in Finland.

million EUR

	3M 2017	3M 2016	VARIANCE	12M 2016
Revenue	26.7	19.0	+40.6%	122.4
% of total revenue	46.0%	40.7%	+13.2%	48.6%

In the 3 months of 2017, the revenue of the Estonian construction service segment was EUR 26.7 million (3 months of 2016: EUR 19.0 million), having increased by 40.6% from the same period last year. The 3 months revenue includes revenue from Finnish projects in the amount of EUR 0.02 million (3 months of 2016: EUR 0.4 million). The revenues have clearly 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 2016 have continued to progress. The Estonian construction service segment revenues for 3 months 2017 were 46.0% of the group's revenue, forming the largest proportion in the group's revenue, having increased by 13.2% in the yearly comparison.

Our major projects in the first quarter in Tallinn included the design and construction works of Maakri Kvartal business complex, office building located at Mustamäe tee 3, T1 shopping centre, Pärnu mnt 22 office building and BAUHAUS DIY store, construction of the airport tram line infrastructure and construction work on the passenger walkway at Vanasadama Harbour quay No 5, in Tapa construction works of the barracks in military campus depot and Viru Infantry Battalion technology park buildings and facilities. Additionally the construction works of Juuliku road junction and road section at Tallinn roundabout and the road maintenance works done under the service agreement with Tallinn and Viljandi county 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 Norway and provision of civil engineering and electricity services in Latvia.

million EUR

	3M 2017	3M 2016	VARIANCE	12M 2016
Revenue	11.2	8.0	+40.3%	52.7
% of total revenue	19.2%	17.0%	+13.0%	20.9%

The revenue of the other home markets construction service segment amounted to EUR 11.2 million in the 3 months of 2017 (3 months of 2016: EUR 8.0 million), which is 40.3% more than in the 3 months of 2016. If the other home markets construction

service segment revenues of 3 months of 2016 formed 17.0% of the group's revenue, then during 3 months of the current year the segments revenues have increased to 19.2%. The change in this percentage has been in line with expectations, considering the level of new contracts signed in Latvia and Lithuania at the end of 2016 and the low comparison base of 2016, where there were less large-scale projects in works in Latvia and Lithuania.

Merko's position among Latvia general contractors is currently strong and we see opportunities for growing our business volumes. In Lithuania, we are continuing our strategic plan to focus on external customers who make up the predominant part of the group's Lithuanian construction contracts portfolio. In Lithuania, we have also entered more widely the public procurement sphere in the field of general construction. In Norway, the group is mainly performing smaller-scale agreements, while actively working on building project management capability and systems to conclude larger general contracting agreements. The group's Norwegian subsidiary concluded the first major construction contract at the end of the first quarter. The group's continued focus is on increasing the revenues outside Estonia.

In the first quarter of 2017, the main ongoing projects included in the other home markets construction service segment were in Vilnius the construction works of Narbuto 5 office building, the construction works of Kauno/Algirdo residential complex with office premises and the design and construction works of Radisson Blu Hotel Lietuva extension, in Klaipeda the reconstruction and extension construction works of Philip Morris plant, in Riga the construction works of apartment building Magdalēnas nami, the construction works of the British International School, the construction works of Cēsu 9 apartment building, In Jurmala the construction works of Jasmīnu 10 residential complex and in Ventspils the construction works of music school and concert hall.

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 Estonia, Latvia and Lithuania.

million EUR

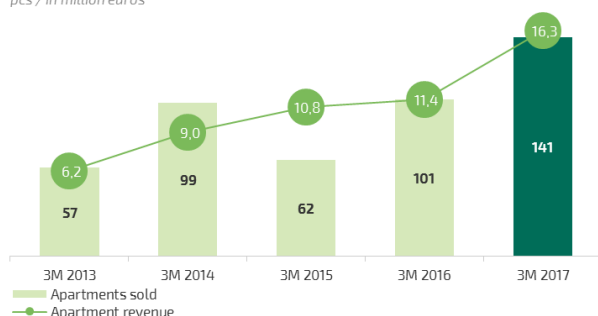
	3M 2017	3M 2016	VARIANCE	12M 2016
Revenue	20.2	19.8	+2.0%	76.9
% of total revenue	34.8%	42.3%	-17.9%	30.5%

The group sold a total of 141 apartments (incl. 1 apartment in a joint venture) in 3 months of 2017 at the total value of EUR 16.3 million (excl. VAT), compared to 101 apartments and EUR 11.4 million in 3 months of 2016. In 3 months of 2017, the group has earned EUR 0.0 million of revenue from the sale of immovable properties (3 months of 2016: EUR 7.5 million). The construction service revenue from projects developed by joint ventures in 3 months of 2017 was EUR 2.5 million (3 months of 2016: EUR 0.6 million).

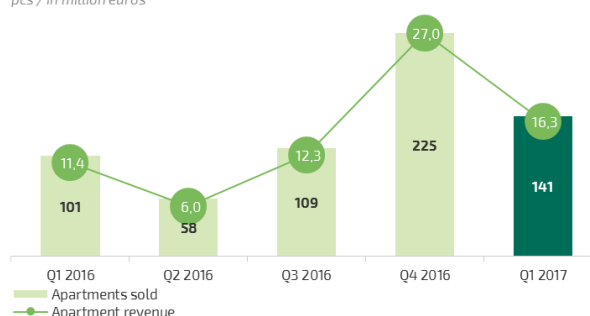
In 3 months of 2017 real estate development segment revenues have increased by 2.0% compared to the same period last year, The growth is primarily influenced by the increase of revenues from the sale of apartments in the current period, especially considering that in the reference period the group sold immovable properties that were strategically not needed by the group.

In the 3 months of 2017 the share of revenue from the real estate development segment formed 34.8% of the group's total revenue (3 months of 2016: 42.3%).

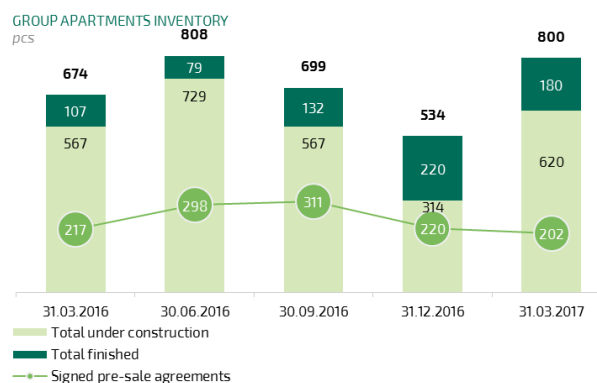
APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



APARTMENTS SOLD AND APARTMENT REVENUE
pcs / in million euros



At the end of the period, group's inventory comprised 202 apartments where a preliminary agreement had been signed: 71 completed apartments (60 in Estonia, 1 in Latvia and 10 in Lithuania) and 131 apartments under construction (77 in Estonia, 29 in Latvia and 25 in Lithuania). The sale of these apartments had not yet been finalised and delivered to customers, because the development site is still under construction or the site was completed at the end of the reporting period and the sales transactions have not all been finalised yet.



As at 31 December 2017, the group had a total of 598 apartments for active sale (as at 31 March 2016: 457 apartments; as at 31 December 2016: 497 apartments), for which there are no pre-sale agreements and of which 109 have been completed (75 in Estonia, 15 in Latvia and 19 in Lithuania) and 489 are under construction (220 in Estonia, 153 in Latvia and 116 in Lithuania). The increase in the number of apartments on active sale as at 31 March 2017, compared to 31 March 2016 is mainly due to the higher volume of projects launched in the 3 months of the current year.

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	1	1
Grostonas 21	Riga, Latvia	Completed	2	-
Fiziku 8	Vilnius, Lithuania	Completed	6	-
Kraziu 9	Vilnius, Lithuania	Completed	1	1
Tartu road 52 stage I & II	Tallinn, Estonia	Completed	96	33
Jahu 1a	Tallinn, Estonia	Completed	1	-
Kaupmehe 9	Tartu municipality, Estonia	Completed	1	1
Sõpruse avenue 33	Tallinn, Estonia	Completed	6	-
Krokovos 73	Vilnius, Lithuania	Completed	22	9
Grostonas 12 stage I (Skanstes Parks)	Riga, Latvia	Completed	12	-
Paepargi 51 (Paepargi towers)	Tallinn, Estonia	Beginning of 2017	7	4
Paepargi 35, 37 (Perepargi)	Tallinn, Estonia	Spring of 2017	24	22
			180	71
Grostonas 12 stage II (Skanstes Parks)	Riga, Latvia	Summer of 2017	86	23
Staapli 4 (Noblessner Homeport) ***	Tallinn, Estonia	End of 2017	66	29
Paepargi 53 (Paepargi towers)	Tallinn, Estonia	End of 2017	60	48
			212	100
Started in Q1 2017				
Gaiļezers stage I (Gaiļezers nami) **	Riga, Latvia	End of 2017	96	6
Ceikiniu 3 (Rinktinės Urban) **	Vilnius, Lithuania	Second half of 2018	141	25
Staapli 3 (Noblessner Homeport) *** / **	Tallinn, Estonia	End of 2018	105	-
Paepargi 53 (Paepargi) **	Tallinn, Estonia	Summer of 2018	66	-
			408	-
Total			800	202

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

** Project launched in 2017.

*** 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 3 months of 2017, we launched the construction of a total of 408 new apartments in the Baltic states (3 months of 2016: 90 apartments):

- the construction of Gaiļezera nami residential development with 96 apartments at Mežciems district in Riga, located between Līduma, Gaiļezera and Hipokrāta streets;
- the construction of Rinktinės Urban residential development project with 141 apartments in the city centre of Vilnius, located at the corner of Rinktinės and Ceikiniu streets;
- In Tallinna, the construction of the second stage of Noblessner residential development project with 105 apartments located at Staapli 3;
- In Tallinna, the construction of 66 apartments in the new phase of Paepargi development project located at Paepargi 43 and 47.

In the 3 months of this year, the group has invested a total of EUR 7.5 million (3 months of 2016: EUR 10.1 million; 12 months of 2016: EUR 53.6 million) in new development projects launched in 2017 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. 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 March 2017, the group's inventories included land plots with the development potential, where the construction works have not started, of EUR 67.0 million (31.03.2016: EUR 50.5 million; 31.12.2016: EUR 63.2 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	31.03.2017	31.03.2016	31.12.2016
Estonia	26.6	8.9	26.6
Latvia	31.9	32.3	28.1
Lithuania	8.5	9.3	8.5
Total	67.0	50.5	63.2

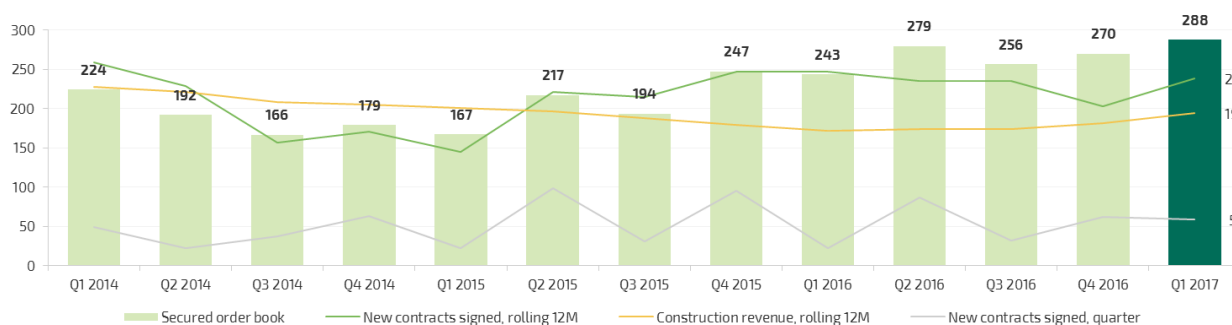
In the 3 months of 2017, the group has purchased new land plots at an acquisition cost of EUR 4.1 million purposes (3 months of 2016: no new land plot acquisitions; 12 months of 2016: acquired different new land plots in Tallinn, Estonia at an acquisition cost of EUR 16.8 million and in Vilnius, Lithuania at an acquisition cost of EUR 2.3 million). In Q1 of 2017, the group acquired an approximately 1.5-hectare development area between Rūpniecības and Pētersalas streets in the heart of Riga at an acquisition cost of EUR 4.1 million, allowing to build nearly 350 apartments in the upcoming years. According to a preliminary agreement with a credit institution the acquisition of the development area is planned to be financed with a bank loan in the second quarter 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.

SECURED ORDER BOOK

As at 31 March 2017, the group's secured order book (without own developments) amounted to EUR 287.7 million as compared to EUR 243.5 million as at 31 March 2016, having increased by approximately 20% 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 3 months of 2017, EUR 58.6 million worth of new contracts were signed (without own developments) as compared to EUR 22.4 million in same period last year.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE FIRST QUARTER OF 2017

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	COST MILLION EUR
Contract to perform design and construction works of Õpiku maja second office building in Tallinn	Estonia	Second half of 2018	15.5
Design-build contract with the groups 50% joint venture Kodumaja OÜ for the establishment of the apartment building at Staapli 3 *	Estonia	End of 2018	15.3
Contract to perform design and construction works of the residential complex in Šaltiniu Namai quarter in Vilnius	Lithuania	January of 2019	10.8
Contract to perform design and construction works of an extension of a building at Blakstad Hospital in Asker	Norway	December of 2017	4.3
Construction contract to renovate Sindi 110kV switchgear in Pärnu county	Estonia	November of 2018	1.9
Construction contract to perform 0-stage concrete works at the construction of Tallinn Courthouse	Estonia	June of 2017	1.5

* The sales revenue and profit from the Staapli 3 contract will become realised in the real estate development segment pursuant to provision of construction service.

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

- On 7 April 2017, SIA Merks – a subsidiary of AS Merko Ehitus – signed a contract with SIA M257, to perform the construction works of Multifunctional Centre Akropole located at 257 Maskavas street, Riga, Latvia. The main general contractor SIA Merks has decided to engage UAB Mitnija as project management partner with a share of 50:50. The given contract is recognised 100% in the secured order book, as SIA Merks bears the sole liability to the customer. The value of the contract is approximately EUR 100 million. The works are scheduled for completion in January of 2019.

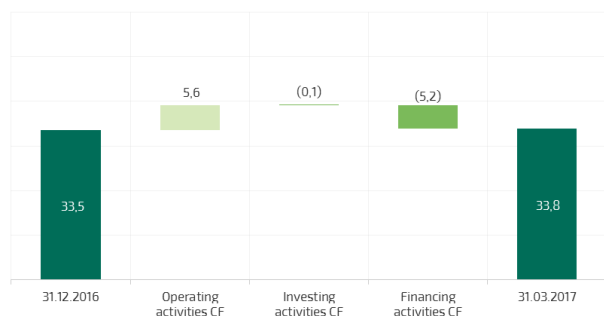
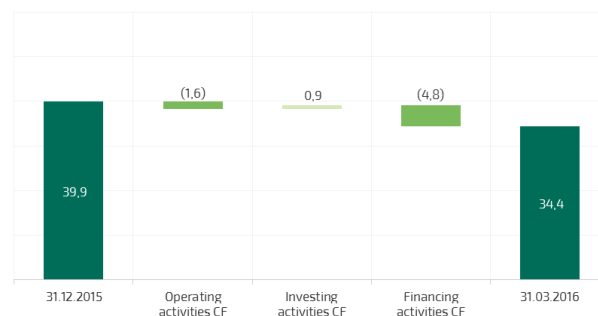
Of the contracts signed in the 3 months of 2017, private sector orders accounted for the majority proportion, which is also represented in the group's secured order book as at the end of the reporting period, where private sector orders from projects in progress constitute approximately 70% (31.03.2016: approximately 80%; 31.12.2016: approximately 70%). 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 has continuingly been very modest. The group continues to focus on comprehensive design and construction contracts. In this regard, four important design and construction contracts were signed in the first 3 months of 2017.

The portfolio of contracts has increased compared to the same period of the last few years (31.03.2016: EUR 243.5 million; 31.03.2015: EUR 167.2 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. 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 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 Norway, where 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. The long-term objective of the group in Norway is to gradually build the capacity to undertake bigger projects, to operate as a Norwegian company and to gain the trust of local customers, whilst exploiting Merko's experience in quality and project management and the network of partners. In 2017, the group will continue to take part in various individual Finnish and Swedish 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, but focusing above all in the Nordic countries on the Norwegian market.

CASH FLOWS

As at 31 December 2016 the group had cash equivalents in the amount of EUR 33.8 million (31.03.2016: EUR 34.4 million; 31.12.2016: EUR 33.5 million). The group's cash level is slightly 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.

3 MONTHS CHANGE IN CASH AND CASH EQUIVALENTS
in million euros3 MONTHS CHANGE IN CASH AND CASH EQUIVALENTS
in million euros

The 3-month cash flow from operating activity was positive at EUR 5.6 million (3 months of 2016: negative EUR 1.6 million), cash flow from investing activity was negative at EUR 0.1 million (3 months of 2016: positive EUR 0.9 million) and the cash flow from financing activity was negative at EUR 5.2 million (3 months of 2016: negative EUR 4.8 million).

The cash flow from operating activity was mostly influenced by the EBITDA (operating profit adjusted with depreciation and amortisation) EUR 1.9 million (3 months of 2016: EUR 1.2 million), by the negative change in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 2.0 million (3 months of 2016: negative change of EUR 3.5 million), by the negative change in the provisions EUR 2.0 million (3 months of 2016: negative change of EUR 2.8 million), by the positive change in trade and other receivables related to operating activities EUR 10.8 million, incl. the return of VAT prepayment related to Veerenni development area acquisition in January of 2017 in the amount of EUR 3.4 million (3 months of 2016: positive change of EUR 0.4 million, incl. a negative change in financing co-financed projects of EUR 1.6 million), by the positive change in inventory EUR 2.6 million, incl. negative cash flow from purchase of new land plots in the amount of EUR 4.1 million (3 months of 2016: positive change of EUR 6.6 million, incl. positive cash flow from sale of immovable properties in the amount of EUR 7.5 million) and by the positive change in trade and other payables related to operating activities EUR 5.0 million (3 months of 2016: negative change of EUR 2.9 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 (17.7% as at 31.03.2017; 12.9% as at 31.03.2016; 19.3% as at 31.12.2016).

Cash flows from investment activities include negative cash flow from the acquisition of non-current asset in the amount of EUR 0.4 million (3 months of 2016: EUR 0.5 million) and the positive cash flow from the sale of non-current assets in the amount of EUR 0.3 million (3 months of 2016: EUR 0.1 million). The group mainly invested in non-current assets for the purpose of renewing its fleet of machinery in the road construction segment. Cash flows from investment activities in the reference period 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.

Project specific loans obtained using investment property as collateral, included under cash flows from financing activities, were repaid in the amount of EUR 0.1 million (3 months of 2016: negative cash flow in the net amount of EUR 0.1 million). Net of loans received and loans repaid in connection with development projects amounted to positive cash flow of EUR 9.1 million (3 months of 2016: net negative cash flow of EUR 2.7 million) and finance lease principal repayments of EUR 0.2 million (3 months of 2016: EUR 0.2 million). In addition, over the 3 months of 2016, the group made repayments in the amount of EUR 1.0 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. 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. In analogous fashion, the group plans to take a bank loan in Q2 2017 for financing the development area located between Rūpniecības and Pētersalas streets in Riga, Latvia, which was acquired in Q1 2017.

RATIOS

(attributable to equity holders of the parent)

		3M 2017	3M 2016	3M 2015	12M 2016
Income statement summary					
Revenue	million EUR	58.1	46.8	45.6	252.0
Gross profit	million EUR	4.1	3.1	3.6	19.0
Gross profit margin	%	7.1	6.5	7.8	7.5
Operating profit	million EUR	1.3	0.5	1.0	7.7
Operating profit margin	%	2.2	1.0	2.2	3.1
Profit before tax	million EUR	1.1	0.3	0.8	7.3
PBT margin	%	1.9	0.6	1.8	2.9
Net profit	million EUR	1.0	0.0	0.7	6.0
attributable to equity holders of the parent	million EUR	1.0	0.1	0.8	6.1
attributable to non-controlling interest	million EUR	(0.0)	(0.1)	(0.1)	(0.1)
Net profit margin	%	1.8	0.2	1.8	2.4
Other income statement indicators					
EBITDA	million EUR	1.9	1.2	1.9	11.2
EBITDA margin	%	3.3	2.5	4.1	4.4
General expense ratio	%	5.8	6.8	6.5	5.3
Labour cost ratio	%	13.2	14.2	13.7	11.7
Revenue per employee	thousand EUR	77	62	62	325
Other significant indicators					
		31.03.2017	31.03.2016	31.03.2015	31.12.2016
Return on equity	%	5.8	7.5	10.1	5.0
Return on assets	%	3.1	4.3	5.0	2.8
Return on invested capital	%	5.5	7.8	8.5	5.1
Equity ratio	%	53.6	62.3	53.1	51.6
Debt ratio	%	17.7	12.9	14.6	19.3
Current ratio *	times	2.7	3.4	2.6	2.9
Quick ratio *	times	1.1	1.3	1.1	1.1
Accounts receivable turnover	days	39	35	51	37
Accounts payable turnover	days	38	35	41	38
Average number of employees	people	759	755	742	776
Secured order book	million EUR	287.7	243.5	167.2	269.6

Ratio definitions are provided on page 31 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

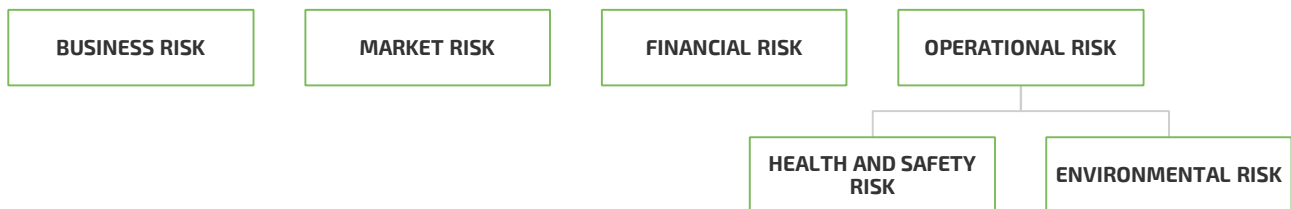
Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine larger and more significant risks and to optimally manage these risks so that the company achieves its strategic and financial 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 10.0 million. The risks of the projects which cost exceeds EUR 10.0 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 (31.03.2016: EUR 2.4 million; 31.12.2016: EUR 2.5 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 31.03.2017, 17.7% of the balance sheet total; as at 31.03.2016, 12.9% 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 31.03.2017, the group's current ratio was 2.7 (31.03.2016: 3.4) and the quick ratio 1.1 (31.03.2016: 1.3). 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 9.7 was unused (31.03.2016: EUR 8.6 million, which has not been withdrawn). In addition to the overdraft facility, the company has a current loan facility with the limit of EUR 3.5 million (31.03.2016: EUR 3.5 million) from AS Riverito, which has not been withdrawn at the end of current and previous financial periods.

The management estimates that the group's capital structure – a solid proportion of equity at 53.6% (31.03.2016: 62.3%) of the balance sheet total and a moderate proportion of interest bearing liabilities at 17.7% (31.03.2016: 12.9%) of the balance sheet total – ensures the company's trustworthiness for creditors in the changing economic climate and significantly improves the feasibility of the extension of existing financial liabilities and raising of additional debt.

Legal risk

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

As at 31 March 2017, a provision has been set up at the group in the amount of EUR 0.3 million (31.03.2016: EUR 0.1 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2017 and ongoing as of 31.03.2017 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.

By decision of 22 February 2017, the Tallinn Circuit Court partially satisfied Maksim Vihharev's appeal and made changed the decision of Harju County Court. The Tallinn Circuit Court ordered Maksim Vihharev to pay AS Merko Infra damages of EUR 56 thousand and late interest as of 22 February 2017 of EUR 9 thousand. On 22 March 2017, AS Merko Infra filed an appeal in cassation against the Tallinn Circuit Court decision in the extent to which Vihharev's appeal was affirmed. Maksim Vihharev also filed an appeal in cassation in regard to the extent to which the Circuit Court upheld the decision made by Harju County Court in favour of AS Merko Infra.

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 Maksim Vihharev's claim, deems the mentioned 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 which was scheduled to take place on 11 April 2017, but postponed due to the illness of the judge. As yet a new time for the following hearing hasn't been scheduled.

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 had until 3 February 2017 to present his own proposal for a compromise solution. SIA Merks did not received any noteworthy proposals from Rolands Mēnesis. Since the possibility of a compromise is unlikely, the next hearing is scheduled to take place on 12 April 2017. The following court hearing is scheduled for 5 June 2017.

Lithuania

Vilniaus vandenys

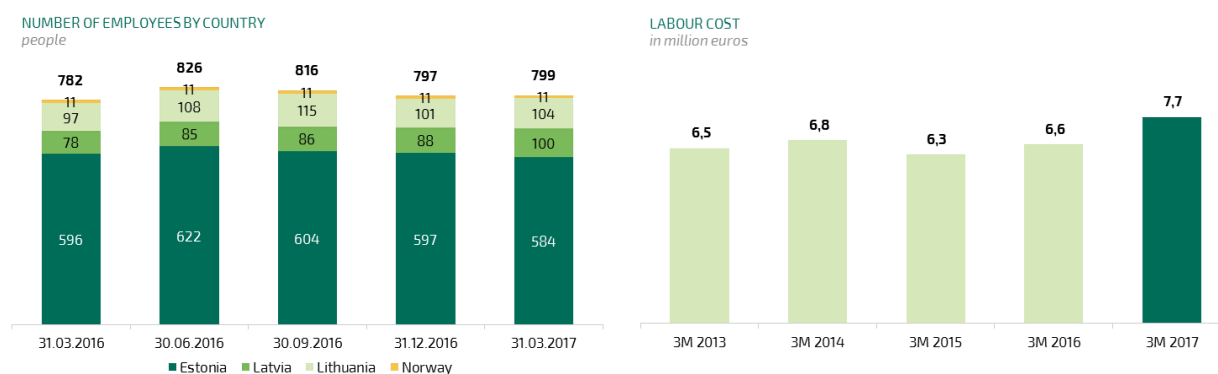
On 18 May 2016, AS Merko Ehitus and UAB Merko Statyba, acting pursuant to the joint venture agreement, filed an action against UAB Vilniaus vandenys (hereinafter "Vilniaus vandenys") in the total amount of EUR 183 thousand, encompassing the acceptance of additional works and the compensation of direct 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. In the hearing on 2 February 2017 the plaintiffs asked the court to appoint a court expertise. The following court hearing is scheduled for 16 May 2017, in the course of which it will hopefully also be decided to commission an expert opinion regarding the petition filed by the plaintiffs at the 2 February 2017 court hearing.

EMPLOYEES AND LABOUR COSTS

Compared to the same period last year, the number of group's employees increased by 17 (+2.2%) and as at 31 March 2017, the group had a total of 799 employees (including fixed-term and part-time employees). The number of employees has increased mainly due to increase of construction volumes in Latvia and Lithuania and decreased somewhat in Estonia.

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

The group defines labour cost as salary (incl. fixed salary, additional pay (night work, overtime and public holidays), holiday pay and bonus), taxes based on salary, fringe benefits and taxes based on fringe benefits. In 3 months 2017, the labour cost was EUR 7.7 million (3 months 2016: EUR 6.6 million), which has increased by 15.3% compared to the same period previous year, while the labour cost ratio decreased by 1,0 pp from 14.2% to 13.2%.



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 2017

In 2017, the activities of AS Merko Ehituse have been recognised in the form of the following prizes:

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

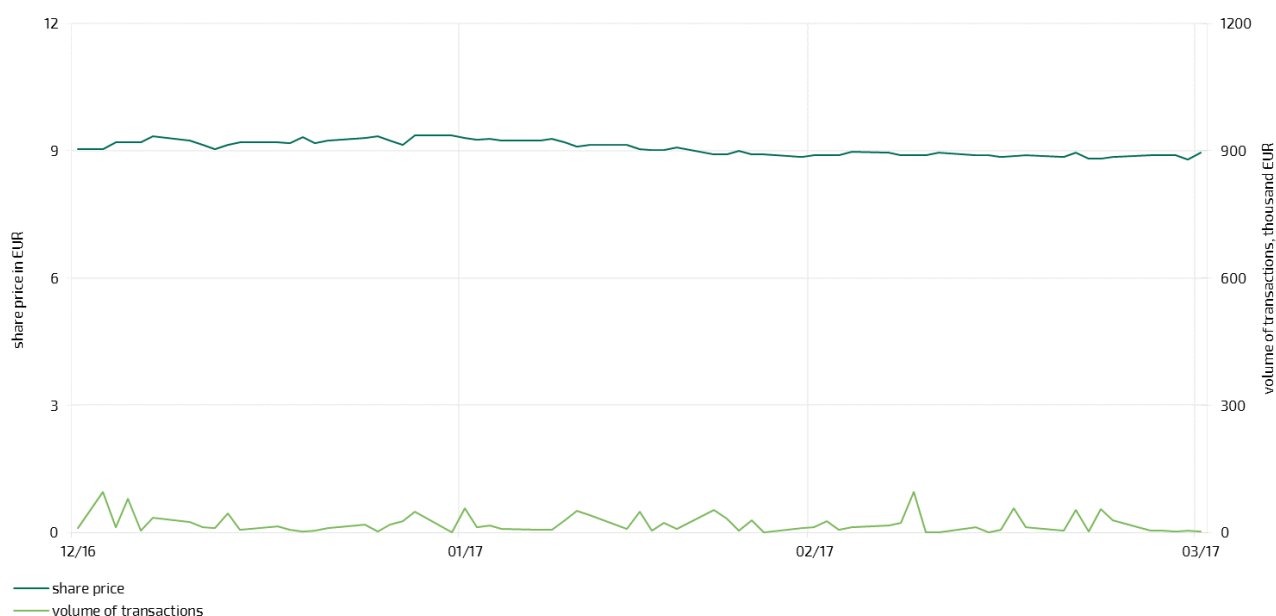
Issuer	AS Merko Ehitus
Name of security	Share of Merko Ehitus
Ticker	MRKIT
Residency of issuer	Estonia
Stock Exchange List	NASDAQ Tallinn, Baltic Main List
Industry	Construction
ISIN	EE3100098328
Nominal value	without nominal value
Number of securities	17,700,000
Volume of issue	12,000,000
Currency	EUR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

The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 31 March 2017, the company has 17,700,000 shares. The number of shares has not changed during 2016.

A total of 634 transactions were conducted with the shares of Merko Ehitus in 3 months of 2017, with 0.15 million shares (0.9% of total shares) traded, generating a turnover of EUR 1.39 million (comparable figures in 3 months 2016 were accordingly: 663 transactions with 0.16 million shares traded (0.9% of total shares) and generating a turnover of EUR 1.33 million). The lowest share price amounted to EUR 8.75 and the highest to EUR 9.39 per share (3 months of 2016: EUR 7.60 and EUR 9.14). The closing price of the share was EUR 8.96 on 31 March 2017 (31.03.2016: EUR 9.00; 31.12.2016: EUR 9.05). As at 31 March 2017, the market value of AS Merko Ehitus amounted to EUR 158.6 million, which has decreased by 0.4% compared to the same period end last year (31.03.2016: EUR 159.3 million; 31.12.2016: EUR 160.2 million).

	31.03.2017	31.03.2016	31.03.2015	31.12.2016
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.06	0.01	0.05	0.35
Equity per share, euros	6.87	6.99	7.01	6.90
P/B ratio	1.30	1.29	1.29	1.31
P/E ratio	22.53	17.13	12.74	26.17
Market value, million EUR	158.6	159.3	159.5	160.2

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2017



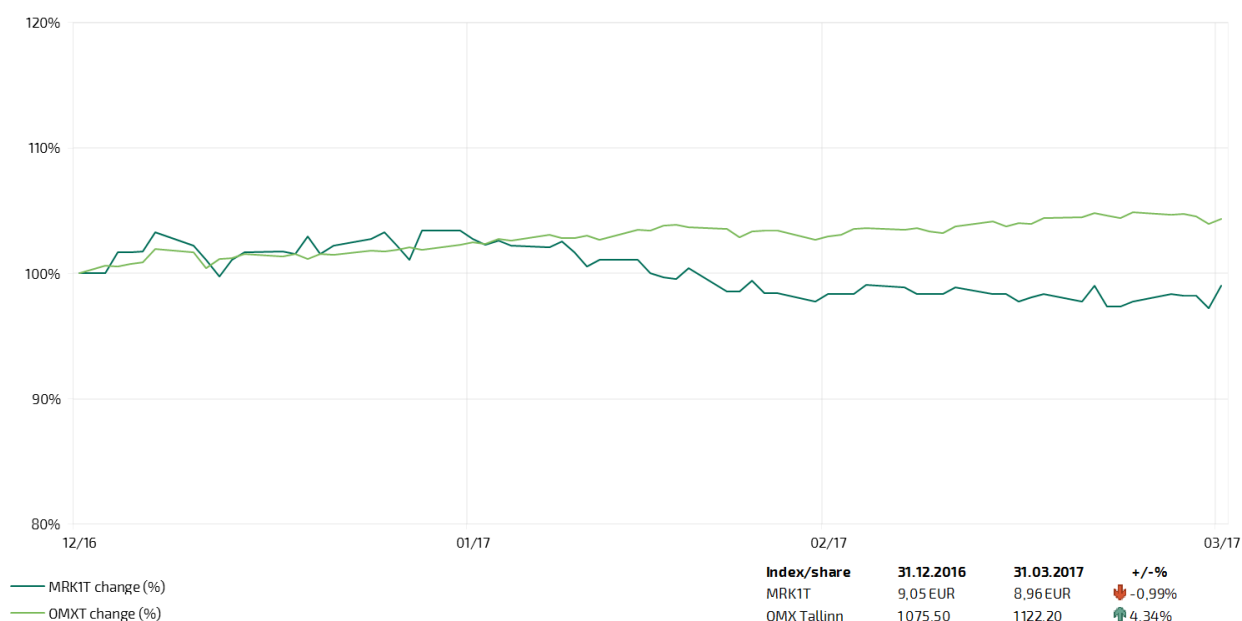
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 31.03.2017

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.05%	12,742,686	71.99%
100,001 – 1,000,000	11	0.57%	2,837,789	16.03%
10,001 – 100,000	32	1.67%	965,444	5.46%
1,001-10,000	265	13.80%	752,102	4.25%
101-1,000	959	49.92%	367,923	2.08%
1-100	653	33.99%	34,056	0.19%
Total	1,921	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 31.03.2017 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 31.03.2017	% OF TOTAL 31.12.2016	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	363,094	2.05%	2.20%	(26,338)
SEB S.A. UCITS client assets	232,222	1.31%	1.31%	-
Skandinaviska Enskilda Banken AB, Swedish customers	227,881	1.29%	1.47%	(32,932)
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	142,954	0.81%	0.81%	(100)
OÜ Midas Invest	138,485	0.78%	0.78%	+300
Total largest shareholders	15,338,872	86.65%	86.98%	(59,070)
Total other shareholders	2,361,128	13.35%	13.02%	(59,070)
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2017



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 28 April 2017 approved the Supervisory Board's proposal to pay the shareholders the total amount of EUR 7.3 million (EUR 0.41 per share) as dividends from net profit brought forward, which is equivalent to a 90% dividend rate and a 4.5% dividend yield for the year 2016 (using the share price as at 31 December 2016). Comparable figures in 2015 were accordingly: EUR 9.0 million (EUR 0.51 per share) as dividends, which is equivalent to a 90% dividend rate and a 6.0% dividend yield (using the share price as at 31 December 2015).

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 2017, the group will incur additional income tax expense in connection with the disbursement of dividends of EUR 0.9 million (Q2 2016: EUR 0.6 million) in Estonia in the second quarter of 2017. The dividend payment to the shareholders will take place on 26 May 2017.

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



* Using share price as at 31.12

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

CORPORATE GOVERNANCE

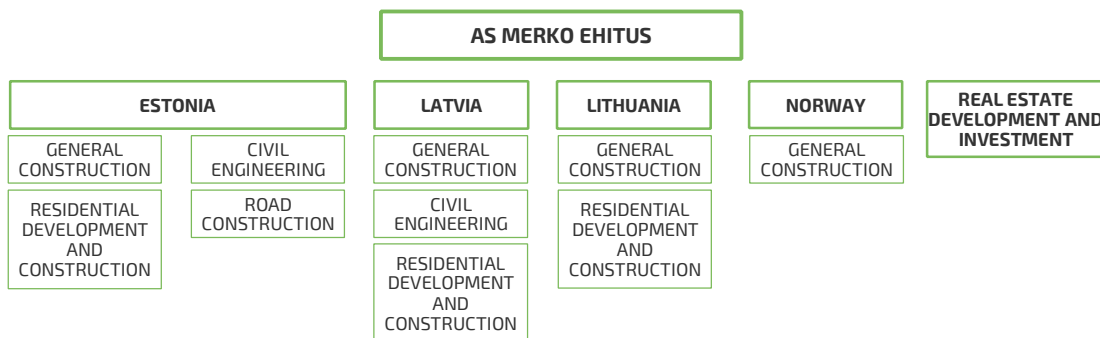
CORPORATE GOVERNANCE AND STRUCTURE

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 27-29 and Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at group.merko.ee.

It is important to maintain a simple organisational structure in the group and in management to be guided primarily by the group's objectives and requirements. For the purposes of maximum efficiency in the group management, we in some cases differentiate the management structure and legal structure. The groups management is carried out on a country basis. The groups country and business area detailed management structure as at 31 March 2017 is the following:



GROUP'S LEGAL STRUCTURE

As at 31 March 2017, the group comprises 42 companies (31.03.2016: 46; 31.12.2016: 46). The group's legal structure is predominantly based on tax efficiency and there is not in all cases a direct linear relationship with the group's effective management structure. The detailed list of group companies is provided in Notes 16 of the financial statements.

Changes in the legal structure of the group

On 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 half of 2017.

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.

On March 17 2017, AS Merko Ehitus and AS Ehitusfirma Rand ja Tuulberg initiated a process to dissolve joint venture Poolkoksimäe Sulgemise OÜ, in which each joint owner has a 50% share. The liquidation of the company will be completed and the deletion entry to the Commercial Register is expected to be made during Summer 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 28 April 2017. The general meeting resolved to approve the annual report and the profit allocation proposal for 2016. The dividends in the sum of EUR 7.3 million (EUR 0.41 per share) will be paid out to the shareholders on 26 May 2017.

In addition, it was decided at the general meeting of the shareholders that the Supervisory Board will have 3 members who will be elected for the term of next 3 years and also to extend the terms of office of members of the Supervisory Board Toomas Annus, Teet Roopalu and Indrek Neivelt until April 28th 2020, i.e. for a period of three years from the decision for the extension. The remuneration of members of the Supervisory Board did not change and will continue based on terms and conditions approved at general meeting of shareholders of AS Merko Ehitus, held on October 31st 2008.

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 shall participate in the General Meeting of AS Merko Ehitus, and if necessary, other members of the Management and Supervisory Boards shall be involved. The company's auditor also participates.

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 28 April 2017, it was decided to extend the term of office of Supervisory Board members Toomas Annus, Teet Roopalu and Indrek Neivelt until 28 April 2020, i.e. for three years from the decision of the extension. Mr. Olari Taal's mandate as a Member of the Supervisory Board was not renewed and expired on 30 April 2017.

As at 31 March 2017, the Supervisory Board of AS Merko Ehitus had four members of whom, in accordance with the requirements of the Good Governance Code, at least two – Indrek Neivelt and Olari Taal – are independent member:



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 (50)

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 (50)

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 Investeeringusfondid 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 (56)

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.

SUPERVISORY AND MANAGEMENT BOARDS OF SUBSIDIARIES

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

The chairman or member of the Management Board of the subsidiary shall be named by the subsidiary's Supervisory Board. Below are the supervisory boards and management boards of the most significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 31 March 2017:

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	Boris Tehnikov (Chairman), Marek Hergauk, Leino Lootus
Tallinna Teede AS	Tõnu Toomik (Chairman), Keit Paal, Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
AS Voorema Teed	Jüri Läll (Chairman), Jüri Helila, Edna Roosik	Toomas Tootsi
AS Merko Tartu	Jaan Mäe (Chairman), Veljo Viitmann, Alar Lagus	Juhan Varik, Mihkel Mugur
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 Merko Property	-	Andres Trink, Signe Kukin
UAB Balsiu mokyklos SPV	-	Virginijus Verbickas
OÜ Metsailu	-	Tiit Kuusik, Ines Prual

Changes in the management of group subsidiaries

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 expired on 22 January 2017. The Management Board of AS Merko Infra will continue with three members: Mr. Arno Elias (The Chairman), Mr. Boris Tehnikov and Mr. Marek Hergauk.

On 31 March 2017, the Supervisory Board of AS Merko Infra, Estonian subsidiary, part of AS Merko Ehitus group, decided to appoint Mr. Leino Lootus as a new member of the Management Board for three years, from 31 March 2017 until 27 March 2020. The Supervisory Board of AS Merko Infra additionally decided to recall the former chairman of the Management Board Mr. Arno Elias and appoint Mr. Boris Tehnikov, former Management Board Member, as the new Chairman of the Management Board. The Management Board of AS Merko Infra will continue with three members: Mr. Boris Tehnikov (The Chairman), Mr. Marek Hergauk and Mr. Leino Lootus.

DEFINITION OF RATIOS

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

MANAGEMENT BOARD'S DECLARATION TO THE MANAGEMENT REPORT

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

Andres Trink

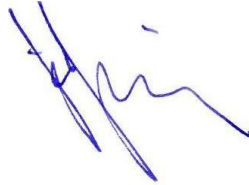
Chairman of the Management Board



11.05.2017

Tõnu Toomik

Member of the Management Board



11.05.2017

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2017 3 months	2016 3 months	2016 12 months
Revenue	2	58,147	46,820	251,970
Cost of goods sold	3	(54,026)	(43,758)	(232,961)
Gross profit		4,121	3,062	19,009
Marketing expenses		(860)	(768)	(3,281)
General and administrative expenses		(2,518)	(2,417)	(10,076)
Other operating income		567	648	2,466
Other operating expenses		(57)	(42)	(399)
Operating profit		1,253	483	7,719
Finance income/costs		(156)	(180)	(440)
incl. finance income/costs from joint ventures		28	(17)	163
finance income/costs from other long-term investments		-	-	2
interest expense		(173)	(156)	(610)
foreign exchange gain (loss)		2	(8)	(6)
other financial income (expenses)		(13)	1	11
Profit before tax		1,097	303	7,279
Corporate income tax expense		(118)	(274)	(1,275)
Net profit for financial year		979	29	6,004
incl. net profit attributable to equity holders of the parent		1,029	112	6,122
net profit attributable to non-controlling interest		(50)	(83)	(118)
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities		(3)	(2)	19
Comprehensive income for the period		976	27	6,023
incl. net profit attributable to equity holders of the parent		1,025	110	6,140
net profit attributable to non-controlling interest		(49)	(83)	(117)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.06	0.01	0.35

The notes set out on pages 37-49 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	31.03.2017	31.03.2016	31.12.2016
ASSETS				
Current assets				
Cash and cash equivalents	5	33,839	34,400	33,544
Trade and other receivables	6	45,414	24,947	45,566
Prepaid corporate income tax		528	543	617
Inventories	7	120,838	102,532	123,364
		200,619	162,422	203,091
Non-current assets				
Long-term financial assets	8	11,922	19,506	15,805
Deferred income tax assets		1,326	1,423	1,325
Investment property	9	4,043	4,309	4,108
Property, plant and equipment	10	12,456	13,375	12,838
Intangible assets	11	668	948	673
		30,415	39,561	34,749
TOTAL ASSETS		231,034	201,983	237,840
LIABILITIES				
Current liabilities				
Borrowings	12	14,586	3,119	21,485
Payables and prepayments	13	54,909	38,360	56,259
Income tax liability		103	1,021	278
Short-term provisions	14	4,633	4,764	5,637
		74,231	47,264	83,659
Non-current liabilities				
Long-term borrowings	12	26,196	23,035	24,516
Deferred income tax liability		1,149	978	1,122
Other long-term payables	15	2,000	989	2,061
		29,345	25,002	27,699
TOTAL LIABILITIES		103,576	72,266	111,358
EQUITY				
Non-controlling interests		3,643	3,928	3,692
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	1,200	793
Currency translation differences		(649)	(665)	(645)
Retained earnings		115,742	117,325	114,713
		123,815	125,789	122,790
TOTAL EQUITY		127,458	129,717	126,482
TOTAL LIABILITIES AND EQUITY		231,034	201,983	237,840

The notes set out on pages 37-49 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 31.12.2015	7,929	1,200	(663)	117,232	125,698	3,268	128,966
Profit (loss) for the reporting period	-	-	-	112	112	(83)	29
Other comprehensive income	-	-	(2)	-	(2)	-	(2)
Total comprehensive income (loss) for the reporting period	-	-	(2)	112	110	(83)	27
Transactions with owners							
Increase of share capital by non-monetary contribution and acquisition of non-controlling interest (Note 16)	-	-	-	(19)	(19)	470	451
Non-controlling interest of acquired subsidiary (Note 16)	-	-	-	-	-	273	273
Total transactions with owners	-	-	-	(19)	(19)	743	724
Balance as at 31.03.2016	7,929	1,200	(665)	117,325	125,789	3,928	129,717
Balance as at 31.12.2016	7,929	793	(645)	114,713	122,790	3,692	126,482
Profit (loss) for the reporting period	-	-	-	1,029	1,029	(50)	979
Other comprehensive income	-	-	(4)	-	(4)	1	(3)
Total comprehensive income (loss) for the reporting period	-	-	(4)	1,029	1,025	(49)	976
Balance as at 31.03.2017	7,929	793	(649)	115,742	123,815	3,643	127,458

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

The notes set out on pages 37-49 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2017 3 months	2016 3 months	2016 12 months
Cash flows from operating activities				
Operating profit		1,253	483	7,719
Adjustments:				
Depreciation		651	702	3,488
(Profit)/loss from sale of non-current assets		(99)	(106)	(444)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(1,967)	(3,536)	3,711
Interest income from operating activities		(446)	(524)	(1,856)
Change in provisions		(2,049)	(2,824)	(520)
Change in trade and other receivables related to operating activities		10,808	428	(17,954)
Change in inventories		2,569	6,574	(14,128,)
Change in trade and other payables related to operating activities		(5,037)	(2,863)	8,945
Interest received		328	377	1,515
Interest paid		(204)	(147)	(732)
Other finance income and costs		(13)	(11)	(32)
Corporate income tax (paid)/reclaimed		(176)	(148)	(1,733)
Total cash flows from operating activities		5,618	(1,595)	(12,021)
Cash flows from investing activities				
Acquisition of subsidiaries	16	-	1,244	1,276
Purchase of investment property		-	(4)	-
Purchase of property, plant and equipment		(317)	(486)	(2,834)
Proceeds from sale of property, plant and equipment		251	123	1,098
Purchase of intangible assets		(48)	(28)	(191)
Interest received		4	13	47
Total cash flows from investing activities		(110)	862	(604)
Cash flows from financing activities				
Proceeds from borrowings		20,165	306	36,839
Repayments of borrowings		(25,207)	(4,863)	(20,807)
Finance lease principal payments		(165)	(208)	(855)
Contributions to the subsidiary's share capital from non-controlling shareholder		-	-	108
Dividends paid		-	-	(9,027)
Total cash flows from financing activities		(5,207)	(4,765)	6,258
Net increase/decrease in cash and cash equivalents		301	(5,498)	(6,367)
Cash and cash equivalents at the beginning of the period	5	33,544	39,905	39,905
Effect of exchange rate changes		(6)	(7)	6
Cash and cash equivalents at the end of the period	5	33,839	34,400	33,544

The notes set out on pages 37-49 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 3 months 2017 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 2016 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. 2016 audited annual report and 2016 3 months unaudited interim report comparative figures are presented in the present financial report.

According to the best knowledge of the Management Board, the consolidated interim financial statements for the 3 months 2017 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. According to methods of recognition the other home markets construction service segment includes construction services in Latvia and also individually insignificant (<10%) Lithuanian and Norwegian construction service 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 the segment reporting, all intra-segment income and expenses have been eliminated from the pre-tax profit of the segments and all unrealised internal profits have been eliminated from the segment assets.

2017 3 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Segment revenue	26,767	11,196	25,701	63,664
Inter-segment revenue	(14)	(10)	(5,493)	(5,517)
Revenue from external clients	26,753	11,186	20,208	58,147
Gross profit (-loss)	512	349	3,260	4,121
Segment pre-tax profit (loss)	580	350	3,577	4,507
incl. interest income from operating activities	11	-	395	406
depreciation (Note 3)	(437)	(10)	(72)	(519)
recognition of provisions (Note 3)	(137)	(229)	(218)	(584)
reversal of provisions (Note 3)	103	-	-	103
profit from joint ventures	-	-	28	28
other finance income (costs)	(6)	1	(108)	(113)
incl. interest expenses	(6)	1	(95)	(100)
Segment assets 31.03.2017	30,750	18,208	155,583	204,541
incl. joint ventures (Note 8)	-	-	462	462
2016 3 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Segment revenue	19,072	8,005	25,396	52,473
Inter-segment revenue	(45)	(31)	(5,577)	(5,653)
Revenue from external clients	19,027	7,974	19,819	46,820
Gross profit (-loss)	933	312	1,817	3,062
Segment pre-tax profit (loss)	1,010	311	2,198	3,519
incl. interest income from operating activities	-	-	470	470
depreciation (Note 3)	(484)	(7)	(76)	(567)
impairment of inventories (Note 3)	-	-	(132)	(132)
recognition of provisions (Note 3)	(143)	(58)	(304)	(505)
loss from joint ventures	-	-	(17)	(17)
other finance income (costs)	(10)	-	(72)	(82)
incl. interest income	-	-	2	2
interest expenses	(10)	-	(69)	(79)
Segment assets 31.03.2016	35,543	9,161	128,664	173,368
incl. joint ventures (Note 8)	-	-	254	254

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)
recognition of provisions (Note 3)	(687)	(527)	(1,860)	(3,074)
reversal of provisions (Note 3)	166	23	-	189
profit from 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

In addition to the segment assets, as at 31.03.2017 the group holds assets in the amount of EUR 26,493 thousand (31.03.2016: EUR 28,615 thousand; 31.12.2016: EUR 34,939 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

	2017 3 months	2016 3 months	2016 12 months
Pre-tax profit from reporting segments	4,507	3,519	20,843
Unallocated income (expense)			
marketing expenses	(860)	(768)	(3,281)
general and administrative expenses	(2,518)	(2,417)	(10,076)
incl. recognition of provisions	(75)	-	(76)
reversal of provisions	-	-	-
other operating income (expense)	40	50	78
incl. interest income from operating activities	39	54	180
finance income (costs)	(72)	(81)	(285)
incl. interest income	1	10	44
interest expenses	(73)	(77)	(310)
Total profit before tax	1,097	303	7,279

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

	2017 3 months		2016 3 months		2016 12 months	
Estonia	41,149	71%	31,343	67%	172,656	68%
Latvia	10,826	19%	9,771	21%	44,924	18%
Lithuania	5,420	9%	4,335	9%	24,801	10%
Finland	20	0%	809	2%	5,110	2%
Norway	732	1%	562	1%	4,479	2%
Total	58,147	100%	46,820	100%	251,970	100%

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

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Estonia	16,577	18,007	17,054
Latvia	474	486	443
Lithuania	9	15	10
Norway	107	124	112
Total	17,167	18,632	17,619

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2017 3 months	2016 3 months	2016 12 months
Construction services and properties purchased for resale	33,462	27,845	145,079
Materials	9,421	6,385	40,911
Labour costs	5,445	4,601	20,703
Construction mechanisms and transport	1,409	1,314	8,161
Design	874	651	2,987
Real estate management costs	78	70	221
Depreciation	519	567	2,962
Impairment of inventories	-	132	37
Provisions	481	505	2885
Other expenses	2,337	1,688	9,015
Total cost of goods sold	54,026	43,758	232,961

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.

	2017 3 months	2016 3 months	2016 12 months
Net profit(-loss) attributable to shareholders <i>(in thousand EUR)</i>	1,029	112	6,122
Weighted average number of ordinary shares <i>(thousand pcs)</i>	17,700	17,700	17,700
Earnings (loss) per share <i>(in euros)</i>	0,06	0,01	0,35

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends will be paid by parent company AS Merko Ehitus in Q2 2017 in the amount of EUR 7,257 thousand, i.e. EUR 0.41 per share, and the accompanying income tax liability would amount to 20/80 on the amount to be paid out, i.e. EUR 1,814 thousand, which will be partially covered by the income tax withheld on taxed dividends received from subsidiaries in the previous periods. In the second quarter of 2017 the group will incur additional income tax expenses of EUR 880 thousand in Estonia in connection with disbursement of dividends.

In 2016 the parent company AS Merko Ehitus distributed dividends in the amount of EUR 9,027 thousand, i.e. EUR 0.51 per share. AS Merko Ehitus had to pay additional corporate income tax in Estonia in connection with the disbursement of dividends of EUR 566 thousand.

As at 31.03.2017, the parent company AS Merko Ehitus has EUR 0 thousand (31.03.2016: EUR 1,395 thousand; 31.12.2016: EUR 0 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 31.03.2017, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 98,533 thousand (31.03.2016: EUR 93,607 thousand; 31.12.2016: EUR 91,255 thousand). Considering the taxed dividends received and income tax withheld on foreign income totalling EUR 0 thousand (31.03.2016: EUR 349 thousand; 31.12.2016: EUR 0 thousand), the corresponding income tax on dividends would amount to EUR 24,6133 thousand (31.03.2016: EUR 23,053 thousand; 31.12.2016: EUR 22,813 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2017 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

	31.03.2017	31.03.2016	31.12.2016
Cash on hand	1	2	2
Bank accounts	33,837	28,153	33,291
Overnight deposits	1	6,245	251
Total cash and cash equivalents	33,839	34,400	33,544

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Trade receivables			
Accounts receivable	23,391	13,722	31,735
Allowance for doubtful receivables	(264)	(326)	(265)
	23,127	13,396	31,470
Tax prepayments excluding corporate income tax			
Value added tax	936	586	3,318
Other taxes	2	19	-
	938	605	3,318
Accrued income from construction services	6,040	6,499	4,606
Other short-term receivables			
Short-term loans	7,923	-	1,560
Interest receivables	456	71	218
Other short-term receivables	348	722	347
	8,727	793	2,125
Prepayments for services			
Prepayments for construction services	5,551	3,042	3,155
Prepaid insurance	448	335	348
Other prepaid expenses	583	277	544
	6,582	3,654	4,047
Total trade and other receivables	45,414	24,947	45,566
incl. short-term loan receivables from related parties (Note 16)	6,348	-	-
other short-term receivables and prepayments to related parties (Note 16)	2,535	755	4,333

NOTE 7 INVENTORIES

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Materials	612	539	422
Work-in-progress	38,461	30,718	39,537
Finished goods	13,501	17,915	18,918
Goods for resale			
Registered immovables purchased for resale	66,995	50,484	63,150
Other goods purchased for resale	759	783	746
	67,754	51,267	63,896
Prepayments for inventories			
Prepayments for real estate properties	-	1,086	-
Prepayments for other inventories	510	1,007	591
	510	2,093	591
Total inventories	120,838	102,532	123,364

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Investments joint ventures	462	254	434
Long-term loans	-	5,629	3,952
Long-term bank deposit	36	37	36
Long-term interest	-	209	261
Long-term receivables from customers of construction services	11,424	13,377	11,122
Total other long-term loans and receivables	11,922	19,506	15,805
incl. long-term loan receivables from related parties (Note 16)	-	4,085	3,952
other long-term receivables from related parties (Note 16)	-	209	261

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Land	51	51	51
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(11)	(11)	(11)
	18	18	18
Buildings at carrying amount			
Cost	5,246	5,250	5,245
Accumulated depreciation	(1,272)	(1,010)	(1,206)
	3,974	4,240	4,039
Total investment property	4,043	4,309	4,108

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Land	821	824	821
Buildings at carrying amount			
Cost	5,650	5,725	5,650
Accumulated depreciation	(1,993)	(1,852)	(1,948)
	3,657	3,873	3,702
Machinery and equipment at carrying amount			
Cost	17,360	18,700	17,625
Accumulated depreciation	(11,081)	(11,363)	(11,164)
	6,279	7,337	6,461
Other fixtures at carrying amount			
Cost	5,250	5,210	5,190
Accumulated depreciation	(4,421)	(4,140)	(4,429)
	829	1,070	761
Prepayments for property, plant and equipment	870	271	1,093
Total property, plant and equipment	12,456	13,375	12,838

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Goodwill			
Cost	970	968	970
Impairment	(679)	(290)	(656)
	291	678	314
Software at carrying amount			
Cost	1 272	1 152	1,137
Accumulated depreciation	(1,020)	(948)	(991)
	252	204	146
Prepayments for intangible assets	125	66	213
Total intangible assets	668	948	673

NOTE 12 BORROWINGS

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Finance lease payables			
Present value of lease payments	1,591	2,513	1,769
incl. current portion	1,220	837	1,282
non-current portion 1...4 years	371	1,676	487
Bank loans			
Loan balance	33,162	16,610	25,703
incl. current portion	13,359	1,275	7,696
non-current portion 1...5 years	19,803	15,335	18,007
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	7,000	6,000
incl. current portion (Note 16)	-	1,000	-
non-current portion 1...5 years (Note 16)	6,000	6,000	6,000
Loans from other entities			
Loan balance	29	31	29
incl. current portion	7	7	7
non-current portion 1...5 years	22	24	22
Total loans			
Loans balance	39,191	23,641	44,232
incl. current portion	13,366	2,282	20,203
non-current portion 1...5 years	25,825	21,359	24,029
Total borrowings	40,782	26,154	46,001
incl. current portion	14,586	3,119	21,485
non-current portion 1...5 years	26,196	23,035	24,516

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Trade payables	22,414	17,499	25,035
Payables to employees	7,015	6,794	7,106
Tax liabilities, except for corporate income tax			
Value added tax	1,586	645	4,122
Personal income tax	733	776	513
Social security tax	1,323	1,468	993
Unemployment insurance tax	71	72	55
Contributions to mandatory funded pension	65	66	46
Other taxes	137	121	122
	3,915	3,148	5,851
Prepayments for construction services	8,407	3,591	8,943
Other liabilities			
Interest liabilities	38	20	21
Other liabilities	408	282	508
	446	302	529
Prepayments received	12,712	7,026	8,795
Total payables and prepayments	54,909	38,360	56,259
incl. payables to related parties (Note 16)	46	220	38

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Provision for warranty obligation for construction	2,515	2,407	2,476
Provision for costs of projects sold	1,514	1,953	2,788
Provision for onerous construction contracts	248	294	79
Provision for legal costs and claims filed	348	100	273
Other provisions	8	10	21
Total short-term provisions	4,633	4,764	5,637

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Trade payables	1,289	989	1,317
Other long-term liabilities	711	-	744
Other long-term payables total	2,000	989	2,061
incl. other long-term payables to related parties (Note 16)	319	-	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 or so-called sister companies, in the Note 'Entities under common control';
- associates and joint ventures;
- key members of the management (supervisory and management board), their close relatives and entities under their control or significant influence.

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

The parent of AS Merko Ehitus is AS Riverito. As at 31.03.2017, 31.03.2016 and 31.12.2016, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	31.03.2017	31.03.2016	31.12.2016		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Vooremaa Teed	100	100	100	Estonia, Jõgeva	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Gustaf	-	100	100	Estonia, Pärnu	Construction
AS Merko Tartu	100	100	100	Estonia, Tartu	Construction
OÜ Fort Ehitus	76	76	76	Estonia, Viimsi	Construction
OÜ Mineraal	100	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	100	Lithuania, Vilnius	Construction
UAB Statinių priežiūra ir administravimas	100	100	100	Lithuania, Vilnius	Real estate
OÜ Merko Property	100	100	100	Estonia, Tallinn	Real estate
UAB Balsiu mokyklos SPV	100	100	100	Lithuania, Vilnius	Real estate
UAB Merko Bustas	100	100	100	Lithuania, Vilnius	Real estate
UAB MN Projektas	100	100	100	Lithuania, Vilnius	Real estate
UAB Jurininku aikštele	100	100	100	Lithuania, Vilnius	Real estate
UAB VPSP1	-	100	100	Lithuania, Vilnius	Real estate
UAB Timana	100	100	100	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	100	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	100	100	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	100	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	100	100	100	Estonia, Tallinn	Real estate
SIA Merko Investments	100	100	100	Latvia, Riga	Holding
OÜ Merko Investments	100	100	100	Estonia, Tallinn	Holding
SIA Merks	100	100	100	Latvia, Riga	Construction
SIA SK Viesturdarzs	100	100	100	Latvia, Riga	Real estate
SIA Merks Investicijas	100	100	100	Latvia, Riga	Real estate
SIA Industrialas Parks	100	100	100	Latvia, Riga	Real estate
SIA Elniko	100	100	100	Latvia, Riga	Real estate
SIA Ropažu Priedes	100	100	100	Latvia, Riga	Real estate
PS Merko-Merks	100	100	100	Latvia, Riga	Construction
SIA Zakusala Estates	75	75	75	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	31.03.2017	31.03.2016	31.12.2016		
PS Merks-Ostas celtnieks	65	-	65	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Hartian Oy	75	75	75	Finland, Helsinki	Real estate
As.Oy Helsingin Pestikuja 1	-	100	-	Finland, Helsinki	Real estate
Lenko Stroi LLC	100	100	100	Russia, St. Petersburg	Holding
Merko Investments AS	100	100	100	Norway, Sofiemyr	Holding
Peritus Entreprenør AS	56	56	56	Norway, Sofiemyr	Construction
Joint ventures					
OÜ Unigate	50	50	50	Estonia, Tallinn	Real estate
Poolkoksimäe Sulgemise OÜ	50	50	50	Estonia, Tallinn	Construction
Kivimäe 32 OÜ	50	50	50	Estonia, Tallinn	Real estate
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

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 half of 2017.

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.

On March 17 2017, AS Merko Ehitus and AS Ehitusfirma Rand ja Tүүлberg initiated a process to dissolve joint venture Poolkoksimäe Sulgemise OÜ, in which each joint owner has a 50% share. The liquidation of the company will be completed and the deletion entry to the Commercial Register is expected to be made during Summer of 2017.

GOODS AND SERVICES

in thousand euros

	2017 3 months	2016 3 months	2016 12 months
Provided services and goods sold			
Parent company	4	4	15
Joint ventures	2,248	428	7,471
Entities under common control	1,529	2,901	5,641
Members of the management	10	80	108
Other related parties	-	-	617
Total services provided and goods sold	3,791	3,413	13,852
Interest income			
Joint ventures	77	68	280
Purchased services and goods			
Parent company	23	23	90
Joint ventures	-	-	20
Entities under common control	17	36	126
Total purchased services and goods	40	59	236
Interest expense			
Parent company	34	-	38
Entities under common control	36	46	177
Total interest expense	70	46	215

BALANCES WITH RELATED PARTIES

in thousand euros

	31.03.2017	31.03.2016	31.12.2016
Receivables from related parties			
Loans granted (Notes 6, 8)			

	31.03.2017	31.03.2016	31.12.2016
Joint ventures	6,348	4,085	3 952
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint ventures	1,963	426	3 896
Entities under common control	568	270	433
Other related parties	-	55	-
Total receivables and prepayments	2,535	755	4 333
Other long-term receivables (Note 8)			
Joint ventures	-	209	261
Total receivables from related parties	8,883	5,049	8 546
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	-	1,000	12,500
Payables and prepayments (Note 13)			
Parent company	9	9	9
Entities under common control	37	211	29
Other related parties	-	610	-
Total payables and prepayments	46	830	38
Long-term loans received (Note 12)			
Entities under common control	6,000	6,000	6,000
Other long-term payables (Note 12)			
Other related parties	319	-	322
Total payables to related parties	6,365	7,830	18,860

TRANSACTIONS INVOLVING RELATED PARTIES (ADDITIONAL INFORMATION)

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 3 months of 2017 was EUR 447 thousand (3 months of 2017: EUR 465 thousand; 12 months of 2016: EUR 2,221 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members according to whom no termination benefits are paid to them upon termination of the contract. In the 3 months of 2017, the Management and Supervisory Board members of major subsidiaries received EUR 40 thousand in compensation (3 months of 2016: EUR 10 thousand; 12 months of 2016: EUR 65 thousand).

MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 31.03.2017:

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

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

Shares held by members of the Management Board of AS Merko Ehitus as at 31.03.2017:

		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.

	31.03.2017	31.03.2016	31.12.2016
Performance period's warranty to the customer	23,552	11,036	21,036
Tender warranty	1,597	776	767
Guarantee warranty period	21,667	22,300	20,470
Prepayment guarantee	9,640	1,721	4,411
Payment guarantee	30,500	30,500	30,500
Contracts of surety	4,840	1,288	3,902
Letter of credit	-	20	-
Total contingent liabilities	91,796	67,641	81,086

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 3 months of 2017, which are set out on pages 5-49.

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

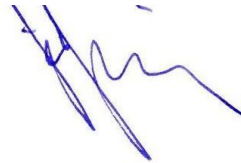
- The accounting methods used to prepare the interim financial statements are in conformity with the International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the Group's financial position and the results of its operations and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

Andres Trink Chairman of the Management Board



11.05.2017

Tõnu Toomik Member of the Management Board



11.05.2017