



AS MERKO EHITUS

GROUP

2018 9 months and III quarter consolidated unaudited interim report

Business name:	AS Merko Ehitus
Main activities:	Holding companies General contracting of construction Real estate development
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Reporting period:	01.01.2018 – 30.09.2018
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Auditor:	AS PricewaterhouseCoopers

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BRIEF OVERVIEW OF THE GROUP

AS Merko Ehitus is a construction and real estate development group operating in Estonia, Latvia, Lithuania and Norway.



BUSINESS SEGMENTS

ESTONIA

General construction
Civil engineering
Electrical construction
Road construction
Residential real estate development and investments

LATVIA

General construction
Civil engineering
Electrical construction
Residential real estate development and investments

LITHUANIA

General construction
Residential real estate development and investments

NORWAY

General construction

The construction company with the largest equity in the Baltics, long-term capability to self-finance its projects

A strong position on the Baltic construction market, the leading residential real estate developer

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, OHSAS 18001**

SHARES

The shares are listed in the Main List of NASDAQ Tallinn since 1997.

The main shareholder is AS Riverito (**72%**)

2017 KEY FIGURES

Revenue **317.6 million** euros

Net profit **14.7 million** euros

757 employees



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 is focussed on increasing the company value by offering general contracting services in the field of construction of buildings and infrastructure facilities as well as developing residential real estate in its main home markets of Estonia, Latvia, Lithuania and Norway. Merko Ehitus aims to be a preferred partner to its clients for construction works.

MANAGEMENT REPORT

COMMENTARY FROM MANAGEMENT

Merko Ehitus Group posted revenue of EUR 115 million in Q3 and the nine-month figure was EUR 299 million. The group's net profit in Q3 increased to 5.6 million and the nine-month net profit amounted to EUR 12.3 million. This year, Merko Ehitus has launched nine new residential development projects with a total of 840 units, of which 550 are in Vilnius.

The growth of the group's revenue in both Q3 and in the first nine months of the year meets management expectations, considering the volume of construction contracts signed in the past few years and the major construction projects in progress. Input prices have continued to increase on the Baltic construction market and it is difficult to find the necessary workforce capacity for meeting rapid construction schedules. In the current market situation, the growth of construction volumes is not a goal unto itself, if it worsens the risk profile. It is important to operate profitably.

The volume of new construction contracts concluded by the group's companies in the first nine months is lower than the volume of works performed and the secured order-book as a whole has decreased for four quarters in a row. This will also likely impact the group's future construction volumes. The construction market is impacted significantly by the price rise and the shortage of construction capacity. This postpones the launch of customers' new construction projects, as there are no resources for this in their budget or they are not able to ask higher prices from their end clients. In the first nine months of 2018, the group signed new contracts worth a total of EUR 157 million, including for the construction of Lidl logistics centre in Riga, the Quadrum office building and two school buildings in Vilnius and the Kiini and Harku substations in Estonia. As of 30 September 2018, Merko Ehitus Group's secured order book amounted to EUR 239.4 million.

2018 9M
REVENUE
299 MILLION EUROS

PROFIT
BEFORE TAX
12.6 MILLION EUROS

Merko Ehitus continues to invest into the apartment development field. In the nine months of this year, the group has delivered 255 new apartments to buyers in the Baltics and launched nine new development projects with a total of 840 apartments, including 550 in Vilnius. The biggest projects that should be highlighted are the Uus-Veerenni and Pikaliiva residential environments in Tallinn as well as the Vilneles slenis and Rinktinės Urban developments in Vilnius. As some of the developments will be completed in 2020, the sale of the apartments in question will also be recognized in the group's result in the year after the next.

The apartment market in the Baltic states is supported by economic growth, rapid rise in wages and low interest rates. In Tallinn and Vilnius, the prices of new apartments have risen while the total number of recently and soon to be completed units is high and buyers have a wider selection to choose from. The quality of development projects, the living environment to be established and the strength and reliability of the developer have become more and more important in the case of all developments, especially in the premium price segment. Considering the low transaction activity on the Riga apartment market in recent years and the improving macroeconomic indicators, the growth potential is good.

Q3 sales revenue for Merko Ehitus was EUR 115.1 million (Q3 2017: EUR 86.0 million) and the nine-month revenue amounted to EUR 298.8 million (9 months of 2017: EUR 214.8 million, growth of 39.1%). The share of revenue earned outside Estonia as of the nine-month mark was 51.5% (nine months of 2017: 35.8%). The group's EBITDA was EUR 6.2 million for Q3 and EUR 14.3 million for the first nine months of 2018. Net profit in Q3 was EUR 5.6 million (Q3 2017: EUR 3.4 million) and the nine-month net profit was EUR 12.3 million (9 months of 2017: EUR 6.6 million, growth of 87.6 %).

In the first nine months of 2018, the group sold 255 apartments, including 47 apartments in a joint venture. In Q3, the group sold 87 apartments, including 13 apartments in a joint venture. This year, the group has invested EUR 22 million into development projects launched and those already in progress.

In Q3, Merko's largest works in progress were, in Estonia, the T1 Mall of Tallinn shopping centre, Maakri Kvartal business complex, Õpiku Office Building tower B, Tallink office building, the residence of the Embassy of the People's Republic of China, the Viimsi state upper secondary school, Toom-Kuninga 21 apartment building, the first phase of the office building at Tartu mnt 80, renovation works on the Tsirguliina 330kV substation and the renovation and dredging of the Port of Hundipea. In Latvia, the largest sites in Q3 were the construction of Akropole multifunctional centre, Alfa shopping centre, Z-Towers complex and Lidl logistics centre in Riga as well as the Ventspils Music School and Concert Hall. In Vilnius, the largest sites in progress were Hotel Neringa, Quadrum office building, the apartment building complex in the Šaltinių Namai quarter and two school buildings.

OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS

PROFITABILITY

Q3 2018 net profit was EUR 5.6 million (Q3 2017: EUR 3.4 million) and net profit margin 4.9% (Q3 2017: 3.9%). Net profit in 9 months 2018 was EUR 12.3 million (9M 2017: EUR 6.6 million), having increased by 87.6% compared to the same period last year. Net profit margin increased to 4.1% (9M 2017: 3.1%). Increase in net profitability was influenced by the fact that, in 2017, AS Merko Ehitus incurred income tax costs of EUR 0.9 million in connection with dividend payments, while in 2018, dividend payments did not carry income tax cost – the dividends were paid out from dividends paid to the parent company by foreign subsidiaries.

Q3 2018 profit before tax was EUR 5.6 million (Q3 2017: EUR 3.9 million) and 9 months 2018 profit before tax was EUR 12.6 million (9M 2017: EUR 8.2 million), which brought the profit before tax margin to 4.2% (9M 2017: 3.8%).

REVENUE

Q3 2018 revenue was EUR 115.1 million (Q3 2017: EUR 86.0 million) and 9 months 2018 revenue was EUR 298.8 million (9M 2017: EUR 214.8 million). 9 months' revenue has increased by 39.1% compared to same period last year. The share of revenue earned outside Estonia in 9 months 2018 was 51.5% (9M 2017: 35.8%).

SECURED ORDER BOOK

As at 30 September 2018, the group's secured order book was EUR 239.4 million (30 September 2017: EUR 396.4 million). In 9 months 2018, group companies signed new contracts in the amount of EUR 157.0 million (9M 2017: EUR 303.6 million). In Q3 2018, new contracts were signed in the amount of EUR 89.4 million (Q3 2017: EUR 87.0 million).

REAL ESTATE DEVELOPMENT

In 9 months 2018, the group sold a total of 255 apartments (incl. 47 apartments in a joint venture); in 9 months 2017, the group sold 286 apartments (incl. 1 apartment in a joint venture). The group earned a revenue of EUR 24.3 million from sale of own developed apartments in 9 months 2018 and EUR 33.8 million in 9 months 2017. In Q3 of 2018, the group sold a total of 87 apartments (incl. 13 apartments in a joint venture); in Q3 of 2017, the group sold 47 apartments. The group earned a revenue of EUR 8.0 million from sale of own developed apartments in Q3 of 2018 and EUR 6.9 million in Q3 of 2017.

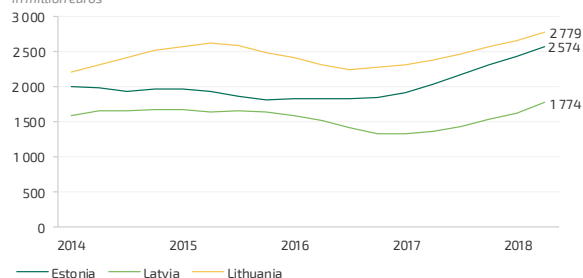
CASH POSITION

At the end of the reporting period, the group had EUR 23.9 million in cash and cash equivalents, and equity EUR 124.8 million (43.1% of total assets). Comparable figures as at 30 September 2017 were EUR 18.6 million and EUR 122.1 million (46.4% of total assets), respectively. As at 30 September 2018, the group had net debt of EUR 29.8 million (30 September 2017: EUR 29.1 million).

OUTLOOK OF CONSTRUCTION AND REAL ESTATE MARKET

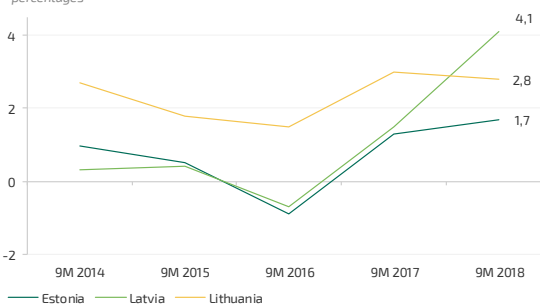
CONSTRUCTION SERVICES

BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES) ROLLING 12 MONTHS
in million euros



Source: national statistical offices

9 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX
percentages



Source: national statistical offices

The growth of construction activity in Estonia, Latvia and Lithuania has continued, and even accelerated. In Q2, Estonian construction volumes for the last 12 months exceeded the peak level set during the boom period of about 10 years ago (2007). Also in Lithuania, and in Latvia in particular, construction volumes have grown in the last 12 months, but are still 25-30% under the boom era levels. The developments as regards Norwegian construction volumes are much more stable than in the Baltics. Among other things, this means that expansion during the boom era ten years ago was significantly less dramatic in that country and the decline was also not as sudden. For that reason, the fact that the current construction volumes in Norway are about one-quarter greater cannot be interpreted in a similar manner to the trend in the Baltics. Norwegian construction volumes are growing about 3-4% per year.

Compared to the previous quarter, developments in the construction price index have remained essentially the same – Latvia is displaying fastest growth, of about 4%, Lithuania follows with about 3% and Estonia is slightly under 2%. The activity of general contractors is impacted, even more than by the price rise, by the fact that due to the major construction activity, it has become increasingly difficult to find high-quality subcontractors.

Insofar as construction volumes in Estonia have grown very rapidly and outstripped even the previous boom level, expectations going forward should be managed – construction volumes may decrease. For general contractors, the normalisation of the situation should reduce pressure on expenses and the shortage of workforce resources. As the level of construction volumes in Latvia and Lithuania is relatively lower, there the risk of sudden corrections is smaller. At the same time, for the same reason, it can be forecasted that price pressure will continue on these markets and it should be assumed that the subcontractor deficit will affect deadlines.

In the slightly longer-term perspective, public-sector demand is an issue in all three countries. When the construction of Rail Baltic is launched, it will take up a large part of local construction capacity, both in regard to machinery and equipment, and workforce. In the interests of market balance, clarity as to Rail Baltic construction plans, including timeline as well as volume and nature of work, would be desirable to allow construction companies start planning their activities. Otherwise, there is a risk that the additional demand from Rail Baltic will be so high that it will affect the functioning of the entire construction sector, making price pressure and resource shortages even more acute. In addition to Rail Baltic, the demand from the public sector is related to the end of the current European Union financing cycle in 2020. This may also lead to increased demand in subsequent years, when countries begin making use of thus far unused funding.

DEVELOPMENT OF APARTMENTS

The situation on the apartment development market did not see significant changes in the quarter. Prices have continued rising in all three countries, including at an accelerated pace in Estonia. In general, it seems that the Tallinn market is reaching a certain level of saturation of new projects, especially in the higher price segment, where demand is more limited.

In Lithuania, the number of permits for use of residential units peaked at the beginning of 2017 after rapid growth, exceeding the high point of the previous boom. After that point, there has been some retracing, but the figure is still near the previous peak. Thus, supply is also strong on the Lithuanian market.

In Riga, the new apartments market is significantly less active, but the last few quarters have shown that prices are growing and the developments in construction volumes and the number of use permits are also positive.

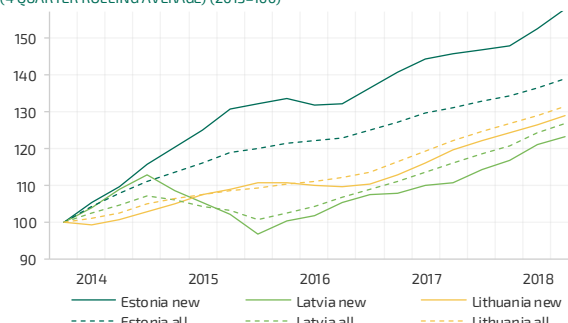
However, demand for new residential real estate there is still significantly lower than in Tallinn and Vilnius.

In all three countries, wages are seeing strong and consistent growth. Therefore, growing real estate prices in themselves do not pose a similar risk as during the last boom and bust.

We continue to be confident that quality and the integrity of development areas play an increasing role in the case of new apartment developments. In the higher price segment in particular, it is increasingly unlikely that any apartments with a poorly conceived layout or weaker construction quality can be realised in a short period of time. This creates a challenging situation for developers who depend to a great extent on external financing or who lack sufficient financial buffers to be able to defer sales for a longer period.

On the Norwegian housing market, especially in the Oslo area, prices rose at a faster pace in 2016, followed by a slight correction in 2017. Now, during 2018, prices have once again risen, compensating for the interim decline.

NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX
(4 QUARTER ROLLING AVERAGE) (2013=100)



Source: Eurostat

BUSINESS ACTIVITIES

The group business reporting is divided into three business segments:

- Estonian construction service;
- other home markets construction service;
- real estate development.

ESTONIAN CONSTRUCTION SERVICE

The Estonian construction service segment consists of services in the field of general construction, civil engineering, electricity, external networks and road construction, as well as concrete works and construction services.

million EUR

	9M 2018	9M 2017	VARIANCE	Q3 2018	Q3 2017	VARIANCE	12M 2017
Revenue	118.4	99.6	+18,9%	49.0	38.7	+26,7%	135.2
% of total revenue	39.6%	46.4%		42.6%	45.0%		42.6%
Operating profit (loss)	6.1	4.4	+38,2%	2.9	2.7	+6,2%	5.9
Operating profit margin	5.1%	4.4%		6.9%	6.9%		4.3%

In the 9 months of 2018, the revenue of the Estonian construction service segment was EUR 118.4 million (9 months of 2017: EUR 99.6 million), having increased by 18.9% from the same period last year. The Estonian construction service segment revenue for 9 months 2018 made up 39.6% of the group's total revenue (9M 2017: 46.4%). In this segment, the group earned an operating profit of EUR 6.1 million for 9 months (9 months of 2017: EUR 4.4 million). The operating profit margin was 5.1% (9 months of 2017: 4.4%).

The competition in main contracting of Estonian general construction sector remains strong. Construction activity on the market is very high and this has boosted increase in input prices, at the same time decreasing the availability of sub-contractors. Customers have become more cautious in launching new projects, as the construction prices have already reached a level, which are becoming unprofitable. Thus, it is difficult for the main contractors to ask for higher prices, while the cost side is increasing and finding labour force to keep up with the construction schedules is increasingly difficult. The main competitive argument for main contractors is price. This means that in order to maintain profitability, more and more effort must be put into making internal processes more efficient. Merko Ehitus continues to be rather unsuccessful in participating in public procurements, as underbidding pushes the prices down to such levels, where the risk-reward ratio does not match our goals.

Larger projects in the third quarter in Estonian construction service segment included the construction works of T1 shopping centre, Maakri Kvartal business complex, Öpiku Office Building tower B, Tallink office building, the residence of the Embassy of the People's Republic of China, Viimsi state upper secondary school, Toom-Kuninga 21 apartment building, the first stage of office building at Tartu mnt 80, and Kuressaare town centre, as well as renovation works of Tsirguliina 330kV substation, clean up works of the residual pollution of Maadevahe and Priimetsa asphalt-concrete plant, concrete works of Kadrioru Plaza, and dredging and reconstruction works of Hundiäpea port.

OTHER HOME MARKETS CONSTRUCTION SERVICE

The other home markets construction service segment consists of general construction works in Latvia, Lithuania and Norway, as well as provision of civil engineering and electricity construction services in Latvia.

million EUR

	9M 2018	9M 2017	VARIANCE	Q3 2018	Q3 2017	VARIANCE	12M 2017
Revenue	132.1	65.5	+101.6%	44.1	34.3	+25.5%	108.4
% of total revenue	44.2%	30.5%		38.3%	39.9%		34.1%
Operating profit (loss)	1.4	0.0		(0.2)	0.7		1.8
Operating profit margin	1.1%	0.0%		(0.5%)	2.1%		1.7%

The sales revenue of the other home markets construction service segment amounted to EUR 132.1 million in the 9 months of 2018 (9 months of 2017: EUR 65.5 million), which has more than doubled compared to the 9 months of 2017 (+101.6%). If the other home markets construction service segment revenues of 9 months of 2017 formed 30.5% of the group's revenue, then during 9 months of 2018, that ratio increased to 44.2%. The revenue growth has been supported mainly by major construction contracts in Latvia, where Merko has gained a stronger position among general contractors than previously. This has provided opportunities to profitably grow business volumes. In Lithuania, we are continuing our strategic plan to focus on foreign customers, who make up the predominant part of the group's Lithuanian secured order book. In Lithuania, we have also entered more widely the public procurement sphere in the field of general construction. In Norway, the group is performing a number of smaller-scale agreements.

The group is facing tough competition, growing costs and shortage of construction capacity also in other home markets (primarily Latvia and Lithuania). Main contractors need to balance between tight construction schedules, contractual sanctions and increasing costs. Realization of risks associated with a certain construction object has a direct impact on business segment's financial results. The operating profitability of other home markets construction services segment has this year also been influenced by the fact that two major construction projects are carried out in consortium, in which case the revenue is accounted for in full, but the profit only for the part belonging to the group. The goal for the group is to improve the risk-reward ratio of the other home markets construction services.

The 9 months operating profit of the other home market construction service segment amounted to EUR 1.4 million (9 months of 2017: EUR 0.0 million) and the operating profit margin was 1.1% (9 months of 2017: 0.0%).

In the third quarter of 2018, larger ongoing projects in the other home markets construction service segment included, in Riga, the construction works of Akropole multifunctional centre, Alfa shopping centre and Lidl logistics centre, finishing works of Z-Towers complex and, in Ventspils, the construction works of music school and concert hall. In Lithuania, larger projects were the construction works of Hotel Neringa and Quadrum office building as well as the construction works of apartment building complex in the Šaltiniu Namai quarter and two school buildings.

REAL ESTATE DEVELOPMENT

The real estate development segment includes residential real estate development and construction of joint venture projects, long-term real estate investments and commercial real estate projects in Estonia, Latvia and Lithuania. In the interests of ensuring the finest quality, as well as maximum convenience and assurance for buyers, Merko handles all phases of development: acquisition of the real estate, planning, design of the development project, construction, marketing and sales, and warranty-period customer service.

million EUR

	9M 2018	9M 2017	VARIANCE	Q3 2018	Q3 2017	VARIANCE	12M 2017
Revenue	48.3	49.7	-2.9%	22.0	13.0	+69.5%	74.0
incl. apartments revenue	24.3	33.8		8.0	6.9		47.1
incl. construction service to joint venture projects	12.5	13.2		4.5	5.8		18.5
incl. revenue from immovable properties	9.5	-		8.8	-		5.2
% of total revenue	16.2%	23.1%		19.1%	15.1%		23.3%
Operating profit	6.8	5.8	18.2%	3.6	1.2	+209.9%	13.8
Operating profit margin	14.2%	11.6%		16.3%	8.9%		18.6%

In 9 months 2018, the group sold a total of 255 apartments (incl. 47 apartments in a joint venture); in 9 months 2017, the group sold 286 apartments (incl. 1 apartment in a joint venture). The group earned a revenue of EUR 24.3 million (VAT not included) from sale of own developed apartments in 9 months 2018 and EUR 33.8 million (VAT not included) in 9 months 2017.

In the case of projects developed in joint ventures, the real estate development business segment revenue reflects the construction services provided to the project by the group and the operating profit includes the realised construction profit for the period. The profit from development gained from sale of those apartments to end-customers is recognised in the group's reporting based on the equity method.

In 9 months of 2018, real estate development segment revenues decreased by 2.9% compared to the same period last year. In the 9 months of 2018, the share of revenue from the real estate development segment formed 16.2% of the group's total revenue (9 months of 2017: 23.1%).

The segment's operating profit for the 9 months of 2018 amounted to EUR 6.8 million (9 months of 2017: EUR 5.8 million) and the operating profit margin was 14.2% (9 months of 2017: 11.6%), which increased by 2.6 pp compared to the same period previous year. The profitability of the apartment development projects varies by project and depends greatly on the cost structure of the specific project, incl. the land acquisition price. The segment's 2018 9 months' profitability was positively influenced by the sale of immovable property that had little strategic importance for the group. Also, in Q3, the group sold "ibis" hotel, developed in Vilnius, together with parking lot and part of the land plot for a price of EUR 8.8 million, which in reporting is recognised under revenue from immovable properties.

At the end of the period, group's inventory comprised 275 apartments where a preliminary agreement had been signed: 69 completed apartments (68 in Estonia and 1 in Latvia) and 206 apartments under construction (123 in Estonia and 83 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 30 September 2018, the group had a total of 945 apartments for active sale (as at 30 September 2017: 450 apartments), for which there are no pre-sale agreements and of which 110 have been completed (28 in Estonia, 80 in Latvia and 2 in Lithuania) and 835 are under construction (270 in Estonia and 565 in Lithuania).

In 9 months of 2018, the group launched the construction of a total of 840 new apartments in the Baltic states, including 491 apartments in third quarter (9 months of 2017: 496 apartments; 2017 Q3: 111 apartments). In the 9 months of 2018, 550 apartments were started in Lithuania and 290 in Estonia. In the 9 months, the group has invested a total of EUR 22.0 million (9 months of 2017: EUR 39.2 million) in new development projects launched in 2018 as well as projects already in progress.

One of group's objectives is to keep a sufficient portfolio of land plots to ensure stable inventory of property development projects, which considers the market conditions. As at 30 September 2018, the group's inventories included land plots with development potential, where the construction works have not started, in amount of EUR 54.7 million (30.09.2017: EUR 70.4 million).

GROUP'S INVENTORIES WITH DEVELOPMENT POTENTIAL BY COUNTRY

million EUR

	30.09.2018	30.09.2017	31.12.2017
Estonia	27.2	29.9	28.9
Latvia	26.5	31.9	26.5
Lithuania	1.0	8.6	8.2
Total	54.7	70.4	63.6

In the 9 months of 2018, the group purchased new land plots at an acquisition cost of EUR 1.7 million for real estate development purposes (9 months of 2017: EUR 8.6 million).

SECURED ORDER BOOK

As at 30 September 2018, the group's secured order book amounted to EUR 239.4 million, compared to EUR 396.4 million as at 30 September 2017, having decreased by 39.6% in the annual comparison. The secured order book excludes the group's own residential development projects and construction works related to developing real estate investments.

In 9 months of 2018, EUR 157.0 million worth of new contracts were signed, compared to EUR 303.6 million in same period 2017. The value of new contracts signed in the third quarter of 2018 amounted to EUR 89.4 million; in the third quarter of 2017 the value of new contracts signed amounted to EUR 87.0 million.

LARGEST CONSTRUCTION CONTRACTS SIGNED IN THE THIRD QUARTER OF 2018

BRIEF DESCRIPTION OF CONTRACT	COUNTRY	COMPLETION TIME	VALUE MILLION EUR
Construction contract for the construction of a logistics centre for Lidl at Ulbrokas street in Riga	Latvia	January of 2020	42.5
Construction contract for the construction of office building Quadrum at Konstitucijos ave. 21, Vilnius	Lithuania	October of 2019	12.0
Construction contract for the construction of a new private school building at Luksines st. 29, Vilnius	Lithuania	End of 2019	7.4
Construction contract for the construction of a new school building at Medeinos str. 14, Vilnius	Lithuania	July of 2019	4.0

After the balance sheet date, the group has concluded the following larger construction contracts:

- On 4 October 2018, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and Riigi Kinnisvara AS entered into a contract for the construction of a student home at Piiri St. 8, Rakvere. The contract value is EUR 4.3 million and the works are scheduled to be completed by the end of 2019.
- On 11 October 2018, AS Merko Ehitus Eesti, part of AS Merko Ehitus group, and OÜ Aromare entered into a contract for the design and construction of a commercial building in Tallinn. The contract value is approximately EUR 16 million and the works are scheduled to be completed in March 2020.
- On 16 October 2018, Peritus Entreprenør AS, part of AS Merko Ehitus group, and Dula GU GmbH entered into a contract for the design and construction of a Tesla service centre situated in Oslo. The contract value is approximately EUR 4.5 million and the works are scheduled to be completed in April 2020.

Of the contracts signed in the 9 months of 2018, private sector orders accounted for the majority, which is also represented in the group's secured order book, where private sector orders from projects in progress constitute approximately 83% (30.09.2017: approximately 86%).

Group's strategic aim is to diversify its operating portfolio by balancing the construction activities in Estonia with those abroad. Thus, the group continues to identify and strengthen its competitive advantages and is closely monitoring the development and opportunities in both the Baltic states and the Nordic countries, especially in Norway. At the same time, it has to be ensured that the

growth is profitable. The group is therefore focused on ensuring that sales revenue is grown only on the basis of projects with an acceptable risk to reward ratio.

CASH FLOWS

As at 30 September 2018, the group had cash and cash equivalents in the amount of EUR 23.9 million (30.09.2017: EUR 18.6 million). As the group's cash position continues to be strong, the group has not utilised all its credit lines of existing overdrafts and loan agreements within reporting period. As at the end of the reporting period, the group entities had concluded overdraft contracts with banks in a total amount of EUR 35.6 million, of which EUR 27.8 was unused (30.09.2017: EUR 11.2 million of which EUR 11.0 was unused). In addition to the overdraft facilities, the company has a working capital loan facility with a limit of EUR 3.5 million (30.09.2017: EUR 3.5 million) from AS Riverito, which was not withdrawn at the end of current period (30.09.2017: not withdrawn).

The 9-month cash flow from operating activity was positive at EUR 6.7 million (9 months of 2017: negative EUR 10.2 million), cash flow from investing activity was positive at EUR 0.3 million (9 months of 2017: positive EUR 0.8 million) and the cash flow from financing activity was negative at EUR 22.3 million (9 months of 2017: negative EUR 5.5 million).

Compared to 2017, the cash flow from operating activities had positive impacts from EBITDA EUR 14.3 million (9 months of 2017: EUR 11.0 million) and from the positive changes in inventories EUR 1.5 million (9 months of 2017: negative change of EUR 5.7 million), in trade and other payables related to operating activities EUR 11.5 million (9 months of 2017: positive change of EUR 14.3 million) and change in the provisions EUR 2.5 million (9 months of 2017: negative change of EUR 2.0 million), while the negative impacts came from changes in trade and other receivables related to operating activities EUR 15.2 million (9 months of 2017: negative change of EUR 21.2 million), in receivables and liabilities related to construction contracts recognised under the stage of completion method EUR 6.3 million (9 months 2017: negative change EUR 3.6 million) and change from the corporate income tax paid on dividends EUR 0.3 million (9 months 2017: EUR 1.3 million).

To support cash flows from operating activities, the group has raised additional external capital. At the same time, the debt ratio has remained at a moderate level (18.5% as at 30.09.2018; 18.1% as at 30.09.2017).

Cash flows from investing activities include negative cash flow from the acquisition of non-current assets in the amount of EUR 0.6 million (9 months of 2017: EUR 1.2 million) and positive cash flow from the sale of subsidiary and non-current assets in the amount of EUR 1.0 million (9 months of 2017: EUR 1.9 million).

In cash flows from financing, the larger negative factors were dividend payment of EUR 17.7 million (9 months 2017: EUR 7.3 million) and negative change of loans received and repaid in connection with development projects in the amount of EUR 15.7 million (9 months of 2017: net positive cash flow of EUR 5.5 million). Positive cash flow from financing activity were gained from net amount of loans received and repaid of project specific loans obtained using investment property as collateral in the amount of EUR 2.4 million (9 months of 2017: negative cash flow in the net amount of EUR 0.4 million), change in loans related to construction project in the net amount of EUR 3.7 million (9 months of 2017: net negative cashflow EUR 2.8 million) and factoring financing in the amount of EUR 5.0 million (9 months of 2017: no factoring).

The Q3 2018 cash flow from operating activity was negative at EUR 2.8 million (Q3 2017: negative EUR 10.3 million), cash flow from investing activity was negative at EUR 0.1 million (Q3 2017: positive EUR 0.6 million) and the cash flow from financing activity was negative at EUR 0.4 million (Q3 2017: positive EUR 2.4 million).

RATIOS

(attributable to equity holders of the parent)

INCOME STATEMENT SUMMARY		9M 2018	9M 2017	9M 2016	Q3 2018	Q3 2017	Q3 2016	12M 2017
Revenue	million EUR	298.8	214.8	173.4	115.1	86.0	67.8	317.6
Gross profit	million EUR	21.8	16.7	14.0	8.8	6.5	5.5	30.9
Gross profit margin	%	7.3	7.8	8.1	7.6	7.6	8.1	9.7
Operating profit	million EUR	12.9	8.8	6.1	5.7	4.1	3.0	19.5
Operating profit margin	%	4.3	4.1	3.5	4.9	4.8	4.4	6.2
Profit before tax (PBT)	million EUR	12.6	8.2	5.7	5.6	3.9	3.0	18.8
PBT margin	%	4.2	3.8	3.3	4.9	4.5	4.4	5.9
Net profit	million EUR	12.5	6.8	4.7	5.6	3.6	2.9	15.8
attributable to equity holders of the parent	million EUR	12.3	6.6	4.7	5.6	3.4	2.9	14.7
attributable to non-controlling interest	million EUR	0.2	0.2	(0.0)	(0.0)	0.2	(0.0)	1.1
Net profit margin	%	4.1	3.1	2.7	4.9	3.9	4.3	4.6
Other income statement indicators		9M 2018	9M 2017	9M 2016	Q3 2018	Q3 2017	Q3 2016	12M 2017
EBITDA	million EUR	14.3	11.0	8.4	6.2	5.0	3.9	22.2
EBITDA margin	%	4.8	5.1	4.9	5.4	5.8	5.7	7.0
General expense ratio	%	3.7	4.8	5.5	3.2	4.2	4.4	4.6
Labour cost ratio	%	8.1	10.9	12.7	7.4	9.7	10.8	10.1
Revenue per employee	thousand EUR	399	284	220	154	114	86	434

OTHER SIGNIFICANT INDICATORS		30.09.2018	30.09.2017	30.09.2016	31.12.2017
Return on equity	%	16.2	6.5	7.5	11.9
Return on assets	%	7.3	3.3	4.3	5.8
Return on invested capital	%	13.3	6.3	7.2	11.4
Equity ratio	%	43.1	46.4	56.5	47.0
Debt ratio	%	18.5	18.1	14.8	21.4
Current ratio	times	2.1	2.5	3.1	2.2
Quick ratio	times	1.1	1.1	1.1	1.1
Accounts receivable turnover	days	40	42	33	40
Accounts payable turnover	days	42	39	36	40
Average number of employees	people	748	757	787	732
Secured order book	million EUR	239.4	396.4	256.4	344.4

Ratio definitions are provided on page 41 of the report.

RISK MANAGEMENT

Risk management is part of strategic management and is inseparable from daily operations of the company. In managing risks, the main objective of the company is to determine significant risks and to optimally manage risks so that the company achieves its strategic and financial objectives.

Merko Ehitus divides risks into four main categories: business risk, market risk (incl. interest risk and foreign exchange risk), financial risk (incl. credit risk and liquidity risk) and operational risk (incl. health and safety risk and environmental risk). The topic of risk management has been thoroughly covered on the group's website <http://group.merko.ee/en/investors/risk-management/>.

Legal risk

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

As at 30 September 2018, a provision has been set up at the group in the amount of EUR 0.1 million (30.09.2017: EUR 0.1 million) for covering potential claims and legal costs.

An overview of the key legal disputes of group entities ended during 2018 and ongoing as of 30.09.2018 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 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. On 6 September 2018, a ruling of the Tallinn Circuit Court entered into force, under which Maksim Vihharev was ordered to pay AS Merko Infra damages of EUR 92 thousand, plus late interest on that amount starting from 17 December 2014 at the rate set forth in the second sentence of subsection 113 (1) of the Law of Obligations Act, until the payment of the damages. The circuit court also ordered Vihharev to pay AS Merko Infra procedural costs totalling EUR 34 thousand.

Appeal for the revocation of the order of the Minister of the Environment

Several court cases are ongoing in connection with Minister of the Environment regulation No 22 of 27 March 2015, which redrew the boundaries of species protection sites to exclude properties on Paekalda street owned by AS Merko Ehitus subsidiaries Suur-Paekalda OÜ and Väike-Paekalda OÜ (now merged with AS Merko Ehitus Eesti, part of AS Merko Ehitus group). On 2 February 2016, AS Merko Ehitus group companies, 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 (exact amount to be determined) and approximately EUR 1.6 million to Väike-Paekalda (exact 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. 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 court ruling is expected at the end of 2018. The possible effect of the potential positive outcome of this claim has not been taken into account in the group's financial reporting.

Starptautiskā lidosta "Rīga"

On 21 September 2017, SIA Merks has initiated court proceedings against VAS "Starptautiskā lidosta "Rīga"" (Riga International Airport). The basis of the court proceeding is a dispute with Riga International Airport on the terms and conditions of signing the final completion certificate of the new passenger terminal of Riga International Airport. SIA Merks seeks court decision requiring Riga International Airport to sign the final completion certificate and thus entitling SIA Merks for payment of EUR 449 thousand (EUR 414 thousand being the principal claim and EUR 35 thousand late interest) for the works.

On 5 March 2018, SIA Merks prepared an additional claim to the court to confirm that the works are fully and properly performed and should be duly accepted by Riga International Airport and, releasing the retention money for the warranty period guarantee in the amount of EUR 920 thousand.

On 8 June 2018, Riga International Airport paid partly the claim submitted on September 21, 2017, therefore SIA Merks reduced the claim to EUR 248 thousand (EUR 76 thousand being the principal claim and EUR 172 thousand late interest). Next court hearing is scheduled on 11 December 2018. No additional provisions are recognised in relation to the potential outcome of this claim.

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 in the total amount of EUR 183 thousand. The plaintiffs maintain that due to the actions of UAB Vilniaus vandenys, both the construction period became longer and also additional works were carried out – works that the customer later refused to pay for. In the hearing on 9 January 2018, the court expertise was appointed. The potential positive outcome of this claim is not recognised in the group's financial reporting.

UAB Axis

On 3 September 2018, UAB Axis power (sub-contractor) filed an action against UAB Merko Statyba (main contractor), part of AS Merko Ehitus group, in the total amount of EUR 846 thousand as compensation for carrying out concrete works, which were more complicated than foreseen at signing of the contract. The group finds the claim unsubstantiated and has not recognised provisions in relation to this claim

EMPLOYEES AND LABOUR COSTS

As of 30 September 2018, Merko Ehitus Group employed 773 people (including temporary and part-time staff). Compared to the same period last year, the number of group's employees increased by 3 (+0.4%). The number of employees has increased mainly due to increase of construction volumes in Latvia, Lithuania and Norway, and decreased in Estonia.

Professionals with longstanding experience are the company's key value. 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, holiday pay, and performance pay), taxes based on salary, fringe benefits and taxes on fringe benefits. In 9 months 2018, the labour cost was EUR 24.2 million (9 months 2017: EUR 23.4 million), which increased by 3.4% compared to the same period previous year. The labour cost ratio decreased by 2.8 pp from 10.9% to 8.1%.

During 9 months of 2018, AS Merko Ehitus Eesti, the largest Estonian construction company, part of AS Merko Ehitus group, has paid EUR 4.7 million in labour taxes in Estonia, making it the largest labour tax payer in the construction sector (9 months 2017: EUR 4.7 million).

ETHICAL BUSINESS PRACTICES

Group's core values include ethical business practices, which are an important long-term success factor. By following highly ethical policies, we promote profitable growth, gain the trust of our stakeholders, and support fair competition and equal treatment.

We do business honestly, follow ethical principles in our activities and make sure our employees know and follow business ethics standards in their everyday work. To allow the principles to take firmer root, the Group has established 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/>.

SHARE AND SHAREHOLDERS

INFORMATION ON SECURITY

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

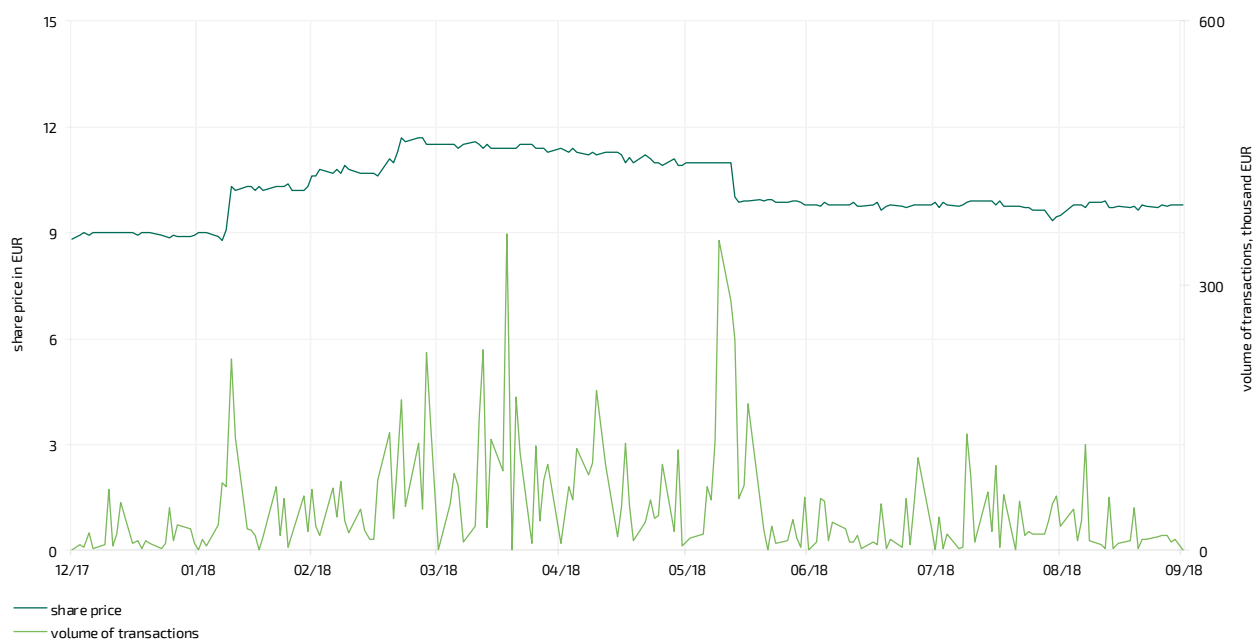
The shares of Merko Ehitus are listed in the Main List of NASDAQ Tallinn. As at 30 September 2018, the company has 17,700,000 shares. The number of shares has not changed during 2018.

A total of 3,230 transactions were conducted with the shares of Merko Ehitus in 9 months of 2018, with 0.91 million shares (5.1% of total shares) traded, generating a turnover of EUR 9.58 million (comparable figures in 9 months 2017 were accordingly: 1,603 transactions with 0.40 million shares traded (2.3% of total shares), generating a turnover of EUR 3.7 million). The lowest transaction was carried out with a price of EUR 8.70 and the highest with EUR 11.80 per share (9 months of 2017: EUR 8.75 and EUR 9.69, accordingly). On 30 September 2018, the closing price of the share was EUR 9.80 (30.09.2017: EUR 9.62; 31.12.2017: EUR 8.81). As at 30 September 2018, the market value of AS Merko Ehitus amounted to EUR 173.5 million, which has increased by 1.9% compared to the same period end last year (30.09.2017: EUR 170.3 million; 31.12.2017: EUR 155.9 million).

	30.09.2018	30.09.2017	30.09.2016	31.12.2017
Number of shares	17,700,000	17,700,000	17,700,000	17,700,000
Earnings per share (EPS), euros	0.70	0.37	0.27	0.83
Equity per share, euros	7.14	6.88	6.94	6.99
P/B ratio	1.37	1.40	1.20	1.26
P/E ratio	8.48	21.37	16.04	10.61
Market value, million EUR	173.5	170.3	146.9	155.9

Ratio definitions are provided on page 41 of the report.

CHANGE IN THE PRICE AND TRANSACTION VOLUME OF MERKO EHITUS SHARE AT NASDAQ TALLINN STOCK EXCHANGE IN 2018



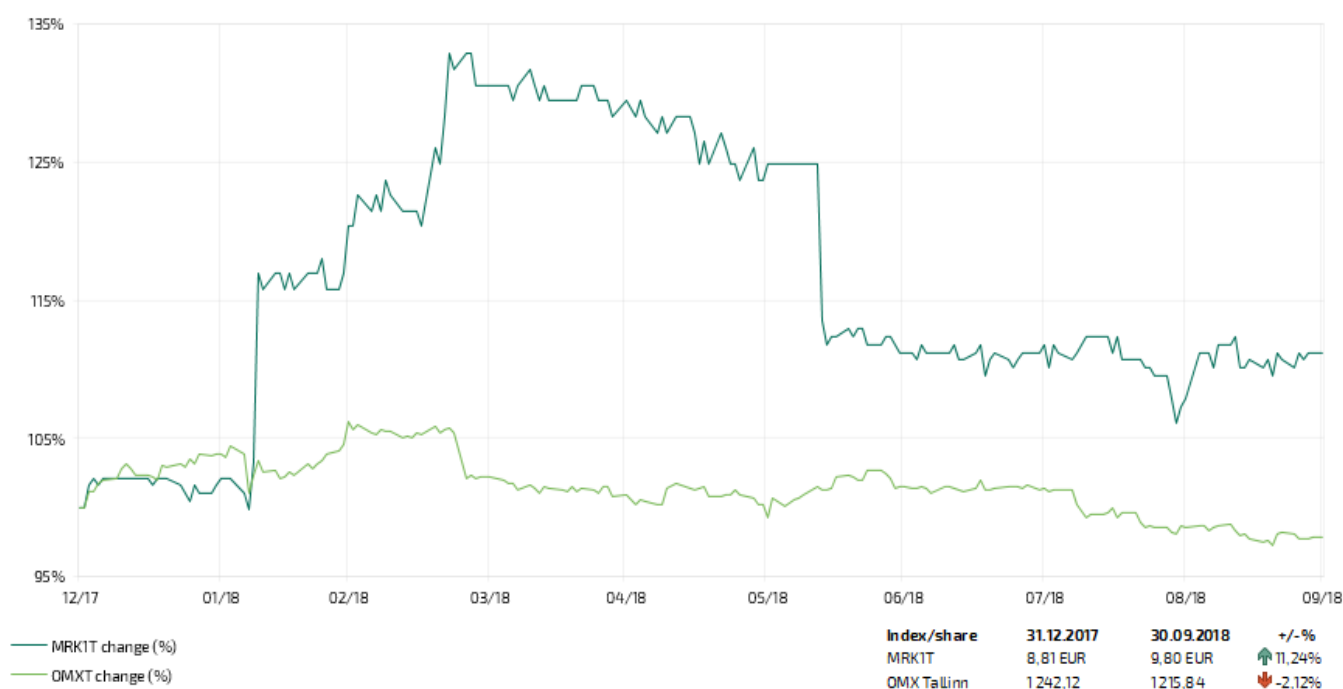
STRUCTURE OF SHAREHOLDERS ACCORDING TO NUMBER OF SHARES AS AT 30.09.2018

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF SHAREHOLDERS	NUMBER OF SHARES	% OF SHARES
1,000,001 - ...	1	0.04%	12,742,686	71.99%
100,001 - 1,000,000	11	0.43%	2,498,897	14.12%
10,001 - 100,000	34	1.34%	905,909	5.12%
1,001-10,000	366	14.40%	1,016,288	5.74%
101-1,000	1,248	49.09%	488,067	2.76%
1-100	882	34.70%	48,153	0.27%
Total	2,542	100%	17,700,000	100%

SHAREHOLDERS OF AS MERKO EHITUS AS AT 30.09.2018 AND CHANGE COMPARED TO THE PREVIOUS QUARTER

	NUMBER OF SHARES	% OF TOTAL 30.09.2018	% OF TOTAL 30.06.2018	CHANGE
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	685,405	3.87%	4.31%	(77,640)
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
SEB S.A. UCITS client assets	230,993	1.31%	1.31%	(1,229)
Firebird Aurora Fund Ltd	222,419	1.26%	1.26%	-
OÜ Midas Invest	192,500	1.09%	1.09%	-
Skandinaviska Enskilda Banken AB, Swedish customers	159,559	0.90%	0.90%	(60)
State Street Bank and Trust Omnibus Account a Fund No OM01	153,018	0.87%	0.87%	-
SEB Elu- ja Pensionikindlustus AS	143,887	0.81%	0.81%	-
Firebird Fund L.P.	131,331	0.74%	0.74%	-
Total largest shareholders	15,024,892	84.89%	85.33%	(78,929)
Total other shareholders	2,675,108	15.11%	14.67%	78,929
Total	17,700,000	100%	100%	-

PERFORMANCE OF THE SHARE OF MERKO EHITUS AND COMPARISON INDEX OMX TALLINN IN 2018



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.

According to the current dividends policy the objective is paying the shareholders 50-70% of the annual profit.

The annual general meeting of shareholders of AS Merko Ehitus held at 9 May 2018 approved the Supervisory Board's proposal to pay the shareholders the total amount of EUR 17.7 million (EUR 1.00 per share) as dividends from net profit brought forward, which is equivalent to a 120% dividend rate and a 11.4% dividend yield for the year 2017 (using the share price as at 31 December 2017). Comparable figures in 2017 were accordingly: EUR 7.3 million (EUR 0.41 per share) as dividends, which is equivalent to a 119% dividend rate and a 4.5% dividend yield for the year 2016 (using the share price as at 31 December 2016).

According to the Estonian Income Tax Law subsection 50 (1¹), AS Merko Ehitus can pay dividends, without any additional income tax expense and liabilities occurring, up to the amount it has received dividends from subsidiaries, which are resident companies of a Contracting State of the European Economic Area (EEA) Agreement subject to that state's income tax legislation. Taking into account the dividends already paid to the parent company by such foreign subsidiaries, the group will not incur income tax expenses arising in connection with disbursement of dividends in Estonia in 2018 (Q2 2017: EUR 0.9 million). The dividend payment to the shareholders took place on 15 June 2018.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AND STRUCTURE

AS Merko Ehitus operates as a holding company to a group, the companies of which in Estonia, Latvia, Lithuania and Norway offer complete solutions in the field of construction and real estate development. 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 area of activity of the holding company is developing and implementing strategies for the Merko Ehitus group's various business domains by way of planning resources, deciding on major investments, targeting and overseeing the activity of subsidiaries and coordinating partner relations. The holding company AS Merko Ehitus has a two-member Management Board: Andres Trink and Tõnu Toomik.

The overview of the Management Board and Supervisory Board have been presented on page 19 and in Note 16 of the consolidated financial statements, and published, together with the track record and photographs, on the company's website at <http://group.merko.ee/en/corporate-governance-2/>.

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. Management of the group's operating activity takes place in a country-specific manner and is coordinated at the level of the holding company. As of 30 September 2018, the management structure is as follows:



GROUP'S LEGAL STRUCTURE

As at 30 September 2018, the group comprises 32 companies (30.09.2017: 45; 31.12.2017: 45). The group's legal structure is predominantly based on regulatory requirements 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 17 March 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 was completed and the deletion entry to the Commercial Register made on 26 January 2018.

On 20 November 2017, AS Merko Ehitus supervisory board has decided to start liquidation procedures of 100% owned subsidiary based in Russia, OOO Lenko Stroi. The liquidation of the company is planned to be completed in 2018.

In connection with the improvement of efficiency of the business operations and the structure of the Estonian companies of AS Merko Ehitus group, on 21 December 2017, AS Merko Ehitus and AS Merko Ehitus Eesti, 100% subsidiary of AS Merko Ehitus, entered into a real right contract to transfer the right of ownership on real estate development segment's registered immovables and

shareholdings in private limited companies on 1 January 2018. These companies were (a) 100% subsidiaries of AS Merko Ehitus: OÜ Tähelinna Kinnisvara, OÜ Metsailu, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, OÜ Unigate, Suur-Paekalda OÜ, Väike-Paekalda OÜ; and (b) a 50% joint venture OÜ Kodusadam. As per a merger contract signed prior, on balance sheet date 1 January 2018, AS Merko Ehitus Eesti merged AS Merko Tartu and aforementioned received subsidiaries with itself, with the exception of OÜ Tähelinna Kinnisvara. The final entry in the Commercial Register was made on 24 May 2018.

On 21 December 2017, a merger between AS Merko Infra and OÜ Mineraal, both belonging to AS Merko Ehitus group, was initiated. The acquiring company was AS Merko Infra. As a result of the merger, the company being acquired (OÜ Mineraal) wound up without liquidation proceedings and AS Merko Infra became the legal successor of the company being acquired. The merger date was 1 January 2018, after which all transactions of the acquired company will be deemed to be made on the account of the acquiring company. The final entry in the Commercial Register was made on 25 May 2018.

On 12 April 2018, AS Merko Ehitus disposed of its 100% shareholding in OÜ Jõgeva Haldus.

On 15 May 2018, Merko Finland Oy, fully owned subsidiary of AS Merko Ehitus, acquired an additional 25% share in the subsidiary Hartian Oy from the current co-shareholder. After the transaction, Merko Finland Oy holds 100% of the shares of the subsidiary Hartian Oy.

In the first half of 2018, AS Merko Ehitus launched the dissolution of its branches in Latvia and Lithuania. The Latvian branch was deleted from the Commercial Register on 22 March 2018. The dissolution of the Lithuanian branch is planned to be finished by the end of this year.

GENERAL MEETING OF SHAREHOLDERS

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

The general meeting of shareholders was held on 9 May 2018. The general meeting resolved to approve the annual report and the profit allocation proposal for 2017. The dividends in the sum of EUR 17.7 million (EUR 1 per share) were paid out to the shareholders on 15 June 2018.

In addition, the general meeting of shareholders decided to appoint the audit firm AS PricewaterhouseCoopers the auditor of AS Merko Ehitus for the financial years of 2018 through 2020 and to pay to the audit firm for auditing as per contract to be entered into with AS PricewaterhouseCoopers.

The Management Board made a presentation on the company's financial results and future prospects.

In accordance with the Commercial Code, its Articles of Association and Good Governance Code, AS Merko Ehitus calls the annual and extraordinary general meeting of shareholders by notifying the shareholders through the Tallinn Stock Exchange and by publishing a meeting call in one national daily newspaper at least 3 weeks in advance. The general meeting shall be held at the place shown in the notice, on a working day and between 9 a.m. and 6 p.m., enabling most of the shareholders to participate in the General Meeting of Shareholders.

Before their publication, agendas of 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 their 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 2018, 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 2018 was attended by Andres Trink (Chairman of the Management Board), Tõnu Toomik (Member of the Management Board), Priit Roosimägi (Head of Group Finance Unit) 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 AS Merko Ehitus, the Supervisory Board has 3 to 5 members who shall be elected for the term of three years.

As at 30 September 2018, the Supervisory Board of AS Merko Ehitus had three members of whom, in accordance with the requirements of the Good Governance Code, Indrek Neivelt was an independent member.

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 the company and all shareholders, while ensuring 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 quarter, 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 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 significant subsidiaries that are wholly-owned by AS Merko Ehitus as at 30 September 2018:

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
Tallinna Teede AS	Tõnu Toomik (Chairman), Keit Paal, Alar Lagus, Veljo Viitmann	Jüri Läll (Chairman), Jüri Helila
OÜ Merko Investments	-	Andres Trink, Priit Roosimägi
SIA Merks	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Oskars Ozoliņš (Chairman), Jānis Šperbergs
SIA Merko Investments	-	Andres Trink (Chairman), Oskars Ozoliņš
UAB Merko Statyba	Andres Trink (Chairman), Tõnu Toomik, Priit Roosimägi	Saulius Putrimas (Chairman), Jaanus Rāstas

Changes in the management of group subsidiaries

On 8 January 2018, the Management Board of AS Merko Ehitus decided to extend the powers of the Members of the Supervisory Board of AS Merko Ehitus Eesti, Mr. Andres Trink, Mr. Tõnu Toomik and Mr. Teet Roopalu for three years, i.e. till 31 December 2020. The Supervisory Board of AS Merko Ehitus Eesti will continue in a former three-member panel: Mr. Andres Trink (The Chairman), Mr. Tõnu Toomik and Mr. Teet Roopalu.

On 18 April 2018, the Management Board of AS Merko Ehitus Eesti, part of AS Merko Ehitus group, decided to extend the powers of the Members of the Supervisory Board of AS Tallinna Teed, Mr. Veljo Viitmann and Mr. Alar Lagus for three years, i.e. till 18 April 2021. The Supervisory Board of AS Tallinna Teed will continue in a former four-member panel: Mr. Tõnu Toomik (The Chairman), Mr. Keit Paal, Mr. Veljo Viitmann and Mr. Alar Lagus.

After the balance sheet date, on 1 November 2018, the general meeting of shareholders of SIA Merks, part of AS Merko Ehitus group, decided to extend the powers of the Member of the Management Board, Mr. Oskars Ozoliņš, until 1 February 2022 and to nominate Mr. Andris Bišmeistars as a new Member of the Management Board, starting from 1 November 2018 with the powers also until 1 February 2022. The Management Board of SIA Merks will continue with two members: Mr. Oskars Ozoliņš (The Chairman) and Mr. Andris Bišmeistars. The general meeting of shareholders also decided to dismiss Mr. Janis Šperbergs from the duties of the Member of the Management Board as of 1 November 2018 and to appoint him as a Member of the Supervisory Board, effective as of the same date. The Supervisory Board of SIA Merks will continue with four members: Mr. Andres Trink (Chairman), Mr. Tõnu Toomik, Mr. Priit Roosimägi and Mr. Janis Šperbergs.

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

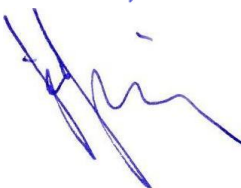
Chairman of the Management Board



08.11.2018

Tõnu Toomik

Member of the Management Board



08.11.2018

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	Note	2018 9 months	2017 9 months	2018 III quarter	2017 III quarter	2017 12 months
Revenue	2	298,768	214,807	115,118	86,000	317,598
Cost of goods sold	3	(276,984)	(198,109)	(106,363)	(79,482)	(286,747)
Gross profit		21,784	16,698	8,755	6,518	30,851
Marketing expenses		(2,482)	(2,420)	(753)	(782)	(3,215)
General and administrative expenses		(8,583)	(7,789)	(2,919)	(2,871)	(11,289)
Other operating income		2,477	2,645	782	1,419	3,793
Other operating expenses		(277)	(324)	(172)	(191)	(601)
Operating profit		12,919	8,810	5,693	4,093	19,539
Finance income/costs		(273)	(594)	(102)	(232)	(767)
incl. finance income/costs from sale of subsidiary		(59)	-	-	-	14
finance income/costs from joint ventures		274	(12)	48	(10)	64
finance income/costs from other long-term investments		-	-	-	-	2
interest expense		(452)	(553)	(143)	(206)	(745)
foreign exchange gain (loss)		(1)	(2)	-	(1)	(1)
other financial income (expenses)		(35)	(27)	(7)	(15)	(101)
Profit before tax		12,646	8,216	5,591	3,861	18,772
Corporate income tax expense		(169)	(1,395)	32	(282)	(3,020)
Net profit for financial year		12,477	6,821	5,623	3,579	15,752
incl. net profit attributable to equity holders of the parent		12,312	6,561	5,643	3,350	14,694
net profit attributable to non-controlling interest		165	260	(20)	229	1,058
Other comprehensive income, which can subsequently be classified in the income statement						
Currency translation differences of foreign entities		31	(27)	3	3	(74)
Comprehensive income for the period		12,508	6,794	5,626	3,582	15,678
incl. net profit attributable to equity holders of the parent		12,343	6,538	5,647	3,356	14,637
net profit attributable to non-controlling interest		165	256	(21)	226	1,041
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	4	0.70	0.37	0.32	0.19	0.83

The notes set out on pages 26-39 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

unaudited

in thousand euros

	Note	30.09.2018	30.09.2017	31.12.2017
ASSETS				
Current assets				
Cash and cash equivalents	5	23,868	18,590	39,210
Trade and other receivables	6	114,150	80,289	75,844
Prepaid corporate income tax		163	716	492
Inventories	7	116,601	130,991	118,421
		254,782	230,586	233,967
Non-current assets				
Long-term financial assets	8	11,060	16,758	17,242
Deferred income tax assets		5	1,325	5
Investment property	9	13,785	3,915	15,719
Property, plant and equipment	10	9,443	10,043	9,665
Intangible assets	11	593	468	497
		34,886	32,509	43,128
TOTAL ASSETS		289,668	263,095	277,095
LIABILITIES				
Current liabilities				
Borrowings	12	17,758	4,911	24,218
Payables and prepayments	13	95,410	82,380	74,972
Income tax liability		306	404	413
Short-term provisions	14	7,755	3,471	4,569
		121,229	91,166	104,172
Non-current liabilities				
Long-term borrowings	12	35,878	42,777	35,138
Deferred income tax liability		1,370	1,201	1,259
Other long-term payables	15	1,647	1,932	1,789
		38,895	45,910	38,186
TOTAL LIABILITIES		160,124	137,076	142,358
EQUITY				
Non-controlling interests		4,768	3,948	4,567
Equity attributable to equity holders of the parent				
Share capital		7,929	7,929	7,929
Statutory reserve capital		793	793	793
Currency translation differences		(671)	(668)	(702)
Retained earnings		116,725	114,017	122,150
		124,776	122,071	130,170
TOTAL EQUITY		129,544	126,019	134,737
TOTAL LIABILITIES AND EQUITY		289,668	263,095	277,095

The notes set out on pages 26-39 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					Non- control- ling interest	Total
	Share capital	Statutory reserve capital	Currency translation differences	Retained earnings	Total		
Balance as at 31.12.2016	7,929	793	(645)	114,713	122,790	3,692	126,482
Profit (loss) for the reporting period	-	-	-	6,561	6,561	260	6,821
Other comprehensive income	-	-	(23)	-	(23)	(4)	(27)
Total comprehensive income (loss) for the reporting period	-	-	(23)	6,561	6,538	256	6,794
Transactions with owners							
Dividends (Note 4)	-	-	-	(7,257)	(7,257)	-	(7,257)
Total transactions with owners	-	-	-	(7,257)	(7,257)	-	(7,257)
Balance as at 30.09.2017	7,929	793	(668)	114,017	122,071	3,948	126,019
Balance as at 31.12.2017	7,929	793	(702)	122,150	130,170	4,567	134,737
Profit (loss) for the reporting period	-	-	-	12,312	12,312	165	12,477
Other comprehensive income	-	-	31	-	31	0	31
Total comprehensive income (loss) for the reporting period	-	-	31	12,312	12,343	165	12,508
Transactions with owners							
Non-controlling interest of purchased subsidiary	-	-	-	(37)	(37)	36	(1)
Dividends (Note 4)	-	-	-	(17,700)	(17,700)	-	(17,700)
Total transactions with owners	-	-	-	(17,737)	(17,737)	36	(17,701)
Balance as at 30.09.2018	7,929	793	(671)	116,725	124,776	4,768	129,544

The share capital of AS Merko Ehitus consists of 17,700,000 shares without nominal value.

The notes set out on pages 26-39 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

unaudited

in thousand euros

	Note	2018 9 months	2017 9 months	2017 12 months
Cash flows from operating activities				
Operating profit		12,919	8,810	19,539
Adjustments:				
Depreciation		1,402	2,183	2,675
(Profit) loss from sale of non-current assets		(427)	(535)	(571)
(Profit) loss from sale of a business unit		-	(474)	(474)
Change in receivables and liabilities related to construction contracts recognised under the stage of completion method		(6,291)	(3,591)	(8,488)
Interest income from operating activities		(1,781)	(1,440)	(1,979)
Change in provisions		2,491	(1,950)	572
Change in trade and other receivables related to operating activities		(15,195)	(21,154)	(19,301)
Change in inventories		1,506	(5,655)	(4,851)
Change in trade and other payables related to operating activities		11,473	14,250	12,058
Interest received		1,509	1,327	1,709
Interest paid		(575)	(668)	(879)
Other finance income and costs		(38)	(14)	(28)
Corporate income tax (paid)/reclaimed		(320)	(1,273)	(1,284)
Total cash flows from operating activities		6,673	(10,184)	(1,302)
Cash flows from investing activities				
Acquisition of subsidiaries	16	-	-	328
Disposal of subsidiary		385	-	(7)
Purchase of investment property		(73)	(4)	(6)
Purchase of property, plant and equipment		(471)	(1,111)	(1,186)
Proceeds from sale of property, plant and equipment		601	1,902	1,924
Purchase of intangible assets		(172)	(121)	(181)
Sale of a business unit		-	113	113
Interest received		2	5	6
Total cash flows from investing activities		272	784	991
Cash flows from financing activities				
Proceeds from borrowings		22,992	32,083	61,651
Repayments of borrowings		(32,219)	(29,763)	(47,380)
Factoring		5,000	-	-
Finance lease principal payments		(418)	(618)	(818)
Non-controlling interest buyout		(1)	-	-
Dividends paid		(17,700)	(7,257)	(7,364)
Total cash flows from financing activities		(22,346)	(5,555)	6,089
Net increase/decrease in cash and cash equivalents		(15,401)	(14,955)	5,778
Cash and cash equivalents at the beginning of the period	5	39,210	33,544	33,544
Effect of exchange rate changes		59	1	(112)
Cash and cash equivalents at the end of the period	5	23,868	18,590	39,210

The notes set out on pages 26-39 are an integral part of these consolidated financial statements.

NOTES

NOTE 1 ACCOUNTING POLICIES USED

The consolidated interim financial statements of the AS Merko Ehitus group for 9 months 2018 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. 2017 audited annual report and 2017 9 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 9 months 2018 present a true and fair view of the group's economic results based on the principle of going concern. While the influence of seasonality of construction and the influence of the cyclical nature of development activity on the period's results can be considered insignificant.

NOTE 1.1 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AMENDMENTS TO PUBLISHED STANDARDS

The following new or revised standards and interpretations became obligatory for the group starting from 1 January 2018:

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

A comprehensive check-list based on IFRS 15 standard has been prepared by the group, based on which the group entities assess and report revenue from contracts with customers according to the new standard. Group's management finds the impact of the amendments to existing construction contracts and also to new contracts with customers immaterial.

The rest of new or revised standards or interpretations, which became effective in the financial year starting 1 January 2018, do not have a material impact on the group.

New accounting standards, interpretations and changes

Certain new or revised standards and interpretations have been issued that are mandatory for the group's annual periods beginning on or after 1 January 2019, and which the group has not early adopted.

IFRS 16, Leases (effective for annual periods beginning on 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The group assesses the impact of the amendments on its financial statements immaterial, as the operating lease payments in the future do not have a material impact for the group.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (effective for annual periods beginning on 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The group assesses the impact of the amendments on its financial statements immaterial as of the preparation of this report and in the light of existing investments.

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

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.

Reporting of the group's operations are segmented as:

- 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 respective countries in general construction, civil engineering and road construction. Other operating areas (management services, supervision service, etc.) are insignificant to the group and they are recognised within the construction service segment. Other home markets construction service segment includes construction services in Latvia, Lithuania and Norway. The real estate segment primarily consists of the group's own real estate development – construction and sale; to a lesser degree, it also includes real estate maintenance and leasing.

The business result is assessed based on external revenue, operating profit and profit before tax of the business segment. The operating profit and profit before tax of the segment is composed of the income and expenditure directly related to the segment. Other income and expenses not directly related to the segments are attributable to the activities of holding companies and are monitored at group level.

Additional information on the segments is provided in the Business activities chapter of the Management report.

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.

2018 9 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	118,438	132,091	58,287	308,816
Inter-segment revenue	(39)	13	(10,022)	(10,048)
Revenue from clients	118,399	132,104	48,265	298,768
Operating profit (loss)	6,053	1,445	6,831	14,329
Profit (loss) before tax	6,019	1,293	6,869	14,181
incl. interest income from operating activities	219	-	1,562	1,781
depreciation (Note 3)	(857)	(57)	(152)	(1,066)
recognition of provisions (Note 3)	(448)	(3,669)	(844)	(4,961)
reversal of provisions (Note 3)	-	350	20	370
profit from joint ventures	-	-	274	274
other finance income (costs)	(8)	(1)	(158)	(167)
incl. interest expenses	(8)	(1)	(145)	(154)
Assets 30.09.2018	47,663	60,562	160,937	269,162
incl. joint ventures (Note 8)	-	-	353	353

2017 9 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	99,616	65,590	67,314	232,520
Internal revenue	(57)	(45)	(17,611)	(17,713)
Revenue from clients	99,559	65,545	49,703	214,807
Operating profit (loss)	4,381	32	5,779	10,192
Profit (loss) before tax	4,349	(87)	5,449	9,711
incl. interest income from operating activities	15	-	1,231	1,246
depreciation (Note 3)	(1,565)	(33)	(216)	(1,814)
recognition of provisions (Note 3)	(476)	(486)	(197)	(1,159)
reversal of provisions (Note 3)	105	-	-	105
loss on joint ventures	-	-	(12)	(12)
other finance income (costs)	(28)	9	(290)	(309)
incl. interest income	-	9	-	9
interest expenses	(15)	-	(277)	(292)
Assets 30.09.2017	38,469	35,893	163,368	237,730
incl. joint ventures (Note 8)	-	-	331	331
2018 III quarter	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	49,029	44,041	25,727	118,797
Internal revenue	(7)	16	(3,688)	(3,679)
Revenue from clients	49,022	44,057	22,039	115,118
Operating profit (loss)	2,855	(216)	3,595	6,234
Profit (loss) before tax	2,842	(259)	3,585	6,168
incl. interest income from operating activities	74	-	498	572
depreciation (Note 3)	(291)	(22)	(40)	(353)
recognition of provisions (Note 3)	(163)	(3,349)	(404)	(3,916)
reversal of provisions (Note 3)	-	300	-	300
profit from joint ventures	-	-	48	48
other finance income (costs)	(4)	3	(55)	(56)
incl. interest expenses	(3)	3	(50)	(50)
Assets' change in III quarter	3,497	11,839	(1,370)	13,966
incl. joint ventures	-	-	47	47

2017 III quarter	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	38,726	34,307	20,289	93,322
Internal revenue	(24)	(12)	(7,286)	(7,322)
Revenue from clients	38,702	34,295	13,003	86,000
Operating profit (loss)	2,688	723	1,160	4,571
Profit (loss) before tax	2,669	657	1,051	4,377
incl. interest income from operating activities	4	-	416	420
depreciation (Note 3)	(658)	(13)	(72)	(743)
recognition of provisions (Note 3)	(124)	(121)	(73)	(318)
reversal of provisions (Note 3)	2	-	-	2
loss on joint ventures	-	-	(10)	(10)
other finance income (costs)	(18)	7	(91)	(102)
incl. interest income	-	7	-	7
interest expenses	(4)	-	(91)	(95)
Assets' change in III quarter	959	10,359	14,627	25,945
incl. joint ventures	-	-	(101)	(101)
2017 12 months	Estonian construction service	Other home markets construction service	Real estate development	Total segments
Revenue	135,338	108,446	98,388	342,172
Inter-segment revenue	(125)	(55)	(24,394)	(24,574)
Revenue from clients	135,213	108,391	73,994	317,598
Operating profit (loss)	5,853	1,795	13,760	21,408
Profit (loss) before tax	5,822	1,552	13,426	20,800
incl. interest income from operating activities	18	-	1,654	1,672
depreciation (Note 3)	(1,873)	(48)	(271)	(2,192)
impairment of inventories (Note 3)	-	-	(2,360)	(2,360)
reversal of impairment of inventories (Note 3)	-	-	5,276	5,276
recognition of provisions (Note 3)	(1,095)	(1,305)	(365)	(2,765)
reversal of provisions (Note 3)	191	-	-	191
profit from joint ventures	-	-	64	64
other finance income (costs)	(31)	9	(357)	(379)
incl. interest income	-	9	-	9
interest expenses	(18)	-	(341)	(359)
Assets 31.12.2017	29,422	49,162	157,058	235,642
incl. joint ventures (Note 8)	-	-	79	79

In addition to the segment assets, as at 30.09.2018 the group holds assets in the amount of EUR 20,506 thousand (30.09.2017: EUR 25,365 thousand; 31.12.2017: EUR 41,453 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

	2018 9 months	2017 9 months	2018 III quarter	2017 III quarter	2017 12 months
Pre-tax profit from reporting segments	14,181	9,711	6,168	4,377	20,800
Other operating profit (loss)	(1,410)	(1,382)	(540)	(478)	(1,869)
incl. recognition of provisions	-	(75)	-	-	(98)
finance income (costs)	(125)	(113)	(37)	(38)	(159)
incl. interest income	1	1	1	1	1
interest expenses	(109)	(110)	(37)	(36)	(147)
Total profit before tax	12,646	8,216	5,591	3,861	18,772

Other income and expenses, which are not directly associated with segments, are associated with holding companies.

REVENUE BY CLIENT LOCATION

in thousand euros and percentages

	2018 9 months		2017 9 months		2018 III quarter		2017 III quarter		2017 12 months	
Estonia	144,886	48%	137,888	65%	57,749	51%	48,846	57%	190,928	60%
Latvia	115,816	39%	45,748	21%	40,793	35%	22,897	27%	79,914	25%
Lithuania	30,485	10%	24,353	11%	15,347	13%	9,848	11%	34,629	11%
Norway	7,581	3%	6,797	3%	1,229	1%	4,408	5%	12,104	4%
Finland	-	0%	21	0%	-	0%	1	0%	23	0%
Total	298,768	100%	214,807	100%	115,118	100%	86,000	100%	317,598	100%

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

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Estonia	11,191	13,775	13,367
Latvia	12,494	517	12,390
Lithuania	4	5	5
Norway	132	129	119
Total	23,821	14,426	25,881

NOTE 3 COST OF GOODS SOLD

in thousand euros

	2018 9 months	2017 9 months	2018 III quarter	2017 III quarter	2017 12 months
Construction services and properties purchased for resale	185,454	122,291	67,964	48,303	186,352
Materials	46,119	38,339	18,988	16,880	50,983
Labour costs	16,556	16,535	5,926	5,772	22,255
Construction mechanisms and transport	7,761	6,942	3,254	3,095	9,317
Design	5,960	3,063	3,023	1,379	4,544
Real estate management costs	264	185	90	51	265
Depreciation	1,066	1,814	353	743	2,192
Impairment of inventories	-	-	-	-	2,360
Reversal of impairment of inventories	-	-	-	-	(5,276)
Provisions	4,591	1,054	3,616	316	2,574
Other expenses	9,213	7,886	3,149	2,943	11,181
Total cost of goods sold	276,984	198,109	106,363	79,482	286,747

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.

	2018 9 months	2017 9 months	2018 III quarter	2017 III quarter	2017 12 months
Net profit (loss) attributable to shareholders (<i>in thousand EUR</i>)	12,312	6,561	5,643	3,350	14,694
Weighted average number of ordinary shares (<i>thousand pcs</i>)	17,700	17,700	17,700	17,700	17,700
Earnings (loss) per share (<i>in euros</i>)	0.70	0.37	0.32	0.19	0.83

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

Dividends payable are recognised after the approval of profit allocation at the general meeting of shareholders. In accordance with the profit allocation decision, dividends were paid by parent company AS Merko Ehitus in Q2 2018 in the amount of EUR 17,700 thousand, i.e. EUR 1.00 per share (Q2 2017: 7,257 thousand, i.e. EUR 0.41 per share). Taking into account the dividends already paid to the parent company by foreign subsidiaries, the group did not incur income tax expenses arising in 2018 in Estonia in connection with disbursement of dividends (in the second quarter of 2017, the group incurred additional income tax expenses of EUR 880 thousand).

As at 30.09.2018, the parent company AS Merko Ehitus has EUR 2,879 thousand (30.09.2017: EUR 67 thousand; 31.12.2017: EUR 67 thousand) in dividends received from subsidiaries in previous periods and income from abroad, on which the income tax has been withheld.

As at 30.09.2018, it is possible to pay out dividends to shareholders from retained earnings in the amount of EUR 93,419 thousand (30.09.17: EUR 90,693 thousand; 31.12.2017: EUR 97,172 thousand). Considering the dividends received and income tax withheld on foreign income totalling EUR 720 thousand (30.09.2017: EUR 17 thousand; 31.12.2017: EUR 17 thousand), the corresponding income tax on dividends would amount to EUR 22,635 thousand (30.09.2017: EUR 22,656 thousand; 31.12.2017: EUR 24,276 thousand). For calculating the additional income tax on dividends, the income tax rate in force in 2018 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

	30.09.2018	30.09.2017	31.12.2017
Cash on hand	-	3	1
Bank accounts	23,789	18,552	39,174
Overnight deposits	79	35	35
Total cash and cash equivalents	23,868	18,590	39,210

NOTE 6 TRADE AND OTHER RECEIVABLES

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Trade receivables			
Accounts receivable	54,816	43,893	36,768
Allowance for doubtful receivables	(167)	(349)	(103)
	54,649	43,544	36,665
Tax prepayments excluding corporate income tax			
Value added tax	1,878	1,845	733
Other taxes	3	2	2
	1,881	1,847	735
Accrued income from construction services	33,620	14,975	17,780
Other short-term receivables			
Short-term loans	14,590	9,807	10,590
Interest receivables	488	436	603
Other short-term receivables	534	505	636
	15,612	10,748	11,829
Prepayments for services			
Prepayments for construction services	7,745	8,319	8,075
Prepaid insurance	244	297	248
Other prepaid expenses	399	559	512
	8,388	9,175	8,835
Total trade and other receivables	114,150	80,289	75,844
incl. short-term loan receivables from related parties (Note 16)	9,000	8,217	9,000
other short-term receivables and prepayments to related parties (Note 16)	2,342	4,845	2,911

NOTE 7 INVENTORIES

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Materials	1,068	297	238
Work-in-progress	39,821	29,391	36,023
Finished goods	19,181	30,033	17,612
Goods for resale			
Registered immovables purchased for resale	54,680	70,408	63,613
Other goods purchased for resale	715	744	747
	55,395	71,152	64,360
Prepayments for inventories			
Prepayments for real estate properties	690	-	-
Prepayments for other inventories	446	118	188
	1,136	118	188
Total inventories	116,601	130,991	118,421

NOTE 8 LONG-TERM FINANCIAL ASSETS

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Investments to joint ventures	353	331	79
Long-term loans	-	3,550	4,000
Long-term receivables from customers of construction services	10,707	12,877	13,163
Total other long-term loans and receivables	11,060	16,758	17,242

NOTE 9 INVESTMENT PROPERTY

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Land	11,972	51	11,902
Right of superficies at carrying amount			
Cost	29	29	29
Accumulated depreciation	(12)	(11)	(12)
	17	18	17
Buildings at carrying amount			
Cost	2,631	5,250	5,252
Accumulated depreciation	(835)	(1,404)	(1,452)
	1,796	3,846	3,800
Total investment property	13,785	3,915	15,719

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Land	809	817	811
Buildings at carrying amount			
Cost	5,747	5,557	5,530
Accumulated depreciation	(2,137)	(2,061)	(2,077)
	3,610	3,496	3,453
Machinery and equipment at carrying amount			
Cost	13,934	14,705	13,707
Accumulated depreciation	(9,708)	(10,148)	(9,458)
	4,226	4,557	4,249
Other fixtures at carrying amount			
Cost	5,490	5,564	5,561
Accumulated depreciation	(4,752)	(4,712)	(4,719)
	738	852	842
Prepayments for property, plant and equipment	60	321	310
Total property, plant and equipment	9,443	10,043	9,665

NOTE 11 INTANGIBLE ASSETS

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Goodwill			
Cost	76	77	74
	76	77	74
Software at carrying amount			
Cost	1,496	1,361	1,471
Accumulated depreciation	(1,130)	(1,064)	(1,092)
	366	297	379
Prepayments for intangible assets	151	94	44
Total intangible assets	593	468	497

NOTE 12 BORROWINGS

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Finance lease payables			
Present value of lease payments	1,149	1,137	863
incl. current portion	484	760	487
non-current portion 2...5 years	665	377	376
Bank loans			
Loan balance	33,937	40,544	50,383
incl. current portion	3,724	3,144	20,621
non-current portion 2...5 years	30,213	37,400	29,762
Factoring liability			
Factoring balance	5,000	-	-
incl. current portion	5,000	-	-
Loans from entities under common control			
Loan balance	6,000	6,000	6,000
incl. current portion (Note 16)	1,000	1,000	1,000
non-current portion 2...5 years (Note 16)	5,000	5,000	5,000
Loans from other entities			
Loan balance	7,550	7	2,110
incl. current portion	7,550	7	2,110
Total loans			
Loans balance	52,487	46,551	58,493
incl. current portion	17,274	4,151	23,731
non-current portion 2...5 years	35,213	42,400	34,762
Total borrowings	53,636	47,688	59,356
incl. current portion	17,758	4,911	24,218
non-current portion 2...5 years	35,878	42,777	35,138

NOTE 13 PAYABLES AND PREPAYMENTS

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Trade payables	48,505	38,591	35,356
Payables to employees	8,248	7,448	8,613
Tax liabilities, except for corporate income tax			
Value added tax	1,008	1,510	532
Personal income tax	546	527	554
Social security tax	993	978	958
Unemployment insurance tax	49	49	53
Contributions to mandatory funded pension	37	44	43
Other taxes	184	151	160
	2,817	3,259	2,300
Prepayments for construction services	23,236	15,750	13,749
Other liabilities			
Interest liabilities	15	13	2
Dividends payables	117	-	-
Other liabilities	413	167	594
	545	180	596
Prepayments received	12,059	17,152	14,358
Total payables and prepayments	95,410	82,380	74,972
incl. payables to related parties (Note 16)	97	24	17

NOTE 14 SHORT-TERM PROVISIONS

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Provision for warranty obligation for construction	3,166	2,549	2,874
Provision for costs of projects sold	4,285	739	1,221
Provision for onerous construction contracts	184	63	224
Provision for legal costs and claims filed	120	120	120
Other provisions	-	-	130
Total short-term provisions	7,755	3,471	4,569

NOTE 15 OTHER LONG-TERM PAYABLES

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Trade payables	1,202	1,290	1,248
Other long-term liabilities	445	642	541
Other long-term payables total	1,647	1,932	1,789
incl. other long-term payables to related parties (Note 16)	445	311	541

NOTE 16 RELATED PARTY TRANSACTIONS

in thousand euros

In compiling the group 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 30.09.2018, 30.09.2017 and 31.12.2017, AS Riverito owned 71,99% of the shares of AS Merko Ehitus. The ultimate controlling party of the group is Mr Toomas Annus.

AS MERKO EHITUS SUBSIDIARIES AND JOINT VENTURES

	Ownership and voting rights %			Location	Area of operation
	30.09.2018	30.09.2017	31.12.2017		
Subsidiaries					
AS Merko Ehitus Eesti	100	100	100	Estonia, Tallinn	Construction
Tallinna Teede AS	100	100	100	Estonia, Tallinn	Road construction
AS Merko Infra	100	100	100	Estonia, Tallinn	Construction
AS Merko Tartu	-	100	100	Estonia, Tartu	Construction
OÜ Fort Ehitus	-	76	-	Estonia, Viimsi	Construction
OÜ Mineraal	-	100	100	Estonia, Tallinn	Mining
Kivimäe 32 OÜ	-	-	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	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
UAB Timana	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 aikšte	100	100	100	Lithuania, Vilnius	Real estate
UAB Timana	-	100	-	Lithuania, Vilnius	Real estate
UAB Rinktinės projektai	100	100	100	Lithuania, Vilnius	Real estate
OÜ Jõgeva Haldus	-	100	100	Estonia, Tallinn	Real estate
OÜ Metsailu	-	100	100	Estonia, Tallinn	Real estate
OÜ Kiviaia Kinnisvara	100	-	100	Estonia, Tallinn	Real estate
OÜ Tähelinna Kinnisvara	-	100	100	Estonia, Tallinn	Real estate
Väike-Paekalda OÜ	-	100	100	Estonia, Tallinn	Real estate
Suur-Paekalda OÜ	-	100	100	Estonia, Tallinn	Real estate
OÜ Unigate	-	100	100	Estonia, Tallinn	Real estate
OÜ Paekalda 2	-	100	100	Estonia, Tallinn	Real estate
OÜ Paekalda 3	-	100	100	Estonia, Tallinn	Real estate
OÜ Paekalda 7	-	100	100	Estonia, Tallinn	Real estate
OÜ Paekalda 9	-	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 Investīcijas	100	100	100	Latvia, Riga	Real estate
SIA Industrijas Parks	100	100	100	Latvia, Riga	Real estate

	Ownership and voting rights %			Location	Area of operation
	30.09.2018	30.09.2017	31.12.2017		
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
PS Merks-Ostas celtnieks	65	65	65	Latvia, Riga	Construction
PS Merks Merko Infra	100	-	100	Latvia, Riga	Construction
Merko Finland Oy	100	100	100	Finland, Helsinki	Construction
Hartian Oy	100	75	75	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					
Poolkoksime Sulgemise OÜ	-	50	50	Estonia, Tallinn	Construction
Kivime 32 OÜ	-	50	-	Estonia, Tallinn	Real estate
Kodusadam OÜ	50	50	50	Estonia, Tallinn	Real estate

Additional information of the changes in reported period is provided in chapter Corporate Governance in Management report on pages 17-18.

GOODS AND SERVICES

in thousand euros

	2018 9 months	2017 9 months	2017 12 months
Provided services and goods sold			
Parent company	11	11	15
Joint ventures	12,573	10,400	15,763
Entities under common control	91	5,031	6,430
Members of the management	-	39	42
Other related parties	25	-	-
Total services provided and goods sold	12,700	15,481	22,250
Interest income			
Joint ventures	419	302	435
Purchased services and goods			
Parent company	68	68	90
Entities under common control	42	45	59
Total purchased services and goods	110	113	149
Interest expense			
Parent company	-	34	34
Entities under common control	108	110	146
Total interest expense	108	144	180

BALANCES WITH RELATED PARTIES

in thousand euros

	30.09.2018	30.09.2017	31.12.2017
Receivables from related parties			
Loans granted (Notes 6, 8)			
Joint ventures	9,000	8,217	9,000
Receivables and prepayments (Note 6)			
Parent company	4	4	4
Joint ventures	2,247	4,466	2,489
Entities under common control	88	375	418
Other related parties	3	-	-
Total receivables and prepayments	2,342	4,845	2,911
Total receivables from related parties	11,342	13,062	11,911
Payables to related parties			
Short-term loans received (Note 12)			
Entities under common control	1,000	1,000	1,000
Total short-term loans received	1,000	1,000	1,000
Payables and prepayments (Note 13)			
Parent company	9	9	9
Joint ventures	7	2	7
Entities under common control	13	13	1
Other related parties	68	-	-
Total payables and prepayments	97	24	17
Long-term loans received (Note 12)			
Entities under common control	5,000	5,000	5,000
Other long-term payables (Note 15)			
Other related parties	445	311	541
Total payables to related parties	6,542	6,335	6,558

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

The gross remuneration to members of the Supervisory Board and Management Board of AS Merko Ehitus group and the members of the Management Board of major subsidiaries for the 9 months of 2018 was EUR 1,703 thousand (9 months of 2017: EUR 1,634 thousand; 12 months of 2017: EUR 2,355 thousand).

TERMINATION BENEFITS OF MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARDS

Authorization agreements have been entered into with the Supervisory Board members, according to which no termination benefits are paid to them upon termination of the contract. In the 9 months of 2018, the Management Board members of major subsidiaries received EUR 34 thousand in compensation (9 months of 2017: EUR 118 thousand; 12 months of 2017: EUR 147 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/en/corporate-governance-2/supervisory-council/.

Shares held by members of the Supervisory Board of AS Merko Ehitus as at 30.09.2018:

		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%
Teet Roopalu	Member of the Supervisory Board	-	-
		8,354,549	47.20%

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

Shares held by members of the Management Board of AS Merko Ehitus as at 30.09.2018:

		NO OF SHARES	% OF SHARES
Andres Trink	Chairman of the Management Board	600	0.00%
Tõnu Toomik (AS Riverito)	Member of the Management Board	1,607,185	9.08%
		1,607,785	9.08%

NOTE 17 CONTINGENT LIABILITIES

in thousand euros

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

	30.09.2018	30.09.2017	31.12.2017
Performance period's warranty to the customer	31,685	31,528	31,229
Tender warranty	1,087	1,112	2,201
Guarantee for warranty period	17,454	19,357	18,197
Prepayment guarantee	13,341	16,080	16,249
Payment guarantee	30,500	30,634	31,019
Contracts of surety	6,302	4,386	4,215
Letter of credit	428	-	-
Total contingent liabilities	100,797	103,097	103,110

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 fulfilled.

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

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

Payment guarantee – guarantee provider guarantees repayments of the customer's/developer's loan and/or guarantee provider guarantees to the customer payment for goods or services.

Contracts of surety – the group guarantees the timely fulfilment of group member's liabilities towards a third party (e.g. providing services by a certain date in the agreed amount).

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

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED INTERIM REPORT

The Management Board of AS Merko Ehitus has prepared the consolidated interim financial statements for the 9 months of 2018, which are set out on pages 5-39.

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



08.11.2018

Tõnu Toomik

Member of the Management Board



08.11.2018

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	=	$\frac{\text{Share price 30.09}}{\text{Earnings per share of the current 4 quarters}}$
P/B	=	$\frac{\text{Share price 30.09}}{\text{Equity per share (average of the current 4 quarters)}}$
Market value	=	Share price 30.09 x Number of shares